CHAPTER – I

INTRODUCTION

1.1 Background of the Study

A well- development country can only be imagined if there is economic development. Economic development refers to different sectored developments. Economic sectors like industry, trade, tourism, agriculture etc. To understand the real norms and values one has to understand the fundamental elements and a deep study and analysis to it.

Managerial finance is the area of subject where we can achieve long run sustainability of any business. It includes multiple areas and its dynamism helps to run a business to fit ourselves in this competitive world. In managerial finance mainly money and capital market, investments and business finance are given priority in the studies.

In these modern days the banking sectors are highly activated and operated which is very essential for the economic development. Normally we can say that banks collect scattered fund from various places and it mobilizes these funds where the income is generated. The funds are usually invested in productive sectors. Commercial banks are called the main functioning part of financial activities because each and every economic activity is directly or indirectly related to them.

Normally commercial banks are those financial institutions which promote the monetary transaction. It provides various financial services to the community as well as for nation. Commercial banks contributes to the nation by mobilizing domestic saving and channeling them into productive areas, by facilitating trade by making financial transaction easier, faster and more reliable and efficient services at a reasonable cost. Commercial banks also provide services to the financial need of people. It also helps their customers in many ways from ordinary day to day needs to complex life changing decisions.

According to commercial bank act 2031 B.S. “A Commercial bank is that financial institution which accept deposits grant loans and performs commercial banking function and which is not a bank, meant for co-operative, agriculture, industries of such specific purpose.” Commercial banks are profit making organizations and their goal is wealth maximization. The funds are collected and those funds are thoughtfully plotted in return generating parts and the benefit is distributed to its shareholders. The main form of investment by these banks is in the form of loans, purchasing securities issued by government which includes less risk.

The saving is the amount left after consumption. So we can say that the difference between income and consumption is saving which is also idle money of the people. These scattered amounts are accumulated by banks for providing loans which is highly required for the development and establishment of trade and commerce.

Functions of Commercial Banks

Receiving deposit is the main function of commercial banks to collect savings of individuals and forms. They offer of deposit for the facility of customers.

In current account any amount can be withdrawn from this account at any time without any notice. No interest is allowed at this account. Saving account is usually held by the middle class people which carries lower rate of interest. Amount cannot be withdrawn before the fixed future date in fixed deposit account. High interest is fixed in these types of deposits.

Advancing loans is also the main function of the commercial bank. Credit is given to the people in different way. Short term loans are advanced for the period of six months to one year. High interest rate is changed on this type of account. Medium term loan are advanced for the period of one to five years. Long term loans are advanced for the period more than ten years are long term loans.

Bank overdraft allows their trustful customers to draw more than the deposit they have in the bank. Bank charges interest on overdraft. Bank also gives credit in cash which is known as cash credit against immovable property and the interest is charged by the bank. Discounting bills is income source of bank to deposit bills of exchange. They charge nominal interest and discount only reputed and clear bills of exchange.

Commercial banks are of two type's i.e. joint venture bank and public commercial bank.

a. Joint Venture Bank

These types of banks are known as multinational organization. They are the joining forces between two or more enterprises. Multinational simply means that it is operated in more than one country. The main objective of joint venture bank is to join the two economic forces to get the maximum profit. Joint venture banks also mobilize their funds in many areas and the new investment prospects are always searched. Although the main objectives of these banks are profit maximization they support the needs and desires of consumers who are in financial needs.

Though in Nepal banking institution has not crossed milestone in its existence but no one can deny that it has been the most income generating investment for the customers. The first joint venture bank in Nepal was established in 1984 A.D. with the name of NABIL which created a history in Nepalese banking scenario and its share values are very high these days. It is one of the successful commercial banks in Nepal. The 50% of the shares are still acquired by foreign entity.

b. Public Commercial Bank

Public simply means that it is owned by government or people. It is people's property. Commercial banks features are accepting deposits, advancing loans, Bank overdraft, cash credit, discounting of bills. Nepal Bank limited and Rastriya Banijya bank are public commercial banks in Nepal. Nepal bank limited was established in 1994 B.S. It is semi government organization. The shares are held by two different groups. Forty nine percentage of the share are acquired by the government and remaining fifty one percentages is acquired by others. Rastriya Banijya Bank was established in 2022 B.S.as a full government bank which means hundred percentage shares are owned by government.

Though in Nepal, the concept of investment is null. Due to the bad economic condition of the country many people live below the line of poverty. So the main target of these people is to struggle for the basis needs. In Nepal only the city areas are facilitated and the financial transaction of share is in the capital. So the only one exchange is located is the main city or capital of the country. Though the facility of investment is there but the shareholders or the investors are very less informed about the market. They don't possess enough knowledge about the market. The investor's knowledge of risk and return however are provided by the firms involved in trading share or consultants to the investors. So the proper knowledge to the investors has to be there to understand the fundaments of investment as well as to minimize the risk.

1.2 Present Status of Banking Industry

The number of commercial banks has increased a lot up to this very date and there are many banks waiting for the approval to be opened as a bank. The licensed

Commercial Banks number has reached twenty three up to the date august 2008 a.d. . Among these banks some banks are joint venture banks, some of them are public commercial banks and some of them are developmental banks .Besides commercial bank there are many financial institutions like finance company, cooperative operating in the country to provide services to the people who are in the real need of these services.

Joint venture banks have a way of trading where two or more institutions are joint to operate with the single objectives or common objective. So the new investment areas are supported by these joint venture banks. To operate a business under joint venture basis the two financial partners should exist there. The different countries investment is also there. Generally, commercial banks objective is to maximize profit so they love to make investment in different areas. More you invest in various areas there will be the maximum utilization of fund. So the difference between commercial bank and joint venture bank can be observed from the view point of ownership, the investment of the parties. Though the main objective of commercial and joint venture banks is profit maximization.

The increment of commercial banks has also increased the competition among these banks. Every single bank are developing new scheme to attract their customer. The services provided by the banks are helping our savings and to improve our living standard.

The Bank of Kathmandu has provided various new services to their customers like Sajio Bachat Khata, Ladder saving account, Griha Laxmi Bachat Khata, Mero Bachat Yojana, Jestha Lagani Kosh etc. This kind of specific scheme helps to format capitals scattered from different areas and from different age of people. They are targeted to many people who are in their different stage of life. Similarly NABIL is one of the success banks in Nepal. The bank has a high growth rate every year. NABIL provides corporate banking services and NABIL is also the sole banker to large corporate houses, international aid agencies.

So the present status of banking in Nepal has had a growth in numbers as well as services. The increment in the numbers of bank has helped to create a perfect competition and the avoidness of monopoly banking. The main dependency of Nepalese economy is somehow still remittance from the people who are working outside the country. The remittance has also been a great income for the commercial banks from many years.

1.3 Banks under Study

1.3.1 Bank of Kathmandu

Bank of Kathmandu started its operation in March 1995.The Nepalese professionals has well managed this commercial bank and it has largest public shareholders. The establishment objective of this bank is:

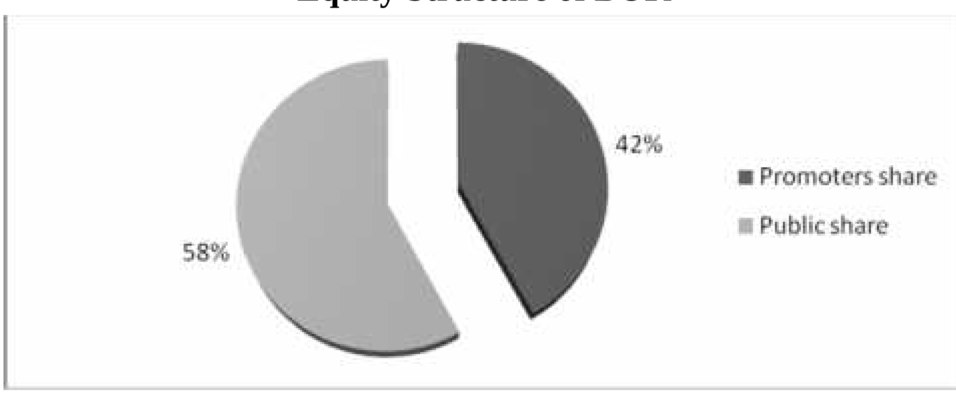
1. To contribute the development of nation by mobilizing domestic saving and channeling them into productive areas.
2. To use the updated banking technology this reduces cost and provides better and reliable services.
3. To cooperate with foreign banks and money transfer agencies this makes the financial transaction easier, faster and reliable.
4. To contribute to the overall socio-economic development of Nepal.

This bank has provided variety of services which focuses and attracts many customers. BOK's depositors range from general public to business houses, NGO's, INGO's and institutional depositors. This bank has been providing various services targeted various people. Sajilo Bachat Khata, Griha Laxmi Bachat Khata, Kopila Bachat Khata, Mero Bachat Yojana are some few examples of the various services provided by the bank to its customer. The lending facility of BOK comprises many facilities like consumer loans, vehicle finance, educational loan, housing loan, festivity and personal loan.BOK has also targeted marginalized groups and the poorer people of the Nepalese society. It has established it's development credit unit which has already facilitated mid eastern western Nepal, Eastern Nepal.

BOK has a well developed correspondent relationship with over 190 banks globally to carry it's transactions worldwide conviniently.BOK also offers variety of remittance service like swift transfer ,demand draft, travelers cheque, cash management, money transfer via remitting agencies etc. The other services are safe deposit lockers, ATM/Debit card, gift cheque, utility bills payment, silver sale, thai visa fee payment facility.

The current structure of equity is divided into two parts. Promoters have owned 42% of shares, and remaining 58% shares are owned by general public. Authorized capital of bank of Kathmandu is Rs 1,000,000,000 issued and paid up capital is Rs 606,173,300 and Rs 603,141,300 respectively. Total accumulated deposit has reached Rs 12,388,927,294 in the year 2007.

Figure 1.1
Equity Structure of BOK



Source: Annual Reports of BOK

1.3.2 NABIL Bank

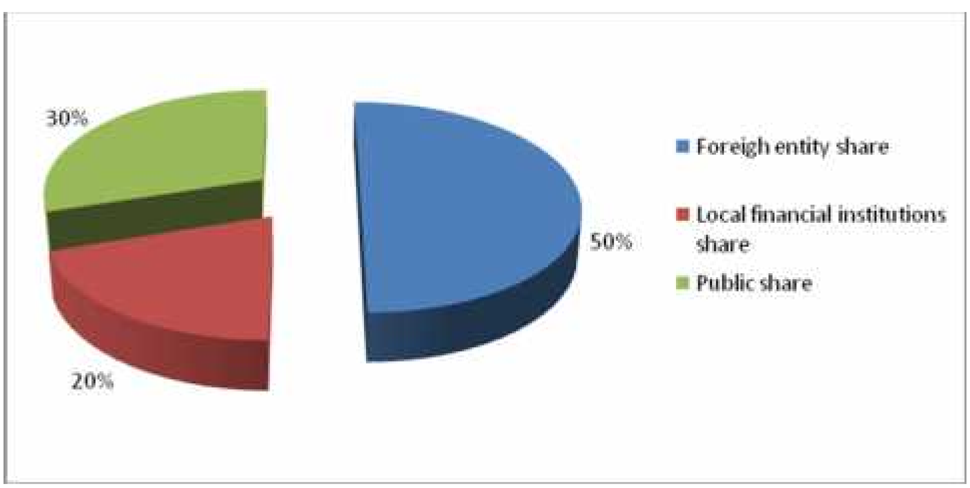
NABIL bank is the first foreign joint venture bank established on 12th July 1984.At the initial stage it had an technical service agreement with Dubai bank limited which was later merged with Emirates Bank limited. Nabil is the first and major joint venture bank in the country and it is managed by a team of qualified and highly experienced professionals. Their core objective was to support the nation with introduction of modern banking services.

The bank provides a complete range of consumer, retail, SME and corporate baking services through it's offices spread across the country. It is the largest private bank in the country in terms of branch and ATM network .The bank has also adopted modern technologies and has provided an array of card products and Internet/Tele banking facilities besides ATM's and Any Branch Banking Service.

The current structure of equity is share by four parties. 50% of the shares are owned by foreign entity, 10% of the shares are owned by other licensed institutions, 10% of the shares are owned by other entity and 30% of the shares are owned by general public.

Figure 1.2

Equity Structure of NABIL



Source: Annual Reports of NABIL

NABIL's authorized capital is Rs. 500,000,000. It's issued and paid up capital is Rs 491,654,400 and Rs. 491,654,400 respectively. The accumulated deposits in the year 2007 have reached Rs. 23,342,285,327.The performance of the bank has increased and it has growth in many sectors.

1.4 Investment

Money if not scattered to investment or if the money is just kept then the real value of that money declines because of inflation. The goods which could be bought in the past can't be purchased at current time from the same amount of money. So to have money and to invest it is very different thing.

Investment means the sacrifice of current rupees and resources for the sake of future rupees and resources. It may be said as investment is the proper management of wealth to maximize the wealth or to get positive returns. Investment promotes the economic growth and this helps to build a prosperous nation with strong fundamentals of strong economy.

Investment policy should include the investment objective and the amount of one's investable fund. Investment is related to risks and returns. Everyone seeks profit but the real fact of investment is that there is always a factor called risk which is undeniable and unavoidable. Wherever there is profit there is risk involved in it. The rationale way or the correct objective is to make a lot of money by recognizing the possible losses. So investment should be done on many assets or the portfolio construction should be there to minimize the risk. The correct investment policies are very useful to minimize the volume of investment, maximize the social benefit and last but not the least maximize the profit which is the very core objective of any commercial institutions. Economic growth can be achieved because sound investment policy makes work those economic forces to its maximum.

Investment policies of commercial bank are very tactful and it involves a huge portion of risk. Investment policy is one fact of the overall spectrum of policies that guide banks in its investment operation. A correct investment policy attracts both borrowers and lenders which help to increase the volume and quality of deposits, loans and investment. Some features of lending investment policies are:

i. Safety and Security

Banks should not invest their collected funds in these sectors or securities which are much fluctuated or the nature of those assets is volatile. Single misjudgment can cause a great loss for that institution. Financial institutions must invest their sources of funds in profitable and secured sectors. High market priced securities, profitable and durable securities are desired.

ii. Profitability

Profitability ratios examine the efficiency of a specific institution. The funds must be invested in those proper sectors where we can maximize the return on investment and lending position. Then only maximization of wealth is possible. The return depends on the interest rate, loan depends upon it's time period and nature of investment depends on different securities. The higher profitability ratios are desired because it is true that higher profitability ratios are the better indication of the financial performance of financial institutions.

iii. Purpose of loan

The reason why a customer is taking loan must be identified as well as specified because the misuse of the borrowed fund or if the customer don't spend the borrowing, the repayment of loan is impossible. The result will be against the financial institution left away with huge amount of bad debts.

iv. Legality

The commercial banks are monitored by the central bank which is Nepal Rastra Bank. The ministry of finance & Rastra Bank's direction on issuing securities, mobilizing funds must be followed by commercial banks. The legality aspects should be considered.

v. Liquidity

Liquidity means the position of a firm to meet short term obligation. Customers deposit their saving at banks having full confident of repayment by that banks whenever the customer desire. Every commercial bank must put enough cash balance to show the good position, to meet the cash obligation of an organization.

While choosing specific investment policy investors should define their feature of portfolios. That feature includes the objective, the upcoming benefits and well as risk factor. The investors must have these features;

a. Stability of income

The flow of income, the consistency of income, the stability of the purchasing power of income of an investor should be considered. However emphasis on stability of income may not always be constant with other investment principles.

b. Capital Growth

Capital growth or appreciation is the increment of capital. Investors always seek growth stock to expand their capital. The growth stock simply can be stated as the right issue in the right industry bought at the right time.

c. Adequate Liquidity and Collateral Volume

Liquidity is conversion into cash in a quicker pace. Investment can be liquid asset if it is converted into cash at full market value in any quantity. To be liquid it must fulfill two conditions reversible and marketable. Reversibility is the process whereby transaction is reversed and the sale of investment in the market for cash is marketability. To meet the necessities of fund every portfolio of an investor should be saleable quickly which in alternate is said as sound portfolio. The increasing business opportunity always asks money so to fulfill the monetary desires money is needed. The borrowing is also another method of raising fund. In borrowing too people will lend money where they see liquid assets to return their money as quick as possible. So the portfolio must contain a proportion of higher grade and readily saleable investment whether money rising is done through borrowing or selling.

d. Principle of Safety

To be Safe in investment is not the reality because there is of course loss in every investment and profit too. For safety the other synonym would be the protection against loss under reasonable likely conditions. The review has to be done, the trends has to be followed before choosing a type of investment. Economic review and industrial trends suggests, the ways to investors and it gives the picture of the current situation. The diversification of investment can reduce uncertainty.

e. Tax Status

The tax status must be noticed or analyzed while making investment. It can be costly to an investor if it is not carefully watched. The taxes are levied on the income. So the investors whose income is small they want maximum cash return in their hands.

f. Purchasing Power Stability

Investment is the current sacrifice for future benefit so the purchasing power of the future funds should also be considered by the investor. To maintain purchasing power stability there should be given importance to the degree of price inflation the investors accept, the possibility of gain or loss in the investment available to then and the limitations imposed by personal and family consideration.

1.5 Statement of the Problem

In many underdeveloped countries like Nepal the major problem is to collect or formate a capital. The banking concepts are not very known too many people of Nepal who are scattered allover the country. The main problem is poverty and lower middle class people too. The level of income are very low and they really can't fulfill there necessities. The saving which is left after consumption is a far thing for them. Now days many people are aware of using their money and not keeping the funds in a passive mode. People are more conscious than before.

Financial institutions major decision is on investment because from the collected fund from different people bank has to earn. The earning is very beneficial to the shareholders as well as for the bank it's self to sustain in this competitive world. Credit provided by the commercial bank directly affects the national interest of the country. Many people have a belief that commercial banks are the backbone and heart of the economy and financial system respectively. The failure of commercial banks is the failure of the economy too.

Every financial institution needs a sound and proper investment policy to reach the predetermined objective. The increment of financial institution has lots of opportunities to invest money for a high rate of return. After the restoration of democracy in 1991 A.D. the market has been liberalized and it has gained a pace too. In capital and money market many steps were taken. The entry of finance companies, the entry of co-operatives for collection of deposits and lending within members the non- government organizations (NGO) were allowed which helped the economy and which also created opportunities. The trend has shown that depositors withdraw their deposits when they find various investment opportunities and the schemes beneficial than the previous one. There are many financial institutions like commercial banks, finance companies, insurance, Gramin Bikash Bank, Non-Governmental Organizations working in Nepal. The growth of such organizations has also increased the deposits. They collect funds from different areas and then they search for the sectors for investment from where they can gain a lot.

In conclusion, this study aims to analyze the investment policy of the concerned banks. This study will give high emphasis on the specific problems with special reference to BOK ltd and NABIL Bank. This study basically deals with these issues of the concerned banks.

i. Are the banks utilizing their available funds?
ii. Are the policies related to fund mobilization and investments are effective?
iii. The relationship of investment and loan and advances with total deposits and total net profit of the banks.

1.6 Objectives of the Study

The investment decision is major component existing in any organization and the proper decision must be made and financial management helps us to analyze the situation. The objective of this study is to know and understand he strategies and investment policies applied by the bank with reference to BOK Ltd. and NABIL bank.

The main objective is:

1. To study and evaluate the investment policies of concerns bank.
2. To analyze the fund utilization and mobilization.
3. To study the growth ratio of total deposit, loan and advances, total investment and net profit of bank Ltd. And NABIL.
4. To study risk and profitability positions of concerned banks.

1.7 Significance of the Study

As we know that the commercial banks are the tools of knowing the country's financial position and situations, the study of these banks BOK Ltd. And NABIL will be useful which provides information for the investment employees of financial institutions, trainees of banks, academic institutions policy makers etc. It also searches new investment opportunities satisfying the objectives like liquidity and profitability of commercial banks. It fulfills the gap on the study of investment policy of BOK Ltd. and NABIL.

This study provides valuable information for the persons involved in financial institution and to the policy maker. This study also helps regulatory authority to find out liquidity management and investment portfolio system of commercial banks.

1.8 Limitation of the Study

Commercial banking sectors are the indicators of a whole economy. It is very useful to the investors who can get various services too. This study examines policies and practices adopted by these two banks in order to achieve the optimum combination between profitability and liquidity.

Though there are some limitations on this study. They are as follows:

1. This study involves the use of secondary data which are the bank's financial reports, articles etc.
2. The study involves only the period of five years from the fiscal year 2002/03 to 2006/07.
3. The sample banks are only BOK Ltd. and NABIL among many commercial banks.
4. The few analysis techniques or measuring tools are used to measure the efficiency of the banks.

1.9 Organization of the Study

The total study is divided into five chapter's viz. Introduction; review of literature research methodology, data presentation and analysis and last but not the least summary, conclusion and recommendation.

The first chapter includes general background of the study, present status of banking industry, banks under study, introduction of investment, statement of the problem, objective of the study, significance of the study and the limitation of the study.

The second chapter is review of literature which involves the past efforts on the topics. This chapter includes conceptual framework and review of preview thesis studies related to investment decision and policy.

The third chapter is research methodology, which has collection of data and it involves introduction, research design, sources of data, population and sample presentation of data and method of analysis.

The fourth chapter is presentation and analysis of data which involves the use of financial tools and statistical tools. The ratios and statistical analysis are done.

The fifth chapter is to provide summary, conclusion and recommendation from the tools used. The major findings of the sample banks are delivered.

CHAPTER - II

REVIEW OF LITERATURE

Literature review is a comprehensive review of previous works on the general and specific topics considered in the report. The literature review may also serve as a kind of bibliographic index and guide for the reader. It also demonstrates where the current study fits into the scheme of things.

This is the second phase. When the topic is finalized the related available materials like published books, journals, thesis, government publications business reports and so on have to be reviewed. The objective of reviewing the literature is to develop certain expertise and knowledge in one's area.

2.1 Review of Related Studies

Financial institution like banks has various goals. They deal with credit and credit instrument too. The circulation of credit plays vital role. The investment fund can result the good consequences if it is properly understood and used.

2.1.1 Review of Books

According to William F. Sharpe, Gordon J. Alexander and Jeffery V. bailey, "Investment in its broadest sense means the sacrifice of current dollar 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" (Sharpe, Alexander and Bailey; 2003: 1).

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

John M. Cheney and Edward A. Moses defined the word, "The word Investment brings forth vision of profits, risk speculation and wealth" (Cheney and Mosses; 1992: 1).

According to V. K. Bhalla and S. K. Tutteja "There are basically three concepts of investment:

i. Economist's definition of investment ;
ii. Investment in a more general or extended sense, which is used by "the man on the street"; and
iii. The sense in which we are going to be very much interested namely, financial investment.

According to them, "The term economic investment has a rather precise meaning in the literature of economic theory. Typically it includes net additions to the capital stock of society. Capital stocks of society are those goods which are used in the production of other goods.

They further say this is gross, societal or aggregate point of view. The definition implies that in society there are number of goods (such as building and equipment) which are used in the production of other goods and these means of production are considered part of capital stock of society. For a number of reasons, economists also include inventories as part of that capital stock. Thus, a net addition to the capital stock an investment means an increase in buildings, equipments or inventories over the amount of equivalent goods that existed, say, one year ago at the same time.

They further add the more general and extended sense of is used by the "man on the street". A commitment of money to buy a new apartment is of course an investment from an individual point of view but these are in very general and extended sense since no rate of return is involved nor is a financial returned or capital growth expected.

Financial investment includes an exchange of financial claims-stocks and bonds real estate mortgages etc (Bhalla and Tutteja;1983: 2).

Charles P. Jones defines," An investment is the commitment of funds to one or more assets that will be held over some future time period" (Jones;1988:5).

Shakespeare Baidhya in his book 'Banking and insurance management' has described the sound investment policy. He writes, "A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover risk on banking tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble, its problems usually spring from significant amounts of loans that have become uncollectable due to mismanagement, illegal manipulation of loans, misguided lending policies or unexpected economic downturn .Therefore the bank's investment policy must be such that it ensures that it is sound and prudent in order to protect public's fund.

He also adds that, what types of loans do bank make? How much of loans in each loan be invested? The banks make a variety of loans to a wide variety of customers from many different purposes form purchasing automobiles to construction of homes and making trade with foreign countries. Therefore, no uniform rules can be laid down to determine the portfolio of a bank. The environment in which the bank operates is influenced by its investment policy. The nature and availability of funds and also assets differ widely from country to country and also from region within a country. For example, scope of a banks operating in Jumla will be different from the scope of bank operating in Kathmandu city may not be applicable to the customers of Jumla because the demand for loans are less in rural areas whereas it is higher in city or in urban areas" (Baidhya;1997:62-63)

Cheney and Mosses are concerned with the objective of investment and indicate that the risk is in proportion with the degree of returns. The investment objective is to increase systemically the individual's wealth; defined as asset liabilities. Investors who seek higher return must be willing to face higher level of risk" (Cheney and Mosses; 1992:13).

2.2 Review of Research Works

Bhaskar Sharma has researched about the future banking and has achieved these facts:

- Only urban areas are the target of bank to establish. The rural are areas are not included and the system of bank lack over there
- The interest rate is high changed on lending by commercial banks.

He says the investment is done without proper credit an appraisal and on personal guaranteewhich results in bad debt (Sharma; 2002: 13).

Resta Jha his article Nepali financial sector reform shows the following results;

- There is high demand for competent, quality human resources.
- Overall the state of banking leaves something to be designed. There is very low return in assets.

- Poor quality of loans is given without applying the credit principles, credit-skills assessment are forgone too.
- There is lack knowledge about sophisticated global products among the banking community of Nepal which is not surprising. The expenditure on staff training at all of Nepal's financial institutions combined is just RS0.05 billion.
- There is lack of proper training centers which provides structural banking related course.
- Nepal needs to up the ante on human resource management, technology use and corporate governance.
- Platform must be given to institution and employees to acquire specialized and focused knowledge of global banking product (Jha;2006: 98-99).

Institute for integrated development studies is an organization in their research work, "Do We Need Economic Reform Phase II has highlighted many facts and figures about the commercial banks and their contribution. The achievement of this research is discoursed below.

The growth of deposit not only mobilizes domestic saving but also ensures more of such saving in the financial form. It has mentioned that during last decade, there has been a rapid growth in deposit collection of the banks. From Rs.7 billion in July 1984 total deposits with the banking system went up to Rs. 22 billion in 1990 and further to Rs. 102 billion in July1998. Growth of credit to private sector has also increased. Commercial banks outstanding credit has risen from 8.7 percent of GDP in 1985 to 27.5 percent in 1998. However there has not been increase of credit in agricultural sector. There is a shift of banking sector credit to industrial sector.

The interest rate spread between deposits and lending rates of the banks has added more costs to the borrowers. The interest rate spread is 5.5 percent in the year 1998 but it is considered high from the international rate of 2 to 3 percent.
There has been improvement in the real interest rate. There is also rise in nominal interest rate due to huge demand of credit. Real interest rate is the difference between nominal interest rate and inflation rate.

They have found the following points.

- The services of financial institution have increased but expected impact of financial reforms on the economy has not been achieved.
- In rural areas 80 percent of the household's borrowings are informal financing.
- Poorer people don't have access to formal institution.
- More than 80 percent of the formal sector financing is collateral based. Those people who do not possess land and other bankable property have no access to such credit in areas where targeted and micro-credit programmers do not exist.
- In urban areas almost all financial institutions have a very high spread between deposit and lending rates, ranging from 6 to 10 percentages.

They also gave the following suggestions:

- Enhancement of supervisory capability of Nepal Rastra Bank.
- Autonomy to central bank.
- Restructuring of financial institution.
- Repayment of government guaranteed loan.
- Reorienting financial institution for rural financing.

(Institute for Integrated Development Studies; 1999: 23-33).

Rama Bashyal (2008 January), in her research work, "Micro Finance: Access to finance for Nepal's Rural Poor," has studied the detail existing environment of people the financial institution and its contribution to the society. She has found that financials markets often serve poor people badly. She found that commercial banks number has been increased. There are three hundred and ninety branches of commercial banks in the year 2006 (Mid-July). Majority of rural branches of the Rastriya Banijya Bank, Nepal Bank and Nepal Arab Bank has been involved in extending priority sector loan. All commercial banks including government, private, domestic and joint venture banks have invested Rs. 22604.86 million in priority sector by July 2003. She says the commercial banks are meeting the deprived sector credit target mainly through three options: firstly, providing direct loan to people below the poverty line, secondly, providing wholesale loans to partner organizations, and thirdly, making share participation in the RMDC/GBBS. The banks have to bear higher operational cost than they have to incur in their regular banking activities. She found that RBB and NBL have dealed with more than 80 percentage loan directly with individual clients. She further says international experiences also have proved that the commercial bank's lending to non-banking institutions rather than groups and individuals have gained success. Low transaction costs, high repayment rate and easy legal action in case of repayment failures are some advantages of indirect lending to non-bank institution.

She has found the following challenges for rural financing:

- There are not adequate legal and regulatory policies and also the inadequate information about financial intermediaries and borrowers and depositors have hindered the Nepalese rural financial markets.
- The banking sector in particular had been heavily affected by the conflict situation. Between 25 and 30 percent of the branch network of the three largest banks i.e., the RBB, NBL and the ADB have been vandalized by the insurgents.

- The Nepalese rural financial market is characterized by poverty, seasonal incomes, limited opportunities for risk diversification and lack of traditional collateral. So this lack of collateral is the main reason for the profit oriented financial institution to be more discouraged.

She concludes that the key lesson should be learnt from other successful commercial banks through out the world that large number of commercial banks is moving into microfinance (Bashyal; 2008: 1-7 & 68-69).

Sujit Mundal (CEO of Standard Chartered Bank Nepal in an article titled, “Investing with intelligence,” has expressed the following views:

- People within organization and investors say that the current economic condition of the country is a big barrier for making opportunities available to prospective investors.
- Investor’s awareness of the market is not up to the mark. A through risk analysis should be alone before making any decision.

He finally suggested that investors should put a little extra for a proper study before any investment decision (Pradhan; 2006: 15).

Nepal Rastra Bank in their research work, “A Glimpse of Nepal’s Macroeconomic situation,” (Nepal Rastra Bank, “Glimpse of Nepal’s Macro economic situation, 2006) has figured out different facts about Nepalese economic situation. They have briefly explained the past and the present of Nepalese financial picture. They say that the Nepalese financial system has grown in terms of business volume and the size of assets and market. Commercial bank has leading shares in total assets liabilities and branch network in the financial sector. The figure of mid-July 2005 showed that the commercial banks have largest share of 86.7 percent. In case of total deposits commercial banks shares 88.8 percent share, 78.3 percent in case of total outstanding credit, 90.5 percent in case of total investment of the overall financial sector. They are still serious issues and challenges in the Nepalese financial system. The government involvement, weak corporate governance and organizational culture, poor lending practices fragmented legal framework, weak central bank, inadequate disclosure, accounting and auditing standards, high level of non-performing loans and political intervention were some issue and challenges found by the study conducted by the World Bank. The financial sector Technical Assistance program has incorporated the following aspects:

- Promoting financial institutions with the equity participation of the government or government owned institution.
- Improve the existing legal and judicial processes for enforcing financial contracts.
- Improving auditing and accountancy standards within the banking sector.
- Promote financial discipline through adequate disclosure and competition (Nepal Rastra Bank; 2006: 1-15).

2.3 Review of Thesis

Several thesis works has been done under the topic “Investment Policy”. The relevant works for this study are presented below:

Raughu Bir Kapadi (2002) in his thesis paper, “A Comparative Study on Financial Performance of NABIL Bank Ltd and Standard Chartered Bank Ltd,” Master’s Degree Thesis, T.U, has studied the financial performance of two banks. His main objective was to examine the trend of deposits and loan & advances, to examine liquidity, profitability, capital activity and capital adequacy position. His findings were:

- NABIL has better liquidity position than SCBL.
- Performing assets to total assets ratio of SCBL was higher than that of NABIL.
- The profitability of SCBL was higher than that of NABIL.
- NABIL has better performance for growth in earning than that of SCBL.

- Earning per share, dividend per share of SCBL was better than NABIL.

He has suggested that both banks have unsatisfactory liquidity position and so the have to improve it. The outsiders fund must be utilized efficiently by SCBL. The profit was not at satisfactory level of both banks so they need to increase it.

Raghu Bir has tried to show the comparative performing appraisal of two banks but he has not explained the investment policy and different form of risks. He has tried to analyze and explain liquidity, Profitability and activity of the sample bank but the time limit made it narrower to measure the performance appraisal of the sample banks.

Purushottam Poudel (2004) in his thesis paper, “A study on Lending Practices of Joint Venture Commercial Banks,” Master Degree Thesis T.U has studied two joint venture banks. His main objective was to know the volume of contribution made by both sample banks in lending, to determine the impact of deposit in liquidity and its effect on lending practices. He found that:

- NBBL has more consistency than HBL.
- Current ratio NBBL was higher than that of HBL.
- Liquidity position of NBBL was better.
- Profitability ratios like return on equity, earning per share of HBL was higher than that of NBBL.
- There was positive correlation between total deposits and loan and advances of both banks.
- The growth ratio of NBBL was higher than HBL but there was in consistency among ratios of NBBL.

He has suggested that HBL should increase its current ratio. NBBL has to increase its profitability. He has made an attempt to show the lending practices of two joint venture banks but the time limit has made the research to be compressed and only to tell the situation of 5 year period only.

Sijan Lal Shrestha (2006) in his thesis paper entitled, "A study on lending performance with reference to NABIL Bank Ltd, Standard Chartered Bank and Nepal Investment Bank Ltd, Master Degree Thesis, T.U has analyzed the lending performance of three banks. His main objective was to measure the banks lending strength and lending efficiency. He found that:

- NABIL has succeeded to advance high volume of credit as much as the capital fund allows it than SCBL and NIBL.
- Non performing loans out of total loan and advances were highest of NABIL than SCBL.
- NIBL has higher percentage of performing loan than NABIL and SCBL.
- The performance of NIBL was good with respect to increase in profit than other two banks.
- In case of shareholders equity and loan and advances, there was high degree of correlation in NIBL and SCBL than that of NABIL.

He has concluded that NABIL has strength of good management team, financial soundness, latest technologies, good customer service as this has good performance. NIBL has a very good Nepali management team, it provides timely and quality service to its customers and has Any Bank Banking Service (ABBS), it has good portfolio of loans, and it has good policies and systems for lending and control mechanism. SCBL has good management, credit analysis, continuous monitoring of the loans customer follow up and good customer service and technologies.

He has analyzed the lending policies but the core conclusions are missing. He only focused on specific things and did not analyze the whole objectives of the study.

Rajya Laxmi Khadgi (2006) in her thesis paper, “A study of investment policy Analysis of NABIL Bank Ltd,” Master Degree Thesis, T.U. has studied only the bank NABIL. Her objective was to study the resource mobilization and investment policy of NABIL Bank, to find out the current and future investing strategy of NABIL Bank. She found that:

- The sample bank has been able to meet its short-term obligation and satisfactory liquidity position.
- The bank has taken moderate risk towards the mobilization of its risky assets.
- NABIL has invested very nominal percentage of total working fund into shares and debentures.
- There is satisfaction in the level of profitability which indicates the good earning capacity.
- She found that the growth rate of deposits is in increasing trend.
- The net profit of the bank has increased too.
- There was positive correlation between total deposits and loan and advances during the study period.

She has suggested NABIL to increase investment in government securities. To increase the risk free investment is also suggested. The more funds have to be mobilized into shares and debentures of other companies.

Bhanu Kandel (2006) in his thesis work entitled, “A study of investment policies of commercial banks (with special reference to NABIL Bank Ltd, Nepal Investment Policies ltd and Nepal SBI banking Ltd.) Master’s Degree thesis, T.U) has made an attempt to analyze the investment policy of sample banks. The objective inside investment policy was to analyze the utilization of available fund of sample banks, to evaluate the liquidity, profitability and risk position of sample banks.

He found that:

- Nepal SBI Bank has gradually decreased it's investment in industrial sector and diversified it's portfolio in other areas.
- NIB has also been penalized for not investing in priority sector according to NRB's directive.
- The liquidity position of NABIL is lower than NIB and SBI. NABIL is said the stable and consistent than other two banks.
- NABIL has invested more on government securities but lower in shares and debentures.
- The profitability ratio shows that NABIL is average in profit compared to other sample banks.
- The risk of NABIL is also average compared to other sample banks.
- The growth ratio concludes that NABIL was unable to maintain high growth ratios in total deposits loan and advances and investment compared with sample banks.
- The trend analysis shows that NABIL has invested large portion of their deposit into providing loan to potential sector.

He said that the NABIL's position will be better in near future. From the correlation he found that there is significant relationship between total deposit and total investment, deposit and loan advances. He suggests that NIB has to mobilize the fund in priority sector. NIB and SBL needs to improve their liquidity position. NABIL has to invest more on share and debentures. There needs to be effective collection of deposits and the growth has to be acquired. Finally he says that NABIL is in Satisfiable position.

Similarly Rajesh Dhital (2002), in his Thesis work entities," A comparative study on Investment Policy of standard Chartered Bank Nepal Ltd and Bank of

Kathmandu Ltd," Master Degree thesis, T.U. has made an attempt to analysis the policy of sample banks. His main objective was to analyze the financial ratios with the help of financial tools and from the statistical tools too different conclusions were found. His objective was to find the profitability position, liquidity position, assets management efficiency, mobilization of funds, trend analysis, growth ratios, to find out the relationship between deposits and total investment, deposit and loan and advances etc.

His major findings were:

- The mean ratio of SCBNL had higher mean current ratio than of BOK Ltd but the mean ratio of cash and bank balance of total deposit ratio of SCBNL was lower in comparison of BOKL.
- The investment on government securities to current assets of SCBNL was higher than BOK Ltd.
- The mean ratio of loan and advances to total deposits of SCBNL was lower than that of BOK Ltd.
- The mean ratio of total investment to total deposit of SCBNL was higher in comparison to BOK Ltd.
- The profitability position of SCBNL was average compared to BOK Ltd. The mean ratio of return on total working fund of SCBNL was higher than that of BOK Ltd.
- The growth rate of total deposit of SCBNL was less than BOK Ltd; the growth rate of net profit of SCBNL was higher than that of BOK Ltd.
- There was significant relationship between deposit and loan and advances of both sample banks.
- Trend value analysis showed that the total deposits of both banks were found in increasing trend. The trend value of loan and advances, total investment, net profit was in increasing too.

He has recommended that BOK Ltd should focus on more deposit collection through large variety of deposit scheme and facilities. SCBNL should follow liberal policy and invest more percentage of deposit in loan and advances. BOK Ltd should invest more on government securities. SCBNL and BOK Ltd both have to invest more on share and debenture of different other companies. Both banks SCBNL and BOK Ltd should follow project oriented approach to perform efficiently. New approach should be taken to attract customers like E-banking, wide international banking etc. The both banks are also suggested to operate in rural areas too without making unfavorable impact in their profits.

Upendra Tuladhar (2000) in his thesis work, entitled, “A study on the investment policy of Nepal Grindlays Bank Ltd in comparison to other Joint venture Banks of Nepal, Master’s Degree Thesis, T.U. has made an attempt and he found that:

- The mean current ratio of NGBL was slightly higher than NABIL and HBL.
- NGBL has invested more portion on government securities than other sample banks NABIL and HBL.
- It is said that NGBL has maintained successful liquidity than NABIL and HBL
- The mean ratio of loan and advances to total deposit of NGBL was less than NABIL and HBL.
- NGBL had highest mean ratio of investment on government securities to total working fund ratio.
- It is also said that NGBL has maintained comparatively average successful in its on-balance sheet operation.
- In case of off-balance sheet operation NGBL has advanced than NABIL and HBL.
- The profitability position of NGBL is higher than NABIL and HBL.

- Growth ratio of NGBL was lower than HBL and slightly lower than NABIL. The growth ratio of loan and advance of NGBL was found higher than NABIL but lower than HBL.
- The growth ratio of net profit of NGBL seemed to be more satisfactory than NBIL but in case of HBL, it seemed to be very high.
- He also found that all three joint venture banks had positive correlation between outside assets and net profit.
- There was positive correlation of HBL but negative incase of NGBL and NABIL between deposits and total investments.
- In trend analysis it was found that the loan and advances to total deposit ratios, increasing trends were found for NGBL and NABIL but it was decreasing trend in case of HBL.

He also recommended that NGBL to provide information about its services, facilities. He further said NGBL could select education as its potential investment sector. NGBL should not be surrounded and limited with the interest and status of big clients. There should be reduction in the minimum threshold balance and extension of its services towards rural areas. NGBL should increase cash and bank balance to meet the need of investment and demand of loan and advances. NGBL should invest its fund in the purchase of shares and debentures of other financial, non-financial companies. NGBL should establish the participation to boost up foreign investment into the country. Modern technology should be introduced to the country for the better execution of its operation.

Deependra Shrestha (2002) in his thesis paper, "A comparative study on Investment Practices of Joint Venture Commercial Banks" Master Degree Thesis, T.U. has studied the liquidity management, assets management, profitability, risk position of Nepal SBI Bank, NABIL Bank, and Standard Chartered Bank Nepal ltd. He has also projected the deposit and investment trends of the sample banks. He found that:

- The liquidity position of NABIL was not so good in compare to other banks.
- NSBI has higher cash and bank balance to total deposit ratio than NABIL and SCBNL.
- NSBI’s cash and bank balance to total deposit ratios are more variable than other banks so the liquidity position of NSBI was not better.
- It is also said that NABIL and SCBNL do not have sufficient fund to invest in profitability sectors.
- From the analysis of assets management ratio it was said that NABIL was not in a better position regarding it’s on balance activities as well as off balance activities.
- The mean ratio of loan and advance to total deposit of NABIL was greater than SCBNL and lower than NSBI.
- However NABIL’s investment on government securities to total working fund ratios is found more consistent than that of other banks.
- The profitability ratio showed that NABIL’s profitability was not satisfactory but in some ratios like return on loan and advances, Total working fund, equity and total interest earned to total outside assets, NABIL has maintained higher ratio than NSBI and lower mean ratios than SCBNL.
- In other ratios from the analysis of risk ratio it was found that the credit risk ratio of NSBI was highest at all and the capital risk ratio of NABIL was highest.
- Growth ratios found that NABIL and SCBNL had not been successful to increase their sources of funds.
- NABIL had success to maintain higher growth rate of total investment.
- SCBNL was able to maintain higher growth ratios of loans and advances. It was said that NSBI had reduced its total investment and its effects directly appears in net profit.

- From the coefficient of correlation analysis it showed there was significant relationship between deposit and loan and advances and outside assets and net profit of NABIL, SCBNL, and NSBI bank.
- Trend analysis showed that SCBNL has increasing trend values in both loan and advances to total deposit and total investment to total deposit. NSBI has opposite trend value than NABIL.

He recommended that both banks NABIL and SCBNL should increase cash and bank balance to meet current obligations and loan demand. NABIL and SCBNL should use their exiting fund as loan and advances. So they should follow liberal lending policy. NSBI should utilize risky assets and shareholder's fund to gain highest profit margin. NSBI should invest its idle fund in government securities. All three banks should invest their funds in different types of companies in different areas. The banks should make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio. NABIL should apply loan recovery act that would help to realize overdue loan in time. All three banks should open its doors to the small depositors and entrepreneurs for promoting and mobilizing small investor's funds. All three banks should activate its increasing foreign investment in Nepal by means of their wide international banking networks. These three of their wide international banking networks. These three banks should play the role of financial intermediary and merchant banking like underwriting of securities brokers, development of capital markets. And supportive role to the security exchange center.

2.4 Meaning of Some Terms

The most used word in this study has been clarified below:

a. Deposits

Deposits are the amount collected by different means of account. Deposits are very helpful for generating profit as well as a source for liquidity. Deposit is liability for a bank because it is that specific amount borrowed from different clients. Deposits are affected by the interest rate paid to the deposits, type of customers, facilities provided by banks etc.

b. Loan and Advances

Every financial institution must be very careful while providing loan because the non payment of the loan can cause a heavy loss to the bank. Still it is riskier the banks must lend their money to earn desired revenue in form of lending interest rate. More banks are interested to provide short term loans which can be collected in a short span of time. Lending through bank has cheaper rate due to excess demand. The increase in economic activity also increases the volume of loan. Loans are basically provided against collateral which are usually immovable or moveable properties.

c. Investment on other company's share and Debentures

Some part of funds is usually invested in other organizations shares. To meet the directives of NRB, probability of getting return in possible alternatives, lack of huge gains forces, the bank has to invest in other's fund.

d. Investment on Government Securities, Bonds

This activity is done to increase the investment though it provides less return and is known as less risky assets. These securities are highly liquid. Depositors may demand their funds at any time so to maintain that liquidity position too without loss in the value this investment is usually done.

e. Off-balance sheet Activities

Basically they are not shown assets or liabilities. For example letter of credit, letter of guarantee etc. these activities are risky though they are also the alternative source of income.

2.5 Research Gap

Several topics are done in this topic called investment practices. Previously many research were done by using secondary data .The information of this very research is also based on secondary data but many effective tools and technique are used to get the desired result as per the objective of this study. To analyze the facts financial tools as well as statistical tools were used to get the desired objective of the study. Financial tools include ratio analysis and the statistical tool includes mean, standard deviation, coefficient of variation, correlation of coefficient analysis. Besides that the research also includes trend analysis. The previous studies were unable to get the present facts and figures. Hence the researcher has made an attempt to fill the research gap prevailing up to this context taking reference to a joint venture bank and a commercial bank. This research will deliver the answer to the recent questions and it will also give the latest information about the current practices of concerned commercial banks.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

The Purpose of research methodology is to explain to readers hot the research was conducted. This is a very specific way to solve the research problem which includes many techniques and tools. This is also a sequential step to adopt by a research in studying p problem with certain objectives.

Research methodology is a systematic investigation and study of materials sources to establish facts and reach new conclusion.

3.2 Research Design

Research design is drawing an outline of planning or arranging details and in an economic, efficient and relevant manner before the data collection and data analysis. Research design is also the strategy for conducting research work which describes the general framework for collection, analysis and evaluation of identified data. Research design is the specification procedures for collecting and analyzing the necessary steps to help and identify an opportunity such that deferent between cost of obtaining various levels of accuracy and the expected values of the information, associated with each level of accuracy is maximized.

Research design is purely and a plan for a study that guides the collection and analysis of data. It is an investigation and it answers the research question. Research design consists the scheme in which there is an outline of what the researcher will do from writing the hypothesis and their implication to the final analysis of data.

Research methodology is a process of making decisions before the situation arises in which the decision has to be carried out. It guides the researcher to progress in the right direction in order to achieve the goal. The design of research is concerned with making controlled scientific inquiry. Research design must include all the aspects for testing of hypothesis and drawing logical conclusion there from.

3.3 Population and Sample

The time limit and unavailability of the relevant data had forced to make research on the few commercial banks even though there are twenty three licensed commercial banks in Nepal. Among all these banks two banks viz. Bok ltd and NABIL have been taken into account for research purposed as the samples in this project study to compare their investment policy. Bank of Kathmandu was established in March 1995 and NABIL, the first joint venture bank was established 12th July 1984. These are the two selected banks which are taken for study.

3.4 Data Collection Techniques

Data are collected from the two sources the first is primary and second is secondary source. In this study secondary data has been taken as it is the main source of data.

Secondary data is the information which had been collected by some individual or agency and statistically treated to draw certain conclusions and also to extract some other information. The main advantage of this type of data is its availability and lower cost than primary data. It saves time too. The main drawback of this data is that the available data may not be specific to the problem. The rule says that no research should be done without a search of secondary data and it should be used whenever it is possible

The major source of this study is secondary data which has different sources. The sources are annual reports where balance sheet, P/L account of concerned banks is included. Some other data and information have been collected from the authoritative sources like library of Shanker Dev Campus, Nepal Stock exchange limited, Nepal Rastra Bank, Security Exchange board, economic survey and different articles, reports, magazines etc. The articles published bye the bank are also the source of information.

These data re the prerequisites of any project study. They are all raw information which will be turned to different outcomes and the answers to the research questions. This is very necessary in the study without which the study can't take momentum.

3.5 Data Analysis Tools

This study requires come financial and statistical tools to achieve the core objective of this study. These reliable tools help to sink with the objective of this study. The result obtained with the help of financial statistical and accounting tools are tabulated under various headings. Then the results are interpreted and compared to the sample.

There are two types of tool i.e. financial tool and statistical tool which are expressed below:

a. Financial Tools

Financial statement provides the vital information about the firm’s position at a point in time and its operation over some past period. Financial tools availability has helped to analyze the strength and weakness of a firm. Ratio analysis is a technique from which different results are known. Simply ratios are designed to show relationships between financial statement accounts within firms. Translation of the accounting figures into relative value allows us to compare the financial position of one firm to another mathematical expressions are needed to show the relationship between the various accounting figures. The ratios are created from different figures and the evaluation of the performance is done. Financial statement can e analyzed using various rations but only four ratios have been taken in this study which is the core or investment policy of the banks. The ratios analyzed in this study are as follows.

i. Liquidity Ratios

Liquidity ratio is used to find out the liquidity position of a firm. Liquid position is the question of how well the firm is able to meet its current obligation. Short-term or current assets can be easily converted into cash so it is liquid asset. Liquidity ration is the relationship of a firm's cash and other current assets to its current liabilities and it reflects the short-term financial strength of the business. Liquid asset in another words can be defined an asset that can be easily converted to cash without significant loss of its original value. The conversion of current assets such as inventory and receivables are the easiest means by which a firm obtains the funds needed to pay its current bills. The following ratios are calculated for this purpose.

- **Current Ratio**

Current ratios are the indication of the extent to which current liabilities are convert by assets expected to be converted to cash in the near future. Higher current ratio is desired and it indicates the better liquidity position current ratio is calculated by dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current assets include cash, marketable securities, accounts receivable, inventories, overdrafts, bill purchased, and current liabilities involves account payable, short term notes payable, current maturities of long term debt, accrued income taxes and accrued expenses/esp. wages.

- **Cash and Bank Balance to Total Deposit Ratio**

These are the most liquid current assets of a firm. Cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay the depositors quickly. It also shows the ability of bank's immediate funds to cover their total deposit. This ratio is expressed as,

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

Here, total deposit includes saving account, current account, fixed account, money at call and other deposits.

- **Cash and Bank Balance to Current Assets Ratio**

This ratio declares the percentage of the cash and bank balance among the current assets of a firm. Higher ratio is defined best in this case because higher ratio means the higher capacity of firms to meet the cash demand. This ratio is presented as,

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

Here, cash and bank balance involves cash in hand, freight cash and foreign banks.

- **Investment on Government Securities to Current Asset Ratio**

This ratio finds out the percentage of current assets invested on government's different securities like treasury bills, development bonds etc. This ratio is calculated by dividing the amount of investment on government securities by the total amount of current assets. It is stated as,

Investment on government Securities to Current Asset Ratio=

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

- **Loan and Advances to Current Assets Ratio**

Short term loan which matures with a period of one year are assumed or known as current assets. This loan is the major source of earning for a bank but the bank must be very careful about it. Bank must not allocate all funds in loan and advances. There must be a certain level of loans. This specific ratio is calculated by dividing loan and advances by current assets. It shows the percentage of loan and advances and the portion of loans too. It is expressed as,

$$\text{Loan and Advances to Current Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

ii. Asset Management Ratios

Managing assets is also an important function of any profit seeking organization especially commercial banks. The management of assets helps to exist the institution for a long run and it also satisfies the consumer by earning high volume of profit. Asset management ratio helps to understand how the banks are using their resources and how the sample banks have arranged and invested their limited resources. Simply asset management ratios are those set of ratios that measures how effectively a firm is managing its assets. The financial tools and the related ratios to investment policy are calculated and they are as follows.

- **Loan and Advances to Total Deposit Ratio**

This ratio finds and gives the answer of the question about how the selected sample banks are utilizing their total deposit collection on loan and advances in order to earn maximum profit and satisfy their customers. It is expressed as, and

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

- **Total Investment to Total Deposit Ratio**

This ratio is calculated bye dividing total amount of investment by total amount of deposit collection. It shows how individual or sample firms are investing their deposit for e.g. Investment on debentures and share of other companies, investment on government securities etc. it is expressed as,

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

Investment must be done to earn higher return and it is very essential for the sustainability or any financial institution.

- **Loan and Advances to Total Working Fund Ratio**

This ratio shows the ability of the sample banks in terms of earning high rate of return or maximum profit from loan and advances. Loan and advances is the main element of total working fund and the ratio is obtained by dividing total loan & advances by total working fund. It is expressed as;

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

Total working fund includes current a nets, net fixed assets, Sundry assets but it doesn't include letter of credit, letter of guarantee.

- **Investment on Government Securities to Total Working Fund Ratio**

It is very specific ratio and it shows the portion of investment on government securities. It is calculated as follows,

Investment on Government Securities to Total Working Fund Ratio=

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

- **Investment on Shares and Debentures to Total Working Fund Ratio**

This ratio shows the investment of financial intuition on the shares and debentures. It is obtained by dividing investment on share and debenture by total working fund. It is expressed in formulae as,

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

iii. Profitability Ratios

Profitability ratio is related with the term profit which shows the efficiency of the business firm. It measures the capacity of earning of any financial institution. Since profit is essential to exist in competitive market it drives or attracts the investors in that specific financial institution.

Profitability is the next result of a number of policies and decisions. Profitability ratio shows the combined effect of liquidity, asset management and debt management on operating results. Profitability ratio shows the better or worse financial performance so higher profitability ratio is desired. Profit maximization is one of the main objectives of any institution and is very necessary to earn maximum returns for the success of any financial institution. The following financial ratios related to investment policy is calculated which are mentioned below.

- **Return on Loan and Advances Ratio**

This ratio shows how the banks have mobilized and used their resources to earn higher return from loan and advances. This ratio is calculated by dividing net profit or loss by the amount of loan and advances and is formulized as,

Return on Loan and Advances Ratio= $\frac{\text{Net Profit or Loss}}{\text{Total Loans Advances}}$

- **Return on Total Assets**

The ratio of net income to total assets measures the return on total assets (ROA) after interest and taxes. This ratio shows the relationship between net profit and total assets. This ratio is calculated b dividing net income by total assets which is formulated as,

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

- **Total Interest Earned to Total Outside Assets**

Total interest earned is the amount earned by a bank by spreading it's investment in various forms and sectors. Total outside asset involves borrowing, short term and long term loan. This ratio is calculated by dividing total interest earned by total outside assets and is presented as,

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

- **Total Interest Earned to Total Working Fund Ratio**

Earning interest is the indication of access return and it shows the better performance of the financial institutions. This ratio determines the percentage of interest earned to total assets. Higher ratio is desired in this scenario which is the better indication of the interest earned in a maximum way. This ratio is calculated by dividing total interest earned from investment by working fund and is formulized as,

Total Interest Paid to Total Working Fund= $\frac{\text{Total Interest Earned}}{\text{Total Fund Working}}$

- **Total Interest Paid to Total Working Fund Ratio**

This ratio shows the percentage of total interest expenses against total working fund. This ratio is calculated by dividing total interest paid by total working fund and is formulized as,

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

iv. Risk Ratios

In every investment people seek profit but the reality is there is not only the element called profit but risk lies there. Risk simply is uncertainty of returns. The bearing of risk can be useful o get high profitability but there is no guarantee of that. So the intention must be to minimize the risk. This ratio finds out the degree of risk involved in financial operations. The analysis or measurement of credit risk ratio and capital risk ratio. Shows the current picture of the risk involved. The following risk ratios are calculated in this study.

- **Credit Risk Ratio**

Credit risk ratio tells us about the possibility of loan to go into default or the possibility of nonpayment of the loan given. It is calculated by dividing loan and advances by total assets and is formulized as,

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

- **Capital Risk Ratio**

This ratio is calculated to find the level of profit. It also show the bank's ability to attract deposits and inter-bank funds.

This risk automatically becomes low if the activities are limited. The act of silence or lack of performing any activity keeps the profitability compressed. This ratio is calculated by dividing share capital by risk weighted assets and is presented as,

$$\text{Capital risk ratio} = \frac{\text{Share Capital}}{\text{Risk Weight Assets}}$$

v. Growth Ratios

These ratios are used to understand the fund mobilization and investment management of a commercial bank. It shows the activities related to the maintenance of economic and financial position of a financial organization. The higher growth ratio represents the high level of performance. Following growth ratios are calculated to find out the growth and expansion of the sample banks.

- Growth ratio of total deposits
- Growth ratio of loan and advances
- Growth ratio of total investment
- Growth ratio of net profit

b. Statistical Tools

Statistics are numeric statement of facts. The various statistical tools help us to collect and present numerical data in the proper way and to analyze them. In this study mean standard deviation, variance, co-efficient of variation least square correlation co-efficient analysis and trend analysis. This individual and collective analysis can be very useful for decision making. This study includes the following statistical analysis:–

- **Mean**

This is also known as average and it is used to get one single value which describes or interest the whole data. It is used for comparison too. The sum of all the observations divided by the number of observations is mean and it is formulized as,

$$\bar{X} = \frac{\sum X}{N}$$

Where,

$\bar{X}$ = Mean

N= Number of observations

$\sum X$ = the sum of observations

- **Standard Deviation**

Standard deviation determines the reliability of central tendency or mean. It measures the dispersion. Dispersion is variability of data and it finds outs how individual values fall apart on an average. The higher standard deviation has higher variability. The standard deviation is defended as the positive square roof of the arithmetic mean of the squared deviation from their arithmetic mean o a set of values. It is usually denoted by the Greek letter (Sigma). It is presented as,

$$\sigma = \sqrt{\frac{\Sigma(X-\bar{X})}{n}}$$

Where,

N= Number of observations

Or,

$$\sqrt{\frac{\Sigma x_1^2}{n} - \left(\frac{\Sigma x_1}{n}\right)^2}$$

- **Variance**

Variance is the square of standard deviation. This tool is also used to interpret data with the help of numeric facts. It is denoted by 6^2. It can also be formulize as,

$$\sigma^2 = \frac{\Sigma(X-\bar{X})^2}{n}$$

- **Coefficient of Variation (C.V.)**

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation. 100 times coefficient of standard deviation is called coefficient of variation. It is used to compare the variability, homogeneity of two or more distributions. High C.V. is more variable or less consistent and vice versa. It is formulizes as,

C.V. = $\frac{\sigma}{X} \times 100$

- **Correlation Coefficient Analysis**

This tool interprets the relationship between two or more variables. It shows whether two or more variables are co-related positively or negatively. These following coefficient of correlation which are related to investment policies are as follows,

i. Co-efficient of correlation between deposit and total investment.
ii. Coefficient of correlation between deposit and loan and advances.

iii. Coefficient of correlation between outside assets and net profit.

It is formulized as:

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

Or,

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}}$$

Where,

N= Number of Observation in series x and y.

$\sum xy$= Sum of the product of observation in series x & y

$\sum x^2$ = Sum of the squared observation in series x

$\sum y^2$ = Sum of the squared observation in series y

- **Trend Analysis**

The trend analysis is used to predict the future. It is a pattern according from the past and it is assumed that the same patterns will occur in future. The following trend analysis has been used in this study.

i. Trend analysis of Total Deposits
ii. Trend analysis of Loan and Advances
iii. Trend analysis of Total Investment
iv. Trend analysis of Net Profit.

Following equation is developed to calculate trend value." Any value of independent variable x, the estimated value of y, denoted by Y_c can be written as,

Y_c=a+bx

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

This chapter includes an analytical part of the study. The major financial performances which are the core to the investment management and fund mobilization are evaluated and analyzed. This chapter provides the major and necessary findings which are very helpful for the subject matter of this study.

4.1.1. Financial Tools

The weakness and the strength of any organization are identified by financial analysis. It is recognized by establishing relationship between the items of the balance sheet. Ratio analysis is done here to analyze the data. Different financial ratios related to the investment management and fund mobilization are discussed and presented to evaluate the performance of two commercial banks i.e. BOK Ltd and NABIL. The ratios help to evaluate the situation according to the results achieved from those ratios. It is notable that all financial ratios are not studies here in this chapter. The financial ratios which are important form the view point of the investment policy and fund mobilization are calculated and analyzed. The mathematical relationship developed between the financial figures is simply ratio development. These ratios are calculated to focus the relationship between each item. The important ratios from the view of investment policy are given below.

a. Liquidity ratio
b. Asset management ratio
c. Profitability ratio
d. Risk ratio
e. Growth ratio

a. Liquidity Ratio

Liquidity ratio measures the capacity of the firm to meet its cash urgency and obligation. It is very certain that community may demand for the withdraws for deposited, pay their obligation at the maturity time, conversion of non-cash assets into cash by not losing anything in the real value. So the commercial banks must maintain satisfactory liquidity position. Liquidity position is highlighted and observed by establishing relationship between cash and current assets to current obligation. Liquidity position of BOK Ltd and NABIL are studied comparatively through following ratios:

- **Current Ratio**

Current ratio measures the ability of the bank to meet its current obligation. Generally it measures short term liabilities which mature within a year. Current ratio is calculated by dividing current assets by current liabilities. The very standard current ratio is 2:1 but 1:1 is also said to be ok for current assets include cash and bank balance, money at call or short term notice, loan and advances, investment in government securities, interest receivable and other miscellaneous assets. Current liabilities consists of deposits, loan and advances, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current obligation. Current ratio is calculated by dividing current assets by current liabilities.

Current Ratio= $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Here,

Current Assets=

Cash and Bank Balance + Money at Call and Short Notice+ Loan and Advances+ Investment +Interest Receivable +Miscellaneous Current Assets

Current Liabilities =

Deposits and Other Accounts + Short Term Loan + Bills Payable + Tax Provision + Staff Bonus + Dividend Payable + Miscellaneous Current Liabilities

The current ratios of BOK Ltd. and NABIL from the year 2002/03 the table number 4.1.

Table 4.1

Current Ratio

(In Times)

Fiscal Year	BOK Ltd.	NABIL
2002/03	1.03	0.92
2003/04	1.05	0.94
2004/05	1.02	0.97
2005/06	1.02	0.89
2006/07	1.01	0.91
Mean	1.03	0.926
Standard Deviation (S.D.)	0.026	0.0229
Coefficient of Variation (C.V.)	2.52	2.48

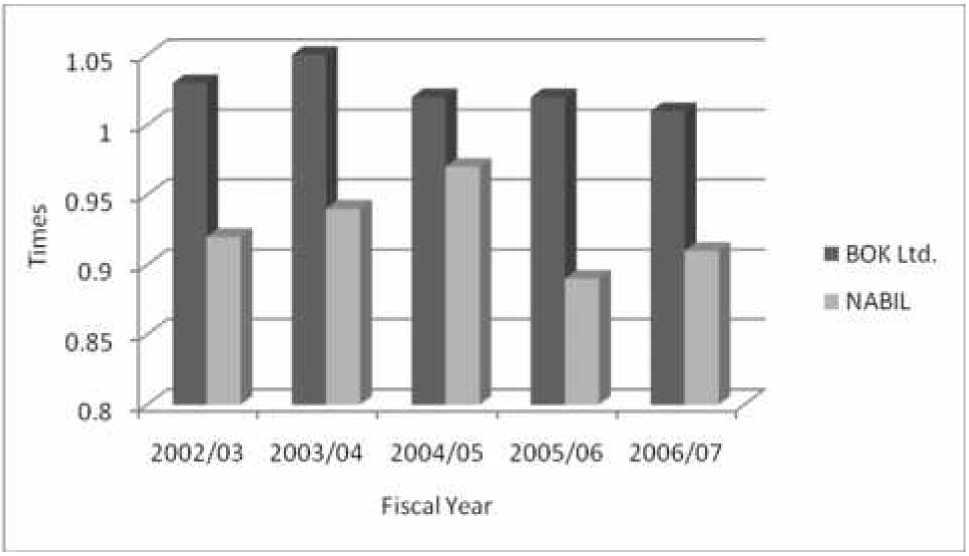
Source: Appendix 1

In the table 4.1 current ratio of sample banks are analyzed. The current ratios of these banks are in fluctuating trend through out the period of study. Although in specific the ability to discharge the current liabilities are not very convincing because NABIL has its current ratio less than one but BOK Ltd has it ratio more than one in study periods. The current ratio of BOK Ltd is in increasing trend from fiscal year 2002/03 to 2003/04 but later it has decreased in the year 2006/07 by 0.02 compared with the first year. Similarly NABIL has also increasing trend from the fiscal year 2002/03 to 2004/05 but it has decreased in the consecutive years. On the basis of mean ratio, NABIL has lower ratio of 0.926 compared to 1.03 of BOK Ltd. It shows that the liquidity BOK Ltd. is better than that of NABIL. In these study periods BOK Ltd. has highest current ratio in the year 2003/04 whereas NABIL in the year 2004/05. The coefficient of variation of BOK Ltd. is

2.56% which is higher than NABIL's 2.48%. Thus it can be said that current ratio of BOK Ltd. is less consistent than NABIL.

Figure 4.1

Current Ratio of Banks



Source: Appendix 1

In the figure 4.1 current ratio of sample banks are analyzed. The current ratios of these banks are in fluctuating trend through out the period of study.

The current ratio of BOK Ltd is in increasing trend from fiscal year 2002/03 to 2003/04 but later it has decreased in the year 2006/07 by 0.02 compared with the first year. Similarly NABIL has also increasing trend from the fiscal year 2002/03 to 2004/05 but it has decreased in the consecutive years.

➢ **Cash and Bank Balance to Total Deposit Ratio**

Cash and Bank balance are those assets which include cash in hand, foreign cash, cheques and other cash items and also bank balance with domestic financial institutions. This ratio assures that the specific institution can meet its unanticipated call on every type of deposits. The highly liquid assets are measured in this ratio which is essential to meet the demand for cash. Higher ratios are desired. This ratio is expressed as,

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

Here,

Cash and Bank Balance = Local Currency +Foreign Currency + Current Account + Other Account

Total Deposits = Saving Deposit + Fixed Deposit + Call Deposit + Certificate of Deposit

The table 4.2 shows cash and bank balance to total deposit ratio of BOK Ltd. and NABIL from the Fiscal Year 2002/03 to 2006/07.

Table 4.2

Cash and Bank Balance to Total Deposit Ratio

(In Percentage)

Fiscal Year	**BOK Ltd.**	**NABIL**
2002/03	11.22	8.51
2003/04	10.11	6.87
2004/05	8.28	3.83
2005/06	6.95	3.26
2006/07	10.62	6.00
Mean	9.44	5.69
Standard Deviation (S.D.)	7.6894	1.9397
Coefficient of Variation (C.V.)	81.45	34.09

Source: Appendix 2

The table 4.2 shows that the cash bank balance to total deposit ratio of BOK Ltd. has fluctuating and decreasing trend. It’s highest ratio is 11.22% in the Fiscal year 2002/03 and lowest in the year 2005/06 which is 6.95%. Similarly in the case of

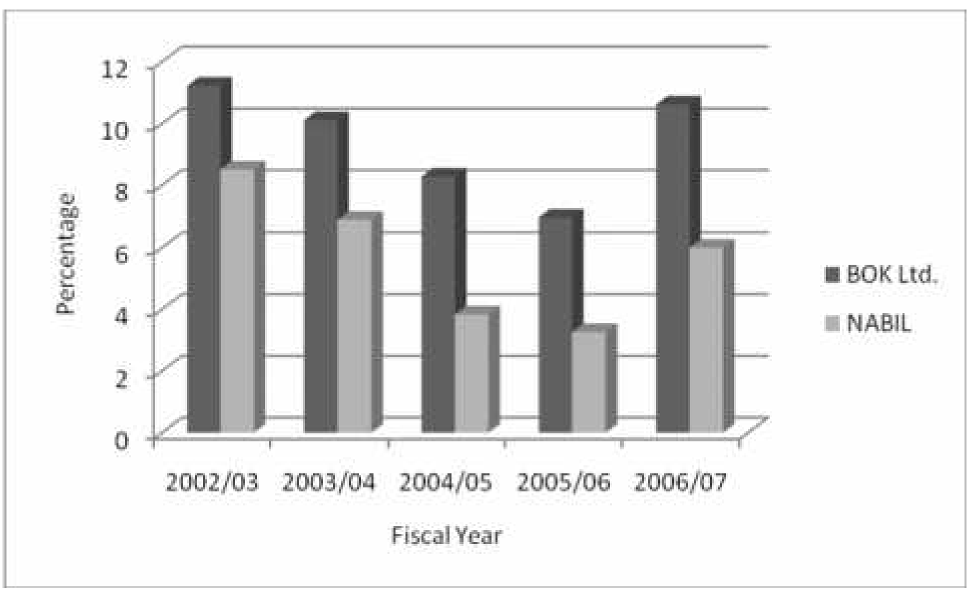
NABIL too the ratios are decreasing from the fiscal year 2002/03 to 2005/06. The highest ratio of NABIL is 8.5% in the fiscal year 2002/03 and lowest in the year 2005/06 which is 3.26%.

In case of average, it is found that the mean ratio of BOK Ltd. is 9.44% and 5.69% of NABIL. The standard deviation of BOK is higher than that of NABIL. The coefficient of variation of BOK is 81.45% and NABIL has 34.09%.

The above analysis helps to conclude that BOK has better position of cash and bank balance because it has maintain higher mean ratio. The coefficient of variation of BOK is higher than NABIL which shows that NABIL position is more stable than BOK.

Figure 4.2

Cash and Bank Balance to Total Deposit Ratio



Source: Appendix 2

The figure 4.2 shows that the cash bank balance to total deposit ratio of BOK Ltd. has fluctuating and decreasing trend. It's highest ratio is 11.22% in the Fiscal year 2002/03 and lowest in the year 2005/06 which is 6.95%. Similarly in the case of

NABIL too the ratios are decreasing from the fiscal year 2002/03 to 2005/06. The highest ratio of NABIL is 8.5% in the fiscal year 2002/03 and lowest in the year 2005/06 which is 3.26%.

- **Cash and Bank Balance to Current Asset Ratio**

This ratio measure the part of most liquid form current asset. Higher ratios are desired and the higher ratios indicates the higher ability of the banks to meet it's daily cash requirement against their customer deposit. Quick payment to the customer's deposit in only possible when the bank has got more liquid assets. Here bank has to be very careful to maintain an average position because if a bank maintains higher ratio of cash surely it has to pay much more interest on deposit which will increase the cost of a fund. Lower ratios are also dangerous because banks fail to make the urgent cash requirement to it's customers presented by cheques. So appropriate funds are needed in the form of reserve.

This ratio is presented as,

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

Here,

Cash and Bank Balance = Local Currency + Foreign Currency
+ Current Account + Other Account

Current Assets =

Cash and Bank Balance + Money at Call and Short Notice + Loan and Advances+ Investment +Interest Receivable +Miscellaneous Current assets

The table 4.3 shows the cash and bank balance to current asset ratio of BOK and NABIL form the fiscal year 2002/03 to 2006/07.

Table 4.3

Cash and Bank Balance to Current Asset Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	9.83	8.25
2003/04	8.41	6.81
2004/05	7.95	3.74
2005/06	6.37	3.47
2006/07	9.69	6.13
Mean	8.45	5.68
Standard Deviation (S.D.)	1.2663	1.8296
Coefficient of Variation (C.V.)	14.95	32.21

Source: Appendix 3

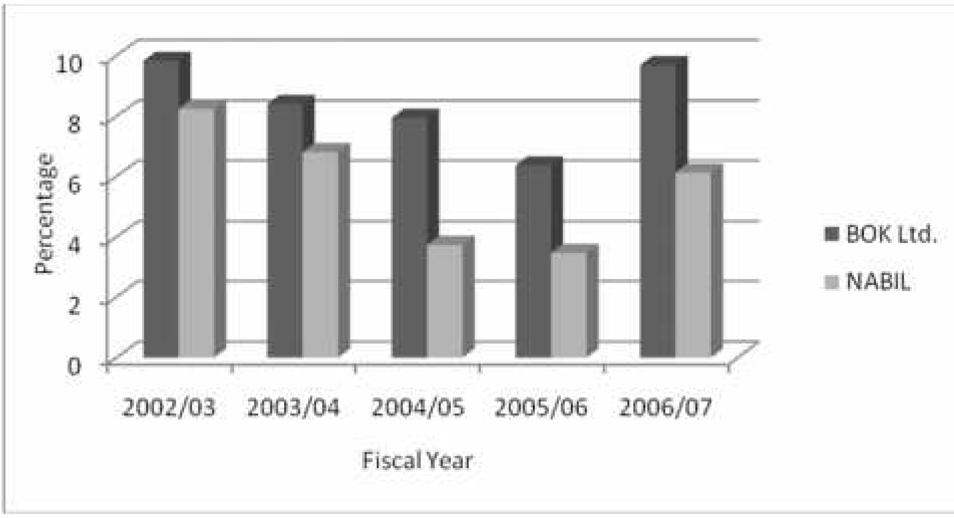
The table 4.3 shows that the cash and bank balance to current assets ratios of both banks BOK and NABIL are in fluctuating trend during the study period. BOK has maintained a highest ratio of 9.83% in the fiscal year 2002/03. The lower ratio of 6.37% is achieved in the fiscal year 2005/06. Similarly in case of NABIL the ratios are in decreasing trend 8.25% to 3.47% from the fiscal year 2002/03 to 2005/06. However the ratio has increase to 6.13% in the fiscal year 2006/07. The highest ratio of NABIL is 8.25% in the fiscal year 2002/03 and lowest of 3.47% in the year 2005/06.

In case of mean ratio BOK has highest ratio or 8.45% than that of NABIL's 5.68%. It shows that the liquidity position of BOK is better than NABIL's position. The coefficient of variance between the ratios of BOK is 14.95% which is lower than 32.21% of NABIL bank. It shows that the ratios of BOK are more consistent and stable than NABIL bank.

Comparatively BOK has better position regarding the cash and bank balance to current Assets ratio. It can be said that the ability to manage the reserve fund for the customers withdraws of deposit is very sound of BOK.

Figure 4.3

Cash and Bank Balance to Current Assets Ratio



Source: Appendix 3

The figure 4.3 shows that the cash and bank balance to current assets ratios of both banks BOK and NABIL are in fluctuating trend during the study period. BOK has maintained a highest ratio of 9.83% in the fiscal year 2002/03. The lower ratio of 6.37% is achieved in the fiscal year 2005/06. Similarly in case of NABIL the ratios are in decreasing trend 8.25% to 3.47% from the fiscal year 2002/03 to 2005/06. However the ratio has increase to 6.13% in the fiscal year 2006/07. The highest ratio of NABIL is 8.25% in the fiscal year 2002/03 and lowest of 3.47% in the year 2005/06.

➢ **Investment on Government Securities to Current Assets Ratio**

The major execution of this ratio is to inform the portion of current assets invested on government securities i.e. treasury bills, government bonds etc. Commercial bank are always committed to incest their collected funds on different types of government securities. Government securities are also known as risk free assets which mature in a specific period of time. However government securities are not considered as much liquid asset than cash and bank balance but they too can be easily converted into cash. The simple fact about investment is that commercial banks are more profit seekers. So most of the commercial banks invest their excess fund on government securities for the diversification of investment.

It is stated as,

Investment on government securities to Current Asset Ratio=

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

Here,

Investment on Government Securities =

Nepal Government Treasury Bills + Nepal Government Saving Bonds + Nepal Government Other Securities + Nepal Bank Bonds

Current Assets =

Cash and Bank Balance + Money at Call and Short Notice + Loan and Advances + Investment +Interest Receivable +Miscellaneous Current Assets

The table 4.4 shows the investment on government securities to current asset ratio of BOK and NABIL form the fiscal year 2002/03 to 2006/07.

Table 4.4

Investment on Government Securities to Current Assets Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	21.44	25.88
2003/04	25.48	25.78
2004/05	23.06	16.12
2005/06	23.23	12.69
2006/07	17.16	21.06
Mean	22.07	20.31
Standard Deviation (S.D.)	2.7728	5.2368
Coefficient of Variation (C.V.)	12.56	25.78

Source: Appendix 4

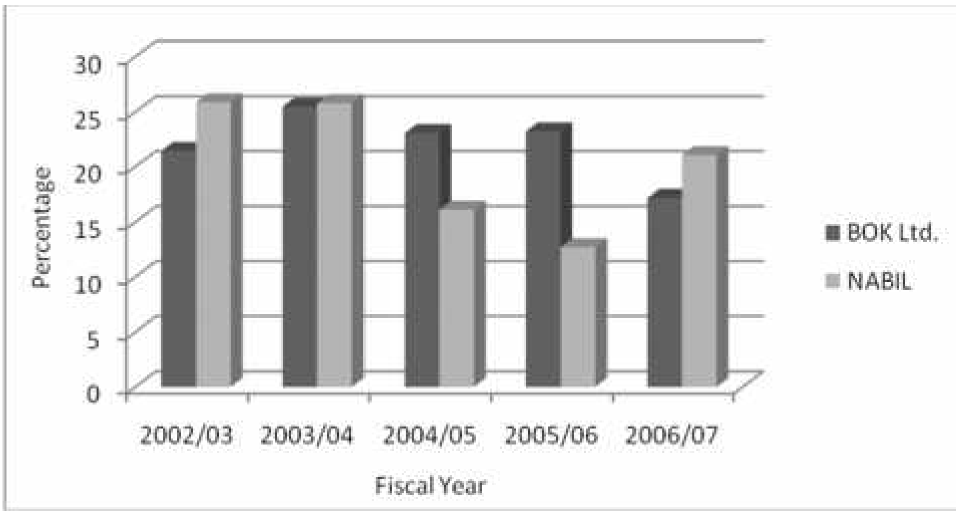
The table 4.4 shows that the investment on government securities to current ratio of BOK has followed a fluctuating trend and NABIL has followed a decreasing trend from the fiscal year 2002/03 to 2005/06. BOK has maintained the highest ratio of 25.48% in the fiscal year 2003/04 and lowest of 17.16% in the fiscal year 2006/07. in case of NABIL bank it has maintained highest ratio of 25.88% in the fiscal year 2002/03 and lowest of 12.69% in the fiscal year 2005/06.

The mean ratio of BOK is 22.07% which is higher that 20.31% of NABIL bank. It means that BOK has invested more portion of it's current assets to government securities and NABIL has invested lower amount of it's current assets in government securities. Form the result achieved from co-efficient of variation of ratios it is concluded that BOK has got lower variation because NABIL has got 25.78% which is greater than BOK's 12.56%. The ratios of NABIL are more inconsistent than BOK.

Comparatively it can be said that BOK has invested more portion of it's current assets in government securities which is a good symptom. The liquidity position from investment on government securities of BOK is much better than NABIL bank.

Figure 4.4

Investment on Government Securities to Current Assets



Source: Appendix 4

The figure 4.4 shows that the investment on government securities to current ratio of BOK has followed a fluctuating trend and NABIL has followed a decreasing trend from the fiscal year 2002/03 to 2005/06. BOK has maintained the highest ratio of 25.48% in the fiscal year 2003/04 and lowest of 17.16% in the fiscal year 2006/07. in case of NABIL bank it has maintained highest ratio of 25.88% in the fiscal year 2002/03 and lowest of 12.69% in the fiscal year 2005/06.

➢ **Loan and Advances to Current Assets Ratio**

Loan and advances includes short and long term loans, overdrafts and cash credit. Commercial banks must not put all their collected funds into reserve or cash and bank balance. In order to generate income bank must invest its fund in form of loan and advances to its customers. If reasonable part of loan and advances cannot be granted the banks are obliged to pay interest on unutilized deposits. If high volume of loan and advances are granted then too it is a threat to the bank because every loan matures in a specific period of time. From that reason banks may not have enough cash or it could not be in most liquid position.

It is expressed as,

$$\text{Loan and Advances to Current Asset Ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

Here,

Loan and Advances = Total Loan - Total Provisioning

Total Loan = Performing Loan + Non Performing Loan

Total Provisioning = Provisioning up to Previous Year

Current Assets =

Cash and Bank Balance + Money at Call and Short Notice+ Loan and Advances+ Investment +Interest Receivable +Miscellaneous Current Assets

The table 4.5 shows the loan and advances to current assets ratio of BOK and NABIL from the fiscal year 2002/04 to 2006/07.

Table 4.5

Loan and Advances to Current Assets Ratio

(In Percentage)

Fiscal Year	**BOK Ltd.**	**NABIL**
2002/03	64.47	55.92
2003/04	60.67	57.50
2004/05	63.51	70.71
2005/06	63.43	71.26
2006/07	69.19	68.09
Mean	64.25	64.70
Standard Deviation (S.D.)	2.7744	6.6269
Coefficient of Variation (C.V.)	4.19	10.24

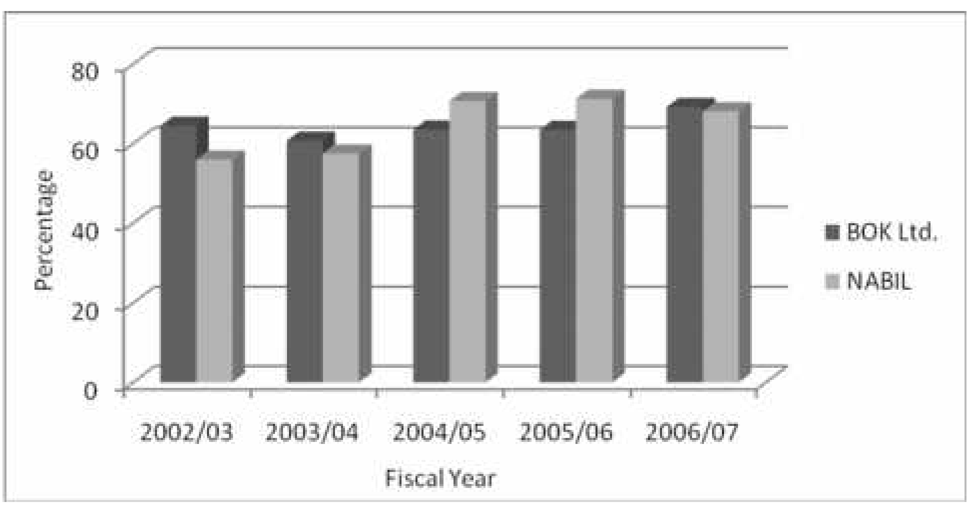
Source: Appendix 5

The table 4.5 shows that the loan and advances to current assets ratio of BOK has followed a fluctuating trend and NABIL bank has an increasing trend from 55.92% in the fiscal year 2002/03 to 71.26% in the fiscal year 2005/06. However in the fiscal year 2006/07 it has decreased to 68.09%. BOK has maintained highest ratio of 69.19% in the fiscal year 2006/07 and lowest of 60.67% in the fiscal year 2003/04. Similarly NABIL has maintained it's highest ratio of 71.26% in the fiscal year 2005/06 and lowest of 55.92% in the fiscal year 2002/03.

While analyzing the mean ratio NABIL has maintain a higher ratio of 64.70% than BOK Ltd's 64.25%. There is only slightly difference in the ratio and it can be said that both banks have used their funds appropriately. The coefficient of variation of NABIL is 10.24% which is higher than BOK Ltd's 4.19%. It shows that NABIL's ratios are more inconsistent than BOK Ltd's ratios.

Comparatively the sample bank BOK Ltd and NABIL's has effectively utilized their funds on loan and advances. However the higher mean ratio of BOK Ltd tells that it has used fewer funds than NABIL bank in loan and advances. More loan and advances too create problem at the time to meet it's current obligation, so one has to be very careful about that.

Figure 4.5
Loan and Advances to Current Asset Ratio



Source: Appendix 5

The figure 4.5 shows that the loan and advances to current assets ratio of BOK has followed a fluctuating trend and NABIL bank has an increasing trend from 55.92% in the fiscal year 2002/03 to 71.26% in the fiscal year 2005/06. However in the fiscal year 2006/07 it has decreased to 68.09%. BOK has maintained highest ratio of 69.19% in the fiscal year 2006/07 and lowest of 60.67% in the fiscal year 2003/04. Similarly NABIL has maintained it's highest ratio of 71.26% in the fiscal year 2005/06 and lowest of 55.92% in the fiscal year 2002/03.

b. Asset Management Ratios

Assets management ratio delivers the various answers about whether the amount of assets seen in the balance sheet is too high, reasonable or too low. Too much assets increases interest expenses. Profit is always reduced by too much assets and too low assets cannot assure profit too and it may be lost. So the main objective of asset management is to manage it's assets in profitable and satisfactory way.

- **Loan and Advance to Total Deposit Ratio**

The ratio specifically analyzes whether the banks are successful to mobilize their total deposits on loan and advances. The higher ratio is considered best because the mobilization of deposit for loan and advances generates profit but too high ratio can always create a problem to it's liquidity position.

It is expressed as, Loan and Advances to Total Deposit Ratio =

$$\frac{\text{Total Loan and Advances}}{\text{Total Deposit}}$$

Here,

Loan and Advances = Total Loan - Total Provisioning

Total Loan = Performing Loan + Non Performing Loan

Total Provisioning = Provisioning up to Previous Year

Total Deposits = Saving Deposit + Fixed Deposit + Call Deposit + Certificate of Deposit

The table 4.6 shows the percentages of loan and advances to total deposit ratio of BOK Ltd and NABIL from fiscal year 2002/03 to 2006/07.

Table 4.6

Loan and Advance to Total Deposit Ratio

(In Percentage)

Fiscal Year	**BOK Ltd.**	**NABIL**
2002/03	73.62	57.67
2003/04	72.94	58.01
2004/05	66.11	72.57
2005/06	69.23	66.79
2006/07	75.87	66.60
Mean	71.55	64.33
Standard Deviation (S.D.)	3.4596	5.7165
Coefficient of Variation (C.V.)	4.83	8.89

Source: Appendix 6

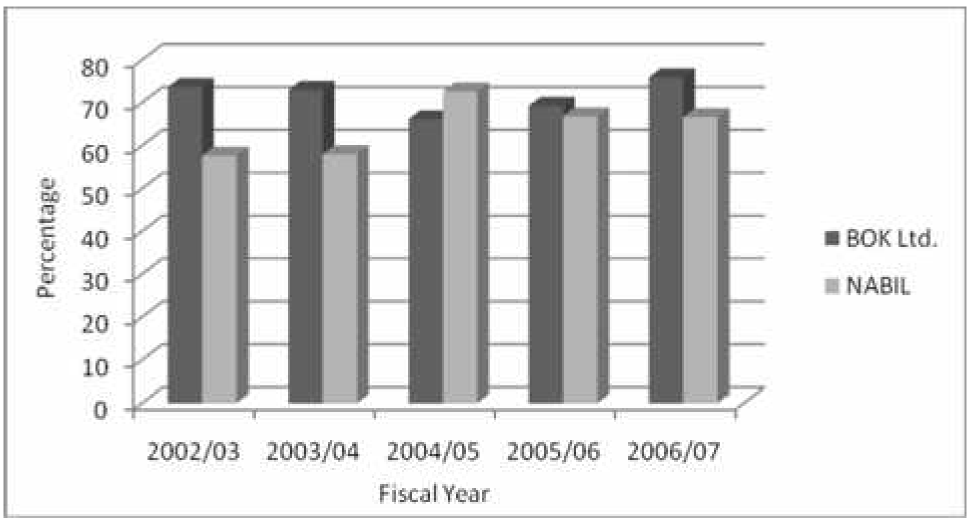
The table 4.6 shows that BOK Ltd has followed decreasing trend from 73.62% in the fiscal year 2002/03 to 66.11% in the fiscal year 2004/05. In fiscal year 2005/06 it has increased form 69.23% to 75.57% in the fiscal year 2006/07. In case of NABIL bank the ratio has increased from 57.67% in the fiscal year 2002/03 to 72.57% in the fiscal year 2004/05. Then it has decreased in the fiscal year 2005/06 to 66.79% to 66.60% in fiscal year 2006/07. BOK Ltd has maintained highest ratio of loan and advances to total deposit ratio of 75.87% in the fiscal year 2006/07 and lowest of 66.11% in the fiscal year 2004/05. Similarly NABIL has highest ratios of 72.57% in the fiscal year 2004/05 and lowest of 57.67% in the fiscal year 2002/03.

The mean ratio of BOK Ltd is 71.55% which is greater than NABIL Ltd's 64.33%. It indicates that NABIL has mobilized it's lowest portion of deposits in loan and advances. The coefficient of variation of BOK Ltd is 4.83% which is lower than 8.89% of NABIL bank. It shows that BOK Ltd's ratios are more stable than NABIL bank.

It can be said that comparatively BOK Ltd has mobilized more of it's total deposit on loan and advances for the sake of getting high profit. It should be noted that too high ratio is not better from the view of liquidity because loan and advances takes time to mature in cash. It is not very liquid as cash and bank balance.

Figure 4.6

Loan and Advances to Total Deposit Ratio



Source: Appendix 6

The figure 4.6 shows that BOK Ltd has followed decreasing trend from 73.62% in the fiscal year 2002/03 to 66.11% in the fiscal year 2004/05. In fiscal year 2005/06 it has increased form 69.23% to 75.57% in the fiscal year 2006/07. In case of NABIL bank the ratio has increased from 57.67% in the fiscal year 2002/03 to 72.57% in the fiscal year 2004/05. Then it has decreased in the fiscal year 2005/06 to 66.79% to 66.60% in fiscal year 2006/07. BOK Ltd has maintained highest ratio of loan and advances to total deposit ratio of 75.87% in the fiscal year 2006/07 and lowest of 66.11% in the fiscal year 2004/05. Similarly NABIL has highest ratios of 72.57% in the fiscal year 2004/05 and lowest of 57.67% in the fiscal year 2002/03.

- **Total Investment to Total Deposit Ratio**

Investing in government securities, other financial institutions, non-financial sectors are also a very promising way to achieve the profit seeking objective. These investments are done by utilizing the part of the total deposit. This ratio examines whether the banks are investing it's deposit portion to a different securities. Investment is always welcomed and encouraged by these commercial banks.

It is expressed as,

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

Here,

Total Investment = Investment in Government Securities + Others + Investment in Shares + Debentures + Others

Total Deposits = Saving Deposit + Fixed Deposit + Call Deposit + Certificate of Deposit

The table 4.7 shows the percentage of total investment to total deposit ratio of BOK Ltd and NABIL from fiscal year 2002/03 to 2006/07.

Table 4.7

Total Investment to Total Deposit Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	29.43	44.85
2003/04	32.00	41.33
2004/05	29.05	29.25
2005/06	32.27	31.93
2006/07	24.15	38.32
Mean	29.38	37.02
Standard Deviation (S.D.)	2.9212	5.9045
Coefficient of Variation (C.V.)	9.94	15.95

Source: Appendix 7

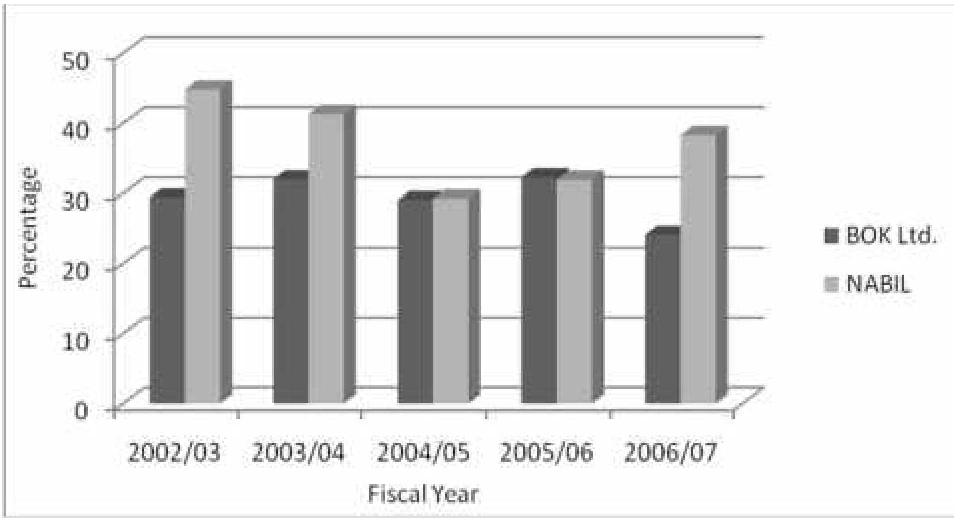
The comparative table shows that the ratio of total investment to total deposit ratio of both banks are in fluctuating trend. BOK Ltd has highest ratio 32.27% in the fiscal year 2005/06 and lowest of 24.15% in the fiscal year 2006/07. Similarly NABIL has highest ratio of 44.85% in the fiscal year 2002/03 and lowest of 29.25% in the fiscal year 2004/05.

The mean ratio of BOK Ltd is 29.38% which is lower than NABIL's 37.02%. It can be said that both banks have not been very keen to invest from their available funds. However NABIL has investment more portion of it's total deposit. The coefficient of variation of BOK Ltd is 9.94%. The ratios of BOK Ltd are more homogeneous due to it's low coefficient of variation.

Comparatively both banks are not utilizing their enough funds for the investments as mean ratios of both banks are lower i.e. 29.38% of BOK Ltd and 37.02% of NABIL. Both banks must invest more portion of it's deposit to diversify the reserves.

Figure 4.7

Total Investment to Total Deposit Ratio



Sources: Appendix 7

The figure 4.7 shows that the ratio of total investment to total deposit ratio of both banks are in fluctuating trend. BOK Ltd has highest ratio 32.27% in the fiscal year 2005/06 and lowest of 24.15% in the fiscal year 2006/07. Similarly NABIL has highest ratio of 44.85% in the fiscal year 2002/03 and lowest of 29.25% in the fiscal year 2004/05.

- **Loan and Advances to Total Working Fund Ratio**

Total asset is total working fund and loan and advances are very integral part of it. This ratio shows to what extent commercial banks are utilizing their total assets in loan and advances in appropriate level to generate profit. Total working fund includes current assets, fixed assets, miscellaneous assets and investment etc.

It is expressed as;

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

Here,

Loan and Advances = Total Loan - Total Provisioning

Total Loan = Performing Loan + Non Performing Loan

Total Provisioning = Provisioning up to Previous Year

Total Working Fund = Current Assets + Fixed Assets + Loans for Development Bank + Investment + Miscellaneous Assets

The table 4.8 shows the percentage of loan and advances to total working fund ratio of BOK Ltd and NABIL from fiscal year 2002/03 to 2006/07.

Table 4.8

Loan Advances to Total Working Fund Ratio

(In Percentage)

Fiscal Year	**BOK Ltd.**	**NABIL**
2002/03	61.02	46.83
2003/04	59.46	48.91
2004/05	59.98	61.60
2005/06	59.12	57.87
2006/07	64.51	57.04
Mean	60.82	54.45
Standard Deviation (S.D.)	1.9542	5.6265
Coefficient of Variation (C.V.)	3.21	10.33

Source: Appendix 8

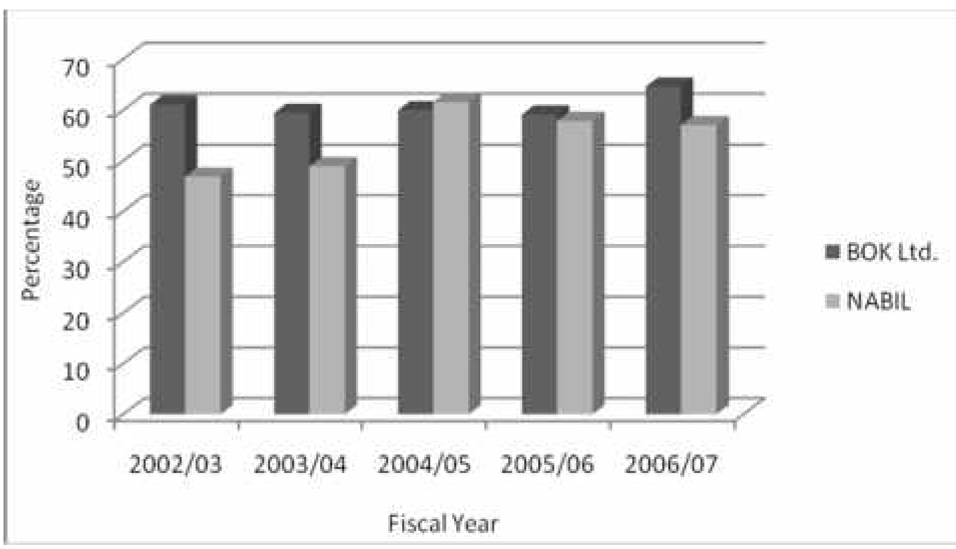
This comparative table shows that the ratios of loan and advances to total working fund ratio of BOK Ltd has followed a fluctuating trend. Similarly NABIL's ratios are fluctuating too. BOK Ltd has maintained highest ratio of 64.51% in the fiscal year 2006/07 and lowest of 59.12% in the fiscal year 2005/06. In case of NABIL bank the highest ratio of 61.60% is achieved in the year 2004/05 and lowest of 46.83% in the fiscal year 2002/03.

In average BOK Ltd has maintained higher ratio of 60.82% than NABIL's 54.45%. It shows BOK Ltd has managed to disperse it's more working fund on loan and advance. The coefficient of variation of BOK Ltd is 3.21% which is lower than 10.33% and it also states that BOK Ltd has more consistency in it's ratios.

Comparatively the position of BOK Ltd is better due to its high mean ratio, less coefficient of variation. However it can be said that the mobilization of working fund on loan & advances of both banks BOK Ltd and NABIL are in satisfactory position. Here one should have the good concept of appropriate amount of loan and advances because too much loan can create a bad debt problem too. It is harmful the view point of liquidity.

Figure 4.8

Loan & Advances to Total Working Fund Ratio



Source: Appendix 8

The figure 4.8 shows that the ratios of loan and advances to total working fund ratio of BOK Ltd has followed a fluctuating trend. Similarly NABIL's ratios are fluctuating too. BOK Ltd has maintained highest ratio of 64.51% in the fiscal year 2006/07 and lowest of 59.12% in the fiscal year 2005/06. In case of NABIL bank the highest ratio of 61.60% is achieved in the year 2004/05 and lowest of 46.83% in the fiscal year 2002/03.

- **Investment on Government Securities to Total Working Fund Ratio**

The best idea of utilizing the total working fund is not only providing loan and advances but also investing in government securities. This ratio examines the part of investment on government securities from available total working fund. These investments are done to achieve returns without any risk and to diversify the fund is also an objective of any investment.

It is calculated as follows,

Investment on Government Securities to Total Working Fund Ratio =

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

Here,

Investment on Government Securities

= Nepal Government Treasury Bills + Nepal Government Saving Bonds Nepal Government Other Securities + Nepal Bank Bonds

Total Working Fund = Current Assets + Fixed Assets + Loans for Development Bank + Investment + Miscellaneous Assets

Table 4.9 shows the investment on government securities to total working fund ratio of BOK Ltd and NABIL form fiscal year 2002/03 to 2006/07.

Table 4.9

Investment on Government Securities to Total Working Fund Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	20.29	21.67
2003/04	24.98	21.93
2004/05	21.78	14.04
2005/06	21.65	10.31
2006/07	16.01	17.64
Mean	20.94	17.11
Standard Deviation (S.D.)	2.9070	4.4715
Coefficient of Variation (C.V.)	13.88	26.13

Source: Appendix 9

The comparative table shows that the ratios are increased in the initial fiscal year from 20.29% in the 2002/03 and 24.98% in the fiscal year 2003/04. Then the ratio has been decreased from 21.78% in the fiscal year 2004/05 to 16.01% in the fiscal year 2006/07. In case of NABIL the ratios has been following fluctuating trend.

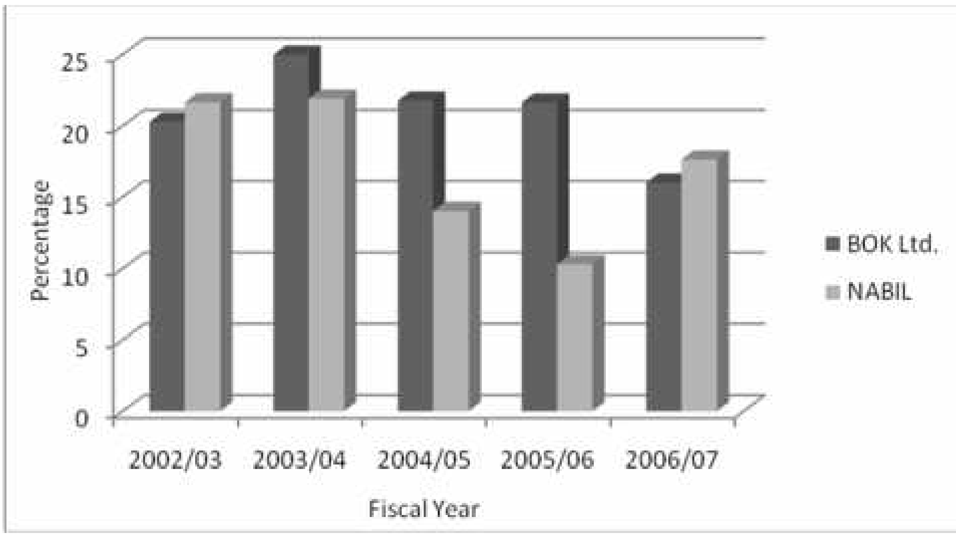
BOK Ltd has maintained it's highest ratio of 24.98% in the fiscal year 2003/04 and lowest of 16.01 in the fiscal year 2006/07. NABIL has maintained it's highest of 21.93% in the fiscal year 2003/04 and lowest of 10.31% in the fiscal year 2005/06.

On the basis of mean ratios BOK Ltd has maintained higher ratio of 20.94% than 17.11% of NABIL which shows that NABIL's position is weak in investment to government securities from available total assets. The coefficient of variation of BOK Ltd is 13.88% which is lower than NABIL's 26.13%. It shows the ratios are not consistent but it has more variability than BOK Ltd.

In conclusion BOK Ltd seems to have invested it more fund than NABIL. It can also be said that the portion of investment to government securities by both banks are not very convincing because low portion of available total working funds has been invested.

Figure 4.9

Investment on Government Securities to Total Working Fund Ratio



Source: Appendix 9

The figure 4.9 shows that the ratios are increased in the initial fiscal year from 20.29% in the 2002/03 and 24.98% in the fiscal year 2003/04. Then the ratio has been decreased from 21.78% in the fiscal year 2004/05 to 16.01% in the fiscal year 2006/07. In case of NABIL the ratios has been following fluctuating trend.

BOK Ltd has maintained it's highest ratio of 24.98% in the fiscal year 2003/04 and lowest of 16.01 in the fiscal year 2006/07. NABIL has maintained it's highest of 21.93% in the fiscal year 2003/04 and lowest of 10.31% in the fiscal year 2005/06.

➢ **Investment on Share and Debentures to Total Working Fund Ratio**

This ratio examines the part of investment on shares and debentures of other company. Commercial banks not only invest in government securities but they also invest the shares of development banks and other companies too. It is generally said that the risk factor is more on these securities than government securities. Normally excess funds are utilized for an investment.

It is expressed in formulae as,

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

Here,

Investment on Share and Debenture = Organized Institutions Share + Organized Institutions Bonds and Debenture

Total Working Fund = Current Assets + Fixed Assets + Loans for Development Bank + Investment + Miscellaneous Assets

The table 4.10 shows the ratio of investment on share and debentures to total working fund ratios form fiscal year 2002/03 to 2006/07.

Table 4.10

Investment on Share and Debentures to Total Working Fund Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	0.51	0.13
2003/04	0.24	0.13
2004/05	0.23	0.16
2005/06	0.19	0.12
2006/07	0.17	0.21
Mean	0.268	0.15
Standard Deviation (S.D.)	0.1237	0.0697
Coefficient of Variation (C.V.)	46.16	46.47

Source: Appendix 10

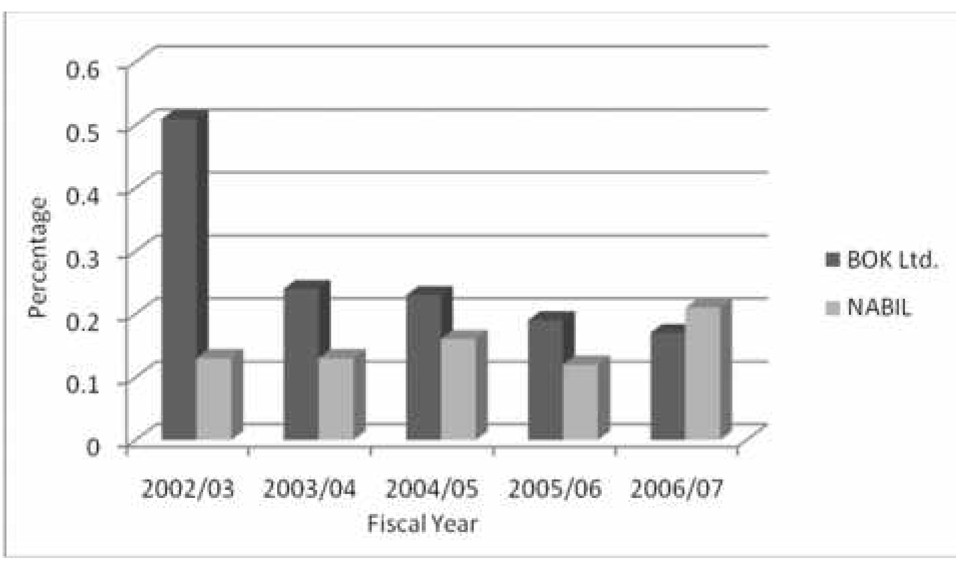
The comparative table shows that the ratios of investment on share and debenture to total working fund ratio of BOK Ltd has followed a decreasing trend. NABIL has followed a fluctuating trend. BOK Ltd has maintained it's highest ratio of 0.51% in the fiscal year 2002/03 and lowest of 0.17% in the fiscal year 2006/07. Similarly NABIL has got it's highest ratio 0.21% in the fiscal year 2006/07 and lowest of 0.12% in the fiscal year 2005/06.

In case of mean ratio BOK Ltd has 0.268% which is higher than the NABIL's 0.15%. It shows that BOK Ltd has invested it's more portion of working fund than NABIL bank. Coefficient of variance of BOK Ltd is 46.16% of NABIL bank. It shows that NABIL's ratios are slightly inconsistent and variable than BOK Ltd's ratio.

It can be said that investment on share and debentures to total working fund ratio of BOK Ltd is slightly better from the average analysis. The fluctuation of ratios has been found slightly of NABIL which is not convincing.

Figure 4.10

Investment on Share and Debentures to Total Working Fund Ratio



Source: Appendix 10

The figure 4.10 shows that the ratios of investment on share and debenture to total working fund ratio of BOK Ltd has followed a decreasing trend. NABIL has followed a fluctuating trend. BOK Ltd has maintained it's highest ratio of 0.51% in the fiscal year 2002/03 and lowest of 0.17% in the fiscal year 2006/07. Similarly NABIL has got it's highest ratio 0.21% in the fiscal year 2006/07 and lowest of 0.12% in the fiscal year 2005/06.

c. Profitability Ratio

Profitability ratio analyzes the efficiency of firms or industries based upon profit. Profit is one of the most common indicators of a firm. It easily measures the financial performance. Profits are generated by providing different facilities to its customer. Profit can give prosperity to facilities to it's customer. Profit can give prosperity to any organization by expanding it's branches financing different investment opportunities, grabbing new investment opportunities etc. higher profitability ratio shows the efficiency of the management as well as of entire organization.

➢ **Return on Loan and Advance Ratio**

This ratio measures the earning capacity of bank on it's mobilization of deposit on loan and advances head. The effect of deposit on loan and advances must always create return. Loan and advances include loan, cash credit, overdraft, bills purchased and discounted.

This ratio is calculated b dividing net income by total assets which is formulated as,

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

Here,

Net Profit After Tax=Expenses-Income

Expenses = Interest Expenses + Personal Expenses + Provision for Possible Losses+ Provision for Staff Bonus + Book Write Off

Income = Interest Income + Non Performing Income + Commission and Discount + Other Operating Income + Exchange Income

Total Loan and Advances = Loans and Advances and Overdraft + Bills Purchased and Discounted

The table 4.11 shows the ratio of return on loan and advances ratio from fiscal year 2002/03 to 2006/07.

Table 4.11

Return on Loan and Advances Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	1.81	5.37
2003/04	2.26	5.56
2004/05	2.36	4.90
2005/06	2.79	4.91
2006/07	2.79	4.33
Mean	2.402	5.014
Standard Deviation (S.D.)	0.3666	0.0617
Coefficient of Variation (C.V.)	15.26	1.23

Source: Appendix11

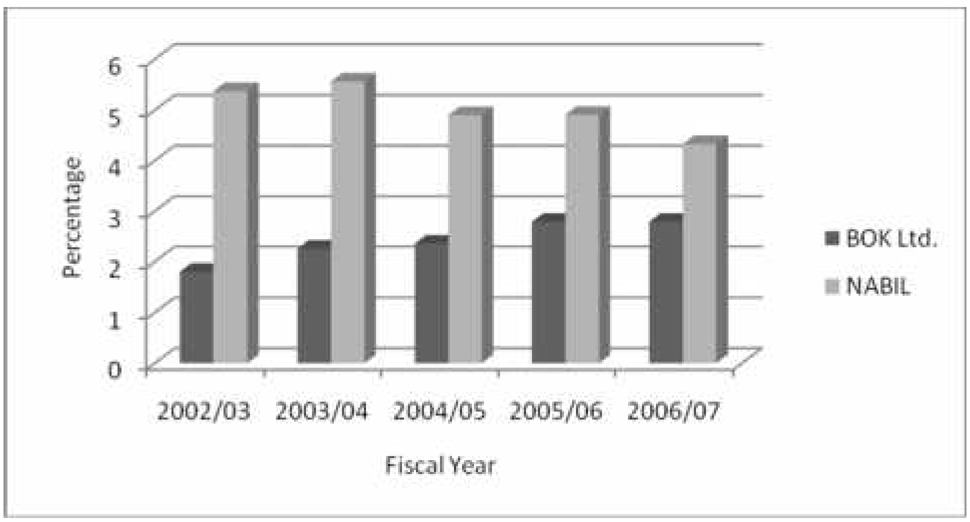
The table shows that the return on loan and advances ratio of BOK Ltd has an increasing trend. The NABIL bank has fluctuating trend on return on loan and advances ratio. BOK Ltd has maintained it's highest ratio of 2.79% in the fiscal year 2005/06 and 2006/07 respectively. The lowest ratio is 1.18% in the fiscal year 2002/03. NABIL has maintained it's highest ratio of 5.56% in the fiscal year 2003/04 and lowest of 4.33% in the fiscal year 2006/07.

The mean ratio of BOK Ltd is 2.402% which is lower than NABIL's 5.014%. NABIL bank has maintained it's profit level to it's highest against BOK. The coefficient of variation of BOK Ltd is 15.26% and NABIL has 1.23%. So the ratios of BOK Ltd are more variable and less consistent than NABIL.

It can be said that the profit of return generating capacity of BOK Ltd is not at satisfactory level as compared to NABIL bank. Mean ratios an coefficient of variation are in favor of NABIL bank.

Figure 4.11

Return on Loan and Advances Ratio



Source: Appendix 11

The figure 4.11 shows that the return on loan and advances ratio of BOK Ltd has an increasing trend. The NABIL bank has fluctuating trend on return on loan and advances ratio. BOK Ltd has maintained it's highest ratio of 2.79% in the fiscal year 2005/06 and 2006/07 respectively. The lowest ratio is 1.18% in the fiscal year 2002/03. NABIL has maintained it's highest ratio of 5.56% in the fiscal year 2003/04 and lowest of 4.33% in the fiscal year 2006/07.

- **Return on Total Working Fund Ratio (ROA)**

It is also known as return on asset. This ratio measures the profit earning capability of any organization. When the total assets are mobilized in different forms for investment there is always a necessity of earning profit. Net profit is that part of profit which is left after all the charge and expenses cast. Every banks are therefore encouraged to manage its working fund which generates higher return. To increase the profit legal minimizing system are very useful.

This ratio is calculated b dividing net income by total assets which is formulated as,

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

Here,

Net Profit After Tax=Expenses-Income

Expenses = Interest Expenses + Personnel Expenses + Provision for Possible Losses+ Provision for Staff Bonus + Book Write Off

Income = Interest Income + Non Performing Income + Commission and Discount + Other Operating Income + Exchange Income

Total Working Fund = Current Assets + Fixed Assets + Loans for Development Bank + Investment + Miscellaneous Assets

The table 4.12 shows the ratios of return on total working fund ratio from the fiscal year 2002/03 to 2006/07.

Table 4.12

Return on Total Working Fund Ratio

(In Percentage)

Fiscal Year	**BOK Ltd.**	**NABIL**
2002/03	1.10	2.51
2003/04	1.34	2.72
2004/05	1.41	3.02
2005/06	1.65	2.84
2006/07	1.80	2.47
Mean	1.46	2.712
Standard Deviation (S.D.)	0.2417	0.2026
Coefficient of Variation (C.V.)	16.55	7.47

Source: Appendix 12

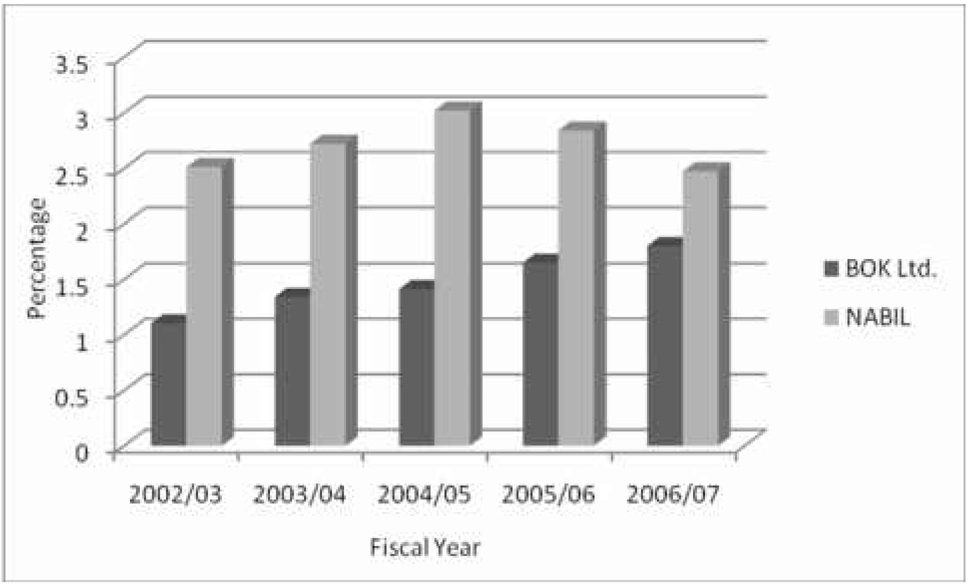
The comparative table indicates that BOK Ltd's ratio of return on total working fund has followed an increasing trend. However NABIL's ratios are fluctuated. Even though there is fluctuation the ratios are very impressive and higher profit than BOK Ltd. BOK Ltd has it's highest ratio of 1.80% in the fiscal year 2006/07 and lowest of 1.10% in the fiscal year 2002/03. Similarly NABIL has it's highest ratio of 3.02% in the fiscal year 2004/05 and lowest of 2.47% in the fiscal year 2006/07.

In case of mean ratio BOK Ltd has recorded 1.46% which is lower than 2.712% of NABIL bank. The coefficient of variation of BOK Ltd is 16.55% which is higher than NABIL's 7.47%. It indicates that the ratios of return on total working fund of BOK Ltd are less consistent than NABIL.

From this analysis it can be said that BOK Ltd has weaker position than NABIL in terms of profit. The mean ratio and coefficient of variation are in favor of NABIL bank, which shows NABIL is best in terms of profitability.

Figure 4.12

Return on Total Working Fund Ratio



Source: Appendix 12

The figure 4.12 indicates that BOK Ltd's ratio of return on total working fund has followed an increasing trend. However NABIL's ratios are fluctuated. Even though there is fluctuation the ratios are very impressive and higher profit than BOK Ltd. BOK Ltd has it's highest ratio of 1.80% in the fiscal year 2006/07 and lowest of 1.10% in the fiscal year 2002/03. Similarly NABIL has it's highest ratio of 3.02% in the fiscal year 2004/05 and lowest of 2.47% in the fiscal year 2006/07.

➢ **Total Interest Earned to Total Outside Asset Ratio**

This ratio portrays the interest earning power of the banks by utilizing it's total outside assets. Interest earning is known as the major source of income of any bank. Here total outside assets includes loan and advances, investment on government securities etc and many more forms of investments. Higher ratio is desirable because it indicates the better earning capacity of bank.

This ratio is calculated by dividing total interest earned by total outside assets and is presented as,

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

Here,

Total Interest Earned=Interest from Loans, Advances and Overdraft + Interest from Investment + Interest from Agency Balances + Interest from Money at Call and Short Notice

Total Outside Assets = Borrowing + Short Term Loan + Long Term Loan

The table 4.13 shows the total interest earned to total outside asset ratio of BOK Ltd and NABIL form fiscal year 2002/03 to 2006/07.

Table 4.13

Total Interest Earned to Total Outside Asset Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	7.81	7.38
2003/04	6.98	7.14
2004/05	7.13	7.20
2005/06	6.75	6.68
2006/07	6.46	6.48
Mean	7.03	7.012
Standard Deviation (S.D.)	2.3671	0.3127
Coefficient of Variation (C.V.)	33.67	4.45

Source: Appendix 13

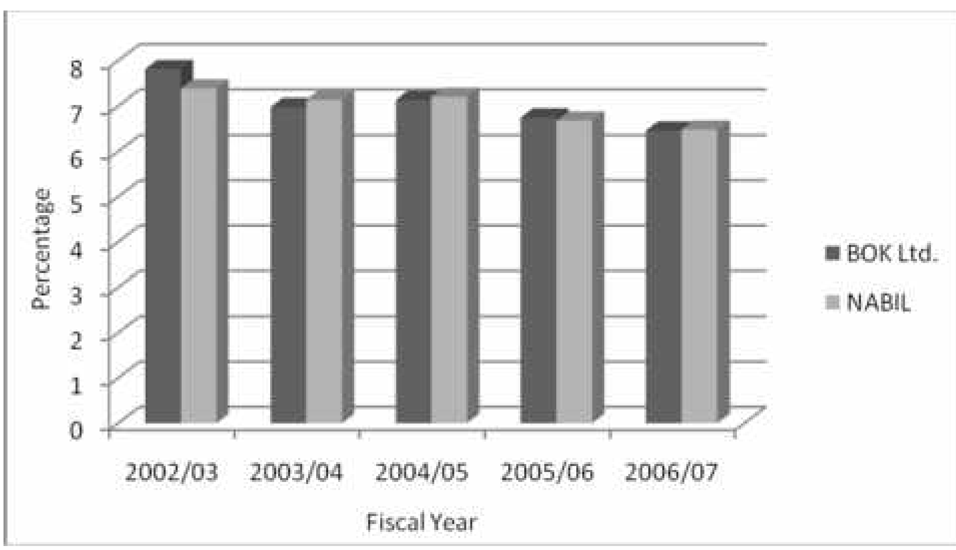
The comparative table shows that BOK Ltd has followed a decreasing trend except in the fiscal year 2004/05. Similarly NABIL to has followed a decreasing trend except in the fiscal year 2004/05. The highest ratio of BOK Ltd is 7.81% in the year 2002/03 and lowest of 6.46% in the year 2006/07. NABIL has it's highest ratio of 7.38% in the fiscal year 2002/03 and lowest of 6.48% in the fiscal year 2006/07.

On the basis of mean ratio the two sample hanks do not have very different figures. The mean ratio of BOK Ltd is 7.03% which is slightly higher than 7.012% of NABIL. So the earning position of BOK Ltd is just little higher than NABIL. The co-efficient of variation of BOK Ltd is 33.67% which is higher than NABIL's 4.45%. This means that the ratios of BOK Ltd are too variable and inconsistent than NABIL bank.

Form the above table and it's interpretation it can be said that both two banks have almost the same standard of earning from it's total outside asset. However the stability of earning capacity of BOK Ltd is less though it has slightly higher mean ratios.

Figure 4.13

Total Interest Earned to Total Outside Asset Ratio



Source: Appendix 13

The figure 4.13 shows that BOK Ltd has followed a decreasing trend except in the fiscal year 2004/05. Similarly NABIL to has followed a decreasing trend except in the fiscal year 2004/05. The highest ratio of BOK Ltd is 7.81% in the year 2002/03 and lowest of 6.46% in the year 2006/07. NABIL has it's highest ratio of 7.38% in the fiscal year 2002/03 and lowest of 6.48% in the fiscal year 2006/07.

- **Total Interest Earned to Total Working Fund Ratio**

Interest earning is only possible if sufficient assets are mobilized to acquire it. It examines the earning capacity of a bank by mobilizing it's total assets. Higher ratio derives higher income in the form of interest.

This ratio is calculated by dividing total interest earned from investment by working fund and is formulized as,

Total Interest Paid to Total Working Fund= $\frac{\text{Total Interest Earned}}{\text{Total Fund Working}}$

Here,

Total Interest Earned=Interest from Loans, Advances and Overdraft + Interest from Investment + Interest from Agency Balances + Interest from Money at Call and Short Notice

Total Working Fund = Current Assets + Fixed Assets + Loans for Development Bank + Investment + Miscellaneous Assets

Table 4.14 shows the total interest earned to total working fund of BOK Ltd and NABIL form the fiscal year 2002/03 to 2006/07.

Table 4.14

Total Interest Earned to Total Working Fund Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	6.67	6.14
2003/04	5.97	5.98
2004/05	6.16	6.22
2005/06	5.85	5.87
2006/07	5.62	5.82
Mean	6.054	6.006
Standard Deviation (S.D.)	0.3509	0.1548
Coefficient of Variation (C.V.)	5.80	2.58

Source: Appendix 14

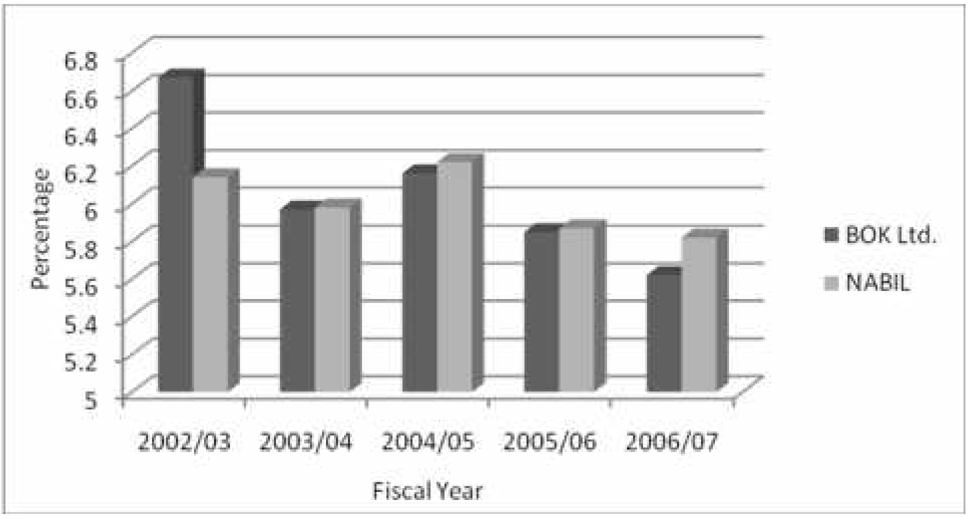
The comparative table shows that the ratios of BOK Ltd are in decreasing trend. It however increase in the fiscal year 2004/05 but the overall ratios are decreasing the NABIL has same situation too. It has followed a decreasing trend but it increases only in the year 2004/05. BOK Ltd has highest ratio of 6.67% in the year 2002/03 and lowest of 5.62% in the fiscal year 2006/07. Similarly NABIL has it's highest ratio 6.14% in the year 2002/03 and lowest of 5.82% in the fiscal year 2006/07.

In case of mean ratio BOK Ltd has 6.054% which is slightly higher than 6.006% of NABIL. Coefficient of variation of NABIL is 2.85% which is lower than 5.80% of BOK Ltd which means the consistency of ratios of NABIL is better.

It can be said that the BOK Ltd has earned more than NABIL. NABIL too has earned the interest but it is slightly lower in terms of mean but the coefficient of variation shows that NABIL has the stability in earning it's interest.

Figure 4.14

Total Interest Earned to Total Working Fund Ratio



Source: Appendix 14

The figure 4.14 shows that the ratios of BOK Ltd are in decreasing trend. It however increase in the fiscal year 2004/05 but the overall ratios are decreasing the NABIL has same situation too. It has followed a decreasing trend but it increases only in the year 2004/05. BOK Ltd has highest ratio of 6.67% in the year 2002/03 and lowest of 5.62% in the fiscal year 2006/07. Similarly NABIL has it's highest ratio 6.14% in the year 2002/03 and lowest of 5.82% in the fiscal year 2006/07.

➢ **Total Interest Paid to Total Working Fund Ratio**

Interest payment is an expenses made by the bank. Generally this ratio examines the percentage of total interest paid against total working fund. Higher ratios indicate higher expenses of interest.

This ratio is calculated by dividing total interest paid by total working fund and is formulized as, Total Interest Paid to Total Working Fund= $\frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$

Here,

Total Interest Paid = Interest Paid on Deposits + Borrowing + Others

Total Working Fund = Current Assets + Fixed Assets + Loans for Development Bank + Investment + Miscellaneous Assets

The table 4.15 shows the table interest paid to total working fund ratio of BOK Ltd and NABIL from the fiscal year 2002/03 to 2006/07.

Table 4.15

Total Interest Paid to Total Working Fund Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	3.72	1.92
2003/04	3.01	1.69
2004/05	2.45	1.42
2005/06	2.51	1.60
2006/07	2.33	2.04
Mean	2.804	1.734
Standard Deviation (S.D.)	0.5134	0.2263
Coefficient of Variation (C.V.)	18.31	13.05

Source: Appendix 15

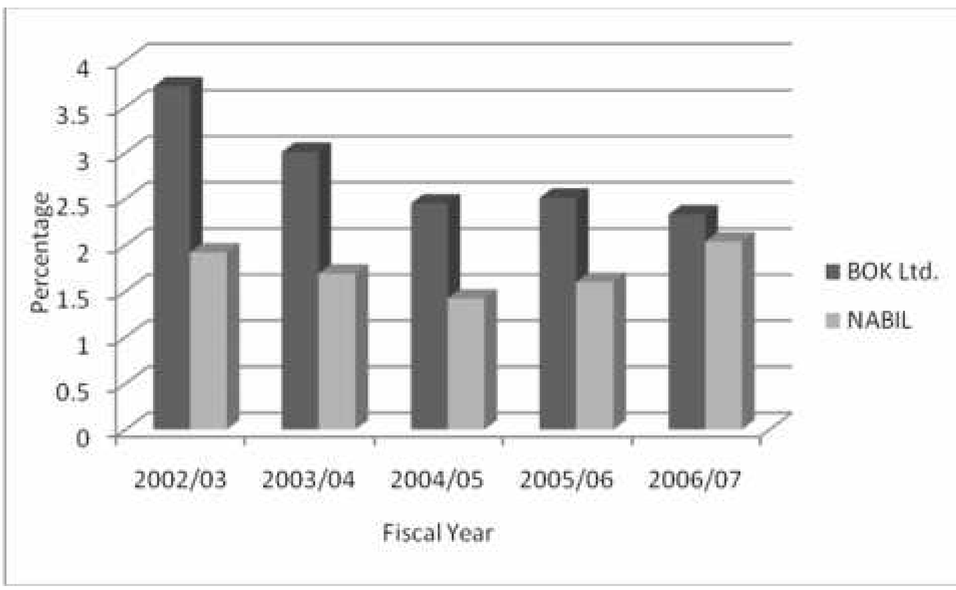
The comparative table shows that the interest paid by BOK Ltd has decreasing trend except it has increased in the fiscal year 2005/06. NABIL's ratios has decreased in the first two years from fiscal year 2003/04 to 2004/05 but it has increased in the last two years from fiscal year 2005/06 to 2006/07. BOK Ltd has highest ratio of 3.72%. in the fiscal year 2002/03 and lowest of 2.33% in fiscal year 2006/07. Similarly NABIL has it's highest ratio of 2.04% in the fiscal year 2006/07 and lowest of 1.42% in the fiscal year 2004/05.

In case of mean ratios BOK Ltd has highest ratios of 2.804% against NABIL's 1.734%. It means that NABIL has paid average interest coefficient of variation of BOK Ltd is 18.31% which is higher than NABIL's 13.05%. it shows the inconsistency of the ratios of BOK Ltd.

It can be said that NABIL is in better position from the payment of interest. NABIL is also consistent form the view point of coefficient of variation. NABIL seems to be successful to collect it's working fund form less expensive sources in comparison to BOK Ltd.

Figure 4.15

Total Interest Paid to Total Working Fund Ratio



Source: Appendix 15

The figure 4.15 shows that the interest paid by BOK Ltd has decreasing trend except it has increased in the fiscal year 2005/06. NABIL's ratios has decreased in the first two years from fiscal year 2003/04 to 2004/05 but it has increased in the last two years from fiscal year 2005/06 to 2006/07. BOK Ltd has highest ratio of 3.72%. in the fiscal year 2002/03 and lowest of 2.33% in fiscal year 2006/07.

Similarly NABIL has it's highest ratio of 2.04% in the fiscal year 2006/07 and lowest of 1.42% in the fiscal year 2004/05.

d. Risk Ratio

Risk is inevitable in any kind of investment. The risk is taken to get maximum return on it's investment. Higher risk's assures higher profit but the level of risk has to be clearly understood. Without any prospect of return if higher risk is taken then the organization surely fails to recover it's investment and can occur huge losses. Thus investment has been very challenging these days.

- **Credit Risk Ratio**

The primary and general concept of bank is that it utilizes it's collected funds in various prospective sectors which may generate higher return. Credit risk ratio measures the risk involved while making investment or granting loans. The bad debt creates choose and it badly hurts the heart of financial systems.

It is calculated by dividing loan and advances by total assets and is formulized as,

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

Here,

Total Loan and Advances = Loans and Advances and Overdraft + Bills Purchased and Discounted

Total Assets =

Current Assets + Fixed Assets + Loans for Development Bank + Investment + Miscellaneous Assets

The table 4.16 shows credit risk ratio of BOK and NABIL from the Fiscal year 2002/03 to 2006/07.

Table 4.16

Credit Risk Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	61.02	46.83
2003/04	59.46	48.91
2004/05	59.98	61.60
2005/06	59.12	57.87
2006/07	64.15	57.04
Mean	60.82	54.45
Standard Deviation (S.D.)	1.9593	5.6265
Coefficient of Variation (C.V.)	3.22	10.33

Source: Appendix 16

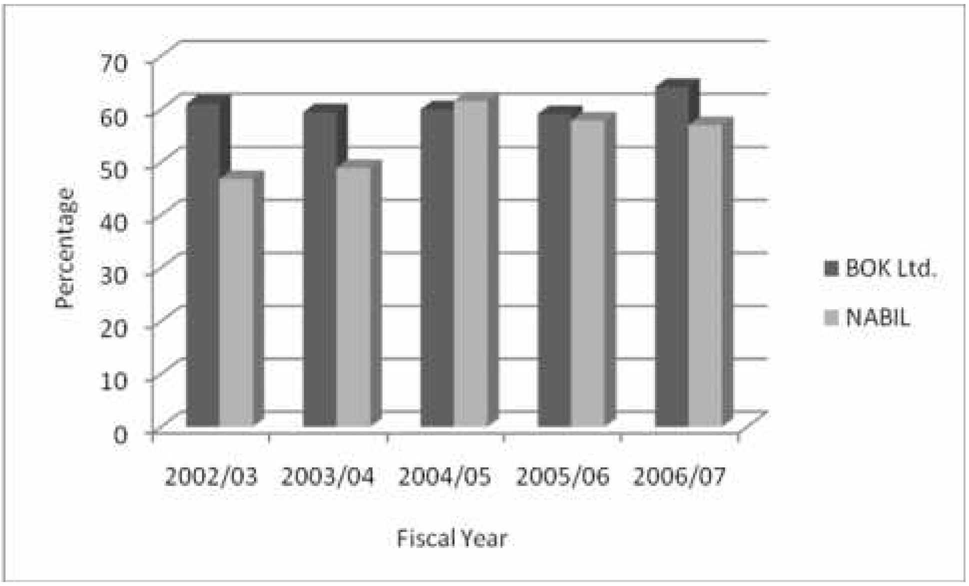
The comparative table shows the credit risk ratio of BOK Ltd has followed a fluctuating trend. Similarly NABIL's ratio has increased from fiscal year 2002/03 to 2004/05 then afterward from fiscal year 2005/06 to 2006/07 it has decreased. BOK Ltd has highest ratio of 64.51% in the fiscal year 2006/07 and lowest of 59.12% in the fiscal year 2005/06. In case of NABIL it has highest ratio of 61.60% in the fiscal year 2004/05 and lowest of 46.83% in the fiscal year 2002/03.

The mean ratio of BOK Ltd is 60.82% which is higher than NABIL's 54.45%. It can be said that the credit risk of NABIL is lower than BOK Ltd. The coefficient of variation shows that BOK Ltd has 3.22% which is lower than 10.31% of NABIL. NABIL's ratios are more variable then BOK Ltd's ratio.

So it can be said that the more risk factor is attached with the bank BOK Ltd but the ratio's of BOK Ltd are consistent.

Figure 4.16

Credit Risk Ratio



Source: Appendix 16

The figure4.16 shows the credit risk ratio of BOK Ltd has followed a fluctuating trend. Similarly NABIL's ratio has increased from fiscal year 2002/03 to 2004/05 then afterward from fiscal year 2005/06 to 2006/07 it has decreased. BOK Ltd has highest ratio of 64.51% in the fiscal year 2006/07 and lowest of 59.12% in the fiscal year 2005/06. In case of NABIL it has highest ratio of 61.60% in the fiscal year 2004/05 and lowest of 46.83% in the fiscal year 2002/03.

- **Capital Risk Ratio**

Capital risk ratio measure the ability of banks to attract deposits and inter-bank funds. It too determines the level of profit. High ratio indicates higher risk as well as higher risk and vice-versa. Bank can earn more if banks choose to take high capital risk.

This ratio is calculated by dividing share capital by risk weighted assets and is presented as,

$$\text{Capital Risk Ratio} = \frac{\text{Share Capital}}{\text{Risk Weight Assets}}$$

Here,

Share Capital = Ordinary Share + Bonus Share + Preference Share

Risk Weighted Assets = On Balance Sheet Assets + Off Balance Sheet Assets

On Balance Sheet Items = Cash Balance + Deposit Receipt + Money at Call + Fixed Assets + Balance at Foreign Banks etc

Off Balance Sheet Items = Bills Collection + Bid Bond + Financial Guarantee + Performance Bond + Contingent Tax Liability

The table 4.17 shows the capital risk ratio of BOK Ltd and NABIL from the fiscal year 2002/03 to 2006/07.

Table 4.17

Capital Risk Ratio

(In Percentage)

Fiscal Year	BOK Ltd.	NABIL
2002/03	10.60	11.78
2003/04	10.32	12.48
2004/05	10.41	11.68
2005/06	9.50	9.76
2006/07	9.60	10.73
Mean	10.09	11.29
Standard Deviation (S.D.)	0.4479	0.9446
Coefficient of Variation (C.V.)	4.44	8.37

Source: Appendix 17

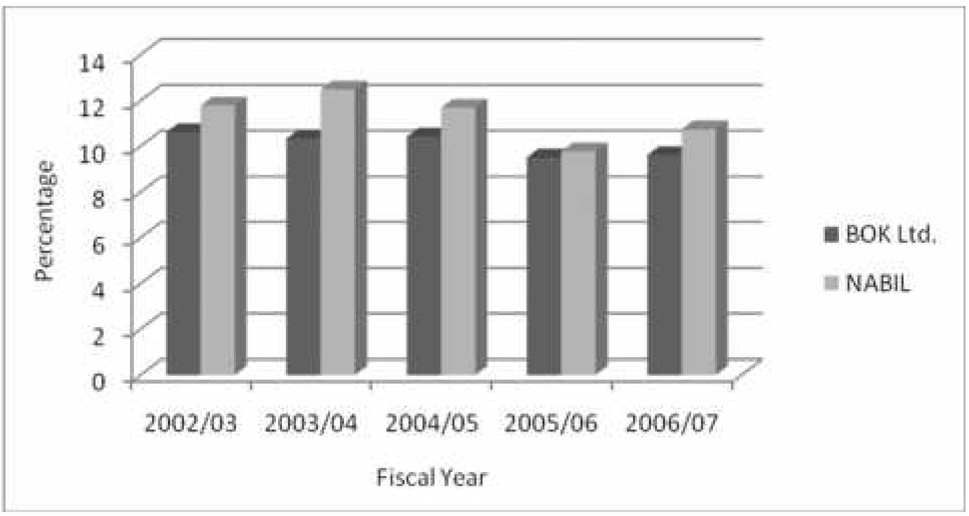
From the comparative table the capital risk ratios of BOK Ltd has followed a fluctuating trend and NABIL has followed decreasing trend except in the fiscal year 2003/04 it has increased. The highest ratio of BOK Ltd is 10.60% in fiscal year 2002/03 and lowest ratio is 9.50% in the fiscal year 2005/06. NABIL has highest ratio of 12.48% in the fiscal year 2003/04 and lowest of 9.76% in the fiscal year 2005/06.

Mean ratio of BOK Ltd is 10.09% which is lower than NABIL's 11.29%. Coefficient of variance of BOK Ltd is 4.44% and NABIL has 8.37%.

It can be said that the risk of NABIL is high and the ratios of NABIL are inconsistent. To gain high return the risk level should be high so the position of NABIL is better.

Figure 4.17

Capital Risk Ratio



Source: Appendix 17

From the comparative table the capital risk ratio of BOK Ltd has followed a fluctuating trend and NABIL has followed decreasing trend except in the fiscal year 2003/04 it has increased. The highest ratio of BOK Ltd is 10.60% in fiscal year 2002/03 and lowest ratio is 9.50% in the fiscal year 2005/06. NABIL has highest ratio of 12.48% in the fiscal year 2003/04 and lowest of 9.76% in the fiscal year 2005/06.

e. Growth Ratios

Growth ratio simply indicates the fluctuation of figure on the basis of past data. Growth ratios are analyzed to know the situation of fund mobilization and investment management of bank. Higher ratios are the indicators of excellent performance. It also shows that now much growth has been in deposit supported by growth in investment, loan and advances etc. This clearly shows the balance between assets and liabilities.

Table 4.18

Growth Ratio of Total Deposits

(Rs. In million)

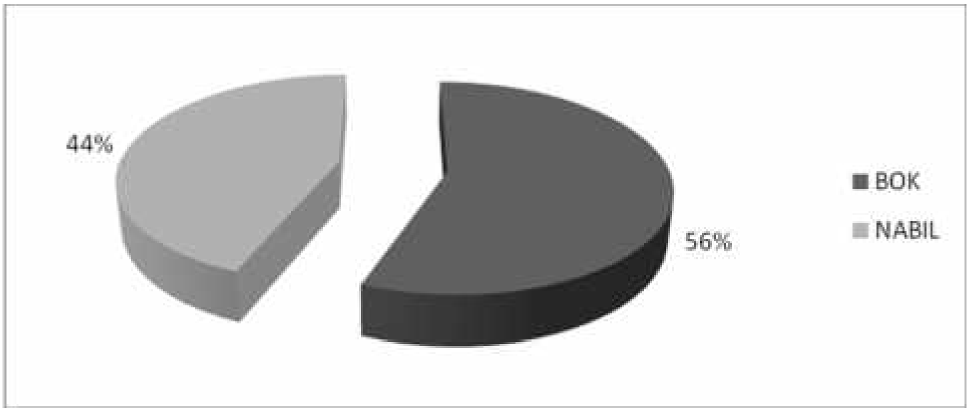
Fiscal Year	**BOK Ltd.**	**NABIL**
2002/03	6170.70	13447.65
2003/04	7741.63	14119.03
2004/05	8942.75	14537.40
2005/06	10485.34	19347.40
2006/07	12388.92	23342.28
Growth Rate	19.03	14.78

Source: Appendix 18

The comparative table 4.18 shows that the growth ratios of deposits of BOK Ltd are 19.03% and 14.78% of NABIL. So from this increment in percentage it indicates that NABIL has poor collection of deposits than BOK Ltd bank. The growth pattern of BOK Ltd is very impressive than NABIL though both of them should try to increase their deposit level.

Figure 4.18

Growth Ratio of Total Deposits



Source: Appendix 18

Figure 4.18 shows that the growth ratios of deposits of BOK Ltd are 56% and 44% of NABIL of total deposit. So from this increment in percentage it indicates that NABIL has poor collection of deposits than BOK Ltd bank. The growth pattern of BOK Ltd is very impressive than NABIL though both of them should try to increase their deposit level.

Table 4.19

Growth Ratio of Loan and Advances

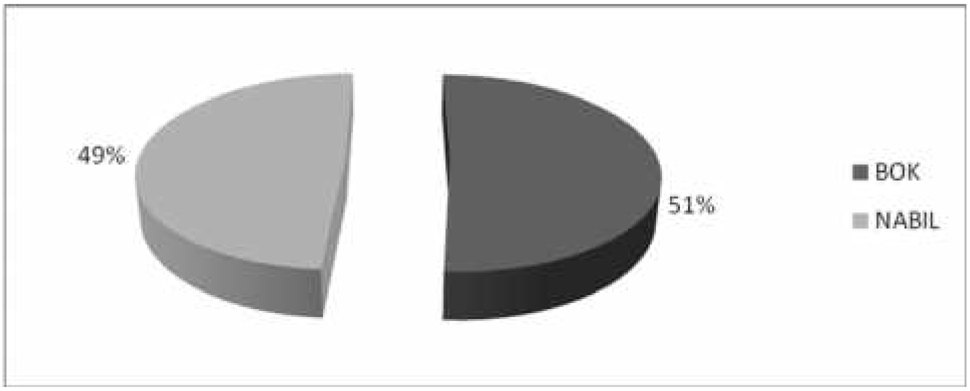
Fiscal Year	BOK Ltd.	NABIL
2002/03	4542.69	7755.95
2003/04	5646.70	8189.99
2004/05	5912.58	10586.17
2005/06	7259.08	12922.55
2006/07	9399.33	15545.78
Growth Rate (%)	19.93	18.98

Source: Appendix 18

The comparative table 4.19 shows the growth ratio of loan and advances of NABIL bank which has been little backward to increase it's loan and advances. BOK Ltd has 19.93% growth rate which is slightly higher than NABIL's 18.98%. Though both of them have tried to mobilize their loan and advances NABIL seem little unsuccessful in comparison to BOK Ltd.

Figure 4.19

Growth Ratio of Loan and Advances



Source: Appendix 18

Figure 4.19 shows the growth ratio of loan and advances of NABIL bank which has been little backward to increase it's loan and advances. BOK Ltd has 51% growth rate which is slightly higher than NABIL's 49% of total loan and advances. Though both of them have tried to mobilize their loan and advances NABIL seem little unsuccessful in comparison to BOK Ltd.

Table 4.20

Growth Ratio of Total Investment

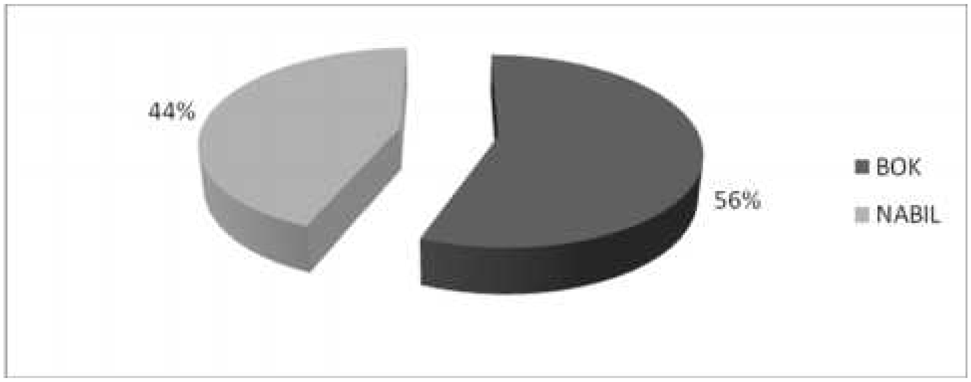
Fiscal Year	BOK Ltd.	NABIL
2002/03	1816.14	6031.17
2003/04	2477.4	5835.95
2004/05	2598.24	4267.23
2005/06	3374.66	6178.52
2006/07	2991.89	8945.3
Growth Rate (%)	13.29	10.36

Source: Appendix 18

The comparative table 4.20 shows the growth ratio of total investment which has been compared. The growth rate of BOK Ltd is higher than NABIL bank. BOK Ltd has maintained 13.29% and NABIL has 10.36%. So from the growth in total investment view BOK Ltd has better utilization of it's fund in total investment compared with NABIL.

Table 4.20

Growth Ratio of Total Investment



Source: Appendix 18

Figure 4.20 shows the growth ratio of total investment which has been compared. The growth rate of BOK Ltd is higher than NABIL bank. BOK Ltd has maintained 56% and NABIL has 44% of total investment. So from the growth in total investment view BOK Ltd has better utilization of it's fund in total investment compared with NABIL.

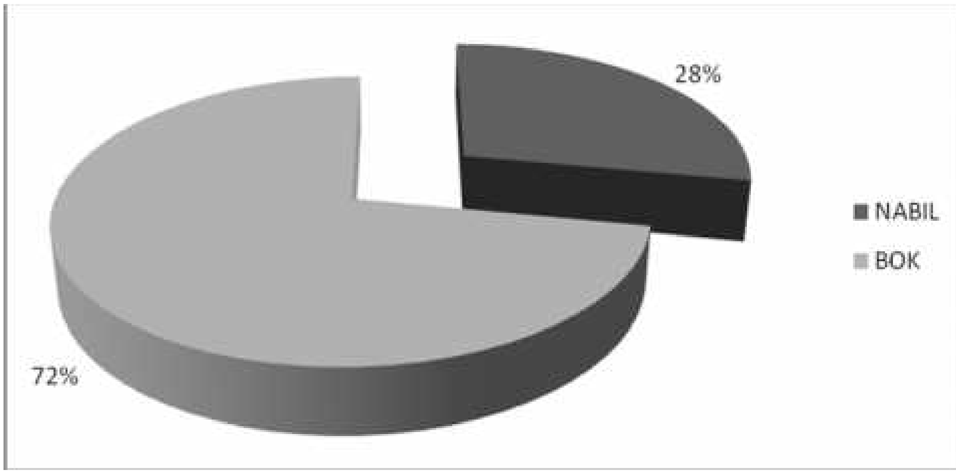
Table 4.21
Growth Ratio of Net Profit

Fiscal Year	BOK Ltd.	NABIL
2002/03	82.13	416.24
2003/04	127.47	455.32
2004/05	139.53	518.63
2005/06	202.44	635.26
2006/07	262.37	673.96
Growth Rate (%)	33.69	12.80

Source: Appendix 18

The comparative table 4.21 shows the growth ratio of Net Profit. BOK Ltd has been successful to increase it's net profit. The growth ratio of BOK Ltd is 33.69% which is very promising compared to 12.80% of NABIL. NABIL has not been able to increase it's net profit compared to BOK Ltd.

Table 4.21
Growth Ratio of Net Profit



Source: Appendix 18

Figure 4.21 shows the growth ratio of Net Profit. BOK Ltd has been successful to increase it's net profit. The growth ratio of BOK Ltd is 72% which is very promising compared to 28% of NABIL of total net profit. NABIL has not been able to increase it's net profit compared to BOK Ltd.

4.1.2 Statistical Tools

(a) Coefficient Correlation Analysis

Correlation analysis shows the relationship between the variables. It's range is +1 to -1.. Positive figure shows perfect positive correlation and negative figure shows perfect negative correlation. The zero result is interpreted as independent variables. It is denote by r.

Interpretation of Correlation Co-efficient

- It lies between +1.0 +0 -1.0
- When r = +1, it is perfect positive correlation
- When r = -1, it is perfect negative correlation
- When r = 0, there is no correlation
- When r lies between 0.7 to 0.999 or -0.7 to -0.999, there is high degree of positive or negative correlation.

- When r lies between 0.5 to 0.69 or -0.5 to -0.69 there is moderate degree of positive or negative correlation.
- When r is less than 0.5, there is low degree of correlation
- Probable Error
- If r < 6* P.Er, then the value of ‘r’ is insignificant
- If r > 6* P.Er , then the value of ‘r’ is significant

i) Correlation between Total Deposit and Total Investment

It measures the relationship between total deposit and total investment. Total deposit (X) is independent variables and total investment (Y) is dependent variable. The calculation is done to find out whether there is significant relationship or not.

The table 4.22 shows the value of ‘r’, ‘r^2’, P.Er, 6 P.Er between total deposit and total investment of BOK Ltd and NABIL form the fiscal year 2002/03 to 2006/07.

Table 4.22

Coefficient of Correlation between Total Deposit and Total Investment

Banks	**Evaluation Criterion**			
	r	r^2	P.Er	6*P.Er
BOK Ltd	0.8524	0.7266	0.0825	0.4948
NABIL	0.8232	0.6776	0.973	0.5838

Source: Appendix 19

From the comparative table it has been found that the value of ‘r’ in case of BOK Ltd is 0.8524; which means it has high degree of positive correlation between deposit and total investment. The coefficient of determination ‘r^2’ is 0.7266 that is 72.66%, the variation of dependent variable. The P.Er and 6*P.Er are 0.825 and

0.4948 respectively. The coefficient of correlation is higher than 6 times probable error. This shows that the value of r is significant.

The coefficient of correlation between total deposit and total investment of NABIL is 0.8232, which means there is high degree of positive correlation between total deposit and total investment. The coefficient of determination 'r^2' is 0.6776 that is 67.76%, the variation of dependent variable. Further, P.Er and 6*P.Er are 0.0973 and 0.5838 respectively. The coefficient of correlation is higher than 6 times probable error. This shows that the value of r is significant.
So it can be said that BOK Ltd and NABIL have significant relationship and the increase in investment is due to increase in investment and other factors have lets role to play in increase in investment. But BOK Ltd has highly significant with higher dependency. So BOK Ltd is successful to utilize it's deposit in total investment, BOK Ltd also has high degree of positive correlation.

ii) Coefficient of Correlation between Deposit and Loan and Advances

Deposits are independent variable (X) and loan and advances are dependent variable (Y). Calculating r shows the significance or insignificance between the deposit and loan and advances.

The table 4.23 shows the value of 'r', 'r^2', P.Er and 6*P.Er of BOK Ltd and NABIL form the fiscal year 2002/03 to 2006/07.

Table 4.23

Coefficient of Correlation between Deposit and Loan and Advances

Banks	**Evaluation Criterion**			
	r	r^2	P.Er	6*P.Er
BOK Ltd	0.9793	0.9590	0.0124	0.0744
NABIL	0.9672	0.9355	0.0195	0.117

Source: Appendix 19

The correlation 'r' between deposit and loan and advances of BOK Ltd is 0.9793 which is highly correlated. The coefficient of determination r2 is 0.9590 and it means 95.90% of variation in the dependent variable. The value of P.Er is 0.0124 and 6*P.Er is 0.0744. The value of r is greater than 6*P.Er. It means that there is significant relationship between deposit and loan and advances.

In case of NABIL, the coefficient 'r' between deposit and loan and advances is 0.9672 which indicates high degree of positive correlation between the two variables. The coefficient of determination 'r^2' is 0.9355, which shows 93.55% variation in dependent variable. The value of P.Er is 0.0195 and 6*P.Er is 0.117. The value of r is greater than the value of P.Er. So there is significant relationship between total deposit and loan and advances of NABIL.

It is clear that BOK Ltd is successful to mobilize it's deposit on loan and advances because the r is higher than that of NABIL. Though both advances comparably BOK Ltd has more high significance than NABIL and high degree of positive correlation too.

iii) Coefficient of correlation between Outside Assets and Net Profit

Outside assets are independent variable (X) and net profits are independent variable (Y). It shows whether the net profit is significantly correlated with outside assets or not.

The table 4.24 shows the value of r, r^2 P.Er, 6*P.Er between outside assets and net profit from the fiscal year 2002/03 to 2006/07.

Table 4.24

Coefficient of Correlation between Outside Assets and Net Profit

Banks	Evaluation Criterion			
	r	r^2	P.Er	6*P.Er
BOK Ltd	0.9995	0.9990	0.0003	0.0018
NABIL	0.9271	0.8595	0.0424	2.544

Source: Appendix 19

The coefficient of correlation between total outside asset and net profit of BOK Ltd is 0.9995 which is highly positively correlated. The coefficient of determination is 0.9990 or 99.90% of variation in the dependent variable. P.Er and 6*P.Er of BOK Ltd is 0.0003 and 0.0018 respectively. The value of r is greater than 6*P.Er. So it can be said that there is significant relationship between the two variables.

The coefficient of correlation between total outside asset and net profit of NABIL bank is 0.9271 which has high degree of positive correlation. The coefficient of determination is 0.8595 or 85.95% which shows the variability of dependent variable P.Er and 6*P.Er of NABIL banks are 0.0424 and 2.544. The value of r is lesser than 6*P.Er. So it is sure that there is insignificant relationship between the two variables.

It can be said that both banks have high correlation but BOK Ltd has highest correlation than NABIL. There is high significance incase of BOK Ltd and NABIL. Both banks net profit has had an increment but BOK Ltd only has the main reason of increment involved in it. BOK Ltd has better performance in this regard.

b) Trend Analysis

Trend analysis helps to know the trend which is simply a pattern of behavior. By the analysis of which fiscal year's trend future is predicted. The time period here is five years and the next five year's projections are done. The future forecast is based of these assumptions:

- Other this remains the same except the analyzed trend.
- The validity is only possible when least square approach is carried out.
- The bank runs in present position.
- The central bank's guideline to commercial banks remains constant.

(i) Analysis of Trend Value of Total Deposit

This calculation tries to extract the trend values of total deposit of BOK and NABIL for five years from F/Y 2011/012.

The table 4.25 shows the trend values of 10 years from 2002/03 to 2011/2.

Table 4.25

Trend Values of Total Deposit of BOK and NABIL

(Rs. in million)

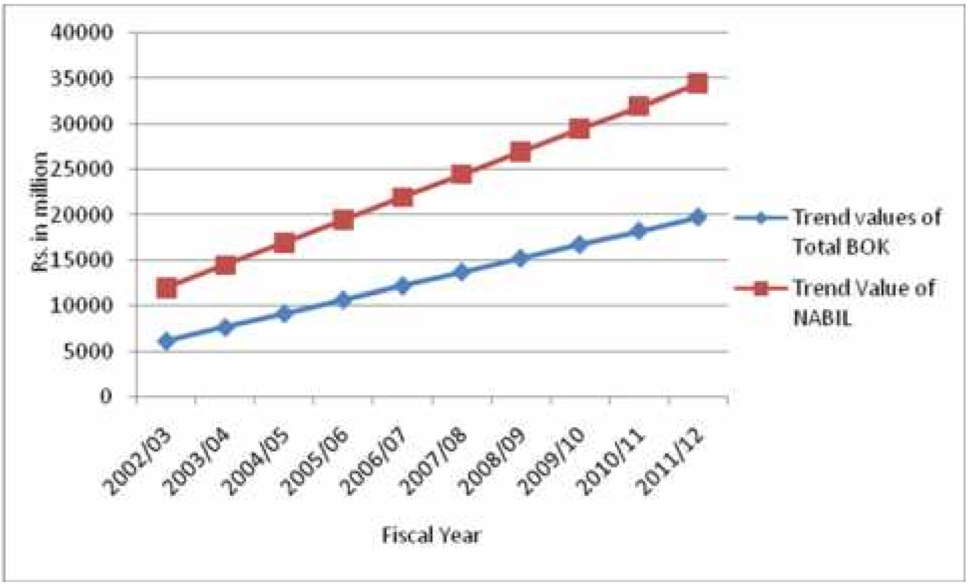
Fiscal Year	Trend values of Total BOK	Trend Value of NABIL
2002/03	6109.836	11965.068
2003/04	7627.853	14466.831
2004/05	9145.868	16968.594
2005/06	10663.883	19470.357
2006/07	12181.898	21972.12
2007/08	13699.913	24473.883
2008/09	15217.928	26975.646
2009/10	16735.943	29477.409
2010/11	18253.958	31979.172
2011/12	19771.973	34480.935

Source: Appendix 20

The total deposit of BOK and NABIL have increasing trend. If all things remain the same the total deposit of NABIL will be highest deposit among the two banks. BOK"S total deposit in the fiscal year 2011/2012 will be 1977/1973 million and NABIL'S 34480.935 million. Among these calculations the deposit collection of NABIL will be better than that of BOK by 2011/012.

Figure 4.22

Trend Values of Total Deposit of BOK and NABIL



Source: Appendix 20

The total deposit of BOK and NABIL have increasing trend. If all things remain the same the total deposit of NABIL will be highest deposit among the two banks. BOK"S total deposit in the fiscal year 2011/2012 will be 1977/1973 million and NABIL'S 34480.935 million. Among these calculations the deposit collection of NABIL will be better than that of BOK by 2011/012.

ii) Analysis of Trend Value of Loan and Advances

Here the tend value of loans and advances of BOK and NABIL calculated for five years from 2002/2003 to 2006/2007. The forecast for next five from 2007/2008 to 2011/2012.

The table 4.26 shows the trend values of loan and advances for from F\Y 2002/2003 to 2011/2012.

Table 4.26

Trend Values of Loan and Advances of BOKL and NABIL

(Rs. in million)

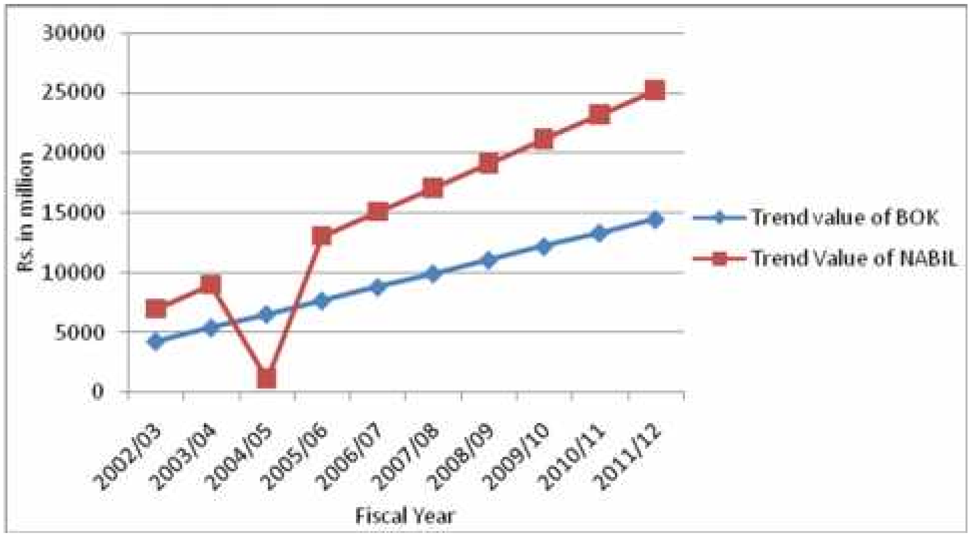
Fiscal Year	Trend value of BOK	Trend Value of NABIL
2002/03	4286.944	6937.644
2003/04	5419.51	8968.866
2004/05	6552.076	1100.088
2005/06	7684.642	13031.31
2006/07	8817.208	15062.532
2007/08	9949.774	17093.754
2008/09	11082.34	19124.976
2009/10	12214.906	21156.198
2010/11	13347.472	23187.42
2011/12	14480.038	25218.642

Source: Appendix 20

The comparative table shows that both banks BOK and NABIL have increasing trend of loan and advances, other things remaining the same total loan and advances of BOK will be 14480.0387 million by 2011/012. similarly total loan and advances of NABIL will be 25218.642 which is higher than BOK's loan and advances. NABIL"S position regarding loan and advances will be better than BOK BY 2011/012.

Figure 4.23

Trend Value of Loan and Advances of BOK and NABIL



Source: Appendix20

The figure 4.21 shows that both banks BOK and NABIL have increasing trend of loan and advances, other things remaining the same total loan and advances of BOK will be 14480.0387 million by 2011/012. Similarly total loan and advances of NABIL will be 25218.642 which is higher than BOK's loan and advances. NABIL"S position regarding loan and advances will be better than BOK BY 2011/012.

iii) Analysis of Trend Value of Total Investment

The effort here is to calculate trend values of total investment from the year 2002/03 to 2006/07 and forecasted trend values from 2007/08 to 2011/12.

The table 4.27 shows the trend values of total investment from 2003/03 to 2011/012 of the BOK and NABIL.

Table 4.27

Trend Value of Total Investment of BOK and NABIL

(Rs. in million)

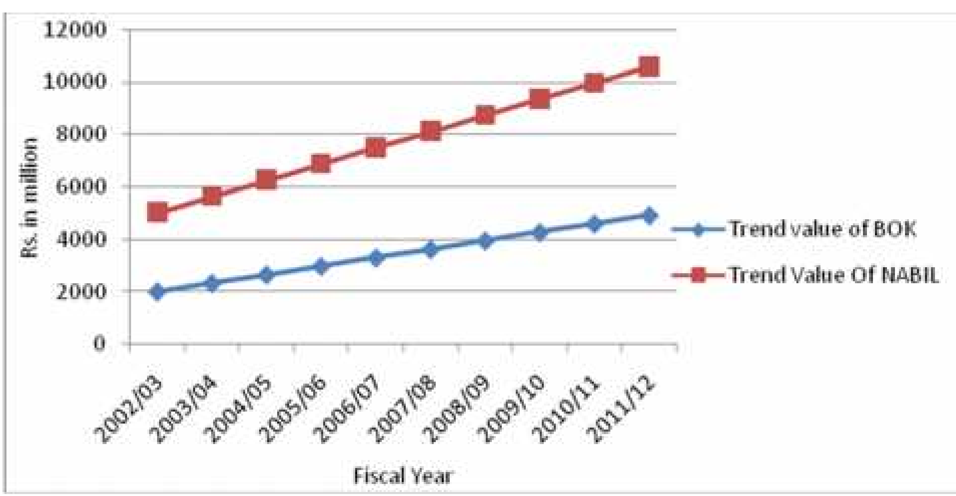
Fiscal Year	Trend value of BOK	Trend Value Of NABIL
2002/03	2001.94	5017
2003/04	2326.79	5634.631
2004/05	2651.666	6251.674
2005/06	2976.542	6868.717
2006/07	3301.418	7485.76
2007/08	3626.294	8102.803
2008/09	3951.17	8719.846
2009/10	4276.046	9336.889
2010/11	4600.922	9953.932
2011/12	4925.798	10570.975

Source: Appendix 20

Total investment of BOK and NABIL Bank has increasing trend value. The total investment of BOK will be 4925.798 million by 2011/012 which is lower trend NABIL"S 10570.975 Million. The investment trend of NABIL is better than that of BOK.

Figure 4.24

Trend Value of Investment of BOK & NABIL



Source: Appendix20

Total investment of BOK and NABIL Bank has increasing trend value. The total investment of BOK will be 4925.798 million by 2011/012 which is lower than NABIL"S 10570.975 Million. The investment trend of NABIL is better than that of BOK.

iv) Trend Analysis of Net Profit

The trend values of net profit of BOK and NABIL from 2002/03 to 2006/07 and forecast from 2007/08 to 2011/012 is done here.

The table 4.28 shows the trend values of net profit for ten years form 2002/03 to 2011/012 of BOK and NABIL.

Table 4.28

Trend Value of Net Profit of BOK and NABIL

(Rs. in million)

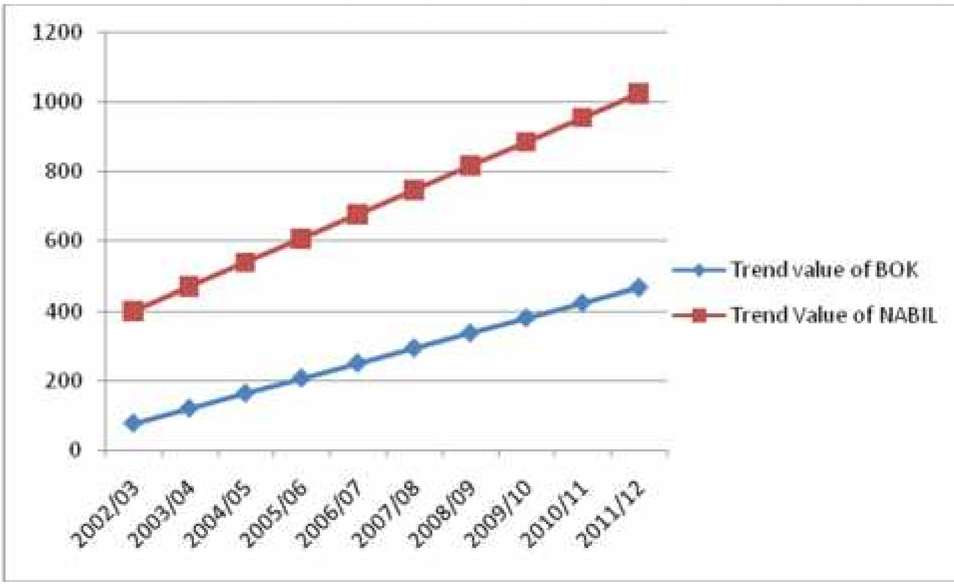
Fiscal Year	Trend value of BOK	Trend Value of NABIL
2002/03	75.698	400.806
2003/04	119.243	470.806
2004/05	162.788	539.882
2005/06	206.333	609.42
2006/07	249.878	678.958
2007/08	293.423	748.496
2008/09	336.968	818.034
2009/10	380.513	887.572
2010/11	424.058	957.11
2011/12	467.603	1026.648

Source: Appendix 20

The table shows that the net profit of BOK and NABIL have increasing trend. The net profit of BOK will be 467.603 million by the year 2011/012. Similarly the net profit of NABIL will be 1026.648 million by the year 2011/012. This shows that the net profit of NABIL will be highest among the sample banks. Simply NABIL is considered Best in terms of net profit.

Figure 4.25

Trend Value of Net Profit of BOK and NABIL



Source: Appendix 20

The figure 4.23 shows that the net profit of BOK and NABIL have increasing trend. The net profit of BOK will be 467.603 million by the year 2011/012. Similarly the net profit of NABIL will be 1026.648 million by the year 2011/012. This shows that the net profit of NABIL will be highest among the sample banks. Simply NABIL is considered Best in terms of net profit.

4.2 Major Findings

The completion of basic analysis leads forward to the important task for the researcher which is to enlists the findings issues and gaps of the study. The findings of the study are derived of the basis of analyzing financial data of the sample bank BOK and NABIL and are presented as follows:

Liquidity Ratio

- The mean current of BOK is higher ad it is better than NABIL bank's during the study period. BOK has been efficient to meet it's short term obligation but NABIL has failed to do so in all the study period. It means BOK has better liquidity positions and it has enough current assets to meet it's immediate cash obligation.
- The current ration of BOK is more variable than NABIL.
- The mean ratio of cash and Bank balance to deposit ratio of BOK is higher than NABIL.BOK has better liquidity position to serve it's customers deposit withdrawal demand. There is high inconsistency in the ratio of BOK.
- The mean ratio of cash and bank balance to current asset ratio of BOK is higher than NABIL bank. It states that the liquidity of BOK is better in this regard. The ratios of NABIL are very inconsistent. BOK is capable in maintaining it's cash and bank balance to meet it's daily requirement to make the payment on customers deposit withdrawal in comparison with NABIL.
- The mean ratio of investment on government securities to current assets ratio of BOK is higher than NABIL. It shows that BOK has invested more of its fund in government securities. The ratios of NABIL are inconsistent and variable. The current assist's of BOK has been used in a high proportion than NABIL.
- The mean ratio of loan and advances to current assets ratio of BOK is less than NABIL bank. It can be said that both banks have utilized it's fund in recoverable loan and advances because there is not very difference in the mean ratios of sample banks in the period of study. The ratios of NABIL are more inconsistent than BOK.

Asset Management Ratio

- The Mean Ratio of loan and advances to total deposit ratio of BOK is higher than the ration of NABIL. The ratios of BOK are very consistent and more stable.
- The mean ratio of total investment to total deposit ratio of BOK is lower than NABIL. NABIL'S and BOK ratios both have fluctuating trend. NABIL has mobilization significant amount of fund of in its investment. The ratios of NABIL are inconsistent.
- The mean ratios of loan and advances to total working fund ratio of a BOK is higher than NABIL. The ratios of NABIL bank are found inconsistent than BOK.
- The mean ratios of investment on government securities to total working fund of BOK are higher. The ratios of NABIL are inconsistent than BOK.
- The mean ratio of investment on share and debenture of total working fund ratio of BOK is higher than NABIL. There is not very deep difference between the mean ratios of two banks. The ratios of NABIL are slightly more inconsistent than BOK.

Profitability Ratio

- The mean ratio of return of loan and advances of BOK is lower than that of NABIL. The ratios of BOK are inconsistent too.
- The mean ratio of return on total working fund of BOK is less than NABIL but the ratios of BOK are too inconsistent compared to NABIL.
- The mean ratio to total interest earned to total working found ratio of BOK is slightly higher than NABIL but the ratios of BOK are more investment than NABIL.
- The mean ratio of total interest paid to total working fund ratios of BOK is higher than NABIL bank. The ratios of BOK are inconsistent over the period of study.

Risk Ratio

- The mean credit risk ratio of BOK is high than NABIL. The fluctuation of ratios of BOK are consistent the NABIL.
- NABIL has the higher mean ratio of capital risk. the ratios of NABIL are inconsistent too.

Growth Ratios

- BOK has higher growth ratio in terms of total deposit. NABIL's ratios are little weak because it has growth rate of 14.78% compared to BOK'S 19.03%.
- BOK has slightly higher ratios of loan and advances 19.93% than NABIL'S 18.98%. So the fund of BOK are utilized in loan and advances more than NABIL.
- The growth ratio of total investment of BOK is 13.29% which is higher than NABIL'S 10.36% BOK has invested more funds than NABIL.
- The growth ratio of net profit of BOK is 33.69% which is higher than NABIL's 12.80%. The increment of net profit of BOK has hit a high record.

Co-efficient of Correlation Analysis

- The value of 'r' is higher than 6*P.Er. so there is significant relationship in case of BOK . Similarly the value of 'r' is higher than 6*P.Er of NABIL bank and there is also significant relationship between total deposit and total investment.
- In case of correlation coefficient between deposit and loan and advances BOK's r is higher than 6*P.Er. So there is significant relationship between deposit and loan and advances. Similarly NABIL'S r is also greater than it's 6*P.Er and the total deposit of BOK too had significant relationship with its loan and advances.

- The coefficient of correlation between outside assets and net profit of BOK is higher than it's 6*P.Er>. So there is significant relationship between outside assets and net profit. similarly the coefficient of correlation of NABIL has lower 'r' than it's 6*P.Er and there is insignificant relationship between outside assets and net profit.

Trend Analysis and Projection for Next Five Years

- Trend value of total deposit of BOK has followed an increasing tend. NABIL's trend value has also followed on increasing trend. The total deposit of BOK and NABIL will be 19771.973 and 34480.935 millions respectively by the year 2011/012. This forecasting is possible if other things remain the same.
- The trend value of loan and advances of BOK and NABIL has followed an increasing trend. The highest trend of BOK will be 14480.038 and 25218.642 million. By the year 2011/012 this shows the increase in loan and advances to support the investors.
- The total investment's trend value suggests that both banks BOK and NABIL have increasing trend. The investment position of BOK and NABIL will be4925.798 ad 10570.975 million respectively. For this the economic condition of the bank must not go downward.
- The trend value of net profit of BOK and NANIL has followed an increasing trend. The trend value of BOK and NABIL will reach 467.603 and 1026.648 million respectively. The increase in net profit can be very beneficial to the commercial banks.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The fifth chapter includes summary, conclusions and recommendation based on their findings. After the basic analysis the most important remaining part is to summarize and recommend. These findings and recommendations are very useful to top management to execute the decision.

5.1 Summary

The development of commercial and industrial sector opens the door of prosperity in the country. Bank promotes development by uplifting the activities related to the financial situations. The recent peace process and stability also assures the prosperity in the whole economic activity.

Bank always fits itself into a economy with an important role of capital provider. The main function of bank is lending and borrowing. But the things have changed. The modern banking system provides many more advanced and new facilities, so the function of commercial bank musty push the national economy, the mobilize the collected fund, canalize into productive sectors. These can easily achieve investment objective of gaining maximum return.

The terms investment covers a wide area of money transactions. Simply it has a concept of income, saving and other collected funds. These activities fall under the bank. The primary objective of any financial institution like commercial is profit maximization. The income and profit of the bank depends upon it's lending procedure, lending policy and investment of its fund utilized in different securities.

The high credit created by bank results in higher profitability. In a developing country like Nepal the must play and disburse facilities all parts of country.
The objective of this study is to evaluate the investment policies adopted by BOK and NABIL. This study depends on secondary data collected from different sources. Journals, articles, annual reports are the secondary dates used in this study. Analysis is done categorically and in a simple way. Table, graphs are drawn to make the analysis easier to understand.

The financial tools such as profitability ratio, liquidity ratio asset management ratio risk ratios are calculated. Statistical tools like mean standard deviation, correlation has also been used.

5.2 Conclusion

Two commercial banks are selected for this study. The review of available literatures helped to conduct a sound methodology which's used for the analysis and interpretation of data. The two sample banks are BOK and NABIL secondary data are used as the sources of data.

The financial ratio analysis includes liquidity ratio, asset management ratio, profitability ratio, risk ratio and growth ratio. The liquidity position of BOK is comparatively better than that of NABIL. So the liquidity position of BOK better. Cash and bank balance to total deposit ratio of BOK is higher than NABIL. It shows the ability of BOK to meet the cash demand of their customers, cash and bank balance to current asset ration of BOK is higher than NABIL which shows the BOK possess high liquid asset among it's current assets. Investment on government securities to current asset ratio of BOK is high and it tells us that BOK has invested it's more portion of current assets in government securities which can be converted into cash quickly. Loan and advances to current assets ratio of BOK is slightly lower than NABIL. It shows that both banks have utilized their funds to gain maximum profit.

From the analysis of asset management ratio it is found that BOK has better managed its assets. The loan and advances to total deposit ratio of BOK is higher than NABIL. It shows BOK has mobilized it's more deposit on loan and advances, the total investment to total deposit ratio of BOK is lower than NABIL.NABIL has invested it's more deposit loan and advances to total working fund ratio of BOK is high than NABIL. BOK has mobilized its total working fund as loan and advances. Investment on government securities to total working fund ratio of BOK is higher than NABIL. It shows BOK has utilized it's more portion of total working fund on government securities. Investment on share and debentures to total working fund ratio of BOK is slightly better than NABIL.

The analysis of profitability ratio shows that NABIL is in better position than BOK. Return on total assets of NABIL is higher than BOK. It shows that BOK fails to earn higher profit on its working fund. Total interest earned to total outside asset ratio of both banks has almost similar position. It terms of figure BOK has slightly higher figure. Return on loan and advances of NABIL are higher than BOK. The loans of NABIL are therefore secured loans, total interest earned to total working fund ratio of both banks have similar position. The figure however suggests that BOK has slightly high figure. Total interest paid to total working fund ratio of NABIL is lower and it shows NABIL has not paid high interests.

The analysis of risk ratio shows that the credit risk ratio of BOK is higher than NABIL. It shows BOK has provided higher portion on loan which involves high risk but it can also provide high return if it is secure loan.

The capital risk of NABIL is higher than BOK. This shows there is high risk for NABIL but there is chance to high profit too.

The analysis of growth ratio shows that BOK has highest ratios of total deposits compared than NABIL. The deposit mobilization of NABIL is weaker than BOK. Growth ratio of loan and advances of BOK is higher than NABIL. It reflects the mobilization of funds on loans and advances. Growth ratio of total investment of BOK is better than NABIL. The investment position of BOK is better than NABIL. Growth ratio of net profit of BOK is better than NABIL because it has higher growth ratios.

This analysis includes the statistical tools which are co-efficient of correlation and trend analysis. The coefficient of correlation between total deposit and total investment of BOK has very high degree of positive correlation. The value of 'r' is greater than 6*P.Er so there is significant relationship between total deposit ad total investment. NABIL too has high degree of positive correlation and there is significant relationship between total deposit and total investment.

The coefficient of correlation between deposit and loan and advances of BOK has high degree off positive correlation and there is significant relationship between deposit and loan and advances. NABIL also has high degree of positive correlation and there is significant relationship between deposit and loan and advances.

The coefficient of correlation between outside and net profit of BOK shows there is high degree of positive correlation and there is significant relationship between outside assets and net profit. NABIL also has high degree of positive correlation but there is insignificant relationship between outside asset and net profit.

The analysis of trend value of five years period and projected future trend values of sample banks of BOK and NABIL shows the projection for future if the things remain same. The trend of total deposit of BOK and BABIL are in increasing trend. NABIL'S deposit collection position is better than BOK. The trend value of loan and advances of BOK and NABIL has increasing trend. NABIL'S position will be better in terms of granting loans. The trend values of investment of BOK and NABIL has followed a increasing trend. NABIL'S future trend is higher than BOK. Net profit of BOK and NABIL are in increasing trend but the future trend of NABIL is higher than BOK.

5.3 Recommendations

Recommendation refers to the suggestive measures derived from the findings of the study. On the basis of core analysis and findings the following recommendation can be useful to overcome the weaknesses and inefficiency of the sample banks BOK and NABIL. It also helps to improve the present fund mobilization and investment policy of BOK and NABIL.

- Commercial banks liquidity position in this has not been recorded at satisfactory position. The standard rate of liquidity is 2:1 which has not been found in both Banks i.e. BOK and NABIL'S ratios. BOK and NABIL should try to lower it's current liabilities to improve it's liquidity position. NABIL liquidity position is too poor because it has not been able to meet its current liabilities and the ratios are below in all study periods.
- The ratio of cash and bank balance to total deposit of BOK is higher than NABIL which can decrease the profit of bank. So it is suggested to mobilize cash and bank balance in profitable sectors.
- From this study it has been revealed that NABIL has invested small portion of it's current assets as well as total working fund on government securities compared with BOK. There is huge amount of cash being kept on reserve,

cash and bank balance of BOK which is needed to invest on treasury bills, development bonds which are risk free securities. These securities are highly liquid in nature, yield low interest rate and matures in fixed time. So NABIL bank is suggested to invest more and more on government securities. However BOK has invest more and more on government securities then NABIL still it has to increase it's investment on government securities.

- Out of total working fund both banks have failed to invest a satisfactory funds in share and debentures of other financial institution. The investment on shares and debentures of other institution makes competitive market and it also uplifts the financial and economic development of a country. The resources especially cash must be utilized in an efficient way to prosper in this competitive world . as far as the study finds that banks only utilize their excess funds in the purchase of other institutions securities so it is recommended to invest more funds securities. So it is recommended to invest more funds in share and debenture of other financial institutions.
- NABIL's loan and advances to total deposit ratio is lowest in comparision to BOK.To overcome from the situation it is recommended to follow liberal lending policy and invest more and more in loan and advances of it's deposits and maintain stability on the investment policy.
- Profitability ratio of BOK is weaker then NABIL but these are not satisfactory ratio. The resources mustn't be kept idle. If the resources are kept idle there is a need to bear the interest costs in it's fund. So the portfolio of a bank especially BOK needs to revise it from time to time . It should utilize its risky assets and shareholders funds.The most cheaper should be collected to create more profit. It is recommended to BOK that it should improve its profitability condition.
- NABIL possess lower credit risk compared to BOK. The risk taken by BOK are average but there is insecurity of bad debts.. The risk taken by BOK must utilize its funds in highly profitable as well as in secure areas.

- The history of bank shows many difficulties in recovering loan as a result those loans become non- performing assets which can reduce the income. So the effective policy should be in place to recover it in a time. The popular term "loan recovery act" should be enacted in which there is control in its administrative expenses. Both banks should try to collect chapter funds for more profitability.
- This study shows the trend of investment in increasing range. Investment is the maximum use of resources to create income by investing in income generating sectors. So it is recommended to keep wide vision in different areas.
- The growth of commercial banks is very essential for the economic development. The main problem existing in Nepal is it's traditional system of borrowing money with money lenders. The rural areas are not facilitated with the facilities of commercial banks. So the people are forced to borrow money in higher costs. So it is recommended to expand the branches in rural areas which help the rural economic development.
- The change in technology has given us advantage to use many tools and techniques which has made our life easier and better. Internet banking, credit card facilities, should be expanded which creates new prospective customers. Banks must pay attention to extend it's ATM facilities to all over the country.
- The most neglected part in developing countries is the investment in research and development. Until and unless enough money is not spent the new innovative ideas to reach near the customer and to adjust in any environment is not possible. So it is strongly recommended to increase investment in research and development.

The main problem of developing countries like Nepal is it lacks enough capital formation. The development can only exist if there is a strong economic activity. To get success in the economy commercial banks must act according to its nature.

Nepal commercial banks have faced different problem related to investment, fund mobilization. The working pattern of commercial banks has not adopted very new changes. The traditional method has been used.

The bank now on must mobilize its fund in other financial intuitions securities. The deposit collection has to be more spreader to collect the funds in an effective way which would be helpful to provide loans. So the suggestions provided would be helpful for the commercial banks to develop such policy which suits the current situation. The concept of change is the asset for every instruction to be successful. Private bank are mushrooming and it has also facilitated the economy also well as saved its people.

BIBLIOGRAPHY

Books

Baidhya, Shakespeare (1997). *Banking and Insurance Management*. Kathmandu: Taleju Prakashan

Bashyal, Rama (2008). *Micro Finance: Access to Finance for Nepal's Rural Poor*. Copyright by IIDS.

Berg, L. Bruce (1989). *Qualitative Research Methods*. Copyright Allyn and Bacon.

Bhalla, V.K. (1983). *Investment Management Securities Analysis and Portfolio Management. (5th Edition)*. New Delhi: S. Chand & Co. Ltd.

Charles, Parker Jones (1988). *Investments: Analysis and Management*. *(2nd Edition).* Copyright John Wiley & Sons Inc.

Cheney, M. Jonh and Mosses A. Edward (1992). *Fundamentals of Investment. (International Edition)*. USA: West Publishing Co.

Francis, Jack Clark (1991). *Management of Investment*. (3rd Edition). New York: Halper & Row Publisher.

Share F. William and Alexander J. Goedon (2003). *Investments*. New Delhi: Prentice Hall of India Pvt. Ltd.

Thesis

Dhital, Rajesh (2002). A Comparative Study on Investment Policy of Standard Chartered Bank Nepal Ltd. And Bank of Kathmandu Ltd. An Unpublished Master Degree Thesis, T.U.

Kandel, Bhanu (2006). A Study of Investment Policies of commercial Banks. An Unpublished Master Degree Thesis, T.U.

Kapali, Raghu Bir (2002). A comparative study on Financial Performance of NABIL bank Ltd. And Standard Chartered Bank Ltd. An Unpublished Master Degree Thesis, T.U.

Khadgi Rajya Laxmi (2006). A Study of Investment Policy Analysis of Nabil Bank Ltd. An Unpublished Master Degree Thesis, T.U.

Poudel, Purshottam (2004). A Study on Lending Practices of Joint Venture Commercial Banks. An Unpublished Master Degree Thesis, T.U.

Shrestha, Deependra (2000). A Comparative Study on Investment Practices of Joint Venture Commercial Banks. An Unpublished Master Degree Thesis, T.U.

Shrestha, Sijan Lal (2006). A study on Lending Performance with reference to NABIL Bank Ltd., Standard Chartered Bank and Nepal Investment Bank Ltd. An Unpublished Master Degree Thesis, T.U.

Tuladhar, Upendra (2000) A Study on the Investment Policy of Nepal Grindlays Bank in Comparison to Other Joint Venture Banks of Nepal. An Unpublished Master Degree Thesis, T.U.

Journals, Official Publication and Relevant Study

Bank of Kathmandu (2002/03-2006/07). *Annual Report.*

Institute for Integrated Development Studies, Do use need Economic Refers Phase II, 1999

Jha, Rastra (2006). Nepali Financial Sector Reforms.

Nabil Bank Limited (2002/03-2006/07). *Annual Report.*

Nepal Rastra Bank (2006). A Glimpse of Nepal's Macro Economic Situation.

Pradhan, Vaishali (2006). Investing with Intelligence.

Sharma, Bhaskar (2002). Banking the Future Competition.

Website

www.nrb.org.np

www.bok.ltd.com.

www.nbl.com.

Appendix 1

Current Ratio

(Rs in million)

Banks	**BOK LTD**			**NABIL**		
Fiscal Year	Current Assets	Current Liabilities	Ratio (Times)	Current Assets	Current Liabilities	Ratio (Times)
2002/03	7045.71	6864.96	1.03	15135.42	1386.30	0.92
2003/04	9307.08	8845.58	1.05	15153.00	14244.03	0.94
2004/05	9310.25	9136.39	1.02	115420.80	14971.8	0.97
2005/06	11443.84	11238.57	1.02	20352.54	18133.82	0.89
2006/07	13585.23	13388.11	1.01	25095.27	22829.53	0.92

Calculation of Mean, Standard Deviation and Coefficient of Variation of Current Ratio

BOKLTD			NABIL		
Fiscal Year	(X_1) Current Ratio	$(X_1)^2$	Fiscal Year	Current Ratio (X_1)	$(X_1)^2$
2002/03	1.03	1.06	2002/03	0.92	0.85
2003/04	1.05	1.10	2003/04	0.94	0.88
2004/05	1.02	1.04	2004/05	0.97	0.94
2005/06	1.02	1.04	2005/06	0.89	0.79
2006/07	1.01	1.02	2006/2007	0.19	0.83
N=5	$\sum X_1 = 5.13$	$\sum (X_1)^2 = 5.26$		$\sum X_1 = 4.63$	$\sum (X_1)^2 = 4.29$

(1) Calculation of Mean, S.D and C.V of BOKLD

Mean Ratio = $\frac{\sum X_1}{N} = \frac{5.13}{5}$ =1.03

Standard deviation = $\sqrt{\frac{\sum (X_1)^2}{N} - \left(\frac{\sum X_1}{N}\right)^2}$

= $\sqrt{\frac{5.26}{5} - \frac{(5.13)^2}{5}}$ = 0.026

Coefficient of variation (C.V) $= \frac{S.D}{X_1} \times 100\%$

$= \frac{0.026}{1.03} \times 100 = 2.52\%$

Thus,

Mean = 1.03

S.D. = 0.062

C.V = 2.52%

(2) Calculation of Mean, S.D and C.V of NABILA

Mean Ratio (X_1) = $\frac{\sum x_1}{N}$

$= \frac{4.63}{5}$ = 0.926

Standard deviation = $\sqrt{\frac{\sum (x_1)^2}{N} - \left(\frac{\sum x_1}{N}\right)^2}$

$= \sqrt{\frac{4.29}{5} - \frac{(4.63)^2}{5}}$

= 0.0229

Coefficient of variation (C.V) $= \frac{S.D}{X_1} \times 100\%$

$= \frac{0.023}{0.926} \times 100 = 2.48\%$

Calculation of Mean, Standard Deviation, Coeffiecient of Variation of other banks are done similarly.

Appendix 2

Cash and Bank Balance to Total Deposit Ratio

(Rs in million)

Banks	BOK LTD			NABIL		
Fiscal Year	Cash and Hand	Total Deposit	Ratio (%)	Cash and Bank Balance	Total Deposit	Ratio (%)
2002/03	692.71	6170.70	11.22	1144.77	13447.65	8.51
2003/04	782.88	7741.63	10.11	970.49	14119.03	6.87
2004/05	740.52	8942.75	8.28	559.38	14586.61	3.83
2005/06	728.70	10485.34	6.95	630.24	19347.40	3.26
2006/2007	1315.90	12388.92	10.62	1399.82	23342.28	6.00

Appendix – 3

Cash and Bank Balance to Current Asset Ratio

(Rs in million)

Banks	BOK			NABIL		
Fiscal Year	Cash and Hand	Total Deposit	Ratio (%)	Cash and Bank Balance	Current Assets	Ratio (%)
2002/03	692.71	7045.71	9.83	1144.77	13868.30	8.25
2003/04	782.88	9307.08	8.41	970.49	14244.03	6.81
2004/05	740.52	9310.25	7.95	559.38	14971.80	3.74
2005/06	728.70	11443.84	6.37	630.24	18133.82	3.47
2006/2007	1315.90	13585.23	9.69	1399.82	22829.53	6.13

Appendix 4

Investment on Government Securities to Current Asset Ratio

(Rs in million)

Banks	BOK			NABIL		
Fiscal Year	Investment on Government Securities	Current Asset	Ratio (%)	Investment on Government Securities	Current Assets	Ratio (%)
2002/03	1510.70	7045.71	21.44	3588.77	13868.30	25.88
2003/04	2371.77	9307.08	25.48	3672.63	14244.03	25.78
2004/05	2146.61	9310.25	23.06	2413.94	14971.80	16.12
2005/06	2658.33	11443.84	23.23	2301.46	18133.82	12.69
2006/2007	2332.04	13585.23	17.16	4808.35	22829.53	21.06

Appendix 5

Loan and Advances Current Assts Ratio

(Rs in million)

Banks	BOK			NABIL		
Fiscal Year	Loan and Advances	Current Asset	Ratio (%)	Loan and Advances	Current Assets	Ratio (%)
2002/03	4542.69	7045.71	64.47	7755.95	13868.30	55.92
2003/04	5646.7	9307.08	60.67	8189.99	14244.03	57.50
2004/05	5912.58	9310.25	63.51	10586.17	14971.80	70.17
2005/06	7259.08	11443.84	63.43	12922.55	18133.82	71.26
2006/2007	9399.33	13585.23	69.19	15545.78	22829.53	68.09

Appendix 6

Loan and Advances Current Assets Ratio

(Rs in million)

Banks	BOK			NABIL		
Fiscal Year	Loan and Advances	Current Asset	Ratio (%)	Loan and Advances	Current Assets	Ratio (%)
2002/03	4542.69	6170.70	73.62	7755.95	13447.65	57.67
2003/04	5646.7	7741.63	72.94	8185.99	14119.03	58.01
2004/05	5912.58	8942.75	66.11	10586.17	14586.61	72.57
2005/06	7259.08	10485.84	69.23	12922.55	19347.40	66.79
2006/2007	9399.33	12388.92	75.87	15545.78	23342.28	66.60

Appendix 7

Total Investment to Total Deposit Ratio

(Rs in million)

Banks	BOK			NABIL		
Fiscal Year	Loan and Advances	Current Asset	Ratio (%)	Loan and Advances	Current Assets	Ratio (%)
2002/03	1816.14	6170.70	29.43	6031.17	13447.65	44.85
2003/04	2477.4	7741.63	32.00	5835.95	14119.03	41.33
2004/05	2598.24	8942.75	29.05	4267.23	14586.61	29.25
2005/06	3374.66	10485.34	32.27	6178.52	19347.40	31.93
2006/2007	2991.89	12388.92	24.17	8945.3	23342.28	38.32

Appendix 8

Loan and Advances to Total Working Fund Ratio

(Rs in million)

Banks	BOK			NABIL		
Fiscal Year	Loan and Advances	Current Asset	Ratio (%)	Loan and Advances	Current Assets	Ratio (%)
2002/03	4542.69	7444.79	61.02	7755.95	15562.61	46.83
2003/04	5646.7	9496.33	59.46	8189.99	16745.6	48.91
2004/05	5912.58	9857.11	59.98	10586.17	17186.32	61.60
2005/06	7259.08	12278.27	59.12	12922.55	22329.97	57.87

2006/2007	9399.33	14569.55	54.51	15545.78	27253.37	57.04

Appendix 9

Investment on Government Securities to Total Working Fund Ratio

(Rs in million)

Banks	**BOK**			**NABIL**		
Fiscal Year	Investment in government securities	Working fund	Ratio (%)	Investment in government securities	Working fund	Ratio (%)
2002/03	1510.70	7444.79	20.29	3588.77	1656.61	21.67
2003/04	2371.77	9496.33	24.98	3672.63	16745.48	21.93
2004/05	2146.61	9857.11	21.78	2413.94	17186.32	14.04
2005/06	2658.30	12278.27	21.65	2301.46	22329.97	10.31
2006/2007	2332.04	14569.55	16.01	4808.35	27253.32	17.64

Appendix 10

Investment on Share and Debentures to Total Working Fund Ratio

(Rs in million)

Banks	**BOK**			**NABIL**		
Fiscal Year	Investment on share and Debenture	Total Working Capital	Ratio (%)	Investment on share and Debenture	Total Working Capital	Ratio (%)
2002/03	38.01	7444.79	0.51	22.22	16562.61	0.13
2003/04	22.81	9496.33	0.24	22.22	16745.60	0.13
2004/05	23.16	9857.11	0.23	27.36	17816.32	0.16
2005/06	23.16	12278.27	0.19	27.56	22329.97	0.12
2006/2007	25.56	14569.55	0.17	57.85	27253.22	0.21

Appendix 11

Return on Loan & Advances Ratios

(Rs in million)

Banks	BOK			NABIL		
Fiscal Year	Net Profit After Tax	Loan and Advance	Ratio (%)	Net ProfitAfter tax	Loan and Advance	Ratio (%)
2002/03	82.13	4542.69	1.81	416.24	7755.95	5.37
2003/04	127.47	5646.7	2.26	455.32	8189.99	5.56
2004/05	139.53	5912.58	2.36	518.63	10586.17	4.90
2005/06	202.44	7259.08	2.79	635.26	12922.55	4.91
2006/2007	262.37	9399.33	2.79	673.96	15545.78	4.33

Appendix 12

Return on Total Working Fund Ratios

(Rs in million)

Banks	**BOK**			**NABIL**		
Fiscal Year	Net ProfitAfter Tax	Working Fund	Ratio (%)	Net ProfitAfter Tax	Working Fund	Ratio (%)
2002/03	82.13	7444.79	1.10	416.24	16562.61	2.51
2003/04	127.47	9496.33	1.34	455.32	16745.48	2.72
2004/05	139.53	9857.11	1.41	518.63	17186.32	3.02
2005/06	202.44	12278.27	1.65	635.26	22329.97	2.84
2006/2007	262.37	14569.55	1.80	673.96	27253.32	2.47

Appendix 13

Total Interest Earned to Total Outside Asset Ratio

(Rs in million)

Banks	BOK			NABIL		
Fiscal Year	Total interest Earned	Total Outside Asset	Ratio	Total interest Earned	Total Outside Asset	Ratio
2002/03	496.81	6358.86	7.81	1017.87	13787.13	7.38
2003/04	567.10	8124.00	6.98	1001.62	14025.93	7.14
2004/05	607.09	8510.83	7.13	1068.75	14853.41	7.20
2005/06	718.12	10633.8	6.75	1310	19101.08	6.86
2006/2007	819.00	12673.13	6.46	1587.76	24491.03	6.48

Appendix 14

Total Interest Earned to Total Working Fund Ratio

(Rs in million)

Banks	**BOK**			**NABIL**		
Fiscal Year	Total interest Earned	Total Working Fund	Ratio	Total interest earned	Total Working Fund	Ratio
2002/03	496.81	7444.79	6.67	1017.87	16562.61	6.14
2003/04	567.10	9496.33	5.97	1001.62	16745.48	5.98
2004/05	607.09	9857.11	6.16	1068.75	17186.32	6.22
2005/06	718.12	12278.27	5.85	1310	22329.97	5.87
2006/2007	819.00	14569.55	5.62	1587.76	27253.32	5.82

Appendix 15

Total interest paid to total working fund

Banks	**BOK**			**NABIL**		
Fiscal Year	Total Interest Paid	Total Working Fund	Ratio	Total Interest Paid	Total Working Fund	Ratio
2002/03	276.70	7444.79	3.72	317.35	16562.61	1.92
2003/04	286.30	9496.33	3.01	282.95	16745.48	1.69
2004/05	241.64	9857.11	2.45	243.54	17186.32	1.42
2005/06	308.15	12278.27	2.51	357.16	22329.97	1.60
2006/2007	339.18	14569.55	2.33	555.71	27253.32	2.04

Appendix 16

Credit Risk Ratio

(Rs in million)

Banks	BOK			NABIL		
Fiscal Year	Loan and Advances	Total Assets	Ratio	Loan and Advances	Total Assets	Ratio
2002/03	4542.69	7444.79	61.02	7755.95	16562.61	46.83
2003/04	5646.7	9496.33	59.46	8189.99	16745.48	48.91
2004/05	5912.58	9857.11	59.98	10586.17	17186.32	61.60
2005/06	7259.08	12278.27	59.12	12922.55	22329.97	57.87
2006/2007	9399.33	14569.55	64.51	15545.78	27253.32	57.04

Appendix 17

Capital Risk Ratio

(Rs in million)

Banks	BOK			NABIL		
Fiscal Year	Capital	Risk Weight Assets	Ratio	Capital	Risk Weight Assets	Ratio
2002/03	579.13	5462.02	10.60	1314.19	11145.73	11.78
2003/04	650.74	6306.13	10.32	1481.68	11872.01	12.48
2004/05	720.72	6926.85	10.41	1658.00	14193.07	11.68
2005/06	839.71	7583.65	9.50	1875.00	16976.37	9.76
2006/2007	981.96	10226.19	9.60	2057.00	19166.77	10.73

Appendix 18

Calculation of Growth Ratio

Let,

Dn = Variable in the Nth Year

Po= Variable in the initial Year

n = No of period study

g = Growth Rate

Total Deposit growth ratio of BOK

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

12388.91= 6170.70 $(1+g)^{5-1}$

1+g = $\left(\frac{12388.91}{6170.70}\right)^{\frac{1}{4}}$

g= 19.03

Total deposited Growth Ratio of NABIL

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

23342.28=13447.65 $(1+g)^{5-1}$

1+g = $\left(\frac{23342.28}{13447.65}\right)^{\frac{1}{4}}$

g = 14.78

Total loan and advances growth rate of BOK

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

9399.33 = 4542.69 $(1+g)^{5-1}$

1+g = $\left(\frac{9399.33}{4542.69}\right)^{\frac{1}{4}}$

g = 19.93%

Total loan and advances growth rate of BOK

Dn = Do $(1+g)^{n-1}$

15545.78 = 7755.95 $(1+g)^{5-1}$

1+g = $\left(\frac{15545.78}{7755.95}\right)^{\frac{1}{4}}$

g = 18.98%

Total Investment growth rate of BOK

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

9399.33 = 4542.69 $(1+g)^{5-1}$

1+g = $\left(\frac{9399.33}{4542.69}\right)^{\frac{1}{4}}$

g = 19.93%

Total Investment growth rate of BOK

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

2991.89 = 1816.14 $(1+g)^{5-1}$

1+g = $\left(\frac{2991.89}{1816.14}\right)^{\frac{1}{4}}$

g = 13.29%

Total Investment growth rate of NABIL

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

8945.30 = 6031.17 $(1+g)^{5-1}$

1+g = $\left(\frac{8945.30}{6031.17}\right)^{\frac{1}{4}}$

$g = 10.36\%$

Total Net Profit Growth Rate of BOK

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

262.37 = 82.13 $(1+g)^{5-1}$

1+g = $\left(\frac{262.37}{82.13}\right)^{\frac{1}{4}}$

g = 33.69%

Total net profit Growth Rate of NABIL

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

673.96 = 416.24 $(1+g)^{5-1}$

1+g = $\left(\frac{673.96}{416.24}\right)^{\frac{1}{4}}$

g = 12.80%

Appendix 19

Trend Analysis of Total Deposit of BOK

(Rs in million)

Fiscal Year (t)	Total Deposit (Y)	$X = t - 2005$	X^2	XY	$Y_c = a + bx$ $Y_c =$ 9145.868
2002/03	6170.70	-2	4	-9085.38	6109.836
2003/04	7741.63	-1	1	-5646.70	7627.853
2004/05	8942.27	0	0	0.00	9145.868
2005/06	10485.34	1	1	7259.08	10663.883
2006/2007	12388.92	2	4	18798.66	12181.898
Total	$\sum X = 45729.34$	$\sum (X_1)^2 = 5.26$	$\sum X^2 = 10$	$\sum XY = 15180.15$	

$$a = \frac{\sum Y}{n} = \frac{45729.34}{5} = 9145.868$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{15180.15}{10} = 1518.015$$

Projects trend values of total deposit for next five years

Fiscal Year	$X = t - 2005$	$Y_c = a + bx$ $Y_c =$ 9145.868 +1518.015
2007/08	3	13699.913
2008/09	4	15217.928
2009/010	5	16735.943
2010/011	6	18253.958
2011/012	7	19771.93

Appendix 20

Coefficient of correlation between Total Deposit and Total Investment (BOK)

(Rs in million)

Ficial Year	Total Deposit(X)	X $X=X-\bar{X}$	X^2	Total Investment (Y)	Y $Y=Y-\bar{Y}$	Y^2	XY
2002/03	6170.70	-2975.168	885162463	1816.14	-835526	698103.70	2485830.2
2003/04	7741.63	-1404.238	1971884.36	2477.4	-174.266	30368.64	244710.94
2004/05	8942.75	-203.118	41256.92	2598.24	-53426	2854.34	10851.78
2005/06	10485.34	1339.472	1794185.24	3374.66	722.994	522720.324	968430.22
2006/2007	12388.92	3243.052	10517386.27	2991.89	340.224	1157572.37	1103364.12
Total	45729.34	0.00	23176337.42	13258.33	0.00	1369799.37	4813187.2
Mean ($\bar{X}$)	9145.868			$\bar{X} = 2651.666$			

Coefficient of correlation (r):

$r = \frac{\sum XY}{\sqrt{\sum x^2}\sqrt{\sum y^2}}$

$= \frac{4813187.28}{\sqrt{23176337.42} \times \sqrt{1369799.37}}$

= 0.0825

r = 0.8524

Calculation of Probable Error

P. E. $= 0.6745 \times \frac{1-r^2}{\sqrt{N}}$

$= 0.6745 \times \frac{1-0.7266}{\sqrt{5}}$

6 (p. E. r) = 6×0.0825

= 0.4948

Coefficient of Determination $(r)^2$ = 0.7266

All the Calculation of Trend Analysis of other banks are done similarly.