# CHAPTER – I
# INTRODUCTION

## 1.1 Background of the Study

Commercial banks mainly concern with reform of banks, maximum utilization of resources and increase in non-cash reserve transaction to reduce the spread between interest rates on deposits and credit. They deploy of funds raised from different sources into different assets with a primary objective of profit generation. They also play an important role for the economic development and poverty alleviation of the country through providing credit facilities, quality banking services to people allin business community as well as common man. Concerted efforts of all type of banks and financial institution support by a dynamic policy of central bank are needed to achieve the desired economic growth (Biju,2013).

Commercial banks need a high degree of stability of the principle in there investment portfolio. Because of their thin equity cushion, they cannot afford any loss or shrinkage in the value of securities. As stated earlier, security investment is subject to money rate risk, besides the credit risk (Bhandari, 2004).

The money rate risk involves the movement in market values and change in interest rate. The amplitude of fluctuations in the prices of shares is much higher than those of bonds, particularly because shares do not carry a fix dividend rate and there prices are depend on myriad of factors. The fluctuation in the value of securities is of great significance to a banker. Each investor accepts the current yield of market at the time he buys. If there is a change in the interest rate, the yield which the investor received when he bought the securities above the current rate (Howard, 1983).

In the event the securities are sold, the holder would stand to lose or gain. Liquidity-While choosing securities for bank investment, liquidity principle should be adequately provided for. A liquid security is one which can be dispose of insubstantial quantities, at short notice, with a negligible capital loss. Therefore, the term liquidity, when applied to a security, immediately implies a high degree of marketability. For the investment account, the liquidity standards are not supposed to as stringent as those applicable to the secondary reserve. The asset of the secondary reserve must be of near-cash quality and so highly saleable (Trirumalal, 2014).

In extreme cases, the banker may resort to the reserve bank for funds. This does not mean, however, that the liquidity principle should be ignored. Some amount of liquidity in the investment account asset is necessary because they act as the third line of defense. If, at any time, the banker requires a large amount of cash to meet the extra ordinary demand of his customers, he is obliged to liquidate a portion of his security investment. Securities of reputed business concern are, however, marketable even in big lots without an appreciable scaling down of their prices.

After meeting its liquidity requirements by keeping primary and secondary reserves and after satisfying the genuine credit needs of society, whatever is left is invested by a bank to acquire long term obligations of public and private enterprises in order to improve its own earnings. It include gilt edged securities and stock exchange securities, as well as the shares and bonds of highly reputed companies (). The principle objective of investment by a scheduled commercial bank is to maximize earnings and to keep the funds liquid and safe. As the matter of fact, security investment is suppose to act as third line of defense, and should replenish the secondary reserve to meet the unexpected withdrawals of deposits and unusual loan demand (Kharel, 2008),

Commercial banks play important role in removing problems like inflation & deflation of monetary trade, trade deficit, budget deficit (created by economic problem) by capital formulation for deficits spending units. They also finance in small cottage industries and agricultural sector under priority sector investment scheme to serve the marginal people (James and Van, 2000).

A competitive banking system promotes the efficiency and therefore important for growth, but market power is necessary for stability in the banking system. Commercial bank holds a large share of economic activities of a country. The function of the commercial banks has been enhanced in Nepal to sustain the increasing need of the service sector and the economy in general (Reed, 2002). Stock market has been dominated by the commercial banks since a decade. Not only the stock market, but the commercial banks have also been major contributors to the revenue of the country. They have been paying a large amount of tax every year (Pokhrel & Gautam, 2004).

Performance evaluation is the important approach for enterprises to give incentive and restraint to their operators and it is an important channel for enterprise stakeholders to get the performance information. The performance evaluation of a commercial bank is usually related to how well the bank can use its assets, shareholders' equities and liabilities, revenues, expenses. The performance evaluation of banks is important for all parties including depositors, investors, bank managers and regulators. The evaluation of a firm's performance usually employs the financial ratio method, because it provides a simple description about the firm's financial performance in comparison with previous periods and helps to improve its performance of management (Lin et al., 2005).

Banking sector plays an important role in sustaining financial markets and has a significant impact on the success of the economy. Sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees and whole economy as well. As a sequel to this maxim, efforts have been made from time to time, to measure the financial position of each bank and manage it efficiently and effectively (Sangm, 2010). Financial development is one of the key indicators of economic development of any country. Financial institution provides regular energy for investment, which is needed for economic development. In the financial sector, new institutions, instruments and financial innovations emerge in response to the need of national economy (Jha &Hui, 2012).

In every system, there are major components that feature paramount for the survival of the system. This is also applicable to the financial system. The banking institution had contributed significantly to the effectiveness of the entire financial system as they offer an efficient institutional mechanism through which resources can be mobilized and directed from less essential uses to more productive investments. Banks should be equipped to deal with the changing monetary policy that shapes the overall liquidity trends and the banks' own transactional requirements and repayment of short term borrowing. There are a number of other risks faced by banks such as credit risk, operational risk and interest rate risk, which may culminate in the form of liquidity risk (Brunnermeier and Yogo, 2009).

Practically, profitability and liquidity are effective indicators of the corporate health and performance of not only the commercial banks (Eljelly,2004), but all profitoriented ventures. These performance indicators are very important to the shareholders and depositors who are major publics of a bank.

As a developing country, Nepal is striving to develop and modernize economy rapidly on rational and socially desired footings but the structure of the economy is largely dominated by agriculture with very small industry base, so to divert and modify agro-based economy, Nepal adopted mixed economic model with implicit objective to help the state and private sector economy that complement each other in the development process from very inception of economic planning process back in 1956. The primary goal of the developing country like Nepal is to develop economy rapidly and to promote the welfare of the people and nation. So, very recently, Nepal has adopted the path of economic liberalization for the sake of the economic growth of the nation.

## Introduction of Sample Bank

### Bank of Kathmandu Limited (BOKL)

Bank of Kathmandu Limited has become a notable name in the Nepalese banking scenario today with a high ranking performance and the bank would like to express its sincere gratitude to its shareholders, customers and other stakeholders for their constant belief, support and co-operation in leading the bank to the present pinnacle of achievement. The bank would like to reiterate here that whatever activity it undertakes, The bank put in conscious efforts to glorify its corporate slogan, ‘It make your life easier’.

It is found that that Bank of Kathmandu Limited is committed to delivering quality service to customers, providing best interest rates on products and services, generating good return to shareholders, providing attractive incentives to employees, and serving the community through stronger corporate social responsibility endeavors. The bank was awarded the coveted title of ‘Bank of The Year’ in 2011 and strive to become the best bank in Nepal.

Bank of Kathmandu Limited today has created a milestone 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 and by becoming one of the largest private sector commercial banks in the country in terms of capital base, number of branch locations, ATM networks and customer base.

**Himalayan Bank Limited (HBL)**

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the tough competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits. Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, the bank stands for the innovations that it brings about in this country to help the Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under the credit standing with foreign correspondent banks, it believes it obviously leads the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number one Bank easily confirms our claim.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL introduced several new products and services. Millionaire Deposit Scheme, Small and Medium Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services.

HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- HimalRemitTM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

**Kumari Bank Limited**

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 2699.17 million, of which 51% is contributed from promoters and remaining from public. Kumari Bank Ltd. has been providing wide range of modern banking services through 38 points of representations located in various urban and semi urban part of the country. Out of them, 36 branches (25 outside valley and 11 inside Kathmandu Valley) and 2 extension counters are in operation.

The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software for the arrangement of centralized database system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly, the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, utility bill payment services, inward and outward remittance services, and various other banking services. Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 40 own ATMs) and POS (Point of Sale) terminals all in Nepal and India, has also added convenience to the customer.

## 1.2 Statement of the Problem

The economic development of the country is mainly based on the different financial sectors established in the country. The success of these institutions will lead to the development of the economy of the country. Nepal being listed among least developed countries, commercial banks has played a catalytic role in the economic growth. Its investments range from small scale cottage industries to large-scale industries. In making investment in loans and government securities may always wonder which investment is better.

It can be therefore hypothesized that bank portfolio like loans, investment, cash reserve, deposit and borrowing affects the national income. And also how the government policy affects these variables, such as the effects of interest on the bank portfolio variables is of great concern. Therefore, monitoring money and credit conditions, the central bank has to keep an eye on the bank portfolio behavior.

The term loan plays a crucial role in the development of the any commercial bank. The problem of lending has become very serious in the country like Nepal. This is due to lack of sound investment policy of commercial banks. Commercial banks are nowadays investing only in less risky business. They are not investing in proportion to that of their deposit amount is much higher than that of investment opportunities. They are being safety minded rather considering the profit margin. Nowadays, commercial banks mainly focus on non performing assets that mean they invest the fund as giving loan for non performing activities like house loan, land loan, educational loan, traveling loan etc. So they don’t seem to be capable to invest their funds in more productive sectors. They dip high liquid assets and flow lower funds to the productive sectors, which results into lower profitability to commercial banks and ignorance to the national economic growth process. This is due to the effect of the economical, political, demographical & geographical condition of the nation, so this is the main reason for crisis in the commercial banks and in the whole national economy as well.

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 don’t have clear view towards their own investment policy. Furthermore, the implementation of policy is not practiced in an effective way. Lack of farsightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to commercial banks.

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

i. What is the financial performance of the commercial banks.
ii. What is the liquidity and asset managing, profitability, growth and risk of concerned banks.

## 1.3 Objectives of the Study

The main objectives of this study is Financial performance of three selected banks. The specific objectives are as follows:

iii. To examine the financial performance of the commercial banks.

iv. To analyze the liquidity and asset managing, profitability, growth and risk of concerned banks.

## 1.4 Significance of the Study

The financial sector plays an important role for every country. The economic development of the country depends upon the performance of the financial institutions. The success and prosperity of the bank relies heavily on the successful investment of collected resources to the important sector of economy. Successful formation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has a positive impact on economic development of the country and vice versa. Therefore the effort is made to highlight the investment policy of commercial banks expecting that the study can be bridge gap between deposits and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take collective action. Similarly, from the study, the shareholders would get information to make decisions while making investment on shares of various bank.

The study of existing investment policy of the BOKL and KBL will help to analyze the position of the Bank among the commercial banks to invest and provide package of suggestions for its improvement. Customers saving should be invested in proper way to get return like in business, industries, development infrastructures etc. which directly or indirectly influences the economy of the country. So it is very important to study the investment policy of the Banks.

## 1.5 Limitations of the Study

The research has some limitations which will weaken the heart of study. Inadequate coverage, time constraints, lack of research experience, asymmetry, reliability of financial and statistical tools used and financial problems are the main limitations. Other limitations are:

i. There are many factors that affect investment decision and valuation of the firm. However, this study was concentrated only on the factors that are related with investment.
ii. Mostly secondary data was analyzed and only a period of 5-years trend is considered i.e. from 2012/13 to 2016/17 hence the conclusion drawn confines only to the above period.
iii. The truth of research result is based upon the available data from the bank.
iv. Three banks have taken to study the investment policy.

## 1.6 Organization of the Study

The study was organized into five chapters:

**Chapter I: Introduction**

This chapter deals with subject matters of the study consisting background of the study, origin and development of bank, introduction of sample organizations, statement of the problem, objectives of the study, rationale of the study and limitations of the study.

**Chapter II: Review of Literature**

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

**Chapter III: Research Methodology**

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

**Chapter IV: Data Presentation and Analysis**

The main part of research is Data Presentation & Analysis. This chapter deals with analysis and interpretation of the data using financial and statistical tools described in chapter three. This chapter also includes the major findings of the study.

## Chapter V: Summary, Conclusion and Recommendations

This chapter deals with summary of the study held, the conclusion made and the possible suggestions. Thus it reveals the success or failure of the research. Thereafter bibliography and appendices are also included.

# CHAPTER – II

# REVIEW OF LITERATURE

In this chapter, the focus has been made on the review of literature relevant to the investment policy of commercial banks. Every possible effort has been made to grasp knowledge and information that are available from the libraries, document collection centers, other information managing bureaus and concerned commercial banks.

This chapter has been planned as followings.

## 2.1 Conceptual Review

### 2.1.1 Concept of Bank

A bank is a financial institution that accepts deposits from the public and creates credit. Lending activities can be performed either directly or indirectly through capital markets. Due to their importance in the financial stability of a country, banks are highly regulated in most countries. Most nations have institutionalized a system known as fractional reserve banking under which banks hold liquid assets equal to only a portion of their current liabilities (Hoggson, 1926).

A bank is a business organization that receives and holds deposits of fund from other, makes loans or extend credits and transfer funds by written orders of depositors (Verma & Sonali, 2011).

In Nepal, Banking transaction took place only after the establishment of Nepal Bank Limited in 1994 B.S. being only bank at that time; it performed the activities of central bank to some extent. The central bank was essential to establish but no activity was done until 2007 AD. The country, then, realized to established under-Nepal Rastra Bank Act2012. Before that, the credit need of people for commercial and other purpose was mostly performed by the unorganized market of private moneylender. (Nepal Rastra Bank, central office, KTM, 2017)

In short, the term bank in the modern times refers to an institution having the following features:

1) It deals with money; it accepts deposits and advances loans.

2) It also deals with credit; it has the ability to credit; the ability to expand its liability.

3) It is a commercial institution; it aims at earning profit.

4) It is a unique financial institution that creates demand deposits that serve as a medium of exchange and as a result, the bank manages the payment system of the country.

## 2.1.2 Concept of Commercial Bank

Commercial institutions are that financial institution, which deals in accepting deposits of people and institution and giving loans against securities. They provide working capital needs of trade industry and even to agricultural sector. Moreover, commercial bank also provides technical and administrative assistance to trade, industries and business enterprise "Commercial bank is corporation demand deposits, subject to check and makes short term loans to business enterprises, regardless of the scope of its other service" (NRB, 2016).

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment, and business units. They make funds available through their-lending and investing activities to borrowers, individuals, business firms and government establishment units (Peter, 2002).

Therefore, commercial banks are those banks who pool together the savings of community and arrange for their productive use .They supply the financial needs on modern business by various means. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry, they cannot finance in fixed assets. A part from financing, they also render service like collection of bill, and cheques, safekeeping of valuable, financial advising, etc to their customers (Sinkey, 1983).

However, central bank is the main bank of the any nation that directs and controls all the banks whose existence is in the country. In Nepal, Nepal Rasta Bank is the central bank of the country. All the commercial bank performs their function under rules, regulations and directives provided by Nepal Rastra Bank.

Nepal is under developed country having a low per capital income and GDP, As a result, many economic problems such as inflation, devaluation of money trade, trade deficit, budget deficit etc. arise. For4 the sake of removing these problems, many JVBs are being incorporate in our country by sharing Nepali and foreign investment toward making more profit by using the funds in profitable sector.

## 2.1.3 Function of Commercial Bank

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

**1. Accepting deposits:**

According to Sir. Johan Padget.

"It is fair deduction that no persons or body, corporate or otherwise, can be banker who does not.

(a) Take deposits A/C.

(b) Issues and pay cheques

(c) Collect cheques horn his customers.

Here, all functions are related with the acceptance of deposits; therefore, accepting deposits by bank is the oldest function of bank. A bank accepts deposits in three forms Viz current, saving and fixed A/C. Saving deposit is one of the deposits collected from small depositors and low-income depositors. The bank usually pays small interests to depositors against their deposits. Current account is also known as demand deposits. Under this, any amount may be deposits. There are no restriction regarding number and amount of withdrawals as contrary to saving A/C. The bank does not pay any interest on such account but charge small amount on the customers having current account.

A fixed deposit is one where a customer is requested to keep a fixed amount with the bank for specific period, generally by those who do not need money for stipulated period. The bank pays a higher rate on such deposits.

**2) Advancing Loans:-**

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

**3) Agency Services:-**

A bank also performs number of services on behalf of the customers. The following bank under agency services:

- Dealing with (lie transaction of foreign exchange business.
- Serving as an agent of correspondent on behalf of the customer.
- Issuing letter of credit, circulate notes, bank notes, traveler's cheques etc.
- Purchase and sale of different kinds of securities, remittance of funds.
- Collection and payments of cheques, promising notes, coupons, dividend and other type of bonds etc.
- Keeping valuable; articles in safe custody.
- Providing financial advising to various persons and bodies whenever required.

**4) Creating money**

The major function of commercial banks that separates it from other financial institution is the ability to create and investing activities. The power of commercial banking system to create money is a great economic significance as it results in the elastic credit system that is necessary for economic progress at a relatively steady growth rate.

### 2.1.4 Financial Statement

The financial statements consist of the two summarized financial reports, which accountant prepares of an enterprise at the end of the financial year. These two statements are balance sheet or statement financial position and income statement or profit and loss account. In modern time, there is another statement, which is called as retained earnings statement. Financial statement is prepared form the accounting record maintained by the firm. The basic objective of financial statement is assist is decision making.The analysis & interpretation of financial statements depend on nature & type of information available there in

### I) Balance Sheet

Balance sheet is important component of financial statement. It is the mirror of the financial position of the firm at a particular date. Balance sheet is the fundamental accounting report. According to I. M. Pandey, balance sheet contains information about the resources and obligation of a business entity and about its owner's interest in a business at a particular point of time. It accounting language balance sheet communicates information about eh assets, liabilities & owner's equity for the business firm as on specific date. It provides snapshots of financial position of the firm at the close of firm's accounting period.

Balance sheet indicates the financial position of the firm. It also indicates the resultant outcome of the firm’s investment along with financial & dividend decision. (Kharel, 2069).

## II) Profit & Loss Account

Profit & loss account is major statement of financial information. It shows the result of trading and non -trading operation during a period of time. It presents the summary of revenue earned & costs incurred earning this revenue in a comparative firm. The different is the net-profit or net loss. In operational terms, the accounting report that summarizes the revenue items, the accounting report that summarizes the revenue items, the expenses items and difference between them for an accounting period is called the income statement. Thus, income statement reflects the efficiency of the firm. However, , it may not be the true representative of the efficiency. The income statement is the reflection of the firm's performance during the particular period of time. Income statement occupies a significant place in portraying the result of business operation.

## 2.1.5 Financial Statement Analysis & Interpretation

Financial analysis is the process of identifying the financial strength & weakness of a firm by establishing proper relationship between the items of balance sheet & profit & loss account. Management of an enterprise is interested in all aspect of financial analysis in order to evaluate its operating performance to audit its internal financial control system and to develop a strategy of bargaining for fund from external resources.

The most important objectives of the analysis and interpretation of financial statements are to determine the significance and essence of the financial statements, data to know the strength and weakness of a business firm.

The basis for financial analysis is the financial information obtained from profit and loss account and balance sheet. "The financial information is needed to compare & evaluate the firm's earning ability. It is also required to aid in investment decision making." (Shrestha, 2012).

Analysis & interpretation of financial statement is an attempt to determine the liquidity, solvency, efficiency & profitability position of an organization & also highlight the sources & uses of fund, on the basis of data supplied by financial statements. Analysis & Interpretation of financial statements fulfill the different needs of the concerned parties like owners, lenders and the management itself about their invested interests by providing them with adequate information & lifting them to know whether their interest are promoted or not. A series of financial statements analysis and interpretation of different years help one to forecast & measure the trend regarding the firm's ability to meet the short term & long term liabilities.

The first task of the financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statements. The second step involves in financial analysis is to arrange the information in such a way to highlight significant relationship between the variables. The final step is the interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of collection, arrangement of data, showing relationship among them and evaluating and interpreting the result (Shrestha, 2012).

## 2.1.6 Financial Performance Analysis

"Financial Analysis is the process of determining financial strengths and weaknesses of a bank by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data" (Pandey; 1999).

"Financial Statement Analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm's financial position at a moment in time, the income statement depicts a summary of the firm's profitability over time. From these two statements certain derivate statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows etc (Van Horne; 1998).

"Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance".

Thapa and Neupane (2065) conducted review a "Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to teach conclusion about the recent and current status of a corporation" The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be of great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function".

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial statement analysis generally begins with the calculation of a set of a financial ratios designed to reveal the relative strength and weakness of a bank as compared to other companies in the same industry, and to show whether the firm's position bas been improving or deteriorating over time. (Weston & Brigham,1987). Financial analysis is that sort of calculation which is done with **the** help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis (Vaidya, 2001).

It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available" (Van Ness, 2009).

"Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results"( Van Ness, 2009).

"Financial statement analysis involves a comparison of firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses" (Weston, 1996).

"Financial Performance Analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization" (Hampton; 1998).

Much can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in a maze of details (Van Ness, 2009).

## 2.2 Review of Articles

Brunnermeier and Sannikov (2012) introduced inside money and outside money into a dynamic macro model with financial intermediaries. Their focus is on the real monetary policy through the redistributive effects of nation. In contrast, in our setup outside money are central bank reserves which only serve a role as an instruments to hedge illiquidity risks.

Sthapit (2012) composed an article on Impact of Liquidity Management on Profitability: A Comparative Study of Foreign Joint-venture Banks in Nepal. The present study aims to reveal the relationship between liquidity and profitability of NABIL and SCBN while in conducting day to day operations. Comparing those two earliest private commercial banks in Nepal, this paper examines the effects of liquidity on profitability. To address the objective, the article has taken NABIL and SCBN for the period between 2003/04 and 2010/11. Considering the liquidity management can increase the profitability, the study has examined their liquidity management of NABIL and SCBN as well as profitability positions, using various financial tools and indicators. It was found that trend of average liquidity ratios and profitability of both banks are not seems to be fluctuating but average variation in liquidity ratios as well as profitability of SCBN is lower than that of NABIL. The study concluded that the LFTDR and NRBTDR have a negative significant effect on ROA of SCBN whereas CHTDR has a positive significant effect. But liquidity ratios have not significant effects on profitability of NABIL. Therefore, the liquidity performance of SCBN is better than NABIL

Ally (2013) was wrote on article on "Comparative Analysis of Financial Performance of Commercial Banks in Tanzania " This paper analysed the financial performance of commercial banking sector in Tanzania for the period of 7 years from 2006 to 2012. Financial ratios were employed to measure the profitability and liquidity of banks; in addition Analysis of Variance (ANOVA) was used to test the significance differences of profitability means among peer banks groups. The study found that overall bank financial performance increased considerably in the first two years of the analysis. A significant change in trend is noticed at the onset of the global financial crisis from 2008 to 2009. However, Tanzania banking sector remained stable; banks are adequately capitalized and profitable and remained in a sound position. The study found that, there is no a significant means difference of profitability among of peer banks groups in term of ROA, however, a significance differences among banks group is existed in term of ROE and NIM.

Moein et al. (2013) investigated the relationship between modern liquidity indices and stock return in companies listed on Tehran Stock Exchange. Results indicated that there was a positive and significant relationship between comprehensive liquidity index and stock returns while there was no significant relationship between the index of cash conversion cycle as well as net liquidity balance and sock returns.

Almazari (2014) mentioned in his article " Impact of Internal Factors on Bank Profitability: Comparative Study between Saudi Arabia and Jordan". He investigated the internal factors that have an effect on profitability in Saudi and Jordanian banks. He found that there is a positive correlation between profitability measured by ROA of Saudi and Jordanian banks with some liquidity indicators, as well as there is a negative correlation with other liquidity indicators between profitability measured by ROA of Saudi and Jordanian banks.

Haque (2014) wrote in his article on "Comparison of Financial Performance of Commercial Banks: A Case Study in the Context of India (2009-2013)'. This study examines and evaluates the concurrent performance of chosen few major Indian banks during 2009-2013 following the global financial slump of 2008. In order to judge their performance, the present study compares the financial position of various indigenous and foreign Scheduled Commercial Banks (SCBs). And to prove his viability, he has used the parameters─ Return on Asset, Return on Equity and Net Interest Margin. Furthermore, his study ascertains through quantitative research using Analysis of Variance (ANOVA) if any significant difference of profitability means among different banking groups really exists. The result indicates that there is no significant means in difference of profitability among various banking groups in respect to ROA and NIM, yet a significant means of difference is seen among the peer groups in terms of ROE.

Panigrahi (2015) had written an article on Deposit Mobilization of Commercial Banks : A Comparative Study of BOB and Axis Bank in Bhubaneswar. Deposit mobilization is an integral part of banking activity. Mobilization of savings through intensive deposit collection has been regarded as the major task of banking in India. Acceptance of deposits is the primary function of commercial banks. As such, deposit mobilization is one of the basic innovations in current Indian banking activity. Hence, in this paper, an attempt is made to evaluate the trend and growth in deposit mobilization of scheduled commercial banks in Bhubaneswar in the period from 2008-09 to 2013-14. Three different types of deposits, namely demand deposit, savings deposit and term deposit is considered for the study taking BOB and Axis Bank. The total number of deposits accounts and total amount of deposits mobilized during the year from 2008-09 to 2013-14 in all scheduled commercial banks in India is gathered from RBI bulletin. The collected time series data are subjected descriptive statistics. Analysis is done taking primary data through a questionnaire to present different factors responsible for deposit mobilization of BOB and Axis Bank in Bhubaneswar city

Pradhan and Shrestha (2016) composed an article on Impact of Liquidity on Bank Profitability in Nepalese Commercial Banks. This study examines the effect of liquidity on the performance of Nepalese commercial banks. Investment ratio, liquidity ratio, capital ratio and quick ratio are the independent variables used in this study. The dependent variables are return on equity (ROE) and return on assets (ROA), while one year lagged variables for independent variables are also used to determine the more specific result of the previous year's effect on the current years ROE and ROA. The secondary sources of data have been used from annual reports of the banks and supervision report of Nepal Rastra Bank. The regression models are estimated to test the significance and effect of bank liquidity on performance of Nepalese commercial banks. Correlation between capital ratio and return on equity found to be positive indicating higher the capital ratio higher would be the return on equity. However, the correlation between return on equity and liquidity ratio is found to be negative indicating higher the liquidity in the bank lower would be the return on equity. Further, the correlation is found to be negative for quick ratio with return on equity. Beta coefficients for investment ratio and capital adequacy are positively significant with bank performance, which indicate that increase in investment ratio and capital ratio leads to increase the performance of the banks. However, beta coefficients for liquidity ratio and quick ratio are negative with return on assets and return on equity indicating increased liquidity ratio and quick ratio decreases the return on assets and return on equity of the bank.

Natasha et al. (2017) had written an article on Bank liquidity and financial stability. This paper presents new asset-based measures of bank liquidity which capture and quantify the dynamics of liquidity flows within the French banking system between 1993 and 2005. We consider net changes in the "stock" of liquidity in banks' balance sheets as the result of two simultaneous "flows": the purchases and sales of liquid assets. Our flow approach allows us to assess the intertemporal dimension of liquidity fluctuations within the banking system (expansions, contractions and overall reallocation) on the basis of individual bank data. From a policy perspective, the results suggest that under normal circumstances the crosschecking of liquidity ratios and liquidity flows could prove useful in designing a robust prudential approach to liquidity. Under extreme circumstances, when the provision of emergency liquidity is being contemplated, the traditional concept of "bank liquidity" could be complemented by considering the liquidity of monetary and other financial markets.

## 2.3 Review of Previous Thesis

Thapa (2011) conducted a research on "A Comparative Study on Liquidity Management of Everest, Himalayan, Nabil and Standard Chartered Bank Nepal Limited". The main objectives were to examine liquidity position of commercial banks, to analyze the Credit deposit ratio and its impact on liquidity and to examine the different ratios regarding the liquidity. The credit deposit ratio of all banks except NABIL is in decreasing trend. The ratio of change of SCBL is higher than other banks. It implies that all the banks except NABIL have reduced their credit deposit ratio but NABIL has increased the ratio. The trend of cash and bank balance of all banks is in decreasing trend which shows that investment has been made in other sector in huge amount. The rate of HBL is highest than other and its trend is heading downward rapidly. But the trend of NABIL and SCBL are relatively steady during this period. The decreasing trend of SCBL is higher than NABIL and EBL. It is found that NABIL and EBL are more successful to maintain cash liquid position and other is in moderate liquid position. Liquid funds to total deposit ratio of all banks is in decreasing trend. SCBL and EBL are reducing their liquid funds rapidly. NABIL and HBL have also decreased their liquid funds. It implies that banks are utilizing their fund in other sector by reducing their liquid funds. The trend value of cash in Vault to total deposit ratio of SCBL and EBL is in increasing trend but rest of the banks have reducing idle cash. The comparative data reveals that SCBL and EBL are in better liquidity position as compared than other banks.

Jha (2012) conducted a research on "A comparison of financial performance of commercial banks: A case study of Nepal". The objective of this study was to compare the financial performance of different ownership structured commercial banks in Nepal based on their financial characteristics. This study indicates that the domestic banks had higher average NIM (26.65%) than that of public banks (12.51%) and joint venture banks (21.30%). It means domestic banks were able to maintain good asset quality. ADBL was seemed to more efficient to utilize their funds collected as deposit. During the study period, the average CDR of NBL was 39.58% while that of RBBL was 51.14% and ADBL was 111.01%. Although there is no standard for CDR in Nepal, a ratio of 75% can be accepted to be adequate. The CDR of the bank was quite consistent over the past five years beginning from 2005-2010. Among the six joint venture banks, the average CDR of NBBL was higher than other JV banks. In an average, the bank has been able to utilize two-third portion of the depositors fund in the form of credit. The CDR of domestic private banks was in the accepted level.

Bhajgain (2015) conducted a research on Profit Planning in Commercial Bank of Nepal": A Study of Nepal Investment Bank ltd. The basic objectives of the study are to analysis the profit planning policy of commercial banks with reference to NIBL . The status of budgeted and actual deposit collection of the bank. In the first year, the bank has collected deposit by 108.15%, in second year it is 112.24%. In third year the actual deposit is collected by 109.71 percent, in fourth year it is collected by 115.85 percent and in the fifth year it is collected by 106.32 percent. The trend of deposit collection by the bank during the research period. It is easily understood that the deposit of the bank is in increasing trend. In F/Y 2066/067 it was 5,349.38 million but in F/Y 2070/071 it is

7,117.98 million. There are different sources of revenue collection of the bank. Interest income is the main source among them. Likewise, exchange earning, commission, other operating income and non-operating income are the sources of revenue collection of the bank. The bank must give focus on non funded business activities like LC, guarantee, remittance and foreign exchange again because the bank has earned a great part of profit from this sector during the research period.

Dhami (2016) conducted a research on "Profit Planning In Commercial Bank Of Nepal": A Study Of Himalayan Bank Ltd".The main objectives of this study are to evaluate the financial performance in terms of ratios, to assess the current profit planning practices by HBL and to study the cost volume profit analysis of the bank. To study the growth of the bank over the periods regarding deposit Collections.

The Cash and bank balance to current deposit ratio of HBL bank is 0.39, 0.46, 0.79,0.97,0.54 and 0.69 times respectively from the first year to last year of the research period. The average is 0.69 times, which means consistency in this ratio during the research period. The cash and bank balance to interest sensitive ratio of HBL is in fluctuating trend. The mean ratio is 0.12 times. This means that the bank is able to maintain this ratio in the good financial condition. The highest ratio is 0.16 times in the year 2011/12 and lowest ratio of 0.08 times in the year 2010/11 In year, Loan and advances to fixed deposits ratio are increasing in overall. The ratio of HBL bank is 2.47 in the first year and then 2.34, 2.95, 2.84 and 2.33 times in the following years respectively. The average is 2.79 times at research period.

The HBL bank has generally mixed trends under the study period. The highest ratio is 68% in the year 2010/11 and the lowest ratio is 62%. The average ratio is 64%. It shows that bank has capability in utilizing total assets in the form of credit and advances. The total non-performing assets to total assets ratio of HBL is in decreasing trend year 2067 from The highest ratio is 2.98% in year 2010/11 and lowest ratio 1.24% in year 2013/14. The mean ratio is 1.96%. The bank is able to obtain higher lending opportunity. Ratios are 1.38%, 1.94% 1.24% in year 2068/70 and 2013/14 respectively. These are able to obtain higher lending opportunity The bank must give focus on non funded business activities like LC, guarantee, remittance and foreign exchange again because the bank has earned a great part of profit from this sector during the research period. The bank should pay more attention on the changing technological environment and need to provide innovative products and services that reduce the cost of fund it give more growth and profitability.

Malla (2017) Studied on Credit Portfolio Management in Nepalese Commercial Banks. The portfolio management of the Nepalese banking sector has been improved remarkably during last 10 years due to the strict regulation of Nepal Rastra Bank. This journal will try to describe the present credit portfolio management practice of Nepalese commercial banks by using qualitative and quantitative methods. In this study, concentration of banks for credit portfolio management has been studied by analyzing security wise loan, product wise loan and sector wise concentration of loan where the researcher has found assorted outcomes. This research also aims to provide some suggestions to overcome with problems associated with credit portfolio. This study found that, selected commercial banks have managed their loan portfolio as per the standard parameter of NRB directives 2073. All banks have maintained limit of Real estate loan ≤ 25% of total loan, Deprived sector loan ≥ 4.5% of total loan, Non-performing loan ≤ 5% of total loan, Sector wise loan portfolio ≤ 40% of total loan & managed credit risk. Banks Non-performing loan shows that, banks are maintaining good credit risk management practice. However, 96.41% of bank's lending is on collateral basis which indicates that, banks are conservative in lending. Nepalese banks should increase their lending on priority sector and other various type of project based lending to contribute in development of country.

Wang (2018) studied on "Effect of Working Capital Management on Profitability". This research work is conducted in order to analyze the effect of working capital management on profitability, in detail, in the manufacturing firms of Pakistan listed on Karachi Stock .Exchange (Pakistan Stock Exchange) for the period 2008 – 2014. We have found a diverging effect of working capital management on the profitability of manufacturing firms of Pakistan. The findings of our study suggest that "paying full attention to the cash conversion cycle" has enormous effect on working capital. Agreeing shorter term payments, invoicing and investigating credit rating on a regular basis gives good approach to the whole working capital process. Minimizing the inventory level frees the capital for other use, centralizing and unifying procurement process gives the opportunity to follow and agree similar terms for several sales.

It is further added that the firm's managers can enhance the profitability of their firms by reducing the collection period and by adopting effective credit policy. The findings of our study suggest that managers can create value for their shareholder by minimizing their cash conversion cycle and reducing inventory days to the least 57 minimum through effective management of working capital. Putting emphasis on performing various necessary actions, for example, a reduction in the collection period and adopting effective credit policies by the firm's managers can enhance the profitability of a firm considerably.

## 2.4 Research Gap

The above mentioned studies are focused on the investment pattern and its criteria analyzing 5 years data. Many changes have been taken places in the context of investment in this study for the sample banks (BOK and KBL), like profitability position, assets management condition and liquidity position as well as upcoming trend of investment pattern. More investment sectors have also covered up in this research work. Therefore it is necessary to bring out an updated study in investment pattern of commercial banks whether the finding of above studies are still valid or not. This research study is based on different variable and tools using new secondary data. This research examines the investment pattern and profitability position, efficiency of management and risk and return management. No one has analyzed/examined in this way of BOK and KBL. Thus, to fill up the gap, this research has been conducted.

# CHAPTER – III
# RESEARCH METHODOLOGY

## 3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying a problem with certain objectives. It includes construction of research design, nature of data, data gathering procedure, population and sample and data processing procedure. The main purpose of this chapter is to focus on different research methods and conditions used to conduct the study. Each and every study needs a systematic methodology to show the better results of the research. Here also, investment policy of BOKL, KBL and HBL needs to appropriate research methodology.

## 3.2 Research Design

"A plan of study or blue print for study that presents a series of guide posts to enable the researchers to progress in the right direction in order to achieve the goal is called a research design or strategy"(Joshi, 2001:12). A well settled research design is necessary to fulfill the objectives of the study. It means definite procedures and technique that guides to study and propound way for research variability. The study aims to evaluate to managerial efficiency and performance regarding investment policy of BOKL, KBL and HBL . This research is based on analytical research design.

## 3.3 Population and Sample

When some of the elements are selected with the intension of finding out something about the population from which they are taken that group of elements is referred as a sample and the process of selection is called sampling. It is not possible to study all of them regarding the research topic. Therefore BOKL, KBL and HBL are the reputed and well-established commercial banks having similar capital; taken as a sample bank for research study from population (commercial banks). Among 28 banks, 3 banks were selected for this study.

**Table 3.1 : Sample Size**

| | | |
|---|---|---|
| 1 | Total Commercial Bank | 28 |
| 2 | Sample Size | 3 |

According to the Banking and Financial Statistics published by Nepal Rastra Bank on 2017, it is not possible to study all of them regarding the research topic.

## 3.4 Nature and Sources of Data

The study aims to evaluate to managerial efficiency and performance regarding investment policy of BOKL, KBL and HBL . This research is based on analytical research design.

## 3.5 Data Collection Procedures

Data collection procedures depend upon one's study. It can be collected from different sources among the various sources. Secondary sources are used for data collection.

### Secondary Sources

The study is mainly based on secondary data. The data collected by someone else, used already and is made available to other in form of published statistics are secondary data.

The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are Balance sheet, Profit and Loss Account of Concerned Banks, Annual report and Literature Publication of the Concerned Banks. Some supplementary data and information are collected from the authoritative sources like Nepal Rastra Bank, Management Development Campus Library, Nepal Commerce Campus Library, Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, Different Journals and Articles, other published and unpublished reports documented by the authorities.

The data for the study are collected from record available of Security Board and Annual Reports of concerned Banks. The various stock exchange publications formed an important supplementary source of the data for this study, particularly on investment policy. The data is collection of raw information taken in stateside manner and prerequisites of any project study.

## 3.6 Data Analysis Tools

Analysis of data involves a number of closely interrelated operations that are performed to get answers to the research questions. Analysis and presentation of data is the core of the study. This study needs some financial and statistical tools to accomplish the objectives. The financial and statistical tools are most reliable. To achieve the objective of the study, various financial, statistical and accounting tools have been used in this study.

Collected data are to be processed and analyzed for a scientific conclusion and for ensuring that all relevant data are used for making contemplated comparisons and analysis. Processing of data implies editing, coding, classification and tabulation of collected data.

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different heading. Then they are compared with each other to interpret the results. Two kinds of tools have been used to achieve the purpose.

0) **Financial Tools**

1) Financial tools basically help to analyze the strength and weakness of a firm. Ratio analysis is one of the important financial tools has been used in the study. It helps to show the mathematical relationship between two accounting items or figure and can measure the financial performance and status of a firm with the other firms. Ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Although there are various types of ratios to analyze and interpret the financial statements, only four ratios have been taken in this study, which are mainly related to investment policy of banks. These are as follows.

**A. Liquidity Ratio**

Liquidity ratios are applied to measure the ability of the firms to meet short-term obligations. It measures the speed of firms assets into cash to meet deposit withdraws and other current obligations. Various types of liquidity ratios are applied in the study.

**I. Current Ratio**

It refers to the relationship between current assets and current liabilities of a firm that also measures the short-term solvency of the firm. Current assets involve cash and bank balance, money at call or short notice, loans and advances, overdrafts, bill purchased and discounted investment on government securities and other interest receivables and miscellaneous current assets. Similarly, current liabilities involve deposit and other short-term loans, tax provision, dividend payable, bills payable, staffs bonus, and sundry liabilities.

2:1 standard of current ratio is widely acceptable but accurate standard depends on circumstances and nature of business. Current ratio can be measured as,

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

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

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be computed as:

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

Where, total deposit consists of deposit on current account, saving account, fixed account and other deposits.

**III. Cash and Bank Balance to Current Asset Ratio**

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Cash and bank balance includes cash balance, cash with NRB, balance with other commercial banks. Higher ratio shows the higher capacity of firms to meet the cash demand. This ratio is calculated dividing cash and bank balance by total current assets.

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

**IV. Investment on Government Securities to Current Assets Ratio**

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

Investment on Government Securities to Current Assets Ratio

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

Where, investment on government securities involves treasury bills and development bonds etc.

**B. Asset Management Ratio**

Asset management ratio is used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to investment policy are calculated under asset management ratio and interpretations are made by these calculations.

**I. Loan and Advances to Total Deposit Ratio**

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total collection/deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better advances and can be obtained by dividing total loans and advances by total deposits.

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

**II. Total Investment to Total Deposit Ratio**

Investment is one of the major sources of earning income. This ratio indicates how properly firm's deposits have been invested on government securities and shares and debentures of other companies. This ratio can be computed dividing total amount of investment by total amount deposit collection.

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

**III. Loan and Advances to Total Assets Ratio**

This ratio indicates the ability of selected banks and finance companies in terms of earning high profit from loan and advances. Loan and advances to total assets ratio can be obtained dividing loan and advance amount by total assets.

Loans and Advances to Total Working Fund Ratio = $\frac{Loans\ and\ Advances}{Total\ Assets}$

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

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

Investment on government securities to total assets ratio shows how much part of total investment is there on government securities in percentage.

Investment on Government Securities to Total Working Fund =

$$\frac{Investment\ on\ Government\ Securities}{Total\ Assets}$$

**V. Investment on Share and Debentures to Total Assets Ratio**

Investment on shares and debenture to total fund ratio shows the investment of banks and finance companies on the shares and debentures of other companies in terms of total assets. This ratio can be obtained dividing on shares and debenture by total assets.

Investment on Share and Debenture to Total Assets =

$$\frac{Investment\ on\ Share\ and\ Debentures}{Total\ Assets}$$

**C. Profitability Ratio**

Profitability ratios are used to indicate and measure the overall efficiency of a firm in term of profit and financial position and performance of any institution. For better financial performance, profitability ratios of firm should be higher. Profitability position of the firms can be presented in the following ways:

**I. Return on Loans and Advances**

Return on loan and advances ratio shows how efficiently the banks and the finance companies have utilized their resources to earn good return from provided loan and advances. This ratio is computed by dividing net profit (loss) by the total amount of loan and advances.

Return on Loans and Advances = $\frac{Net\ Profit}{Loans\ and\ Advances}$

**II. Return on Total Assets (Total Working Fund)**

Return on assets ratio measures the profitability position of the selected banks and finance companies in comparison with total assets of those selected firms. It is calculated by dividing return or net profit (loss) by total working fund.

Return on Total Assets = $\frac{Net\ Profit}{Total\ Assets}$

**III. Total Interest Earned to Total Assets Ratio**

Total interest earned to total assets ratio is calculated to find the percentage of interest earned to total assets. Higher ratio indicates the better performance of financial institutions in the form of interest earning on its assets. This ratio is calculated dividing total interest earned from investment by total assets.

Total Interest Earned to Total Assets Ratio = $\frac{Total\ Interest\ Earned}{Total\ Assets}$

**IV. Total Interest Earned to Total Operating Income Ratio**

Interest earned to total operating income ratio is calculated to find out the ratio of interest income with operating income of financial institution. This ratio indicates how efficiently the selected banks and finance companies have mobilized their resources to bear the interest on total operating income.

Total Interest Earned to Total Operating Income Ratio

$$= \frac{Total\ Interest\ Earned}{Total\ Operating\ Income}$$

**V. Total Interest Paid to Total Assets Ratio**

This ratio measures the percentage of total interest expenses against total assets. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated by dividing total interest paid by total assets.

Total Interest Paid to Total Assets Ratio = $\frac{Total\ Interest\ Paid}{Total\ Assets}$

**D. Risk Ratio**

Risk is uncertainty in business transaction and investment management. If a firm bears risk and uncertainty, the profitability and effectiveness of the firm increases. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interpret the financial data and investment policy.

**I. Liquidity Risk Ratio**

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. The ratio of cash and bank balance to total deposit is the indicator of bank liquidity needed. The risk will be low if funds are kept idle as cash and bank balance but this reduces profitability. If bank flow loans, profitability increases as well as risk. Thus higher liquidity ratio indicates less risk and less profitable bank and vice-versa. This ratio is calculated by dividing cash and bank balance to total deposit.

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

**II. Credit Risk Ratio**

Credit risk ratio helps to check the probability of loan non-repayment or the possibility of loan to go into default. Credit risk ratio is calculated in percentage dividing total loan and advances by total assets.

Credit Risk Ratio = $\frac{Total\ Loans\ and\ Advances}{Total\ Assets}$

**E. Percentage Analysis of Investment**

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

**I. Analysis of Investment on Government Securities**

The percentage analysis of government securities in relation with total investment helps to examine the investment practice according to the NRB directives and is calculated by dividing investment on government securities by total investment.

Investment on Government Securities to Total Investment

$$= \frac{Investment\ on\ Government\ Securities}{Total\ Investment}$$

**II. Analysis of Investment on Share and Debentures**

The percentage analysis of share and debenture in relation with total investment helps to observe the fund mobilization which is calculated by dividing investment on share and debenture by total investment.

Investment on Share and Debenture to Total Investment

$$= \frac{Investment\ on\ Share\ and\ Debentures}{Total\ Investment}$$

**F. Growth Ratio**

Here, the growth ratios represent how well the commercial banks are maintaining their economic and financial condition. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growth of the selected banks. Growth ratios are directly related to the fund mobilization and investment of those firms. The following growth ratio is calculated.

## 2) Statistical Tools

Some important statistical tools have been used, to present and analyze the data for achieving the objective of this study. Co-efficient of variance, correlation analysis, Standard deviation, least square, linear trend analysis etc. have been used for the purpose. The basic statistical analysis related to this study is discussed below:

### a) Correlation Coefficient (r)

When the relationship is of quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it, in a brief formula is known as correlation. If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation coefficient always remains within the limit of +1 to -1 by Karl Pearson, the simple correlation coefficient (between two variables, say X and Y) is given by where r(x, y) is the correlation between two variables X and Y.

$$r(x, y) = \frac{\sum (X - \overline{X})\ (Y - \overline{Y})}{\sqrt{\sum (X - \overline{X})^2}\ \sqrt{\sum Y - \overline{Y})^2}}$$

When ‘r’ = +1, there is perfect positive correlation.

When, ‘r’ = -1, there is perfect negative correlation.

When ‘r’ = 0, there is no correlation.

When ‘r’ lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

When ‘r’ lies between 0.5 and 0.699, there is a moderate degree of correlation.

When ‘r’ is less than 0.5, there is low degree of correlation.

# CHAPTER – IV

# DATA PRESENTATION AND ANALYSIS

## 4.1 Data Presentation and Analysis

This is analytical chapter 5where the researcher has analyzed and evaluated major financial items, which mainly effect the investment management and fund mobilization of BOKL, KBL and HBL. There are many types of financial ratios, calculated and analyzed which are very important to evaluate fund mobilization of commercial bank.

### 4.1.1 Financial Tools

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. Various financial ratios related to the investment and the fund mobilization are presented and discussed to evaluate and analyze the performance of the bank. Financial ratios are calculated and data are analyzed with the help of those ratios. Some important ratios are calculated from the point of view of fund mobilization and investment policy. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure and is obtained by dividing one item by another; all these calculations are based on financial statements of the bank. The important financial ratios, which are to be calculated for the purpose of this study, are mentioned below:

- Liquidity ratio
- Asset Management ratio
- Profitability ratio
- Risk ratio
- Percentage Analysis of Investment
- Growth Rate Analysis

## A. Liquidity Ratio

Commercial banks collect the fund from the community and the bank commit to return their money when they demand. So, they must maintain sufficient liquidity to fulfill the commitment to return depositor's deposit, withdraw, and convert non-cash assets to cash to satisfy immediate needs without any loss to bank and consequent impact on long run profit.

## I. Current Ratio

This ratio indicates the ability of the bank to meet its current obligation. It measures the liquidity position of financial institutions. Current ratio is calculated by dividing current assets by current liabilities.

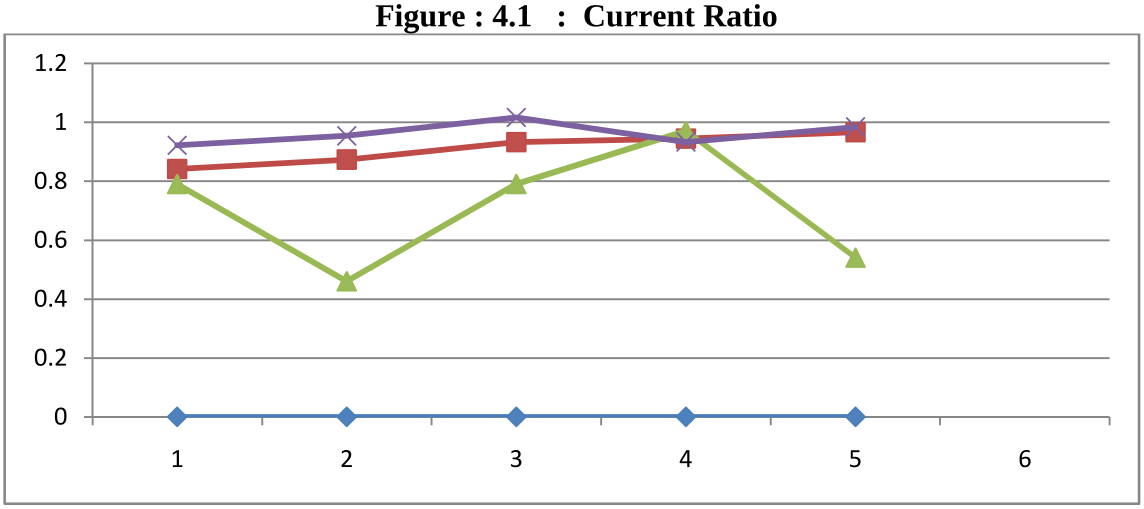
The current ratio of these banks during the study period is tabulated below.

**Table: 4.1 Current Ratio**

| Fiscal Year | BOKL | HBL | KBL |
|---|---|---|---|
| 2012/13 | 0.841 | 0.79 | 0.922 |
| 2013/14 | 0.873 | 0.46 | 0.954 |
| 2014/15 | 0.932 | 0.79 | 1.016 |
| 2015/16 | 0.944 | 0.97 | 0.933 |
| 2016/17 | 0.966 | 0.54 | 0.984 |
| Mean | 0.911 | 0.791 | 0.962 |
| Standard Deviation | 0.047 | 0.046 | 0.035 |
| Coefficient of variation | 5.16 | 4.79 | 3.64 |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.1 : Current Ratio**



The table and figure 4.1 shows that the relationship between cash and other current assets to its current obligation. The current ratio of BOKL is higher in 2015/16 and found lower in other financial years while comparing with KBL. Similarly, KBL has greater ratio in all financial years except 2015/16 than BOKL. The liquidity position of KBL is better than BOKL. The coefficient of variance for BOKL is 5.16, HBL 4.79 whereas KBL has only 3.64.

## II. Cash and Bank Balance to Total Deposit Ratio

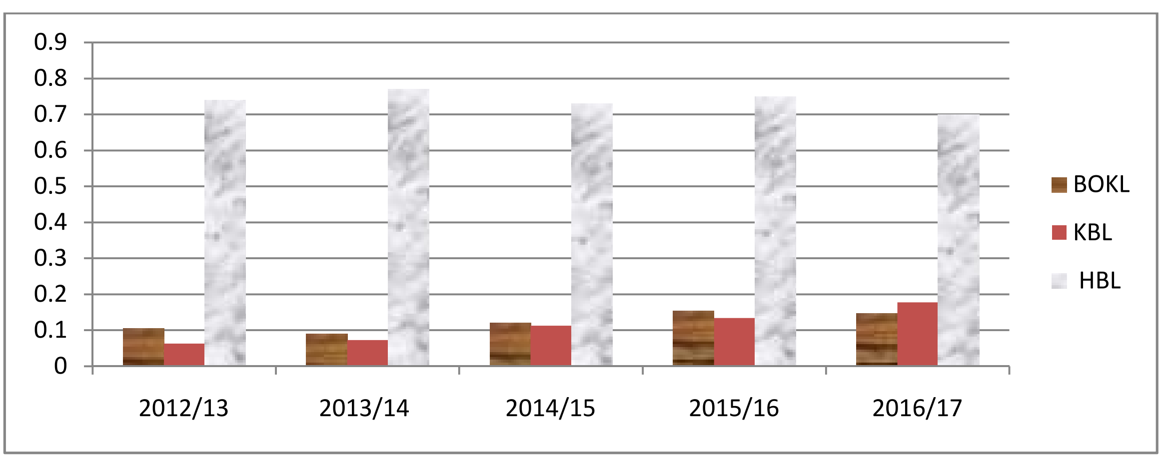
Cash and bank balance consist of cash balance, balance with NRB, balance with banks and financial institutions. This ratio measures the availability of banks highly liquid or immediate funds to meet it unanticipated calls on all types of deposits. The ratio is calculated by dividing cash and bank balance by total deposit.

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

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.1062 | 0.0635 | 0.74 |
| 2013/14 | 0.0909 | 0.0730 | 0.77 |
| 2014/15 | 0.1206 | 0.1130 | 0.73 |
| 2015/16 | 0.1549 | 0.1346 | 0.75 |
| 2016/17 | 0.1465 | 0.1775 | 0.70 |
| Mean | 0.1238 | 0.1123 | 0.74 |
| Standard Deviation | 0.0241 | 0.1123 | 0.1324 |
| Coefficient of variation (%) | 19.47 | 37.40 | 23.45 |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.2 :Cash and Bank Balance to Total Deposit Ratio**



The table and figure 4.2 ratio has fluctuating trend and BOKL has higher ratio 15.49 in F/Y 2015/16 and lower ratio 9.09 in F/Y 2013/14 where as KBL has higher ratio 17.75 in F/Y 2015/16 and lowest ratio 6.35 in F/Y 2012/13. The analysis shows that the cash and bank balance position of BOKL, KBL and HBL with respect to deposit is better. The average ratio of BOKL is greater than KBL i.e. 0.12 vs. 0.11. The consistency is also found better in BOKL than KBL i.e. 19.47 Vs 37.40.

## III. Cash and Bank Balance to Current Assets Ratio

This ratio examines the bank's liquidity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the bank to make the quick payment of its customer's deposits. A high ratio indicates the sound ability to meet their daily cash requirement of their customers deposit and vice-versa.

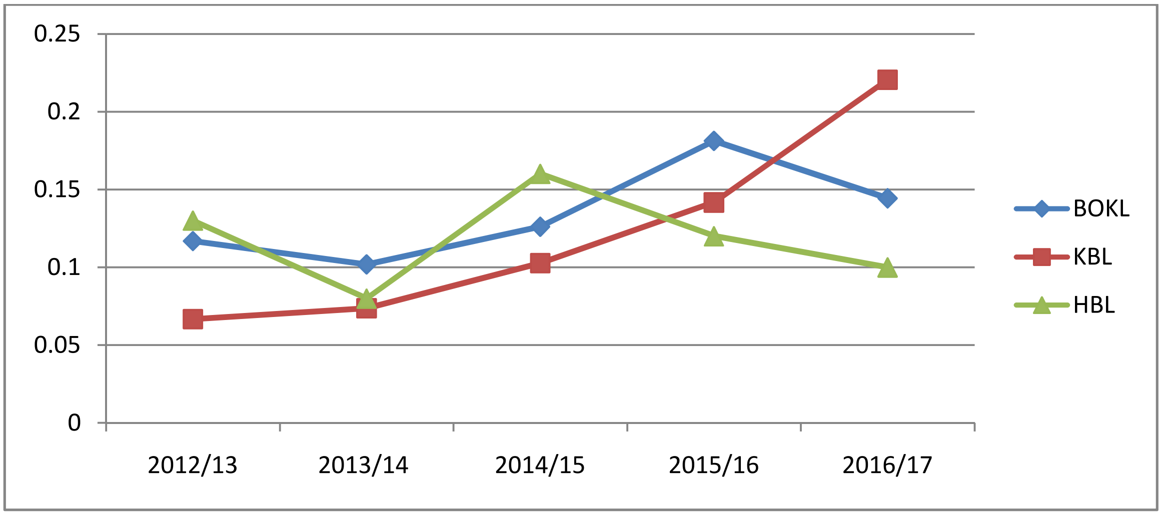
However, allthe higher and lower ratios are not desirable. If a bank maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost and if a bank maintains low ratio of cash, it may fail to make the payment on customer's demand. Thus, sufficient and appropriate cash reserves should be maintained. This ratio is calculated by dividing cash and bank balance by current assets. The ratios are presented in the following table

**Table: 4.3 : Cash and Bank Balance to Current Assets Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.1169 | 0.0667 | 0.13 |
| 2013/14 | 0.1019 | 0.0736 | 0.08 |
| 2014/15 | 0.1261 | 0.1026 | 0.16 |
| 2015/16 | 0.1813 | 0.1416 | 0.12 |
| 2016/17 | 0.1444 | 0.2204 | 0.10 |
| Mean | 0.1341 | 0.1210 | 0.12 |

Source : Annual reports of BOKL, HBL and KBL (2012/13- 2016/17)

**Figure : 4.3 : Cash and Bank Balance to Current Assets Ratio**




The table and figure 4.3 stated that BOKL has the highest ratio is 0.1813 in F/Y 2015/16 and the lowest ratio is 0.1019 in F/Y 2013/14 . On the basis of mean ratio, BOKL has 0.1341 and the coefficient of variation is 20. KBL has highest ratio is 0.2204 in F/Y 2016/17 and lowest in 0.0667 in F/Y 2012/13. The mean ratio of BOKL is greater than KBL i.e. 13.41 > 12.10 and variability is lesser than KBL.

## IV. Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of commercial bank's current assets which is invested on different government securities. Government securities include government treasury bills, saving bonds, NRB bonds etc. More or less, each commercial bank are interested to invest their collected fund on different types of securities issued by government in different times to utilize their excess funds and for other purposes also. Though government securities are not liquid as cash balance of a commercial bank, they can be easily sold in the market or they can be converted into cash in other ways. Investment in government securities are completely risk free investment.

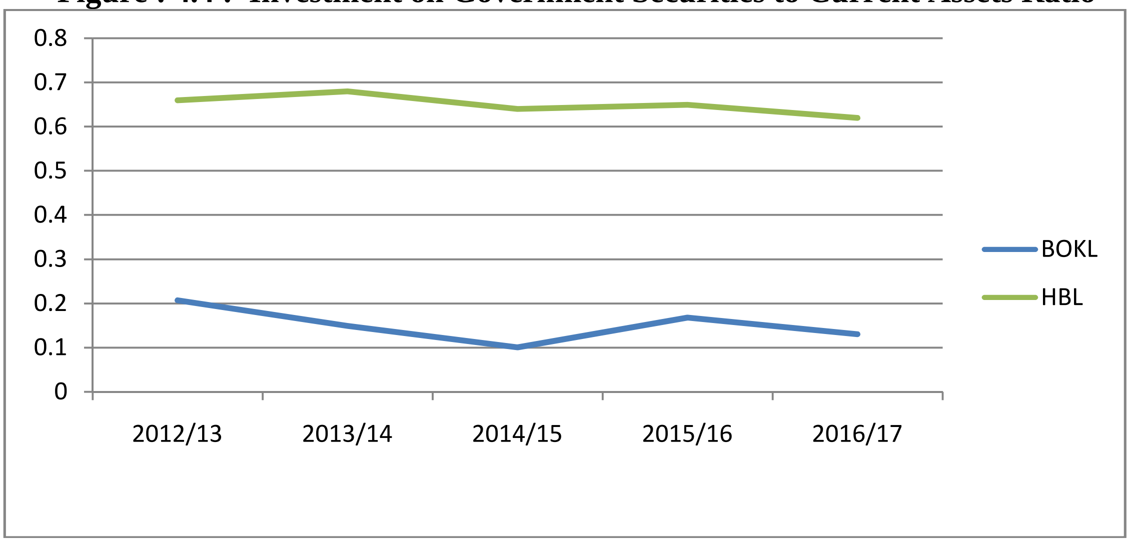
This ratio shows that out of total current assets, how much percentage of it has been occupied by the investment on government securities. This ratio is computed by dividing investment on government securities by total current assets. These ratios are presented in the following table.

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

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.2071 | 0.1291 | 0.66 |
| 2013/14 | 0.1495 | 0.1160 | 0.68 |
| 2014/15 | 0.1008 | 0.0643 | 0.64 |
| 2015/16 | 0.1677 | 0.1506 | 0.65 |
| 2016/17 | 0.1303 | 0.0963 | 0.62 |
| **Mean** | **0.1511** | **0.1112** | ***0.64*** |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

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




The table and figure 4.4 shows that the Investment on government securities to current assets ratio has been fluctuating in all the banks during the study period. BOKL has lowest ratio 0.1008 in F/Y 2014/15 and the highest ratio is 0.2071 in F/Y 2012/13. The mean ratio of investment on government securities to current assets of BOKL is 0.1511 where as KBL has highest ratio is 0.1506 in F/Y 2015/16 and lowest is 0.0643 in F/Y 2014/15. The mean ratio of KBL is 0.1112 and BOKL has higher variability.

From the above analysis, we can conclude that the banks have made big amount of investment on government securities, this is because of usability security then other profitable investment sector.

**B. Assets Management Ratio**
A commercial bank must be able to manage its assets very well to earn higher amount of profit to satisfy its customers and for its own existence. Assets management ratio measures how efficiently the bank manage the resources its commands. The following ratios measure the assets management ability of the BOKL,  KBL and HBL .

## I. Loans and Advances to Total Deposit Ratio

This ratio actually measures the bank's success to mobilize the deposits on loans and advances for the purpose of profit generation. This ratio is calculated dividing loan and advances by total deposits. The following table shows the loan and advances to total deposit ratio of BOKL,  KBL and HBL .

**Table: 4.5 :  Loans and Advances to Total Deposit Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.7587 | 0.8458 | 0.283 |
| 2013/14 | 0.7871 | 0.8873 | 0.298 |
| 2014/15 | 0.8100 | 0.9289 | 0.138 |
| 2015/16 | 0.8143 | 0.7650 | 0.194 |
| 2016/17 | 0.8297 | 0.7940 | 0.124 |
| **Mean** | **0.7999** | **0.8442** | ***0.196*** |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

The table and figure 4.5 states that the BOKL has the highest loans and advances to total deposit ratio of 0.810 in F/Y 2014/15 and the lowest of 0.661 in F/Y 2012/13. The KBL has highest ratio is 0.929 in F/Y 2014/15 and lowest ratio is 0.846 in F/Y 2012/13. Comparing all the banks, KBL has higher loans and advances to total deposit ratio and has higher variability than BOKL.

Thus it can be concluded that the banks has mobilized their total deposit as loan and advances and acquiring high profit. For this, the bank should consider so many factors like risk analysis, diversification, social responsibility, bank's credit policy and limits of lending policy etc.

## II. Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial or non financial companies. Now efforts have been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment.

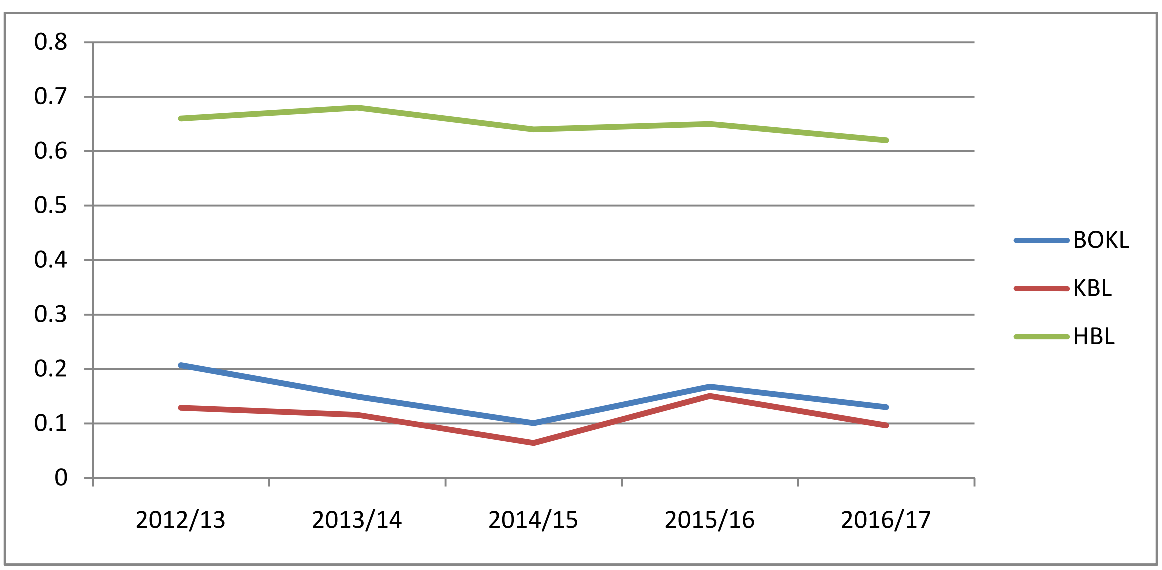
In the process of portfolio management of banks, various factors such as availability of fund, liquidity requirements, central bank norms etc. are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice versa. This ratio is calculated by dividing total investment by total deposit. The ratio is presented in the following table

**Table: 4.6 : Total Investment to Total Deposit Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.2415 | 0.1589 | 0.11 |
| 2013/14 | 0.2024 | 0.1674 | 0.07 |
| 2014/15 | 0.1514 | 0.0961 | 0.14 |
| 2015/16 | 0.1718 | 0.1633 | 0.11 |
| 2016/17 | 0.1343 | 0.1148 | 0.09 |
| Mean | 0.1803 | 0.1401 | *0.10* |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.6 : Total Investment to Total Deposit Ratio**



The table and figure 4.6 shows that the selected banks have decreasing total investment to total deposit ratio. BOKL has highest ratio 0.241 in F/Y 2012/13 and the lowest ratio is 0.134 in F/Y 2016/17. Similarly, KBL has highest ratio 0.167 in F/Y 2013/14 and lowest 0.096 in F/Y 2014/15. On the basis of mean ratio, BOKL has 0.180 which is higher than that of KBL and the coefficient of variation 21.19 but in case of KBL it is 20.70. Thus the bank could not make great effort to mobilize its deposit on total investment. Comparing all the banks, BOKL has better capacity to mobilize its deposit on total investment.

**III. Loan and Advances to Total Assets Ratio**

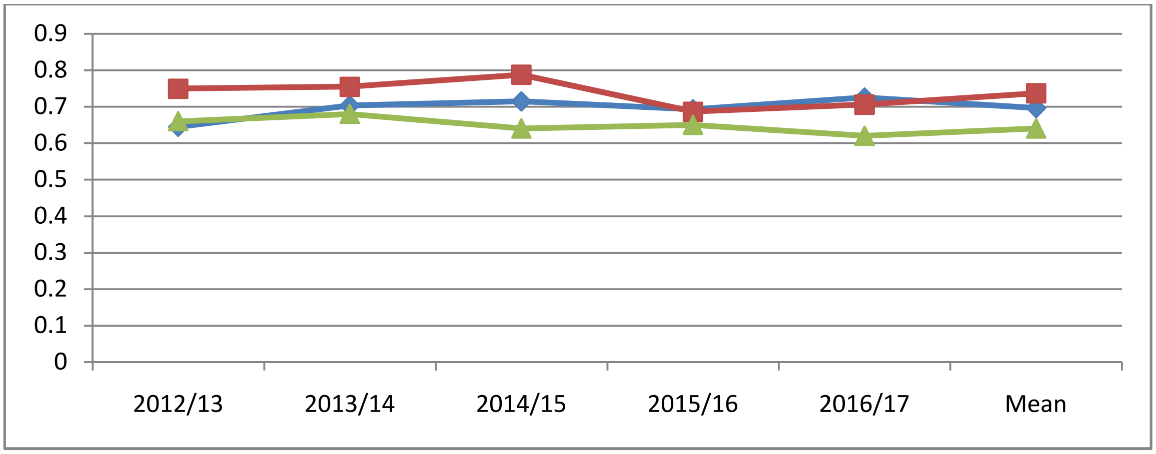
A commercial bank's total assets play very significant role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. This ratio is computed by dividing loan and advances by total working fund (total assets). The following table exhibits the ratio of loans and advances to total assets fund of BOKL, KBL and HBL during the study period

**Table: 4.7 : Loans and Advances to Total Assets Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.6451 | 0.7492 | 0.66 |
| 2013/14 | 0.7032 | 0.7544 | 0.68 |
| 2014/15 | 0.7146 | 0.7872 | 0.64 |
| 2015/16 | 0.6930 | 0.6863 | 0.65 |
| 2016/17 | 0.7251 | 0.7059 | 0.62 |
| Mean | 0.6962 | 0.7366 | ***0.64*** |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.7 : Loans and Advances to Total Assets Ratio**




The table and figure 4.7 reveals that BOKL has the highest loans and advances to total assets ratio of 0.7251 in F/Y 2016/17 and the lowest ratio is 0.6451 in F/Y 2012/13. Whereas KBL has highest ratio of 0.7872 in F/Y 2014/15 and lowest is 0.6863 in F/Y 2015/16. When observing the mean ratio, it is 0.6962 and 0.7366 for BOKL, KBL and HBL respectively. From the table it also reveals that the ratios are increasing. Thus the banks are in strong position to mobilize its totals assets fund as loan and advances.

### IV. Investment on Government Securities to Total Assets Ratio

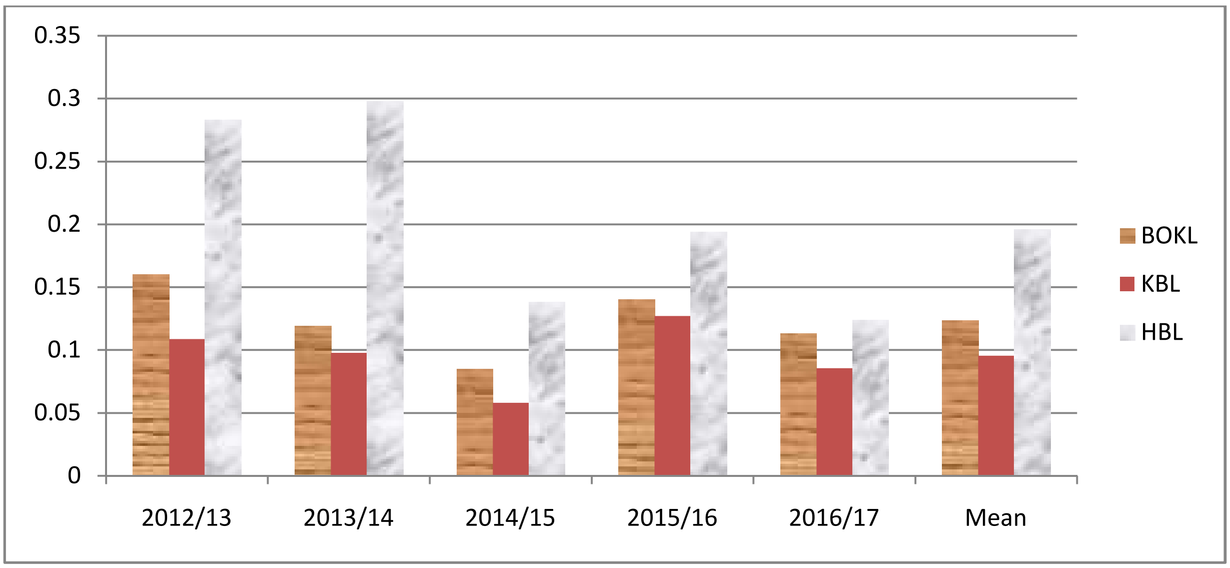
This ratio reveals that the banks are successful in mobilizing their assets fund on different types of government securities to maximize the income. The bank should not utilize all its deposits in loans and advances from security and liquidity point of view. Therefore commercial banks seem to be interested to utilize their deposit by purchasing government securities. This ratio is calculated by dividing investment on government securities by total working fund.

**Table: 4.8 : Investment on Government Securities to Total Assets Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.1601 | 0.1088 | 0.283 |
| 2013/14 | 0.1192 | 0.0978 | 0.298 |
| 2014/15 | 0.0851 | 0.058 | 0.138 |
| 2015/16 | 0.1403 | 0.1272 | 0.194 |
| 2016/17 | 0.1131 | 0.0857 | 0.124 |
| Mean | 0.1236 | 0.0955 | *0.196* |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Table: 4.8 : Investment on Government Securities to Total Assets Ratio**




The table and figure 4.8 reveals that the concerning the investment on government securities to total assets ratio during the study period, BOKL has the highest ratio of 0.16 in F/Y 2012/13 and lowest ratio of 0.085 in 2014/15. Whereas KBL has highest ratio of 0.127 in F/Y 2015/16 and lowest ratio is 0.058 in F/Y 2014/15. The mean ratio of BOKL KBL and HBL are 0.123, 0.0955 and 0.196 respectively. Thus the variability seems to be higher in all banks.

The ratio is also decreasing during the study period which seems the banks are weak to mobilize its total assets as investment in government securities. Comparatively, BOKL is more successful to mobilize its total assets as investment in government securities.

## V. Investment on Share and Debentures to Total Assets Ratio

Commercial banks invest on share and debentures of other different types of companies as well as in the government securities. During the study period, it seems most of the commercial banks of Nepal including BOKL, KBL and HBL have decreased to invest on government securities and are interested to purchase the share of other companies. Investment on shares and debentures to total assets ratio reflects the extent to which the banks are successful to mobilize their total working fund on purchase of share and debentures of other companies to generate income and utilize excess fund. A high ratio indicates more portion of investment on shares and debentures out to total working fund and vice versa. The ratio is calculated by dividing investment on share and debentures by total assets

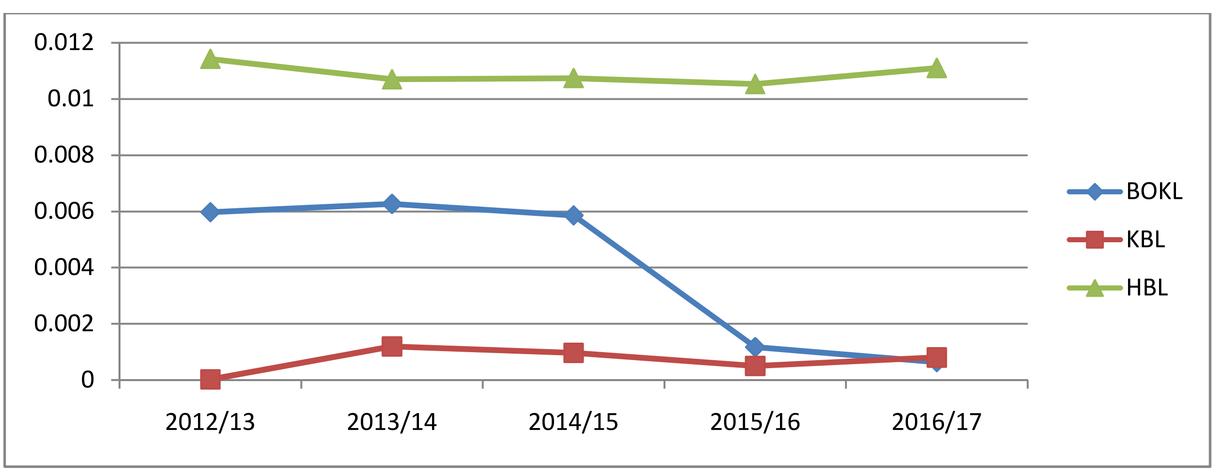
**Table: 4.9**

**Investment on Share and Debentures to Total Assets Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.005971 | 0.000025 | 0.01142 |
| 2013/14 | 0.006264 | 0.001198 | 0.01070 |
| 2014/15 | 0.005855 | 0.000971 | 0.01074 |
| 2015/16 | 0.001170 | 0.000500 | 0.01053 |
| 2016/17 | 0.000640 | 0.000806 | 0.01110 |
| Mean | 0.003980 | 0.000699 | 0.01088 |

Source : Annual reports of BOKL, HBL and KBL

**Figure : 4.9 : Investment on Share and Debentures to Total Assets Ratio**



The table and figure 4.9 shows that the banks have invested nominal amount of total assets into shares and debentures of other companies. These banks also have fluctuating trend of investment on share and debenture to total assets ratio. The highest ratio of BOKL is 0.0062 in F/Y 2013/14 and the lowest ratio is 0.00064 in F/Y 2016/17 whereas KBL has highest ratio is 0.001198 in F/Y 2013/14 and lowest ratio is 0.000025 in F/Y 2012/13.

On the basis of mean ratio it is 0.00398 and 0.000699 and the coefficient of variation is 61.56% and 57.21% respectively. Because of the higher C.V., the risk percentage is higher in all the banks but BOKL is more risky. It is due to lack of efficient and uniform investment policy with regard to investment on other company's shares and debentures.

## C. Profitability Ratio

The main objective of the commercial bank is to earn profit by providing different types of banking services to its customers. To meet various objectives e.g. maintaining good liquidity position, meet fixed internal obligations, overcome the future contingencies, grab investment opportunities, expand banking transaction in different places etc.

Thus the profitability ratios are the best indicators of overall efficiency. Here, mainly those major ratios are presented and analyzed through which help to measure the profit earning capacity of BOKL KBL and HBL .

## I. Return on Loans and Advances

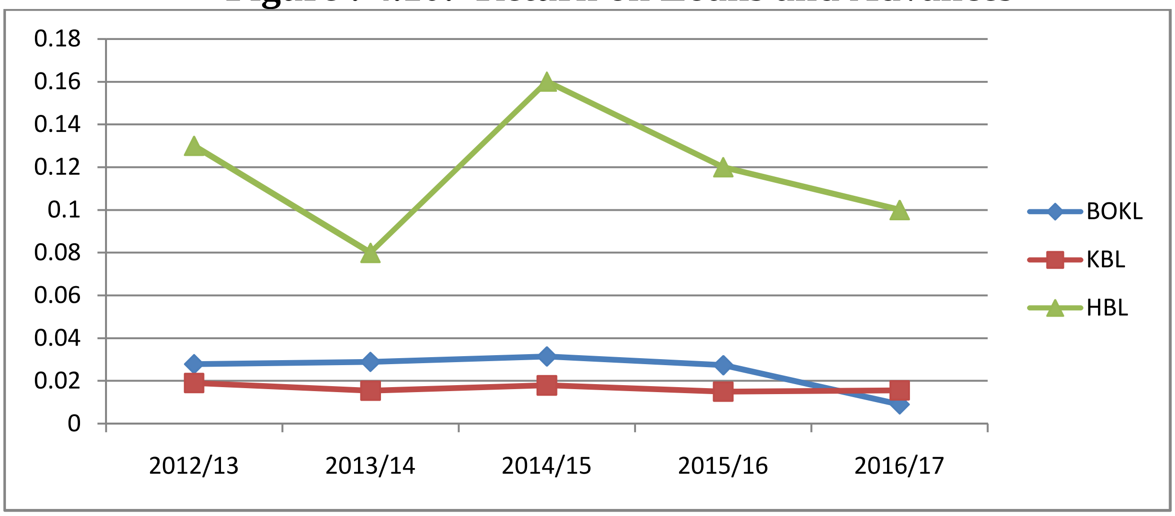
Return on loans and advances ratio measures the earning capacity of a commercial bank through its mobilized fund as loans and advances. A high ratio indicates greater success on mobilized fund as loans and advances and vice-versa. This ratio is calculated by dividing net profit by loan and advances. The following table shows that return on loan and advances of BOKL, KBL and HBL in the study period.

**Table: 4.10 : Return on Loans and Advances**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.0279 | 0.0190 | 0.13 |
| 2013/14 | 0.0290 | 0.0154 | 0.08 |
| 2014/15 | 0.0315 | 0.0179 | 0.16 |
| 2015/16 | 0.0274 | 0.0150 | 0.12 |
| 2016/17 | 0.0090 | 0.0156 | 0.10 |
| Mean | 0.0249 | 0.0166 | ***0.12*** |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.10: Return on Loans and Advances**




The table and figure 4.10 BOKL has the highest ratio of 0.031 in F/Y 2014/15 whereas the lowest ratio is 0.0090 in F/Y 2016/17. The mean ratio is 0.0249 and coefficient of variation is 32.47%. Whereas KBL has highest ratio is 0.019 in F/Y 2012/13 and the lowest ratio is 0.015 in 2015/16. The mean ratio is 0.0166 and coefficient of variation is 9.65%. It is observed that the banks have not higher return on its loan and advances. Also it is observed that return of BOKL is consistent in comparison to KBL which is not good sign for a Bank. In the other hand KBL has consistent growth of return on Loan and Advances. So that it can be said that the bank’s profit earning capacity by utilizing available source is very weak.

## II. Return on Total Assets

Return on assets ratio is a measuring rod of the profitability for each bank's assets. If the bank's total assets is well managed and efficiently utilized, return on such assets will be higher and vice-versa. The ratio or return on total working fund is calculated by dividing net profit by total assets.

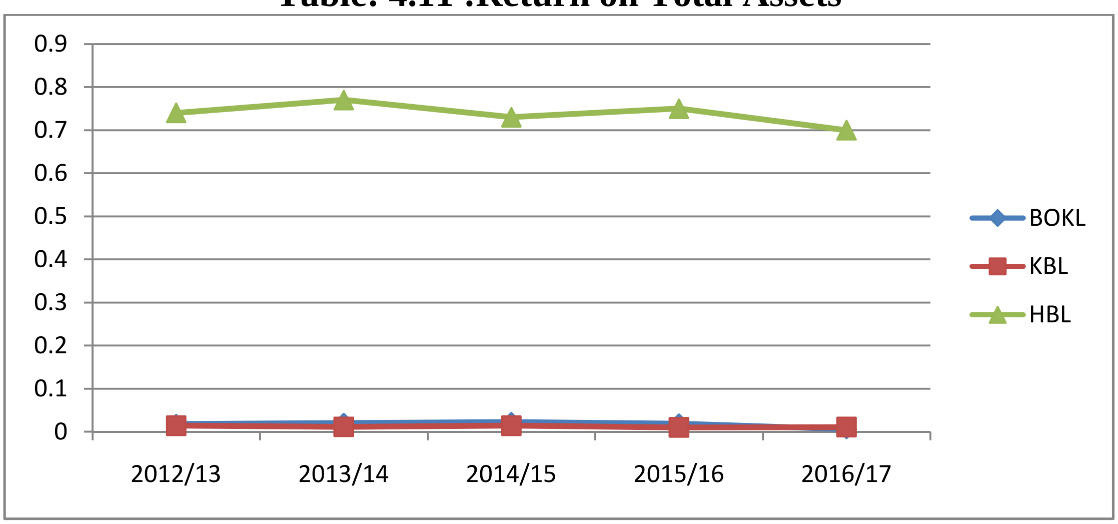
The following table shows that profitability position with respect to total assets

**Table: 4.11 : Return on Total Assets**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.0179 | 0.0142 | 0.74 |
| 2013/14 | 0.0203 | 0.0115 | 0.77 |
| 2014/15 | 0.0225 | 0.0140 | 0.73 |
| 2015/16 | 0.0189 | 0.0103 | 0.75 |
| 2016/17 | 0.0065 | 0.0109 | 0.70 |
| Mean | 0.0172 | 0.0122 | ***0.74*** |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Table: 4.11 :Return on Total Assets**



The table and figure 4.11 Return on total assets during the study period has slightly fluctuating in all the banks. BOKL has maintained higher ratio as 0.0225 in F/Y 2014/15 and the lowest ratio is 0.0065 in F/Y 2016/17 and the average ratio of return on assets is 0.0172. The coefficient of variation is 32.71. Similarly, KBL has highest ratio 0.0142 in F/Y 2012/13 and lowest ratio is 0.0103 in F/Y 2015/168. The mean ratio is 0.0122 and the coefficient of variation is 13.23. It is also observed that BOKL is in increasing order where as KBL has decreasing order. The analysis shows that all the banks have not been able to get higher return on total assets but have increasing trend.

## III. Total Interest Earned to Total Assets Ratio

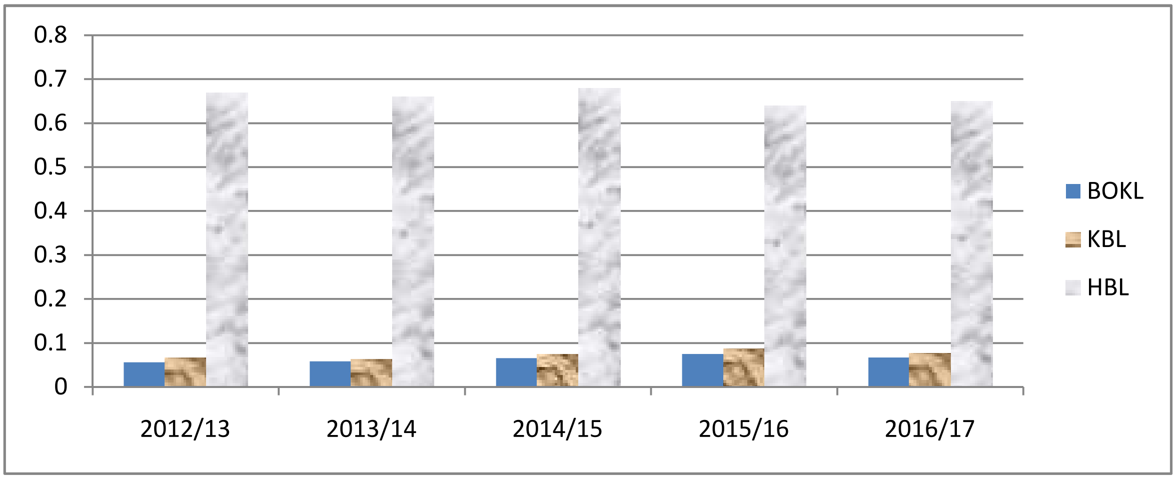
To represent to the earning capacity of commercial bank in its total assets, total interest earned to total assets ratio is very helpful. A high ratio is an indicator of high earning power of the bank on its total working fund and vice-versa. This ratio is computed by dividing total interest earned by total assets. The following table shows that total interest earned to total assets ratio of BOKL, KBL and HBL throughout the study period.

**Table: 4.12 : Total Interest Earned to Total Assets Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.0562 | 0.0663 | 0.67 |
| 2013/14 | 0.0583 | 0.0636 | 0.66 |
| 2014/15 | 0.0657 | 0.0741 | 0.68 |
| 2015/16 | 0.0752 | 0.0873 | 0.64 |
| 2016/17 | 0.0668 | 0.0776 | 0.65 |
| Mean | 0.0644 | 0.0738 | 0.62 |
| Standard Deviation | 0.00678 | 0.00842 | *0.64* |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Table: 4.12 : Total Interest Earned to Total Assets Ratio**




The table and figure 4.12 shows that the bank's interest earning ratio with respect to total assets has fluctuating trend. HBL has of 0.68 in F/Y 2014/15 and lowest 0.64 in 2015/16. BOKL has highest ratio of 0.0752 in F/Y 2015/16 and the lowest ratio is 0.0562 in F/Y 2012/13. The mean ratio is 0.0644 and coefficient of variation is 10.51% whereas KBL has highest ratio of 0.0873 in F/Y 2015/16 and lowest of 0.0636 in F/Y 2013/14 . The mean ratio is 0.0738 and coefficient of variation is 11.40. It can be said that the interest earning capacity has almost maintained its consistency.

## IV. Total Interest Earned to Operating Income Ratio

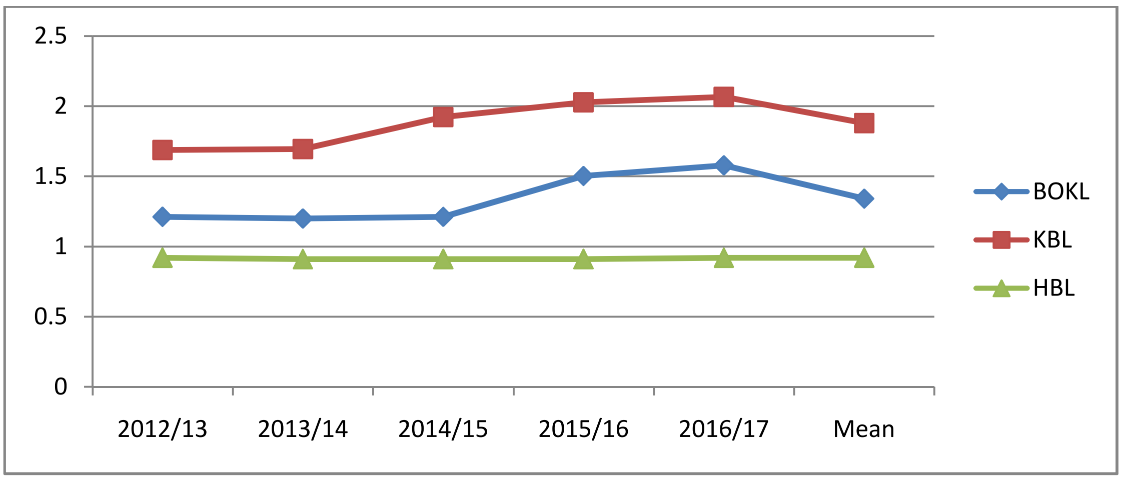
Total operating income consists of interest income, commission and discount, dividend income, foreign exchange income, non-interest income etc. Interest earned to total operating income ratio shows the magnitude of interest income in total income. It also indicates how efficiently the bank has mobilized its fund in interest bearing assets i.e. loan and advances, investment in government securities. This ratio is calculated by dividing total interest earned by net operating income. The following table exhibits the ratio of interest income to the operating income of BOKL, KBL and HBL .

**Table: 4.13 : Total Interest Earned to Operating Income Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 1.211 | 1.687 | 0.92 |
| 2013/14 | 1.199 | 1.694 | 0.91 |
| 2014/15 | 1.210 | 1.922 | 0.91 |
| 2015/16 | 1.503 | 2.028 | 0.91 |
| 2016/17 | 1.578 | 2.066 | 0.92 |
| Mean | 1.340 | 1.879 | ***0.92*** |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.13 : Total Interest Earned to Operating Income Ratio**




The table and figure 4.13 found that the interest earned to operating income ratio during the study period, BOKL has the highest ratio is 1.57 in F/Y 2016/17 and the lowest ratio is 1.199 in F/Y 2013/14 and the average ratio is 1.340 whereas KBL has highest ratio of 2.066 in F/Y 2016/17 and that of the lowest is 1.687 in F/Y 2012/13. Analyzing the data, it is observed that the ratio is gradually increasing on each fiscal year. Even the bank has to give more concentration for the activities to earn higher amount of profit.

**V. Total Interest Paid to Total Assets Ratio**

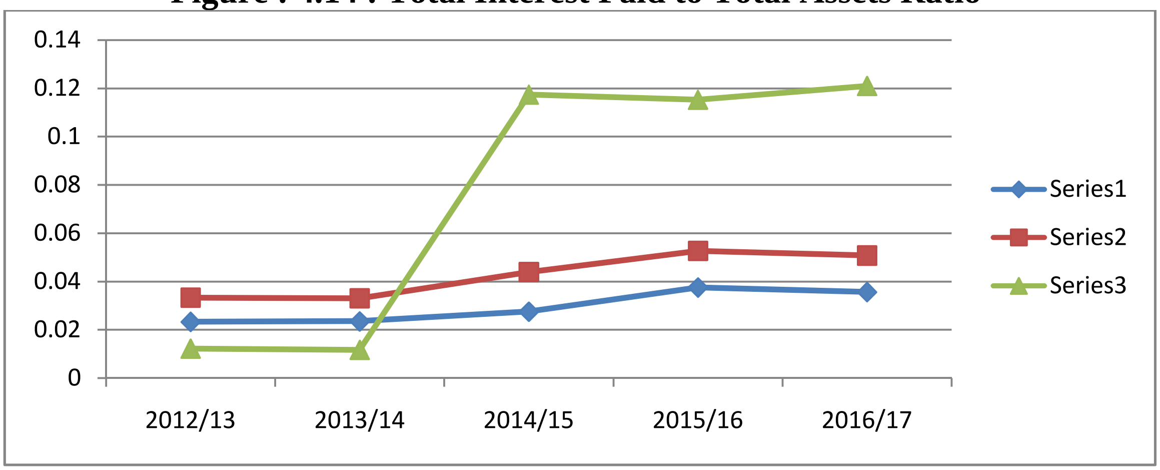
This ratio measures the percentage of total interest expenses against total assets. A high ratio indicates higher interest expenses on assets fund and vice-versa. This ratio is calculated by dividing total interest paid by total assets. The following table shows the total interest paid to total working fund ratio

**Table: 4.14 : Total Interest Paid to Total Assets Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.0233 | 0.0333 | 0.0122 |
| 2013/14 | 0.0235 | 0.0331 | 0.0117 |
| 2014/15 | 0.0275 | 0.0440 | 0.1174 |
| 2015/16 | 0.0375 | 0.0527 | 0.1153 |
| 2016/17 | 0.0356 | 0.0508 | 0.1210 |
| Mean | 0.0295 | 0.0428 | 0.1188 |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.14 : Total Interest Paid to Total Assets Ratio**




The analysis of total interest paid to total assets ratio of the banks during the study period revealed that BOKL has maintained higher ratio of 0.0375 in F/Y 2015/16 and that of KBL is 0.0527 in F/Y 2015/16. The lowest ratio of all the banks is 0.0233 and 0.0331 in F/Y 2012/13 and F/Y 2013/14 of BOKL, KBL and HBL respectively. The average interest paid to total assets ratio for BOKL, KBL and HBL are 0.0295 and 0.0428 respectively. So it can be said that the banks are in better position from the payment of interest point of view. It seems that it had not collected total assets funds from more expensive sources.

## D. Risk Ratio

Where there is return there is associated risk in the financial world. So, on making investment, various risk factors are to be analyzed. The level of risk increases with the increase in profit. A bank should analyze the level of risk that is needed to bear while investing the funds. The following ratios are to be measured to identify the level of risk.

## I. Liquidity Risk Ratio

Liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as bank's liquidity sources and deposit, as the liquidity needs. The ratio of a cash and bank balance to total deposit is the indicator of bank liquidity needed.

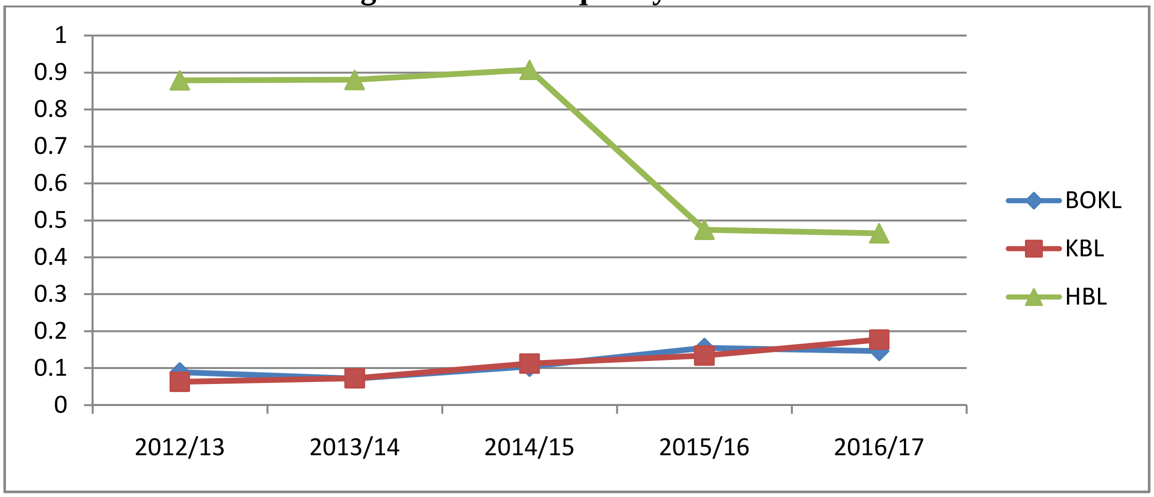
The risk is low if funds are kept idle as cash and bank balance. But this reduces the profitability. When loans flow, profitability increases as well risk too. Thus higher liquidity ratio indicates less risk and less profitable and vice-versa. This ratio is calculated by dividing cash and balance to total deposit. The following table shows the liquidity risk inherent in BOKL, KBL and HBL .

**Table: 4.15 : Liquidity Risk Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.0890 | 0.0635 | 0.8784 |
| 2013/14 | 0.0721 | 0.0730 | 0.8797 |
| 2014/15 | 0.1045 | 0.1130 | 0.9069 |
| 2015/16 | 0.1548 | 0.1346 | 0.4745 |
| 2016/17 | 0.1465 | 0.1775 | 0.4648 |
| Mean | 0.1134 | 0.1123 | 0. 6360 |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.15 : Liquidity Risk Ratio**




The analysis of liquidity risk reveals that KBL has fluctuating liquidity risk. It is due to the variation in the cash and bank balance and total deposits. HBL has highest liquidity 0.9069 in 2014/15 and lowest in 0.4648 fiscal year 2016/17. BOKL has highest liquidity risk of 0.1548 in F/Y 2015/16 and the lowest ratio is 0.0721 in F/Y 2013/14 . KBL has highest ratio 0.1775 in 2016/17 and lowest 0.0635 in 2012/13. The average ratio of liquidity risk is 0.11 in all banks.

## II. Credit Risk Ratio

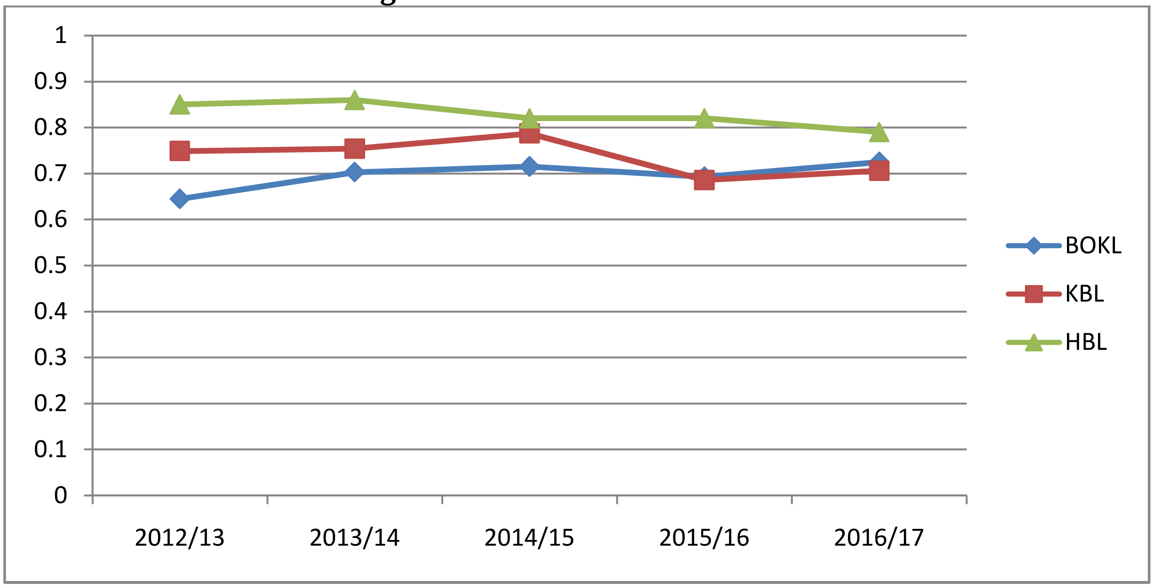
Bank utilizes its collected fund in providing credit to different sectors. There consists of default risk and interest rate risk. While making investment, bank examines the credit risk involved in the project. This ratio is computed by dividing total loan and advances to total assets. The following table shows the credit risk ratio of BOKL, KBL and HBL under the study period.

**Table: 4.16 : Credit Risk Ratio**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.645 | 0.749 | 0.85 |
| 2013/14 | 0.703 | 0.754 | 0.86 |
| 2014/15 | 0.715 | 0.787 | 0.82 |
| 2015/16 | 0.693 | 0.686 | 0.82 |
| 2016/17 | 0.725 | 0.706 | 0.79 |
| Mean | 0.696 | 0.736 | 0.83 |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.16 : Credit Risk Ratio**




BOKL has recorded its highest credit risk ratio of 0.725 in 2016/17 and lowest ratio as 0.645 in 2012/13 and mean ratio as 0.696 and coefficient of variation 3.96%. On the other hand, KBL has recorded its highest ratio as 0.787 in 2014/15 and lowest ratio as 0.686 in 2015/16 and mean ratio as 0.736 and co-efficient of variation 4.88%. It seems KBL has higher credit risk ratio than that of BOKL and BOKL has less variability. Credit risk ratio should be low for better performance of bank.

**E. Percentage Analysis of Investment**

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

**I. Analysis of Investment on Government Securities**

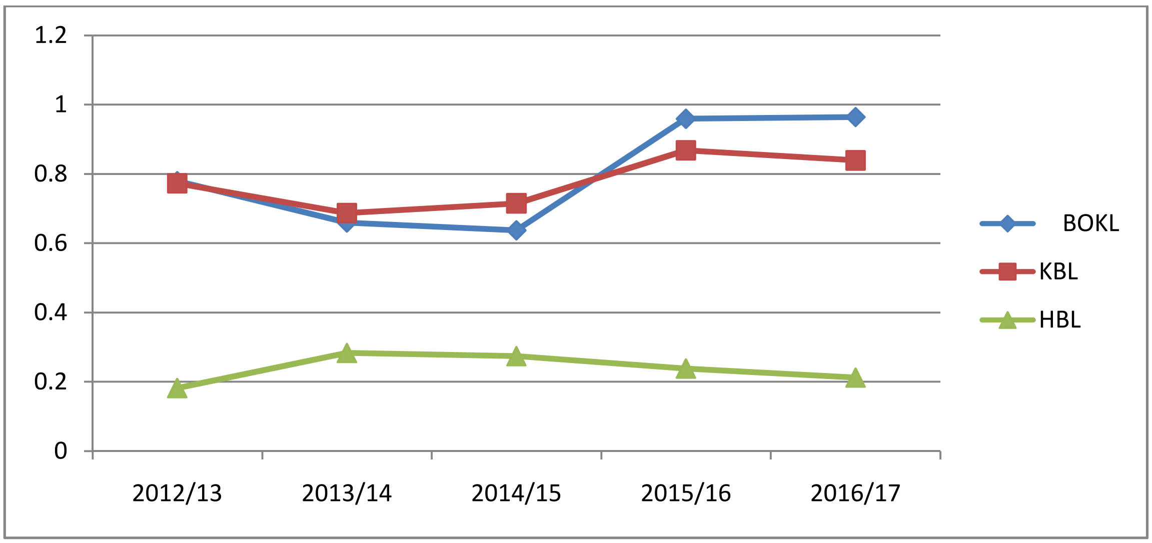
The percentage analysis of government securities in relation with total investment helps to examine the investment practice according to the NRB directives and is calculated by dividing investment on government securities by total investment. The following table shows that investment on government securities with respect to total investment.

**Table: 4.17 : Analysis of Investment on Government Securities**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.779 | 0.773 | 0.182 |
| 2013/14 | 0.659 | 0.687 | 0.283 |
| 2014/15 | 0.637 | 0.715 | 0.274 |
| 2015/16 | 0.959 | 0.868 | 0.238 |
| 2016/17 | 0.964 | 0.839 | 0.212 |
| **Mean** | **0.799** | **0.776** | **0.237** |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.17 : Analysis of Investment on Government Securities**




BOKL has maintained higher percentage of 96.4 in F/Y 2016/17 and the average value is 79.9 whereas KBL has 86.8 of its investment on government securities in F/Y 2015/16. Lowest percentage of investment on government securities of BOKL is 63.7 in F/Y 2013/14 and that of KBL is 68.7 in F/Y 2013/14 . So it can be said that the fund mobilization on government securities is in good position.

## II. Analysis of Investment on Share and Debentures

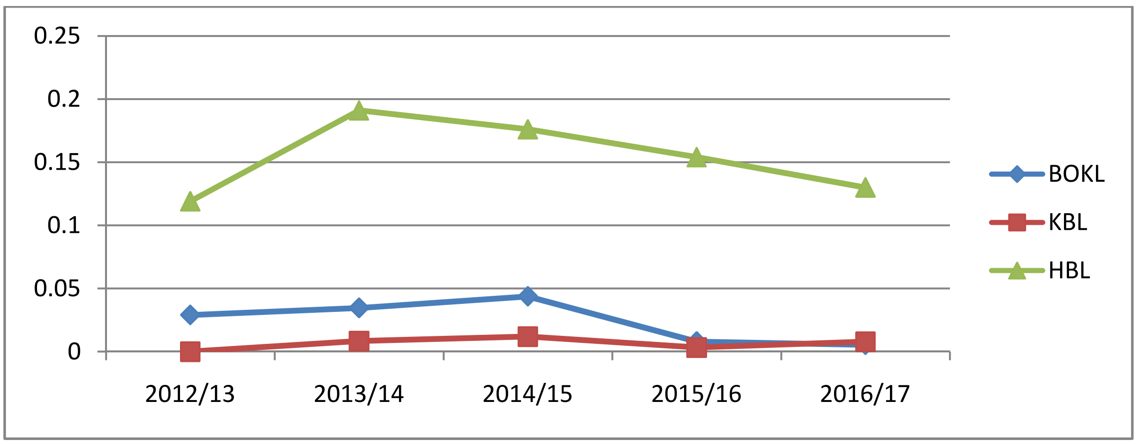
The percentage analysis of share and debenture in relation with total investment helps to observe the fund mobilization which is calculated by dividing investment on share and debenture by total investment. The following table shows that investment on share and debenture with respect to total investment.

**Table: 4.18 : Analysis of Investment on Share and Debentures**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | 0.02908 | 0c.00020 | 0.119 |
| 2013/14 | 0.03464 | 0.00840 | 0.191 |
| 2014/15 | 0.04383 | 0.01192 | 0.176 |
| 2015/16 | 0.00799 | 0.00339 | 0.154 |
| 2016/17 | 0.00546 | 0.00790 | 0.130 |
| **Mean** | **0.02420** | **0.00636** | **0.153** |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.18 : Analysis of Investment on Share and Debentures**




From the analysis it is found that investment on share and debenture is fluctuating in all the banks but the issue is more serious in case of KBL. The average ratio of investment on share and debentures of BOKL, KBL and HBL are 2.42 and 0.6 respectively. According to the NRB directives, the investment on share and debentures should be not more than 20%. It seems that the banks have invested in share and debentures within the limit.

## F. Growth Ratio

Growth ratios are analyzed and interpreted to know how well the commercial banks are maintaining their economic and financial position. Under this topic, four types of growth ratios are discussed i.e. growth ratios of total deposit, loan and advances, total investment and net profit. The high ratio generally indicates better performance of a bank and vice-versa.

**Table: 4.19 : Growth Rate of Total Deposits**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | | | |
| 2013/14 | 27.80917 | 21.00028 | 37.21 |
| 2014/15 | 14.21083 | 22.98419 | 34.73 |
| 2015/16 | 53.1881 | 61.1649 | 32.56 |
| 2016/17 | 23.1580 | 8.9222 | 28.78 |
| Average Growth Rate (%) | 29.5915 | 28.5179 | 158.73 |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

The table and figure 4.19 shows that the average growth ratio of deposit of BOKL KBL and HBL are 29.59% and 28.52%. It shows that average growth rates of deposit of all banks are not much different although BOKL is slightly higher than KBL.

**Figure : 4.19 : Growth Rate of Total Deposits**

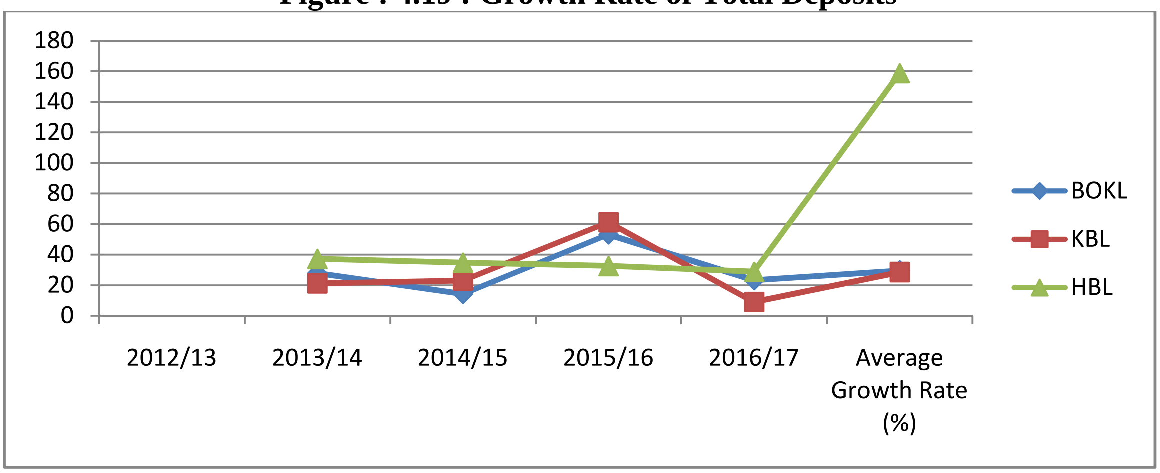



**Table: 4.20 : Growth Rate of Loans and Advances (%)**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | | | |
| 2013/14 | 32.58857 | 26.94591 | 87.97 |
| 2014/15 | 17.53330 | 28.74283 | 90.69 |
| 2015/16 | 53.9906 | 32.7280 | 47.45 |
| 2016/17 | 25.4888 | 13.0569 | 46.48 |
| Average Growth Rate (%) | 32.4003 | 25.3684 | 63.60 |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.20 : Growth Rate of Loans and Advances (%)**

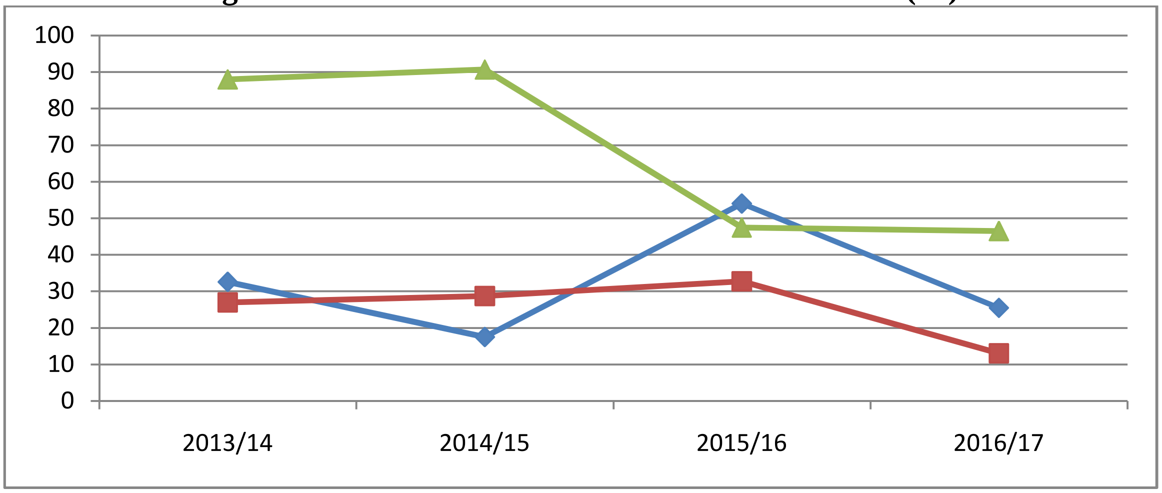


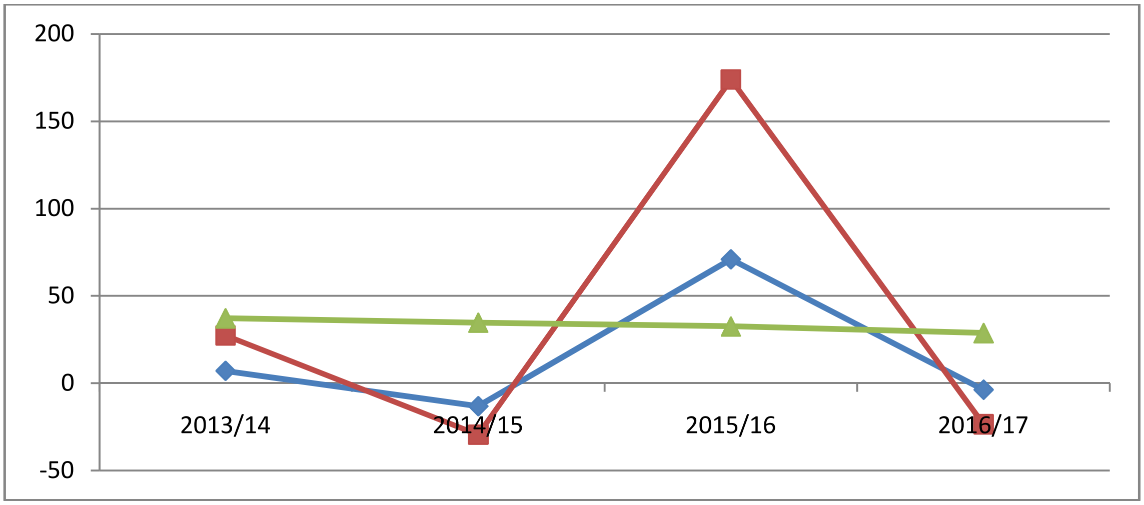

Table and figure 4.20 shows that the average growth ratio of loan and advances of BOKL, KBL and HBL are 32.40% and 25.47% respectively. Growth rate of loan and advances of BOKL is found higher than KBL, although the growth rates show that all banks emphasized on business growth.

**Table: 4.21 : Growth Rate of Total Investment (%)**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | | | |
| 2013/14 | 7.08556 | 27.41359 | 37.21 |
| 2014/15 | -13.13983 | -29.37325 | 34.73 |
| 2015/16 | 70.9374 | 173.8411 | 32.56 |
| 2016/17 | -3.7419 | -23.4583 | 28.78 |
| Average Growth Rate (%) | 15.2836 | 37.1058 | 31.84 |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

**Figure : 4.21 : Growth Rate of Total Investment (%)**




The table and figure 4.21 shows that the average growth ratio of total investment of BOKL, KBL and HBL are 15.28% and 37.11% respectively. It also shows that growth rate of investment are not consistent in all banks. There is negative growth rate in the year of 2014/15 and 2016/17.

**Table: 4.22 : Growth Rate of Net Profit (%)**

| Fiscal Year | BOKL | KBL | HBL |
|---|---|---|---|
| 2012/13 | | | |
| 2013/14 | 37.78626 | 2.35294 | 11.70 |
| 2014/15 | 27.70083 | 50.00000 | 11.74 |
| 2015/16 | 33.8395 | 11.4943 | 11.53 |
| 2016/17 | -58.8331 | 17.1821 | 12.10 |
| **Average Growth Rate (%)** | **10.1234** | **20.2573** | ***11.88*** |

*Source : Annual reports of BOKL, HBL and KBL(2012/13 – 2016/17)*

Table 4.22 shows that the growth ratio of net profit of BOKL, KBL and HBL are 10.1234% and 20.2573% respectively. This shows net profit of KBL is more consistent than BOKL which is good sign for KBL shareholders. With these analyses, it can be said that the banks should emphasize on improving performance in terms of collecting deposit, growth of loan and advances, total investment and profitability. It needs to improve i.e. collect funds from cheaper way and invest on highly profitable sector to improve the figure of net profit.

## 4.1.2 Statistical Analysis

Some statistical tools such as correlation analysis between different variables, trend analysis are used to achieve the objective of the study.

**A. Coefficient of Correlation Analysis**

Correlation analysis is the statistical tool used to describe the direction and degree of linear relationship between dependent variables. It gives the significance by what degree the independent variable affects the other dependent variable to occur in particular direction. Under this topic, Karl Pearson's coefficient of correlation has been used to find out the relationship between different variables such as deposit and loans and advances, deposit and total investment, outside assets and net profit etc.

**I. Coefficient of Correlation between Deposit and Loans and Advances**

Coefficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. Here, deposit is an independent variable (X) and loan and advances are dependent variable (Y). To see whether deposits are significantly used as loan and advances in proper way or not, correlation coefficient between these variables has been analyzed.

The following table shows the values of correlation coefficient (r), Probable Error P.E.(r), and 6*P.E. of BOKL, KBL and HBL during the study period.

**Table: 4.23**

| Bank | r | P.E. ( r ) | 6*P.E. ( r ) | Result |
|---|---|---|---|---|
| BOKL | 0.9972 | 0.00000220 | 0.00001319 | Significantly Correlated |
| KBL | 0.9896 | 0.00003238 | 0.00019426 | Significantly Correlated |
| HBL | 0.9273 | 0.000045678 | 0.000336426 | Significantly Correlated |

The correlation coefficient between deposit and loans and advances for BOKL, KBL and HBL are 0.9972 and 0.9896. There is high degree of positive correlation between these two variables. The result r > 6*P.E. (r) shows that there is significant relationship between these two variables. It shows that deposits are properly mobilized in terms of loans and advances.

**II. Coefficient of Correlation between Deposit and Total Investment**

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y). The purpose of computing coefficient of correlation is to examine whether the deposit are used in proper way or not and also to see the relationship between these two variables. In order to see the relationship, Karl Pearson's coefficient of correlation is calculated and analyzed accordingly. The following table shows the values of correlation coefficient (r), Probable Error P.E.(r), and 6*P.E. of BOKL, KBL and HBL during the study period.

**Table: 4.24**

| Bank | r | P.E. ( r ) | 6*P.E. ( r ) | Results |
|---|---|---|---|---|
| BOKL | 0.6173 | 0.11544 | 0.69264 | No Significant Correlation |
| KBL | 0.8463 | 0.04636 | 0.27816 | Significantly Correlated |
| HBL | 0.9463 | 0.08636 | 0.78816 | Significantly Correlated |

The correlation coefficient between deposit and total investment for BOKL, KBL and HBL are 0.6173 and 0.8463 respectively. There is positive correlation between these two variables. The result r < 6*P.E. (r) for BOKL shows that there is not significant relationship between these two variables. But in case of KBL, r > 6*P.E shows that two variables are significantly correlated. This means the degree of change in total investment is not similar as the degree of change in deposits in BOKL and is similar in KBL.

**4.2 Major Findings of the Study**

The major findings of the study are as follows :

i. The current ratio of BOKL is higher in 2015/16 and found lower in other financial years while comparing with KBL. Similarly, KBL has greater ratio in all financial years except 2015/16 than BOKL. The liquidity position of KBL is better than BOKL. The coefficient of variance for BOKL is 5.16%, HBL 4.79 whereas KBL has only 3.64%.

ii. The ratio has fluctuating trend and BOKL has higher ratio 15.49% in F/Y 2015/16 and lower ratio 9.09% in F/Y 2013/14 where as KBL has higher ratio 17.75% in F/Y 2015/16 and lowest ratio 6.35% in F/Y 2012/13. The analysis shows that the cash and bank balance position of BOKL, KBL and HBL with respect to deposit is better. The average ratio of BOKL is greater than KBL i.e. 0.12 vs. 0.11. The consistency is also found better in BOKL than KBL i.e. 19.47% Vs 37.40%.

iii. BOKL has the highest ratio is 0.1813 in F/Y 2015/16 and the lowest ratio is 0.1019 in F/Y 2013/14 . On the basis of mean ratio, BOKL has 0.1341 and the coefficient of variation is 20%. KBL has highest ratio is 0.2204 in F/Y 2016/17 and lowest in 0.0667 in F/Y 2012/13. The mean ratio of BOKL is greater than KBL i.e. 13.41% > 12.10% and variability is lesser than KBL..

iv. Investment on government securities to current assets ratio has been fluctuating in allthe banks during the study period. BOKL has lowest ratio 0.1008 in F/Y 2014/15 and the highest ratio is 0.2071 in F/Y 2012/13. The mean ratio of investment on government securities to current assets of BOKL is 0.1511 where as KBL has highest ratio is 0.1506 in F/Y 2015/16 and lowest is 0.0643 in F/Y 2014/15. The mean ratio of KBL is 0.1112 and BOKL has higher variability.

v. This ratio is calculated dividing loan and advances by total deposits. The following table shows the loan and advances to total deposit ratio of BOKL, KBL and HBL .

vi. BOKL has the highest loans and advances to total deposit ratio of 0.810 in F/Y 2014/15 and the lowest of 0.661 in F/Y 2008/09. The KBL has highest ratio is 0.929 in F/Y 2014/15 and lowest ratio is 0.846 in F/Y 2012/13. Comparing allthe banks, KBL has higher loans and advances to total deposit ratio and has higher variability than BOKL.

vii. All the banks have decreasing total investment to total deposit ratio. BOKL has highest ratio 0.241 in F/Y 2012/13 and the lowest ratio is 0.134 in F/Y 2016/17. Similarly, KBL has highest ratio 0.167 in F/Y 2013/14 and lowest 0.096 in F/Y 2014/15. On the basis of mean ratio, BOKL has 0.180 which is higher than that of KBL and the coefficient of variation 21.19% but in case of KBL it is 20.70%. Thus the bank could not make great effort to mobilize its deposit on total investment. Comparing all the banks, BOKL has better capacity to mobilize its deposit on total investment.

viii. BOKL has the highest loans and advances to total assets ratio of 0.7251 in F/Y 2016/17 and the lowest ratio is 0.6451 in F/Y 2012/13. Whereas KBL has highest ratio of 0.7872 in F/Y 2014/15 and lowest is 0.6863 in F/Y 2015/16. When observing the mean ratio, it is 0.6962 and 0.7366 for BOKL, KBL and HBL respectively. From the table it also reveals that the ratios are increasing. Thus the banks are in strong position to mobilize its totals assets fund as loan and advances.

ix. Concerning the investment on government securities to total assets ratio during the study period, BOKL has the highest ratio of 0.16 in F/Y 2012/13 and lowest ratio of 0.085 in 2014/15. Whereas KBL has highest ratio of 0.127 in F/Y 2015/16 and lowest ratio is 0.058 in F/Y 2014/15. The mean ratio of BOKL KBL and HBL are 0.123, 0.0955 and 0.196 respectively. Thus the variability seems to be higher in all banks.

x. The ratio is also decreasing during the study period which seems the banks are weak to mobilize its total assets as investment in government securities. Comparatively, BOKL is more successful to mobilize its total assets as investment in government securities.

xi. It is found that all the banks have invested nominal amount of total assets into shares and debentures of other companies. These banks also have fluctuating trend of investment on share and debenture to total assets ratio. The highest ratio of BOKL is 0.0062 in F/Y 2013/14 and the lowest ratio is 0.00064 in F/Y 2016/17 whereas KBL has highest ratio is 0.001198 in F/Y 2013/14 and lowest ratio is 0.000025 in F/Y 2012/13.

xii. BOKL has the highest ratio of 0.031 in F/Y 2014/15 whereas the lowest ratio is 0.0090 in F/Y 2016/17. The mean ratio is 0.0249 and coefficient of variation is 32.47%. Whereas KBL has highest ratio is 0.019 in F/Y 2012/13 and the lowest ratio is 0.015 in 2015/16. The mean ratio is 0.0166 and coefficient of variation is 9.65%. It is observed that the banks have not higher return on its loan and advances. Also it is observed that return of BOKL is consistent in comparison to KBL which is not good sign for a Bank. In the other hand KBL has consistent growth of return on Loan and Advances. So that it can be said that the bank's profit earning capacity by utilizing available source is very weak.

xiii. Return on total assets during the study period has slightly fluctuating in all the banks. BOKL has maintained higher ratio as 0.0225 in F/Y 2014/15 and the lowest ratio is 0.0065 in F/Y 2016/17 and the average ratio of return on assets is 0.0172. The coefficient of variation is 32.71%. Similarly, KBL has highest ratio 0.0142 in F/Y 2012/13 and lowest ratio is 0.0103 in F/Y 2015/168. The mean ratio is 0.0122 and the coefficient of variation is 13.23%. It is also observed that BOKL is in increasing order where as KBL has decreasing order. The analysis shows that all the banks have not been able to get higher return on total assets but have increasing trend.

xiv. It is found that the bank's interest earning ratio with respect to total assets has fluctuating trend. HBL has of 0.68 in F/Y 2014/15 and lowest 0.64 in 2015/16. BOKL has highest ratio of 0.0752 in F/Y 2015/16 and the lowest ratio is 0.0562 in F/Y 2012/13. The mean ratio is 0.0644 and coefficient of variation is 10.51% whereas KBL has highest ratio of 0.0873 in F/Y 2015/16 and lowest of 0.0636 in F/Y 2013/14 . The mean ratio is 0.0738 and coefficient of variation is 11.40%. It can be said that the interest earning capacity has almost maintained its consistency.

xv. As concerned to interest earned to operating income ratio during the study period, BOKL has the highest ratio is 1.57 in F/Y 2016/17 and the lowest ratio is 1.199 in F/Y 2013/14 and the average ratio is 1.340 whereas KBL has highest ratio of 2.066 in F/Y 2016/17 and that of the lowest is 1.687 in F/Y 2012/13. Analyzing the data, it is observed that the ratio is gradually increasing on each fiscal year. Even the bank has to give more concentration for the activities to earn higher amount of profit.

xvi. The analysis of total interest paid to total assets ratio of the banks during the study period revealed that BOKL has maintained higher ratio of 0.0375 in F/Y 2015/16 and that of KBL is 0.0527 in F/Y 2015/16. The lowest ratio of allthe banks is 0.0233 and 0.0331 in F/Y 2012/13 and F/Y 2013/14 of BOKL, KBL and HBL respectively. The average interest paid to total assets ratio for BOKL, KBL and HBL are 0.0295 and 0.0428 respectively. So it can be said that the banks are in better position from the payment of interest point of view. It seems that it had not collected total assets funds from more expensive sources.

xvii. Liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as bank's liquidity sources and deposit, as the liquidity needs. The ratio of a cash and bank balance to total deposit is the indicator of bank liquidity needed.

xviii. The analysis of liquidity risk reveals that KBL has fluctuating liquidity risk. It is due to the variation in the cash and bank balance and total deposits. HBL has highest liquidity 0.9069 in 2014/15 and lowest in 0.4648 fiscal year 2016/17. BOKL has highest liquidity risk of 0.1548 in F/Y 2015/16 and the lowest ratio is 0.0721 in F/Y 2013/14 . KBL has highest ratio 0.1775 in 2016/17 and lowest 0.0635 in 2012/13. The average ratio of liquidity risk is 0.11 in all banks.

xix. BOKL has recorded its highest credit risk ratio of 0.725 in 2016/17 and lowest ratio as 0.645 in 2012/13 and mean ratio as 0.696 and coefficient of variation 3.96%. On the other hand, KBL has recorded its highest ratio as 0.787 in 2014/15 and lowest ratio as 0.686 in 2015/16 and mean ratio as 0.736 and co-efficient of variation 4.88%.

xx. It seems KBL has higher credit risk ratio than that of BOKL and BOKL has less variability. Credit risk ratio should be low for better performance of bank.

xxi. BOKL has maintained higher percentage of 96.4% in F/Y 2016/17 and the average value is 79.9% whereas KBL has 86.8% of its investment on government securities in F/Y 2015/16. Lowest percentage of investment on government securities of BOKL is 63.7% in F/Y 2013/14 and that of KBL is 68.7% in F/Y 2013/14 . So it can be said that the fund mobilization on government securities is in good position.

xxii. From the analysis it is found that investment on share and debenture is fluctuating in all the banks but the issue is more serious in case of KBL. The average ratio of investment on share and debentures of BOKL, KBL and HBL are 2.42% and 0.6% respectively. According to the NRB directives, the investment on share and debentures should be not more than 20%. It seems that the banks have invested in share and debentures within the limit.

xxiii. It is found that the average growth ratio of deposit of BOKL KBL and HBL are 29.59% and 28.52%. It shows that average growth rates of deposit of all banks are not much different although BOKL is slightly higher than KBL.

xxiv. Average growth ratio of loan and advances of BOKL, KBL and HBL are 32.40% and 25.47% respectively. Growth rate of loan and advances of BOKL is found higher than KBL, although the growth rates show that all banks emphasized on business growth.

xxv. The study shows that average growth ratio of total investment of BOKL, KBL and HBL are 15.28% and 37.11% respectively. It also shows that growth rate of investment are not consistent in all banks. There is negative growth rate in the year of 2014/15 and 2016/17.

xxvi. Growth ratio of net profit of BOKL, KBL and HBL are 10.1234% and 20.2573% respectively. This shows net profit of KBL is more consistent than BOKL which is good sign for KBL shareholders.

xxvii. It can be said that the banks should emphasize on improving performance in terms of collecting deposit, growth of loan and advances, total investment and profitability. It needs to improve i.e. collect funds from cheaper way and invest on highly profitable sector to improve the figure of net profit.

xxviii. Some statistical tools such as correlation analysis between different variables, trend analysis are used to achieve the objective of the study.

xxix. The correlation coefficient between deposit and loans and advances for BOKL, KBL and HBL are 0.9972 and 0.9896. There is high degree of positive correlation between these two variables. The result r > 6*P.E. (r) shows that there is significant relationship between these two variables. It shows that deposits are properly mobilized in terms of loans and advances.

xxx. The correlation coefficient between deposit and total investment for BOKL, KBL and HBL are 0.6173 and 0.8463 respectively. There is positive correlation between these two variables.

# CHAPTER-V

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

The last chapter of this study is conclusions and recommendations developed from the completion of analysis part on the investment policy of sample banks. Conclusion and recommendation consists of two parts, the first one is conclusion which is drawn from the major findings of this study and the second one is recommendation to the sample banks to solve the problems found on the basis of analysis and conclusion.

## 5.1 Summary

This thesis conducted on "**Financial Performance of Commercial Banks: With Reference to BOK, HBL and KBL".** The main objectives of this study is Financial performance of three selected banks. The specific objectives is to examine the financial performance of the commercial banks and to analyze the liquidity and asset managing, profitability, growth and risk of concerned banks. This research is based on the secondary data. The secondary data have been collected from financial statement, annual report, unpublished official records of concerned companies, journals and from the official web site of NRB and individual sampled companies. Among 28 banks, 3 banks were selected for this study.

It is found that KBL has invested higher proportion of its total investment on loans and advances. The variability of KBL related to investment on share and debentures is much greater than that of BOKL. During the study period, it was found that the investment on share and debenture to total assets fund ratio of the bank is not homogenous. In terms of total interest earned to operating income ratio KBL has greater average ratio than BOKL and all the banks have almost same variability. Which shows KBL consists of higher interest earning in its operating income. In terms of total interest paid to total assets ratio KBL has greater average ratio than BOKL with almost same variability. It shows KBL has higher interest expenses but the ratio is lower in allthe banks. Thus from the assets management viewpoint, the profitability procession of these banks is not in better position.

## 5.2 Conclusion

Thus, Commercial Banks should be very much careful while investing its funds. An investment should ensure maximum profit and minimum risk. Banks are more concentrating on advances as compare to investment out of their total deposits. With this, there is also a downfall in income of banks, because return on investment is lesser as compare to interest income. For this NRB may limit some portion of investment as mandatory in foreign securities. Thus, Portfolio of investments may be upgraded to earn maximum returns on investments. Suggestion is the output of the whole study. It helps to take corrective action in their activities in future. Different analysis was done to arrive in this step. On the basis of above analysis and findings of the study, following suggestions can be forwarded to overcome weakness, inefficiency and satisfactory improvement of the present fund mobilization and investment policy of BOKL, KBL and HBL .

## 5.3 Recommendations

**i.** The amount needed to open an account should be minimized so that it will attract other small depositors and entrepreneurs for promoting and mobilizing their small investment.

ii. It is very important to know that the increase in large amount on assets as cash and bank balance is not considered good from the profitable point of view of the bank as it doesn’t earn any return. So BOKL, KBL and HBL are strongly recommended to give more importance to invest more funds in government securities.

iii. It is recommended to increase the ratio, with investing its funds in shares and debentures of different types of other companies in different areas.

iv. The bank is recommended to thoroughly follow the directives issued by NRB and invest in priority and deprive sector and also to invest on other small-scale industries like, public utilities, health, sanitation and drinking water, education and agricultural etc.

v. Portfolio conditions of BOKL, KBL and HBL should be examined time to time and alternation should be made to maintained equilibrium in the portfolio condition as far as possible. So it can be said that all eggs should not be kept in the same basket. The bank should make continuous yielding investment portfolio.

vi. Therefore, it is recommended to BOKL, KBL and HBL to follow liberal lending policy when sensations loan and advances with sufficient guaranty and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower, continual follow up and as well as legal; procedure if required

vii. Policy making is very challenging job for the management of the banks. As per my view formulation policy should follow the under stated mechanism, which will enhance the effectiveness and success of the policy.

viii. The study shows that the trend of investment of BOKL, KBL and HBL is decreasing level. So it is recommended to keep wide vision in investment while they utilizing their recourse and invest in different areas.

ix. Attentions of customers through new technologies like, banking internet service, increase investment through their wide international banking network should be introduced. For this purpose the bank should develop an innovative approach of bank marketing.

x. Commercial banks should expand its hands all over rural and urban area of the country, not only in capital. Government of Nepal has also encouraged the commercial banks to expand banking service in rural areas and communities without making unfavorable impact in their profit.

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