A Thesis

On

Comparative Study on Investments Policy of Everest Bank Limited and Bank of Kathmandu Limited

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(A partial fulfillment for requirement of Master of Business Studies)
Feb, 2009

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ACKNOWLEDGEMENTS

This piece of research is a **Master's Degree** thesis especially prepared as partial fulfillment of MBS course under Tribhuwan University of Nepal. This thesis work has aimed to analyze "**Comparative Study on Investment Policy of Everest Bank and Bank of Kathmandu".** I would like to express our deep gratitude to my thesis advisor Uddhab Prasad Sapkota, Makawanpur Multiple Campus for his valuable guidance, suggestions and inspirational encouragement that enable \d me to complete this in time. He has also guided me while collecting information through concern department and office. I am always in debts to Min Bahadur Raut , Head of Management Department of Makawanpur Multiple Campus for his inspiration to select this topic to fulfill the partial requirements of Master of Business Studies.

I am always indebted to **Dr Bhuwaneshwor Pant**, Deputy Director of NRB, **Ganesh Kumar Shrestha**, Executive Director, Corporate Planning Department, NRB, **Radesh Pant**, Managing Director of BOK, Managing Director **Jashpal Sing Jash** of EBL, **Dr. Shyam K. Shrestha** provided valuable suggestion and guidance to complete this thesis. Would like to express deep appropriation to my parent and also grateful to all people who provided valuable suggestions and documents.

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LIST OF ABBREVIATIONS

&	=	and
A.D.	=	After Death of Christ
B.S.	=	Bikram Sambat
BOK	=	Bank of Kathmandu
CB	=	Commercial Bank
EBL	=	Everest Bank
Eg.	=	Example
etc	=	Etcetera
GDP	=	Gross domestic Production
HBL	=	Himalayan Bank
i.e.	=	That is
INGO	=	International Non government Organization
JVB	=	Joint Venture Bank
Ktm.	=	Kathmandu
Ltd.	=	Limited
MBS	=	Masters in Business Studies
MIS	=	Management Information System
NABIL	=	Nepal Arab Bank Ltd.
NBL	=	Nepal Bank Ltd.
NGBL	=	Nepal Grindlays Bank ltd.
NIBL	=	Nepal Investment Bank Ltd.
No.	=	Number
Nos.	=	Number of Consumers
NRB	=	Nepal Rastra Bank
PNB	=	Panjab National Bank
Pvt.	=	Private
RBB	=	Rastriya Banijya Bank
Rs.	=	Rupees

T.U	=	Triubhuvan University
U.K.	=	United Kingdom
U.S	=	United States
WBR	=	World Bank Report
NIBL	=	Nepal Indosuez Bank Ltd.

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CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal is a land-locked country. The Kingdom of Nepal has an area of 147181sq.kms. Located between $80^{o}4$ - $88^{o}12'$ east longitude and $26^{o}22'$ - $30^{o}27'$ north latitude, the kingdom extends the foothills of the Himalayas in the central Asia. Its borders are contiguous with the Indian border in the west, south and east with the Tibet Autonomous Region of the people' Republic of China in the north. The length of the kingdom is 880kms.east-west, and its breath varies from 144 to 240kms to the North South.

Nepal is one of the least developed Countries of the world and has many obstacles in development. For the balanced development of the country, she has been adopting planned economic development since four decades. Recently she has faced the path of economic development through liberalization however; more than 90%of the people are still in rural areas and most of then are not getting physical facilities that are necessary for human beings. The per capita income is US $242, lowest of the South Asia and about 41% lie below the poverty line. The literacy rate is almost 56%. 43%of the total population consists of active manpower (age between 16 to 65 years) and 43%of the active manpower is under-employed. The income is not equally distributed. Nepal is adopting mixed economy but slightly converting into market economy by means of economic liberalization and privatization. The economic growth to the country fell by 0.5% in the year 2001/2002 and expected to increase by 45% in the year 2002/2003, where as the average economic growth rate of the world is 3.2% and that of South Asia is 5.15.[1]

The development of any country largely depends upon it's economic development. Thus, the primary goal of any nation, including Nepal, is rapid economic development to promote the welfare of the people and the nation as well. Nepal being a developing country is trying to embark upon the path of economic growth rate and developing all sector of economy. Even though, the process of economic development depends upon various factors, however economists are now convinced that capital formation and it's proper utilization plays a paramount role." The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formation has been the principal variable in setting the overall pace of economic development."[2] The network of a well-organized financial system of the country has great bearing in this regard. It collects scattered financial resources from the masses and invests them among those engaged in commercial and economic activities of the country. In this way, the financial institutions provide savers highly liquid divisible assets at a lower risk while the investors receive a large pool of resources. Integrated and speedy development of the country is possible when competitive financial service reaches nooks and corners of the country. It has been well established that the economic activities of any country can hardly be carried forward without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development.

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1 World Bank, '*Nepal Sahayata Rananitiko Pragati Bibaran*, World Bank Report no. 2059,pp38-39
2 S.N Maheshwori,. '*Banking Law and Practice*' Kalyani Publishers New Delhi, Ludhiyana, 4th edition, 1985p.5

Thus, the financial institution collects scattered saving of the community and invest them into most desirable and high yielding sectors of the economy to fuel the process of economic development. It is true that the proper development and functioning of financial institution i.e. the commercial banks, and non-bank financial institution have their profound effect on the economy. They also help the process of monetary in the country like ours by extending their branches and level of financial operation.

Commercial banks are major financial institution which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade, business and other resource, deficit sectors by investing the saving collected as deposits. In this way, they contribute to the economic growth of the nation. Besides this commercial banks render numerous serves to their customers in view of facilitating their economic and social life. All the economic activities of each country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have become the heart of financial system. Their establishment as matter of fact has been a turning point in the history of Nepalese modern banking system. “It is undoubtedly true that the commercial banks are already playing an increasingly dynamic and vital role in the economic development of the country. This will increase with time.”[3]

The role of commercial banks in economy is obviously requisite in the formulation of bank's policy. A key factor in the development in the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective, commercial banks formulate sound investment policies, which eventually contribute to the economics

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3 Sunil Chopra, *'Role of foreign banks in Nepal'*. *Nepal Bank Samachar*, NRB, Kathmandu, Baisakh 2046 B.S. p. 2.

growth of a country. The sound investment policies help commercial banks to maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. The banking sector has to play development role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for further economic development. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

Commercial banks, as financial institutions, perform a number of internal functions. Among them, providing credit is considered as most important one. In the words of H.D. Crosse, "Commercial banks bring into being the most important ingredient of the money supply, demand deposits through the creation of credit in the form of loan and investments."[4] Credit being the most important function of commercial banks, affects overall development of the country. So far as, pace of economic development is considered, it is directly related to the quality and quantity of the credit, which is derived from various financial institutions, specially, commercial banks in Nepal.

1.2 History of Banking Development

History tells us that it was the merchant who first evolved the system of banking by trading in commodities than money. Reviewing the history we can find that present day banker has three ancestor of particular note. One the merchant and two other were lender and the goldsmith. Lending and borrowing are almost as old as money itself but modern banking sowed its seed in medieval Italy. The bank of Venice, founded in 1157A.D. was the first public banking institution. Subsequently, Bank of Barcelona (1401) and Bank of

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[4] H.D. Crosse, "*Managament Policies For Commercial Banks*" Englewood Cliffs N.J. Prentice Hall,Inc. 2nd Edition,1963., p.17

Genoa (1407) were established. The Lombard migrated to England and other regarded for the development and expansion of the modern banking.

Though, Bank of England was established in 1694 as a joint stock bank and later on it became the first bank in the world in 1844, the growth of bank accelerated only after the introduction of Banking Act. 1833 in United Kingdom as it allowed to open joint stock commercial Banking system development in the landing countries of the world.

Though the modern banking system in our country, it is a very recent origin in Nepal to compare to other developing nations. Some operations alike to banking were known and have been practiced even in ancient times.

Prior to the establishment of Nepal Bank Limited, there was no organized financial institution in Nepal. During the Prime Minister ship of Ranoddip Sign around 1877AD a number of economic and financial reforms were introduced. The establishment of the "Tejarath Adda" fully subscribed by the government in the Kathmandu valley was one of them .In the overall development of the banking system in Nepal the "Tejarath Adda "may be regarded as the father of modern banking institution and for quit a long time it tended a good service to government servants as well as to the general public. However the installation of "Kausi Tosha Khana" as a banking agency during the regime of King Prithivi Narayan Shaha could also lie claim to be regarded as the stop towards initiating banking development in Nepal.

The inception of Nepal Bank Ltd. (NBL) in 1937 was a landmark in the field of banking and financial sector in Nepal. It was established under the Special Banking Act.1936 have elementary function of commercial bank as a semi government organization, without existence of a central bank named Nepal

Rastra Bank(NRB) was established in 26th April 1955 with an objective of supervising, protecting and directing the function of commercial Banking activities. Another commercial bank fully owned by the government named as Rastriya Banijya Bank (RBB) got established in 1966.Later on large number of commercial banks has been into operation till date.

At present there are 17 commercial banks including other banking and non-banking financial institutions. They are Nepal Bank Ltd., Rastriya Banijya Bank, Nepal Arab Bank Ltd.,Nepal Indosues Bank Ltd.,Nepal Grindlays Bank Ltd., Himalayan Bank Ltd., Lumbini Bank Ltd., Nepal Industrial and Commercial Bank Ltd., Machhapuchhre Bank Ltd., Kumari Bank Ltd., Laxmi Bank Ltd and Siddharath Bank Ltd .NBL and RBB were the first two commercial banks to be established in Nepal and continued to enjoy a duopoly until the banking industry was liberalized in the 1980s .Together, the banks dominate Nepal's banking industry. RBB and too lesser extend NBL have reputation for poor service, un-commercial out look and politically motivated activities. Both are suggested by the KPMG/Barents reports to be technically insolvent, suffering from large incidence of bad debts and being particularly susceptible to scams. Now these two banks have been given to foreign companies in management contract.[5]

During the mid 80s, due to the liberalization policy foreign banks attracted to come to Nepal. In 1984 Nabil bank Ltd. was established as the first joint venture bank. After the restoration of democratic constitution that was lauded as the best social-legal document in the world. Further the economic liberalized with a view of enhancing private sector participation in various spheres. As consequence as in the most to countries, the banking sphere majority occupied

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5 Sherjung Khdka and Singh, Hirdhyabir, *Banking Principle Legislation and Practice*, Nabin Prakashgan, Bhotahity, Kathmandu, 2056, p.1-5

by large number of joint venture banks largely dominates Nepalese financial sector.

Nepal Arab Bank Ltd. Nepal Indosues Bank Ltd.(Nepal Investment Bank), Nepal Grindlays Bank Ltd.(which now Standard Chartered Bank), Himalayan Bank Ltd., Nepal SBI Bank Ltd., Nepal Bangladesh Bank Ltd., Everest Bank Ltd., Bank of Kathmandu Ltd., Bank of Ceylon (which is now Nepal Credit and commerce Bank Ltd.) was established as joint venture bank. "Laxmi Bank Ltd. which was established as youngest private commercial bank with the investment by Nepalese investor as now made an agreement by with Hattan National Bank of Srilanka under the technical service agreement as a joint venture by taking 10-15 percent share from this bank." Other remaining Lumbini Bank Ltd, Nepal Industrial and Commercial Bank Ltd., Machhapuchhre Bank Ltd., Kumari Bank Ltd., Siddharatha Bank Ltd. are established as a private sector commercials bank by Nepalese investors.

Quantitatively operative commercial banks although are giving some choosing right of banking service but overall competitive environment have not been created yet. NRB and NBL have lost their faith to the public. Which are now in reconstruction process through privatization (Management contract)? In urban areas Standard Chartered Bank Ltd. has been dominating the segment of commercial banking. "On the other hand there are some banks from other country whose domestic banking system are not properly supervised by their home country central banks. Where the institution is carrying out, in some cases are quite questionable banking activities." In regard of other Nepalese private commercial banks some of them are not far from the time to evaluate the performance of some recent organized young commercial baking's financial activities.

1.2.1 Origin and Evolution of Development Bank[6]

Oxford dictionary define that bank means established for depositing, withdrawing and borrowing money. When we said about Thomson's dictionary of banking, the bank is said to be derive from Italian word "BANCO" a bench. The early bankers the Jews in Lombardy do their business at benches in the market place. One of the earliest Italian banks, the bank of Venice, was originated for the management of public loan or Monte as it was called.

French writer Revil pout said that, the use of bank notes is started on Babylon in 600 BC. And in the middle ages, Bank of Venice of Italy was established. Macleod however does not agree with Thomson's view, he said the Italian money changers as such were never called "BANCHIER" in the middle ages. He gives emphasis to say that at that period the German were master of great part of Italy and the word bank is derived from German word 'Back' which means a joint stock fund and German word Bank came to be used as its Italian equipment 'Monte' and was italiazed in to 'Banco' and the loans were called n differently Monte or Banco on Italian, Banke in French and Bank in England were used.

Although society general de oblique was set up in 1822, it was the French credit mobilized that not only symbolized the migration of skill and capital for the economic uplift of other continental nations bat also acted as inspirer to other countries which were in search of similar institution for supply the financial requirement of the agriculture development. The creative adoption of the basic idea in the form of universal banks that had became the dominant form of banking in Germany and other continental countries. The credit mobilizes and the similar institution that followed it helped the development of Europe by mobilizing capital resources from individual and banking sources by offering loans and participating in equity of the industrial ventures by creating

6. ibrd5, pp1-5.

financial nstitution, facilitating the development capital market and above all providing entrepreneurial service.

Origin of development bank is in Europe in the 19th century was also followed by several other Asian countries in the 20th century. The first Asian country to experience such development bank was Japan. There was 1st development bank established in 1902 it helped a lot in the economic Transformation of Japan. It is also said that the idea of development bank emerged in Belgium, The importance such institution was recognized only after the establishment of industrial development bank of Japan. Japan Development Bank is another Japanese Development Bank established in 1953 to uplifts the industrial economy of Japan.

The next phase in the development of these institutions can be witnessed after the second- world war when a large number of institutions like industrial development of Canada (1944), Herste Bank in Holland (1949), Industrial credit bank in Germany (1949), Finance Corporation for Industry in England (1948), etc were setup thus the basic idea behind development bank was organised and developed from the industrialized European nations. However, their emergence in the developing countries in Asia and Africa seems to have been strongly in nuanced by the organization of corporation ferment in several Latin American Countries before and during the Second World War.

1.2.2 In the Context of Nepal

Today many commercial and development bank has been establishing but before 1937, there were no any financial and banking institution in our country. At that time the financial and banking function were carried out by loan money lender and village money lenders. The 1st banking institution was established in 1937 of Nepal Bank Limited in the form of the 1st commercial bank in Nepal. Nepal Rastriya Bank was established under the NRB Act of 1955 in 1956 in the form of central bank.

After liberalization and opened economic policies, there are so many commercial and development banks have been established under Company Act.

1.2.3 Introduction of Commercial Banks and Investment Policy

Commercial banks are the main institutions, which are meant to collection and utilization of small-scattered savings of the people. The commercial banks utilize the collected resources by financing production, contribution and consumption and even to the need of the government. Commercial bank's credit in the desired sectors constitutes the significant part of their activities.

The commercial banks play an important role in the modern economy. The accepting of deposits from individuals and institutions and providing loans to the needy persons and business are its two important functions. Besides that it performs many other services or function such as payment of subscriptions, insurance of credit instruction, purchase & sale of securities, remittance of money and assist in foreign trade etc.

In the developing countries there is always shortage of the fund for the development activities. There is need of development in all sectors. It is not possible to handle and develop all the sectors by the government alone at a time. Private people also can't undertake large business because the per capita income of the people very low.

In the context of Nepal commercial banks are the only financial institutions, which can play very important role in the resource mobilization for the economic development in the country. Commercial bank occupies greater role in the economic development by generating the saving towards the desired sector from one place to another, communicating with its branches and agencies in different parts of the country and the world and advising to the commercial people

"Banks collect money from those who have it to spare or who are saving it out of their income and lend this money out against goods or security to those who require it."[7]

Investment is one of the decisions of finance functions. It involves the decisions of capital or commitment of funds to long-term assets that would yield benefit in future. The features of investment decisions are,

1. The exchange of current funds for future benefits.
2. The funds are invested in long-term assets.
3. The future benefit will occur to the firm over a series of years.

Future benefits of investment are difficult to measure and can't be predicted with certainty. Because of the uncertain future, investment decision involves risk. Investment proposal should, therefore, be evaluated in terms of both expected return and risk. Beside the decision to commit funds in new investment proposals, capital budgeting also involves decision of recommitting of funds when a asset becomes less productive or non-profitable.[8]

“Investment promotes economic growth and contributes to a nation’s wealth. When people deposit money in the saving account of a bank, the bank may

[7] Crowther, *An Outline of Money*, Toms Nelson and Sons Ltd. London, 2005, p. 56.
[8] . I.M Pandey, , *Financial Management*, Vikash Publishing House Pvt. Ltd. New Delhi, 576 Masjid Road Jungpura, eight editoin , 1992, p. 407.

invest by lending the funds to various business companies. These firms in return may invest the money in new factories and equipment to increase their production. In addition to borrowing from banks, most companies issue stock and bonds that they sell to investor to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest in projects, such as, the construction of dams, roads and schools. All such investment by individuals, businessmen and groups involves a present sacrifice of income to get an expected future benefits. As a result of which investment raises a nation's standard of living".[9]

Investment operation of commercial banks is very risky one. For this, commercial banks have to pay due consideration while formulating investment policy regarding loan and investment. Investment policy is one facet of the overall spectrum of policies that guide banks investment operations. A healthy development of any bank depends heavily upon its investment policy. A sound and viable investment policy can be effective one for the economy to attain the economic objectives directed towards the acceleration of the pace of development. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability and safety etc. These fundamental principles of commercial banks investment are fully considered while making investment policy. Emphasizing upon this, H.D. Crosse stated, "The investment policy should be carefully analyzed."[10] Commercial bank should be careful while performing the credit creation function. Investment policy should ensure minimum risk and maximum profit from lending. Diana MC Naughton In her research paper 'banking institution in

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[9] World Book Encyclopedia, 1988, p. 32.

[10] H.D. Crosse, ***"****Management Policies for Commercial Banks****"***, Englewood Cliffs, N.J. Prentice Hall inc. 2nd edition, 1963.,p.87

developing markets', state that "Investment policy should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, loan portfolio balance and terms structure of the liabilities."[11] According to J.H. Clemens, commercial bank should consider the national interest followed by borrowers' interest and the interest of the bank itself before investing to the borrowers. To further pursue his view, bank lending must be for such purpose of the borrower that is in keeping with the national policy and bank's overall investment policy. Thus, commercial banks have to consider government and Nepal Rastra Bank's instructions and national and their own interest as well.

Nepalese commercials banks lag far behind fulfilling the responsibility to invest in the crucial sectors of the economy. Thus, the problem has become very serious one in developing countries like Nepal can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and non-performing assets, which cause the bank failure. Good investment policy ensures maximum amount of investment to all sector with proper utilization.

1.3 Statement of the Problem

Various financial institutions have been established to assist the process of economic development of our country. Emphasizing the role of commercial banks, Yogendra Regmi says, "The major problem in almost all underdeveloped countries and Nepal is no exception, is that of capital formulation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and act as development banks, due to

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[11] Diana MC Naughton, **"***Banking Institutions in Developing Markets***",** World Bank Publication, 1994.

the lack of other specialized institutions. "[12]To avoid above problem and thereby contribute to the national economy, various commercial banks have played vital role by accepting deposits and providing various types of loans. Loan affects overall development of the country. The development of the country is directly related to the volume of loan, which is also obtained from commercial banks. The problem of landing has become very serious for developing country like Nepal. This is due to lack of sound investment policy of commercial banks.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They don't have clear view towards investment policy. Furthermore, the implementation of policy is not an effective way.

Commercial banks are found to be making loan only on short-term basis against movable merchandise. There is hesitation to invest on long-term project because they are much more safety minded. So, they follow conservative loan policy, which is based on sticking security. They don't have consider the profit potential of the project. There is raised criticism that commercial banks have served only richer communities not the poor. This has directly had negative impact on economic growth. Now a days commercial banks don't seem to be capable to invest their funds in more profitable sector. They are found to more interested in investment in less risky and highly liquid sectors i.e. treasury bills, development banks and other securities. They keep high position and flow lower funds to the lower profitability to commercial banks and ignorance to the national economic growth process. This is the main

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[12] Yogendra, Regmi, "*Modern Banking System of Nepal*" Eagle Eye Research Institute Pvt. Ltd., 1st edition, 2005, p.25

reason for crisis in the commercial banks and in the whole national economy as well.

The interest rate structure in commercial banks is unorganized and unfavorable, result in higher spread rate, which discourages investments. They have no consideration towards portfolio optimization. Commercial banks don't try to pay due attention towards proper matching of deposit and loan maturity, which creates financial problem enforcing commercial banks to take unfavorable decisions. They don't analyze financial risk, business risk and other factors. They invest their funds in limited areas to achieve higher amount of profit. This is regarded as a very risky step, which may lead to lose in profit as well as principal. The main reason behind the failure of commercial banks is higher concentration of loan. Furthermore, the credit extended by commercial banks to agriculture and industrial sector is not satisfactory to meet the growing need of the present day. Even if, Nepal Rastra Bank has made it mandatory to invest in priority sector: like agriculture, small-scale industries and service. The all commercial banks have not yet financed full 12 percent of their loans to these sectors. Commercial bank's investment has been found to have lower productivity, which is due to the lack of supervision regarding whether there is proper utilization of their investment.

Lack of farsightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to commercial banks. This affects profitability of a bank significantly.

Thus, the present study makes a modest attempt to analyze investment policy of Everest Bank Ltd., comparing it with the Bank of Kathmandu. The problems especially bank of Nepal have been present briefly as under.

1. What is the relationship of investment and loan & advance with total deposits and total net profit?
2. Is the fund mobilization and investment policy of Everest Bank Ltd. and Bank Of Kathmandu are more effective and efficient ?
3. Does the investment decision affect the total earning of the bank?
4. Is there any stability in fund mobilization policy of Everest Bank Ltd. and Bank of Kathmendu.?
5. Is the investment strategy of Everest Bank Ltd. and Bank of Kathmandu are successful to utilize it's available funds ?

1.4 Objectives of the Study

The main objective of the study is to access the investment policy and strategies followed by EBL and Bank of Kathmandu. The specific objectives are given below:

1. To study the asset management system, profitability and risk position of commercial banks under study.
2. To analyze the relationship of the profitability position of banks with the total deposits & total investments.
3. To evaluate the deposit utilization trends.
4. To provide the suggestion for improvement on the basis of finding.

1.5 Significance of the Study

The proper mobilization and utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic development and there is no doubt that commercial banks have a pivotal role in the collection of dispersed small saving of the Nepalese people and transforming them into meaningful capital investment. The success and prosperity of the bank relies heavily upon the successful investment of collected resource to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has a positive impact on economic development of the country and vice-versa. So, the investment policy of commercial banks should be in accordance with the spirit of the economic upliftment of the people.

As mentioned above, there are many loopholes in the investment policies of commercial banks of Nepal which affects their performance to the great extent. It becomes every body's concern when their performance does not seem so satisfactory in terms of utilizing its resource efficiently in productive sectors. The study of commercial banks investment policy focusing on interest rate structure, portfolio management and credit management will strive to disclose the internal weakness and furnish the ideas for improvement. Therefore, the researcher has undertaken the study to analyze the existing investment policy of commercial banks and point out the defects inherent in it and provide package of suggestions for its improvement.

1.6 Profiles of the Banks under Study

1.6.1 Everest Bank Limited[13]

Everest Bank Ltd. is a joint venture with Panjab National Bank of India, which was registered in 2049 BS Marg 3 in the department of commerce HMG, as per the company act 2021 and the Commercial Bank Act.2031. It commenced the operation from 2051 BS. Kartik 1 as per the regulation of Nepal Rastra Bank.

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[13] http;//www.everestbankltd.com

EBL was established in 1994 and started its operations with an objective of extending professional and efficient banking services to various segments of the society.

The bank has it's head office at EBL House, Lazimpath. There are 20 branches all over the country for the smooth running of its banking activities. The branches are in the following locations.

Table: 1.1
Branches of Everest Bank

Districts	Locations
Kathmandu	New-Baneswar, New Road, Teku, Lazimpath and Santugal, chabahil, Balaju
Lalitpur	Pulchwok
Morang	Biratnagar, Itahari
Dhanusha	Janakpur
Sunsari	Dhuhabi, Dharan
Bara	Simara
Parsa	Birgung , Alau, Dry Port
Rupandehi	Butawal, Bhairawa
Kailali	Dhangadhi

It has recently established it's representative office in New Delhi too, for performing the banking operation.

The main objective of this bank is to provide the banking facilities for the people in the country and to make the easy access of lending for the agriculture, industrial and commercial sectors.

The share composition of this bank stands as follows.

Punjab National Bank, India	20%
Nepalese Shareholders	30%
Promoters	50%

The bank has issued the 6% debenture from 2061 Chaitra 30 B.S. @1000 in the numbers of 300000(3 lakhs) out of which 250000 Units for the institutions and 50000 Units for the general public.

The representation in the board of directors remains as follows:

Table 1.2

Shareholders Group & Representative in BOD

S.N.	Shareholder Group	No. of Representative in the BOD
1-	Promoter shareholder (Group A)	5
2-	General shareholder (Group B)	2
3-	Punjab National Bank(Group C)	2
Total	**-**	**9**

Authorized Capital	Rs.750000000.00
Issued Capital	Rs.466800000.00
Par value /share	Rs.100 & Rs.0
Paid up value/ Share	Rs.100 & Rs.0
No. Of Shareholders	: 24222
Incorporation year- BS	: 2049 A.D.: 1993
Listing date – B.S	12/25/52 A.D.: 1995

CHANGE IN PAID UP CAPITAL (Rs. In Million)

Year	**Before**	**After**	**Remarks**
99/00	118.42	118.42	
00/01	118.42	220.86	Bonus 1:1
01/02	220.86	399.32	Issued non-redeemable pref. shares

02/03	399.32	455.00	Bonus 22% of Paid up
03/04	455.00	455.00	

EBL is playing a pivotal role in arranging remittance of funds and from India through instant transfer facility in addition to the drafts drawing arrangement with 170 branches of PNB all over India. The bank is also offering cash management system for managing the funds of corporate exporting to India by collecting their funds from about 183 locations in India. The bank provides withdraw and deposit facility in any bank of the kingdom of its clients 365 days banking services, ATM card, evening counter (in Kathmandu). The EBL was awarded from London as Bank of the year this year.

1.6.2 Bank of Kathmandu Ltd.[14]

BOK was established in 1993 and started its operations in March 1995 in collaboration with the SIAM commercial bank OCC, Thailand under the Company Act, 1997.

Bank of Kathmandu Ltd, is a culmination of a comprehensive vision if the promoters to take the Nepalese economy to a newer realm in the global market. Each promoter of Bank of Kathmandu has successfully demonstrated leadership skills, business acumen and entrepreneurial talents in his/her responsive field. Incorporated in 1993, Bank of Kathmandu come into operation in march 1995 with the following predominant objectives are identify business prospects not yet catered by then existing commercial banks and offer new banking product and services. Introduce modern banking technology facilitating bank and business operations and transaction.

[14] http;//www.bokltd.com

Bank of Kathmandu's activities globe around deposit mobilization, advancement of various credits, international banking including trade finance, inward and outward remittances and fund and portfolio management. Bank of Kathmandu is committed to providing products and services of the highest standards to it's customers by understanding their requirements best suiting the market needs. In pursuit to deliver the products and services of the highest standards, Bank of Kathmandu has state-of-art technology for appropriate and efficient management, information system (MIS) and rendering quality services, VSAT and Radio Modem for networking, SWIFT for international trade and transfer of funds around the world, correspondent banking relationship with over 200 banks worldwide for effective and proficient execution of international trade and remittance activities, gamut of corporate and retail banking products and services and centralized banking operations for better risk management, consistent service deliveries and lowering. It has got nine office including branch office and head office all over the Nepal.

Authorized Capital	Rs.1000000000.00
Paid –Up Value\ Share	Rs.100 & Rs.0
Issued Capital	Rs.500000000.00
No. of shareholders	: 23316
Paid Up Capital	Rs.463580900.00
Incorporation Year B.S.	2050/ A.D.1994
Par Value /share	Rs. 100.00& Rs. 0.00
Listing Date B.S.	04/02/2054- A.D.1998

CHANGING IN PAID-UP CAPITAL (Rs. in million)

Year	Before	After	Remarks
98/99	90.00	90.00	-

99/00	90.00	173.62	-
00/01	173.62	233.65	-
01/02	233.65	463.58	Right Shares Issued.
02/03	463.58	463.58	-
03/04	463.58	463.58	

1.7 Limitations of the Study

This study is simply a partial study for the fulfillment of MBS degree. This is not far from several limitations which weaken the heart of the study e.g. inadequate coverage of industries, time period taken, reliability of financial and statistical tools and other variation. This study has been limited by the following factors.

1. There are many factors that affect investment decision and valuation of the firm. However, this study concentrates only those factors, which are related with investment.
2. The whole study based on secondary data.
3. The whole study is based on the data of Seven years i.e. .from 1998/1999 to 2004/2005.
4. The study covers only two commercial banks
    a. Everest Bank Ltd.
    b. Bank of Kathmandu Ltd.

1.8 Organization of the Study

The whole study is divided into six different chapters.

Chapter 1: Introduction: In this chapter included background of the study, statement of the problem, objective of the study, limitation of the study, plan of study, introduction of EBL and BOK, focus of the study are presented in the section.

Chapter 2: Review of literature: this section includes the conceptual and review of related studies to find out the existing gap and to identify what new can be contributed. And also highlights development of banking system in Nepal.

Chapter 3: **Reach Methodology**: This section includes research design, population and sample, collection of data, source of data, method of analysis for helping the research to make fruitful and effective.

Chapter 4: Data Presentation and Analysis: In this section includes systematic presentation and analysis of financial statement by using different financial tools.

Chapter 5: Summary ,conclusion, findings and Recommendation: It is the last process of conducting the thesis where includes Summary of findings, conclusion and Recommendation

CHAPTER –II

REVIEW OF LITERATURE

2.1 Introduction

The introductory chapter has already highlighted upon the commercial banks growth and performance on terms of their investment operation. Now in this chapter the focus has been made on the review of literature relevant to the investment policy of commercial banks. Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, other information managing bureaus, and internet and concern commercial banks. This chapter helps to take adequate feed back to broaden the information base and inputs to my study. Conceptual framework given by different authors, research scholars, etc. in this chapter is reviewed from the books research papers, annual reports, and articles etc., which are arranged into the following order.

1. Review of Books.
2. Review of Reports
3. Review of Research papers.
4. Review of Articles.
5. Review of Theses.
6. Review of Legislative Provisions.

This research, in this chapter only two types of review of literature have been conducted that are review of related studies and conceptual review which are mentioned as follow.

The banks are such types of institutions, which deal in money and substitute for money. They deal with credit and credit instruments. Good circulation of credit is very much important for the bank. Unsteady and unevenly flow of credit with ad-hoc decision harms the economy and the bank as well. Thus, to collect fund and utilize in a good investment is not a joke for such organization. An investment of fund may be the question of life death for the bank.

"Banks are these institutions which accept deposit from the public and on turn provide credit to trade business and industry that directly makes a remarkable impact on the economic development of country. To collect fund and utilize it on good investment is a very risky job. Ad-hoc investment decision leads the bank out of business there by drawing the economic growth of a country. Hence sound investment policy of a bank is another secret of a successful bank. Various people have given their view regarding the investment policy of commercial banks."[15]

From the above definition, it is clear that an investment means to trade a known rupee amount today for some expected future stream of payments or benefits, that will expected the current outlay by an amount that will compensate the investor for the time the funds are committed for the expected changes in prices during the period and for the uncertainty involved in expected future cash flows. The investment is the most important function of commercial banks. It is the uncertain and risky environment. It is a very challenging task for commercial banks. So a bank has to be very cautions while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of it’s invest funds.

Investment management of a bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk.

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[15] V.K Bhalla,., "*Investment Management*" New Delhi S. Chand & Co., 8th edtion 2001, p.9

Various authors have expressed their views regarding investment policy of commercial banks, then formulation and implementation differently. In the words **of S.P. Singh & Singh** " The investment (credit) policies of banks are conditioned, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course his bankers policy also in mind." [16]

They further state, "The field of investment is more challenging as it offers relatively greater scope to banker for judgment and discretion in selection their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit function has become more complex." [17]

Ganesh Kumar Shrestha, **(Financial sector reform)**

Financial sector reform means gradual liberalization of financial market and its players and opening of all types of depository institution and other non-depository financial institution to the private sector. Depository institution include commercial banks, development banks, finance companies, co-operative banks etc. other financial institutions include life and non-life insurance companies, pension fund/provident funds/retirement funds, mutual funds, unit trusts, mutual savings banks, mutual funds, saving and loan associations, credit unions, mortgage banks, money marker mutual funds, deposit insurance corporation/company, credit guarantee corporation/company and so on.[18]

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[16] Sing S.P.& Singh S. "*Financial Analysis for Credit Management in Banks* " Vikas Publishing House Ltd New Delhi 1983.

[17] Ibid.

[18] Ganesh Kumar Shrestha, Financial Sector Reforms in Nepal, 2004, P.72.

According to **Chenny and Moses**, The investment objective is to incrsystematically the individual's wealth, defined as asset minus liabilities. The higher the level of the desired wealth the higher the must be received. An investor seeking higher return must willing to face higher level of risk"

Finance company utilises its founds in suitable area and sector, Finance company cannot get its aim of profit earning without mobilizing its founds in right sectors and different activities. Many types of activities and other thing can origin for the purpose of receiving invest from the Finance company. But Finance company should separate the useful and profitable sector for mobilization of its funds.

Finance company being only financial intermediary, We will not be able to make any profit unless he mobilizes funds suitaly, It is from out of the interest he earns on loan and advances, he has to pay interest on deposits, meet establishment expenses, meet liquidity of cash balance, and yet allow him some balance from out of which he can build reserve and pay dividend to the shareholder. Unless the finance company makes a judicious use of the resources at his command, it is not possible for him to maximise his income. It must also be stated at the outset that the banker is not completely free in the matter of deployment of funds. As commercial organization they are expected to make profit. If there is no profit, there will be adverse criticism against public sector finance company booth in and outside the parliament. When these finance company are asked to open new branches in areas which do not allow profits for yers or asked to grant loan to the priority sectors such s small industries and agriculture with a high incidence of bad debts. There is need for counter balancing profit from elsewhere. Therefore, these finance company will have to show an ascending order of profits in order to ensure growth with stability. For this purpose the finance company will have to allocate land able resources to different segments in such a manner these finance company can ensure adequate profitability while at the same time responding to policies laid down in accordance with national objectives.

The banks are such types of institution, which deal in money and substitute for money. The deal with credit and credit instrument. Good circulation of credit is very much important for the banks. Unsteady and unevenly flo of credit harms the economy. Thus, to collect fund an mobilize it in a good investment is not a joke for such organization. An investment of fund may be the question of life and death of the bank.

In the words of Sharpe and Alexander "Investment, it is broadest sense means the sacrifice of certain present value of future value.

Preeti Singh has defined investment in the way "Investment is the employment of funds with the aim of achieving additional income of growth in value frank K. Reilly has defined investment in this way. "An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the fund are committed, for the expected rate information and also of the uncertainly involved in the future flow of the funds"

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

Sunity Shrestha in her book," Portfolio behavior of commercial banks in Nepal" said that the commercial banks fulfill the credit needs of various sector of the economy services sector. The lending policy of commercial bank is based on the profit maximizing of institution as well as the economic enhancement of the country.

Frank k. Reilly define investment in the words, "An investment may be defined the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing until for the time, the funds are committed, for the expected rate of inflation and also for the uncertainty involved on the future flow of funds."[19]

"Banks are these institutions which accept deposit from the public and on turn provide credit to trade business and industry that directly makes a remarkable impact on the economic development of country. To collect fund and utilize it on good investment is a very risky job. Ad-hoc investment decision leads the bank out of business there by drawing the economic growth of a country. Hence sound investment policy of a bank is another secret of a successful bank. Various people have given their view regarding the investment policy of commercial banks."[20]

Emphasizing the important of investment policy, **H.D. Crosse** puts in this way, “Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform, its credit creating function effectively and minimize the risk inherent in any extension of credit." [21]

He further adds, the formulation of sound landing policies for all banks should have adequate and careful consideration over community needs, size of loan

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19 Frank and Reilly, "*Investment*" the Dryden Press, CBS publishing Japan Ltd.

20 V.K Bhalla, "*Investment Management*" New Delhi S. Chand & Co., 8th edtion 2001, p.9

21 H.D. Crosse, "*Management Policies for Commercial Banks* " Englewood Chiffs Prentic Hall Inc., N.J.2nd Edition 1963.

portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing, interest rate policy.

Further in details he deals with what types of loan do bank make? And how much of loans in each loan to be invested? Banks make a variety of loans to a wide variety of customers from many different purposes from purchasing automobile to construction of homes and making trade with foreign countries. Therefore, no uniforms 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 as also assets differ from country to country and also from region to region within a country. For example, scope of a bank operating in Jumla will be different from the scope of a bank operating in Kathmandu. The investment policy to be applied in Kathmandu may not be applicable to the customers of Jumla because the demand for loans is less rural areas where as it is higher in city areas.

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as should be secured and can be converts into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs and when and how it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

2.1.1 Features of a Sound Lending and Investment Policy[22]

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

Some necessities for sound lending and investment policies, which most of the bank must consider have been given by many authors as under.

1. Safety and Security

The bank should never invest it's fund in those securities, which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest in funds into speculative businessman who may be bankrupt at once and who may earn millions in a minute also. The bank should accept that type of securities, which are commercial, durable, marketable and high market prices in the cases "MAST" should be applied for the investment where,

M = Marketability

A = Ascertaintability

S = Stability

T = Transferability

2. Profitability

A commercial bank can maximize its volume of wealth through maximization of return on their investment and lending. So, they must invest their funds where they gain maximum profit. The profit of commercial bank mainly

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22 V.K Valla,., ***"****Investment Management****"*** S. Chand & Co. Ltd. 1982, 1st edition, p.14-17

depends on the interest rate, volume of loan; it's time period and nature of investment in different securities.

3. Liquidity

People deposit money at the bank in different account with confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess funds in different securities of at the same time of lending. So that, it can meet current or short-term obligation when become due for payment.

4. Purpose of loan

Why is a customer in need of loan? This is very important for any Banker, if borrower misuses the loan granted by the Bank, they can never repay and bank will possess heavy bad debts. Detailed information about the scheme of the project or activities would be examined before lending.

5. Diversification

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

Diversification of loan helps to sustain loss according to the law of average because if securities of a company deprived, there may be appreciation in the securities of other companies. In this way, the loss can be recovered.

6. Tangibility

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

7. Legality

Illegal securities will bring out many problem for the investor. A commercial bank must follow the rules and regulation as well as different direction issued by Nepal Rastra Bank, Ministry of Finance, Ministry of Law and other while mobilizing its fund.

2.2 Review of Reports

Under this annual report of concerned bank are received in order to highlight the brief profile of the bank.

2.2.1 Reports Relating to Everest Bank Limited

Everest Bank Ltd. (EBL) has been established with the objective of extending professionalized banking service to various sectors of society in the kingdom of Nepal and thereby contributes in the economic development of the country. The bank had come into operation from 18^{th} Oct.1994 (1^{st} Kartik 2051 B.S.). EBL is a joint venture with Panjab National Bank (PNB), one of the largest commercial bank in India having over 4000 branches and more then 200 foreign correspondents around the globe. PNB has a century old tradition of successful banking and is known for it's financial strength and well; aid down modern banking systems and procedures. PNB is providing the top management services to EBL under a Technical Service Agreement signed between the two institutions. EBL, thus, has the advantage of the banking expertise and financial strength of its partner.

2.2.3 Report Relating to Bank of Kathmandu Limited

Bank of Kathmandu (BOK) is a culmination of comprehensive vision of the promoters to take the Nepalese economy to newer realm in the global market. The promoters comprehensive vision and the government over whelming support gave birth to BOK as one of the private sector bank of the country in 1993, which commenced it's business in March 1995.

BOK is established by a group of distinguished civil servants and renowned businessman in collaboration with the SIAM commercial public Co.Ltd. (SCB), is a leading bank of Thiland. The collaboration with SCB supported BOK to bring the technical and Nepalese banking sector. Upon establishment of BOK as one of the reputed banks in the short period the Nepalese promoters decided to conclude the technical service agreement with the Nepalese professional as it could further enhance its business performance years a head under the Nepalese management. With the well acclaimed capabilities of the Nepalese management team .BOK has successfully enhanced its capital structure, profitability reach to the customers and created image in the market. It has created a position in the industry in a shortest possible span of time. BOK is proud to be the banker of the leading business house, INGOs diplomat agencies and foreign projects and to be lead bank in several consortiums and financing in the country.

<u>Policy Formulation and Implementation for Commercial Banks</u>

- In the process of amending the existing regulatory directives as and when require, some unclear sections of the regulations/directives were clarified, some were abolished while other was revised in FY 2002/03. These directives included the following:

(a) Commercial banks were allowed to open a bank branch within the Kathmandu valley after opening two branches outside the valley.

(b) The provision of maintaining 5.5 percent interest spread between deposits and lending rate was abolished.

(c) A directive was issued regarding sale of promoters share and putting it as collateral.

(d) Credit to the small farmers development bank limited (SFDB) will be treated as credit to the deprived sector.

(e) A directive was issued in relation to financial guarantee and investment in government bonds.

(f) Apart from the clarification relating to the investment in CIB, NRB made some revisions in some of its directives regarding banks paid-up capital, swap loan, formation of audit committee, adjustment in loan loss provisioning, various aspects of corporate governance, rescheduling and restructuring of loans and advances, etc.

- To consolidate the different acts of commercial banks and financial institutions under an umbrella a draft of the bank and financial institutions ordinance was prepared and submitted to the ministry of finance.
- With a view to reducing gradually the lending to priority sector by commercial banks, the following arrangement was made with effect from FY 2002/03.

While lending to priority sector will not be compulsory for the commercial banks from FY 2007/08 onwards, provision of lending to the deprived sector will be continued.

Table no: 2.1

Lending Priority Sector of Total Loan

Fiscal Year	Minimum ceiling of priority sector lending as percent of total loan
2002/03	7 percent
2003/04	6 percent
2004/05	4 percent
2005/06	2 percent
2006/07	2 percent

- For the enlistment of the sick industries, refinancing of Rs. 303 million was made available to 40 such industries through various commercial banks in FY 2002/03.
- With regard to the establishment of a new commercial bank, a license was issued to Siddhartha bank limited. The bank started its transactions since 23 December 2002.

- While an agreement relating to relating to technical support services was signed between laxmi bank limited and Hatton National bank of Sri Lanka, the bank of Ceylon, another Sri Lankan Bank, withdrew its share from Nepal of Ceylon Limited.

2.3 Review of Research Papers

Many researchers has analyzed their found mobilizing view and findings in their research papers in this subject through investment policy of commercial banks.

Twenty-five percent decreased in the liquidity position of commercial banks. The liquidity position of commercial bank has decreased by about twenty-five percent. According to the government of NRB Dr. Tilak Rawal, last year the liquidity of the commercial bank was Rs. 48000.00 million, but now it is only Rs. 38000.00 million, In this condition, capital drain seems responsible and political condition also responsible. The president of Nepal Bankers Association Mr. Narendra Bhattarai, has express that the liquidity position of commercial banks has decreased by twenty-five percent in comparison to the last year. Mr Bhattarai requested to NRB t implement flexible monetary policy in the current situation of controlling inflation and decreasing liquidity, Dr Tilak Rawal said that NRB has implement flexible monitory policy and although continuing the policy, because of the BPO is negative, it should be careful and should implement the monetary policy by balancing. But economist Dr. Badri Prasad Pokhrel has suggested that if demand is high, it should increased the liquidity"

Scope of Inter Bank Business In Nepal" MR. Sundershan Prasad Adhikari, Deputy director of NRB has given a view point in scope of inter Bank Business in Nepal Inter bank market in the mainstay of the banking business, The inter-bank market serves as a wholesale market ofr banks. The inter-bank market has come-up to enable banks to fund liquidity their growing fund requirements, Excepts during times of tight liquidity situation, funds are always available at a price. Inter bank transactions are financial cities. Tokyo, London, Newyork, Hongkong, Dubai, peris, Franfurt, and others, Due to time differences in this financial centre, the markets are open for about 24 hours. The markets starts its business rights from Tokyo, Followed to Singapore, Hongkong and Nepal then to Europe, Canada and America and again start from Tokyo next day.

Type of inter Banks transaction.

He has presented two types of transaction in the article.

1. Deposits (Placements)/Loans (Borrowing)
2. Foreign exchange

He has presented about inter dealing operation-" The Dealers deal with each others per the guideline of the NRB and prescribed by their own management. for the smooth operation of inter banks transaction. Foreign exchange and money dealer's Association (FEDAN) has also sets rules and regulation for the members banks. A few aspects of inter Banks Dealing Operation are presented here under .

- Position
- Nostro accounts
- Inter-Banks Deposits (Placements)
- Inter-Banks sales and purchases

He has explain about function of inter banks market and looking ahead the inter banks market works as intermediaries function in the flow of funds. It enables banks to take speculation and / or Hedging position against interest rate and exchange rate movements. A major function of inter-banks marker is to enable banks to cope up with the lumpiness of wholesale, sized deposits and loans and also plug up holes in the balance. Sheet Unwanted deposits can be laid of to other needy banks. Funds, needed to support lending can be bid for in the inter-bank market. Inter banks market gives confidence the funds to meet balance-sheet contingency. In addition, the inter-banks enable the risk lending to be spread among other banks.

The size and volume of Nepalese inter-bank transaction is very small. Out of different commercial banks, only three banks are foreign exchange sellers while others banks are purchasers in the inter-banks business. Likewise, only one bank is accepting foreign exchange deposits from other banks. Forward sale contract of foreign exchange for customers are yet to be started by country's larger two old banks these two banks, which have mobilized mote than 50 percent of deposits and extended about 60 percent of loans, have also yet to start, inter bank placement transactions. A limited number of hedging tools like, spot purchases and sale of foreign exchange and forward sale of foreign exchange to customers businesses are taking place. In ever few case foreign exchange swaps contracts were done between few banks. Recently, in view to take benefit from prevailing higher rate of interest n loan term placements, NRB has permitted commercial banks entering in to interest rate swap contracts. It is hoped that after the hand over of the management of two larger old banks to the international experts, the inter-bank market will be more efficient and competitive Without active participation of these. two banks in the inter bank, the inter-bank business in the country could not work properly.

Mr. Bhatta, in his article "Financial polices to prevent financial crisis". has given more exposes on Nepalese financial market sector. He has mentioned the financial crisis occurred in China, Mexico, South Asia, Russoan federation Equador and Brazil & Argentina. This crisis affected all these economic by posing negative effets in their real output. He hasd also focused on Nepalese financial market, which is directly effected by the national and international events. the most effected event was september 11 incident in the U.S.A. have added more to the fragility in the global financial market. In present context in many parts of the world, the move towards liberalization is getting its momentum on one hand and the process of economic development is being threatened due to various unanticipated incidents on the other. He has defined a financial crisis is a description to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities.

He has given light on the dynamics of financial crisis dividing it into three stages Also he has suggested the policies to prevent financial crisis. Following policies are supposed to be applicable for preventing financial crisis.

a. Prudential supervision.
b. Accounting standards & disclosure requirements.
c. Legal and judicial system
d. Monetary policy and price stability
e. Exchange rate regimes and foreign exchange reserves.
f. Capital controls
g. Restrictions on foreign denominated debt.
h. Reduction of the role of the state owned financial institution
i. Encouraging market based discipline.
j. Entry of foreign banks
k. Limitation of too-big-to fail in the corporate sector
l. Sequencing financial liberalization etc.

Lastly he has concluded that there is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institurions. the experience of the crisis hit countries, specially during the decade of nineties, has proved that a country opening to liberalized economic policy hould adopt sequencing policies constraining the ace of participation in the global market place until a sound domestic infrastructure can be put into place.

Sunity Shrestha in her ph D thesis entitled, "Investment planning of commercial banks in Nepal" She has concluded that "Bank part folio (Loan and investment) of commercial banks has been influenced by the variable securitites rates. Investment planning and operation of commercial banks in nepal has not been found satisfactory in terms of profitability, safety, liquidity, productivity and social responsibility. To overcome this problem she has suggested "Commercial banks should take their investment function with proper business attitude and should perform landing and investment operation efficiently with proper analysis of the project.

The article entitled "Role of foreign Banks in Nepal". of Mr. Chopra Concluded that joint venture banks are playing an increasing, dynamics and vital role in the economic development of the country. This will undoubtedly increase with time.

Radhe Shyam Pradhan has done a research for which he carried out a survey of 78 enterpeises. Through his research entitled, "Financial management practices in Nepal. "He found some of the major features of the Nepalese financial management. According to him "The most important finance function appeared to be working capital management. While, the last important one appeared to be maintaining good relation with stockholder. The finding reveals that banks and retained earning are two most widely used financing sources. Most enterprises do not borrow from on e bank only and they do switch between banks to banks whichever offers best interest rates. Most enterprises find that banks are faxable in interest rate. Among the banks loan bank loan of less then one year are more popular in public sector where as banks loan of 1-5 years are more popular in private sector. In period of light money, the majority of private sector enterprises fell that bank will treat all firms equally while public sector does not feel so. Similarly he concluded that th emajority of enterprises in traded sector finds that bank's interest rate is just right while the majority of noon -raded sector find the some is one higher side.

Mr. Shekhar Bahadur Pradhan has presented a short glimpse on investment in different setor, its problem and prospects through his article, Deposit mobilisation, its problem and prospects.

On his article, he has expressed that. "Deposit is the life blood of any financial institution, be it commercial bank, finance company, co-operative or non government organisation. "He has added In consideration of ten commercial banks, nearly three dozen of finance companies, the latest figure does produce a strog feeling that a serious review must be made of problems and prospects of deposit sector. Barring few joint venture banks, other oganisations rely heavily on the business deposits receiving and credit disbursement.

In the light of this Mr. Pradhan has pointed out following problems of deposits mobilisation in Nepalese perspective.

a. Due to lack of education, most of Nepalese people do not go for saving in insititutional manner. However, they are very much used of saving, be it in the form of cash, ornament of kind. their reluctance to deal with institutions system are governed by their lower level of understanding about financial organization, process requirement, office hour withdrawals system, availability of depositing facilities and soon.
b. Due to the lesser office hour of banking system people prefers for holding the cash in the personal possession.
c. Unavailability of the institutional services in the rural areas.
d. No more mobilization and improvement of the employment of deposits in the loan sectors.

Mr. Pradhan has not only pointed out the problems but also suggested for the prosperity of deposit mobilization. They are given as

a. By cultivating the habit of using the formal sector for transactions must be as priority and continuous educational program.
b. By adding service hour's system will definitely be an appropriate step.
c. By providing sufficient institutional service in due rural areas. If deposits movilization materialize, the should be taken as major achievement as this generated fund can be used somewhere else by the bank. NRB could endorse this deposit collection by continuing to subsidies overhead cast far little longer period. A full scale of field office system could be taken back and modes manpower strength deputed to cut-down overhead cast.

NRB could also organize training programme to develop skilled manpower.

d. By spreading co-operative to the rural areas mini banking services are to be launched.
e. The scheme of mobilizing the deposit in the form of free personal accident insurance, deposit insurance may be fruitful. Not only waiting far potential customer it is better to reach to the potential depositors.

At last, but hat the least Mr. Pradhan mentioned deposit mobilization carried out effectively is in the interest of depositors, society, financial sectors and the nation. Lower level of deposit raising allows squeezed level of loan delivery leaving more room to informal sectors. That is why higher priority to deposit mobilization has all the relevance.

Bodhi B. Bajracharya through his article has concluded that the mobilization of domestic saving is on of the prime objectives of the monitory police in Nepal. For this purpose commercial banks stood as the vital and active financial intermediary far generating resources in the form of deposit of private sectors so far providing credit to the ibvestors in different aspects of the economy.

Shiva Raj Shrestha, Deputy chief officer of NRB Banking operation department has given a short glimpse on the portfolio management in commercial banks, theory and practice. Mr. Shrestha has highlighted issues in the article.

The protfolio management becomes very important both the individual and the institutional investors. Invests would like to select a best mix of invests assets subject to the following aspects.

- Higher return which is comparable with alternatives opportunities available according to the risk class of investors.
- Good liquidity with adequate safety of investment.

- Certain capital gain
- Maximum tax concession
- Flexible investment
- Economic efficient and effective investment mix

In view of above aspects following strategies are adopted.

- Do not hold any single security; try to have a portfolio of different securities.
- Do not put all the eggs in the one basket, to have diversified investment.
- Choose such a portfolio of securities, which insures maximum return with

Minimum risk or lower of return with added objectives of return with added objectives of wealth maximisation.

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

- To find out the invisible assets [generally securities] having scope for better returns depending upon individual characteristics like age, health, need, disposition, liquidity, tax liability etc.
- To find out the risk of securities depending upon the attitude of investor toward risk.
- To developms alternative investment strategies for selecting a better protfolio, which will ensure a trade off between risk and eturn so as to attach the primary objectives of wealth maximisation at lower risk.
- To identify of securities for investment to refuse volatility of return and risk,

Shrestha has presented two types of investment analysis technique, i.e. fundamental analysis and technical analysis to consider any securities such as equity debenture or bond and other money and capital market instrument. He has suggested that the bank having international network can also offer access to global financial markets. He has pointed out the acquirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customers confidence.

According to Shrestha, the portfolio management activities of Nepalese commercial banks at present are in nascent stage. However, on the other hand most of the banks are not doing such activities so for because of following reasons.

- Unawareness of the clients about the services available.
- Hesitation of taking risk by the clients to use such facilities.
- Lack of proper techniques to run such activities in the best and successful manner.
- Less developed capital market and availability of new financial instruments in the financial markets.

Regarding the joint venture commercial banks, they are very eager to provide such services but because of above mentioned problems very limited opportunities are available to the banks for exercising the portfolio management.

Shrestha has drowned following conclusion.

- The survival of the banks depends upon its own financial health and various activities.
- In order to develop and expand the portfolio management activities successfully, the investment management methodology of a portfolio manager should reflects high standard and give their clients the benefits of global strengths, local insights and prudent philosophy.
- With the disciplined and systematic approval to the selection of appropriate countries, financial assets and the management of various risks, the portfolio manager could enhance the opportunities for each investors [clients] to earn superior return over time.

- The Nepalese bank having greater network and access to national international capital markets have to go for portfolio management activities for the increment of their fee based income as well as to enrich the clients based and to contribute in national economy.

There are not much articles related to investment management in Nepal. Shiba Raj Shrestha, Deputy Chief Officer of Nepal Rastra Bank, Banking operation Department, has given a short glimpse on the "Portfolio management in commercial bank, theory and practice." [23]

Mr. Shrestha has highlighted following issues in the articles. The portfolio management becomes very important both for individuals as well as institutional investors. Investors would like to select a best mix of investment assets subject to following aspect:

1. Higher return which is comparable with alternative opportunities available according to the risk class of investors.
2. Good liquidity with adequate safety of investment.
3. Certain capital gains.
4. Maximum tax concession.
5. Flexible investment.
6. Economic, efficient and effective investment mix.

In the view of above aspect following strategies are adopted:

1. Do not hold any single security i.e. try to have a portfolio of different securities.
2. Do not put all the eggs in the one basket i.e. to have a diversified investment.

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[23] Shiba Raj Shrestha,. "*Portfolio management on commercial banks, Theory & practic***e**" Nepal Bank Patrika, Baishakh Masanta, 2055.

3. Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower of return with added objective of wealth maximization.

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

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

Mr. Shrestha has presented two types of investment analysis technique i.e. fundamental analysis and technical analysis to consider any securities such as equity, debenture or bond and other money and capital market instruments. He has suggested that the banks having international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in portfolio management and customers' confidence.

2.3.1 Portfolio Management in Nepalese Banks

According to **Mr. Shrestha**, the portfolio management activities of Nepalese commercial bank at present are in nascent stage. However, on the other hand, most of the banks are not doing such activities so far because of following reasons.

- Unawareness of the clients about the service available.
- Hesitation of taking risk by the clients to use such facility.
- Lack of proper techniques to run such activities in the best and successful manner.
- Less developed capital market and availability of few financial instruments in the financial market.

Regarding the joint venture commercial banks, they are very eager to provide such services but because of above-mentioned problems very limited opportunities are available to the bank for exercising the portfolio management.

***Mr. Shrestha** has thrown following concluding remarks:*

The survival of the banks depends upon its own financial health and various activities.

- In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standards and give their clients the benefits of global strengths.
- With the disciplined and systematic approval to the selection of appropriate countries, financial assets and the management of various risks, the portfolio manager could enhance the opportunity for each investor (client) to earn superior returns overtime.
- The Nepalese banks having greater network and access to national and international capital markets have to go for portfolio management activities

for the increment of their fee based income as well as to enrich the client base and to contribute in national economy.

"Dr. Govinda Bahadur Thapa"[24] has expressed his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits likewise; loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack of adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

Out of the eleven, commercial banks (excluding two recently opened regional commercial banks) Nepal bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative from time to time. Because of non- recovery of accrued interest, the margin between interest income and interest expenses is decline. Because of these two local banks, in traditional off balance sheet operations, these banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after and have been distributing large amount of bonus and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between

[24] Dr. Govinda Bahadur Thapa, "*Financial System of Nepal*" Development division Patan multiple Campus, Lalitpur, Vol.3 1994, pp29-37.

interest income and interest expenses. Similarly, concentration of these banks to modern off- balance sheet operations and efficient personnel management have added to the maximization of their profits.

At the end of this article, he concludes that by it's very nature of the public sector, the domestic banks couldn't compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private banks.

Dr. Radhe Shyam Pradhan, in his research, "Financial management practices in Nepal."[25] He has studied about the major feature of financial management in Nepal. To address his issue, a survey of 78 enterprises was carried out by distributing a multiple questionnaire, which contained questions and various aspect of financial management practices in Nepal.

He found that among the several finance functions, the most important finance function appeared to be working capital management. The finding reveals that banks and retained earning are the two most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to whichever offers best interest rates. Most enterprises find that banks are flexible in interest rates and covenants. He further found that among the banks loans, bank loans of less than one year are more popular in public sector where as bank loans of 1-5 years are more popular in private sector. In periods of tight money, the majority of private sector enterprises fell that back will treat all firms equally while public sector does not feel so. Similarly he concluded that the majority of enterprises in trade sector find that

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[25] Radhe Shyam Pradhan, "*Financial Management practice in Nepal*", Vikash Publishing House(P) Ltd, New Delhi, 1994., p.89

banks, interest rate is just right while the majority in non-trade sector find that the same is one higher side of profitability, safety, liquidity, productivity and social responsibility. To overcome this problem, he has suggested, "commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects."

Dr. Sunity Shrestha, in her research, "Investment planning of commercial banks in Nepal." [26], has made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study she concludes that bank portfolio (loans and investments) of commercial banks has been influenced by the variable securities rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central bank (NRB).So the investment are not made in professional manner. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms

Dr. Sunity Shrestha in her article, "Lending operation of commercial bank of Nepal and it's impact on GDP" [27] has presented with the objectives to make an analysis of contribution of commercial banks, lending to the Gross Domestic Product ((GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sector of lending Viz. Agriculture industrial, commercial, service and general social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

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[26] Sunity Shrestha (Dr.), *Investment Planning of commercial banks in Nepal*." Ph.D. Thesis-1993

[27] Sunity Shrestha Dr., "*Lending operations of Commercial banks of Nepal and it's impact on GDP"*. The business voice of Nepal(The special issue of Banijya Sansar), T.U. Kritipur, 2055 pp23-27

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

Similarly**, Mr. Bahgat Bist**, in his research paper, "Nepalma Adhunik Banking Baybastha"[28] has made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of JVBs in the field of CBs. At the end of the paper, he has concluded that the establishment of JVBs a decade ago, marks beginning of modern banking area in Nepal. The joint Venture banks have brought in many new banking techniques such as computerization hypothecation, consortium finance and modern free-based activities into the economy. These are indeed significant milestone in the financial development process to the economy. Like wise,

Mr. Bishowamber Pyakuryal in his article," Workshop on banking and National Development "writes," The present changing context of the economy calls for a substantial revitalization of the resource. How much they have gained over the years depends chiefly on how far they have able to utilize their resource in an efficient manner. Therefore, the task of utilization of resources is as mush crucial as the mobilization. The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposits."[29]

[28] Bhagat Bista, "*Nepalma Adhunik Banking Baybastha* " Indu Chhapakhana, Kupondole, lalitpur, 2048 BS, p.37-39

[29] Bishowmbar Pyakuryal, "*Workshop on Banking & National Development* "Paper Presented, NBL 1987

Thus, in his paper, he has emphasized on proper utilization of mobilized resources and profitability investment.

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

Mr. Bhoj Raj Bohara, in his thesis," A comparative study on the financial performance of Nepal Arb Bank and Nepal Indosuez Bank Ltd."[30] He had made endeavor to examine the comparative financial performance of NABL and NIBL in terms of their liquidity, activity, and profitability along with other parameters. He has concluded that bank's performance con not be judged solely in terms of profit by maintaining adequate liquidity and safety position.

But it should also be evaluated on the ground of the contribution; it has made to the community, government and national economy or on the social and national priority discharged by banks. This means the banks should come forward with national priority tasks, i.e. more deposit collection resource mobilization. The tasks are possible when they expand branches, more employment opportunities, service to more customers, developing skills and expertise in local staff’s satisfaction on profit earning and exchange of autonomy provided by them. The accountability can be discharged by following their rules, regulations, instructions, directives and priorities.

[30] Bhoj Raj Bohara " *A Comparative Study of the Financial Percormance of Nepal Arb Bank Ltd and NIBL*" Master Degree Thesis, T.U., 2001

Mr. Bindeshwor Mahato, in his thesis paper, "A comparative study of the financial performance of NABIL & NIBL." [31] concludes that NABIL pays more attention towards the attainment of national objective through participation in the task of economic development with liberal attitude towards the government and being more responsive to the national priorities like branch expansion more employment opportunities and more resource mobilization. So, from the point of view of shareholders and government, NABIL is performing much better than NIBL. He has recommended all the commercial banks to:

Increase portion of equity capital in their capital structure.

Control operating costs.

Increase liquidity as per the new regulation NRB.

Meet social responsibility.

Invest in productive sectors.

Bishnu Prasad kishi, in his thesis paper, “A complete study on the financial performance of Nepal Indousez Bank Ltd. (NIBL) and Nepal Graindlays Bank Ltd. (NGBL)"[32] has mainly **Mr.** found that NGBL's loan and advance to deposits ratio are significantly lower than that of NIBL. NGBL is recommended to follow liberal lending policy to invest more portions of deposits in loan and advances.

He has further stated that both the banks should not highly prefer the government securities to invest their funds because of low interest rate on such securities but they are recommended to boost up their campaigns of deposit

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[31] Bindeshwor Mahato, "*A comparative Study of the financial performance of NABIL & NIBL*."Master degree thesis TU Ktm. 1998.

[32] Bishnu prasad Kishi, " *A comparative study on the financial performance of NIBL and NGBL* ", A mastrs degree thesis TU, Kritipur Jan. 1998

mobilization and credit disbursement in rural areas preferring priority sector, too.

In time of research of secondary sources if found that some student from T.U. and other management campus have conducted several thesis work. Some of them as are supposed to be relevant for this study are presented below.

Bhoj Raj Bohara, in this thesis paper, "A comparative indosuez Bank limited has made endear to examine the comparative financial performance (during period of FY 1986/87 to 1990/91) of NABIL and NIBL in terms of their liquidity, activity, profitability along with other parameters. He has concluded per share, tax per share, net profit, total deposit, total years of the study period has shown improvement than that of NABIL.

Mahendra Mandala, in his thesis paper "Comparative finical performance appraisal of joint-venture banks has studied mainly three banks i.e. Nepal Arab Bank Ltd Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Limited. His main findings is that both NIBL and NABIL have mobilized the debt funds in proper way far generating more return but NIBL could not do as good as NIBL and NABIL. He has recommended to enhance banking facilities in rural areas by encouraging small entrepreneur's development programmes to play merchant banking role, to mobilize the deposit funds in productive sectors and to grant more priority to the local manpower.

N.M. Pradhan, in his thesis paper, "A study on investment policy of Nepal Arab Bank Ltd. has emphasized that there is a greater relationship between deposits and loan and advances. In his six years period study i.e. from 1972 to 1977 he concluded that though loan and advances as well as deposits are in increasing trend, their increase is not in a proportionate manner. His recommendation was to grant the loans and advances without it's lengthily process He has suggested enhancing banking transaction unto rural of the sector of the kingdom.

M.N. Karmacharya, in this thesis paper " A study on the deposits mobilization by the Npal Bank Ltd. During eight years study periods. (i.e. from 1970 to 1977) has concluded that the utilisation side of Nepal Bank Ltd. is weak as compare to the collection of resources. He has mentioned that the bank has successfully maintained its liquid assets position but couldn't mobilize its resource efficiently. He has suggested to set-up more banking branches to increase the deposit collection and long-term as well as short term credit. He has ecommended not to consider security factor only but to provide loan to genuine projects without security,

Uttam raj panta, in his thesis paper, "A study of the commercial Banks' deposits and its utilisation has made an attempt to highlight the discrepancy between resource collection and resource utilization. He concluded that commercial banks failure in resource utilization is the to their lending confined for short term only so he recommended that commercial banks should give emphasis also on long term leading for better utilization of the deposits.

Mrs. Ramala Bhattari, in her thesis paper "Lending policy of commercial banks in Nepal" has examined the lending policy of the commercial banks. she has concluded that efficient utilization of resource is more important than the collection of the same. Lower investment means lower capital formation that hampers economic development of the people and the country. So the recommended that banks should give emphasis on efficient utilizations of resources.

Mr. Raja Ram Khadka, in his thesis paper. "A study on the investment policy of Nepal Arab Bank Ltd in comparison other joint venture Banks in Nepal" He has compared investment policy of Nepal

Arab Bank Ltd. with Nepal Grindlays Bank Ltd. and Nepal indosuez Bank Ltd. His study is based on five years period from 1992 to 1996. He has taken only two banks to compare the investment policy of NABIL among thirteen commercial Banks in Nepal. Mr. Khadka has suggested the joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers. He has strongly recommended NABIL to utilising risk assets and shareholders funds to gain highest profit margin reduce its expenses, and collect cheque fund for more profitability. He has recommended investing its fund in different sector of investment and administering various deposit schemes, give cheque scheme, house building deposits scheme etc.

Samiksha Thapa, in her thesis paper "A comparative study on investment policy of Nepal Bangladesh bank Ltd. and other joint ventures bank of Nepal" She has compared the investment activities NBBL with only two joint venture bank i.e. Nepal Arab Bank ltd and Nepal Grindlays Bank Ltd. by taking five years data. She has recommended in two way, first statement recommendation and second theoretical recommendation. In statement recommendation, she has suggested about investment in government securities, OBS operation loan recover act, sound credit collection policy, project oriented approach, effective portfolio management, innovative approach to bank marketing and banking facilities. In theoretical recommendation she has suggested about liberal lending policy and cost management strategy.

2.4 Review of Legislative Provisions[33]

In this section, the review of legislative framework (environment) under which the commercial banks are operating has been discussed. This legislative environment has significant impact on the commercial bank's establishment, their mobilization and utilization of resources. All the commercial banks have

[33] Shreekrishna Kharel and Neelam Kumar Sharma, "*Banking, Finance, Economic Policies Management Acts and Rules*", Pairavi Prakashan, Kathmandu, 2061, p.43-50

to conform to the legislative provisions specified in the commercial bank Act. 2031 and the rules and regulations formulated to facilitate the smooth running of commercial banks. The preamble of Nepal Bank act 1994 clearly states the need of commercial bank in Nepal, " In the absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing services to the people and for the betterment of the country, this low is hereby promulgated for the established of the bank and its operation"

As mentioned in this act, commercial banks will help in banking business by opening its branches in the different parts of the country under the direction of NRB. The main function of commercial banks established under this act will be, exchange of money, to accept deposits and give loan to commercial and business activities.

NRB rules regarding fund mobilization of commercial bank

To mobilization bank's deposit in different sectors of the parts of the nation to prevent them from the financial problems, central bank (NRB) may establish a legal framework by formulating various rules and regulations (prudential norms). These directive must have direct or indirect impact while making decision of discuss those rules and regulation which are formulation by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CRR, loan loss provision, capital adequacy ratio, interest spread, productive sector investment. A commercial bank is directly related to the fact that how much fund must be collected as paid to expand the branch and counters, how much flexible and helpful the NRB rules are also important. But we discuss only those, which are related to investment function of commercial banks. The main provisions, established by NRB in the form of prudential norms in above relevant area are briefly discussed here under.

i) Provisions for investment in the deprived sector

Some rules, which are formulated by NRB, affect the areas of credit and investment extension to the derived sector by the commercial bank.

According to the new provision, with effect from the 3rd quarter of FY 1995/96, investment in shares of the rural development bank by CBs, which used to be counted for the priority sector lending, only is now to be included under the deprived sector lending.

According to the new provisions effective from FY 1997/98, HBL & EBL are required to invest 2 percent and BOK is required to invest 1.75 percent while new commercial banks are required to invest 0.25 percent of their total loans and advance to the deprived sector.

ii) Provision for credit to the priority sector

NRB requires commercial banks to extend loan and advances, amounting at least to 12 percent of their total outstanding credit to the priority sector. Commercial banks credit to the deprived sector is also a part of priority sector credit. Under priority sector, credit to agriculture, credit to the cottage and small industries and credit to service are counted commercial banks' loan to the co-operatives licensed by the NRB is also to be computed as the priority sector credit from the fiscal year 1995/96 onwards.

iii) Provision for the investment in productive sector

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

iv) Provision for the single borrower credit limit

With the objective of lowering the risk of over concentration of bank to a few big borrowers and also to increase the access of small and middle size borrower to the bank loans, NRB directed CBs to set an upper limit on the amount of loan financed to an individual, firm, company or group companies. According to this, CBs are required not to exceed the single borrower limit of 35 percent in the case of fund-based credit and 50 percent, in the case of non-fund based credit such as the letter of credit, guarantee, acceptance letter commitment has been fixed is a proportion of capital funds of bank.

v) Directives to raise capital funds (CAR)

"The commercial banks under operation and having low capital base have been directed to raise their capital funds at a premium level of Rs. 500 million with 5 years of period i. e. by the end of FY 2000/01."[34] Moreover, the commercial banks are allowed to include paid up capital and reserves for meeting the minimum capital requirement but they have to deduct the net loss from such funds if they are in loss.

Besides this, following the BASLE capital Adequacy Accord, NRB has directed commercial banks to maintain at least 8 percent capital adequacy ratio

[34] *HMG, Budget Speech* of the Fiscal year 1996/97

(CAR) of their risk weighted assets (RWA) and off balance sheet transaction i.e. letter of credit, letter of acceptance, bonds, guarantees etc. They are required to classify their capital requirement into (1) core capital (Tier 1) and (2) supplementary capital (Tier 2) and maintain at least 4 percent of their total capital in the form of core capital. As per the provision, risk weighted assets (RWA) are to be calculated by classifying assets and giving them different risk weights as presented below.

Table: 2.2

Risk Weighted Assets required by NRB

S.N	Assets	Weight
1-	Cash balance	0
2-	Bank balance: With NRB With other domestic banks With foreign banks	 0 20 20
3-	Call deposits	10
4-	Investments: Government papers Share and Debentures Other investment	 0 50 50
5-	Loan & Advances	100
6-	Fixed Assets	100
7-	Contingent liabilities: Fully second there months LC Commitment of more than a year Letter of acceptance, simple commitment & Other L/C transactions.	 20 50 100

vi) Cash Reserve Requirements (CRR)

To ensure adequate liquidity in the commercial banks, to meet the depositors demand for cash at anytime and to inject the confidence in depositors regarding the safety of there deposited funds, commercial banks are required to have maximum CRR. In this regard, NRB has directed commercial banks to deposit minimum 8 percent of current and saving and 6 percent of fixed deposits in the NRB as primary cash reserve the commercial banks are further required to have 3 percent cash of total deposits in their own bank as secondary risers.

vii) Loan classification and loss provision

With a view to improving the quality of assets of commercial banks NRB has directed commercial banks to classify their outstanding loan and advances, investment and other assets into six categories. The classification is done two ways. The loans of more than 1 lakh are to be classified as debt service charge ratio, repayment situation, financial condition of borrower, management efficiency, quality of collateral. The loans of less than 1 lakh have to be classified as per maturity period.

Furthermore, NRB has directed commercial banks to maintain certain reserves for loans so classified. The existing loans loss providing is as follows:

Table: 2.3
Loan Loss Providing (LLP)
(in percent of overdue loan)

Loan Classification	Loan loss providing
Good	1
Evidence of Substandard	5
Doubtful	50

Bad	100

LLP has affected banks' capability to extend loans and made them risk averse in issuing newer loans, particularly to the private sector and priority sector where the loan default is high.[35]

CHAPTER -III

RESEARCH METHODOLOGY

3.1 Introduction

In the earlier chapters, general background of commercial banks has been highlighted and review of literature with possible reviews of relevant books articles, thesis and research findings has also been discussed. This had equipped me with the inputs necessary for my study and helped me to make choice of research methodology to support my study in realistic term with sound empirical analysis. "Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view." In other words, research methodology describes the methods and process applied in the entire subject of the study.

This chapter attempts to have an insight in to the investment policy by EBL. This will help to evaluate and analyze investment performance of EBL in comparison to the BOK.

This study will seek the conclusion to the point that what position EBL has got in comparison to the BOK and recommended the useful and meaningful points so that all concerned can achieve something from this study. To accomplish the goal, the study the research methodology described in this chapter.

[35] *NRB Annual Report*, 2005.

3.2 Research Design

"A research design is the arrangement of condition for collection and analysis of data that aims to combine relevance to the research with economy in procedure.[36]" Research design is the plan, structure and strategy of investment so as to obtain answer to research questions and to control variances. To achieve the objective of this study, descriptive and analytical research design has been used.

Some financial and statistical tools have been applied to examine to facts and descriptive techniques have been adopted to evaluate investment performance of EBL and compare it with BOK.

Before conducting of research, research design makes easy to identify the problem to report writing with the help of collection, tabulation, analysis and interpretation of data.

3.3 Sources of Data

Mainly, the study is conducted on the basis of the secondary data. The data enquired for the analysis are directly obtained from the balance sheet and P/L a/c of concerned banks' annual reports. Supplementary data and information are collected from number of institutions and regarding authorities like NRB, security exchange board, Nepal stock exchange Ltd. Ministry and finance, budget speech of different fiscal years, economic survey, Internet and national planning commission etc.

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[36] Claire Selltiz and Others, *Research Method of Social Science*, (New York: Rinchart and Winston, 1962, P.50.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem.

Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4 Populations and Sample

The limitation of time and unavailability of the relevant data has forced me to make research on the few commercial banks, even though there are 17 commercial banks all over the kingdom and their stocks are traded actively in the stock market. In this study EBL's investment policy has been compared with the BOK, which is selected from the population. The population is as follows:

1. Nepal Arab Bank Ltd.
2. Nepal Investment Bank Ltd.
3. Standard Chartered Bank Ltd.
4. Himalayan Bank Ltd.
5. Nepal SBI Bank Ltd.
6. Nepal Bangladesh Bank Ltd.
7. Everest Bank Ltd.
8. Bank of Kathmandu Ltd.
9. Nepal Credit and Commerce Bank Ltd.
10. Laxmi Bank Ltd.
11. Lumbini Bank Ltd.
12. Nepal Industrial & Commercial Bank Ltd.

13. Machhapuchhre Bank Ltd.
14. Kumari Bank Ltd.
15. Siddharatha Bank Ltd.
16. Nepal Bank Ltd.
17. Rastriya Banijya Bank.
18. NMB Bank.
19. Citizen Bank International
20. Bank of Asia Nepal.
21. Global bank Ltd.

From these samples, **Everest Bank Ltd**. has been selected and its data related to investment performance are comparatively studied with the **Bank of Kathmandu.**

3.5 Method of Analysis

In this study, various financial, accounting has been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Some financial tools as ratio analysis and trend analysis have also been used for financial analysis.

The various tools applied in this study, have been briefly presented as under:

3.5.1 Financial Tools

Financial tools are used to examine the financial strength and weakness of bank. In this study financial tools like ratio analysis and financial statement analysis have been used.

3.5.1.1 Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. "Ratio analysis is a part of the whole process of analysis of financial statement of any business or industrial concern especially to take output and credit decisions"[37]. Thus, ratio analysis is used to compare a firm's financial performance and status to that of other firm's or to itself overtime. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

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

3.5.1.1.1 Liquidity Ratios

Liquidity ratios are used to judge the ability of banks to meet its short-term liabilities that are likely to mature in the short period. From them, much insight can obtain into present cash solvency of the bank and its ability to remain solvent on the event of adversities. It is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations

The following ratios are evaluated under liquidity ratios:

A) Cash and Bank Balance to Total Deposit Ratio

This ratio shows the percentage of total deposit maintained as cash and bank balance (including money at call) but the banks. Thus, it is calculated by dividing the latter by the former.

[37] Kothari, K.C., " **Quantitative Techniques",** Vikash Publishing house Pvt. Ltd., New Delhi, 1984

B) Cash and Bank Balance to Current Deposit Ratio

This ratio shows the availability of bank high liquid or immediate funds to meet unanticipated call on current deposit. It is calculated by dividing cash and bank balance excluding money at call or short notice by current deposit.

C) Fixed Deposit to Total Deposit Ratio

Fixed deposit is the long term deposit that banks mobilize on investment, loans and advances. That means it is long term financial resources. The higher proportion of fixed deposit shows that the bank as less proportion of short term deposits in the total deposit. This ratio is computed by dividing fixed deposit by total deposit.

D) Saving Deposit to Total Deposit Ratio

This ratio shows the proportion of saving deposit in total deposit. Saving deposit is short term interest bearing deposit. It is calculated by dividing saving deposit by total deposit.

E) Nepal Rastra Bank Balance to Total Deposit Ratio

It is required that every commercial bank needs to keep certain percent of its total deposit

in NRB. This ratio shows the percentage of total deposit amount that requires holding in NRB through the side of commercial bank.

3.5.1.2 Activity Ratios

The activity ratios are calculated to measure the efficiency of assets management of both of banks EBL and BOK through the study period. The activity ratios are categorized as below.

A) Loans and Advances (Including Bills Purchased & Discounted) to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize the total deposit amount on loans and advances for generating profits. It is calculated by diving loan and advance by total deposit.

B) Investment to Total Deposit Ratio

This ratio measures the mobilization of percentage amount of total deposit on investment. These types of banks generally mobilize their funds by investing in different securities issued by government and other financial and non-financial companies. A high ratio indicates high success in utilization of funds. It is calculated by dividing the amount of investment by the amount of total deposit.

C) Loan and Advance (Including Bills Purchased & Discounted to Total Assets Ratio

This ratio shows the percentage of total assets utilized on Loan and Advance (Including Bills Purchased & Discounted). Loan and Advance (Including Bills Purchased & Discounted) is one of the income generating assets of banks. It is calculated by dividing loan and advance by total assets.

D) Interest Income to Total Income Ratio

This ratio measures the percentage of interest income to total income. The high ratio indicates the high contribution made by the lending and investing activities and vice versa. It is calculated by dividing interest income by total income extent to which total assets of the banks are covered by that income generating assets. It is calculated by dividing loans and advances by the total assets.

E) Earning Per Share

It measures the available profit to be equity shareholders on per share basis. It represents what the owners are theoretically entitled to receive from the bank. It is calculated dividing by net profit by No. of shareholders outstanding.

F) Interest Expenses to Total Expenses Ratio

One of the major expenses of bank is that which has to pay interest on the loan or borrowing taken by the banks from different financial or non-financial institutions as well as from different other sources. This ratio measures the proportion of interest expenses in the volume of the total expenses. The high ratio indicates the low operational expenses and vice versa and also indicates that the banks using the costly sources of funds. It is calculated by dividing interest expenses by total expenses.

3.5.1.3 Capital Structure Ratio

There are mentioned following ratios which are calculated to measure capital structure of the study banks.

A) Long term Debt to Shareholders Fund Ratio

Long term debt means the total amount of fixed deposit and loans from banks and shareholders fund consist of general reserve, share premium and other reserves. This ratio shows the proportion of outside long term liabilities to shareholders total funds. It is calculated by dividing long term debt to shareholder fund.

B) Total Debt to Shareholders Fund Ratio

This ratio indicates the relationship between debt and equity i.e. outside fund and shareholders fund, which are called external and internal equity. Total debts include fixed deposit, saving deposit, current deposit and borrowing the other liabilities. It is calculated by dividing total debt by shareholder fund.

C) Total Debt to Total Assets Ratio

This ratio mentions the proportion of total assets financed by total debts. The higher ratio indicates a risky capital structure. From the creditors' side, low ratio is preferable as it represents security for them. This ratio is calculated by dividing the total debt by total assets.

3.5.1.4 Profitability Ratios

This ratios measure the overall efficiency of the business. There are some ratios related to profitability ratios which are presented as below.

A) Return on Equity Ratio

It is most commonly used ratio for measuring the return in owners' investment. It reflects the extent to which the banks have been successful in mobilizing their equity capital. The higher ratio indicates better performance of the banks and vise versa. The ratio is calculated as net profit after tax divided by shareholders equity.

B) Return on Total Assets Ratio

It measures the productivity of the assets as well as the relationship between the net profit and assets. It provides the overall efficiency of the firm. It is computed by dividing net profit by total assets.

C) Earning Per Share

It measures the available profit to be equity shareholders on per share basis. It represents what the owners are theoretically entitled to receive from the bank. It is calculated dividing by net profit by No. of shareholders outstanding.

3.5.1.5 Capital Adequacy Ratio

This ratio measures to analyze the sufficient amount of capital fund to total deposit, total assets and deposit utilization of the bank.

A) Shareholders Fund to Total Deposit Ratio

Banks need to maintain a sufficient amount of total assets as capital fund or shareholders fund. It is measured with the sufficiency of the former against the later.

B) Shareholders Fund to Total Assets Ratio

Banks need to maintain a sufficient amount of total assets as capital fund or shareholders fund. It is measured with the sufficiency of the former against the later. It is calculated by dividing total shareholder fund by total deposit.

3.5.1.6 Deposit Utilization of EBL and BOK

It measures the collection of deposit and the efficient utilization of the deposit ratio. It shows the efficiency of performance and reliability of the bank. Bank has to pay interests on deposit and also to pay dividends to their shareholders. So, earning more and more interest through deposit utilization in the productive investment opportunities relating to industries, commerce, foreign trade, tourism, service business etc. will ultimately contribute to national economy. Thus, collection of deposit and utilization of the same can be regarded as two side of a coin.

3.5.1.7 Statistical Tools

Some important tools are used to achieve the objectives of his study. In this study statistical tools such as coefficient of correlation between different variable, trends analyses of important variables have been used which are as follows,

3.6 Trend Analysis (The Least-Square Method)

Trend analysis describes the average relationship between two series where the one series relates to time and other series to the value of a variable. It generally shows that the line of best-fit or straight line is obtained or not. The line of the best fir describes the change in a given series accompanying a unit change in time. In other words, it gives that best possible mean value of dependent variable for a given value of independent variable.

For the calculation of the "line of best fit" following equations should be kept in mind.

$Y_c = a + bx$

Where, Y_c = The estimated value of 'Y' for given value of x obtained from the line of regression of Y on x.

a = "Y-intercept" or mean of 'Y' value.

b = Slope of trend line or rate of change.

x = The variable in times series analysis represents time.

There are two normal equations estimating for 'a' and 'b' are;

$\sum Y = na + b\sum x$..........(i)

$\sum XY = a\sum x + b\sum x^2$……….(ii)

Since, $\sum x = 0$

Then the above equation becomes,

$a = Y / n$

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

The term best fit interpreted in accordance with the principle of least square which consist in minimizing the sum of the square residual or errors of estimate i.e. the deviations between the given observed value of the variables and their corresponding estimated values as given by the line of best fit.

3.6.1 Arithmetic Mean

Arithmetic mean is the sum of all observations divided by the number of observations. The arithmetic mean is denoted by **(X).** It is computed as:

Arithmetic Mean $(\overline{X})$ **=** $\frac{f}{n}$

Arithmetic Mean is calculated to find the mean of the financial ratio.

3.6.2 Standard Deviation

Standard Deviation is calculated to measures dispersion. It is computed as:

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

3.6.3 Co-Variance (C.V.)

Co-Variance is calculated to find variance from the mean. It is computed as:

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

3.4 Co-efficient of Correlation Analysis

The correlation coefficient determines the relationship between two properties. This analysis identifies and interprets the relationship between the two or more variables. In the case of highly correlated variables, the effect on one variable may have effect on other correlated variable. When two elements have zero correlation with other they are unrelated in anyway and have zero variance. Positive correlation implies positive covariance.

Symbolically,

$$r = \frac{n \quad XY \, Z \quad X \quad Y}{\sqrt{n \quad X^2 \, Z(\quad X)^2} . \sqrt{n \quad Y^2 \, Z(\quad Y)^2}}$$

Where, n= number of Observation in series X and Y.

∑X = sum of observation in series X.

∑Y = sum of observation in series Y.

∑X^2 = sum of square observation in series X.

Y^2 = sum of square observation in series Y.

∑XY = sum of the product of observation in series X and Y.

The value of correlation of coefficient (r) lies between -1 to +10, i.e. -1≤ r ≤ 1.

Karl-Pearson’s co-efficient of correlation has been used to find out the relationship between the deposit and loan and advances plus Investment made by the banks.

CHAPTER–IV

4. DATA PRESENTATION & ANALYSIS

In the earlier chapters, general background and research methodology have been highlighted along with review of relevant literature pertinent to this purpose study. Now it comes to the most important component of the study, which deals to the analysis of investment policy of the EBL, BOK. The most significant variables such as loan & advances, total assets, total deposits, total working funds, net profit, outside assets, current assets, current liabilities etc. are taken into consideration in the analysis and are viewed as key variables affecting investment policy more significantly. The whole analysis is based upon financial as well as statistical analysis in addition to interpretation of results to find existing problems and prospects of the banks. Secondly, data are analyzed for this purpose, which are abstained from financial statements and annuals reports of the concerned banks.

When obtained data are not analyzed properly, they are meaningless and cannot convey any sensible reasoning to us. As such, they should be analyzed with the help of different tool & techniques so that it could provide us the real scenarios. Therefore, this study has been divided into two parts to demonstrate the prevailing investment practices and to draw an acute conclusion regarding the investment policies of EBL, BOK.

4.1. Financial Analysis

We have already mentioned financial ratios in the third chapter. Now this part deals to analysis & interpretation of various financial ratios which shows investment policies & practices of EBL, BOK . These ratios are calculated as under Liquidity Ratio *(Calulatios are shwon in appendix* **'B')**

4.1.1. Liquidity Ratio

4.1.1.1 Cash and Bank Balance to Total Deposit Ratio

This ratio shows the percentage of total deposit maintained as cash and bank balance (including money at call) but the banks. Thus, it is calculated by dividing the latter by the former. T is shown in the Table No.4.1 bellow.

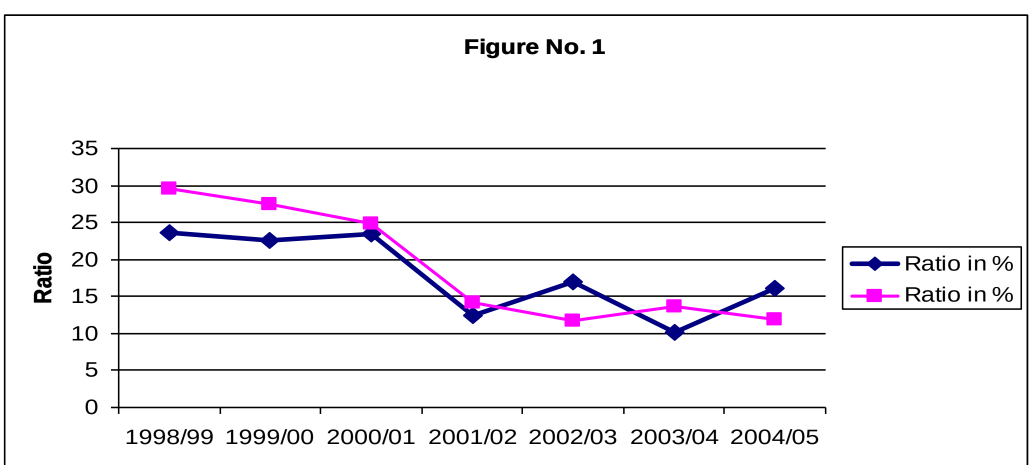
Table No. 4.1

Cash and Bank Balance (Including M/C) to Total Deposit Ratio

(In Rs.oo,ooo)

F.Y	Everest Bank			Bank of Kathmandu		
	Cash and Bank Balance (Inc. M/C)	Total Deposit	Ratio in %	Cash and Bank Balance (Inc. M/C)	Total Deposit	Ratio in %
1998/99	4607	19489	23.64	7596	25648	29.62
1999/00	6890	30574	22.54	11524	41964	27.46
2000/01	10751	45745	23.50	14268	57241	24.93
2001/02	6788	54666	12.42	8111	57233	14.17
2002/03	11396	66950	17.02	7231	61707	11.72
2003/04	8192	80639	10.16	10552	77416	13.63
2004/05	16200	100977	16.04	10694	89427	11.95
Average			**17.90**			**19.06**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table and chart the ratio is in fluctuating trend for EBL and in decreasing trend except in the FY2004/05 for BOK.

The average ratio of BOK is greater than EBL that is 19.06% and 17.90% respectively.

Comparison the both bank ratio, BOK is higher than EBL except FY2002/03 and 2004/05), which shows that BOK is holding more percentage of cash and bank balance against total deposit amount. It implies better liquidity position of the former in comparison to the later.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Table No. 4.2

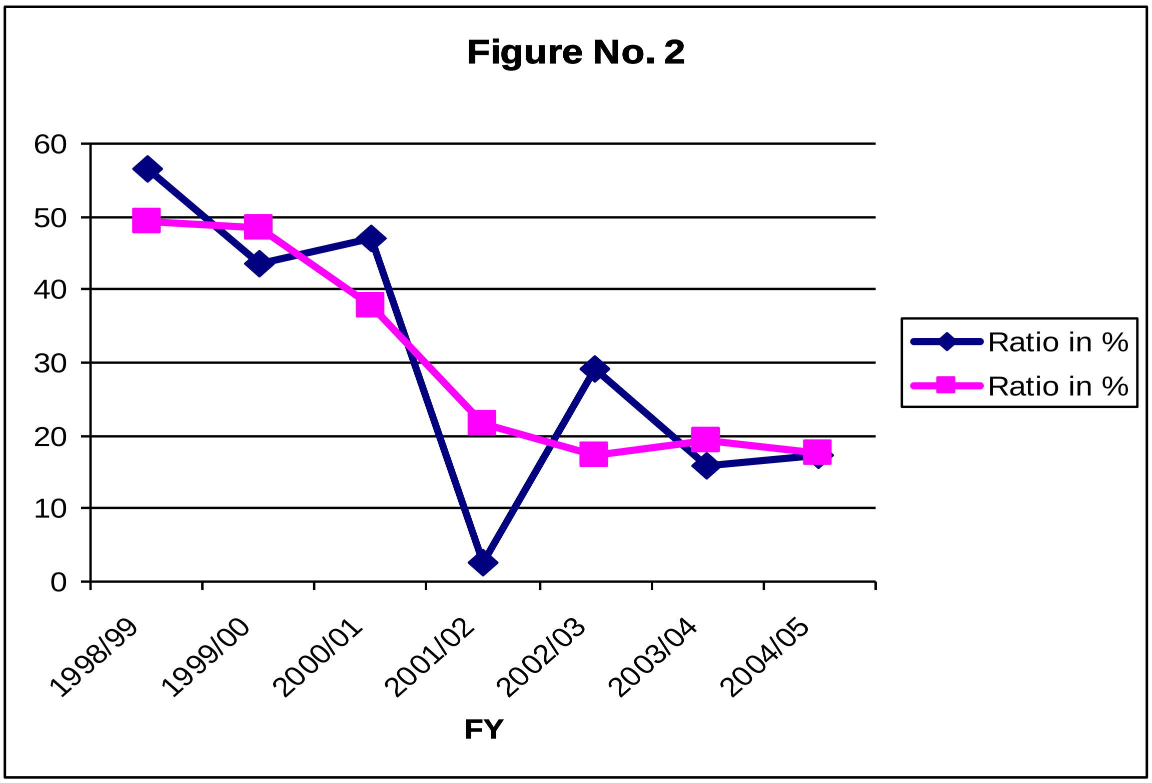
Cash and Bank Balance to Total Deposit Ratio

(**In Rs.oo,ooo)**

F.Y	Everest Bank			Bank of Kathmandu		
	Cash and Bank Balance (Inc. M/C)	Total Deposit	Ratio in %	Cash and Bank Balance (Inc. M/C)	Total Deposit	Ratio in %
1998/99	4607	868	56.40	7596	15432	49.22
1999/00	6890	15785	43.65	11524	23834	48.35
2000/01	10751	22899	46.95	14268	37756	37.79
2001/02	6788	27550	2.64	8111	37644	21.55

2002/03	11396	39003	29.22	7231	41798	17.30
2003/04	8192	51659	15.86	10552	54619	19.32
2004/05	16200	93933	17.24	10694	60638	17.63
Average			**33.42**			**30.16**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table and chart, there is found that the ratio of EBL is fluctuating trend and decreasing trend except in the FY2003/04. The highest ratio for EBL is 56.40 and BOK has 49.22 in 1998/99 and that ratio declines to the lowest figure in the FY 2002/03.

The average ratio of both bank (EBL and BOK) are 33.42 and 30.16 % respectively.

4.1.1.3 Cash and Bank Balance (excluding M/C) to Current Deposit Ratio

This ratio shows the availability of bank high liquid or immediate funds to meet unanticipated call on current deposit. It is calculated by dividing cash and bank balance excluding money at call or short notice by current deposit which is mentioned as below.

Table No. 4.3

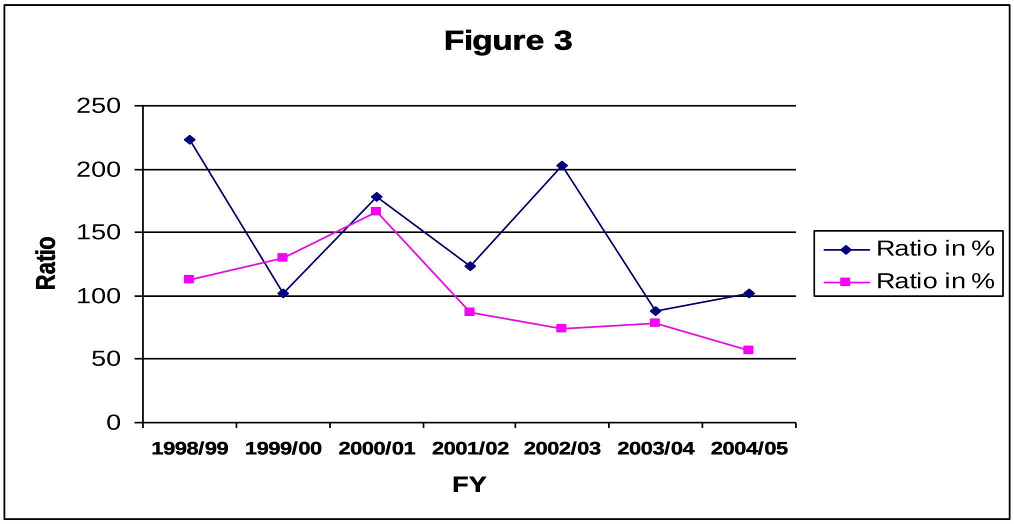
Cash and Bank Balance (excluding M/C) to Current Deposit Ratio

(**In Rs.oo,ooo)**

F.Y	**Everest Bank**			**Bank of Kathmandu**		
	Cash and Bank Balance (Exc. M/C)	**Current Deposit**	**Ratio in %**	**Cash and Bank Balance (Exc. M/C)**	**Current Deposit**	**Ratio in %**
1998/99	4607	2061	223.53	3181	2811	113.16
1999/00	2786	2744	101.53	6378	4910	129.90
2000/01	8350	7401	177.62	11348	6815	166.52
2001/02	5927	4819	122.99	6837	7896	86.59
2002/03	11396	5624	202.63	6927	9357	74.03
2003/04	6318	7198	87.77	7829	9979	78.45

2004/05	10500	10250	102.44	7405	13026	56.68
Average			**145.5**			**100.76**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



It is observed that EBL's ratio s in fluctuating trend and its ratio is higher than BOK in each year except FY1999/00. The average ratio is found to be 145.5%that is higher than BOK whose average ratio is 10.76%. A relatively high ratio is considered as an indication that banks are liquid. For inter firm comparison, the firm with higher ratio has better liquidity. So, EBL,s liquidity position in regard to this better than of BOK. However, very high ratio indicates idle assets with nothing to earn.

4.1.1.4 Fixed Deposit to Total Deposit Ratio

Fixed deposit is the long term deposit that banks mobilize on investment, loans and advances. That means it is long term financial resources. The higher proportion of fixed deposit shows that the bank as less proportion of short term deposits in the total deposit. This ratio is computed by dividing fixed deposit by total deposit.

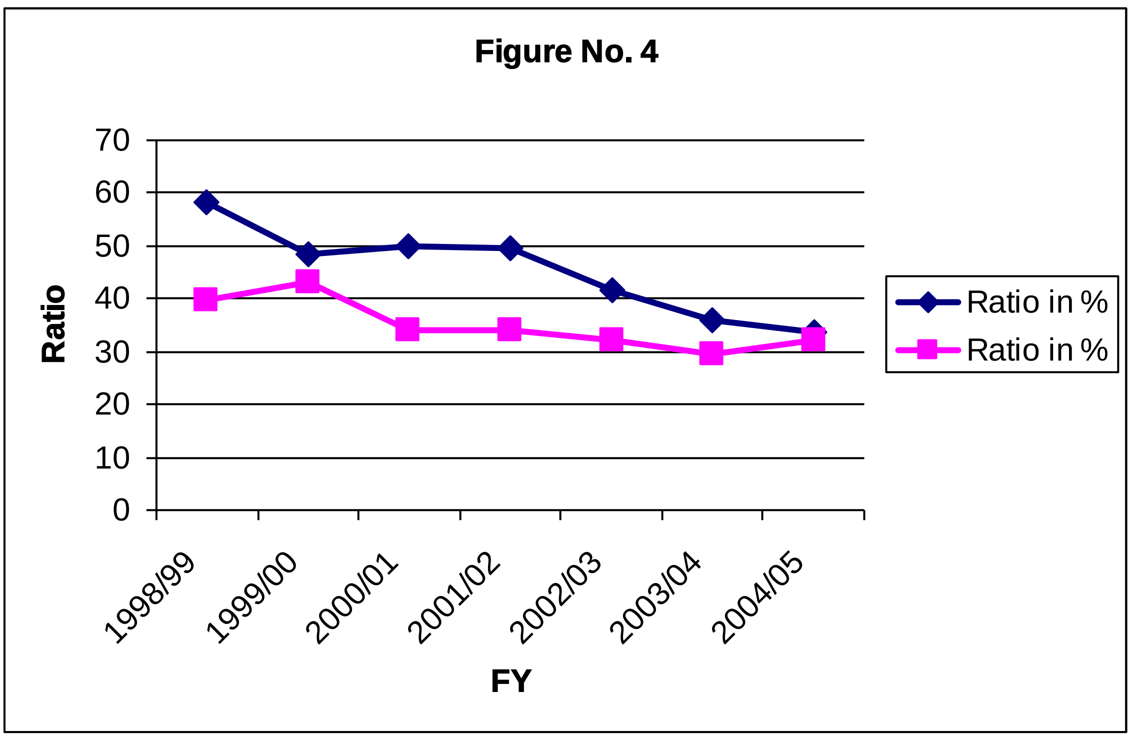
Table No. 4.4

Fixed Deposit to Total Deposit Ratio

(In Rs.00,000)

F. Y	**Everest Bank**			**Bank of Kathmandu**		
	Fixed Deposit	**Total Deposit**	**Ratio in %**	**Fixed Deposit**	**Total Deposit**	**Ratio in %**
1998/99	11321	19489	58.09	10216	25648	39.83
1999/00	14789	30574	48.37	18130	41964	43.20
2000/01	22846	45745	49.94	19485	57241	34.04
2001/02	27116	54666	49.60	19589	57233	34.23
2002/03	27947	66950	41.74	19909	61707	32.26
2003/04	28980	80639	35.94	22797	77416	29.45
2004/05	34039	100977	33.70	28788	89427	32.19
Average			**45.34**			**35.03**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table, the ratio of EBL is higher than ratio of BOK in each year. It means EBL is better than BOK with regard to fixed deposit against total deposit. EBL has more resources to be used in productive and long term benefit sectors than BOK. However, more amount of fixed deposit also bears more percentage of interest payable by the bank. The higher ratio of EBL is 58.09%in the year 1998/99 and lowest is 33.70% in the year 2004/05. Other hand, the highest and lowest ratio of BOK is 43.35 and 29.5% in the year 1999/00 and 2003/04 respectively.

4.1.1.5 Saving Deposit to Total Deposit Ratio

This ratio shows the proportion of saving deposit in total deposit. Saving deposit is short term interest bearing deposit. It is calculated by dividing saving deposit by total deposit which is presented in the table no. 4.5.

Table No. 4.5

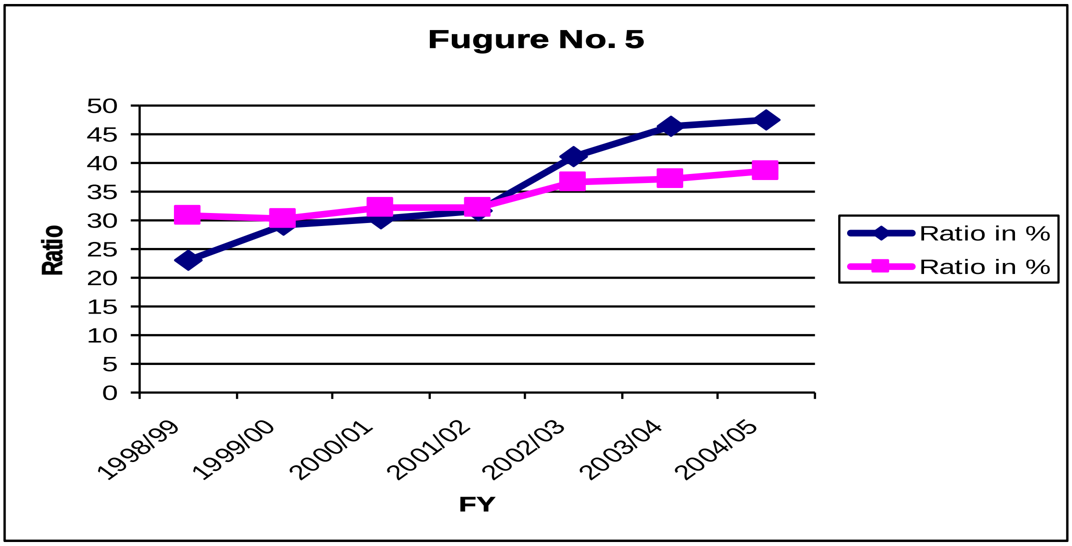
Saving Deposit to Total Deposit Ratio

(In Rs.oo,ooo)

F. Y	Everest Bank			Bank of Kathmandu		
	Saving Deposit	Total Deposit	Ratio in %	Saving Deposit	Total Deposit	Ratio in %
1998/99	4480	19489	22.99	7893	25648	30.77
1999/00	8917	30574	29.17	12648	41964	30.14

2000/01	13841	45745	30.26	18489	57241	32.30
2001/02	17354	54666	31.75	18500	57233	32.32
2002/03	27580	66950	41.19	22685	61707	36.76
2003/04	37306	80639	46.26	28738	77416	37.12
2004/05	48068	100977	47.60	34474	89427	38.54
Average			**35.60**			**29.37**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



In this study of saving deposit to total deposit clearly observed that the trend of EBL is increasing and the highest and lowest ratio is 47.60%and 22.99%in FY2004/05 and 1998/99 respectively. But the ratio of BOK is slightly decreases in the FY1999/00 (30.14%) from the previous FY998/99 (30.77%) and then it follows in increasing trend till the end of the study period. The highest ratio of BOK is 38.54%in the FY2004/05.

The average ratio of both banks (EBL and BOK) is 35.60% and 29.37% respectively.

Saving deposit is the short term obligation of the bank as it can be withdraw with or without prior notice. So, in the regard, while comparing the average ratio of two banks, EBL is the better position than BOK as its average ratio is higher than BOK.

4.1.1.6 Nepal Rastra Bank Balance to Total Deposit Ratio

It is required that every commercial bank needs to keep certain percent of its total deposit in NRB. This ratio shows the percentage of total deposit amount that requires holding in NRB through the side of commercial bank which is shown in the table no. 4.6.

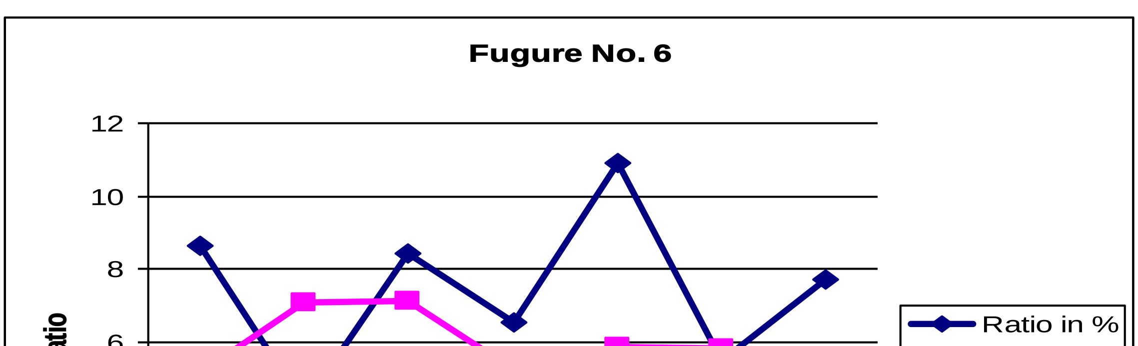
Table No. 4.6

NRB Balance to Total Deposit Ratio

(In Rs.oo,ooo)

F. Y	**Everest Bank**			**Bank of Kathmandu**		
	NRB Balance	**Total Deposit**	**Ratio in %**	**NRB Balance**	**Total Deposit**	**Ratio in %**
1998/99	1682	19489	8.63	1313	25648	5.12
1999/00	1305	30574	4.27	2974	41964	7.09
2000/01	3857	45745	8.43	4062	57241	7.10
2001/02	3577	54666	6.54	2981	57233	5.21
2002/03	7303	66950	10.91	3624	61707	5.87
2003/04	4422	80639	5.48	4499	77416	5.81
2004/05	7797	100977	7.72	4178	89427	4.67
Average			**7.42**			**5.84**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table, it is shown that both banks have fluctuating trend ratio. The highest and lowest ratio of both banks are 10.91% and 7.10%, and 4.27% and 4.67% in the FY2002/03 and 2000/01, and 1999/00 and 2004/05 of EBL and BOK respectively. Similarly, the average ratio of EBL and KOK is found to be 7.42% and 5.84% respectively.

4.1.2 Activity Ratios

The activity ratios are calculated to measure the efficiency of assets management of both of banks EBL and BOK through the study period. The activity ratios are categorized as below.

4.1.2.1 Loans and Advances (Including Bills Purchased & Discounted) to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize the total deposit amount on loans and advances for generating profits which is calculated as shown below.

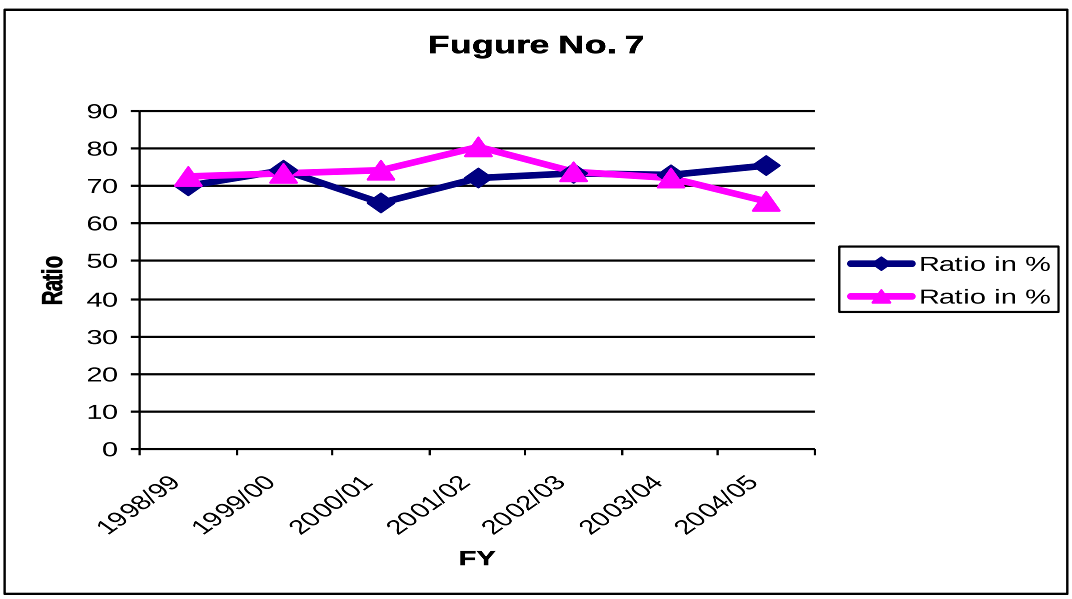
Table No.4.7

Loans and Advances to Total Deposit Ratio

(In Rs.00,000)

F.Y	**Everest Bank**			**Bank of Kathmandu**		
	Loan and Adv. (Inc. Bill P&D)	**Total Deposit**	**Ratio in %**	**Loan and Adv. (Inc. Bill P&D)**	**Total Deposit**	**Ratio in %**
1998/99	13649	19489	70.03	18634	25648	72.65
1999/00	22702	30574	74.25	30876	41964	73.58
2000/01	30058	45745	65.71	42563	57241	74.36
2001/02	39485	54666	72.23	46137	57233	80.61
2002/03	49085	66950	73.32	45427	61707	73.62
2003/04	58841	80639	72.97	56467	77416	72.04
2004/05	76187	100977	75.45	59126	89427	66.12
Average			**71.99**			**73.28**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table, it is observed that the ratio of EBL increases in the FY1999/00. It decreases in the next FY2000/01 and than increases till the FY2002/03 and again decreases in the FY2003/04 and final FY increases which means it is fluctuating trend. Beside it, the ratio of BOK seems that increasing trend up to FY2001/02 and then fluctuating.

The highest ratio of EBL and BOK are 75.45% and 80.61% in FY2004/05 and 2001/02 respectively. The lowest ratio of these banks is 65.71% and 66.12% in the FY2000/01 and 2004/05 respectively. Comparing the average of these banks, BOK is more successful in deposit utilization as main income generating assets that is loan and advances (including bills purchased and discounted).

4.1.2.2 Total Investment to Total Deposit Ratio

This ratio measures the mobilization of percentage amount of total deposit on investment. These types of banks generally mobilize their funds y investing in different securities issued by government and other financial and non-financial companies. A high ratio indicates high success in utilization of funds. It is calculated by dividing the amount of investment by the amount of total deposit which is presented as given below.

Table No.4.8

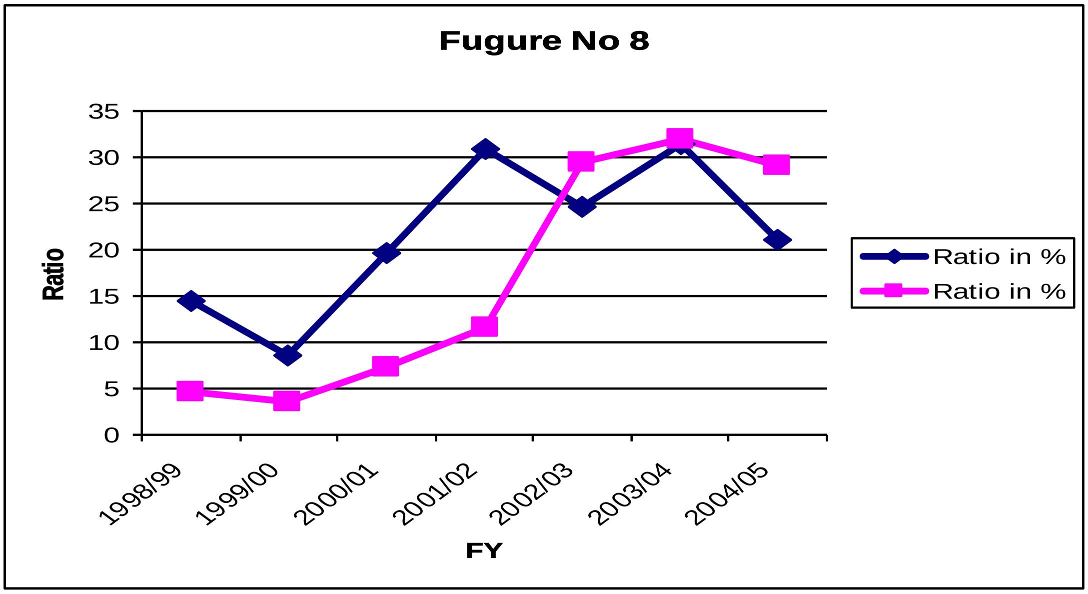
Total Investment to Total Deposit Ratio

(**In Rs.oo,ooo)**

F.Y	Everest Bank			Bank of Kathmandu		
	Investment	Total Deposit	Ratio in %	Investment	Total Deposit	Ratio in %
1998/99	2831	19489	14.53	1199	25648	4.67
1999/00	2601	30574	8.51	1516	41964	3.61
2000/01	9017	45745	19.71	4198	57241	7.33

2001/02	16930	54666	30.97	6675	57233	11.66
2002/03	16540	66950	24.71	18161	61707	29.43
2003/04	25357	80639	31.45	24774	77416	32.00
2004/05	21289	100977	21.08	25982	89427	29.05
Average			**21.56**			**16.82**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



Above the table no. 8, it is observed that the ratio of EBL decreases in the FY1999/00 and increases to next two years and again decreases in FY2002/03, again increases next year and decreases in the FY2004/05. On the other hand, the ratio of BOK decreases in the FY1999/00 and then increases till FY2003/04 and again decrease in final FY.

The high ratio shows the ability of the bank to invest its deposit in productive sector. From the above table, it is indicated that BOK has utilized its deposit more effectively on investment than EBL.

4.1.2.3 Loan and Advance (Including Bills P & Dis) to Total Assets Ratio

This ratio shows the percentage of total assets utilized on Loan and Advance (Including Bills Purchased & Discounted). Loan and Advance (Including Bills Purchased & Discounted) is one of the income generating assets of banks. This ratio measures the extent to which total assets of the banks are covered by that income generating assets. It is calculated by dividing loans and advances by the total assets which is shown in the given below.

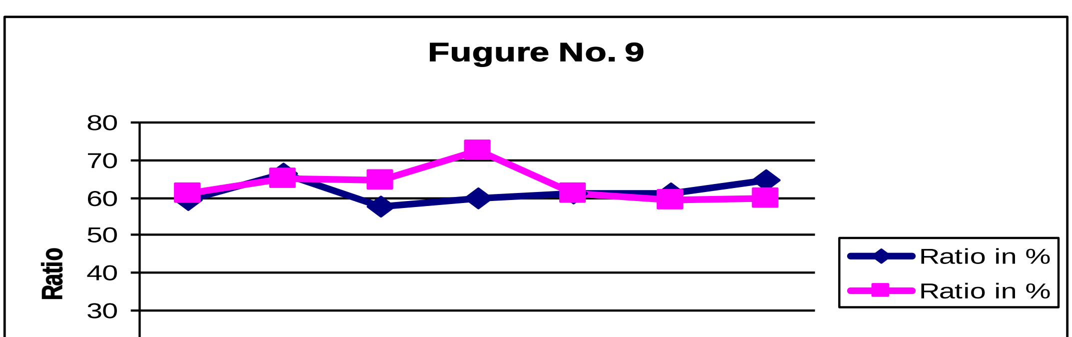
Table No.4.9

Loans and Advances to Total Assets Ratio

(In Rs.00,000)

F. Y	Everest Bank			Bank of Kathmandu		
	Loan and Adv. (Inc. Bill P&D)	**Total Assets**	**Ratio in %**	**Loan and Adv. (Inc. Bill P&D)**	**Total Assets**	**Ratio in %**
1998/99	13649	22931	59.52	18634	30453	61.19
1999/00	15079	34179	66.42	30876	47566	64.91
2000/01	17313	52184	57.60	42563	66083	64.41
2001/02	23596	36073	59.76	46137	63566	72.58
2002/03	29922	80520	60.96	45427	74448	61.02
2003/04	36034	96083	61.24	56467	94963	59.46
2004/05	49217	117937	64.60	59126	98571	59.98
Average			**61.44**			**63.36**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table, it is observed that the highest and lowest ratio of EBL is 66.42% and 57.60% in the FY 2001/02 and 2003/04 respectively and the average ratio of it is 63.36%.

The highest and lowest ratio of BOK is 72.58% and 59.46% in the FY 1999/00 and 2000/01 respectively and the average ratio of it is 61.44%.

Comparing average ratio of both banks, BOK seems to have better position than EBL**.**

4.1.2.4 Interest Income to Total Income Ratio

This ratio measures the percentage of interest income to total income. The high ratio indicates the high contribution made by the lending and investing activities and vice versa. It is calculated by dividing interest income by total income which is mentioned in the table no.10 as below.

Table No. 4.10

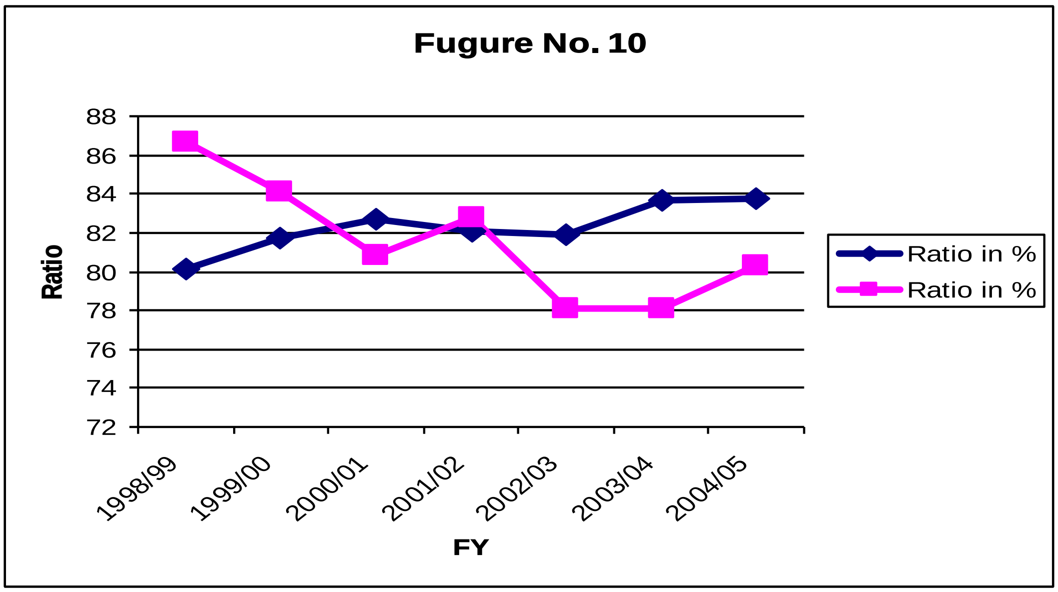
Interest Income to Total Income Ratio

(**In Rs.oo,ooo)**

F.Y	Everest Bank	Bank of Kathmandu

	Interest Income	Total Income	Ratio in %	Interest Income	Total Income	Ratio in %
1998/99	1759	2195	80.14	2513	2900	86.66
1999/00	2674	3272	81.72	3717	4420	84.10
2000/01	3850	4655	82.71	4650	5749	80.88
2001/02	4438	5409	82.05	4733	5715	82.82
2002/03	5202	6353	81.88	4968	6362	78.09
2003/04	6572	7851	83.71	5671	7263	78.08
2004/05	7173	8589	83.75	6071	7561	80.29
Average			**82.28**			**81.56**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table, it is observed that the ratio of EBL is the highest in the FY 2004/05 and lowest in the FY1998/99 and the average ratio of it bank is 82.28%. It means that in the total volume of income of EBL, the interest contributes 82.04%. All year's the ratio of EBL is near to its average ratio.

On the other hand, the highest ratio of BOK is 86.66% in FY1998/99 and the lowest ratio of its 78.08%in FY2003/04 but the average ratio is found to be 81.56%.

Comparing the average ratio of both banks, EBL is higher than the BOK which means EBL has greater of dependency on funds based activities than BOK.

4.1.2.5 Interest Expenses to Total Expenses Ratio

One of the major expenses of bank is that which has to pay interest on the loan or borrowing taken by the banks from different financial or non-financial institutions as well as from different other sources. This ratio measures the proportion of interest expenses in the volume of the total expenses. The high ratio indicates the low operational expenses and vice versa and also indicates that the banks using the costly sources of funds. It is calculated by dividing interest expenses by total expenses which is shown in the table no. 4.11 as below.

Table No.4.11

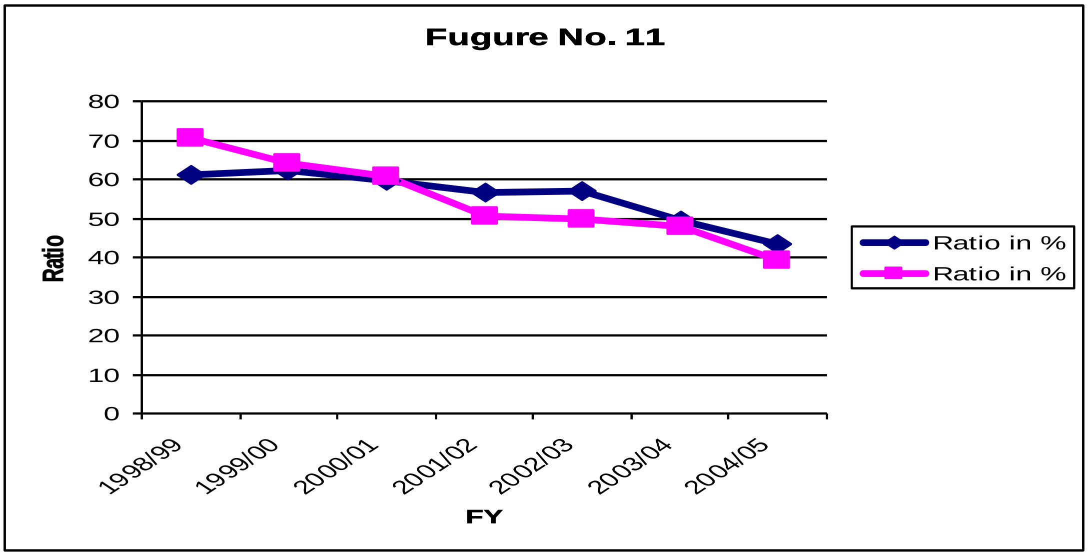
Interest Expenses to Total Expenses Ratio

(In Rs.oo,ooo)

F.Y	Everest Bank			Bank of Kathmandu		
	Interest Expenses	Total Expenses	Ratio in %	Interest Expenses	Total Expenses	Ratio in %
1998/99	1187	1942	61.12	1730	2455	70.47
1999/00	1784	2860	62.38	2379	3713	64.07
2000/01	2367	3958	59.80	3105	5096	60.93
2001/02	2571	4556	56.43	2850	5622	50.69
2002/03	3076	5412	56.84	2767	5541	49.94
2003/04	3164	6415	49.32	2863	5988	47.81

2004/05	2996	6881	43.54	2416	6165	39.18
Average			**55.63**			**54.72**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table no. 4.11, it is observed that the ratio of EBL is in fluctuating trend and decreasing trend of BOK. The highest and lowest ratio of EBL is 62.38% and 43.54% in the FY 1999/00 and 2004/05 respectively. The average ratio of EBL and BOK is found to be 55.63% and 54.72% respectively. On the other hand, the highest ratio and lowest ratio of BOK is 70.47% and 39.18% in the FY 1998/99 and 2004/05 respectively.

The ratio of EBL is lowers than BOK in the FY1998/99 to 200/01. However, the ratio of EBL is higher than BOK from the period of FY2001/02 to till 2004/05.

4.1.2.6 Capital Structure Ratio

There are mentioned following ratios which are calculated to measure capital structure of the study banks.

4.1.2.7 Long term Debt to Shareholders Fund Ratio

Long term debt means the total amount of fixed deposit and loans from banks and shareholders fund consist of general reserve, share premium and other reserves. This ratio shows the proportion of outside long term liabilities to shareholders total funds which is presented as below.

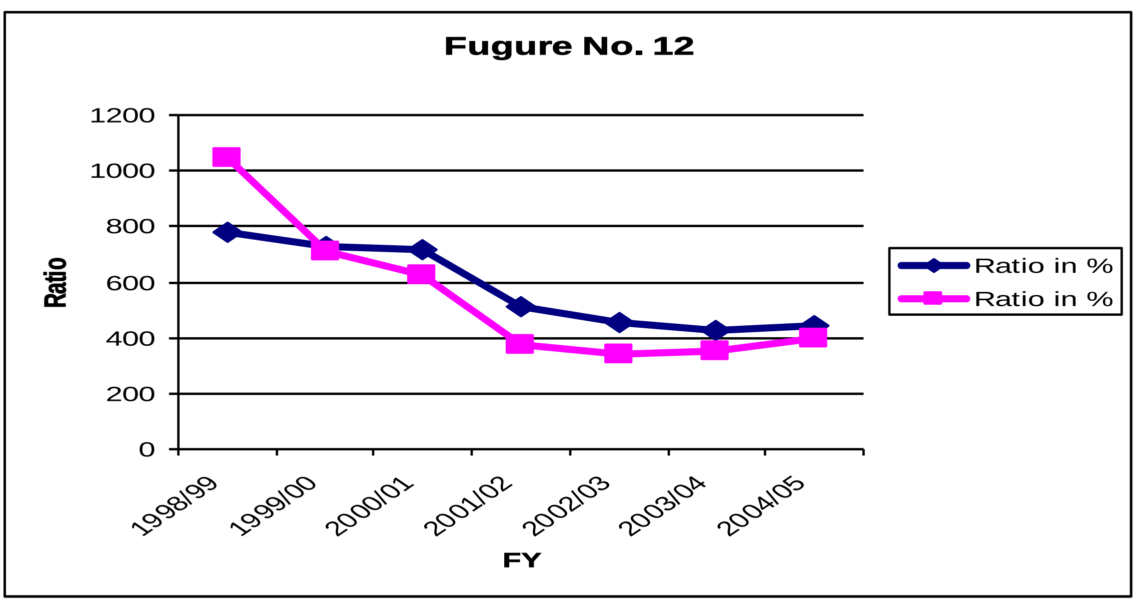
Table No. 4.12

Long term Debt to Shareholders Fund Ratio

(In Rs.00,000)

F.Y	Everest Bank			Bank of Kathmandu		
	Log term Debt	Shareholders Fund	Ratio in %	Log term Debt	Shareholders Fund	Ratio in %
1998/99	11321	1452	779.68	10716	1025	1045.46
1999/00	14789	2028	729.24	18130	2555	709.59
2000/01	22846	3194	715.28	20485	3272	626.07
2001/02	27116	5309	510.76	19589	5202	376.57
2002/03	27947	6128	456.05	19909	5791	343.79
2003/04	28980	6803	425.99	22767	6507	350.35
2004/05	34039	7696	442.30	28788	7207	399.44
Average			**579.9**			**550.78**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table no. 4.12, it is observed that the ratios of both banks are declining except in FY 2004/05 for EBL and FY2003/04 and 2004/05 to BOK. The highest and lowest ratio of EBL is 779.68% and 425.99% in the FY1998/99 and 2003/04 respectively. Similarly, the highest and lowest ratio of BOK is 1045.46% and 343.79% in the FY1998/99 and 2002/03 respectively.

The average ratio of EBL is higher than BOK i.e. 579.90% and 55.78% respectively.

4.1.2.8 Total Debt to Shareholders Fund Ratio

This ratio indicates the relationship between debt and equity i.e. outside fund and shareholders fund, which are called external and internal equity. Total debts include fixed deposit, saving deposit, current deposit and borrowing the other liabilities. The total debt-equity ratio of both banks is shown in the table no. 4.13 below.

Table No.4.13

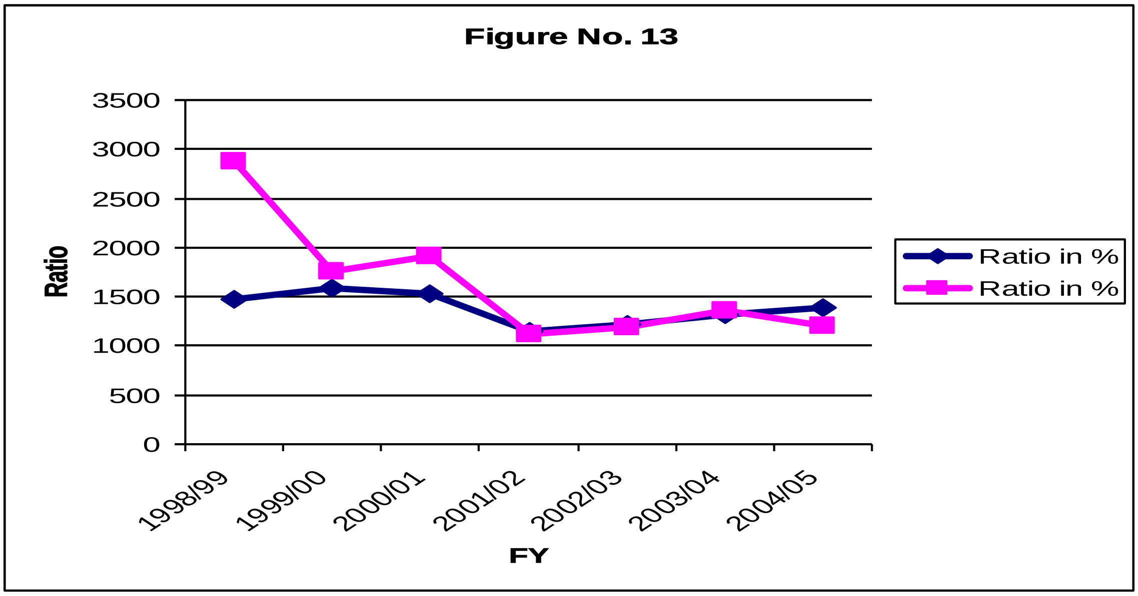
Total Debt to Shareholders Fund Ratio

(In Rs.oo,ooo)

F.Y	**Everest Bank**			**Bank of Kathmandu**		
	Total Debt	**Shareholders Fund**	**Ratio in %**	**Total Debt**	**Shareholders Fund**	**Ratio in %**
1998/99	21480	1452	1479.34	29428	1025	2871.02
1999/00	32150	2028	1585.31	45011	2555	1761.68
2000/01	48993	3194	1533.91	62811	3272	1919.65

2001/02	60763	5309	1144.53	58365	5202	1121.97
2002/03	74394	6128	1214.00	68657	5791	1185.58
2003/04	89283	6803	1312.41	88456	6507	1359.40
2004/05	107225	7696	1393.25	87134	7207	1201.01
Average			**1380.39**			**1632.62**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table no. 4.13, it is observed that the ratios of both banks are fluctuating trends. The highest and lowest ratio of EBL is 1585.13% and 1144.53% in the FY1999/00 and 2001/02respectively. Similarly, the highest and lowest ratio of BOK is 2871.02% and 1121.97% in the FY1998/99 and 2001/02 respectively.

The average ratio of both banks is 1380.39% and 1632.62% of EBL and BOK respectively. The proportion of debt financing for both banks are high compared to equity financing. It is a risky to use more debts but at the same side, it is a good indicator that the both banks are using more debts than equity.

4.1.2.9 Total Debt to Total Assets Ratio

This ratio mentions the proportion of total assets financed by total debts. The higher ratio indicates a risky capital structure. From the creditors' side, low ratio is preferable as it represents security for them. This ratio is calculated by dividing the total debt by total assets as shown in the below of table no. 4.14.

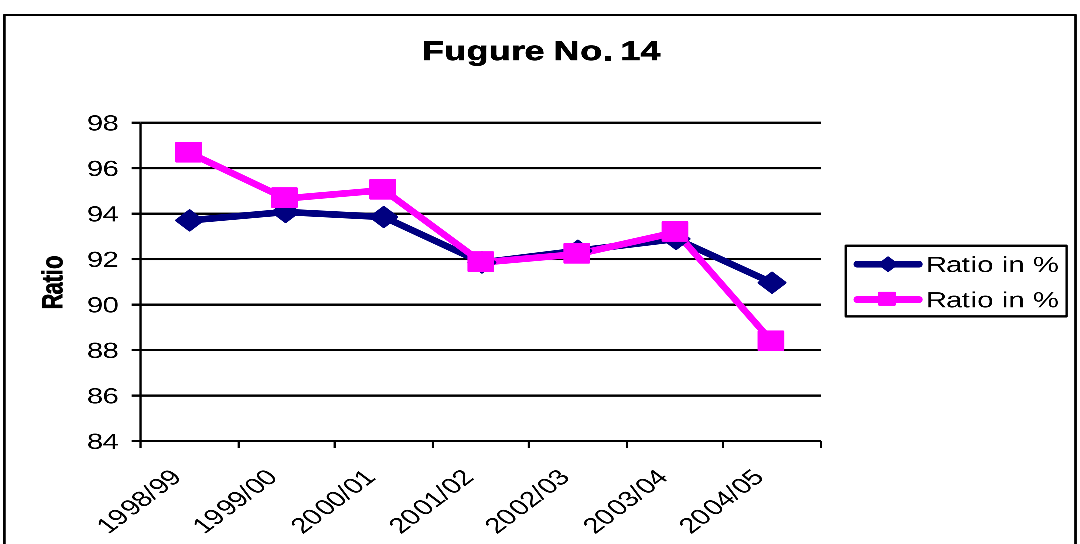
Table No.4.14

Total Debt to Total Assets Ratio

(In Rs.oo,ooo)

F. Y	**Everest Bank**			**Bank of Kathmandu**		
	Total Debt	**Total Assets**	Ratio in %	**Total Debt**	**Total Assets**	Ratio in %
1998/99	21480	22931	93.67	29428	30453	96.63
1999/00	32150	22702	94.06	45011	47566	94.63
2000/01	48993	30058	93.88	62811	66083	95.05
2001/02	60763	39485	91.86	58365	63566	91.82
2002/03	74394	49085	92.39	68657	74448	92.22
2003/04	89283	58841	92.92	88456	94963	93.15
2004/05	107225	76187	90.93	87134	98571	88.39
Average			**92.83**			**93.13**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table no. 4.14, it is observed that the ratio of EBL increases in the FY1999/00 and it decreases in the next two FY and it again increases next two years and decreases in last year. The highest and lowest ratio of EBL is 94.06% and 91.96% in the FY1999/00 and 2001/02respectively. Similarly, the highest and lowest ratio of BOK is 96.63% and 88.39% in the FY1998/99 and 2004/05 respectively.

The average ratio of both banks is 92.83% and 93.13% of EBL and BOK respectively. The proportion of assets financing for both banks are high compared to borrowing financing.

4.1.3 Profitability Ratios

This ratios measure the overall efficiency of the business. There are some ratios related to profitability ratios which are presented as below.

4.1.3.1 Return on Equity Ratio

It is most commonly used ratio for measuring the return in owners' investment. It reflects the extent to which the banks have been successful in mobilizing their equity capital. The higher ratio indicates better performance of the banks and vise versa. The ratio is calculated as net profit after tax divided by shareholders equity.

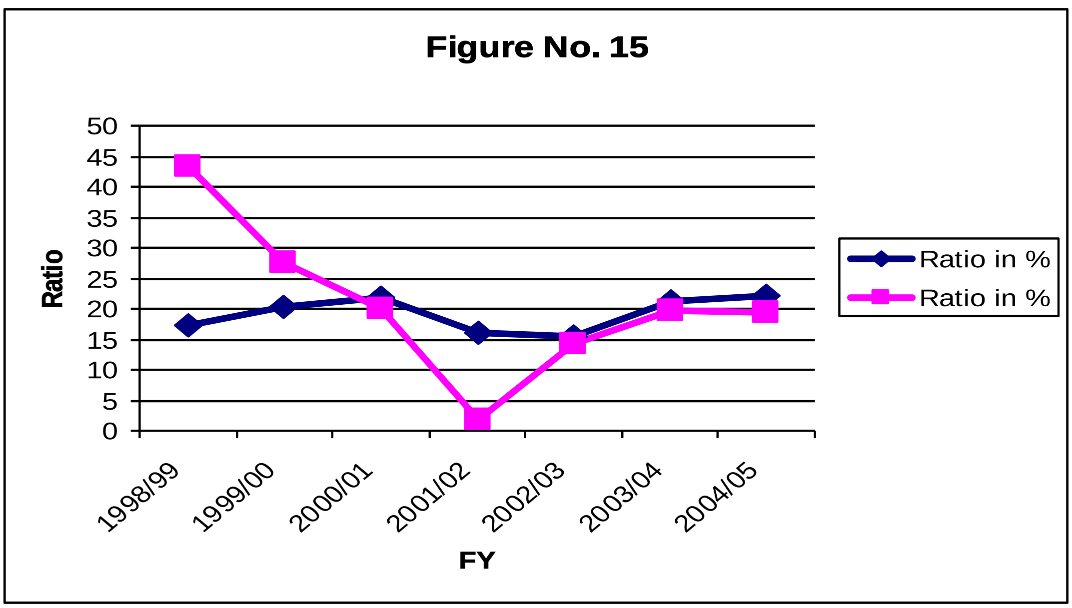
Table No.4.15

Return on Equity Ratio

(In Rs.00,000)

F. Y	**Everest Bank**			**Bank of Kathmandu**		
	Net Profit	**Shareholders Fund**	**Ratio in %**	**Net Profit**	**Shareholders Fund**	Ratio in %
1998/99	252	1452	17.36	445	1025	43.41
1999/00	413	2028	20.36	707	2555	27.67
2000/01	697	3194	21.82	654	3272	19.99
2001/02	853	5309	16.07	93	5202	1.79
2002/03	942	6128	15.37	821	5791	14.18
2003/04	1436	6803	21.11	1275	6507	19.59
2004/05	1708	7696	22.19	1395	7207	19.35
Average			**19.18**			**20.85**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table no. 4.15, it is observed that the ratio of EBL increases in the FY1998/99 to 2000/01 and it decreases in the next two FY and it again increases next two years and decreases in last year. The highest and lowest ratio of EBL is 22.19% and 15.37% in the FY2004/05and 2002/03respectively. Similarly, the highest and lowest ratio of BOK is 43.41% and 1.79% in the FY1998/99 and 2001/02 respectively.

The average ratio of both banks is 19.18% and 20.85% of EBL and BOK respectively.

4.1.3.2 Return on Total Assets Ratio

It measures the productivity of the assets as well as the relationship between the net profit and assets. It provides the overall efficiency of the firm. It is computed by dividing net profit by total assets which is shown below the table no. 4.16.

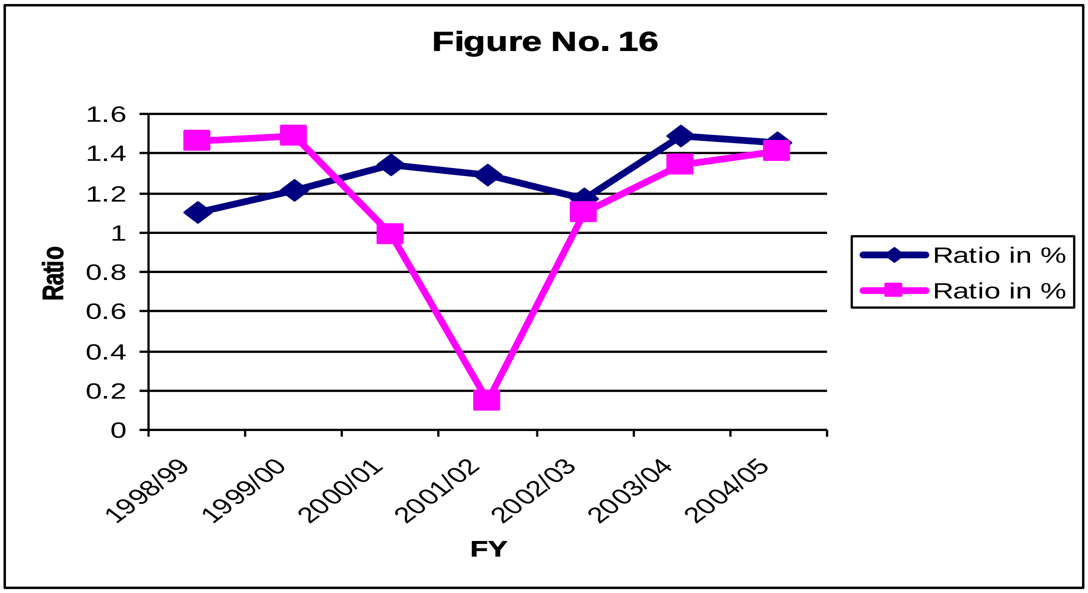
Table No.4.16

Return on Total Asset Ratio

(In Rs.oo,ooo)

F. Y	**Everest Bank**			**Bank of Kathmandu**		
	Net Profit	**Total Assets**	**Ratio in %**	**Net Profit**	**Total Assets**	**Ratio in %**
1998/99	252	22931	1.10	445	30453	1.46
1999/00	413	22702	1.21	707	47566	1.49
2000/01	697	30058	1.34	654	66083	0.99
2001/02	853	39485	1.29	93	63566	0.15
2002/03	942	49085	1.17	821	74448	1.10
2003/04	1436	58841	1.49	1275	94963	1.34
2004/05	1708	76187	1.45	1395	98571	1.41
Average			**1.29**			**1.13**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table no. 4.16, it is observed that the ratio of EBL increases in the FY1998/99 to 2000/01 and it decreases in the next two FY and it again increases 2003/04 and again decreases in last study period. The highest and lowest ratio of EBL is 1.49% and 1.10% in the FY2003/04and 1998/99 respectively. Similarly, the highest and lowest ratio of BOK is 1.49% and 0.15% in the FY1999/00 and 2001/02 respectively.

The average ratio of both banks is 1.29% and 1.13% of EBL and BOK respectively.

4.1.3.3 Earning Per Share

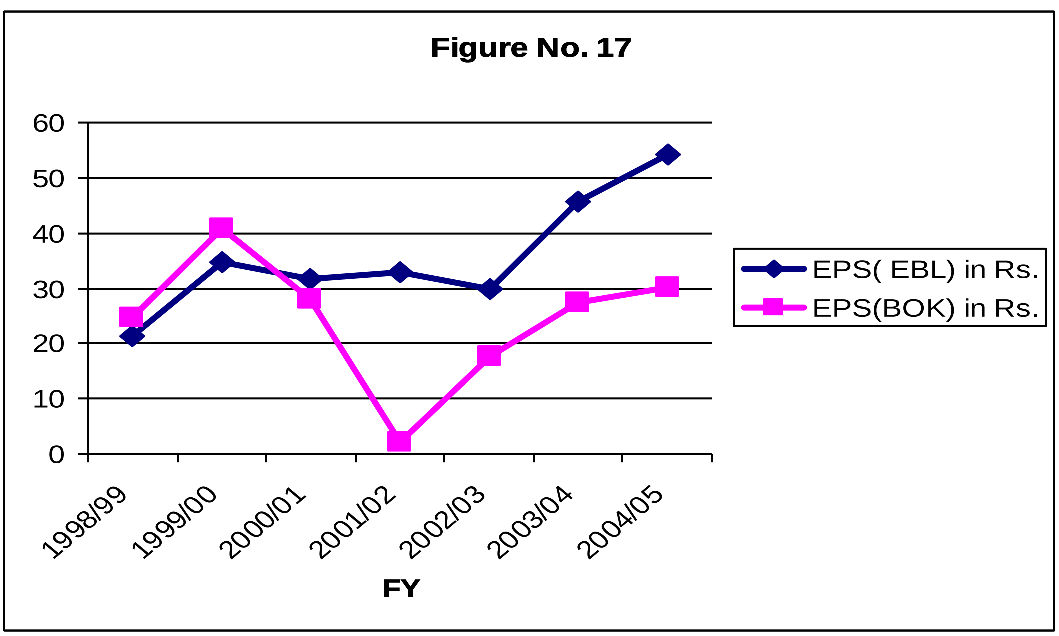
It measures the available profit to be equity shareholders on per share basis. It represents what the owners are theoretically entitled to receive from the bank. It is calculated dividing by net profit by No. of shareholders outstanding which is presented as below the table no. 4.17.

Table No.4.17

Earning Per Share

F.Y	EPS(EBL) in Rs.	EPS(BOK) in Rs.
1998/99	21.31	24.67
1999/00	34.85	40.73
2000/01	31.56	27.97
2001/02	32.91	2.00
2002/03	29.90	17.72
2003/04	45.58	27.50
2004/05	54.22	30.10
Average	**35.76**	**24.38**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table no. 4.17, it is observed that the ratio of EBL is fluctuating trend. The highest and lowest ratio of EBL is 54.22% and 21.31% in the FY2004/05and 1998/99 respectively. Similarly, the highest and lowest ratio of BOK is 40.73% and 2.00% in the FY1999/00and 2001/02 respectively.

The average ratio of both banks is 35.38% and 24.38% of EBL and BOK respectively.

4.1. 3.4 Net Profit to Total Deposit Ratio

Net Profit to Total Deposit ratio measures the profit earning capacity by utilizing available source. Return will be higher if the bank's deposit is well managed and efficiently utilized.

Table No.4.18

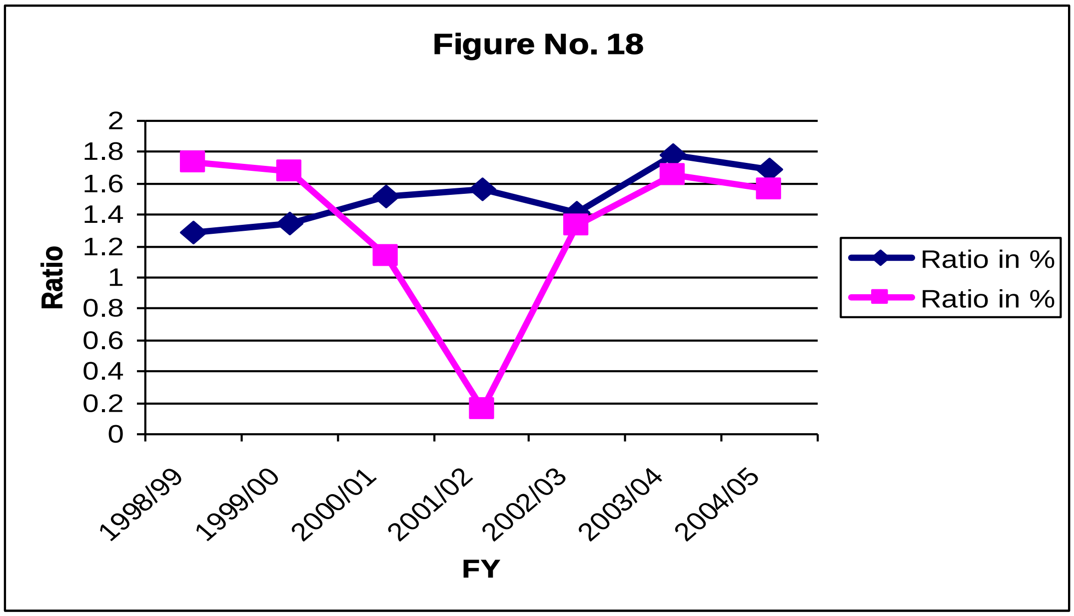
Net Profit to Total Deposit Ratio

(In Rs.oo,ooo)

F. Y	Everest Bank			Bank of Kathmandu		
	Net Profit	Total Deposit	Ratio in %	Net Profit	Total Deposit	Ratio in %
1998/99	252	19489	1.29	445	25648	1.73
1999/00	413	30574	1.35	707	41964	1.68
2000/01	697	45745	1.52	654	57241	1.14
2001/02	853	54666	1.56	93	57233	0.16
2002/03	942	66950	1.41	821	61707	1.33

2003/04	1436	80639	1.78	1275	77416	1.65
2004/05	1708	100977	1.69	1395	89427	1.56
Average			**1.51**			**1.32**

Source: Annual Reports of EBL and BOKL & Calculated.



From the above Table, it is state that Net Profit to total deposit of EBL & BOK of the study period. It refers that the ratio of Net Praofit to total deposit through out study period i.e. F.Y. 1998/99 to 2004/05 of both Banks. Net profit of EBL is increasing trends though out the study period from Rs, 25,20,000. in F.Y. 1998/99 and Rs, 17,08,000. in F.Y. 2004/05. But in BOK s net profit is dioppted in F.Y.2004/05 to Rs, 93,00,000. and than increased through out the study period. Another side, total deposit of both banks are increasing trends through out the study period. The ratio of net profit to total deposit was around 1 to 1.78 percentage through out the study period except F.Y. 2001/02 of BOK which was 0.16 only. The average ratio was 1.51 & 1.32 of EBL & Bok respectively. From the above analysis, we can say that EBL has maximum utilized it's deposits than BOK.

4.1.3. 5 Net Profit to Total Investment Ratio

Net profit to total investment ratio measures the earning capacity of a commercial bank on its deposit mobilized .

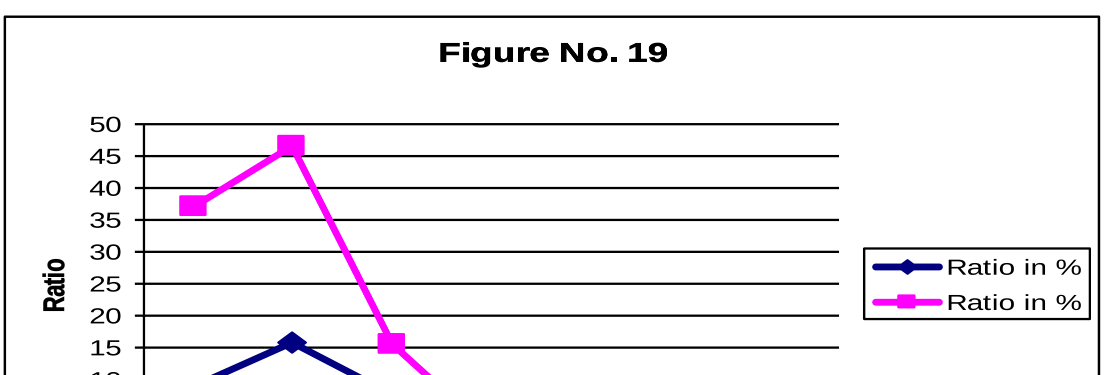
Table No.4.19

Net Profit to Total Investment Ratio

(In Rs.oo,ooo)

F. Y	Everest Bank			Bank of Kathmandu		
	Net Profit	**Total Investment**	**Ratio in %**	**Net Profit**	**Total Investment**	**Ratio in %**
1998/99	252	2831	8.90	445	1199	37.11
1999/00	413	2601	15.88	707	1516	46.63
2000/01	697	9017	7.73	654	4198	15.58
2001/02	853	16930	5.04	93	6675	1.39
2002/03	942	16540	5.69	821	18161	4.52
2003/04	1436	25357	5.66	1275	24774	5.15
2004/05	1708	21289	8.02	1395	25982	5.37
Average			**8.13**			**16.53**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5



From the above table, it is state that the ratio of net profit and total investment Of EBL & BOK from 1998/99 to 2004/05. It refers that the total earning through total investment. The trends of investment of both bank was inclearly trends but ratio of both bank was fluctuated or decreased from F.Y. 2000/01 to 2002/03 and than again increased till the study period but in little percentage. The average ratio of net profit to total investment, Bok had greater than EBL i.e. 16.52 & 8.13respectively.

4.1.3.6 Risk Analysis

Table No.4.20

Return On Equity

(In Rs.oo,ooo)

F. Y	**Everest Bank**			**Bank of Kathmandu**		
		RU	$(R-\bar{R})^2$		**RU**	$(R-\bar{R})^2$
1998/99		17.36	3.3124		43.41	508.9536
1999/00		20.36	1.3924		27.67	46.5124
2000/01		21.82	6.9696		19.99	0.7396

2001/02		16.07	9.7621		1.79	363.2836
2002/03		15.37	14.5161		14.18	44.4889
2003/04		21.11	3.7249		19.59	1.5876
2004/05		22.19	9.0601		19.35	2.25
Total		**134.28**	**48.6476**		**145.98**	**967.8157**
Average		**19.18**	**6.9496**		**20.85**	**138.26**
S.D.		**0**	**2.64**		**0**	**11.76**
C.V			**0.137**			**0.56**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5

From the above calculation, C.V. of EBL is lower than BOK. Lower C.V. indicates better performance.

Table No.4.21

Return On Total Assets

(**In Rs.oo,ooo)**

F. Y	**Everest Bank**			**Bank of Kathmandu**		
		RU	**(R-R)2**		**RU**	**(R-R)2**
1998/99		1.10	0.0361		1.46	0.1089
1999/00		1.21	0.0064		1.49	0.1296
2000/01		1.34	0.0025		0.99	0.0196

2001/02		1.29	0		0.15	0.9604
2002/03		1.17	0.0144		1.10	0.009
2003/04		1.49	0.04		1.34	0.0441
2004/05		1.45	0.0256		1.41	0.0784
Total		**9.05**	**0.125**		**7.94**	**1.3419**
Average		**1.29**	**0.0178**		**1.13**	**0.1917**
S.D.		**0**	**0.13**		**0**	**0.44**
C.V			**0.10**			**0.39**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5

From the above calculation, C.V. of EBL is lower than BOK. Lower C.V. indicates better performance.

4.1.3.7 Capital Adequacy Ratio

This ratio measures to analyze the sufficient amount of capital fund to total deposit, total assets and deposit utilization of the bank that which is shown as under.

4.1.3.8 Shareholders Fund to Total Deposit Ratio

Banks need to maintain a sufficient amount of total assets as capital fund or shareholders fund. It is measured with the sufficiency of the former against the later which is shown as below.

Table No.4.22

Shareholders Fund to Total Deposit Ratio

(In Rs.oo,ooo)

F.	**Everest Bank**	**Bank of Kathmandu**

Y						
	Shareholders Fund	**Total Deposit**	**Ratio in %**	**Shareholders Fund**	**Total Deposit**	**Ratio in %**
1998/99	1452	19489	7.45	1025	25648	4.00
1999/00	2028	30574	6.63	2555	41964	6.09
2000/01	3194	45745	6.98	3272	57241	5.72
2001/02	5309	54666	9.71	5202	57233	9.09
2002/03	6128	66950	9.15	5791	61707	9.38
2003/04	6803	80639	8.44	6507	77416	8.41
2004/05	7696	100977	7.62	7207	89427	8.06
Average			**8.03**			**7.58**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5

From the above table no. 4.18, it is observed that the ratio of BOK is fluctuating trend. The highest and lowest ratio of BOK is 9.38% and 5.72% in the FY2002/03 and 2000/01 respectively. Similarly, the highest and lowest ratio of EBL is 9.71% and 6.63% in the 2001/02and 1999/00 respectively.

The average ratio of both banks is 8.03% and 7.58% of EBL and BOK respectively which shows that capital adequacy position of EBL is better than BOK.

4.1.3.9 Shareholders Fund to Total Assets Ratio

Banks need to maintain a sufficient amount of total assets as capital fund or shareholders fund. It is measured with the sufficiency of the former against the later which is shown as below.

Table No.4.23

Shareholders Fund to Total Assets Ratio

(In Rs.oo,ooo)

F. Y	**Everest Bank**			**Bank of Kathmandu**		
	Shareholders Fund	**Total Assets**	**Ratio in %**	**Shareholders Fund**	**Total Assets**	**Ratio in %**
1998/99	1452	22931	6.33	1025	30453	3.37
1999/00	2028	22702	5.93	2555	47566	5.37
2000/01	3194	30058	6.12	3272	66083	4.95
2001/02	5309	39485	8.04	5202	63566	8.18
2002/03	6128	49085	7.61	5791	74448	7.78
2003/04	6803	58841	7.08	6507	94963	6.85
2004/05	7696	76187	6.53	7207	98571	7.31
Average			**6.80**			**6.25**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5

From the above table no. 4.19, it is observed that the ratio of BOK is fluctuating trend. The highest and lowest ratio of BOK is 8.18% and 3.37% in the FY2001/02 and 1998/99 respectively. Similarly, the highest and lowest ratio of EBL is 8.04% and 5.93% in the 2001/02and 1999/00 respectively. It is also fluctuating trend.

The average ratio of both banks is 6.80% and 6.25% of EBL and BOK respectively which shows that capital adequacy position of EBL is better than BOK.

Trend analysis of deposit utilization position & projection for next 3 years

This heading find out the trend of deposit utilization of EBL & BOK under seven years study period and it projects the next three year`s trend with comparatively. A commercial bank may grant loan and advances and investment some of the funds in government securities and share debentures of other companies to utilize deposit. Here, ratio between deposit and loan and advances as well as ratio between deposit and total investments in forecasted for next three years. The projections are based on the following assumptions.

- Other things will remain unchanged.
- The projection will be right when the limitation of test square method is carried out.
- The bank will run in present position.
- The economy will remain in the percent stage.
- Nepal Rastra Bank will not change its guideline to commercial banks.

Trend analysis of Loan and advances to total deposit ratio

The heading analysis the trend of loan and advances to total deposit ratio of EBL and BOK with comparatively under seven years study period and projects the trend of next three years.

The following table describes the trend values of loan and advances to total deposit ratio of EBL in comparison to BOK for 10 years.*(Calculation are shown in appendix* '**A'***)*

Table No. 4.24

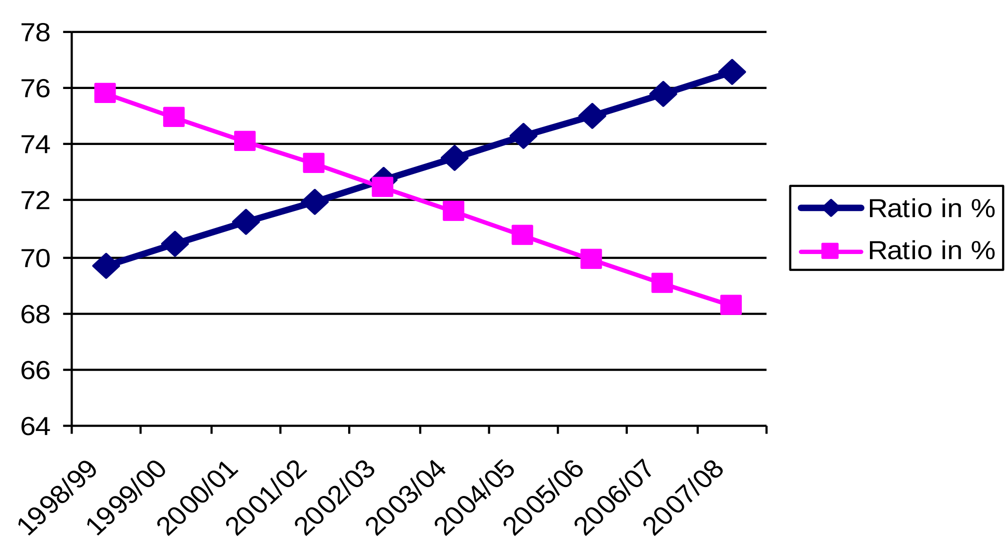
Trend values of loan and advances to total deposit ratio of EBL and BOK (1999-2008)

years	EBL	BOK
1998/99	69.71	75.8
1999/00	70.47	74.96
2000/01	71.23	74.12
2001/02	71.99	73.28
2002/03	72.75	72.44
2003/04	73.51	71.6
2004/05	74.27	70.76
2005/06	75.03	69.92
2006/07	75.79	69.08
2007/08	76.55	68.24

Source:- www.nepalstock.com

Trend line of loan and advances to total deposit ratio of EBL and BOK

Figure No. 20



The above table shows the trend values of loan and advances to total deposit ratio of EBL in comparison to BOK from 1998/99 to 2007/08. The ratio of loan and advances to total deposit are increasing trend of EBL and decreasing trend of BOK. The value of BOK in year 2007/08 are 68.24, which is lowest value under

10 year`s period, which is less than EBL trend values in 2007/08. EBL have the highest value is 76.55.

The above analysis table conclude that the BOK deposit utilization position in relation to loan and advances to total deposit ratio is proportionately not better than EBL ratios.

Trend analysis of total investment to total deposit ratio

This heading analysis the trend of total investment to total deposit ratio of EBL and BOK with comparatively under seven year`s study period and projects the trend of next three year`s. The following table describes the trend values of total investment to total deposit ratio of EBL in comparison BOK for ten years.

(Calculations are as Appendix A)

Table No. 4.25

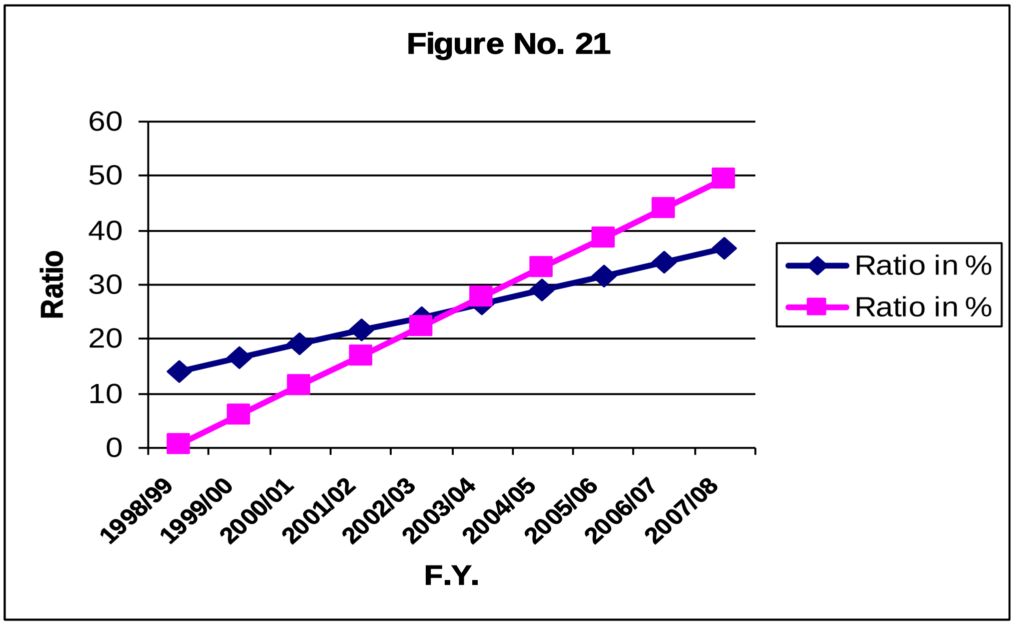
Trend values of total investment to total deposit ratio of EBL and BOK (1999-2008)

years	EBL	BOK
1998/99	14	0.53
1999/00	16.52	5.96
2000/01	19.04	11.39
2001/02	21.56	16.82
2002/03	24.08	22.25
2003/04	26.6	27.68
2004/05	29.12	33.11
2005/06	31.64	38.54
2006/07	34.16	43.97

2007/08	36.68	49.4

Source:- www.nepalstock.com

Trend values of total investment to total deposit ratio of EBL and BOK



The above comparative table shows the trend of EBL in comparison to BOK of total investment to total deposit. The ratio of EBL and BOK are increasing trend.

Other things remaining the same , the ratio of total investment to total deposits of EBL in year 2007/08 will be 36.68, which is lowest under the study period. Similarly incase of BOK the ratio will be 49.4 in the year 2007/08, which is highest under the study period. In conclusion it can say that BOK seems more successful than EBL to utilize its deposit in investment.

4.1.4 Deposit Utilization of EBL and BOK

It measures the collection of deposit and the efficient utilization of the deposit ratio. It shows the efficiency of performance and reliability of the bank. Bank has to pay interests on deposit and also to pay dividends to their shareholders. So, earning more and more interest through deposit utilization in the productive investment opportunities relating to industries, commerce, foreign trade, tourism, service business etc. will ultimately contribute to national economy. Thus, collection of deposit and utilization of the same can be regarded as two side of a coin. The deposit utilization of both banks is shown as below**.**

4.1.4.1 Deposit Utilization of EBL

Table No.4.26

Deposit Utilization of EBL

(In Rs.00,000)

FY	Loans & Adv. (Inc. Bill P&D)	Growth Index	% Change	Total Deposit	Growth Index	% Change	Deposit Utilization
1998/99	13649	1.00		19489	1.00		70.03
1999/00	22702	1.66	66.33	30574	1.57	56.88	74.25
2000/01	30058	2.20	32.40	45745	2.35	49.62	65.71
2001/02	39485	2.89	31.36	54666	2.80	19.50	72.23
2002/03	49085	3.60	24.31	66950	3.44	22.47	73.32
2003/04	58841	4.31	19.88	80639	4.14	20.45	72.97
2004/05	76187	5.58	29.48	100977	5.18	25.22	75.45
Average							**71.99**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5

From the above table no.4.20, it is observed that loans & advances and total deposit of EBL are increasing each year. The highest amount of loans &

advances and total deposit of EBL are Rs. 76187 lakhs in FY2004/05 and total deposit Rs. 100977 in the same FY.

On the other hand, the highest and lowest deposit utilization of EBL is 75.45% and 65.71% in the FY 2004/05 and 2000/01 respectively. The deposit utilization of EBL is fluctuating through out the study period and average deposit utilization ratio is 71.99%.

4.1.4.2 Deposit Utilization of BOK

Table No.4.27

Deposit Utilization of BOK

(In Rs.oo,ooo)

FY	**Loan and Adv. (Inc. Bill P&D)**	**Growth Index**	**% Change**	Total Deposit	**Growth Index**	**% Change**	**Deposit Utilization**
1998/99	18634	1.00		25648	1.00		72.65
1999/00	30876	1.66	65.70	41964	1.64	63.62	73.58
2000/01	42563	2.28	37.85	57241	2.23	36.41	74.36
2001/02	46137	2.48	8.40	57233	2.23	-0.01	80.61
2002/03	45427	2.44	-1.54	61707	2.41	7.82	73.62
2003/04	56467	3.03	24.30	77416	3.02	25.46	72.94
2004/05	59126	3.17	4.71	89427	3.48	15.51	66.61
Average							**73.48**

Source: Annual Reports of EBL and BOKL from FY 1998/99 to 2004/5

From the above table no.4.21, it is observed that loans & advances and total deposit of BOK are increasing each year. The highest amount of loans & advances and total deposit of BOK are Rs. 59126lakhs in FY2004/05 and total deposit Rs. 894277 in the same FY. On the other hand, the highest and lowest deposit utilization of EBL is 80.61% and 66.61% in the FY 2001/02 and 2004/05 respectively. The deposit utilization of EBL is increasing till FY2001/02 and decreasing regularly through out the study period and average deposit utilization ratio is 73.48%.

Relationship of profitability position of Banks with their total deposits and total investments. **(*calculation are shown in appendix 'C'*.)**

Let, A= Net Profit

B= Total Deposits

C = Total Investments

For **Everest Bank Limited**

The correelation between A and B is 0.99, which is less than perfectly positive correlation. It means if deposits increased by 100%, then the net profit will be increased by 99%. From this result , we can say that , EBL has utilized its deposits with optimum.

The correelation between A and C is 0.92, which is less than perfectly positive correlation. It means if Investments increased by 100%, then the net profit will be increased by 92%. From this result , we can say that , EBL has utilized its Investments with satisfactory.

For **Bank of Kathmandu**

The correelation between A and B is 0.73, which is less than perfectly positive correlation. It means if deposits increased by 100%, then the net profit will be increased by 73%. From this result , we can say that , BOK has utilized its deposits with satisfactory.

The correelation between A and C is 0.89, which is less than perfectly positive correlation. It means if investments increased by 100%, then the net profit will be increased by 89%. From this result , we can say that , BOK has utilized its investments with satisfactory.

CHAPTER - V

SUMMARY, CONCLUSION, FINDINGS AND RECOMMENDATIONS

5.1 Summary

In order to carry out this study, data has been obtained from secondary sources. The analysis is performed with the help of financial tools and statistical tools. The analysis is associated with comparison and interpretation. Under financial analysis, various financial ratios related to the investment function of CBs are analyzed, such as liquidity ratio, profitability ratio, asset management ratio, risk ratio and growth ratios.

In order to obtain the main purpose of this study, it has been classified into different sections. This section of the study deals with a brief explanation of what we did throughout this study and the procedures that we applied for. Summary of the study focuses mainly on short description of contents of the study to specify the study at a glance. This study is organized into five different sections which are as follows:

First chapter of the study deals with introduction of EBL, BOK along with their historical background and existing position. It also includes statement of problem, objectives and limitation of the study.

Second chapter focuses on research methodology. It consists of research design, source of data, collection of data, presentation of data and various statistical as well as financial tools. Research methodology is the whole of procedures which assists the study in performing better and systematic way.

Third chapter of the study encompasses review of previous study and relevant literature in the field of investment policy and also consists the study of journals and annual reports. Review of literature, saves unnecessary wastage of time and efforts by providing information regarding previous research work.

Forth chapter of the study includes collection, presentation, tabulation and analysis of data by applying statistical as well as financial tools to convey the meaningful conclusion. To have better conclusion and precision in analysis reliable source of data becomes essential. On the other hand statistical as well as financial tool convey us useful massage and assists in decision making. Tabulation. Collection, presentation & editing assist us to build a framework for further analysis in accordance to nature of data.

Fifth chapter of the study deals to the summary, conclusion and recommendation of the study. Summary is the brief presentation of whole study which focuses study at a glance. Main theme of the study is sketched out by the conclusion. Recommendation is the suggestive part. Which provides direction to follow to the relevant organization?

5.2 Conclusions

It was already stated that this study is based upon secondary data. Reliability of analysis and conclusion depends upon accuracy of data. Statistical as well as financial tools are applied for the study. From the analysis we obtain the following results.

It reveals that liquidity position of BOK is relatively high than that of EBL.

- Cash and Bank balances to total deposit ratio reveals higher ratios for BOK than EBL. BOK average ratio of Cash and Bank balance (including money at call or short notice) to Deposit (Excluding Fixed Deposit) ratio is higher than EBL.
- The average ratio of BOK of Cash and Bank balance (excluding money at call or short notice) to Deposit (Excluding Fixed Deposit) ratio is lower than EBL. The higher ratio indicates better liquidity position.
- Similarly, the fixed deposit to total deposit ratio of EBL indicates that EBL can mobilize more resources on productive and long-term investment than BOK.
- Other side, the ratio of saving deposit to total deposit, EBL is increasing trend and also the average ratio of this bank higher than BOK which means EBL has better liquidity position than BOK,
- Cash and Bank balance(including money at call or short notice) to Deposit (Excluding Fixed Deposit) ratio shows that higher ratios of EBL that indicates the higher ability of the bank to meet anticipated call on current, saving and other short-term deposit.
- Through the NRB to total deposit ratio, EBL has higher deposit with NRB than BOK which seems EBL to be more sincere than BOK.

- BOK has maintained high ratio, in terms of loans advances to total deposit ratio. So, BOK has more efficient in mobilizing the deposit in income generating assets.
- Because of the higher ratio of investment to total deposit of EBL, EBL has invested it deposit more efficiently than BOK.
- BOK is better because it has utilized higher amount of deposits for loans advances. It can be seen clearly from the analysis.
- Through income to total income ratio, it seems that EBL has greater degree of dependency on fund based activities than BOK.
- EBL has greater interest expenses than BOK in comparison to total expenses which means EBL utilize more debt than BOK in its capital structure.
- The average ratio of long term debt to shareholders fund of EBL has more than BOK which means EBL has more proportion of long term debt in shareholders total fund.
- Similarly, the average ratio of total debt to shareholders fund ratio, EBL is higher than BOK which means BOK is more at risk and the claims of creditors are higher than owners.
- From average return on equity, BOK average is higher than EBL which means BOK is more powerful in mobilizing their equity capital than EBL.
- The profitability of financial resources of EBL invested in the bank's assets and average earning per share is higher than BOK which means the profitability position of EBL is better than BOK.
- -The average ratio of capital adequacy position shown by shareholders fund to total deposit ratio of EBL is higher than BOK.
- The average ratio of shareholders fund to total asset ratio of EBL is higher than BOK which indicates that EBL maintains more percentage amount of total assets as shareholders fund.

- The average ratio of deposit utilization ratio of BOK is higher than EBL which indicates that BOK is more active in creating investment opportunities and enhancing business activities than EBL.
- Since there is a high degree of positive relationship between loan and advance and total deposit in both banks. They are increasing their deposit to invest resources on more productive sectors and earn more benefits.

5.3 Major Findings

From this thesis writing, there are some major information findings that are directly related to the objectives of the study which are mentioned as below:

- The mean liquidity ratio of EBL is slightly lower than BOK. It means EBL has maintained higher liquidity and lower risk in comparison to BOK. The ratio of EBL is highly variable than BOK.
- The mean ratio of cash and bank balance to total deposit of EBL is higher than of BOK. It states that liquidity position of EBL is average in this regard. And the ratio of EBL is fewer consistencies than BOK.
- The mean ratio of loans and advances to current asset of EBL is shows BOK. The ratio of EBL is highly variable than BOK. It indicates that liquidity position of EBL is fewer consistencies.
- The mean ratio of loans and advances to total deposit of EBL is higher than that of BOK. The ratio of EBL seems to be more variable than BOK.
- The mean ratio of total investment to total deposit of EBL is higher than that of BOK. The ratio of EBL is highly variable than that of BOK.
- The mean ratio loans and advances to total working fund of EBL is slightly lower than BOK. It states that position of EBL is average in comparison to BOK. The ratio of EBL is highly variable than BOK.

- Comparing the average ratio of interest income to total income of both banks, EBL is higher than the BOK which means EBL has greater of dependency on funds based activities than BOK.
- Comparing average ratio of both banks about the loan and advance to total assets, BOK seems to have better position than EBL**.**
- The mean ratio of return on loans and advances is higher than BOK. It has maintained average ratio as compared with BOK. The variability of ratio of EBL is comparatively higher than BOK. It shows EBL inconsistency in return.
- The mean ratio of return on total working fund of EBL is higher than that of BOK. The variability of ratio of EBL is highly variable than BOK.
- The mean credit ratio of EBL is lower than BOK. The ratio of EBL is more variable than BOK.
- The mean liquidity risk ratio of EBL is highest of all. The liquidity risk ratio of EBL is less variable than BOK.
- The mean capital risk ratio of EBL is highest of all. The ratio of EBL is highly variable than BOK, which indicates that variability of EBL is more heterogamous than that of BOK.
- Growth in deposit of EBL is higher than that of BOK. EBL has maintained growth ratio of 36.14% where as BOK has 24.54%. It means successfulness of EBL to collect greater deposit in comparison to BOK is better year by year.
- The growth ratio of loan and advances HBL is higher than BOK. It is 88.29% for 37.77% for EBL & 24.95 for BOK.
- The growth in investment of BOK is better than that of EBL. It indicates that BOK is more successful in investing.
- The growth in net profit of EBL is better than BOKs. IT is 38.98% for EBL, 16.58% for BOK.

- From the above analysis it can be concluded that EBL has maintained high growth ratio in total deposit, loan and advances and in total investment. Lastly in the case of growth rate in net profit is slightly better than BOK. Though it is not successful to make enough investment we must say that the bank is successful in increasing its source of funds and its mobilizations.
- The correelation between net profit and total deposits of EBL is 0.99, which is less than perfectly positive correlation. It means if deposits increased by 100%, then the net profit will be increased by 99%. From this result , we can say that , EBL has utilized its deposits with optimum.
- The correelation between net profit and total Investments EBL is 0.92, which is less than perfectly positive correlation. It means if Investments increased by 100%, then the net profit will be increased by 92%. From this result , we can say that , EBL has utilized its Investments with satisfactory.
- The correelation between net profit and total deposits of BOK is 0.73, which is less than perfectly positive correlation. It means if deposits increased by 100%, then the net profit will be increased by 73%. From this result , we can say that , BOK has utilized its deposits with satisfactory.
- The correelation between net profit and total Investments of BOK is 0.89, which is less than perfectly positive correlation. It means if investments increased by 100%, then the net profit will be increased by 89%. From this result , we can say that , BOK has utilized its investments with satisfactory.

5.4 Recommendations

Bank plays the vital roles to eliminate the economic backwardness of the country. There are many banks existing in Nepal, among them, EBL and BOK are also contributing a lot for the economic development of nation. We can get a clear financial condition of EBL and BOK from above studies and presentation. And it is realized that they still need some improvement to provide best service and to face very worse situation. Therefore, some valuable suggestions and recommendations are present through the basis of findings, presentation and analysis of data and conclusions to overcome weakness and inefficiencies and to improve present financial performance and position of the both banks.

The following recommendations are prescribed on the basis of data analysis and major findings of the study.

1. Due to the establishment of several banks, financial companies etc, both bonks are facing lot of competition. Therefore, both banks should emphasis on modern technology development and efficient manpower development. They should be more market oriented; services oriented and offer a complete range of financial service to the customers.

2. EBL is itself a much stronger in modern information technology however bank is less informative to its clients. Bank is not providing sufficient information about the services and facilities. In order to overcome this problem, EBL is strongly recommended to provide information about its services, facilities in printed, audio and visual form.

3. EBL is maintaining more amount as money at call than BOK that’s why EBL has more amount of total income generating assets than BOK. In such situation, EBL is recommended to decrease its amount of money at call by increasing loans and advances for improving their respective assets

management as well as liquidity positions. Whereas BOK is recommended to increase its money at call reducing its non earning assets.

4. In present condition of less investment opportunity, EBL can select education as its potential investment sector. Analysis of trend of total investment to total deposit ratio also reflects about its less investment as it is in decreasing trend. But a research is must for this purpose which can effectively be performed by establishing research and development department.

5. EBL is recommended to increase its cash and bank balance for improving liquidity position whereas BOK should provide incentives for customers of fixed deposit.

6. As the capital structure position is widely fluctuating, both banks should follow a constant financial strategy. Besides, they should maintain their capital structure position more favorable by considering cost of debt financing and the extent of control desired.

7. The average rate of interest income to total income of BOK is lower than EBL. So, BOK is recommended to concentrate on investment activities. It should mobilize more percentage of deposit by investing in government and non government's securities. And other hand, BOK should utilize more assets by providing loans and advances.

8. EBL has greater interest expenses than BOK in comparison to total expenses which means EBL utilize more debt than BOK in its capital structure. But both banks spend more than 50% on interest expenses and remaining on operational expenses. So, both banks are recommended to reduce using costly sources of funds and concentrate on using more money on operational expenses.

9. In the side of capital adequacy position of both banks are not satisfactory. So, both banks are recommended to raise their amount of shareholders fund for maintaining proper capital adequacy position.

10. In order to preserve the banking and saving habit of the lower level people of the country, EBL is suggested not to be surrounded and limited with the interest and status of big clients. Reduction in the minimum required balance and extension of its branches towards deprived sector of the kingdom is must for boosting up the lower level people.

11. As private sector it cannot keep its eyes close to the profit, however not only being a profit oriented organization some contribution for the enlistment of the conditions of people of lower level will also be appreciable.

12. Before mobilizing funds, both banks are recommended to collect a large variety of deposit through schemes like cumulative deposit scheme, price bonds scheme, gift cheque, house building deposit scheme, direct finance housing scheme, educational loan scheme, vehicle loan scheme and many others.

13. In regard to investment on government securities it has been revealed that both banks have not given much priority in to invest in government securities as compared to other banks. Hence it is recommended for EBL and BOK to invest money in the government securities, as it is risk free.

14. It is good to invest more on share and debentures as it encourages financial and economic development of the country. To get success CBs must mobilize their funds in different sector such as to purchase shares and debentures of other financial and non financial companies out of total working fund. EBL has invested its more of the funds (total investment to total deposit ratio) in comparison to BOK. But the percentage to investment on shares and

debentures is very nominal. So EBL is recommended to invest more of its funds in shares and debentures of different companies.

15. The investment policy of EBL is good in every respect as studied above but the consistency in the above investment sector should be in equilibrium state. It is found that at times, bank focuses much of its attention to one sector leaving other sector untouched. So it is recommended to touch all the sectors and balance it effectively so as to have the optimal performance of the bank.

16. Branches exiting in some limited areas will not be able to boots up its comparing of deposit mobilization and credit disbursement as desired. HMG/N has also encouraged the CBs to expand the banking services in rural areas and communities without making unfavorable impact on profit. Therefore EBL is recommended to open now branches at certain places every year after making feasibility studies. Before making a choice for opening a branch, saving and business potentiality of the areas should be studied well. This will be very helpful to the bank in tapping the resource of different places.

17. One of the main objectives to operate CBs of Nepal is to boo foreign investment. However EBL does not seem to be successful in this aspect. Therefore both banks are recommended attract for investment in Nepal by means of their wide international banking networks.

18. As a bank of private, EBL can not keep its eye closed from the profit motive. It should be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers. EBL profitability position is not so good as compared to BOK. So EBL is recommended to utilize its risky assets and shareholders fund to gain higher profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable.

19. Loan default in CBs is a result of various factors such as political influence, lack of necessary skills of project appraisal, improper collateral valuation, irregular supervision and lack of entrepreneurship attitude. Political and administrative factors are highly prevailing in Nepalese investment environment. CBs should take this function with purely business attitude. The project oriented approach has to be encouraged in lending business of the bank in which security is not necessary, risk is high but the project is important from the point of view of national economy. The profit should be allowed to make them capable to generate their own funds and to repay loans timely. The chance of loan in the project-oriented approach can thus be minimized.

20. The CBs may experience many difficulties in recovering the loans and their large amount of loan is being blocked as non-performing assets. Therefore there is a need to workout a suitable mechanism through which the overdue loan can be realized within time. For this purpose special act named “loan recovery act” should be enacted.

21. To get success in competitive banking environment depositor’s money must be utilized as loans and advances. The largest item of the bank in the asset side is loan and advances. If it is neglected, then it could be the mai cause of liquidity crisis in the bank and one of the main reasons for bank failure. It has been found from the study that EBL loan and advances to total deposit ratio is higher than that of BOK but its stability is not consistent than that of other banks. To overcome this situation EBL is strongly recommended to follow liberal lending policy and invest more and more percentage of total deposit in loan and advances and similarly maintain more stability on the investment policy.

22. By implementing conceptual skill and knowledge bank should develop lending plans and programs keeping in view the legal economic and social as well

political environment. The plan should be drafted to the management personnel in the staff meeting and lending targets should be fixed on the basis of data analysis. Finally better performance through efficient internal as well as external management will ensure the effectiveness of banks lending policy.

23. The relationship of net profit with total deposits and total investments of BOK are less than EBL. So, it is recommended to BOK to optimum utilization of deposits by searching investment opportunities with high rate of returns.

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Appendix-A

Trend values of loan and advances to total deposit ratio of EBL

Year (t)	Ratio (y)	t-2002 = x	x^2	xy	Yc = a+bx
1998/99	70.03	-3	9	-210.09	Yc=71.99+.076X-3=69.71
1999/00	74.25	-2	4	-148.5	Yc=71.99+.076X-2= 70.47
2000/01	65.71	-1	1	-65.71	Yc=71.99+.076X-1= 71.23
2001/02	72.23	0	0	0	Yc=71.99+.076X0=71.99
2002/03	73.32	1	1	73.32	Yc=71.99+.076X1=72.75
2003/04	72.97	2	4	145.94	Yc=71.99+.076X 2=73.51

2004/05	75.45	3	9	226.35	Yc=71.99+.076X3=74.27
Total	**503.96**	**0**	**28**	**21.31**	

The equation of the straight line is, yc =a+bx

Where,

a =∑y / n = 503.96/7 = 71.99

b ==∑xy / ∑x² = 21.31/28 = 0 .76

Trend values of loan and advances to total deposit ratio for next three years

years	t-2002 = x	Yc = a+bx
2005/06	4	Yc=71.99+.076X4=75.03
2006/07	5	Yc=71.99+.076X5=75.79
2007/08	6	Yc=71.99+.076X6=76.55

Appendix-B

1. Cash and Bank Balance (Including M/C) to Total Deposits

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Cash and Bank Balance	4607	6890	10751	6788	11396	8192	16200
	Total Deposit	19489	30574	45745	54666	66950	80639	100977

	Ratio in %	23.64	22.54	23.50	12.42	17.02	10.16	16.04
ii)	**BOK**							
	Cash and Bank Balance	7596	11524	14268	8111	7231	10552	10694
	Total Deposit	25648	41964	57241	57233	61707	77416	89427
	Ratio in %	29.62	27.46	24.93	14.17	11.72	13.63	11.95

2. Cash and Bank Balance to Total Deposit s

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Cash and Bank Balance	4607	6890	10751	6788	11396	8192	16200
	Total Deposit	868	15785	22899	27550	39003	51659	93933
	Ratio in %	56.40	43.65	46.95	2.64	29.22	15.86	17.24
ii)	**BOK**							
	Cash and Bank Balance	7596	11524	14268	8111	7231	10552	10694
	Total Deposit	15432	23834	37756	37644	41798	54619	60638
	Ratio in %	49.22	48.35	37.79	21.55	17.30	19.32	17.63

3. Cash and Bank Balance (excluding M/C) to Current Deposit s

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Cash and Bank Balance	4607	2786	8350	5927	11396	6318	10500

	Total Deposit	2061	2744	7401	4819	5624	7198	10250
	Ratio in %	223.53	101.53	177.62	122.99	202.63	87.77	102.44
ii)	**BOK**							
	Cash and Bank Balance	3181	6378	11348	6837	6927	7829	7405
	Total Deposit	2811	4910	6815	7896	9357	9979	13026
	Ratio in %	113.16	129.9	166.52	86.59	74.03	78.45	56.6

4. Fixed Deposit to Total Deposits

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Fixed Deposit	11321	14789	22846	27116	27947	28980	34039
	Total Deposit	19489	30574	45745	54666	66950	80639	100977
	Ratio in %	58.09	48.37	49.94	49.60	41.74	35.94	33.7
ii)	**BOK**							
	Fixed Deposit	10216	18130	19485	19589	19909	22797	28788
	Total Deposit	25648	41964	57241	57233	61707	77416	89427
	Ratio in %	39.83	43.20	34.04	34.23	32.26	29.45	32.19

5. Saving Deposit to Total Deposits

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Saving Deposit	4480	8917	13841	17354	27580	37306	48068
	Total Deposit	19489	30574	45745	54666	66950	80639	100977
	Ratio in %	22.99	29.17	30.26	31.75	41.19	46.26	47.60
ii)	**BOK**							
	Saving Deposit	7893	12648	18489	18500	22685	28738	34474
	Total Deposit	25648	41964	57241	57233	61707	77416	89427
	Ratio in %	30.77	30.14	32.30	32.32	36.76	37.12	38.54

6. NRB Balance to Total Deposits

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	NRB Balance	1682	1305	3857	3577	7303	4422	7797
	Total Deposit	19489	30574	45745	54666	66950	80639	100977
	Ratio in %	8.63	4.27	8.43	6.54	10.91	5.48	7.72
ii)	**BOK**							
	NRB Balance	1313	2974	4062	2981	3624	4499	4178
	Total Deposit	25648	41964	57241	57233	61707	77416	89427
	Ratio in %	5.12	7.09	7.10	5.21	5.87	5.81	4.67

7. Loans and Advances to Total Deposits

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Loan and Advance	13649	22702	30058	39485	49085	58841	76187
	Total Deposit	19489	30574	45745	54666	66950	80639	100977
	Ratio in %	70.03	74.25	65.71	72.23	73.32	72.97	75.45
ii)	**BOK**							
	Loan and Advance	18634	30876	42563	46137	45427	56467	59126
	Total Deposit	25648	41964	57241	57233	61707	77416	89427
	Ratio in %	72.65	73.58	74.36	80.61	73.62	72.04	66.12

8. Total Investment to Total Deposits

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Investment	2831	2601	9017	16930	16540	25357	21289
	Total Deposit	19489	30574	45745	54666	66950	80639	100977
	Ratio in %	14.53	8.51	19.71	30.97	24.71	31.45	21.08
ii)	**BOK**							
	Investment	1199	1516	4198	6675	18161	24774	25982
	Total Deposit	25648	41964	57241	57233	61707	77416	89427
	Ratio in %	4.67	3.61	7.33	11.66	29.43	32	29.05

9. Loans and Advances to Total Assets

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Loan and Advance	13649	22702	30058	39485	49085	58841	76187
	Total Assets	22931	22702	30058	39485	49085	58841	76187
	Ratio in %	59.52	66.42	57.60	59.76	60.96	61.24	64.60
ii)	**BOK**							
	Loan and Advance	18634	30876	42563	46137	45427	56467	59126
	Total Assets	30453	47566	66083	63566	74448	94963	98571
	Ratio in %	61.19	64.91	64.41	72.58	61.02	59.46	59.98

10. Interest Income to Total Income

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Interest Income	1759	2674	3850	4438	5202	6572	7173
	Total Income	2195	3272	4655	5409	6353	7851	8589
	Ratio in %	80.14	81.72	82.71	82.05	81.88	83.71	83.75
ii)	**BOK**							
	Interest Income	2513	3717	4650	4733	4968	5671	6071
	Total Income	2900	4420	5749	5715	6362	7263	7561
	Ratio in %	86.66	84.10	80.88	82.82	78.09	78.08	80.29

11. Interest Expenses to Total Expenses

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Interest Expenses	1187	1784	2367	2571	3076	3164	2996
	Total Expenses	1942	2861	3958	4556	5412	6415	6881
	Ratio in %	61.12	62.38	59.80	56.43	56.84	49.32	43.54
ii)	**BOK**							
	Interest Expenses	1730	2379	3105	2850	2767	2863	2416
	Total Expenses	2455	3713	5096	5622	5541	5988	6165
	Ratio in %	70.47	64.07	60.93	50.69	49.94	47.81	39.18

12. Long term Debt to Shareholders Fund

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Log term Debt	11321	14789	22846	27116	27947	28980	34039
	Shareholders Fund	1452	2028	3194	5309	6128	6803	7696
	Ratio in %	779.68	729.24	715.28	510.76	456.05	425.99	442.30
ii)	**BOK**							
	Log term Debt	10716	18130	20485	19589	19909	22767	28788
	Shareholders Fund	1025	2555	3272	5202	5791	6507	7207

	Ratio in %	1045.46	709.59	626.07	376.57	343.79	350.35	399.44

13. Total Debt to Shareholders Fund

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Total Debt	21480	32150	48993	60763	74394	89283	107225
	Shareholders Fund	1452	2028	3194	5309	6128	6803	7696
	Ratio in %	1479.34	1585.31	1533.91	1144.53	1214	1312.41	1393.25
ii)	**BOK**							
	Total Debt	29428	45011	62811	58365	68657	88456	87134
	Shareholders Fund	1025	2555	3272	5202	5791	6507	7207
	Ratio in %	2871.02	1761.68	1919.65	1121.97	1185.58	1359.40	1201.01

14. Total Debt to Total Assets

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Total Debt	21480	32150	48993	60763	74394	89283	107225
	Total Assets	22931	22702	30058	39485	49085	58841	76187
	Ratio in %	93.67	94.06	93.88	91.86	92.39	92.92	90.93

ii)	**BOK**							
	Total Debt	29428	45011	62811	58365	68657	88456	87134
	Total Assets	30453	47566	66083	63566	74448	94963	98571
	Ratio in %	96.63	94.63	95.05	91.82	92.22	93.15	88.39

15. Return on Equity

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Net Profit	252	413	697	853	942	1436	1708
	Shareholders Fund	1452	2028	3194	5309	6128	6803	7696
	Ratio in %	17.36	20.36	21.82	16.07	15.37	21.11	22.19
ii)	**BOK**							
	Net Profit	445	707	654	93	821	1275	1395
	Shareholders Fund	1025	2555	3272	5202	5791	6507	7207
	Ratio in %	43.41	27.67	19.99	1.79	14.18	19.59	19.35

16. Return on Total Asset

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05

i)	**EBL**							
	Net Profit	252	413	697	853	942	1436	1708
	Total Assets	22931	22702	30058	39485	49085	58841	76187
	Ratio in %	1.10	1.21	1.34	1.29	1.17	1.49	1.45
ii)	**BOK**							
	Net Profit	445	707	654	93	821	1275	1395
	Total Assets	30453	47566	66083	63566	74448	94963	98571
	Ratio in %	1.46	1.49	0.99	0.16	1.10	1.34	1.41

17. Net Profit to Total Deposit

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Net Profit	252	413	697	853	942	1436	1708
	Total Deposit	19489	30574	45745	54666	66950	80639	100977
	Ratio in %	1.29	1.35	1.52	1.56	1.41	1.78	1.69
ii)	**BOK**							
	Net Profit	445	707	654	93	821	1275	1395
	Total Deposit	25648	41964	57241	57233	61707	77416	89427
	Ratio in %	1.73	1.68	1.14	0.16	1.33	1.65	1.56

18. Net Profit to Total Investment

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Net Profit	252	413	697	853	942	1436	1708
	Investment	2831	2601	9017	16930	16540	25357	21289
	Ratio in %	8.90	15.88	7.73	5.04	5.69	5.66	8.02
ii)	**BOK**							
	Net Profit	445	707	654	93	821	1275	1395
	Investment	1199	1516	4198	6675	18161	24774	25982
	Ratio in %	37.11	46.63	15.58	1.39	4.52	5.15	5.37

19. Shareholders Fund to Total Deposit

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Shareholders Fund	1452	2028	3194	5309	6128	6803	7696
	Total Deposit	19489	30574	45745	54666	66950	80639	100977
	Ratio in %	7.45	6.63	6.98	9.71	9.15	8.44	7.62
ii)	**BOK**							
	Shareholders Fund	1025	2555	3272	5202	5791	6507	7207
	Total Deposit	25648	41964	57241	57233	61707	77416	89427
	Ratio in %	4.00	6.09	5.72	9.09	9.38	8.41	8.06

20. Shareholders Fund to Total Assets

S.N	Name of JVBs	1998/99	1988/00	2000/01	2001/02	2002/03	2003/04	2004/05
i)	**EBL**							
	Shareholders Fund	1452	2028	3194	5309	6128	6803	7696
	Total Assets	22931	22702	30058	39485	49085	58841	76187
	Ratio in %	6.33	5.93	6.12	8.04	7.61	7.08	6.53
ii)	**BOK**							
	Shareholders Fund	1025	2555	3272	5202	5791	6507	7207
	Total Assets	30453	47566	66083	63566	74448	94963	98571
	Ratio in %	3.37	5.37	4.95	4.18	7.78	6.85	7.31

Appendix-C

1. Correlation AB, Cov AB, $\pm A, \pm$B, & $\pm$C Calculated as Follows

Let, A= Net Profit

B= Total Deposits

C= Total Investments

A. <u>Bank of Kathmandu</u>

$$\pm A \ \mathrm{X} \sqrt{\frac{\int A \ \mathrm{Z} \ \bar{A} \mathrm{Å}}{N}} \quad \mathrm{X} \quad \sqrt{\frac{1229630}{7}} \quad \mathrm{X} \quad 419.12$$

$$\pm B \ \mathrm{X} \sqrt{\frac{\int B \ \mathrm{Z} \ \bar{B} \mathrm{Å}}{N}} \quad \mathrm{X} \quad \sqrt{\frac{2680278447}{7}} \quad \mathrm{X} \quad 19567.75$$

$$\pm C \text{ X} \sqrt{\frac{\text{ƒ}C \text{ Z} \overline{C}\text{Å}^2}{N}} \quad \text{X} \quad \sqrt{\frac{712112718.3}{7}} \quad \text{X} \quad 10086.15$$

$$\textbf{Cov, AB =} \ \frac{\text{ƒ}R_A - \overline{\mathrm{R}_\mathrm{A}}\text{Åƒ}\mathrm{R}_\mathrm{B} - \overline{\mathrm{R}_\mathrm{B}}\text{Å}}{\mathrm{N}} \ \text{X} \ \frac{71767983}{7} \ \text{X } 5966854.71$$

$$\textbf{Cov, AC =} \ \frac{\text{ƒ}R_A - \overline{\mathrm{R}_\mathrm{A}}\text{Åƒ}\mathrm{R}_\mathrm{C} - \overline{\mathrm{R}_\mathrm{C}}\text{Å}}{\mathrm{N}} \ \text{X} \ \frac{23892105}{7} \ \text{X } 3413157.86$$

$$^\circ{}_{AB} \text{ X} \frac{\text{Cov AB}}{\pm\text{A x} \pm\text{B}} \text{ X} \frac{5966854.71}{419.12 \text{ x } 19567.75} \text{ X}0.73$$

$$^\circ{}_{AC} \text{ X} \frac{\text{Cov AC}}{\pm\text{A x} \pm\text{C}} \text{ X} \frac{3413157.86}{419.12 \text{ x } 1086.15} \text{ X}0.81$$

B. <u>Everest Bank Ltd.</u>

$$\pm A \text{ X} \sqrt{\frac{\text{ƒ}A \text{ Z} \overline{A}\text{Å}^2}{N}} \quad \text{X} \quad \sqrt{\frac{1642414.86}{7}} \quad \text{X} \quad 484.39$$

$$\pm B \text{ X} \sqrt{\frac{\text{ƒ}B \text{ Z} \overline{B}\text{Å}^2}{N}} \quad \text{X} \quad \sqrt{\frac{4829312299}{7}} \quad \text{X} \quad 26265.98$$

$$\pm C \text{ X} \sqrt{\frac{\text{ƒ}C \text{ Z} \overline{C}\text{Å}^2}{N}} \quad \text{X} \quad \sqrt{\frac{474975914.5}{7}} \quad \text{X} \quad 8237.34$$

$$\textbf{Cov, AB} = \frac{ƒR_A - \overline{R_A}\,A\,ƒR_B - \overline{R_B}\,A}{N} \; X \; \frac{88193660.24}{7} \; X \; 12599094.32$$

$$\textbf{Cov, AC} = \frac{ƒR_A - \overline{R_A}\,A\,ƒR_C - \overline{R_C}\,A}{N} \; X \; \frac{25746698.7}{7} \; X \; 3678099.81$$

$$°_{AB} \; X \frac{\text{Cov AB}}{\pm A \text{ x } \pm B} \; X \frac{12599094.32}{484.39 \text{ x } 26265.98} \; X 0.99$$

$$°_{AC} \; X \frac{\text{Cov AC}}{\pm A \text{ x } \pm C} \; X \frac{3678099.81}{484.39 \text{ x } 8237.39} \; X 0.92$$