

CHAPTER – I

INTRODUCTION

1.1 General Background of Study

National development of any country depends upon the economic development of that country and economic development is supported by financial infrastructure of that country. Banks constitute an important segment of financial infrastructure of any country. Banks play an important role in the economic growth of a country. Banking, when properly organized, aids and facilitates the growth of trade and industry and hence of national economy. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development. “Banks are not just the storehouses of the country’s wealth but are the reservoirs of resources necessary for economic development” (Joshi, 2005: 45).

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

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

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

Investment policy is the process of proper utilization of the assets or funds to maximize its value of it is the process to obtain high or favorable return with low risk with the protection from inflation as well as other unfavorable situations.

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

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

Financial institutions act as the catalyst in the economic growth in every country. There should be mobilization of the resources in the overall economic development in the country and these institutions turn as intermediaries amongst points of surplus and deficit. They provide fuel to

the development practices in the country by collecting financial resources scattered in the mass and providing to those involved in social, economic and commercial activities in the country, which is indispensable part of economy without which the economy of the country would hardly move forward. This should therefore be practiced in an organized and proper manner by providing guidance and directives by the central Bank of the country.

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

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

For effective management of investment portfolio, every bank must have a written investment policy the board of directors formulates such a policy and it may differ from bank to bank in terms of complexity comprehensives. A key factors in the development of the country is the mobilization of domestic resource and their investment for productive use to the various sectors. To make it more effective, commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The sound policies help commercial banks

maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinated and planned efforts pushes forward the forces of economic growth. The list of licensed commercial bank is as follows.

Table 1.1: List of Licensed Commercial Banks

Name	Operation Date (A.D.)	Head Office
1. Nepal Bank Limited	1937/11/15	Kathmandu
2. Rastriya Baniya Bank	1966/01/23	Kathmandu
3. NABIL Bank Limited	1984/07/16	Kathmandu
4. Nepal Investment Bank Limited	1986/02/27	Kathmandu
5. Standard Chartered Bank Nepal Limited	1987/01/30	Kathmandu
6. Himalayan Bank Limited	1993/01/18	Kathmandu
7. Nepal SBI Bank Limited	1993/07/07	Kathmandu
8. Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu
9. Everest Bank Limited	1994/10/18	Kathmandu
10. Bank of Kathmandu Limited	1995/03/12	Kathmandu
11. Nepal Credit and Commerce Bank Ltd	1996/10/14	Rupandehi
12. Lumbini Bank Limited	1998/07/17	Chitwan
13. Nepal Industrial & Commerce Bank Ltd	1998/07/21	Morang
14. Machhapuchre Bank Limited	2000/10/03	Pokhara
15. Kumari Bank Limited	2001/04/03	Kathmandu
16. Laxmi Bank Limited	2002/04/03	Birgunj
17. Siddhartha Bank Limited	2002/12/24	Kathmandu
18. Agriculture Development Bank Ltd	2006/03/16	Kathmandu
19. Global Bank Ltd	2007/01/02	Parsa
20. Citizens Bank International Ltd	2007/06/21	Kathmandu
21. Prime Commerical Bank Ltd	2007/09/24	Kathmandu
22. Sunrise Bank Ltd	2007/10/12	Kathmandu
23. Bank of Asia Nepal Ltd	2007/10/12	Kathmandu
24. Development Credit Bank Ltd	2001/01/23	Kathmandu
25. NMB Bank Ltd	1996/11/26	Kathmandu

Source: www.nrb.org.com

1.1.1 Profile of Concerned Banks

As there has been number of commercial banks established, the research has taken into consideration of NABIL and Bank of Kathmandu. Therefore, short glimpses of these commercial Banks are given as:

a. NABIL Bank Limited (NABIL)

“NABIL Bank Ltd” (NABIL) the first commercial bank was incorporated in 1984. Dubai Bank Ltd was the initial Joint-venture partner with 50% equity investment. The shares owned by Dubai Bank Ltd. (DBL) were transferred to Emirates Bank International Limited. Dubai sold its entire 50% equity holding to National bank limited. Bangladesh National bank ltd. Bangladesh is managing the bank in accordance with the technical services Agreement signed between it (NABIL) and the bank on June 1995. The present configuration consist of 50% share capital of National Bank Limited, Bangladesh, 10% of NIDC, 9.66% of Rastriya Bema Sansthan, 0.34% of Nepal Stock Exchange and 30% of Nepalese Public. The bank has changed its name as NABIL Bank Ltd.

b. Bank of Kathmandu

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

BOK was established by a group of distinguished civil servants and renowned businessmen in collaboration with the SIAM commercial public co. limited (SCB)- a leading bank of Thailand. The collaboration

with SCB supported BOK to bring in the technical and managerial expertise in the Nepalese banking sector.

Upon establishing BOK as one of the reputed banks in a short period, the Nepalese promoters decided to conclude the technical service agreement with SCB and BOK to be arranged by the Nepalese professionals as it could further enhance its business performance years ahead under the Nepalese management.

1.1.2 Scope of the Study

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

1.2 Statement of Problems

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

Nepalese Commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and

guidelines of Nepal Rastra Bank. They do not have clear view toward investment policy. Moreover, the investment policy is not made in or efficient way (Chauhan, 2008: 126).

Nepalese commercial banks have not maintain sufficient liquidity, is one of the problems of commercial banks and it also affects in investment policy. Nepalese commercial bank seems to be less success to meet their obligation.

In making investments in loan and government securities one may also wonder which investment is better. It can be hypothesized that banks portfolio variables like loans, investment, cash reserves, deposit and borrowings affects the national income and also how the government policy affects these variables, such as the effect of an interest rate on the bank portfolio variables are of great concern. Therefore, when monitoring money and credit conditions, the central bank has to keep an eye on the bank portfolio behaviour.

Commercial banks investment has been found to have a lower productivity, which is due to lack of supervision regarding whether there is proper utilization of their investment low investor confidence, political instability, lack of knowledge on investment management, lack of efficient capital market etc.

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

Many researches have been conducted on commercial bank investment policy. Khadka (2000) had found that profitability position of NABIL was comparatively not better than that of other joint venture banks of

Nepal. Bohara (2002) has found that finance companies have mobilized their deposit smoothly in comparison with joint venture banks. Dhital (2004) had found that the liquidity position of BOKL is comparatively better than SCBNL and the investment on government securities of SCBNL is better than BOKL. Joshi (2005) had found that liquidity position of EBL is comparatively better than NABIL and BOKL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. EBL has good deposit collection. Chauhan (2008) has found that investment on government securities to current assets ratio of NABIL is in fluctuating trend and NABIL is found slightly weak in comparison to Nepal investment bank ltd to mobilize higher amount of loan and advances.

Various research work have been conducted on commercial bank investment policy, and the comparative study of NABIL with respect to BOK has not been done so far, so here an effort is made to do the same. Thus, this project work will help to bridge the research gap on the study on investment policy of NABIL in comparison to BOK. The problems specially related to investment function of the joint venture banks and commercial banks of Nepal have been presented below.

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

1.3 Objectives of the Study

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

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

1.4 Limitation of the Study

This study will be limited by the following factors:

- a. This study concentrates only these factors that are related with investment policy.
- b. The study is based on the data of five years period from 2003/04 to 2007/08.
- c. The study is based on secondary data collected from banks.
- d. The truth of research result is based upon the available data from the banks.
- e. Out of 25 banks only two are concern of the study.

1.6 Organization of the Study

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

First Chapter:

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

Second Chapter:

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

Third Chapter:

This chapter is the most important part of the study. This chapter is the Research Methodology. It includes the interpret parts research design, sources of data, sampling & population, analysis of data and tools for analysis which are financial tools, statistical tools.

Fourth Chapter:

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

Fifth Chapter:

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

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

CHAPTER – II

REVIEW OF LITERATURE

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

- a. Conceptual Framework
- b. Review of Related studies

2.1 Conceptual Framework

2.1.1 Commercial Bank

“The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people” (Grywinshky, 1991: 87).

“Commercial bank deals with other people’s money. They have to find ways of keeping their assets liquid so that they could meet the demands of their customers. In their anxiety to make profit, the banks can’t afford to lock up their funds in assets, which are not easily realizable. The depositors confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle assets and hence the banker cannot afford to keep a large portion of his assets in the form of cash. Cash brings in no income to the bank. Therefore, the banker has to distribute his

assets in such a way that he can have adequate profits without sacrificing liquidity” (Radhaswamy and Vasudevan, 1979: 510).

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

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

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

2.1.2 Investment

Investment is concerned with the management of an investor’s wealth which are the sum of current income and the present value of all future income funds to be invested that come from assets already owned, borrowed money and savings or foregone consumption by foregoing today and investing the saving. Investors expects to enhance their future consumption possibilities, i.e. they invest to increase wealth. Investors

also seek to manage their wealth effectively by obtaining the most from it, while protecting it from inflation, taxes and factors.

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

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

Some scholars have given the actual meaning of investment which are as follows:

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

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

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

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

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

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

Investment has to undergo various types of risk e.g. Business risk, possibility of being weak in earning power of investment due to competition, uncontrollable costs, change in market demand etc. Market risk like possibility of strong change in market price and collateral value of securities and real properties. All the investors does not achieve

success. Therefore, simply making an investment is not sufficient. One should follow sound investment policy.

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

“Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive return” (Gitman and Jochnk, 1990:52).

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

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

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

2.1.3 Investment Policy of a Bank

A bank receives funds in the following ways:

-) Capital funds
-) Borrowing
-) Deposits
-) Other liabilities

These funds are invested in following assets.

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

2.1.4 Feature of Sound Lending Policy

The income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credit created by the bank, the higher will be the profitability. A sound lending and investment policy is not only prerequisites for

bank's profitability but also a crucially significant for the promotion of commercial savings of a background country like Nepal.

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

a. Safety and Security

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

Where,

M = Marketability

A = Ascertainability

S = Stability

T = Transferability

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

b. Liquidity

To make sound investment policy bank give importance to liquidity. People deposit money at the bank in different accounts with the confidence that the bank will repay their money when they need. To

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

c. Profitability

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

d. Suitability/Purpose of Loan

Bank should always know that why a customer needs loan because if the borrower misuses the loan granted by bank, he will never be able to repay loan. In order to avoid such circumstance, advances should be allowed to select the suitable borrowers and it should demand all the essential detailed information about the scheme of the project in which the bank is

lending for bank must keep in mind the overall development plans of the nation and the credit policy of the concerned authority i.e. central bank.

e. Diversification

“A bank should not lay all its eggs on the same basket.” This saying is very important to the bank and it should be always careful not to grant loan in only one sector to minimize risk, a bank must diversify its investment on different sectors.

f. Tangibility

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

g. Legality

Legality is an important feature of sound investment policy. Illegal securities will bring out many problems for the investor. A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of finance and others while mobilizing funds.

2.2 Review of Related Studies

2.2.1 Review of Books

William J. Sharpe and Alexander J. Gordon (1999) defined investment in this way “Investment, in its broadest sense means the sacrifice of current

dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is generally uncertain. In some cases the element of time predominates (for example government bond). In other cases risk is the dominant attribute (for example call option on common stock). In both time and risk are important” (Sharpe and Gordon, 1998: 1).

Cheney and Moses (1998) are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. They write “the investment objective is to increase systematically the individual’s wealth: defined as assets minus liabilities. An investor seeking higher return must be willing to face higher level of risk” (Cheney and Moses, 1999: 13).

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

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

2.2.2 Review of Article/Journal

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

Sunil Chopra in his article, “Role of foreign banks in Nepal” had concluded that the joint venture banks playing an increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time (Chopra, 1989: 1-2).

Murari R. Sharma in his article, “A study of joint venture banks in Nepal; Co-existing and crowding out” pointed out that it is very much beneficial for Nepalese to let joint venture banks to enhance the development of local commercial banks. But the government should charge more cost to joint venture banks than the local commercial banks. He suggested HMG to treat equally to joint venture banks and local banks, both types of banks will co-exist complementing each other and contributing the nations accelerated development (Sharma, 1988).

Bodhi B. Bajracharya in this article, “Monetary policy and deposit mobilization in Nepal” concludes that the mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal. And for this purpose commercial banks are the active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the economy (Bajracharya, 2047: 93-97).

Ramesh Lal Shrestha, in his article “A study on deposit and credit of commercial bank in Nepal,” concluded that the credit deposit ratio would be 51.30% other things remaining the same in Nepal, which was the

lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering few field as far as possible, otherwise they might not be able to absorb even the total expenses (Shrestha, 2047: 24).

Sunity Shrestha in her article “Lending operation of commercial banks of Nepal and its impact on gross domestic product (GDP)” has presented with the objectives to make an analysis of contribution of commercial banks leading to the gross domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial service, general and social sector as independent variables. A multiple regression technique has been analyzed in the contribution.

The multiple analysis have shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e. there has been positive impact by the lending of commercial banks in various sectors of economy except service sector investment (Shrestha, 2055: 23-27).

Similarly, Bhagat Bista (1991), in his paper, “Nepalma Adhunik banking Byabastha” has made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of JVBs (Joint Venture Banks) in the field of Commercial Banks. At the end of the paper, he was concluded that the establishment of JVBs a decade ago, marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation, consortium finance and modern fee

based activities into the economy. These are indeed significant milestones in the financial development process to the economy.

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

2.2.3 Review of Research Paper

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

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

He has further stresses in the following issues; in case of investors having lower income, portfolio management may be limited to small saving

incomes. But, on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individual as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

- a. Higher return which is comparable with the available alternative opportunities.
- b. Good liquidity with adequate safety of investment.
- c. Certain capital gains.
- d. Maximum tax concession.
- e. Flexible investment.
- f. Economic and efficient investment.

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

- a. To find out the investing assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need deposit, liquidity and tax liquidity etc.
- b. To find out the risk of securities depending upon the attitude of investor towards risk.
- c. To develop alternative investment strategies for selecting of better portfolio which will ensure a trade off between risk and return so as

to attain the primary objective of wealth maximization at lowest risk.

- d. To identify variety of securities for investment to reduce volatility of risk and returns (Shrestha, 2055).

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

- a. The enterprises have a definite performance for bank loans at a lower level of debt.
- b. Banks and retained earnings are the two most widely used financial sources.
- c. Most enterprises do not borrow from one bank only they do switch between banks which ever offer best interest rates.
- d. Most enterprises find that banks are flexible at interest rate and convenience.
- e. Generally, there is no definite time to borrow the issue stocks that is majorities of the respondents are unable to predict when interest rate will lower or go up or unable to predict when the stock will go down or up.

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

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

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

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

- a. Commercial banks are charging higher interest rate on lending.
- b. They have maximum tax concession.

- c. They do not properly analyze the credit system.

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

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

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

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

- b. Financial institutions do not want to operate and provide their services in rural areas.
- c. He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering the services in rural areas, by adding various services.
- d. By operating rural banking programmes and unit.
- e. Nepal Rastra Bank must organize training programmes to develop the skilled human resources.
- f. By spreading a number of co-operative societies to develop mini banking services and improve the habit of public on deposit collection to the rural areas (Pradhan, 2053: 9).

2.2.4 Review of a Related Thesis

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

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

- a. To find out the liquidity portion and profitability position of above mentioned joint venture banks in comparison with finance companies.
- b. To analyze the deposit utilization trend and its future projection for next five years for joint venture banks and finance companies.

Major findings of the research study are as follows:

- a. All the selected firms shows that banks were not successfully in mobilization their deposits but finance companies have mobilized their deposit smoothly in comparison with JVBs.
- b. The profitability position of all finance companies was better than JVBs.
- c. The liquidity position of JVBs is comparatively better than that of financial companies.
- d. All the finance companies have maintained the higher growth rates in comparison to JVBs altogether finance companies have not got sufficient investment opportunities.

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

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

The major findings of the research study are as follows:

- a. The liquidity position of BOKL is comparatively better than SCBNL.

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

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

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

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

- a. NBBL has higher trend values of loan and advances and total investment and lowest trend values of earning per share and dividend per share in comparison to the BOKL.
- b. NBBL has more risky and aggressive capital structure than BOKL.

- c. NBBL is not distributing higher dividend from shareholder's profit of view but it is distributing higher amount of bonus to their staffs. Thus, it is necessary to maintain higher dividend payout to match the shareholder's expectation.
- d. NBBL's profitability in relation to return on assets is better than that of BOKL.
- e. NBBL has maintained lower current assets in compare to BOKL. The ratio of NBBL is highly variable than BOKL. It indicates the unstable current asset management.
- f. NBBL is utilizing its collected resources in the form of deposits much more efficiently, which definitely lead to the increase income and thus, making an increment profit for the organization.

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

- a. To discuss fund mobilization and investment policy of EBL, NABIL and bank of Kathmandu Ltd.
- b. To Evaluate the liquidity, efficiency and profitability and risk position.
- c. To evaluate the growth ratios of loan and advances, total investment with other financial variables.
- d. To analyze the trends of deposit utilization towards total investment and loan and advances.
- e. To conduct hypothetical test to find whether there is significant difference between the various important ratios of EBL and NABIL and BOK.

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

- a. EBL is comparatively average successful in its on balance sheet operation in compared to NABIL and BOK.
- b. The mean ratio of EBL is higher than NABIL and slightly lower than BOK. It means EBL has maintained the higher liquidity and lower risk in compared to other banks. The ratio of EBL is more variable than that of NABIL and BOK.
- c. Liquidity position of EBL is comparatively better than NABIL and BOK. It has the highest cash & bank balance to total deposit, cash and bank balance to current assets ratio. EBL has good deposit collection.
- d. EBL is average profitable in comparison to other compared banks i.e. NABIL and BOK. The bank must maintain its high profit margin for the well being in future.
- e. EBL has moderate risk in between NABIL and BOK regarding various aspects of banking function.
- f. EBL has maintained high growth ratios in total deposit, loan and advances and net profit but it has moderate positive in investment.

Pant (2005) conducted a study on “Investment policy of NABIL Bank, Himalayan Bank & Nepal Bangladesh Bank Ltd,” with the objective of:

- a. To evaluate the liquidity, efficiency of assets management, profitability and risk position of concerned commercial banks and compare with each other.
- b. To make a comparative study on fund mobilization and investment policy of selected banks.

- c. To find out the empirical relationship between the variables, that affecting the investment policy.
- d. To study the view and ideas of the financial executives and customers regarding the knowledge on the investment policy adopted by commercial banks.

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

- a. Most of financial executives and customer fell that Nepalese investors do not have knowledge about investment policy.
- b. The assets management ratios of NABIL are comparatively better than NABIL & HBL. But it has average lower investment on government securities to total working funds.
- c. The performance of NBBL's in terms of recovery of loan is better in comparison to NABIL and HBL.
- d. The profitability position of NABIL is better than other selected banks. The net profit trend of all banks is decreasing in last two fiscal years expect NABIL.
- e. All selected commercial banks have positive correlation between deposit and loan and advances total working fund and net profit.

Chauhan (2008) conducted a study on “A comparative study on investment policy of NABIL bank ltd and Nepal investment bank ltd.” The study is mainly based on secondary data with the following objectives.

- a. To study the assets management system, profitability and risk position of the commercial Banks under study.

- b. To analyze the relationship between total investment and deposit, deposit and loan and advances, net profit and outside assets of commercial Banks.
- c. To evaluate the trend of deposit utilization.
- d. To provide suggestion for improvement on the basis of findings.

The major findings of the research study are as follows:

- a. The liquidity position of NIBL is comparatively better than that of NABIL. But still NIBL needs to mobilize its assets in more secure investment like government securities and share and debentures.
- b. The assets management position of both the banks is overall satisfactory. In comparison to NIBL. NABIL seems slightly weaker in mobilizing its assets in loans and advances, whereas in terms of total investment NABIL's position is better than that of NIBL.
- c. In terms of recovery of loan NABIL's position is getting better year by year. On the basis of mean, the credit risk ratio of NABIL is better than NIBL.
- d. The analysis of profitability ratios reveal that NIBL is lagging behind to earn high return on its loan and advances in comparison to NABIL. NIBL has not been able to earn high profit through the efficient utilization of its owned capital.
- e. NABIL seems to have earned higher amount of interest on its outside assets in comparison to NIBL. Overall it can be concluded that the profitability position of NABIL is comparatively better than that of NIBL.

2.2.5 Research Gap

Investment in different sectors is made on the basis of investment guidelines and the directives and circulars on NRB. NRB directives changes over time. NRB makes necessary amendments in prevailing directives and circulars and communicates to the commercial banks. Commercial banks should follow these directives and circulars. Similarly, the management of the banks changes over time along with the policies of the banks may also change. These factors create gap in the research work.

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

CHAPTER – III

RESEARCH METHODOLOGY

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

3.1 Research Design

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

3.2 Population and Sample

All the groups, individuals and elements under study period are the population and unbiased representation of the population is sample. For

the study purposes, total commercial banks are the population data and the commercial banks under study constitutes the sample. There are altogether 25 commercial banks functioning in Nepal till date which are the population of the study. To attain the objectives Nepal Arab Bank Ltd. And Bank of Kathmandu Ltd. Are selected to be comparatively analyzed as sample units among these Banks. Thus study being a descriptive study. There are total 25 banks in Nepal out of which 8 percent is taken as sample using convenience sampling technique. In this study both quantitative as well as qualitative analysis are made using primary as well as secondary data.

3.3 Nature and Sources of Data

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

3.4 Data Collection Procedure

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

3.5 Analysis of Data

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

3.5.1 Financial Tools

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

Ratio Analysis:

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

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement is known as Ratio Analysis. With the help of ratio analysis, the qualitative judgment can be done regarding firm's

performance and status. Even though there are several ratios, only those have been covered in this study which are related to investment operation of the bank. This study contains following ratio:

i. Liquidity Ratio

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

a. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors.

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

b. Investment on Government Securities to Current Assets Ratio

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

$$\text{Investment on Government securities to Current Assets Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Current assets Ratio}}$$

c. Loan and Advances to Current Assets Ratio

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

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

ii. Assets Management Ratio (Activity Ratio):

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

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

a. Loan and Advances to Total Deposit Ratio

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

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

b. Total Investment to Total Deposit Ratio

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

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

c. Loan and Advances to Total Working Fund Ratio

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

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

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

d. Investment on Government Securities to Total Working Fund Ratio

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

Investment on Government Securities to Total Working Fund Ratio =

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

iii. Profitability Ratio

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

a. Return on Loan and Advances

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

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

b. Return on Equity Ratio:

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

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

c. Total Interest Earned to Total outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. The ratio can be computed as:

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

Total interest earned is that amount which is earned investing in different sectors by the bank in an accounting year.

iv. Growth Ratios:

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

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

v. Risk Ratio:

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

a. Credit Risk Ratio

Credit risk ratio help to check the profitability of loan non-repayment on the possibility of loan to go default. Credit risk is expressed as the

percentage of non-performing loan to total loan and advances. Credit risk ratio is computed as:

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

3.5.2 Statistical Tools

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

a. Mean: A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted and given by the

formulas: $\bar{X} = \frac{\sum X}{n}$

Where, \bar{X} Mean of the values.

N = Number of pairs of observations.

b. Standard Deviation: The Standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation the higher the variability and vice versa. A small standard deviation means a high degree of uniformity of the observation as well as homogeneous of a series. A large standard deviation means the opposite. In this study, the standard deviations of different ratio are calculated. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greek letter (σ) read as sigma. The formula to calculate the standard deviation are given below.

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

Where, $\sum X = (\sum X - Z\bar{X})$

N = No. of observations

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

$$\text{C.V.} = \frac{\dagger}{\bar{X}}$$

Here, \dagger = Standard Deviation

\bar{X} = Average or Mean

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

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

$$\text{Coefficient of correlation (r)} = \frac{N \sum dx \cdot dy}{\sqrt{N \sum dx^2} \sqrt{N \sum dy^2}}$$

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

$dy = (Y - \bar{Y})$

$$\text{Probable Error of r (P.Er)} = 0.6745 \frac{\sum Zr^2}{\sqrt{N}}$$

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

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

The general equation used for lines trend given below: -

$$y = a + bx$$

Where,

y = Dependent variance

x = Coded time in year

a = y – intercept

b = slope

In the above model,

$$a = \frac{Y}{N}$$

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

3.6 Limitation of the Methodology

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

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

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

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

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

4.1 Liquidity Ratio

a. Cash and Bank Balance to Total Deposit Ratio

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

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

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	6.87	3.84	3.25	5.99	8.36	5.66	1.90	33.57
BOK	10.10	8.27	6.94	10.61	9.09	9.00	1.31	14.55

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

The above table shows that the cash and bank balance to total deposit ratio of both banks have fluctuating trend. NABIL Bank's highest ratio was 8.36% in FY 2007/08 and lowest was 3.25% in FY 2005/06.

Similarly, in case of BOK, highest ratio was 10.61% in FY 2006/07 and lowest was 6.94% in FY 2005/06. The mean ratio of BOK is higher than NABIL i.e. 9.00% > 5.66%. On the basis of coefficient variances, it can be concluded that NABIL Bank's ratios are less consistent than that of BOK i.e. 33.57% > 14.55%.

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

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

b. Investment on Government Securities to Current Assets Ratio

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

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

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	23.08	14.83	10.72	18.17	14.44	16.25	4.15	25.54
BOK	25.82	22.40	22.19	16.69	12.30	19.88	4.79	24.09

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Above table, shows that NABIL bank's investment on government securities to current assets ratio is in fluctuating trend. During the study period the highest ratio maintained by it was in the year 2003/04 i.e. 23.08% and the lowest was 10.72% in the year 2005/06, which is the less than half of the highest ratio maintained by it. On the other hand BOK's ratio is in decreasing trend. The highest ratio was 25.82% in FY 2003/04 and the lowest was 12.30% in FY 2007/08, which is nearly half of the highest ratio maintained by it.

Overall, the mean of investment on government securities to current assets of BOK was higher than that of NABIL i.e. 19.88% > 16.25%. It means BOK has invested more of its current assets in government securities than NABIL. On the other hand, coefficient of variability of ratio of BOK was less than that of NABIL i.e. 24.09% < 25.54%, which means that the variability of ratio of BOK was more homogenous than that of NABIL.

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

c. Loan and Advances to Current Asset Ratio

Loan & advances are also included in the current assets of a commercial bank because generally they provide short-term loan, overdrafts and cash credit. To make high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan & advances to the customers. If sufficient loan & advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earnings. But high loan & advances may also affect to keep the bank in most liquid position because they can only be collected at the time of maturity only. Thus, a bank must maintain its loan & advances in appropriate level. (Detail in appendix – 3)

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

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	51.46	65.02	60.20	58.76	59.47	58.98	4.35	7.38
BOK	61.50	61.70	60.70	67.28	72.55	64.75	4.55	7.03

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

The above table shows that NABIL maintained highest ratio in the years 2004/05 i.e. 65.02% and lowest in the year 2003/04 i.e. 51.46%. On the other hand, BOK maintained highest ratio in the year 2007/08 i.e. 72.55% and lowest in the year 2005/06 i.e. 60.70%. While examining the mean ratio, NABIL has maintained lower ratio i.e. 58.98% than that of BOK i.e. 64.75%. Similarly, coefficient of variation among ratios is slightly higher in case of NABIL than BOK i.e. 7.38>7.03%. It indicates inconsistency of NABIL bank's ratio in comparison to BOK.

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

4.2 Analysis of the Assets Management Position of the Banks

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

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

a. Loan and Advances to Total Deposit Ratio

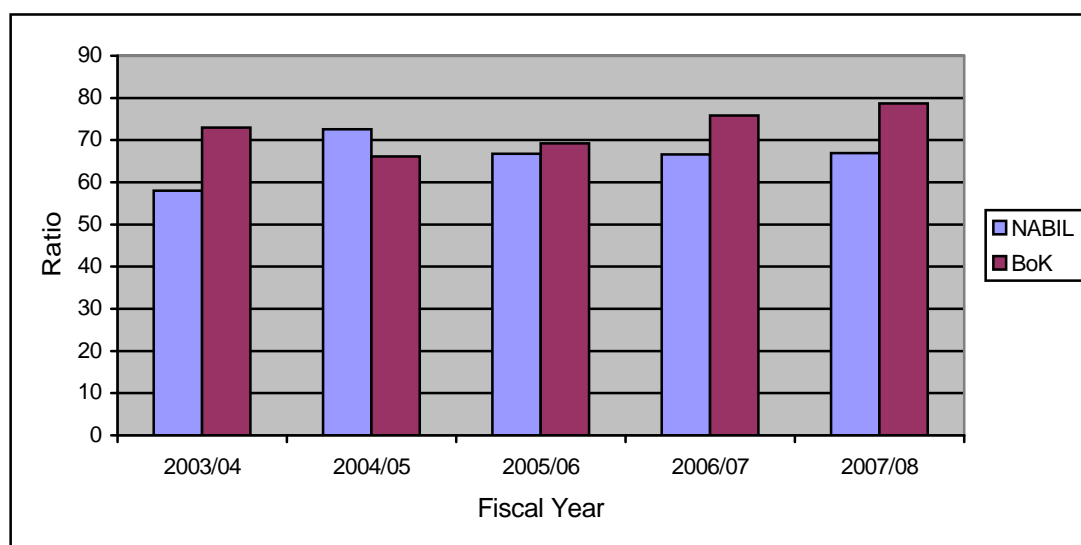
This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purposes of profit generation. A high ratio of loan & advances indicates better mobilization of collected deposits and vice-versa. But it should be noted that too high ratio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

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

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	58.00	72.58	66.80	66.60	66.94	66.18	4.67	7.06
BOK	72.94	66.11	69.23	75.87	78.71	72.57	4.51	6.21

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.1: Loan and Advances to Total Deposit Ratio



The table listed above shows fluctuating trend in case of BOK whereas NABIL has maintained stability in loan and advances to total Deposit ratio i.e. around 66% in the last three years during the study period i.e. from FY 2005/06 to 2007/08. During the study period the highest ratio maintained by NABIL is 72.58% in the FY 2004/05 and lowest is 58% in FY 2003/04. BOK seems to be good at mobilizing its total deposit as loan and advances. BOK mean ratio was higher than that of NABIL i.e. $72.57\% > 66.18$. On the basis of co-efficient of variation we can say that NABIL banks loans and advances were less consistent than BOK as it has higher C.V. i.e. $7.06\% > 6.21\%$.

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

It should be noted that in the process of loan management of bank assets, so many factors are to consider such as risk analysis, diversification social responsibility, bank credit policy, compensation policy, limits of

lending power etc. loan and advances to total deposit ratio is presented in bar diagram in figure no. 4.1.

b. Total Investment to Total Deposit Ratio

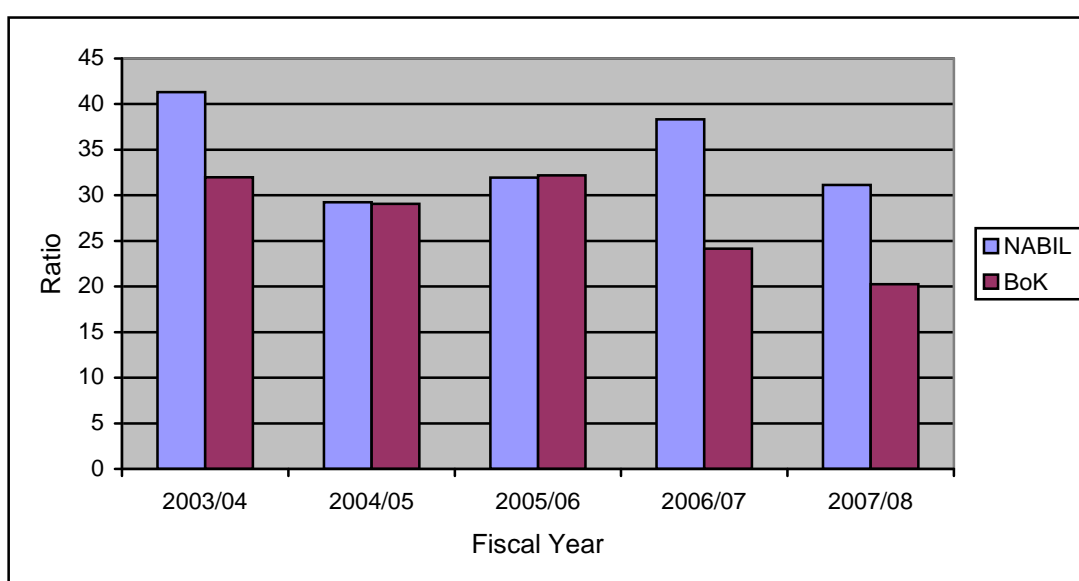
A commercial bank may mobilize its bank deposit by investing its fund different securities issued by government and other financial or non-financial companies. Now effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investment. In the process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

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

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	41.33	29.25	31.93	38.32	31.15	34.40	4.62	13.43
BOK	31.99	29.05	32.19	24.15	20.24	27.52	4.66	16.93

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.2: Total Investment to Total Deposit Ratio



Above table reveals that NABIL bank's total investment to total deposit ratios have fluctuating trend. During the study period, in the beginning i.e. FY 2003/04, it maintained 41.33% ratio but in FY 2004/05, the same has decreased to 29.25%. On the other hand, BOK has fluctuating trend. The highest ratio maintained by BOK is 32.19% in FY 2005/06 and lowest is 20.24% in FY 2007/08.

On the basis of mean ratio, it can be said that NABIL banks capacity to mobilize its deposits on total investment is better than that of BOK because its mean ratio is 34.40% whereas BOK had 27.52%. On the other hand, observing the C.V. of ratios, we can further concluded that NABIL ratios during the study period have been quite more consistent than that of BOK because of its lower C.V. i.e. 13.43% < 16.93%. Total investment to total deposit ratio of NABIL and BOK are presented in the bar diagram in figure no 4.2.

c. Loan and Advances to Total Working Fund Ratio

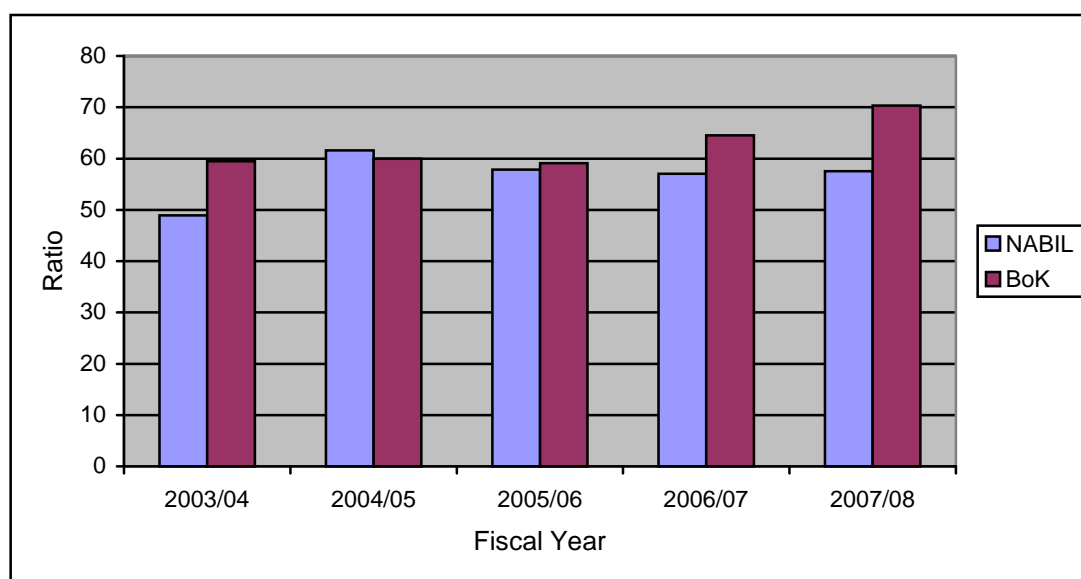
A commercial bank's working fund should play very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing there total assets on loan & advances for the purpose of income generation. A high ratio indicates better mobilization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

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

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	48.91	61.60	57.87	57.04	57.54	56.59	4.17	7.37
BOK	59.46	59.98	59.12	64.51	70.32	62.68	4.29	6.84

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.3: Loan and Advances to Total Working Fund Ratio



The table listed above shows that NABIL has maintained stability in this ratio i.e. around 57% in the last three years during the study period i.e. from FY 2005/06 to 2007/08. Similarly, on the other hand BOK has maintained stability in this ratio i.e. around 59% in first three years i.e. from FY 2003/04 to 2005/06.

Observing the mean ratios, it can be said the BOK has maintained higher ratio i.e. 62.68% than NABIL i.e. 56.59%. This table reveals that BOK was good at mobilizing its total working funds as loan & advances. However, higher C.V. of NABIL ratio state that its ratios are less consistent than that of BOK i.e. 7.37% > 6.84%.

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

d. Investment on Government Securities to Total Working Fund Ratio

This ratio is very important to know the extent to which the banks are successful in mobilizing their total working fund on different types of

government securities to maximize the income. All the deposits of the banks should not be utilized in loan & advances and other credit from security and liquidity point of view.

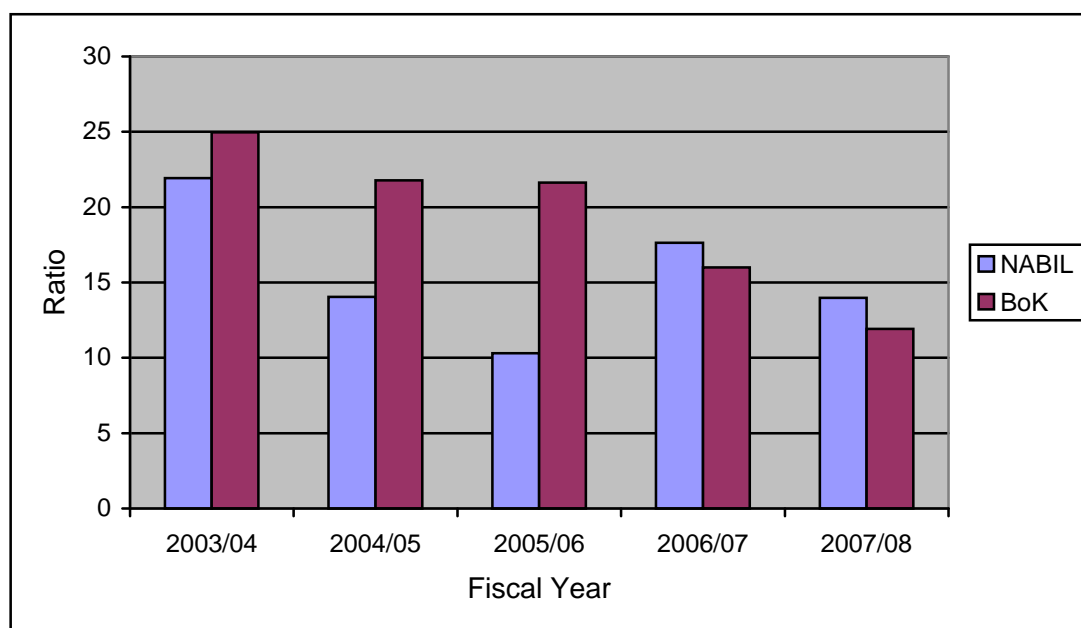
Therefore, to some extent, commercial banks seem to be interested to utilize their deposits by purchasing government securities. A high ratio indicates better mobilization of fund as investment on government securities and vice-versa.

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

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	21.93	14.05	10.30	17.64	13.98	15.58	3.93	25.22
BOK	24.97	21.77	21.62	16.00	11.92	19.26	4.67	24.25

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.4: Investment on Government Securities to Total Working Fund (%)



From the above comparative table, it is clear that in case of NABIL, the ratios have shown fluctuating trend. It maintained the highest ratio 21.93% in FY 2003/04 and lowest ratio was 10.30% in 2005/06. On the other hand, the ratio percentage of investment on government securities to total working fund is found in decreasing trend in the case of BOK. It has maintained highest ratio in FY 2003/04 i.e. 24.97% and lowest in FY 2007/08 i.e. 11.92%.

The comparison of mean ratios of NABIL and BOK reveal that BOK was better at mobilizing its working fund as investment in government securities. Likewise, BOK bank's variability between ratios during the study period was lesser than that of NABIL i.e. 24.25% < 25.22%. (Detail in Appendix 7)

4.3 Analysis of the Profitability Position of the Banks

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

a. Return on Loan and Advances Ratio

Return on loan and advances ratios measures the earning capacity of a commercial bank on its mobilized fund-based loan and advances. A high ratio indicates greater success to mobilize fund as loan and advance and

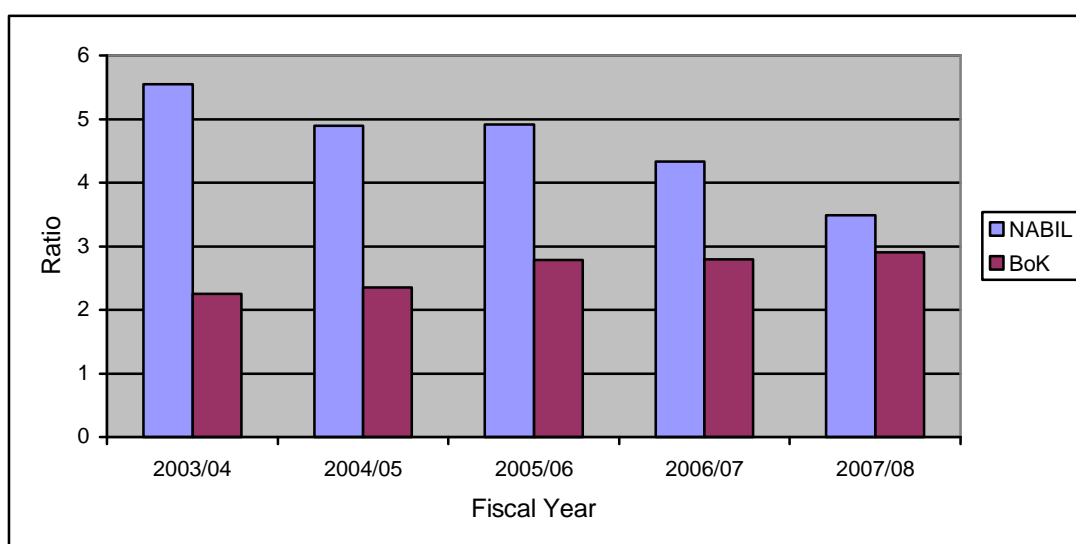
vice-versa. The following tables shows that return on loan and advances ratio of BOK and NABIL of study period (Detail in appendix 8).

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

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	5.55	4.89	4.91	4.33	3.49	4.63	0.69	14.90
BOK	2.25	2.35	2.78	2.79	2.90	2.61	0.26	9.96

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.5: Return on Loan and Advances Ratio (%)



The above comparative table shows that the ratios of return on loan and advances of NABIL are in decreasing trend and that of BOK is in increasing trend. In case of NABIL, it has maintained highest ratio 5.55% in FY 2003/04 and lowest 3.49% in the year 2007/08 whereas, BOK ratio has increased from 2.25% in FY 2003/04 to 2.90% in the year 2007/08. On the other hand, when the mean ratios are observed, NABIL seem to be good to maintain high return on loan and advances in comparison to the BOK, NABIL has mean ratio of 4.63% whereas BOK had quite lower ratio 2.61%. Likewise, high C.V. of NABIL i.e. 14.90% indicates high variability of ratios than that of BOK. Thus, in conclusion, it can be said

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

b. Return on Equity (ROE)

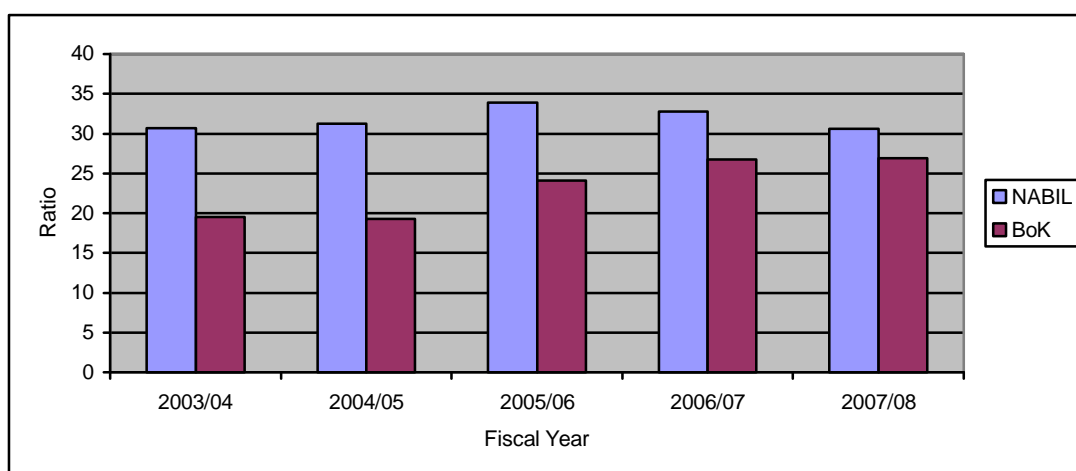
Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. ROE is the measuring role of the profitability of bank. It reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher success to mobilize its owned capital (equity) and vice versa. This ratio was calculated by dividing net profit by total equity capital including paid up equity capital, and various reserves and surplus (Detail in appendix – 9). The following table 4.9 shows the return on equity of NABIL and BOK during the study period.

Table 4.9: Return on Equity (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	30.70	31.22	33.87	32.77	30.62	31.84	1.28	4.02
BOK	19.54	19.30	24.08	26.71	26.92	23.31	3.33	14.29

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.6: Return on Equity



The above listed table reveals that NABIL has increasing trend upto FY 2005/06 and thereafter it has decreasing trend. The highest ratio is recorded in FY 2005/06 i.e. 33.87% and lowest is 30.62% in the year 2007/08. Similarly, in case of BOK, it has increasing trend. The highest ratio i.e. 26.92% and lowest i.e. 19.30% were registered in FY 2007/08 and FY 2004/05 respectively.

On the basis of mean ratios, it can be said that BOK has been weaker to earn high profit to its shareholders in comparison to NABIL, which can be viewed by the lower mean ratio i.e. 23.31% < 31.84. Likewise, high C.V. among the ratios of BOK shows its inconsistency in earning profit. NABIL bank's higher mean ratio and lower C.V. discloses its higher power with higher degree of stability.

Overall, it can be concluded that BOK has not been able to earn high profit through the efficient utilization of its owned capital. Moreover, its high C.V. shows its less homogenous ratio during the study period, which shows lack of efficient investment policy for the mobilization of capital resources. Return on equity of NABIL and NIB is presented in figure 4.6.

c. Total Interest Earned to Total outside Assets Ratio

The main assets of a commercial bank are its outside assets, which included loan and advances, investment on government securities, investment in shares and debentures and other all types of investment.

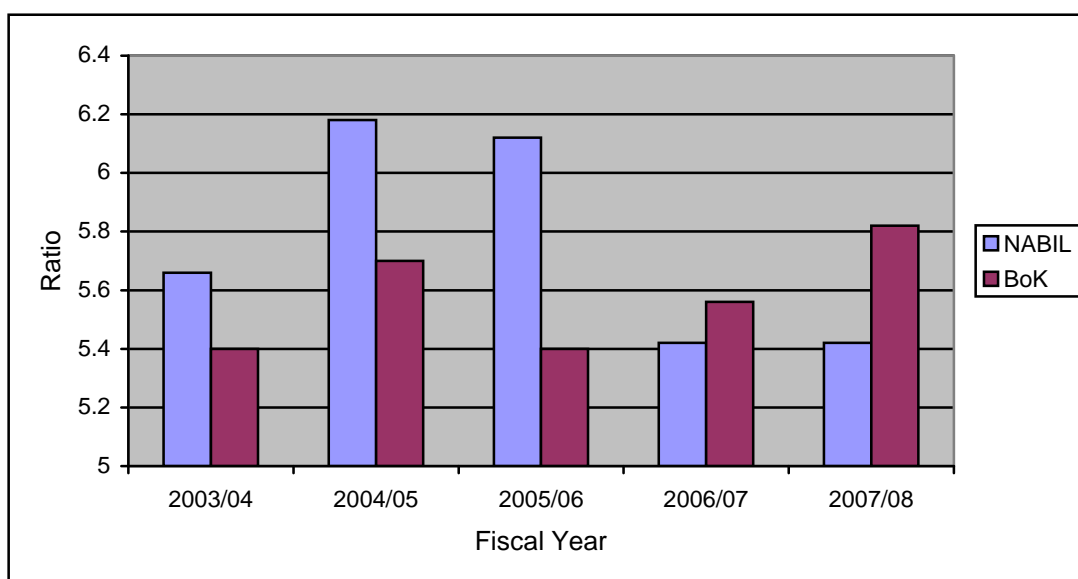
Thus, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A high ratio indicates high earning on such total assets and vice-versa (Detail in appendix – 10).

Table 4.10: Total Interest Earned to Total outside Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	5.66	6.18	6.12	5.42	5.42	5.76	0.33	5.73
BOK	5.40	5.70	5.40	5.56	5.82	5.58	0.16	2.87

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.7: Total Interest Earned to Total outside Assets Ratio



The above comparative table reveals that the ratios of both the banks are somewhat stable through out the study period. On the other hand, when mean ratio are observed, NABIL seems to have earned higher amount of interest on its outside assets in comparison to BOK. The mean ratio of NABIL is slightly higher than BOK i.e. $5.76\% > 5.58\%$. When the comparison of C.V. of ratios NABIL also seems to have a higher value than that of BOK i.e. $5.73\% > 2.87\%$.

From the above analysis, it can be concluded that NABIL has to efficiently use its fund (outside) to earn high interest income in comparison to BOK.

4.4 Risk Ratio

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

a. Credit Risk Ratio

Bank utilizes its collected fund in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally credit risk ratio shows the proportion of non-performing assets (NPAS) in the total loan and advances of a bank. But due to unavailability of the relevant data, here we presented the credit risk as the ratio of total loan and advances to total assets (Detail in appendix – 11). The following table shows the credit risk of NABIL and BOK of the study period.

Table 4.11: Credit Risk Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.%
	2003/04	2004/05	2005/06	2006/07	2007/08			
NABIL	51.05	63.88	59.45	58.35	58.60	58.27	4.12	7.07
BOK	62.28	62.71	61.04	66.47	71.93	64.89	3.96	6.10

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

The above table shows that credit risk ratio of both the banks are somewhat stable through out the study period. NABIL has maintained stability in this, ratio i.e. around 58% in the last two years i.e. from FY 2006/07 to

2007/08. Similarly, BOK has maintained stability in this ratio i.e. around 62% in the first two years i.e. from FY 2003/04 to 2004/05. In case of NABIL, its ratio reached to 63.88% in 2004/05 and lowest ratio i.e. 51.05% in FY 2003/04 where as the ratio of BOK is highest at 71.93% in FY 2007/08 and the lowest at 61.04% in FY 2005/06.

On the basis of mean ratio, it can be said that credit risk of NABIL is lower than the BOK i.e. $58.27\% < 64.89\%$. On the other hand, NABIL has higher C.V. than BOK i.e. $7.07 > 6.10\%$ which shows that NABIL bank's credit risk ratios are more variable than that of BOK banks.

4.5 Growth Ratios

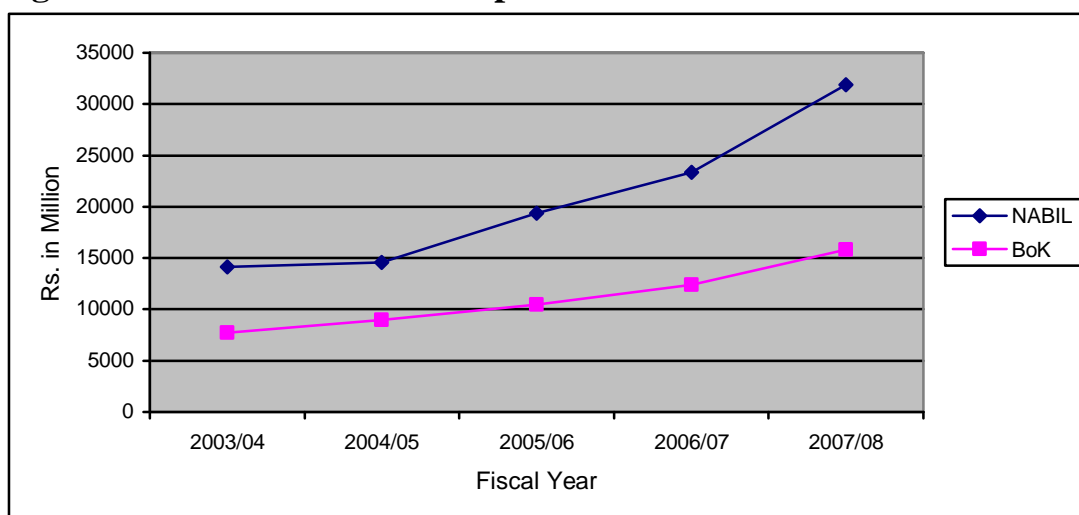
Here those growth ratios are analyzed and interpreted which are directly related to the fund mobilization and investment management of a commercial banks. Growth ratios represent how well the commercial banks are maintaining their economic and financial position. Under this topic, four types of growth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

Table 4.12: Growth Ratio of Total Deposits (%)

Banks	Total Deposits (Rs. In million)					Growth Rates (%)
	Fiscal Year					
	2003/04	2004/05	2005/06	2006/07	2007/08	
NABIL	14119	14586	19347	23342	31915	23.33
BOK	7741	8942	10485	12388	15833	19.68

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.8: Growth of Total Deposit



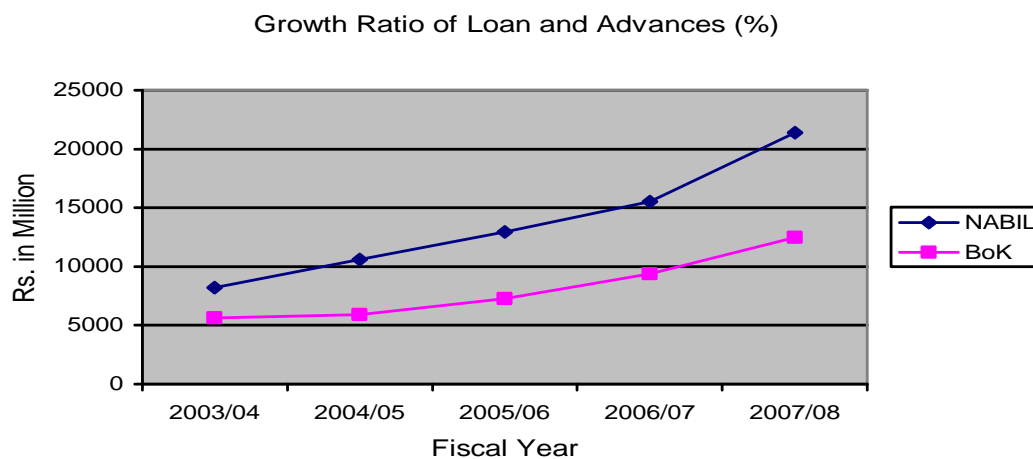
The above comparative table reveals that the growth ratio in case of BOK is lower than that of NABIL. The ratio of BOK is 19.68% whereas the same of NABIL is 23.33%. It indicates that NABIL bank's performance in collecting deposit is better than that of BOK.

Table 4.13: Growth Ratio of Loan and Advances (%)

Banks	Loan and Advances (Rs. In million)					Growth Rates (%)
	Fiscal Year					
	2003/04	2004/05	2005/06	2006/07	2007/08	
NABIL	8190	10586	12923	15546	21365	27.27
BOK	5646	5912	7259	9399	12462	22.39

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.9: Growth of Loan and Advances



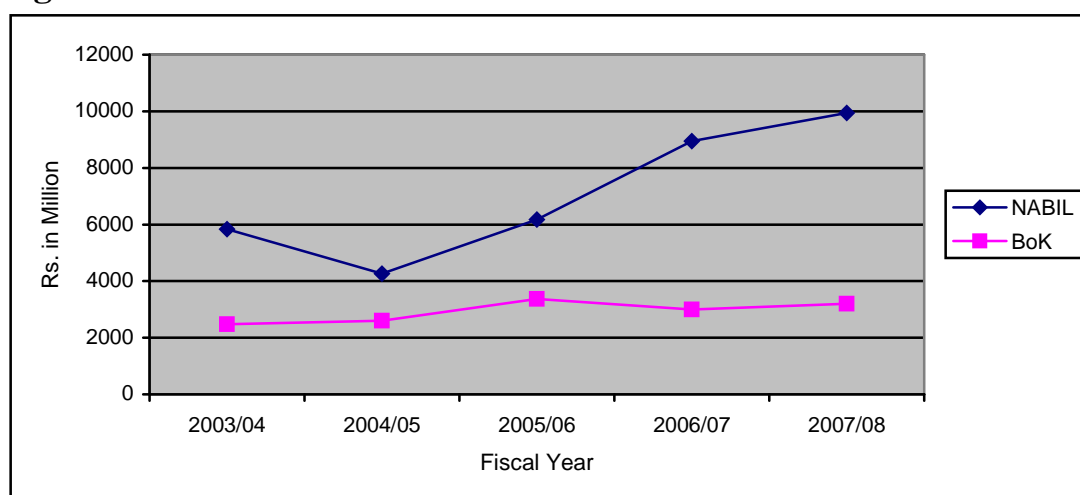
When we observe the growth ratio of loan and advances, we find that BOK has failed to increase its loan and advances with higher growth rate in comparison to NABIL. The growth rate of loan and advances of BOK 22.39% and that of NABIL is 27.27%.

Table 4.14: Growth Ratio of Total Investment (%)

Banks	Total Investment (Rs. In million)					Growth Rates (%)
	Fiscal Year					
	2003/04	2004/05	2005/06	2006/07	2007/08	
NABIL	5835	4267	6178	8945	9940	18.46
BOK	2477	2598	3375	2992	3204	7.63

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.10: Growth of Total Investment



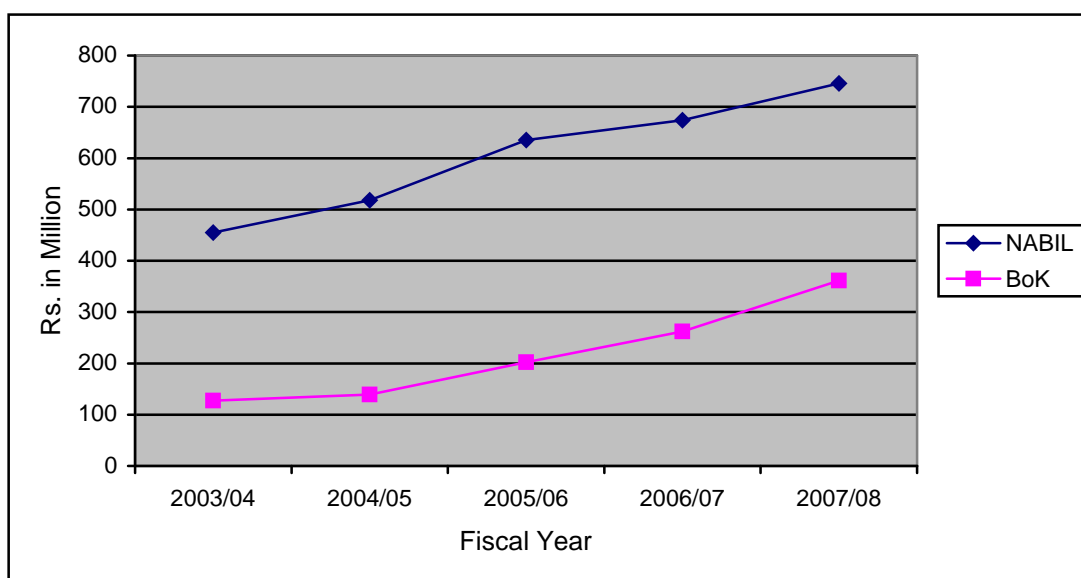
From the above analysis, we can conclude that growth ratio of total investment of BOK is significantly lower than that of NABIL i.e. 7.63% < 18.46%. BOK's growth rates is less than half than the NABIL's growth rates. This shows that BOK is poor to maintain growth ratio on investment.

Table 4.15: Growth Ratio of Net Profit (%)

Banks	Net Profit (Rs. In million)					Growth Rates (%)
	Fiscal Year					
	2003/04	2004/05	2005/06	2006/07	2007/08	
NABIL	455	518	635	674	746	13.32
BOK	127	139	202	262	361	30.57

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.11: Growth Ratio of Net Profit



From the analysis of growth ratio of net profit, NABIL seems to be comparatively poor at maintaining higher growth ratio than BOK i.e. $13.32\% < 30.57\%$.

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

4.6 Relationship between Deposit and Loan and Advances

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

The following table shows 'r' 'r²' P.Er and 6P. Er between those variables of NABIL and BOK during the study period. (Details in Appendix – 12)

Table 4.16: Correlation between Deposit and Loan and Advances

Banks	Evaluation Criterion			
	r	r ²	P.Er	6P.Er
NABIL	0.9894	0.9789	0.0063640	0.03818
BOK	0.9926	0.9852	0.004464	0.02678

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

From the above table, in case of NABIL, it was found that co-efficient of correlation between deposit and loan and advances was 0.9894. It shows positive relationship between these two variables. Moreover, we consider the value of co-efficient of determination (r²), which is 0.9789 and it means 97.89% of the variation in the dependent variable has been explained by the independent variable i.e. deposit. Similarly, considering the value of 'r' was 0.9894 and comparing it with 6P.Er. i.e. 0.03818. We find that 'r' is greater than the value of 6P.Er which reveals significant relationship between deposit and loan and advances in case of NABIL.

Likewise, in case of BOK, the co-efficient of correlation between deposit and loan and advances was 0.9926, which indicates positive correlation between these two variables. Similarly, the value of co-efficient of determination (r^2) was found 0.9852 and it means 98.52% of the variation in the dependent variable has been explained by the independent variable. Moreover, by application of probable error, the value of $r = 0.9926$ was highly greater than 6.P.Er i.e. 0.02678, which means value of 'r' was highly significant. In other words, there is highly significant relationship between deposit and loan and advances in case of BOK.

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

4.7 Relationship between Deposit and Total Investment

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

The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used in proper way or not and whether there is any relationship between these two variables. Details of calculation are given in appendix – 12.

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

Table 4.17: Correlation between Deposit and Total Investment

Banks	Evaluation Criterion			
	r	r ²	P.Er	6P.Er
NABIL	0.9259	0.8573	0.04305	0.2583
BOK	0.6832	0.4668	0.16084	0.9650

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

From the above table, in case of NABIL it was found that co-efficient of correlation between deposit (independent) and total investment (dependent) value of 'r' was 0.9259. It shows positive relationship between those variables. Similarly, the value of co-efficient of determination r^2 was found 0.8573, which shows that 85.73% of the dependent variable has been explained by the independent variable. Similarly, considering the value of 'r' was 0.9259 and comparing it with 6P.Er. i.e. 0.2583, we find that's was greater than the value of 6.P.Er which reveals that the value of 'r' was significant.

Likewise, in case of BOK, the co-efficient of correlation between deposit and total investment was 0.6832, which shows positive relationship between these two variables. Similarly, the value of co-efficient of determination (r^2) was found 0.4668, and it means 46.68% of the variation in the dependent variable has been explained by the independent variable. Moreover, by application of probable error, (r) i.e. 0.6832 is found to be lesser than 6.P.Er i.e. 0.9650 which reveals that the value of 'r' was not significant. In other words there is no significant relationship between deposit and total investment.

From the above analysis, the conclusion can be drawn that in both NABIL and BOK there was positive relationship between deposits and total investment. In case of BOK the value of 'r' was insignificant, it

means BOK do not have any certain investment policy and are not able to use the deposits in proper way in comparison to NABIL.

4.8 Relationship between Outside Assets and Net Profit

Outside assets include loan & advances and all the types of investments of a commercial bank. Under this topic, Karl Pearson's co-efficient of correlation has been calculated to measure and evaluate the co-efficient of correlation between these two variables i.e. total outside assets and net profit. In this analysis total outside assets is independent variables (x) and net profit is dependent variable (y). The main objective of computing 'r' between these two variables is to justify whether the net profit is significantly correlated with respective total assets or not. For this purpose various calculations are done (detail in appendix – 12).

Table 4.18: Correlation between Total Outside Assets and Net Profit

Banks	Evaluation Criterion			
	r	r ²	P.Er	6P.Er
NABIL	0.9152	0.8376	0.04899	0.29394
BOK	0.9968	0.9936	0.001930	0.01158

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

From the above table, in case of NABIL, it has been found that the co-efficient of correlation between total outside assets (independent) and net profit (dependent) value of 'r' was 0.9152, which shows positive relationship between these two variables. More over, we consider the value of co-efficient of determination (r²) which was 0.8376 and it means 83.76% of the variation in the dependent variables (net profit) has been explained by the independent variable (total outside assets). Similarly, considering the value of 'r' in comparison to 6P.Er i.e. 0.29394, we can see that the value of 'r' is more than the value of 6P.Er. which reveals

that the value of 'r' was significant. In other words there is significant relationship between total outside assets and net profit in case of NABIL.

Likewise, in case of BOK, the co-efficient of correlation between total outside assets and net profit was 0.9968, which indicates positive relationship between these two variables. Again, considering the co-efficient of determination (r^2), it was found 0.9936, which shows that 99.36 of the variation in the dependent variable has been explained by the independent variable. Similarly, considering the value of 'r' and comparing it with 6P.Er. i.e. 0.01158, we can find that 'r' was highly greater than the value of 6P.Er. which reveals that value of 'r' was highly significant. In other words there is highly significant relationship between total outside assets and net profit.

In conclusion it can be said that in case of BOK, the value of 'r' is highly significant and value of co-efficient of determination is very good whereas, in case of NABIL, the value of both 'r' and ' r^2 ' are well.

4.9 Trend Analysis of Total Deposit

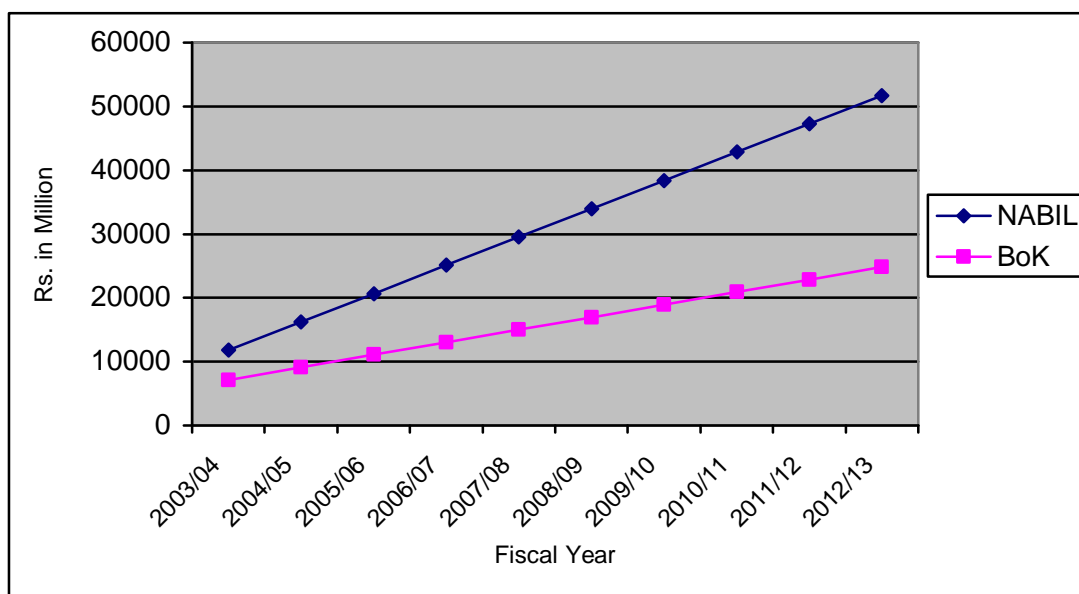
Here the trend values of total deposit of NABIL and BOK have been calculated for five years from 2003/04 to 2007/08. The forecast for next five years till 2013 has been also done (Detail in appendix – 13).

Table 4.19: Trend Values of Total Deposits of NABIL and BOK

Years	NABIL	BOK
2003/04	11792.2	7151.8
2004/05	16227	9114.8
2005/06	20661.8	11077.8
2006/07	25096.6	13040.8
2007/08	29531.4	15003.8
2008/09	33966.2	16966.8
2009/10	38401	18929.8
2010/11	42835.8	20892.8
2011/12	47270.6	22855.8
2012/13	51705.4	24818.8

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.12: Trend Lines of Total Deposit of NABIL and BOK



The above comparative table of trend values of total deposits shows that the deposits of both the banks NABIL and BOK has increasing trend. Other things remaining the same, the deposits of NABIL in the year 2012/13 will be Rs. 51705.4 million and that of BOK will be Rs. 24818.8 million, which are highest under the study period. From the above

analysis it can be concluded that NABIL bank's deposit is comparatively better than that of BOK.

4.10 Trend Analysis of Loan and Advances

An effort has been made to analyze the trend nature of loan and advances of NABIL and BOK. They are compared for five years from 2003/04 to 2007/08 and forecasted for next five years from 2012/13 (Detail in appendix – 13).

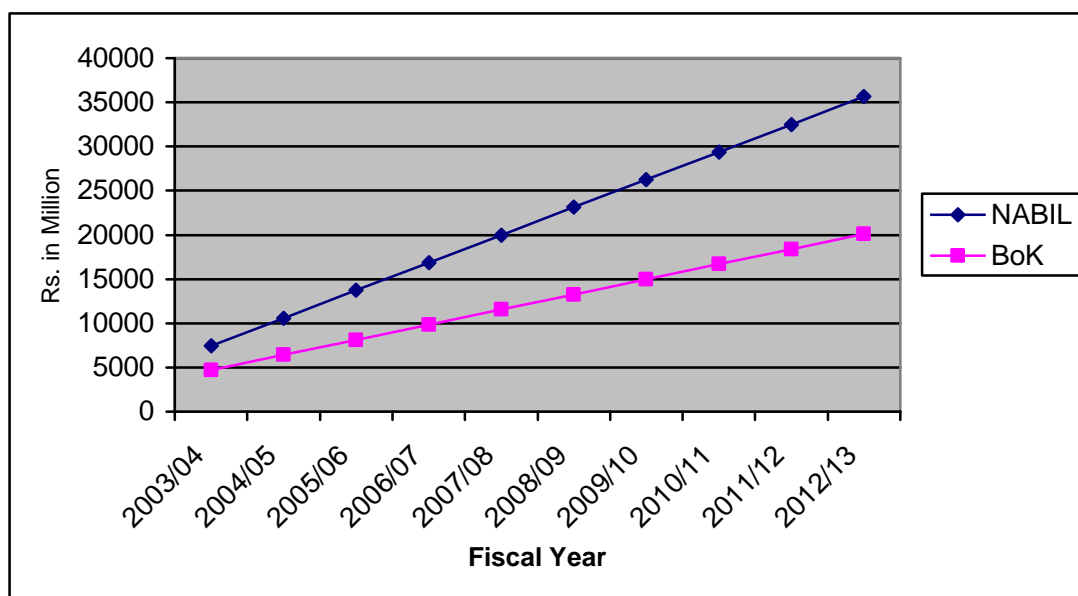
Table 4.20: Trend Values of Loan and Advances of NABIL and BOK

(Rs. in million)

Years	NABIL	BOK
2003/04	7460	4711.8
2004/05	10591	6423.7
2005/06	13722	8135.6
2006/07	16853	9847.5
2007/08	19984	11559.4
2008/09	23115	13271.3
2009/10	26246	14983.2
2010/11	29377	16695.1
2011/12	32508	18407.0
2012/13	35639	20118.9

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.13: Trend Lines of Loan and Advances of NABIL and BOK



The above comparative table reveals that the loan and advances of both banks NABIL and BOK are in increasing trend. Other things remaining the same, total loan and advances of NABIL in the FY 2012/13 will be Rs. 35639 million, which is the highest under the study period. Similarly, the same of BOK will be Rs. 2118.9 million. From the above trend analysis it is clear that the loan and advances of NABIL is proportionally better than that of BOK.

4.11 Trend Analysis of Total Investment

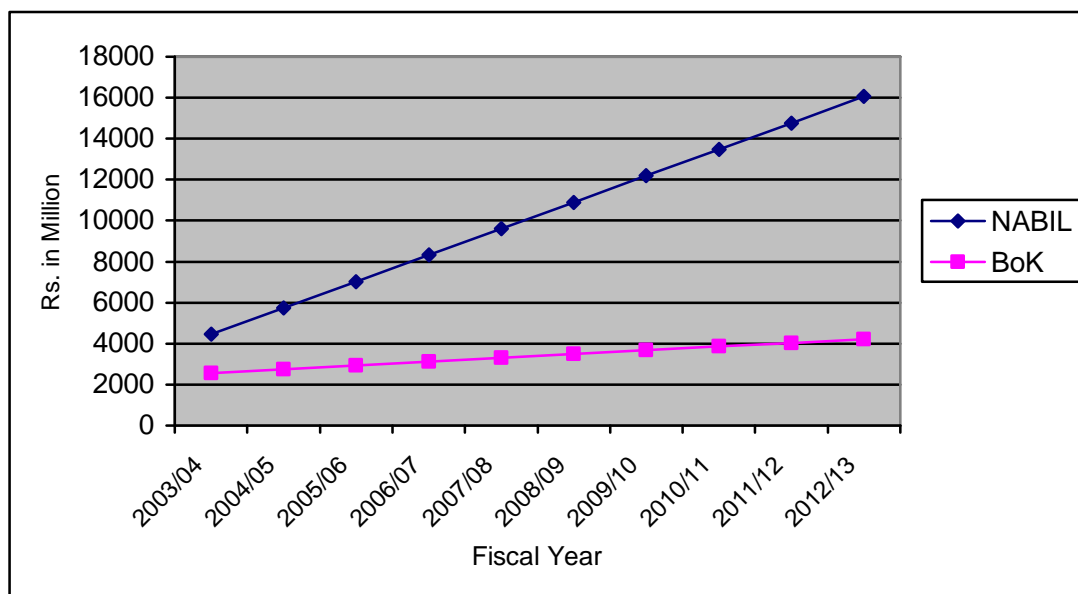
Under this topic, an attempt has been made to analyze total investment of NABIL and BOK for five years from 2003/04 to 2007/08 and forecast of the same for next five years till 2012/13 (Detail in appendix – 13).

Table 4.21: Trend Values of Total Investment of NABIL and BOK
(Rs. in million)

Years	NABIL	BOK
2003/04	4455.4	2559.6
2004/05	5744.2	2744.4
2005/06	7033	2929.2
2006/07	8321.8	3114
2007/08	9610.6	3298.8
2008/09	10899.4	3483.6
2009/10	12188.2	3668.4
2010/11	13477	3853.2
2011/12	14765.8	4038
2012/13	16054.6	4222.8

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.14: Trend Lines of Total Investment of NABIL and BOK



The above comparative table makes clear that total investment of NABIL and BOK are in increasing trend. Other things remaining the same, the total investment of NABIL in the year 2012/13 will be Rs. 16054.6 million, which is highest under the study period. Similarly, the same of BOK will be Rs. 4222.8 million.

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

4.12 Trend Analysis of Net Profit

Under this topic an effort has been made to analyze the net profit of NABIL and BOK for five years from 2003/04 to 2007/08 and forecast of the same for next five years till 2012/13. (Detail in appendix – 13)

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

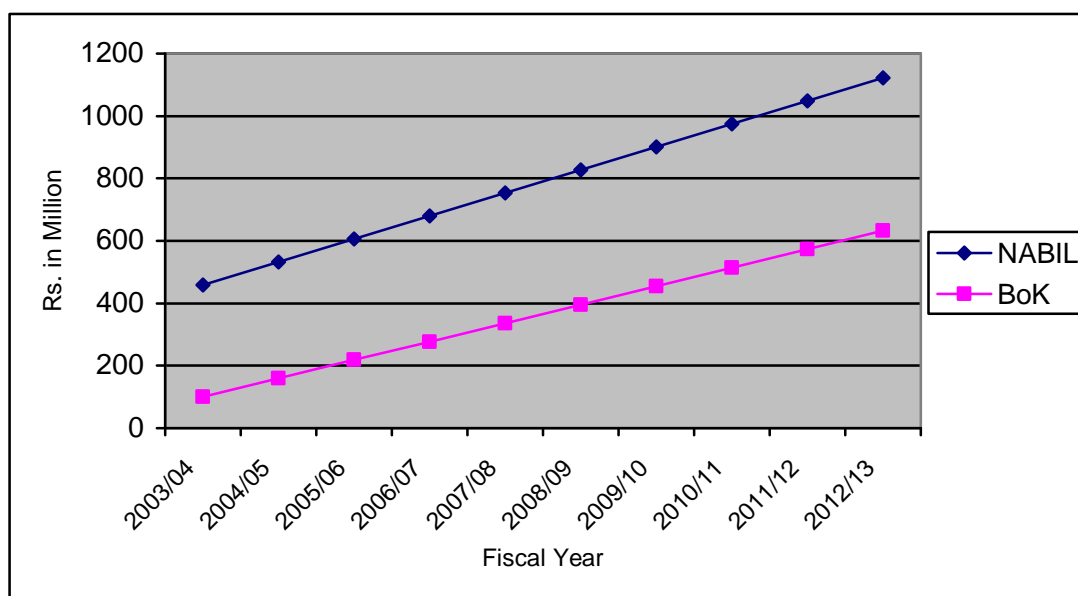
Table 4.22: Trend values of Net Profit of NABIL and BOK

(Rs. In million)

Years	NABIL	BOK
2003/04	458	100
2004/05	531.8	159.1
2005/06	605.6	218.2
2006/07	679.4	277.3
2007/08	753.2	336.4
2008/09	827	395.5
2009/10	900.8	454.6
2010/11	974.6	513.7
2011/12	1048.4	872.8
2012/13	1122.2	631.9

Source: Annual Reports of NABIL and BOK, 2003/04 to 2007/08.

Figure 4.15: Trend Lines of Net Profit of NABIL and BOK



From the comparative table of trend values of net profit, it has been found that the expected amounts of both the banks are in increasing trend. Other things remaining the same, the net profit of NABIL in the year 2012/13 will be Rs. 1122.2 million, which is the highest under the study period. Similarly, the same of BOK will be Rs. 631.9 million.

From above trend analysis, it is clear that NABIL banks net profit is comparatively better than that of BOK.

4.13 Major Findings of the Study

- a. The cash and bank balance position of NABIL with respect to deposit is not better against the readiness to service its customer deposits than that of the BOK. It implies the better liquidity position of BOK. In contrast, a high ratio of non earning cash and bank balance may be unfit which indicates the banks inability to invest its funds in income generating areas.
- b. Investment on government securities to current assets ratio of NABIL is in fluctuating trend. On the other hand BOK's ratio is in

decreasing trend. BOK has invested more of its current assets in government securities than NABIL. Overall, the liquidity position of both the banks from the point of view on investment on government securities is satisfactory.

- c. BOK has maintained stability in loan and advances to current assets ratio i.e. around 61% in the first two years during the study period i.e. from 2003/04 to 2004/05. NABIL maintained highest ratio in the year 2004/05 i.e. 65.02% and lowest in the year 2003/04 i.e. 51.46% coefficient of variation among ratios is slightly higher in case of NABIL than BOK i.e. 7.38% > 7.03%. It indicates inconsistency of NABIL banks ratio in comparison to BOK.
- d. NABIL is found slightly weak in comparison to BOK to mobilize higher amount of loan & advances. But at the same time the high ratio may not be too good from BOK liquidity point of view.
- e. Total investment to total deposit ratio of both the banks is in fluctuating trend. On the basis of mean ratio. NABIL banks capacity to mobilize its deposits on total investment is better than that of BOK because its mean ratio is 34.40% whereas BOK had 27.52%.
- f. BOK's fund mobilization, in terms of loan and advances with respect to total working fund is slightly more satisfactory than NABIL.
- g. Investment on government securities to total working fund ratio of NABIL is in fluctuating trend and the ratio of BOK is in decreasing trend. The comparison of mean ratios of NABIL and BOK reveal that BOK was better at mobilizing its working fund as investment in government securities.

- h. The ratio of return on loan and advances of NABIL are in decreasing trend and that of BOK is in increasing trend. On the other hand, when the mean ratios are observed, NABIL seem to be good to maintain high return on loan and advances in comparison to the BOK. NABIL has mean ratio of 4.63% whereas BOK had quite lower ratios 2.61%.
- i. ROE of BOK is in increasing trend. NABIL has increasing trend upto FY 2005/06 and thereafter it has decreasing trend. On the basis of mean ratio it can be said that BOK has been weaker to earn high profit to its shareholders in comparison to NABIL, which can be viewed by the lower mean ratio i.e. $23.31\% < 31.84\%$.
- j. NABIL has slightly high-mobilized fund than BOK into interest bearing assets i.e. government securities, shares, debenture of other companies, loan and advances etc. NABIL has to efficiently use its fund (outside) to earn high interest income in comparison to BOK.
- k. Growth rate of total deposit, loan and advances and total investment of NABIL is higher in comparison to BOK.
- l. In case of coefficient of correlation of deposit and loan and advances and total outside assets and net profit BOK has maintained higher significant relationship than NABIL. But in case of coefficient of correlation of deposit and total investment NABIL has maintained higher significant relationship than BOK.
- m. The trend values of total deposits, total loan and advances, total investment and net profit of NABIL have better position than BOK.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

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

Nepalese commercial banks lag a behind fulfilling the responsibility to invest in the crucial sector of the economy for the uplift of the national economy. Thus the problem is very serious one in developing countries like Nepal, which can be solved developing countries like Nepal, which can be solved through formulation of sound investment policy. Good investment policy ensures maximum amount of investment to all sector

with proper utilization. Thus, the interest was expressed to comparative analyze the investment policy of NABIL and BOK.

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

The study has covered 5 years period from 2003/04 to 2007/08 A.D. Altogether 25 commercial banks are functioning in Nepal till date which are the population of the study, among these banks NABIL and BOKL have been selected as sample banks for study. For carrying out this study data have been obtained directly from secondary sources. Various statistical and financial tools have been used to perform the analysis. The analysis is associated with comparison and interpretation. Under financial tools various financial ratios related to investment functions of commercial banks such as, liquidity ratio, assets management ratio, profitability ratio and risk ratio are used. Similarly under statistical tools Karl Pearson's co-efficient of correlation, trend analysis etc is used. Major findings of the study have been quoted for better interpretation of the study.

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

5.2 Conclusions

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

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

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

NABIL seems to have earned higher amount of interest on its outside assets in comparison to BOKL because the mean ratio of NABIL is slightly higher than BOKL i.e. $5.76\% > 5.58\%$. Overall it can be concluded that the profitability position of NABIL is comparatively better than that of BOKL.

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

In case of coefficient of correlation of deposit and loan and advances and total outside assets and net profit, BOKL has maintained higher significant relationship than NABIL. But, in case of correlation of deposit

and total investment, NABIL has maintained significant relationship than BOKL.

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

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

5.3 Recommendations

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

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

- b. The study reveals that NABIL has invested fewer funds in government securities than BOKL. The liquidity position of BOKL shows that it has kept relatively more funds as cash and bank balance, which does not earn any return. Idle funds ultimately affect the profitability of bank. So, BOKL is recommended to invest more funds in government securities like, treasury bills, development bonds, saving certificates which are free of risk and profitable as well.
- c. Various political and administrative factors are highly prevailing in Nepalese investment environment. These factors results loan default in commercial banks. Thus commercial banks should take the job of lending purely with business attitude. Both the banks are suggested to implement a sound collection policy including procedures which ensure rapid identification of delinquent loans, immediate contact with borrowers and continual follow up until a loan is recovered and also legal procedures if necessary.
- d. Portfolio management of bank assets basically means allocation of funds into different sectors having different degrees of risk and varying rate of return in such a way that maximum yield can be achieved by taking minimum risk. For this purpose portfolio condition of both the banks should be examined time of time and attempt should be made to maintain equilibrium in the portfolio condition as far as possible.
- e. The study reveals that return on loan and advances of NABIL are in decreasing trend and that of BOKL is in increasing trend. So, NABIL is recommended to decrease the funds to invest in loan and advances and BOK is recommended to invest more funds in loan and advances.

- f. In the present situation of rapidly growing competition in the banking sector, the business should be customer oriented. Marketing function can be taken as an effective tool for attracting and retaining customers, thus the commercial banks should activate and strengthen its marketing function. For this purpose the banks should adopt new approaches and formulate new strategies to satisfy their customer by providing them facilities convenient for them.
- g. The commercial banks should establish research and development department. So, it would be able to do various researches in systematic manner to develop innovative approaches in banking management and operation. Entrepreneurship attitude can help the bank to grab new and profitable investment opportunities. Opening new branches, merchant banking functions, investing risky assets and shareholder funds in profitable sector etc. can yield higher profits for the banks.

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