COMPARATIVE STUDY ON INVESTMENT POLICY OF BANK OF KATHMANDU LIMITED AND KUMARI BANK LIMITED

A Thesis

Submitted by

Jaya Hada

Exam Roll No:251327

Campus Roll No: 286/063

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VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the thesis presented by

Jaya Hada

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and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for Masters Degree in Business Studies (MBS).

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Jaya Hada

Entitled

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has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

……………………………   ……………………………

Dr. Sushil Bhakta Mathema   **Jyoti Pandey**

(Head of Research Department/   **(Campus Chief)**

Thesis Supervisor)

Date …………………………

DECLARATION

I hereby declare that the work reported in this thesis entitled COMPARATIVE STUDY ON INVESTMENT POLICY OF BANK OF KATHMANDU LIMITED AND KUMARI BANK LIMITED submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the Master's Degree in Business Studies under the guidance and supervision of Prof. Dr. Sushil Bhakta Mathema, Nepal Commerce Campus, Faculty of Management, Tribhuvan University, New Baneshwor, Kathmandu, Nepal.

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Jaya Hada

Researcher

Roll No. 286/063

Faculty of Management

Nepal Commerce Campus

Date: ………………………..

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

BOK	Bank of Kathmandu
C.V.	Coefficient of Variance
DPS	Dividend Per Share
EBL	Everest Bank Limited
EPS	Earning Per Share
FY	Fiscal Year
GDP	Gross Domestic Product
i.e.	That is
JVBs	Joint Venture Banks
KBL	Kumari Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NIBL	Nepal Investment Bank Limited
NPAS	Non-Performing Assets
NRB	Nepal Rastra Bank
P.Er	Probable Error of r
r	Coefficient of Correlation
RBB	Rastriya Banijya Bank
ROE	Return on Equity
S.D.	Standard Deviation
SCB	SIAM Commercial Public Co. Limited
SCBNL	Standard Chartered Bank Nepal Limited

CHAPTER – I

INTRODUCTION

1.1 General Background of Study

National development of any country depends upon the economic development of that country and economic development is supported by financial infrastructure of that country. Even though, the process of economic development depends upon various factors, however economists are now convinced that capital formation and its utilization play a paramount role. The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formation has been the principal variable in setting the overall pace of economic development. Commercial bank has played expressive role to uplift the opened with the help of bank in economic growth and to improve the standards of livings. So it will not be exaggerated to say that rapid economic development is possible only when financial institutions like banks involve in the development activities of the country are greatly influenced by the development of sound banking system. There is no step in business where bank has no influence. Today's so called development countries also have increased their economic development with the help of banking system.

Banks constitute an important segment of financial infrastructure of any country. Banks play an important role in the economic growth of a country. Banking, when properly organized, aids and facilities the growth of trade and industry and hence of national economy. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development. Banks are not just the storehouses of the country's wealth but are the reservoirs of resources necessary for economic development.

Banking plays a significant role in the development of nations. Economy bank is a financial institution which primary classes in borrowing and lending. Modern bank prefers varieties of functions. Therefore, it is difficult to decide the function of a modern bank because of their complexity and versatility in operation.

In the context of Nepal, the banking history is not very long. It was originated only after the establishment of Nepal Bank Limited (NBL) in 1937AD, which is the first

commercial bank finance by both government and private sectors. After the experience of some decades of this NBL, the govt. realized the need of central bank which resulted into the establishment of Nepal Rastra Bank (NRB) in 1956 AD with the growth of economic activities in Kingdom RBB was launched as the second commercial bank in 1966 AD, which is a fully government own commercial bank in order to spread banking facilities to both rural and urban areas. In this way history of establishment of commercial banks started in Nepal.

The term "Investment" has primary significance in financial sector, which refers to the process of determining the proper areas in order to lodge one's fund to procure expected gain or profit known as a favorable return by its maximum utility at minimizing risk. According to investor's view, there must be a compulsory return on their investment but there may be unfavorable situations so that investors may incur losses. However so, investment is the act of proper utilization of a fund to be mobilized so that achievement of a high return could be ensured. It also implies all such expenditure of funds into capital nature assets. It is one of fund into capital nature assets. It is one of the decisions of capital investment, or commitment of funds to long-term assets they would provide benefits in future.

Investment is a present sacrifice for the sake of future returns. The present is certain but the future is uncertain i.e. it always involves risk. Present day decision about selecting the best investment alternative with future risk into consideration is proper investment. But selecting alternative is a complex job. To select the best alternative and to construct an efficient portfolio requires a wise analysis and decision.

Investment decisions mainly have two aspects i.e. the evaluation of the prospective profitability of the prospective profitability of new investments and the measurement of cut off rate against the prospective return of the new investment that could be compared. Future is uncertain, therefore future benefits of an investment can't be assessed so easily and the amount of risk is unknown as well.

Investment policy is the proper management of fund or wealth to maximize value or to obtain the high or favorable returns with low risk considering the protection of the investment from the inflation and other possible harms. The real talent of an investor thus primarily lies in selecting the proper or suitable area where a high degree of return

is very probable at a low degree of risk. Insufficient financial knowledge and inadequate investment policy analysis usually ensures dilemma for the investors that section a tedious job and, secondly the functional in efficiency of statistical or financial tools for analyzing neither available data nor the whole investment policy.

Investment policy is an important ingredient of overall national economic development because it ensures efficient also allocation of fund to achieve the materials and economic well being of the society as a whole. In this regard, commercial bank investment policy push drives to achieve priority of commercial sectors in the context of Nepal's economic development.

The lack of knowledge or insufficient idea about finance and investment policy analysis usually ensures dilemma for the investors and selection of optimal investment area becomes a tedious job as well as functional inefficiency of statistical or financial tools for analyzing neither available data nor the whole investment policy. Investment policy involves determining the investor's objective and amount of his investable wealth of financial assets for consideration in ultimate portfolio.

The overall improvement and development of economy in the country is done by the proper mobilization of domestic resources and these activities are carried out by well organized financial institutions viz. commercial banks, finance companies, development banks and other financial intermediaries. These financial institutions play an important role for the development of the country.

Financial institutions act as the catalyst in the economic growth in every country. There should be mobilization of the resources in the overall economic development in the country and these institutions turn as intermediaries amongst points of surplus and deficit. They provide fuel to the development practices in the country by collecting financial resources scattered in the mass and providing to those involved in social, economic and commercial activities in the country, which is indispensable part of economy without which the economy of the country would hardly move forward. This should therefore be practiced in an organized and proper manner by providing guidance and directives by the central bank of the country.

Banking plays a significantly role in the development of national economy whose primary function is borrowing and lending. Today, banks perform variety of functions and operate in the complex and versatile market by entering in the neck-to-neck competition.

The main function of commercial bank is the accumulation to the temporarily idle money of general public for trade and commerce. Its main functions are accepts deposits and grants loan, exchange and purchase and discount bill for promissory notes, exchange foreign currency, to provide loan, agency function, overseas trading services, information and other services. Commercial bank earns profit by proper mobilization of their resources. Many commercial banks have been established to provide a suitable service, according to their customers.

For effective management of investment portfolio, every bank must have a written investment policy the board of directors formulates such a policy and it may differ from bank to bank in terms of complexity comprehensives. A key factor in the development of the country is the mobilization of domestic resource and their investment for productive use to the various sectors. To make it more effective, commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinate and planned efforts pushes forward the forces of economic growth. The list of licensed commercial bank is as follows.

Table 1.1: List of Licensed Commercial Banks

Name	Operation Date (AD.)	Head Office
1. Nepal Bank Limited	1937/11/15	Kathmandu
2. Rastriya Banijya Bank	1966/01/23	Kathmandu
3. NABIL Bank Limited	1984/07/16	Kathmandu
4. Nepal Investment Bank Limited	1986/02/27	Kathmandu
5. Standard Chartered Bank Nepal Limited	1987/01/30	Kathmandu
6. Himalayan Bank Limited	1993/01/18	Kathmandu

7. Nepal SBI Bank Limited	1993/07/07	Kathmandu
8. Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu
9. Everest Bank Limited	1994/10/18	Kathmandu
10. Bank of Kathmandu Limited	1995/03/12	Kathmandu
11. Nepal Credit and Commerce Bank Ltd	1996/10/14	Rupandehi
12. Lumbini Bank Limited	1998/07/17	Chitwan
13. Nepal Industrial & Commerce Bank Ltd	1998/07/21	Morang
14. Machhapuchre Bank Limited	2000/10/03	Pokhara
15. Kumari Bank Limited	2001/04/03	Kathmandu
16. Laxmi Bank Limited	2002/04/03	Birgunj
17. Siddhartha Bank Limited	2002/12/24	Kathmandu
18. Agriculture Development Bank Ltd	2006/03/16	Kathmandu
19. Global Bank Ltd	2007/01/02	Parsa
20. Citizens Bank International Ltd	2007/06/21	Kathmandu
21. Prime Commerical Bank Ltd	2007/09/24	Kathmandu
22. Sunrise Bank Ltd	2007/10/12	Kathmandu
23. Bank of Asia Nepal Ltd	2007/10/12	Kathmandu
24. Development Credit Bank Ltd	2001/01/23	Kathmandu
25. NMB Bank Ltd	1996/11/26	Kathmandu
26. KIST Bank Ltd.	2009/05/07	Kathmandu
27. Janata Nepal Bank Ltd.	2009/05/07	Kathmandu
28. Mega Bank Nepal Ltd.	2010/07/23	Kathmandu
29. Commerz & Trust Bank Ltd.	2010/09/20	Kathmandu
30. Civil Bank Ltd.	2010/11/20	Kathmandu
31. Century Commercial Bank Ltd.	2011/03/10	Kathmandu
32. Sanima Bank Ltd.	2012/02/15	Kathmandu

Source: www.nrb.org.com

1.1.1 Profile of Concerned Banks

As there has been number of commercial banks established, the research has taken into consideration of Bank of Kathmandu (BOK) and Kumari Bank Limited (KBL). Therefore, short glimpses of these commercial banks are given as:

a. Bank of Kathmandu

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

BOK was established by a group of distinguished civil servants and renowned businessmen in collaboration with the SIAM commercial public co. limited (SCB)- a leading bank of Thailand. The collaboration with SCB supported BOK to bring in the technical and managerial expertise in the Nepalese banking sector.

Upon establishing BOK as one of the reputed banks in a short period, the Nepalese promoters decided to conclude the technical service agreement with SCB and BOK to be arranged by the Nepalese professionals as it could further enhance its business performance years ahead under the Nepalese management and today has become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public.

b. Kumari Bank Limited

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

KBL has been providing wide - range of modern banking services through 29 points of representations located in various urban and semi urban part of the country, 20 outside and 9 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS Banking services in Nepal.

The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business

practice, professional management, corporate governance and total quality management as the organizational mission.

1.1.2 Scope of the Study

The scope of this study, lines mainly in filling a research gap on the study of investment policy of concerned banks. This study is expected to definitely provide a useful feedback to the policy maker of banks and also to government and the central bank in formulation appropriate strategies for improvement in the performance of banks. Further from the study, the shareholders would get information to make decision while making investment on shares of various banks. The study of investment policy has an intermediate effect on all those involved in financial activities directly or indirectly. The government, depositors, shareholder, manager, general public and even the researcher feel the need of this study indiscriminately for the information and knowledge necessary to them.

The present study has made a modest attempt to analyze investment policy of BOK and KBL.

Various research work have been conducted on commercial bank investment policy, and the comparative study of BOK with respect to KBL has not been done so far, so here and effort is made to do the same.

a. This study will help to bridge the research gap on the study on investment policy of BOK in comparison to KBL.
b. This study would provide clear vision of the investment policy adopted by the modern commercial banks.
c. The analysis would prove a useful feedback for further improve to the policy makers to the bank.
d. This study will be useful reference for the other commercial banks of Nepal and central bank (NRB) for the formulation of appropriate strategies.
e. All the stakeholders of this bank will be benefited from this research.

1.2 Statement of Problems

The commercial banks have played a catalytic role in the economic growth of the country. Its investment range from small-scale cottage industries to large industries in making investments in loans and government securities one may also wonder which investment is better.

Nepalese Commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have clear view toward investment policy. Moreover, the investment policy is not made in or efficient way (Chauhan, 2008: 126).

Thus, the present study will make a modest attempt to analyze investment policy of Bank of Kathmandu and Kumari Bank Limited. In order to add knowledge in the area of investment policy, this study has been carried out.

The problems specially related to investment function of the modern commercial banks of Nepal have been presented below.

a. Are they maintaining sufficient liquidity?
b. How far are the banks successful in their investment strategies?
c. Is there any relationship of investment and loan & advances with total deposits and total net profits?
d. Effects of investment decision to the total earning.
e. Whether the commercial banks are able to meet their obligations.

1.3 Objectives of the Study

The main objective of the study is to analyze the investment policies of BOK and KBL. The specific objectives of this study are giving below:

a. To study the assets management system, profitability and risk position.
b. To analyze the trend of deposit utilization
c. To analyze the relationship between total investment and total deposit, total deposit and loan & advances, net profit and outside assets of commercial banks.
d. To provide suggestion for improvement on the basis of findings.

1.4 Limitation of the Study

This study will be limited by the following factors:

a. This study concentrates only these factors that are related with investment policy.
b. The study is based on the data of five years period from 2007/08 to 2011/12.
c. The study is based on secondary data collected from banks.
d. The truth of research result is based upon the available data from the banks.
e. Out of 32 commercial banks only two are concern of the study.

1.5 Organization of the Study

Since the study carried out to different stage and procedures as it needed as well the study organized in the following chapters in order to make the study easy to understand.

First Chapter:

This chapter deals with the introduction part of the study. It includes background of the study, statement of the problem, need of the study, objectives of the study, scope of the study, limitation of the study and organization of the study.

Second Chapter:

The second chapter deals with the review of available literature, which includes review of books, review of bulletins, journals and annual reports published by banks and other related authorities, review related articles and studies and previous thesis as well.

Third Chapter:

This chapter is the most important part of the study. This chapter is the Research Methodology. It includes the interpret parts research design, sources of data, sampling

& population, analysis of data and tools for analysis which are financial tools, statistical tools.

Fourth Chapter:

The fourth chapter is analyzing chapter, which deals with the presentation and analysis of data. Major findings of the study are also included in this chapter.

Fifth Chapter:

This is the last chapter of the study, which provides summary, conclusion and recommendation for improving the future performance of the sample banks.

Finally, an extensive, bibliography and appendices are also presented at the end of the thesis work.

CHAPTER – II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the investment policy of commercial banks. Every study is based on past knowledge. The past knowledge or the previous studies should not be ignored as it provides foundation to the present study. Therefore this chapter has its own importance in this study. This chapter is divided into these parts.

    a. Conceptual Framework
    b. Review of Related studies

2.1 Conceptual Framework

2.1.1 Commercial Bank

"A Commercial bank is one, which exchanges money, deposits money, accepts deposits, grants loans and performs. Commercial banking functions which not a bank is meant for co-operative, agriculture industries or for such specific purpose" (Commercial Bank Act, 2031:52).

"Commercial bank deals with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demands of their customers. In their anxiety to make profit, the banks can't afford to lock up their funds in assets, which are not easily realizable. The depositors' confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and hence the banker cannot afford to keep a large portion of his assets in the firm of cash. Cash brings in no income to the bank. Therefore, the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity" (Radhaswamy and Vasudevan, 1979: 510)

"Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services" (American Institute of Banking, 1972: 345).

The main function of commercial bank is the accumulation of the temporarily idle money of general public for the purpose of providing short-term or long term loan necessary for trade and commerce. It accepts deposits and grants loan, exchange and purchase and discount bill for promissory notes, exchange foreign currency, to provide loan, agency function, over seas trading services, information and other services. Commercial bank earns profit by proper mobilization of their resources. Many commercial banks have been established to provide suitable service, according to their customers.

2.1.2 Investment

Investment is concerned with the management of an investor's wealth which is the sum of current income and the present value of all future income funds to be invested that come from assets already owned, borrowed money and savings or foregone consumption by foregoing today and investing the saving. Investors expect to enhance their future consumption possibilities, i.e. they invest to increase wealth. Investors also seek to manage their wealth effectively by obtaining the most from it, while protecting it from inflation, taxes and factors.

Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, it at all and the magnitude is generally uncertain. Investment generally is the act of proper utilization of funds to be mobilized in order to ensure the high return achievement (Wiliam and Alexander, 1996:1).

Investment is one of the main sources of economic growth in an enterprise. It is required not only to increase the total capital stock of plant, equipment and buildings but also to employ labour in productive activity. Thus, enterprise can be seen as a collection of investment projects, with the expectation of receiving a return commensurate with the risk involves (Wilson, et. al., 1987).

12

Investment is broadest sense means the sacrifice the current dollars to future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes places in the present and is magnitude as generally uncertain (Van Horne, 1985).

Investment is the use of present money and goods to earn future income or profit. The term also refers to the expenditure of funds for capital goods. Such items as factories, farm equipment, livestock and machinery. Most people invest part of their income for future financial gain. Others make investment to protect the purchasing power of their savings against rising prices. Some invest because they want to buy their own business, such as a store or a gas station.

Before making any kind of investment, a person should learn as much as possible about how the money will be used. The person also should find out what he/she can gain from an investment. Every investment involves some risk that is a chance for loss.

Some scholars have given the actual meaning of investment and investment policy which is as follows:

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

"Investment policy fixes responsibilities for the investment disposition of the bank assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets" (Bexely, 1987: 124).

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

a. Economic investment that is an economist definition of investment
b. Investment in a more general or extended sense, which is used by "the man of the street".
c. The sense in which we are going to be very much interested namely financial investment.

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

In commercial sector, investment is the use of fund at present for benefit in the future. There is the sacrifice of present consumption of fund for earning more in the future. Taxes, inflation, depression, labor relations, government action and countless other social phenomena affect the productivity and value of invested saving. All the above term create problem in investment. Therefore, an amount of technical information on financial matters is necessary.

Investment has to undergo various types of risk e.g. Business risk, possibility of being weak in earning power of investment due to competition, uncontrollable costs, change in market demand etc., Market risk like possibility of strong change in market price and collateral value of securities and real properties. All the investors does not achieve success. Therefore, simply making an investment is not sufficient. One should follow sound investment policy.

"Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank for example, the bank may invest by lending the funds to various business companies. These firms in return, may invest the money in new factories and equipments to increase their production. In addition to borrowing from the banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bond to obtain funds to invest in such projects as the construction of dams, roads and schools. All such investments by individuals, business and government involves a present sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living" (World Book, 2000, 366).

Preety Singh has defined investment in this way, "Investment is the employment of funds with the aim of achieving additional income or growth in value" (Singh, 2001: 1).

"The term investing can cover a wide range of activities. It often refers to invest money in certificates of deposits, bond, common stock or mutual funds. More knowledgeable investor would include other financial assets such as warrants, puts and call, future contracts and convertible securities. Investing encompasses very conservative positions and aggressive speculation" (Jones, 1988:105)

Above mentioned definitions about investment clarify that investment means to trade present money for expected future payments or benefits that will increase the current cash outflow which is the benefit to the investor for sacrificing the time and commitment or due to uncertainty and risk factors. Financial institutions must be able to mobilize their deposit collection of funds in profitable, secured and marketable sector. So that they can earn good return on their investment.

2.1.3 Investment Policy of a Bank

Banks have become an essential part of economic life in every field. The development of agriculture and industry are not possible without banks. Modern trade also cannot be thought of without commercial banks. Economic activities in the fields of consumption, production, distribution and other branches of economics cannot be carried on properly without banks. Government also cannot effectively use various monetary and fiscal measures without banks for the accomplishment of various socio-economic objectives.

Commercial banks are an important part for economic development of a country as they provide capital for the development of industry; trade and business by investing the saving collected deposits from public. A bank receives funds in the following ways:

- Capital funds
- Borrowing
- Deposits
- Other liabilities

These funds are invested in following assets.

- Cash and bank balance
- Investment
- Loans, advances and bills purchased/discounted
- Fixed assets
- Other assets

2.1.4 Feature of Sound Lending Policy

The income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credit created by the bank, the higher will be the profitability. A sound lending and investment policy is not only prerequisites for bank's profitability but also a crucially significant for the promotion of commercial savings of a background country like Nepal.

Some necessities for sound lending and investment policies which most of the banks must consider can be explained as under:

a. Safety and Security

The bank should never invest its funds in those securities, which are subject too much volatile and floatable. Since a small change causes a great loss. Similarly, speculative business who is bankrupt at once or earns millions in a minute should not be finalized at all. The bank should accept that type of securities, which are commercial durable, marketable and high market prices. In this case, "MAST" should be followed for the investment.

Where,

M = Marketability
A = Ascertainbility
S = Stability
T = Transferability

The five "C" should be followed in arriving the decision regarding the advances of fund. The five "C" stand for character, capacity, capital, collateral and condition.

b. Liquidity

People deposit money at the bank in different accounts with the confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess fund in different securities or at the time of lending so that it can meet current or short-term obligations when they become due for payment. Once the confidence is last in depositors' eye, they may withdraw all their deposits within a short-period without giving any chance to the bank to manage. Even the best bank can hardly survive in such situation. Hence, the liquidity position of a bank is such an important factor that it must be able to meet its cash requirement either by its cash in case of demand for such from its customers. There is no sense if the bank has adequate assets but not liquid i.e. they can't serve the purpose of liquidity when required.

c. Profitability

Commercial banks invest on those sectors that derive the maximum income. A commercial bank wants to maximize its volume of wealth through maximization of return on their investments and lending. So, they must invest their fund where they gain maximum profit. The profit of commercial banks mainly depends on the interest rate, volume of loans, its time period and nature of investment in different securities.

d. Suitability/Purpose of Loan

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

e. Diversification

"One should not lay all its eggs on the same basket." This saying is very important to the bank and it should be always careful not to grant loan in only one sector to

minimize risk, a bank must diversify its investment on different sectors. It helps to sustain loss according to law of average because if securities of a company deprives, there may be appreciation in the securities of other companies. So, the loss can be recovered.

f. Tangibility

Though it may be considered that tangible properly doesn't yield an income apart from direct satisfaction of possession of property, many times, intangible securities have lost their value due to price level inflation a commercial bank should prefer tangible security to intangible one.

g. Legality

Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of Finance and others concerning bodies while mobilizing funds.

2.2 Review of Related Studies

2.2.1 Review of Books

William J. Sharpe and Alexander J. Gordon (1999) defined investment in this way "Investment, in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is generally uncertain. In same cases the element of time predominates (for example government bond). In other cases risk is the dominant attribute (for example call option on common stock). In both time and risk are important." (Sharpe and Gorden, 1998: 1)

Cheney and Moses (1998) are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write "the investment objective is to increase systematically the individual's wealth: defined as assets minus

liabilities. An investor seeking higher return must be willing to face higher level of risk." (Cheney and Moses, 1999: 13)

Charles P. Jones (1991) has defined that "Investment as the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth, which is the sum of current income and present value of all future income." (Jones, 1988: 2)

Shakespeare Baidhya has an elaborated definition on 'investment' which beseeches of sound investment policy and covers wider aspects. He writes, "A sound investment policy of a bank in such that its fund is distributed on different types of assets with good profitability on the hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial problems, its problem usually springs from significant account of loans that have become uncollectable due to mismanagement, illegal economic downturn. Therefore, bank's investment policy must be such that it ensures sound and prudent in order to protect public funds. (Baidhya, 1997: 46-47)

Sunity Shrestha (1998) has expressed similar view on investment. She stress on the fulfillment of credit needs of various sectors which ensure investment. She expressed in her book 'portfolio Behavior of commercial banks in Nepal. "The Commercial banks fulfill the credit needs of various economic sectors including policy of commercial banks which is based on the profit maximization of the institute as well as the economic enhancement of the country." (Shrestha, 1999: 51-52)

2.2.2 Review of Article/Journal

Under this heading, effort has been made to examine and review some of the related articles and journal published in-different economic journal dissertation papers, magazines, newspapers and other related book.

Bajaracharya ,Bodhi B. in this article, *"Monetary policy and deposit mobilization in Nepal"* concludes that the mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal. And for this purpose commercial banks are

the active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the economy. (Bajracharya, 2047: 93-97)

Shrestha,Ramesh Lal in his article *"A study on deposit and credit of commercial bank in Nepal,"* concluded that the credit deposit ratio would be 51.30% other things remaining the same in Nepal, which was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering few field as far as possible, otherwise they might not be able to absorb even the total expenses. (Shrestha, 2047: 24)

Similarly, Bista, Bhagat (1991), in his paper, *"Nepalma Adhunik banking Byabastha"* has made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of JVBs (Joint Venture Banks) in the field of Commercial Banks. At the end of the paper, he concluded that the establishment of JVBs a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation, consortium finance and modern fee based activities into the economy. These are indeed significant milestone in the financial development process to the economy.

Likewise, Pyakuryal, Bishowambhar (1987) in his article, *"Workshop on Banking and National Development"* writes, "The present changing context of the economy calls for a substantial revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize their resources in an efficient manner. Therefore, the task of utilization of resources is as much crucial as the mobilization. The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposits."

And recently, Investment Management Services Pvt. Ltd., in a report based on unaudited Financial Result of 2nd Quarter as at 30/09/2068 of the fiscal year 2068/69 of all commercial banks of Nepal, "Analysis on Commercial Banks : A Comparative Study of Commercial Banks", concludes that increased costs of operations due to inflationary pressures, lowered scope of returns due to bigger deposits, reduced rate of growth due to lesser new ventures, slacked business opportunities due to lower

investments and escalated competition due to broader banks and financial institutions have adversely affected the growth and net profit of commercial banks as of 2nd quarter of the current fiscal year 2068/69.

Therefore, commercial banks should continuously improve their service standards, analyze each cost component minutely to bring down their cost of operations, and carry out cautious approach in business segments especially in credit risk assets.

Lacking political stability coupled with slacking economic growth, widening trade deficit, rising inflationary rate and arousing number of defaulters in the banking industry continues to remain the major challenges ahead. (Investment Management Services Pvt. Ltd., 2012: 11)

2.2.3 Review of Research Paper

Nowadays, the field of investment is going on in wide concept. Therefore, many researchers have published their research article about the investment policy in Nepal. In the Nepalese context, there has been research in commercial banks and financial institutions in order to achieve their goal effectively.

Shiba Raj Shrestha, in his research work, *"Portfolio Management in Commercial Bank, Theory and Practice,"* has highlighted that any individual or institutions wants to invest excess funds and surplus funds in best and profitable sectors or portfolio. The financial institutions are looking for the good and profitable investment, which maximizes the return of funds. Due to the lack of technical expertise they are facing the problems of how to make best investment decisions.

He has further stresses in the following issues; in case of investors having lower income, portfolio management may be limited to small saving incomes. But, on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surpluses income. Therefore, portfolio management becomes very important both for an individual as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

a. Higher return which is comparable with the available alternative opportunities.

b. Good liquidity with adequate safety of investment.

c. Certain capital games.

d. Maximum tax concession.

e. Flexible investment.

f. Economic and efficient investment.

To obtain the above mentioned aspects, investor does not hold single security, they try to have a portfolio investment and choose such a portfolio of securities, which can make maximum return with low risk and uncertainty. To find out a good portfolio investment on securities, they can do analytical study i.e. fundamental analysis and technical analysis. Shrestha has also presented the following approaches to be adopted.

a. To find out the investing assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need deposition, liquidity and tax liquidity etc.

b. To find out the risk of securities depending upon the attitude of investor towards risk.

c. To develop alternative investment strategies for selecting of better portfolio which will ensure a trade off between risk and return so as to attain the primary objective of wealth maximization at lowest risk.

d. To identity variety of securities for investment to refuse volatility of risk and returns (Shrestha, 2055).

Radhe Shyam Pradhan (1944), on his research, *"Financial Management and practices in Nepal"* in 1992, has studied about the major features of financial management practices in Nepal. To address his issue, a survey of 78 enterprises was carried out by distributing a multipart questionnaire, which contained questions on various aspects of financial management practices in Nepal. The survey mainly dealt with financial functions, sources and types of financing, financing decisions involving debt, effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy. The major finding of the study connected with the financial management are given as: -

a. The enterprises have a definite performance for bank loans at a lower level of debt.

b. Banks and retained earning are the two most widely used financial sources.

c. Most enterprises do not borrow from one bank only they do switch between banks which ever offer best interest rates.

d. Most enterprises find that banks are flexible at interest rate and convenience.

e. Generally, there is no definite time to borrow the issue stocks that is majorities of the respondents are unable to predict when interest rate will lower or go up or unable to predict when the stock will go down or up.

Thus, it can be said that out of numerous studies on the capital market of Nepal. These studies established itself as a milestone and an outstanding one (Pradhan, 1994).

Sunity Shrestha (1993) expressed her view on research, *"Investment planning of commercial Banks in Nepal"* has made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study she concludes that the bank portfolio (land and investment) of commercial banks have been influenced by the variable securities rates. Investment planning of commercial bank in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central bank (NRB). So, the investments are not made in professional manners. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability. To overcome this problem she has suggested, "Commercial bank should take their investment function with proper business attitude and should perform leading and investment operation efficiently with the proper analyze of the project" (Shrestha, 1993).

Bhaskar Sharma, in his study, *"Banking the future on competition,"* has found some result that all the commercial banks are establishing and operating in urban areas these achievements are:

Commercial banks are establishing and providing their services in Urban areas only. They do have interest to establish in rural areas. Only the branch of Nepal Bank Ltd and Rastriya Banijaya Bank Ltd are running in those sectors.

a. Commercial banks are charging higher interest rate on lending.

b. They have maximum tax concession.

c. They do not properly analyze the credit system.

According to him, "Due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effects would show colors only after four or five years." He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible (Sharma, 2000: 13).

Ajay Ghimire, General Manager of ACE Finance Ltd- on the topic, "Process involved in financing a corporation: A Nepalese context," has explained about the procedures of establishment of finance company. After establishment of a form, any firm has an objective of maximizing the value of the firm. He gives emphasis towards the financing decision and says that it is more important towards the finance companies. He has concluded that "Financing an investment decision or for that matter any decision, of a firm is an outcome of a complex equilibrium process. Therefore, these are no 'one best investment policy' of all organizations. The organizations are interested in optimizing its investment decision should formulate its investment policy taking into considerations the skill, taste and preferences of managers involved in the decision making process" (Ghimire, 2002/03).

According to Shekher Bahadur Pradhan, in his article, *"Deposit mobilization, its problem and prospects,"* he has presented the following problems in the context of Nepal:

a. People do not have knowledge and proper education for saving in institutional manner. They do now know financial organization process, withdrawal system, depositing system etc.

b. Financial institutions do not want to operate and provide their services in rural areas.

c. He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering the services in rural areas, by adding various services.

d. By operating rural banking programmes and unit.

e. Nepal Rastra Bank must organize training programmes to develop the skilled human resources.

f. By spreading a number of co-operative societies to develop mini banking services and improve the habit of public on deposit collection to the rural areas (Pradhan, 2053: 9).

2.2.4 Review of a Related Thesis

Before this, several thesis works have been conducted by various students regarding the various aspects of commercial banks of such as financial performance, lending policy, investment policy, interest rate structure, resource mobilization and capital structure. Some of them, which are relevant for this study are presented below:

Bohara (2002) in his thesis entitled, *"A comparative study on investment policy of joint venture banks and financial companies of Nepal,"* The main objectives of study are as follows.

a. To find out the liquidity portion and profitability position of above mentioned joint venture banks in comparison with finance companies.

b. To analyze the deposit utilization trend and its future projection for next five years for joint venture banks and finance companies.

Major findings of the research study are as follows:

a. All the selected firms shows that banks were not successfully in mobilization their deposits but finance companies have mobilized their deposit smoothly in comparison with JVBs.

b. The profitability position of all finance companies was better than JVBs.

c. The liquidity position of JVBs is comparatively better than that of financial companies.

d. All the finance companies have maintained the higher growth rates in comparison to JVBs altogether finance companies have not got sufficient investment opportunities.

Dhital (2004) conducted a study *on "A comparative study on investment policy of Standard Chartered Bank Nepal Ltd. and Bank of Kathmandu Ltd."* The study is mainly based on secondary data with the following objectives.

a. To find out relationship between total investment, deposit, loan and advances, net profit and outside assets and compare them.
b. To compare investment policies of concerned banks and discuss the fund mobilization of sample bank.
c. To evaluate the liquidity, assets management efficiency, profitability and risk position of SCBNL and BOKL.
d. To analyze the deposit utilization trend and its projection for five years of SCBNL and BOKL.

The major findings of the research study are as follows:

a. The liquidity position of BOKL is comparatively better than SCBNL.
b. The investment on government securities of SCBNL is better than BOKL.
c. BOKL has good deposit collection and SCBNL can success to invest more amounts on government securities. So, BOKL has maintained moderate investment policy on loan and advances.
d. SCBNL is not able to provide its deposit as loan and advances in comparison to BOKL.
e. SCBNL has not utilized its working fund as loan and advances in comparison to BOKL.
f. SCBNL invested its working fund in government securities and other company's share and debentures than that of BOKL.

Shakya (2004) conducted a study on *"A comparative study on investment policy of Nepal Bangladesh Bank ltd and Bank of Kathmandu ltd."* With the objective of:

a. To examine the fund mobilization and investment policy of the concerned banks.
b. To analyze the liquidity, profitability and risk of concerned banks.
c. To analyze the trend of loan and advances and other investments.
d. To suggest and recommend appropriate investment policy.

The research study is mainly based on secondary data. The major findings of the study are as follows:

a. NBBL has higher trend values of loan and advances and total investment and lowest trend values of earning per share and dividend per share in comparison to the BOKL.

b. NBBL has more risky and aggressive capital structure than BOKL.

c. NBBL is not distributing higher dividend from shareholder's profit of view but it is distributing higher amount of bonus to their staffs. Thus, it is necessary to maintain higher dividend payout to match the shareholder's expectation.

d. NBBL's profitability in relation to return on assets is better than that of BOKL.

e. NBBL has maintained lower current assets in compare to BOKL. The ratio of NBBL is highly variable than BOKL. It indicates the unstable current asset management.

f. NBBL is utilizing its collected resources in the form of deposits much more efficiently, which definitely lead to the increase income and thus, making an increment profit for the organization.

Joshi (2005) conducted a study on *"A comparative study of Everest Bank Ltd. With NABIL Bank ltd and Bank of Kathmandu Ltd."* with the objective of:

a. To discuss fund mobilization and investment policy of EBL, NABIL and bank of Kathmandu Ltd.

b. To evaluate the liquidity, efficiency and profitability and risk position.

c. To evaluate the growth ratios of loan and advances, total investment with other financial variables.

d. To analyze the trends of deposit utilization towards total investment and loan and advances.

e. To conduct hypothetical test to find whether there is significant difference between the various important ratios of EBL and NABIL and BOK.

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

a. EBL is comparatively average successful in its on balance sheet operation in compared to NABIL and BOK.

b. The mean ratio of EBL is higher than NABIL and slightly lower than BOK. It means EBL has maintained the higher liquidity and lower risk in compared to other banks. The ratio of EBL is more variable than that of NABIL and BOK.

c. Liquidity position of EBL is comparatively better than NABIL and BOK. It has the highest cash & bank balance to total deposit, cash and bank balance to current assets ratio. EBL has good deposit collection.

d. EBL is average profitable in comparison to other compared banks i.e. NABIL and BOK. The bank must maintain its high profit margin for the well being in future.

e. EBL has moderate risk in between NABIL and BOK regarding various aspects of banking function.

f. EBL has maintained high growth ratios in total deposit, loan and advances and net profit but it has moderate positive in investment.

Shrestha (2010) conducted a study on *"Investment patterns of Finance Companies in Nepal"* with the objective of:

a. To study and highlight the overall investment pattern of the finance companies of Nepal.

b. To evaluate the investment pattern of the sampled finance companies of Nepal.

c. To analyze the existing financial situation of finance companies of Nepal and analyze the effect of investment pattern on Net Profit, Interest on investment, Interest on Loan & Advances of the finance companies of Nepal.

d. To provide suggestions to the concerned finance companies for the improvement of investment scenario in the future.

The study mainly based on secondary data. The major findings of the study are as follows:

a. Though one finance company has high investment and loan & advances in amounts, others are more significant in mobilizing its deposits in investment. This ration tells about the success of finance companies to convert their liabilities into assets.

28

b. The finance companies haven't investment in government securities to diversify the risk.

c. There is increasing trend of investment in real estate sector though global financial sector crisis happened due to heavy investment in this sector.

d. All finance companies has high interest on investment to total investment ratio and interest on loans and advances to total loans and advances which explains the contribution of interest income in total income.

e. All selected commercial banks have positive correlation between net profits and interest on investment and interest on loan and advances and are highly correlated individually.

K.C. (2011) conducted a study on *"A comparative study Financial Performance of Kumari Bank Ltd. and Nepal Investment Bank Ltd."* The study is mainly based on secondary data with the following objectives.

a. To evaluate and compare the liquidity position.
b. To evaluate the profitability position of sample banks.
c. To evaluate and compare the performance of sample banks.
d. To forecast the five years expected trend of net profit.

The major findings of the research study are as follows:

a. The liquidity position of both of the banks seems satisfactory. Overall liquidity position of KBL appears stronger than that of NIBL. It shows that KBL can meet its current liabilities more efficiently than NIBL.

b. KBL is found more successful to utilize its deposit in profitable sector.

c. All the parameters such as profitability ratio, EPS, DPS and Dividend payout ratio have been satisfactory in both sample banks.

d. During the trend analysis, it is also seen that the net profit for the both sampled banks will decrease in 2014/15 from 2013/14.

2.2.5 Research Gap

Investment in different sectors is made on the basis of investment guidelines and the directives and circulars on NRB. NRB directives changes over time. NRB makes

necessary amendments in prevailing directives and circulars and communicates to the commercial banks. Commercial banks should follow these directives and circulars. Similarly, the management of the banks changes over time along with the policies of the banks may also change. These factors create gap in the research work.

Various research works have been conducted on commercial bank investment policy, and the comparative study of BOK with respect to KBL has not been done so far, so here an effort is made to do the same. Thus, the present study will make a modest attempt to analyze investment policy of BOK and KBL in order to add knowledge in the area of investment policy, this study has been carried out. This project work will help to bridge the research gap on the study of investment policy of BOK in comparison to KBL.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is the way to solve systematically the research problem, which included many techniques and is a must for every research study. In order to reach and accomplish the objective of the study, different activities were carried out and different stages were crossed during the study period. For this purpose, the chapter aims to present and reflect the methods and techniques adopted and followed in this study. It includes the research design, population and sample, sources of data, data collection techniques, data analysis tools and limitations of the methodology.

3.1 Research Design

Research design is the plan, structure, and strategy investigation conceived so as to obtain answers to research question and to control variance. The plan is the overall scheme of program of research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline scheme, the paradigm of the operation of the variables. The diagrams drawn outline the variables and their relation and juxtaposition; structural schemes are built for accomplishing operational research purposes.

3.2 Population and Sample

All the groups, individuals and elements under study period are the population and unbiased representation of the population is sample. For the study purposes, total commercial banks are the population data and the commercial banks under study constitutes the sample. There are altogether 32 commercial banks functioning in Nepal till date which are the population of the study. To attain the objectives Bank of Kathmandu Ltd and Kumari Bank Ltd are selected to be comparatively analyzed as sample units among these Banks.

3.3 Nature and Sources of Data

This study is based on secondary data. The data required for the analysis is obtained from the balance sheet and the profit and loss account of concerned banks annual reports, supplementary data and information are collected from a number of institution and authorities like NRB, Securities Board of Nepal, Nepal Stock Exchange, Electronics data from website, published and unpublished articles/reports from various sources and Economics survey. Formal and informal talks with the concerned authorities and staffs of the company were also helpful to obtain the additional information of the related problem.

3.4 Data Collection Procedure

Since the study is based on secondary data, they are directly collected from the Annual Reports of the concerned banks. Additional information has been collected from NRB, securities Board of Nepal, Economics survey and websites of the banks under study.

3.5 Analysis of Data

For the purpose of data analysis various financial and statistical tools have been used to achieve the objective of study. The analysis of data is done according to the pattern of data available. Mainly financial tools and statistical tools are used in this research. Besides these, some graph, charts and tables have been presented to analyze and interpret the findings of the study. The major tools applied in this study are discussed in the ensuing section.

3.5.1 Financial Tools

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

Ratio Analysis:

An arithmetic relationship between two figures is known as ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number expressed in terms of another. M. Pandey expressed about, "Ratio analysis is the main tools of financial statement analysis. Ratio means the numerical or quantitative relationship between items of variable. It can be expressed as percentage, fraction or a stated comparison between numbers."

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement is known as Ratio Analysis. With the help of ratio analysis, the qualitative judgment can be done regarding firm's performance and status. Even though there are several ratios, only those have been covered in these studies which are related to investment operation of the bank. This study contains following ratio:

i. Liquidity Ratio

The ability of a firm to meet its obligation in the short term is known as liquidity, it reflects the short-term financial strength of the business. It is a measurement of speed with which a banks asset can be converted into cash to meet deposit withdrawal and other current obligations. The following ratios are evaluated under liquidity ratio:

a. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets. Cash and Bank Balance to total deposit ratio is calculated by cash and bank balance by total deposits. Total deposits consist of current deposit, saving deposit, fixed deposit, money at call and short notice and other liabilities. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. High ratio shows the strong liquidity position of bank and very high ratio is also not considered favorable as it does not procedure appropriate profit to bear the high interest.

Cash and bank balance to total Deposit Ratio $= \dfrac{\text{Cash and Bank Balance}}{\text{Total Deposit Ratio}}$

b. Investment on Government Securities to Current Assets Ratio

Investment in government securities helps to diversify the risk in the portfolio. This ratio is calculated to find out the percentage of current assets invested in government securities i.e. treasure bills and government bonds. The ratio is computed as:

Investment on Government securities to Current Assets Ratio =

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

c. Loan and Advances to Current Assets Ratio

Loan and advance includes short term loan, overdraft, revolving overdraft and stand by credit, line of credit and other lending. This ratio is computed as:

Loan and advances to current assets ratio $= \dfrac{\text{Loan and Advances}}{\text{Current assets Ratio}}$

ii. Assets Management Ratio (Activity Ratio):

Assets Management or activity or turnover ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets. They indicate the speed with which assets are being converted or turnover. Thus, these ratios are used to measure the bank's ability to utilize their available resource.

These ratios are designed to answer this question: does the total amount of each type of assets as regard on the balance sheet seem reasonable, how high, too low, in view of current assets and operating levels? Either a company or a bank must borrow or obtain funds from other sources to acquire assets. If it has too many assets, its interest expenses will be too high its profit will low, on the other hand, if assets are too low, profit ability sales may be lost. The following ratios are used under this assets management ratio.

a. Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out, how successfully the banks are utilizing their total deposit on loans and advance for profit generating purpose. Greater the ratio implies better utilization of total deposits. This ratio is calculated as:

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

b. Total Investment to Total Deposit Ratio

Investment is one of the major credits created to earn income. This implies the utilization of firms deposit on investment in government securities and shares, debentures of other companies and banks. The ratio is computed by dividing total investment by total deposit. The higher ratio means more utilization of funds and vice versa. This can be mentioned as:

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

c. Loan and Advances to Total Working Fund Ratio

Loan and advances is the major components in the total working fund (Total Assets), which indicates the ability of the bank to utilize its deposit in the form of loan and advances to earn high return. The ratio can be computed as:

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

Here the total working funds includes all assets as of on balance sheet items.

d. Investment on Government Securities to Total Working Fund Ratio

This ratio shows the relationship between the banks investment on securities in comparison to the total working funds. The ratio is computes as:

Investment on Government Securities to Total Working Fund Ratio =

$$\frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

iii. Profitability Ratio

Profitability ratios are calculated to measure the efficiency of operation of a firm in terms of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of bank and vice versa. Profitability ratio can be evaluated through following different ways:

a. Return on Loan and Advances

This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. The ratio can be computed as:

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Loan and Advances}}$$

b. Return on Equity Ratio:

This ratio measures how efficiency the banks have used the funds of owner. The ratio can be computed as:

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

iv. Growth Ratios:

To examine and analyze the expansion and growth of the banking business regarding the investment function, following growth ratios is calculated.

    a.   Growth Ratio of Total Deposit
    b.   Growth Ratio of Loan and Advances
    c.   Growth Ratio of total investment
    d.   Growth Ratio of Net Profit

v. Risk Ratio:

The possibility of risk makes bank investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So, the bank has to have idea of the level of risk one has to bear while investing funds. These ratios indicated the amount of risk associated with the various banking operations, which ultimately influences the banks investment policy. The following ratios are evaluated under this study.

a. Credit Risk Ratio

Credit risk ratio help to check the profitability of loan non-repayment on the possibility of loan to go default. Credit risk is expressed as the percentage of non-performing loan to total loan and advances. Credit risk ratio is computed as:

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

3.5.2 Statistical Tools

To achieve the objectives of the study some important statistical tools are used. In this study, statistical tools such as mean, standard deviation, coefficient of correlation between two variables, coefficient of variation, trend analysis of important variables has been used which are as follows.

a. Mean: A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted and given by the formulas: $\overline{X} = \dfrac{\sum X}{n}$

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

N = Number of pairs of observations.

b. Standard Deviation: The Standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation the higher the variability and vice versa. A small standard deviation means a high degree of uniformity of the observation as

37

well as homogeneous of a series. A large standard deviation means the opposite. In this study, the standard deviations of different ratio are calculated. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greek letter (σ) read as sigma. The formula to calculated the standard deviation are given below.

$$S.D.\ (\sigma) = \sqrt{\frac{\sum X^2}{N}}$$

Where, $X = (X - \overline{X})$

      N = No. of observations

c. Coefficient of Variance: The standard deviation calculated in the above formulas given as absolute measure of dispersion. Hence, where the mean value if the variable is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation measures the relative measures of dispersion based on the standard deviation. Hence, capable to compare two variables independently in terms of their variability. It is most commonly used to measure the variation of data and more useful for the comparative study of variability in two or series or groups or distribution. Hence, it is undertaken to compare the variability in various data of the bank. Symbolically, the coefficient of variation is defined as:

$$C.V. = \frac{\sigma}{\overline{X}}$$

Here, σ = Standard Deviation

      $\overline{X}$ = Average or Mean

d. Measures of Correlation: Correlation refers the degree of relationship between (or among) two or more variables. The correlation between the different variables of sample banks is compared to measure the performance of these banks. If the two variables are so related that the change in the value of one independent variable results the change in the value of dependent variable then they are said to have 'correlation'. The reliability of the value of coefficient of correlation is measured by probable error.

The correlation coefficient between two variables describes the degree of relationship between those two variables. It interprets whether two or more variables are correlated positively or negatively. Karl Pearson method is applied in this study. The result of coefficient of correlation is always between + and -1. Coefficient of correlation (r) is given by the following formulas:

Coefficient of correlation (r) = $\dfrac{N\sum dx.dy}{\sqrt{N\sum dx^2}\sqrt{N\sum dy^2}}$

Where, dx = $(X - \overline{X})$

$\quad\quad$ dy = $(Y - \overline{Y})$

Probable Error of r (P.Er) = $0.6745\dfrac{1-r^2}{\sqrt{N}}$

e. Least Square Trend Analysis: This topic is to analyze trend of deposit collection, its utilization and net profit of BOK and KBL banks. To utilize deposits, a commercial bank may grant loan and advances and invest some of the funds in government securities and shares and debentures of other companies. Regarding this topic, trend of deposit, loan and advances, total investments and net profit are forecasted for next five years. The projections are based on the following assumptions:

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

The general equation used for lines trend given below: -

y = a + bx

Where,

$\quad\quad$ y = Dependent variance

39

x = Coded time in year

a = y – intercept

b = slope

In the above model,

$$a = \sum Y / N$$

$$b = \sum XY / \sum X^2$$

f. Chi-square Test

The chi-square test tested in this study are stated as following:

H_0: The banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

H_1: The banks are not successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

H_0: BOK bank capacity to mobilize its deposits on total investment is better than KBL.

H_1: BOK bank capacity to mobilize its deposits on total investment is not better than KBL.

The formula to calculated the chi-square is given below.

$$\text{Chi-square } (\chi^2) = \Sigma \frac{(O - E)^2}{E}$$

Where, O = Observed frequency

E = Expected frequency

3.6 Limitation of the Methodology

The study is carried out within the framework of case study research design. So, it is difficult to eliminate the limitations of the case study research design, in which the study as well as the methodology is bounded. Only two unit of the population is taken for the study, therefore the study may not be able to represent the whole scenario.

Different models and tools which are used for data collection in the research work are not completely free from the criticisms. So, it also imposes to draw the line of limitation. Finally, the different tools are used to analyze the collected data, which are based on certain assumptions. So, reliability of the analysis depends upon the circumstances on which the models are based.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation and analysis of data. The analysis is completely based on secondary data, which are directly collected from the annual report of the concerned banks. The data are mainly extracted from the balance sheet and profit and loss account of the banks under study.

For the purpose of data analysis financial and statistical tools have been used to achieve the objectives of the study. The data are presented in tables and figures as per requirement. The various tools applied in this study are presented below.

4.1 Liquidity Ratio

a. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are assets that constitute the banks first line of defense and consist of cash on hand, cheques and other cash items, balance with domestic banks and balance held abroad.

Table 4.1: Cash and Bank Balance to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	9.10	12.07	8.85	7.99	13.54	10.36	2.12	20.50%
KBL	7.31	11.31	15.63	6.88	16.93	10.74	4.66	43.36%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

The above table shows that the cash and bank balance to total deposit ratio of both banks have fluctuating trend. BOK's highest ratio was 13.54% in FY 2011/12 and lowest was 7.99% in FY 2010/11. Similarly, in case of KBL, highest ratio was 16.93% in FY 2011/12 and lowest was 6.88% in FY 2010/11. The mean ratio of BOK is lower than KBL i.e. 10.74%>10.36%. On the basis of coefficient variances, it can be concluded that BOK's ratios are less consistent than that of KBL i.e. 20.50%>43.36%.

The above analysis concluded that the cash and bank balance position of KBL with respect to deposit is not better against the readiness to service its customer's deposits than that of the BOK. It implies the better liquidity position of BOK. In contrast, a high ratio of non-earning cash and bank balance may be unfit which indicates the banks inability to invest its funds in income generating areas.

Thus, BOK may invest in more productive sectors like short-term marketable security, treasury bills etc. ensuring enough liquidity which will help the bank to improve its profitability. (Detail in Appendix – 1)

b. Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's is current assets, which is invested on different Government securities. More or less each commercial bank is interested to invest their collected fund on different securities issued by government in different times to utilize their excess funds and for other purposes. Though government securities are not so liquid as cash and bank balance or a commercial bank they can easily be sold in the market or they can be converted into cash in other ways. (Detail in Appendix -2)

Table 4.2: Investment on Government Securities to Current Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	11.63	8.91	12.64	15.24	16.99	13.49	2.99	22.14%
KBL	9.69	6.20	9.07	13.19	11.00	9.98	2.33	23.35%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.1: Investment on Government Securities to Current Assets Ratio
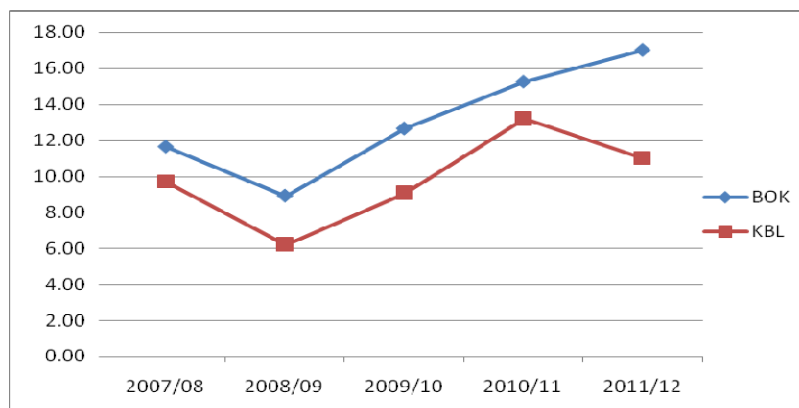
Above table, shows that investment on government securities to current assets ratio of BOK is in increasing trend. During the study period the highest ratio maintained by BOK was in the year 2011/12 i.e. 16.99% and the lowest was 8.91% in the year 2008/09, which is the higher than half of the highest ratio maintained by it. On the other hand, the ratio of KBL is in fluctuating trend. The KBL's highest ratio was 13.19% in FY 2010/11 and the lowest was 6.20% in FY 2008/09, which is less than half of the highest ratio maintained by it.

Overall, the mean of investment on government securities to current assets of BOK was higher than that of KBL i.e. 13.49%>9.98%. It means BOK has invested more of its current assets in government securities than KBL. On the other hand, coefficient of variability of ratio of BOK was less than that of KBL i.e. 22.14 %< 23.35%, which means that the variability of ratio of BOK was more homogenous than that of KBL.

Lastly, it is concluded that both banks liquidity position from the point of view on investment on government securities is good.

c. Loan and Advances to Current Asset Ratio

Loan & advances are also included in the current assets of a commercial bank because generally they provide short-term loan, overdrafts and cash credit. To make high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan & advances to the customers. If sufficient loan & advances cannot be granted, it should

pay interest on those unutilized deposit funds and may lose some earnings. But high loan & advances may also affect to keep the bank in most liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its loan & advances in appropriate level. (Detail in appendix – 3)

Table 4.3: Loan and Advances to Current Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	68.60	74.76	71.28	66.52	63.47	67.85	4.69	6.91%
KBL	74.75	83.72	77.40	68.76	75.25	75.62	4.90	6.48%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

The above table shows that BOK maintained highest ratio in the years 2008/09 i.e. 74.76% and lowest in the year 2011/12 i.e. 63.47%. On the other hand, KBL maintained highest ratio in the year 2008/09 i.e. 83.72% and lowest in the year 2010/11 i.e. 68.76%. While examining the mean ratio, BOK has maintained lower ratio i.e. 67.85% than that of KBL i.e. 75.62%. Similarly, coefficient of variation among ratios is higher in case of BOK than KBL i.e. 6.91>6.48%. It indicates inconsistency of BOK bank's ratio in comparison to KBL.

Lastly, it can be said that BOK and KBL were not poor to mobilize their fund as loan & advances with respect to current assets. The higher mean ratio of loan and advances to current assets of BOK reveals that its liquidity position with regard to this is more satisfactory than KBL.

4.2 Analysis of the Assets Management position of the Banks

A commercial bank must be able to manage its assets very well to earn high profit, to satisfy its customers and for its own existence. Assets management ratio measures how efficiently the bank manages the resources at its command.

Through following assets management ability of BOK is compared with that of KBL.

a. Loan and Advances to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purposes of profit generation. A high ratio of loan & advances indicates better mobilization of collected deposits and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. This ratio is calculated by dividing loan & advances by total deposit. (Details in appendix – 4)

Table 4.4: Loan and Advances to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	78.71	81.00	82.03	83.11	75.28	79.33	3.26	4.11%
KBL	88.73	92.89	84.70	86.11	80.12	86.19	4.31	5.00%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.2: Loan and Advances to Total Deposit Ratio
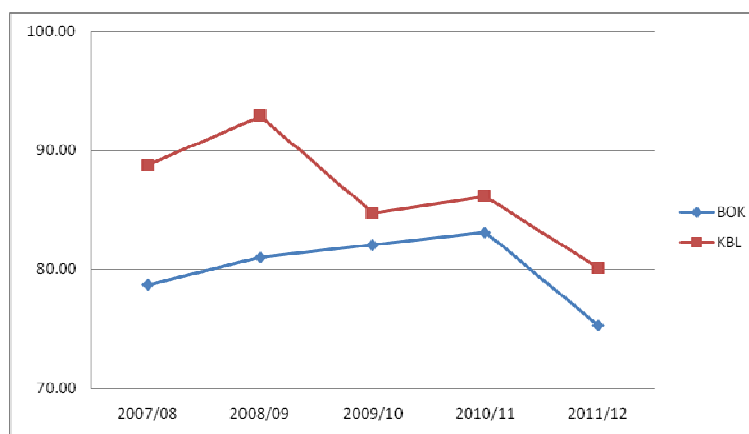
The table listed above shows fluctuating trend in case of KBL whereas BOK has maintained stable increase in loan and advances to total deposit ratio till 2010/11 but has decreased in 2011/12. During the study period the highest ratio maintained by BOK is 83.11% in the FY 2010/09 and lowest is 75.28% in FY 2011/12. KBL seems to be good at mobilizing its total deposit as loan and advances. KBL mean ratio was higher than that of BOK i.e. 86.19>79.33. On the basis of co-efficient of variation we can say

that KBL's loans and advances were less consistent than BOK as it has higher C.V. i.e. 5%>4.11%.

From the above description, BOK is found slightly weak in comparison to KBL, to mobilize higher amount of loan & advances. But at the same time the high ratio may not be good from KBL liquidity point of view.

It should be noted that in the process of loan management of bank assets, so many factors are to consider such as risk analysis, diversification social responsibility, bank credit policy, compensation policy, limits of lending power etc. Loan and advances to total deposit ratio is presented in line diagram in figure no. 4.2.

a. Total Investment to Total Deposit Ratio

A commercial bank may mobilize its bank deposit by investing its fund different securities issued by government and other financial or non-financial companies. Now effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. In the process of portfolio management of banks assets, various factors such as availability of fund, liquidity requirement, central bank's norms etc. are to be considered in general (Detail in appendix 5).

Table 4.5: Total Investment to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	20.24	15.39	16.09	20.39	20.99	19.54	3.28	16.77%
KBL	16.74	9.62	13.18	20.80	13.38	14.94	3.81	25.49%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.3: Total Investment to Total Deposit Ratio
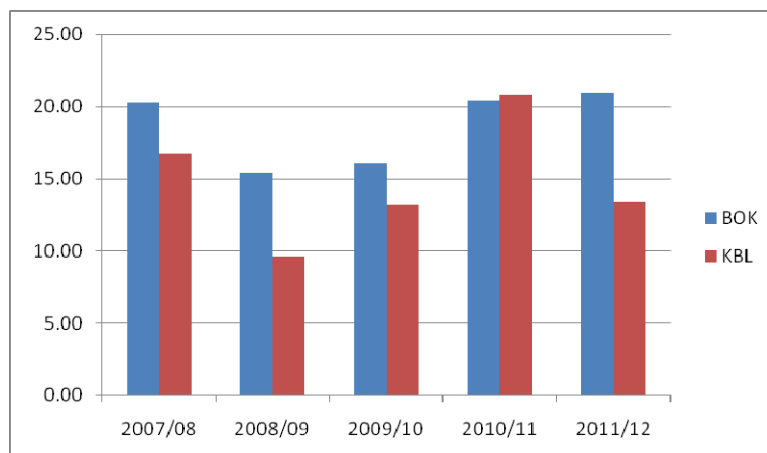
Above table reveals that BOK's total investment to total deposit ratios have increasing trend. During the study period, even though in the beginning i.e. FY 2008/09, it decreased to 15.39% from 20.24 % ratio but from FY 2009/10 to FY 2011/12 ratio increased to 20.99%. On the other hand, KBL has fluctuating trend. The highest ratio maintained by KBL is 20.80% in FY 2010/11 and lowest is 9.62% in FY 2008/09.

On the basis of mean ratio, it can be said that BOK's capacity to mobilize its deposits on total investment is better than that of KBL because its mean ratio is 19.54% whereas KBL had 14.94%. On the other hand, observing the C.V. of ratios, we can further concluded that BOK's ratios during the study period have been quite more consistent than that of KBL because of its lower C.V. i.e. 16.77 %< 25.49%. Total investment to total deposit ratio of BOK and KBL are presented in the bar diagram in figure no 4.3.

c. Loan and Advances to Total Working Fund Ratio

A commercial bank's working fund should play very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing there total assets on loan & advances for the purpose of income generation. A high ratio indicates better mobilization of fund as loan & advance and vice-versa.

Table 4.6: Loan and Advances to Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	68.79	74.95	71.39	66.57	63.53	67.97	4.73	6.96%
KBL	75.07	84.05	77.57	68.78	75.32	75.79	4.99	6.59%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.4: Loan and Advances to Total Working Fund Ratio
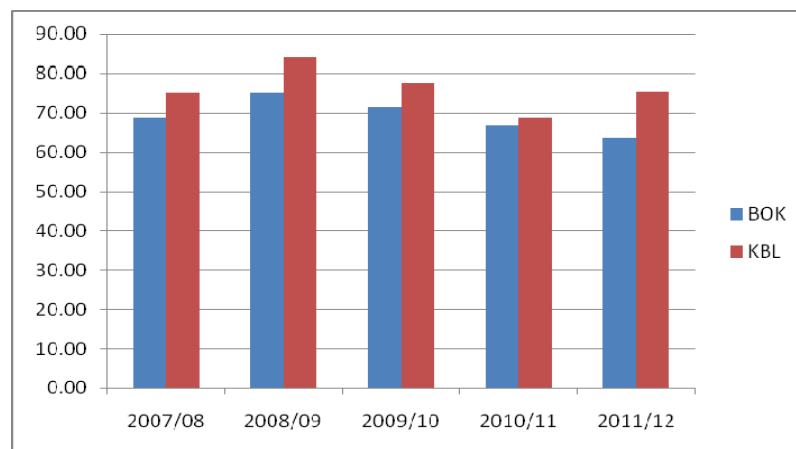
The table listed above shows that BOK's ratio has been decreasing from 74.95% to 63.53% in the last four years during the study period i.e. from FY 2008/09 to 2011/12. Similarly, on the other hand KBL's ratio has been fluctuating. The highest ratio maintained by KBL is 84.05% in FY 2008/09 and lowest is 68.78% in FY 2010/11.

Observing the mean ratios, it can be said the KBL has maintained higher ratio i.e. 75.79% than BOK i.e. 67.97%. This table reveals that KBL was good at mobilizing its total working funds as loan & advances. And also the higher C.V. of BOK ratio state that its ratios are less consistent than that of KBL. i.e. 6.96% > 6.59%.

From the above analysis, it can be concluded that KBL's fund mobilization, in terms of loan & advances with respect to total working fund is slightly more satisfactory than BOK. (Detail in appendix – 6)

d. Investment on Government Securities to Total Working Fund Ratio

This ratio is very important to know the extent to which the banks are successful in mobilizing their total working fund on different types of government securities to maximize the income. All the deposits of the banks should not be utilized in loan & advances and other credit from security and liquidity point of view.

Therefore, to some extent, commercial banks seem to be interested to utilize their deposits by purchasing government securities. A high ratio indicates better mobilization of fund as investment on government securities and vice-versa.

Table 4.7: Investment on Government Securities to Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	11.67	8.93	12.66	15.25	17.01	13.51	2.98	22.08%
KBL	9.73	6.22	9.09	13.20	11.01	10.00	2.32	23.23%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.5: Investment on Government Securities to Total Working Fund (%)
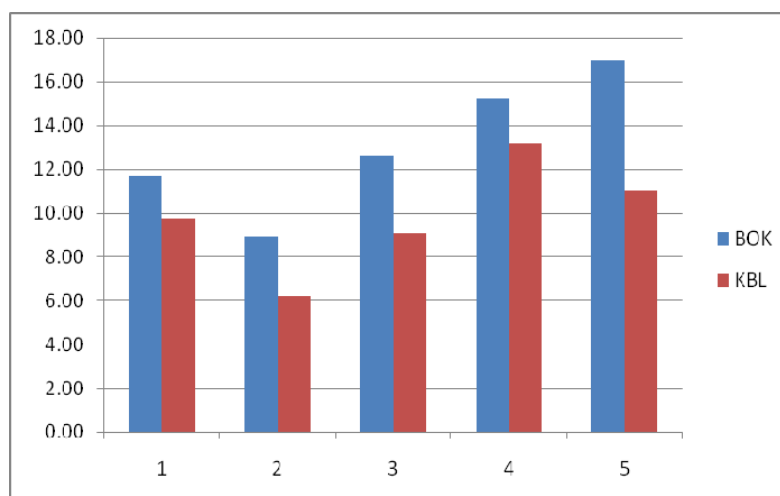
From the above comparative table, it is clear that in case of BOK, the ratios have shown increasing trend. It increased from the lowest ratio of 8.93% to the highest ratio of

17.01% in the last four year of the study period i.e. from FY 2008/09 to FY 2011/12. On the other hand, the ratio percentage of investment on government securities to total working fund is found in fluctuating trend in the case of KBL. It has maintained highest ratio in FY 2010/11 i.e. 13.20% and lowest in FY 2008/09 i.e. 6.22%.

The comparison of mean ratios of BOK and KBL reveals that BOK was better at mobilizing its working fund as investment in government securities. Likewise, BOK bank's variability between ratios during the study period was lesser than that of KBL i.e. 22.08% <23.23%. (Detail in Appendix 7)

4.3 Analysis of the Profitability Position of the Banks

The main objective of a commercial bank is to earn profit providing different types of banking services to its customers. To meet various objective like to have a good, liquidity position, meet fixed internal obligation, overcome the future contingencies, grab hidden investment opportunities, expand banking transactions in different places, finance government is need of development funds etc, a commercial bank must have to earn sufficient profit of course, profitability ratios are the best indications of overall efficiency. Here, mainly those ratios are presented and analyzed which are related with profit as well as fund mobilization.

a. Return on Loan and Advances Ratio

Return on loan and advances ratios measures the earning capacity of a commercial bank on its mobilized fund-based loan and advances. A high ratio indicates greater success to mobilize fund as loan and advance and vice-versa. The following table shows that return on loan and advances ratio of BOK and NABIL of study period (Detail in appendix 8).

Table 4.8: Return on Loan and Advances Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	2.90	3.15	3.06	3.46	3.23	3.10	0.24	7.76%
KBL	1.54	1.79	2.14	1.72	1.56	1.78	0.23	12.70%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.6: Return on Loan and Advances Ratio (%)
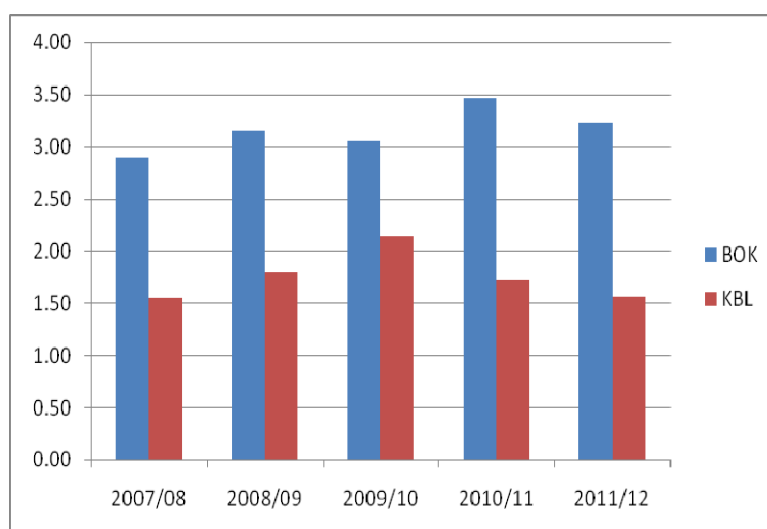
The above comparative table shows that the ratios of return on loan and advances of both banks are in fluctuating trend. In case of BOK, it has maintained highest ratio 3.46% in FY 2010/11 and lowest 2.90% in the year 2007/08 whereas, KBL ratio increased from 1.54% in FY 2007/08 to 2.14% in the year 2009/10 but decreased to 1.56% by FY 2011/12. On the other hand, when the mean ratios are observed, BOK seem to be good to maintain high return on loan and advances in comparison to the KBL, BOK has mean ratio of 3.10% whereas KBL had quite lower ratio 1.78%. Likewise, high C.V. of KBL i.e. 12.70% indicates high variability of ratios than that of BOK. Thus, in conclusion, it can be said that KBL seems to be lagging behind to earn high return on its loan and advances in comparison to BOK.

b. Return on Equity (ROE)

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return no its equity capital. ROE is the measuring role of the profitability of bank. It reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher success to mobilize its owned capital (equity) and vice versa. This ratio was calculated by dividing net profit by total equity capital including paid up equity capital, and various reserves and surplus (Detail in appendix – 9). The following table 4.9 shows the return on equity of BOK and KBL during the study period.

Table 4.9: Return on Equity (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	59.94	54.68	37.46	37.72	36.08	44.90	10.08	22.46%
KBL	16.35	22.04	24.24	15.67	17.18	19.70	3.71	18.86%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.7: Return on Equity
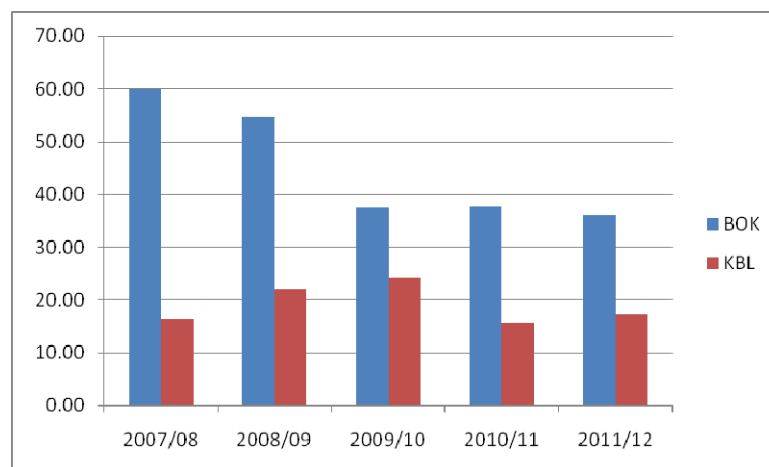
The above listed table reveals that BOK has decreasing trend. The highest ratio is recorded in FY 2007/08 i.e. 59.94% and lowest is 36.80% in the year 2011/12.

Similarly, in case of KBL, it has fluctuating trend. The highest ratio i.e. 24.24% and lowest i.e. 15.67% were registered in FY 2009/10 and FY 2010/11 respectively.

On the basis of mean ratios, it can be said that KBL has been weaker to earn high profit to its shareholders in comparison to BOK, which can be viewed by the lower mean ratio i.e. 19.70% < 44.90. Likewise, high C.V. among the ratios of BOK shows its inconsistency in earning profit.

Overall, it can be concluded that KBL has not been able to earn high profit through the efficient utilization of its owned capital. Moreover, its high C.V. shows its less homogenous ratio during the study period, which shows lack of efficient investment policy for the mobilization of capital resources. Return on equity of BOK and KBL is presented in figure 4.7.

4.4 Risk Ratio

The possibility of risk makes bank's investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks opting for high profit has to accept the risk and manage it efficiently. Bank has to have idea of the level of risk that one has to bear while investing its funds. Through following ratios, an effort has been made to measure the level of risk inherent in the BOK in comparison to the KBL.

a. Credit Risk Ratio

Bank utilizes its collected fund in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally credit risk ratio shows the proportion of non-performing assets (NPAS) in the total loan and advances of a bank. But due to unavailability of the relevant data, here we presented the credit risk as the ratio of total loan and advances to total assets (Detail in appendix – 10). The following table shows the credit risk of BOK and KBL of the study period.

Table 4.10: Credit Risk Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2007/08	2008/09	2009/10	2010/11	2011/12			
BOK	70.32	71.46	71.23	70.56	65.14	68.87	3.17	4.60%
KBL	75.43	78.72	71.95	71.38	70.09	73.75	3.20	4.34%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.8: Credit Risk Ratio
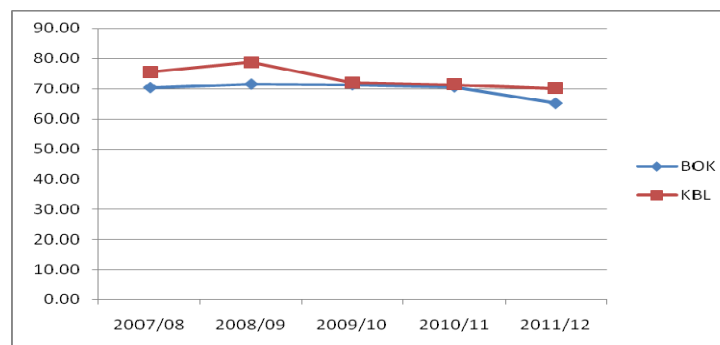
The above table shows that credit risk ratio of both the banks are somewhat stable throughout the study period. BOK has maintained stability in this, ratio i.e. around 70% in the first four years i.e. from FY 2007/08 to 2010/11. Similarly, KBL ratio has been decreasing from 78.72 % to 70.09% in the last four years i.e. from FY 2008/09 to 2011/12.

On the basis of mean ratio, it can be said that credit risk of BOK is lower than the KBL i.e. 68.87% < 73.75%. On the other hand, BOK has higher C.V. than KBL i.e. 4.60% > 4.34% which shows that BOK's credit risk ratios are more variable than that of KBL.

4.5 Growth Ratios

Here those growth ratios are analyzed and interpreted which are directly related to the fund mobilization and investment management of a commercial banks. Growth ratios represent how well the commercial banks are maintaining their economic and financial position. Under this topic, four types of growth ratios i.e. growth ratios of total deposit, loan and advances, total investment and net profit are given in the table.

Table 4.11: Growth Ratio of Total Deposits (%)

Banks	Total Deposits (Rs. In million)					Growth
	Fiscal Year					
	2007/08	2008/09	2009/10	2010/11	2011/12	Rates (%)
BOK	15,834	18,084	20,316	21,018	24,991	24.65%
KBL	12,774	15,711	17,432	16,986	21,985	29.49%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.9: Growth of Total Deposit
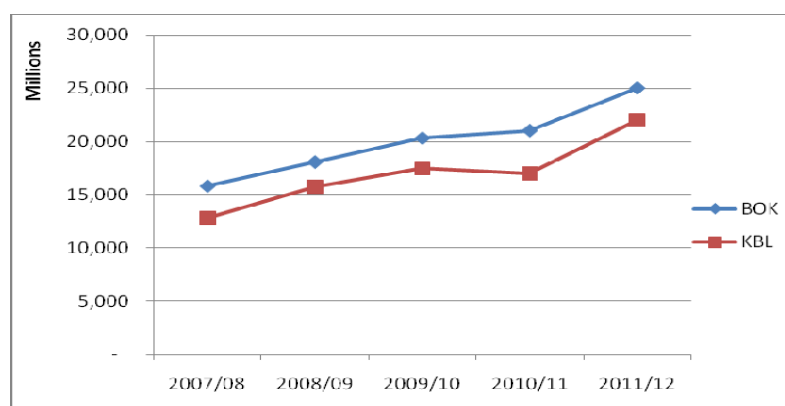
The above comparative table reveals that the growth ratio in case of BOK is lower than that of KBL. The ratio of BOK is 24.65% whereas the same of KBL is 29.49%. It indicates that KBL bank's performance in collecting deposit is better than that of BOK.

Table 4.12: Growth Ratio of Loan and Advances (%)

Banks	Loan and Advances (Rs. In millions)					Growth
	Fiscal Year					
	2007/08	2008/09	2009/10	2010/11	2011/12	Rates (%)
BOK	12,463	14,647	16,665	17,468	18,814	17.50%
KBL	11,335	14,593	14,766	14,626	17,614	20.75%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.8: Growth of Loan and Advances
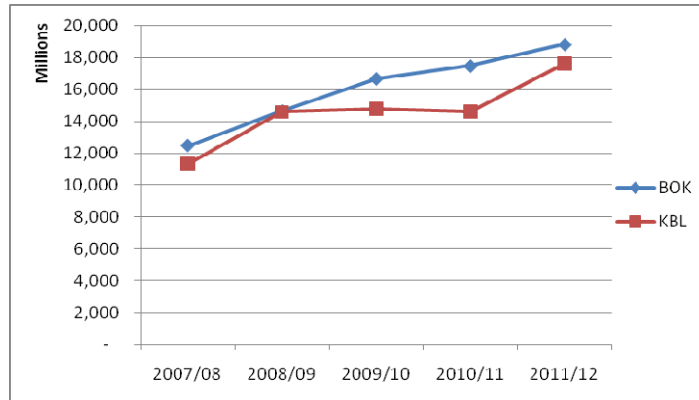
When we observe the growth ratio of loan and advances, we find that BOK has failed to increase its loan and advances with higher growth rate in comparison to KBL. The growth rate of loan and advances of BOK is 17.50% and that of KBL is 20.75%.

Table 4.13: Growth Ratio of Total Investment (%)

Banks	Total Investment (Rs. In million)					Growth Rates (%)
	Fiscal Year					
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	
BOK	3204	2784	3269	4287	5247	39.61%
KBL	2139	1511	2297	3534	2941	18.37%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.9: Growth of Total Investment

57
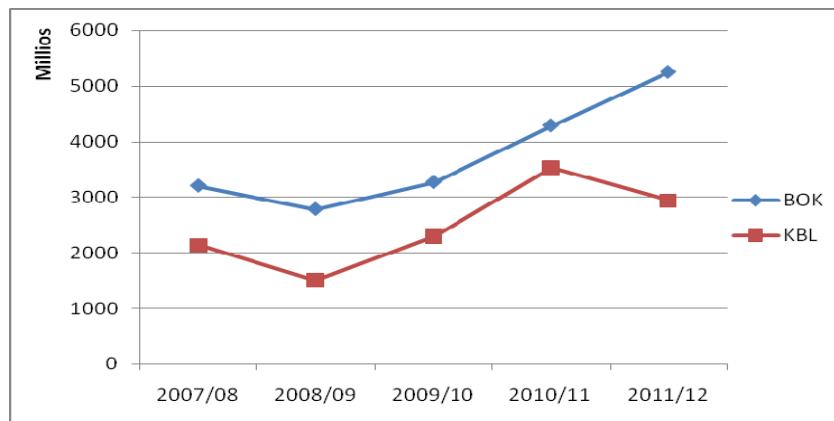
From the above analysis, we can conclude that growth ratio of total investment of KBL is significantly lower than that of BOK i.e. 18.37% < 39.61%. This shows that KBL is poor to maintain growth ratio on investment.

Table 4.14: Growth Ratio of Net Profit (%)

Banks	Net Profit (Rs. In million)					Growth
	Fiscal Year					
	2007/08	2008/09	2009/10	2010/11	2011/12	Rates (%)
BOK	361	462	509	605	608	19.37%
KBL	175	261	317	251	276	7.65%

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.10: Growth Ratio of Net Profit
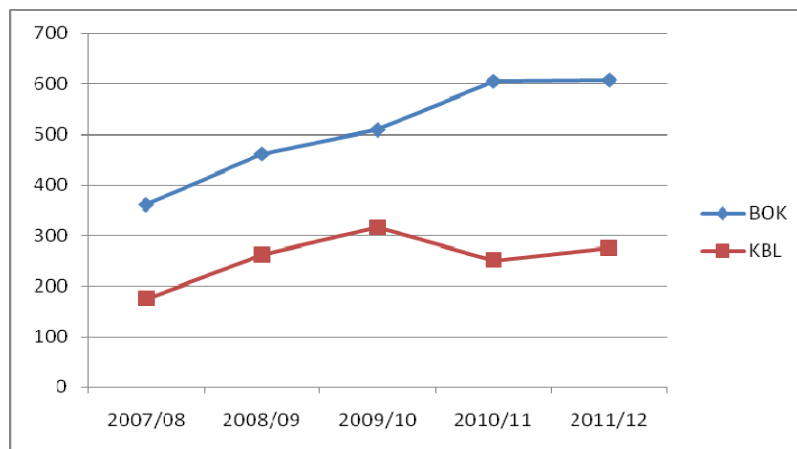
From the analysis of growth ratio of net profit, BOK seems to be comparatively similar at maintaining higher growth ratio than KBL i.e. 19.37% > 7.65%.

Finally, from the above analysis, it can be concluded that during the study period, BOK has comparatively shown poor performance in maintaining higher growth ratios in total deposit and loan and advances. Thus, BOK should emphasize on improving its performance in these areas.

4.6 Relationship between Deposit and Loan and Advances

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

The following table shows 'r' 'r^2' P.Er and 6P. Er between those variables of BOK and KBL during the study period.

Table 4.15: Correlation between Deposit and Loan and Advances

Banks	Evaluation Criterion			
	r	r^2	P.Er	6P.Er
BOK	0.9670	0.9351	0.0196	0.1174
KBL	0.9737	0.9482	0.0156	0.0938

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

From the above table, in case of BoK, it was found that co-efficient of correlation between deposit and loan and advances was 0.9670. It shows positive relationship between these two variables. Moreover, we consider the value of co-efficient of determination (r^2), which is 0.9351 and it means 93.51% of the variation in the dependent variable has been explained by the independent variable i.e. deposit. Similarly, considering the value of 'r' was 0.9670 and comparing it with 6P.Er. i.e. 0.1174. We find that 'r' is greater than the value of 6P.Er which reveals significant relationship between deposit and loan and advances in case of BOK.

Likewise, in case of KBL, the co-efficient of correlation between deposit and loan and advances was 0.9737, which indicates positive correlation between these two variables. Similarly, the value of co-efficient of determination (r^2) was found 0.9482 and it means 94.82% of the variation in the dependent variable has been explained by the independent variable. Moreover, by application of probable error, the value of r =

0.9737 was highly greater than 6.P.Er i.e. 0.0938, which means value of 'r' was highly significant. In other words, there is highly significant relationship between deposit and loan and advances in case of KBL.

From the above analysis conclusion can be drawn that both the banks are able to mobilize their deposits as loan and advances in proper way. But the relationship is highly significant in case of BOK in comparison to KBL which means BOK is better in mobilizing its deposits as loan and advances than KBL.

4.7 Relationship between Deposit and Total Investment

The co-efficient of correlation between deposits and total investments measures the degree of relationship between these two variables. In correlation analysis, deposit is independent variables (x) and total investment is dependent variable (y).

The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used in proper way or not and whether there is any relationship between these two variables. (Sample calculation in Appendix – 11).

The following table shows the co-efficient of correlation between deposits and total investment of BOK and KBL during the period.

Table 4.16: Correlation between Deposit and Total Investment

Banks	Evaluation Criterion			
	r	r^2	P.Er	6P.Er
BOK	0.8748	0.7653	0.0708	0.4249
KBL	0.4721	0.2229	0.2344	1.4064

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

From the above table, in case of BOK it was found that co-efficient of correlation between deposit (independent) and total investment (dependent) value of 'r' was 0.8748. It shows positive relationship between those variables. Similarly, the value of co-efficient of determination r^2 was found 0.7653, which shows that 76.53% of the dependent variable has been explained by the independent variable. Similarly,

considering the value of 'r' was 0.8748 and comparing it with 6P.Er. i.e. 0.4249, we find that's was greater than the value of 6.P.Er which reveals that the value of 'r' was significant.

Likewise, in case of KBL, the co-efficient of correlation between deposit and total investment was 0.4721, which shows positive relationship between these two variables. Similarly, the value of co-efficient of determination (r^2) was found 0.2229, and it means 22.297% of the variation in the dependent variable has been explained by the independent variable. Moreover, by application of probable error, (r) i.e. 0.4721 is found to be lesser than 6.P.Er i.e. 1.4064 which reveals that the value of 'r' was not significant. In other words there is no significant relationship between deposit and total investment.

From the above analysis, the conclusion can be drawn that in both BOK and KBL there was positive relationship between deposits and total investment. In case of KBL the value of 'r' was insignificant, it means KBL do not have any certain investment policy and are not able to use the deposits in proper way in comparison to BOK.

4.8 Trend Analysis of Total Deposit

Here the trend values of total deposit of BOK and KBL have been calculated for five years from 2007/08 to 2011/12. The forecast for next five years till 2016/17 has been also done (Sample Calculation in Appendix – 12).

Table 4.12: Trend Values of Total Deposits of BOK and KBL

(Rs. in millions)

Years	BOK	KBL
2007/08	15,833.74	12,774.28
2008/09	18,083.98	15,710.93
2009/10	20,315.83	17,432.25
2010/11	21,018.42	16,986.28
2011/12	24,991.45	21,985.20
2012/13	26,423.64	22,886.94

2013/14	28,548.63	24,856.66
2014/15	30,673.61	26,826.38
2015/16	32,798.60	28,796.10
2016/17	34,923.59	30,765.82

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.11: Trend Lines of Total Deposit of BOK and KBL
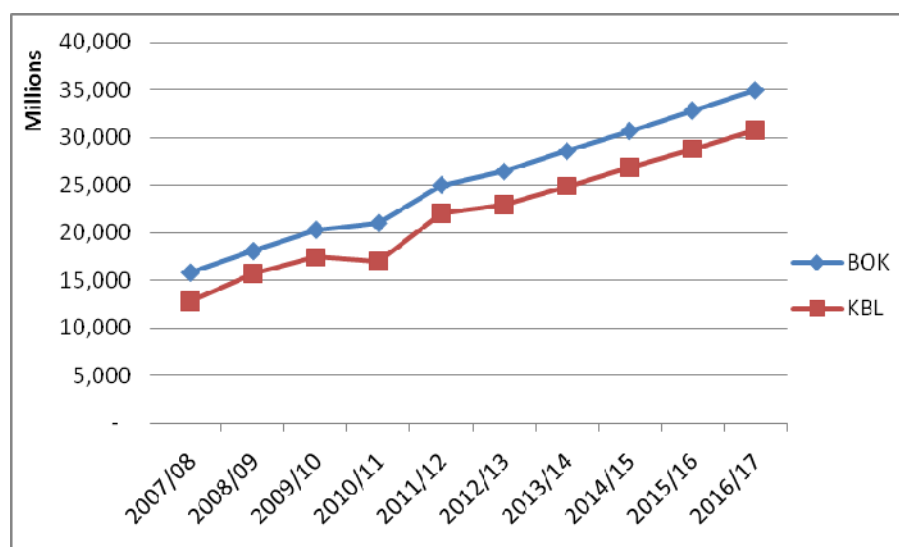
The above comparative table of trend values of total deposits shows that the deposits of both the banks BOK and KBL has increasing trend. Other things remaining the same, the deposits of BOK in the year 2016/17 will be Rs. 34,923.59 million and that of KBL will be Rs. 30,765.82 million, which are highest under the study period. From the above analysis it can be concluded that BOK bank's deposit is comparatively better than that of KBL.

4.8 Trend Analysis of Loan and Advances

An effort has been made to analyze the trend nature of loan and advances of BOK and KBL. They are compared for five years from 2007/09 to 2011/12 and forecasted for next five years till 2016/17.

Table 4.18: Trend Values of Loan and Advances of BOK and KBL

(Rs. in millions)

Years	BOK	KBL
2007/08	9,399.33	8,929.01
2008/09	12,462.64	11,335.09
2009/10	14,647.29	14,593.35
2010/11	16,664.93	14,765.91
2011/12	17,468.19	14,626.07
2012/13	20,230.48	17,297.37
2013/14	22,264.49	18,779.86
2014/15	24,298.49	20,262.36
2015/16	26,332.49	21,744.85
2016/17	28,366.50	23,227.35

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.12: Trend Lines of Loan and Advances of BOK and KBL
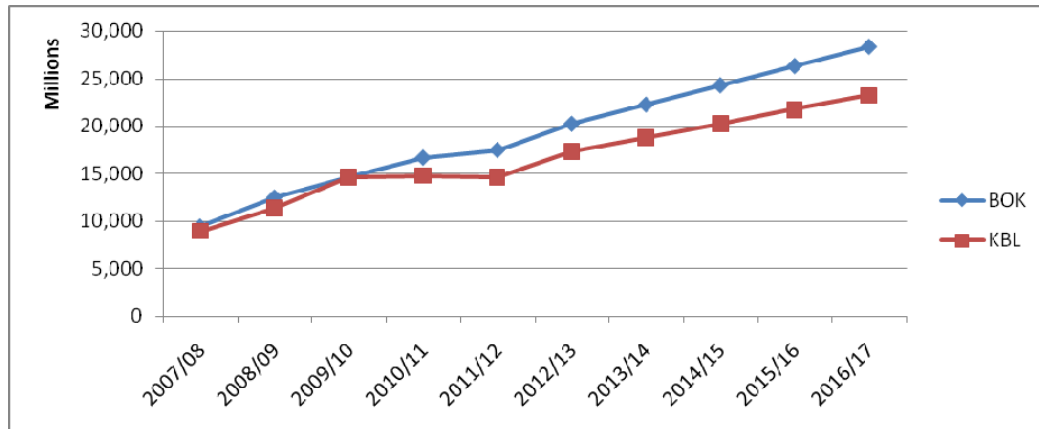
The above comparative table reveals that the loan and advances of both banks BOK and KBL are in increasing trend. Other things remaining the same, total loan and advances of BOK in the FY 2016/17 will be Rs. 28,366.50 million, which is the highest under the study period. Similarly, the same of KBL will be Rs. 23,227.35 million. From the above trend analysis it is clear that the loan and advances of BOK is proportionally better than that of KBL.

4.10 Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze total investment of BOK and KBL for five years from 2007/08 to 2011/12 and forecast of the same for next five years till 2016/17.

Table 4.19: Trend Values of Total Investment of BOK and KBL

(Rs. in million)

Years	BOK	KBL
2007/08	2,992.43	1,678.42
2008/09	3,204.07	2,138.79
2009/10	2,783.59	1,510.83
2010/11	3,269.20	2,296.87
2011/12	4,286.59	3,533.62
2012/13	4,103.22	3,392.25
2013/14	4,368.57	3,779.10
2014/15	4,633.91	4,165.95
2015/16	4,899.26	4,552.80
2016/17	5,164.61	4,939.65

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.13: Trend Lines of Total Investment of BOK and KBL

64
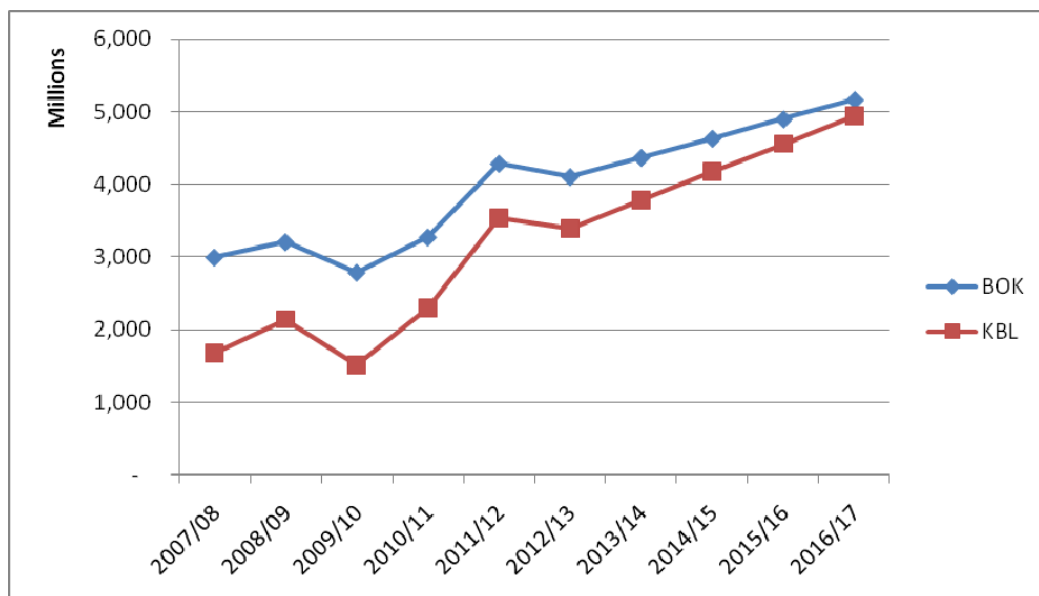
The above comparative table makes clear that total investment of both banks will decrease in FY 2012/13 and will again start increasing from 2013/14. Other things remaining the same, the total investment of BOK in the year 2016/17 will be Rs. 5,164.61 million, which is highest under the study period. Similarly, the same of KBL will be Rs. 4,939.65 million.

From above trend analysis it can be concluded that the total investment of BOK is comparatively better than that of KBL.

4.11 Trend Analysis of Net Profit

Under this topic an effort has been made to analyze the net profit of BOK and KBL for five years from 2007/08 to 2011/12 and forecast of the same for next five years till 2016/17.

The following table shows trend values of net profit of BOK and KBL for ten years. Trend lines of net profit of BOK and KBL are presented in figure 4.15 below.

Table 4.20: Trend values of Net Profit of BOK and KBL

(Rs. In million)

Years	BOK	KBL
2006/07	202.44	103.67
2007/08	262.39	170.26
2008/09	361.49	174.93
2009/10	461.73	261.44
2010/11	509.26	316.54
2011/12	605.15	251.24
2012/13	364.93	205.33
2013/14	446.23	257.02
2014/15	527.53	308.71
2015/16	608.83	360.41
2016/17	690.13	412.10

Source: Annual Reports of BOK and KBL, 2007/08 to 2011/12.

Figure 4.14: Trend Lines of Net Profit of BOK and KBL
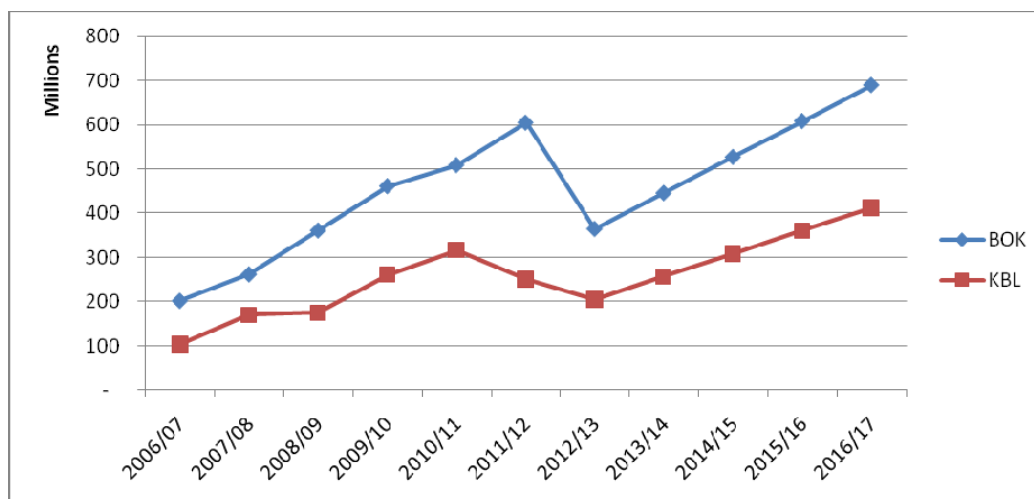
From the comparative table of trend values of net profit, it has been found that the expected amounts of both the banks will decrease in FY 2012/13 and again increase from FY 2013/14. Other things remaining the same, the net profit of BOK in the year 2016/17 will be Rs. 690.13 million, which is the highest under the study period. Similarly, the same of KBL will be Rs. 412.10 million.

From above trend analysis, it is clear that BOK's net profit is comparatively better than that of KBL.

4.12 Chi-square (χ^2) Test

The chi-square test calculated as follows:

a. Loan and Advances to Total Deposit Ratio

Fiscal Year	BOK	KBL	Total
2007/08	78.71	88.73	167.44
2008/09	81.00	92.89	173.88
2009/10	82.03	84.70	166.73
2010/11	83.11	86.11	169.21
2011/12	75.28	80.12	155.40
Total	400.13	432.55	832.67

H_0: The banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

H_1: The banks are not successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

Row/ Column	O	E	O-E	$(O-E)^2$	$\dfrac{(O-E)^2}{E}$
1,1	78.71	80.46	-1.75	3.0697	0.0382
1,2	88.73	86.98	1.75	3.0697	0.0353
2,1	81.00	83.56	-2.56	6.5528	0.0784
2,2	92.89	90.33	2.56	6.5528	0.0725
3,1	82.03	80.12	1.91	3.6429	0.0455
3,2	84.70	86.61	-1.91	3.6429	0.0421
4,1	83.11	81.31	1.80	3.2273	0.0397
4,2	86.11	87.90	-1.80	3.2273	0.0367
5,1	75.28	74.67	0.61	0.3682	0.0049
5,2	80.12	80.73	-0.61	0.3682	0.0046
$\sum \dfrac{(O-E)^2}{E}$					0.3978

Here, $E = \dfrac{RT \times CT}{N}$

Calculation $\chi^2 = 0.3978$

Degree of freedom = (r-1) (c-1) = (10-1) (2-1), = 9

Tabulated value of χ^2 at 5% level of significance of 9 d.f. is 16.92.

Decision: Since calculated value of χ^2 is less than tabulated value of χ^2, the null hypothesis H_0 is accepted i.e. the banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

b. Total Investment to Total Deposit Ratio

Fiscal Year	BOK	KBL	Total
2007/08	20.24	16.74	36.98
2008/09	15.39	9.62	25.01
2009/10	16.09	13.18	29.27
2010/11	20.39	20.8	41.19
2011/12	20.99	13.38	34.37
Total	93.10	73.72	166.82

H_0: BOK bank capacity to mobilize its deposits on total investment is better than KBL.

H_1: BOK bank capacity to mobilize its deposits on total investment is not better than KBL.

Row/ Column	O	E	O-E	$(O-E)^2$	$\dfrac{(O-E)^2}{E}$
1,1	20.24	20.64	-0.40	0.1584	0.0077
1,2	16.74	16.34	0.40	0.1584	0.0097
2,1	15.39	13.96	1.43	2.0514	0.1470
2,2	9.62	11.05	-1.43	2.0514	0.1856
3,1	16.09	16.34	-0.25	0.0601	0.0037
3,2	13.18	12.93	0.25	0.0601	0.0046
4,1	20.39	22.99	-2.60	6.7475	0.2935
4,2	20.80	18.20	2.60	6.7475	0.3707
5,1	20.99	19.18	1.81	3.2709	0.1705
5,2	13.38	15.19	-1.81	3.2709	0.2154
$\Sigma \dfrac{(O-E)^2}{E}$					1.4084

Here, $E = \dfrac{RT \times CT}{N}$

Calculation $\chi^2 = 1.4084$

Degree of freedom = (r-1) (c-1) = (10-1) (2-1), = 9

Tabulated value of χ^2 at 5% level of significance of 9 d.f. is 16.92

Decision: Since calculated value of χ^2 is less than tabulated value of χ^2, the null hypothesis H_0 is accepted i.e. BOK bank capacity to mobilize its deposits on total investment is better than KBL.

4.13 Major Findings of the Study

a. The cash and bank balance position of KBL with respect to deposit is not better against the readiness to service its customer's deposits than that of the BOK. It implies the better liquidity position of BOK. In contrast, a high ratio of non-earning cash and bank balance may be unfit which indicates the banks inability to invest its funds in income generating areas.

b. Both banks liquidity position from the point of view on investment on government securities is good.

c. BOK and KBL were not poor to mobilize their fund as loan & advances with respect to current assets. The higher mean ratio of loan and advances to current assets of BOK reveals that its liquidity position with regard to this is more satisfactory than KBL.

d. BOK's capacity to mobilize its deposits on total investment is better than that of KBL

e. KBL's fund mobilization, in terms of loan & advances with respect to total working fund is slightly more satisfactory than BOK

f. KBL was good at mobilizing its total working funds as loan & advances. And also the higher C.V. of BOK ratio state that its ratios are less consistent than that of KBL

g. BOK was better at mobilizing its working fund as investment in government securities. Likewise, BOK bank's variability between ratios during the study period was lesser than that of KBL

h. KBL seems to be lagging behind to earn high return on its loan and advances in comparison to BOK

i. BOK has not been able to earn high profit through the efficient utilization of its owned capital.

j. The credit risk of BOK is lower than the KBL. On the other hand, BOK has higher C.V. than KBL which shows that BOK's credit risk ratios are more variable than that of KBL.

k. KBL's performance in collecting deposit is better than that of BOK

l. KBL has comparatively shown better performance in maintaining higher growth ratios in total deposit and loan and advances. And BOK is seen strong maintaining growth ratio on investment.

m. In case of coefficient of correlation of deposit and loan and advances, both the banks are able to mobilize their deposits as loan and advances in proper way. But the relationship is highly significant in case of BOK in comparison to KBL which means BOK is better in mobilizing its deposits as loan and advances than KBL

n. The trend values of total deposits, total loan and advances, total investment and net profit of BOK have better position than KBL.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter includes three aspects of the study. First aspect of the study focuses on summarizing the fact findings, second aspects of the study emphasizes to make concluding remarks upon them and the third aspect of the study focuses on making some useful suggestions and recommendations based on findings of the study.

5.1 Summary

The study was carried out as academic requirements for master's degree of business studies, on the topic of "Comparative Study on Investment Policy of Bank of Kathmandu Limited and Kumari Bank Limited". The study was conducted with the main objective to analyze the investment policies of BOK and KBL. Because of, the overall improvement and development of economy in the country is done by the proper mobilization of domestic resources and these activities are carried out the well organized financial institutions viz. commercial banks, finance companies, development banks and other financial intermediaries. These financial institutions play an important role for the development of the country.

Nepalese commercial banks lag far behind fulfilling the responsibility to invest in the crucial sector of the economy for the uplift of the national economy. Thus the problem is very serious one in developing countries like Nepal, which can be solved developing countries like Nepal, which can be solved through formulation of sound investment policy. Good investment policy ensures maximum amount of investment to all sector with proper utilization. Thus, the interest was expressed to comparative analyze the investment policy of BOK and KBL.

Various materials were reviewed in order to find out the clear destination of the research work. Meanings of commercial bank, concept of investment, investment policy, feature of sound investment policy, were reviewed as conceptual review. Besides, review of books, review of articles, review of research paper and review of related thesis were also included in research review section.

The study has covered 5 years period from 2007/08 to 2011/12 A.D. Altogether 32 commercial banks are functioning in Nepal till date which are the population of the study, among these banks BOK and KBL have been selected as sample banks for study. For carrying out this study data have been obtained directly from secondary sources. Various statistical and financial tools have been used to perform the analysis. The analysis is associated with comparison and interpretation. Under financial tools various financial ratios related to investment functions of commercial banks such as, liquidity ratio, assets management ratio, profitability ratio and risk ratio are used. Similarly under statistical tools Karl Pearson's co-efficient of correlation, trend analysis etc is used. Major findings of the study have been quoted for better interpretation of the study.

The conclusions are drawn after the study and recommendations are advanced to overcome the weakness in efficiency and to improve the present fund mobilization and investment policy of the banks under study.

5.2 Conclusions

The analysis of liquidity position of sample banks i.e. BOK and KBL banks has revealed satisfactory position. The liquidity position of BOK is comparatively better than that of KBL.

The assets management position of both banks is overall satisfactory. In comparison to KBL, BOK seems slightly weaker in mobilizing its assets in loan and advances, whereas in terms of total investment BOK's position is better than that of KBL.

The analysis of profitability ratios reveal that BOK is lagging behind to earn high return on its loan and advances in comparison to KBL. BOK has not been able to earn high profit through the efficient utilization of its owned capital.

BOK seems to have earned higher amount of interest on its assets in comparison to KBL because the mean ratio of BOK is slightly higher than KBL. Overall it can be concluded that the profitability position of BOK is comparatively better than that of KBL.

On the basis of mean, the credit risk ratio of BOK is better than KBL. In case of growth ratio of net profit and total investment, BOK performance is better than KBL. But, in case of growth ratio of loan and advances and total deposit, KBL seems to be comparatively better at maintaining higher growth ratio than BOK.

In case of coefficient of correlation of deposit and loan and advances both the banks are able to mobilize their deposits as loan and advances in proper way. But the relationship is highly significant in case of BOK in comparison to KBL which means BOK is better in mobilizing its deposits as loan and advances than KBL. Similarly, in both banks there was positive relationship between deposits and total investment. In case of KBL the value of 'r' was insignificant, it means KBL do not have any certain investment policy and are not able to use the deposits in proper way in comparison to BOK.

When observed the trend value of total deposits, loan and advances, total investment and net profit, BOK, seems to have better position than KBL.

The major investment of these banks consisted of business and industrial loan, which indicates mobilization of funds in productive sectors. However, these banks have started investing in hire purchase, housing and financing sector due to the growing banking sector and out throat competition.

5.3 Recommendations

Even though there is tough competition in the banking sector, these two banks under study (BOK and KBL) are performing well. On the basis of analysis, findings and gap of the study following recommendation have been presented to overcome the weakness and inefficiency and to improve the present fund mobilization policies of BOK and KBL.

a. Liquidity refers to the ability of a firm to meet its obligations in the short run, usually one year. The liquidity position of a bank can be affected by both external as well as internal factors such as interest rates, investment policies, supply and demand of loan and advances as well as deposits, strategic planning and fund flow situation, central banks directives, capability of management etc. as KBL has maintained the ratios of cash and bank balance to total deposit

considerably lower than that of BOK, it is recommended to increase cash and bank balance to meet current obligations.

b. The study reveals that KBL has invested fewer funds in government securities than BOK. The liquidity position of BOK shows that it has kept relatively more funds as cash and bank balance, which does not earn any return. Idle funds ultimately affect the profitability of bank. So, BOK is recommended to invest more funds in government securities like, treasury bills, development bonds, saving certificates which are free of risk and profitable as well.

c. Various political and administrative factors are highly prevailing in Nepalese investment environment. These factors results loan default in commercial banks. Thus commercial banks should take the job of lending purely with business attitude. Both the banks are suggested to implement a sound collection policy including procedures which ensure rapid identification of delinquent loans, immediate contact with borrowers and continual follow up until a loan is recovered and also legal procedures if necessary.

d. Portfolio management of bank assets basically means allocation of funds into different sectors having different degrees of risk and varying role of return in such a way that maximum yield can be achieved by taking minimum risk. For this purpose portfolio condition of both the banks should be examined time of time and attempt should be made to maintain equilibrium in the portfolio condition as far as possible.

e. The study reveals that return on loan and advances of KBL are in decreasing trend and that of BOK is in increasing trend. So, KBL is recommended to decrease the funds to invest in loan and advances and BOK is recommended to invest more funds in loan and advances.

f. In the present situation of increased costs of operations due to inflationary pressures, lowered scope of returns due to bigger deposits, reduced rate of growth due to lesser new ventures, slacked business opportunities due to lower investments and escalated competition due to broader banks and financial institutions have adversely affected the growth and net profit of commercial banks. Therefore, commercial banks should continuously improve their service standards, analyze each cost component minutely to bring down their cost of operations, and carry out cautious approach in business segments especially in credit risk assets.

g. The commercial banks should establish research and development department. So, it would be able to do various researches in systematic manner to develop innovative approaches in banking management and operation. Entrepreneurship attitude can help the bank to grab new and profitable investment opportunities. Opening new branches, merchant banking functions, investing risky assets and shareholder funds in profitable sector etc. can yield higher profits for the banks.

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APPENDIX – 1

Cash and Bank Balance to Total Deposit Ratio of BOK

Fiscal Year	Cash & Bank Balance (Rs)	Total Deposit (Rs)	Ratio%
2007/08	1,440,466,943	15,833,737,799	9.10
2008/09	2,182,111,836	18,083,980,266	12.07
2009/10	1,798,367,396	20,315,834,405	8.85
2010/11	1,678,931,461	21,018,417,209	7.99
2011/12	3,382,710,093	24,991,448,841	13.54
Mean			10.31
Standard Deviation			2.37
Coefficient of variance			23

Cash and Bank Balance to Total Deposit Ratio of KBL

Fiscal Year	Cash & Bank Balance (Rs)	Total Deposit (Rs)	Ratio%
2007/08	933,841,677	12,774,281,014	7.31
2008/09	1,776,298,800	15,710,925,263	11.31
2009/10	2,724,533,298	17,432,253,032	15.63
2010/11	1,168,524,334	16,986,279,457	6.88
2011/12	3,722,627,593	21,985,198,273	16.93
Mean			11.61
Standard Deviation			4.62
Coefficient of variance			39.80

APPENDIX – 2

Investment on Government Securities to Current Assets of BOK

Fiscal Year	Inv. On Govt. Securities (Rs)	Current Assets (Rs)	Ratio%
2007/08	2,113,223,115	18,167,202,527	11.63
2008/09	1,744,976,571	19,592,912,711	8.91
2009/10	2,954,932,869	23,380,363,477	12.64
2010/11	4,002,137,963	26,258,926,205	15.24
2011/12	5,037,627,305	29,643,864,136	16.99
Mean			13.08
Standard Deviation			3.15
Coefficient of variance			24.08

Investment on Government Securities to Current Assets of KBL

Fiscal Year	Inv. On Govt. Securities (Rs)	Current Assets (Rs)	Ratio%
2007/08	1,469,095,002	15,164,981,403	9.69
2008/09	1,080,094,990	17,432,103,076	6.20
2009/10	1,729,916,633	19,078,340,015	9.07
2010/11	2,806,105,608	21,272,078,903	13.19
2011/12	2,574,618,509	23,406,793,095	11.00
Mean			9.83
Standard Deviation			2.57
Coefficient of variance			26.18

APPENDIX – 3

Loan and Advance to Current Assets Ratio of BOK

Fiscal Year	Loan and Advances (Rs)	Current Assets (Rs)	Ratio%
2007/08	12,462,637,541	18,167,202,527	68.60
2008/09	14,647,296,987	19,592,912,711	74.76
2009/10	16,664,930,855	23,380,363,477	71.28
2010/11	17,468,193,645	26,258,926,205	66.52
2011/12	18,813,937,339	29,643,864,136	63.47
Mean			68.92
Standard Deviation			4.34
Coefficient of variance			6.29

Loan and Advance to Current Assets Ratio of KBL

Fiscal Year	Loan and Advances (Rs)	Current Assets (Rs)	Ratio%
2007/08	11,335,087,939	15,164,981,403	74.75
2008/09	14,593,346,830	17,432,103,076	83.72
2009/10	14,765,912,480	19,078,340,015	77.40
2010/11	14,626,073,558	21,272,078,903	68.76
2011/12	17,614,348,989	23,406,793,095	75.25
Mean			75.97
Standard Deviation			5.39
Coefficient of variance			7.09

APPENDIX – 4

Loan and Advances to Total Deposit Ratio of BOK

Fiscal Year	Loan and Advances (Rs)	Total Deposit (Rs)	Ratio%
2007/08	12,462,637,541	15,833,737,799	78.71
2008/09	14,647,296,987	18,083,980,266	81.00
2009/10	16,664,930,855	20,315,834,405	82.03
2010/11	17,468,193,645	21,018,417,209	83.11
2011/12	18,813,937,339	24,991,448,841	75.28
Mean			80.03
Standard Deviation			3.11
Coefficient of variance			3.89

Loan and Advances to Total Deposit Ratio of KBL

Fiscal Year	Loan and Advances (Rs)	Total Deposit (Rs)	Ratio%
2007/08	11,335,087,939	12,774,281,014	88.73
2008/09	14,593,346,830	15,710,925,263	92.89
2009/10	14,765,912,480	17,432,253,032	84.70
2010/11	14,626,073,558	16,986,279,457	86.11
2011/12	17,614,348,989	21,985,198,273	80.12
Mean			86.51
Standard Deviation			4.74
Coefficient of variance			5.48%

APPENDIX – 5

Total Investment to Total Deposit Ratio of BOK

Fiscal Year	Total Investment (Rs)	Total Deposit (Rs)	Ratio%
2007/08	3,204,067,718	15,833,737,799	20.24
2008/09	2,783,598,566	18,083,980,266	15.39
2009/10	3,269,204,631	20,315,834,405	16.09
2010/11	4,286,599,457	21,018,417,209	20.39
2011/12	5,246,682,605	24,991,448,841	20.99
Mean			18.62
Standard Deviation			2.66
Coefficient of variance			14.26

Total Investment to Total Deposit Ratio of KBL

Fiscal Year	Total Investment (Rs)	Total Deposit (Rs)	Ratio%
2007/08	12,462,637,541	12,774,281,014	16.74
2008/09	14,647,296,987	15,710,925,263	9.62
2009/10	16,664,930,855	17,432,253,032	13.18
2010/11	17,468,193,645	16,986,279,457	20.80
2011/12	18,813,937,339	21,985,198,273	13.38
Mean			14.74
Standard Deviation			4.22
Coefficient of variance			28.64

APPENDIX – 6

Loan and advances to Total Working Fund Ratio of BOK

Fiscal Year	Loan and Advances (Rs)	Total Working Fund (Rs)	Ratio%
2007/08	12,462,637,541	18,115,626,282	68.79
2008/09	14,647,296,987	19,541,788,152	74.95
2009/10	16,664,930,855	23,344,661,291	71.39
2010/11	17,468,193,645	26,239,875,530	66.57
2011/12	18,813,937,339	29,615,720,028	63.53
Mean			69.05
Standard Deviation			4.39
Coefficient of variance			6.36%

Loan and Advances to Total Working Fund Ratio of KBL

Fiscal Year	Loan and Advances (Rs)	Total Working Fund (Rs)	Ratio%
2007/08	11,335,087,939	15,099,684,689	75.07
2008/09	14,593,346,830	17,362,016,051	84.05
2009/10	14,765,912,480	19,036,027,058	77.57
2010/11	14,626,073,558	21,263,960,782	68.78
2011/12	17,614,348,989	23,386,094,438	75.32
Mean			76.16
Standard Deviation			5.49
Coefficient of variance			7.21%

APPENDIX – 7

Investment on govt. Securities to total working fund ratio of BOK

Fiscal Year	Inv. On Govt. Securities (Rs)	Total Working Fund (Rs)	Ratio%
2007/08	2,113,223,115	18,115,626,282	15.53
2008/09	1,744,976,571	19,541,788,152	11.67
2009/10	2,954,932,869	23,344,661,291	8.93
2010/11	4,002,137,963	26,239,875,530	12.66
2011/12	5,037,627,305	29,615,720,028	15.25
Mean			13.51
Standard Deviation			2.98
Coefficient of variance			22.08

Investment on govt. Securities to total working fund ratio of KBL

Fiscal Year	Inv. On Govt. Securities (Rs)	Total Working Fund (Rs)	Ratio%
2007/08	1,469,095,002	15,099,684,689	10.75
2008/09	1,080,094,990	17,362,016,051	9.73
2009/10	1,729,916,633	19,036,027,058	6.22
2010/11	2,806,105,608	21,263,960,782	9.09
2011/12	2,574,618,509	23,386,094,438	13.20
Mean			10.00
Standard Deviation			2.32
Coefficient of variance			23.23

Return on loan and advances of BOK

Fiscal Year	Net Profit (Rs.)	Loan and advances (Rs.)	Ratio%
2007/08	361,496,879	12,462,637,541	2.90
2008/09	461,734,911	14,647,296,987	3.15
2009/10	509,263,414	16,664,930,855	3.06
2010/11	605,152,423	17,468,193,645	3.46
2011/12	607,662,263	18,813,937,339	3.23
Mean			3.16
Standard Deviation			0.21
Coefficient of variance			6.63

Return on loan and advances of KBL

Fiscal Year	Net Profit (Rs.)	Loan and advances (Rs.)	Ratio%
2007/08	174,930,227	11,335,087,939	1.54
2008/09	261,442,589	14,593,346,830	1.79
2009/10	316,542,342	14,765,912,480	2.14
2010/11	251,236,970	14,626,073,558	1.72
2011/12	275,504,670	17,614,348,989	1.56
Mean			1.75
Standard Deviation			0.24
Coefficient of variance			13.84

APPENDIX – 9

Return on equity of BOK

Fiscal Year	Net Profit (Rs.)	Equity Capital (Rs.)	Ratio%
2007/08	361,496,879	603,141,300	59.94
2008/09	461,734,911	844,397,900	54.68
2009/10	509,263,414	1,359,480,700	37.46
2010/11	605,152,423	1,604,187,300	37.72
2011/12	607,662,263	1,684,396,700	36.08
Mean			45.18
Standard Deviation			11.25
Coefficient of variance			24.90%

Return on equity of KBL

Fiscal Year	Net Profit (Rs.)	Equity Capital (Rs.)	Ratio%
2007/08	174,930,227	1,070,000,000	16.35
2008/09	261,442,589	1,186,099,200	22.04
2009/10	316,542,342	1,306,015,920	24.24
2010/11	251,236,970	1,603,800,000	15.67
2011/12	275,504,670	1,603,800,000	17.18
Mean			19.09
Standard Deviation			3.81
Coefficient of variance			19.96%

APPENDIX – 10

Credit Risk ratio of BOK

Fiscal Year	Total loan & Advance (Rs.)	Total Assets (Rs.)	Ratio%
2007/08	12,462,637,541	17,721,925,187	70.32
2008/09	14,647,296,987	20,496,005,483	71.46
2009/10	16,664,930,855	23,396,191,791	71.23
2010/11	17,468,193,645	24,757,750,426	70.56
2011/12	18,813,937,339	28,881,996,852	65.14
Mean			69.74
Standard Deviation			2.61
Coefficient of variance			3.75%

Credit Risk ratio of KBL

Fiscal Year	Total loan & Advance (Rs.)	Total Assets (Rs.)	Ratio%
2007/08	11,335,087,939	15,026,599,175	75.43
2008/09	14,593,346,830	18,538,565,109	78.72
2009/10	14,765,912,480	20,522,474,688	71.95
2010/11	14,626,073,558	20,491,785,309	71.38
2011/12	17,614,348,989	25,131,400,971	70.09
Mean			73.51
Standard Deviation			3.52
Coefficient of variance			4.79%

APPENDIX – 11

Sample Calculation of Correlation between deposit and total investment of BOK

FY (t)	Deposit (X)	Loan & Advances (y)	$dx(X - \overline{X})$	$dy(Y - \overline{Y})$	dx^2	dy^2	dx.dy
2007/08	15,833,737,799	3,204,067,718	(4,214,945,905)	(553,962,877)	17,765,768,982,076,300,000	306,874,869,537,288,000	2,334,923,561,619,150,000
2008/09	18,083,980,266	2,783,598,566	(1,964,703,438)	(974,432,029)	3,860,059,599,289,020,000	949,517,779,920,603,000	1,914,469,958,259,500,000
2009/10	20,315,834,405	3,269,204,631	267,150,701	(488,825,964)	71,369,497,044,791,400	238,950,823,471,590,000	(130,590,199,056,461,000)
2010/11	21,018,417,209	4,286,599,457	969,733,505	528,568,862	940,383,070,719,585,000	279,385,041,453,120,000	512,570,934,793,228,000
2011/12	24,991,448,841	5,246,682,605	4,942,765,137	1,488,652,010	24,430,927,199,542,600,000	2,216,084,805,686,120,000	7,358,057,254,175,870,000
Total	$\sum$x = 100,243,418,520	$\sum$y= 18,790,152,977	$\sum$dx = 0	$\sum$dy = 0	$\sum$dx^2= 47,068,508,348,672,300,000	$\sum$dy^2= 3,990,813,320,068,720,000	$\sum$dx.xy = 11,989,431,509,791,300,000

Here,

$$\overline{X} = \frac{\sum X}{N} \quad =100,243,418,520 \ /5 = 20,048,683,704$$

$$\overline{Y} = \frac{\sum Y}{N} \quad =18,790,152,977/5 \quad = 3,758,030,595$$

Coefficient of correlation (r) can be calculated by using following formula:

$$(r) = \frac{N\sum dxdy}{\sqrt{N\sum dx^2 \times N\sum dy^2}}$$

$$r = \frac{5 \times 11{,}989{,}431{,}509{,}791{,}300{,}000}{\sqrt{5 \times 47{,}068{,}508{,}348{,}672{,}300{,}000 \times 5 \times 3{,}990{,}813{,}320{,}068{,}720{,}000}}$$

$$r = \frac{59{,}947{,}157{,}548{,}956{,}400{,}000}{68{,}527{,}664{,}135{,}305{,}100{,}000} = 0.8748$$

$$r^2 = 0.7653$$

Probable Error (P.E)

$$= \frac{0.6745(1-r^2)}{\sqrt{N}}, = \frac{0.6745(1-0.7653)}{\sqrt{5}}$$

$$= \frac{0.06745 \times 0.2347}{\sqrt{5}} = 0.0708$$

Note: Other calculations are done similarly.

APPENDIX – 12

Sample calculation of Trend value of total investment of KBL

FY (t)	Total investment (y)	X= t – 2010	X^2	XY	Yc=a+bx
2007/08	15,833,737,799	-2	4	(31,667,475,598)	15,798,711,899
2008/09	18,083,980,266	-1	1	(18,083,980,266)	17,923,697,801
2009/10	20,315,834,405	0	0	0	20,048,683,704
2010/11	21,018,417,209	1	1	21,018,417,209	22,173,669,607
2011/12	24,991,448,841	2	4	49,982,897,682	24,298,655,509
Total	Σy = 100,243,418,520	Σx = 0	Σx2 = 10	Σxy = 21,249,859,027	

Here,

X = Independent variable

Y = Dependent variable

Therefore, the equation of the straight line trend is given by:

Y = a+bx

Where,

a = value of y when x = 0

b = Slope of trend line

$$a = \frac{\sum y}{N} = \frac{100,243,418,520}{5} = 20,048,683,704$$

$$b = \frac{\sum xy}{x^2} = \frac{21,249,859,027}{10} = 2,124,985,903$$

Projected Trend for next five Years

Years	X = t – 2010	Yc = a+bx
2013/14	3	26,423,641,412
2014/15	4	28,548,627,315
2015/16	5	30,673,613,218
2016/17	6	32,798,599,120
2013/14	7	34,923,585,023

Note: Other calculations are also done similarly

Comparative Balance Sheet of Bank of Kathmandu

As at Balance Sheet	2007/08	2008/09	2009/10	2010/11	2011/12
Liabilities					
Capital	603,141,300	565,065,889	1,359,480,700	1,604,187,300	1,68,43,96,700
Reserves and surplus	738,932,488	1,324,108,341	714,049,039	831,001,556	1,01,64,41,687
Debentures & Bond	200,000,000	292,937,606	200,000,000	200,000,000	20,00,00,000
Borrowing	100,000,000	243,351,500	300,000,000	464,900,000	18,29,00,000
Deposit	15,833,737,799	2,783,598,566	20,315,834,405	21,018,417,209	24,99,14,48,841
Bills Payable	51,576,245	14,647,296,987	35,702,186	19,050,675	2,81,44,108
Proposed & payable dividend	32,804,204	417,040,587	177,323,565	227,713,017	34,20,12,732
Tax liabilities	-	-	-	-	-
Other liabilities	161,733,151	222,606,007	293,801,896	392,480,669	43,66,52,784
Total Liabilities	**17,721,925,187**	**20,496,005,483**	**23,396,191,791**	**24,757,750,426**	**28,88,19,96,852**
Assets					
Cash Balance	536,747,143	844,397,900	455,181,141	542,370,885	75,08,70,259
Balance with NRB	606,049,072	897,192,263	687,581,848	641,694,367	1,97,08,40,370
Bank balance with banks	297,670,728	200,000,000	655,604,407	494,866,199	66,09,99,464
Money at call	72,679,836	100,000,000	931,988,734	479,919,996	51,86,22,731
Investment	3,204,067,718	18,083,980,266	3,269,204,631	4,286,599,457	5,24,66,82,605
Loan and advances	12,462,637,541	51,124,559	16,664,930,855	17,468,193,645	18,81,39,37,339
Fixed Assets	387,274,153	77,333,212	491,295,122	501,995,140	54,56,16,887
Non banking Assets	452,978	-	-	-	-
Other Assets	154,346,018	241,977,283	240,405,053	342,110,737	37,44,27,197
Total Assets	**17,721,925,187**	**20,496,005,483**	**23,396,191,791**	**24,757,750,426**	**28,88,19,96,852**

Comparative Profit & Loss A/C of Bank of Kathmandu

Paticulars	2007/08	2008/09	2009/10	2010/11	2011/12
Interest Income	1,034,157,874	1,347,755,382	1,870,846,758	2,386,780,043	2,62,08,94,861
Interest Expenses	417,543,432	563,113,007	902,927,971	1,218,790,007	1,48,45,38,036
Net Interest Income	**616,614,442**	**784,642,375**	**967,918,787**	**1,167,990,036**	**1,13,63,56,825**
Commission and discount	129,415,582	150,919,291	160,065,397	173,507,982	19,34,12,979
Other operating Income	23,167,724	43,222,093	73,925,961	79,726,192	6,78,03,390
Exchange Income	93,765,039	136,036,316	140,785,065	117,098,094	13,77,40,078
Total Operating Income	**862,962,787**	**1,114,820,075**	**1,342,695,210**	**1,538,322,304**	**1,53,53,13,272**
Employees Expenses	90,607,920	146,494,578	168,512,807	196,169,923	24,85,06,562
Other operating expenses	170,480,908	233,667,863	294,456,774	285,992,201	30,81,27,864
Exchange loss	-	-	-	-	-
Operating Profit before provision	**601,879,959**	**734,657,634**	**879,725,629**	**1,056,160,180**	**97,86,78,846**
Provision for possible losses	38,438,498	33,745,192	119,401,328	152,748,232	9,55,37,001
Operating profit	563,441,461	700,912,442	760,324,301	903,411,948	88,31,41,845
Non-operating Income/Expenses	810,748	-2,027,469	2,917,800	5,463,918	33,00,932
Return from loan loss provision	61,832,950	21,577,091	41,817,988	43,359,233	7,76,85,083
Profit from ordinary activities	**626,085,159**	**720,462,064**	**805,060,089**	**952,235,099**	**96,41,27,860**
Extra ordinary income/Expenses	-45,396,284	6,934,365	-	-674,648	-
Net Profit including all activities	580,688,875	727,396,429	805,060,089	951,560,451	96,41,27,860
Provision for staff bonus	52,789,898	66,126,948	73,187,281	86,505,496	8,76,47,987
Provision for income tax	166,402,098	199,534,570	222,609,667	259,902,532	26,88,17,610
This Year	162,535,369	200,304,605	218,985,198	261,671,750	26,60,22,571
Deferred Tax	3,866,729	-770,035	3,189,790	-	8,40,016
Up to last year	-	-	434,679	-1,769,218	19,55,023
Net Profit / Loss	**361,496,879**	**461,734,911**	**509,263,141**	**605,152,423**	**60,76,62,263**

APPENDIX – 14
Comparative Balance Sheet of Kumari Bank Limited

As at Balance Sheet	2007/08	2008/09	2009/10	2010/11	2011/12
Liabilities					
Capital	1,070,000,000	1,186,099,200	1,306,015,920	1,603,800,000	1,60,38,00,000
Reserves and surplus	294,885,269	438,853,508	479,743,128	610,036,668	77,32,75,338
Debentures & Bond	400,000,000	400,000,000	400,000,000	400,000,000	40,00,00,000
Borrowing	100,000,000	293,420,000	429,739,536	660,925,000	54,03,000
Deposit	12,774,281,014	15,710,925,263	17,432,253,032	16,986,279,457	21,98,51,98,276
Bills Payable	65,296,714	70,087,025	42,312,957	8,118,121	2,06,98,657
Proposed & payable dividend	-	6,583,752	156,816,002	6,581,717	11,22,66,000
Tax liabilities	9,650,253	234,986	-	-	–
Other liabilities	331,786,431	432,361,375	275,594,113	216,044,346	23,07,59,700
Total Liabilities	**15,026,599,175**	**18,538,565,109**	**20,522,474,688**	**20,491,785,309**	**25,13,14,00,971**
Assets					
Cash Balance	565,641,118	549,108,504	574,065,903	524,780,914	58,41,40,254
Balance with NRB	244,576,115	1,120,760,644	1,663,997,917	526,948,923	2,86,29,23,783
Bank balance with banks	123,624,444	106,429,652	485,765,479	116,794,497	27,55,63,556
Money at call	55,360,000	30,000,000	120,000,000	451,520,000	32,12,43,141
Investment	2,138,797,590	1,510,828,482	2,296,872,913	3,533,622,908	2,94,05,56,674
Loan and advances	11,335,087,939	14,593,346,830	14,765,912,480	14,626,073,558	17,61,43,48,989
Fixed Assets	222,000,872	247,832,774	285,637,989	306,276,829	27,72,68,923
Non banking Assets	3,140,779	-	-	-	–
Other Assets	338,370,318	380,258,223	330,222,007	405,767,680	25,53,55,651
Total Assets	**15,026,599,175**	**18,538,565,109**	**20,522,474,688**	**20,491,785,309**	**25,13,14,00,971**

Comparative Profit & Loss A/C of Kumari Bank Limited

Paticulars	2007/08	2008/09	2009/10	2010/11	2011/12
Interest Income	957,245,724	1,374,722,467	1,871,066,357	2,251,791,724	2,44,15,80,226
Interest Expenses	498,734,222	816,202,890	1,188,918,173	1,566,551,598	1,62,24,91,760
Net Interest Income	**458,511,502**	**558,519,577**	**682,148,185**	**685,240,127**	**81,90,88,466**
Commission and discount	48,494,633	79,104,277	100,336,992	99,707,633	11,08,65,509
Other operating Income	17,805,210	19,746,723	41,613,889	53,635,577	4,88,12,311
Exchange Income	41,807,623	59,001,781	37,924,853	36,719,340	4,42,05,749
Total Operating Income	**566,618,968**	**716,372,358**	**862,023,919**	**875,302,677**	**1,02,29,72,035**
Employees Expenses	89,570,438	115,984,919	143,277,770	168,351,843	19,42,95,522
Other operating expenses	148,143,138	186,502,160	217,606,423	212,938,673	21,25,42,554
Exchange loss	**-**	-	-	-	–
Operating Profit before provision	**328,905,392**	**413,885,279**	**501,139,726**	**494,012,161**	**61,61,33,959**
Provision for possible losses	64,023,790	57,403,005	13,078,046	113,779,647	18,70,44,796
Operating profit	264,881,602	356,482,274	488,061,680	380,232,514	42,90,89,163
Non-operating Income/Expenses	15,588,389	1,111,653	699,180	632,371	34,77,443
Return from loan loss provision	7,240,964	47,021,147	14,824,913	13,787,709	1,33,156
Profit from ordinary activities	**287,710,955**	**404,615,074**	**503,585,774**	**394,652,594**	**43,26,99,762**
Extra ordinary income/Expenses	-4,531,068	-876,031	-352,000	-342,296	–
Net Profit including all activities	283,179,887	403,739,043	503,233,774	394,310,298	43,26,99,762
Provision for staff bonus	25,743,626	36,703,549	45,748,525	35,846,391	3,93,36,342
Provision for income tax	82,506,034	105,592,905	140,942,907	107,226,938	11,78,58,750
This Year	80,721,591	113,669,682	140,371,638	100,032,524	11,68,08,100
Deferred Tax	**-**	-	1,521,507	3,023,417	–
Up to last year	1,784,443	-8,076,777	-950,239	4,170,997	10,50,650
Net Profit / Loss	**174,930,227**	**261,442,589**	**316,542,342**	**251,236,970**	**27,55,04,670**