

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least developed countries with poorest economic condition of the world. It is placed among the lowest per capita income countries. The economic development of the country, which is reflected by the annual GDP growth rate in recent year, is around 5 % and it has a fluctuating trend. It's population growth rate as high as 2% has affected its economy largely.

The economic growth of underdeveloped country widely depends upon the utilization of available economic and financial resources. The rapid pace of economic development and self economic reliance are the most in today's world, these can only be achieved through the accelerated rate of investment and capital formation in the country. The role of commercial banks in the economy is obviously prime requisite in the formulation of bank's policy. A key factor in the development of the country is the mobilization of domestic resources and their investment in various productive sectors. To make it more effective, commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The banking sector has to play developmental role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development.

Investment policy is an important ingredient of overall national economic development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regards, joint venture bank's investment policy drives to achieve priority of commercial sector in the context of Nepal's economic development. The general principle is that the investment can be retired when cash is needed. Investment decision now is the most crucial decision as the future level of wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there

is adequate saving. Therefore, both saving and investment are interrelated. Investment decision is very tough one for any business. For this, they have to pay a lot of consideration before taking any action. A healthy development of any bank depends heavily upon its investment policy. A good investment policy attracts borrows and lenders, which helps to increase the volume and quality of deposit, loan and investment. Several principal have to be followed for providing loan in a commercial bank such as length of time, purpose of loan, profit margin, security etc. These fundamental principal of commercial bank's investment are fully considered while making investment policy. Every financial institution should take full care while preparing investment functions. Investment policy should insure minimum risk & maximum profit. 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.

Every commercial bank should consider government & central bank i.e. Nepal Rastra Bank instructions & their interest as well before preparing the investment policies. Nepalese commercial banks however lag far behind in consideration of good investment opportunities. They are more insecure & don't want to take risk by investing in crucial sectors. But formulation of good investment policy may boost their interest of different investment opportunities that may lead for the enrichment of the national economy.

Investors invest their income for future use or to satisfy the individual investor's expectations. In the market, there are three types of investment alternatives, preferred by investors. First those who want to take risk or risk taker, second those who doesn't want to take risk and the third one, who only invest for small return. In the context of Nepal, we can mostly find the third type of investors. Investing is one of the very sensitive parts for investors. Only an individual saving is not enough, because this saving means fixed deposits, which will only be single utilization. As we know drop of aces full of pot, small amount of saving makes large amount of investment. We should be very careful while making investment, because there is always risk and return characteristics behind

investment policy. Without return, investment becomes ineffective. Investment can help various sectors of the nation like society, business, organization, and infrastructure and so on.

Investing is being used for describing all kinds of activities in financial world. People have many motives for investing. Some people invest in order to gain sense of power or prestige while others invest for monetary advantage. In the former motive, often the control of corporate empires is a driving motivate. According to William N.Geotzmann, “People are willing to invest to make something happen that might not ,otherwise people could invest to built a museum to finance low income housing or to reclaim urban neighborhoods which has not an economic value”. For most investors however, their interest in investments is largely pecuniary to earn a return on their money.

Bank is one of the financial institutions, which regularly involves in finance. Simply, bank collects savings from individuals, and invests in different sectors. Nepal has a central Bank, which coordinates industrial banks, commercial banks & other financial institutions, which directly or indirectly involved in investment. All the financial institutions have their own investment policy as their convenient. It is better to know the history of origin and development of commercial bank in the world and development of financial sector, especially commercial banking in Nepal

1.2 Origin and Development of Bank

The earliest evidence of banking is found in Mesopotamia between 3000 & 2000 B.C. when temples were used to store gain and other valuables used in trade. Babylon is credited with the birth of banking and finance at the level of sophistication that rival our own, with the expectation of the timing advantages that modern communication has allowed.

The word ‘bank’ is derived from the Italian word ‘banco’ meaning the portable benches or counters over which the moneychanger comes from. A bank is an institution, which deals with money and credit. Broadly speaking, banks draw surplus money from the people who are not using it at the time, and lend to those who are in a position to use it for productive purposes. Thus, the bank accepts deposits from the

public, makes the funds available to those who need them and helps in the remittance of money from one place to another. In general, a bank is an institution with the following features.

- It deals with money, it accepts deposits and advances loan.
- It also deals with credit; it has the ability to create.
- It is a commercial institution, it aims at earning profit

The origin of commercial banking can be traced back to the early times of human history. In the ancient Rome and Greece, the practice of storing precious metals and coins at safe places and loaning out money for public and private purposes on interest was prevalent. In England, banking had its origin with the London goldsmiths who in the 17th century began to accept deposits from merchant and others for safekeeping of the money and other valuables. As public enterprise, banking made its first appearance in Italy in 1157 AD when the bank of Venice was founded. The modern banking has three ancestors who are the merchant, the goldsmith, and the moneylender. The merchant banker from the earlier stage in the evolution of modern banking. Merchant is those days required remittance of money from one place to another while trading which is an importance function of a bank. This gave rise the institution of 'hundi' or the letter of transfer which this days are done through drafts, cheques, traveler's cheque etc. to remit money to different place.

In England, the goldsmiths were the original representatives of private bank. They charge for safekeeping the money consisting of gold and silver. The bank of England was established in 1694 AD. The next stage in the development of banking arises when the goldsmith becomes a moneylender. The goldsmith realizes that only contingency reserve was required for the period when withdrawals exceeded deposits. Thus, goldsmith became a banker and started performing the two major functions of a bank. Napoleon founded the Bank of France in 1800 AD. The 19th century comes with the vast scope of development of commercial banking. It with ended not only the phenomenal development of modern problems enabling banks to turn their attention away from old money changing business to many new important jobs that comes in the wake of industrial progress. The 20th century observed the development of various banking

institutions highly specialized and sophisticated particularly in advanced countries like USA, UK, and others. Today, various international organization like MF, IBRD (now popularly known as the World Bank), ADB etc have been developed which are influencing the whole business of the modern world.

Commercial banking in India began in 1770 AD with establishment of the first joint stock bank, named the Bank of Hindustan by an English Agency in Calcutta, lots of developments in the banking sector have occurred after the independence

Nepal being a developing country is trying to embark upon the path of economic development by economic growth rate and developing all sectors of economy. Even though, the process of economic development depends upon various factors however economists are now convinced that capital formation and its proper utilization plays a paramount role. The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formation has been the principal variable in setting the overall pace of economic development.

The network of well organized financial system of the country has great bearing in these regards. It collects scattered financial resources from the masses and invests them among those engaged in commercial and economic activities of the country. In this way, the financial institutions provide savers highly liquid divisible assets at a lower risk while the investors receive a large pool of resources. Integrated and speedy development of the country is possible only when competitive financial service reaches nook and corner of the country. It has been well established that the economic activities of any country can hardly be carried forward without the existence and support of financial institutions. Financial institution have catalytic role in the process of the economic development.

Banking plays significant role in the development of nation. Economic bank is a financial institution which primary classes in borrowing and lending. Modern bank prefers varieties of functions. Therefore it is difficult to decide the function of a modern bank because of their complexity and versatility in operation. Various authors have defined the word 'Bank' in different ways. A commercial bank is declared in

money and its substitutes for money such as cheques or a bill of exchanges, it also provides a variety of financial services. Commercial bank mainly concern with reform of banks, maximum utilization of resources and increase in noncash reserve transaction to reduce the spread between interest rates on deposits and credit. They deploy of funds raised from different into different assets with a primary objective of profit generation sources

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 both in 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. Economic growth can be compared with the construction of good house which can only be erected on a solid foundation however it is not sufficient, they must further initiate and activate the necessary resources needed to be acquired to complete the buildings. Bankers therefore have a key responsibility in the building task for economic growth. Policy is an important ingredient of overall national economic development because it ensure efficient also allocation of fund to achieve the material and economic well being of the society as a whole. In this regard, joint venture bank investment policy push drives to achieve priority of commercial sector in the context of Nepal's economic development. Investment alternatives generally fall into two categories; real assets and financial assets. Real assets are tangible while financial assets involve contracts written on pieces of papers such as common stocks, bonds, and debenture. Financial assets are bought and sold in organized security markets.

The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there is adequate savings. If all the income and savings are consumed to solve the problem hand to mouth and to the other basic needs then there is no existence of investment. Therefore both saving and investment are interrelated. A distinction is often made between investment and savings. Saving is defined, as foregone consumption investment is restricted to real investment of the sort that increases national output in the future.

Commercial banks, as financial institution, perform a number of internal functions. Among them, providing credit is considered as most important one. Credit being the most important function of commercial banks, affects overall development of the country. In consideration of economic development, it is directly related to the quality and quantity of the credit, which is carried out from different financial institutions, especially commercial banks. American Institute of Banking has laid down the four major functions of the commercial banks as receiving and handling deposits, handling payments for its clients. Making loans and investments and creating money by extension of credit.

Nepal Commercial Bank Act 2031 B.S. has defined commercial bank as stated earlier and it has also emphasized on their functions. Major of them are as follows:

- They accept custody of funds with or without interest and open fixed accounts, current accounts and saving accounts in the name of depositors.
- They supply loan; short term as well as long term debts whatever necessary for trade and commerce or make investment.
- They help to issue shares and debentures of any company or any other corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent. .
- They issue letter of credit, drafts, and traveler's checks.
- They remit or transmit fund to different place within or outside the Kingdom.
- They purchase, sell, or accept the securities of Government.

Nepal Rastra Bank (NRB), the central bank of Nepal, was established in 1956 to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial sector Since then, there has been a huge growth in both the number and the activities of the domestic financial institutions. To reflect this dynamic environment, the functions and objectives of the bank have been recast by the new NRB Act of 2005, the preamble of which lays down the primary functions of the bank as:

- To formulate necessary monetary and foreign exchange policies to maintain the stability in price and consolidate the balance of payments for sustainable development of the economy of Nepal.
- To develop a secure, healthy and efficient system of payments to make appropriate supervision of the banking and financial system in order to maintain its stability and foster its healthy development, and to further enhance the public confidence in Nepal's entire banking and financial system.

The bank is eminently aware for the achievement of the above objectives in the present dynamic environment, sustained progress and continued reform of the financial sector is of utmost importance. Continuous aware of this great responsibility, NRB is seriously pursuing various policies, strategies and actions, all of which are conveyed in the annual report on monetary policy which provides a comprehensive review and evaluation of the previous monetary policy and justification and the analysis of the following year's monetary policy. The reengineering of the NRB itself is one of the critical components of the reform agenda. To improve the financial sector legislative some new acts have already come out and there have been amendments to some existing Acts. Enactments of the draft, legislation on bank and financial institutions, secured transactions, insolvency. Management Company framework, and anti money laundering are expected to be soon materialized, all with the goal of strengthening the financial sector through building on its healthy development and improved stability. These activities convey the commitment of the NRB for addressing the present and future challenges of the financial system, especially with its increasing openness and competitive process in the context of growing global financial environment should ensure sustained progress and stability of the financial system under NRB's guidance and leadership.

Every commercial bank should consider Government and central banks i.e., Nepal Astra Bank's instructions and their own interest as well before preparing the investment policies. Nepalese commercial bank however lags behind in consideration of good investment opportunities. They are more insecure and do not want to take risk by investing in crucial sectors. However, formulation of good investment policy may boost

interest on different investment opportunities that may lead for the enlistment of the economy. The main function of the commercial bank is to accumulate the temporality idle money of general public for trade and commerce. Its main function are accepts deposits and grants and loan, exchange, purchase discount bill for promissory notes, exchange foreign currency, agency functions, overseas trading function, information and other services. Commercial bank earns profit by proper mobilization of their sources. Many commercial banks have been established to provide a suitable service, according to the customers. The list of licensed commercial banks is as follows:

Table: 1.1 Lists of Commercial Banks

1. Nepal SBI Bank Limited
2. Nepal Bangladesh Bank Limited
3. Everest Bank Limited
4. NIC Bank Limited
5. Machhapurchchre Bank Limited
6. Bank of Kathmandu Limited
7. Himalayan Bank Limited
8. Laxmi Bank Limited
9. Nepal Investment Bank Limited
10. Kumari Bank Limited
11. Nepal Credit and Commerce Bank Limited
12. Agricultural Development Bank
13. Rastriya Banijaya Bank
14. Lumbini Bank Limited
15. Siddhartha Bank Limited
16. Global Bank Limited
17. Bank of Asia Nepal Limited
18. Standard Chartered Bank Limited
19. NABIL Bank Limited
20. Grand Bank Limited
21. KIST Bank Limited
22. Nepal SBI Bank Limited

23. Prime Commercial Bank Limited
24. Sunrise Bank Limited
25. Citizens International Bank Limited
26. NMB Bank Limited
27. Century Bank Limited
28. Trust and Commerze Bank Limited
29. Civil Bank Limited
30. Janata Bank Limited
31. Mega Bank Limited
32. Sanima Commercial Bank Limited

Source: NRB

1.3 Introduction of Sample Organizations

1.3.1 Introduction of Bank of Kathmandu Limited

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

- Identify business prospects not yet catered by the existing commercial banks and offer new banking products and services.
- Introduce modern banking technology, facilitating bank and business operations and transactions.

Bank of Kathmandu's activities globe around deposit mobilization, advancement of various credits, international banking including trade financing, inwards and outwards remittances, funds and portfolio management. Bank of Kathmandu is committed to providing products and services of the higher standards. Bank of Kathmandu has state of art technology for appropriate and efficient management information system (M.I.S.)

and rendering quality services, VSAT radio modem for networking, SWIFT for international trade and transfer of funds around the world correspondent banking relationships with over 200 banks worldwide for effective and proficient execution of international trade and remittance activities, gamut of corporate and retail banking products and services and centralized banking operations for better risk management, consistent service deliveries lowering operating cost.

In spite of a number of programmed undertaken by Nepal Government for financial reforms in the country, BOKL has entered into a paperless environment and has implemented various software which help in processing documents without the movement of paper and accelerates the decision making process.

1.3.2 Introduction of 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. 1078.272 million, of which 70% is contributed from promoters and remaining from public. Kumari Bank Ltd has been providing wide range of modern banking services through 16 points of representations located in various urban and semi urban part of the country, 11 outside and 5 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E- Banking and SMS banking services in Nepal. The bank 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 data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly, the bank has been providing 365days 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 18own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has added convenience to the customer.

The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission. The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

1.4. Statement of the Problems

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. Now a days, 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 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 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 do not have clear view towards their own investment policy. Further more, 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 investment policy of BOKL and KBL. Some of the research questions relating to investment function of the commercial bank of Nepal have been presented briefly as under.

- Is it maintaining sufficient liquidity position?
- Is fund mobilization & investment policy of the bank effective & efficient?
- What is the relationship of investments & loans & advances with total deposits and total net profits?
- Does the degree of success in investment strategy be successful to utilize its available fund of BOKL and KBL?

1.5 Objectives of the Study

Based on the problem identified, the following objectives have been set for the objective. Investment decision is one of the major decision functions of financial management. The main objective of the study is to assess the investment policy and strategies followed by the bank. The specific objectives are as follows

- To study and examine the fund mobilization and investment practice of the concerned banks.
- To analyze the liquidity, asset managing, profitability, growth and risk of concerned banks
- To the relationship between deposit and loan and advance, deposit and total investment, outside assets and net profit and trend analysis of above variables.

1.6 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 banks.

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. that directly or indirectly influences the economy of the country. Therefore, it is very important to study the investment policy of the Banks.

1.7 Limitations of the Study

The research has some limitations, which weaken the heart of study. Basically, the study is done for the partial fulfillment for Masters of Business Studies. In adequate 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:

- There are many factors that affect investment decision and valuation of the firm. However, this study will concentrate only on the factors that are related with investment.

- Mostly secondary data analyzed and only a period of 5 years trend is considered i.e. from 2006/07 to 2010/11 hence the conclusion drawn confines only to the above period
- The truth of research result is based upon the available data from the bank.
- Two banks are taken to study of the investment policy.

1.8 Organization of the Study

The study 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 maple, data analysis tool 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 planed as followings.

- Conceptual Framework
- Review of Journals and Articles
- Review of Thesis

2.1 Conceptual Framework

It may be said that a bank must strike balance between liquidity, profitability and safety. “The secret of successful banking is to distribute resumes between liquidity and profitability so that there is cash (on hand modifiable) to meet every claim and at the same time, enough income for the bank to pay its way and earn profits for its shareholders.” (Commercial Bank Act; 2058:26)

“The business in banking is one of the collecting funds from the community and extending credit making loans, to people for useful purpose. Banks have played a pivotal role in moving money role the lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit seeker it is expected to pay dividends and otherwise add to wealth of its shareholders” (Commercial Bank Act; 2058: 28)

“A bank is a business organization that receives and holds deposits of funds from other make loans or extends credits and transfer fund by written order and depositors “(joshi 2007:201)

Principally commercial banks accept deposits and provide loan, primary to business firms, there by facilitating the transfer of funds in the economy” (Van Horne; 2007: 201)
“Commercial bank is a financial institution which accepts demand deposits subject

to cheque and makes short term loans to business enterprises, regardless of the scope of its other services.” (Commercial Bank Act; 2058: 30)

“Commercial banks are required to lend 12% of their loan portfolio to the sector out of which a ratio of 2.5 to 3% should be diverted to the deprived sector. The commercial banks are being penalized for short fall on priority and deprived sectors lending requirement by their maximum lending interest rate.” (<http://www.nrb.org.np/directives>)

“Default risk arises firms may eventually go bankrupt. Some default risk is undiversifiable because it is systematically related to the business cycle, which affects almost all investments. However, some default risk may be diversified away in a portfolio of independent investment.” Chandler says in this regard, “A bankers seeks optimum combination of earning liquidity and safety, while formulating investment policy.” (Anthoni Saunders; 2007: 201)

Commercial Bank Act, 2031 has defined commercial bank in following way, “Commercial Bank means a bank which operates currency exchange transactions, accepts deposits, provide loans and performs dealing relating to commerce, and other than those books which have been specified for the co-operative, agriculture, industry of likely any other specific objective.” (Commercial Bank Act; 2031: 31)

The commercial banks are established under the commercial bank act 2031 in Nepal that has been amended regularly. It has been amended for six times until today. Now commercial bank act, 2049 is active. Banks play vital role in economic growth of a country. Banking, when properly organized, aids and facilitate the growth of trade and industry and hence of national economy. In the modern economy, banks are to be considered not as dealers of money but as the leader of development. Banks are not just the share houses of the country’s wealth but are the reservoirs of resources necessary for economic development.

“A banker is one who in the ordinary course of business honors cheque drawn up on him by persons from and for whom it receives money on current account.” (Herbert; 2004: 521)

“Commercial banks deal with other people’s money. They have to find ways of keeping their assets liquid so that they could meet the demands of their customers. In this anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must be made to understand that the bank is fully solvent. The depositor’s confidence could be secured only if the bank is able to meet the demand for cash properly and fully. The banker cannot afford to keep a large possession of his assets in the form of cash. Cash brings in no incomes to the bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity.” (Joshi; 2008: 24)

Commercial bank act, 2031 BS of Nepal has defined that a commercial bank is one which exchanges money, accept deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative agriculture, industries or for such specific purpose of commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum expose to risk, which ultimately leads the bank to the path of success

2.1.1. Characteristics of Good Investment Policy:

The characteristics of good investment policy help to measure the efficiency. These are as follows:

- Liquidity
- Safety and Security
- Profitability
- Suitability
- Diversification

Liquidity

Liquidity refers to the capacity of the bank to pay cash against deposits. Having confidence that the bank will repay their money whenever it is needed, people deposit money at the bank in different accounts. In order to maintain the confidence to the depositors, bank must be prepared with sufficient degree of liquidity of its assets. Once the confidence is lost in view of depositors, they may withdraw all their deposits within a brief period without giving any chance to the bank to manage. So, to maintain the confidence of depositors, the bank must keep this point while investing its excess fund in different securities or at time of investment as it can meet the readily demands of cash made by customers.

Safety and Security

While investing its funds, the bank must recognize those people who are speculative businessman, who may be bankrupt at once and who may earn million in a minute also. The bank must not finance its fund to those people at all. Only commercial, durable, marketable and high market valued securities should be accepted. The bank should never investment its fund in those securities that are too volatile since a little difference may cause the great loss.

Profitability

Bank should invest their fund where they earn maximum profit. Banks built up their capital accepting deposits from depositors and issuing share and debenture. The shareholders and debenture holders are liable to get dividend and interest. The profit of banks mainly depends on the interest rate, volume of loans, time period and nature of investment in different securities.

Suitability

Bank should know that why a customer needs loan or it is for appropriate purpose or not. If the borrower misuse the loan granted by bank, he will never be able to repay the loan, which possess heavy bad debts to bank. In order to avoid such situation, advances should be allowed to the selected and suitable borrowers and all the necessary information about the scheme of the project or activities should be demanded and it should be examined before investing. Therefore, suitability is the important factor for investment.

Diversification

Diversification of loan helps to sustain loss to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. This can minimize the loss. In order to minimize risk a bank must diversify its investment on different sectors.

2.2 N.R.B. Directives Based on Investment Policy

According to the N.R.B. directives following directions are notable for the source of financial investment of the permitted organization (permission granted by Nepal Rastra Bank).

- Application of Investment policy & Work process with only acceptance.
- Permitted organization should apply the investment policy & work process in the government securities, N.R.B. Securities, organizational shares and debentures with accepting through organizational committee.
- Investment Management in Government Securities and N.R.B. Securities.
- There is no prohibition to permitted organization to invest government securities and N.R.B. securities.
- Investment Management of Share and Debenture of Organization.
- Permitted organization should sale the shares to the public and should invest in shares and debentures of that organization which is listed in the share market. If the organization invests in shares and debentures of non listed organization in share market then these investments i.e. share and debenture should be listed within one year otherwise equal amount of investment should be collected in corporate fund. The amount in this fund should not be used until or unless the share and debenture is listed.
- While investing in shares and debentures of any organization by the permitted organization it should not be greater than 10% of own primary capital and shares and debentures of all organization should not greater than 30% of own primary capital in maximum. If the investment is greater than the limit then the more amount of investment will be deducted by the primary capital and rest become capital fund. But the financial company should invest up to 20% of its primary capital. The capital fund of financial company is the deduction of investment in shares and debentures by primary capital.
- Share and Debenture issue management.

2.3. Review of Related Studies

2.3.1. Review of Journals and Articles

In this section, effort has been made to examine and review some of the related articles in different journals.

Agriculture Projects Services Center, (2001), has submitted a report on “Ongoing Evaluation of Intensive Banking Program”. This study has widely covered the whole aspects of banking programs. There is wide network of commercial banks, they have now 346 branches at present and the huge amount of idle funds estimated as Rs.3116 million in 2000/01 with them. The investment of commercial banks in the priority sectors area seems justified. To generate incentive for commercial banks, it has necessary to raise the interest rate, which would sufficiently cover up the cost and generate some profit margin as well.

Subedi, (2004), in his article “Growth in Major Commercial Banks” has compared between the first six month of the fiscal year 2002/03 and 2003/04, which shows that there has been noticeable increase in credit outflow by the commercial banks except Nepal Bank Ltd. (NBL) and Rastriya Banijya Bank (RBB). There has been increase in credit deposit (CD) ratios of all commercial banks except of NBL and RBB in which has gone down by 10.41% and 5.99% respectively. It may be because of their concentration only on recovery of the huge Non Performing Assets (NPA). However Mr. Subedi pointed out that no matter whatever be the size of NPA and the circumstances, each bank has to collect the deposit in order to create lending and to invest in the new ventures. Except RBB, all banks have increment in deposit collection.

Bajracharya (2006), in his article, "Monetary Policy and Deposit Mobilization in has concluded that mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal and commercial banks and the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

2.3.2. Thesis Review

Many theses were reviewed in course of preparation of this thesis. Among them, some were relevant and some were not. Here, the researcher has tried to include only the relevant theses that are significant for this research. Every research thesis has a long list of its findings, summary, conclusion and recommendations. However, the researcher has tried to edit them for brevity.

Rai (2005), conducted a research on “An Investment Analysis of Rastriya Banijya Bank (In Comparison with Nepal Bank Limited)” with the main objectives:

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

The findings of the researcher are as follows:

- RBB has good deposit collection, enough loan and advances and small investment in government securities.
- The assets management ratio of RBB is not better than that of NBL.
- The profitability position of RBB is worse in comparison with NBL due to low return on working fund, loans and advances and outside assets.
- The fund collection and mobilization position of RBB is satisfactory in comparison to NBL while considering growing rate.
- In relation to fund flow analysis, the RBB has poor loans and advances issued.
- RBB has better positive relationship between net profit, return on loans and advances and return on investment but RBB has worse performance in income as commission and discount and exchange income.
- There is significant relationship between deposit and loan and advances but there is no significant relation between deposit and investment of both banks RBB and NBL. There is no relationship between outside assets and net profit.

Poudyal, (2006), conducted a study on “Investment in Priority Sector with Special Reference Nepal Bank Limited” has the following major objectives.

- To analyze the repayment position of the priority sectors.
- To find trends of priority sectors loan.
- To analyze how far Nepal Bank Ltd. is able to grant credit priority sectors.
- To examine the impact of loan on priority sectors.
- To analyze the impact of loan, probable cost of miss utilization of the loan by the borrowers.

The major findings of the study are as follows:

- The procedure of loan sanction is rather slow and clumsy.
- Bank was not able to fulfill the proposed target of corresponding loan to the priority sector.
- Banking procedures are so complicated that the laymen are unable to understand it completely.
- Loan repayment was more satisfactory from agriculture sector than the cottage industries & service sector.
- Loan repayment was mainly due to the misutilization of loan, other important courses are linked with high social expenses in marriage, ceremony, medical treatment etc.
- Loan in priority sector has increased the rural banking system in the rural area and bank branch expansion.
- The investment amount and percentage of priority sectors investment on total deposit have up growing trend.
- A sort of premier groups like local people, politicians and administrators etc. effect in local granting process.

Karki, (2007), conducted a study on “An Analysis of Deposit Mobilization of RBB, Lahan Branch, Siraha District, has following objectives:

- To analyze the effectiveness of deposit mobilization of RBB, Lahan branch.
- To analyze the deposit projection for next five years of RBB, Lahan branch.
- To find out the relationship between deposit, and loans & advances, total investment, net profit.
- To examine the loan loss provision of Rastrya Banijya Bank.

- To provide a package of possible guidelines to improve investment policy, it's problems and way to solve some problems and provide suggestions and recommendation on the basis of the study.

The major findings of the researcher are as follows:

- Interest rate has not influenced the deposit collection as well as lending sector of the banks. And due to the lengthy lending, the credit experience is unsatisfactory
- The procedure of loan granting is very slow and time consuming.
- The Bank has good deposit collection, enough loan and advances and small investment in securities.
- The profitability position of RBB is low due to low return on working fund, loans and advances and outside assets.
- The credit ratio has also increased by the nominal percentage. So, the deposit was not efficiently utilized.

Subedi, (2008), conducted a study on "A Comparative Study of Financial Performance between Himalayan Bank Ltd. and Everest Bank Ltd." of the period from 1996 to 2000 with the main objectives as:

- To compare investment policy of sample bank and discuss the fund mobilization of sample bank.
- The relationship between total investment, deposit, lone and advance, net profit and outside asset and to compare them.
- To analyze the deposit utilization and its projection for next five years of HBL and EBL.
- To evaluate comparatively the profitability and risk position, liquidity, asset management efficiency of HBL and EBL.
- To provide a package of possible guidelines to improve investment policy.

He outlined his major findings as follows:

The mean of total loans and advances to total saving deposits ratio of EBL is greater than that of HBL and the coefficient of variation between the ratios of HBL is less than EBL. It means at the variability of the ratios of HBL is more uniform than EBL. The analysis found that EBL is more employing its saving deposits in term of loans and advances than

that of HBL. So, loans and advances to total saving deposit ratio appear better in EBL than HBL.

The mean ratio of total investment to total deposits of EBL is significantly greater than that of HBL but the coefficient of variation between the ratios of HBL is less than EBL. It means that the variability of the ratios of HBL is more uniform than EBL. The analysis found that EBL is more employing its saving deposit in term of loan and advance than that of HBL. Therefore, loan and advances to total saving deposit ratio appear better in EBL than HBL more employing its saving deposit in term of loan and advance than that of HBL. Therefore, loan and advances to total saving deposit ratio appear better in EBL than HBL.

According to analysis, it is found that EBL is more successful in utilizing its resources on investment. However, he failed to give his overall conclusion regarding the superiority of the financial performance of these two banks during the period of his study.

Shahi, (2009), conducted a study on “Investment Policy of Commercial Banks in Nepal” with the main objectives:

- To evaluate the liquidity, assets management, efficiency and the profitability and risk position of Nepal Bank Ltd.
- To discuss fund mobilization & investment policy of Nepal Bank Ltd With respect to its fee based off balance sheet transaction and fund based on balance sheet transaction in comparison to joint venture bank.
- To find out the empirical relationship between various important variables i.e. deposits, loans and advances, investment, net profit etc and compare them with the joint venture banks.
- To analyze the deposit utilization and its projection for next five years of the Nepal Bank Ltd. and compare it with other joint venture banks.
- To provide a package of workable suggestions and possible guidelines to improve investments policy of Nepal Bank Ltd. and joint venture banks based on the findings of the analysis for the improvement of financial performance of Nepal Bank Ltd. in future.

The findings of the study are as follows:

- The liquidity position of NBL is comparatively better than that of joint venture banks. Highly fluctuating liquidity position shows that the bank has not formulated any stable policy. It can also be concluded that NBL has more portion of current assets as loan and advances but less portion or investment on government securities.
- The mean ratio of total investment to total deposit of NBL is lower than that of the joint venture banks. The mean ratio of total off balance sheet operation to loan and advance of NBL is found significantly lower than that of joint venture banks. So it is conclude that NBL is comparatively less successful in balance sheet as well as off balance sheet operations than that of the joint venture banks. It has not followed any definite policy with regard to the management of its assets.
- There is comparatively higher risk in NBL than that of the joint venture banks regarding various aspects of banking function.
- It has been found that there is significant relationship between deposits and loans and advances. There is negative relationship between deposits and investment in case of NBL and positive in case of the joint venture banks.

Shrestha, (2010), conducted a study on "Investment Practice of Joint Venture Banks in Nepal with Special Reference to Nepal Arab Bank Limited" with the following objectives as:

- To compare investment policy of concerned banks and discuss the fund mobilization of the sample bank.
- To find out empirical relationship between total investment, deposit and loans & advances and net profit and outside assets and compare them.
- To evaluate comparatively the profitability and risk position, liquidity, asset management efficiency of SCBNL and NABIL.
- To analyze the deposit utilization and its projection for next five years of SCBNNL and NABIL.
- To provide a package of possible guidelines to improve investment policy, it's problems and way to solve some problems and provide suggestions and Recommendation on the basis of the study.

The findings of the researcher are as follow:

- It can be concluded that both have good deposit collection. NABIL has the highest cash and bank balance to total deposit, cash and bank balance to current ratio. This makes the bank to be in good position to meet the daily cash requirement
- SCBNL has successfully maintained and managed its assets towards different income generation activities. SCBNL has made high portion of total working fund in investment on government on share and debentures of other companies.
- The profitability of SCBNL is comparatively lower than NABIL. It indicates that NABIL has maintained its high profit margin regarding profitability position and SCBNL does not have a better position in comparison. It must maintain high profit margin for the well being in future.
- There is comparatively lower risk in SCBNL than NABIL regarding various aspects of banking function.
- The SCBNL has not been more successful to increase in source of funds i.e. deposit and mobilization of loan and advances and total investment.

Joshi, (2011), conducted a study on “Comparative study of Investment Policy of Standard Chartered Bank Nepal Limited and Everest Bank Limited “and highlighted the main objectives as

- The Compare investment policy of concerned bank and discuss the fund mobilization of the simple bank.
- To evaluate comparatively the profitability and risk position, liquidity, asset
- To find out empirical relationship between total investment, deposit and loans & advances and net profit and outside assets and compare them
- To analyze the deposit utilization and its projection for next five year of SCBNL and EBL.
- To provide a package of possible guidelines to improve investment policy, it’s problems and way to solve some problems and provide suggestions and recommendation on the basis of the study.

The findings of the researcher are as follows:

- It can be concluded that both have good deposit collection. EBL has the highest cash and bank balance to total deposit, cash and bank balance to current ratio. This makes the bank to be in good position to meet the daily cash requirement.

- SCBNL has successfully maintained and managed its assets towards different income generation activities. SCBNL has made high portion of total working fund in investment on government on share and debentures of other companies.
- The profitability procession of SCBNL is comparatively better than EBL. It indicates that SCBNL has maintained its high profit margin regarding profitability position and EBL does not have a better position in comparison. It must maintain high profit margin for the well being in future. The finding shows EBL even though paying high interest to the customers for different activities.
- There is comparatively lower risk in SCBNL than EBL regarding various aspects of banking function.
- The SCBNL has not been more successful to increase in source of funds i.e. deposit and mobilization of loan and advances and total investment. It seems SCBNL has not made any effective strategy to win the confidence of shareholders, depositors and its all customers.

2.4 Research Gap

In this research, researcher has been fully involve for research work and which is one could be one of the most demanded and valuable in the financial sector of Nepal. The above-mentioned studies are surface focused on the investment pattern and its criteria having few years' data. Many changes have been taken places in and outside in the context of investment in this study for the banks (BOKL and KBL) in the research, profitability position, assets management condition and liquidity position as well as upcoming trend of investment pattern are shown clearly.

Nepal has followed the policy of liberalization, privatization and globalization. More investment sectors have also cover up in this research work. Therefore it is necessary to bring out a fresh 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 analysis/examine in this way of BOKL and KBL. Thus, to fill up the gap, this research has been conducted to Investment on government.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to solve the research problem systematically. 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 and KBL 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 and KBL.

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. For instance, with a single grain of rice a village housewife tests if all the rice in the pot has boiled or not. Similarly, from a cup of tea a tea taster determines the quality of the brand of tea.

At present, Nepalese financial system comprises of 32 commercial banks, 78 finance companies and 16 other non-governmental organization performing limited banking activities. It is not possible to study all of them regarding the research topic.

Therefore BOKL and KBL are the reputed and well established commercial banks having similar capital; taken as a sample bank for research study from population.

3.4 Nature and Sources of Data

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.

3.5 Data Collection Procedure

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, Central Library T.U., Shankar Dev 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.

- Financial Tools
- Statistical Tools

1) Financial Tools

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 as follows:

1. 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,

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

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:

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

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, and 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

$$\text{Cash and Bank balance to Current assets} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

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,

$$\text{Investment on Government securities to current assets ratio} \\ = \frac{\text{Investment on Government securities}}{\text{Current assets}}$$

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

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

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.

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

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.

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

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

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

V. Investment on share and debenture 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 and Share and Debentures to Total Assets

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

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.

$$\text{Return on Loan And Advances} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

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.

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

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.

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

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.

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

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.

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

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

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

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.

$$\text{Credit risk Ratio} = \frac{\text{Total loan and Advance}}{\text{Total Assets}}$$

E. Percentage Analysis of Investment

Percentage analysis of investment includes investment on government securities, 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.

$$\begin{aligned} &\text{Investment on Government Securities to Total Investment} \\ &= \frac{\text{Investment on Government Securities}}{\text{Total Investment}} \end{aligned}$$

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.

$$\begin{aligned} &\text{Investment on Share and Debenture to Total Investment} \\ &= \frac{\text{Investment on Share and Debenture}}{\text{Total Investment}} \end{aligned}$$

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.

- Growth Ratio of Total Deposits
- Growth Ratio of Total Investment
- Growth Ratio of Loan and Advances
- Growth Ratio of Net Profit

2) Statistical Tool

Some important statistical tools have been used, to present and analyze the data for achieving the objective of this study. Coefficient 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. Karl's Pearson's Coefficient of Correlation Analysis

This statistical tool has been used to analyze, identify and interpret the relationship between two or more variables. It interprets whether two or more variables are correlated positively or negatively. Statistical tool analyzes the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advances or investment on other companies. Karl Pearson's coefficient of correlation has been used to find out the relationship between the following variables:

- Co-efficient of correlation between deposit and loan and advances.
- Co-efficient of correlation between deposit and total investment.
- Co-efficient of correlation between outside assets and net profit.

Simply, Karl Pearson's correlation co-efficient (r) can be obtained as:

$$\text{Correlation coefficient (r)} = \frac{N\sum xy - (\sum x)(\sum y)}{\sqrt{N\sum x^2 - (\sum x)^2} \sqrt{N\sum y^2 - (\sum y)^2}}$$

n= number of observations in series X & Y

$\sum X$ = sum of observations in series X

$\sum Y$ = sum of observations in series Y

$\sum X^2$ = sum of squared observations in series X

$\sum Y^2$ = sum of squared observations in series Y

$\sum XY$ = sum of the product of observations in series X & Y

B. Trend Analysis

This type of statistical analysis interprets the trend of deposits, loan and advances, investments and net profit of BOKL from 2006/07 to 2010/11. The following trend Value analysis has been used in this study.

- Trend analysis of total deposits.
- Trend analysis of loan and advances.
- Trend analysis of total investment.
- Trend analysis of net profit

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

This is analytical chapter where the researcher has analyzed and evaluated major financial items, which mainly effect the investment management and fund mobilization of BOKL and KBL. 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
- Percentage analysis of investment
- Risk ratio
- 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.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

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

Table: 4.1
Current Ratio

Fiscal Year	BOKL	KBL
2006/07	0.784	0.923
2007/08	0.841	0.922
2008/09	0.873	0.954
2009/10	0.932	1.016
2010/11	0.930	0.978
Mean	0.872	0.959
Standard Deviation	0.056	0.0329
Coefficient of Variation (%)	6.42	3.43

Source: Appendix A/I

This ratio represents the relationship between cash and other current assets to its current obligation. The current ratio of BOKL is more in F/Y 2008/9 where as in F/Y 2006/07 lower. Similarly, KBL has greater ratio in 2008/9, which is greater than that of BOKL. The liquidity position of KBL is better than BOKL. The coefficient of variance for BOKL is 6.42% whereas KBL has only 3.43%. However, the optimal standard of current ratio should be 2:1 but 1:1 considers better for the banks.

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.

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

Table: 4.2

Cash and bank balance to total deposit ratio

Fiscal Year	BOKL	KBL
2006/07	0.083	0.05
2007/08	0.106	0.063
2008/09	0.091	0.073
2009/10	0.121	0.113
2010/11	0.089	0.156
Mean	0.098	0.091
Standard Deviation	0.014	0.0387
Coefficient of Variation (%)	14.05	42.41

Source: Appendix A/II

The ratio has fluctuating trend and BOKL has higher ratio 12.1% in F/Y 2008/9 and lower ratio 8.9% in F/Y 2010/11 where as KBL has higher ratio 15.6% in F/Y 2010/11 and lowest ratio 5% in F/Y 2006/07. The analysis shows that the cash and bank balance position of BOKL and KBL with respect to total deposit is better. The average ratio of BOKL is greater than KBL i.e. 0.098 vs. 0.091. The variability of KBL is more than BOKL.

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, both the 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.

$$\text{Cash and Bank balance to Current assets} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

The ratios are represented in the following table.

Table: 4.3

Cash and bank balance to current assets ratio

Fiscal Year	BOKL	KBL
2006/07	0.103	0.052
2007/08	0.117	0.067
2008/09	0.102	0.074
2009/10	0.126	0.106
2010/11	0.092	0.152
Mean	0.108	0.090
Standard Deviation	0.012	0.036
Coefficient of Variation (%)	11.13	39.53

Source: Appendix A / III

BOKL has the highest ratio is 12.60 in F/Y 2009/10 and the lowest ratio is 9.2 in F/Y 2010/11. On the basis of mean ratio, BOKL has 0.108 and the coefficient of variation is 11.13%. KBL has highest ratio is 15.2 in F/Y 2010/11 and lowest in 5.2 in

F/Y 2006/07. The mean ratio of BOKL is greater than KBL i.e. 10.8% vs. 9% and variability of BOKL 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.

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.

Investment on Government Securities to Current Assets ratio

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

The ratios are represented in the following table.

Table: 4.4

Investment on Government Securities to Current Assets ratio

Fiscal Year	BOKL	KBL
2006/07	0.300	0.148
2007/08	0.207	0.129
2008/09	0.150	0.116
2009/10	0.101	0.068
2010/11	0.150	0.096
Mean	0.182	0.111
Standard Deviation	0.068	0.027
Coefficient of Variation (%)	37.47	24.69

Source: Appendix A / IV

Investment on government securities to current assets ratio has been fluctuating in both the banks during the study period. BOKL has lowest ratio 0.101 in F/Y 2009/10 and the highest ratio is 0.30 in F/Y 2006/07. The mean ratio of investment on government securities to current assets of BOKL is 0.182 and the coefficient of variation is 37.47% where as KBL has highest ratio is 0.148 in F/Y 2006/07 and lowest is 0.068 in F/Y 2009/10. The mean ratio of KBL is 0.111 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 and KBL

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.

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

The following table shows the loan and advances to total deposit ratio of BOKL and KBL

Table: 4.5

Loan and Advance to Total Deposit ratio

Fiscal Year	BOKL	KBL
2006/07	0.661	0.887
2007/08	0.759	0.846
2008/09	0.787	0.887
2009/10	0.810	0.929
2010/11	0.820	0.845
Mean	0.767	0.879
Standard Deviation	0.055	0.028
Coefficient of Variation (%)	7.17	3.13

Source: Appendix B / I

BOKL has the highest loans and advances to total deposit ratio of 0.82 in F/Y 2010/11 and the lowest of 0.661 in F/Y 2006/07. The KBL has highest ratio is 0.929 in F/Y 2009/10 and lowest ratio is 0.845 in F/Y 2010/11. Comparing both the banks, KBL has higher loans and advances to total deposit ratio and has less 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.

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

The ratio is represented in the following table.

Table: 4.6

Total Investment to Total Deposit Ratio

Fiscal Year	BOKL	KBL
2006/07	0.291	0.179
2007/08	0.242	0.159
2008/09	0.202	0.167
2009/10	0.154	0.096
2010/11	0.161	0.131
Mean	0.210	0.146
Standard Deviation	0.051	0.030
Coefficient of Variation (%)	24.50	20.302

Source: Appendix B/II

Both the banks have fluctuating total investment to total deposit ratio. Higher ratio of BOKL has 0.291 in F/Y 2006/07 and the lowest ratio is 0.154 in F/Y 2009/10. Similarly, KBL has highest ratio 0.179 in F/Y 2006/07 and lowest in 0.096 in F/Y 2009/10. On the basis of mean ratio, BOKL has 0.210 which is higher than that of KBL(i.e.0.146) and the coefficient of variation 24.50% but in case of KBL it is 20.30%. Thus, the bank could not make great effort to mobilize its deposit on total investment. Comparing both the banks, BOKL has better capacity to mobilize its deposit on total investment with higher variability.

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).

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

Table: 4.7
Loan and Advance to Total Assets ratio

Fiscal Year	BOKL	KBL
2006/07	0.600	0.765
2007/08	0.645	0.749
2008/09	0.703	0.754
2009/10	0.715	0.787
2010/11	0.712	0.719
Mean	0.675	0.755
Standard Deviation	0.045	0.016
Coefficient of Variation (%)	6.72	2.078

Source: Appendix B/III

The highest loans and advances to total assets ratio of BOKL is 0.715 in F/Y 2009/10 and the lowest ratio is 0.600 in F/Y 2006/07. Whereas KBL has highest ratio of 0.787 in F/Y 2009/10 and lowest is 0.749 in F/Y 2007/08. When observing the mean ratio, it is 0.675 and 0.755 for BOKL and KBL respectively where as the coefficient of variation are 6.72% and 2.078%. From the table it also reveals that the ratios are fluctuating. Thus, the KBL is in strong position to mobilize its totals assets fund as loan and advances than BOKL.

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.

Investment on Government Securities to Total Working Fund

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

Table: 4.8

Investment on Government Securities to Total Assets

Fiscal Year	BOKL	KBL
2006/07	0.218	0.124
2007/08	0.160	0.109
2008/09	0.119	0.098
2009/10	0.085	0.058
2010/11	0.126	0.084
Mean	0.142	0.095
Standard Deviation	0.045	0.023
Coefficient of Variation (%)	31.70	24.21

Source: Appendix B/IV

Concerning the investment on government securities to total assets ratio during the study period, BOKL has the highest ratio of 0.218 in F/Y 2006/07 and lowest ratio of 0.085 in 2009/10. Whereas KBL has highest ratio of 0.124 in F/Y 2006/07 and lowest ratio is 0.058 in F/Y 2009/10. The mean ratio of BOKL and KBL are 0.142 and 0.095 respectively. Similarly, the coefficients of variation are 31.70% and 24.21% respectively. Thus, the variability seems to be higher in both the banks.

The ratio seems fluctuating 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 and KBL have fluctuating 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.

Investment on Share and Debenture to Total Assets

$$= \frac{\text{Investment on Share and Debenture}}{\text{Total Assets}}$$

Table: 4.9

Investment on share and debenture to Total Assets

Fiscal Year	BOKL	KBL
2006/07	0.009333	0.000033
2007/08	0.005971	0.000025
2008/09	0.006264	0.001198
2009/10	0.005855	0.000971
2010/11	0.00171	0.001023
Mean	0.00583	0.000650
Standard Deviation	0.00241	0.00052
Coefficient of Variation (%)	41.29	79.29

Source: Appendix B/V

It is found that both the banks have invested nominal amount of total assets into shares and debentures of other companies. These banks also has fluctuating trend of investment on share and debenture to total assets ratio. The highest ratio of BOKL is 0.0093 in F/Y 2006/07 and the lowest ratio is 0.00171 in F/Y 2010/11 whereas KBL has highest ratio is 0.001198 in F/Y 2008/09 and lowest ratio is 0.000025 in F/Y 2007/08.

On the basis of mean ratio, it is 0.00583 and 0.00065 and the coefficient of variation is 41.29% and 79.29%. Because of the higher C.V. the risk percentage is higher in both the banks but KBL 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 and KBL.

I. Return on Loan and Advance

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.

$$\text{Return on Loan and Advance} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

The following table shows that return on loan and advances of BOKL and KBL in the study period.

Table 4.10
Return on Loan and advance

Fiscal Year	BOKL	KBL
2006/07	0.024	0.015
2007/08	0.028	0.019
2008/09	0.029	0.015
2009/10	0.031	0.018
2010/11	0.031	0.021
Mean	0.029	0.018
Standard Deviation	0.0025	0.00209
Coefficient of Variation (%)	8.45	12.17

Source: Appendix C/I

BOKL has the highest ratio of 0.031 in F/Y 2010/11 whereas the lowest ratio is 0.024 in F/Y 2006/07. The mean ratio is 0.029 and coefficient of variation is 8.45%.

Whereas KBL has highest ratio is 0.021 in F/Y 2010/11 and the lowest ratio is 0.015 in 2006/07. The mean ratio is 0.018 and coefficient of variation is 12.172%. It is observed that the banks have not higher return on its 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.

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

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

Table 4.11
Return on Total Assets

Fiscal Year	BOKL	KBL
2006/07	0.014	0.011
2007/08	0.018	0.014
2008/09	0.020	0.012
2009/10	0.022	0.014
2010/11	0.028	0.015
Mean	0.019	0.013
Standard Deviation	0.003	0.0021
Coefficient of Variation (%)	15.90	15.84

Source: Appendix C/II

Return on total assets during the study period has slightly fluctuating in both banks. BOKL has maintained higher ratio as 0.022 in F/Y 2009/10 and the lowest ratio is 0.014 in F/Y 2006/07 and the average ratio of return on assets is 0.019. The

coefficient of variation is 15.90%. Similarly, KBL has highest ratio 0.015 in F/Y 2010/11 and lowest ratio is 0.011 in F/Y 2006/07. The mean ratio of KBL is 0.013 and the coefficient of variation is 15.84%. It is also observed that BOKL is in increasing order where as KBL has fluctuating order. The analysis shows that both 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. In other words, this ratio reflects the extent to which the banks are successful in mobilizing their assets to generate high income. 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.

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

The following table shows that total interest earned to total assets ratio of BOKL and KBL throughout the study period.

Table 4.12
Total interest earned to Total Assets Ratio

Fiscal Year	BOKL	KBL
2006/07	0.062	0.067
2007/08	0.056	0.066
2008/09	0.058	0.064
2009/10	0.066	0.074
2010/11	0.080	0.091
Mean	0.064	0.072
Standard Deviation	0.0086	0.010
Coefficient of Variation (%)	13.37	13.81

Source: Appendix C/III

It is found that the bank's interest earning ratio with respect to total assets has fluctuating trend. BOKL has highest ratio of 0.080 in F/Y 2010/11 and the lowest ratio is 0.056 in F/Y 2007/08. The mean ratio is 0.064 and coefficient of variation is

13.35% whereas KBL has highest ratio of 0.091 in F/Y 2010/11 and lowest of 0.064 in F/Y 2008/09. The mean ratio is 0.072 and coefficient of variation is 13.81%. 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.

$$\text{Total interest earned to Total Operating Income ratio} = \frac{\text{Total Interest Earned}}{\text{Total Operating Income}}$$

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

Table 4.13
Total interest earned to Operating Income Ratio

Fiscal Year	BOKL	KBL
2006/07	1.181	1.833
2007/08	1.212	1.687
2008/09	1.200	1.694
2009/10	1.210	1.922
2010/11	1.394	2.173
Mean	1.239	1.861
Standard Deviation	0.078	0.179
Coefficient of Variation (%)	6.32	9.62

Source: Appendix C/IV

As concerned to interest earned to operating income ratio during the study period, BOKL has the highest ratio is 1.394 in F/Y 2010/11 and the lowest ratio is 1.181 in F/Y

2006/07 and the average ratio is 1.239 whereas KBL has highest ratio of 2.173 in F/Y 2010/11 and that of the lowest is 1.687 in F/Y 2007/08. It can be analyzed that the banks have low mobilized fund into interest bearing assets i.e. government securities, share and debenture of other companies, loan and advances etc. So the banks have to give more importance to 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.

$$\text{Total interest Paid to Total Assets ratio} = \frac{\text{Total Interest Paid}}{\text{Total Assets}}$$

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
2006/07	0.024	0.037
2007/08	0.023	0.033
2008/09	0.024	0.033
2009/10	0.027	0.044
2010/11	0.039	0.058
Mean	0.027	0.041
Standard Deviation	0.006	0.009
Coefficient of Variation (%)	22.22	22.93

Source: Appendix C/V

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 0.039 in F/Y 2010/11 and that of KBL is 0.058 in F/Y 2010/11. The lowest ratio of both the banks is 0.023 and 0.033 in F/Y

2007/08 and F/Y 2008/09 respectively. The average interest paid to total assets ratio for BOKL and KBL are 0.027 and 0.041 respectively. Therefore, 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. Therefore, the banks operating for high profit have to accept the risk and manage efficiently. 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.

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

The risk is low if funds are kept idle as cash and bank balance. But this reduces the profitability. When loans flow, profitability increases and 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 and KBL

Table 4.15
Liquidity Risk Ratio

Fiscal Year	BOKL	KBL
2006/07	0.083	0.050
2007/08	0.106	0.063
2008/09	0.091	0.073
2009/10	0.121	0.113
2010/11	0.089	0.156
Mean	0.098	0.091
Standard Deviation	0.014	0.039
Coefficient of Variation (%)	14.05	42.55

Source: Appendix D/I

The analysis of liquidity risk reveals that BOKL has fluctuating and KBL has increasing liquidity risk. It is due to the variation in the cash and bank balance and total deposits. BOKL has highest liquidity risk of 0.121 in F/Y 2009/10 and the lowest ratio is 0.083 in F/Y 2006/07. KBL has highest ratio 0.156 in 2010/11 and lowest 0.050 in 2006/07. The average ratio of liquidity risk is 0.098 and 0.091 respectively.

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.

$$\text{Credit Risk Ratio ratio} = \frac{\text{Total Loan \& advance}}{\text{Total Assets}}$$

The following table shows the credit risk ratio of BOKL and KBL under the study period.

Table 4.16
Credit Risk Ratio

Fiscal Year	BOKL	KBL
2006/07	0.600	0.765
2007/08	0.645	0.749
2008/09	0.703	0.754
2009/10	0.715	0.787
2010/11	0.712	0.719
Mean	0.675	0.755
Standard Deviation	0.045	0.022
Coefficient of Variation (%)	6.72	2.94

Source: Appendix B/III

BOKL has recorded its highest credit risk of 0.715 in 2009/10 and lowest ratio as 0.60 in 2006/07 and mean ratio as 0.675 and coefficient of variation 6.72%. On the other hand, KBL has recorded its highest ratio as 0.787 in 2009/10 and lowest ratio as 0.719 in 2010/11 and mean ratio as 0.755 and co-efficient of variation 2.94%. It seems KBL has higher credit risk ratio than that of BOKL and 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, 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

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

The following table shows that investment on share and debenture with respect to total investment.

Table 4.17

Analysis of Investment on Government Securities

Fiscal Year	BOKL	KBL
2006/07	0.826	0.799
2007/08	0.779	0.773
2008/09	0.659	0.687
2009/10	0.637	0.715
2010/11	0.904	0.753
Mean	0.761	0.745
Standard Deviation	0.101	0.040
Coefficient of Variation (%)	13.24	5.36

Source: Appendix E/I

The analysis reveals that investment on government securities is in fluctuating trend. BOKL has maintained higher percentage of 90.4% in F/Y 2010/11 and the average value is 76.1% where as KBL has 79.9% of its investment on government securities in F/Y 2006/07. Lowest percentage of investment on government securities of BOKL is 63.7% in F/Y 2009/10 and that of KBL is 68.7% in F/Y 2008/09. 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.

Investment on Share and Debenture to Total investment

$$= \frac{\text{Investment on Share and Debenture}}{\text{Total Investment}}$$

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
2006/07	0.035	0.00022
2007/08	0.029	0.00018
2008/09	0.035	0.00842
2009/10	0.044	0.01192
2010/11	0.012	0.00910
Mean	0.031	0.0060
Standard Deviation	0.011	0.0048
Coefficient of Variation (%)	34.32	80.48

Source: Appendix E/II

From the analysis it is found that investment on share and debenture is fluctuating in both the banks but the issue is more serious in case of KBL. The percentage investment on share and debentures of BOKL and KBL are 3.10% and 0.6%. 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 Deposit (percentage)

Fiscal Year	BOKL	KBL
2006/07	15.51479	23.93108
2007/08	38.53724	35.90371
2008/09	27.80917	21.00028
2009/10	14.21083	22.98419
2010/11	12.34861	10.961171
Average Growth rate (%)	21.688	22.850

Source: Appendix F/I

Table 4.20
Growth Rate of Loan and Advance (percentage)

Fiscal Year	BOKL	KBL
2006/07	4.71130	23.40616
2007/08	58.98173	29.57481
2008/09	32.58857	26.94591
2009/10	17.53330	28.74283
2010/11	13.77756	1.178647
Average Growth rate (%)	25.516	21.968

Source: Appendix F/II

Table 4.21
Growth Rate of Total Investment (percentage)

Fiscal Year	BOKL	KBL
2006/07	4.88494	17.39496
2007/08	15.16551	20.11453
2008/09	7.08556	27.41359
2009/10	-13.13983	-29.37325
2010/11	17.463269	52.05298
Average Growth rate (%)	6.292	17.532

Source: Appendix F/III

Table 4.22
Growth Rate of Net Profit (percentage)

Fiscal Year	BOKL	KBL
2006/07	9.44882	22.61905
2007/08	88.48921	65.04854
2008/09	37.78626	2.35294
2009/10	27.70083	50.00000
2010/11	10.412148	21.455939
Average Growth rate (%)	32.707	32.298

Source: Appendix F/IV

It is found that the growth ratio of total deposit of BOKL and KBL are 21.69% and 22.85%, growth ratio of loan and advances are 25.55% and 21.97%. The growth ratio of loan and advances of BOKL is greater than KBL. In addition, growth ratio of total investment of BOKL and KBL are 6.29% and 17.53% respectively. Whereas growth ratio of net profit of BOKL and KBL are 32.71% and 32.30% respectively.

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. The growth ratio of total investment is not satisfactory thus 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 and KBL during the study period.

Table 4.23
Correlation between Deposit and Loans and Advances

BANK	r	P.E(r)	6*P.E(r)	Result
BOKL	0.9998	0.0001	0.0007	Significantly Correlated
KBL	0.9883	0.0070	0.0421	Significantly Correlated

Source: Appendix G/I

The correlation coefficient between deposit and loans and advances for BOKL and KBL are 0.9998 and 0.9883. There is high degree of positive correlation between these two variables. The result $r \gg 6*P.E. (r)$ 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 and KBL during the study period.

Table 4.24
Correlation between Deposit and Total investment

BANK	r	P.E(r)	6*P.E(r)	Result
BOKL	0.6670	0.1674	1.0047	No Significantly Correlated
KBL	0.6098	0.1895	1.1369	No Significantly Correlated

Source: Appendix G/II

The correlation coefficient between deposit and total investment for BOKL and KBL are 0.6670 and 0.6098 respectively. There is positive correlation between these two variables. The result $r < 6*P.E. (r)$ shows that there is not significant relationship between these two variables. This means the degree of change in total investment is not same as the degree of change in deposits in both the banks.

III. Coefficient of Correlation between Outside Assets and Net Profit

The outside assets include loan and advances and all types of investment of a commercial bank. In this analysis, total outside assets is independent variable (X) and net profit is dependent variables (Y). The main objective of correlation analysis is to examine whether the net profit is significantly correlated with total outside assets or not. To analyze the relationship, Karl Pearson's coefficient of correlation is calculated accordingly. The following table shows the correlation of these variables during the study period.

Table 4.25
Correlation between Outside Assets and Net Profit

BANK	r	P.E(r)	6*P.E(r)	Result
BOKL	0.9943	0.0034	0.0206	Significantly Correlated
KBL	0.9518	0.0284	0.1703	Significantly Correlated

Source: Appendix G/III

The correlation coefficient between total outside assets and net profit for BOKL and KBL are 0.9943 and 0.9518 respectively. There is highly positive correlation between these two variables of both the banks. The result $r \gg 6 \times P.E. (r)$ shows that there is significant relationship between these two variables.

B. Trend Analysis and Projection for Next Five Years

Trend analysis attempts to establish the nature of relationship between variables i.e. to study the functional relationship between the variable and there by provide a mechanism for prediction or forecasting. The main objective of this analysis is to analyze the trend of deposit collection, its utilization i.e. loan and advances, total investment and net profit of BOKL and KBL. Granting loans and advances and investing some of the funds in government securities and shares and debentures of other companies by the commercial banks are the utilization of deposits. The trend analysis is used for forecasting the dependent variables for next five years on the basis of the past performance and records.

The projections are based on the following assumptions:

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

I. Analysis of Trend Value of Total Deposit

Trend line helps to forecast the values of dependent variable for future periods of time. For this purpose, trend line is computed and estimated the trend values of deposit of BOKL and KBL for five years from F/Y 2011/12 to 2015/16. The trend line of total deposit for BOKL and KBL are as follows.

$$Y = 6580 + 2844X \quad (\text{BOKL})$$

$$Y = 5484 + 2458X \quad (\text{KBL})$$

The following table shows the trend values total deposit of BOKL and KBL for five years from F/Y 2011/12 to 2015/16.

Table 4.26

Projection of Total Deposit for next five years

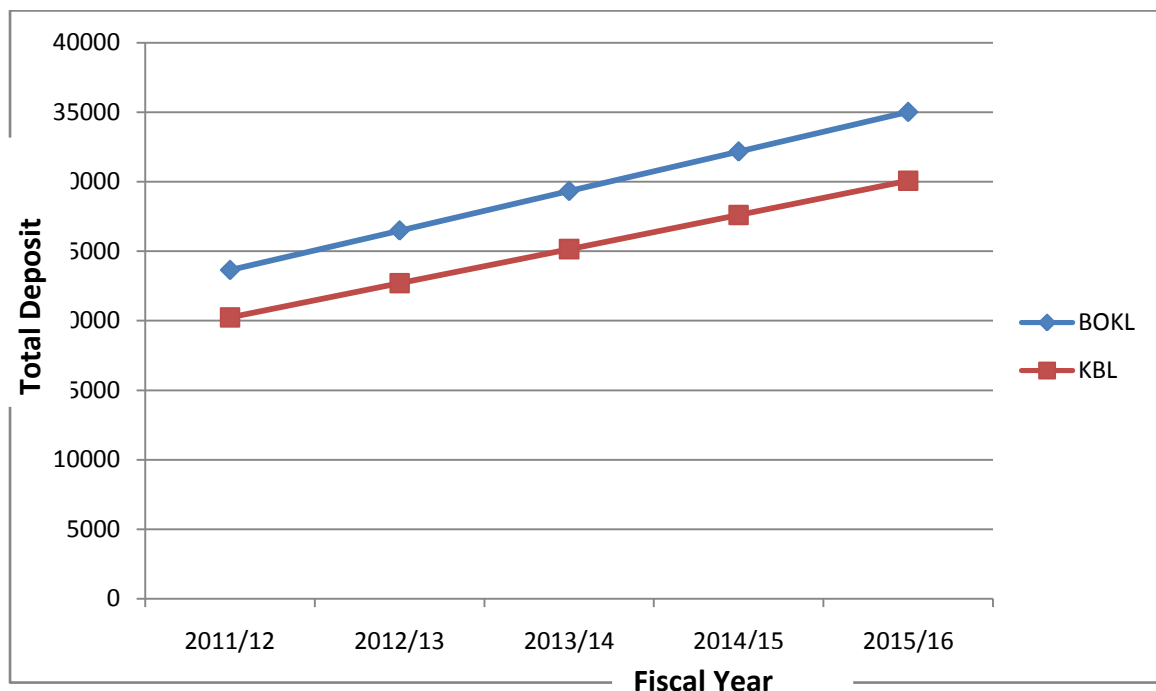
Fiscal year	X	Total deposit (Rs in million)	
		BOKL	KBL
		$Y = 6580 + 2844X$	$Y = 5484 + 2458X$
2011/12	6	23644	20232
2012/13	7	26488	22690
2013/14	8	29332	25148
2014/15	9	32176	27606
2015/16	10	35020	30064

Source: Appendix H/I

From the analysis, it is found that total deposit of the both banks is in increasing trend. Other things remaining the same or constant, total deposit in 2015/16 is predicted by Rs. 35020 million. Whereas KBL has predicted value is Rs.30064 million, which is lesser than BOKL. From the above trend analysis, it is quite obvious that BOKL and KBL deposit collection position will be better in future periods also. The above calculated trend values of total deposit of the banks are fitted in the trend lines given below.

Figure: 4.1

Trend line of Total Deposit



II. Analysis of Trend Value of Loans and Advances

The trend values of loan and advances of BOKL and KBL have been forecasted for five years from F/Y 2011/12 to F/Y 2015/16. The trend line for loans and advances are found as follows

$$Y = 3791 + 2675X \quad (\text{BOKL})$$

$$Y = 4879 + 2141X \quad (\text{KBL})$$

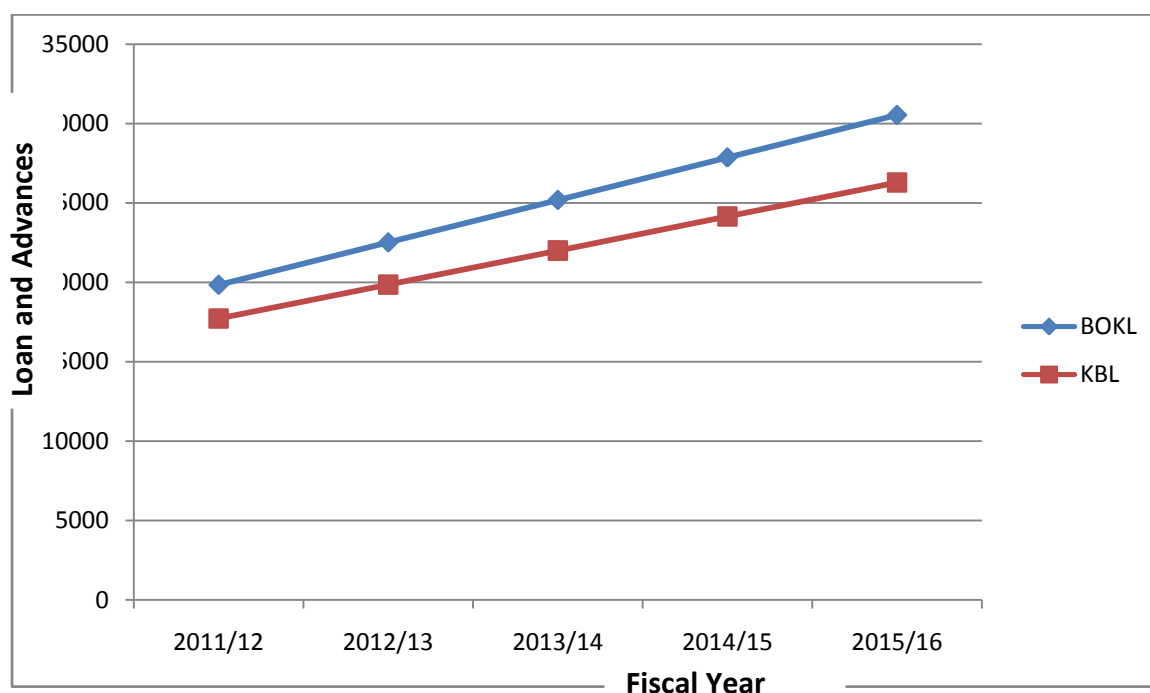
Table 4.27
Projection of Loan and Advance for next five years

Fiscal year	x	Loan and Advance (Rs in Millions)	
		BOKL	KBL
		$Y = 3791 + 2675X$	$Y = 4879 + 2141X$
2011/12	6	19841	17725
2012/13	7	22516	19866
2013/14	8	25191	22007
2014/15	9	27866	24148
2015/16	10	30541	26289

Source: Appendix H/II

The loan and advance of the banks are increasing regularly. Other thing remaining the same, the loan and advance of BOKL and KBL in F/Y 2015/16 will be Rs 30541million and 26289 respectively. Thus, the BOKL has higher utilization of deposit in terms of loan and advance then KBL. The above calculated trend values of loan and advance of the bank are fitted in the trend lines as given below.

Figure: 4.2
Trend line of Loan and Advances



Analysis of Trend value of Total Investment:

The Trend value of Total Investment of BOKL and KBL has been forecasted for five year from 2011/12 to 2015/16. The trend line for total investment is found as follows.

$$Y = 2630 + 113X \quad (\text{BOKL})$$

$$Y = 1312 + 164X \quad (\text{KBL})$$

Table 4.28

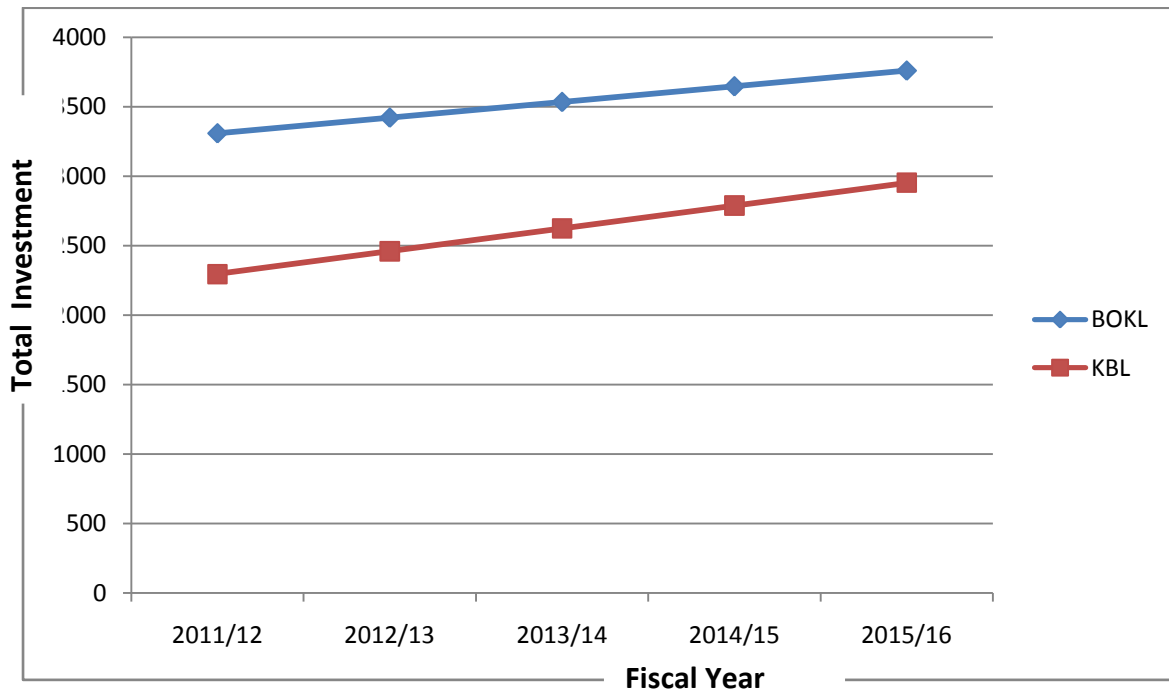
Projection of Total investment for next five year

Fiscal year	X	Total investment (Rs in million)	
		BOKL	KBL
		$Y = 2630 + 113X$	$Y = 1312 + 164X$
2011/12	6	3308	2296
2012/13	7	3421	2460
2013/14	8	3534	2624
2014/15	9	3647	2788
2015/16	10	3760	2952

Source: Appendix H/III

The total investment of bank is increasing regularly. Other thing remaining same, the total investment of BOKL and KBL in F/Y 2015/16 will be Rs. 3760 million and Rs. 2952 respectively. Thus, bank utilization of deposit in terms of investment is satisfactory. Thus, we can say that the bank has followed the policy of maximizing the investment. The above calculated trend values of Total investment of the bank are fitted in the trend lines as given below.

Figure: 4.3
Trend line of Total investment



IV. Analysis of Trend value of Net Profit

Trend line helps to forecast the value of dependent variables for future period of time. For this purpose, trend line is computed and estimated the trend values of net profit of BOKL and KBL for five year from F/Y 2011/12 to 2015/16. The trend line of net profit for BOKL and KBL are as follows.

$$Y = 65 + 94X \quad (\text{BOKL})$$

$$Y = 49 + 52X \quad (\text{KBL})$$

The following table shows the forecasted values of net profit of bank for five years i.e. 2011/12 to 2015/16

Table 4.29

Projection of Net profit for next five year

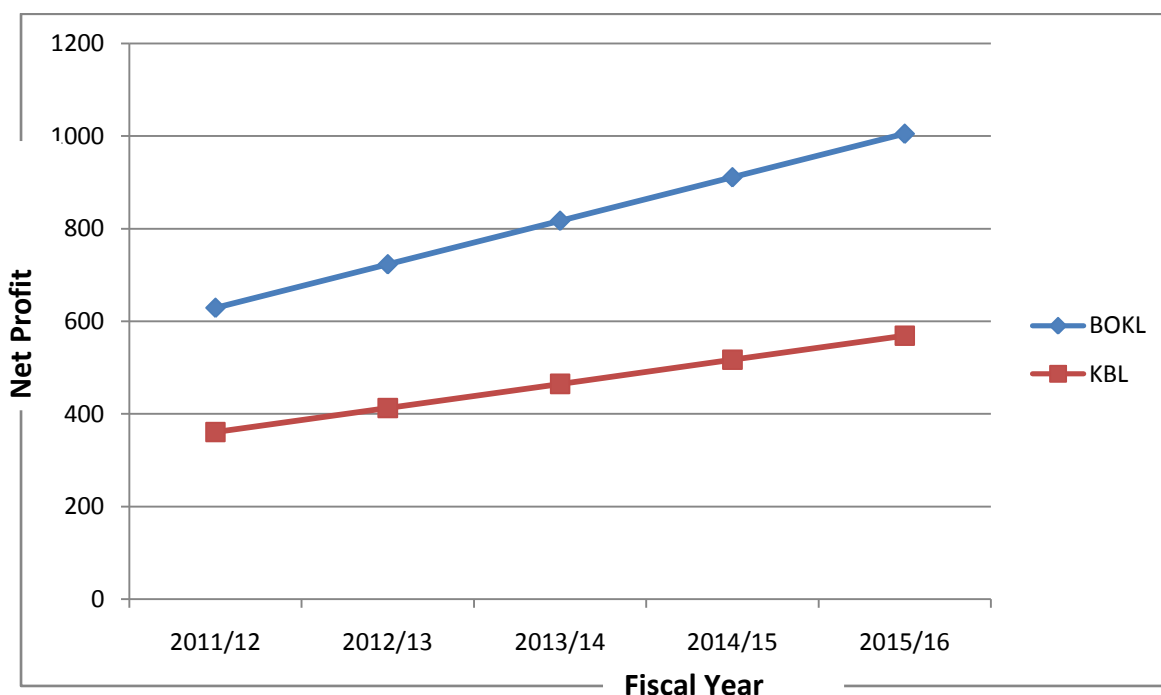
Fiscal year	X	Net profit (Rs in millions)	
		BOKL	KBL
		$Y = 65 + 94X$	$Y = 49 + 52X$
2011/12	6	629	361
2012/13	7	723	413
2013/14	8	817	465
2014/15	9	911	517
2015/16	10	1005	569

Source: Appendix H/IV

The analysis shows that net profit of both banks is increasing. Other thing remaining same, the net profit of BOKL and KBL in F/Y 2015/16 will be Rs. 1005 million and Rs. 569 million respectively. Thus, bank's utilization of fund to earn the profit is satisfactory. The above calculated trend values of Net profit of the bank are fitted in the trend lines as given below.

Figure: 4.4

Trend line of Net profit



4.2 Major Findings of the Study

- a) The liquidity position in terms of current ratio, KBL has greater than BOKL with lower variability. Both the banks have the ratio below standard. But in terms of cash and bank balance to total deposit ratio BOKL has better position with lower variability than KBL. Thus, BOKL has higher capability to meet immediate demand.
- b) In terms of cash and bank balance to current assets ratio, BOKL has better position than KBL and also the variability is lower than KBL which signifies that BOKL has better ability to meet the customer's demand quickly. In terms of investment on government securities to current assets ratio BOKL has better position than KBL but the variability of BOKL is higher. This signifies that BOKL has fluctuating investment on government securities but has higher capability to generate funds from selling those securities when required.
- c) Analyzing the assets management ratio in terms of loans and advances to total deposit ratio, KBL has higher mean ratio and lesser variability which means KBL has successfully mobilized deposits on loans and advances. In terms of total investment to total deposit ratio, BOKL has higher average ratio with higher variability. It means BOKL has invested greater portion of total deposit in other sector rather than in loans and advances.
- d) In terms of loans and advances to total assets ratio, KBL has greater average ratio than BOKL and lesser variability. Thus, KBL has successfully mobilized its total assets for the purpose of income generation to some extent. In terms of investment on government securities to total assets ratio BOKL has invested more portion of its total assets in government securities and has higher variability also. Investment on share and debentures to total assets ratio revealed that both the banks have invested very low portion of total assets on share and debentures.
- e) From the profitability point of view, return on loans and advances reveals that BOKL has higher average return on loans and advances than KBL. In terms of return on total assets, BOKL has slightly higher average return on total assets than KBL with almost same variability. In terms of total interest earned to total assets ratio KBL has greater average ratio than BOKL with almost same variability. In terms of total interest earned to operating income ratio KBL has greater average ratio than BOKL with higher variability. In terms of total interest paid to total assets ratio KBL has greater average ratio than BOKL with almost same variability.

- f) From analysis of investment on government securities to total investment, BOKL has greater average investment on government securities than KBL with higher variability. In case of analysis of investment on share and debentures out of the total investment BOKL has higher percentage of investment than KBL. The variability of KBL is much greater than BOKL.
- g) The average growth rate of total deposit, KBL is higher than BOKL but in term of average growth rate of loan and advance BOKL is higher percentage than KBL. The growth rate of total investment of KBL is greater than that of BOKL whereas growth rate of net profit of both banks are almost same and satisfactory. There is high degree of positive correlation between deposit and loans and advances for both the banks. Whereas the relationship between deposit and total investment is not significant for both the banks but the correlation between outside assets and net profit is highly significant.
- h) From the trend analysis of total deposit, loans and advances, total investment, and net profit the forecasted values of all the parameters for five years are found to be increased satisfactorily.

Some mathematical facts and findings are tabulated below

Table 4.30
Mathematical facts and finding

Ratio	BOKL		KBL	
	Mean	CV(%)	Mean	CV (%)
Current Ratio	0.872	6.42	0.959	3.43
Cash and bank balance to total deposit	0.098	14.05	0.091	42.41
Cash and bank balance to current assets	0.108	11.13	0.090	39.53
Investment on government securities to current assets	0.182	37.47	0.111	24.69
Loan and advance to total deposit	0.767	7.17	0.879	3.13
Total investment to total deposit	0.210	24.50	0.146	20.302
Loan and Advance to total assets	0.675	6.72	0.755	2.078
Investment on government securities to total assets	0.142	31.70	0.095	24.21
Investment on share and debenture to total assets	0.0058	41.29	00065	79.29

Return on Loan and advance	0.029	8.45	0.018	12.172
Return on total assets	0.019	15.90	0.013	15.84
Total interest earned to total assets	0.064	13.37	0.072	13.81
Total interest earned to operating income	1.239	6.32	1.861	9.62
Total interest paid to total assets	0.027	22.22	0.041	22.93
Liquidity risk	0.098	14.05	0.091	42.55
Credit risk	0.675	6.72	0.755	2.94
Investment on government securities to total Investment	0.761	13.24	0.745	5.36
Investment on share and debenture to total Investment	0.031	34.320	0.006	80.48
Average Growth Rate (%)				
Average Growth Rate of Deposit	21.69		22.85	
Average Growth Rate of Loan and Advance	25.52		21.97	
Average Growth Rate of investment	6.29		17.53	
Average Growth Rate of Net Profit	32.71		30.30	
Correlation coefficient Between				
Deposit and Loan and Advance	0.9998		0.9883	
Deposit and Total Investment	0.6670		0.6098	
Outside assets and Net Profit	0.9943		0.9518	

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMEDATIONS

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

The summary of the study are derived on the basis of analysis of financial and statistical analysis of BOKL and KBL. BOKL has higher capability to meet the current obligation though it has lower current ratio but due to its higher cash and bank balance to total deposit ratio and cash and bank balance to current assets ratio. The proportion of investment on government securities of BOKL is also considerably higher than KBL. In terms of liquidity analysis KBL is considered slightly riskier than BOKL as the variability is higher in KBL while maintaining cash and bank balance. Thus it can be said KBL has not followed stable policy to maintain liquidity.

Assets management ratio measures how efficiently the bank manages its resources to generate profit. Assets management of BOKL seems better than that of KBL because it has higher total investment to total deposit, investment on government securities to total assets, investment on share and debentures to total asset though KBL has higher loans and advances to total assets and loans and advances to total deposit. It is also 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.

From the profitability point of view, return on loans and advances reveals that BOKL has higher average return on loans and advances than KBL (i.e. 0.029 vs. 0.018) with lower variability. In terms of return on total assets, BOKL has slightly higher average return on total assets with almost same variability (i.e. 1.9% vs. 1.3%) but the fluctuation is greater in BOKL. In terms of total interest earned to total assets ratio KBL has slightly greater average ratio than BOKL i.e. 0.064 vs. 0.072 with almost same variability. In terms of total interest earned to operating income ratio KBL has greater average ratio than BOKL with higher 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 both the banks. Thus from the assets management viewpoint, the profitability procession of these banks is not in better position.

Both the banks have lower liquidity risk i.e. BOKL has 0.098 and that of KBL is 0.091 but the variability of KBL is higher i.e. 14.05% vs. 42.55% and credit risk is higher in BOKL than KBL. The mean ratio of credit risk of BOKL and KBL are not consistent.

From the analysis of growth ratios of BOKL and KBL, following facts are found.

Growth ratio of total deposit is 21.69% and 22.85%

Growth ratio of loan and advances is 25.51% and 21.968%

Growth ratio of total investment is 6.29% and 17.53%

Growth ratio of Net profit is 32.71% and 32.30%

From the analysis of the growth ratios, it can be concluded that BOKL and KBL are successful to increase in source of funds. The growth on investment shows that banks are not able to mobilize the deposit to the proper investment.

Coefficient of correlation between deposit and loan and advances of both the banks has significantly positive value i.e. 0.9998 and 0.9883. Similarly, the relationship between deposit and total investment of BOKL and KBL has positive correlation i.e. 0.6670 and 0.6098 respectively which is not significant to establish the correlation between

these two variables. Coefficient of correlation between outside assets and net profit of BOKL and KBL has highly positive correlation i.e. 0.9943 and 0.9518.

From the trend analysis of the study period, projection of total deposit, loan and advances, total investment and net profit of BOKL and KBL is done for the next five years period with the help of calculated trend line. It is found all of the above variables are increasing with respect to time. The trend lines obtained are as followings.

Total deposit: $Y = 6580 + 2844X$ (BOKL) and $Y = 5484 + 2458X$ (KBL)

Loans and Advances: $Y = 3791 + 2675X$ (BOKL) and $Y = 4879 + 2141X$ (KBL)

Total Investment: $Y = 2630 + 113X$ (BOKL) and $Y = 1312 + 164X$ (KBL)

Net Profit: $Y = 65 + 94X$ (BOKL) and $Y = 49 + 52X$ (KBL)

5.2 Conclusion

The mean ratio of cash and bank balance to total deposit of BOKL is 0.098 and the coefficient of variation of the bank is 14.05 % and that of KBL is 0.091 and the coefficient of variation 42.41%. Thus, KBL is in higher risk position. The mean ratio of investment on government securities to current assets of BOKL is 0.182 and that of KBL is 0.111. Similarly, coefficient of variation is 37.47% and 24.69% respectively. It shows that BOKL has invested more in less riskier sector though it has higher variability.

The assets management ratios of the bank reveal that the mean ratio of loan and advances to total deposit of BOKL is 0.767 and that of KBL is 0.879. It can be said that the banks have used their total deposit to provide greater loans and advances. KBL has comparatively higher proportion of loans and advances with lesser variability. The mean ratio of total investment to total deposit of BOKL is 0.210 and that of KBL is 0.146 and the variability is greater in case of BOKL. It seems though the mean ratio of loans and advances to total deposit fund is lower, BOKL has greater portion of investment in other sector than KBL. Both the banks seems to have lesser proportion of investment in share and debentures but in KBL the variability is much greater i.e. 41.29% vs. 79.29%. During the study period, it was found that the investment on share and debenture to total assets fund ratio of the banks is not homogenous.

From the profitability point of view, return on loans, advances reveals that BOKL has higher average return on loans, and advances than KBL i.e. 0.029 vs. 0.018 and BOKL has lower variability. BOKL has higher average return on total assets than KBL i.e. 1.9% vs. 1.3% but the fluctuation is greater in BOKL. Total interest earned to total assets ratio KBL has slightly greater average ratio than BOKL i.e. 0.064 vs. 0.072 with almost same variability. Total interest earned to operating income ratio of KBL has greater average ratio than BOKL i.e. 1.239 vs.1.861 with higher variability. This shows that KBL consists of higher interest earning in its operating income. Total interest paid to total assets ratio of KBL has greater average ratio than BOKL i.e. 0.041 vs. 0.027 and both the banks have almost same variability. It shows KBL has higher interest expenses but the ratio is lower in both the banks. Thus from the assets management viewpoint, the profitability procession of these banks is not in better position.

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From the trend analysis of the study period, projection of total deposit, loan and advances, total investment and net profit of BOKL and KBL is done for the next five years period with the help of calculated trend line. It is found all of the above variables are increasing with respect to time. But the increase in net profit doesn't seem to have smooth growth i.e. fluctuating and the average net profit of these banks is also lower.

5.3 Recommendations

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 and KBL.

Increase Deposits

The main source of commercial bank is collecting deposit from publics who don't need that fund recently. Without enough deposit collection, banks cannot operate smoothly. So it is recommended to collect more amounts as deposit through large variety of deposit schemes and facilities, like cumulative deposit schemes, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), and monthly interest scheme. From the study it has been found that deposit and loans and advances are highly correlated similarly, outside assets and net profit are also highly correlated thus these facts should be considered by these banks. Similarly, customization of credit card, provide facility of transfer money to their home that live in foreign country. 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.

More Investment in Government Securities

From the study, it shows that the investment in government securities of BOKL and KBL is not satisfactory. Investment on those securities issued by government i.e. Treasury bills, Development bonds, Saving certificates are risk free and highly liquid in nature and such securities yield the low interest rates of a particular maturity due to

lowest risk in future. It is more better in regard to safety than other means of investment. 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 and KBL are strongly recommended to give more importance to invest more funds in government securities instead of keeping them idle with this proverb "something is better than nothing".

More Investment on Share and Debentures

To get success in competitive market and to raise financial and economic development of the country a commercial bank must mobilize its funds in different sectors such as purchase share and debenture of other financial and non financial companies and other government and non-government companies. It is also genuine means of utilization of resource. Thus those companies may get chances to raise their income. The mean ratio of investment on share and debenture of BOKL and KBL is 0.00583 and 0.00065, which is very low. Recent year data shows the downfall of share markets and the boom of real estate investment. Both these markets are not productive in nature for the nation's gross income. Recently, government has controlled the interest rate to reduce such activities. So it is recommended to increase the ratio, with investing its funds in shares and debentures of different types of other companies in different areas.

Investment in Deprive and Priority Sector

NRB has directed to commercial banks to invest their certain percentage in deprive and priority sector and it is responsible of banks. The study has been found that the banks have earned high profit in last year, it is because of their services are only profitable sector. It reveals that it has not granted loan on priority and deprives sector. So 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.

Effective Portfolio Management

Portfolio Management is very important for every investor. In each investment, risk is involved which may cause the chance of losses or the variability of the returns. The greater is the variability of the returns the riskier will be the project. So it should be kept in mind while investing in the project which would be lower risk and higher return. Portfolio management plays vital role with dividing total investment in different areas. Portfolio management of the bank assets basically means allocation of funds in different components of banking assets having different degrees of risk and varying rate of return in such a way that the conflicting goal of maximum yield and minimum risk can be achieved. So portfolio conditions of BOKL and KBL 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.

Liberal Lending Policy and Sound Credit Collection Policy

To get success in competitive banking market, commercial bank must utilize their deposit as loan and advances. Loan and advances are the main source of income and also means of utilization resources of commercial banks negligence in administrating these assets could be the cause of liquidity crisis in bank and one of the main reasons of the bank failure. When the bank grants loan and advances it must be collected after a certain period. Collection of loan has been most challenging task of commercial banks these days, increasing on non-performing assets discloses the failure of commercial banks in recovery of loan.

Therefore, it is recommended to BOKL and KBL 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 require. Policymaking 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.

Investment Vision

The term investment is very important for commercial bank and main function also. Investment means use of their resource in different income sector. The study shows that the trend of investment of BOKL and KBL is decreasing level. So it is recommended to keep wide vision in investment while they utilizing their recourse and invest in different areas.

Innovate Approach to Bank Marketing

In the light of growing competition in the banking sector, the business of the bank should be customer oriented. Marketing is an effective tool to attract customers so it should be strong and active. Without effective marketing strategy anyone be along behind in today's competitive environment. Different marketing techniques like advertisement through audio visual, published website, documentary etc. are followed. Similarly, 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.

Extend Branches all over the Country

Economic development of the country depends upon the growth of commercial banks. If the services of commercial banks expand all over the country it collects idle money from every corner of the country and can be utilized for income generation purpose. So that 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. BOKL and KBL have been confining only in urban areas and are operating with limited branches. Therefore BOKL and KBL recommended expanding its hands and providing banking service and facilities to the rural areas and communities to accelerate the rural areas economic development.

Concluding Remarks

Nepal is a developing country and its economic environment is also not in a good condition. The strong economic structure is needed for the rapid overall development. Commercial bank plays significant role in the economic growth of the developing country like Nepal. Nepal's commercial banks face several problems related to fund mobilization and investment. They are working in traditional method and lacking modern banking technology so that they are needed to be professional business institutions. If commercial banks followed above mentioned suggestions, they would be successful in reaching to the modern innovative and competitive banking market. These suggestions will be helpful to the commercial banks to develop new system in the banking business.