CHAPTER – I

INTRODUCTION

1.1 Background

In an economy, the importance of the financial sector in general and banking sector in particular cannot be undermined. A strong, well functioning financial sector is crucial for any economy- be it industrial, emerging market or even developing. Banks and financial institutions are the backbone of the economy. Banking sector definitely plays a pivotal role in the overall development of the economy. It plays a very important role in the overall development of all sectors of the economy and actually works as a lubricator by providing financial resources. Nepal, being a developing country is trying to embark upon the path of economic development by increasing economic growth rate and develop in all the sectors of economy. Even though, the process of economic development depends upon various factors, however economists are now convinced that capital formation and its utilization play a paramount role, which is the capital stock of the country. The change in the capital stock of the country is known as investment. Investment is one of the decisions of financial function that involves the decision of capital to establish commercial and industrial ventures. In other words, it involves the commitment of funds to long term assets that would yield benefit in the future.

Investment, which has primary significance in financial sector, refers to the process of determining the proper areas in order to lodge a firm’s fund to procure expected gain or profit, known as favorable returns by its maximum utility at minimizing risk. According to investor’s view, there must be a compulsory return on their investment but there may be unfavorable situations so that investors may incur losses. However so, investment is the act of proper utilization of a fund to be mobilized so that achievement of a high return could be ensured. It also implies all such expenditure of funds into capital nature assets. It is one of the decisions of capital investment, or commitment of funds to long-term assets that would provide benefits in future.

Investment in broadest sense means the sacrifice of the current dollars to future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes places in the present and is magnitude as generally uncertain (Van Horne, 1985:155).

Investment decisions mainly have two aspects - the evaluation of the prospective profitability of new investments and the measurement of cut off rate against the prospective return of the new investment that could be compared. Future is uncertain, therefore future benefits of an investment can’t be assessed so easily and the amount of risk is unpredictable as well.

The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formation has been the principal variable in setting the overall pace of economic development. The network of a well organized financial system of a country has great bearing in this regard. It collects scattered financial resources from the masses and invests them among those engaged in commercial and economic activities of the country. In this way the financial institutions provide savings of highly liquid divisible assets at a lower risk while the investors receive a large pool of resources.

While talking about investment we cannot forget that saving is the primary factor for investment. If there had been no saving, no investment can be expected. So, saving is the backbone of investment. Saving is needed to finance capital formation or investment to increase and maintain the productive capacity of the country. It is commonly known fact that an investment is only possible where there is adequate savings. If all the income and savings are consumed to solve the problem of hand and mouth and of the other basic needs, then there is no existence of investment. Therefore, saving and investment are interrelated. The central problem of Nepal is low rate of saving and therefore, the investment is low. It is by this cause that productivity of Nepal is also very low.

The financial institutions use both short term and long term finance. The demand and supply of all short term finance is called money market. Money market is designed for the making of short term loans, where individual and institutions with temporary surpluses of funds meet borrowers who have temporary cash shortages. The main functions of money market are to mobilize savings, provide short term loans, provide reserve, bridge the gap between receipts, effective monitory policy, etc. so, the money market is an important part of a commercial bank. Money market is playing a vital role to achieve the goal of every financial institution. There are different kinds of money instruments used in Nepal such as commercial papers, treasury bills, negotiable certificates of deposits, repurchase agreements, banker's acceptance, etc.

Similarly, an efficient capital market is an essential pre-requisite for the economic development of a country. The development of capital market in a country depends on the availability of savings, proper organization of intermediary institutions to bring the investors and business ability together for mutual benefits, regulation of the investment, etc. the institutions like saving banks, investment trusts or investment companies, specialized financial institutions and stock exchange are some of the members of capital market.

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

Commercial banks play an important role for economic development of a country as they provide capital for the development of industry, trade and business by investing the collected deposits from public in various areas. They render various services to their customer facilitating their economic and social life. They are the most important ingredients for integrated and speedy development of a country.

Financial institutions act as the catalyst in the economic growth in every country. There should be mobilization of the resources in the overall economic development in the country and these institutions turn as intermediaries amongst points of surplus and deficit. They provide fuel to the development practices in the country by collecting financial resources scattered in the mass and providing to those involved in social, economic and commercial activities in the country, which is indispensable part of economy without which the economy of the country would hardly move forward. This should therefore be practiced in an organized and proper manner by providing guidance and directives by the central Bank of the country.

Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of a country. The sound policy helps commercial banks maximize quality and quantity of investment and thereby, achieve their own objective of profit maximization and social welfare. Formulation of sound investment policies and coordination of planned efforts pushes forward forces of economic growth.

Commercial banks should be careful while performing the credit function. Investment policy should ensure minimum risk and maximum profit from lending. Nepalese commercial banks lag far behind while fulfilling the responsibility to invest in the crucial sector of the economy. Thus the problem has become very serious for a developing country like Nepal, which can be solved through formulation of sound investment policy. Good investment policy ensures maximum amount of investment to all sectors with proper utilization o funds.

1.2 Background of the Nepalese Banking System

Before the establishment of Nepal Bank Limited as the first banking institution in Nepal, several monetary and banking authorities such as “Kausi Tosha Khana”, “Tejarath Adda”, “Saddar Mulukikhana Adda” existed. In context to Nepal, jeweler, merchants and moneylenders were the ancient bankers of Nepal. However, in 1876, Tejarath Adda was established during the Tenure of P.M. Ranoddip Singh. It was the first step towards the institutional development of banking in Nepal. It didn't collect deposits from the public but gave loans to employees and public against bullion.

The real history of formal banking system in Nepal began with the establishment of Nepal Bank Limited, not only as the first commercial bank but also as the first banking institution, in the Year 1937 A.D., under the semi-ownership of government along with general public and private participation. The government owned 51 percent of the shares in the bank and controlled its operations to a large extent. Nepal Bank Limited was headquartered in Kathmandu and had branches in other parts of the country as well. The Nepal Bank Limited was the only banking institution in Nepal with single coverage over the Nepalese banking system prior to the establishment of Nepal Rastra Bank in 1956 A.D as the Central Bank of the country. Nepal Rastra Bank (NRB) was established after 19 years since the establishment of the first commercial bank (i.e., NBL), the function of which was principally the supervision of commercial banks and for guiding the monetary policy of the country. Its major focus was on regulating the issue of paper money; securing widespread circulation of the Nepalese Rupee all over the country and for achieving stability in the country’s exchange rate regime. Beside it enabled the mobilization of capital for economic development and for trade and industry. It also undertook the function of development of the banking system in the country, thereby ensuring that existed even in the remotest part of the country and for maintaining the economic interests of the general public. Nepal Rastra

Bank also monitored the foreign exchange rates and the country's foreign exchange reserves on a continuous basis.

After the establishment of NRB, Nepal witnessed a systematic development of the financial system. A decade after the establishment of NRB, Rastriya Banijya Bank (RBB), a commercial bank under the ownership of Nepal Government was established in 1966 A.D. the state had total controlling stake in RBB. These two commercial banks (Nepal Bank Limited and Rastriya Banijya Bank) were the pioneers of the Nepalese Banking Industry. These two banks competing in the commercial banking extended their banking operations, activities and branches throughout the country. These two banks had the largest network and they have their operations even in remote areas of the country. As the financial market was barred for private sectors till the mid 1980's, these two banks were the only two players in the banking industry.

Till the early 1980s, the financial sector was not opened up for private sectors. It was in the year 1984, when the Nepal Government, after a lot of deliberation threw open the banking sector to the private players. The economic reforms initiated by the Government in mid-1980s have changed the landscape of several sectors of the Nepalese economy and the banking industry was no exception. In the context of banking development in Nepal, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. Nepal Government emphasized the role of the private sector for the investment in the financial sector. These policies opened the doors for foreigners to enter into banking sector under joint venture. As a result of this policy, large number of banks and financial institutions mushroomed across the country. Under this policy, Nepal Government first opened up the banking sector to foreign investors. The opening up of the financial market to foreign joint venture banks in the mid-80s, ending the monopoly of the two state-owned banks (one fully and other partially), namely Rastriya Banijya Bank (RBB) and Nepal Bank Ltd. (NBL), is a notable step after which a number of private and foreign affiliated joint venture banks emerged. The first phase of the financial sector reform was initiated in Nepal under the liberal economic policy of Nepal Government in the mid-1980s. Under this policy, the Government of Nepal first opened up the banking sector to the foreign investors and in 1984, the third commercial bank in Nepal or the first foreign joint venture bank was set up as the Nepal Arab Bank Limited (presently known as Nabil Bank limited) was established. The Nepal Arab Bank was co-owned by the Emirates Bank International Limited (Dubai), the Nepalese government, and the Nepalese public. The establishment of this joint venture brought foreign investment in the banking industry and modern banking practices and technical skills. Subsequently after the establishment of Arab Bank, another bank namely Nepal Indosuez Bank Limited, in a joint venture with Credit Agricola Indosuez, France was established in the year 1986. The bank is presently known as Nepal Investment Bank Limited.

Nepal Grindlays Bank Limited (now called Standard Chartered Bank Nepal Limited) was established in the year 1987, as a joint venture commercial bank. The banking operations of these three foreign commercial banks helped the economy to get the most modern of banking services thereby increasing the competitive environment in the banking sector in Nepal especially in the Kathmandu Valley where about 50 percent of the economic activities of the country generally transpired. Since then there has been a tremendous growth in the number of financial institutions in Nepal.

Commercial banks in Nepal were allowed for the first time in July 1985, to accept current and fixed deposits in foreign currencies (U.S. dollar and sterling pound) in accounts maintained with them. The interest rates of commercial banks before May 26, 1986 were totally controlled by the Nepal Rastra Bank (NRB) which happened to be the Central Bank of the country. The NRB on May 26, 1986 deregulated the interest rate regime in Nepal by authorizing commercial banks to fix interest rates at any level above certain prescribed levels. Such bold steps taken by NRB had a far reaching impact on the development of the financial sector of Nepal as evidenced by its growth in assets and banking activities.

NRB strengthened its regulation and supervision of banking and financial institutions. Commercial banks were required to increase their capital adequacy ratio (CAR) gradually. They were required to maintain CAR of 2.5 percent by mid-July 1989 and three percent in mid-July 1990.

Since the restoration of democracy, the Democratic Government under its open and liberal economic policy gave more emphasis on the liberalization of the financial sector of the country. Resultantly, the financial sector in Nepal grew rapidly since the 1990s. However, the number of banking and non-banking financial institutions has increased drastically since then. There were five commercial banks, two development banks, two insurance companies, and a few other financial and quasi-financial institutions till mid-July1990. There were 11 commercial banks, two development banks, Regional Rural Development Banks (RRDBs), 44 finance companies, two insurance companies, 29 saving and credit co-operative societies and 30 NGOs licensed by NRB and few other financial and quasi-financial institutions as on mid-July 2000. There has been a tremendous increase in the volume of financial transactions and financial markets as well.

The commitments of Nepal Government in the financial sector liberalization gave the needed boost in the confidence of the private sector for the establishment of commercial banks in the private sector. The Himalayan Bank Limited and Nepal SBI Bank Limited were established in 1993 and Nepal Bangladesh Bank Limited and Everest Bank Limited in 1994. All of them were established as joint venture commercial banks. The Nepal Housing Development Finance Company was established in the public sector as the first finance company under the Finance Company Act 1986. Soon after the establishment of the first finance company, five finance companies were established in the private sector in 1993. The rural development banks were established in five development regions to provide micro-finance services to the poor and the ultra-poor women. To provide limited banking services in the un-banked rural areas, saving and credit co-operative societies started to get operating licenses from NRB since 1993 and by 1995, there were 10 such financial institutions. Even the NGO's got licenses for micro-credit operations in 1994 and within two years' period, 30 NGOs got operating licenses to undertake limited banking transactions. The separate act for development banks was felt necessary and it was enacted in 1996.

The establishment of finance companies not only improved competitions in the deposit and credit services, they also helped in the capital market through listing their shares. Their shares are being traded along with the shares of commercial banks. They have been providing merchant banking services such as underwriters and market makers. NRB further liberalized the restrictive measures for providing banking and non-banking financial institutions and especially development banks and finance companies more freedom in their business operations. The commercial banks were required to increase CAR to 3.5 percent at mid-July 1991 and four percent at mid-July 1992. The credit ceiling was removed in 1991 except for government and non-financial government enterprises under the policy of indirect monetary control. NRB laid more emphasis on open market operations as main monetary policy instrument (Nepal Rastra Bank, 1996).

Under this financial sector reforms, three joint venture commercial banks were established and they started to provide modern banking services to their customers. They started to compete with Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB), one fully owned and another 51 percent owned by Nepal Government and among them to provide modern and efficient banking services. As a result, they attracted more of the good clients/customers (depositors and borrowers) of the RBB and NBL. The two public banks were ailing even before the establishment of the joint venture commercial banks. In mid-October 2010, the number of commercial banks reached to 29. There were 83 development banks, 79 finance companies, 19 micro-credit development banks, 16 saving and credit co-operatives and 45 NGOs licensed by NRB for limited banking operations in the country.

Table 1.1
List of Licensed Commercial Banks

S.N	Name of Banks	Established date	Address
1	Nepal Bank Ltd.	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	19668/01/02	Kathmandu
4	Nabil Bank Ltd.	1984/07/16	Kathmandu
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu
10	Everest Bank Ltd.	1994/10/18	Kathmandu
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitwan
14	Nepal Industrial & Commrecial Bank Ltd.	1998/07/21	Biratnagar, Morang
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski
16	Kumari Bank Ltd.	2001/04/03	Kathmandu
17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu
21	Prime Commercial Bank Ltd.	2007/09/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	DCBL Bank Ltd.	2008/05/25	Kamaladi, Ktm
25	NMB Bank Ltd.	2008/06/05	Babarmahal, Ktm
26	Kist Bank Ltd.	2009/05/07	Anamnagar, Ktm
27	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Ktm
28	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Ktm
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Ktm
30	Century Commercial Bank	2011	Kathmanu

Source: www.nrb.org.com

Apart from these, Civil Bank Limited has commenced its operation from 15^{th} December 2010 as 30^{th} commercial bank with paid up capital of Rs.120 million. Further, the number of commercial banks and finance companies is likely to grow in the future.

As many commercial banks have been established, the research has taken into consideration Nabil Bank Limited and Bank of Kathmandu Ltd. Therefore, short glimpses of these commercial banks are as follows:

Nabil Bank Limited (Nabil)

Nabil Bank Limited, the first joint venture commercial bank in Nepal was incorporated in 1984 under the company act 1964 as Nepal Arab Bank Ltd.. Dubai Bank Limited was the initial joint venture partner with 50% equity investment. The shares owned by Dubai Bank Limited (DBL) were transferred to Emirates Bank International Limited. Dubai sold its entire 50% equity holding to National Bank Limited Bangladesh. Now, it is incorporated with NB International Limited, Ireland. National Bank Limited Bangladesh is managing the Bank in accordance with the technical services Agreement signed between it (Nabil) and the Bank on June 1995. The present configuration consists of 50% share capital of National Bank Limited Bangladesh, 10% of NIDC, 9.66% of Rastriya Beema Sansthan, 0.34% of Nepal Stock Exchange and 30% of Nepalese Public.

Nabil Bank Limited had the official name Nepal Arab Bank Limited till 31^{st} December 2001. Nabil was incorporated with the objective of extending international standard modern banking services to the various sectors of the society. Pursuing its objectives, Nabil provides a range of commercial banking services throughout its 26 points of representation across the country and over 170 reputed correspondent banks across the globe.

Nabil, a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measures as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, Credit cards, state-of-art, world renowned software from Infosys Technologies System (Bangalore, India), internet banking system and Tele-banking system.

Bank of Kathmandu Limited

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

BOKL was established by a group of distinguished civil servants and renowned businessmen in collaboration with the SIAM commercial public co. limited (SCB)- a leading bank of Thailand. The collaboration with SCB supported BOKL to bring in the technical and managerial expertise in the Nepalese banking sector.

Upon establishing BOKL as one of the reputed banks in a short period, the Nepalese promoters decided to conclude the technical service agreement with SCB and BOKL to be arranged by the Nepalese professionals as it could further enhance its business performance years ahead under the Nepalese management. With the well acclaimed capabilities of the Nepalese management team, BOKL has successfully enhanced its capital structure, profitability; reach to the customers and build its image in the market. It has created a position in the industry in the shortest possible span of time.

Since BOKL is established with the objective of providing prompt and quality services to its customers, its branches as well as number of eligible staffs have been increasing. Therefore, it has been one of the successful commercial bank in Nepal (www.bok.com.np).

1.3 Focus of the Study

Investment policy plays a vital role in effective management of investment portfolio of any bank. Sound investment policies help banks maximize quality and quantity of investment and thereby, achieve their own objective of profit maximization and social welfare. The board of directors formulates such investment policies and they may differ from bank to bank in terms of complexity and comprehensiveness.

The primary focus of this study is to analyze and compare the investment policy of Nabil Bank and BOKL by studying their assets management system, profitability and risk position. It also focuses on analysis of trend of deposit utilization of the concerned banks.

1.4 Statement of the Problem

Various financial institutions have been established to assist the process of economic development of a country. All commercial banks have played a vital role by accepting deposits and providing various types of loans. Loan affects overall development of a country. The development of a country is directly related to the volume of loan, which is also obtained from commercial banks. The problem of lending has become very serious for a developing country like Nepal due to lack of sound investment policy of commercial banks.

Investment greatly depends on saving behavior of citizens but the saving rate of Nepalese is very low because most of the citizens are below the poverty level.

They don’t have enough income for daily consumption. Some people hardly save some money but they want to save for the future. Only few people invest in industries. People must be motivated to use their savings and mobilize their excess fund in economic activities.

Commercial banks are fond of making loans only n short term basis against moveable merchandise. There is hesitation to invest on long term projects because they are more safety minded. So they follow conservative loan policy, which is based on strong security. They are found to be more interested in investing in less risky and highly liquid sectors i.e. treasury bills, development bonds and other securities. They keep high liquid position and flow lower fund to the productive sectors. This results into lower profitability to commercial banks and ignorance to the national economic growth process.

Nepalese Commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have clear view toward investment policy. Moreover, the investment policy is not made in an efficient way. Commercial bank invests their funds in limited areas to achieve higher amount of profit. This is regarded as a very risky step, which may lead to less profit as well as principle. The credit extended by commercial banks to agriculture and industrial sector is not satisfactory to meet the growing need of the present day.

Commercial banks are not properly utilizing their deposits because of lack of sound lending policy. So, this condition will lead the commercial banks to the position of liquidation. The lack of knowledge on financial risk, interest rate risk, management risk, business risk, liquidity risk, purchasing risk, etc, granting loan against insufficient deposit, overvaluation of goods pledged, land and building mortgaged, risk averting decisions regarding loan recovery and negligence in recovery of overdue loan are some of the basic lapses and the result of unsound investment policy sighted in the banks.

Profit is must to a bank, not only from the point of view of bank but also from the perspective of shareholders and depositors. Profit is only possible if the bank makes proper and safe investment policy. Every bank must make profit to survive in the competitive market where there is excess money and very little investment opportunity exists. Therefore, appropriate investment policy is the basic function of all commercial banks, joint venture banks and other financial institutions.

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

Various research works have been conducted on commercial bank investment policy. So an effort has been made for the comparative study of Nabil with respect to BOKL. Thus, this project work will help to bridge the research gap on the study on investment policy of Nabil in comparison to BOKL. The following questions are proposed to be addressed in the course of this research study.

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

1.5 Objectives of the Study

The main objective of the study is to analyze and compare the investment policies of Nabil Bank and BOKL. The specific objectives of this study are giving below:

a. To study the assets management system, profitability and risk position of Nabil & BOKL.

b. To analyze the trend of deposit utilization of sample banks.
c. To examine the relationship between total investments, deposits, loans and advances and net profit and assets and compare them.
d. To analyze investment policies and fund mobilization of sample banks.

1.6 Significance of the Study

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

1.7 Limitations of the Study

The research is limited in respect of availability of short span of time for completion of the research .This study is limited by the following factors:

a. This study concentrates only those factors that are related with investment policy.
b. The study is based on the data of five years period.
c. The study is based on secondary data collected from banks like annual reports of the concerned banks, review, journals, unpublished as well as published thesis works and other published articles and journals.
d. The balance sheets, profit and loss and accompanying notes have been basically considered as the subject matters of the study and they are assumed to be true and correct.

e. The truth of research result is based upon the available data from the banks.
f. This study deals with limited financial and statistical tools.
g. Out of 30 commercial banks only Nabil Bank Ltd. and Bank of Kathmandu are considered for the study.

1.8 Organization of the Study

This study will be organized into five chapters which are as follows:

Chapter - I Introduction

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

Chapter - II Review of Literature

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

Chapter – III Research Methodology

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

Chapter – IV Data Presentation and Analysis

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

Chapter – V Summary, Conclusion and Recommendation

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

CHAPTER – II

REVIEW OF LITERATURE

In this part, focus has been made on the conceptual framework and the review of literature that is relevant to the investment policy of commercial banks. Review of literature is based on available literature in the field of research. Every possible effort has been made to grasp knowledge and information available in the libraries and other available sources. This chapter is divided into two parts:

a. Conceptual Review
b. Review of Related studies

2.1 Conceptual Review

2.1.1 Investment

Investment is concerned with the management of an investor's wealth which is the sum of current income and the present value of all future income funds to be invested that come from assets already owned, borrowed money and savings or foregone consumption by foregoing today and investing the saving. Investors expect to enhance their future consumption possibilities, i.e. they invest to increase wealth. Investors also seek to manage their wealth effectively by obtaining the most from it, while protecting it from inflation, taxes and other factors.

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

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

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

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

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

It has given the basic concept of investment in three points. They are as follows:

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

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

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

Investment has to undergo various types of risk e.g. business risk- possibility of being weak in earning power of investment due to competition, uncontrollable costs, change in market demand etc, market risk like possibility of strong change in market price and collateral value of securities and real properties. All the investors do not achieve success. Therefore, simply making an investment is not sufficient. One should follow sound investment policy.

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

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

According to F. Amling, "Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period."
According to Donald E. Fischer and Ronald J. Jordan, "An investment is a commitment of funds made in the expectation of some positive rate of return. If the investment is properly undertaken, the return will be commensurable with the risk the investor assumes."

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

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

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

An analysis of the above mentioned definitions make us clear that investment has following attributes:

- Anticipation of return: An investor is ready to sacrifice his present consumption and put to employ the money only in anticipation of future return or reward. An investor expects from his/her investment that its value is preserved and some additional income can be generated in future.
- Involvement of risk: The timing and the magnitude of return from majority of investments cannot be predicted exactly. The investment is made at present and it is obviously certain. However, the return is expected in some future date which is uncertain. The uncertainty brings the risk. Therefore, every investment involves some risk.
- Time dimension: Another important attribute of investment is the time dimension. There is time lapse between the investment of money and generation of return. The expectation of return also depends on the length of time horizon until the investment is tied up.

2.1.2 Investment Policy of a Bank

A bank receives funds in the following ways:

- Capital funds
- Borrowing
- Deposits
- Other liabilities

These funds are invested in following assets.

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

2.1.3 Feature of Sound Lending Policy

The income and profit of a bank depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credit created by the bank, the higher will be the profitability. A sound lending and investment policy is not only prerequisites for bank's profitability but also crucially significant for the promotion of commercial savings of a backward country like Nepal.

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

a. Safety and Security

The bank should never invest its funds in those securities, which are too much volatile and floatable since a small change can cause a great loss. Similarly, speculative business that can be bankrupt at once or earn millions in a minute should not be finalized at all. The bank should accept those securities, which are commercially durable, marketable and have high market prices. In this case, "MAST" should be followed for the investment.

Where,

M = Marketability

A = Ascertainibility

S = Stability

T = Transferability

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

b. Liquidity

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

c. Profitability

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

d. Suitability/Purpose of Loan

Bank should always know why a customer needs loan because if the borrower misuses the loan granted by bank, he will never be able to repay loan. In order to avoid such circumstance, steps should be taken to select the suitable borrowers. The bank should demand all the essential detailed information about the scheme of the project in which it is lending for bank must keep in mind the overall development plans of the nation and the credit policy of the concerned authority i.e. central bank.

e. Diversification

"A bank should not lay all its eggs on the same basket." This saying is very important to the bank and it should be always careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average, if a security of a company is deprived of; there may be appreciation in the securities of other companies. In this way, loss can be recovered (Wolf, 2002).

f. Tangibility

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

g. Legality

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

h. National Interest

In addition to its own profitability, a bank should consider national interest. Even though the bank cannot get maximum return from such investment, it should carry out its obligation towards the society and the nation. The bank is required to invest on such sectors as per the Government and Nepal Rastra Bank's instructions. Investment on government bonds, priority and deprived sector lending are the examples of such investments.

2.1.4 Meaning of Some Important Terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below:

a. Deposits

Deposits mean the amounts deposited in different accounts such as fixed account, current account, saving account, etc of bank or financial institutions.

Deposit is the major source of liquidity for a commercial bank. It is also the main source of fund that a bank usually uses for the generation of profit. Therefore, the efficiency of the bank depends on its ability to attract deposits. The deposits of the bank are affected by various factors which are as follows:

- Types of customers
- Physical facilities of bank
- Management accessibility of customer
- Types and ranges of services offered by the bank
- Interest rate paid on deposits

In addition to the above, the prevailing economic conditions exert a decisive influence on the amount of deposit the bank receives.

Basically deposits are categorized in three headings for accounting and analysis purpose:

1. Current deposits
2. Saving deposits
3. Fixed deposits

b. Loan and Advances

Loan, advances and overdrafts are the main sources of income and most profitable asset to a bank. Bank deposits can cross beyond a desired level but the level of loan, advances and overdrafts are the main services which customer of the bank can enjoy. Funds borrowed from banks are much cheaper than those borrowed from unorganized moneylenders. The demand for loan has excessively increased due to cheaper interest rate in comparison to personal sources. Furthermore, an increase in economic and business activity always increases the demand for funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loan from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect of low interest rate.

In addition to this, some portion of loan, advances and overdraft includes that amount which is given to staff of the bank for house loan, vehicle loan, personal loan and others. In mobilization of commercial banks fund, loan, advances and overdrafts have occupied a large portion.

c. Investment on Government Securities, Shares and Debentures

Though commercial banks can earn some interest and dividend from the investment on government securities, shares and debentures, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons. Some of them are given below:

1. It may want to space it maturates so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers.
2. It may wish to have high grade marketable securities to liquidate if its primary reserve becomes inadequate.
3. It may also be forced to invest because the demand for loans has decreased or is insufficient to absorb its excess reserves.

However, investment portfolio of a commercial bank is established and maintained primarily with the view of nature of bank’s liabilities i.e. since depositors may demand funds in great volume without notice to banks, the investment must be of the type that can be marketed quickly with little or no shrinkage in value.

d. Investment on Other Company’s Shares and Debentures

Most of the commercial banks invest their excess funds to the shares and debentures of other financial and non financial companies. Due to excess funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank's directives many commercial banks utilize their funds to purchase shares and debentures of many other financial and non financial companies. Nowadays, most of commercial banks have purchased regional development banks', NIDC's and other development bank's shares.

e. Other Use of Funds

A commercial bank must maintain the minimum bank balance with NRB i.e. 6% for fixed deposit and 8% for each of current and saving deposit account in local currency. Similarly, 3% cash balance of local cash balance, in local currency accounts must be maintained in the vault of the bank. Again a part of the fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery, etc.

f. Off- Balance Sheet Activities

Off balance sheet activities involve contracts for future purchase and sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities in balance sheet. Some examples of these items are letter of credit, letter of guarantee, bills of collection, etc. these activities are very important as they are the good source of profit of bank though they have risk. Nowadays, some economists and finance specialists stressfully highlight such activities to expand the modern transactions of a bank.

2.2 Review of Books

According to Balla & Tutesa (1983:2), there are basically three concepts of investment.

William J. Sharpe and Alexander J. Gordon (1999) defined investment in this way "Investment, in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk.

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

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

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

Shakespeare Baidhya has an elaborated definition on 'investment' which beseeches of sound investment policy and covers wider aspects. He writes, "A sound investment policy of a bank is such that its fund are distributed on different types of assets with good profitability on the hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial problems, its problem usually springs from significant account of loans that have become uncollectable due to mismanagement, illegal economic downturn. Therefore, bank's investment policy must be such that it ensures sound and prudent in order to protect public funds (Baidhya, 1997: 46-47).

Sunity Shrestha (1998) has expressed similar view on investment. She stresses on the fulfillment of credit needs of various sectors which ensures investment.

She expressed in her book ‘Portfolio Behaviour of commercial Banks in Nepal’- “The commercial banks fulfill the credit needs of various economic sectors including policy of commercial banks which is based on the profit maximization of the institute as well as the economic enhancement of the country” (Shrestha, 1999: 51-52).

2.3 Review of Related Studies

2.3.1 Review of NRB Act

There are various acts concerning the study, which are basically involved in this section; the review of acts framework (environment) under which the commercial banks are operating has been discussed. In this act, environment has significant impact on the commercial banks establishment, their mobilization and utilization of resources. All the commercial banks have to confirm to the act, provision specified in the Commercial Bank Act 2031 and the rules and regulations formulated to facilitate the smooth running of commercial banks. The preamble of Nepal Bank Act, 1994 clearly states the need of commercial banks in Nepal. “In the absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore, with the objectives of fulfilling that need by providing services to the people and for the betterment of the country, this law is hereby promulgated for the establishment of the bank and its operation” (Nepal Bank Act, 1964).

As mentioned in this act, commercial banks will be in banking business by opening branches in the different parts of the country. Under the direction of NRB, the main function of commercial banks was established. Providing this act will be the exchange of money, to accept deposits and provide loans to commercial banks and business activities, that to mobilize banks deposits in different sectors of different parts of the nation to prevent them from the financial problems. Central Bank (NRB) established a legal framework by formulating various rules and regulations (Prudential norms). These directives must have direct or indirect impact while making decision to discuss those rules and regulations, which are formulated by NRB in term of investment and credit to priority sector, deprived sector, and other institutions. Single borrower limits, CRR, loan loss provision, capital adequacy relation, interest spread are the productive sector investment. A commercial bank is directly related to the fact that how much fund is needed to expand the branch counters, how much flexible and helpful the NRB rules are also important. But we discuss only those, which are related to investment function of commercial banks. The main provisions, established by NRB in the form of prudential norms in above relevant area are briefly discussed here under:

a. Provision for maintaining Minimum Capital Fund

As per the Unified Directives (Ashadh End 2067) issued by NRB, the licensed institutions are instructed to maintain the minimum capital with respect to the minimum capital as under:

Table 2.1

Provision for Maintaining Minimum Capital Fund

Institution	Minimum Capital to be maintained as per the Risk Weight Asset (%)	
	Core Capital	Capital
A' Class	6.0	10.0
B' & 'C' Class	5.5	11.0
D' Class	4.0	8.0

b. Provision for Investment in Productive Sector

There are various productive sectors of the country. Nepal, being a developing country needs to develop its infrastructure and other primary productive sectors like agriculture, industrial, etc. For this, NRB has directed commercial banks to extend at least 40% of their total credit to the productive sectors. Loans to priority sector, agriculture sector, industrial sector has to be included in productive sector investment.

c. Provision for Investment in Priority Sector

NRB requires commercial banks to extend loans and advances, amounting at least to 12% of their total outstanding credit to priority sector. Commercial banks credit to the deprived sector is also a part of priority sector. Credit to agriculture, cottage and small industries, service and counted commercial banks loan to the co-operative licensed by NRB is also to be computed as the priority sector credit from the fiscal year 1995/1996 onwards.

d. Provision for Investment in Deprived Sector

The deprived sector credit limit is determined by NRB from 1.5% to 3% of the total outstanding credit from bank to bank. Investment in share capital of rural development banks, advances of rural development banks and other development banks engaged in poverty alleviation programs advances to co-operative, non government organizations and small farmer co-operative approved by NRB for carrying out banking transactions are included under deprived sector credit program.

e. Provision Regarding Interest Spread Rate

Previously, NRB had directed the commercial banks to limit its interest rates spread with the maximum of 5%. Interest rates spread is the difference between the interests charged on loan and advances and the interest paid to the depositors. But this policy has been revised by NRB (Unified Directives 2067) stating the spread on deposit and lending to be fixed by the licensed institutions themselves. As per the directives, no licensed financial institutions except Class “D” institutions are allowed to fix flat rate on loans and advances as well as deposits.

f. Provision regarding Capital Adequacy Funds (CAR)

All commercial banks are directed to maintain the minimum capital fund on the basis of risk weighted assets i.e. CAR in the following ratio given below:

Table 2.3

Provision for Capital Adequacy Funds

Institutions	CAR of their Weighted Assets	
	Core Capital	**Supplementary Capital**
A, B & C class	6%	10%

Source: Capital Adequacy Framework 2007 (Updated July 2008)

Where core capital includes paid up capital, share premium, non-redeemable preference shares, and general reserve fund and accumulated loss/profit. Supplementary capital includes general loans provision, exchange equalization reserve, hybrid capital instruments, subordinated term debt and free reserves.
As per the directives, there are two types of the total risk weighted asset. They are:

- Risk Weighted On Balance Sheet Assets
- Risk Weighted Off Balance Sheet Assets

For the purpose of calculation of capital fund, the On-balance Sheet Assets are divided as follows with assignment of separate risk weight age. Accordingly, for determining the Total Risk Weighted Assets, the amount as exhibited in the balance sheet shall be multiplied by their respective risk weight and then added together.

g. Provision regarding Margin Lending

According to Unified Directives 2067, if the licensed financial institutions have made any Margin Lending, the margin call shall be made only if the fall in share price is beyond 10%. Also Margin Loans are eligible for renewal and can be renewed up to 75% of remaining principal loan amount if the borrower has cleared 100% interest and repaid 25% of principal amount.

h. Provision regarding Blacklisting of Defaulting Borrowers

For maintaining healthy credit and for safeguarding the loans and advances, NRB has brought forward a concept of obtaining the information of all borrowers from one roof. For accomplishment of this task, the Credit Information Centre was established under NRB Credit Information Bylaw, 2059. The main function of Credit Information Centre is to prepare the list of the borrowers (i.e. availing loan more than Rs.25 lacs) of different financial institutions that are not paying the dues regularly, make their list. The financial institutions before granting loan ask for the information of the borrower about his credibility from this institution with certain fee. After getting the request from the licensed institute, the CIC sends the confidential report to the concerned institute about the status of the borrower. The CIC itself does not black list the borrower, but based on its remark, the blacklisting is done by NRB. The NRB has classified the defaulters into two category based on their nature. They are:

- Willful Defaulters
- Non- Willful Defaulters

Similarly, there are different conditions where a borrower is blacklisted. They are as follows:

- If the interest or installment of both remains overdue for than 1 year
- If the loan amount is found to be misused or if the loan amount is found to be invested in the project other than mentioned by the borrower while obtaining the loan.
- If the security kept as collateral is found to be misused.
- If the borrower disappears or does not come in contact with the Bank for one year
- If the borrower is bankrupted legally
- If the case is filed against the borrower in the court
- If the borrower is found to be involved in any fraudulent activities using duplicate cheques/ drafts/bills/ Debit Card or other equipment.

i. Provision regarding Classification of Loans & Advances and Non performing assets (NPA)

NRB has classified the loans and advances into four categories on the basis of the days of overdue period. They are as follows:

- Pass Loans
- Sub-standard loans
- Doubtful Loans
- Loss Loans

Pass loans are also called the performing loans whereas sub-standard, doubtful and loss loans are called non performing loans. Pass loans are the loans where there is no overdue or the overdue is up to 3 months. In case of the pass loan, the provisioning of 1% shall be made of the principal outstanding. Similarly, in case of sub-standard loan, the overdue is from 3 months to 6 months and the provisioning made is 25% of the principal outstanding. When the loans and advances are not paid from six to one year, it falls into doubtful loan and the provisioning made is 50% of the principal outstanding. Similarly, if overdue period crosses more than one year, it falls in loss category. Here, 100% of the principal outstanding shall be provisioned.

For the losses that have been insured in Deposit and Credit Guarantee Corporation (DICGC), only 25% of the insured percentage shall be maintained i.e. 0.25% for pass loan, 6.25% for sub-standard, 12.5% for doubtful and 25% for the Loss.

For the loans that have been rescheduled or restructured into pass loan, 12.5% of provisioning shall be done. If the payment of principal and interest for the rescheduled or restructured loan is regular for 2 years, it can be converted into pass loan. The loan granted to the investors investing in Initial Public Offering (IPO) cannot be rescheduled or restructured.

2.3.2 Review of Articles/Journals

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

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

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

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

Similarly, Bhagat Bista (1991), in his paper, *"Nepalma Adhunik banking Byabastha"* has made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of JVBs (Joint

Venture Banks) in the field of commercial banks. At the end of the paper, he has concluded that the establishment of JVBs a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation, consortium finance and modern fee based activities into the economy. These are indeed significant milestone in the financial development process to the economy.

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

Ramesh Lal Shrestha (2047), in his article *"A study on deposit and credit of commercial bank in Nepal,"* concluded that the credit deposit ratio would be 51.30% other things remaining the same in Nepal, which was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering few field as far as possible, otherwise they might not be able to absorb even the total expenses.

Sunity Shrestha (2055) in her article *"Lending operation of commercial banks of Nepal and its impact on gross domestic product (GDP)"* has presented with the objectives to make an analysis of contribution of commercial banks leading to the gross domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial, service, general and social sector as independent variables. A multiple regression technique has been analyzed in the contribution.

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

2.3.3 Review of Research Paper

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

Sunity Shrestha (1993), on her research *"Investment planning of commercial Banks in Nepal"* has made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study she concludes that the bank portfolio (land and investment) of commercial banks have been influenced by the variable securities rates. Investment planning of commercial 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 terms of profitability. To overcome this problem she has suggested that commercial banks should take their investment function with proper business attitude and should perform leading and investment operation efficiently with the proper analysis of the project (Shrestha, 1993).

Radhe Shyam Pradhan (1994) on his research, *"Financial Management and practices in Nepal"*, has studied about the major features of financial management practices in Nepal. To address his issue, a survey of 78 enterprises was carried out by distributing a multipart questionnaire, which contained questions on various aspects of financial management practices in Nepal. The survey mainly dealt with financial functions, sources and types of financing,

financing decisions involving debt, effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy. The major findings of the study concerned with the financial management are given below: -

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

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

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

He has further stressed that in case of investors having lower income, portfolio management may be limited to small saving incomes. But, on the other hand, portfolio management means to invest funds in various schemes of mutual funds like deposits, shares and debentures for the investors with surplus income. Therefore, portfolio management becomes very important both for an individual as well as institutional investors. Large investors would like to select a best mix of investment assets and subject to the following aspects:

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

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

a. To find out the investing assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need deposition, liquidity and tax liquidity etc.
b. To find out the risk of securities depending upon the attitude of investor towards risk.
c. To develop alternative investment strategies for selection of better portfolio which will ensure a trade off between risk and return so as to attain the primary objective of wealth maximization at lowest risk.
d. To identity variety of securities for investment to refuse volatility of risk and returns (Shrestha, 2055).

Bhaskar Sharma, in his study, "*Banking the future on competition*," has stated that most of the commercial banks are establishing and providing their services in urban areas only. They have not been able to extend their branches in rural areas. Only Nepal Bank Ltd and Rastriya Banijya Bank Ltd have established their branches in those sectors. He has drawn following conclusions in his study:

a. Commercial banks are charging higher interest rate on lending.
b. They have maximum tax concession.
c. They do not properly analyze the credit system.

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

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

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

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

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

2.3.4 Review of Thesis

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

Bohara (2002) has conducted a study entitled, "*A Comparative Study on Investment Policy of Joint Venture Banks and Financial Companies of Nepal,*" The main objectives of study are as follows.

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

Major findings of the research study are as follows:

a. All the selected firms show that banks were not successful in mobilization their deposits but finance companies have mobilized their deposit smoothly in comparison with JVBs.

b. The profitability position of all finance companies was better than JVBs.
c. The liquidity position of JVBs is comparatively better than that of financial companies.
d. All the finance companies have maintained higher growth rates in comparison to JVBs. Finance companies have not got sufficient investment opportunities.

Dhital (2004) conducted a study on *"A Comparative Study on Investment Policy of Standard Chartered Bank Nepal Ltd. and Bank of Kathmandu Ltd."* The study is mainly based on secondary data with the following objectives.

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

The major findings of the research study are as follows:

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

Shakya (2004) conducted a study on *"A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and Bank of Kathmandu Ltd."* with following objectives:

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

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

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

Joshi (2005) conducted a study on *"A comparative study of Everest Bank Ltd. with NABIL Bank Ltd and Bank of Kathmandu Ltd"* with following objectives:

a. To discuss fund mobilization and investment policy of EBL, NABIL and Bank of Kathmandu Ltd.

b. To evaluate the liquidity, efficiency and profitability and risk position.
c. To evaluate the growth ratios of loan and advances, total investment with other financial variables.
d. To analyze the trends of deposit utilization towards total investment and loan and advances.
e. To conduct hypothetical test to find whether there is significant difference between the various important ratios of EBL, NABIL and BOKL.

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

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

Pant (2005) conducted a study on *"Investment policy of NABIL Bank, Himalayan Bank & Nepal Bangladesh Bank Ltd,"* with following objectives:

a. To evaluate the liquidity, efficiency of assets management, profitability and risk position of concerned commercial banks and compare with each other.

b. To make a comparative study on fund mobilization and investment policy of selected banks.
c. To find out the empirical relationship between the variables affecting the investment policy.
d. To study the view and ideas of the financial executives and customers regarding the knowledge on the investment policy adopted by commercial banks.

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

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

Chauhan (2008) conducted a study on *"A Comparative Study on Investment Policy of NABIL Bank Ltd and Nepal Investment Bank Ltd."* The study is mainly based on secondary data with the following objectives:

a. To study the assets management system, profitability and risk position of the commercial banks under study.
b. To analyze the relationship between total investment and deposit, deposit and loan and advances, net profit and outside assets of commercial banks.

c. To evaluate the trend of deposit utilization.
d. To provide suggestion for improvement on the basis of findings.

The major findings of the research study are as follows:

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

Khand (2010) conducted a study on *“A Study on Investment Policy of Commercial Banks of Nepal (A Comparative Study of Bank of Kathmandu Ltd. & Everest Bank Ltd.)”* with following objectives:

a. To evaluate the liquidity, asset management, efficiency, profitability and risk position of EBL & BOKL
b. To analyze investment policies and the fund mobilization of sample banks
c. To examine the relationship between total investments, deposits, loans and advances, net profit and asset and compare them
d. To analyze the deposit utilization trend and its projection for five years of EBL & BOKL

The major findings of the research are as follows:

a. The liquidity position of EBL is comparatively better than BOK. Lower liquidity position of BOK shows that the current assets have been utilized in some profit generating sectors, but at the same time the bank has weak short term solvency position.
b. The assets management ratios show that EBL has better utilization of assets in productive sector. BOK has invested more funds in securities which are less productive.
c. The analysis of profitability ratios reveal that EBL has earned higher profit than BOK.
d. The overall financial performance of EBL is little better than BOK.

2.4 Research Gap

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

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

CHAPTER – III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the four various sequential steps to be adopted by the researcher in studying a problem with certain objectives in view. According to Dr. V. P. Michael, "Research is a process of systematic and in-depth study or search for any particular topic, subject, or area of investigation".

Research methodology describes the methods and processes in the entire aspect of the study. In other words, research methodology is a systematic way to solve the research problem. It refers to the various sequential steps to be adopted by the researcher in studying the problems with certain objectives. It is the methods or process applied to solve the defined research process. A focus is given to research design, sample selection, data collection procedures, data processing, etc.

3.2 Research Design

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

3.3 Population and Sample

All the groups, individuals and elements under study period are the population and unbiased representation of the population is sample. For the study purposes, total commercial banks are the population and the commercial banks under study constitutes the sample. There are altogether 30 commercial banks functioning in Nepal till date which are the population of the study. To attain the objectives, Nabil Bank Ltd. (NABIL) and Bank of Kathmandu Limited (BOKL) are selected to be comparatively analyzed as sample units among these banks because the data can be obtained easily and Nabil is one of the well established commercial bank whereas BOKL is less established in comparison with Nabil. Likewise, financial statements of five years are selected as samples for the purpose of it.

3.4 Nature and Sources of Data

This study is based on secondary data. The data required for the analysis is obtained from concerned banks' annual reports. The other sources of secondary data are NRB Directives, Economic survey of Government of Nepal and Ministry of Finance, different websites, published and unpublished articles/reports from various sources and dissertations of Master Degree students submitted to FOM and T.U.

3.5 Data Collection Procedure

Since the study is based on secondary data, they are directly collected from the annual reports of the concerned banks. Additional information has been collected from NRB, Securities Board of Nepal, Economic survey and websites of the banks under study.

3.6 Data Analysis Tool

Presentation and analysis of data is one of the important part of the research work. The collected raw data will first be presented in systematic manner in tabular form and then will be analyzed by applying different financial and statistical tools. For the purpose of data analysis, various financial and statistical tools have been used. The analysis of data is done according to the pattern of data available. Mainly financial tools and statistical tools are used in this research. Besides these, some graphs, charts and tables have been presented to analyze and interpret the findings of the study. The major tools applied in this study are discussed in the ensuing section.

3.6.1 Financial Tools

Financial analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data.

"Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account". Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance (Metcalf, 1976).

Financial analysis enables us to explore various facts related to the past performance of business and predicts about the future potentials for achieving expected results. The facts discovered by the analysis are perceived differently by different groups associated with the concern. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted on the basis of objectives in the hand.

Such analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources.

The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. There are various tools and techniques of financial statement analysis, each of which is used according to the purpose for which the analysis is carried out. The widely used techniques are as follows:

1. Ratio Analysis
2. Du Pont System of Financial Statement Analysis

3. Common Size Analysis
4. Funds Flow Analysis
5. Cash Flow Analysis

However, in this study ratio analysis has been used.

Ratio Analysis

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

Ratio analysis has been used as a major tool in the interpretation and evaluation of financial analysis. In financial analysis, a ratio is used as a yardstick for the evaluation of financial performance of the firm. The analysis of financial ratio involves two types of comparison. First, the present ratio may be compared with the past and expected future ratios for the same company and second, the method of comparison involves comparing the ratios of one firm with those of similar firm or with industry averages at the same point, in time. Such comparison gives insight into the financial performance of the firm. Ratio analysis is widely in use. It may not give the entire picture of an enterprise. Ratios themselves are not conclusion. They are only the means. The Ratios are calculated from data available in the financial statement of an enterprise. The Ratio computed from the available data are numerical, there should not be the tendency to regard them as a precise portrayals of a firm's true financial status. For some firms, accounting data may closely approximate economic reality, for others, it is necessary to go beyond the figures in order to obtain their financial condition of performance.

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

i. Liquidity Ratio

Banks are in a business where liquidity is of prime importance. Any financial institution must always be liquid to meet the depositors' and creditors' demand to maintain public confidence. There needs to be an effective assets and liabilities management system to minimize the maturity mismatches between assets and liabilities and to optimize returns. As liquidity has inverse relationship with profitability, financial institutions must strike a balance between liquidity and profitability. Banks must be able to manage demand and supply of funds. Cash balance, bank balance and investment in government bonds are the most liquid form of assets.

Liquidity is the ability of a firm to meet its current/short-term obligations when they fall due. A company should have enough cash and other current assets, which can be easily converted into cash so that it can meet its due obligations. In case of commercial banks, short term obligations are current deposits, saving deposits, short term loans and sources of meeting these obligations are cash and bank balance, money at call and short notice, investment in government securities and bills discounted and purchased.

From these ratios, much insight can be obtained into the present cash solvency of the firm and the firm's ability to remain solvent in the event of adversity. In the case of commercial banks, first type of liquidity risk arises when depositors of commercial banks seek to withdraw their money and the second type does when commitment holders want to exercise the commitments recorded off the balance sheet. Commercial banks have to borrow the additional funds or sell the assets at fire sale price to pay off the deposit liabilities. They become insolvent if sale price of the assets are not enough to meet the liability withdrawals. The second type of liquidity risk arises when demand for unexpected loans cannot be met due to the lack of the funds. Commercial banks can raise the funds by running down their cash assets, borrowing additional funds in the money markets and selling off other assets at distressed price. Both liquidity risks affect the health of commercial banks adversely.

Therefore, managing liquidity is among the most important activities conducted by the banks. Liquidity of the bank should be maintained according to the standards. Excess liquidity as well as lack of liquidity can be considered as bad symptoms to the bank. If the bank does not hold enough liquidity, it will not be able to meet its obligations, take advantage of favorable business opportunities and meet emergencies. On the other hand, a high degree of liquidity maintained to minimize such liquidity risks seriously affects the profit earning capacity of commercial banks. Returns on highly liquid assets are almost zero. In such a case, assets remain idle which adds nothing to the bank’s earnings. So maintaining the right balance between liquidity position and profitability is very important. It is mandatory for commercial banks to maintain a certain percentage of their deposits as reserves with the NRB according to its regulations. The following ratios are evaluated under liquidity ratio:

a. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors. In other words, this ratio is employed to measure whether the banks’ cash balance is sufficient to cover unexpected demand made by the depositors or not. It is calculated by dividing cash and bank balance by total deposit.

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

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes deposits made by customers through different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts. A higher ratio shows higher liquidity and greater ability of the bank to meet unexpected demand made by the depositors.

b. Investment on Government Securities to Total Current Assets Ratio

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

Investment on Government securities to Current Assets Ratio

$$= \frac{\text{Investment on Govt. Securities}}{\text{Current assets}}$$

c. Loan and Advances to Current Assets Ratio

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

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

ii. Assets Management Ratio (Activity Ratio)

Asset management or activity or turnover ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions.

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

a. Loan and Advances to Total Deposit Ratio or Credit to Deposit Ratio (CD Ratio)

The CD Ratio reveals the efficiency with which the commercial and financial intermediaries are tapping savings from the available sources and channelizing them to various productive activities of the economy.

The ratio tries to find out to what extend the bank is able to utilize the depositor's funds to earn profit, by providing loans and advances. It is computed by dividing the total amount of loans and advances by total deposit. Higher ratio indicates proper utilization of funds whereas low ratio is the signal that the company has more funds than it really needs for its operations. This ratio is calculated as:

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

b. Total Investment to Total Deposit Ratio

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

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

c. Loan and Advances to Total Working Fund Ratio

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

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

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

d. Investment on Government Securities to Total Working Fund Ratio

This ratio shows the relationship between the bank's investments on securities in comparison to the total working funds. This ratio can be computed by dividing investment on government securities by total working fund. The ratio is computed as:

Investment on Government Securities to Total Working Fund Ratio

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

iii. Profitability Ratio

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation (Panday, 1998).

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

a. Return on Loan and Advances Ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which is expressed as:

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

b. Return on Equity Ratio (ROE)

Net worth refers to the owner's claim of a bank. The excess amount of fund of total assets over liabilities is known as net worth. This ratio measures how efficiency the banks have used the funds of owner. This ratio can be computed by dividing net profit by total equity capital (net worth). This can be calculated as:

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

Here, total equity capital includes shareholders' reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

c. Total Interest Earned to Total outside Assets Ratio

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

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

The numerator includes total interest income from loans and advances and investment in different sectors by the bank in an accounting year whereas the denominator comprises loan and advances, bills purchased and discounted and all type of investment.

iv. Growth Ratios

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

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

v. Risk Ratio

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

a. Credit Risk Ratio

Credit risk ratio helps to check the profitability of loan non-repayment on the possibility of loan to go default. Credit risk is expressed as the percentage of non-performing loan to total loan and advances. Credit risk ratio is computed as:

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

3.6.2 Statistical Tools

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

a. Mean

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

$$\bar{X} \, X \frac{X}{n}$$

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

N = Number of pairs of observations.

b. Standard Deviation

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

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

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

N = No. of observations

c. Coefficient of Variance

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

$$\text{C.V.} = \frac{\sigma}{\overline{\text{X}}}$$

Here, ± = Standard Deviation

$\overline{X}$ = Average or Mean

d. Measures of Correlation

Correlation refers the degree of relationship between (or among) two or more variables. The correlation between the different variables of sample banks is compared to measure the performance of these banks. If the two variables are so related that the change in the value of one independent variable results the change in the value of dependent variable then they are said to have 'correlation'. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient between two variables describes the degree of relationship between those two variables. It interprets whether two or more variables are correlated positively or negatively. Karl Pearson method is applied in this study. The result of coefficient of correlation is always between + and -1. Coefficient of correlation (r) is given by the following formulas:

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

Where, dx = $(X \ \text{Z} \overline{X})$

dy = $(Y \ \text{Z} \overline{Y})$

$$\text{Probable Error of r (P.Er)} = 0.6745 \frac{1 \text{Z} r^2}{\sqrt{N}}$$

e. Least Square Trend Analysis

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

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

The general equation used for lines trend given below: -

$$y = a + bx$$

Where,

y = Dependent variance

x = Coded time in year

a = y – intercept

b = slope

In the above model,

$$a = \quad Y / N$$

$$b = \quad XY / \quad X^2$$

f. Chi-square Test

The chi-square test tested in this study is stated as following:

H_0: The banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

H_1: The banks are not successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

H_0: Nabil bank capacity to mobilize its deposits on total investment is better than BOKL.

H_1: Nabil bank capacity to mobilize its deposits on total investment is not better than BOKL.

The formula to calculate the chi-square is given below.

Chi-square $(\Re^2) = \phi \frac{(O\,Z E)^2}{E}$

Where, O = Observed frequency

E = Expected frequency

3.7 Limitations of the Research Methodology

Each methodology suffers from some kind of limitations. Therefore, the methodology used in this research cannot be different from the common limitations of same type of researches. However, in analyzing the investment policy of the selected sample, the tools applied cannot best describe the relationship between the variables under the study since it is affected by numerous other assumptions. Also, the study is limited to the numerical data and the numerical values for measuring the investment policy, keeping the thought and intensions away.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

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

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

4.1 Analysis of Liquidity Position

4.1.1 Cash and Bank Balance to Total Deposit Ratio

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

Table 4.1

Cash and Bank Balance to Total Deposit Ratio (%)

Banks	**Fiscal Year**					**Mean**	**S.D.**	**C.V.**
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**			
NABIL	6.87	3.84	3.25	5.99	8.36	5.66	1.90	0.3357
BOKL	10.10	8.27	6.94	10.61	9.09	9.00	1.31	0.1455

Source: Appendix – 1

The table 4.1 shows that the cash and bank balance to total deposit ratio of both banks have fluctuating trend. Nabil Bank's highest ratio was 8.36% in FY 2008/09 and lowest was 3.25% in FY 2006/07. Similarly, in case of BOKL, highest ratio was 10.61% in FY 2007/08 and lowest was 6.94% in FY 2006/07. The mean ratio of BOKL is higher than Nabil i.e. 9.00%>5.66%. On the basis of coefficient variances, it can be concluded that Nabil Bank's ratios are less consistent than that of BOKL i.e. 0.3357 > 0.1455.

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

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

4.1.2 Investment on Government Securities to Current Assets Ratio

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

Table 4.2

Investment on Government Securities to Current Assets Ratio (%)

Banks	**Fiscal Year**					**Mean**	**S.D.**	**C.V.**
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**			
NABIL	23.08	14.83	10.72	18.17	14.44	16.25	4.15	0.2554
BOKL	25.82	22.40	22.19	16.69	12.30	19.88	4.79	0.2409

Source: Appendix -2

Table 4.2 shows that Nabil bank's investment on government securities to current assets ratio is in fluctuating trend. During the study period the highest ratio maintained by it was in the year 2004/05 i.e. 23.08% and the lowest was 10.72% in the year 2006/07, which is the less than half of the highest ratio maintained by it. On the other hand BOKL's ratio is in decreasing trend. The highest ratio was 25.82% in FY 2004/05 and the lowest was 12.30% in FY 2008/09, which is nearly half of the highest ratio maintained by it.

Overall, the mean of investment on government securities to current assets of BOKL was higher than that of Nabil i.e. 19.88%>16.25%. It means BOKL has invested more of its current assets in government securities than Nabil. On the other hand, coefficient of variability of ratio of BOKL was less than that of Nabil i.e. 0.2409 < 2554, which means that the variability of ratio of BOKL was more homogenous than that of NABIL.

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

4.1.3 Loan and Advances to Current Asset Ratio

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

Table 4.3

Loan and Advances to current Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
NABIL	51.46	65.02	60.20	58.76	59.47	58.98	4.35	0.0738
BOKL	61.50	61.70	60.70	67.28	72.55	64.75	4.55	0.0703

Source: Appendix – 3

The table 4.3 shows that Nabil maintained highest ratio in the years 2005/06 i.e. 65.02% and lowest in the year 2004/05 i.e. 51.46%. On the other hand, BOKL maintained highest ratio in the year 2008/09 i.e. 72.55% and lowest in the year 2006/07 i.e. 60.70%. While examining the mean ratio, Nabil has maintained lower ratio i.e. 58.98% than that of BOKL i.e. 64.75%. Similarly, coefficient of variation among ratios is slightly higher in case of Nabil than BOKL i.e. 0.0738 > 0.0703. It indicates inconsistency of Nabil bank's ratio in comparison to BOKL.

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

4.2 Analysis of the Assets Management Position of the Banks

A commercial bank must be able to manage its assets very well to earn high profit, to satisfy its customers and for its own existence. Assets management ratio measures how efficiently the bank manages the resources at its command. Through following assets management ability of Nabil is compared with that of BOKL.

4.2.1 Loan and Advances to Total Deposit Ratio

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

Table 4.4

Loan and Advances to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
NABIL	58.00	72.58	66.80	66.60	66.94	66.18	4.67	0.0706
BOKL	72.94	66.11	69.23	75.87	78.71	72.57	4.51	0.0621

Source: Appendix - 4

Figure 4.1

Loan and Advances to Total Deposit Ratio

The table 4.4 shows fluctuating trend in case of BOKL whereas Nabil has maintained stability in loan and advances to total Deposit ratio i.e. around 66% in the last three years during the study period i.e. from FY 2006/07 to 2008/09. During the study period the highest ratio maintained by Nabil is 72.58% in the FY 2005/06 and lowest is 58% in FY 2004/05. BOKL seems to be good at mobilizing its total deposit as loan and advances. BOKL mean ratio was higher than that of Nabil i.e. 72.57%>66.18. On the basis of co-efficient of variation we can say that Nabil banks loans and advances were less consistent than BOKL as it has higher C.V. i.e.0.0706 > 0.0621.

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

It should be noted that in the process of loan management of bank assets, so many factors are to consider such as risk analysis, diversification social responsibility, bank credit policy, compensation policy, limits of lending power etc. loan and advances to total deposit ratio is presented in bar diagram in figure 4.1.

4.2.2 Total Investment to Total Deposit Ratio

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

Table 4.5

Total Investment to Total Deposit Ratio (%)

Banks	**Fiscal Year**					**Mean**	**S.D.**	**C.V.**
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**			
NABIL	41.33	29.25	31.93	38.32	31.15	34.40	4.62	0.1343
BOKL	31.99	29.05	32.19	24.15	20.24	27.52	4.66	0.1693

Source: Appendix - 5

Figure 4.2

Total Investment to Total Deposit Ratio

Above table 4.5 reveals that Nabil bank's total investment to total deposit ratios have fluctuating trend. During the study period, in the beginning i.e. FY 2004/05, it maintained 41.33% ratio but in FY 2005/06, the same has decreased to 29.25%. On the other hand, BOKL has fluctuating trend. The highest ratio maintained by BOKL is 32.19% in FY 2006/07 and lowest is 20.24% in FY 2008/09.

On the basis of mean ratio, it can be said that Nabil bank's capacity to mobilize its deposits on total investment is better than that of BOKL because its mean ratio is 34.40% whereas BOKL had 27.52%. On the other hand, observing the C.V. of ratios, we can further concluded that Nabil ratios during the study period have been quite more consistent than that of BOKL because of its lower C.V. i.e. 0.1343 < 0.1693. Total investment to total deposit ratio of Nabil and BOKL are presented in the bar diagram in figure 4.2.

4.2.3 Loan and Advances to Total Working Fund Ratio

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

Table 4.6

Loan and Advances to Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
NABIL	48.91	61.60	57.87	57.04	57.54	56.59	4.17	0.07.37
BOKL	59.46	59.98	59.12	64.51	70.32	62.68	4.29	0.06.84

Source: Appendix – 6

Figure 4.3

Loan and Advances to Total Working Fund Ratio

The table 4.6 shows that Nabil has maintained stability in this ratio i.e. around 57% in the last three years during the study period i.e. from FY 2006/07 to 2008/09. Similarly, on the other hand BOKL has maintained stability in this ratio i.e. around 59% in first three years i.e. from FY 2004/05 to 2006/07.

Observing the mean ratios, it can be said the BOKL has maintained higher ratio i.e. 62.68% than Nabil i.e. 56.59%. This table reveals that BOKL was good at mobilizing its total working funds as loan & advances. However, higher C.V. of Nabil states that its ratios are less consistent than that of BOKL i.e. 0.0737 > 0.0684.

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

4.2.4 Investment on Government Securities to Total Working Fund Ratio

This ratio is very important to know the extent to which the banks are successful in mobilizing their total working fund on different types of government securities to maximize the income. All the deposits of the banks should not be utilized in loan & advances and other credit from security and liquidity point of view.

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

Table 4.7

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

Banks	**Fiscal Year**					**Mean**	**S.D.**	**C.V.**
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**			
NABIL	21.93	14.05	10.30	17.64	13.98	15.58	3.93	0.2522
BOKL	24.97	21.77	21.62	16.00	11.92	19.26	4.67	0.2425

Source: Appendix – 7

Figure 4.4

Investment on Government Securities to Total Working Fund (%)

From the above 4.7 comparative table, it is clear that in case of Nabil, the ratios have shown fluctuating trend. It maintained the highest ratio 21.93% in FY 2004/05 and lowest ratio was 10.30% in 2006/07. On the other hand, the ratio percentage of investment on government securities to total working fund is found in decreasing trend in the case of BOKL. It has maintained highest ratio in FY 2004/05 i.e. 24.97% and lowest in FY 2008/09 i.e. 11.92%.

The comparison of mean ratios of Nabil and BOKL reveal that BOKL was better at mobilizing its working fund as investment in government securities. Likewise, BOKL bank's variability between ratios during the study period was lesser than that of Nabil i.e. 0.2425 < 2522 (Detail in Appendix 7).

4.3 Analysis of the Profitability Position

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

4.3.1 Return on Loan and Advances Ratio

Return on loan and advances ratios measures the earning capacity of a commercial bank on its mobilized fund-based loan and advances. A high ratio indicates greater success to mobilize fund as loan and advance and vice-versa. The following tables show that return on loan and advances ratio of BOKL and Nabil of study period (Detail in appendix 8).

Table 4.8

Return on Loan and Advances Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
NABIL	5.55	4.89	4.91	4.33	3.49	4.63	0.69	0.1490
BOKL	2.25	2.35	2.78	2.79	2.90	2.61	0.26	0.0996

Source: Appendix – 8

Figure 4.5

Return on Loan and Advances Ratio (%)

The above comparative table 4.8 shows that the ratios of return on loan and advances are in decreasing trend in case of Nabil and that of BOKL is in increasing trend. In case of Nabil, it has maintained highest ratio 5.55% in FY 2004/05 and lowest 3.49% in the year 2008/09 whereas, BOKL ratio has increased from 2.25% in FY 2004/05 to 2.90% in the year 2008/09. On the other hand, when the mean ratios are observed, Nabil seem to be good to maintain high return on loan and advances in comparison to the BOKL, Nabil has mean ratio of 4.63% whereas BOKL had quite lower ratio 2.61%. Likewise, high C.V. of Nabil i.e. 0.1490 indicates high variability of ratios than that of BOKL. Thus, in conclusion, it can be said that BOKL seems to be lagging behind to earn high return on its loan and advances in comparison to Nabil.

4.3.2 Return on Equity (ROE)

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return no its equity capital. ROE is the measuring role of the profitability of bank. It reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher success to mobilize its owned capital (equity) and vice versa. This ratio was calculated by dividing net profit by total equity capital including paid up equity capital, and various reserves and surplus (Detail in appendix – 9). The following table 4.9 shows the return on equity of NABIL and BOKL during the study period.

Table 4.9

Return on Equity (%)

Banks	**Fiscal Year**					**Mean**	**S.D.**	**C.V.**
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**			
NABIL	30.70	31.22	33.87	32.77	30.62	31.84	1.28	0.0402
BOKL	19.54	19.30	24.08	26.71	26.92	23.31	3.33	0.1429

Source: Appendix - 9

Figure 4.6

Return on Equity

The listed table 4.9 reveals that Nabil has increasing trend upto FY 2006/07 and thereafter it has decreasing trend. The highest ratio is recorded in FY 2006/07 i.e. 33.87% and lowest is 30.62% in the year 2008/09. Similarly, in case of BOKL, it has increasing trend. The highest ratio i.e. 26.92% and lowest i.e. 19.30% were registered in FY 2008/09 and FY 2005/06 respectively.

On the basis of mean ratios, it can be said that BOKL has been weaker to earn high profit to its shareholders in comparison to Nabil, which can be viewed by the lower mean ratio i.e. 23.31% < 31.84. Likewise, high C.V. among the ratios of BOKL shows its inconsistency in earning profit. Nabil bank’s higher mean ratio and lower C.V. discloses its higher power with higher degree of stability.
Overall, it can be concluded that BOKL has not been able to earn high profit through the efficient utilization of its owned capital. Moreover, its high C.V. shows its less homogenous ratio during the study period, which shows lack of efficient investment policy for the mobilization of capital resources. Return on equity of Nabil and BOKL is presented in figure 4.6.

4.3.3 Total Interest Earned to Total outside Assets Ratio

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

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

Table 4.10

Total Interest Earned to Total Outside Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
NABIL	5.66	6.18	6.12	5.42	5.42	5.76	0.33	0.0573
BOKL	5.40	5.70	5.40	5.56	5.82	5.58	0.16	0.0287

Source: Appendix – 10

Figure 4.7

Total Interest Earned to Total outside Assets Ratio

The comparative table 4.10 reveals that the ratios of both the banks are somewhat stable through out the study period. On the other hand, when mean ratio are observed, Nabil seems to have earned higher amount of interest on its outside assets in comparison to BOKL. The mean ratio of Nabil is slightly higher than BOKL i.e. 5.76% > 5.58%. When the comparison of C.V. of ratios of Nabil also seems to have a higher value than that of BOKL i.e. 0.0573 > 0.0287.

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

4.4 Analysis of Risk Position

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

4.4.1 Credit Risk Ratio

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

Table 4.11

Credit Risk Ratio (%)

Banks	Fiscal Year					Mean	S.D.	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
NABIL	51.05	63.88	59.45	58.35	58.60	58.27	4.12	0.0707
BOKL	62.28	62.71	61.04	66.47	71.93	64.89	3.96	0.0610

Source: Appendix – 11

The table 4.11 shows that credit risk ratio of both the banks are some what stable through out the study period. Nabil has maintained stability in this, ratio i.e. around 58% in the last two years i.e. from FY 2007/08 to 2008/09. Similarly, BOKL has maintained stability in this ratio i.e. around 62% in the first two years i.e. from FY 2004/05 to 2005/06. In case of Nabil, its ratio reached to 63.88% in 2005/06 and lowest ratio i.e. 51.05% in FY 2004/05 where as the ratio of BOKL is highest at 71.93% in FY 2008/09 and the lowest at 61.04% in FY 2006/07.

On the basis of mean ratio, it can be said that credit risk of Nabil is lower than the BOKL i.e. 58.27% < 64.89%. On the other hand, Nabil has higher C.V. than BOKL i.e. 0.0707 > 0.0610 which shows that Nabil bank’s credit risk ratios are more variable than that of BOKL banks.

4.5 Analysis of Growth Position

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

4.5.1 Growth Ratio of Total Deposits

Table 4.12

Growth Ratio of Total Deposits (%)

Banks	Total Deposits (Rs. In million)					
	Fiscal Year					Growth Rates (%)
	2004/05	2005/06	2006/07	2007/08	2008/09	
NABIL	14119	14586	19347	23342	31915	23.33
BOKL	7741	8942	10485	12388	15833	19.68

Source: Annual Reports of Nabil and BOKL, 2004/05 to 2008/09.

Figure 4.8

Growth of Total Deposit

The comparative table 4.12 reveals that the growth ratio in case of BOKL is lower than that of Nabil. The ratio of BOKL is 19.68% where as the same of Nabil is 23.33%. It indicates that Nabil bank's performance in collecting deposit is better than that of BOKL.

4.5.2 Growth Ratio of Loan and Advances

Table 4.13

Growth Ratio of Loan and Advances (%)

Banks	Loan and Advances (Rs. In million)					
	Fiscal Year					Growth Rates (%)
	2004/05	2005/06	2006/07	2007/08	2008/09	
NABIL	8190	10586	12923	15546	21365	27.27
BOKL	5646	5912	7259	9399	12462	22.39

Source: Annual Reports of Nabil and BOKL, 2004/05 to 2008/09.

Figure 4.9

Growth of Loan and Advances

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

4.5.3 Growth Ratio of Total Investment

Table 4.14

Growth Ratio of Total Investment (%)

Banks	Total Investment (Rs. In million)					
	Fiscal Year					Growth Rates (%)
	2004/05	2005/06	2006/07	2007/08	2008/09	
NABIL	5835	4267	6178	8945	9940	18.46
BOKL	2477	2598	3375	2992	3204	7.63

Source: Annual Reports of Nabil and BOKL, 2004/05 to 2008/09

Figure 4.10

Growth of Total Investment

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

4.5.4 Growth Ratio of Net Profit

Table 4.15

Growth Ratio of Net Profit (%)

Banks	**Net Profit (Rs. In million)**					
	Fiscal Year					**Growth Rates (%)**
	2004/05	**2005/06**	**2006/07**	**2007/08**	**2008/09**	
NABIL	455	518	635	674	746	13.32
BOKL	127	139	202	262	361	30.57

Source: Annual Reports of Nabil and BOKL, 2004/05 to 2008/09

Figure 4.11

Growth Ratio of Net Profit

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

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

4.6 Analysis of Relationship

4.6.1 Relationship between Deposit and Loan and Advances

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

The following table shows 'r' 'r^2' P.Er and 6P. Er between those variables of Nabil and BOKL during the study period (Details in Appendix – 12).

Table 4.16

Correlation between Deposit and Loan and Advances

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

Source: Appendix 12

From the table 4.16, in case of Nabil, it was found that co-efficient of correlation between deposit and loan and advances was 0.9894. It shows positive relationship between these two variables. Moreover, we consider the value of co-efficient of determination (r^2), which is 0.9789 and it means 97.89% of the variation in the dependent variable has been explained by the independent variable i.e. deposit. Similarly, considering the value of 'r' was 0.9894 and comparing it with 6P.Er. i.e. 0.03818. We find that 'r' is greater than the value of 6P.Er which reveals significant relationship between deposit and loan and advances in case of Nabil.

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

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

4.6.2 Relationship between Deposit and Total Investment

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

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

The following table 4.17 shows the co-efficient of correlation between deposits and total investment of Nabil and BOKL during the period.

Table 4.17

Correlation between Deposit and Total Investment

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

Source: Appendix 12

From the table 4.17, in case of Nabil it was found that co-efficient of correlation between deposit (independent) and total investment (dependent) value of ‘r’ was 0.9259. It shows positive relationship between those variables. Similarly, the value of co-efficient of determination r^2 was found 0.8573, which shows that 85.73% of the dependent variable has been explained by the independent variable. Similarly, considering the value of ‘r’ was 0.9259 and comparing it with 6P.Er. i.e. 0.2583, we find that’s was greater than the value of 6.P.Er which reveals that the value of ‘r’ was significant.

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

From the analysis, the conclusion can be drawn that in both Nabil and BOKL there was positive relationship between deposits and total investment. In case of BOKL the value of ‘r’ was insignificant, it means BOKL do not have any certain investment policy and are not able to use the deposits in proper way in comparison to Nabil.

4.6.3 Relationship between Outside Assets and Net Profit

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

Table 4.18

Correlation between Total Outside Assets and Net Profit

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

Source: Appendix 12

From the table 4.18, in case of Nabil, it has been found that the co-efficient of correlation between total outside assets (independent) and net profit (dependent) value of 'r' was 0.9152, which shows positive relationship between these two variables. More over, we consider the value of co-efficient of determination (r^2) which was 0.8376 and it means 83.76% of the variation in the dependent variables (net profit) has been explained by the independent variable (total outside assets). Similarly, considering the value of 'r' in comparison to 6P.Er i.e. 0.29394, we can see that the value of 'r' is more than the value of 6P.Er. which reveals that the value of 'r' was significant. In other words there is significant relationship between total outside assets and net profit in case of Nabil.

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

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

4.7 Trend Analysis

4.7.1 Trend Analysis of Total Deposits of NABIL and BOKL

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

Table 4.19

Trend Values of Total Deposits of NABIL and BOKL

Years	NABIL	BOKL
2004/05	11792.2	7151.8
2005/06	16227	9114.8
2006/07	20661.8	11077.8
2007/08	25096.6	13040.8
2008/09	29531.4	15003.8
2009/10	33966.2	16966.8
2010/11	38401	18929.8
2011/12	42835.8	20892.8
2012/13	47270.6	22855.8
2013/14	51705.4	24818.8

Source: Appendix 13

Figure 4.12

Trend Lines of Total Deposit of NABIL and BOKL

The comparative table 4.19 of trend values of total deposits shows that the deposits of both the banks Nabil and BOKL has increasing trend. Other things remaining the same, the deposits of Nabil in the year 2013/14 will be Rs. 51705.4 million and that of BOKL will be Rs. 24818.8 million, which are highest under the study period. From the above analysis it can be concluded that Nabil bank's deposit is comparatively better than that of BOKL.

4.7.2 Trend Analysis of Loan and Advances

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

Table 4.20

Trend Values of Loan and Advances of NABIL and BOKL

(Rs. in million)

Years	NABIL	BOKL
2004/05	7460	4711.8
2005/06	10591	6423.7
2006/07	13722	8135.6
2007/08	16853	9847.5
2008/09	19984	11559.4
2009/10	23115	13271.3
2010/11	26246	14983.2
2011/12	29377	16695.1
2012/13	32508	18407.0
2013/14	35639	20118.9

Source: Appendix – 13

Figure 4.13

Trend Lines of Loan and Advances of NABIL and BOKL

The comparative table 4.20 reveals that the loan and advances of both banks Nabil and BOKL are in increasing trend. Other things remaining the same, total loan and advances of Nabil in the FY 2013/14 will be Rs. 35639 million, which is the highest under the study period. Similarly, the same of BOKL will be Rs. 20118.9 million. From the above trend analysis it is clear that the loan and advances of Nabil is proportionally better than that of BOKL.

4.7.3 Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze total investment of Nabil and BOKL for five years from 2004/05 to 2008/09 and forecast of the same for next five years till 2013/14 (Detail in appendix – 13).

Table 4.21

Trend Values of Total Investment of NABIL and BOKL

(Rs. in million)

Years	NABIL	BOKL
2004/05	4455.4	2559.6
2005/06	5744.2	2744.4
2006/07	7033	2929.2
2007/08	8321.8	3114
2008/09	9610.6	3298.8
2009/10	10899.4	3483.6
2010/11	12188.2	3668.4
2011/12	13477	3853.2
2012/13	14765.8	4038
2013/14	16054.6	4222.8

Source: Appendix 13

Figure 4.14

Trend Lines of Total Investment of NABIL and BOKL

The comparative table 4.21 makes clear that total investment of Nabil and BOKL are in increasing trend. Other things remaining the same, the total investment of Nabil in the year 2013/14 will be Rs. 16054.6 million, which is highest under the study period. Similarly, the same of BOKL will be Rs. 4222.8 million.

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

4.7.4 Trend Analysis of Net Profit

Under this topic an effort has been made to analyze the net profit of Nabil and BOKL for five years from 2004/05 to 2008/09 and forecast of the same for next five years till 2013/14 (Detail in appendix – 13).

The following table 4.22 shows trend values of net profit of Nabil and BOKL for ten years. Trend lines of net profit of Nabil and BOKL are presented in figure 4.15 below.

Table 4.22

Trend values of Net Profit of Nabil and BOKL

(Rs. In million)

Years	NABIL	BOKL
2004/05	458	100
2005/06	531.8	159.1
2006/07	605.6	218.2
2007/08	679.4	277.3
2008/09	753.2	336.4
2009/10	827	395.5
2010/11	900.8	454.6
2011/12	974.6	513.7
2012/13	1048.4	872.8
2013/14	1122.2	631.9

Source: Appendix 13

Figure 4.15

Trend Lines of Net Profit of NABIL and BOKL

From the comparative table 4.22 of trend values of net profit, it has been found that the expected amounts of both the banks are in increasing trend. Other things remaining the same, the net profit of Nabil in the year 2013/14 will be Rs. 1122.2 million, which is the highest under the study period. Similarly, the same of BOKL will be Rs. 631.9 million.

From trend analysis, it is clear that Nabil banks net profit is comparatively better than that of BOKL.

4.8 Chi-square (¡^{2}) Test

The chi-square test calculated as follows:

Table 4.23

Loan and Advances to Total Deposit Ratio

Fiscal Year	NABIL	BOKL	Total
2004/05	58.00	72.94	130.94
2005/06	72.58	66.11	138.69
2006/07	66.80	69.23	136.03
2007/08	66.60	75.87	142.47
2008/09	66.94	78.71	145.65
Total	330.92	362.86	693.78

H_0: The banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

H_1: The banks are not successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

Decision: Since calculated value of χ^2 is less than tabulated value of χ^2, the null hypothesis H_0 is accepted i.e. The banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation (Appendix – 14).

Table 24

Total Investment to Total Deposit Ratio

Fiscal Year	NABIL	BOKL	Total
2004/05	41.33	31.99	73.32
2005/06	29.25	29.05	58.30
2006/07	31.93	32.19	64.12
2007/08	38.32	24.15	62.47
2008/09	31.15	20.24	51.39
Total	171.98	137.62	309.6

H_0: Nabil bank capacity to mobilize its deposits on total investment is better than BOKL.

H_1: Nabil bank capacity to mobilize its deposits on total investment is not better than BOKL.

Decision: Since calculated value of χ^2 is less than tabulated value of χ^2, the null hypothesis H_0 is accepted i.e. Nabil bank capacity to mobilize its deposits on total investment is better than BOKL. (Appendix – 14)

4.9 Major Findings of the Study

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

b. Investment on government securities to current assets ratio of Nabil is in fluctuating trend. On the other hand BOKL's ratio is in decreasing trend. BOKL has invested more of its current assets in government securities than Nabil. Overall, the liquidity position of both the banks from the point of view on investment on government securities is satisfactory.
c. BOKL has maintained stability in loan and advances to current assets ratio i.e. around 61% in the first two years during the study period i.e. from 2004/05 to 2005/06. Nabil maintained highest ratio in the year 2005/06 i.e. 65.02% and lowest in the year 2004/05 i.e. 51.46% coefficient of variation among ratios is slightly higher in case of Nabil than BOKL i.e. 7.38% > 7.03%. It indicates inconsistency of Nabil banks ratio in comparison to BOKL.
d. Nabil is found slightly weak in comparison to BOKL to mobilize higher amount of loan & advances. But at the same time the high ratio may not be too good from BOKL liquidity point of view.
e. Total investment to total deposit ratio of both the banks is in fluctuating trend. On the basis of mean ratio. Nabil banks capacity to mobilize its deposits on total investment is better than that of BOKL because it mean ratio is 34.40% where as BOKL had 27.52%.
f. BOKL's fund mobilization, in terms of loan and advances with respect to total working fund is slightly more satisfactory than Nabil.
g. Investment on government securities to total working fund ratio of Nabil is in fluctuating trend and the ratio of BOKL is in decreasing trend. The comparison of mean ratios of Nabil and BOKL reveal that BOKL was better at mobilizing its working fund as investment in government securities.
h. The ratio of return on loan and advances of Nabil are in decreasing trend and that of BOKL is in increasing trend. On the other hand, when the mean ratios are observed, Nabil seem to be good to maintain high return

on loan and advances in comparison to the BOKL. Nabil has mean ratio of 4.63% whereas BOKL had quite lower ratios 2.61%.

i. ROE of BOKL is in increasing trend. Nabil has increasing trend upto FY 2006/07 and thereafter it has decreasing trend. On the basis of mean ratio it can be said that BOKL has been weaker to earn high profit to its shareholders in comparison to NABIL, which can be viewed by the lower mean ratio i.e. 23.31% < 31.84%.

j. Nabil has slightly high-mobilized fund than BOKL into interest bearing assets i.e. government securities, shares, debenture of other companies, loan and advances etc. Nabil has to efficiently use its fund (outside) to earn high interest income in comparison to BOKL.

k. Growth rate of total deposit, loan and advances and total investment of Nabil is higher in comparison to BOKL.

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

m. The trend values of total deposits, total loan and advances, total investment and net profit of Nabil have better position than BOKL.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

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

Nepalese commercial banks lag for behind fulfilling the responsibility to invest in the crucial sector of the economy for the uplift of the national economy. Thus the problem is very serious one in developing countries like Nepal, which can be solved developing countries like Nepal, which can be solved through formulation of sound investment policy. Good investment policy ensures maximum amount of investment to all sector with proper utilization. Thus, the interest was expressed to comparative analyze the investment policy of Nabil and BOKL.

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

The study has covered 5 years period from 2004/05 to 2008/09 A.D. Altogether 30 commercial banks are functioning in Nepal till date which are the population of the study, among these banks Nabil and BOKL have been selected as sample banks for study. For carrying out this study data have been obtained directly from secondary sources. Various statistical and financial tools have been used to perform the analysis. The analysis is associated with comparison and interpretation. Under financial tools various financial ratios related to investment functions of commercial banks such as, liquidity ratio, assets management ratio, profitability ratio and risk ratio are used. Similarly under statistical tools Karl Pearson's co-efficient of correlation, trend analysis etc is used. Major findings of the study have been quoted for better interpretation of the study.

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

5.2 Conclusion

a. The analysis of liquidity position of sample banks i.e. Nabil and BOKL banks has revealed satisfactory liquidity position. The liquidity position of BOKL is comparatively better than that of Nabil.
b. The assets management position of both banks is overall satisfactory. In comparison to BOKL, Nabil seems slightly weaker in mobilizing its assets

in loan and advances, whereas in terms of total investment Nabil's position is better than that of BOKL.

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

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

e. On the basis of mean, the credit risk ratio of Nabil is better than BOKL. Incase of growth ratio of total deposit, loan and advances and total investment, Nabil bank's performance is better than BOKL. But, in case of growth ratio of net profit, Nabil seems to be comparatively poor at maintaining higher growth ratio than BOKL.

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

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

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

5.3 Recommendations

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

a. Liquidity refers to the ability of a firm to meet its obligations in the short run, usually one year. The liquidity position of a bank can be affected by both external as well as internal factors such as interest rates, investment policies, supply and demand of loan and advances as well as deposits, strategic planning and fund flow situation, central banks directives, capability of management etc. as Nabil has maintained the ratios of cash and bank balance to total deposit considerably lower than that of BOKL, it is recommended to increase cash and bank balance to meet current obligations.
b. The study reveals that Nabil has invested fewer funds in government securities than BOKL. The liquidity position of BOKL shows that it has kept relatively more funds as cash and bank balance, which does not earn any return. Idle funds ultimately affect the profitability of bank. So, BOKL is recommended to invest more funds in government securities like, treasury bills, development bonds, saving certificates which are free of risk and profitable as well.
c. Various political and administrative factors are highly prevailing in Nepalese investment environment. These factors results loan default in commercial banks. Thus commercial banks should take the job of lending purely with business attitude. Both the banks are suggested to implement a sound collection policy including procedures which ensure rapid identification of delinquent loans, immediate contact with borrowers and continual follow up until a loan is recovered and also legal procedures if necessary.

d. Portfolio management of bank assets basically means allocation of funds into different sectors having different degrees of risk and varying role of return in such a way that maximum yield can be achieved by taking minimum risk. For this purpose portfolio condition of both the banks should be examined time of time and attempt should be made to maintain equilibrium in the portfolio condition as far as possible.
e. The study reveals that return on loan and advances of Nabil are in decreasing trend and that of BOKL is in increasing trend. So, Nabil is recommended to decrease the funds to invest in loan and advances and BOKL is recommended to invest more funds in loan and advances.
f. In the present situation of rapidly growing competition in the banking sector, the business should be customer oriented. Marketing function can be taken as an effective tool for attracting and retaining customers, thus the commercial banks should activate and strengthen its marketing function. For this purpose the banks should adopt new approaches and formulate new strategies to satisfy their customer by providing them facilities convenient for them.
g. The commercial banks should establish research and development department. So, it would be able to do various researches in systematic manner to develop innovative approaches in banking management and operation. Entrepreneurship attitude can help the bank to grab new and profitable investment opportunities. Opening new branches, merchant banking functions, investing risky assets and shareholder funds in profitable sector etc. can yield higher profits for the banks.

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APPENDICES

Appendix – 1

Cash and bank Balance to Total Deposit Ratio of Nabil

(Rs. in Million)

Fiscal Year	Cash & Bank Balance (Rs.)	Total Deposit (Rs.)	Ratio%
2004/05	970	14119	6.87
2005/06	560	14586	3.84
2006/07	630	19347	3.25
2007/08	1399	23342	5.99
2008/09	2670	31915	8.36
Mean			5.66
Standard Deviation			1.90
Coefficient of variance			33.57

Cash and bank Balance to Total Deposit Ratio of BOKL

(Rs. in Million)

Fiscal Year	Cash & Bank Balance (Rs.)	Total Deposit (Rs.)	Ratio%
2004/05	782	7741	10.10
2005/06	740	8942	8.27
2006/07	728	10485	6.94
2007/08	1315	12388	10.61
2008/09	1439	15833	9.09
Mean			9.00
Standard Deviation			1.31
Coefficient of variance			14.55

Appendix – 2

Investment on Government Securities to Current Assets of Nabil

(Rs. in Million)

Fiscal Year	Inv. On Govt. Securities (Rs.)	Current Assets (Rs.)	Ratio%
2004/05	3673	15915	23.08
2005/06	2414	16282	14.83
2006/07	2301	21466	10.72
2007/08	4808	26455	18.17
2008/09	5190	35928	14.44
Mean			16.25
Standard Deviation			4.15
Coefficient of variance			25.54%

Investment on Government Securities to Current Assets of BOKL

(Rs. in Million)

Fiscal Year	Inv. On Govt. Securities (Rs.)	Current Assets (Rs.)	Ratio%
2004/05	2371	9181	25.82
2005/06	2146	9581	22.40
2006/07	2654	11958	22.19
2007/08	2332	13969	16.69
2008/09	2112	17177	12.30
Mean			19.88
Standard Deviation			4.79
Coefficient of variance			24.09

Appendix – 3

Loan and Advance to Current Assets Ratio of Nabil

(Rs. in Million)

Fiscal Year	Loan and Advances (Rs.)	Current Assets (Rs.)	Ratio%
2004/05	8190	15915	51.46
2005/06	10586	16282	65.02
2006/07	12923	21466	60.20
2007/08	15546	26455	58.76
2008/09	21365	35928	59.47
Mean			58.98
Standard Deviation			4.35
Coefficient of variance			7.38

Loan and Advance to Current Assets Ratio of BOKL

(Rs. in Million)

Fiscal Year	Loan and Advances (Rs.)	Current Assets (Rs.)	Ratio%
2004/05	5646	9181	61.50
2005/06	5912	9581	61.70
2006/07	7259	11958	60.70
2007/08	9299	13969	67.28
2008/09	12462	17177	72.55
Mean			64.75
Standard Deviation			4.55
Coefficient of variance			7.03

Appendix – 4

Loan and Advances to Total Deposit Ratio of Nabil

(Rs. in Million)

Fiscal Year	Loan and Advances (Rs.)	Total Deposit (Rs.)	Ratio%
2004/05	8190	14119	58.00
2005/06	10586	14586	72.58
2006/07	12923	19346	66.80
2007/08	15546	23342	66.60
2008/09	21364	31915	66.94
Mean			66.18
Standard Deviation			4.67
Coefficient of variance			7.06

Loan and Advances to Total Deposit Ratio of BOKL

(Rs. in Million)

Fiscal Year	Loan and Advances (Rs.)	Total Deposit (Rs.)	Ratio%
2004/05	5646	7741	72.94
2005/06	5912	8942	66.11
2006/07	7259	10485	69.23
2007/08	9399	12388	75.87
2008/09	12462	15833	78.71
Mean			72.57
Standard Deviation			4.51
Coefficient of variance			6.21

Appendix – 5

Total Investment to Total Deposit Ratio of Nabil

(Rs. in Million)

Fiscal Year	Total Investment (Rs.)	Total Deposit (Rs.)	Ratio%
2004/05	5835	14119	41.33
2005/06	4267	14586	29.25
2006/07	6178	19346	31.93
2007/08	8945	23342	38.32
2008/09	9940	31915	31.15
Mean			34.40
Standard Deviation			4.62
Coefficient of variance			13.43

Total investment to Total Deposit Ratio of BOKL

(Rs. in Million)

Fiscal Year	Total Investment (Rs.)	Total Deposit (Rs.)	Ratio%
2004/05	2477	7741	31.99
2005/06	2598	8942	29.05
2006/07	3375	10485	32.19
2007/08	2992	12388	24.15
2008/09	3204	15833	20.24
Mean			27.52
Standard Deviation			4.66
Coefficient of variance			16.33

Appendix – 6

Loan and Advances to Total working Fund Ratio of Nabil

(Rs. in Million)

Fiscal Year	Loan and Advances (Rs.)	Total working fund (Rs.)	Ratio%
2004/05	8190	16745	48.91
2005/06	10586	17186	61.60
2006/07	12923	22330	57.87
2007/08	15546	27253	57.04
2008/09	21365	37132	57.54
Mean			56.59
Standard Deviation			4.17
Coefficient of variance			7.37

Loan and Advances to Total working Fund Ratio of BOKL

(Rs. in Million)

Fiscal Year	Loan and Advances (Rs.)	Total working fund (Rs.)	Ratio%
2004/05	5646	9496	59.46
2005/06	5912	9857	59.98
2006/07	7259	12278	59.12
2007/08	9399	14570	64.51
2008/09	12462	17722	70.32
Mean			62.68
Standard Deviation			4.29
Coefficient of variance			6.84

Appendix – 7

Investment on Govt. Securities to Total Working Fund Ratio of Nabil

(Rs. in Million)

Fiscal Year	Inv. On Govt. Securities (Rs.)	Total working fund (Rs.)	Ratio%
2004/05	3673	16745	21.93
2005/06	2414	17186	14.05
2006/07	2301	22330	10.30
2007/08	4808	27253	17.64
2008/09	5190	37132	13.98
Mean			15.58
Standard Deviation			3.93
Coefficient of Variance			25.22

Investment on govt. Securities to Total Working Fund Ratio of BOKL

(Rs. in Million)

Fiscal Year	Inv. On Govt. Securities (Rs)	Total working fund (Rs)	Ratio%
2004/05	2371	9496	24.97
2005/06	2146	9857	21.77
2006/07	2654	12278	21.62
2007/08	2332	14570	16.00
2008/09	2112	17722	11.92
Mean			19.26
Standard Deviation			4.67
Coefficient of Variance			24.25

Appendix – 8

Return on Loan and Advances of NABIL

(Rs. in Million)

Fiscal Year	Net Profit (Rs.)	Loan and advances (Rs.)	Ratio%
2004/05	455	8190	5.55
2005/06	518	10586	4.89
2006/07	635	12923	4.91
2007/08	674	15546	4.33
2008/09	746	21365	3.49
Mean			4.63
Standard Deviation			0.69
Coefficient of variance			14.90

Return on Loan and Advances of BOKL

(Rs. in Million)

Fiscal Year	Net Profit (Rs.)	Loan and advances (Rs.)	Ratio%
2004/05	127	5646	2.25
2005/06	139	5912	2.35
2006/07	202	7259	2.78
2007/08	262	9399	2.79
2008/09	361	12462	2.90
Mean			2.61
Standard Deviation			0.26
Coefficient of variance			9.96

Appendix – 9

Return on Equity of NABIL

(Rs. in Million)

Fiscal Year	Net Profit (Rs.)	Equity Capital (Rs.)	Ratio%
2004/05	455	1482	30.70
2005/06	518	4659	31.22
2006/07	635	4875	33.87
2007/08	674	2057	32.77
2008/09	746	2436	30.62
Mean			31.84
Standard Deviation			1.28
Coefficient of variance			4.02

Return on equity of BOKL

(Rs. in Million)

Fiscal Year	Net Profit (Rs.)	Equity Capital (Rs.)	Ratio%
2004/05	127	650	19.54
2005/06	139	720	19.30
2006/07	202	839	24.08
2007/08	262	981	26.71
2008/09	361	1341	26.92
Mean			23.31
Standard Deviation			3.33
Coefficient of variance			14.29

Appendix – 10

Total Interest Earned to Total Outside Assets of Nabil

(Rs. in Million)

Fiscal Year	Total Interest Earned (Rs.)	Total Outside Assets (Rs.)	Ratio%
2004/05	1001	17698	5366
2005/06	1068	17267	6.18
2006/07	1310	21402	6.12
2007/08	1587	29300	5.42
2008/09	1978	36495	5.42
Mean			5.76
Standard Deviation			0.33
Coefficient of variance			5.73

Total Interest Earned to Total Outside Assets of BOKL

(Rs. in Million)

Fiscal Year	Total Interest Earned (Rs.)	Total Outside Assets (Rs.)	Ratio%
2004/05	567	10494	5.40
2005/06	607	10656	5.70
2006/07	718	13288	5.40
2007/08	819	14723	5.56
2008/09	1034	17778	5.82
Mean			5.58
Standard Deviation			0.16
Coefficient of variance			2.87

APPENDIX – 11

Credit Risk Ratio of Nabil

(Rs. in Million)

Fiscal Year	Total loan & Advance (Rs.)	Total Assets (Rs.)	Ratio%
2004/05	8548	16745	51.05
2005/06	10978	17186	63.88
2006/07	13275	22330	59.45
2007/08	15902	27253	58.38
2008/09	21761	37132	58.60
Mean			58.28
Standard Deviation			4.12
Coefficient of variance			7.07

Credit Risk Ratio of BOKL

(Rs. in Million)

Fiscal Year	Total Loan & Advance (Rs.)	Total Assets (Rs.)	Ratio%
2004/05	5914	9496	62.28%
2005/06	6181	9857	62.71%
2006/07	7495	12278	61.04%
2007/08	9885	14570	66.47%
2008/09	12747	17722	71.47%
Mean			64.89
Standard Deviation			3.96
Coefficient of variance			6.10

Appendix – 12

Correlation between deposit and loan and advances of BoK

FY (t)	**Deposit (X)**	$dx = (X - \bar{X})$	**dx^2**	**Loan & Advances (y)**	$dy = (Y - \bar{Y})$	**dy^2**	**dx.dy**
2004/05	7741	-3336.8	11134234.24	5646	-2489.6	6198108.16	8307297.28
2005/06	8942	-2135.8	4561641.64	5912	-2223.6	4944396.96	4749164.88
2006/07	10485	-592.8	351411.84	7259	-876.6	768427.56	519648.48
2007/08	12388	1310.2	1716624.04	9399	1263.4	1596179.56	1655306.68
2008/09	15833	4755.2	22611.92.04	12462	4326.4	18717736.96	20572897.28
Total	55389	$\sum dx = 0$	40375838.8	$\sum y = 40678$		32224849.2	35804314.6

Here,

$$\bar{X} = \frac{\sum X}{N} = \frac{55389}{5} = 11077.8$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{40678}{5} = 8135.6$$

Coefficient of correlation (r) can be calculated by using following formula:

$$(r) = \frac{N \sum dxdy}{\sqrt{N \sum dx^2 \times N \sum dy^2}}$$

$$r = \frac{5 \times 35804314.6}{\sqrt{5 \times 40375838.8 \times 5 \times 32224849.2}}$$

$$r = \frac{179021573}{180354187.4} = 0.9926$$

$$r^2 = 0.9852$$

<u>Probable Error (P.E)</u>

$$= \frac{0.6745(1 - r^2)}{\sqrt{N}}, = \frac{0.6745(1 - 0.9852)}{\sqrt{5}}$$

$$= \frac{0.06745 \times 0.0148}{\sqrt{5}}, = \frac{0.0099826}{2.236}$$

= 0.004464.

Note: Other calculations are done similarly.

Appendix – 13

Sample Calculation of Trend Value of Total Investment of BOKL

FY (t)	Total investment (y)	X= t – 2006	X^2	XY	Yc=a+bx
2004/05	2477	-2	4	-4954	2559.6
2005/06	2598	-1	1	-2598	2744.4
2006/07	3375	0	0	0	2929.2
2007/08	2992	1	1	2992	3114
2008/09	3204	2	4	6408	3298.8
Total	$\phi y = 14646$	$\phi x = 0$	$\phi x^2 = 10$	$\phi xy = 1848$	

Here,

X = independent variable

Y = Dependent variable

Therefore, the equation of the straight line trend is given by:

Y = a+bx

Where,

a = value of y when x = 0

b = Slope of trend line

$$a = \frac{y}{N} = \frac{14646}{5} = 2929.2$$

$$b = \frac{xy}{x^2} = \frac{1848}{10} = 184.8$$

Projected Trend for next five Years

Years	X = t – 2006	Yc = a+bx
2004/05	3	3483.6
2005/06	4	3668.4
2006/07	5	3853.2
2007/08	6	4038
2008/09	7	4222.8

Note: Other calculations are also done similarly

Appendix – 14

Chi-square (χ^2) Test:

The chi-square test is calculated as follows:

a. Loan and Advances to Total Deposit Ratio

Fiscal Year	**NABIL**	**BOKL**	**Total**
2004/05	58.00	72.94	130.94
2005/06	72.58	66.11	138.69
2006/07	66.80	69.23	136.03
2007/08	66.60	75.87	142.47
2008/09	66.94	78.71	145.65
Total	330.92	362.86	693.78

H_0: The banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

H_1: The banks are not successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

Row/ Column	**O**	**E**	**O-E**	**$(O\text{-}E)^2$**	$\frac{(O\,ZE)^2}{E}$
1,1	58.00	62.45	-4.45	19.8025	0.3171
1,2	72.94	68.48	4.46	19.8916	0.2905
2,1	72.58	66.15	6.43	41.3449	0.6250
2,2	66.11	72.54	-6.43	41.3449	0.5700
3,1	66.80	64.88	1.92	3.6864	0.0568
3,2	69.23	71.15	-1.92	3.6864	0.0518
4,1	66.60	67.95	-1.35	1.8225	0.0268
4,2	75.87	74.51	1.36	1.8496	0.0248
5,1	66.94	69.47	-2.53	6.4009	0.0921
5,2	78.71	76.18	2.53	6.4009	0.0840
$\phi \frac{(O\,ZE)^2}{E}$					2.1389

Here, $E = \frac{RT \mid CT}{N}, = \frac{130.94 \mid 330.92}{693.78}, = 62.45$

Calculation $\chi^2 = 2.1389$

Degree of freedom = (r-1) (c-1) = (10-1) (2-1), = 9

Tabulated value of χ^2 at 5% level of significance of 9 d.f. is 16.92.

Decision: Since calculated value of χ^2 is less than tabulated value of χ^2, the null hypothesis H_0 is accepted i.e. The banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

b. Total Investment to Total Deposit Ratio

Fiscal Year	NABIL	BOKL	Total
2004/05	41.33	31.99	73.32
2005/06	29.25	29.05	58.30
2006/07	31.93	32.19	64.12
2007/08	38.32	24.15	62.47
2008/09	31.15	20.24	51.39
Total	171.98	137.62	309.6

H_0: Nabil bank capacity to mobilize its deposits on total investment is better than BOKL.

H_1: Nabil bank capacity to mobilize its deposits on total investment is not better than BOKL.

Row/ Column	O	E	O-E	$(O-E)^2$	$\frac{(O\,ZE)^2}{E}$
1,1	41.33	40.73	0.60	0.3617	0.0089
1,2	31.99	32.59	-0.60	0.3617	0.0111
2,1	29.25	32.38	-3.13	9.8290	0.3035
2,2	29.05	25.91	3.13	9.8290	0.3793
3,1	31.93	35.62	-3.69	13.6019	0.3819
3,2	32.19	28.50	3.67	13.6019	0.4773
4,1	38.32	34.70	3.62	13.0934	0.3773
4,2	24.15	27.77	-3.62	13.0934	0.4715
5,1	31.15	28.55	2.60	6.7773	0.2374
5,2	20.24	22.84	-2.60	6.7773	0.2967
$\phi\frac{(O\,ZE)^2}{E}$					2.9449

Here, $E = \frac{RT \mid CT}{N}$, $= \frac{171.98 \mid 73.32}{309.6}$, = 40.73

Calculation χ^2 = 2.9449

Degree of freedom = (r-1) (c-1) = (10-1) (2-1), = 9

Tabulated value of χ^2 at 5% level of significance of 9 d.f. is 16.92

Decision: Since calculated value of χ^2 is less than tabulated value of χ^2, the null hypothesis H_0 is accepted i.e. Nabil bank capacity to mobilize its deposits on total investment is better than BOKL.

Appendix – 15

Comparative Balance Sheet of Bank of Kathmandu

(Rs. In '000')

As at Balance Sheet	2004/05	2005/06	2006/07	2007/08	2008/09
Liabilities					
Capital	463,581	463,681	4,63,581	603,141	603,141
Reserves and surplus	187,164	257,157	376,153	378,837	738,932
Debentures & Bond	0	0	200,000	200,000	200,000
Borrowing	912,150	6,000	553,180	730,000	100,000
Deposit	7,741,644	8,942,748	10,485,359	12,388,927	15,833,738
Bills Payable	38,709	19,874	11,622	25,777	51,576
Proposed & payable	46,358	81,477	98,712	135,575	32,804
dividend	0	0	0	0	0
Tax liabilities	106,737	86,293	89,722	107,841	161,733
Other liabilities					
Total Liabilities	**9,496,343**	**9,857,130**	**12,278,329**	**14,570,098**	**17,721,925**
Assets					
Cash Balance	139,220	161,470	184,020	219,043	536,747
Balance with NRB	449,864	417,470	349,296	883,496	606,049
Bank balance with banks	193,798	161,184	195,382	213,365	297,671
Money at call	272,321	328,874	594,047	259,278	72,680
Investment	2,477,409	2,598,253	3,374,712	2,992,434	3,204,068
Loan and advances	5,646,698	5,912,579	7,259,083	9,399,328	12,462,637
Fixed Assets	83,625	95,231	110,745	320,846	387,274
Non banking Assets	25,483	24,088	7,356	3,626	453
Other Assets	207,925	157,584	203,688	278,682	154,346
Total Assets	**9,496,343**	**9,857,130**	**12,278,329**	**14,570,090**	**17.721.925**

Comparative Profit & Loss A/C of Bank of Kathmandu

(Rs. In '000')

Paticulars	2004/05	2005/06	2006/07	2007/08	2008/09
Interest Income	576,096	607,096	718,121	819,004	1,034,158
Interest Expenses	286,297	241,639	308.156	339,181	417,543
Net Interest Income	280,799	365,457	409,966	479,823	616,614
Commission and discount	77,708	70,324	70,776	97,431	129,415
Other operating Income	1,966	6,495	16,968	19,003	23,168
Exchange Income	64,046	72,115	78,955	80,826	93,765
Total Operating Income	424,519	514,390	576,665	677,083	862,963
Employees Expenses	47,726	53,822	59,120	69,740	90,602
Other operating expenses	85,829	99,190	117,591	138,430	170,481
Exchange loss	0	0	0	0	0
Operating Profit before provision	290,964	361,378	399,954	468,913	601,880
Provision for possible losses	101,263	133,917	78,381	81,895	38,438
Operating profit	189,701	227,462	321,573	387,018	563,441
Non-operating Income/Expenses	5,460	(469)	1,090	(2,780)	811
Return from loan loss provision	0	209,129	103,871	37,104	61,833
Profit from ordinary activities	205,161	436,122	426,535	421,342	62,609
Extra ordinary income/Expenses	0	(209,129)	(95,205)	411	(453,96)
Net Profit including all activities	205,161	226,993	331,329	421,753	580,689
Provision for staff bonus	20,516	22,700	30,121	38,341	52,790
Provision for income tax	57,172	64,763	98,768	121,025	16,640
This Year	0	64,763	93,236	115,425	162,535
Up to last year	0	0	5,532	5,600	3,867
Net Profit / Loss	**127,473**	**139,530**	**202,441**	**262,387**	**361,497**

Comparative Balance Sheet of Nabil Bank Limited

(Rs. In '000')

As at Balance Sheet	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Liabilities					
Capital	491654	491654	491654	491654	689216
Reserves and surplus	990028	1165984	1383340	1565395	1747984
Debentures & Bond	0	0	0	0	240000
Borrowing	229660	17062	173202	882573	1360000
Deposit	14119033	14586609	19347399	23342285	31915047
Bills Payable	173499	119753	112607	83515	238421
Proposed & payable	536450	361221	435084	509418	437373
dividend	0	15345	34605	0	38776
Tax liabilities	205162	428702	352080	378553	465941
Other liabilities					
Total Liabilities	**16745486**	**17186330**	**22329971**	**27253393**	**37132758**
Assets					
Cash Balance	286886	146353	237819	270407	511426
Balance with NRB	606695	389705	318359	1113415	1829471
Bank balance with banks	76905	23323	74061	16003	330244
Money at call	918733	868428	1734902	563533	1952360
Investment	5835948	4267233	6178533	8945311	9939771
Loan and advances	8189993	10586170	12922543	15545779	21365053
Fixed Assets	338126	361235	319086	286895	598039
Non banking Assets	0	0	0	0	0
Other Assets	492200	543883	544668	512050	606394
Total Assets	**16745486**	**17186330**	**22329971**	**27253393**	**37132758**

Comparative Profit & Loss A/C of Nabil Bank Limited

(Rs. In '000')

Paticulars	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**
Interest Income	1001617	1068747	1309999	1587759	1978697
Interest Expenses	282948	243544	357161	555710	758436
Net Interest Income	718699	825203	952838	1032049	1220261
Commission and discount	135958	128883	138294	150608	156235
Other operating Income	38755	55934	82898	87574	97445
Exchange Income	157324	184879	185484	209926	196487
Total Operating Income	1050706	1194899	1359513	1480157	1670427
Employees Expenses	180840	199516	219781	240161	262908
Other operating expenses	150759	190299	182696	188183	220750
Exchange loss	0	0	0	0	0
Operating Profit before provision	719107	805084	957036	1051813	1186769
Provision for possible losses	1052	243357	3770	14206	64055
Operating profit	718055	561727	953266	1037607	1122714
Non-operating Income/Expenses	92781	72241	735	5281	24084
Return from loan loss provision	0	0	7729	10926	11100
Profit from ordinary activities	810836	633968	96730	1053814	1157898
Extra ordinary income/Expenses	(81821)	(31133)	26074	40736	39991
Net Profit including all activities	729015	602835	987804	1094550	1197889
Provision for staff bonus	71941	841987	89800	99504	108899
Provision for income tax	201763	0	262741	321087	342521
This Year	0	0	262563	314527	342469
Up to last year	0	0	179	6560	52
Net Profit / Loss	**455311**	**518637**	**635263**	**673959**	**746468**