

CHAPTER - I

INTRODUCTION

1.1 Background of the study

The term 'Investment' has become primary function of all the financial institutions, which concerns with how an investor should proceed in determining the proper area in order to invest in, how extensive the investment should be made. According to the investor's view, they desire to maximize their wealth, but only at a level of risk consistent with their current circumstances. However so, investment is the act of proper utilization of a fund to be mobilized so that achievement of a high return could be ensured.

Investment decisions mainly have two aspects i.e.

- a) the evaluation of the prospective profitability of new investments and
- b) the measurements of cut-off rate against the prospective return of the new that could be compared.

Investment policy involves determining the investor's objectives and the amount of his or her invest able wealth. Because, there is a positive relationship between risk and return for sensible investment strategies, it is not appropriate for an investor to say that his /her objective is to make a lot of money. Investment policy concludes with the identification of the potential categories of financial assets for consideration in the ultimate portfolio.

A concentration of financial power in the hands of a relatively few organizations collectively known as institutional investors are simply financial intermediaries of any type. This definition sets them apart from retail investors, who are individuals owing portfolio for which they are the direct beneficiaries.

Investment policy is the proper management of any fund or wealth to maximize value or to obtain the high or favorable returns with low risk, considering the protection of the investment from the inflation and other possible harms. Commercial banks, finance companies and other financial agents etc. are the agents which transfer the resources from the available(rich) places to the poor places. They collect the scattered financial resources from the mass and invest them among those who are associated in the social, commercial and economic activities of the country.

Commercial banks vitally help the establishment of industries, trades in a country by providing capital. They collect the savings from public in different accounts i.e. saving account, fixed deposit account etc. and render several services and amenities to their customers beside economical benefits. Commercial bank more efficiently efforts to achieve the commercial goals and they can very significantly in the course of development of trade and industries of a country because they have large amount of capital and high technologies and abundant resources. Commercial banks can easily renders the problem faced by others and avoids many risks in investment by formulating and implementing good policy for proper utilization of funds. The fundamental principals of investment must be followed thoroughly for profitable investment. And investment policy should ensure maximum profits and minimum risk.

In Nepal, commercial banking started with the establishment of Nepal Bank Limited under the Nepal Bank Act, 1993 BS. Majority of authorized capital (i.e. 51%) was contributed by the government and the remaining (49 %) by the public. It was established in 1994 BS. There was a political revolution in 2007 BS. Solid and even more important event took place in the 14th of Baisakh, 2013 BS because a central bank, Nepal Rastra Bank (NRB), was established with Rs.1 Crore authorized capital under the Nepal Rastra Bank Act, 2012. Besides the central banking functions, it has a heavy burden to develop the whole economy, such as giving timely direction to all the financial institutions, to help and industry by mobilizing its capital, to issue shares and debentures, to promote the banking habit and transactions, and to fix the exchange rate with foreign currency.

The gradual development of commercial banks moved in parallel with the economic liberalization policy of the government that caused the establishment of more commercial banks. The financial policy of the government welcomed the establishment of JVBs. Such sort of commercial banks are established under the Commercial Bank Act 2031 BS and registered with the recommendation of the commercial banks established before 2041 BS.

From the establishment of first commercial bank in Nepal in 1994 BS, the banking sector has grown significantly. Nepal has witnessed a phenomenal growth in the last two decades. In 1980 AD, the government introduced 'Financial Sector Reforms' and Nepal allowed the entry of foreign banks as joint ventures with up to a maximum of 50% equity participation. A meaningful step towards financial

liberalization was undertaken in the year 1987/88 AD, with the objective of expediting the process of economic development under structural adjustments program and major reforms including liberalization of interest rate, strengthening of banking operation from direct to indirect monetary control instruments.

The two essential functions of commercial banks may best be summarized as the borrowing and lending of money. They borrow money by taking all kinds of deposits—deposits may be received on current, savings or fixed account. In fixed account, the banker incurs the obligation of paying legal tender after the expiry of a fixed period with pre-defined interest rate. In saving account, the banker undertakes to pay the customer an agreed rate of interest on it in return for the right to demand from him an agreed period of notice for withdrawals. Thus, a commercial banker, whether through current account or fixed deposit account, mobilizes the savings of the society. Then it lends it to those who are in need of it by granting overdrafts or term loans or by discounting bills of exchange or promissory notes. By discharging this functions efficiently, a commercial banker renders very valuable service to the community by increasing the productive capacity of the country and thereby accelerating the pace of economic development. It gathers small savings from general public, thus reducing idle money to the lowest limit. It combines small amount held by general public to make larger amount to be employed profitably in those enterprises where it is most called for and most needed. It makes idle fund effective and provides industry with capital. For instance, the practice of discounting bills can be taken. Commercial banks bridge the time element between the sale and actual payment of money by converting future claims into present money. This enables the seller to carry on his business without hindrance and the buyer will get enough time to realize the money. Thus, we have seen that bank receive deposits, which it has to repay to the depositor according to predefined terms and condition, and makes them available to those people who are really in need of them. It actually distributes deposits to the borrower as well as its own vault. Which is the most delicate function of a commercial bank.

1. 2 Focus of the study

Although there are listed 24 commercial banks, 58 development banks and 77 finance companies out of that only two commercial banks are taken for the study. Investment policy of two commercial banks (Standard Chartered Bank Nepal Ltd. and Bank of Kathmandu Ltd.) are taken for the study. Investment policy of these

two firms is analysed through financial and statistical tools. Liquidity ratios, assets management ratios, profitability ratios, debt management ratios, growth ratios, trend analysis, correlation analysis and multiple regression analysis of two firms are interpreted in this study.

1.3 Statement of Problem

Investment decision is the major tool of financial institutions, financial institutions should prepare proper investment policy so that they can reach into their target. Investment policy is an important assets for the financial institutions but they are unable to estimate the future, prepare the investment policy and evaluate them properly. They are unable to collect the funds and utilize them properly. Commercial banks become a role model in the improvement of fund mobilization activity.

There are two dozen commercial banks operating their activities in Nepal but a few of them are getting regular profits. Most of them are getting regular profits. Most of them are unable to satisfy their shareholders and clients in ascertaining profitability and ensuring their safe deposition. Some banks are incurring losses in early establishment years. It is not that they cannot find profitable sectors or opportunities to invest the deposit collections. They have always feared high degree of risk and uncertainty. Due to the lack of profitable sectors for their investment or utilization of their deposit collection, commercial banks and financial institutions succumb to liquidation and finally leave an adverse effect in national economy.

Some commercial banks lack the proper knowledge about various types of risk such as management risk, liquidity risk, purchasing power risk, business risk, interest rate risk, financial risk etc. while providing loans and advances. These fallacies like taking insufficient deposits, overvaluation of goods, pledging of land and building, mortgaged, securities etc. cause them suffer losses. They also have the problem of timely loan recovery due to sheer negligence and overdue loans are usually unrecoverable. This indicates an unsound investment policy prevalent in Nepalese investment sectors. They collected adequate amount from the mass, however they couldn't find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Many companies and banks succumbed to liquidation although they had sustainable investment capacity. For the assessment of such adverse impact, this study has shown the contrast and analyze the

investment policy of commercial banks. The commercial banks viz. Standard Chartered Bank Nepal Ltd. and Bank of Kathmandu Ltd.

This study basically deals with the following issues of commercial banks. Research questions related to the study are as follows:

- a) Are the Commercial banks utilizing their available fund to maintain the optimal liquidity and profitability position?
- b) What is the relationship between the liquidity position and asset structure?
- c) What is the deposit utilization trend of Commercial banks and its future projections?
- d) What are the various risks in investment of Commercial banks?
- e) What is the relationship of investment and loan and advances with total deposits and total net profit of Commercial banks?

1.4 Objective of the study

The main objective of this study is to evaluate the investment policy which was adopted by selected two commercial banks (i.e. Standard Chartered Bank Nepal Ltd. and Bank of Kathmandu Ltd). To be more specific, this proposed study will try to examine the relative financial performance of SCBNL and BOKL by using techniques of Financial Ratio Analysis.

The specific objectives of this study are as follows:

- a) To find out the liquidity position and profitability position of mentioned two commercial banks.
- b) To find out the relationship between profitability and asset structure.
- c) To analyze the deposit utilization trend and its future projections for next five years for commercial banks.
- d) To study the various risks in investment of commercial banks.
- e) To analyze the relationship between deposits and loan and advances, net and total assets of commercial banks.
- f) To provide the suggestions and recommendation on the basis of findings.

1.5 Need of the study

Deposit collections and their mobilization in order to achieve an optimal return in the main motto of any financial institutions. They, however, are not the

game of chance or fate but are of competence, skill and wisdom. So, investment activity can create an image or goodwill if handled with sagacity (wisdom) or destroy them if mishandled. The proper mobilization of proper fund always ensures good return and helps to sustain the institutions. That also encourages the investors with financial rewards and the government will generate and increase the revenues. Investment policy, therefore, is the most important tool for the economic development of the country. The study of investment policy in banking sectors provides required information to the management of the banks which helps them to take correct decisions and timely action when plans, policies and strategies are being made and liquidity or growth ratio etc. profitability ratios can be obtained. Similar information is required to the concerned banks for selecting the proper banking sectors for their investment and for other benefits as well.

The study of investment policy has an intermediate effect on all those involved in financial activities directly or indirectly. The government, depositors, shareholders, managers, general public and even the researcher feel the need of this study indiscriminately for the information and knowledge necessary to them.

1.6 Significance of the study

The significance of the study can be highlighted through the following points:

- i. The study enlightens the shareholders about the financial performance of their respective banks. This allows them to have a comparative retrospect whether their fund was better utilized or not.
- ii. The study also compels the management of respective banks for self-assessment of what they have done in the past and guides them in their future plans and programs.
- iii. The financial agencies, stock exchanges and stock traders are also interested in the performance of the banks as well as the customers, depositors, and debtors, who can objectively identify the better bank to deal in terms of profitability, safety, and liquidity.
- iv. Policy maker at the macro level, i. e. the government and NRB will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.7 Limitation of the study

This study tries to find out the investment policy of two commercial banks. Every research work needs certain boundary or the limitations to complete the work because of wide area of the study. So that this needs the following limitations.

- a) This study is basically based on secondary data, which are collected from the financial statement, annual report, publications, articles, journals etc. of concerned banks. The researcher himself can collect some important information, data or statistics.
- b) This study covers only five years period. Therefore, conclusion drawn will restrict only to the period from 2004/2005 to 2008/2009.
- c) Only two commercial banks (Standard Chartered Bank Nepal Ltd. and Bank of Kathmandu Ltd) are taken as sample commercial bank for the study.

1.8 Organization of the study

This study includes five chapters such as Introduction, Review of Literature, Research Methodology, Data presentation and analysis and Summary, Conclusion & Recommendation.

Chapter-I: Introduction

The first chapter is Introductory chapter, which contains the following topics: general background of the study, history of Banks, statement of the study, objectives of the study, need of the study, limitation of the study and organization of the study.

Chapter-II: Review of Literature

The second chapter is Review of Literature, which deals the study of past thesis writing, journals, reports etc. this chapter includes two topics: Conceptual framework and Review of journals, articles and thesis studies related to investment decision and policy.

Chapter-III: Research Methodology

The third chapter is concerned with the research methodology, which is applied to collect the data and analyze them in this study. It consists of the following topics: introduction, research design, source of data, population and sample, presentation of data and method of analysis.

Chapter-IV: Data Presentation and Analysis

The fourth chapters presentation and analysis of data, which consists of two topics to analyze the data i.e. financial tools and statistical tools. Financial tool mainly consists of ratio analysis, which involves-Liquidity ratio and growth ratio, profitability ratio and growth ratio. Statistical tool involves regression analysis, correlation analysis and trend analysis have them which are related to the investment policy and fund mobilization of selected two commercial banks. The fifth chapter consists of major findings of the study.

Chapter-V: Summary, Conclusion and Recommendation

The final chapter is Summary, Conclusion and Recommendation, which will explain the major findings, supply some valuable suggestions to those selected commercial banks.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Review of Conceptual Framework

This chapter basically consists of review of literature relevant to the 'Investment Policy of Commercial Banks of Nepal'. Therefore, this chapter has its own importance in this study is divided into the following parts; Conceptual Framework, Features of sound lending policy, some important terms and terminology, review of books, review of research works, review of articles and review of thesis.

2.2 History of Banking

History of money relates to the history of Banking. Civilized society needs for more efficient methods of Barter system developed organically. The term Bank is derived from the latin word " bancus" , Italian word " banca", French word ' banque ' which means ' a bench' and German word ' bank' which means ' Joint Stock Company'. Ancient bank were probably the religious temples where gold were stored. Temples were the safest places to store the gold as they were constantly attended, well built and were sacred. Temple priests used to make loans to merchants as recorded from the 18th century BC in Babylon. Modern banking is said to be originated in Medieval Italy. Bank of Venice , Italy established in 1157 AD is the first commercial bank in the world. Originally, it was not a bank in real sense being simply an office for the transfer of the public debt. Later on, Bank of Barcelona(1401) and Bank of Geneva (1407) were established. The ' Bank of England' first English bank, was established in 1694 AD. According to Geoffrey Crowther, the modern banking has three ancestors who are the merchant, the goldsmith and the money lenders. Merchant were keys in the evolution of modern banking. Merchants in those days required remittances of money from one place to another while trading which is an important function of a bank. Concept of Hundi, letter of transfer. draft, cheques etc. to remit money to different places were early stages in the evolution of modern banking. In England, Goldsmiths were the original representatives of private bank. In the 19th century, Banking witnessed the phenomenal development of modern banking paying more attention to many new important jobs in the wake of industrial progress. However, in the 20th century, world viewed Banking institution as highly specialized and sophisticated influencing the whole world business.

History of banking in Nepal started with the establishment of ' Kausi Tosi Khana ' as a banking agency during the time of Prithivi Narayan Shah and ' Tejarath Adda' established during the tenure of Prime Minister Ranodip Singh can be regarded as a initial footprint of Banking development in Nepal. Tejarath provided credit loans to the general public at 5% interest rate on securities i.e. gold, silver and other ornaments. During Chandra Shamsher period, credit facilities of ' Tejarath ' were extended by opening its branches. Later, ' Tejarath' was replaced by the first commercial bank , Nepal Bank Limited established on 30th Kartik 1994 B.S is the first commercial bank in Nepal with authorized capital of 10 million rupees. Then Nepal Rastra Bank was established on 2013 B.S as the central bank under the Nepal Rastra Bank Act 2012B.S. After the restoration of Democracy, the government adopted liberal policy in Banking sector which created conducive environment for the development of Banking sector. Nabil is the first joint venture bank as Nepal Arab Bank in 1984 AD. According to the Nepal Commercial Bank Act of 2031B.S, " Commercial Banks are banks that deal with money exchange, accepting deposits, advancing loans and other commercial transactions except some special functions done by specified cooperative, agriculture and industrial banks." Due to liberalized economic policies and infrastructures, two foreign commercial banks Nepal Indosuez Bank Ltd (Nepal Investment Bank Ltd) and Nepal Grindlays Bank Ltd(Standard Chartered Bank Nepal Ltd) entered in Nepal in the form of joint venture and the trend is continuing till today. At present, there are twenty nine commercial banks.

Concept of Commercial Banks and its most recently developed services

A commercial bank is an association of more shareholder persons or parties undertaken to make operation highly effective with their collective efforts. Commercial banks plays an important role in the economic developments of the country. Commercial means the forces among shareholder persons or parties for the purpose of carrying out a specific operation (Industries or commercial investment, production or trade).

After government adopted liberal and market oriented economic policies to create conducive environment for the development of banking sector, the first commercial bank is Nepal Bank Ltd. established in 1994 BS. Similarly, Rastriya Banijya Bank is the second commercial bank. There was only two commercial banks established before 2041 BS. The major objectives of commercial banks are:

- a) To provide new services
- b) To create competitive investments
- c) To introduce new methods and technology in banking services.
- d) To provide more resources for investment
- e) Offering better links with international market.

Most Recently Developed Services

Banks are financial institutions performing various roles in the improvement of people's economic welfare. Besides, accepting deposits, giving loans, investment of funds, agency function, credit creation and general utility function, the modern competitive banking sectors counts on new financial tools and technique to lure deposits and widen investment scope. Moreover, the recently developed services provided by commercial banks are:

- a) Granting consumer loan
- b) Financial advising
- c) Cash management
- d) Offering Equipment Leasing
- e) Making Venture Capital loans
- f) Selling Insurance Services
- g) Selling retirement plans
- h) Offering Mutual funds and Annuities
- i) Merchant Banking Services.

2.3 Features of Sound lending and Investment policy

Primary function of bank is to accept deposit and make loan. Making loan is the principal economic function of banks to fund consumption and investment spending by businesses, individuals and government. Income and profit of the financial institutions like commercial banks depends upon its lending policy, investment policy of collected fund in different securities. Banks are making different loan portfolios mix depending on the expected yield or higher profitability.

Some required features of lending and investment policy are explained below:

- a) **Profitability:** Rabindra Bhattaria (2006) summarizes that Banks selects those investment sector that maximizes profit against its risk calculated. Nature of

investment sectors chosen by the banks defines its profitability level. Moreover, the investment return or profitability depends on rate of interest, loan duration, volume of loan, investment sectors and its vulnerability.

- b) Diversification :** Surya Rana (2008) puts his view that Diversification is key to reduce risk factor. So, all the firms must diversify their funds or make portfolio investment. They should be able to diversify unsystematic risk factor while investing in different securities of different companies.

- c) Safety and Security:** Kiran Thapa (2009) entails Banks as an institution that lend loans to secured sectors and ensure its safety. They shouldn't invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk or loss factor. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable.

- d) Purpose of loan:** Kiran Thapa (2009) explains that purpose of loan is key to lending and investment policy of bankers. They should know why loan is required to the customer. What is the purpose of loan either for business or for housing or for student overseas study or for other purpose. It is vital importance for banks to know whether their customers are able to repay their loans or not. However, if they are unable to do so, they may be caught by heavy bad debts. So, they should collect detail information about the nature and purpose of loan.

- e) Legality :** Kiran Thapa (2009) puts emphasis that every financial institutions must follow the rules and regulations of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and so on while issuing securities and mobilizing their fund. Illegal securities will bring out any type of problems at any time to the investors. As a result, the reputation and goodwill of the firm may be lost.

- f) Liquidity:** Kiran Thapa (2009) clarifies that the primary functions of banks is to maintain adequate amount of cash for all purpose of investment and lending programs. Liquidity is determined by how efficiently a bank can

generate cash from securities it withhold and reserve. Maintaining liquidity also depends upon how efficient and competitive it is in luring deposits and investing in secured profitable sectors. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. Liquidity is the position of the firm to meet current or short term obligations.

2.4 Meaning of some important terminology

a) Interest

J. Fred Weston and Copeland(1992) expresses that Interest is that additional sure of money changed on borrowing or paid to someone who borrows from the bank or other financial institutions or moneylenders. It is an opportunity cost on sacrificing the saving from own state for certain period.

b) Securities

J. Fred Weston and Copeland(1992) defines that Securities are the main sources of long term financing which involve shares, and debentures issued by the company or government and redeemed in future with interest.

c) Income statement

J. Fred Weston and Copeland(1992) mentions that it is the statement which summarizes and provide the information about revenues and expenditure of the organization during the accounting period. It contains real income and expenditures during the fiscal year. Income statement contains all the items of revenue, gains and losses and operating expenditures incurred in carrying on the business and selling and distributing the goods for the particular accounting period, which gives the amount of net profit.

d) Retained earnings

J. Fred Weston and Copeland(1992) mentions that the certain portion of the firms earnings, which is kept for the future use or contingencies. It is an internal source of financing. This internal source of financing is retained earnings.

e) Ratio analysis

J. Fred Weston and Copeland (1992) states that the relationship between two accounting figure expressed mathematical manner is called a financial ratio. Ratio

analysis is used to compare and analyze as well as interpret a firm's financial performance and status with that of other firms. Ratio analysis helps to give qualitative judgment regarding with financial performance of a firm. Only the following ratios of selected firms are calculated and analyze for this study on investment policy.

1. Liquidity Ratio
2. Asset Management Ratio
3. Profitability Ratio
4. Debt Management Ratio
5. Growth Ratio

f) Standard Deviation

Rabindra Bhattarai (2006) clarifies that Standard Deviation is the positive square root of the mean of the deviations taken from the arithmetic mean, which measures the variability of a set of observations, it can be denoted by ' σ ' .

g) Coefficient of variation

Rabindra Bhattarai (2006) states that Coefficient of variation (C.V.) is the proportion of standard deviation with mean and multiplied by 100. It can be defined

by
$$C.V. = \frac{\sigma}{\bar{x}}$$

h) Mean

Rabindra Bhattarai (2006) states that A mean is the average value or the sum of all the observations divided by the observations and it is denoted by X. The

formula is
$$\bar{x} = \frac{\sum x}{n}$$

i) Correlation

Rabindra Bhattarai (2006) defines that Correlation is one of the statistical tools, which represents the relationship between or among the variables, which does not explain the relationship between or among the variables. It explains the causes and effects of the change of variables. It explains that two variables are correlated if the changed in one variable results in a corresponding change in the others. It can be categorized into two groups: i.e. Positive correlation and Negative correlation.

j) Bond

Surya Rana (2008) describes that bond is the source long term financing or long term promissory note issued by an organization under which borrower agrees to pay interest as well as principle on specific date to the lender. It is of two types: i.e. mortgage bond and debenture bond.

k) Deposits

Surya Rana (2008) views that Financial institutions collect deposits from the customers in various account like current account, saving account and fixed deposit account etc. Therefore, the sum of money collected by the financial institutions from the depositors in various accounts are called deposits. Deposit is the main source of the fund of the financial institutions.

l) Liquidity

Surya Rana (2008) describes that it is the state of owing things of value that can easily be changed into cash. Liquid assets determine the liquidity position of the organization and higher the liquid asset better the financial position.

m) Share

Surya Rana (2008) clarifies that the part of capital owned by a shareholder is called share. These shares are transferable in nature. Thus, any person can be the member of the company by purchasing the certificates of investment on company and could withdraw his/her membership by transferring his/her shares. In Joint stock company, total amount of capital is divided into number of shares through which company can collect capital.

n) Assets

Kiran Thapa (2009) views that Assets are the valuable and important properties of the firm and represents economic resources. All the assets should be measured in monetary term which help to earn future benefits to on organization such as building, depositors, marketable securities, goodwill, patents etc. In the firms, there may be as fixed assets and current assets to run the activities properly and for the smooth operation.

o) Advances

Kiran Thapa (2009) explains that Amount of money, which are paid or lent before data expiration is called advances. It is the sum of amount which was prepaid and treated as assets, will be returned in future and expired the date in future.

p) Balance sheet

Kiran Thapa (2009) summarizes that Balance sheet is a financial statement, which is prepared at the end of each accounting year which, contains assets liabilities, owner share capital. It shows the actual financial position of the organization, the efficiency of all assets and liabilities separately. Broadly speaking, it shows three things, viz. i) the nature and value of assets ii) the nature and value of liabilities and iii) the position of capital

q) Liability

Kiran Thapa (2009) defines that Liabilities are the amount debt payable in future by the firm to its creditors. Liabilities represent the obligations to make payments through cash or bank or provide goods and services in future: e.g. creditors, bills payable, loan outstanding expenses etc.

r) Loan and advances

Kiran Thapa (2009) explains that Loan and advances and overdraft are the main sources of income for a firm. Bank deposits can be crossed beyond a desired level but the level of loans and advances and overdrafts will never cross it. The facility of granting loan and advances and overdraft is one of the main services and facilities which customers can take benefit. Due to high demand of loan, commercial banks and other financial institution may take more preferential collateral while granting loan and advances. Some portion of loan and advances and overdrafts includes that amount which is given to staffs of the banks as home loan, vehicle loan, personal loan and others.

s) Risk Analysis

Kiran Thapa (2009) summarizes that Risk means uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm increases. This ratio checks the degree of risk involved in the various financial operations.

2.5 Review of Books and Journals

F Morris (1980), in his discussion paper on " Latin American banking system in the 1980's" has concluded that most of the banks concentrated on compliance with central bank rules on reserve requirements, credit allocation (investment decision) and interest rates. While analyzing loan portfolio quality , operating efficiency and soundness of bank investment management has largely been overlooked

Mr. Bodi B Bajarachary (1991) in his article " Monetary Policy and Deposit Mobilization in Nepal" that the mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. For this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in the form of deposit of the private sectors. So, for providing credit to the investor is a different aspect of the economy."

He has explained that commercial banks only can play an important role in mobilizing the national savings. Now a days, other financial institutions like Finance companies, co-operatives societies have been established actively to mobilization deposits in the proper sectors so that return can be ensured from the investment.

Similarly, Mr. K Pradhan (1991) , in his article , "Nepalma Banijya Bank Upalabdhhi Tatha Chunauti, " has highlighted some major issue in local commercial banks in comparison of recently established joint venture banks. He has pointed out the whole Nepalese commercial banking system in terms of their performance and profit ability. He has found the following points, which are summarized below:

- a) Deposit collection rate of joint venture banks is very strong and efficient in comparison to other local commercial banks.
- b) The pattern of deposit collection are not similar among these banks. Current deposit ratio in local banks is 9.34%and where as 52.5% in the joint venture banks however, fixed deposit ratio of local bank is very high in comparison with JBVS.

The main function of financial institution is to collect the savings of public regularly and invest in different sectors. Because, deposit is the life blood of them either they are commercial banks, finance companies, co-operative societies, governmental or non governmental.

William J. Sharpe and Alexander J. Gordon (1995) has defined the term " Investment " as the sacrifice of money today for the prospective money tomorrow. He writes " Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk.

Mr. Shekhar Bahadur Pradhan (1996) in his articles, " Deposits mobilization its problems and prospects, " he has presented the following problems in the context of Nepal.

- People don't knowledge and proper education for saving in institutions manner. They don't know financial organization process, withdrawal system depositing system e.t.c.
- Financial institutions don't want to operate and provide their services in rural areas.
- By operating rural banking programs and units.
- Nepal Rastra Bank must organize training programs to develop the skilled human resources.
- By spreading a numbers of co-operatives societies to develop micro-banking services and improve the habits of public on deposits collection to the rural areas.

The term " Investment" is defined by Frank. K. Really(1999) in his book "Investment " an investment is the current commitment of funds for a period of time to obtain a future flow of funds. That future flow should compensate commitments. Future should be involved in Investment.

Above mentioned definition of different authors about investment classify that investment means to trade money for expected future stream of payments or benefits that will exceed the current cash out flow which is the benefit to the investor for sacrificing the time and commitment or due to the uncertainty and risk factor. Finally institutions must be able to mobilize their deposit collection funds that they can earn good return on their investment.

Charles P. Jones(1999) , emphasizing on the proper management of an investor's wealth says, "Investment is the commitment of funds to one or more assets that will be held over some future time period". Investment is concerned with the management of an investor's wealth which is the sum of current income and present value of all future income.

Shakespeare Baidya (1999) has an elaborated definition on investment which beseeches of sound investment policy and covers wider aspects. He writes, " A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sector tends to be connected in the loan portfolio. When a bank gets into serious financial trouble its problem usually springs from significant amount of loans that have become uncollected due to mismanagement, illegal manipulation of loans misguided lending policy of unexpected economic downturn. Therefore, the banks investment policy must be such that it ensures sound and prudent in order to protect public funds.

Further in details he deals with what type of loan do banks make? And how much of loan is to be invested? The banks make a variety of loans to a wider variety of customers from many different purposes , from purchasing automobiles to constructions of homes and making trade with foreign countries. There , no uniform rules can be laid down to determine the portfolio of banks. The environment in which the bank operates influences its investment policy. The nature and availability of funds and assets also differ widely from region to region within a country or country to country. For example, the scope of operating a bank in Jumla will be different from the scope of operating a bank in Kathmandu. The investment policy to be applied in Kathmandu may not be applicable to the customers of Jumla because the demand for loans is less in rural areas whereas it is higher in urban areas.

Similarly, Mr Bhasker Sharma (2000) has found same results that all the commercial banks are establishing and operating in urban area in his study" Banking the future on competition". His achievements are

- Commercial banks are establishing and providing their services in urban area only. They don't have interest to establish in rural areas. Only the branch of Nepal Bank Ltd and Rastriya Banijya Bank Ltd are running in those areas.
- Commercial banks are charging higher interest rate on lending.
- They have maximum tax concession.
- They don't properly analyze the credit system.

He further elaborates his idea as " Due to the lack of investment avenues, Banks are tempted to invest without proper credit appraisal and on personal

guarantee, whose negative side effect would show colors only after four or five years." He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transactions and activities are possible.

Jack Clark Francis, William F Sharpe ,Gordon J. Alexander and Jeffery V. Bailey (2005) explained " Investment process is concerned with how an investor should proceed in making decisions about what marketable securities to invest in , how extensive the investments should be and when the investments should be made. The investment environment encompasses the kinds of marketable securities that exist and where and how they are bought and sold. Investment is restricted to real Investment of the sort that increases national output in the future.

The article published in Annual Bank supervision report NRB (2007/08), Bank supervision Department conclude that the loan and advances extended by banking industry. The loans and advances of the public banks (excluding ADB) have enhanced their portfolio by more then Rs 20.50 billion resulting in the dilution of the concentration of public banks. However, the three public banks are still the three largest individual banks in Nepal, in respect of their loans portfolio. The Nepalese banking system is riddled with a significant amount of non- performing assets is on the decline while total loans are continuously increasing thus resulting in a favorable proportion of Non- performing assets. The NPA ratio, however is still a long way from being at satisfactory level with regard to qualify of the loan portfolio of the individual banks, RBB was the worst closely followed by Nepal Bangladesh Bank, Lumbini Bank and NCC Bank Ltd. Along the private banks, it was Nepal Bangladesh Bank, Lumbini Bank and NCC who had the largest proportion of NPA in their portfolio, while the lowest and the best NPA ratio belonged to Machha Puchhre Bank Ltd. RBB has 60% of Bad debts and according to FY 2063/64 NPA of RBB has 26%. In FY 2063/064 Bad debts principle is Rs 40 million. The large volume NPA has traditionally been a problem in public banks and three private banks. After a reform program was initiated in public banks, the volume of NPA, both gross as well as net has come down , significantly. The fact is also reflected in the following chart, where a wide gap between NPA and provision can be observed.

N. Crosby , N. French and M. Oughton (2007;66-83), in their article “ Banking lending valuations on commercial property” elaborates that the banking

community are trying to identify the value on which they can apply a loan value ratio and thus protect their loan in the future should the borrower default. A simplistic understanding of the value therefore suggests that the figure provided should be the figure which has a life for the length of the loan. However, the very concept is economically impossible in any market with volatility. Values can only be snapshots in time. They do not have a shelf life.

For this reason EMLV is conceptually and practically redundant in real estate markets. It appears on the surface to be a solution to the banks requirement for the reduced risk property lending. In reality, it may indeed transfer that risk by demanding a level of protection to the bank that the valuation cannot give. But if values agree to it, it could open the way to successful negligence claims in the aftermath of poor lending decisions. This is because the concept appears to be the determinant of a virtually certain level of value below which the value will not fall for an indeterminate time into the future. Values are vulnerable to claims that their valuation was too high, should values fall below that level at any time during the loan. Sustainable values are predicted on having a shelf life but the application believes this fundamental requirement. Values must have a time point. The concept is redundant, the target unidentifiable and the definition ambiguous. It is little wonder that the application appears mechanistic. Market value is an obtainable and useful piece of information to the lender. Worth in the market sets this in context and gives the lender a view of whether market prices are at current sustainable levels. In obtaining worth, the value is obliged to carry out both quantitative and qualitative investigation into the future and this generates other analysis at different time points during the course of the loan.

EMLV appears to be another blind alley which will divert the appraisal profession from its more important task of improving pricing estimates and thereby influencing market prices, and providing all clients, whatever the valuation purpose, with the information in reports which puts the limitations of valuation figures into perspective.

Sujit Mundul, (2008:36), “Understanding of credit derivative Business Age September” emphasizes Credit derivative enable financial institutions and companies to transfer credit risk to a third party and thus reduce their exposure to the risk of an obligor’s default. Credit enhancement techniques, which help reduce the credit

risk of an obligation, play a key role in encouraging loans and investment in debts. In legal term credit derivative are privately negotiated bilateral contract to transfer credit risk from one party to another. Some credit enhancement methodologies have existed for a longtime with the support of guarantee, letter of credit or insurance product. However such mechanism works best during economic upturns. As an alternative to commercial risk mechanism, various financial mechanisms have been developed over the past few decades. Such credit risks instruments are normally refer to as credit derivatives. Credit derivatives helps to transfer credit risk away from the lender to some other party. Now credit derivative grew popular both as tool for hedging credit risk exposure as well as method of investing in certain types of credit risk.

2.6 Review of thesis

Dinesh Raj Shakya (1998), in his thesis paper, financial analysis of joint venture bank in Nepal, (with special reference to Nepal Arab Bank Ltd and Nepal Grindlays Bank Ltd." has made an attempt to calculated and analyze the financial health(during the period of 6 years from FY 1988/89 to 1993/94) of NABIL bank and NGBL. His main objectives are to find out the correlation between total deposits and loan and advances of both banks and to find the capital adequacy position. Actually, he found the following findings:

- There existed highly positive correlation between total deposits and loan and advances of both NABIL and NGBL. NGBL's Liquidity and profitability position was comparatively better than that of NABIL.
- Capital adequacy position of NABIL was more satisfactory than that of NGBL in average, but NABIL 's position was deterioration each year.

At the end of his study, he has recommended that both banks should follow all directions of Nepal Rastra Bank for the sake of national development.

Mr Upendra Tuladhar (1999), has conducted his study entitled, " A study on Investment Policy of Nepal Grindlays bank Ltd in comparison to other joint venture banks (NABIL And HBL)". The researcher main objective of study was to evaluate liquidity, assets management, efficiency, profitability, growth ratio o NGBL in comparison to NABIL and HBL and to examine the fund mobilization and

investment policy of NGBL through off balance sheet and on balance sheet activities in comparison to the other two banks.

Through his research, Mr. Tuladhar (2000) has found that NGBL has been successful to maintain in the best way both liquidity position and their consistency among three banks. NGBL has successful to maintain and manages assets towards different income generating activities. Income from loan and advances and total investment is the main income sources of NGBL and it can affect the bank's net profit. Profitability position of NGBL is better than NABIL and HBL.

Similarly, Ruru Kusam Gautam (2000), in his thesis work entitled "Investment Analysis of the finance companies in context of Nepal" has tried to examine the deposits, loan and advances, repayments of the loans. His main objective was to overcome the existing problems of finance companies are:

- Analysis of transaction on the government securities
- Analysis of the capital range of the finance companies.
- Analysis of the loans and advances of finance companies.

He has found the following points from his research study

- Investment on government securities of finance companies are decreasing in 1999 due to low return on government securities.
- Capital range of the finance companies is not greater ranging from 100-500 lakhs.
- The major source of fund of finance companies is utilized in loan and advances.
- They grant their fund on hire purchase loan, lease loan, term loan but higher purchase loan in decreasing rapidly. Sabina Panta (2005) has conducted her study entitled "Investment policy of NABIL, HBL and NB bank Ltd." She has taken NABIL, HBL and NB bank as sample for comparative evaluation of the investment policy adopted. The specific objectives were to evaluate the liquidity position, efficiency of assets management, profitability and risk position of concerned commercial banks and compare each other and also a comparison on fund mobilization and investment policy of selected banks. She had chosen analytical and descriptive method of research design for her study. Method analysis included ratio analysis, trend analysis, F-test, simple

and multiple regression tools. The study period was 1997/2003. The research concluded that

- The overall financial performance of NABIL is better than that of other banks but HBL and NBBL are also operating smoothly and success in becoming the pillars of economic system of the country.
- Selected commercial banks are adopting passive investment policy.
- Joint venture commercial banks are not providing investment priority to the rural sectors.

Thapa (2005) has conducted his thesis with main objectives of the study of the liquidity, profitability, activity, capital structure and invest ability position of both SCBNL and HBL, to examine the trend of deposit and loaned advances and to suggest and recommend some measures by evaluating the finding financial performance of both JVBs. The major findings he had presented were as follows: The current ratio of both the banks are always below the normal standard 2:1 which is the indication of unsatisfactory liquidity position, through SCBNL is found slightly better as compared to HBL in this regard. HBL has been found utilizing their total deposits successfully in the form of extending loan and advances for profit generating purpose as compared to SCBNL. Return on investment of SCBNL has always found higher in all fiscal years of study as compared to HBL(i.e. 4.3% > 2.11%). EPS of both the banks were found in fluctuating trend through dividend per share of HBL has found always lower in all fiscal years. Both the banks were suggested to reduce the operating expenses to maximize the profit.

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- Selected commercial banks are adopting passive investment policy.
- Joint venture commercial banks are not providing investment priority to the rural sectors.

Ruby Gupta(2007) conducted a research study entitled, " Comparative analysis of financial performance of commercial bank in Nepal". The researcher has taken Everest Bank Ltd, SCBNL and BOK Ltd as sample. The major objectives of the study was to evaluate Liquidity ratio, Activity ratio, Profitability ratio and other market related ratios of there sample banks. The researcher had used descriptive and analytical research design in writing the research study. The research has also used F- test in testing the hypothesis.

The researcher study concluded that among three sample bank BOK maintained the highest liquidity position during the research period in comparison to other two banks. The study further added that SCBNL had the excellent assets utilization in order to achieve the goal of maximizing the shareholder's wealth. In the same way, SCBNL generated the highest net profit and paid the highest dividend per share to shareholders. The study further stated that there is no significance difference among the commercial banks in terms of net profit to total assets ratio and dividend payout ratio. The review of above relevant thesis has not doubt enhanced the fundamental understanding and foundation knowledge base, which is prerequisite to make this study meaningful and purposive.

In the study, " Investment policy of commercial banks in Nepal" Prem Bahadur Shahi (2008) has comparatively analyzed the various aspects of JVBS with their counterparts of Nepal Bank Ltd and other banks. He has basically emphasized on their investment policy. He is motivated by the ideas of comparing or contrasting between their policies rather than good or bad finding about them. JVBS have comparatively fewer branches in the country and not operating any branches in rural sectors. On the other hand, NBL, a semi-government bank, has around 211 branches throughout the country. JVBS are the commercial banks with foreign investors but NBL is rather affected by governmental interference to the global market unlike the other commercial bank. This study period is from 2003/08. In his study, he has found

that the liquidity position of JVBS is comparatively weaker than that of NBL however the on- balance sheet as well as off- balance sheet operations of JVBS are comparatively more successful. Similarly, JVBS and NBL are in the similar profitability position and JVBS growth ratio is more satisfactory than that of NBL.

Mr. Prem has come up with some recommendation for better investment policy of the JVBS. He concludes that the financial and economical development of a country largely rests on the industrialization and commercialization. Commercial banks must mobilize their funds in the sectors yielding optimal returns such as purchasing of shares and debentures of other financial and non- financial institutions. The JVBS are to venture in new sectors of investment with low level of risks. The loan default in commercial banks is the result of various factors i.e. political influence, lack of the necessary skills of project appraisal, improper collateral evaluation, irregular supervision and lack of entrepreneurial attitude. He suggested for the enactment of strong loan recovery act and its proper implementation for the recovery of loans. His study cannot explain the result after FY 2009/10. Investment policy of commercial banks cannot be defined by this study for the succeeding fiscal years. His study basically focuses the investment policy of commercial banks of Nepal. This study has been failed to compare the investment policy with other financial institutions like finance companies. It is also unable to examine the risk factors.

Aryal, K. (2008), in his thesis “ A evaluation of credit investment and recovery of financial public enterprises in Nepal; A case study of ADB/N, says that high interest rate of non institutional sources, people are unable to pay their credit at fixed time. There institutions compel them to transfer their property to money lender resulting himself or herself as a land less person. ADB/N is one of the major financial institutions supporting for the people for the different purpose like agro, industries, tea, coffee, livestock farming etc. ADB/N provides the credit for individual and co-operative sector to all regions of the country. Credit outstanding amount is increasing day by day but the collection amount is not good. However, ADB/ N has increased its effort to collect its credit. It is said that those people who really need don't receive sufficient amount of credit from ADB/N. So, Mr. Aryal choose this bank to analyze the credit disbursement and recovery pattern of ADB/N.

After detail study of the previous thesis, researcher has reached to this conclusion that they have researched and analyzed the data on the topic related to

financial performance and investment policy up to the FY 2007/08. Furthermore, there had not been comparative analysis of investment policy of Joint Venture Banks(SCBNL, NABIL and BOKL) for the FY2008/09. That's why, researcher has tried to show the comparative analysis of Investment policy of JVBS and has also analyzed the relationship between different variables. This work is different with previous works. Study period is also different than previous studies although there are similar topics. So this study is necessary to study.

The researcher has used more secondary data. Only few primary data are used through questionnaire and interviews related to investment policy. The risk factors of institution have been analyzed. The researcher has comparatively analyzed the deposit collection position of the financial institution and fund mobilization. Comparative growth ratios have been calculated and analyzed in this study. Other researches have not made this type of study of JVBS which is tried by the researcher in this study.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology adopted in this chapter is the set of various instrument approaches used in achieving the predetermined objectives as stated in the extent of their reliability and validity in this research. The research methodology has primarily sought the evaluation of the investment policies of the targeted commercial banks i.e. Standard Chartered Bank Nepal Ltd and Bank of Kathmandu Ltd. The research methodology adopted in this chapter follows some limited but some crucial steps aimed to achieve the objectives of the research. Research methodology refers to the various sequential steps(along with a rationale, of each such step) to be adopted by a researcher in studying a problem with certain objects in view.

Though limited to some conventional boundaries, the research has something to offer all the concerned, “ Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done significantly. It is necessary for the researcher to know not only the research methods/ techniques but also the methodology. Researcher not only need to know how to develop certain indices or tests, how to calculate the mean, the mode, the research techniques but they also need to know which of those methods or technique are relevant and which are not and what would they mean and indicate and why.

3.2 Research Design

This study is analytical in nature. A true research design basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspects of design strategy. The research design allow a researcher take an appropriate measures and direction towards the predetermined goals and objectives. “A research design is the arrangement of condition for the collection and analysis of data in a manner to combine the relevance to the research purpose with economy in procedures. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and control various things.

A research design is a plan for the collection and analysis of data. It presents a series of guide posts that enables the researcher to progress in the right direction in order to achieve progress in the right direction in order to achieve the goal. Generally, a common research design possess the five basic elements viz. i) Selection of problem ii) Methodology iii) Data gathering iv) Data analysis and v) Report writing.

The present study follows the descriptive as well as exploratory design to meet the stated objectives of the study. The crux of the research is to make comparative analysis of Investment policy of selected two commercial banks (SCBNL and BOKL).

3.3 Population and sample

There are altogether 24 listed commercial banks. Among them, only two commercial bank viz. Standard Chartered Bank Nepal Ltd and Bank of Kathmandu Ltd have been taken as samples in this research study to compare their investment policy. In 1987 A.D. SCBNL was established but BOKL was established in 1993 A.D. Their investment policy may be different, depend on the basis of establishment period. To examine the investment policy of those firm which are established in different years gap; they are selected. Profile of sample commercial banks is mentioned in appendix-E. (Please see in appendix-E)

3.4 Sources of Data

For this study, collected data are from secondary sources.

Secondary sources

The study is based on secondary data. The secondary sources of data collection are those which have been used from published or used by someone previously. The secondary sources data are Balance Sheet, P&L A/c, Interest Income Statement, Share Capital & Ownership Statement, Investment Statement, Commission & Discount Statement, Capital Adequacy Table of the concerned financial institutions, annual report and literature publication of the concerned commercial banks. The NEPSE report of the concerned financial institutions has furnished some important data to this research study. Some supplementary data and information have been collected from the authoritative sources like Nepal Rastra

Bank. The data for the study are collected from records websites of the sample banks. Other secondary data collected are collected from various unpublished master's degree thesis for the past period data.

3.4.1 Data Collection Procedure

Especially the annual report of Standard Chartered Nepal Bank limited and Bank of Kathmandu Limited are taken as main source of data collection for the purpose of study. NRB publications such as economic report and bulletin, banking and financial statistics, annual reports of NRB etc. Other main source is website of the sample banks.

3.4.2 Methods used

For the purpose of the study all collected secondary data are arranged, tabulated under various heads and then after analyzed and statistical analysis has been carried out to enlighten the study. Mainly, financial methods are applied and appropriate statistical tools are used.

- i) Financial methods
- ii) Statistical Methods

3.5 Analysis and Presentation of Data

Analysis and presentation of data is the core of the research study. This study needs some financial, accounting and statistical tools to accomplish the objectives of this study. The financial and statistical tools are most reliable. To achieve the objectives of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data will be done according to pattern of data & available. Simple analytical statistical tools such as graph , percentage : Karl pearson' s coefficient of correlation and the method of least square of the trend analysis are adopted in this study. Similarly, some strong accounting tools such as ratio analysis and trend analysis have also been used for financial analysis.

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. Then, they are compared with each other to interpret the results . Data can be presented for analysis in various forms. Under this study, data have been presented in tabular forms, several figures and diagrams. All the figures, trend line graphs and other figures. Two kinds of tools

have been used to achieve the purpose, 1) Financial tools and 2) Statistical tools which are explained below:

3.5.1 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 this study. It helps to show mathematical relationship between two accounting items or figures. Ratio analysis is the only tool that can collate the financial performance and status of a firm with the other firms. It is also inevitable for the quantitative judgment with which the financial performance of firms can be presented properly. Only five ratio have been taken which are briefly explained below.

3.5.1.1 Liquidity ratio

Liquidity ratio are applied to measure the ability of the firms to meet the short term obligations. It measures the speed of firms to convert the firms assets into cash to meet deposits withdraws and other current obligations. Various types of liquidity ratios are applied in this study which are explained below.

I. Current ratio

It refers to the relationship between current assets and current liabilities of a firm that also measures the short-term solvency of the firm. Current assets involve cash and bank balances, 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 the following:

$$\text{Current Ratio} = \frac{\text{CurrentAsset}}{\text{CurrentLiabilities}}$$

II. 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 that can be stated as follows:

Investment on Government Securities to Current Assets Ratio

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

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

III. Cash and Bank Balance to Current Assets Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. 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 that can be presented as

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

where, cash and bank balance includes cash in hand, foreign cash in bank, cheques and other cash items and bank balance with domestic and foreign banks.

IV. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance ratio 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 presented as

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

where total deposits consists of deposits on current account, saving account, fixed account, money at call and other deposits.

3.5.1.2 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 Working Fund Ratios

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks in terms of earning high profits from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund. That is formulized as

$$\text{Loan and Advances to Total Working Fund Ratios} = \frac{\text{Loan and Advance}}{\text{Total Working Fund}}$$

where, total working fund includes total amount of assets given in balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items, i.e. letter of credit, letter of guarantee etc.

II. Loan and Advances to Total Deposits Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections/ deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better utilization of total deposits. This ratio can be obtained dividing loan and advances by total deposits, which can be shown as

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

III. Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning income. This ratio indicates how properly firms 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, which can be shown as

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

IV. Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by

Investment on Government Securities to Total Working Fund Ratio

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

V. Loan Loss Ratio

Loan loss ratio shows the possibilities of loan of financial institution to be doubtful and how effectively the banks and finance companies have managed their loan and advances so that there is greater chances of loan and advances to be refunded. This ratio can be calculated dividing the total amount of loan provision by total amount of loan and advances. It can be presented as

$$\text{Loan Loss Ratio} = \frac{\text{Total Loan Provision}}{\text{Total Loan \& Advance}}$$

Where, total loan provision relates to the amount of provision possible loss on provided loan and advances by the firms.

3.5.1.3 Profitability ratios

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 institutions. For better financial performance profitability ratios of firms should be higher. Profitability position of the firms can be presented through the following different ways.

I. Return on Loan and Advances Ratio

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

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

II. Return on Total Assets (Total Working Fund)

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

$$\text{Return on Total Assets (Total Working Fund)} = \frac{\text{Net Profit(Loss)}}{\text{Total Assets}}$$

III. Return on Equity (ROE) Ratio

Return on equity ratio points out how efficiently the banks have used the owner's funds. It is calculated dividing net profit by total equity capital and can be expressed as

$$\text{Return on Equity (ROE) Ratio} = \frac{\text{Net Profit(Loss)}}{\text{Total Equity Capital}}$$

Where, total equity capital (net worth) indicates to the owner's claim or the excess amount of total assets over total of long and short- term liabilities. Net worth relates to the reserve of shareholders including P&L a/c and share capital.

IV. Total Interest Earned to Total Assets Ratio

This ratio is used to measure the capacity of the firm for earning interest through proper utilization of outside assets. This ratio can be calculated dividing total interest earned by total assets and can be stated as :

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

Where, higher ratio indicates the proper utilization of assets for earning interest income. Total outside assets consists of loan and advances, bills purchased and discounted and all investments. Total interest earned includes the income received from loan and advances, cash credit and drafts, government securities, inter bank and other investments.

V. Total Interest Paid to Total Working Fund Ratio

Total interest paid to total working fund ratio is calculated to find the percentage of interest paid to total working fund. Lower ratio indicates the better performance of financial institutions in the form of interest earning on its working fund. This ratio is calculated dividing total interest paid from investment by total working fund and is mentioned as below

$$\text{Total Interest Paid to Total Working Fund Ratio} = \frac{\text{TotalInterestPaid}}{\text{TotalWorkingFund}}$$

VI. 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 incomes of financial institutions. This ratio indicates how efficiently the selected banks have mobilized their resources to bear the interest on invested assets. This ratio is calculated dividing total interest earned by total operating income and can be stated as

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

VII. Earning Per Share

Earning per share is calculated to find out the ratio of return on equity shares. This ratio indicates the profitability position of the company. This ratio is calculated by dividing the closing value of share by its PE ratio. In this study, calculated EPS is presented.

VIII. Dividend Per Share

Dividend per share is a types of ratio that helps to the investors for determining the investment sector and helps the companies or firms themselves to satisfy their shareholders and prepare a good investment policy. This ratio is calculated by dividing dividend paid to equity shareholders by its no. of equity share. In this study, calculated DPS is presented.

3.5.1.4 Debt Management Ratio

Debt management ratios (leverage ratio or capital structure ratio) are used to measure the extent to which firm is using debt financing or financial leverage and the degree of safety afforded to creditors. Creditors' view point, debt management ratios of firms should be lower. Debt management ratio of the firms can be presented through the following different ways.

I. Debt Ratio

The ratio of total debt to total assets is called debt ratio. It measures the percentage of the firms' assets financed by creditors. The lower the ratio, the greater the protection offered to the creditors in the event of liquidation. This ratio indicates how much debts has been used in the firm. This ratio is calculated dividing total debt by total assets can be stated as:

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

A higher debt ratio generally means that the firm must pay a higher interest rate on its borrowing, beyond some point, the firm will not be able to borrow at all.

II. Debt-Equity Ratio

Debt-equity ratio is calculated to find out the long term financial solvency of a firm. This ratio indicates the contribution at a firm's financing by debt holders and equity holders. This ratio is calculated dividing total debt by total equity. Total equity consists of equity capital and undistributed profits. This ratio is used to measure the financial risk of the firm and creditors. This ratio can be stated as:

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

III. Interest Coverage Ratio

Interest coverage ratio (Times Interest Ratio) is the ratio of earning before interest and taxes (EBIT) to interest charge. It measures the ability of the firm to meet its annual interest payments. High ratio shows that a firm can pay the interest easily. So, the higher ratio is favorable. This ratio can be stated as:

$$\text{Interest Coverage Ratio} = \frac{EBIT}{\text{Interest Charges}}$$

3.5.1.5 Growth Ratio

Here, the growth ratio 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 the following growth ratio are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

1. Growth ratio of total deposits
2. Growth ratio of total investment
3. Growth ratio of loan and advances
4. Growth ratio of net profit

3.5.2 Statistical Tools

Some important statistical tools have been used, to present and analyze the data for achieving the objective of this study. Co-efficient of variance, co-efficient correlation analysis etc, have been used for the purpose. The basic statistical analysis related to this study are discussed below.

3.5.2.1 Karl Pearson's Correlation Co-efficient Analysis

This statistical tools 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 tools analysis the relationship between those variables and helps those selected banks to make appropriate investment policy regarding to profit maximization and deposits collection, fund utilization through providing loan and advances or investment on other companies. Karl Pearson's co-efficient of correlation has been used to find the relationships between the following variables.

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

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

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Where,

n = Number of observation in series X and Y

X= sum of observations in series X

Y= sum of observations in series Y

X²=sum of squared observations in series X

Y²= sum of squared observations in series Y

XY= sum of the product of observations in series X and Y

3.5.2.2 Trend Analysis

This type of statistical analysis interprets the trend of deposits, loan and advances, investments and net profits of Standard Chartered Bank Nepal Limited and Bank of Kathmandu from 2004/05 to 2008/09. It is necessary to calculate the forecasting for next five years till 2013/2014. The following trend values analysis has been used in this study.

- i. Trend analysis of total deposits
- ii. Trend analysis of loan and advances
- iii. Trend analysis of total investment
- iv. Trend analysis of net profit.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

This chapter is the main body part of the study. It comprises detail data of dividend records, EPS, growth position, correlation and regression, ratio of both commercial bank which are presented and their interpretation as well as analysis are included. In this chapter IV, researcher has tried to analyze and diagnose their recent investment policy of commercial banks. Different tables and diagrams/ figures are shown to make the analysis simple and understandable.

4.1.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weaknesses of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it, data have been analyzed.

Various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluate and analyze the performance of two commercial banks: SCBNL and BOKL in comparison to each other. Financial ratios are calculated and data will be analyzed with the help of those ratios. Some important financial ratio are only calculated from the point of view of the fund mobilization and investment policy. The ratio's are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedures dividing one item by another. All these calculation are based on financial statements of concerned commercial banks and the ratios are determined up to two figures after the decimal point. The importance and needed financial ratios, which are to be calculated for the purpose of this study are mentioned below.

4.1.1.1 Analysis and Interpretation of Liquidity Position:

Generally, accepted Liquidity ratio is 2:1. however it is also accepted 1:1 which depends upon the nature of the firms because it is based on current liabilities. Liquidity ratio determines the capacity of the firm to meet its cash obligation. Commercial bank must maintain their satisfactory liquidity position to meet the credit need of the community, demand for the deposit withdrawals. Analysis of liquidity position needs the preparation of cash budget. But creating the relationship between current assets to current liabilities can show liquidity position. The following ratio are analyzed and interpreted under the liquidity ratio.

I. Current Ratio:

This ratio is computed dividing current assets by current liabilities which helps to indicate the ability of a firm to meet its current obligation. Standard current ratio is 2:1 but 1:1 is also considered for the banks. This ratio represents the relationship between cash and other current assets to its current obligations presented in table 1 below. We have,

$$\text{Current Ratio} = \frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

Where, current assets consists of cash in hand, cash at NRB and other financial institution, money at call & short notice, short term investment, loans advance & bill purchase and other assets. Current liability consists of deposit liabilities, loans & borrowings, bills payable, proposed & unpaid dividend, income tax liability and other liability. Detail information for the ratio calculation of Current Assets to Current Liabilities of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no.1

Table 4.1

Showing the Relationship Between Current Asset and Current Liabilities
Ratio(Times)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	0.72	0.78	0.84	0.87	0.93	0.83	0.07	8.76
SCBNL	0.59	0.53	0.56	0.62	0.53	0.57	0.04	6.17

Above presented table 4.1 discloses that current assets of all selected banks is lower than the normal average ratio 2:1. In case of BOKL, it has tried to maintain the ratio of 1:1 and the ratio is in increasing order however that of SCBNL ratios are lower and in 2008/09 this ratio is lower than previous year. This indicates that all the selected firm are not able to maintain and fulfill the current obligation and cash demand of the customers during the study period.

Current ratio of BOKL is in fluctuating trend from the beginning of the period and that of SCBNL is also in fluctuating trend. During the study period, BOKL has followed increasing trend and SCBNL has tried to increase the ratio in the year 2005/06 to 2007/08 but in the year 2008/09 it is decreased to 0.53 to 0.62.

The co-efficient of variation between the current ratios of commercial banks are comparatively not similar and SCBNL has lower CV than BOKL. The liquidity position of the BOKL is comparatively better than SCBNL because current ratio of BOKL is higher than SCBNL.

II. Investment on Government Securities to Current Assets Ratio

The financial institutions want to invest their collection/ deposits on government securities which are the safest investment from the risk and uncertainty point of view. Although those securities can be sold easily in the financial market or they can be converted into cash, they are not very liquid assets of banks that are invested on various government securities.

Investment on Government Securities to Current Assets Ratio=

$$\frac{\text{Government Securities}}{\text{Current Assets}}$$

Detail information for the ratio calculation of Investment on Government Securities to Current Assets of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no.2

Table no. 4.2

Showing the Relationship Between Investment on Government Securities to Current Assets Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	32.59	30.26	20.71	14.96	10.09	21.72	8.64	39.76
SCBNL	59.97	58.29	47.64	42.13	49.47	51.50	6.70	13.02

The above presented table- 4.2 shows investment on government securities to current asset ratios of both banks are in diminishing trend. However, SCBNL has increased the ratio in the year 2008/09 to 49.47 from 42.13. The liquidity position of SCBNL is better in comparison to BOKL. BOKL has not invested its current assets on government securities increasingly. It means it has invested in other productive and profitable sectors. Due to more deposit collections and lack of profitable and productive sectors, SCBNL have the higher ratio and decreasing trend. BOKL and SCBNL has registered the ratios 10.09 and 49.47 for the fiscal year 2008/09 respectively.

The co-efficient of variation between the Investment on Government Securities to Current Assets Ratio of commercial banks are comparatively not similar and SCBNL has lower CV than BOKL. In case of investment, SCBNL has made secured investment than that of BOKL.

III. Cash and Bank Balance to Current Assets Ratio

Cash and bank balances are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firm as per cash and bank balance. Higher the ratio, better the ability of the firms to meet the daily cash requirement of their customers. Lower ratio is the worst to the banks, so a firm may not be able to pay the amount of cheques which are presented by their clients. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such a manner that firm may not be paid more interest on deposit and may not have liquidity crisis. This ratio can be calculated as follows:

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

Where cash and bank balance assists of cash in hand including foreign currency, cheques and other cash items and bank balance in foreign and domestic bank. Detail information for the ratio calculation of Cash and Bank Balance to Current Assets of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no.3

Table no. 4.3

Showing the Relationship Between Cash and Bank Balance to Current Assets Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	11.24	8.29	11.68	10.19	12.62	10.80	1.48	13.70
SCBNL	9.25	9.95	13.55	10.61	15.52	11.78	2.38	20.17

The above table 4.3 shows that cash and bank balance to current assets ratio of both selected banks are better. The higher ratio of SCBNL is 15.52 for the fiscal year 2008/09 and the lowest of BOKL is 8.29 for the fiscal year 2005/06. SCBNL has followed the higher ratio of 15.52 for the year 2008/09 and lower of 9.25 for the year 2005/06. SCBNL has registered the highest mean cash and bank balance to current assets ratio of 11.78. It shows that SCBNL has the better liquidity position.

Comparatively, SCBNL has higher C.V than BOKL . It indicates that cash and bank balance to current asset ratio is less homogeneous than that of BOKL. During the period, BOKL has registered lower risk in managing cash and bank balance to current assets ratio i.e. 1.48.

IV. Cash and Bank balance to Total Deposits Ratio

This ratio measures the ability of bank to meet future withdrawals of deposits. Higher ratio shows the greater ability of the firms to meet the customers demand on their deposits. It is calculated dividing total amount of cash bank balance by total deposits, which can be mentioned as:

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

Where, cash and bank balance consists of cash in hand including cheques, foreign currencies, other cash item, and balance in domestic and foreign banks. Deposit includes the amount of deposits in current, saving and fixed deposits account, money at call or short notice and other type of deposits. Detail information for the ratio calculation of Cash and Bank Balance to Total Deposit of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no.4

Table 4.4
Showing the Relationship Between Cash and Bank Balance to Total Deposit
Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	8.27	6.94	10.62	9.09	12.07	9.40	1.79	19.05
SCBNL	5.74	5.53	8.20	6.89	8.75	7.02	1.29	18.30

The above table 4.4 shows that the cash and bank balance to total deposit ratio of both selected firms are better however both banks ratios are in fluctuating trend with high fluctuation in ratio. Both the banks have higher ratio in the year 2008/09 but comparatively BOKL has higher ratio i.e. 12.07 than SCBNL i.e. 8.75. BOKL has registered the highest mean of 9.40. It shows that BOKL has the better liquidity position than SCBNL.

The coefficient of variance of BOKL is 19.05 which is higher than SCBNL. It indicates that cash and bank balance to deposit ratio of BOKL is less homogeneous than that of SCBNL. Comparatively, BOKL has highest ratios, it has the better position for managing the cash demand of its customers from their deposits money at any time. However, SCBNL do not have good position due to lower ratios because it is running in lower risks. Higher ratio also indicates the better ability but inefficiency and it has to pay more interest on deposits.

4.1.1.2 Analysis of Asset Management Position

Assets management ratio refers to show the efficiency of the firm to manage its available assets in proper, profitable and satisfactory sectors. So, their investment can give satisfactory result/ return / high profits. The following ratios are calculated under assets management ratio of BOKL & SCBNL in this study.

I. Loan and Advances to Total Working Fund Ratios

Loan and advances is the important part of total working fund of a firm. Financial institutions should take care of investment and mobilizing its loan and advance in profitable sectors to obtain the desired return. Higher ratio shows better fund mobilization. We can calculate this ratio by dividing total amount of loan and advances of the firms by its total working fund as mentioned below:

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

Total working fund consists of total assets of the firm under which current assets, fixed assets, investment and other assets are existed. Detail information for the ratio calculation of Loan and Advances to Total Working Fund of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no.5

Table no. 4.5

Showing the Relationship Between Loan and Advances to Total Working Fund Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	59.79	59.12	64.46	70.32	71.46	65.03	5.14	7.90
SCBNL	37.39	34.68	36.73	41.15	33.71	36.73	2.58	7.02

From the Table 4.5, loan and advance to working fund ratio table shows that SCBNL has fluctuating trend and BOKL has increasing trend. BOKL have higher mean ratios in comparison to SCBNL. Therefore, loan and advance to total working fund ratio of BOKL is more stable and consistent than that of SCBNL

From the above table it is very clear that BOKL have mobilized their working fund into loan and advances successfully than SCBNL. From the view point of interest income BOKL can earn more than SCBNL but CV of BOKL is higher than SCBNL that shows that the BOKL is running under higher risk in compare with the SCBNL.

II. Loan and Advances to Total Deposit Ratio

This ratio helps to analyze how successfully selected commercial banks are mobilizing their collected fund/ deposits of customer on loan and advances. This ratio can be calculated as:

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

Detail information for the ratio calculation of Loan and Advances to Total Deposit of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no.6

Table no. 4.6

Showing the Relationship Between Loan and Advances to Total Deposit Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	66.11	69.23	75.87	78.71	80.99	74.18	5.65	7.61
SCBNL	42.05	38.75	42.61	46.12	38.14	41.53	2.89	6.96

The above table 4.6 shows that BOKL has increasing trend and SCBNL has fluctuating trend. During the period BOKL has maintained higher loan and advances to total deposit ratio which states that the fund utilization position of BOKL is better than that of SCBNL. The coefficient of variation of BOKL is comparatively higher than that of SCBNL, which shows that the loan and advance to total deposit ratio of BOKL is less homogeneous than that of SCBNL

From the above table and analysis, it can be concluded that total deposits of BOKL have been efficiently mobilized than that of SCBNL. Loan and advances are not liquid asset than cash and bank balance. So, from the liquidity point of view, high ratio of BOKL is not good.

III. Total Investment to Total Deposit Ratio

Commercial banks invest their collection fund in various government securities and other financial or non financial companies. This ratio in this study measures how successfully and efficiently selected banks are mobilizing their fund on investment in various securities. This ratio of selected two banks is calculated and presented below using the following formula and other supported information related to this study, which are presented in appendix no. 7

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

Table no. 4.7

Showing the Relationship Between Total Investment to Total Deposit Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	29.05	32.18	24.15	20.24	15.39	24.20	6.01	24.82
SCBNL	50.11	55.67	54.99	46.74	56.41	52.78	3.74	7.09

The above table 4.7 discloses that all the firms have invested their deposits in the shares and securities properly, so total investment to total deposit ratio is comparatively good. In case of total investment to total deposit ratio, SCBNL has fluctuating trend however BOKL has decreasing trend from the year 2005/06 to 2008/09 except 2004/05. The highest mean ratio of SCBNL is 52.78 and lowest of BOKL is 24.20, it shows that SCBNL is investing it's fund efficiently than BOKL. Comparatively, the coefficient of variance of SCBNL is lower than that of BOKL. So total investment to total deposit ratio of SCBNL is more stable and consistent than that of BOKL.

From the analysis, it can be found and concluded that SCBNL have mobilized large amount of deposit into investment in comparison to BOKL. But both firms have not invested more successfully their deposit in securities.

IV. Investment on Government Securities to Total Working Fund Ratio

It is not possible to apply all the collection, deposits and other resources into loan and advances for the selected banks. Therefore, they arrange their total working fund in various sectors. Among all the sectors investment in government bond is one which is very less risky. It measures how successfully selected banks have applied their total working fund on various forms of government securities in profit maximization and risk minimization point of view. Detail information for the ratio calculation of Investment on Government Securities to Total Working Fund of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no.8

Investment on Government Securities to Total Working Fund Ratio=

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

Table no. 4.8

Showing the Relationship Between Investment on Government Securities to Total Working Fund Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	21.70	21.65	15.99	11.92	8.51	15.95	5.24	32.83
SCBNL	33.06	29.02	24.85	24.41	24.63	27.19	3.39	12.48

It is clearly obvious from the table 4.8 that both banks have decreasing trend however the ratios of SCBNL is higher than BOKL. It shows that the SCBNL has invested in government securities more efficiently than BOKL. Mean ratio of SCBNL is higher than BOKL i. e. 27.19 and 15.95 respectively.

Co-efficient of variation of SCBNL is 12.48 which is lower than that of BOKL i.e. 32.83, which states that the investment on government securities to total working fund ratios of BOKL is less homogenous than that of SCBNL. It can be concluded that investment on government securities by BOKL has been unsuccessfully mobilizing its funds in comparison to SCBNL.

V. Loan Loss Ratio

Loan loss will be made if debtors fail to return their loan or due to the carelessness of investment policy. This ratio is calculated by dividing the amount of provision for loss of loan by the total amount of loan and advances. Whenever the firms show the greater loan loss provision in their income statement this is expected to be high loan loss of the firm. This ratio shows how efficiently selected banks will have managed their loan in future. We can calculate this ratio as:

$$\text{Loan Loss Ratio} = \frac{\text{Total Loan Provision}}{\text{Total Loan \& Advance}}$$

Detail information for the ratio calculation of Loan Loss Provision and Loan & Advances of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no. 9

Table no 4.9

Showing the Relationship Between Loan Loss Provision and Loan & Advances Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	4.99	2.72	2.51	1.86	1.69	2.75	1.18	43.00
SCBNL	2.69	2.13	1.83	0.92	0.96	1.71	0.69	40.08

The above table 4.9 shows that loan loss ratios of both banks have decreasing trend. The average loan loss ratio of BOKL is comparatively higher than that of SCBNL. Higher average loan loss ratio of BOKL states the position of BOKL is not so good. If there is no doubtful debt; loan loss provision is not necessary, which can be mobilized to generate extra income.

BOKL has higher CV however, SCBNL has lower CV comparatively. From the above table and analysis, it can be clearly seen and concluded that the performance of the SCBNL is good in comparison to BOKL.

4.1.1.3 Analysis of Profitability Position

The objectives of investment policy is to make good return. Any organization has the desire of earning high profit, which helps to survive the firm and indicate the efficient operation of the firm.

Selected banks make the profit by providing various facilities to their customers. Profit is the essential part of business activities to meet internal obligation overcome the future contingencies make a good investment policy, expand the banking transactions etc. Therefore, this ratio measures the efficiency of banks. Higher ratio indicates the higher efficiency of those firms. Under the profitability ratios, various ratios related to profit and fund mobilization are calculated and analyzed.

I. Return on Loan and Advances Ratio

Every financial institutions tries to mobilize their deposits on loan and advances properly. But they cannot get success on this point. So, this ratio helps to measure the earning capacity of selected banks. Detail information for the ratio calculation of Net Profit and loan & advances of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no. 10

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

Table no 4.10

Showing the Relationship Between Net Profit and loan & advances ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	2.35	2.78	2.79	2.90	5.59	3.28	1.17	35.63
SCBNL	6.58	7.36	6.58	5.96	5.99	6.49	0.51	7.86

The above table 4.10 shows that the ratios of SCBNL is decreasing trend but return on loan and advance ratio of BOKL is increasing trend. SCBNL is maintaining higher ratios than that of BOKL. The highest mean ratio of SCBNL is 6.49 and the lowest of BOKL is 1.17. It shows that SCBNL has efficiently mobilized its fund as loan and advances and earning profit better than that of BOKL.

The CV of SCBNL and BOKL are 7.86 and 35.63 respectively. Higher CV of BOKL shows that the firm have less homogeneity in return than that of SCBNL. It can be concluded that BOKL has failed to earn high return from its invested loan and advances in compare with SCBNL. There is no so good and depended relationship between return and loan and advances.

II. Return on Total Assets (Total Working Fund)

When banks as well as other institutions efficiently manage and utilize total assets, there is certainly higher return of those forms. Return on total assets ratio helps to identify the profit earning capacity by utilizing available resources of the firms. Return on total assets ratio is calculated as:

$$\text{Return on Total Assets (Total Working Fund)} = \frac{\text{Net Profit(Loss)}}{\text{TotalAssets}}$$

Detail information for the ratio calculation of Return on Total assets of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no. 11

Table no. 4.11

Showing the Relationship Between Return on Total assets ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	1.41	1.65	1.80	2.04	2.25	1.83	0.30	16.13
SCBNL	2.46	2.55	2.42	2.45	2.53	2.48	0.04	1.65

The above table 4.11 shows during the study period, profitability ratio of BOKL is increasing trend and SCBNL is also maintaining this trend but only after year 2005/06. BOKL has increasing trend in range between 1.41 to 2.25 however SCBNL has fluctuation in range between 2.46 to 2.53. The average return of SCBNL is better than that of BOKL i. e. 2.48>1.83. The highest average return of SCBNL is 2.55 in the year 2005/06 and lowest of BOKL is 1.41 in the year 2004/05.

The CV of BOKL is higher than that of SCBNL. Therefore, return on total asset ratio of BOKL is less stable and in consistent than that of SCBNL.

III. Return on Equity (ROE) Ratio

Equity capital consists of paid up equity capital, P&L a/c, various reserves, general loan loss provision etc. Return on equity ratio measures how successful selected banks have mobilized their equity. If the firms mobilized their equity properly, they can earn high profit. Higher the return on equity ratio of the firm indicates that they are successful mobilizing their equity capital. Detail information for the ratio calculation of Return on Equity of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no. 12

$$\text{Return on Equity (ROE) Ratio} = \frac{\text{Net Profit(Loss)}}{\text{Total Equity Capital}}$$

Table no. 4.12

Showing the Relationship Between Return on Equity ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	19.41	24.10	26.38	26.90	26.03	24.56	2.75	11.17
SCBNL	33.88	37.55	32.68	32.82	33.58	34.10	1.78	5.22

The above table 4.12 shows that the return on equity ratio of BOKL is increasing trend up to the year 2007/08 but in the year 2008/09 it is decreased to 26.03 and ratio of SCBNL is fluctuating trend. BOKL has the range of ratio between 19.41 to 26.03, SCBNL has the range of ratio between 32.68 to 37.55. The average ratios of BOKL and SCBNL are 24.56 and 34.10 respectively. It shows that SCBNL has good position in compare with BOKL.

The CV of BOKL is higher i. e. 11.17 and SCBNL is lower i. e. 5.22. BOKL has higher CV so, return on equity of BOKL is less stable and inconsistent than that of SCBNL. It can be concluded that BOKL has not efficiently utilized their equity capital in compare with SCBNL so, BOKL has lower returns on equity capital ratio.

IV. Total Interest Earned to Total Assets Ratio

Total interest earned to total assets ratio evaluates how successfully the selected banks are mobilizing their total assets to achieve high amount of interest. This ratio measures that the earning capacity of the firms through proper utilizing

their total assets. Higher ratio indicates the higher interest income. Detail information for the ratio calculation of Total Interest Earned to Total Assets of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no. 13. We know,

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

Table no 4.13

Showing the Relationship Between Total Interest Earned to Total Assets ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	6.13	5.84	5.61	5.83	6.57	6.00	0.33	5.53
SCBNL	4.86	4.61	4.93	4.77	4.65	4.76	0.12	2.51

Above table 4.13 shows that the ratios of both banks have fluctuating trend. The mean ratio of BOKL is comparatively higher than SCBNL which shows that it has better position with respect to the interest earned income from the invested assets.

The CV of BOKL is higher i.e. 5.53 than SCBNL i. e. 2.51. BOKL has more variability in ratio than that of SCBNL. From the above analysis and table, it can be concluded that BOKL has better position of mobilizing of total assets in comparison with SCBNL.

V. Total Interest Paid to Total Working Fund Ratio

Total interest paid to total working fund ratio helps to show and measure the percentage of interest paid by the firms in comparison with total working fund. If interest paid to working fund ratio is higher, there will be higher interest expenditures on total working fund. We can calculate this ratio as:

$$\text{Total Interest Paid to Total Working Fund Ratio} = \frac{\text{TotalInterestPaid}}{\text{TotalWorkingFund}}$$

Detail information for the ratio calculation of Total Interest Paid to Total Working fund of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no. 14

Table no. 4.14

Showing the Relationship Between Total Interest Paid to Total Working fund Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	2.43	2.50	2.32	2.35	2.74	2.47	0.15	6.13
SCBNL	1.16	1.17	1.44	1.41	1.33	1.30	0.12	9.36

The above table 4.14 shows that the ratio of BOKL is fluctuating trend and that of SCBNL is increasing trend only up to the year 206/07 and after then its ratio is decreasing trend in the year 2007/08 and onward. Interest paid by SCBNL is comparatively lower than that of BOKL. The mean ratio of BOKL is higher than SCBNL i. e. $2.47 > 1.30$ which states that it has higher interest expenses in comparison to SCBNL. BOKL has been inefficient in controlling interest expenses on deposit and other borrowing in comparison to SCBNL.

The CV of SCBNL is higher than that of BOKL. Therefore, it can be concluded that interest paid to working fund ratio of SCBNL is less stable and inconsistent than that BOKL. BOKL has more deposits or borrowings of interest payable liabilities in comparison with SCBNL.

VI. Total Interest Earned to Total Operating Income Ratio:

Total interest earned to total operating income ratio reveals that the portion of interest income on total operating income of the firms. This ratio measures how successfully the selected banks have been mobilization their fund in interest generating assets during last five years or study period. Operating income consists the interest income, commission income, foreign exchange income, dividend income, discount income etc. We know,

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

Detail information for the ratio calculation of Total Interest Earned to Total Operating Income of selected banks from the fiscal year 2004/05 to 2008/09 are presented in appendix no. 15

Table no. 4.15

Showing the Relationship Between Total Interest Earned to Total Operating Income Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	118.09	124.65	120.97	119.95	120.91	120.91	2.14	1.77
SCBNL	82.33	83.85	90.56	89.68	90.20	87.32	3.50	4.01

The above table 4.15 indicates that the interest earned to total operating income of both banks are fluctuating trend. BOKL has fluctuation ranging from 118.09 to 124.65 and SCBNL has fluctuation between 82.33 to 90.56. The average mean ratio of BOKL is comparatively higher than that of SCBNL i. e. $120.91 > 87.32$. It indicates that BOKL is more efficient in earning interest income than that of SCBNL.

The CV of BOKL and SCBNL are 1.77 and 4.01 respectively. From the above ratio, it can be concluded that BOKL has mobilized their interest generating assets like loan and advances, investment etc. more efficiently than that of SCBNL. BOKL has lower CV which indicates that investment in interest bearing asset is more consistent than SCBNL.

VII. Earning Per Share

Every organization wants to know the total return from its transactions. Similarly, shareholders also want to know the total income (earning), earning per share. So, they determines the share price. To calculate the degree of different types of leverage, earning of the business are required. From the organization point of view, EPS is necessary to calculate target EPS and investment policy. The following table shows the EPS of sample firms for 5 years periods from the FY 2004/05 to 2008/09. Detail information are presented in appendix no 16

Table no 4.16

Showing Earning per share (NPR)

Firms	Fiscal Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
BOKL	30.10	43.67	43.50	59.94	54.68
SCBNL	143.14	175.84	167.37	131.92	109.99

From the above table 4.16 indicates that the EPS of BOKL is fluctuating between 30.10 to 59.94 during the study period. SCBNL EPS has decreasing trend from the year 205/06 to 2008/09. Comparatively, SCBNL has good EPS than that of BOKL during the period of study. However, SCBNL has highest EPS in fiscal year 2005/06 i.e. 175.84 and lowest in 2008/09 i.e.109.99.

VIII. Dividend Per Share

A firm wants to distribute dividend to its shareholders if a firm supposes the insufficient investment opportunities and sectors. Sometimes, it does not distribute, sometime it issues bonus shares. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities earning, divisible profit or proposed dividend or declared dividend. So, each firm must announce the total dividend and dividend per share (DPS) which shows the position of the firm.

The following table 4.17 shows the DPS of sample firms for 5 years from FY 2004/05 to 2008/09. Detail information are presented in appendix no 17

Table no. 4.17
Showing Dividend Per Share(%)

Firms	Fiscal Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
BOKL	15	18	20	2.11	7.37
SCBNL	120	130	80	80	50

Above table 4.17 shows that BOKL has distributed dividend ranging from 2.11 to 20 and SCBNL has distributed dividend ranging from 50 to 130 during the study period. SCBNL has decreasing trend for distributing dividend and BOKL has fluctuating trend. Comparatively, SCBNL has good DPS than that of BOKL during the period of study. These ratio helps to the investors for determining the investment sectors and help the companies or firms themselves to satisfy their shareholders and prepare a good investment policy.

4.1.1.4 Analysis of Debt Management Position

The objectives of debt management is to make good return and reduce the interest expenses. Any organization has the desire of earning high profit, which helps to survive the firm and indicates the efficient operation of the firm.

Selected banks make the profit by providing various facilities to their customers. Profit is the essential part of business activities to meet internal obligation overcome the future contingencies make a good investment policy, expand the banking transactions etc. This ratio measures the percentage of the firms assets financed by creditors. Higher ratio indicates the higher interest rate pay the banks. Under the debt management ratio, various ratios related to firms assets financed by creditors as debt are calculated and analyzed.

I. Debt Ratio:

Total debt to total assets ratio reveals that the portion of firms assets financed by creditors. This ratio measures how successfully the selected banks have been collected assets from its creditors to minimize the interest rate risk during last five years or study period.

These ratios of selected firms from FY 2004/05 to 2008/09 are presented to analyze in the following table. Total debt consists long term debt and current liabilities. Necessary information for detail calculation of these ratios are presented in appendix no 18

We know,

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Table no. 4.18

Showing the Relationship Between Total Debt to Total Assets Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	92.66	93.14	93.16	92.41	91.00	92.47	0.79	0.86
SCBNL	92.73	93.19	92.60	92.52	92.47	92.70	0.26	0.28

The above table 4.18 indicates that both the banks have similar ratios. Total debt to total assets ratio of BOKL has increasing trend only up to the year 2006/07 and then after it is registered decreasing trend however these ratio of BOKL is fluctuating between 91.00 to 93.16. SCBNL has also registered the same trend as BOKL however these ratio of SCBNL is fluctuation between 92.47 to 93.19. Mean ratio of both the banks are similar as BOKL has 92.47 and SCBNL has 92.70 however SCBNL has more efficiently collected assets as debt to reduce the interest expenses in compare with BOKL having higher mean ratio.

From the above ratio, it can be concluded that both the banks have collected assets as bond in similar position. CV of SCBNL is 0.28 which is lower than BOKL i. e. 0.86 which indicates that interest expenses risk of SCBNL is lower than BOKL.

II. Debt Equity Ratio:

Total debt to total equity ratio measures the long term financial solvency of a firm. This ratio measures the financial risk of the firm and creditors. High debt equity ratio indicates greater contribution at a firm's financing by debt holders than those of equity holders. Creditors, view points, high debt equity ratio of a firm is riskier to them. Low debt equity ratio provides a cushion of protection to the creditors against losses.

These ratios of selected firms from FY 2004/05 to 2008/09 are presented to analyze in the following table. Total equity consists equity capital and undistributed profits. Necessary information for detail calculation of these ratios are presented in appendix no 19. We know,

$$\text{Debt Equity Ratio} = \frac{\text{TotalDebt}}{\text{TotalEquity}}$$

Table no. 4.19

Showing the Relationship Between Total Debt to Total Equity ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	18.72	19.99	21.91	26.20	21.22	21.61	2.54	11.75
SCBNL	32.27	32.23	28.85	30.72	32.05	31.22	1.32	4.22

The above table 4.19 indicates that the ratio of BOKL has increasing trend except in the current year 2008/09. Total debt to total equity ratio of BOKL is fluctuating between 18.72 to 26.20. Similarly, ratio of SCBNL has fluctuating trend and fluctuating between the range of 28.85 to 32.23. SCBNL has maintained higher ratios than BOKL. These ratios indicates that SCBNL has more efficiently collected assets as debt in compare with BOKL. BOKL has registered lower mean ratio i. e. 21.61 and SCBNL has registered 31.22.

From the above ratio, it can be concluded that both the banks have collected assets as debt but SCBNL better than BOKL in collecting the assets. CV of SCBNL is 4.22 which is lower than BOKL i. e. 11.75 which indicates that financial position of BOKL riskier than SCBNL.

III. Interest Coverage Ratio:

It is the ratio of Earning before interest and tax(EBIT) to interest charges. This ratio measures the ability of the firm to meet its annual interest payments. High ratio indicates better performance at a firm. If this ratio is low, the firms are not able to pay interest expense of the year. Hence, this ratio should be always high.

These ratios of selected firms from FY 2004/05 to 2008/09 are presented to analyze in the following table. Necessary information for detail calculation of these ratios are presented in appendix no 20. We know,

$$\text{Interest Coverage Ratio} = \frac{EBIT}{\text{Interest Expenses}}$$

Table no. 4.20

Showing the Relationship Between EBIT to Interest Expenses Ratio(%)

Firms	Fiscal Year					Mean	S.D	C.V
	2004/05	2005/06	2006/07	2007/08	2008/09			
BOKL	1.84	1.97	2.13	2.26	2.17	2.04	0.15	7.36
SCBNL	4.13	4.09	3.45	3.53	3.70	3.78	0.28	7.46

The above table 4.20 indicates that the ratio of BOKL has increasing trend except in the current year 2008/09 i. e. 2.17. EBIT to interest expenses ratio of BOKL is fluctuating between 1.84 to 2.26. Similarly, ratio of SCBNL has fluctuating trend and fluctuating between the range of 3.45 to 4.13. SCBNL has maintained higher ratios than BOKL. These ratios indicates that SCBNL has more efficiently invested its collected funds in profitable sector than BOKL. Interest coverage ratio of SCBNL is very high than BOKL. BOKL has registered lower mean ratio i. e. 2.04 and SCBNL has registered 3.78.

From the above ratio, it can be concluded that both the banks have invested their collected funds in profitable sector but SCBNL is good than BOKL by maintaining more earning in compare with the interest expenses. CV of SCBNL is 7.46 which is higher than BOKL i. e. 7.36 which indicates that high profit/earning is risky to SCBNL than BOKL.

4.1.1.5 Analysis and Interpretation of Growth Ratios

Growth ratios are calculated to know and find out the economic and financial position or performance of the firms. Growth ratios shows how well the selected banks are maintaining their economic and financial position. If there is higher ratio, there will be better financial performance of those firms and vice versa. For this thesis study, only four different growth ratios are calculated and analyzed which are directly related to fund mobilization and investment policy of the selected firms. They are:

- I) Growth ratio of total deposits
- II) Growth ratio of total investment
- III) Growth ratio of loan and advances
- IV) Growth ratio of Net profit

The growth ratios of each firms is calculated dividing the figure of last years by the figure first period of the study time and referring to compound interest tables, detail calculation in appendix - B. It can be mentioned as;

$$D_n = D_o(1 + g)^{n-1}$$

where, D_n represents the last period figure and D_o represents the first figure.

I. Growth Ratio of Total Deposit

This ratio measures how well and efficiently the selected firms are collecting the deposits from the customers and how efficiently they have influenced to their clients to mobilize the fund.

Table no. 4.21

Showing the Growth Ratio(%) of Total Deposit for 5 Years of Period

(In Millions)

Firms	Total Deposits					Growth rate(%)
	2004/05	2005/06	2006/07	2007/08	2008/09	
BOKL	8943	10485	12388	15833	18084	19.25
SCBNL	19363	23061	24647	29743	35871	16.66

The above table 4.21 shows that the growth ratio of total deposit collection of BOKL is higher than SCBNL. It has the rate of 19.25% where as SCBNL has 16.66%. The performance on the greater deposit collection of BOKL is better year by year in comparison to SCBNL. But, SCBNL has maintained large deposit volume than BOKL.

From the above table and analysis, we can conclude that BOKL is rapidly collecting deposits from the customers in comparison to SCBNL. Growth ratio of BOKL is higher in comparison to SCBNL i. e. $19.25\% > 16.66\%$.

II. Growth Ratio of Total Investment

Investment is an important and major source of interest income. So it is necessary to invest the more amount of fund in secured sectors. So, each firms and concerned parties wants to determine the investment growth rate. This ratio measures how rapidly the firms are increasing their investment so that they can earn more amount of interest income. It shows the increase rate of investment on government securities and shares and debentures of other companies.

Table no. 4.22

Showing the Growth Ratios(%) of Total Investment for 5 Years of Period

(In Millions)

Firms	Total Investment					Growth rate(%)
	2004/05	2005/06	2006/07	2007/08	2008/09	
BOKL	2598	3374	2992	3204	2783	1.73
SCBNL	9702	12838	13553	13902	20236	20.18

The above table 4.22 shows that the growth ratio of total investment of SCBNL is very higher in comparison to BOKL. It has growth ratio of total investment of 20.18% in comparison to BOKL ratio 1.73%. So, the growth ratio of total investment of SCBNL is comparatively better than BOKL.

From the above table and analysis, we can conclude that SCBNL is rapidly investing its collected deposits from the customers in comparison to BOKL. Growth ratio of SCBNL is very higher in comparison to BOKL i. e. $20.18\% > 1.73\%$

III. Growth Ratio of Loan and Advances

This ratio is used to measure how efficiently the firms are granting loan and advances to their deposits collection. This ratio indicates the efficiency of the firm to grant loan and advances. All the deposit collection can be granted by the firm. To identify how efficiently and successfully they are granting, this ratio is necessary.

Table no. 4.23

Showing the Growth Ratio(%) of Loan and Advances for 5 Years of Period

(In Millions)

Firms	Loan and advances					Growth rate(%)
	2004/05	2005/06	2006/07	2007/08	2008/09	
BOKL	5912	7259	9399	12462	14647	25.46
SCBNL	8143	8935	10502	13718	13680	13.85

The above table 4.23 shows that the growth ratio of loan and advance of BOKL is higher than SCBNL. BOKL has higher growth ratio of loan and advances i.e. 25.46% and SCBNL has lower growth ratio i.e. 13.85%. BOKL performance to grant the collected deposit amount as loan and advances in secured sectors is better and it can succeed to grant the deposit in future. It has highest growth rate of loan and advances in comparison to SCBNL.

So, from the above table and analysis, it is concluded that the performance of BOKL to grant loan and advances is comparatively better each year. Growth ratio of BOKL is very higher in comparison to SCBNL i. e. 25.46%>13.85%.

IV. Growth Ratio of Net Profit

Every firm is established to earn a good return from their activities. There should be certain growth rate to earn more profit each year. Everyone wants to know and determine the growth rate of net profit. It is calculated to determine the future expected profit of the business.

Table no. 4.24

Showing the Growth Ratio(%) of Net Profit for 5 Years of Period

(In Millions)

Firms	Total net profit					Growth rate(%)
	2004/05	2005/06	2006/07	2007/08	20 08/09	
BOKL	139	202	262	361	461	34.95
SCBNL	536	658	691	818	1025	17.60

The above table 4.24 shows that the growth ratio of net profit of BOKL is higher than that of SCBNL. It has growth ratio of 34.95% in comparison to SCBNL 17.60%. So, It leads with the better position of growth ratio of net profit in this study. BOKL has better earning ratio by lending the collected deposits from its customers to secured profitable sectors.

From the above table and analysis, the performance related to the collection of deposit, granting loan and advances and net profit of BOKL is comparatively better than that of SCBNL. The performance regarding growth ratio of total investment of SCBNL is better than BOKL.

4.1.2 Statistical Analysis

Statistical tools is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, correlation analysis, trend analysis, regression analysis and various types of tests etc. Here is used the following convenient statistical tools in this thesis study. Other tool like test of hypothesis can be used for the analysis of the calculated data, but here is used only two following statistical tools.

- i) Co-efficient of correlation analysis
- ii) Trend analysis

4.1.2.1 Co-efficient of Correlation Analysis

Co-efficient of correlation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively correlation has been taken and applied to find out and analyze the relationship between deposit and loan and advances; deposit and total investment; total assets and net profit. Using Karl Pearson's co-efficient of correlation, value of co-efficient of determination (r^2) P.E.r (Probability of Error) and 6 P.E.r are also calculated and value of them are analyzed.

Co-efficient of determination (r^2) determines the variation of two factors and there may be other factors of variation for remaining portion. To find out the significant relationship between two factors, co-efficient of correlation (r), probable error (P.E.r) and 6 P.E.r are calculated for this study. The following Karl Pearson's co-efficient of correlation is used to find out the relationship between deposits and loan and advances, deposit and total investment, total assets and net profit under this study. For sample calculation, please see appendix – C.

a) Co-efficient of Correlation Between Deposit and Loan & Advances.

Co-efficient of correlation helps to identify the significant relationship between two variables. So, this ratio identifies the degree of relationship between deposits and loan and advances. Under this topic co-efficient of correlation between deposit and loan and advances is used to determine the relationship between them. The main objective of the correlation is to observe if the deposits is significantly utilized or invested as loan and advances or not.

Table no. 4.25

Showing the Correlation Co-efficient Between Deposits and Loan & Advances

Evaluation Criteria				
Firms	R	R²	P.E.r	6 P.E.r
BOKL	0.9994	0.9988	0.000362	0.00216
SCBNL	0.9312	0.8671	0.0401	0.2405

The above table 4.25 indicates the various information of sample firms about Correlation Co-efficient (r), Co-efficient of Determination (r^2), Probable Error (P.E.r) and 6 P.E.r. BOKL has the positive correlation co-efficient between deposit and loan and advances i.e. 0.9994 which shows that these factors/variables are highly positively correlated to each other. Similarly, the value of co-efficient of determination (r^2) is 0.9988 which indicates that there will be the variation of 99.88% in loan and advances due to deposit factor and balance 0.12% variation is being by other factors. The value of P.E.r and 6 P.E.r is 0.000362 and 0.00216 respectively which indicates that the value of 'r' is greater than that of P.E.r and 6P.E.r. Therefore, the value of 'r' is significant or there is significant relationship between deposit and loan and advances of BOKL. That's why, BOKL is mobilizing or utilizing its collected deposit into loan and advances successfully.

Similarly, SCBNL has the positive correlation co-efficient between deposit and loan and advances i.e. 0.9312 which shows that these factors/variables are positively correlated to each other. The value of co-efficient of determination (r^2) is 0.8671 which indicates that there will be the variation of 86.71% in loan and advances due to deposit factor and balance 13.29% variation is being by other factors. The value of P.E.r and 6 P.E.r is 0.0401 and 0.2405 respectively which indicates that the value of 'r' is greater than that of P.E.r and 6P.E.r. Therefore, the value of 'r' is significant or there is significant relationship between deposit and loan and advances of SCBNL. That's why, SCBNL is mobilizing or utilizing its collected deposit into loan and advances successfully.

In this way, the value of correlation co-efficient (r) of BOKL is concluded to be better than that of SCBNL. From the above detail analysis, it can be concluded that both the banks are effectively, efficiently and successfully mobilizing the collected deposits as loan and advances.

b) Co-efficient of Correlation Between Deposits and Total Investment

Co-efficient of correlation helps to identify the significant relationship between two variables. So, this ratio identifies the degree of relationship between deposits and total investment. Under this topic co-efficient of correlation between deposit and total investment is used to determine the relationship between them. The main objective of the correlation is to observe if the deposits is significantly utilized or invested in secured sector or not.

Table no. 4.26

Showing the Correlation Co-efficient Between Deposits and Total Investment

Evaluation Criteria				
Firms	R	R²	P.E.r	6 P.E.r
BOKL	0.0376	0.0014	0.3012	1.8073
SCBNL	0.9509	0.9042	0.0289	0.1734

The above table 4.26 indicates the various information of sample firms about Correlation Co-efficient (r), Co-efficient of Determination (r^2), Probable Error (P.E.r) and 6 P.E.r. BOKL has the low degree of positive correlation co-efficient between deposit and total investment i.e. 0.0376 which shows that these factors/variables are slightly positively correlated to each other. Similarly, the value of co-efficient of determination (r^2) is 0.0014 which indicates that there will be the variation of 0.14% in total investment due to deposit factor and balance 99.86% variation is being by other factors. The value of P.E.r and 6 P.E.r is 0.3012 and 1.8073 respectively which indicates that the value of 'r' is lower than that of P.E.r and 6P.E.r. Therefore, the value of 'r' is not significant or there is not significant relationship between deposit and total investment of BOKL. That's why, BOKL has not taken proper investment policy for deposit amount.

Similarly, SCBNL has the positive correlation co-efficient between deposit and total investment i.e. 0.9509 which shows that these factors/variables are positively correlated to each other. The value of co-efficient of determination (r^2) is 0.9042 which indicates that there will be the variation of 90.42% in total investment due to deposit factor and balance 9.58% variation is being by other factors. The value of P.E.r and 6 P.E.r is 0.0289 and 0.1734 respectively which indicates that the

value of 'r' is greater than that of P.E.r and 6P.E.r. Therefore, the value of 'r' is significant or there is significant relationship between deposit and total investment of SCBNL. That's why, SCBNL is mobilizing or utilizing its collected deposit into investment or SCBNL has taken proper policy for deposit amount successfully.

In this way, the value of correlation co-efficient (r) of SCBNL is comparatively very greater than that of BOKL. From the above detail analysis, it can be concluded that SCBNL has successfully mobilized its collected deposit into investment in compare to BOKL.

c) Co-efficient of Correlation Between Total Assets and Net Profit

Co-efficient of correlation helps to identify the significant relationship between two variables. So, this ratio identifies the degree of relationship between total assets and net profits. Under this topic co-efficient of correlation between total assets and net profits is used to determine the relationship between them. The main objective of the correlation is to observe if the total assets is significantly utilized and how much the firms are able to earn net profit or not.

Table no. 4.27

Showing the Correlation Co-efficient Between Total Assets and Net Profit

Evaluation Criteria				
Firms	R	R²	P.Er	6 P.Er
BOKL	0.9976	0.9952	0.001448	0.00869
SCBNL	0.9963	0.9926	0.00223	0.01338

The above table 4.27 indicates the various information of sample firms about Correlation Co-efficient (r), Co-efficient of Determination (r²), Probable Error (P.E.r) and 6 P.E.r. BOKL has the positive correlation co-efficient between total assets and net profit i.e. 0.9976 which shows that these factors/variables are highly positively correlated to each other. Similarly, the value of co-efficient of determination (r²) is 0.9952 which indicates that there will be the variation of 99.52% in net profit due to total assets factor and balance 0.48% variation is being by other factors. The value of P.E.r and 6 P.E.r is 0.001448 and 0.00869 respectively which indicates that the value of 'r' is greater than that of P.E.r and 6P.E.r.

Therefore, the value of 'r' is significant or there is significant relationship between total assets and net profit of BOKL. That's why, BOKL has taken proper policy for assets in concerning to earn a good net profit.

Similarly, SCBNL has the positive correlation co-efficient between total assets and net profit i.e. 0.9963 which shows that these factors/variables are positively correlated to each other. The value of co-efficient of determination (r^2) is 0.9926 which indicates that there will be the variation of 99.26% in net profit due to total assets factor and balance 0.74% variation is being by other factors. The value of P.E.r and 6 P.E.r is 0.00223 and 0.01338 respectively which indicates that the value of 'r' is greater than that of P.E.r and 6P.E.r. Therefore, the value of 'r' is significant or there is significant relationship between total assets and net profit of SCBNL. That's why, SCBNL has also taken proper policy for assets in concerning to earn a good net profit.

In this way, the value of correlation co-efficient (r) of BOKL is concluded to be better than that of SCBNL. From the above detail analysis, it can be concluded that both the banks are effectively, efficiently and successfully mobilizing their total assets to earn a good net profit.

From the above results, presentation and analysis, it can be concluded that BOKL has greater value of correlation co-efficient (r) of deposit to loan & advances and total assets & net profit than that of SCBNL. However, SCBNL has greater correlation co-efficient (r) between deposit & total investment in comparison to BOKL.

4.1.2.2 Trend Analysis

Under this tool, trend values of sample firms are analyzed with five years projections. The data and information relation to total deposits, loan and advances, total investment and net profit of BOKL and SCBNL are analyzed through trend analysis. With the help of trend analysis, future forecasting is calculated and shown for the next five years. Any forecasting analysis needs some assumptions. Few factor does not only affect to the forecasting study. So, the following assumptions are undertaken in this study.

- Other things remain constant which affect directly or indirectly to this study.
- It is assumed that the sample firms are running in existing situation.
- Government and Nepal Rastra Bank will maintain their existing rules, guidelines and directions to the financial institutions.
- The economical, political environment will be same as existing situation.
- When least square method is taken and followed to forecast the future the result will be true.

For sample calculation of trend analysis, please see appendix - D

I. Trend Analysis of Total Deposits

From the FY 2004/05 to 2008/09, the trend value of 5 years have been calculated under this topic related to total deposits of BOKL and SCBNL. Forecasting data for the coming five years from FY 2009/10 to 2013/14 has been analyzed.

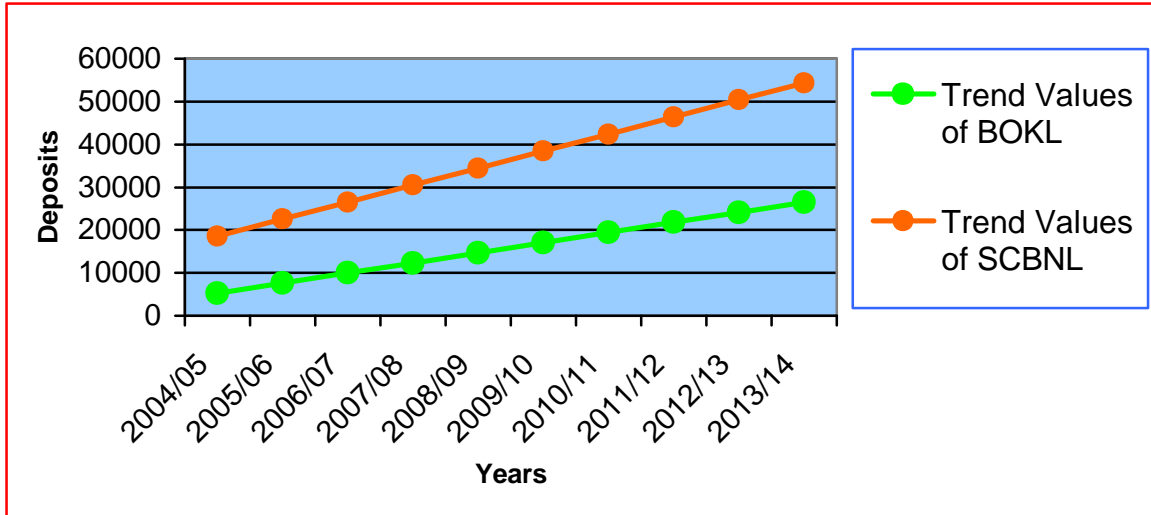
Table no. 4.28

Showing the Trend Values of Total Deposits for 10 years from FY 2004/05 to 2013/14 of the Selected Banks

Years	Trend Values	
	BOKL	SCBNL
2004/05	5254	18597.4
2005/06	7617	22567.2
2006/07	9980	26537.0
2007/08	12343	30506.8
2008/09	14706	34476.6
2009/10	17069	38446.4
2010/11	19432	42416.2
2011/12	21795	46386.0
2012/13	24158	50355.8
2013/14	26521	54325.6

Figure no. 7-A

Trend values of Total Deposit



The above presented trend values and figure of total deposit table 4.28 and figure 7-A indicates that the amount of deposit of all sample firms are in increasing trend. The largest amount of deposit collection between two firms is 54,325.60 million by SCBNL when all other things remain constant in FY 2013/14 during the study period. In this way, total deposit of BOKL will be 26,521.00 million in FY 2013/14 which indicates that BOKL will have lower values in compare to SCBNL. The figure 7-A shows that both the banks have increasing trend but SCBNL has high increasing trend in compare to BOKL.

II. Trend Analysis of Loan and Advances

For trend analysis of loan and advances, the trend values of loan and advances have been calculated under this topic for 5 years from FY 2004/05 to 2008/09. Similarly, 5 years projections from FY 2009/10 to 2013/14 have been calculated.

Table no. 4.29

Showing the Trend Values of Loan & Advances for 10 years from FY 2004/05 to 2013/14 of the Selected Banks

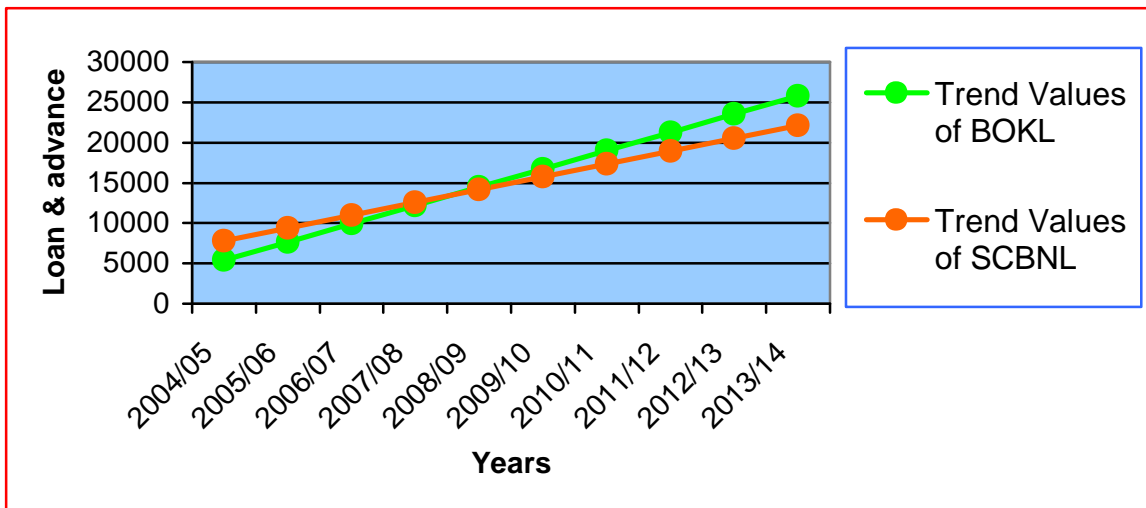
Trend Values

(NPR-In Million)

Years	BOKL	SCBNL
2004/05	5401.2	7824.2
2005/06	7668.5	9409.9
2006/07	9935.8	10995.6
2007/08	12203.1	12581.3
2008/09	14470.4	14167.0
2009/10	16737.7	15752.7
2010/11	19005.0	17338.4
2011/12	21272.3	18924.1
2012/13	23539.6	20509.8
2013/14	25806.9	22095.5

Figure no. 7-B

Trend values of Loan and Advances



The above presented trend values and figure of total loan & advances table 4.29 and figure 7-B indicates that the amount of loan and advances of all sample firms are in increasing trend. The largest amount of loan & advances between two firms is 25,806.9 million by BOKL when all other things remain constant in FY 2013/14 during the study period. In this way, total loan & advances of SCBNL will be 22,095.5 million in FY 2013/14 which indicates that SCBNL will have lower values in compare to BOKL. The figure 7-B shows that both the banks have increasing trend but BOKL has registered high increasing trend and SCBNL has registered low increasing trend. In the FY 2007/08 to 2008/09 trend line of BOKL has crossed over the trend line of SCBNL and maintaining high increasing trend.

III. Trend analysis of Total Investment

Under this topic, trend values of total investment have been calculated for past 5 years and that for future 5 years projections from FY 2004/05 to 2013/14 have been determined and tabulated.

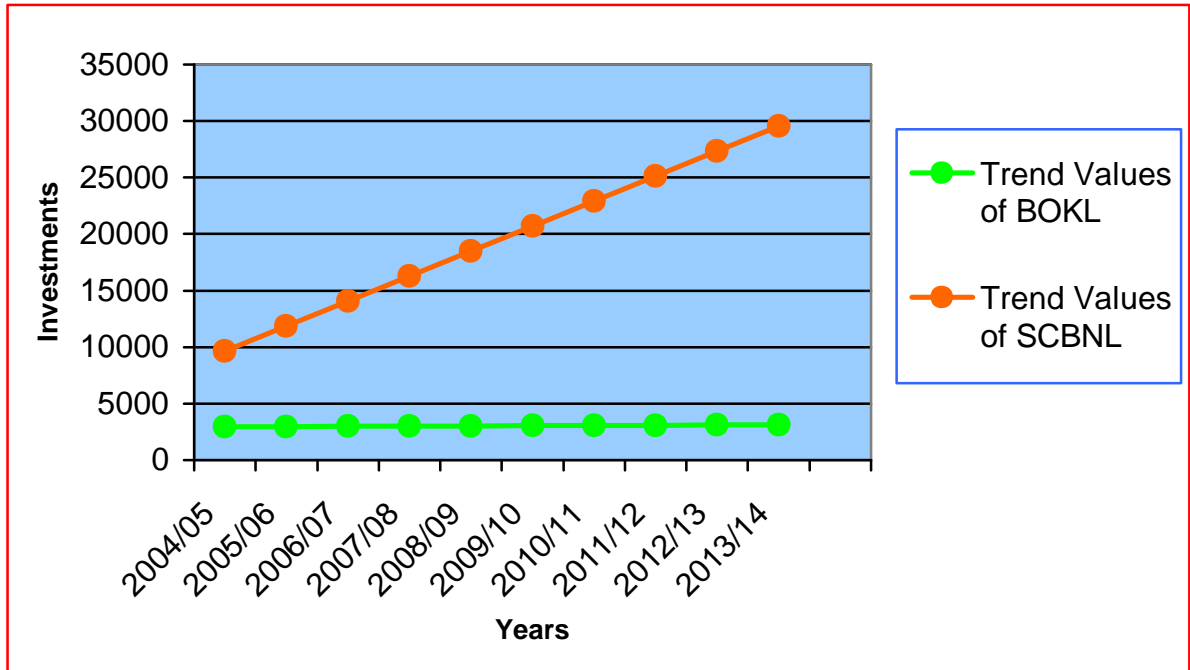
Table no. 4.30

Showing the Trend Values of Total Investment for 10 years from FY 2004/05 to 2013/14 of the Selected Banks.

Years	Trend Values	
	BOKL	(NPR-In Million) SCBNL
2004/05	2950.2	9619.8
2005/06	2970.2	11833
2006/07	2990.2	14046.2
2007/08	3010.2	16259.4
2008/09	3030.2	18472.6
2009/10	3050.2	20685.8
2010/11	3070.2	22899.0
2011/12	3090.2	25112.2
2012/13	3110.2	27325.4
2013/14	3130.2	29538.6

Figure no. 7-C

Trend values of Total Investment



The above presented trend values and figure of total investment table 4.30 and figure 7-C indicates that the amount of total investment of all sample firms are in increasing trend but BOKL has very low increasing trend. The largest amount of total investment between two firms is 29,538.60 million by SCBNL bank when all other things remain constant in FY 2013/14 during the study period. In this way, total investment of BOKL will be 3,130.20 million in FY 2013/14 which indicates that BOKL will have lower values in compare to SCBNL due to very low increasing trend. From the above trend value analysis of total investment for both sample firms, it is found that the position of SCBNL is better in case of utilization of fund to investment portfolios in comparison to BOKL. BOKL has lower total investment trend line. So, it is unable to proper utilize funds to better investment portfolios. Trend value line shows that SCBNL has better investment position in comparison to BOKL.

IV. Trend Analysis of Net Profit

For the trend analysis of net profit for past 5 years from FY 2004/05 to 2008/09 and for next 5 years from FY 2009/10 to 2013/14 in case of sample banks. Trend values of net profit have been calculated and tabulated under this topic.

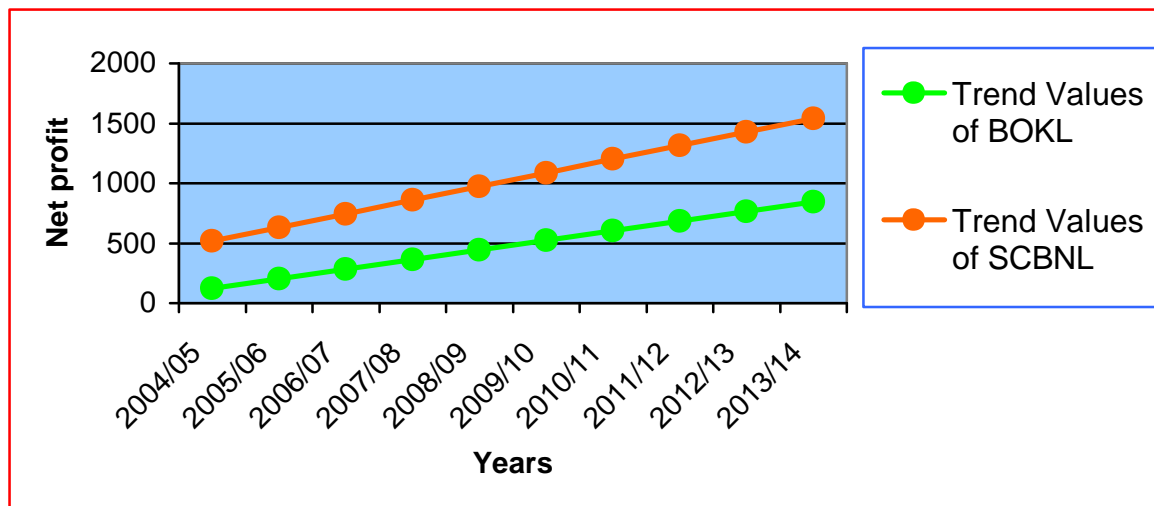
Table no. 4.31

Showing the Trend Values of Net Profit for 10 years from FY 2004/05 to 2013/14 of the Selected Banks.

Years	Trend Values		(INR-In Million)
	BOKL	SCBNL	
2004/05	124.4	518.0	
2005/06	204.7	631.8	
2006/07	285.0	745.6	
2007/08	365.3	859.4	
2008/09	445.6	973.2	
2009/10	525.9	1087.0	
2010/11	606.2	1200.8	
2011/12	686.5	1314.6	
2012/13	766.8	1428.4	
2013/14	847.1	1542.2	

Figure no. 7-D

Trend value of Net Profit



The above presented trend values and figure of net profit table 4.31 and figure 7-D indicates that the amount of net profit of all sample firms are in increasing trend. The largest amount of net profit between two banks is 1,542.20 million by SCBNL when all other things remain constant in FY 2013/14 during the study period. In this way, net profit of BOKL will be 847.10 million in FY 2013/14 which indicates that BOKL will have lower value in compare to SCBNL. The figure 7-D shows that both the banks have increasing trend but SCBNL has registered high increasing trend and BOKL has registered slightly low increasing trend.

From the above trend value analysis of net profit for both sample banks, it is found that the position of SCBNL is better in case of utilization of fund to generate sufficient profit in comparison to BOKL. BOKL has less increasing trend line of net profit in compare to SCBNL. So, it is unable to proper utilize funds to generate sufficient profit as SCBNL.

4.2 Major Findings

In order to complete this study, data are presented in the table after calculating in appendixes, which are obtained from secondary sources only. The fourth chapter, "Data Presentation and Analysis" is completed with the help of both financial and statistical tools. The various financial tools like Liquidity Ratio, Assets Management Ratio, Profitability Ratio, Debt Management Ratio and Growth Ratio has been used. Similarly, statistical tools like Co-efficient of Correlation Analysis and Trend Analysis have been used. The analysis is made with comparing both commercial banks as well as interpretation. Major findings of the selected firms are concluded with the help of analysis and interpretation, which are mentioned below.

A. Findings based on Liquidity Position

Findings based on liquidity position of selected firms i.e. BOKL and SCBNL are presented below;

1. Current Ratio:

The mean liquidity ratio of BOKL i. e. 0.83 is higher than that of SCBNL i. e. 0.57 in some cases. It results that BOKL has managed the higher liquidity to maintain the risk in comparison to SCBNL. So, the liquidity position of BOKL is better than that of SCBNL but non of them are maintaining standard ratio 1:1. BOKL has registered increasing trend but SCBNL has registered fluctuating trend. Current Ratio of BOKL and SCBNL are lower than 1:1 ratio which is not satisfactory.

2. Investment on Government Securities to Current Assets Ratio

From the investment on government securities point of view, both banks has lower investment on government securities. SCBNL has higher ratio than that of BOKL which indicates that both banks are investing in other profitable investment sectors. On the other hand, SCBNL has also started decreasing its investment on government securities but in the fiscal year 2008/09 its ratio has been increased than previous year. BOKL has also decreasing trend and the ratio is decreased to 10.09 from 32.59 in the fiscal year 2008/09. The liquidity position of SCBNL is better in comparison to BOKL. Due to more deposit collections and lack of profitable and productive sectors, SCBNL have the higher ratio than that of BOKL.

3. Cash and Bank Balance to Current Assets Ratio

Cash and bank balance to current assets ratio of all selected sample firms are better. SCBNL has the highest ratio of 15.52 for the fiscal year 2008/09 and the lowest ratio of 9.25 for the fiscal year 2004/05. BOKL has followed the higher ratio of 12.62 for the year 2008/09 and lower of 8.29 for the year 2005/06. Between the selected sample firms SCBNL has registered the highest mean of cash and bank balance to current assets ratio of 11.78. It shows that SCBNL has the better liquidity position.

The above included results prove that the liquidity position of SCBNL is comparatively better than that of BOKL. SCBNL has higher cash and bank balance to total deposits ratio than that of BOKL. But both the firms have not increased investment on government securities.

4. Cash and Bank Balance to Total Deposits Ratio

Both the selected firms have comparatively higher cash and bank balance to total deposit ratio than normal industry average. It proves that the liquidity position of selected banks is better than other financial institutions. BOKL has higher ratio than SCBNL which, indicates that it has better liquidity position in terms of cash and bank balance to total deposit ratio. However, SCBNL also found to have better ratio but lower than that of BOKL. But the CV of BOKL is 19.05% which is highest than SCBNL i. e. 18.30 which, indicates that cash and bank balance to deposit ratio of BOKL is less homogeneous than that of SCBNL.

B. Findings based on Assets Management Position

Assets management position of selected firms i.e. BOKL and SCBNL show the following findings;

5. Loan and Advances to Total Working Fund Ratio

The ratio of BOKL is higher than that of SCBNL and it has increasing trend. BOKL has registered highest ratio of 71.46% and SCBNL has registered lower ratio of 33.71 with fluctuating trend. The mean ratio of loan and advances to total working fund of BOKL is found good in comparison to SCBNL. The ratios of BOKL is more consistent and stable than that of SCBNL. It is clear that BOKL has been successful in mobilizing working fund in loan and advances than that of SCBNL. But while

considering CV, BOKL has higher than that of SCBNL which, indicates that BOKL is less homogenous than that of SCBNL concern to this ratio.

6. Loan and Advances to Total Deposit Ratio

From the fund utilization and mobilization point of view, BOKL has successfully mobilized large amount of deposit in investment. Loan and advances to total deposit ratio of BOKL is higher than that of SCBNL. BOKL has increasing trend but SCBNL has fluctuating trend. The highest mean ratio of BOKL is 74.18 and lowest of SCBNL is 41.53. Comparatively, the CV of SCBNL is lower than that of BOKL. So, loan and advance to total deposit ratio of SCBNL is more stable and consistent than that of BOKL.

7. Total Investment to Total Deposit Ratio

BOKL has lower ratio of total investment to total deposit ratio than that of SCBNL. SCBNL is granting lower loan and advances to total deposit but its has higher total investment to total deposit than that of BOKL. SCBNL has higher ratio 56.41 in the fiscal year 2008/09 and BOKL has lower ratio 15.39 in the fiscal year 2008/09. Both the banks have registered fluctuating trend ratio. From the utilization and mobilization point of view, it is clear that SCBNL is better than BOKL. BOKL is granting higher loan and advances than that of investment out of total deposit due to this CV of BOKL is higher than that of SCBNL which, indicates SCBNL is better in mobilizing its collected fund in secured sector than that of BOKL.

8. Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to total working fund ratio of both selected banks are in decreasing order. It shows that both the banks have secured profitable sector due to this they are withdrawing their investment fund from government securities. The mean ratio of investment on government securities to total working fund ratio of SCBNL is higher than that of BOKL. Investment on government securities to total working fund ratios of BOKL is less homogeneous than that of SCBNL. Both the selected firms have not invested their total working fund on government securities well and increasingly. Co-efficient of variation of SCBNL is 12.48 which lower than that of BOKL i.e. 32.83.

9. Loan Loss Ratio

The mean ratios of loan loss ratio of BOKL is 2.75 which is higher than that of SCBNL i. e. 1.71. It indicates that BOKL has no good position. If there is no doubtful debt; loan loss provision is not necessary, which can be mobilized to generate extra income. The performance of SCBNL regarding loan recovery is very good in comparison to BOKL. SCBNL has lower loan loss ratio than that of BOKL which, indicates that it has been successful in loan recovery than that of BOKL. The CV of BOKL is also higher than that of SCBNL which indicates that it has risky position than that of SCBNL.

From the above findings of asset management ratio, all the selected firms have not successfully mobilizing their deposits. However, BOKL has mobilized its collected fund in loan & advances and SCBNL has mobilized its collected fund in investment sector. And, in concern to loan loss provision SCBNL has been found to better in comparison to BOKL.

C. Finding based on Profitability Ratios

Profitability ratios of selected firms i.e. BOKL and SCBNL show the following findings;

10. Return on Loan and advances Ratio

The average return on loan and advances ratio of SCBNL is comparatively higher than that of BOKL. However, BOKL has increasing trend in return on loan & advance ratio but SCBNL has fluctuating trend. CV of BOKL is higher than that of SCBNL i.e. $35.63 > 7.86$ which indicates BOKL has more risk than that of SCBNL.

11. Return on Total Asset Ratio

BOKL has maintained increasing trend in return on total assets ratio but SCBNL has fluctuating trend. However, mean ratio of return on total asset of SCBNL is comparatively higher than that of BOKL i.e. $2.48 > 1.83$. And, CV of BOKL is higher than that of SCBNL which indicates that BOKL has increasing trend but risky position in compare to SCBNL.

12. Return on Equity (ROE) Ratio

The ROE ratio of BOKL is increasing trend but SCBNL has registered fluctuating trend. SCBNL has highest ratio in the fiscal year 2005/06 i.e. 37.55 and BOKL has lower ratio in the fiscal year 2004/05 i.e. 19.41. The mean ratio of return on equity ratio of SCBNL is comparatively higher than that of BOKL i.e. $34.10 > 24.56$. However, both the banks have been successful in satisfying its owners as well as customers.

13. Total Interest Earned to Total Assets Ratio

The mean ratio of total interest earned to total assets ratio of BOKL is higher than that of SCBNL i.e. $6.00 > 4.76$. However, both the banks have successfully mobilized their total assets to earn interest income. The total interest earned to total assets ratio of SCBNL is more variable in comparison to BOKL.

14. Total Interest Paid to Total Working Fund Ratio

The mean ratio of total interest paid to total working fund of BOKL is higher than that of SCBNL i.e. $2.47 > 1.30$ which indicates that BOKL has paid higher interest than that of SCBNL.

15. Total Interest Earned to Total Operating Income Ratio

Both the banks have registered fluctuating trend in regards to this ratio. The mean ratio of total interest earned to total operating income of BOKL is higher than that of SCBNL i.e. $120.91 > 87.32$ which indicates that BOKL earning more interest out of total operating income than that of SCBNL.

16. Earning Per Share (EPS)

The EPS of BOKL is fluctuating between 30.10 to 59.94 during the study period and that of SCBNL is fluctuating between 109.99 to 175.84. Comparatively, SCBNL has good EPS than that of BOKL during the period of study. However, SCBNL has highest EPS in fiscal year 2005/06 i.e. 175.84 and lowest in 2007/08 i.e. 131.92. Above analysis shows that the profitability position of SCBNL is better than that of BOKL. SCBNL has strong position than BOKL. However, BOKL has increasing trend but SCBNL decreasing trend after the fiscal year 2005/06.

17. Dividend Per Share (DPS)

SCBNL has distributed dividend ranging from 50% to 130% and BOKL has distributed dividend ranging from 2.11% to 20% during the study period. SCBNL has decreasing trend for distributing dividend however, BOKL has fluctuating trend. These ratio helps to the investors for determining the investment sectors and help the companies or firms themselves to satisfy their shareholders and prepare a good investment policy. Above analysis shows that SCBNL has better opportunity of investment in profitable sectors than that of BOKL.

D. Findings based on Debt Management Ratio

Debt management ratios of selected firms i.e. BOKL and SCBNL show the following findings;

18. Debt Ratio

Both the banks have registered similar ratio, there is quite difference in the ratio of both banks. The mean debt ratio of BOKL is quite lower than that of SCBNL i.e. $92.47 < 92.70$ which indicates that both the banks have similar volume of debt. The ratios of both banks are in fluctuating trend. The CV of BOKL is 0.86 which is higher than SCBNL which is 0.28 that shows that BOKL position is risky than that of SCBNL.

19. Debt Equity Ratio

BOKL has registered increasing trend except in the fiscal year 2008/09 in debt equity ratio and SCBNL has registered fluctuating ratio. The mean ratio of SCBNL is comparatively higher than BOKL. BOKL has lowest mean of debt equity ratio i.e. 21.61 and SCBNL has highest ratio i.e. 31.22 which indicates that BOKL has less debt holder than that of SCBNL which is beneficial to equity share holder in case of BOKL. These ratios indicates that SCBNL has more efficiently collected assets as debt in compare to BOKL.

20. Interest Coverage Ratio

Interest coverage ratio of BOKL is in increasing trend and that of SCBNL is in fluctuating trend. The mean interest coverage ratio of SCBNL and BOKL are 3.78 & 2.04 respectively which indicates that SCBNL has been comparatively more successful to earn more than its interest expenses than that of BOKL. CV of BOKL is lower than that of SCBNL which indicates that ratios of BOKL are more variable than that of SCBNL i.e. $7.36 < 7.46$.

E. Findings based on Growth Ratios

The growth ratios of total deposit, total investment, loan and advances and net profit in case of BOKL and SCBNL reveal the following findings;

21. Growth Ratio of Total Deposit

The growth ratio of total deposits in case of performance on the greater deposit collection of BOKL as well as SCBNL are better year by year but average growth rate of BOKL is better than that of SCBNL i.e. $19.25\% > 16.66$. These growth rate indicates that BOKL is rapidly collecting deposits from the customers in comparison to SCBNL. However, SCBNL is maintained large deposit volume than that of BOKL.

22. Growth Ratio of Total Investment

The growth ratio of different investment of SCBNL is higher in comparison to BOKL i.e. $20.18\% > 1.73\%$. These ratio indicates that there is large difference in growth rate ratio of total investment of BOKL and SCBNL. SCBNL has rapidly increased its investment amount in secured sector than that of BOKL. So, the growth ratio of investment of SCBNL is comparatively better than BOKL.

23. Growth Ratio of Loan & Advances

BOKL performance to grant the collected deposit amount as loan and advances in secured sectors is better and it can succeed to grant the deposit in future. It has highest growth rate of loan and advances than SCBNL i.e. $25.46 > 13.85$. So from the analysis, it is concluded that the performance of BOKL to grant loan and advances is comparatively better each year. However, SCBNL also have growth ratios of loan and advances.

24. Growth Ratio of Net Profit

The growth ratio of total net profit of BOKL is higher than that of SCBNL i.e. $34.95 > 17.60$. So from the analysis, it is concluded that the performance of BOKL to earn net profit is comparatively better each year. It leads the top most position of growth ratio of net profit in this study between selected sample firms. However, SCBNL also have growth ratios of net profit.

The performance related to the collection of deposit, granting loan and advances and net profit of BOKL is comparatively better than that of SCBNL. The performance regarding growth ratio of total investment of SCBNL is comparatively better than that of BOKL.

F. Findings based on Co-efficient of Correlation Analysis

Co-efficient of correlation analysis between different variables such as deposit & loan and advances, deposit & total investment and total assets & net profit in case of both selected banks reveal the following findings;

25. Co-efficient of Correlation between Deposit and Loan and Advances

The value of correlation co-efficient (r) of BOKL is better than that of SCBNL that has the higher value of correlation between total deposits and loan and advances. However, both the banks are effectively, efficiently and successfully mobilizing the collected deposits as loan and advances. Co-efficient of correlation (r) between deposit and loan and advances of BOKL is 0.9994 that shows highly positive relationship between deposit and loan and advances. Similarly, the value of co-efficient of determination (r^2), P.E.r and 6P.E.r is 0.9988, 0.000362 and 0.00216 respectively. The value of ' r ' is significant or there is significant relationship between loan and advances of BOKL. That's why, BOKL is mobilizing or utilizing its collected deposit into loan and advances successfully than that of SCBNL.

26. Co-efficient of Correlation between Total Deposits and Total Investment

It is found that the correlation co-efficient of SCBNL is comparatively greater than that of BOKL i.e. $0.9509 > 0.0376$. The value of ' r ' of SCBNL indicates positive relationship between deposit and total investment. Therefore, the value of coefficient of correlation is significant. The value of co-efficient of determination (r^2), probable error (P.E.r) and 6P.E.r is 0.9042, 0.0289 and 0.1734 respectively. Co-efficient of determination (r^2) is 0.9042 which shows the variation of 90.42% in the investment is the cause of change in total deposit collections and remaining variation is due to the variation of other factors. Therefore, it can be concluded that there is significant relationship between deposit and total investment of SCBNL. SCBNL has taken good investment policy for deposit amount. Therefore, it is maximizing to use the deposit into investment and it is their main policy to mobilize their deposit as investment in comparison to BOKL.

In case of BOKL, the value of P.E.r and 6P.E.r is 0.3012 and 1.8073 respectively which indicates that the value of 'r' is lower than that of P.E.r and 6P.E.r. Therefore, the value of r is not significant or there is not significant relationship between deposit and total investment.

27. Co-efficient of Correlation between Total Assets and Net Profit

BOKL has greater value of correlation co-efficient of total assets and net profit than that of SCBNL i.e. $0.9976 > 0.9963$. However, SCBNL has also positive correlation between total assets and net profit. Co-efficient of determination (r^2) of BOKL is 0.9952 which shows the variation of 99.52% in the net profit is the cause of change in total assets and remaining variation is due to the variation of other factors. In case of BOKL, the value of P.E.r and 6P.E.r is 0.001448 and 0.00869 respectively which indicates the value of 'r' is greater than that of P.E.r and 6P.E.r. Therefore, the value of 'r' is significant and there is significant relationship between total assets and net profit of BOKL. In case of SCBNL, the value of P.E.r and 6P.E.r is 0.00223 and 0.01338 respectively which indicates that the value of 'r' is greater than that of P.E.r and 6P.E.r. Therefore, the value of 'r' is significant and there is significant relationship between total assets and net profit. Both the banks have significant relationship between total assets and net profit but BOKL is better than SCBNL having greater value of 'r'.

From the above results, it is found that there is significant relationship between deposit and loan and advances, and total assets and net profit of BOKL as well as SCBNL but BOKL is better having greater value of 'r'. Similarly, there is significant relationship between deposit and total investment of SCBNL but there is quite positive correlation between deposit and total investment of BOKL.

G. Findings based on Trend Analysis

Trend analysis of total deposits, loan and advances, total investment and net profit are analyzed in previous topics. Similarly, next five years projections are also analyzed. Trend analysis and future projection for next five years of BOKL and SCBNL discloses that;

28. Trend Analysis of Total Deposits

Trend values of Total deposit indicates that the amount of deposit of all sample firms are in increasing trend. However, total deposit of BOKL will be 26,521 million in FY 2013/14 which indicates that BOKL will have lower values in compare to SCBNL. Trend line of SCBNL showing the high rapidly increasing trend than that of BOKL. In this way, we can say that the deposit collection trend of SCBNL is better than that of BOKL and it has maintained high value of deposit amount collected from its customers than that of BOKL.

29. Trend Analysis of Loan & Advances

Trend values of total loan and advances indicates that the amount of loan and advances of all sample firms are in increasing trend. Trend line represent that loan and advances position of both bank are good and registered increasing trend. But in the fiscal year 2007/08 to 2008/09 trend line of BOKL has crossed over the trend line of SCBNL maintaining high increasing trend. In this way, we can say that the practice of granting loan and advances of BOKL is better after the fiscal year 2007/08 than that of SCBNL and it has maintained high increasing trend in granting loan and advances.

30. Trend Analysis of Total Investment

The position of SCBNL is better in case of utilization of fund to investment portfolios in comparison to BOKL. BOKL has lower total investment trend line. SCBNL has mobilized its funds in optimal investment portfolios than BOKL. In this way we can say that, SCBNL is successful to utilize its funds in investment sector but BOKL is not successfully utilizing its funds in investment sector because BOKL good practice in utilizing its funds in loan and advances.

31. Trend Analysis of Net Profit

Trend value analysis of net profit for both the firms, it is found that the position of SCBNL is better in case of utilization of fund to generate sufficient profit in comparison to BOKL. BOKL has lower net profit trend line. However, both the banks have increasing trend line but SCBNL has success to registered high increasing trend line than that of BOKL. So, BOKL is not success to utilize its collected funds to generate sufficient profit.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

The last chapter of this study is Summary, Conclusion and Recommendations, developed from the completion of analysis part on the investment policy of sample firms. 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 those firms, which are taken as sample in this study, to solve the problems found on the basis of analysis and conclusions.

5.1 Summary

The results of the study on the topic of investment policy of two firms are summarized as:

From the study, it has been found that the sample firms have the lower current ratio than 1. So, the liquidity position of those firms are not so good but BOKL has better liquidity position than SCBNL. SCBNL has large investment in government securities than BOKL. BOKL has not invested large amount in government securities because it has other secured and profitable sector to invest. From the view pint of investment SCBNL has successfully mobilized its funds than BOKL. Cash and bank balance to current assets ratio of SCBNL is better than BOKL. The liquidity position of SCBNL is better than BOKL. However, the cash and bank balance to total deposit ratios of BOKL is higher than that of SCBNL. It shows that BOKL can maintain the liquidity crisis and can easily maintain the cash demand of the customers in compare to SCBNL.

The loan and advances to total working funds ratios shows, good position for granting loan by BOKL in comparison to SCBNL Therefore, loan and advance to total working fund ratio of BOKL is more stable and consistent than that of SCBNL. The average loan and advances to total deposit ratios of BOKL is better than that of SCBNL which indicates that BOKL is successfully investing their deposit collections as loan and advances in comparison to SCBNL. Total investment to total deposit ratio of SCBNL is greater than that of BOKL. It has larger investment in government securities and other investments than that of BOKL. Due to large area and a large amount of capital investment, SCBNL's investment policy for deposits

collections is comparatively better than BOKL. Investment on government securities to total working fund ratios of SCBNL is higher than that of BOKL. It shows that SCBNL has successfully invested its collected funds in government securities which is more secure than that of other investment sector. The SCBNL has comparatively lower amount of provision for their loan loss, which indicate that there is a lower amount of doubtful investments. However, BOKL has greater loan loss provision than that of SCBNL.

Profitability position of SCBNL is better than BOKL. Return on loan and advances, return on total assets and return on equity of SCBNL is comparatively better than that of BOKL. However, BOKL has higher ratio of total interest earned to total assets, and total interest earned to total operating income than SCBNL. BOKL has lower earning per share and it has also distributed lower percentage of earning as dividend. So, profitability position of SCBNL is better than that of BOKL. With the proportion of total assets, interest income of BOKL is better in comparison to SCBNL. Similarly, BOKL has also paid higher interest on their deposit collections and borrowings in the proportion to total working fund in comparison to SCBNL. However, SCBNL has paid lower interest on their deposit collections and borrowings.

Total debt to total assets and total debt to total equity ratios of SCBNL is comparatively higher than that of BOKL. Which indicates that both the selected firms have practice to generate funds by issuing bond. However, SCBNL is collecting more amount by issuing bond in comparison to BOKL. Maximum value of total assets is collected by issuing bond by both firms. Similarly, both the selected firms have success to earn more than their interest expenses. In case of interest coverage ratios SCBNL has higher ratio than that of BOKL which indicated that SCBNL is bearing higher interest than BOKL.

The growth ratio of total deposits, loan & advances, and net profits of both selected firms are in increasing trend. In case of growth ratio of total deposits, loan & advances, and net profit of BOKL is comparatively higher than that of SCBNL which indicates that BOKL is better than SCBNL. The net profit of BOKL is twice better than that of SCBNL which indicates that earning practice in regards of net profit of BOKL is very better than SCBNL. However, SCBNL has maintained large volume of amount in comparison to BOKL but the growth ratios of BOKL has

defeated the ratios of SCBNL in case of growth ratio of total deposits, loan & advances, and net profit. Growth ratios of total investment are higher for SCBNL than that of BOKL. Growth ratio of total investment of BOKL is very lower in comparison to SCBNL. Similarly, investment practice of SCBNL in government securities as well as other secured profitable sector is very high which indicates that SCBNL has maintained better investment of large amount in comparison to BOKL.

Both the selected firms have higher correlation co-efficient between total deposits and loan and advances, and total assets and net profit which indicates that all the variables are significantly correlated. BOKL has greater value of correlation co-efficient of deposit and loan and advances, and total asset and net profit than that of SCBNL. Co-efficient of correlation between deposit and total investment of SCBNL is higher than that of BOKL which shows the variables of SCBNL are highly correlated and showing significant relationship but the variables of BOKL have quite positive correlation which indicates that there is no good relationship between the variables than that of SCBNL.

During the study period, the trend values of total deposits, loan & advances, total investment, and net profit in case of both selected banks have increasing trend. Increasing trend of all variables except total investment of both banks are better. However, SCBNL has successfully maintained large value of amount in case of all variables and has good increasing trend which indicates that SCBNL has better position than BOKL. In case of loan & advances the increasing trend of SCBNL is defeated by the increasing trend of BOKL after the fiscal year 2007/08 which indicates that BOKL is going to be better than SCBNL. In case of net profit, SCBNL will has earn twice more than BOKL in the fiscal year 2013/014. Increasing trend on investment of SCBNL is very high but BOKL is very low having quite increment which indicates that SCBNL has good investment policy and investing more and more in government securities as well as other profitable sector in compare to BOKL.

5.2 Conclusion

With the effort of completing entire research study, one has to come to some conclusion regarding the topic selected for the research study to elite the key areas of findings and research made during the period. So, on the basis of entire research study, some conclusion has been deduced. This study particularly deals with conclusion about “Comparative study on Investment Policy Of Commercial Banks in Nepal”. The present study is mainly an attempt to give general account of comparative investment policy of Commercial Banks in Nepal in the light of their liquidity position, asset management position, profitability position, debt management position, growth position and other related ratios and indicators on other statistical analysis.

Today’s, Competitive world of banking has challenged all the corporate sectors and also has given an ample opportunity to mobilize resources to contribute in uplifting the economic sector of the nation. many Commercial Banks, Development Banks, Merchant Banks, Finance and Insurance companies are contributing by introducing higher and developed technology, efficient methods in the banking sectors especially after the political reform of the country. Introduction of ATM cards, debit and credit cards, electronic transfers of money, SMS banking, mobile money banking, derivatives and internet banking have made the banking sectors an attractive and modernized as well as popular sectors for investment in shares and earn debentures for the people. But the present study has been undertaken only about two commercial banks namely, BOKL and SCBNL for examining and evaluating the Investment Policy of these commercial banks. The financial statements of five years have been conducted for the purpose of this study form the fiscal years 2004/05 to 2008/09. This study has been completed only on the basis of secondary data and analyzed them comparatively.

The liquidity position of commercial banks are seemed to following quite upward trend considering the study period. Although the rule of thumb the, standard ratios should be 2:1 that standard could not be followed by commercial banks but it does not mean that the commercial banks are not able to pay their short-term obligation. However, it seems that the commercial banks could be able to meet short-term obligation although the ratios are below than normal rate. This is due to the higher deposit rate of general publics in commercial banks. These banks have been serving in efficient and lucrative way to win the people’s faith. On the other hand,

the commercial banks may have followed aggressive working capital policy. Thus, it can be said that current ratio of BOKL is more significant to meet the short-term obligation than SCBNL, but it does not mean that SCBNL has unsatisfactory liquidity position because it may have maintained less aggressive working capital policy to generate more return by investing in more profitable sectors. It has enough deposits and investment opportunities than that of BOKL. Cash and bank balance to deposits, BOKL has very sound position for ready to serve against its customer deposits than SCBNL. It seems that SCBNL has followed conservative working capital policy and selective lending policy whereas BOKL has followed aggressive working capital policy and it has invested less assets for income generating purpose than SCBNL. Thus, it can be said a high ratio of cash and bank balance may be unfit which seems the bank's inability due to pay unnecessary interest charges and lose golden opportunities upon handling over cash balance. Over cash and bank balance might be a burden for the commercial banks without proper areas of investment sectors available.

The assets management position of both commercial banks are seemed to follow an upward trend except investment considering the study period. However, it seems that the commercial banks have practice to invest collected deposit as loan & advances than that of investment. BOKL has invested its collected funds in loan & advances and SCBNL has invested in loan & advances as well as investment sectors. Both the banks have successfully invested their funds as loan & advances and earning more interest income but BOKL is more investing in this sector to earn more interest income than that of SCBNL. On the other hand, the commercial banks may have followed aggressive assets management policy and SCBNL has invested more assets in government securities as well as secured profitable sector than that of BOKL. SCBNL has maintained less aggressive working capital policy to generate more return by investing in more profitable sectors such as government securities as well as other profitable sector. It has enough deposits and investment opportunities than that of BOKL. In case of loan loss provision, BOKL has maintained more funds than SCBNL. It seems that, higher average loss ratio of BOKL states the position of BOKL is not so good. If there is no doubtful debt; loan loss provision is not necessary, which can be mobilized to generate extra income.

In case of profitability, SCBNL has earned more profits in terms of net profit on loan & advances, net profit on total assets, and net profit on equity than BOKL. SCBNL has registered more amount as earnings per share (EPS) as well as dividend per share (DPS) than BOKL to its shareholders. Thus, it can be said that from the shareholders point of view EPS of SCBNL is more satisfactory whereas in the case of BOKL, there is minimum amount available to its shareholders. On the other hand, SCBNL also distributed maximum amount of dividend to its shareholders in compare to BOKL. This means it has invested its retained earnings in much profitable and secured investments. However, total interest earned to total assets and total interest earned to total operating income of BOKL is higher than that of SCBNL which indicates that BOKL has invested its collected funds in much interest generated profitable sector and earning more than SCBNL. Similarly, total interest paid to total working fund of BOKL is higher than that of SCBNL. Thus, it can be said that BOKL has hold more deposit amount than SCBNL that cause its paying more interest expenses but from the view pint of liquidity crisis BOKL has better position than that of SCBNL.

In case of debt management position, debt ratio and debt equity ratio of SCBNL is higher than that of BOKL. Thus, it can be said that SCBNL has good practice to collect assets as debt in compare to BOKL due to this SCBNL has less interest expenses. However, BOKL has also maintained good debt ratio which is slightly lower than SCBNL. On the other hand, interest coverage ratio (ICR) of SCBNL is also better in compare to BOKL which indicates that SCBNL has maintained less interest expenses than BOKL due to this it has good net profit in compare to BOKL.

The growth rates of BOKL are relatively high with respect to total deposit, loan & advances, and net profit whereas SCBNL has registered very low growth rates in comparison to BOKL. Moreover, BOKL has achieved better position having highest growth rates in total deposit, loan & advances, and net profit. SCBNL has higher investment in profitable sectors than that of BOKL. Thus, it can be said that SCBNL has good investment policy to utilize its collected funds and registered better growth rate position in compare to BOKL.

Under Karl Pearson's co-efficient of correlation, it has been found that highly positive relationship between deposit (independent) and loan & advances (dependent), and total assets (independent) and net profit (dependent) variables of both selected banks. The value of 'r' is more significant because its value of all banks are more than six times of P.E.r except SCBNL because the values of 'r' is less than six times of P.E.r in case of deposit and loan & advances which indicates that the value of 'r' of SCBNL is less significant in compare to BOKL. Thus, it can be concluded that BOKL has successfully mobilized its funds in proper way for generating more return but SCBNL has less successfully mobilized its collected funds in proper way for generating more return in compare to BOKL. On other hand, the degree of relationship between deposits (independent variables) and investments (dependent variables) of SCBNL is more significant because its value of 'r' is more than six times of P.E.r but the value of 'r' of BOKL is slightly positive correlated. So, it can be concluded that the SCBNL has better trend values in total investment which has successfully mobilized their deposits fund in proper way of different sectors for generating more incomes than that of BOKL.

The trend analysis of total deposit, loan & advances and net profit show that, SCBNL has maintained high increasing trend and BOKL has maintained low increasing trend but in case of loan & advances BOKL has success to defeat the increasing trend figure of SCBNL after the fiscal year 2007/08. So, it can be concluded that SCBNL has more successfully collected deposits and earning more net profits having good police in compare to BOKL. So, it can be concluded that SCBNL is better than BOKL in case of total deposit as well as loan & advances. However, BOKL is better in case of granting loan & advances which indicates that it has successfully utilizing its funds as loan & advances and earning profits, and becoming better than SCBNL having rapid increasing trend line. The trend value analysis of total investment for those sample firms, it is found that the position of SCBNL is better in case of utilization of fund to investment portfolios in comparison to BOKL. BOKL has lower total investment trend line. So, it is unable to proper utilize funds to better investment portfolios and it has not good investment position. Trend value line shows that SCBNL has better investment position in comparison to BOKL.

5.3 Recommendation

According to the analysis of secondary data, major findings from the study and conclusions of the study on the topic of investment policy of two sample commercial banks. The following suggestions or recommendation are presented below, which would help to draw some outline and make reforms in the respective firms;

5.3.1 Investment Priority in Rural Sectors

Investment policy of any firm plays a vital role in the success of the firm. It is the vital important job of the financial institutions which has to be done considering fundamental principal of investment policy like CAMEL indicators. On the other hand, various environmental factors like political, economical and government policies affect the investment policy of the firms. Most of the banking institutions are concentrated in the urban areas only. They are not interested towards the rural borrowers involving in domestic industries. They are concerned to liquidity problem that arise after their investment in rural sectors. It is one of the major problem they will face in this sector. But, it is great obstruction for the small borrowers and small domestic industries to grow and develop. Moreover, commercial banks must focus on the investment in rural areas that can uplift the country's economic condition. That's why, sample firms have to analyze investment portfolios in rural areas while making investment decisions.

5.3.2 Mobilizing Deposits in Productive Sectors/Projects

These commercial banks are earning higher returns in their investment and also providing higher dividend to its shareholders and high salaries to its employees but they don't seem to investing in much more productive sectors. The commercial banks are basically not concentrated to mobilize their deposit funds in productive sectors. So, they are suggested to come forward to meet government obligation by financing in the priority sector development programs such as poverty alleviation programs, woman entrepreneurship development programs, income generating programs, generating new services sectors, hydro powers etc.

5.3.3 Involving Foreign Investors For National Development

The commercial banks are suggested to involve foreign investors to make their investments in the Hydro Power Projects as well as Telecommunication Projects etc. for the development of country. The foreign investors and industrialists are unfamiliar with the local rules and regulations, customers and practices. So, the commercial banks should try as far as possible to lure the foreign investors for investments that creates more productive outputs, more employment opportunities and effective national resources utilization which leads to economic development of the country.

5.3.4 Better Liquidity Position

Generally banks have to maintain adequate liquid assets to fulfill the banking activities but the current ratio of sample banks are below standard level 2:1, it shows that they have very poor liquidity position. The bank must identify the quality of current assets and current liabilities to maintain their own current ratio. Depending on the growth position of the financial market, the lending policies, management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short- term obligation. So, it is suggested to maintain sound liquidity position of all the selected firms.

5.3.5 Investment in Government Securities

Treasury bills, development bonds, saving certificates etc. are government securities which are risk less investment alternatives. They are free of default risk as well as liquidity risk and can be easily sold in the market. From the study, it is found that the sample commercial banks are investing in government securities in decreasing trend. So, it is suggested to invest more funds in government securities instead of investment in other risky assets.

5.3.6 Government Rules and Regulations Regarding Investment

Commercial banks should know the changes that takes place in economic and investment policies enacted by the government. They should follow the NRB's instruction regarding investment on projects in rural areas. Government regularly changes the investment policy, tax system and other facilities regarding to the development of banking system in rural areas. So, government also should amend the existing impractical rules and regulations, policies regarding investment as per the demand of banking sectors. Government should implement the rules, policies to banking sectors in establishment in rural sectors strictly.

5.3.7 Playing Merchant Banking Role

Modern Banking world is a challenging area for the investors either they may be institutional investors or local merchants. Commercial banks are not playing the role of merchant banking like underwriting of securities, brokers development of capital market and supportive role to the security exchange entire which will consequently be helpful to up lift the country. It is recommended that they should play merchant banking role for the economic development of the country.

5.3.8 Emphasis on Nepalese Degree Holders

These commercial banks are neglecting to Nepalese degree holders on the higher post by management team of commercial banks. The Nepalese degree holders should be given opportunities to compete in higher posts because they are comparatively not so inferior than other. So, management of commercial banks should think seriously about this matter and emphasize to Nepalese degree holders on the higher posts by allocating more authority and responsibility.

5.3.9 Loan Recovery Policy

The commercial banks are found to have lower loan loss provisions. These provisions are in decreasing trend. Investment sectors must optimal for these commercial banks are real estates, business enterprises, infrastructures, industries etc. Economic downturns and challenges is causing most of the industries to come to an end. In this situation, commercial banks are suggested to make appropriate loan recovery policies to support and secure their investment in these sectors. However, it is also suggested to give different suggestions from these commercial banks for the better performance and future forecasting changes to take place in investment sectors.

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APPENDIX– 1

Current Ratio

BOKL			
FY	Current Assets (NPR-In Million)	Current Liabilities (NPR-In Million)	Ratio(times)
2004/05	6584	9136	0.72
2005/06	8785	11139	0.78
2006/07	11262	13385	0.84
2007/08	14127	16177	0.87
2008/09	17293	18452	0.93

SCBNL			
FY	Current Assets (NPR-In Million)	Current Liabilities (NPR-In Million)	Ratio(times)
2004/05	12007	20199	0.59
2005/06	12827	24013	0.53
2006/07	14917	26480	0.56
2007/08	19315	308 43	0.62
2008/09	20211	37534	0.53

APPENDIX – 2

Investment on Government Securities to Current Assets Ratio

BOKL			
FY	Investment on Govt. securities (NPR-In Million)	Current Assets (NPR-In Million)	Ratio(%)
2004/05	2146	6584	32.59
2005/06	2658	8785	30.26
2006/07	2332	11262	20.71
2007/08	2113	14127	14.96
2008/09	1744	17293	10.09

SCBNL			
FY	Investment on Govt. securities (NPR-In Million)	Current Assets (NPR-In Million)	Ratio(%)
2004/05	7201	12007	59.97
2005/06	7477	12827	58.29
2006/07	7106	14917	47.64
2007/08	8137	19315	42.13
2008/09	9998	20211	49.47

APPENDIX – 3

Cash and Bank Balance to Current Asset Ratio

BOKL			
FY	Cash and Bank Balance (NPR-In Million)	Current Assets (NPR-In Million)	Ratio(%)
2004/05	740	6584	11.24
2005/06	728	8785	8.29
2006/07	1315	11262	11.68
2007/08	1440	14127	10.19
2008/09	2182	17293	12.62

SCBNL			
FY	Cash and Bank Balance (NPR-In Million)	Current Assets (NPR-In Million)	Ratio(%)
2004/05	1111	12007	9.25
2005/06	1276	12827	9.95
2006/07	2021	14917	13.55
2007/08	2050	19315	10.61
2008/09	3137	20211	15.52

APPENDIX – 4

Cash and Bank Balance to Total Deposit Ratio

BOKL			
FY	Cash and Bank Balance (NPR-In Million)	Total Deposit (NPR-In Million)	Ratio(%)
2004/05	740	8943	8.27
2005/06	728	10485	6.94
2006/07	1315	12388	10.62
2007/08	1440	15833	9.09
2008/09	2182	18084	12.07

SCBNL			
FY	Cash and Bank Balance (NPR-In Million)	Total Deposit (NPR-In Million)	Ratio(%)
2004/05	1111	19363	5.74
2005/06	1276	23061	5.53
2006/07	2021	24647	8.20
2007/08	2050	29743	6.89
2008/09	3137	35871	8.75

APPENDIX – 5

Loan and Advance to Total Working Fund Ratio

BOKL			
FY	Loan and Advances (NPR-In Million)	Total Working Fund (NPR-In Million)	Ratio(%)
2004/05	5912	9888	59.79
2005/06	7259	12278	59.12
2006/07	9399	14581	64.46
2007/08	12462	17721	70.32
2008/09	14647	20496	71.46

SCBNL			
FY	Loan and Advances (NPR-In Million)	Total Working Fund (NPR-In Million)	Ratio(%)
2004/05	8143	21781	37.39
2005/06	8935	25767	34.68
2006/07	10502	28596	36.73
2007/08	13718	33335	41.15
2008/09	13680	40587	33.71

APPENDIX – 6

Loan & Advance to Total Deposit Ratio

BOKL			
FY	Loan and Advances (NPR-In Million)	Total Deposit (NPR-In Million)	Ratio(%)
2004/05	5912	8943	66.11
2005/06	7259	10485	69.23
2006/07	9399	12388	75.87
2007/08	12462	15833	78.71
2008/09	14647	18084	80.99

SCBNL			
FY	Loan and Advances (NPR-In Million)	Total Deposit (NPR-In Million)	Ratio(%)
2004/05	8143	19363	42.05
2005/06	8935	23061	38.75
2006/07	10502	24647	42.61
2007/08	13718	29743	46.12
2008/09	13680	35871	38.14

APPENDIX – 7

Total Investment to Total Deposit Ratio

BOKL			
FY	Total Investment (NPR-In Million)	Total Deposit (NPR-In Million)	Ratio(%)
2004/05	2598	8943	29.05
2005/06	3374	10485	32.18
2006/07	2992	12388	24.15
2007/08	3204	15833	20.24
2008/09	2783	18084	15.39

SCBNL			
FY	Total Investment (NPR-In Million)	Total Deposit (NPR-In Million)	Ratio(%)
2004/05	9702	19363	50.11
2005/06	12838	23061	55.67
2006/07	13553	24647	54.99
2007/08	13902	29743	46.74
2008/09	20236	35871	56.41

APPENDIX – 8

Investment on Government Securities to Total Working Fund Ratio

BOKL			
FY	Investment on Govt. Securities (NPR-In Million)	Total Working Fund (NPR-In Million)	Ratio(%)
2004/05	2146	9888	21.70
2005/06	2658	12278	21.65
2006/07	2332	14581	15.99
2007/08	2113	17721	11.92
2008/09	1744	20496	8.51

SCBNL			
FY	Investment on Govt. Securities(NPR-In Million)	Total Working Fund (NPR-In Million)	Ratio(%)
2004/05	7201	21781	33.06
2005/06	7477	25767	29.02
2006/07	7106	28596	24.85
2007/08	8137	33335	24.41
2008/09	9998	40587	24.63

APPENDIX – 9

Loan Loss Ratio

BOKL			
FY	Loan Loss Provision (NPR-In Million)	Loan and Advances (NPR-In Million)	Ratio(%)
2004/05	295	5912	4.99
2005/06	197	7259	2.71
2006/07	236	9399	2.51
2007/08	232	12462	1.86
2008/09	248	14647	1.69

SCBNL			
FY	Loan Loss Provision (NPR-In Million)	Loan and Advances (NPR-In Million)	Ratio(%)
2004/05	219	8143	2.69
2005/06	190	8935	2.13
2006/07	193	10502	1.84
2007/08	126	13718	0.92
2008/09	131	13680	0.96

APPENDIX – 10

Return on Loan and Advances Ratio

BOKL			
FY	Net Profit (NPR-In Million)	Loan and Advances (NPR-In Million)	Ratio(%)
2004/05	139	5912	2.35
2005/06	202	7259	2.78
2006/07	262	9399	2.79
2007/08	361	12462	2.90
2008/09	819	14647	5.59

SCBNL			
FY	Net Profit (NPR-In Million)	Loan and Advances (NPR-In Million)	Ratio(%)
2004/05	536	8143	6.58
2005/06	658	8935	7.36
2006/07	691	10502	6.58
2007/08	818	13718	5.96
2008/09	819	13680	5.99

APPENDIX – 11

Return on Total Assets Ratio

BOKL			
FY	Net Profit (NPR-In Million)	Total Working Fund (NPR-In Million)	Ratio(%)
2004/05	139	9888	1.41
2005/06	202	12278	1.65
2006/07	262	14581	1.80
2007/08	361	17721	2.04
2008/09	461	20496	2.25

SCBNL			
FY	Net Profit (NPR-In Million)	Total Working Fund (NPR-In Million)	Ratio(%)
2004/05	536	21781	2.46
2005/06	658	25767	2.55
2006/07	691	28596	2.42
2007/08	818	33335	2.45
2008/09	1025	40587	2.53

APPENDIX – 12

Return on Equity Ratio

BOKL			
FY	Net Profit (NPR-In Million)	Equity Capital (NPR-In Million)	Ratio(%)
2004/05	139	716	19.41
2005/06	202	838	24.10
2006/07	262	993	26.38
2007/08	361	1342	26.90
2008/09	461	1771	26.03

SCBNL			
FY	Net Profit (NPR-In Million)	Equity Capital (NPR-In Million)	Ratio(%)
2004/05	536	1582	33.88
2005/06	658	1752	37.55
2006/07	691	2114	32.68
2007/08	818	2492	32.82
2008/09	1025	3052	33.58

APPENDIX – 13

Total Interest Earned to Total Assets Ratio

BOKL			
FY	Total Interest Earned (NPR-In Million)	Total Working Fund (NPR-In Million)	Ratio(%)
2004/05	607	9888	6.13
2005/06	718	12278	5.84
2006/07	819	14581	5.61
2007/08	1034	17721	5.83
2008/09	1347	20496	6.57

SCBNL			
FY	Total Interest Earned (NPR-In Million)	Total Working Fund (NPR-In Million)	Ratio(%)
2004/05	1058	21781	4.86
2005/06	1189	25767	4.61
2006/07	1411	28596	4.93
2007/08	1591	33335	4.77
2008/09	1887	40587	4.65

APPENDIX – 14

Total Interest Paid to Total Working Fund Ratio

BOKL			
FY	Total Interest Paid (NPR-In Million)	Total Working Fund (NPR-In Million)	Ratio(%)
2004/05	241	9888	2.43
2005/06	308	12278	2.50
2006/07	339	14581	2.32
2007/08	417	17721	2.35
2008/09	563	20496	2.74

SCBNL			
FY	Total Interest Paid (NPR-In Million)	Total Working Fund (NPR-In Million)	Ratio(%)
2004/05	254	21781	1.16
2005/06	303	25767	1.17
2006/07	413	28596	1.44
2007/08	471	33335	1.41
2008/09	543	40587	1.33

APPENDIX – 15

Total Interest Earned to Total Operating Income Ratio

BOKL			
FY	Total Interest Earned (NPR-In Million)	Total Operating Income (NPR-In Million)	Ratio(%)
2004/05	607	514	118.09
2005/06	718	576	124.65
2006/07	819	677	120.97
2007/08	1034	862	119.95
2008/09	1347	1114	120.91

SCBNL			
FY	Total Interest Earned (NPR-In Million)	Total Operating Income (NPR-In Million)	Ratio(%)
2004/05	1058	1285	82.33
2005/06	1189	1418	83.85
2006/07	1411	1558	90.56
2007/08	1591	1774	89.68
2008/09	1887	2092	90.20

APPENDIX – 16

Earning Per Share (EPS) (Rs.)

Firms	Fiscal Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
BOKL	30.10	43.67	43.50	59.94	54.68
SCBNL	143.14	175.84	167.37	131.92	109.99

(Source: Annual Reports of Sample Firms)

APPENDIX- 17

Dividend Per Share (DPS) (%)

Firms	Fiscal Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
BOKL	15	18	20	2.11	7.37
SCBNL	120	130	80	80	50

(Source: Annual Reports of Sample Firms)

APPENDIX – 18

Debt Ratio

BOKL			
FY	Total Debt (NPR-In Million)	Total Assets (NPR-In Million)	Ratio(%)
2004/05	9134	9857	92.66
2005/06	11436	12278	93.14
2006/07	13585	14581	93.16
2007/08	16377	17721	92.41
2008/09	18652	20496	91.00

SCBNL			
FY	Total Debt (NPR-In Million)	Total Assets (NPR-In Million)	Ratio(%)
2004/05	20199	21781	92.73
2005/06	24013	25767	93.19
2006/07	26480	28596	92.60
2007/08	30843	33335	92.52
2008/09	37534	40587	92.47

APPENDIX – 19

Debt Equity Ratio

BOKL			
FY	Total Debt (NPR-In Million)	Total Equity (NPR-In Million)	Ratio(times)
2004/05	9134	488	18.72
2005/06	11436	572	19.99
2006/07	13585	620	21.91
2007/08	16377	625	26.20
2008/09	18652	879	21.22

SCBNL			
FY	Total Debt (NPR-In Million)	Total Equity (NPR-In Million)	Ratio(times)
2004/05	20199	626	32.27
2005/06	24013	745	32.23
2006/07	26480	918	28.85
2007/08	30843	1004	30.72
2008/09	37534	1171	32.05

APPENDIX – 20

Interest Coverage Ratio

BOKL			
FY	EBIT (NPR-In Million)	Interest Expenses (NPR-In Million)	Ratio(times)
2004/05	446	242	1.84
2005/06	609	308	1.97
2006/07	722	339	2.13
2007/08	944	417	2.26
2008/09	1223	563	2.17

SCBNL			
FY	EBIT (NPR-In Million)	Interest Expenses (NPR-In Million)	Ratio(times)
2004/05	1051	254	4.13
2005/06	1241	303	4.09
2006/07	1428	413	3.45
2007/08	1663	471	3.53
2008/09	2010	543	3.70

APPENDIX - A

A sample calculation of Mean(x), Standard Deviation () and Co-efficient of Variation (CV) for 5 years data.

Computation of \bar{X} , S.D. and C.V. of Current Ratio of BOKL and SCBNL

BOKL			SCBNL		
FY	C.R.(X_1)	X_1^2	FY	C.R.(X_2)	X_2^2
2004/05	0.72	0.5184	2004/05	0.59	0.3481
2005/06	0.78	0.6084	2005/06	0.53	0.2809
2006/07	0.84	0.7056	2006/07	0.56	0.3136
2007/08	0.87	0.7569	2007/08	0.62	0.3844
2008/09	0.93	0.8649	2008/09	0.53	0.2809
	$\bar{X}_1 = 4.14$	$\sum X_1^2 = 3.4542$		$\bar{X}_2 = 2.83$	$\sum X_2^2 = 1.6079$

For BOKL:

$$\text{Mean } (\bar{X}_1) = \frac{\sum X_1}{n} = 0.828 \text{ or } 0.83$$

$$\text{Standard Deviation } (s_1) = \sqrt{\frac{\sum X_1^2}{n} - \left(\frac{\sum X_1}{n}\right)^2} = 0.0725 \text{ or } 0.07$$

$$\text{Co-efficient of Variation } (CV_1) = \frac{s_1}{\bar{X}_1} * 100 = 8.756 \text{ or } 8.76$$

For SCBNL:

$$\text{Mean } (\bar{X}_2) = \frac{\sum X_2}{n} = 0.566 \text{ or } 0.57$$

$$\text{Standard Deviation } (s_2) = \sqrt{\frac{\sum X_2^2}{n} - \left(\frac{\sum X_2}{n}\right)^2} = 0.0349 \text{ or } 0.04$$

$$\text{Co-efficient of Variation } (CV_2) = \frac{s_2}{\bar{X}_2} * 100 = 6.166 \text{ or } 6.17$$

Note: Mean(x), Standard Deviation () and Co-efficient of Variation (CV) for other variables are calculated accordingly.

APPENDIX – B

A Sample Calculation of Growth Ratio of Total Deposits for 5 years data.

D_n = Total Deposit in the n^{th} year = 2008/09
 D_o = Total Deposit in the initial year = 2004/05
 g = Growth rate
 n = Total number of year

For BOKL:

Here,

$D_o (2004/05) = 8,943$ Million

$D_n (2008/09) = 18,084$ Million

$n = 5$

Now, we have ,

$$D_n = D_o(1+g)^{n-1}$$

$$D_{2008/09} = D_{2004/05} (1+g)^{n-1}$$

$$18084 = 8943(1+g)^{5-1}$$

$$2.0221 = (1+g)^{5-1}$$

$$1.1925 = 1+g$$

$$g = 19.25\%$$

For SCBNL:

Here,

$D_o (2004/05) = 19,363$ Million

$D_n (2008/09) = 35,871$ Million

$n = 5$

Now, we have ,

$$D_n = D_o(1+g)^{n-1}$$

$$D_{2008/09} = D_{2004/05} (1+g)^{n-1}$$

$$35871 = 19363(1+g)^{5-1}$$

$$1.8525 = (1+g)^{5-1}$$

$$1.1666 = 1+g$$

$$g = 16.66\%$$

Note: Growth Ratios for other variables are calculated accordingly.

APPENDIX – C

A sample of calculation for Karl Pearson's Co-efficient of correlation between total deposit and loan & advances for 5 years.

For BOKL:

FY	Deposits (X)	X ²	Loan & Advances (Y)	Y ²	XY
2004/05	89.43	7997.73	59.12	3495.17	5287.10
2005/06	104.85	10993.52	72.59	5269.31	7611.06
2006/07	123.88	15346.25	93.99	8834.12	11643.48
2007/08	158.33	25068.39	124.62	15530.14	19731.08
2008/09	180.84	32703.11	146.47	21453.46	26487.64
	X=657.33	X ² =92109	Y=496.79	Y ² =54582.20	XY=70760.36

$$\bar{X} = \frac{\sum X}{n} = 131.466$$

Where, Mean Deposit (\bar{X}) = 131.466

$$\bar{Y} = \frac{\sum Y}{n} = 99.358$$

Where, Mean Loan & Advances (\bar{Y}) = 99.358

Now, Karl Pearson's Co-efficient of correlation (r);

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}} = 0.9994$$

Similarly, Value of co-efficient of determination, (r^2) = (0.9994)² = 0.9988

Then, Probable Error of Correlation (P.E.r);

$$\text{P.E.r} = 0.6745 \frac{1-r^2}{\sqrt{n}} = 0.6745 \frac{1-0.9988}{\sqrt{5}} = 0.000362$$

$$6 \text{ P.E.r} = 6 * 0.00036 = 0.00216$$

For SCBNL:

FY	Deposits (X)	X ²	Loan & Advances (Y)	Y ²	XY
2004/05	193.63	37492.58	81.43	6630.84	15767.29
2005/06	230.61	53180.97	89.35	7983.42	20605.00
2006/07	246.47	60747.46	105.02	11029.20	25884.28
2007/08	297.43	88464.60	137.18	18818.35	40801.45
2008/09	358.71	128672.86	136.80	18714.24	49071.53
	X=1326.85	X ² =368558.42	Y=549.78	Y ² =63176.05	XY=152129.55

$$\bar{X} = \frac{\sum X}{n} = 265.37$$

Where, Mean Deposit (\bar{X}) = 265.37

$$\bar{Y} = \frac{\sum Y}{n} = 109.956$$

Where, Mean Loan & Advances (\bar{Y}) = 109.956

Now, Karl Pearson's Co-efficient of correlation (r);

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}} = 0.9312$$

Similarly, Value of co-efficient of determination, (r^2) = (0.9312)² = 0.8671

Then, Probable Error of Correlation (P.E.r);

$$P.E.r = 0.6745 \frac{1-r^2}{\sqrt{n}} = 0.6745 \frac{1-0.8671}{\sqrt{5}} = 0.0401$$

$$6 P.E.r = 6 * 0.04 = 0.2405$$

Note: Karl Pearson's Co-efficient of correlations for other variables are calculated accordingly.

APPENDIX – D

A Sample of calculation for trend value of Total Deposits for 5 years.

For BOKL:

Year (t)	Total Deposits (Y)	X= (t – 2006/07)	X ²	XY	Y _c = a+bX
2004/05	8943	-2	4	-17886	5254
2005/06	10485	-1	1	-10485	7617
2006/07	12388	0	0	0	9980
2007/08	15833	+1	1	+15833	12343
2008/09	18084	+2	4	+36168	14706
n=5	ΣY = 49900	ΣX = 0	ΣX ² = 10	ΣXY = 23630	

The equation of the straight line trend is, $Y = a + bX$

Where, $a = \frac{\sum Y}{n} = 9980$

$b = \frac{\sum XY}{\sum X^2} = 2363$

Now, Straight line trend of Total Deposits $Y_c = a+bX$

$= 9980 + 2363X$

Trend values of Total Deposits of BOKL for next 5 years
(i.e. 2009/010 to 2013/014)

S. No.	Years (t)	X= t-2006/07	Y _c = 9980+2363X
01	2009/010	3	17069
02	2010/011	4	19432
03	2011/012	5	21795
04	2012/013	6	24158
05	2013/014	7	26521

For SCBNL:

Year (t)	Total Deposits (Y)	X= (t – 2006/07)	X ²	XY	Y _c = a+bX
2004/05	19363	-2	4	-38726	18597.4
2005/06	23061	-1	1	-23061	22567.2
2006/07	24647	0	0	0	26537.0
2007/08	29743	+1	1	+29743	30506.8
2008/09	35871	+2	4	+71742	34476.6
n=5	∑Y = 132685	∑X = 0	∑X ² = 10	∑XY = 39698	

The equation of the straight line trend is, $Y = a + bX$

$$\text{Where, } a = \frac{\sum Y}{n} = 26537$$

$$b = \frac{\sum XY}{\sum X^2} = 3969.8$$

Now, Straight line trend of Total Deposits $Y_c = a+bX$

$$= 26537 + 3969.8X$$

Trend values of Total Deposits of SCBNL for next 5 years
(i.e. 2009/010 to 2013/014)

S. No.	Years (t)	X= t-2006/07	Y _c = 26537+3969.8X
01	2009/010	3	38446.4
02	2010/011	4	42416.2
03	2011/012	5	46386
04	2012/013	6	50355.8
05	2013/014	7	54325.6

Note: Trend values for other variables are calculated accordingly.

APPENDIX – E

PROFILE OF CONCERNED COMMERCIAL BANKS

BANK OF KATHMANDU LIMITED

Introduction

Bank of Kathmandu Limited (BOKL) was established in 1993 A.D. It was the eighth joint venture bank and is promoted by Siam Commercial Bank Thailand (30%), Nepalese promoters(45%) and the general public holds (25%) of its total equity. The bank was established under the Banijya Bank Act, 2031 in order to promote and expand the Banking activities throughout the country with the approval of Nepal Rastra Bank. But, now it is running as Commercial Bank only other than Joint Venture Bank. The equity share capital owned by Nepalese general public is 58.19% and by founder (general public and other organizations) is 41.81%. Its headquarter is situated at Kamalpokhari, Kathmandu. It has extended facilities and services through 12 branch offices in Kathmandu Valley with head office and 20 branches in out of valley. The bank is providing the facilities including normal function or general services:

Deposit collection	Management Information System
SCT and VISA Debit Card	Credit Facilities
Internal trade center	Foreign Trade Center
Inward/ Outward Remittance	Gift Cheques
Business Consultancy	Safety deposit Lockers and others
Credit Card	Internet Banking
SMS Banking	

This bank with the high priority accorded in the past periodic plans, has already made a huge investment for the development of the agricultural and commercial sectors. The main objectives of this bank is to develop the economic condition of the country by the proper mobilization of its own fund. This bank has extended overdraft loan, business loan, Pre- export loan, security loan, personal loan, Industry loan, Import loan and miscellaneous loan etc. to its clients. The company

profile has shown the various preferential sectors of investment viz. i)Government securities ii)Company shares, debentures and bonds iii)Foreign banks etc. This bank's income sources are primarily from i)interest on different headings i.e. loan, advances and overdraft government securities and debentures etc. ii) Income & commission from discounting the bills, Letter of credit, Guarantees, Remittance fees iii) Exchange fluctuation income. During the fiscal year 2065/66 (2008/2009 for the study), this bank collected Rs. 18,084 million as a deposit and disbursed Rs. 14,647 million as loan and advances. It had a net profit of Rs. 461 million from its overall transaction during the same fiscal year.

The present capital structure of BOKL is shown below.

Capital	Present Value in NPR
Authorized Equity Share Capital	1,000,000,000.00
Paid up Equity share capital	844,397,900.00
Issued Equity Share Capital	844,397,900.00

Source: Annual Report

STANDARD CHARTERED BANK NEPAL LIMITED

Introduction

In 1987 A.D. Nepal Grindlays Bank Limited was established as another commercial bank in Nepal among other JVBs to contribute in commercial sector of Nepalese economy. The bank has made a significant contribution from its establishment in the Nepalese Banking Sectors. Now it is running as Standard Chartered Bank Nepal Limited as a integral part of Standard Chartered Group having an ownership of 75% in the economy with 25% shares owned by Nepalese public.

Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with an extensive global network of over 1600 branches (including subsidiaries, associates and joint ventures) in over 70 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. As one of the world's most international banks, Standard Chartered employs around 70,000 people, representing over 125 nationalities, worldwide. This diversity lies at the hears of the Bank's values and supports the Bank's growth as the world increasingly becomes one market.

Within 17 pints of representation, 21 ATMs across the country and with more than 375 local staff, Standard Chartered Bank Nepal Limited is in a position to serve its customers though an extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal.

The bank has been providing various banking services to its customers through 13 branches national wide. Among which four of the main branches are regulating their services in Kathmandu valley alone. Standard Chartered Bank Nepal Limited has provided various modern facilities for its customers. They are well-equipped with latest technologies as well. Some of them have been listed below.

Wholesale Banking

Consumer Banking

Money Transfer Services

International Services

Tele- banking

Credit Card Facilities

Credit, Debit and Prepaid Cards

Personal & corporate financial services

Foreign Currency Transaction etc. SWIFT
Online Banking

The company profile has shown the various preferential sectors of investment viz. i) Government securities ii) Corporate shares, debentures and bonds iii) Foreign banks iv) Local licensed institution etc. This bank's income sources are primarily from i) interest on different headings i.e. loan & advances, overdraft, government securities and debentures etc. ii) Income & commission from discounting the bills, Letter of credit, Guarantees, Remittance fees, Credit cards, Loan processing fees iii) Income from foreign bonds iv) Exchange fluctuation income v) Certificate of deposit. During the fiscal year 2065/66 (2008/2009 for the study), this bank collected Rs. 35,871 million as a deposit and disbursed Rs. 13,680 million as loan and advances. It had a net profit of Rs. 1,025 million from its overall transaction during the same fiscal year.

The present capital structure of SCBNL is shown below.

Capital	Present Value in NPR
Authorized Equity Share Capital	1,000,000,000.00
Paid up Equity share capital	931,966,400.00
Issued Equity Share Capital	1,000,000,000.00

Source: Annual Report