A Comparative Analysis

of

Investment Portfolio Management

of

Bank of Kathmandu and NABIL Bank Ltd.

A Thesis

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RECOMMENDATION

This is to certify that the thesis

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Entitled

A Comparative Study of Investment Portfolio of Management of

Bank of Kathmandu

&

NABIL Bank Ltd.

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

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DECLARATION

I hereby declare that this thesis **A Comparative Study of Investment Portfolio of Management of Bank of Kathmandu & NABIL Bank Ltd.** Submitted to Patan Multiple Campus, Patan Dhoka, Lalitpur, Faculty of Management, Tribhuvan University, is my original work done in form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the Supervision of Mr. Shiva Prasad Pokheral , Patan Multiple Campus.

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ABBREVIATION

APT: Arbitrage Pricing Theory

BOK: Bank of Kathmandu Ltd.

CAPM: Capital Assets Pricing Model

CBs: Commercial Banks

C.V.: Coefficient of Variation.

EBL: Everest Bank Ltd.

E.P.S.: Earning Per Share

HBL: Himalayan Bank Ltd.

MIS: Management Information System

NBBL: Nepal Bangladesh Bank Ltd.

NBL: National Bank Ltd

NEPSE: Nepal Stock Exchange

NIDC: Nepal Industrial Development Corporation

NRB: Nepal Rastra Bank

NYSE: New York Stock Exchange

P.E.: Probable Error

ROSE: Return on Shareholders Equity Ratio

ROTA: Return on Total Assets Ratio

SCBNL: Standard Chartered Bank Nepal Ltd.

S.D.: Standard Deviation.

SML: Security Market Line

SWIFT: Society for Worldwide Inter Bank Financial Telecommunications

TITD: Total Investment to Total Deposit Ratio

U.S.: United Stat

Chapter: 1
Introduction

1.1 Background of the Study:

Industrialization is one of the most important factors to improve the economy of the country. But for industrialization to be achieved in reality, all the infrastructure or amenities that provide the base for the industrialization process must be available without such foundation, no industrial development would occur. Among the various infrastructures, sound – banking is one of the most prominent one.

Banks provide a sound base for the process of economic growth via industrial development by canalizing the funds from surplus units to deficit but productive units. This process of mobilization of funds is very important in the context of Nepal because people with funds often do not have opportunities to invest while people requiring funds find it difficult to get the required funds. Therefore, the banks are the backbone for the economic development.

Integrated and speedy development of the country is possible only when competitive banking services reaches the nooks and corners of the country. Commercial banks occupy an important place in the framework of every economy because it provides capital for the development of industry, trade and business investing the saving collected as deposits. Besides, commercial banks render a numerous services to their customer in view of facilitating their economic and social life.

Banks are an essential part of the business activity which is established to safeguard people's money and thereby using the money in making loans and investments. There are several commercial banks operating inside and outside the valley. Every bank invests its money in some profitable financial sector, which may result in profitable business in the long run. An investment is the commitment of money that is expected to generate additional money. Human nature doesn't satisfy whatever he/she has at present he/she tends to have more than whatever he/she has. So expecting the additional return he/she tends to sacrifice the current resources. Whenever we talk about the return, risk too must not be avoided, because in every type of return, risk is involved. "Every investment entails some degree of risk, it requires at present certain sacrifice for a future uncertain benefits." The growth of an individual's or firm's resources is not possible until and unless we invest it in some profitable sector.

Thus investment is the sacrifice of existing resources to generate return in future involving risk. It can be real as well as financial investment. Real investment involves kinds of tangible assets such as land, machinery, factories, building, etc. Whereas financial investment involves contracts written in a piece of paper such as common stocks, bonds etc.

1.2 Investment Portfolio:

A portfolio is usually defined as a combination of assets. It is a collection of securities. Portfolio means the list of holdings in securities owned by an investor or institution. A portfolio is a collection of investment securities. For example;

If you owned some of the stock of banks, insurance companies, production companies, hotels etc. Stocks you would be holding would be your stock portfolios. Portfolio analysis considers the determination of future risk and return in holding various blends of individual securities. Portfolio expected return is a weighted average of the individual securities.

Portfolio theory deals with the selection of optimal portfolio; that is portfolio provides the highest possible return for any specified degree of risk or the lowest possible risk for any specified rate of return. Portfolio theory has been developed for the financial assets. Thus making investment from the selected optimal portfolio i.e. the portfolio that provides the highest rate of return with least possible amount of risk is the real investment portfolio.

According to Weston & Brigham "A portfolio simply represents the practice among the investors of having their funds find in more than one asset. The combination of investment assets is called portfolio."

According to Lawrence J. Gitman, "portfolio means a collection or group of assests."

According to Raymond Brokington, "The term 'portfolio' simply means collection of investment. For an investor through the stock exchange the portfolio will be a collection of shareholdings in different Companies. For a property investor portfolio will be collection of buildings. To a financial manager within an industrial company portfolio will be a collection of real capital projects. It will be apparently that the actual nature of the components of a portfolio depends on the population of opportunities from which the selection has been made."

Now we can say, portfolio is a collection of securities. An investor who has been paying someone to actively manage his/her portfolio has every right to insist on knowing what sort of performance was obtained. Such information can be used to alter either the constraint placed on the manager, the investment objective given to the manager, or the amount of money allocated to the manager. Perhaps more importantly, by evaluating performance in specified way, a client can forcefully communicate his/her interest to the investment manager, and, in all likelihood, affect the way in which his/her portfolio is manage in the future. Moreover, an investment manager, by evaluating his/her own performance, can identify sources of strengths or weakness.

1.3 Portfolio Management:

Portfolio management is basically concerned with efficient management of portfolio investment in financial assets, including shares and debentures of companies. Portfolio management assumes periodic supervision of the security in the portfolio. Buy and hold philosophy, in present competitive society and in view of the fluctuations of the stock markets is not a very prudent, conservative, or rational plan of action for sound portfolio management. The management may be by professionals, by others, or by individuals themselves. A portfolio of an individual or a corporation unit is the holding of securities and investment in financial assets. These holding are the result of individual preferences and decisions regarding risk and return. The process of portfolio management is closely and directly linked with the process of decision-making the correctness of which cannot be ensured in all cases.

The basic problem of portfolio management is to establish an investment objective or goal and then decide the best to reach the goal with the securities available. This has been stated as an attempt by the investor to obtain the maximum return with minimum risk.

The process of portfolio management involves a logical set of steps common to any decision:

1. Plan
2. Implement and
3. Monitor.

According to Cohen, Zinbarg & Zeikel, "Portfolio management is the art of handling a pool of funds so that it not only preserves its original worth but also overtime appreciates in values and yields an adequate return consistent with the level of risk assumed."

Portfolio management of the banks assets basically means the allocation of funds to different components of banking assets having different degree of risk and varying rates of return in such a way that conflicting goal of maximum yield and minimum risk. When the process of portfolio management of bank assets is done, various factor such as availability of fund, liquidity requirement, central bank policy etc. should be considered. As the task of portfolio management of bank assets is to be carried out within the given macroeconomic environment the manager should carefully watch related macro environment indicator such as interest rate, inflation rate, national income, saving ratio etc. Assets of bank can be broadly classified into:

- Investment
- Loans and Advances

1.3.1 Objectives of the Portfolio Management:

Often most objectives turn out to be closely related to the theoretical objectives of maximizing return for the level of risk inherent in the portfolio. The objectives of the portfolio management are as follows:

- Capital
- Safety or security of an investment
- Income by way of individual and interest
- Liquidity
- Marketability

- Tax planning-capital gain tax, income tax and wealth tax
- Risk avoidance or minimization of risk

1.4 Portfolio Risk and Return:

Portfolio analysis considers the determination of future risk and return in holding various blends of individual securities. Portfolio expected return is a weighted average of the expected return of individual securities. An investor can sometimes reduce portfolio risk by adding another security with greater individual risk than any other security in the portfolio. There are two kinds of risks, which are as follows;

a) Market risk or systematic risk measured by its beta and

b) Company risk or unsystematic

Total risk is measured by its standard deviation. The total risk is the combination of systematic plus unsystematic risk.

1.4.1 Portfolio Returns:

The expected return of a portfolio should depend on the expected return of each of the security contained in the portfolio. It also seems logical that the amounts invested in each security should be imported. The portfolio return is the weighted average expected return of the individual stocks in the portfolio, with weights being the fraction of the total portfolio invested in each stock. The portfolios expected return is defined in equation as follows:

$$K_p = w_1 k_1 + w_2 k_2 + \ldots\ldots\ldots\ldots + w_n k_n$$

Where, K_p = Portfolio expected return

w_1 = Weight for stock 1

w_2 = Weight for stock 2

w_n = Weight for stock n

k_1 = Expected return for stock 1

k_2 = Expected return for stock 2

k_n = Expected return for stock n

1.4.2 Portfolio Risk

Either the variance or the standard deviation of return measures portfolio risk. The variance of return form a portfolio made up of assets is defined as follows:

$$Variance\ (\pm^2_P) = W_A^2 \pm_A^2 + W_B^2 \pm_B^2 + W_A W_B\, Cov(r_A r_B)$$

$$\pm_P = [W_A^2 \pm_A^2 + W_B^2 \pm_B^2 + W_A W_B\, Cov(r_A r_B)]^{1\backslash 2}$$

Where,

$\pm_P$ = Standard deviation of portfolio rate of return

$Cov(r_A r_B)$ = covariance of returns between assets A and B

The covariance is related to the correlation coefficient as shown in equation.

$P_{ij} = Cov_{ij} / \pm_i \pm_j$

Now,

$Cov_{ij} = \pm_i \pm_j P_{ij}$

Where, P_{ij} = correlation coefficient between variable i and j

1.5 Capital Assets Pricing Model (CAPM)

CAPM is a model based on the presentation that any stocks required rate of return is equal to the risk free rate of return plus its risk premium, where risk is measured by the beta coefficient.

The CAPM is a relation in which the expected rate of return of the asset is a linear function of that asset's systematic risk.

The CAPM represents the trade-off of systematic risk for the returns that investors expect and are fettled to receive. The CAPM explains the behavior of security prices. It further explains how the prices and interest rates on risky financial assets are determined in the capital market. CAPM combines the principles of portfolio theory with certain assumption regarding investor's expectations and market characteristics.

Assumption:

i. Individuals are risk-averse

ii. Individuals can borrow and lend free at risk free rate of interest

iii. Individuals have homogeneous expectations regarding risk and return of securities

iv. The market is perfect and competitive

v. There no transaction costs and taxes

vi. Securities are divisible

The CAPM equation is written as follows: $(R_j) = R_F + (R_M - R_F)\ \beta_j$

Where, (R_j) = Expected return on assets

R_F = Risk free rate of return

R_M = Market return

β_j = Coefficient of beta

When the CAPM is graphed in the figure (fig.1.1), it is called the security market line (SML). SLM may be used to explain the required rate of return on all securities whether or not they are efficient. The SML provides a unique relationship between undiversifiable risk (measured by beta) and expected rate of return. The CAPM or SLM is an equilibrium theory of how to price and measure risk.

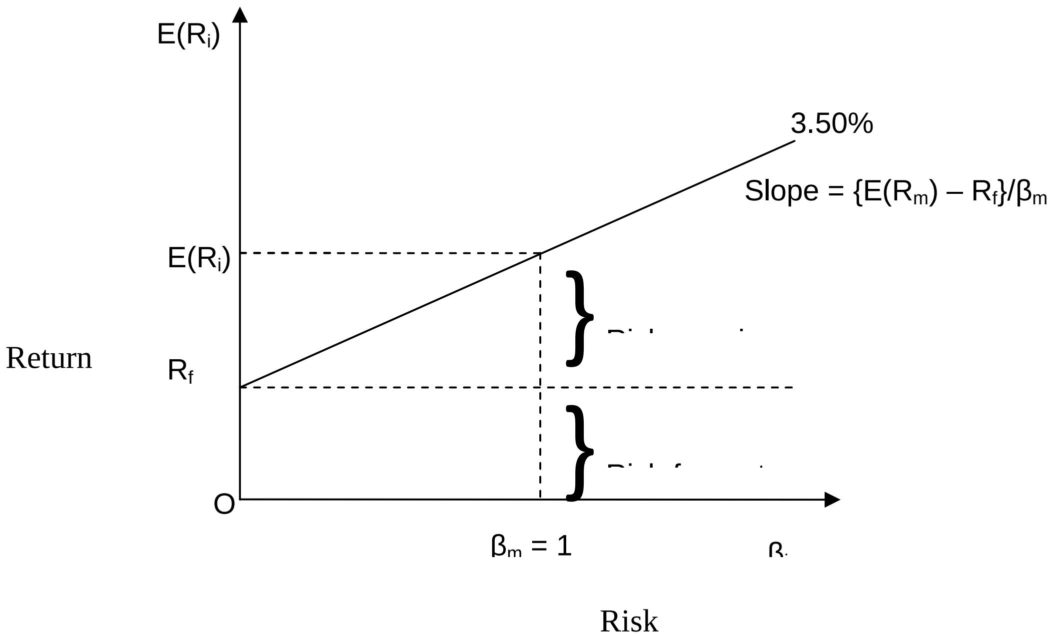


Fig. 1.1 The Security Market Line /CAP

Source: James c. Van Horney Financial Management and Policy. 11th ed. (New Delhi; Prentice Hall of India Ltd.2000) p.71

1.6 Meaning of Commercial Banks:

“A bank is a business organization that receives and holds deposits funds from other, makes loans and extends credits and transfers fund by written order deposits.”

According to Nepal Commercial Banks Acts 2031 B.S. “A commercial bank refers to such type of banks other than specified banks related to cooperative, agricultural, industrial and other which deals in money exchange, accepting deposits and advancing loans, etc.”

The commercial banks are those banks, which pools together the savings of the community and arrange them for the productive use. Commercial banks transfer monetary sources from the savers to the users. They accept deposits from the public on the condition that they will be repayable on demand or on short notice. Commercial banks are restricted to invest their funds in corporate securities. They provide loans and advances from the money, which they receive through deposits. Apart from financing, they also render services like collection of bills and cheques, safekeeping of the valuables, financial advising, etc. to their customer.

As, a whole commercial banks, which performs all kinds of banking functions as accepting deposits, advancing loans, credit creation and agency functions. They provide short term loan, medium term loan and long term loan to trade and industry. They also operate off balance sheet function such as issuing guarantee, bond, letter of credit, etc. Nepal Bank Ltd., Himalayan Bank Ltd., Nabil Bank Ltd., Bank of Kathmandu Ltd., are the commercial banks in Nepal. Till date there are 26 commercial banks operating in our county. The following table shows the name and establishment year of these commercial banks.

(Rs. In Million)

S.No.	Name of the Commercial Banks	Operation Date (A.D.)	Head Office	Paid up Capital
1	Nepal Bank Limited	11/15/1937	Kathmandu	380.4
2	Rastriya Banijya Bank	1/23/1966	Kathmandu	1172.3
3	Agriculture Development Bank Ltd.	1/2/1968	Kathmandu	10777.5
4	Nabil Bank Limited	7/16/1984	Kathmandu	965.75
5	Nepal Investment Bank Limited	2/27/1986	Kathmandu	2407.1
6	Standard Chartered Bank Nepal Limited.	1/30/1987	Kathmandu	932
7	Himalayan Bank Limited	1/18/1993	Kathmandu	1216.2
8	Nepal SBI Bank Limited	7/7/1993	Kathmandu	874.5
9	Nepal Bangladesh Bank Limited	5/6/1994	Kathmandu	1860.3
10	Everest Bank Limited	10/18/1994	Kathmandu	838.8
11	Bank of Kathmandu Limited	3/12/1995	Kathmandu	844.4
12	Nepal Credit and Commerce Bank Limited	10/14/1996	Siddharthanagar,	1399.5
13	Lumbini Bank Limited	7/17/1998	Narayangadh	1103.6
14	Nepal Industrial & Commercial Bank Limited	7/21/1998	Biaratnagar	1140.5
15	Machhapuchhre Bank Limited	10/3/2000	Pokhara, Kaski	1479.1

16	Kumari Bank Limited	4/3/2001	Kathmandu	1186.1
17	Laxmi Bank Limited	4/3/2002	Birgunj, Parsa	1098.1
18	Siddhartha Bank Limited	12/24/2002	Kathmandu	1087.2
19	Global Bank Ltd.	1/2/2007	Birgunj, Parsa	1000
20	Citizens Bank International Ltd.	6/21/2007	Kathmandu	1000
21	Prime Commercial Bank Ltd	9/24/2007	Kathmandu	1163.8
22	Sunrise Bank Ltd.	10/12/2007	Kathmandu	1337.5
23	Bank of Asia Nepal Ltd.	10/12/2007	Kathmandu	1000
24	Development Credit Bank Ltd.	1/23/2001	Kathmandu	1655.3
25	NMB Bank Ltd.	11/26/1996	Kathmandu	1424.6
26	Kist Bank	2/21/2003	Kathmandu	2000

Source: Gorakha Patra

1.7 Development of Commercial Banks:

In 1157, the ‘Bank of Venice’ was established in Venice. This bank has a prominent role at that time. It does various modern banking relative acts. Therefore it has significant role in the history of bank.

But the first modern bank was established in Spain in 1401. The name of the bank was ‘Bank of Barcelona’. Then the trend of modern banking continues. In 1407, the ‘Bank of Genoa’ was established in Genoa. The development of modern banking gets its rhythm in 17th century. In 1607, the 'Bank of Amsterdam' in 1619 the ' Bank of Ham berg' was established in Holland and Germany respectively.

As a first joint venture and commercial bank, 'Bank of England' was established in 1694. It helps to modernizing the banking sector. In the beginning of the 19th century the central bank got the right to issue the money solely.

1.7.1 Functions of Commercial Banks

Commercial banks are established as a joint stock company with a view to earn profit. These banks are regarded as the heart of modern economy. It is because they mobilize resources by collecting deposits and channelize those resources to productive sectors by granting loans. These banks collect different types of deposits. However, most of their deposits are of short-term nature payable on demand. Hence, from the view point of liquidity they are interested in meeting short-term credit needs. Beside accepting deposits and granting loans these banks render many other services to their customers. The services rendered by commercial banks are as follows:

i) Accepting Deposits

Commercial banks accept deposits in different accounts. This is the first most important and oldest function of the commercial bank. The main forms of deposit accepted by banks are as follows:

a) Current or Demand Deposit

The men and the institutions needing cash frequently deposit their money in current account. The amount deposited in this account can be withdrawn by drawing cheque without prior information. This is also known as demand deposit whereby the banker incurs the obligations of paying legal tender on demand. Since the bank should keep all money in reserve and cannot invest, no interest in offered in this account.

b) Saving Deposit

Generally, most accounts are opened saving deposit in a bank. Saving deposit is the deposit, which collected from general savers and middle-class people. The bank usually pays small interest to the depositors against their deposits. The money deposited in this account can be withdrawn only once or twice in a week or only in stipulated amount.

c) Fixed Deposit

The amount deposited for a fixed period is called fixed or time deposit. Thus bank pays higher rate of interest to the depositor. The amount deposited cannot be withdrawn before the fixed period. However, the depositor can take loan from the bank against the security of fixed deposit receipt. Since the bank can utilize the money for a fixed period high interest is offered in this account. The fixed deposit in Nepal is of 3 months, 6 months, 1 year, and 2 years and above.

ii) Providing Loans

The second important function of a bank is to provide different types of loans. The bank earns profit by giving the amounts deposited with it in the form of loans. Since the bank creates credit with its deposits, it is called manufacturer of credit. Likewise, since the bank earns profit by utilizing the deposits it is said, “It is banker’s brain and other people’s money”.

Traditionally, commercial banks can grant only short-term credit. But in present time, it also provides loan of medium and long-term nature to some extent to even industry and agriculture. The bank charges interest on loans, which are usually higher than those, offered on the deposit. The main forms of loan provided by the bank are as follows:

a. Loans and Advances
b. Overdraft
c. Cash Credit
d. Discounting of Bills

iii) Supporting Government Activities

Banks invest on government securities and bonds for supporting government activities with credit. Banks earn interest by investing in government and non-government securities. Banks make government transactions with the permission of the central bank, such as Nepal Rastra Bank. It implies that banks collect government revenue and disburse government funds on behalf of the government.

iv) Agency Services

The functions other than main functions performed by commercial bank are called secondary functions/services. These functions are also called agency functions. The bank charges minimum fees for undertaking agency functions for its customers. The objective behind undertaking agency function is to attract or retain customers rather than to earn income. The agency services rendered by banks are as follows:

a. Collection of Credit Instruments (Bills)
b. Income Receiving and Payment
c. Purchase and Sale of Securities
d. Trustee and Attorney
e. Remittance of Money

f. Correspondent Service
g. Tax Consultant

v) Credit Creation

Credit creation is the very important function of the commercial banks. They accept deposits and advance loans. When the bank provides advance loans, customers should open an account to withdraw money. Then they can withdraw as per their needs.

vi) General Utility Services

a) Safety Custody of Valuables

Banks keep the valuable goods like diamond, jewellery and important documents like securities in its safe deposit vault. These goods can be taken to home in case of need by informing the bank.

b) Issue Credit Instruments

Banks issue the letter of credit, traveler's cheque, draft, and master card to customers. The traders can import goods on credit from foreign countries by the help of letter of credit. The credit instruments make it easier to transfer money from one place to other.

c) Dealing of Foreign Exchange

Banks exchange the foreign currency of customer. They make available the foreign exchange needed by individuals and traders and charges fee for this service. The commercial banks perform this function with the prior approval of the central bank.

d) Economic Information and Statistics

A separate department of research and statistics can be found in every bank. This department makes available the local and foreign information to the businessmen. The bank publishes monthly and annual bulletins given information's about the situation of trade, industry, rate of interest etc.

e) Work as Referee

Banks also work as the referee of the customers. The information on economic condition of other persons or institutions may be taken from the bank. But due to the need of maintaining secrecy, such information's can be obtained only on the consent of the concerned party. The bank knows well about the honesty and reliability of the customers. Hence, it is easier to make contract by taking secret information from the bank.

f) Issue of Guarantee

Banks issue letter of guarantee promising to pay in case of default of transactions. This facility is widely used in construction and other commercial transactions.

g) Advisory Services

Banks have knowledge about the existing economic situation of the country. So, they provide important advice on financial matters to their customers. This facilitates entrepreneurs and businessmen to make profitable investment.

h) Underwriting Services:

Banks underwrite the shares bonds issued by their customer firms. Since people have confidence over banks, it is not difficult to sell securities having underwriting of banks. Firms are thus able to operate their business by raising funds from the market.

1.8 Development of Commercial Banks in Nepal:

Nepal‘s banking history had begun with the establishment of Nepal Bank Ltd. in 1937. At that time, the bank had an authorized capital of 10 million and paid up capital of Rs. 843 thousands, Nepal Bank Ltd. was the first commercial bank with 51% government equity and 49% owned by general public. It was established under the special banking Act 1936 having elementary functions of a commercial bank. Because of the non-existence of a central bank in the country, the commercial bank had to act as its own central bank, and keep enough resources in hand for meeting emergencies.

Later on, the first central bank was established, with an objective of supervising, protecting and directing the function of commercial banking activities. Rastriya banijya Bank came into existence in 1966, fully government ownership with the authorized capital of Rs. 10 million and paid up capital of Rs. 2.5million.

Similarly, with the establishment of a cooperative bank which was later on converted into Agricultural Development Bank in 1967 added more bricks in the construction of the banking sector of Nepal. Agricultural Development Bank was established as the main financing institution for small rural agro-industries and cooperative sectors. It has started depository function of a commercial bank from 1986 with similar deposit rates.

In 1980, the government introduced 'Financial Sector Reforms'. Nepal allowed the entry of foreign bank as joint venture with up to a maximum of 50% equity participation. Now there are altogether nine joint venture banks operating in Nepal to contribute in trade and commercial sector of the nation. "When government decided to establish banks with joint venture, two benefits were expected. First, that competition would force the domestic banks, Nepal Bank Ltd., and Rastriya Banijya Bank to improve their services and efficiency. Second, that introduction of new banking procedures, methods and technology would occur." The first joint venture bank was Nepal Arab Bank Ltd (NABIL). It was established in 1984. Later the following joint venture banks were established, respectively.

Nepal Indoseuz Bank in 1986

Nepal Grindlays Bank in 1987

Himalayan Bank in 1993

Nepal SBI Bank in 1993

Nepal Bangladesh Bank in 1994

Everest Bank in 1994

Bank of Kathmandu 1995

Nepal Bank of Ceylon in 1996

1.9 Nepal Rastra Bank (NRB):

Nepal Rastra Bank is the central bank of Nepal. It was established in April26, 1956 under the Nepal Rastra Bank Act 1955 with a capital of 10 million fully subscribed by the government. Prior to this, there was no such formal organization to control and regulate the monetary system in the country. It is an autonomous body and fully owned by government of Nepal, who works for the development of banking system in the country. NRB started issuing currency only in 1959.

When the Foreign Exchange Regulation Act was brought into force in early 1960s the dual currency system was prevalent in Nepal and therefore, effective regulation of money structure was virtually unimaginable.

The main objectives of NRB are as follows:

- To issue notes
- To promote banking system throughout the country
- To stabilized the foreign currency system with the domestic currency
- To promote the issue of Nepalese notes in the country as the use of the Indian currency was very popular in Nepal
- To advice the government with regards to fiscal and monetary policies for the economic development of the country
- To control the credit

1.10 Introduction of Sample banks:

1.10.1 NABIL Bank Ltd:

NABIL Bank Ltd., the first joint venture bank in Nepal was established in 1984, under the Company Act 1964. Its equity configuration showed that Dubai Bank Ltd. (DBL) owned 50% equity partner which was transferred to Emirates Bank International Ltd.. Later on, Emirates Bank International Ltd., sold its 50% holding to National Bank Ltd., Bangladesh.

So, the current configuration is given as follows:

National Bank Ltd., Bangladesh	50%
Nepal Industrial Development Corporation (NIDC)	10%
Rastriya Beema Sansthan	9.66%
Nepal Stock Exchange (NEPSE)	0.34%
General Public	30%

Being the largest equity holder, National Bank Ltd., Bangladesh is managing the bank in accordance with the Technical Service Agreement signed between it (NBL) and the bank in June 1955.

The bank expanded its banking services towards the different regional and parts of the country by expanding its branches.

1. Kantipath Branch
2. Tripureshwore Branch
3. New Road Branch
4. Jorpati Branch
5. Birgunj Branch
6. Alau Branch
7. Biratnagar Branch
8. Lalitpur Branch
9. Itahari Branch
10. Butwal Branch
11. Pokhara Branch
12. Bhairahawa Branch
13. Nepalgunj Branch
14. Lakeside Branch, Pokhara
15. Tribhuvan International Airport ,Exchange Counter, Kathmandu
16. Dharan Branch,
17. Bhalwadi Branch
18. Maharajgunj Branch
19. Birtamod Branch
20. Damak Branch
21. Hetauda Branch
22. Narayangadh Branch
23. Baglung Branch
24. Tulsipur Branch
25. Ghorahi Branch
26. Dhangadhi Branch
27. Mahendranagar Branch
28. New Baneshwor Branch
29. Halchowk Branch
30. Thamel Branch
31. Kaushaltar Branch
32. Chabhil Branch

33. Maitidevi Branch
34. Satdobato Branch
35. Balaju Branch
36. Kuleshwor Branch

Besides banking, the other facilities provided are:

- Credit cards
- International trade and bank guarantee
- Tele banking
- Society for worldwide inter bank financial telecommunications(SWIFT)
- Safe deposit locker
- Western union money transfer
- ATM(Automated Teller Machine)

1.10.2 Bank Of Kathmandu Ltd. (BOK):

Bank of Kathmandu was established in 1994 with a joint venture with Siam Commercial Bank of Thailand. Its initial authorized capital was 240 million. In which 120 million was issued capital and 60 million was paid up capital.

After 12 years the bank has 1billion authorized capital, in which 500 million is issued capital and 463.58 is paid up capital. At present its share subscription is as follows:

Share promoters	42%
General public	58%

The services provided by the bank in the Nepalese society are appreciable. There work is precise in the development of the Nepalese people. The bank has developed a different depository scheme to attract people. Now the bank uses the FINACLE software used by the top most banks of different countries.

The bank expanded its banking services towards the different regional and parts of the country by expanding its branches.

1. New Road Branch

2. Kamal Pokhari Branch
3. Thamel Branch
4. Butwal Branch
5. Hetauda Branch
6. Nepalgunj Branch
7. Dhangadhi Branch
8. Pokhara Branch
9. Biratnagar Branch
10. Birgunj Branch
11. Amlekhgunj Branch
12. Itahari Branch
13. Janakpur Branch
14. Kohalpur Branch
15. Gongabu Branch
16. Tatopani Branch
17. Jawalakhel Branch
18. Surkhet Branch
19. Tulsipur Branch
20. Ghorahi Branch
21. Jumla Branch
22. Attariya Branch
23. Balaju Branch
24. New Baneshwor Branch
25. Gyaneshwor Branch
26. Tripureshwor Branch
27. Bhaktapur Branch
28. Guleriya Branch
29. Urlabari Branch
30. Chabahil Branch
31. Tikapur Branch
32. Dadeldhura Branch

Besides banking, the other facilities provided are:

- Debit cards
- ATM (Automated Teller Machine)
- Scholarship programs for under privilege and poor students
- Felicitating the old citizen of the society
- Awareness programmers

1.11 Statement of the Problem:

Commercial banks are financial institution and they are the backbone of the Nepalese economy at present. The establishment of the joint venture banks in this sector has added more bricks in the construction of Nepalese economy. The establishment of the joint venture banks became possible only after the introduction of the 'Financial Sector Reforms' by the government in 1980. In the year 1987-88 the government adopted liberalization in interest rate structure directing only for interest spread. This leads increment in commercial bank and financial institution.

NABIL and Bank of Kathmandu are the pioneer joint venture banks in Nepal, has contributed much in the development of Nepalese economy. The major operation of these banks are accepting deposits, advancing loans and making investment in various sectors with agency services.

Beside its function it is also needed to analyze its investment and study its lending and investment process for the better decision in future.

In the present context there is some political problems and instability in the country. However, the banks are attracting their customers by means of different depository schemes. The research work is carried out to find the problems and opportunities in the investment sectors - How and where they are investing the collected money? Considering this, the study has tried to answer the following research questions:

- Is there any procedure to analyze the investment opportunities before investing by these banks?
- Do these banks examine risk and return before investing?
- Among these banks which has the largest degree of financial risk measured in term of portfolio risk?
- How is the investment portfolio structure of these banks?
- How is the portfolio return of these banks?

- How is the portfolio risk of these banks?
- At, what extend these banks are able to mobilize their resources?
- Is its investment portfolio directed towards objective of profit maximization?

10.12 Objectives of the Study:

The general objective of the study is to identify the current situation of investment portfolio of selected banks. The specific objectives are as follows:

- To analyze the risk and return of selected banks.
- To evaluate the financial performance.
- To provide suggestion based on the analysis of data.
- To study existing investment policies of these banks.
- To study and compare investment portfolio of Bank of Kathmandu and Nabil Bank.
- To study the preferences given by Bank of Kathmandu and Nabil Bank for investment between:
  - ❖ Loan investment
  - ❖ Investment in real fixed assets or in financial assets

1.13 Focus of the Study:

In this study, the main focus is given towards the investment structure, investment decision process of NABIL Bank Ltd. and Bank of Kathmandu Ltd.

Decision science says that developing more alternative, analyzing each of the alternatives, considering various aspects around the alternatives and selecting the best alternatives is the good decision making process.

In this research work the comparative analysis of investment process of NABIL Bank and Bank of Kathmandu is studied. The existing investment situation of these banks and their investment strategy in future will be carefully observed. Whether investment process has been done according to decision science or not, has been studied carefully.

Using financial as well as statistical tools to know whether its investment decision is guided by risk and return analysis will be tested. Using past data and information will test its risk and return. The risk and return will be compared with market risk and market return and finally other joint venture banks will taken as sample for comparative analysis.

To make this research work more precise and clear some focuses has been made on the related subject matter, they are as follows:

- Existing situation of portfolio management of selected banks.
- Investment to total deposit ratio analysis.
- Comparing the profitability situation of selected banks.
- Loans and advances portfolio analysis of selected banks.
- Risk and return analysis of selected banks.
- Comparative analysis of financial situation.

1.14. Limitation of the Study:

The research will deal with investment analysis but, due to the time constraints, financial constraints and others, the study is bound for limited area.

Being a small research work, the work can't cover all the concerned areas. Mostly the secondary data will be used. The Nepalese economy is not mature, as the investment environment is irrational, the portfolio construction and market statistics may lead to false decision.

Also, small sample size will be used.

1.15 Importance of the Study:

- Help to the sampled organizations or the social unit.
- The library assets for common use.
- Help to new researchers.
- Completing the master level

Chapter: 2

2.1. Review of the Literature

Review of literature comprises of previous research study articles concerned with the study and other studies with a view for supplement the present research and such review adds to the dimensions of the study. In this chapter the focus has been made on the review of literature relevant to the investment policy of commercial banks. Every study is much based on past knowledge, which provides foundation to the present study. Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection center and concerned commercial banks. This chapter helps to take adequate feed back to broadest information based and inputs to my study; therefore this chapter has its important in this study. Conceptual frameworks given by authors, research scholars, practitioners etc, in this chapter are reviewed from the books, research paper, annual reports and articles etc. This chapter is divided into different parts, which are arranged into the following order:

1. Conceptual framework
2. Review of Books
3. Review of Articles
4. Review of Thesis
5. Review of Research Paper

2.2 Conceptual Framework

The commercial banks are established under the commercial act. 2031. **According to Commercial Bank Act**. , 2031, "Commercial Bank" means a bank which operates currency exchange transactions, accept deposits, providing loan and performs dealing relating to commerce and other than those banks which have been specified for the co-operative, agriculture, industry of likely any other specific objective".

Banks plays an important role in the economic growth of a country. Banking, when properly organized, aids and facilities the growth of trade and industry and hence of national economy.

In modern economy, banks are to be considered not only as dealers but as the leaders of development. Banks are not only the storehouses of the country's wealth but also the reservoirs of resources necessary for economic development.

According to Dr. Herbert L. Hart, "A bank is one who in the ordinary course of business honors cheque drawn up on him by persons from and for whom it receives."

"Commercial banks deal with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demands of their customers. In this anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must be made to understand that the bank is fully solvent. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and the bankers cannot afford to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore the bankers have to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity". The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. So, a commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn maximum profit as well as it could be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed about investment, safety and security, profitability, liquidity, purpose, etc. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

2.3 Review of books

Banks are such types of institutions, which deals in money and substitute for money. So it may be said that a bank must strike a balance between liquidity, profitability and safety. "The secret of successful banking is to distribute resources between the various forms of assets in such a way as to get a sound balance between liquidity and profitability so that there is cash (on hand quickly realizable) to meet every claim and at the same time, enough income for the bank to pay its way and earn profits for its' shareholders".

In the word of **V.K Balla and S.K Tutesa**, "Investment Management" 1984, defined there are basically three concept of investment.

1. Economic investment - that is economist's definition of investment.
2. Investment in a more general or extended sense, which is used by "the man on the street"
3. The sense in which we are going to be very much interested namely financial investment".

Jereme B. Chone Edward, D. Zinbarg an Arthur Zeiped, 1997,"Investment Analysis and Portfolio Management” defined the word investment." Investment has many factors. It may involve putting money in to bond, treasury bills or notes or common stock, or paintings of real estate, or mortgages or oil ventures, or cattle or the theater. It may involve options, straddles, tights, warrants, convertibles, margin, gold-silver, mutual funds, money market funds, index funds and result in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the able or lucky, the rewards may be substantial. For the uniformed results can be disastrous."

In the words of **Gitman and Jochnk,** 1990, "Fundamental of Investing", "Investment is an vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns".

According to William J. Sharpe and Alexander J. Gorden 1999,"Investments", " 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.

Charles P. Jones, 1988, **"**Investment Analysis & Management" , 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 income,"

V.K Bhalla, 1983,"Investment Management" has defined "Financial investment is a form of this general or extended sense of the term. It means an exchange of financial claims, stocks and bonds (collectively termed securities), real estate mortgages etc. Investors to differentiate between the pseudo- investment concept of the consumer and the real investment of the investment of the businessman often use the term "financial investment". Semantics aside, there is still a difference between 'investment' in a ticket on a horse and the construction of a new plant, between the pawning of watch and planting of a field of corn. The later are 'Real' investment. The former is 'Financial' investment. We now turn to a closer examination, of finance and investment decisions themselves.

According to Dr. Sunity Shrestha, 1995, in her book "Portfolio behavior of Commercial Banks in Nepal", "Portfolio behavior of commercial banks of Nepal" said, "The commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial banks is based on the profit maximizing of the institution as well as the economic enhancement of country".

2.4 Review of Articles

In this section, effort has been made to examine and review of some related articles in different economic journals, magazines, newspapers and other related books.

Dr. Sunity Shrestha in her article, 2055, "lending operation of commercial banks of Nepal and its impact on GDP" has presented with the objective to make an analysis of contribution of commercial banks lending 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 and general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

F. Monies, in his discussion paper," Latin America's Banking system in the 1980s" has concluded that most of the banks concentrated on compliance with central banks rules on reserve requirements, credit allocation and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been over looked. The huge losses now find in the bank's portfolio in many developing countries and testimony to the poor quality of this oversight investment function.

He further adds that management in financial institutions has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk diversification of lending and investment, high risk concentration, connected and insider lending loan mismatching. This has led many banks of developing countries to the failure in 1180's.

The multiple analyses 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 lending of commercial banks in various sectors of economy, except service sector investment.

In the same way, **Mr. Dev Lai Kishi**, 1996, in his article, "The changing face of the banking sector and the HMG/N recent budgetary policy, concludes that following an introduction of the reform in the banking sectors as an integrate part of the liberal economic policy, more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily, the two governments controlled banks.

Nepal Bank Ltd. and Rastriya Banijya Bank have also shown an improvement of non-performing loans and social justice bringing a significant benefit to the poor are yet to be achieved as envisaged by the HMG/N.

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 sustained revitalization the sources. How much they have gained over the years depends chiefly on how far they have been abie 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." Thus in his paper he has emphasized on proper utilization of mobilized resources and profitability increment.

Besides this, **Mr. Bodhi B. Bajracharya**, 2047, in his article, "Monetary policy and Deposit mobilization in Nepal" has concluded that mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial banks and the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

Another article outlined, "The role of the commercial banks in Nepalese context" of Mr. Gilles Sera, concluded that the five commercial banks were improving their services, due to the pressure of competition for the public benefits.

2.5 Review of Thesis

Prior to this thesis, the students have conducted several thesis works. They have prepared various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization and capital structure etc. Some of them as supposed to be relevant for the study are presented below:

Mr.N.M. Pradhan, 1980,in his thesis, "A study on investment of Nepal Bank Ltd." has emphasized that there is a greater relationship between deposits and loans & advances. He concluded that though loan and advances as well as deposits are in increasing trend. Their increase is not in appropriate manner. Immense increase in deposits had led to little increase in loan and advances due to the increase in the interest rates. His recommendation was to grant loans and advances without its lengthy process. He has suggested enhancing banking transaction up to rural sector of the kingdom.

Mr. Keshav Raj joshi, 1989, in his thesis paper entitled, "A study on financial performance of commercial Banks" concluded that the liquidity position of commercial bank is satisfactory. Local commercial banks have been found relatively highly leveraged compared to the joint venture banks. Loans & Advances have been their main form of the investments. Two third of assets has been used for earning purpose. Profitability position of NABIL is stronger than other.

Mr. Bishnu Prasad Kishi in his thesis, "A comparative study on the Financial Performance of Nepal Indosuez Bank Ltd. (NIBL) and Nepal Grindlays Bank Ltd. (NGBL)" has mainly found that NGBL's loan and advances to total deposits ratios are significantly lower than that of NIBL. NGBL is recommended to follow liberal lending policy to invest more proportion of deposits in loan and advances. He has further stated that both the bank should not highly prefer the government securities to invest their fund because of low interest rate on such securities but they are recommended to boost up their campaign of deposit mobilizatio9n and credit disbursement in rural areas preferring priority sector, too.

Mrs. Ramala Bhattarai ,1978, in her thesis paper outlined, " Lending policy of Commercial Banks in Nepal" has tried to examine the lending policy of the commercial banks. The researcher's main objective of the study was to examine whether he commercial banks are utilization of resources is more important that the collection of the same. Lower investment means lower capital formation that hampers economic development of the people and the country. So, she recommended that banks should give emphasis on efficient utilization of resources."

Mr. Prem Bahadur Shahi ,1999, in his thesis entitled to; "Investment Policy of Commercial Bank in Nepal", concluded that, "Commercial banks are the prime mover of the economic development of the nation". Mr. Shahi has studied the investment policy of Nepal bank Limited in comparison to other Joint ventures Banks of Nepal. He recommend to the Nepal Bank Limited to have control over its cost of funding. NBL is weaker in collecting cheaper funds i.e. current and saving deposit and also pays higher interest on deposit than that of the Joint venture banks. Higher administrative expenses due to over staffing, loan loss provision, less productivity of the management and poor quality of loans led to the low profitability of the bank. He further recommended to the NBL to study effective cost of funding for its credit and investment policies.

Mr.Jit Bahadur Joshi, 1982,in his thesis paper outlined, "Lending policy of commercial banks in Nepal" concluded that commercial banks have collected much resource from people but they are far behind in their utilization. Commercial banks in Nepal are still lazy to play an active role to utilize their resources collected from different sector in accordance with the need of the economy.

Another thesis performed by **Mr. Shanker kumar Singh**, 1997, entitled, "A comparative evaluation of financial performance of Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd ", reveals that the liquidity position in terms of current ratio of both the banks is below the normal standards. The researcher's main objective was to analysis the income and expenditure of both banks. Its objective was also to analyze how these banks use their sources. According to the analysis of turnover or activity ratios, NABIL invests 57% of the deposits whereas NGBL invests 41% on the loans and advances. In this portfolio, NABIL is performing better and has better liquidity position. Profitability ratios of both the banks reveal positive reform during the study period but the progress is higher in NGBL whereas NABIL seems more efficient in utilizing its capital employed in generating interest income. As NABIL has acquired more funds, it has also raised more capital by issuing shares, bonus shares and retained earnings".

Bhoj Raj Bohara's thesis, 1992, "A comparative study of the financial performance of Nepal Arab Bank Ltd. and Nepal Indosuez Bank Ltd.,",main objective was to highlight of the functions and policies of joint venture banks. The researcher had found the average current ratio: loan and advances to current ratio are higher than NABIL. Although the current assets of these banks are adequate to discharge current liabilities, almost all profitability ratios of NABIL are better than NIBL. Thus, NIBL is adopting more aggressive lending, investment and borrowing policy to generate profit than NABIL. Higher EPS of NABIL than NIBL shows the effective use of NABIL's owners' equity than NIBL. However, the faster increasing EPS of NIBL indicates the bank's better performance in the following years. Dividends creates positive attitude of the shareholders towards the enterprise, which consequently helps to increase the market value of the shares and in thesis, cash dividend per share of NIBL is higher than NABIL".

Ram Chandra Bhattarai, 2001, in his thesis, "A study on financial Analysis of Himalayan bank Ltd. and Nepal SBI Bank Ltd." has found that debt equity position of NSBL was less leveraged which implies that NSBL had lesser proportion of outsiders claim in the capital structure as suggested by the mean value and the significance test of difference in the average.

Miss Kamala Ojha, 1997, has drawn her conclusion in her thesis," A study on priority sector investment in commercial bank (with special reference to Rastriya Banijya Bank}" that the bank was unable to meet the requirement of 12% lending in the priority sector as set under NRB directives. During her study period, she further found low interest rate in priority sector but increasing trend of overdue and its misutilization. She has recommended improving supervision, evaluating borrower's paying capacity and reducing the overdue through integrated program of priority sector loan.

In the same way, **Mr. N. Karmacharya**, 1980,in his thesis paper," A study on the deposit mobilization by the Nepal Bank Ltd." has concluded to the utilization side of Nepal Bank Ltd. is weak as compared to the collection of resources. He has mentioned that the bank has successfully maintained its liquid assets position but couldn't mobilize its resources efficiently. He has suggested to set up more banking branches to increase the deposit collection and long term as well as short-term credit. He has recommended not to consider security factor only but to provide loan to genuine projects without security.

2.6 Review of Research Paper

There is not much research paper of articles published about investment management in Nepal. **Dr. 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 (Loan and Advances) of commercial banks has been influenced by the variable securities rates. Investment Planning of commercial banks 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 term of profitability. To overcome this problem, she has suggested, "Commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with the proper analyze of the projects.

Dr. Radhe S. Pradhan, 1992, on his research, "Financial Management and Practices in Nepal" in has studied about the major features of financial management practices of 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 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 study connected with financial management are given as:

- Banks and retained earnings are the two most widely used financing sources.
- The enterprises have a definite performance for bank loans at a lower level of debt.
- Generally, there is no definite time to borrow the issues stocks, i.e. majority of respondents are unable to predict when the stock will go down or up.
- Most enterprises do not borrow from one bank only and they do switch between banks whichever offer interest rates.

Most enterprises find that banks are flexible in interest rates and convenience.

To sum up it can be said that out of numerous studies on the capital market of Nepal. This study is established itself as a milestone and an outstanding one.

Mr. Shiva Raj Shrestha, 2055,Deputy chief officer of Nepal Rastra Bank, banking operation Department has given a short glimpse on the "Portfolio management in Commercial Bank, theory and practice".

Mr. Shrestha has highlighted following issue in the article. The portfolio management is a most important thing for both individuals and as well as institutional' investors. All the investors would like to select a best mix of investment assets subjected to following aspects.

1. Higher return then other alternative opportunities, which is available according to the same risk class to the investor.
2. High liquidity with adequate safety and profitability of investment.
3. Maximum concession of tax.
4. Certain capital gain.
5. Flexibility of investment.
6. Economic, efficient and effective investment mix etc.

According to above aspects, some following strategies are adopted:

1. Do not put all the eggs in the same basket i.e. to have a diversified investment.
2. Do not hold any single security i.e. try to have a portfolio of different securities.
3. Choose such a portfolio of securities, which ensures maximum return with minimum risk of lower of return with added objective of wealth maximization.

However Mr. Shrestha has also presented following approach to be adopted for designing a good portfolio and its management.

- To find out the assets to investment (generally known as securities) having scope for better returns depending upon individuals characteristics like age, health, need deposition, liquidity, tax liability etc.
- To develop alternative investment strategies for selecting a better portfolio, which will ensure a trade-off between risk a return so as to attach the primary objective of wealth maximization at lower risk.
- To find out the risk of the securities depending upon attitude of investor towards risk.
- To identify securities for investment to refuse volatility of return and risk**.**

Mr. Shrestha has also presented two types of investment analysis techniques i.e. fundamental analysis and technical analysis to consider any securities such as equity debenture and bonds and other money and capital market instruments. He has suggested that the banks having international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system in any commercial banks to get success in portfolio management and customer's confidence. At last, Mr. Shrestha has put out following concluding remarks:

1. The survival of every bank depends upon it own financial health and various activities.
2. In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio of a portfolio manager should reflect high standards and gives their clients the benefits of global strength, local insights and prudent philosophy.
3. With the disciplined and systematic approval to the selection of appropriate countries, financial assets and the management of various risk, the portfolio

manager could enhance the opportunity for each investor (client) to earn superior returns overtime.

4. The Nepalese banks having greater network and access to national and international capital market have to go for portfolio management activities for the increment of their fee based income as well as to enrich the client based and to contribute in national economy.

Dr. Govinda Bahadur Thapa, 1994, has expressed his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credits particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are operating with nominal profit, the later turning towards negative from time to time. Because of non-recovery of occurred interest, the margin between interest income and interest expenses is declining. Because of these two local banks, in traditional off-balance sheet operations, these banks have not been able to increase the income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due accumulated overdue and defaulting loans, profit positions of these banks have been seriously affected.

On the other hand, the foreign joint venture banks have been functioning in an extremely efficiently way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margin between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet operations and efficient personnel management has added to the maximization of their profits.

At the end of his paper, he concludes that by its very nature of the public sector, the domestic banks couldn't compete with the private sector banks. So, only remedy to the problems of these banks, as the government decided, is to handover the ownership as well as the management of these banks to the private hand.

Chapter: 3

Research Methodology

Research methodology is the process of arriving at the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. Research is a systematic method of finding right solutions for the problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. In other words research methodology refers to the various methods of practices applied by the researcher in the entire aspects of the study.

The basic objective of the study is to evaluate the investment portfolio of BOK and Nabil bank whether their investment performance is good, bad, or worse. The study will be successful in finding out the position of these sampled banks. The study will be able to make some useful and meaningful recommendation to the concern banks as well as the to others who find it reliable.

In order to accomplish this study, both the primary and secondary data will be used. The data will be analyzed by using various financial and statistical tools useful to study. For this purpose the financial data of the last five years from the fiscal year 2004/05 to 2008/09 have been examined to their financial performance study. For this purpose, the following research methods have been adopted.

3.1 Research Design:

The study will be mainly based on two types of research design i.e. descriptive and analytical. Descriptive research design describes the general pattern of the Nepalese investors, business structure, problem of portfolio management, etc. The analytical research design makes analysis of the gathered facts and information and makes a critical evaluation of it. “A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.”

3.2 Population and Sample:

There are many commercial and joint venture banks are operating in the country. The number is increasing by day. So, among them as a sample two major banks has been taken in consideration. Bank of Kathmandu and Nabil Bank Ltd. are the sample banks.

3.3 Sources of Data:

The research study is mainly based on secondary data. However, to certain extent, primary data will also be used. The required data for the study will be collected from the concern publication from different publishers. The secondary data will be gathered from various sources such as books, journals, articles, reports, thesis, dissertations, and etc. Web sites and the data from the Internet will also be used as study materials. So, the major sources and types of data in published form will be as below:

- **Annual reports of Bank of Kathmandu Ltd.(2004-2009)**
- **Annual reports of Nabil Bank Ltd.(2004-2009)**
- **Economic survey (2004-2009) published by NRB.**
- Name of some web-sites as:
  - www.nepalstock.com
  - www.nrb.org.np.com
  - www.nepalnews.com
- Banking and Financial statistics published by NRB.
- Bulletins & reports periodically published by various organizations.

3.4 Data Collection Techniques:

Among the different techniques, following methods will be used for the data collection.

3.4.1 Observation

During the fieldwork, all the research will be held with the different investors observing their portfolio structure, business styles, different tools, etc.

3.4.2 Group Discussion

Group discussion will be organized involving the group of respondents. During the study period, more than three group discussions will be held in different investors. Each group involved will be knowledgeable, young and old investors.

3.5 Modes of Data Analysis:

The data collected during fieldwork will be thoroughly analyzed. After completion of fieldwork, the collected data will be categories as per their nature. The category of data is descriptive cum analytical.

3.6 Data Analysis Tools:

Financial as well as the statistical tools will be used to make the analysis more convenience, reliable and authentic, too.

3.6.1 Financial Tools:

Ratio Analysis:

An arithmetic relation between two figures is ratio. In other words the relationship between two accounting figures expressed in mathematical term is known as financial ratio. "Ratio analysis is used to compare a firm's financial performance and status that of other firm's or to itself overtime." From the help of ratio analysis, the qualitative judgment can be yearly and timely done regarding financial performance of a firm. Ratio is always computed by dividing one item of relationship with the other. In other words ratio simply means one number expressed in terms of another.

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 figures of different accounts included in the balance sheet and income statement is known as ratio analysis. It is very helpful for decision making. It is on the basis of information provided by the ratio analysis with the help of financial statement helps in decision making on any financial activity.

Ratio analysis serves as a stepping-stone for an inter-firm comparison to take remedial measures. It helps management in evolving future "Market Strategies".

In this context, the following ratios are calculated and then analyzed as per the need.

Liquidity Ratio:

Liquidity can be defined as the firm's ability to repay the bills and meet the urgent need of money. Thus it is measured by the speed with which a bank's assets can be converted into cash to meet deposits withdrawals and current obligations.

The following ratios are calculated under liquidity ratio.

a) Current Ratio:

This shows the relationship between current assets and current liabilities.

Current assets includes: cash, debtors, bank balance, money at call, short notice, loans and advances, investments and other miscellaneous current assets.

Current Liabilities: short term loans, bills payable, tax provision, staff bonus, dividend payables and other miscellaneous current liabilities.

Current ratio is calculated as:

The optimal standard of CR is 2:1. However an accurate standard depends on circumstances in case of seasonal business.

b) <u>Cash and Bank Balance to Total Deposit Ratio</u>:

It is computed by dividing total cash and bank balance by total deposit of the concern. It is stated as:

Cash and Bank balance to total deposit ratio =

Cash and Bank Balance: cash in hand, foreign cash in hand, cheques and other items, balance with domestic bank and balance held aboard.

Total Deposit : Current deposit, saving deposit, fixed deposit, money at call, etc.

c) <u>Cash and Bank Balance to Current Assets Ratio :</u>

It is computed by dividing total cash and bank balance by current assets.

Cash and Bank Balance to Current Assets Ratio =

d) <u>Investment on Government Securities to Current Assets Ratio:</u>

It is computed by dividing Investment on Government Securities by Current Assets. It is expressed as:

Investment on Govt Securities to Current Assets Ratio =

Investm

Investment on government securities: Treasury bills, debenture, bonds, etc.

e) <u>Loans and Advances to Current Assets Ratio:</u>

It is computed by dividing loans and advances by current assets, and is expressed as: Loans and Advances / Current Assets

Loans and Advances to Current Assets Ratio =

<u>Assets Management Ratio (Activity Ratio):</u>

It measures how efficiently the bank manages the resources at its command. The following ratios are used under this.

i. *Loans and advances to total deposit ratio =*

ii. Total investment to total deposit ratio =

Total investment = investment on government sector, investment on debenture and bonds, shares in subsidiary co.; shares in other company and other investment.

iii. Loans and advances to total working fund ratio =

Total Working Fund: all assets of on balance sheet items. In other words, it includes CA, Net FA, Loans for development banks and other miscellaneous assets but excludes off-balance sheet items like L/C, Letter of Guarantee, etc.

Investment on government securities to total working fund ratio = Investment on Government Securities / Total Working Fund

Investment on shares and debentures to total working fund ratio = Investment on Shares and Debentures / Total Working Fund

Investment on fixed deposit to total deposit ratio = Investment on Fixed Deposit / Total Deposit

<u>Profitability Ratio:</u>

The following ratios are calculated under this,

i. Net Profit to Total Deposit Ratio =

ii. Net Profit to total investment ratio =

iii. Returns on loans and advances ratio =

iv. Returns on total working fund ratio =

Total interest earned to total outside assets ratio = Total Interest Earned / Total Outside Assets
Total interest earned to total working fund ratio = Total Interest Earned / Total Working Fund
Total interest paid to total working fund ratio = Total Interest Paid / Total Working Fund

Total Interest Paid: Total interest expenses on deposit liabilities, loans and advances (borrowings) and other deposits.

<u>Growth Ratio:</u>

It is calculated to examine and analyze the following growth ratios,

- Growth ratio to loans and advances
- Growth ratio to net profit
- Growth ratio to total deposit
- Growth ratio to total investment

3.6.2 CAPM Model

The CAPM is a relation in which the expected rate of return of the asset is a linear function of that asset's systematic risk.

The CAPM equation is written as follows:

$$(R_j) = R_F + (R_M - R_F)\ \beta_j$$

3.6.3 Statistical Tools:

Various statistical tools can be applied to analyze the study of the portfolio management of these selected banks. Under this the following statistical tools will be used:

- Coefficient of correlation analysis (r).
- Coefficient of variation (c.v.).
- Standard deviation (S. D.)

Coefficient of Correlation Analysis (r)

"Correlation is the statistical tool that we can use to describe the degree in which one variable is linearly related to another."

The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearsons method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When r = +1, it means there is perfect relationship between two variables used and vice-versa. When r=0, it means there is no relationship between two variables. The Persons formula is,

$$r_{xy} = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2 \sum (Y - \bar{Y})^2}}$$

Standard Deviation (S.D.)

The measurement of the scattered ness of the mass of figures in a series about an average is known as the dispersion. The standard deviation measures the absolute dispersion. Greater the amount of dispersion, there would be more standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite. This is calculated as follows:

Standard Deviation $S.D. = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$

Coefficient of Variations (C.V.)

"The coefficient of variance is the relative measure of dispersion, comparable across distribution which is defined as the ratio of the standard deviation to the mean expressed in percent."It is calculated as follows:

C.V. $= \frac{S.D.}{Mean} \times 100$

3.7 Limitation of the Methodology

In the Nepalese context, data gathering is taken as the major problem for the study. There is a considerable place to argue regarding its accuracy and reliability. There are many limitation, which weaken the generalization e.g. inadequate coverage of financial sector, time periods taken and other variables.

3.8 Review of Related Studies:

During the study period, more and more books, various types of journals and thesis will be studied for the knowledge. Previous research work will be the backbone of the present research work.

Chapter: 4

Presentation and Analysis of Data

In this chapter, the concern is given in the presentation and analysis part of the data in detail. Analysis of data means to study the tabulated materials in order to determine inherent facts or meanings. It involves breaking down the existing complex factors into simpler parts and putting them together in new arrangements for interpretation. A preliminary analysis process requires detailed information about similarities, differences, trends, outstanding factors etc. Data should be studied from different angles to find out new and newer facts. There are four helpful modes to start with the analysis of data.

i. To think about significant tables for which the data permit.

ii. To examine carefully the statement of the problems and earlier analysis to study the original records of the data.

iii. To get away from the data and to think about the problem in layman's terms or to discuss that problem with others.

iv. To attacks the data by making various statistical calculation.

Analysis and interpretation are the central steps in research process. The object of analysis is to summarize the collected data so as to answer the question under consideration. Interpretation is the search for the broader meaning of research findings. Interpretation makes an effort to establish continuity in work and to establishment of explanatory concepts. Analysis is not complete without interpretation and interpretation cannot proceed without analysis.

It is accepted creed that statistical data and information may be interpreted in various forms depending on the size and nature of data and the needs of its interpretation. Some of the common and widely accepted forms of Interpretation may be described as:

- Relationship
- Proportion
- Percentages
- Averages or other measures of comparison.

4.1 Analysis of Ratios:

An arithmetic relation between two figures is ratio. In other words the relationship between two accounting figures expressed in mathematical term is known as financial ratio. Ratio is always computed by dividing one item of relationship with the other. In other words ratio simply means one number expressed in terms of another.

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 figures of different accounts included in the balance sheet and income statement is known as ratio analysis. It is very helpful for decision making. It is on the basis of information provided by the ratio analysis with the help of financial statement helps in decision making on any financial activity.

In this chapter, only important financial ratios are analyzed to compare the financial performance of Bank of Kathmandu and Nabil bank. On that basis the conclusion and recommendation will be drawn.

4.2 Return on Shareholders Equity Ratio (ROSE):

This ratio is calculated by dividing net profit available to equity shareholders by the total shareholders fund.

This ratio measures the capability of the banks to use their owner's fund. It reflects whether the firm has earned a satisfactory return for its equity holders or not. it is calculated as:

Return on Shareholders Equity Ratio (ROSE) **=**

Table no: 1

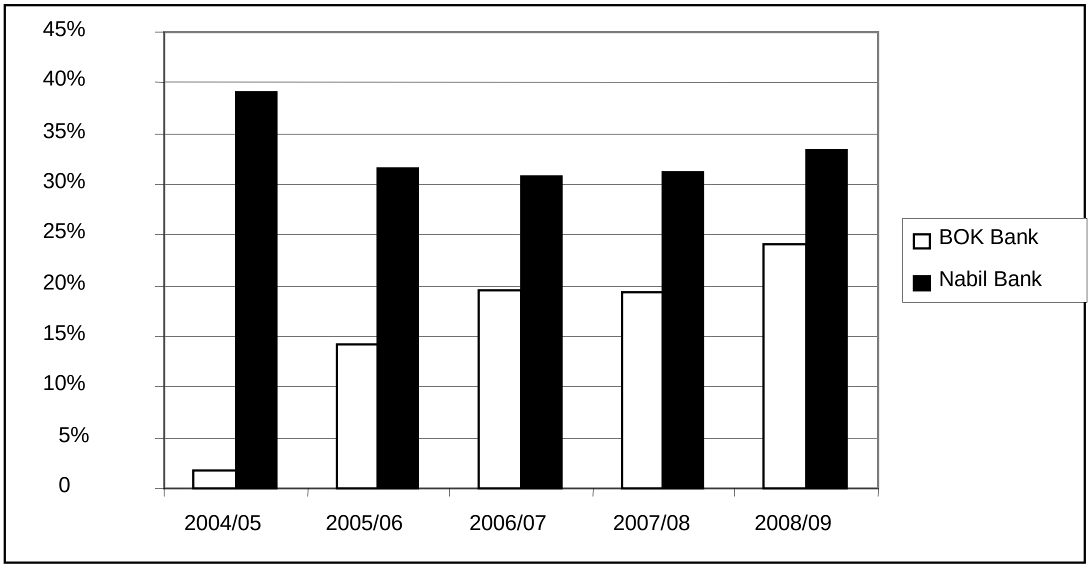
Return on shareholders fund ratio **(in percentage)**

Fiscal year	**BOK Bank**	**Nabil Bank**
2004/05	1.78%	39.08%
2005/06	14.18%	31.60%
2006/07	19.60%	30.76%
2007/08	19.35%	31.28%
2008/09	24.10%	33.31%

Mean	**19.30**	**33.31**
S.D.	**3.50**	**3.07**
C.V.	**18.19%**	**9.27%**

Sources: Annual report of BOK and Nabil (2004/05 -2008/09)

Bar Diagram of Return on shareholders fund ratio



From the above comparative table no. 1, it shows that BOK has 1.78% and Nabil has 39.08% of return on shareholders equity in the year 2004/05. Since the ROSE in 2004/05 of BOK is very low compare to next consecutive years. So it does not give the clear picture about mean, S.D. and C.V., that is why the data has been out lier and only four years data has been taken to calculate mean, S.D. and C.V. In 2005/06 BOK has 14.18% and Nabil has 31.06%. In 2006/07 BOK has 19.60% and Nabil has 30.76%. In 2007/08 BOK has 19.35% and Nabil has 31.28%. In 2008/09 BOK has 24.10% and Nabil has 33.31%. The mean values are 19.30 and 33.31 of BOK and Nabil respectively. Nabil has higher mean return on shareholder equity. Whereas, BOK has 3.51 and Nabil has 3.07 S.D. which means BOK has higher degree of dispersion from mean. Likewise, BOK has 18.19% and Nabil has 9.27% of coefficient of variance. It indicates that Nabil has more uniform and consistence data than BOK.

By examining all the table values, it indicates that Nabil is in the better position on the return on shareholders equity than BOK. But BOK is also improving or increasing its ROSE as it was 1.78% in 2004/05 and in 2008/09 it increased to 24.10%. This implies that BOK too is improving its financial status in banking business.

4.3 Return on Total Assets Ratio (ROTA):

This ratio is calculated by dividing net profit by the total assets of the firm. Thus, it measures the profitability with respect to the total assets. Thus, it seems to be vital for measuring the financial performance of the firm. The higher ratio of the firm indicates the efficiency of the bank in using its resources. It is calculated as,

Return on Total Assets Ratio (ROTA) =

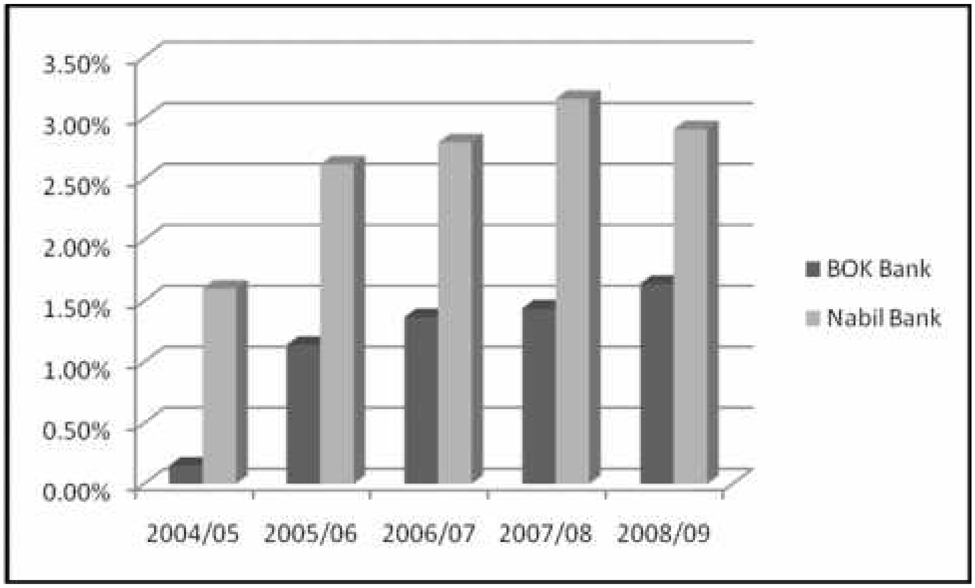
Table no: 2

Return on total assets ratio **(in percentage)**

Fiscal year	BOK Bank	Nabil Bank
2004/05	0.15%	1.6%
2005/06	1.14%	2.62%
2006/07	1.37%	2.80%
2007/08	1.44%	3.16%
2008/09	1.64%	2.91%
Mean	**1.15**	**2.61**
S.D.	**0.54**	**0.54**
C.V.	**46.79%**	**20.55%**

Sources: Annual report of BOK and Nabil (2004/05 -2008/09)

Bar Diagram of Return on total assets ratio



The comparative table no.2 shows that BOK has 0.15% and Nabil has 1.60% of return on total assets in the year 2004/05. In the same way BOK has 1.14% and Nabil has 2.62% in 2005/06. In 2006/07, BOK has 1.37% and Nabil has 2.80%.In 2007/08 BOK has 1.44% and Nabil has 3.16%. In 2008/09 BOK has 1.64% and Nabil has 2.91%. BOK has the increasing values where as Nabil has increasing values from 2004/05 to 2007/08, but in the fiscal year 2008/09 it decreased to 2.91% from 3.16%. The mean return on total assets of BOK is 1.15 and Nabil is 2.61. Nabil has higher mean than BOK. Whereas, S.D. of both the banks is 0.54, which means that there is same degree of dispersion from mean value. But BOK has 46.79% and Nabil has 20.55% of coefficient of variance. This indicates that Nabil has higher uniformity and consistency in the return on total assets than BOK.

By studying the values of ROTA it concludes that Nabil is in better situation than BOK because of higher and uniform values. Whereas, the BOK has satisfactory values which indicates that there is consistent increase in the ROTA throughout the review period. This means BOK and Nabil are efficiently utilizing there resources.

BOK has to increase its ROTA for enhance position in banking business and Nabil also has to execute identical performance to stand ahead in the competition. Since ROTA is a vital tools for measuring the financial performance of the firm this helps the concern bank to improve or enhance its resources in coming days.

4.4 Total Investment to Total Deposit Ratio (TITD):

This ratio is calculated by dividing total investment by total deposit of the bank. The calculated result of this ratio measures the magnitude to which the bank is successful in mobilizing total deposit or not. It is computed as:

Total Investment to Total Deposit Ratio (TITD) =

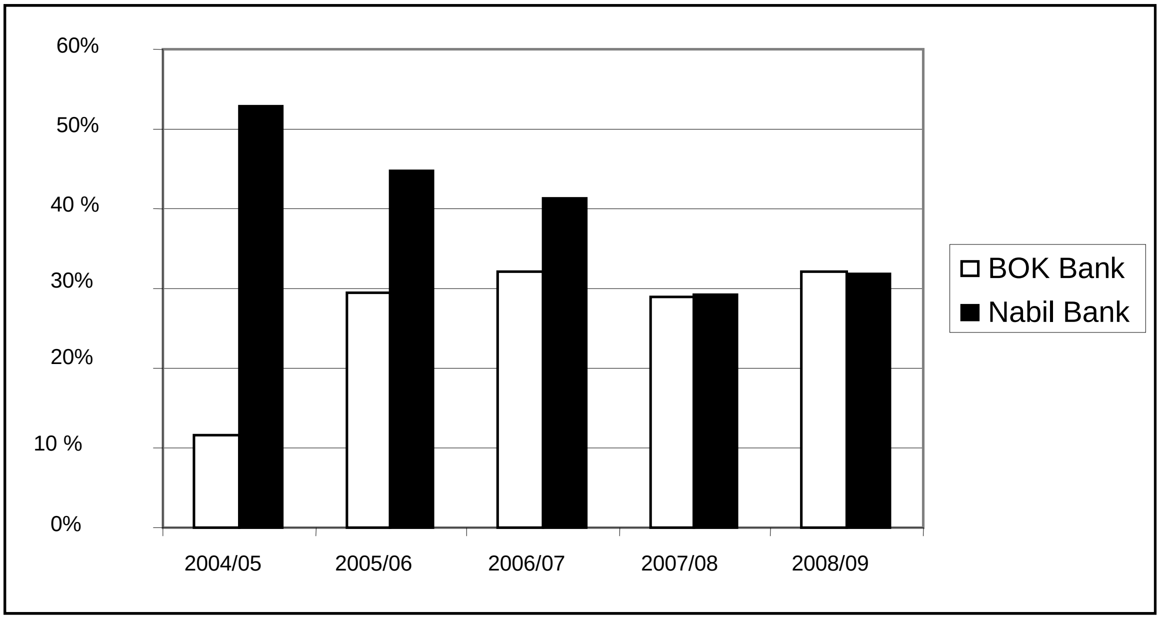
Table no: 3

Total investment to total deposit ratio (in percentage)

Fiscal year	**BOK Bank**	**Nabil Bank**
2004/05	11.66%	52.87%
2005/06	29.43%	44.84%
2006/07	32%	41.33%
2007/08	29.05%	29.25%
2008/09	32.18%	31.94%
Mean	**26.86**	**40.04**
S.D.	**7.70**	**8.61**
C.V.	**28.69%**	**21.52%**

Sources: Annual report of BOK and Nabil (2004/05 -2008/09)

Bar Diagram of Total investment to total deposit ratio



The comparative table no.3 shows the ratios of total investment to total deposit of BOK and Nabil. In the fiscal year 2004/05 ratio is 11.66% and 52.87% of BOK and Nabil respectively. Likewise, In 2005/06 BOK has 29.43% and Nabil has 44.84%. In 2006/07 BOK has 32% and Nabil has 41.33%. In 2007/08 BOK has 29.05% and Nabil has 29.25%. In 2008/09 BOK has 32.18% and Nabil has 31.94%. By studying these statistics BOK's Total Investment to Total Deposit Ratio increases up to 2006/07 but decreases by almost 3% in 2007/08 and again in 2008/09 it increases by 3%. On the other side TITD of Nabil Bank decreases from 2004/05 to 2007/08 (52.87% - 29.25%).In 2008/09 it increased by 2%.

Nabil has greater mean value than BOK i.e.(40.04>26.86). But Nabil has S.D. of 8.61 and BOK has 7.70, which means that Nabil has higher degree of dispersion from mean than BOK. In case of, C.V. Nabil has 21.52% and BOK has 28.69%, this indicates that Nabil has more uniform or less variable in investment decision.

In TITD also Nabil is in better position. But BOK is maintaining its position gradually. BOK has given tough competition in the field of investment to Nabil bank. As the difference in investment ratio of Nabil and BOK is 0.20% in 2007/08 but the difference is -0.24%, which means BOK has increase its investment by 0.24% in 2008/09. It seems that BOK has successfully utilized its deposit money but Nabil has gradually decreasing its deposit money in total investment. One of the vital reasons might be the terrible political circumstances going in the country. Due to this reason Nabil might have made such decision.

4.5 Loans and Advances to Total Deposit Ratio:

Loans and advances to total deposit ratio is calculated by dividing loans and advances by total deposit. This ratio explains as to what extent the banks are able to mobilize their depositor's fund to earn profit by providing the funds to outsiders in the form of loans and advances. Thus the high ratio represents the greater efficiency of the firm in utilizing funds or proper utilization of funds and vice – versa. It is computed as:

Loans and Advances to Total Deposit Ratio =

The following table shows the ratios of Loans and Advances to Total Deposit of BOK and Nabil banks.

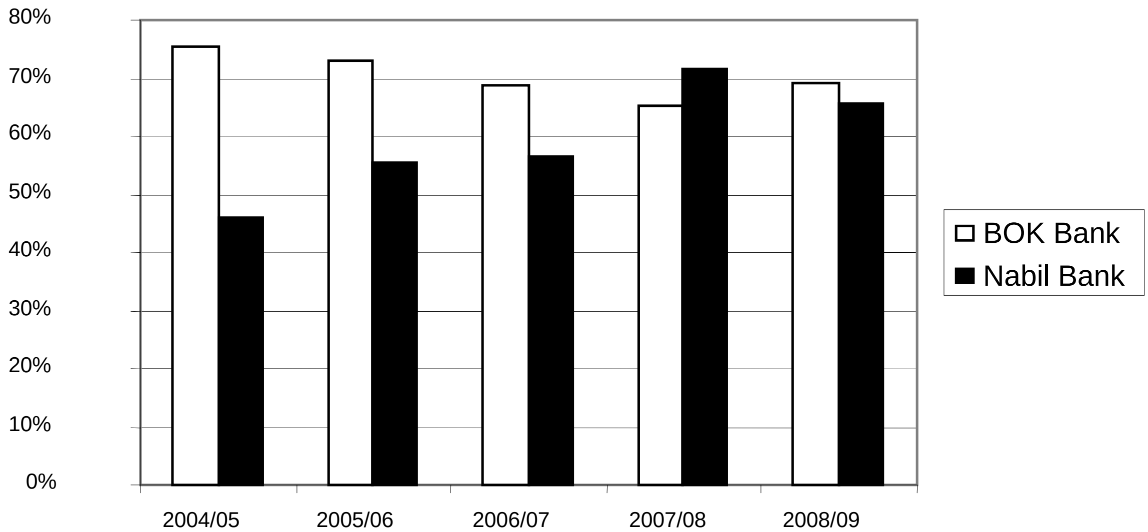
Table no: 4

Loans & Advances to total deposit ratio (in percentage)

Fiscal year	**BOK Bank**	**Nabil Bank**
2004/05	75.56%	46.01%
2005/06	72.83%	55.43%
2006/07	68.94%	56.33%
2007/08	65.20%	71.74%
2008/09	69.04%	65.54%
Mean	**70.31**	**59.01**
S.D.	**3.56**	**6.99**
C.V.	**5.06%**	**11.84%**

Sources: Annual report of BOK and Nabil (2004/05 -2008/09)

Bar Diagram of Loans &Advances to total deposit ratio



From the above comparative table no. 4, it is found that BOK and Nabil bank have 75.56% and 46.01%of Loans and advances to total deposit ratio in the fiscal year 2004/05 respectively. Such as in the fiscal year 2005/06 BOK has 72.83% and Nabil has 55.43%. In 2006/07 it is 68.94% and Nabil has 56.33%. In 2007/08 BOK has 65.20% and Nabil has 71.74%. In 2008/09 BOK has 69.04% and Nabil has 65.54%.

The ratio of BOK shows the decreasing ratio from 2004/05 to 2007/08 but in 2008/09 it has increased to 69.04% from 65.20%. In the case of Nabil bank, it has increasing ratio from 2004/05 to 2007/08 but in 2008/09 it has decreased its ratio from 71.74% to 65.54%.

Analyzing the mean value BOK has higher mean than Nabil i.e. (70.31>59.01). It shows that BOK has given higher emphasis to Loans and advances than Nabil bank. BOK has lower S.D. i.e. 3.56 and Nabil has 6.99, it indicates that Nabil has higher degree of dispersion from mean. BOK has higher uniformity and consistency in the data because it has lower C.V. i.e. 5.06% and Nabil has 11.84%.

It can be conclude that BOK is in fine position compare to Nabil. BOK has higher mean, lower S.D. and C.V., which implies that BOK has efficiently utilized its deposited funds. Nabil too is increasing its Loans and advances ratio which shows it has also mobilizing its deposited funds through Loans and advances.

4.6 Investment Portfolio Analysis:

Deposits and borrowings are the main sources of funds for the banks, which are applied in the various long-term and short-term financial investments.

Financial Investment, mainly in Government Securities, shares and debentures of other institution, NRB bond and other investment are studied in the present chapter. The investment portfolio of BOK and Nabil banks from the fiscal year 2004/05 to 2008/09, are studied in this chapter.

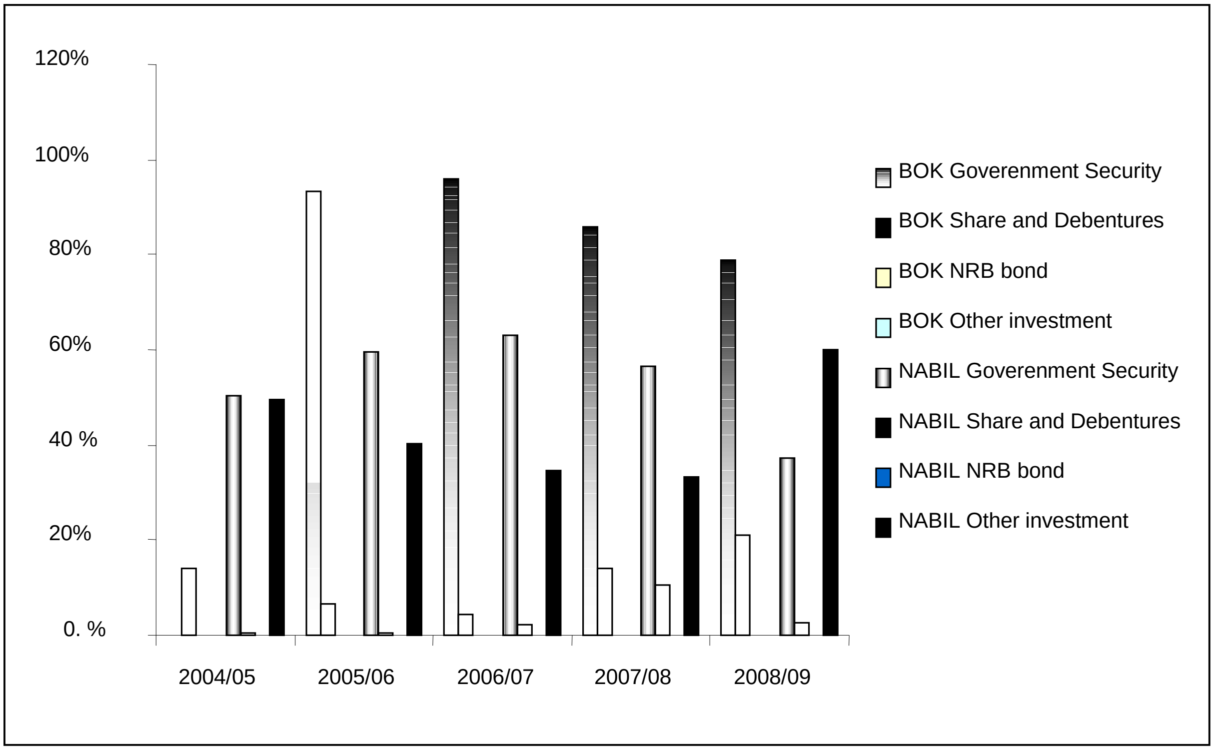
Table no: 5

Investment portfolio analysis of BOK and NABIL bank (in percentage)

Year	BOK				NABIL			
	Govt. Security	**Share and Debenture**	**NRB bond**	**Other investment**	**Govt. Security**	**Share and Debentures**	**NRB bond**	**Other investment**
2004/05	86.05%	13.95%	0%	0%	50.25%	0.28%	0%	49.47%
2005/06	93.33%	6.67%	0%	0%	59.50%	0.36%	0%	40.14%
2006/07	95.73%	4.27%	0%	0%	62.93%	2.28%	0%	34.78%
2007/08	85.93%	14.07%	0%	0%	56.56%	10.31%	0%	33.13%
2008/09	78.77%	21.23%	0%	0%	37.24%	2.74%	0%	60.02%
Mean	**87.962**	**12.038**	**0**	**0**	**53.296**	**3.194**	**0**	**43.508**

Sources: Annual report of BOK and Nabil bank (2004/05 -2008/09)

Bar Diagram of Investment portfolio analysis of BOK and NABIL bank



Above table no.5 shows the investment portfolio of BOK and Nabil in different sectors such as government securities, share and debenture, NRB bond, and other investment. By studying the information from the fiscal year 2004/05 to 2008/09 and from the mean, we found that BOK has made higher investment in government securities i.e. 87.96% such as in shares & debentures 12.04% and there is no investment in NRB Bond and in other investment. Likewise, Nabil too has invested 53.29% of its funds on government securities. Then in other investment as 43.51% which is slightly lower than government securities. But Nabil has invested lowest in the sector of share and debentures i.e. 3.19%. Nabil hasn't invested in NRB Bond either.

By analyzing these data it indicates with the intention of investing higher portion of their funds in government securities and then in other investment. It is so because government securities are risk-free investment and it is a good investment with definite return.

BOK has invested more in government securities which is excellent for the bank. It doesn't have to worry about its investment as it a risk-free investment. Although it is satisfactory, Nabil has to increase its investment in government securities to gain higher risk-free return. As NRB bond is also a risk-free assets, it is suggested to invest in such bonds as well.

4.7 Loans and Advances Portfolio Analysis:

The major portion of short-term investment of commercial banks is loans and advances provided to various sector of the market. Bank's loans and advances flows to the following categories:

- Loans and advances provided to the government enterprises.
- Loans and advances provided to the private organizations.
- Loans and advances provided to Foreign Bills Purchase and discounted.

The following table shows the short term investment of BOK and Nabil Bank in various sectors. The table also helps us to know how these two selected banks mobilize their resources in short term investment.

The purpose here is to compare and analyze the loans and advances portfolio of BOK with Nabil bank.

Banks provide loans and advances from the money i.e. the money it reserves by way of the persons against the personal security of the borrowers or against the security of the movable and immovable properties. Mainly the banks are providing their funds to the private sector, then in the field of foreign bills purchase and discounted and at last to the government enterprises.

Table: 6

Loans and advances portfolio analysis

(in percentage)

year	**BOK**			**NABIL**		
	Government sector	**Private sector**	**Bills Purchase and Discounted**	**Government sector**	**Private sector**	**Bills Purchase and Discounted**
2004/05	1.78%	95.46%	2.76%	0	95.94%	4.06%
2005/06	0	99.13%	0.87%	0	96.11%	3.89%
2006/07	0	94.51%	5.49%	0	97.11%	2.89%
2007/08	0	98.62%	1.37%	0	98.85%	1.15%
2008/09	0	99.72%	0.28%	0	98.13%	1.18%
Mean	**0.356**	**97.488**	**2.154**	**0**	**97.228**	**2.634**

Sources: Annual report of BOK and Nabil bank (2004/05 -2008/09)

Bar diagram of Loans and advances portfolio analysis

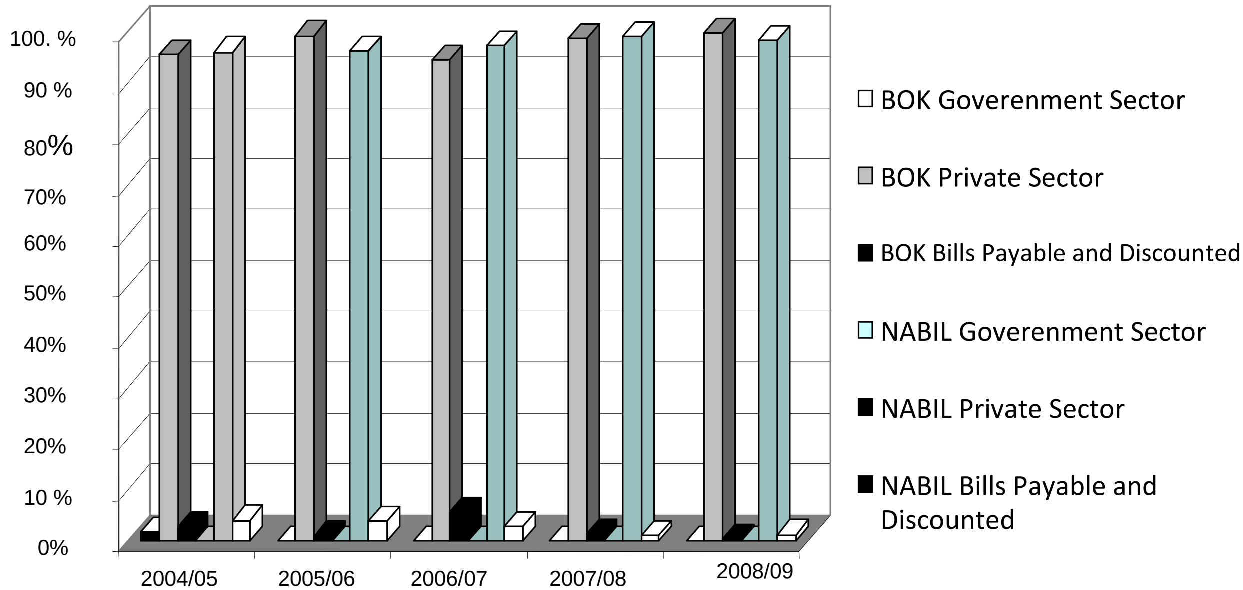


Table no. 6 gives the clear cut picture of loans and advances portfolio of BOK and Nabil bank. It shows the portfolio of fund that has been mobilized in different sector such as government sector, private sector and in bills purchased and discounted. BOK has mean of loans and advances to government sector is 0.36%, such as in private sectors is 97.49% and in foreign bills purchased and discounted is 2.15%. Likewise, Nabil has 0% in government sector, 97.23% in private sector and 2.63% in foreign bills purchased and discounted.

The funds in loans and advances are mobilized in government sector, in private sector and in foreign bills purchased and discounted. The mean percentage of loans and advances portfolio is highly mobilized in private sector i.e. 97.49% and 97.23% by BOK and Nabil respectively. Likewise, BOK has 2.15% and Nabil has 2.63% in the field of foreign bills purchased and discounted. BOK has 0.36% but Nabil has 0% mean on loans and advances in government sector.

But, for the development of the country government sector too need a fund. So, like these commercial banks should invest their fund in government sector though they generate small amount of return. At last these small steps might lead us to bigger steps and in the field of development.

4.8 Earning Per Share (E.P.S.):

Earning Per Share measures profitability of the common shareholders investment. It shoes the profit available to the equity shareholders as per share.

EPS is calculated as:

$$EPS = \frac{\text{Earning}}{\text{I}}$$

Again we have,

Earning available for equity share = Net profit after tax – preference dividend.

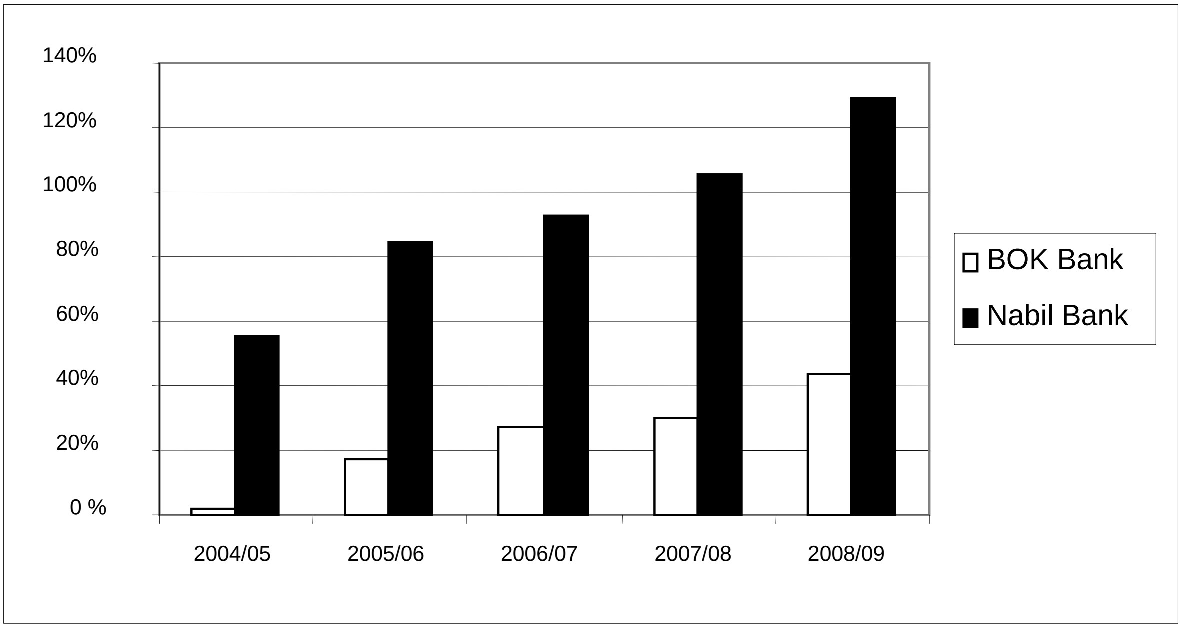
Table: 7

Earning Per Share (E.P.S.) **(In Rupees)**

Fiscal year	**BOK Bank**	**Nabil Bank**
2004/05	2.00	55.55
2005/06	17.72	84.66
2006/07	27.50	92.61
2007/08	30.10	105.50
2008/09	43.67	129.21
Mean	**29.74**	**93.506**
S.D.	**9.27**	**24.34**
C.V.	**31.17%**	**26.04%**

Sources: Annual report of BOK and NABIL bank (2004/05 -2008/09)

Bar Diagram of Earning Per Share (E.P.S.)



The above table no. 7 represents the EPS of BOK and Nabil from 2004/05 to 2008/09. By studying the data, in 2004/05 BOK has earn Rs. 2 and Nabil has earn Rs. 55.55 EPS. Since the EPS in 2004/05 of BOK is very low compare to next consecutive years. So it does not give the clear picture about mean, S.D. and C.V., that is why the data has been out lier and only four years data has been taken to calculate mean, S.D. and C.V.. In 2005/06 BOK has Rs.17.72 and Nabil has Rs.84.66. In the Fiscal year 2006/07 it increased to Rs.27.50 of BOK and Rs.92.61 of Nabil bank. In 2007/08 it again increased and became Rs.30.10 of BOK and Rs.105.49 of Nabil. In the fiscal year 2008/09 it grows up to Rs.43.76 and Rs.129.21 of BOK and Nabil respectively. After interpretation of all these we have a clear idea that BOK has less EPS through out the review period than Nabil. In the case of the mean BOK has 29.74 and Nabil has 93.44. This shows Nabil has higher mean than BOK. The S.D. of BOK is 9.27 and in case of Nabil it is 24.34. It means that Nabil has higher degree of dispersion from mean than BOK. Whereas, BOK has 31.17% of C.V. and Nabil has 26.04% of C.V., which indicates that Nabil has higher uniformity and consistency in the data.

Nabil is in better position than BOK in term of EPS. There is a vast or big difference in the mean EPS i.e. (93.44 – 24.19) = 69.25, as the result it can be says that BOK must improve its EPS in coming years.

EPS help us to evaluate the earning capacity of a firm so; BOK must work on to increase its EPS to compete with rival business firms. Nabil too has to make it regular or standard EPS for its own betterment and secure future.

4.9 Beta Coefficient:

The beta coefficient is an index of systematic risk. Beta reflects that part of the portfolio's return and variation in the return, which is the attributable to the overall movement of the market rather than to any unique characteristics of the portfolio. Beta coefficient may be used for ranking the systematic risk of different assets. If the beta is less than 1, the assets is defensive assets, if the beta is greater than 1, the assets is more volatile than the market and is called an aggressive assets. If the beta is greater in any security, greater would be the risk and vice-versa.

4.10 Estimated Market Parameter:

Market return and market standard deviation are the most important factor to analyze the risk and return. For that purpose NEPSE index from the fiscal year 2000/01 to 2008/09 has been taken for ascertain the market return and market risk. Likewise, in the case of securities is concern, market value per share and cash dividend of selected banks have been taken for ascertain the mean return and standard deviation (S.D). S.D. measures the risk that is very essential to study the risk and expected rate of return and to analyze the beta coefficient of the study, S.D. helps the investors to take the decision on the investment.

Calculation of Beta Coefficient (β_j) and expected return ($\sum R_j$) of BOK. (Detail in Appendix 1 & 2)

COV (R_b,R_m) =6890.95/5

=1378.20

Beta Coefficient (β_j) = COV (R_b,R_m) /σ_m^2

=1378.20/ 625.50

2.20

Required rate of return (R_b) = $R_f + (R_m – R_f) \beta_j$

=4.466 + (5.44 - 4.466)2.20

=9.57%

The required beta coefficient of BOK is 2.20and Expected rate of return is 9.57%.

Calculation of Beta Coefficient (β_j) and expected return ($\sum R_j$) of Nabil. (Detail in Appendix 1 & 3)

COV (R_n,R_m) =4566.56/5

=913.31

Beta Coefficient (β_j) = COV (R_n,R_m) /σ_m^2

=913.31/ 625.50

=1.46

Required rate of return ($\sum R_n$) = $R_f + (R_m – R_f) \beta_j$

=4.466 + (5.44 - 4.466)1.46

=6.35%

The required beta coefficient of Nabil is 2.20 and Expected rate of return is 6.35%.

Table no: 8

Summary of calculated values of Beta (β_j), Return, Standard Deviation, Variance, Coefficient of variation, and COV (R_j,R_m):

Name of the Banks	**BOK**	**Nabil**
Beta (β_j)	2.20	1.46
Mean return	19.79	17.182
Expected return ($\sum R_j$)	9.57	6.35
Standard deviation (σ)	58.29	37.76
Variance (σ^2)	3398.02	1425.8
COV (R_j,R_m)	1378.20	913.31

Source: Appendix 1 to 3.

The above table no. 8 give us the data like Beta (β_j), Market return, expected return, standard deviation, variance, Co-variance, and COV (R_j,R_m) of BOK and Nabil banks. The Beta Coefficient of both the banks is higher than the market index i.e. 1. Therefore BOK and Nabil bank both have the higher systematic risk. As we compare the beta then BOK has higher systematic risk than Nabil bank because BOK has 2.20 and Nabil has 1.46. As BOK has beta greater than 2 it implies that if the market goes up by 10%, it will increase in return by 20% on average. But in the case of Nabil bank it is an aggressive asset because it is more volatile than the market portfolio as its beta is greater than 1.

As in the case of mean return BOK has higher return than Nabil(i.e.19.79> 17.18). Likewise in expected return BOK has higher rate of return (i,e. 9.57>6.35). Here, mean return is the holding return, it is simply the total return on what the investor would receive during the holding period stated as a percentage of investment price at the start of holding period. But the expected return is acquired by evaluating the market and risk free return.

BOK has higher S.D. than Nabil (i.e. 58.29>37.76), it means BOK has higher risk than Nabil. As in the case of Variance BOK has 3398.02 and Nabil has 1425.8. In the case of COV (R_j,R_m) BOK has 1378.20 and Nabil has 913.31

From the above interpretation though BOK has higher rate of return it has got the higher risk also. So, it can be said, it is an aggressive asset than Nabil bank. But the coefficient of variance of Nabil is low which implies that it is more uniform and consistent in nature than BOK. As in case of performance Nabil Bank has been cast as a superior asset in term to invest. So, it is suggested to invest in Nabil as it has low risk and adequate return. But those who are risk seeker can invest in shares of BOK as it has higher risk and return.

4.11 Portfolio Return and Portfolio Risk of BOK and Nabil:

In this analysis weight of risk free assets (government securities) and risky assets (share & debenture) have been taken in consideration. The data are from the fiscal year 2004/05 to 2008/09 and the risk free rate of return is the rate of treasury bills issued by NRB from 2004/05 to 2008/09. This analysis helps the research work to analyze the current investment situation of both the banks as it gives the clear picture of investment portfolio.

Portfolio return and risk is the indicator to analyze and to know the current situation of the firm. That is why, this analysis has been taken by the researcher to give the present scenario of the selected banks.

Table no: 9

(In Millions)

Weighted investment in government securities (risk free assets) and weighted investment in share and debentures (risky assets) of BOK.

Year	**Risky Assets**	**Risk Free Assets**	**Total**	**Risk Free Rate(R_f)**
2004/05	38.00	542.64	580.64	5.20%
2005/06	38.00	1510.70	1548.7	4.71%
2006/07	22.80	2371.77	2394.57	4.15%
2007/08	93.01	2146.61	2239.62	4.32%
2008/09	96.36	3271.26	3368.12	3.95%
Total	**288.61**	**9842.98**	**10131.65**	**$\sum(R_f)$ = 22.33**
Weighted	**2.84%**	**97.16%**	**100%**	**$\overline{(R_f)}$ =4.466**

Now,

Portfolio Return $(R_b) = W_m\bar{R}_m + W_{RF}\bar{R}_F$

$=0.0284\times5.44+0.9716\times4.466$

$=4.5\%$

Portfolio Risk (σ_P) $=W_M\times\sigma_M$

$=0.0284\times25.01$

$=0.71\%$

<u>Table no: 10</u>

(In Millions)

Weighted investment in government securities (risk free assets) and weighted investment in share and debentures (risky assets) of Nabil.

Year	Risky Assets	Risk Free Assets	Total	Risk Free Rate(R_f)
2004/05	18.82	2732.95	2751.77	5.20%
2005/06	22.22	3588.77	3610.99	4.71%
2006/07	22.22	3672.62	3694.84	4.15%
2007/08	443.08	2418.43	2861.51	4.32%
2008/09	104.19	2301.46	2405.65	3.95%
Total	**610.53**	**14714.23**	**15324.76**	**$\sum(R_f)$ = 22.33**
Weighted	**3.99%**	**96.01%**	**100%**	**$\overline{\sum}(R_f)$ =4.466**

Now,

Portfolio Return $(R_n) = W_m\bar{R}_m + W_{RF}\bar{R}_F$

$=0.0399\times5.44+0.9601\times4.466$

$=4.51\%$

Portfolio Risk $(\sigma_P) = W_M\times\sigma_M$

=0.0399×25.01

=0.99%

From the above table no.8 and table no.9, it gives the clear idea about the portfolio return and risk of BOK and Nabil. Portfolio return of BOK is 4.5% and Nabil is 4.51%, which is almost same but Nabil has little more return than BOK by 0.01%. In the case of portfolio risk BOK has 0.71% and Nabil has 0.99% which tells us that Nabil has more risk on its investment than BOK. It is because Nabil has more weighed on risky asstes i.e. 3.99% than BOK (2.84%). The weighted of risk free assets of BOK is 97.16% and Nabil is 96.01% it tells that BOK has more investment in risk free assets than Nabil bank.

In the case of weighted investment portfolio BOK seems in better position than Nabil. But there is not a vast difference in the weighted as compared to each other. In term of portfolio Risk and Return with reference to risky and risk free assets it is safer to invest in BOK rather than Nabil though it has higher portfolio return. It's because BOK seem to be in safe region as it has higher investment in risk free assets. As there is no much difference in return and lesser risk than Nabil, BOK might be the choice of the rational investors but the investment in Nabil could be the aggressive investor.

4.12 Statistical Tools:

4.12.1 Coefficient of Correlation:

Correlation analysis is that statistical tools which can be used to describe the degree to which one variable is linearly related to another. It measures the relationship between variables and denotes by 'r'. The result of coefficient of correlation is always between +1 and -1. When r = +1, it means there is perfect positive relationship between two variables and vice versa. When r = 0, it means that there is no relationship between two sets of variables. The Pearson's formula is

$$r_{xy} = \frac{\sum (X - \overline{X})(Y - \overline{Y})}{\sqrt{\sum (X - \overline{X})^2 \sum (Y - \overline{Y})^2}}$$

Probable Error:

The probable error is used to test whether the calculated value of sample correlation coefficient is significant or not. Probable error of coefficient of correlation can be calculated by the formula;

$$\text{P.E. (r)} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

A few rules for the interpretation of the significance of the correlation coefficient are as follows:

(i) If r<P.E. (r), then the value of r is not significant (i.e. insignificant)

(ii) If r>6P.E. (r), then r is definitely significant

(iii) If P.E. (r) <r<6P.E.(r), nothing can be concluded.

Calculation of Correlation Coefficient between Investment and Risk Free Assets of BOK.(Detail in Appendix: 4)

Correlation coefficient between investment and risk free assets (government securities) measures the relationship between these two variables. In this analysis, investment is the independent variable (x) and risk free assets is the dependent variable(y).

We have,

$$r_{xy} = \frac{\sum (X - \overline{X})(Y - \overline{Y})}{\sqrt{\sum (X - \overline{X})^2 \sum (Y - \overline{Y})^2}}$$

$$= \frac{404.36}{\sqrt{401.19 \times 505.62}}$$

$=0.9$

From the above calculation of correlation coefficient between investment and risk free assets come the result as r_{xy} =0.9. Thus, it indicates that there is positive correlation between investment and risk free assets. It implies that if the independent variable is increased resulting factor i.e. risk free assets will also increased by 90% and if the investment is decreased the risk free assets too decreased by 90%.

$$\text{P.E. (r)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1-0.9^2}{5}$$

$= 0.0573$

$6\text{P.E. (r)} = 6 \times 0.0573$

$= 0.34$

Since r is much greater than 6P.E. (r), the value of r is highly significant.

Calculation of Correlation Coefficient between Investment and Risky Assets of BOK.(Detail in Appendix: 5)

Correlation coefficient between investment and risky assets (shares and debentures) measures the relationship between these two variables. In this analysis, investment is the independent variable x and risky assets is the dependent variable y.

We have,

$$r_{xy} = \frac{8.36}{\sqrt{401.19 \mid 0.48}}$$

$= 0.6$

From the above calculation of correlation coefficient between investment and risky assets come the result as r_{xy} =0.9. Thus, it indicates that there is positive correlation between investment and risky assets. It implies that if the independent variable is increased resulting factor i.e. risky assets will also increased by 60% and if the investment is decreased the risky assets too decreased by 60%.

$$\text{P.E. (r)} = 0.6745 \mid \frac{1Zr^2}{\sqrt{n}}$$

$$= 0.6745 \mid \frac{1Z0.6^2}{5}$$

$= 0.193$

6P.E. (r) = 6×0.193

$= 1.15$

Since P.E. (r) <r<6P.E. (r), nothing can be concluded from the calculation.

Calculation of Correlation Coefficient between Investment and Risk Free Assets of Nabil.(Detail in Appendix: 6)

Correlation coefficient between investment and risk free assets (government securities) measures the relationship between these two variables. In this analysis, investment is the independent variable x and risk free assets is the dependent variable y.

We have,

$$R_{xy} = \frac{22.79}{\sqrt{780.57 \mid 168.07}}$$

$= 0.0629$

From the above calculation of correlation coefficient between investment and risk free assets come the result as r_{xy} =0.0629. Thus, it indicates that there is positive correlation between investment and risk free assets. It implies that if the independent variable is increased resulting factor i.e. risk free assets will also increased by 6.29% and if the investment is decreased the risk free assets too decreased by 6.29%.

$$P.E.(r) = 0.6745 \mid \frac{1Zr^2}{\sqrt{n}}$$

$$= 0.6745 \mid \frac{1Z0.0629^2}{5}$$

$$= 0.30$$

$$6P.E.(r) = 6 \times 0.30$$

$$= 1.80$$

Since P.E. (r) <r<6P.E. (r), nothing can be concluded from the calculation.

Calculation of Correlation Coefficient between Investment and Risky Assets of Nabil.(Detail in Appendix: 7)

Correlation coefficient between investment and risky assets (shares and debentures) measures the relationship between these two variables. In this analysis, investment is the independent variable x and risky assets is the dependent variable y.

We have,

$$r_{xy} = \frac{-76.89}{\sqrt{780.57 \mid 13.46}}$$

$$= -0.74$$

From the above calculation of correlation coefficient between investment and risky assets come the result as r_{xy} = -0.74. Thus, it indicates that there is negative correlation between investment and risky assets. It implies that if the independent variable is increased resulting factor i.e. risky assets will decreased by 74% and if the investment is decreased the risky assets will be increased by 74%.

$$P.E.(r) = 0.6745 \mid \frac{1Zr^2}{\sqrt{n}}$$

= 0.6745 | $\frac{1Z\text{ƒ}Z0.74\text{Å}}{5}$

= 0.1364

6P.E. (r) = 6×0.1364

= 0.82

Since P.E. (r) <r<6P.E. (r), nothing can be concluded from the calculation.

4.13 Major Findings:

On the basis of data analysis remarkable findings have come out. The major findings that have been collected are summarized below:

1. Looking at the Return on shareholders' fund ratio table the mean values are 19.30 and 33.31 of BOK and Nabil respectively. Nabil has higher mean return on shareholder equity. Whereas, BOK has 3.51 and Nabil has 3.07 S.D. which means BOK has higher degree of dispersion from mean. Likewise, BOK has 18.19% and Nabil has 9.27% of coefficient of variance. It indicates that Nabil has more uniform and consistent data than BOK.

2. The mean return on total assets of BOK is 1.15 and Nabil is 2.61. Nabil has higher mean than BOK. Whereas, S.D. of both the banks is 0.54, which means that there is same degree of dispersion from mean value. But BOK has 46.79% and Nabil has 20.55% of coefficient of variance. This indicates that Nabil has higher uniformity and consistency in the return on total assets than BOK. By studying the values of ROTA it concludes that Nabil is in better situation than BOK because of higher and uniform values. Whereas, the BOK has satisfactory values which indicates that there is consistent increase in the ROTA throughout the review period. This means BOK and Nabil are efficiently utilizing there resources.

3. By studying the statistics of BOK's Total Investment to Total Deposit Ratio, it increases up to 2006/07 but decreases by almost 3% in 2007/08 and again in 2008/09 it increases by 3%. On the other side TITD of Nabil Bank decreases from 2004/05 to 2007/08 (52.87% - 29.25%).In 2008/09 it increased by 2%.Nabil has greater mean value than BOK i.e.(40.04>26.86). But Nabil has S.D. of 8.61 and BOK has 7.70, which means that Nabil has higher degree of dispersion from mean than BOK. In case of, C.V. Nabil has 21.52% and BOK has 28.69%, this indicates that Nabil has more uniform or less variable in investment decision. In TITD also Nabil is in better position. But BOK is maintaining its position gradually. But BOK has given tough competition in the field of investment to Nabil bank. As the difference in investment ratio of Nabil and BOK is 0.20% in 2007/08 but the difference is -0.24% in 2008/09, which means BOK has increase its investment by 0.24%.

4. The ratios of loans and advances to total deposit of BOK show the decreasing trend from 2004/05 to 2007/08 but in 2008/09 it has increased to 69.04% from 65.20%. In the case of Nabil bank, it has increasing ratio from 2004/05 to 2007/08 but in 2008/09 it has decreased its ratio from 71.74% to 65.54%.By analyzing the mean value BOK has higher mean than Nabil i.e. (70.31>59.01). It shows that BOK has given higher emphasis to Loans and advances than Nabil bank. BOK has lower S.D. i.e. 3.56 and

Nabil has 6.99, it indicates that Nabil has higher degree of dispersion from mean. BOK has higher uniformity and consistency in the data because it has lower C.V. i.e. 5.06 and Nabil has 11.84%.

5. Looking at the investment portfolio table no. 5 BOK has higher investment in government securities and shares and debentures than Nabil bank i.e. (87.96%>53.29%) and (12.04%>3.19) respectively. But BOK has not invested in other investment like Nabil Bank i.e. 43.51%. Neither of these two banks have invested in NRB Bonds.

6. The funds in loans and advances are mobilized in government sector, in private sector and in foreign bills purchased and discounted. The mean percentage of loans and advances portfolio is highly mobilized in private sector i.e. 97.49% and 97.23% by BOK and Nabil respectively. Likewise, BOK has 2.15% and Nabil has 2.63% in the field of foreign bills purchased and discounted. BOK has 0.36% but Nabil has 0% mean on loans and advances in government sector.

7. BOK has lower EPS through out the review period than Nabil. In the case of the mean BOK is 24.19 and Nabil is 93.44. This shows Nabil has higher mean than BOK. The S.D. of BOK is 13.85 and in case of Nabil it is 24.34. It means that Nabil has higher degree of dispersion from mean than BOK. Whereas, BOK has 57.26% of C.V. and Nabil has 26.04% of C.V., which indicates that Nabil has higher uniformity and consistency in the data.Nabil is in better position than BOK in term of EPS. There is a vast or big difference in the mean EPS i.e. (93.44 – 24.19) = 69.25.

8. The Beta Coefficient of both the banks is higher than the market index i.e. 1. Therefore BOK and Nabil bank both have the higher systematic risk. As we compare the beta then BOK has higher systematic risk than Nabil bank because BOK has 2.20 and Nabil has 1.46. As BOK has beta greater than 2 it implies that if the market goes up by 10%, it will increase in return by 20% on average. But in the case of Nabil bank it is an aggressive asset because it is more volatile than the market portfolio as its beta is greater than 1.As in the case of mean return BOK has higher return than Nabil(i.e.19.79> 17.18). Likewise in expected return BOK has higher rate of return (i,e. 9.57>6.35). From the interpretation of table no.8, though BOK has higher rate of return it has got the higher risk also. So, it can be said, it is an aggressive asset than Nabil bank. But the coefficient of variance of Nabil is low which implies that it is more uniform and consistent in nature than BOK. As in case of performance Nabil Bank has been cast as a superior asset in term of invest.

9. Table no.8 and table no.9, it gives the clear idea about the portfolio return and risk of BOK and Nabil. Portfolio return of BOK is 4.5% and Nabil is 4.51%, which is almost same but Nabil has little more return than BOK by 0.01%. In the case of portfolio risk BOK has 0.71% and Nabil has 0.99% which tells us that Nabil has more risk on its investment than BOK. It is because Nabil has more weighed on risky asstes i.e. 3.99% than BOK (2.84%). The weighted of risk free assets of BOK is 97.16% and Nabil is 96.01% it tells that BOK has more investment in risk free assets than Nabil bank. In the case of weighted investment portfolio BOK seems in better position than Nabil. But there is not a vast difference in the weighted as compared to each other.

10. After calculating the correlation coefficient between investment and risk free assets it shows both BOK and Nabil has positive relationship with r_{xy}= 0.90 and r_{xy}= 0.0629 respectively. Similarly, in the case of investment and risky assets BOK has (r_{xy}= 0.60) positive relationship and Nabil has (r_{xy}= -0.74) negative relationship between independent variable and dependent variable.

Chapter: 5

Summary, Conclusions and Recommendations

5.1 Summary

In this research study, the various financial tools namely ratio analysis statistical tools like percentage mean, standard deviation, coefficient of variance, coefficient of correlation have been used for the purpose of analysis and interpretation of data. The data which are used in the study are mainly secondary in nature. These data are obtained from the annual reports of BOK, Nabil, NRB, SEBON and NEPSE from the fiscal year 2004/05 to 2008/09. Likewise, the news and journals published in different period are also been the great source of data collection. As we know today's world is the world of computer and IT, so internet also has been an effective means of data collection.

BOK and Nabil banks are the commercial banks formed mainly for the purpose of carrying out specific operation such as investment in trade, business, and industries by forming a negotiation between various groups of industries. The basic objective is to earn profit and increase its market value of the firm by investing its funds by granting the funds in the form of loans and advances to people from trade and business industry etc. who are in need of them. How well a bank manages its investment has a lot to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country.

Nowadays, there is a very high competition in the banking industries and very less opportunities to make investment. The opportunities are hidden. Thus the selected banks must take initiative action in search of new investment opportunities. Mushrooming of joint venture banks is the current situation of the Nepalese financial systems. There is a high flow of money in the market but less viable and invisible project. Therefore, the introduction of new banks are just sharing a cake rather than pumping new capital or new technology, as Nepalese market is almost felt saturated.

After being a member of WTO Nepal also has been entered into the field of globalization. This creates both opportunities and threats to the domestic market as a whole because this has given foreign investment a clean chit to invest in our country. By 2010 A.D. there will be the foreign banks that will be established with huge amount of capital and investment. So, the existing banks must think of their secure future. For that they have to merge or generate capital to fight with those banks.

Keeping this particular note in mind the research has being carried out to know the investment opportunities and threats facing by the commercial banks in Nepal. To make research work more precise and simpler only two banks have been taken, one is Bank ok Kathmandu and other one is Nabil bank Ltd. The research work has been focus to answers the questions that have been generated. The work of the researcher is to come out with the valuable conclusion and suggestion for the concern banks and as to those who finds it productive. For that the detail analysis of portfolio risk and return on the basis of investment portfolio, like wise on the base of market expected return and risk also has been carried out. Financial analysis such as return on shareholder equity, return on total assets, investment to total deposit, loans and advances to total deposit, investment portfolio and loans & advances portfolio analysis has been done to find the present scenario of the selected banks. Such as in statistical tools mean, standard deviation, variance, co-variance, and correlation coefficient have been used to interpret ate the data.

5.2 Conclusions

Commercial banks have been operating smoothly and have been successful in becoming the pillars of economic system of the country. These banks are acting as financial intermediaries, which provide a link between borrowers and lenders by mobilizing the scattered funds towards productive investment. Based on the analysis and findings of the study, the following conclusion can be drawn.

1. Nabil is in the better position on the return on shareholders equity than BOK. But BOK is also improving or increasing its ROSE as it was 1.78% in 2004/05 and in 2008/09 it increased to 24.10%. This implies that BOK too is improving its financial status in banking business.

2. By studying the values of ROTA it concludes that Nabil is in better situation than BOK because of higher and uniform values. Whereas, the BOK has satisfactory values which indicates that there is consistent increase in the ROTA throughout the review period. This means BOK and Nabil are efficiently utilizing there deposit resources.

3. In TITD also Nabil is in better position. But BOK is maintaining its position gradually. BOK has given tough competition in the field of investment to Nabil bank.

4. It seems that BOK has successfully utilized its deposit money but Nabil has gradually decreasing its deposit money in total investment. One of the vital reason might be the terrible political circumstances going in the country. Due to this reason Nabil might have made such decision.

5. After interpretation of the loans and advances to total deposit ratios it can be conclude that BOK is in fine position compare to Nabil. BOK has higher mean, lower S.D. and C.V., which implies that BOK has efficiently utilized its deposited funds. Nabil too is increasing its Loans and advances ratio which shows it has also mobilizing its deposited funds through Loans and advances.

6. After analyzing the investment portfolio it indicates with the intention of investing higher portion of their funds in government securities and then in other investment. It is so because government securities are risk-free investment and it is a good investment with definite return. BOK has higher investment in government securities and shares and debentures than Nabil bank. But BOK has not invested in other investment like Nabil Bank.

7. Both the Banks have higher mean percentage of loans and advances to private sector then in foreign bills purchased and discounted, but no investment in government sector. So, it concludes that they depend more on private sector, then in foreign bills purchased and discounted. But they don't give any loans to government sector.

8. Portfolio study of loans and advances on private sectors has increased the total risk of investment. So it is concluded that diversification of investment in government sectors help to reduce risk.

9. Eps is a key indicator for evaluation of any firm in term of profitability of the common shareholders investment Nabil has higher mean EPS than BOK so, the conclusion is that Nabil is in better situation.

10. By analyzing the values BOK has maintain its investment portfolio than Nabil as it has less weighted in risky assets and more in risk free assets. But the portfolio return of Nabil is more which gives little more return than BOK. This tells that risk seeker investor can invest in shares of Nabil bank but those who are risk averse they can invest in the shares of BOK. As an investor it is secure to investment in BOK because it has less risk and almost equal return as Nabil.

11. But with the analysis of market and stocks, though BOK has higher rate of return it has got the higher risk also. So, it can be said, it is an aggressive asset than Nabil bank. But the coefficient of variance of Nabil is low which implies that it is more uniform and consistence in nature than BOK. As in case of performance Nabil Bank has been cast as a superior asset in term of invest.

5.3 Recommendation

On the basis of the analysis, findings and conclusions, the following suggestions (recommendation) can be forwarded to overcome weakness, inefficiency and to improve the overall financial as well as fund mobilization in investment of BOK and Nabil banks.

1. Increment in ROSE: BOK and Nabil have to perform better to increase its ROSE in coming years for their better financial position. ROSE is the key indicator for analyzing the financial position of any institution. So Rose of these banks must indicate the satisfactory states for the overall development and to gain the belief of investors.

2. Enhance position in banking business: BOK has to increase its ROTA for enhance position in banking business and Nabil also has to execute identical performance to stand ahead in the competition. Since

ROTA is a vital tools for measuring the financial performance of the firm this helps the concern bank to improve or enhance its resources in coming days.

3. **Investment in appropriate field:** BOK and Nabil banks both have to increases their investment in appropriate field as the ceasefire or insurgency is being settle-down. They have to utilize this situation fully for the superior position in the field of banking business.

4. **Required proper investment opportunities:** Both the banks are properly utilizing their deposited funds but the uniformity and proper investment decision might require for good return. So, it is not a joke for the banks to invest in any sector, it must think of proper investment opportunities. Otherwise bank might have to face serious circumstances.

5. **Required to invest in risk-free assets:** BOK has invested more in government securities which is excellent for the bank. It doesn't have to worry about its investment as it a risk-free investment. Although it is satisfactory, Nabil has to increase its investment in government securities to gain higher risk-free return. As NRB bond is also a risk-free assets, it is suggested to invest in such bonds as well.

6. **Required to invest in government sectors too:** BOK and Nabil have given more emphasis to private sector and foreign bills purchased and discounted rather than in government sector. But, for the development of the country government sector too need a fund. So, like these commercial banks should invest their fund in government sector though they generate small amount of return. At last these small steps might lead us to bigger steps and in field of development. It is recommended to every bank to invest in government sector as well.

7. **Uniform or standard EPS:** EPS help us to evaluate the earning capacity of a firm so; BOK must work on to increase its EPS to compete with rival business firm. Nabil too has to make it regular or standard EPS for its own healthier or secure future.

8. **Investing more on risk-free assets:** Nabil has to reduce its investment in risky assets and increase its weight in risk free assets. But BOK has to maintain as or it can also lessen the burden by investing more on risk free assets.

9. **Suggested to invest in shares of Nabil rather than BOK:** After calculating the market and stock return, it is suggested to invest in Nabil as it has low risk and adequate return. But those who are risk seeker can invest in shares of BOK as it has higher risk and return.

10. **To establish a 'Credit Collection Bureau':** Nepalese banks experience many difficulties in recovering the loans. It is therefore suggested to concern legislative body to establish a 'Credit Collection Bureau' that would take the responsibility of collection of the loans of those banks.

11. **To maintain the equilibrium in the portfolio:** Portfolio condition of a bank should be regularly revised from time to time. And it should always try to maintain the equilibrium in the portfolio condition of the bank. Basically portfolio management refers to the allocation of funds into different small components of its assets having different degrees of risk, different rates of return in such a way that the conflicting goal of maximum yield (return) minimum risk can be properly achieved. The bank should always try to make continuous efforts to explore competitive and highly yielding investment opportunities to optimize its investment portfolio.

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