

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 General Background**

Nepal is a small and land -locked country with unique physical setting surrounded by India in south, east and west and by china in the North. Nepal is online developing country in the world and has also increasing trend of economic condition. Development of every country has given emphasis an upliftment of its economy. Now a day, financial institutions are viewed as catalyst in the process of national economic growth. They help to mobilize frizzed and scattered saving of the people and play intermediary role to make the investment of the collected funds in the different requirements of trade and industry. It also plays greater role in reducing poverty, raising employment opportunities and raising public life standard.

Banks are the most important and essential financial institutions in any nation. Banks are the widest ranges of grant financial loans to any business firm in the economy. Commercial banks occupy quite important place in the framework of every economy because they provide capital for the development of industry, trade, business and other sectors by investing collected deposits from public. Thus integrated and promptly development of the country is possible only when competitive banking and financial service reaches nook and corners of the country. If there is insufficiency of banking and financial facilities, the growths of economic development become slow. Beside these commercial banks render numerous services to their customer in view of facilitating their economic and social life. In this way commercial bank has become the heart of financial system.

"Commercial banks bring into being the most important ingredient of the money supply demand deposit, through the creation of credit in the form of loan and investment" (Cross, 1963: 653).

All the economic activities are greatly influenced by the commercial banking business of that country. Thus commercial banks have become the heart of the financial system. A key factor in the development of country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective, banks formulate sound investment policies, which help commercial banks maximize quality and quantity of investment. Investment operation of commercial banks is very risky once. However, commercial banks have to pay due consideration while formulating investment policy which can be effective once for the economy to attain the economic objectives directly 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, loans and investments. Commercial banks are guided by several principles, such as length of time, their purpose, profitability, safety etc. These fundamental principles of investment of the commercial bank are fully considered during formulation of investment policy.

Investment policy is an important ingredient of overall national economic development because it ensures efficient allocation of fund to achieve the materials and economic well being of the society as a whole, investment policy should ensure minimum risk and maximum profit from lending.

Due to high competition between financial institutions the collected huge amount from public in investment practice is comparatively low. Therefore, it raised problems of investment and proper utilization of collected funds. Strong investment policy plays a significant role in utilization of collected funds and overall economic development of the country, so the researcher try to analyze the investment policies of commercial banks like Himalayan Bank Ltd and Bank of Kathmandu Ltd as far as possible on the basis of available primary and secondary data.

## **1.2 Focus of the study**

Investment policy is one fact of overall spectrum of policies that guide banks investment operations. A healthy development of any banks depends heavily upon its investment policy. Commercial banks must mobilize its deposits and other fund to profitable secured, stable and marketable sectors. So that, it can earn handsome profit which intern prove secured and productive and which finally can be converted into cash wherever needed. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring that maximum return with minimum risk, which ultimately leads to the bank to the path of success.

Investment operation of commercial bank 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 fact of the overall spectrum of policies that guides banks investment operations.

The study focuses on the problems of resources mobilization and proper utilization of such resources by the commercial banks of Nepal i.e. Himalayan Bank Ltd and Bank of Kathmandu Ltd. This studies mainly the study of investment policies and reflects on the position of commercial bank's deposits and allocation of it on different sectors of the economy.

The focus of this study is also to provide the information to the management, shareholders, investors and customers, general public, competitors as well as those concern parties who want to know the operating efficiency and financial position of bank.

## **1.3 Profiles of the Banks**

### **1.3.1 Himalayan Bank Limited**

In Nepal's market there are many commercial banks operating. Himalayan Bank Limited (HB Ltd.) was established under Commercial Bank Act, 2031 as a pioneer

commercial bank in 1993 A.D. It was established with a view to encourage efficient banking service as the fourth joint venture bank in Nepal. It is a joint venture with Habib Bank of Pakistan with initial paid up capital of Rs. 60 million. Now it has risen its paid up capital Rs. 810,810,000 by capitalizing profit and bonus share. The affiliation with Habib Bank of Pakistan, the largest commercial bank of Pakistan, has made its network and remittance service more prominent.

### **The Share Holding of Himalayan Bank Limited**

Promoter (class A)	51%
Habib Bank of Pakistan	20%
Employees Provident Fund	14%
General Public with Staff(class A)	15%
<b>Total</b>	<b>100%</b>

### **Position of Capital**

Authorized Capital	2,000,000,000
Issued Capital	1,000,000,000
Paid up Capital	810,810,000

HB Ltd has been providing the following different types of services to the customers:-

Ñ ATM with any Branch Banking	) Debit Card.
	) Remittances.
Ñ Safety Deposit Locker.	
) Loans	) Funds Transfer
) E-Banking.	) Bank Guarantees.
) Vehicles Loans.	) Export Credit.
) Deposit.	
) 365 Days Service.	) Bills Purchased.
) Credit Card.	) Clearing/Collection.

### **1.3.2 Bank of Kathmandu Limited**

Bank of Kathmandu Limited has become a prominent name in the Nepalese banking sector. It was incorporated in 1993 A.D under Commercial Bank Act, 2031. BOK Ltd was come into operation march, 1995 A.D with the objective to stimulate the Nepalese economy and take it to newer heights. BOK Ltd also aims to facilitate the nation's economy and become more competitive globally. To achieve these, BOK Ltd has been focusing on its set objectives right from the beginning. Now it has risen as a pioneer commercial bank in Nepal. It was established with a view to encourage efficient banking service as the joint venture bank in Nepal. BOK Ltd has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public.

#### ***Vision***

To become a significant contributor to the economic development of Nepal by distinguishing the bank as an efficient, competitive, safe and top quality financial institution.

#### ***Mission***

To offer financial services and become the 'bank of choice' by dedicating the progress and growth of the institution to the community, customers, employees and stockholders by:

- ) Promoting economic growth and becoming a caring corporate citizen.
- ) Provide excellent customer service by offering personalized quality services and products.
- ) Inducing modern technologies of banking that adds value to customer service.
- ) Following strict risk-control mechanisms.
- ) Enhancing shareholders value.
- ) Providing challenging career and learning opportunities for employees.

### ***Future Plans***

In the process of further strengthening the bank in the coming days, continuity to the following projects has been given:

- ) Mobilize funds to its optimum level and introduce new services with higher returns.
- ) Continuous monitoring and growth of funds and investments. Automate and enhance the quality of information system with a view to minimize risks in loans and investments.
- ) Develop the bank as a customer oriented institution and provide services to customers living in various geographical regions.
- ) Develop internal customer service programs to provide quality service with a view to increase retail credit base.
- ) Expansion of card services – debit card, pre-paid card, and credit card etc.
- ) Increase the network in order to access the target markets
- ) Explore prospects of financing small and medium enterprises and retail activities which provides higher returns in relative terms. This will reduce the risks of concentration on only one particular sector and also on low-yielding assets.
- ) Contribute to society and the nation in order to boost the corporate image and meet corporate social responsibilities (CSR).
- ) Continue improvement in service standards by capitalizing on the modern software used by the bank.
- ) Develop required procedures based on the directives Nepal Rastra Bank's with regard to capital adequacy and compliance to BASEL ii accord.

### ***Deposits***

Offering an array of features, BOK's deposit base comprises of depositors ranging from the general public to business houses, INGOs, NGOs, diplomatic agencies and institutional depositors. BOK's tailor-made deposit facilities truly meet the customers' need. They enable easy access to modern banking services, ensure

attractive returns for surplus funds, and make personal banking convenient and efficient to suit everyone's investment plans. Following are the major depository products offered by the bank:

### **The Share Holding of Bank of Kathmandu Limited**

Promoter	42%
General Public (With Staff)	58%
<b>Total</b>	<b>100%</b>

#### ***Position of Capital***

Authorized Capital 2,000,000,000

Issued Capital 1,000,000,000

***Paid up Capital*** ***Rs. 6,031,41300***

Promoters share Rs. 2,521,700

General public share Rs. 3,509,713

#### **) Current Account**

- Regular Current Account
- Operative Call Account

#### **) Savings Account**

- General Savings Account
- Sajilo Bachat Khata
- Ladder Savings Account
- Baidesik Rojgar Khata
- Griha Laxmi Bachat Khata

#### **) Recurring Savings Scheme**

- Kopila Bachat Yojana
- Mero Bachat Yojana

#### **) Fixed Account**

- Regular Fixed Deposits

- Jestha Lagani Kosh

### ***Branch Bank of Kathmandu Limited***

Bank Of Kathmandu Limited with its network of 17 branches and 6 service counters is committed in providing consistent service together with new and innovative products to all its valued customers. With 4 new branches soon to be in operation in the western regions of the country, BOK Ltd will have reached a new milestone in the history of the bank. This has been possible only through the commitment of our people to serve each and every customer with the zeal of making their life easier. BOK Ltd would like to emphasize that it is committed to delivering quality services to our customers, generating good returns for their shareholders, creating a healthy work environment for all their employees and continue to become a significant contributor in the economic development of the country.

Ñ Kamal Pokhari Branch

Ñ Thamel Branch

Ñ New Road Branch

Ñ Nepalgunj Branch

Ñ Butwal Branch

Ñ Hetauda Branch

Ñ Dhangadhi Branch

Ñ Pokhara Branch

Ñ Biratnagar Branch

### **1.4 Statement of the Problem**

The major problem in almost all the under developed countries is the formulation of capital and its proper utilization. This directly affects the economic development of the country. To avoid this problem and contribute to welfare of national economy, various commercial banks have been established. The main role of these commercial banks is to act as the bridge between savers and users. They collect



scattered deposits and give various types of loans to maximize their wealth. Banks are established to develop the economic of the country.

After the liberalization policy of the government, several joint venture banks and financial institutions are rapidly established but due to poor investment policy, lack of investment strategy, most of the joint venture banks might be collapsed in future. There are problems of investment and proper utilization of collected funds. Due to high competition between the financial institutions, they collected huge amount of money from the public and the capacity of investment of the collected fund is comparatively low which main reasons are lack of appropriate investment policy and strategy. Strong investment policy plays a significant role in utilization of collected funds and overall development of the economy.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They only depend upon the direct guidelines of Nepal Rastra Bank. They don't have clear view towards investment policy. Furthermore, the implementation of policy is not in an effective way. Commercial banks are reported to be criticized by customer due to implementation of wrong investment policies. They are ready to invest less risky and liquid sector, keep high liquid position and flow less funds in productive sectors. So these types of functions prove less investment opportunity of the fund.

Now a day commercial banks don't seem to be capable to invest their fund in more profitable sector. They are found to more interest in investment in less risky and highly liquid sector i.e. treasury bills, development bonds and other securities. They keep high liquid position and to flow lower funds to the productive sectors. This results into lowers profitability to commercial banks and ignorance to the national economic growth process. This is main reason for crisis in the commercial banks as well as in whole national economy.

Thus, this study is mainly concentrated on the following specific problems of commercial banks with special reference to Himalayan Bank Ltd and Bank of Kathmandu Ltd.

- ) What are the proportion of non-performing assets on total loans and advance of these banks
- ) What is the portfolio management of the banks
- ) What are the relationships of total deposit with total investment and total investment with total net profit of the banks
- ) How far they efficient as considering commercial banks as efficient financial institution
- ) Are they maintaining sufficient liquidity position

### **1.5 Objectives of the study**

The main objective of the study is to examine and evaluate the investment policy of the Himalayan Bank Ltd and Bank of Kathmandu Ltd to achieve following these prime objectives. This aims to examine its efficiency, effectiveness, systematization and sincerity in disbursing fund and analyzing investment policies as well within the directive of Nepal Rastra Bank, commercial Bank Act, other related acts & rules and its own policy, the main objectives of this study are given below.

- ) To study and examine relationship between total investments, deposits, loans-advance, net profit and assets and compare them.
- ) To evaluate the liquidity, assets management, efficiency, profitability and risk portion of Himalayan Bank Ltd and Bank of Kathmandu Ltd.
- ) To compare investment policies of concerned banks and discuss the fund mobilization of sample banks.
- ) To analyze the deposit utilization trend of the Himalayan Bank Ltd and Bank of Kathmandu Ltd.

- ) To assess the non performing assets position of Himalayan Bank Ltd and Bank of Kathmandu Ltd.
- ) To provide a package of workable suggestion and possible guidelines to improve investment policy of Himalayan Bank Ltd and Bank of Kathmandu Ltd. based on the finding of the analysis.

### **1.6 Significance of the Study**

Every research work should be fruitful; this study mainly fills a research gap on the study of investment policy of Himalayan Bank Ltd in comparison to Bank of Kathmandu Ltd.

The study is basically confined to review the investment policies of the banks during the last seven years period. This study is expected to provide a useful feedback to the policy maker of banks and also to the government and central bank (Nepal Rastra Bank) to formulate the appropriate strategies for improvement in the performance of banks.

A healthy development of any bank depends heavily upon its investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. Problems related to the upliftment of the national economy can be solved through formation interest rate spread and ensure maximum amount of investment to all sectors with proper utilization.

This study evaluates the investment policy of Himalayan Bank Ltd in comparison to Bank of Kathmandu Ltd. and finds their drawbacks and significantly contributes to make the policy sound. Both the banks under study are generating profit and providing return to investors but our study tries to evaluate how is the efforts and position of these two banks in the development of commercial banks.

## **1.7 Limitations of the study**

This study attempts to evaluate the investment policy of Himalayan Bank Ltd in comparison to Bank of Kathmandu Ltd. As every study has been conducted within certain limitations, the present study is also inherent some limitations, the following are the major limitations of the present study.

Ñ Among the several commercial banks in Nepal, this study has chosen only two commercial banks.

Ñ The study is based on secondary data collected from the banks, which may not be far from limitation due to inherent characters.

Ñ Time factor is other major limitation. This study is done in short time and information of only seven years is taken.

Ñ The study is simply a partial fulfillment of MBS degree and prepared within time constraint, which weakened adequacy of the study.

Ñ This study may not be sufficient for depth analysis as it covers only limited.

We have not been able to see minutes and other strategies documents to evaluate their investment policy. But we have tried all efforts to know required information and presented that pattern of investment by commercial banks in the country.

## **1.8 Organization of the study**

The whole study has been divided into five chapters. These are as follow:

### **Chapter 1: Introduction**

This chapter deals with the introduction part of the study. It includes background, focus of the study, profiles of the banks, statement of the problems, objectives of the study, significance of the study, limitation of the study and organization of the study.

## **Chapter 2: Review of Literature**

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

## **Chapter 3: Research Methodology**

This chapter seeks to explain the research methodology, which is used to evaluate the investment policies of concerned Joint Venture Commercial Banks. It includes research design, nature and sources of data, population and sample of the study, data collection procedures, data processing procedures and tools, and technique for analysis.

## **Chapter 4: Presentation and Analysis of Data**

This chapter deals with presentation and analysis of data. It is the main body of research which is mainly concerned with the analysis of different financial ratios related to investment policy and fund mobilization of Himalayan Bank Ltd and Bank of Kathmandu Ltd. Further, this chapter is also concerned with the statistical analysis.

## **Chapter: 5 Summary, Conclusion and Recommendations**

This is the last chapter of the study, which provides summary and conclusion, suggestions and recommendation for improving the future performance of the study banks. These chapters discuss the summary derived from the comparative analysis of Himalayan Bank Ltd and Bank of Kathmandu Ltd, conclusion of the study and provide necessary recommendation for the further important of investment operation of Himalayan Bank Ltd and Bank of Kathmandu Ltd. Finally, an extensive references and appendixes are also presented at the end of the thesis.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

The review of literature is taken as an essential part which works as cornerstone of the study. So that the past studies and their conclusions might be known and help to conduct further research. It is an integral and mandatory process in research work. So the review of literature provides the guidelines for further study and also helps to avoid the unnecessary duplication in the research. This chapter is basically concerned with review of literature relevant to the investment policy of commercial banks. Conceptual foundation is the most important part of every study, without clear concept on subject matter; the study may not go through right way. "The purpose of reviewing the literature is to develop some expertise in one's area to seek what new contributions can be made and to receive some ideas for developing research design. In this chapter, we will discuss about the conceptual framework, concept of commercial bank and investment." Besides these, this chapter highlights the literature that is available in concerned subject as to my knowledge, research work and relevant study on this topic, research papers, annual reports, articles and review of thesis work performed previously.

### **2.1 Conceptual Framework**

#### **2.1.1 Concept of Commercial Banks**

The Banks which performs all kind of banking business generally finance, trade and commerce are called commercial banks. Commercial banks are the largest and most diversified intermediaries' range of assets held and liabilities issues. The features of commercial banks lie, in fact not in their assets, but in their liabilities. Commercial bank is the cooperation which accepts demand deposits subjects to check and make short term loan to business enterprises, regardless of the scope of its other services.

Commercial banks are the only institutions that accept demand deposits, their role is to furnish short term funds to business, agriculture and government but through the year they have become veritable departmental stores of finance. Their

functions include substantial activity in granting of intermediate term credit through term loan and long term, credit through leasing and acquisition of government bonds and mortgages. Other services include the acceptance of time and saving deposits and the making consumer loans.

“Commercial Bank deals with the other people’s money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can't afford to lock up their funds in assets, which are not easily realizable. The depositor's confidence would be secured only if the bank is able to meet the demand for cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and hence the banker cannot afford to keep the large portion of the assets in the form of cash. Cash bring no income to the bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing the liquidity” (Radhaswamy and Vasuderan, 1979: 510).

Commercial Bank Act, 2031, Nepal has defined commercial bank as “An organization which exchanged money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank magnet for cooperative, agriculture, industries or for such specific purpose” (Nepal Commercial Bank Act, 2031)

Commercial banks provide different services for the economic development of the nation. They accumulate scattered resources and divert them into productive channels. The whole communities derive benefits from the banks in different ways. They facilitate the commerce of the country. In addition to the acceptance of deposits, lending and investing, they provide multiple services including accepting traveler's cheque, under writing, purchase and sale of securities government bonds for customers, buy and sale foreign exchange, supply of timely credit and market information, providing remittance facilities and so on. So, the commercial banks are the heart of financial system of the country.

After restoration of democracy in the country, government highlighted the agenda of economic liberalization and foreign banks were invited to operate in Nepal. Policies were announced and emphasized to invite foreign direct investment in the banking sector of Nepal.

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. Nepal Arab Bank Limited
4. Standard-Chartered Bank Nepal Limited
5. Nepal Investment Bank Limited
6. Himalayan Bank Limited
7. Nepal SBI Bank Limited
8. Nepal Bangladesh Bank Limited
9. Everest Bank Limited
10. Nepal Credit & Commerce Bank Limited
11. Bank of Kathmandu Limited
12. Nepal Industrial and Commercial Bank Limited
13. Lumbini Bank Limited
14. Kumari Bank limited
15. Machhapuchhre Bank Limited
16. Laxmi Bank Limited
17. Siddhartha Bank Limited
18. Agriculture Development Bank Limited
19. Global Bank
20. Citizen Bank
21. Prime Bank
22. Sunrise Bank
23. Bank of Asia Nepal Limited
24. Nepal Merchant Bank Limited
25. Kist Merchant Bank Limited



## **2.2 Investment**

One of the functions of commercial bank is investment, which help to economic development of the country. The process of the economic development depends upon various factors. However, economists are now convinced that capital formation and its proper utilization play a paramount role for rapid economic development. Hence, investment policy is one such tool that helps for proper utilization of resources.

The word "*investment*" sounds very good, attractive and prestigious too. The term "*investment*" has primary significance in financial sector, which refers to the process of determining the proper area in order to lodge a firm's fund to procure expected gain or profit known as the favorable return by its maximum utility at minimized risks. In laymen's sense, there is always a return if there is investment. This return may favorable as well as unfavorable to the investor's standpoint.

Investment is concerned with the management of an investor's wealth. Which are the sum of current income and the present value of all future income? Funds are invest come from assets already owned borrowed money and saving or forgone consumption by foregoing today and investing the saving, investors expect to enhance their future consumption possibilities i.e. it is invested to increase wealth. Investors also seek to manage their wealth effectively obtaining the most from it, while protecting it form inflation, taxes and factors.

The problem of investor is to select the funds objectives and degree of risk taking most closely match is own situation – the one that will accomplish for him what he would wish to do for him self if he could diversify and manage his own holdings.

Investment promotes economic growth and contributes to a nation's wealth, when people deposit money in a saving account in a bank. For example, the bank may invest by lending the funds of various businesses companies. There firms, in return, may invest the new money in new factories and equipment to increase their

production. In addition, borrowing from the banking most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest in such projects as the construction of dams, roads and school. All such investment by individuals, business and government involves a present sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living.

Investment policy is an important ingredient of overall national economic development because it insures efficient, also allocation of funds to achieve the materials and economic well being of the society as a whole. In this regard, joint venture bank's investment policy pushes and drives to achieve priority of commercial sector in the context of Nepal economic development.

"Investment in its broadest sense means the sacrifices of current dollars for future dollars. Two different attributes are generally involved; time and risk. The sacrifices takes place in the present and the magnitude is generally uncertain. In some cases, the element of time predominates (i.e. government bonds). In yet others, both time and risk are important. A distinction is often made between investments and saving. Saving is defined as foregone consumption; investment to restrict to real investment of the sort that increases national output in the future. While this definition may prove useful in other contest, it is not especially helpful have. However, it is useful to make distinction between real and financial investment." (William, Gorden and Jeffory, 1999: 256).

Banking plays a significant role in the development of national economic is a financial institution which primary classes in borrowing and lending. Modern bank prefers varieties of function; therefore it is difficult to decide the function of a modern bank because of their complexity and versatility in operation. Various authors have defined the word "Bank" in different ways. A commercial bank is dealer in money and it substitutes for money such a check or a bills of exchange, he also provides a variety of financial service.

Investment is any assets or property right acquired or held for the purpose of conserving capital or earning an income. Investment is an implementation of financial management decision, which is basically operated in financial sector. Investment is concerned with management of investor's wealth, which is the sum of current income and the present value of all future income. The term investment is sometimes used to suggest a commitment that is relatively free from certain risks of loss. Investment is a very risky job for a purposeful, safe and profitable investment.

Investment takes place when savings are put to work through the purchase of real assets, such as buildings and machinery of financial assets, such as bonds and stocks. In making and investment, obtain a future profit in the form of yield or rate of return but also accept the risk associated with the ownership. Investors also seek to manage their wealth effectively by protecting it from inflation taxes and other factors. So that investment means to pay out money to get more and to sacrifice current dollars for future dollars. Those two attributes generally involved; time and risk and results occur in favorable and unfavorable.

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

"A distinction is often made between investment and savings i.e. saving is defined as forgone consumption and investment is restricted to real investment of the sort and increase nation output in future" (Bhalla 1983:2). Similarly, "Investment by individual, Business and government involves present sacrifice of income to get unexpected future benefit; as result, investment raised a nations standard living."

Investment promotes economic growth and contributes to nation's wealth. When people deposit money in a saving account in a bank for example, the bank may

invest by lending the funds to various business companies. Investment means to trade of money for expected future stream of payment or benefits that will exceed the current cash outflow which is the benefit to investors for sacrificing the time and commitment or due to uncertainty and risk factors. Financial Institution must be able to mobilize their deposit, collection funds in profitable, secured and marketable sector so that they can earn good return on their investment.

### **2.2.1 Investment Policy of Commercial Bank**

A sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on one hand and provides maximum safety and security to the depositors and bank on the other hand. The role of commercial banks in economy is obviously prime requisite in the formulation of banks policy. A key factor in the development country is the mobilization of domestic resources and their investment for productive use to the various sectors that make it more effective. The commercial banks formulate sound investment policies which contribute to its economic growth of a country.

The investment policy of financial institutions, especially banks, have long term impact not only on their growth and sustainability but also on the economic development of the country successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institutions. Good investment policy has a positive impact on economic development of the country and vice-versa.

Setting a clear investment policy involves the identification of the potential categories of financial assets for consideration in the things, such as investment objectives, investment fund, tax considerable investment, so bank must follow sound investment policy. The sound investment policy helps commercial banks to maximize quality and quantity of investment and through by, achieve the own objective of profit maximization and social welfare.

Investment policy should ensure maximum amount of investment to all sectors with proper utilization. There is high liquidity in the market and it seems no profitable place to invest these days. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum risk. Ultimately, it leads the bank to the path of success to achieve its organizational objectives of shareholder's wealth.

Investment operation of commercial banks is very risky one. For this, commercial banks have to pay due consideration while formulating investment policy regarding loans and investment. Investment policy is one spectrum of the overall spectrums of policies that guide banks investment operations. A healthy development of any banks depends heavily up on 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, which is provide by the commercial bank, is guided by several principles, such as length of time, their purpose, profitability and safety etc. These fundamental principles of investment of commercial bank are to be considered while making investment policies.

Sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on one hand and provides maximum safety and security to the depositors and bank on the other hand. Commercial banks have to consider government and Nepal Rastra Bank's instructions, and national and their own interest as well. Problem related to the upliftment of national economy can be solved through the formulation of sound investment policy. Sound investment policy can minimize interest rate spread and ensures the maximum amount of investment to all sectors with proper utilization.

Nepalese commercial 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. So, the banking sector has to play development role to boot the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

### **2.2.2 Features of Sound Investment Policy**

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 its 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** = Ascertain ability

**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 depends on the

interest rate, volumes of loan, its 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 they 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 abuses 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 proverb is very important to the bank. It should always be careful during granting loan in only one sector. To minimize risk, a bank diversifies its investment on different sectors. Diversification of loan helps to sustain loss according to the law of average because there may be appreciation in the securities of other companies' if securities of a company are deprived. In this way, the loss can be recovered.

### **6. Tangibility**

Though it may be considered that tangible property does not 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 problems for the investor. A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of Finance and other while mobilizing its funds.

Thus, the investment policies should be carefully analyzed. Commercial banks must mobilize its deposits and other funds to profitable, secured and stable and marketable sectors that can earn a handsome profit as well as it should be secured and can be converted into cash whenever needed for which should come up with sound investment policies.

## **2.3 Reviews**

In this section, the focus is made on the review of literature in regard that the investment policy of commercial joint venture banks in Nepal. Only the relevant literature has been reviewed. Every possible effort has been made to grasp knowledge and information that is available from libraries document collected centre Nepal Stock Exchange centre other information managing bureaus' and concerned commercial banks. This section has to take adequate feedback to broaden the information base and inputs my study.

### **2.3.1 Review of Books**

The books 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. The fund collection and its utilization in a good investment sector is crucial for such organization. Thus, an investment of fund may be the question of life death for the bank. Under this heading, effort has been made to examine and review some of the related books regarding commercial banking investment policy and JVB's financial position etc.



Singh (2006) has defined investment in this way, "Investment is the employment of funds with the aim of achieving additional income or growth in value." William F. Sharpe and Alexander J. Gorden, define investment in this way. "Investment in its broad's sense means the sacrifice of certain present value for possible uncertain future value." (William and Gorden, 1995: 254).

Frank K. Reilly define investment as "An investment may be defined the current commitment of funds for a period of time to derive a future flow of funds that will composite 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"(Frank and Relly, 1986: 258).

Charles P. Jones has defined "Investment as the commitment of funds to one or, more assets that will be held over some future time period. Investment concerned with the management of an investor wealth, which is the sum of current income and present value of all future income" (Jones, 1988: 87). In the words of Gitman & Jochnk, "Investment is any vehicle into which funds can be place with the expected that willll preserve or increase in value and generate positive return" (Gitman and Jochnk, 1990: 357).

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

- Ñ Economic investment that is an economic definition of investment.
- Ñ Investment is a more general extended sense which use by "The man street".
- Ñ The sense in which are going to be very much interested namely financial investment.

"The investment objective is to increase systematically the individual wealth, defined as assets minus liabilities. The higher the level of desired wealth the higher

will be received. An investor seeking higher return must face the higher level of risk." (Cheney and Moses, 1999).

From the above definitions, it is clear that an investment means to trade a known rupee amount today for some expected future stream of payment or benefits that will expect the current outlay by an amount which will compensate that investment 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. So, a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of investable 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. Various authors have expressed their views regarding investment policy of commercial banks, then formulation and implements differently.

"The investment 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" (Singh, 1983: 168). Investment policy fixed responsibilities for the investment disposition of the banks assets in responsibility for day to day management of those assets. In Addition, a banker seeks optimum combination of earning, liquidity and safety, while formulating investment policy.

Emphasizing the important of investment policy, H.D.Crosse viewed as "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." He further added, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing, interest rate policy (Cross, 1963: 69).

Baidhaya (1997) has given his view a sound investment policy. He has said that, "A sound investment policy of a bank is such that its fund are distributed in different types of assets with good possibility on the one hand and provides maximum safety and security to the depositors and banks on other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio. When, a bank gets into serious financial trouble its problem usually spring from significant amount of loans that have become uncollectible due to mismanagement, illegal manipulation of loans, misguided lending policy or unexpected economic downturn. Therefore, the banks investment policy must be such that it ensures that it is sound and prudent in order to protect public funds." (Baidhaya; 1997:10)

From the above definitions, it is clear that investment policy provides several inputs to bank through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk. Ultimately it leads the bank to the path of success.

### **2.3.2 Review of Related Articles**

In this section, effort has been made to examine and review some of the related articles and journal published in different economic journal, Bulletin of World Bank dissertation paper, magazines, news paper and other related books.

**Mr. Bhagat Bista, (1990)** in his research paper, "Nepalma Adhunik Banking Baybasta," 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 so 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.

Similarly, **Dev Lal K. C. (1996)** in his article, “The changing face of the banking sector and HMG/N recent budgetary policy”, concludes that an introduction of the return in the banking sector as on integrate part of the liberal economic policy, more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily, the two government controlled banks, Nepal Bank Ltd and Rastriya Banijya Bank have also shown as improvement of non performing loans and are taking steps to adopt improved technology, However, higher economic growth with social justice bringing a significant benefit to the poor are yet to be achieved as envisaged by the HMG/N.

**Murali R. Sharma (1988)** in his article, " A study of Joint venture Banks in Nepal; co-existing and crowing out pointed out that is is very much beneficial for Nepalese to let joint venture banks to enhance the development of local banks, both types of banks will co-exist complementing each other and contributing the nations accelerated development. **Sunil Chopra** in his article, "Role of foreign banks in Nepal" has concluded that the joint venture banks are playing increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

**Bodhi B. Bajracharya (2047 BS)** in his article, "Monetary policy and deposit mobilization in Nepal" has concluded that mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal. And for this purpose, commercial banks stood as the vital and active financial intermediary for

generating resources in the form of the deposit of the private sectors so far providing credit to the investors in different sectors of the economy.

**Dr. Sunity Shrestha (1993)** has explained her view on research, "Investment planning of commercial banks in Nepal" has made remarkable efforts to examine the investment planning of commercial banks in Nepal. She concluded that the bank portfolio (Loan and investment) of commercial banks have been influenced by the variable securities rates. Investment planning of commercial bank in Nepal is directly traced to the fiscal policy of government and heavy regulatory procedure of Central Bank (NRB). So the investment operation of commercial banks in Nepal hasn't been found satisfactory in term of profitability, safety, liquidity, productivity and social responsibility. To overcome these problems, she 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."

**Ramesh Lal Shrestha (1988)** in his article, "A study in deposit and credits of commercial banks in Nepal" concluded that the credit deposit ratio would be 51.30% if other things remaining the same in 2004 A.D and recommended that the commercial bank should try to give more credit entering new field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

### **2.3.3 Review of Related Thesis**

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

Before this research, 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, resource mobilization

and capital structure. Among them some research thesis are found to be relevant for this study. They are as follows:

**Prabina Bajracharya (2057 BS)** has conducted research entitled on "Investment Policy of Commercial Banks in Priority Sectors" with the objectives of;

- ) To analyze the trend of investment in private sectors for 10 years from 2047 BS to 2056 BS.
- ) To analyze the trend of repayment in private sectors for 10 years from 2047 Bs. to 2056 BS.
- ) To measure the effectiveness of the program in terms of the investment and repayment in rural and urban sector.
- ) To evaluate the banking procedures and services in disbursing loan in this sector.
- ) To provide package of suggestion based on this study,

Major finding of the study were as follows:

- Ñ The target of 12% investment of total outstanding liabilities in priority sector and 3% out of which has been invested in deprived sector has been met by Rastriya Banijya Bank.
- Ñ Trend analysis for 10 year shows the increasing trend of investment in priority sectors which shows that the commercial banks are giving due considerations to increase investment in priority sector.
- Ñ Trend analysis of repayment for 10 years shows that the repayment has also increased in the following years.
- Ñ Interest charged on the loan disbursed in this sector is fairly less than the interest charge on loans for other purposes. In addition to this, there is high overhead cost incurred for supervision administration and others in this program.
- Ñ Regression analysis shows positive relation between investment and repayment.

- Ñ The Chi square test of effectiveness of program is more effective in rural and semi rural area as compared to the urban areas.
- Ñ Investment on agriculture is higher than investment on industry and service sector.
- Ñ The study revealed that the procedure of loan disbursement is complicated for the borrowers to understand it.
- Ñ In fact, if the supervisors make the scheduled supervision and inspection, and the frequent contact with the borrowers the change of misuse of the loan can be minimized.

**Mr. Rabindra Joshi (2003)** has done his thesis entitled “A Comparative Study on Investment Policy of Standard Chartered Bank Nepal Limited and Everest Bank Limited” with main objective of assessing investment policy and strategies followed by the bank with reference to Standard Chartered Bank Nepal Limited and Everest Bank Limited. He set following specific objectives.

- Ñ To compare investment policy of concern banks and discuss the fund mobilization of the sample bank.
- Ñ To find out empirical relationship between total investment, deposit and loans & advances, and net profit and outside assets, and compare them.
- Ñ To analyze the deposit utilization and its projection for next five years of Standard Chartered Bank Nepal Limited and Everest Bank Limited.
- Ñ To evaluate comparatively the profitability and risk position, liquidity assets management efficiency of Standard Chartered Bank Nepal Limited and Everest Bank Limited
- Ñ To provide a package of possibility guidelines to improve investment policies, its problems and way to solve some problems and provide suggestions and recommendation on the basis of the study.

Based on the secondary financial data analysis of Standard Chartered Bank Nepal Limited and Everest Bank Limited, following main findings have been derived by Joshi:

- Ñ Both banks have good deposit collection. Everest Bank Limited has the highest cash and bank balance to total deposit, cash and bank balance to current ratio that made the bank on good position to meet the daily cash requirement than Standard Chartered Bank Nepal Limited. However, the liquidity ratios of EBL showed that bank has not properly formulated any stable policy. Similarly EBL has greater current ratio than SCBNL. In other word, EBL was greater success to meet its current obligation than SCBNL. In addition, the most of liquidity ratios of SCBNL has more consistent or less variables than liquidity ratios of EBL except current ratio.
- Ñ The assets management ratios indicated that SCBNL has more successfully maintained and managed its assets towards different income generation activities than EBL. SCBNL has made high portion of total working fund in investment on government securities, share and debentures of other companies. However, EBL has used its greater total working funds on loan and advances than SCBNL. In addition, the assets management ratios of SCBNL have more consistent or less variables than assets management ratios of EBL except loan and advances to total deposit ratio, and loan and advances to total working fund.
- Ñ The profitability procession of SCBNL is comparatively better than EBL. It indicated that SCBNL has maintained its high profit margin regarding profitability position and EBL does not have a better position in comparison. It must maintain high profit margin for the well being in future. The finding shows EBL even though paying high interest to the customers for different activities. In addition, the most of profitability ratios of SCBNL has more consistent or less variables than profitability ratios of EBL except interest paid to total working.



- Ñ The risk ratios such as liquidity risk ratio, credit risk ratio of SCBNL is lower than that of risk ratios of EBL and risk ratios of SCBNL are also more homogenous than ratios of EBL.
- Ñ The growth ratios of concerned banks depicted that SCBNL has not been more successful to increase in source of funds i.e. deposit and mobilization (or loans and advances and total investment). It seems SCBNL has not made any effective strategy to win the confidence of shareholders, depositors and its all customers.
- Ñ The relationship between deposit and loans & advances and between deposit and total investment of SCBNL and EBL has found to be significantly positive.

**Mr. Prem Bahadur Shahi (2003)** has conducted his study entitled, “Investment policy of the Commercial Banks in Nepal (A Comparative Study of Nepal Bank Limited with Joint Venture Banks)” with the objectives of:

- Ñ To examine the fund mobilization and investment policy of NBL with respect to it’s fee-based off balance sheet transaction and fund based on balance sheet transactions in comparison to JVBs.
- Ñ To evaluate the liquidity, assets management efficiency and profitability position in related fund mobilization of NBL in comparison to JVBs.
- Ñ To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposits and net profit of NBL in comparison to JVBs.
- Ñ To find out the relationship between deposit and total investment , deposit and loan & advances and net profit and outside assets of NBL in comparison to JVBs.
- Ñ To evaluate the trends of deposits utilization and its projection for next five years in case of NBL comparing it with other joint venture banks.
- Ñ To suggest and recommend some measures of comparative fund mobilization and investment policy of NBL and other JVBs for the improvement of financial performance of NBL in future.

The findings of the research were as follows:

- Ñ The liquidity position of NBL is comparatively worse than that of the JVBs.
- Ñ NBL is comparatively less successful in on balance sheet operation as well as off balance sheet operation than that of other JVBs.
- Ñ Profitability position of Nepal Bank Ltd. is comparatively not better than that of the JVBs.
- Ñ Growth ratio of Nepal Bank Ltd. is lower than that of Joint Venture Banks.

He has suggested that to get success it self and to encourage financial and economic development of the country through industrialization and commercialization. Commercial banks must mobilize its funds in different sectors such as purchasing of share and debentures of other financial and non-financial companies. He has pointed out the loan default in commercial bank is a result of various factors i.e. political influence, lack of the necessary skills of project appraisal, improper collateral evaluation, irregular supervision and lack of entrepreneurship attitude.

**Mr. Mukunda Prasad Lamichhane (2004)**, has conducted a study on, “A Investment Policy of the Joint Venture Banks in Nepal” (A Comparative Study NABIL with NGBL and HBL) with the objectives of

- Ñ To evaluate the liquidity, assets management efficiency and profitability position in related fund mobilization of NABIL in comparison to NGBL and HBL.
- Ñ To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposits and net profit of NABIL in comparison to other JVB’s.
- Ñ To discuss find mobilization and investment policy of NABIL respect to its fee-based off balance sheet transactions in comparison to other JVB’s.
- Ñ To find out relationship between deposit and total investment, deposit and loan & advances and net profit and outside assets of NABIL in comparison to NGBL and HBL.

- Ñ To evaluate the trends of deposit utilization and its projection for next five years in case of NABIL comparing it with other Joint venture banks.
- Ñ To suggest and recommend some measures of comparative fund mobilization and investment policy of NABIL and other JVB's for the improvement of financial performance of NABIL in future.

The findings of research were as follows:

- Ñ The mean current ratio of NABIL is slightly higher than that of other joint venture banks. There is not much difference between the mean ratios of cash and bank balance to total deposit ratio of NABIL and other joint venture banks. The mean ratio of loan and advances to current assets of NABIL has been found greater than that of other Joint venture banks.
- Ñ Growth ratio of deposits of NABIL is lower i.e. 19% only in comparison to other Joint venture banks, i.e. 24%. Likewise growth ratio of loan and advances of NABIL is also lower.
- Ñ Trend value of loan and advances to total deposit ratio of NABIL and other Joint venture banks have been found increasing.

Therefore, he has recommended that to get success, joint venture banks must mobilize its funds in different sector such as to purchase share and debenture of other financial and non-financial companies and Government. Branches existing in some limited areas will not enable a bank to boost up its campaign of deposit mobilization and credit disbursement as desire.

**Mr. Vishal Rauniyar (2005)** has conducted his thesis work entitled, "A Study of Investment Policy of Joint Venture Banks with reference to Nabil Bank Limited and Standard Chartered Bank Limited." With main purpose of his study to assess the investment policy and strategies followed by NABIL and Standard Chartered Bank Limited. The objectives of the study are as follows:

- Ñ To evaluate the liquidity, asset management, profitability, risk position and growth ratios of the banks under study.

- Ñ To find out relationship between total deposit and investment, loans and advances, interest earned and net profit, net profit to outsiders assets and total working fund, loans and advances to interest paid and compare them.
- Ñ To analyze the trend of deposits, investment, net profit, and loans and advances of Standard Chartered Bank Limited and NABIL for next five years.
- Ñ To provide suggestions and recommendation on the basis of the study.

The comprehensive summary of the major findings of his study are presented below which were derived from the analysis of financial data of the concerned banks.

- Ñ Mr. Rauniyar concluded that the liquidity position of Standard Chartered Bank Limited is comparatively better than NABIL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets, Standard Chartered Bank Limited is in the a better position to meet its daily cash requirement. NABIL has a higher current ratio which justifies its enough capability to meet its current obligations. The mean investment in government securities of Standard Chartered Bank Limited is greater and the higher degree of variability in investment in government securities than NABIL showed the lacking of concrete policy of the bank during the study period
- Ñ NABIL has been more successful in mobilization of its total deposits and working funds as loans and advances. On the other hands, Standard Chartered Bank Limited appeared to be stronger in mobilization of total deposits and working funds as investment in risk free government securities. NABIL has far better in purchasing shares and debentures of other companies, but the bank has successfully managed their assets towards different income generation activities.
- Ñ Standard Chartered Bank Limited has been more successful in maintaining its higher return on loans and advances to total working funds. On the other hand NABIL has been more successful in term of earning power with respect to total working funds and outsiders assets. NABIL has been more successful in mobilization of its funds in interest bearing assets to earn higher interest

income than Standard Chartered Bank Limited. Standard Chartered Bank Limited is in better position than NABIL from interest payment point of view. NABIL has paid higher interest than Standard Chartered Bank Limited, where as the latter seems to have collected its funds from cheaper sources than NABIL.

Ñ Standard Chartered Bank Limited has lower liquidity risk and credit risk than NABIL. NABIL has greater exposure to risk in its financial operations than Standard Chartered Bank Limited.

Ñ Standard Chartered Bank Limited has been more successful in increasing its deposits and loans and advances during the study period, where as, NABIL has been more efficient in term of increasing its investment and net profit, but less successful in deposit collection. While other banks have initiated a host of measures and schemes to attract customer deposits, the strategy of shedding deposits of NABIL seems to be off the tune. NABIL needed to seriously rethink its strategy.

Ñ The correlation analysis suggested that there is a significant relationship between deposit and loans & advances, deposits and total investment, deposits and net profit in case of Standard Chartered Bank Limited. And the relationship between outsidess assets and net profits, deposit and interest earned, loans & advances and interest paid, and total assets and net profit were insignificant.

Ñ Similarly, there is a significant relationship exist between deposits and total loan and advances, deposits and total investment, deposits and interest earned in case of NABIL, where as, the relationship was insignificant between deposits and net profit, loans & advances and interest paid, total assets and net profits, outsidess assets and net profit.

Ñ The deposits, loans and advances, total investment and net profits of both banks were increasing trends and he predicted to increase proportionately by the end of fiscal year 2008/09.

Ñ The test of hypothesis suggested that there are significant different between mean ratio of loans and advances to total deposits, between mean ratio of investment in government securities to current assets ratio, and between mean

ratio of return on loans and advances of NABIL and Standard Chartered Bank Limited. But, there are no significant different between mean ratio of total investment to total deposits and between mean ratio of total interest earned to total outsides assets of NABIL and Standard Chartered Bank Limited.

**Jyoti Thapa (2005)** has conducted a thesis research on “Investment Policy of Everest Bank Limited in comparison to NABIL and “Bank of Khathmandu Limited” with the objectives of

- Ñ To evaluate the liquidity, assets management efficiency and profitability position in related fund mobilization of EBL in comparison to NABIL and BOKL.
- Ñ To examine the fund mobilization and investment policy of EBL in respect to it’s fee-based off balance sheet transaction and fund based on balance sheet transactions in comparison to NABIL and BOK.
- Ñ To find out the relationship between deposit and total investment, deposit and loan & advances, and net profit and outside assets of EBL in comparison to other JVBs.
- Ñ To evaluate the trends of deposit utilization and its projection for next five years in case of EBL comparing it with other joint venture banks.
- Ñ To suggest and recommended some measures of comparative fund mobilization and investment policy of EBL in future.

The findings of research were as follows:

- Ñ She concluded that EBL has successfully invested on government securities and loan & advances but has failed on return. So she has strongly suggested to EBL to initiate strong steps for the recovery part, which in turn can show high growth in profitability and for that EBL should take more consistent liberal lending policy.
- Ñ She has also recommended to the EBL to expand the branches that amount sufficient to cover the banking business as compare to the other JVB’s. In the same course NRB and GON have also encouraged the Joint venture banks to

expand the banking services in rural areas and communities without making unfavorable impact in their profits.

**Mr. Bibash Babu Aryal (2005)** has studied investment policy of joint venture banks in Nepal entitled “Investment Policy of Joint Venture Banks in Nepal: A Comparative Study of Everest Bank Ltd. with NABIL Bank and Nepal Bangladesh Bank Ltd” with underlying following objectives.

- Ñ To evaluate the liquidity, efficiency, profitability and risk position
- Ñ To evaluate the growth ratios of loans and advances, total investment with other financial variables
- Ñ To analyze the trend of deposit utilization towards total investment and loans and advances and its projection for next five years
- Ñ To provide packages of workable suggestions and possible guidelines to improve investment of these joint venture banks

Based on the secondary financial data analysis of Everest Bank Ltd, NABIL Bank and Nepal Bangladesh Bank Ltd, the following conclusions have been derived by Aryal:

- Ñ The liquidity position of EBL is comparatively better than NABIL and NBBL. It has higher cash and bank balance to total deposit, and cash & bank balance to current assets ratio. It has made enough investment on government securities but has maintained moderated investment policy on loan and advances.
- Ñ EBL is comparatively average successful in it’s on balance sheet operation as well as off balance sheet activities in compared to NABIL and NBBL.
- Ñ Profitability ratio of EBL is comparatively worse than NABIL and NBBL.
- Ñ Risk ratios showed that EBL has maintained higher risk which indicated heterogeneous variability in its operation. Where as there was moderately risk taken by NABIL and NBBL.
- Ñ EBL has maintained high growth rates in total deposit, loan and advance but has moderate position in investment. EBL has less growth rate than NABIL and NBBL.

- Ñ EBL has the highest value of coefficient of correlation between deposit and loan & advances that other compared banks. Likewise correlation co-efficient between deposit and total investment is also higher than other compared banks. EBL is moderately successful in mobilization of fund and earn return i.e. net profit form such mobilized funds.
- Ñ The deposit of EBL, NABIL and NBBL are in increasing trend which leads its profit also to the increasing trend.
- Ñ There is no significance difference in between loan and advance to total deposit, no different to current assets ratio likewise no significance difference in between loan and advance of EBL, NABIL and NBBL.
- Ñ There is significant different between OBS operation to loan and advances of EBL, NABIL and NBBL. Likewise there is significant difference in between total interest earned to total outside assets of EBL, NABIL and NBBL.

**Mrs. Geeta Regmi (2006)** has studied investment policy of EBL and HBL entitled “A Comparative Study on Investment Policy of Everest Bank Limited and Himalaya Bank Limited” with basic objectives of examining and evaluating the investment policy of EBL and HBL to achieve following these prime objectives:

- Ñ To find out relationship between total investments, deposits, loans and advances, net profit and assets and compare them.
- Ñ To compare investment policies of concerned banks and discuss the fund mobilization of sample banks.
- Ñ To evaluate the liquidity, asset management, efficiency, profitability and risk portion of EBL and HBL.
- Ñ To analyze the deposit utilization trend and its projection for five years of EBL and HBL.
- Ñ To provide package of a workable suggestion and possible guideline to improve investment policies.



The major findings of the study, derived by Mrs. Regmi on the basis of analysis of financial and statistical data of EBL and HBL, are given below:

- ¶ Both banks have satisfactory liquidity position. All mean liquidity ratios such as current ratio, cash & bank balance of total deposit ratio, cash & bank balance to current asset, investment of government securities to current asset and loan & advance to current asset of EBL are higher than the liquidity ratios of HBL. In other words, the liquidity position of EBL is comparatively better than HBL or good position to meet the daily cash requirement. On contrary, the variability on liquidity ratios of HBL showed more uniform or consistent than variability on liquidity ratios of EBL except current ratio.
- ¶ The investment on the government securities of EBL and HBL have almost same pattern but fluctuating ratios showed the unstable policy of investment while both banks have aggressive investment policy on loan and advances.
- ¶ The assets management ratios of both banks were satisfactory. The mean assets management ratios such as loan & advances to total deposit, loan & advances to working fund ratio, investment on government securities to total working fund ratio and investment on government securities on share and debenture to total working fund of EBL were higher than mean assets management ratios of HBL except total investment to total deposits ratio. It means EBL has invested its more portions as loan and advances and in case of other sectors, HBL has adopted diversified investment policy. On contrary, the variability on assets management ratios of HBL showed more uniform or consistent than variability on liquidity ratios of EBL except loan & advances to total deposit ratio and total investment to total deposits ratio. She concluded that the assets management position of EBL is less effective in comparison to HBL.
- ¶ She concluded that profitability position of HBL is better than EBL. In other words, HBL has maintained high profit margin regarding profitability position and has been able to maintain less payment as interest. Both banks were in a way to improve its profitability position.

- Ñ The risk ratio such as liquidity risk ratio and credit risk of EBL is more than risk ratio of HBL. However, the variability of risk ratios of HBL were more uniform than that of EBL.
- Ñ HBL has less successfully collected and utilized its funds among its customers because of lower growth rate of total deposit and lower growth of total loan and advances than these growth ratios of EBL. The mean growth ratios of EBL is higher or significantly higher than the growth ratios of HBL. On contrary, the ratios were more consistent to the ratios of HBL than that of EBL.
- Ñ She also concluded that almost all relationship is significant except relation between loan & advances and interest paid of HBL with positive value of correlation. However, the relationship between deposit and loan & advances, deposit and total investment, outsides assets and net profit, loan & advances and interest paid, and between total working fund and net profit of EBL is significant with positive correlation coefficient except relationship between loan & advances and interest paid.
- Ñ She also concluded that the trend value of total deposit, loan & advances, total investment and net profit of both banks EBL and HBL were in increasing trend.
- Ñ The test statistics suggested that there was significant different between mean ratio of loan & advances to total deposit of EBL and HBL and were no significant different between mean ratio of total investment to total deposit, mean ratio of investment on government securities to current assets, mean ratio of loan & advances to current assets, mean ratio of return on loan and advances, and mean ratio of total interest earned to total outsides assets of EBL and HBL.
- Ñ And, there were significant correlation between total deposit and loan & advances, and between total deposit and total investment of EBL and HBL.

**Poonam Prasai (2007)** has studied comparative study of investment plan of commercial banks entitled “A Study on Investment Plan of Commercial Banks: A Comparative Study of NABIL, NIB and SBI” with following objectives:

- Ñ To examine the investment plan of the banks
- Ñ To examine the utilization of available fund of NABIL, NIB and Nepal SBI Bank
- Ñ To evaluate the liquidity and risk position of NABIL, NIB and Nepal SBI Bank
- Ñ To find out the empirical relationship between deposits, loan & advances, investment, net profit and compare them between NABIL, NIB and Nepal SBI Bank
- Ñ To provide the suggestion for improving the investment plan to NABIL, NIB and Nepal SBI Bank on the basis of the finding of the analysis.

She analyzed the available data by help of different financial and statistical tools and draw following major conclusions:

- Ñ The liquidity position of NABIL is comparatively lower than NIB and Nepal SBI bank but it has the highest investment on government securities to current assets ratio.
- Ñ Through the assets management ratio, NABIL has highest investment policy towards investment to total deposits and government securities to total working fund but lower in to share and development to total working fund.
- Ñ From the view point of risk ratio, liquidity risk and credit risk of NABIL is lower than NIB and Nepal SBI Bank but in case of capital risk NABIL has average ratio than other two.
- Ñ From the analysis of the growth ratio, NABIL has lower growth rate in total deposits, loan & advances and total investment but it has average growth rate in net profit. However, in all growth rates there is higher amount of NABIL than other two.
- Ñ Trough the both trend analysis i.e. loan & advances to total deposits and total investment to total deposits ratios of NABIL is greater than that of NIB and Nepal SBI Bank.
- Ñ From the co-efficient of correlation between deposit and loan & advances and deposit, and total investment there is a significant relationship.

In summary, she concluded that investment plan of NABIL is better in every sector. Similarly, the trend of loan & advances and total investment to total deposits showed that NABIL's position will be better. However, liquidity position and growth rate is not good but it has average risk ratio. Similarly, NIB has better investment plan, and better trend of loan & advances and total investment to total deposit than Nepal SBI Bank and also it has very good growth rate than other banks. However, Nepal SBI Bank has good liquidity position and risk ratio.

**Ms. Sunita Tripathy (2006)** has done her research entitled "A Study of Investment Pattern of Commercial Banks in Nepal: With Special Reference to Everest Bank Ltd., NABIL Bank Ltd., Standard Chartered Bank Ltd., and SBI Bank Ltd." with main objective of assessing the investment policy and strategies followed by the banks with reference to EBL, NABIL, SCBNL and Nepal SBI Bank Limited. The objectives of the study are as follows:

- Ñ To evaluate investment policies of the concerned banks and discuss the fund mobilization of the sample banks.
- Ñ To evaluate the growth ratios of loans and advances, investment to total deposit to net profit of EBL, NABIL, SCBNL and Nepal SBI Bank Limited.
- Ñ To analyze the deposit utilization and its protection for next five year of banks.
- Ñ To evaluate comparatively profitability and risk position. Liquidity, assets management efficiency of the concerned banks.
- Ñ To provide packages of possible guidelines to improve investment policy, its problem and provide the suggestion and recommendation on the basis of the study.

Based on the secondary financial data of concerned banks, Ms Tripathy has analyzed and drawn the following major conclusions.

- Ñ The liquidity position of SCBLT is better than NABIL, EBL and SBI. NABIL has the highest cash and bank balance to total deposit and SBI performed better

in cash and bank balance to current assets ratio. NABIL has the lowest liquidity position then other three banks. SCBNL has good deposit collection and has made enough investment on government securities but it has maintained lower investment policy on loan and advances. During the study period EBL maintained better policy on loan and advances.

Ñ From the analysis of assets management ratio or activity ratio, SBI and EBL maintained higher ratio in loan and advances to total deposits ratio. On the other SBI maintained least position of its fund in investment to total deposit. Investment in government securities to total working fund ratio is higher of SCBNL but it has poor condition to maintain loan and advances to total assets. All the banks have invested very lower percentage of their fund on company's share and debentures.

Ñ In analysis of profitability ratio, total interest earned to total outside assets and return on total working fund of SCBNL is highest of other JVBs. SCBNL has as better position in return on loan and advances. EBL's interest earned and paid to total working fund ratio is better than other JVBs during the study period.

Ñ From the view point of risk ratios, SCBNL and ZEBL have higher ratio in capital risk ratio. In other hand, SCBNL has lower position in granting loan i.e. credit risk ratio and NABIL Bank is in average.

Ñ EBL has highest and NABIL has lowest growth ratio to total deposit and loan & advances whereas other two JVBs are in average position. EBL and SBI invested highest amount rather than two others JVBs. Growth ratio to net profit has highly maintained by EBL whereas other three JVBs are far to maintain it.

Ñ The entire banks which are taken to the study have positively correlated. The value of 6 P.E. is lesser than 'r' of EBL. So it is significant relation between deposit and investment. Other three JVBs have insignificant relation.

Ñ EBL and SBI have greater value of 'r' than 6 P.E. So there is significant relation between deposit and loan & advances whereas SCBNL and NABIL have insignificant relationship.

Ñ From the analysis of correlation between outside assets and net profit it has been found that there is significant relation between them of EBL. About other JVBs there is insignificant relation i.e.  $P.E. > r$ . EBL has high degree of correlation and SCBNL has moderate degree of correlation.

Ñ The trend value of total deposit, loan & advances, total investment and net profit is analyzed. If condition remains same, the future trend of next five years will be in increasing range. In conclusion, SCBNL seems better than others JVBs in five years of ofrecasting. It can be said that all four JVBs have followed the policy of maximizing the deposit, loan & advances, investment and net profit.

**Mr. Ram Chadra Bhatta (2007)** has done his thesis entitled “A Study on Investment Policy of Everest Bank Ltd. in Comparison to Bank of Kathmandu Ltd. and Himalayan Bank Ltd.” with main objectives of assessing the investment policy and strategies followed by EBL, HBL and BOK. He set following four specific objectives.

Ñ To study the asset management system, profitability and risk position of commercial banks under study.

Ñ To analyze the relationship between total investment & deposit and loan & advance and net profit & outside asset and their comparative study in between commercial banks under study.

Ñ To evaluate the deposit utilization trend and its projection for next five years.

Ñ To provides the suggestion for improvement on the basis of finding.

Based on the secondary financial data of concerned banks, Ms Tripathy has analyzed different financial and statistical tools and drawn the following major conclusions.

Ñ The liquidity position of BOK is relatively high than that of EBL and HBL. The liquidity position of EBL is average in comparison to BOK and HBL. This indicates that EBL is in good position to meet the daily cash requirement but to

bear high cost of funds. In addition, investment on government securities is better than BOK and HBL with higher ratio indicate unstable policy of investment. EBL has maintained moderate investment policy on loan and advances.

Ñ EBL is comparatively successful than that of other two studied banks in case of assets management. But it does not seem to follow a definite policy regarding the management of its assets.

Ñ The profitability position of EBL is not good as comparison to BOK and HBL because it has average position of mean return on loan and advance ratio, return on total working fund and ratio of total interest paid to total working fund, and lowest of mean total interest earned to total outside assets ratio, ratio of total interest earned to total working fund and ratio of total interest earned to total operating. It must maintain its net profit margin for the well being in future.

Ñ All mean risk ratios such as liquidity risk ratio, capital risk ratio and credit risk ratio of EBL were higher than that of other studied banks except mean credit risk ratio of EBL is lower than the ratio of BOK. It has comparatively moderate risk.

Ñ EBL has maintained high growth ratio in total deposit, loan & advances and in total investment. The growth rate in net profit is slightly better than BOK but worse than HBL.

Ñ Trend analysis between the variables of loan & advances and total deposits reveals that no one bank has consistent trend values but fluctuate haphazardly. Therefore there is less reliability in the prediction.

Ñ Trend value of total investment to total deposit reveal that all banks have trend in increasing patterns. But not in more consistent manner.

Ñ The study of relationship between deposit and loan & advances is positive and significant. Similarly, relationship between deposits and total investment also has positive and significant. In addition, the correlation analysis between outside asset and net profit is positive but insignificant in case of BOK.

## **2.4 Review of Legislative Provision**

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

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 functions of commercial banks have been established. Providing this act will be exchange of money, to accept deposit and provide loan to commercial banks and business activities, that to mobilize banks deposit indifferent sectors of the different parts of the nation to prevent them from the financial problems. Central bank (NRB) established a legal framework by formulating various rules and regulation (prudential norms). These directives must have direct or indirect impact while making decision to discuss those rules and regulations, which are formulated by NRB in term of investment and credit to priority sector, deprived sector, other institution. Single borrower limits CRR, loan loss provision, capital adequacy relation, interest spread are the productive sector investment. A commercial bank is directly related to the fact that, how much fund must be collected as paid up capital while being established as a certain place of the nation, how much fund is needed 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.

### **2.4.1 Provision for Investment in the Deprived Sector**

This provision instructed by government (Ministry of Finance) and NRB. Some rules, which are formulated by NRB, affect the areas of credit and investment extension to the deprived sector by the commercial bank. According to the new provision, with effect from 16 July 2001, investment in shares of rural development banks by commercial banks, which used to be counted for the priority sector lending, only is new to be including under the deprived sector lending. According to the provision, following banks are required to extend to the deprived sector as stipulated percentage maintained below:

**Table No. 1**  
**Provision for Investment in the Deprived Sector**

<b>Name of Banks</b>	<b>Minimum % of Total Outstanding Credit to be Extended for Deprived Sector</b>
Everest Bank Ltd.	2
Nabil Bank Ltd.	3
Bank of Katmandu Ltd.	1.75
Nepal Bank Ltd.	3
Rastriya Banijya Bank	3
Standard Chartered Bank Ltd.	3
Nepal Investment Bank Ltd.	3
Himalayan Bank Ltd.	2
Nepal SBI Bank Ltd.	2
Nepal Bangladesh Bank Ltd.	2
Nepal Credit and Commerce Bank Ltd.	0.75
Nepal Industrial and Commercial Bank Ltd.	0.00
Lumbini Bank Ltd.	0.25
Machapuchare Bank Ltd.	0.25
Kumari Bank Ltd.	0.25

*Note: The computation of deprived sector credit is to be done on the trimester basis.*

*Source: NRB*

### **2.4.2 Provision for Credit to the Priority Sector**

NRB requires commercial banks extend loan and advances, amounting at least to 12% of their total outstanding credit to priority sector. Commercial banks credit to the deprived sector is also part of priority sector, credit under priority sector, credit to agriculture, and credit to cottage and small industries. Credit to service and counted commercial bank's loan to the cooperative licensed by the NRB is also to be computed as the priority sector credit from the fiscal year 1995/96 on wards.

### **2.4.3 Provision for the Investment in Productive Sectors**

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

### **2.4.4 Provision for the Single Borrow Credit Limit**

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

### **2.4.5 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 minimum level of Rs. 2,000.00 million with in 5 years of period i.e. by the end of F/Y 2010/11” (HMG Budget Speech 2005/06).

**Table No. 2**  
**Capital Adequacy Ratio**

Fiscal Year	CAR of risk weight assets	
	Core Capital	Capital Fund (Supplementary)
2058/059	4.5	9.0
059/060	5.0	10.0
060/061	6.0	12.0

*Source: NRB*

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. Similarly, the commercial banks are directed to maintain the minimum capital fund on the basis of their risk. Weighted asset i.e. CAR (capital adequacy ratio) in the following ratio is given below.

**Table No. 3**  
**Risk Weighted on Balance Sheet Assets**

<i>On-Balance Sheet Assets</i>	<i>Weights</i>
Cash balance	0
Gold (exchangeable)	0
With NRB	0
Investment on government Debenture	0
Fixed bill collator loan	0
Grant loan safety on Gov. Debenture collator	0
Cash balance with domestic Bank and financial institution	20
Other banks fixes bill collateral loan	20
With foreign bank	20
Money at call	20
International rated: foreign bank of guarantee loan	20
International : other investment of foreign bank	20
Investment of share, debenture and bond	100
Other investment	100
Investment on NRB debenture	0
Loan, bills purchases and discounted	100
Fixed assets	100
Misc. Assets	100

*Source: NRB*

Where, core capital includes paid up capital, share premium non redeemable preference share, general reserve fund and accumulated loss/profit. And,

supplementary capital includes general loan loss provision, exchange equalization reserve, asset revaluation reserve, hybrid capital instrument, subordinated term debt and free reserve. There are two types of the total risk weighted asset as under as per directives.

**Table No. 4**  
**Risk Weighted on Off-Balance Sheet Items**

<i>Off-Balance Sheet Items</i>	<i>Weights</i>
Bills collection	0
Forward foreign exchange contract	10
Letter of credit with maturity less than 6 month	20
Issued grantee by granted of foreign bank	20
Letter of credit with maturity more than 6 month	50
Bid bond	50
Performance bond	50
Advance payment grantee	100
Financial grantee	100
Other grantee	100
Irrevocable loan commitment	100
Possible liabilities	100
Other contingent Liabilities	100

*Source: NRB*

#### **2.4.6 Cash Reserve Requirements (CRR)**

Cash reserve is a nerve centre of the banks, which are transaction, speculative and precaution motives operating impact. To ensure adequate liquidity in the commercial banks, to meet the depositor's demand for cash at any time and to inject the confidence in depositor's regarding the safety of their deposit funds, commercial banks are required to have maximum CRR. In this regard, NRB has directed commercial banks to deposit minimum 8% of current and saving and 6% of fixed deposits in the NRB as primary cash reserve. The commercial banks are further required to have 3% cash of total deposits in their own bank as secondary reserve.

### **2.4.7 Loan Classification and Loss Provision**

There are different types of loan provided by the banks, which are based on instruction of NRB and government. With the view, it leads to improve the quality of assets of commercial banks. NRB has directed commercial banks to classify their outstanding loan and advances, investments and other assets into four categories. The classification is done in two ways. The loans of more than one hundred thousands are to be classified as per debt service charge ration, repayment situation, and financial condition of borrower, management efficiency and quality of collateral. The loans of less than one hundred thousands have to be classified as per maturity period.

- Ñ Pass
- Ñ Substandard
- Ñ Doubtful
- Ñ Loss

**Table No. 5**  
**Loan Loss Provision (in Percent of Overdue Loan)**

<i>Loan Classification</i>	<i>Loan Loss Provisioning</i>
Pass	1
Substandard	25
Doubtful	50
Loss	100

*Source: NRB*

The loan loss provision has to be maintained the CBs which that instruction by NRB. Furthermore, NRB has directed commercial banks to maintain certain reserves for loans so classified the existing loan loss provisioning is as table 2.5. The loss the loan loss provisioning has affected bank's capability to extend loans and made them risk averse in issuing lower loans, particularly to the private sector and priority sector where the loan default is high.

### **2.4.8 Directives Regarding Interest Rate Spread**

The interest rate spread, the difference between interest has changed on loan and advance and the interest paid to the depositors, has widened significantly in the aftermath of deregulation in interest rates. This has caused lower financial intermediation. Therefore, NRB has required commercial bank to limit interest rate spread between deposit and leading rates to a maximum extent 5%. NRB has also provided commercial banks with new calculation of interest rate spread for a certain period recently.

### **2.5 Research Gap**

The purpose of the research work is quite different from the studies made by the above person (related to joint venture banks). The author focuses this study in effectiveness on investment policy analysis of Himalaya Bank Limited and Bank of Kathmandu Limited in comprehensive manner considering the major items. The method of analysis is fully different. Financial tools and statistical tools are used in this study as ratio analysis, trend analysis, correlation and hypothesis. This study is a little bit different than previous studies. It may be the first research study in the field of investment policy taking the comparative study of Himalaya Bank Limited and Bank of Kathmandu Limited. This study tried to indicate the effectiveness of investment policy of commercial banks.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology describes that the methods and processes applied in the entire subjects of the related study. It is the process of the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. The basic objective of this study is to evaluate about the investment policy of concern commercial bank. Research is a systematic method of finding out solution to a problem where as research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view (Kothari, 1990: 19).

This study has been dealt with general background of commercial banks and investment policy of the bank and reviews of literature with possible reviews of relevant books, articles and helped thesis. The literature has provided the necessary base for this study and has helped to choose the research methodology to reach and accomplish the objectives of the study, different activities are carried out and different stage are crossed during the study period. For this purpose, the chapter aims to present and reflect the methods and techniques which are carried out and followed during the study period. So it is a way to solve systematically about the research problem, which includes many tools, if it is necessary in each and every steps of the study.

#### **3.2 Research Design**

Research design is the logical and systematic planning and directing part of research. It is the process of making decisions before the situation arises in which the decision is to be carried out.

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. It includes the

overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the methods to be used to be used to gather and analysis the data. In other words strategy implies how to problems encountered in the research will be tracked (Joshi, 2002: 39). Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 1990:22).

Research design is an essential part for each research work .To achieve the objectives of this study, the descriptive and analytical research design has been used. This study has been depended on the secondary data. It has included all the process of collecting, verifying and evaluating of past evidence systematically and objectively to reach final conclusion. Some financial and statistical tools have been adopted to examine factors in this study and descriptive techniques have been adopted to evaluate investment policy of HB Ltd and BOK Ltd.

### **3.3 Sources of Data**

Data were collected from two sources. They were primary sources and secondary sources. This study was conducted on the basis of secondary data relating to investment e.g. deposit, loan advances and profit/ loss that have been collected from profit and loss account, balance sheet of related banks, and annual report of auditors. The annual reports of the concerned banks were the major sources of data for the study. Besides the annual reports of the bank, the following sources of data have also been used.

- ) Government of Nepal's budget speech of different fiscal years
- ) NRB published books ,reports and bulletin
- ) Banks bulletin
- ) Various articles published in the Newspaper
- ) The NEPSE report



- ) The website of the selected banks
- ) Previous studies

Supplementary data and information were directly collected from related authorized persons of concerned banks, regulating authorities. Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem. According to the need and objectives of data, all the secondary data has been observed, processed and tabulated in time services.

### **3.4 Analysis of Data**

Presentation and analysis of the collected data is the core of the research work. To achieve the objectives of the study, some statistical and accounting tools have been used. The data extracted from financial statement and other available information's were processed and tabulated in various tables and charts under different heading according to their nature. These data were used for required calculations like ratio analysis, growth ratio and accounting tools were used to examine the financial strength and weakness of the banks. Similarly some statistical tools like graph, percentage, standard deviation, coefficient of variance and coefficient of correlation were also used in the study. Statistical results have also helped to achieve the objectives of the study. We have also incorporated primary information received from some officials of the concerned banks. There was no need of circulating questionnaires.

### **3.5 Population and Sampling**

The population refers to the banks of the same nature and its services in general. Thus the total commercial banks constituted as the population of the data and the bank under study constituted the sample for the study. This study has also covered the period of fiscal year 2000/01 to 2006.07.

The time limitation and unavailability of the relevant data, made the researcher to focus on two commercial banks even though there are 25 commercial banks functioning all over the country. Samples were taken from the population randomly, which were as follows:

- ) Himalayan Bank Limited (HB Ltd )
- ) Bank of Kathmandu Limited (BOK Ltd.)

Both banks are found be similar in many respects and represents other commercial banks operating in the country. Our study result will reflect investment policy of the commercial banks.

### **3.6 Tools for Analysis**

To compare these joint venture banks, the following financial and statistical tools are used for analysis.

#### **3.6.1 Financial Tools**

Financial tools basically help to analyze the financial strength and weakness of the bank. In this study, financial tools like ratio analysis have been used.

##### **3.6.1.1 Ratio Analysis**

Ratio analysis is the main tools of financial analysis. It is a technique of analysis and interpretation of financial statement. It is a mathematical relationship between two related items expressed in quantitative form. 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. Thus ratio analysis has used to compare a firm's financial performance and status to other firms. The ratio is the measurement of quantitative relationship between two or more items of financial statement connected with each others. Ratio can be expressed as percentage, fraction and coefficient. With the help of ratio analysis the qualitative judgment can be done regarding firm's performance and status.

In this study, the following ratios have been calculated and analyzed.

- ) Liquidity Ratio
- ) Activity Ratio
- ) Profitability Ratio
- ) Risk Ratio

### **3.6.1.1.1 Liquidity Ratios**

Liquidity ratios, constituting ratio-analysis of the short term financial position of the bank, are intended to derive a picture of the capacity of banks to meet their short-term obligations out of their short-term resources. Such insight of liquidity ratio has emerged over the years which, when viewed in their totality and with respect to risk, is expected to yield a rough approximation of the capacity of banks to pay their current liabilities as and when they fall due for payment. The following ratios are evaluated under liquidity ratio.

#### **3.6.1.1.1.1 Current Ratio**

Current Ratio is the test of liquidity. Current Ratio evaluates short term debt paying ability of the bank. It measures the ability to make the payment of current debt from current assets. This shows the relationship between current assets and current liabilities. It is calculated by dividing current assets by current liabilities. Mathematically,

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

The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstance in case of seasonal business.

**Current Assets:** - Current Assets include cash and bank balance, money at call on short term notice, loan and advances, investment on government securities and other interest receivables and other miscellaneous current assets.

**Current Liabilities:** - Current Liabilities include deposits and other accounts, short term loan, bills payable, tax provision, staff bonus, dividend payable and other miscellaneous current liabilities

#### **3.6.1.1.1.2 Cash and Bank Balance to Current Assets Ratio**

This ratio shows the banks liquidity capacity on the basis of cash and bank balance that is the most liquid assets. Higher ratio indicates the banks ability to meet the daily cash requirement of their customer deposit and vice versa. This ratio is computed by dividing cash and bank balance by current assets. Mathematically,

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

#### **3.6.1.1.1.3 Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)**

This ratio shows the capability of bank, which may be immediately payable to the depositors. Cash and Bank Balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to depositors. This ratio is computed by dividing cash and bank balance by total deposit. Mathematically,

$$\text{Cash and Bank Balance to Total Deposit Ratio} \times \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Cash and bank balance includes cash in hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. And, total deposit includes deposits and fixed deposits, money at calls and short notice and other deposits.

#### **3.6.1.1.1.4 Investment on Government Securities to Current Assets Ratios**

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

computed by dividing investment on government securities by current assets. Mathematically,

*Investment on Government Securities to Current Assets Ratio*

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

### **3.6.1.1.1.5 Loan and Advances to Current Assets Ratio**

This ratio shows the percentage of loan and advances in the total assets. Loan and advances is the current assets that are the general income to the banks. It includes loan, advances, cash credit, loan and foreign bills purchased and discounted. Mathematically,

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

### **3.6.1.1.2 Assets Management Ratio (Activity Ratio)**

Assets management ratio measures how effectively the firm is managing its assets in profitable and satisfactory manner. These ratios are designed to answers the questions such as does the total amount of each type of assets as reported on the balance sheet seen reasonable?, too high or too low in view of current and projected operating level? It is used to measure the banks ability to utilize their available resources. The following ratios are used under this assets management ratio.

#### **3.6.1.1.2.1 Loan and Advances to Total Deposit Ratio**

This ratio measures the extent to which the banks are able to mobilize their total deposit on loan and advances for the purpose of profit maximization. Higher ratio implies the better utilization of loan and advances out of total deposit. This ratio can be calculated by dividing loan and advances by total deposit. Mathematically,

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

### **3.6.1.1.2.2 Loan and Advances to Total Working Fund Ratio**

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets as loan and advances for the purpose of income generation. A high ratio indicates better mobilization of fund as loan and advances and vice-versa. This ratio can be computed by dividing loan and advances by total working fund.

Mathematically,

$$\text{Loan and Advances to Total Working Fund} \quad X \quad \frac{\text{Loan and Advances}}{\text{Total Working Fund}}$$

The denominator includes all assets of on balance sheet item. In other words this includes current assets, net fixed assets and other miscellaneous assets but excludes off balance sheet items like letter of credit, letter of guarantee etc.

### **3.6.1.1.2.3 Total Investment to Total Deposit Ratio**

Investment is one of the major credits created to earn income. This ratio implies the utilization of banks deposits on investment in government securities and shares debentures of other companies and bank. A high ratio is the indicator of high success to mobilize that banking fund as investment and vice versa, though various factors such as availability of fund, liquidity requirement, central bank norms etc. are to be considered in general. This ratio can be obtained by dividing total investment by total deposit. This can be mentioned as:-

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

The numerator consists of investment on government securities, investment on share and debenture and bonds, shares in other companies and other investment.

#### **3.6.1.1.2.4 Investment on Government Securities Total Working Fund Ratio**

A bank mobilizes its fund by purchasing government securities which is considered secured and very low risky securities. This ratio is very important to know whether the banks are able to successfully mobilizing its some portion of share to government securities to maximize its income or not. This can be calculated by dividing investment on government securities by total working fund. This is presented as:-

$$\begin{aligned} & \text{Investment on Government Securities to Total Working Fund Ratio} \\ & = \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}} \end{aligned}$$

#### **3.6.1.1.2.5 Investment on Shares and Debenture to Total Working Fund Ratio**

This ratio shows that whether the banks are successfully or not in mobilizing their total assets on shares and debentures of other companies to generate incomes. A high ratio indicates more portion of working fund is invested in the shares and debentures and vice versa. This ratio can be obtained by dividing investment on shares and debentures by total working fund. This can be mentioned as:-

$$\begin{aligned} & \text{Investment on Shares and Debenture to Total Working Fund Ratio} \\ & = \frac{\text{Investment on Shares and Debenture}}{\text{Total Working Fund}} \end{aligned}$$

#### **3.6.1.1.3 Profitability Ratios**

Profitability Ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial position and performance of any institutions for the better financial performance. The relation of the return of the firm to either its equity or its assets is known as profitability ratios. Higher profit ratios are supposed to be higher efficient of the firm. Profitability position of the firm can be presented through different ways.

### **3.6.1.1.3.1 Return on Loan and Advances Ratio**

This ratio measures the earning capacity of the commercial bank through its fund mobilization as loan and advances. This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. Most loan and advances include loan, cash credit, and overdraft, bills purchased and discounted. A high ratio indicates greater success to mobilize fund as loan and advances and vice versa. This ratio is calculated by dividing net profit (loss) by loan and advances. This can be stated as:-

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

### **3.6.1.1.3.2 Return on Total Working Fund Ratio**

This ratio measures the overall profitability of all working fund i.e. total assets, it is also known as return on assets. A firm has to earn satisfactory return on assets or working fund in order to long term service. This ratio is calculated by dividing net profit (loss) by total working fund. This can be stated as:-

$$\text{Return on Total Working Fund Ratio (ROA)} = \frac{\text{Net Profit (Loss)}}{\text{Total Working Fund}}$$

### **3.6.1.1.3.3 Total Interest Earned to Total Outside Assets Ratio**

This ratio measures the capacity of the firm for earning through proper utilization of outside assets. Higher ratio shows the efficiency of using outside assets to earn interest. This ratio can be calculated by dividing total interest earned by total outside assets. It can be mentioned as:-

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

The numerator includes total interest income from loan and advances, cash credit and overdrafts, government securities inter bank and other investments. The denominator includes loan and advances, bills purchased and discounted and all type of investment.



#### **3.6.1.1.3.4 Earning Per Share**

The profitability of a firm from the view point of the ordinary shareholders is the Earning per Share (EPS). It measures the profit available to the equity holders on a per share basis i.e. the amount that they can get on every share held. The higher the EPS is supposed to be a best comprising between two firms or bank. It is calculated by dividing the profits available to the shareholders by the number of the outstanding shares. This can be stated as:-

$$\text{Earning Per Share} = \frac{\text{Net Profit Available to Equity Holders}}{\text{No of Outstanding Shares}}$$

#### **3.6.1.1.3.5 Total Interest Earned to Total Working Fund Ratio**

This ratio depicts the extent on which the banks are successful in mobilizing their total assets to generate high income as interest. It is calculated to find out the percentage of interest earned to total assets (working funds). Higher ratio implies the better performance of the bank in terms interest earning on its total working fund. This ratio is calculated by dividing total interest earned by total working fund. This can be stated as:-

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

#### **3.6.1.1.3.6 Total Interest Paid to Total Working Fund Ratio**

This ratio measures the percentage of total interest paid on liabilities with respect to total working fund. A high ratio indicates the higher interest expenses on total working fund and vice versa. It is calculated by dividing total interest paid by total working fund. This can be mentioned as:-

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

The numerator consists of total interest expenses on deposit, liabilities, loan and advances (borrowing) and other deposit.

### **3.6.1.1.3.7 Total Interest Earned to Operating Income Ratio**

This ratio is calculated to find out the ratio of interest income with operating income of the bank. This ratio indicates how effectively the bank is mobilizing its resources in bearing assets i.e. loan and investment, investment etc. This ratio is calculated by dividing total interest earned by total operating income. This can be presented as:-

$$\text{Total Interest Earned to Operating Income Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Operating Income}}$$

### **3.6.1.1.4 Risk Ratios**

Risk means uncertainty; which lays the bank transaction of investment management. It increases efficiency and profitability of the bank. These ratios indicate the amount of risk associate with the various harming operation that ultimately influence the banks investment policy. Following ratios are evaluated under this.

#### **3.6.1.1.4.1 Liquidity Risk Ratio**

This ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying the depositors demand for cash. Higher ratio shows lower liquidity risk. This ratio is calculated by dividing total cash and bank balance by total deposits. It can be mentioned as:-

$$\text{Liquidity Risk Ratio} = \frac{\text{Total Cash and Bank Balance}}{\text{Total Deposits}}$$

#### **3.6.1.1.4.2 Credit Risk Ratio**

This ratio measures the possibility that loan will not be rapid for that investment with deteriorate in quality or go into default with consequent loss to the bank. According to definition credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. This ratio is calculated by dividing total loan and advances by total assets. It can be calculated as:-

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

### 3.6.2 Statistical Tools

Some important statistical tools have been used to present and analyze the data for achieving the objectives of the study. In this study, statistical tools such as mean, standard deviation, coefficient of correlation analysis, coefficient of variation and hypothesis testing of important variables have been used, which are as follows.

#### 3.6.2.1 Arithmetical Mean

It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

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

Where:

$$\bar{X} = \text{Arithmetic mean}$$

$$N = \text{Number of observations}$$

$$X = \text{Sum of observations}$$

#### 3.6.2.2 Standard Deviation

Standard deviation is an important and widely uses to measure dispersion. A standard deviation is the positive square root of the squares of the deviations of the given observations from their arithmetic mean. It is denoted by the letter  $\sigma$  (*sigma*). In this study, standard deviation of different ratios has been calculated.

$$\sigma = \sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2}$$

Where,

$$\sigma = \text{Standard Deviation}$$

$$\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2 = \text{Sum of Squares of Observation}$$

$$\frac{\sum \epsilon^2}{N} \quad \text{XSum of Squares of Mean}$$

### 3.6.2.3 Coefficient of Variation

The Coefficient of variation is the most commonly used measure of relative variation. It is the relative measures of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the large C.V. and vice versa. It is calculated as:

$$\text{Coefficient of variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100\%$$

$$\text{C.V.} = \frac{\sum}{\bar{X}} \times 100\%$$

Where,

$$\bar{X} = \text{Mean}$$

$$\sum = \text{Standard Deviation}$$

$$\text{C.V.} = \text{Coefficient of Variation}$$

### 3.6.2.4 Coefficient of Correlation

Coefficient of correlation is the mathematical method of measuring the degree of association between the two variables i.e. one dependent and another independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

- ) Coefficient of correlation between deposit, and loan and advances.
- ) Coefficient of correlation between total deposit and total investment.
- ) Coefficient of correlation between total loan and advance assets and net profit.

The correlation is a statistical tool which studies the relationship between two variables and correlation analysis involves various methods and techniques used for studying and measuring the extent of the relationship between two variables (Gupta 1996). There are different methods to study correlation between variables. The commonly used method is Karl Pearson's coefficient of correlation or covariance method for correlation study.

**Karl Pearson's coefficient of correlation (r):** Karl Pearson's coefficient correlation is a mathematical method for measuring the intensity or magnitude of linear relationship between two variable series. It is correlation coefficient between two variables X and Y and is defined as the ratio of the covariance between X and Y to the product of the standard deviations of X and Y (Gupta 1996). Mathematically,

$$r_{xy} = \frac{\text{Cov. (X, Y)}}{\sigma_x \sigma_y}$$

Where,  $r_{xy}$  = Pearsonian correlation coefficient

Cov. (X,Y) = Covariance between X and Y

$\sigma_x$  = Standard Deviation of X variable

$\sigma_y$  = Standard Deviation of Y variable

Simply,

$$r_{xy} = \frac{n\phi_{XY} - \frac{\sum (\phi X) (\phi Y)}{Z}}{\sqrt{\left[ n\phi X^2 - \frac{(\sum \phi X)^2}{Z} \right] \left[ n\phi Y^2 - \frac{(\sum \phi Y)^2}{Z} \right]}}$$

Where, n = no. of sample pair

$\phi$  = Sum of

### **Interpretation of r**

1.  $r = +1$  implies perfect positive correlation between variables,  $r = 0$  implies no correlation between variables and  $r = -1$  implies perfect negative correlation between variables.

2.  $r = < 0.5$ ; lower level correlation,  $r = 0.5 - 0.7$  ; moderately correlated and  $r = 0.7 - < 1$ ; high level of correlation.

**Probable Error /P.E. (r):** The probable error of the correlation coefficient is an amount which if added to and subtracted from the mean correlation coefficient, produces amounts within which the chances are even that a coefficient of correlation from a series selected at random will fall (Secrist Horace in litt. Gupta 1996). It is an old measure of testing the reliability of an observed correlation coefficient. Mathematically,

$$P.E. (r) = 0.6745 | S.E.(r)$$

$$\text{Where, } S.E.(r) = \text{Standard error} = S.E.(r) = \frac{1 - r_{xy}^2}{\sqrt{n}}$$

$r_{xy}$  = Pearsonian correlation coefficient

$n$  = no. of sample pair

The factor 0.6745 is that in a normal distribution 50% of the observations lie in the range  $\bar{x} \pm 0.6745\sigma$ , where  $\bar{x}$  is the mean and  $\sigma$  is the standard deviation.

#### **Use of P.E. (r)**

1. To determine the limits within which population correlation coefficient may be expected to lie. The limits for population correlation coefficient equals to  $r_{xy} \pm P.E. (r)$ .
2. If  $r_{xy} < P.E. (r)$ , then correlation is not at all significant, if  $r_{xy} > 6P.E. (r)$ , then correlation is definitely significant and in other conditions nothing can be concluded with certainty.

### **3.6.2.5 Hypothesis**

Under this topic, an effort has been made to test the significance level regarding the parameter of the population on the basis of sample drawn from the population. The following steps have been followed in the test of hypothesis.

Ñ Formulating of hypothesis

- Null Hypothesis
- Alternative Hypothesis

Ñ Computing the test statistic

Ñ Fixing the level of significance

Ñ Deciding two tailed or one tailed test

Ñ Having decision

### t-test

In this research study the sample is small i.e.,  $n = 7$ . Hence, to deal with small sample “t” test is used. Suppose we want to test if two independent samples have been drawn from two normal populations having the same means, the population variances being equal. We set up the null hypothesis as

$H_0: \mu_1 = \mu_2$  i.e., the samples have been drawn from the normal population, or the sample means  $\bar{X}_1$  and  $\bar{X}_2$  do not differ significantly. Under the assumption that  $\sigma_1^2 = \sigma_2^2 = \sigma^2$  i.e., population variances are equal but unknown, the test statistic under  $H_0$  is:

$$|t| = \frac{|\bar{X}_1 - \bar{X}_2|}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \quad \text{with } \dots\dots\dots \text{ d.f.} = n_1 + n_2 - 2$$

$$\text{Where, } \bar{X}_1 = \frac{\sum X_1}{n_1}, \quad \bar{X}_2 = \frac{\sum X_2}{n_2}$$

$$S^2 = \frac{1}{n_1 + n_2 - 2} (\sum x_1^2 + \sum x_2^2)$$

Is an unbiased estimate the common population variance  $\sigma^2$  based on both the samples? By comparing the tabulated value of “t” for  $n_1 + n_2 - 2$  d.f. at the desired level of significance, the decision has taken. Usually 5% level of significance has been used to find out the rejection or acceptance of the null hypothesis  $H_0$ .

### **3.6.2.6 Hypothesis of the Study**

Following Hypothesis have been formulated and tested for the purpose of the study.

H<sub>01</sub> : There is no significant difference between mean ratios of loan & advances to total deposit of HB Ltd & BOK Ltd.

H<sub>A1</sub> : There is significant difference between mean ratios of loan & advances total deposit of HB Ltd & BOK Ltd.

H<sub>02</sub> : There is no significant difference between mean ratios of total investment to total deposit of HB Ltd & BOK Ltd.

H<sub>A2</sub> : There is significant difference between mean ratios of total investment to total deposit of HB Ltd & BOK Ltd.

H<sub>03</sub> : There is no significant difference between mean ratios of investment on government securities to current assets of HB Ltd & BOK Ltd.

H<sub>A3</sub> : There is significant difference between mean ratios of investment on government securities to current assets of HB Ltd & BOK Ltd.

H<sub>04</sub> : There is no significant difference between mean ratios of loan & advances to current assets of HB Ltd & BOK Ltd.

H<sub>A4</sub> : There is significant difference between mean ratios of loan & advances to current assets of HB Ltd & BOK Ltd.

H<sub>05</sub> : There is no significant difference between mean ratios of return on loan and advances of HB Ltd & BOK Ltd.

H<sub>A5</sub> : There is significant difference between mean ratios of return on loan and advances of HB Ltd & BOK Ltd.

H<sub>06</sub> : There is no significant difference between mean ratios of total interest earned to total outside assets of HB Ltd & BOK Ltd.

H<sub>A6</sub> : There is significant difference between mean ratios of total interest earned to total outside assets of HB Ltd & BOK Ltd.



## **CHAPTER- IV**

### **DATA PRESENTATION AND ANALYSIS**

After the introduction of investment pattern, here is given the major and paramount important findings. This is analytical chapter, where the researcher has analyzed and evaluated those major financial items, which mainly effect the investment management and fund mobilization.

#### **4.1 Financial Tools**

Financial analysis is the process of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used.

Various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluate and analyze the performance of two banks HB Ltd & BOK Ltd. Financial ratios are calculated and analyzed with the help data. Some important financial ratios are only calculated from the point of view of the fund mobilization and investment policy. The ratio's are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned Banks i.e. HB Ltd and BOK Ltd. The important financial ratios that are needed in the analysis are calculated and mentioned below.

- ) Liquidity Ratio,
- ) Asset Management Ratio,
- ) Profitability Ratio and
- ) Risk Ratio

### 4.1.1 Liquidity Ratio

Raito analysis expresses quantitative relation of two mathematical variables as a financial tool. Ratio is taken to judge an accounting figure in relation to the other accounting balances. There are different types of ratios used to measure a firm's financial position. Liquidity ratio presents liquidity position of a firm. Liquidity position is calculated taking relation to the different portfolios of the firm. It may vary based on nature of business. In this study following ratios are calculated and mentioned of the concerned financial institutions.

#### 4.1.1.1 Current Ratio

Current ratio measures short term liabilities maturing before one year. This is a broad measurement tool to analyze liquidity position of a financial institution. It indicates Bank's ability to discharge current obligation. The ratio is obtained by dividing current assets by current liabilities.

$$\text{Current ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

**Table No. 6**  
**Calculation of Current Ratio (Times)**

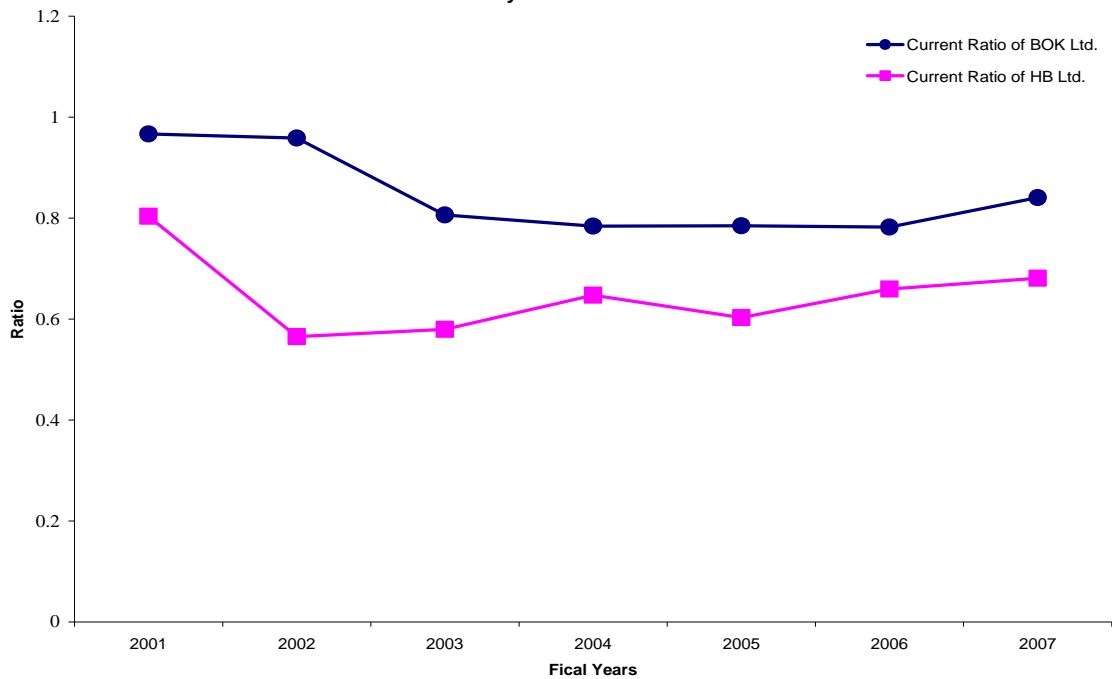
<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.803625	0.966865
2001/02	0.56507	0.958623
2002/03	0.579488	0.806187
2003/04	0.647255	0.784041
2004/05	0.602842	0.784818
2005/06	0.659632	0.782382
2006/07	0.68108	0.840807
<b>Mean</b>	0.6484	0.8462
<b>S.D.</b>	0.0747	0.0761
<b>C.V.</b>	11.5199	8.9921

Both HB Ltd and BOK Ltd have not maintained current assets less than their current liabilities. Both banks do not capable enough to pay their current obligations. The highest current ratio of HB Ltd and BOK Ltd were observed in year 2000/001, whereas, least current ratio of HB Ltd and BOK Ltd were observed

in year 2001/002 and 2005/006 respectively. The current ratio of BOK Ltd is better than HB Ltd during the study period because mean current ratio of BOK Ltd (0.8462) was greater than current ratio of HB Ltd (0.6484). It means BOK Ltd has better short term liquidity position than HB Ltd which showed BOK Ltd was better position to pay short term obligation than HB Ltd.

Similarly, consistency of short term liquidity position of BOK Ltd was better than HB Ltd because Standard deviation and coefficient of variance of BOK Ltd is less than HB Ltd (Table No. 6).

**Figure No. 1**  
**Calculation of Current Ratio**  
Trend Analysis of Current Ratio



The trend line of current ratio of HB Ltd showed slowly fluctuated up and down. The line was reached in minimum in year 2001/2002 and highest in year 2000/001. However, there was slowly gone downward till year 2005/006 and turned upward in 2006/007 in case of BOK Ltd (Figure No. 1). The capability to pay of short term obligation of both banks was becoming low because the trend lines go downward direction with some fluctuation.

#### **4.1.1.2 Cash and Bank Balance to Total Deposit Ratio**

Cash and Bank balance consist of cash on hand, foreign currencies, cheques as well as other cash items and balance with domestic Banks. This ratio measures the availability of Banks highly liquid or immediate funds to meet it unanticipated calls on all types of deposits. This ratio is calculated as:

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

As higher ratio indicates the higher ability to meet their deposits and vice versa. The following table shows the cash and Bank balance to total deposit ratio of two banks during the study period.

**Table No. 7**  
**Calculation of Cash and Bank Balance to Total Deposit Ratio**

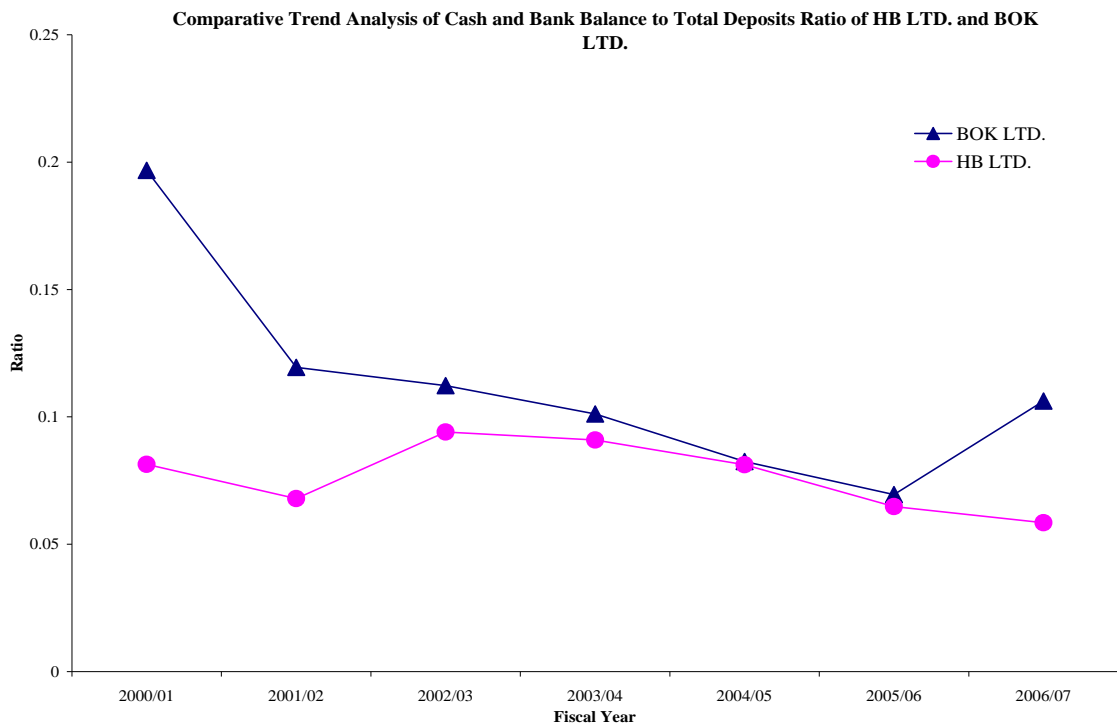
<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.0814	0.1968
2001/02	0.0679	0.1194
2002/03	0.0940	0.1123
2003/04	0.0909	0.1011
2004/05	0.0812	0.0825
2005/06	0.0648	0.0695
2006/07	0.0585	0.1062
<b>Mean</b>	0.0770	0.1125
<b>S.D.</b>	0.0125	0.0379
<b>C.V.</b>	16.2457	33.6962

HB Ltd had a high cash and balance to total deposit ratio of 0.0940 in Fiscal year 2002/2003 and a low ratio of 0.0585 in fiscal year 2001/2002. In case of BOK Ltd, cash and balance to total deposit ratio has a high of 0.1968 in fiscal year 2000/001 and a low of 0.0695 in fiscal year 2005/2006. The mean ratio of BOK Ltd was higher than HB Ltd i.e., 0.1125>.0770 along with higher cash and bank balance to total deposit ratio in BOK Ltd compare to HB Ltd in all fiscal year . It was observed BOK Ltd readiness to meet intense customer requirement better than HB Ltd. However, the C.V. of HB Ltd of is lower than that of BOK Ltd i.e., 16.2457%

< 33.6962%. It means HB Ltd ratios were more consistent than that of BOK Ltd (Table No. 7).

The cash and bank balance to total deposit of both HB Ltd and BOK Ltd were in fluctuating trend. The trend line of cash and bank balance to total deposit ratio of BOK Ltd showed that line was declining since 2000/001 and was reached minimum in fiscal year 2005/006. And finally it turned up in fiscal year 2006/007. However, in case of HB Ltd, the ratio showed some fluctuation till 2003/003 and then slightly declining till the final fiscal year of the study (Figure No.2).

**Figure No. 2**  
**Calculation of Cash and Bank Balance to Total Deposit**



Although the above ratios implies a better liquidity position of BOK Ltd as compare to HB Ltd. In addition, a higher ratio of non-earning cash and bank balance in BOK Ltd indicates the banks unavailability to invest its fund in income generation areas that might have helped it to improve its profitability than HB Ltd.

#### **4.1.1.3 Cash and Bank Balance to Current Assets Ratio**

This ratio examines the bank's liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the bank to make the quick payment to its customer's deposits. A high ratio indicates the sound ability to meet their daily cash requirement of their customers deposit and vice-versa. In this ratio, both higher and lower ratio are not desirable because if a bank maintains higher ratio of cash, it has to pay interest on deposit and some earnings may be lost and if a bank maintains lower ratio of cash, it may fail to make the payment for presented cheques by its customers. So, sufficient and appropriate cash reserves should be maintained properly. This ratio is calculated by dividing cash and bank balance to current assets:

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

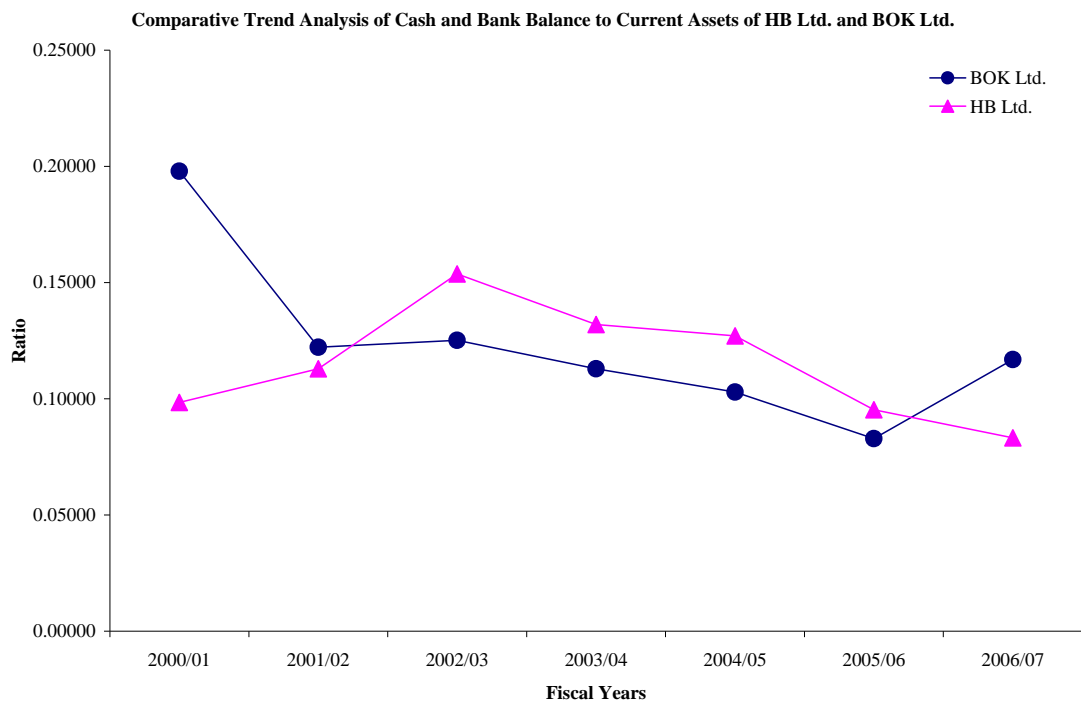
**Table No. 8**  
**Cash & Bank Balance to Current Assets Ratio (%)**

<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.0984	0.1979
2001/02	0.1130	0.1222
2002/03	0.1537	0.1252
2003/04	0.1319	0.1129
2004/05	0.1270	0.1029
2005/06	0.0953	0.0829
2006/07	0.0832	0.1169
<b>Mean</b>	0.1146	0.1230
<b>S.D.</b>	0.0227	0.0333
<b>C.V.</b>	19.8153	27.0947

HB Ltd has maintained a high ratio of 0.1537 in FISCAL YEAR 2002/03 and a low ratio of 0.0832 in 2006/07. Similarly, BOK Ltd has a high of 0.1979 in FISCAL YEAR 2000/01 and low ratio of 0.0829 in FISCAL YEAR 2005/06. HB Ltd had more sound ability to meet quick payment to its customer's deposits than ability to quick payment to its customer's deposits of BOK Ltd from fiscal years 2002/03 to 2005/06. However, the mean ratio of BOK Ltd was slightly higher

than HB Ltd. The C.V. of BOK Ltd is greater than HB Ltd i.e., 27.09% > 19.81% which means BOK Ltd ratios were less maintained consistent on meet quick payment to its customer's deposit than that of HB Ltd (Table No. 8). The ratio also suggested that both have fared well in meeting their depositor's daily cash requirement and investing the surplus fund in other productive areas.

**Figure No. 3**  
**Calculation of Cash and Bank to Current Assets**



The trend line showed that the cash and bank balance to current assets ratios of both banks were in a fluctuating. It is observed that the cash and bank balance to current assets ratio of HB Ltd was increasing till fiscal year 2002/03 and then decreasing till the final fiscal year of the study. In case of BOK Ltd, the cash and bank balance to current assets ratio was sharply decreased from fiscal year 2000/2001 to fiscal year 2001/02, then slightly decreased till fiscal year 2005/06 and finally increased in fiscal year 2006/07 Figure 3).

#### **4.1.1.4 Investment on Government Securities to Current Assets Ratio**

This ratio examines that portion of current assets of commercial banks, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected fund on different types of securities issued by government such as treasury bills, national saving bonds and development debentures in different times to utilize their excess funds and for other purpose. While government securities are not as liquid as cash balance of a commercial bank, it can be easily sold in the market or they can be converted into cash in other ways. This ratio shows that out of total current assets, the percentage has been occupied by the investment on government securities.

$$\text{Investment on government securities} = \frac{\text{Investment on government securities}}{\text{Total current assets}}$$

**Table No. 9**

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

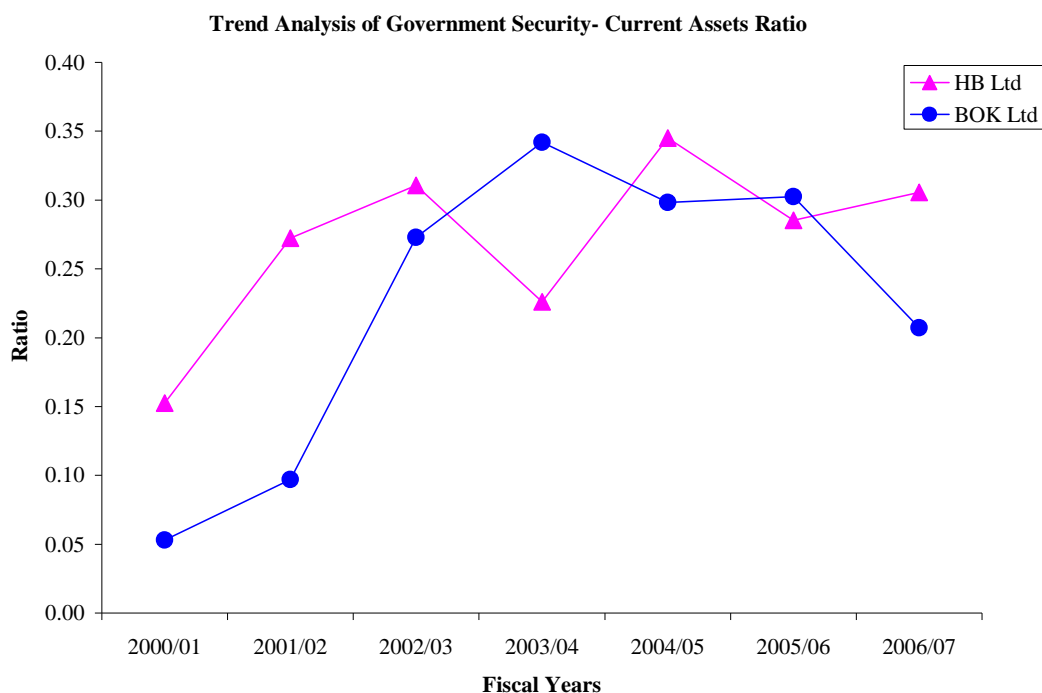
<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.1525	0.0530
2001/02	0.2722	0.0970
2002/03	0.3106	0.2729
2003/04	0.2262	0.3420
2004/05	0.3450	0.2983
2005/06	0.2853	0.3023
2006/07	0.3056	0.2072
<b>Mean</b>	0.2711	0.2247
<b>S.D.</b>	0.0591	0.1026
<b>C.V.</b>	21.8217	45.6445

The mean ratio of investment on government securities to current assets shows that HB Ltd has more portions of total current assets invested in government security (0.2711) than BOK Ltd (0.2247) along with lower value of C.V. than C.V. of BOK Ltd i.e. 21.82 % of HB Ltd and 45.64 % of HB Ltd (Table No. 9). It means the ratios of investment on government security to total current assets of HB Ltd is more consistent or uniform than the ratios of BOK Ltd. The ratios of investment



on government securities to current assets suggested that HB Ltd has invested its money in more secure area than that of BOK Ltd. The reason behind HB Ltd higher ratio could be attributed to more deposit collection and unavailability of other secured and profitable investment sectors.

**Figure No. 4**  
**Investment on Government Securities to Current Assets**



The above figure no. 4 clearly depicts that the investment on government securities to current assets of HB Ltd and BOK Ltd have a fluctuating trend. The trend line of government securities to current assets ratio of BOK Ltd is in increasing till fiscal year 2003/04 and then it has decreased. Also, HB Ltd investments in government securities to current assets has in increasing trend since fiscal 2000/01 to fiscal year 2002/03 and then it has in decreasing trend in fiscal year 2003/04. Again it has increased in fiscal year 2004/05 and finally it has slightly increased.

#### **4.1.1.5 Loan and Advance to Current Asset Ratio**

Loan and advances are also included in the current assets of commercial bank because they generally provide short-term loan, advance, overdraft, and cash credit. The ratio can be computed by following empirical formula:

$$\text{Loan and advance to current asset ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

In the present study loan and advance represents to local and foreign bills discounted purchased and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency. To make high profit by mobilizing fund in the best way, commercial banks should be invested as loan and advance to the customers in spite of all collected funds as cash and bank balance. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earning. But high loan and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only.

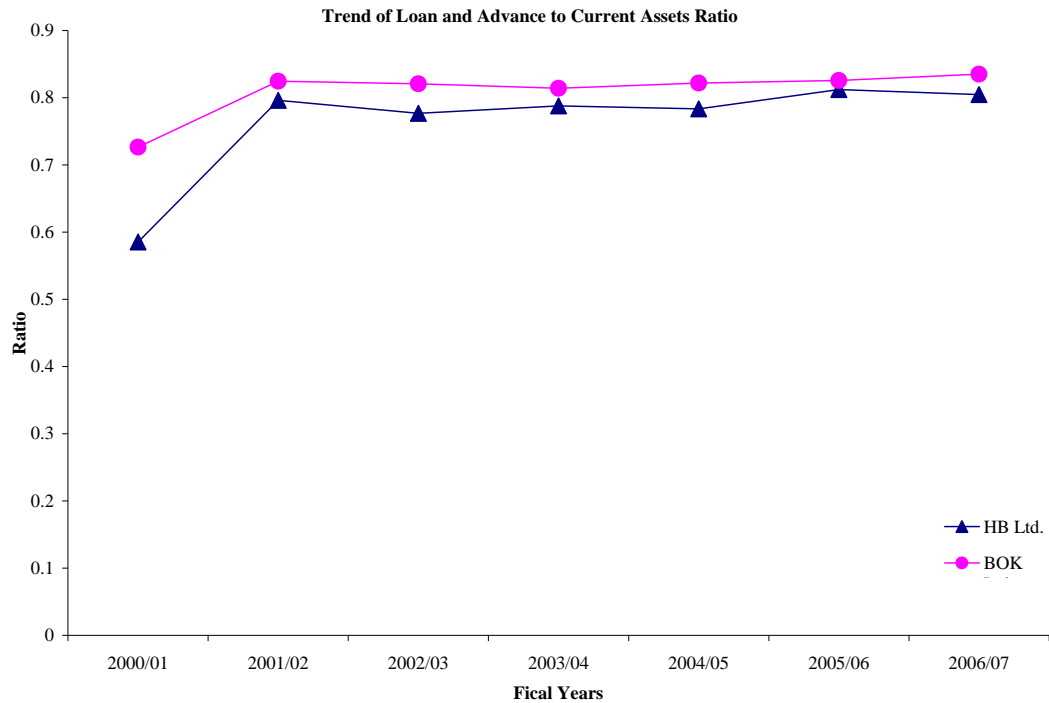
**Table No. 10**  
**Calculation of Loan & Advance to Current Assets Ratio**

<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.5853	0.7266
2001/02	0.7961	0.8246
2002/03	0.7769	0.8207
2003/04	0.7878	0.8142
2004/05	0.7836	0.8218
2005/06	0.8121	0.8256
2006/07	0.8047	0.8350
<b>Mean</b>	0.7638	0.8098
<b>S.D.</b>	0.0737	0.0345
<b>C.V.</b>	9.6520	4.2548

The mean ratio of loan and advances to current assets of BOK Ltd is comparatively higher to HB Ltd i.e. 0.8098>0.7638. Both banks have experienced an increasing trend of loan and advances with very little fluctuation in ratio. HB Ltd has a high ratio of 0.8121 in 2005/06 and a low ratio of 0.5853 in fiscal year 2000/2001. Similarly BOK Ltd has experienced a high ratio of 0.8350 in fiscal year 2006/2007 and a low of 0.7266 in fiscal year 2000/01. In addition, the ratio of BOK Ltd has been less variable than the ratio of HB Ltd because of lower C.V. of BOK Ltd i.e. 4.25 %< 9.65 % (Table No. 10).

**Figure No. 5**

**Calculation of Loan and Advance to Current Assets**



The figure 5 clearly shows trend lines of loan and advances to current assets of both banks were slightly fluctuated during study period. Both banks showed similar trend of fluctuation of the line ratios. The ratios lines of both banks have first shapely increased and then very small fluctuation have been seen up to the final year of the study.

The above analysis reveals that BOK Ltd has been more successful in identifying profitable investment sectors and invests to increase its earning. HB Ltd has paid more efforts on investing in risk free assets, rather than increasing its loan and advances volume than BOK Ltd.

**4.1.2 Asset Management Ratio**

Asset management ratio measures how effectively a firm is managing its assets. These ratios are designed to answer this question; “Does the total amount of each type of asset as regard on the balance sheet seem reasonable or too high or too low, in the view of current assets and operating levels?” Either a company or a bank

must borrow or obtain fund from other sources to acquire assets. If it has too many assets, its interest expenses will be too high and hence its profits will be depressed. On the other hand, if assets are too low, profitable sales may be lost. Following ratio analyzed under this study.

#### **4.1.2.1 Loan and Advances to Total Deposit Ratio**

This ratio helps us to show the relationship between loans and advances that are granted and the total deposited that are collected by the bank. A high ratio indicates better mobilization of collected deposit and vice-versa. It should be noted that too high ratio may not be better from liquidity point of view. This ratio is calculated dividing loan and advances by total deposits. Empirically,

$$\text{Loan and advance to total deposit ratio} = \frac{\text{Loan and advances}}{\text{Total deposits}}$$

**Table No. 11**

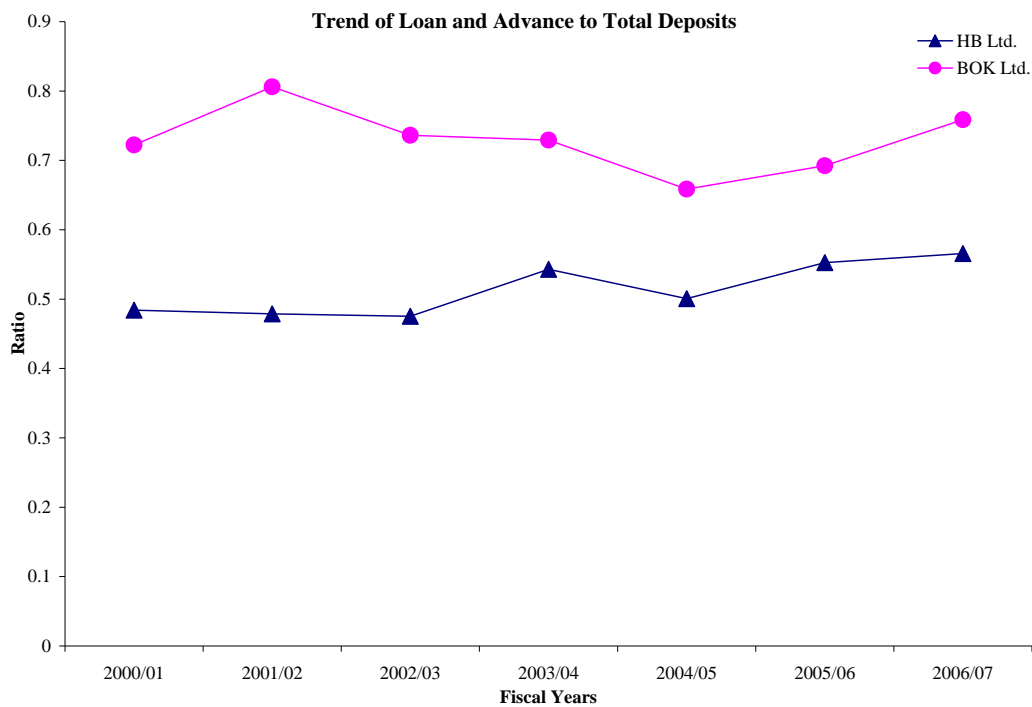
#### **Loan & Advances to Total Deposit Ratio**

<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.4841	0.7223
2001/02	0.4787	0.8061
2002/03	0.4753	0.7362
2003/04	0.5430	0.7294
2004/05	0.5007	0.6587
2005/06	0.5527	0.6923
2006/07	0.5657	0.7587
<b>Mean</b>	0.5143	0.7291
<b>S.D.</b>	0.0355	0.0434
<b>C.V.</b>	6.9056	5.9583

HB Ltd had a high ratio of loan and advance to total deposit in fiscal year 2006/07 with value of 0.5657 and a low ratio of 0.4753 in fiscal year 2002/03. Accordingly, BOK Ltd had a high of 0.8061 in fiscal year 2001/02 and a low of 0.6587 in fiscal year 2004/05. The mean ratio of loan and advance to total deposit of BOK Ltd is higher than that of HB Ltd i.e.  $0.7291 > 0.5143$ . In terms of C.V., both seem to be consistent but C.V. of BOK Ltd is slightly smaller than C.V. of ratio of HB Ltd i.e.  $5.9583 < 6.9056$  (Table No. 11). It can be concluded that BOK Ltd seems to be

strong in terms of mobilization of its total deposits as loan and advances compared to HB Ltd. On the contrary, the high ratio should not be perceived as a better state of affairs from the point of view of liquidity, as loan and advance are not as liquid as cash and bank balance and other investment.

**Figure No. 6**  
**Loan and Advances to Total Deposit**



The above figure 6 showed that the loan and advances to total deposit of both the banks have a fluctuating trend. The trend line of loan and advance to total deposit ratio of BOK Ltd showed that it has continuously decreased since fiscal year 2001/002 to fiscal year 2004/05 and then has increased up to last year of the study. It means the mobilization of its total deposits as loan and advances of BOK Ltd has decreased since fiscal year 2001/002 to fiscal year 2004/05 and then has increased. In case of HB Ltd, the trend line of loan and advance to total deposit ratio showed that it has continuously decreased since fiscal year 2000/001 to fiscal year 2002/03 and then has increased up to last year of the study with an exception in fiscal year 2004/05. It means the mobilization of its total deposits as loan and

advances of BOK Ltd has decreased since fiscal year 2000/001 to fiscal year 2002/03 and then has increased except fiscal year 2004/05.

#### **4.1.2.2 Total Investment to Total Deposit Ratio**

A commercial bank may mobilize its deposit by investment its fund in different securities issued by government and other financial or non-financial companies. Now efforts has been made to measure such extend, to which the bank are successful in mobilizing the total deposit on investment. In the process of portfolio management of banks various factors such as availability of fund, liquidity requirements, central bank norms etc are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa. Total investment includes investment on government securities, priority deprive sector, loan to industries and business houses, personal loans etc.

**Table No. 12**

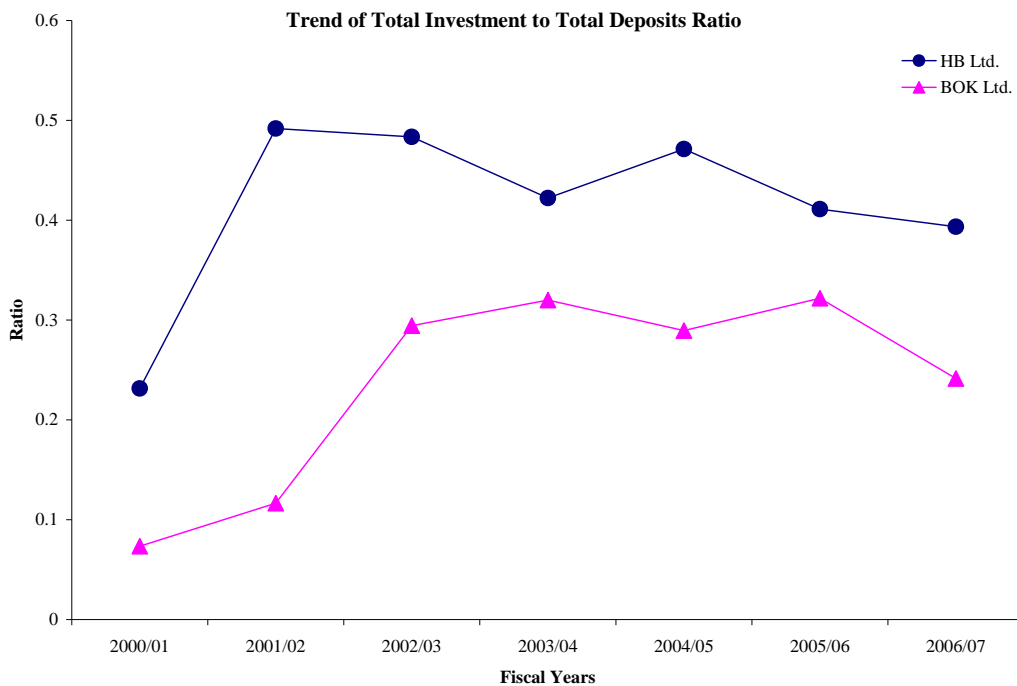
#### **Total Investment to Total Deposit Ratio**

<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.2315	0.0735
2001/02	0.4918	0.1166
2002/03	0.4835	0.2943
2003/04	0.4222	0.3200
2004/05	0.4712	0.2895
2005/06	0.4111	0.3219
2006/07	0.3935	0.2415
<b>Mean</b>	0.4150	0.2368
<b>S.D.</b>	0.0828	0.0936
<b>C.V.</b>	19.9456	39.5513

HB Ltd had a high ratio of total investment to total deposit in fiscal year 2001/02 with value of 0.4918 and a low ratio of 0.2315 in fiscal year 2000/01. Similarly, BOK Ltd had a high of 0.3219 in fiscal year 2005/06 and a low of 0.0735 in fiscal year 2000/01. The mean ratio of total investment to total deposit of HB Ltd is higher than that of BOK Ltd i.e.  $0.4250 > 0.2368$ . In terms of C.V., both the sample banks have been inconsistent. In addition, C.V. of BOK Ltd is significantly larger

than C.V. of ratio of HB Ltd i.e. 39.55% > 19.95 (Table No. 12). In other words, the consistency of total investment to total deposit ratio of HB Ltd is far better than that of BOK Ltd. It can be concluded that from mean ratio perspective, HB Ltd has been more successful in mobilization of deposits on various forms of investment compared to the total investment to total deposit ratio of BOK Ltd.

**Figure No. 7**  
**Total Investment to Total Deposit**



The figure 7 shows that there are fluctuating trend in total investment to total deposit of HB Ltd and BOK Ltd. In case of HB Ltd, the trend line of ratio shows that there is sharply increased till fiscal year 2001/02. Since fiscal year 2001/02, the ratio of HB Ltd is slightly but irregularly decreasing that indicates the lowering capacity of fund mobilization of collected deposit. However, in case of BOK Ltd, the line suggested that it is irregularly increasing since the start of the study or fiscal year 2000/01 to 2005/06 and lastly it is decreased. It suggested that collected fund mobilization of BOK Ltd is significantly increased since fiscal year 2000/01.

In conclusion, the above analysis reveals that HB Ltd has been more successful in mobilizing its resources on various forms of investment than BOK Ltd.

#### **4.1.2.3 Loan and Advances to Total Working Fund Ratio**

A commercial bank's working fund play significant role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates a better mobilization of fund as loan & advances and vice-versa. To see the relationship between loan & advances to total working fund, this ratio is computed dividing total working fund or total assets to loan and advances and the formula is as follows;

$$\text{Loan and advance to working fund ratio} = \frac{\text{Loan and advances}}{\text{Total working fund}}$$

**Table No. 13**

#### **Loan & Advances to Total Working Fund Ratio**

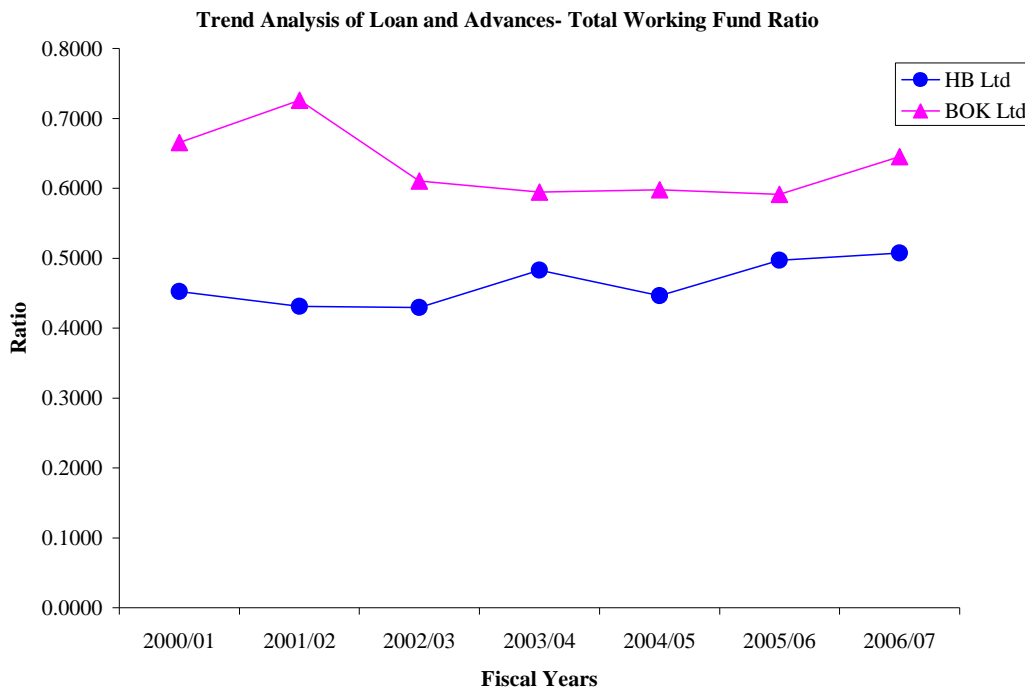
<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.4524	0.6654
2001/02	0.4312	0.7258
2002/03	0.4296	0.6102
2003/04	0.4827	0.5946
2004/05	0.4462	0.5979
2005/06	0.4970	0.5912
2006/07	0.5071	0.6451
<b>Mean</b>	0.4637	0.6329
<b>S.D.</b>	0.0293	0.0460
<b>C.V.</b>	6.3166	7.2608

The highest ratio of loan & advances to total working fund of BOK Ltd was 0.7258 in fiscal year 2001/02 and a lowest was 0.5912 in fiscal year 2005/06. Similarly, HB Ltd had a highest ratio of loan & advances to total working fund in fiscal year 2006/07 with value of 0.5071 and a lowest ratio of 0.4296 in fiscal year 2002/03. The mean ratio of loan & advances to total working fund of BOK Ltd is higher than that of HB Ltd i.e. 0.6329 > 0.4637 with lower consistency i.e. C.V. of



BOK Ltd is slightly larger than C.V. of ratio of HB Ltd i.e. 7.26% > 6.31 (Table No. 13). In terms of C.V., both the sample banks have been consistent. It can be concluded that, BOK Ltd has been more successful in mobilization of deposits on loan and advances compared loan & advances to total working fund ratio of HB Ltd.

**Figure No. 8**  
**Loan and Advances to Total Working Fund**



The figure 8 shows that there are fluctuating trend in loan & advances to total working fund of HB Ltd and BOK Ltd. In case of HB Ltd, the trend line of ratio shows that is slightly increased since fiscal year 2002/03 and before fiscal year 2002/03, it is decreasing trend. It indicates the enhancing its capacity of fund mobilization on loan & advances. However, in case of BOK Ltd, the line suggested that it is sharply decreasing since 2001/02 to 2002/03, then very slightly decreased up to fiscal year 2005/ 06 and finally it is increasing. It suggested that collected fund mobilization of BOK Ltd is slightly decreasing since fiscal year 2000/01. In overall conclusion pertaining to loan and advance to total working fund, the strength of BOK Ltd in mobilizing its total assets as loan and advances much better than HB Ltd.

#### **4.1.2.4 Investment on Government Securities to Total Working Fund Ratio**

This ratio reveals that banks are successful in mobilizing their total working fund on different types of government securities to maximize the income. The bank should not utilize its all deposits in loan and advances and other form of credit, from securities and liquidity point of view. Therefore commercial banks seem to be interested to utilize their deposit by purchasing government securities. A high ratio indicates better mobilization of fund as investment on government securities and vice-versa. This ratio is calculated as dividing investment on government securities by total working fund.

$$\text{Investment on govt. securities to total working fund ratio} = \frac{\text{Investment on govt. securities}}{\text{Total working funds}}$$

**Table No. 14**

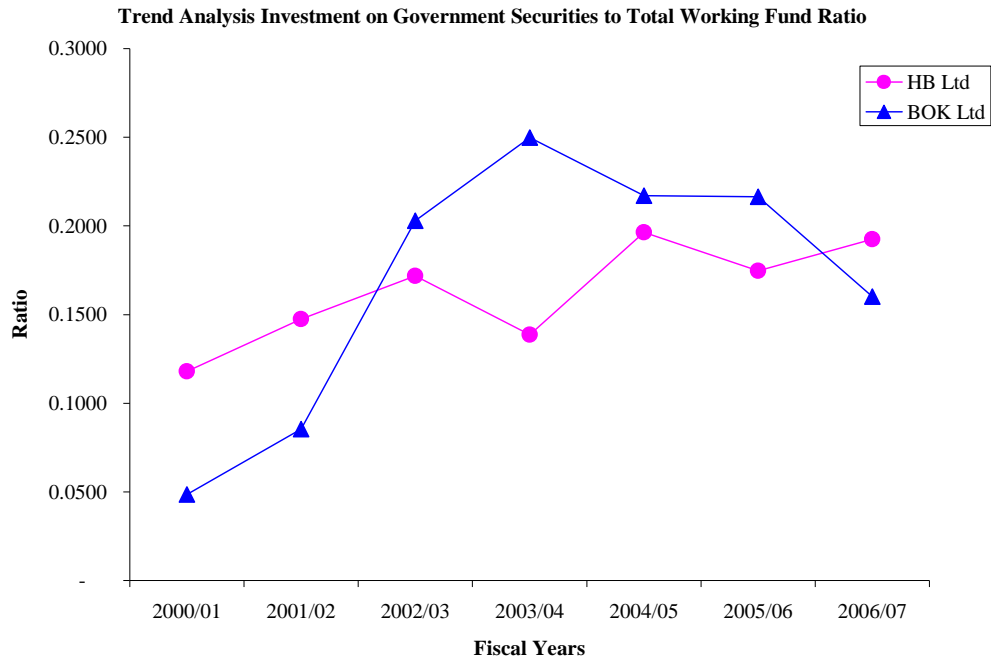
#### **Investment on Government Securities to Total Working Fund Ratio**

<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.1179	0.0485
2001/02	0.1474	0.0854
2002/03	0.1718	0.2029
2003/04	0.1386	0.2498
2004/05	0.1964	0.2171
2005/06	0.1746	0.2165
2006/07	0.1926	0.1601
<b>Mean</b>	0.1628	0.1686
<b>S.D.</b>	0.0269	0.0695
<b>C.V.</b>	16.5452	41.2326

HB Ltd has highest ratio of investment on government securities to total working fund in fiscal year 2004/05 with value of 0.1926 and a lowest ratio of 0.1179 in fiscal year 2000/01. Similarly, the highest ratio of investment on government securities to total working fund of BOK Ltd was 0.2498 in fiscal year 2003/04 and a lowest was 0.0485 in fiscal year 2000/01. The mean ratio of investment on government securities to total working fund of BOK Ltd is slightly higher than that

of HB Ltd i.e.  $0.1695 > 0.1628$  with very lower consistency as a contrary i.e. C.V. of BOK Ltd is very larger than C.V. of ratio of HB Ltd i.e.  $41.23\% > 16.54$  (Table No. 14). In terms of C.V., both the sample banks have been inconsistent.

**Figure No. 9**  
**Investment on Government Securities to Total Working Fund Ratio**



The figure 9 shows that there are highly fluctuating trend in investment on government securities to total working fund of HB Ltd and BOK Ltd. In case of HB Ltd, the trend line of ratio shows that is increased nearly in linear trend since fiscal year 2000/01 with abnormality in line in fiscal year 2003/04 and fiscal year 2005/06. It indicates the enhancing its capacity of fund mobilization on investment on government securities of its total working fund. However, in case of BOK Ltd, the line suggested that it is sharply fluctuating. Since fiscal year 2000/01 to 2003/04, the ratio line goes sharply up and then irregularly but sharply decreased up to fiscal year 2006/07. It suggested that total working fund mobilization of BOK Ltd is increasing since fiscal year 2000/01 up to 2003/04 but since fiscal year 2003/04 it is decreasing. However the ratio of BOK Ltd in fiscal year 2006/07 is significantly larger than the ratio in fiscal year 2000/01. In overall conclusion

pertaining to loan and advance to total working fund, the strength of BOK Ltd in mobilizing its total assets as loan and advances much better than HB Ltd.

From the above analysis, it can be conclude that BOK Ltd has invested slightly larger portion of working fund in government securities than HB Ltd. The ratios also indicates that both the banks have no concrete or certain investment policy with regards to what percentage of working fund to be invested in purchasing government securities because there are highly fluctuation of ratio of both banks.

#### **4.1.2.5 Investment on Share and Debenture to Total Working Fund Ratio**

Investment on share means to purchase shares of other companies and firms that are issued to operate business and the share holder may hold either voting right or be a member of board of director. The investment on debentures means being a debt holder with fixed interest income but do not hold the voting right generally. This ratio is computed by dividing total working fund to investment on share and debentures.

Investment on Shares and Debentures to total Working Fund Ratio =

$$\frac{\text{Investement on Share and Debenture}}{\text{Total Working Fund}}$$

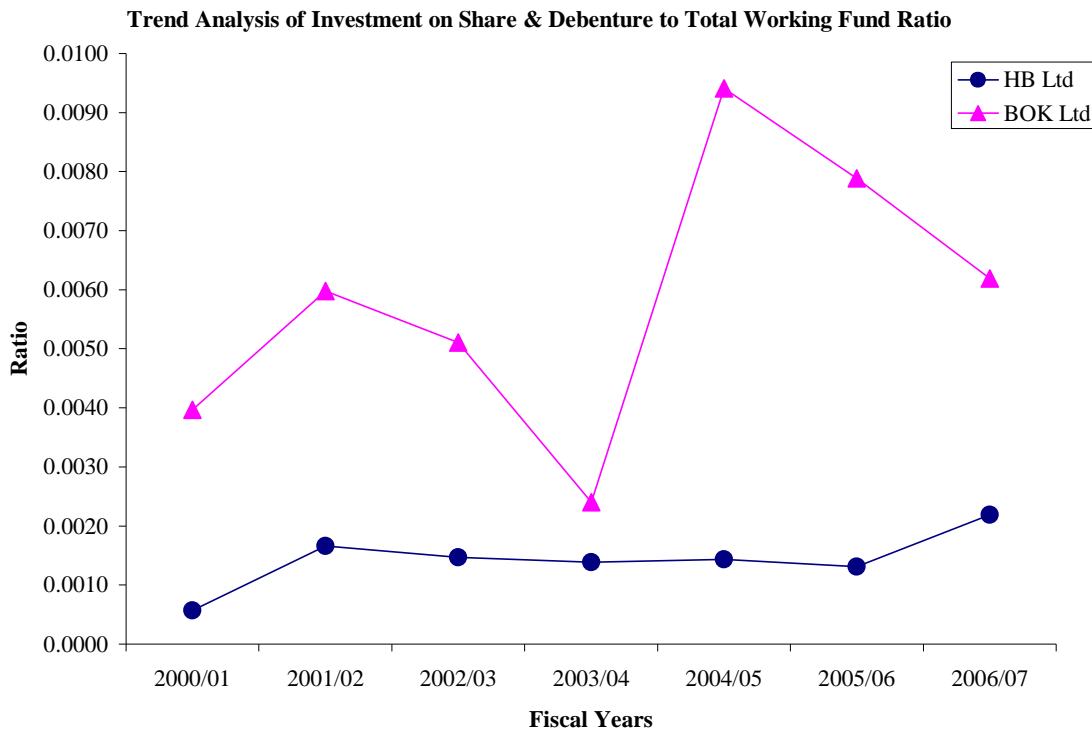
**Table No. 15**

#### **Investment on Share and Debenture to Total Working Fund Ratio**

<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.0006	0.0040
2001/02	0.0017	0.0060
2002/03	0.0015	0.0051
2003/04	0.0014	0.0024
2004/05	0.0014	0.0094
2005/06	0.0013	0.0079
2006/07	0.0022	0.0069
<b>Mean</b>	0.0014	0.0059
<b>S.D.</b>	0.0004	0.0022
<b>C.V.</b>	30.7409	37.0883

HB Ltd has highest ratio of investment on shares and debenture to total working fund in fiscal year 2006/07 with value of 0.0022 and a lowest ratio of 0.0006 in fiscal year 2000/01. Similarly, the highest ratio of investment on shares and debenture to total working fund of BOK Ltd was 0.0094 in fiscal year 2004/05 and a lowest was 0.0024 in fiscal year 2003/04. The mean ratio of investment on shares and debenture to total working fund of BOK Ltd is higher than that of HB Ltd i.e. 0.0059 > 0.0014 with lower consistency as a contrary i.e. C.V. of BOK Ltd is larger than C.V. of ratio of HB Ltd i.e. 37.09 % > 30.74 % (Table No. 15).

**Figure No. 10**  
**Investment on Share and Debenture to Total Working Fund**



The figure 10 shows that there are highly fluctuating trend in investment on shares and debenture to total working fund of BOK Ltd. It indicates that high instability to mobilize its total working fund in share and debenture of other companies. Very sharp fluctuation of the trend line of ratio of investment on share and debenture to total working fund was observed in fiscal year 2003/04 and 2004.05. But, the trend line of ratio of HB Ltd shows very slightly fluctuate and is increased nearly in

linear trend since fiscal year 2000/01 with abnormality in line in fiscal year 2001/02 and fiscal year 2005/06. It indicates the enhancing its capacity of fund mobilization on investment on shares and debenture of its total working fund. However, in case of BOK Ltd, the line suggested that it is sharply fluctuating.

From the above analysis, it can be concluded that BOK Ltd has invested larger portion of total working fund in shares and debenture than that of HB Ltd. The ratios also indicates that both the banks have no concrete or certain investment policy with regards to what percentage of working fund to be invested in purchasing shares and debenture.

### **4.1.3 Profitability Ratios**

The main objective of commercial bank is to earn profit by providing different types of banking services to its customers. To meet various objectives like maintaining good position, meet fixed internal obligations, overcome the future contingencies, grab hidden investment in need of development funds etc. In conclusion commercial Banks have to earn sufficient profit.

Of course, the profitability ratios are the best indicators of overall efficiency. Here, mainly those major ratios are presented and analyzed, through which the effort has been made to measure the profit earning capacity.

#### **4.1.3.1 Return on Total Working Fund Ratio**

This ratio establishes the relationship between net profit and total assets. This ratio is also called 'profit to assets ratio'. It is calculated dividing return on net profit/loss by total working fund and can expressed as:

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total working funds}}$$

HB Ltd has highest ratio of return on total working fund in fiscal year 2006/07 with value of 0.0155 and a lowest ratio of 0.0106 in fiscal year 2000/01. Similarly,

**Table No. 16**

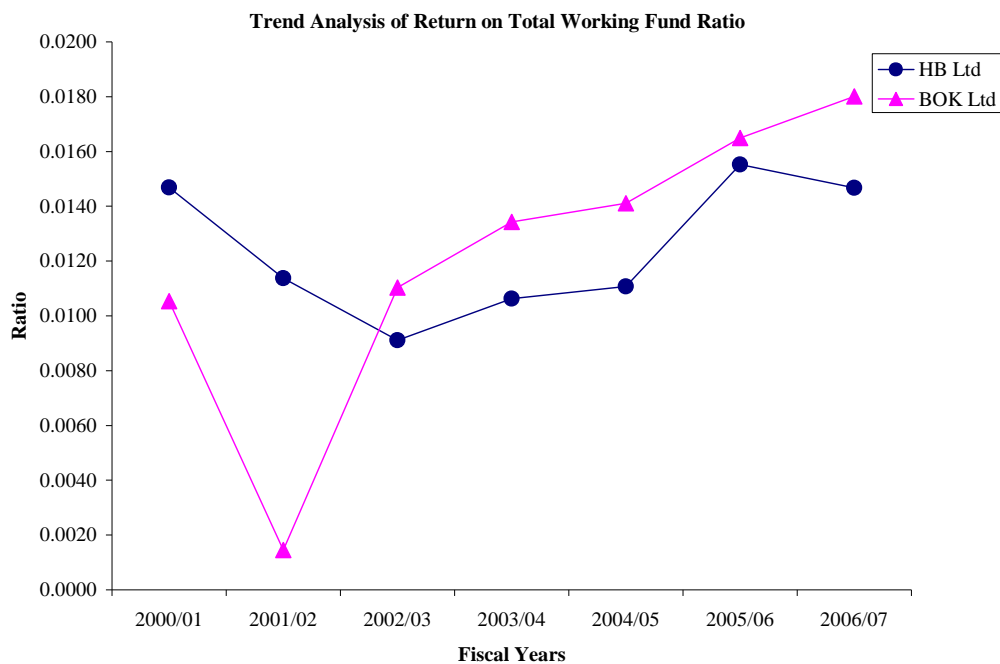
**Return on Total Working Fund Ratio**

Fiscal Years	HB Ltd	BOK Ltd
2000/01	0.0147	0.0105
2001/02	0.0114	0.0015
2002/03	0.0091	0.0110
2003/04	0.0106	0.0134
2004/05	0.0111	0.0141
2005/06	0.0155	0.0165
2006/07	0.0147	0.0180
<b>Mean</b>	0.0124	0.0121
<b>S.D.</b>	0.0023	0.0050
<b>C.V.</b>	18.4763	41.2913

the highest ratio of return on total working fund of BOK Ltd was 0.0180 in fiscal year 2006/07 and a lowest was 0.0015 in fiscal year 2001/02. The mean ratio of return on total working fund of HB Ltd is higher than that of BOK Ltd i.e.  $0.0124 > 0.0121$  having significantly more consistency i.e. C.V. of BOK Ltd is larger than C.V. of ratio of HB Ltd i.e.  $18.48\% < 41.29\%$  (Table No. 16).

**Figure No. 11**

**Return on Total Working Fund**



The figure 12 shows that the trend lines of return on total working fund of both banks are fluctuating. The line of HB Ltd goes downward till 2002/03 and then goes up. It indicates that instability to mobilize its total working fund for rapid turn over. However, the trend line of BOK Ltd is nearly linear if the value of ratio in fiscal year 2001/02 is ignored. It suggested that the increasing capacity of fund mobilization for rapid turn over.

#### **4.1.3.2 Total Interest Earned to Total Outside Assets Ratio**

This ratio shows the relationship between interests earned amount and total outside assets borrowed by the bank. Total interest earned is that amount which is earned investing in different sectors by the bank in an accounting year. Where as, total outsiders assets include loans (short term as well as long term), borrowings and bond amounts. This ratio is calculated as follows;

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

**Table No. 17**

#### **Total Interest Earned to Total outside Assets Ratio**

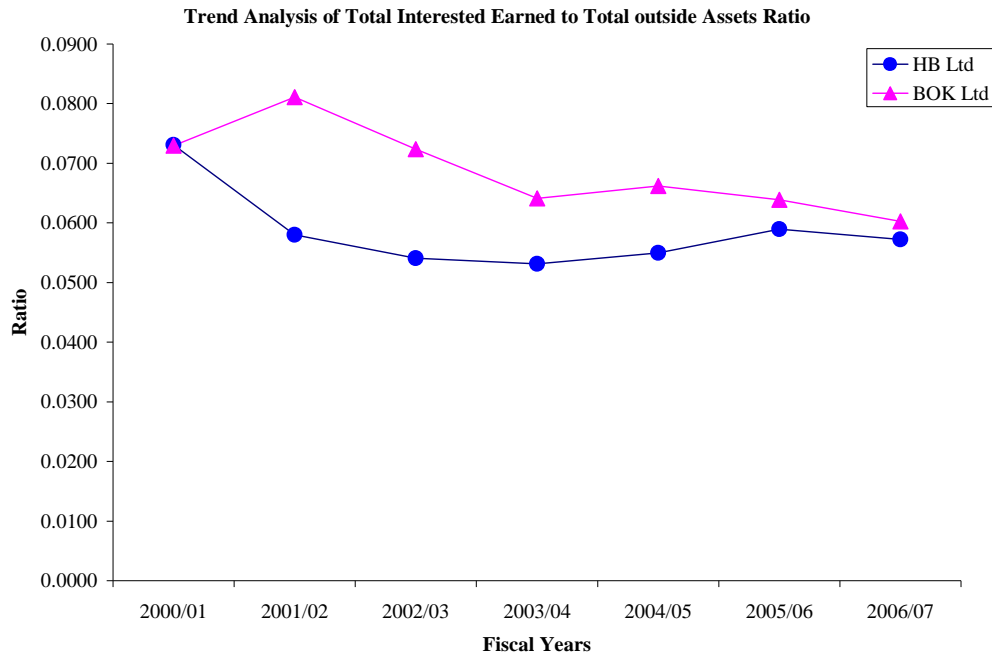
<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.0731	0.0729
2001/02	0.0580	0.0811
2002/03	0.0541	0.0724
2003/04	0.0532	0.0641
2004/05	0.0550	0.0662
2005/06	0.0589	0.0639
2006/07	0.0573	0.0603
<b>Mean</b>	0.0585	0.0687
<b>S.D.</b>	0.0063	0.0066
<b>C.V.</b>	10.7146	9.6290

HB Ltd has highest ratio of total interest earned to total outside assets in fiscal year 2000/01 with value of 0.0731 and a lowest ratio of 0.0532 in fiscal year 2003/04. Similarly, the highest ratio of total interest earned to total outside assets of BOK Ltd was 0.0811 in fiscal year 2002/03 and a lowest was 0.0603 in fiscal year



2001/02. The mean ratio of total interest earned to total outside assets of BOK Ltd is higher than that of HB Ltd i.e.  $0.0687 > 0.0585$  having more consistency i.e. C.V. of BOK Ltd is larger than C.V. of ratio of HB Ltd i.e.  $9.63\% < 10.71\%$  (Table No. 17).

**Figure No. 12**  
**Total Interest Earned to Total outside Assets**



The figure 12 reflects slightly fluctuated trend and decreasing trend in interest earned to total outside assets in case of BOK Ltd, where as HB Ltd ratios have also decreasing trend till 2003/04 and then increasing. From the above analysis, it can be concluded that BOK Ltd seems to be more successful in earning high interest on its outside assets than HB Ltd but is in decreasing trend.

#### **4.1.3.3 Return on Loan and Advances Ratio**

Return on loan and advances ratio shows how efficiency of the banks has utilized their resources to earn good return from provided loan and advances. This ratio is computed to divide net profit or loss by the total amount of loan and advances. It can be mentioned as:

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net profit}}{\text{Loan \& Advances}}$$

**Table No. 18**

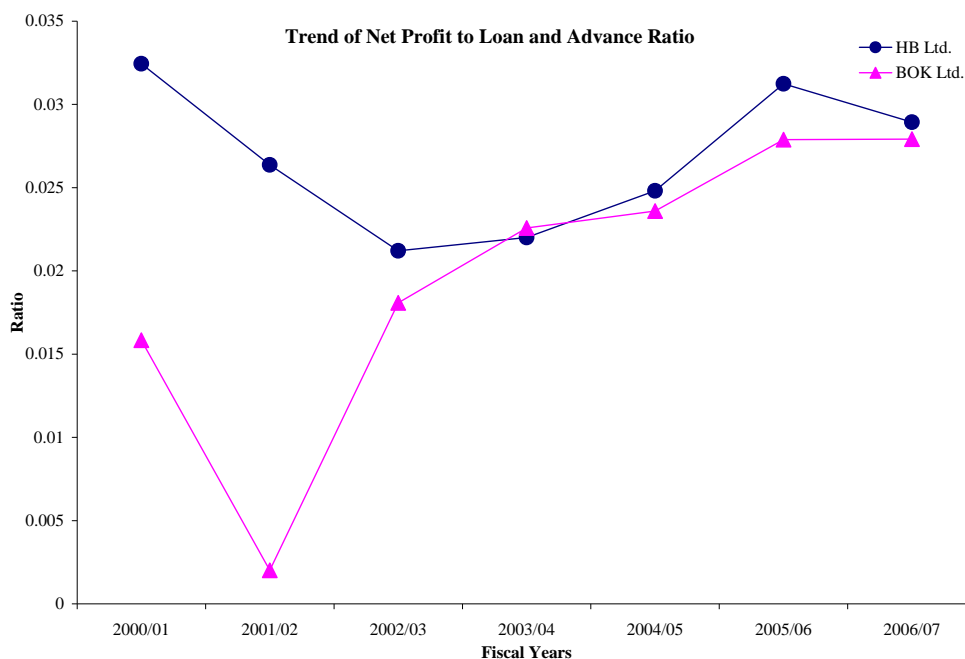
**Return on Loan and Advances Ratio**

<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.0325	0.0158
2001/02	0.0264	0.0020
2002/03	0.0212	0.0181
2003/04	0.0220	0.0226
2004/05	0.0248	0.0236
2005/06	0.0312	0.0279
2006/07	0.0289	0.0279
<b>Mean</b>	0.0267	0.0197
<b>S.D.</b>	0.0040	0.0084
<b>C.V.</b>	15.1353	42.4106

The mean ratio of return on loan and advances of HB Ltd is higher than that of BOK Ltd i.e.  $0.0267 > 0.0197$  having significantly more consistency i.e. C.V. of HB Ltd is very low than C.V. of ratio of BOK Ltd i.e.  $15.14\% < 42.41\%$ . HB Ltd has highest ratio of return on total working fund in fiscal year 2000/01 with value of 0.0325 and a lowest ratio of 0.0212 in fiscal year 2003/04. Similarly, the highest ratio of return on loan and advances of BOK Ltd was 0.0279 in fiscal year 2005/06 and 2006/07 and a lowest is 0.0020 in fiscal year 2001/02. The table 18 shows that the ratio of return on loan and advances of HB Ltd is better than BOK Ltd in all fiscal year except fiscal year 2003/04. In other words, HB Ltd has been more successful in maintaining its higher return on loan and advances than BOK Ltd.

The figure 13 shows that the trend lines of return on loan and advances of both banks are fluctuating. The line of HB Ltd goes downward till 2002/03 and then goes up. It indicates that instability to mobilize its loan and advances for profit earn. However, the trend line of BOK Ltd is nearly linear if the value of ratio in fiscal year 2001/02 is ignored. It suggested that the increasing capacity of loan and advances mobilization for profit earning.

**Figure No. 13**  
**Return on Loan and Advances Ratio (%)**



In conclusion, it can be said that BOK Ltd profit earning capacity by utilizing available resources is weaker compared to HB Ltd, but nevertheless BOK Ltd is making significant improvements in this regard.

#### **4.1.3.4 Total Interest Earned to Total Working Fund Ratio**

To respect the earning capacity of a commercial bank in its total working fund (total assets), total interest earned to total working fund ratio is very helpful. In other words, this ratio reflects the extent to which the banks are successful in mobilizing their assets to generate high income. A high ratio is an indicator of high earning power of the bank on its working fund and vice-versa. This ratio is computed by dividing total interest earned by total working fund i.e. total assets.

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

The mean ratio of total interest earned to total working fund of BOK Ltd is higher than that of HB Ltd i.e. 0.0646 > 0.0554 having more consistency i.e. C.V. of HB Ltd is larger than C.V. of ratio of BOK Ltd i.e. 10.99 % < 11.42 %. HB Ltd has

highest ratio of total interest earned to total working fund in fiscal year 2000/01 with value of 0.0703 and a lowest ratio of 0.0503 in fiscal year 2003/04. Similarly, the highest ratio of return on total interest earned to total working fund of BOK Ltd was 0.0750 in fiscal year 2000/01 and lowest is 0.0562 in fiscal year 2001/02 (Table No. 19). The table no. 19 shows that the ratio of return on interest earned to total working fund of BOK Ltd is better than HB Ltd in all fiscal year. In other words, BOK Ltd has been more successful in mobilizing its assets to generate high income loan and advances than HB Ltd.

**Table No. 19**

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

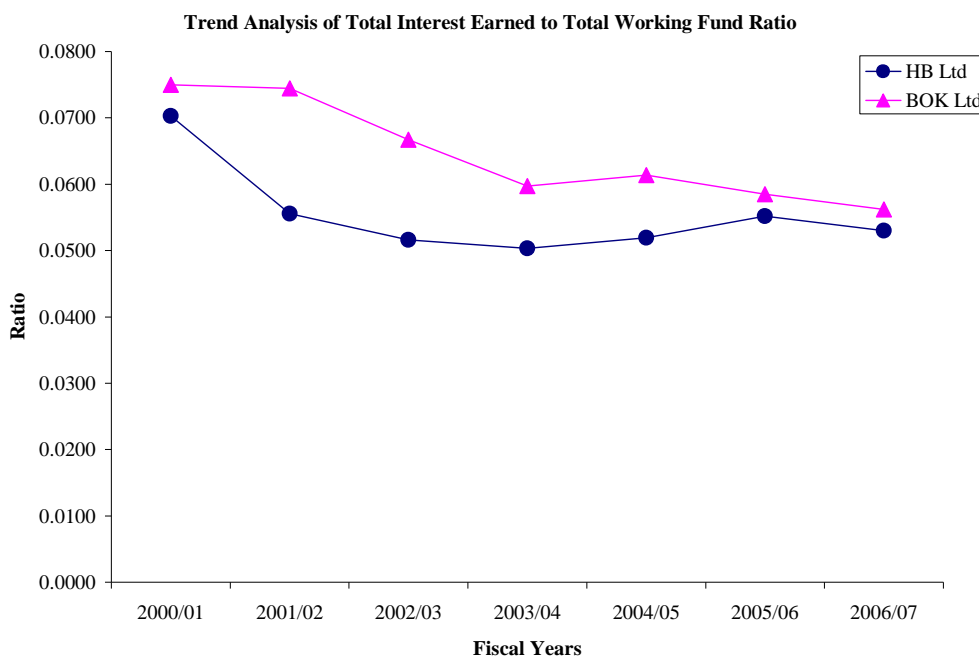
<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.0703	0.0750
2001/02	0.0556	0.0745
2002/03	0.0516	0.0667
2003/04	0.0503	0.0597
2004/05	0.0519	0.0614
2005/06	0.0552	0.0585
2006/07	0.0530	0.0562
<b>Mean</b>	0.0554	0.0646
<b>S.D.</b>	0.0063	0.0071
<b>C.V.</b>	11.4244	10.9913

The figure 14 shows that the trend lines of return on total interest earned to total working fund of both banks are slightly fluctuating. The line of HB Ltd goes downward till 2003/04 and then goes up. It indicates that instability to mobilize its total interest earned to total working fund for profit earn. However, the trend line of BOK Ltd is nearly linear if the value of ratio in fiscal year 2000/01 and 2003/04 are ignored. It suggested that the decreasing capacity of total working fund mobilization for income generation.

From the above analysis, it can be concluded that BOK Ltd has been able to earn high interest on its total assets i.e., it has been more successful in mobilizing its assets to generate high income than HB Ltd. The decreasing trend of interest

earning ratio with respect to total working fund is a matter of concern, and both the banks need to look for ways to improve upon their interest earnings.

**Figure No. 14**  
**Total Interest Earned to Total Working Fund**



#### **4.1.3.5 Total Interest Paid to Total Working Fund Ratio**

Total interest paid is that amount which is paid to the lenders as well as bond holders. To operate the business a bank raises the fund through the different source. They are; i) issuing share and debenture ii) taking loan etc. It is called capital gearing i.e. higher the capital gearing the larger the interest paid amount is and vice-versa. Generally, this ratio is considering good as lower it is. This ratio reveals the relationship between total interests paid amount and total employed. The formula is as follows;

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

The mean ratio of total interest paid to total working fund of BOK Ltd and HB Ltd are 0.0336 and 0.0251 respectively. The mean and each year ratio of BOK Ltd are higher than the ratio of HB Ltd. On contrary the consistency of ratio of BOK Ltd is

relatively low than HB Ltd i.e. C.V. of BOK Ltd is 29.45 % and C.V. of HB Ltd is 24.62% (Table No 20). It indicates that HB Ltd is better to mobilize its fund than BOK Ltd from interest payment point of view.

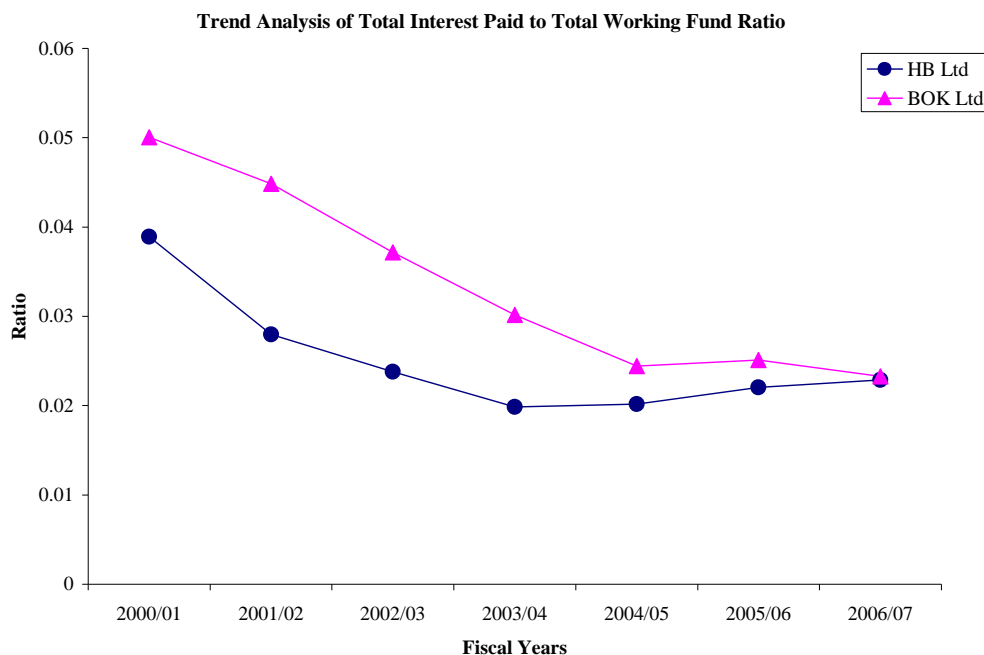
**Table No. 20**

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

Fiscal Years	HB Ltd	BOK Ltd
2000/01	0.0389	0.0501
2001/02	0.0280	0.0448
2002/03	0.0238	0.0372
2003/04	0.0200	0.0302
2004/05	0.0202	0.0244
2005/06	0.0220	0.0251
2006/07	0.0229	0.0233
<b>Mean</b>	0.0251	0.0336
<b>S.D.</b>	0.0062	0.0099
<b>C.V.</b>	24.6180	29.4521

**Figure No. 15**

**Total Interest Paid to Total Working Fund**



The trend line of BOK Ltd is nearly linear in negative direction which suggested that the ratio is becoming better and better with the time. However, the trend line

of HB Ltd was in good trend in first four fiscal year and then slightly worse. In last fiscal year of the study the trend line nearly cross that mean both banks has maintain their interest payment in good condition.

Overall, it can be said that HB Ltd is in a better position form interest payment point of view that of BOK Ltd. HB Ltd seems to have collected its funds from cheaper sources than BOK Ltd and recently BOK Ltd also try to collect its funds from the cheaper source.

#### **4.1.3.6 Total Interest Earned to Operating Income Ratio**

This ratio is calculated to find out the ratio of interest income with operating income of the bank. This ratio indicates how effectively the bank is mobilizing its resources in bearing assets i.e. loan and investment, investment etc. This ratio is calculated by dividing total interest earned by total operating income. This can be presented as:-

$$\text{Total Interest Earned to Operating Income Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Operating Income}}$$

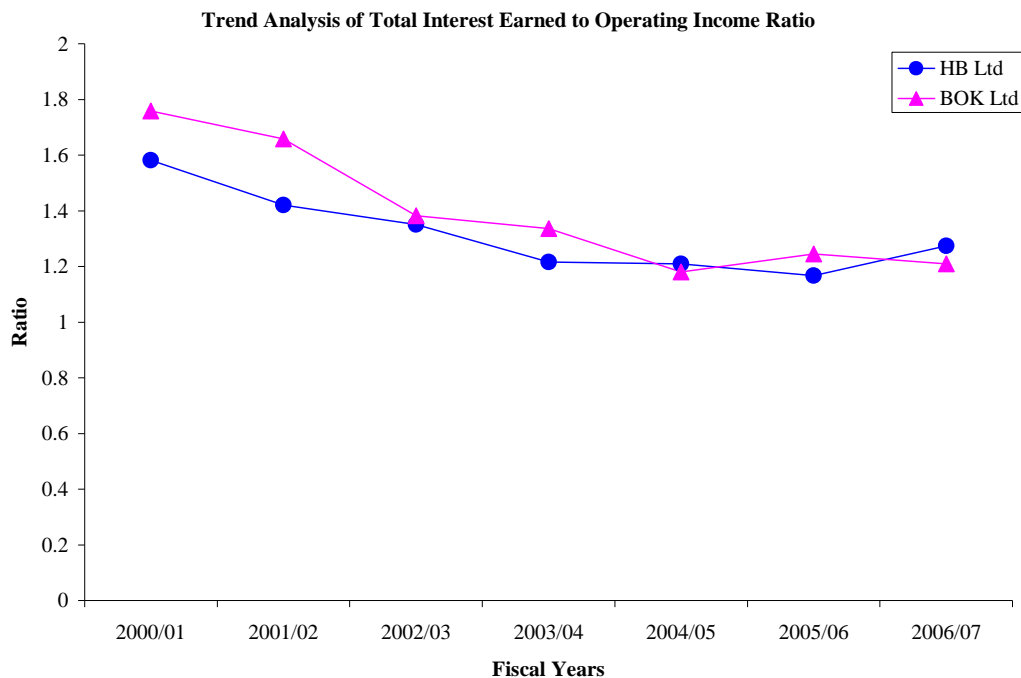
**Table No. 21**

#### **Total Interest Earned To Operating Income Ratio**

<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	1.5820	1.7585
2001/02	1.4199	1.6575
2002/03	1.3506	1.3818
2003/04	1.2158	1.3359
2004/05	1.2095	1.1802
2005/06	1.1672	1.2453
2006/07	1.2743	1.2096
<b>Mean</b>	1.3170	1.3955
<b>S.D.</b>	0.1352	0.2096
<b>C.V.</b>	10.2686	15.0209

The mean ratio of total interest paid to operating income of BOK Ltd and HB Ltd are 1.3955 and 1.3170 respectively. The mean and each year ratios of the ratio of BOK Ltd are higher than the ratio of HB Ltd except fiscal year 2004/05. On contrary the consistency of ratio of HB Ltd is relatively high than BOK Ltd i.e. C.V. of BOK Ltd is 15.02% and C.V. of HB Ltd is 10.27 % (Table No. 21). It indicates that BOK Ltd is less effectively mobilizing its resources in bearing assets i.e. loan and investment, investment etc than that of HB Ltd.

**Figure No. 16**  
**Total Interest Earned To Operating Income Ratio**



The trend lines of both banks; HB Ltd and BOK Ltd are nearly linear but in negative direction. However, the trend line of both banks follows little fluctuation. The lines suggest that both banks have increasing their capacity to mobilize fund effective in bearing assets i.e. loan and investment, investment. In last fiscal year of the study the trend line cross and the ratio of HB Ltd become higher than that of BOK Ltd which indicates HB Ltd has decreased its strength to mobilize its fund in bearing assets.



#### **4.1.4 Risk Ratios**

The possibility of risk makes bank's investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is satisfied by the increment in profit. So, banks operating for high profit have to accept the risk and manage it efficiently. A bank has to have the idea of the level of risk that one need to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk essential in the HB Ltd and BOK Ltd comparatively.

##### **4.1.4.1 Credit Risk Ratio**

Bank utilizes its collected fund to provide credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. This ratio is computed by dividing total loan and advances to total assets. The following is the formula from which we can calculate credit risk:

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

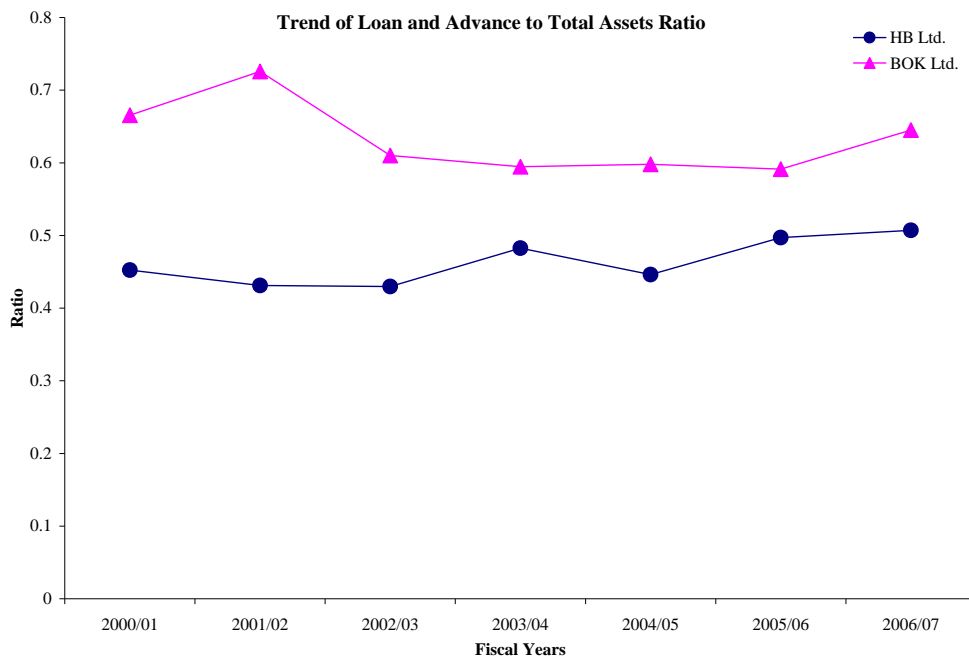
**Table No. 22**  
**Credit Risk Ratio**

<b>Fiscal Years</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
2000/01	0.4524	0.6655
2001/02	0.4312	0.7258
2002/03	0.4296	0.6102
2003/04	0.4827	0.5946
2004/05	0.4462	0.5979
2005/06	0.4970	0.5912
2006/07	0.5071	0.6451
<b>Mean</b>	0.4638	0.6329
<b>S.D.</b>	0.0293	0.0460
<b>C.V.</b>	6.3157	7.2613

HB Ltd has witnessed a high ratio of 0.5071 in fiscal year 2006/07 and lowest ratio of 0.4296 in fiscal year 2002/03 with mean ratio of 0.4638. It indicates that the bank is better condition in fiscal year 2002/03 and worse in fiscal year 2006/07 by

credit view point. Similarly BOK Ltd had highest ratio of credit risk in fiscal year 2001/02 by 0.7258 and lowest in fiscal year 2005/06 by 0.5912 with mean ratio of 0.6329. In case of credit risk view point, the better fiscal year of BOK Ltd was 2005/06 and worse fiscal year was 2001/02 during the study period. The mean ratio and each year's credit risk ratio of BOK Ltd is higher than that of HB Ltd along with higher C.V. (7.26%) (Table No. 22). It means the HB Ltd is in better condition than BOK Ltd in credit risk point of view along with the better condition of consistency of the ratio.

**Figure No. 17**  
**Credit Risk**



The trends lines of both banks are slowly fluctuate with the fiscal year. The line of the ratio of BOK Ltd passes above the line of the ratio of HB Ltd. In case of BOK Ltd, the line of the ratio goes downward since fiscal year 2001/02 to fiscal year 2005/6. Initially and finally the line goes upward direct. Whereas the trend line of HB Ltd goes slowly upward finally with first goes downward. The lines of both banks suggest that there are some defects in policy to mobilize the fund in low credit risk free sector.

## **4.2 Coefficient of Correlation Analysis**

Correlation analysis is the relationship between dependent variables so it is called constant variable also. Correlation is denoted by 'r' and ranges from +1.0 indicating perfect positive correlation to -1.0, indicating perfect negative perfect correlation. If the correlation coefficient is zero, then the factors are independent or un-correlated.

In this chapter, correlation between deposit & total investment, deposit and loan & advances and outside assets & net profit have been calculated. Then results have analyzed and interpreted and then significance of correlation has been tested using Karl Pearson's correlation of co-efficient.

### **Interpretation of Correlation Co-efficient**

It lies always between +1 to -1.

When  $r = +1$ , there is perfect positive correlation.

When  $r = -1$ , there is perfect negative correlation.

When  $r = 0$ , there is no correlation.

When  $r$  lies between 0.7 to 0.999, (-0.7 to -0.999) there is a high degree of positive or negative correlation.

When  $r$  lies between 0.5 to 0.6999, there is moderate degree of correlation.

When  $r$  is less than 0.5, there is a low degree of correlation.

### **Probable Error**

If  $r < 6 \text{ P.E.}$ , then the value of 'r' is not significant.

If  $r > 6 \text{ P.E.}$ , then the value of 'r' is definitely significant.

If the other situations happen, nothing can be concluded with certainty.

### **4.2.1 Correlation between Total Deposit and Total Investment**

Coefficient of correlation between deposit and total investment measures the degree of relationship between these two variables. Here deposit is taken as independent variable (x) and the variable dependent on deposits is total

investment, which is denoted by (y). The purpose of calculating 'r' is to judge whether deposits are significantly mobilized as Investments or not.

The following table shows the value of 'r',  $r^2$ , P.E. & 6P.E. of HB Ltd and BOK Ltd during the study period.

**Table No. 23**  
**Statement Showing Correlation between Total Deposit and Total Investment**  
**Evaluation Criterion**

<b>Bank</b>	<b>Correlation (r)</b>	<b>r<sup>2</sup></b>	<b>S.E.</b>	<b>P.E.</b>	<b>6*P.E.</b>
<b>HB Ltd</b>	0.776533067	0.603004	0.240532	0.162239	0.973431
<b>BOK Ltd</b>	0.860730433	0.740857	0.170512	0.11501	0.69006

The coefficient of correlation 'r' between deposits and total investment in case of HB Ltd is 0.7765, which indicates a highly positive correlation between deposits and total investment. Coefficient of determination ( $r^2$ ) is 0.6030. This means 60.30% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.7765 is also lower than six times P.E. This states that there is no significant relationship between deposits and total investment. Similarly, the coefficient of correlation 'r' between deposits and total investment in case of BOK Ltd is 0.8607, which indicates a highly positive relationship between these two variables. The coefficient of determination ( $r^2$ ) is 0.7408. This indicates that 74.08 % of the variation of the dependent variable has been explained by independent variable (Table No. 23). This further states that there is a significant relationship between deposits and total investment.

In conclusion, it can be said that BOK Ltd shows significant relationship between total deposits and total investment. However, there is no significance relationship between total deposits and total investment in HB Ltd.

#### **4.2.2 Correlation between Total Deposit and Loan & Advances**

The coefficient of correlation between deposits and loan and advances measures the degree of relationship between them. In our study, we have taken deposit as an

independent variable denoted by (x) and loan and advance as dependent variable (y). The main objective of calculating 'r' between these two variables is to justify whether deposits are significantly used as loan and advances or not.

The following table shows the value of r, r<sup>2</sup>, P.E. and 6P.E. between total deposits and loan and advances of HB Ltd and BOK Ltd during the study period

**Table No. 24**  
**Statement Showing Correlation between Total Deposit and Loan & Advances**  
**Evaluation Criterion**

<b>Banks</b>	<b>Correlation (r)</b>	<b>r<sup>2</sup></b>	<b>S.E.</b>	<b>P.E.</b>	<b>6*P.E.</b>
<b>HB Ltd</b>	0.985757247	0.971717	0.021077	0.014217	0.0853
<b>BOK Ltd</b>	0.979281909	0.958993	0.030363	0.02048	0.122878

In the above table the coefficient of correlation between deposit and loan and advance in case of HB Ltd is 0.9857. This indicates that there is a highly positive relationship between deposit and loan and advances. The calculated value of (r<sup>2</sup>) or coefficient of determination is 0.9717. This means 97.17% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposit). The value of 'r' i.e., 0.9857 is compared with six times the probably error or 6P.E. i.e., 0.0853. It means there is significant relationship between deposits and loan advances because 'r' is greater than six times P.E.. The coefficient of correlation 'r' between deposits and loan and advances incase of BOK Ltd is 0.9792 which gives an indication of highly positive correlation. Similarly, the value of coefficient of determination (r<sup>2</sup>) is found to be 0.9589. In other words, 95.89% variation of dependent variable (loan and advances) has been explained by the independent variable (deposits). The value of 'r' is greater than six times P.E. i.e. 0.9792>0.1228 (Table No. 24). This further shows that the value of 'r' is significant. In other words, there is significant relationship between deposit and loan and advances.

It concludes that both the banks show positive relationship between deposits and loan and advance. The relationship is highly significant in case of HB Ltd and BOK Ltd and the value of ( $r^2$ ) shows higher percentage of dependency. Further, the increase in loan and advance is due to effective mobilization of deposits, and other factors have marginal role in increase in loan and advances.

### **4.2.3 Correlation between Total outside Assets and Net Profit**

Coefficient of correlation 'r' between total outside asset and net profit measures the degree of relationship between these two variables. The main objective of calculating coefficient of correlation between outside asset and net profit is to justify whether the net profit is significantly correlated with total outside assets or not.

The following shows the value of r,  $r^2$ , P.E. & 6P.E. of HB Ltd and BOK Ltd during the study period.

**Table No. 25**

#### **Correlation between Total outside Assets and Net Profit Evaluation Criterion**

<b>Banks</b>	<b>Correlation (r)</b>	<b>r<sup>2</sup></b>	<b>S.E.</b>	<b>P.E.</b>	<b>6*P.E.</b>
<b>HB Ltd</b>	0.839588441	0.704909	0.190155	0.12826	0.769559
<b>BOK Ltd</b>	0.986345407	0.972877	0.020225	0.013642	0.08185

The coefficient of correlation 'r' between total outside assets and net profit in case of HB Ltd is 0.8395, which indicates highly positive correlation between outside assets and net profit. Coefficient of determination ( $r^2$ ) is 0.7049. This means 70.49% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.8395 is also greater than six times P.E. This states that there is a significant relationship between outside assets and net profit.

The coefficient of correlation 'r' between total outside assets and net profit in case of BOK Ltd is 0.9863, which indicates a positive relationship between the two variables. The coefficient of determination ( $r^2$ ) is 0.9729. This indicates that 97.29% of the variation of the dependent variable has been explained by independent variable. Moreover 'r' is greater than six times P.E. (0.08185) which states that there is significant relationship between outside assets and net profit (Table No. 25). In conclusion, it is said that both the banks show significant relationship between total outside assets and net profit.

### 4.3 Test of Hypothesis

#### 4.3.1 Test of Hypothesis on Loan and Advances to Total Deposit

##### Ratio of HB Ltd and BOK Ltd

Let loan and advances to total deposit of HB Ltd and BOK Ltd be denoted by  $X_1$  and  $X_2$  respectively.

**Null Hypothesis  $f_{H_0}^A$ :**  $\hat{\mu}_1 = \hat{\mu}_2$  i.e., there is no significant difference between mean ratio of loan and advances to total deposit of HB Ltd and BOK Ltd.

**Alternative Hypothesis  $f_{H_1}^A$ :**  $\hat{\mu}_1 \neq \hat{\mu}_2$  i.e., there is significant difference between mean ratio of loan and advances to total deposit of HB Ltd and BOK Ltd.

##### Test Statistic

Under  $f_{H_0}^A$ , the test statistic is  $|t| = X \left| \frac{\bar{X}_1 - Z \bar{X}_2}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$

$|t| = X \left| \frac{Z 0.214}{\sqrt{0.0018 \left( \frac{1}{7} + \frac{1}{7} \right)}}$

$$|t| = 9.3772$$

$$\text{Degree of freedom (d.f.)} = n_1 + n_2 - 2 = 7 + 7 - 2 = 12$$

$$\text{Level of Significance } (\alpha) = 5\% = 0.05$$

$$t_{\text{tabulated}} (\text{d.f.} = 12 \text{ and } \alpha = 0.05) = 2.18$$

**Decision:**

Since the calculated value of “t” is greater than tabulated value of “t” i.e.  $9.3772 > 2.18$ . Hence,  $H_0$  is rejected and  $H_1$  is accepted at 5% level of significance. It is concluded that there is significant difference between mean ratios of loan and advances to total deposit of HB Ltd and BOK Ltd.

**4.3.2 Test of Hypothesis on Total Investment to Total Deposits Ratio HB Ltd and BOK Ltd**

Let, the total investment to total deposit ratio of HB Ltd and BOK Ltd be denoted by  $X_1$  and  $X_2$ .

**Null Hypothesis  $H_0$ :**  $\mu_1 = \mu_2$  i.e., there is no significant difference between the mean ratios of total investment to total deposit of HB Ltd and BOK Ltd.

**Alternative Hypothesis  $H_1$ :**  $\mu_1 \neq \mu_2$  i.e., there is significant difference between the mean ratio of total investment to total deposit of HB Ltd and BOK Ltd.

**Test Statistic**

Under  $H_0$ , the test statistic is

$$|t| = \frac{|\bar{X}_1 - \bar{X}_2|}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$$



$$|t| = X \sqrt{\frac{0.1782}{0.0091 \left( \frac{1}{7} + \frac{1}{7} \right)}}$$

$$|t| = X = 3.4928$$

Degree of freedom (d.f.) =  $n_1+n_2-2 = 7+7-2 = 12$

Level of Significance ( $\alpha$ ) = 5% = 0.05

$t_{\text{tabulated}}$  (d.f.= 12 and  $\alpha=0.05$ ) = 2.18

### Decision:

Since the calculated value of “t” is less than tabulated value of “t” i.e.  $3.4928 > 2.18$ . Hence,  $H_0$  is rejected and  $(H_1)$  is accepted at 5% level of significance. It concluded that there is significant difference between mean ratios of total investment to total deposit of HB Ltd and BOK Ltd.

### 4.3.3 Test of Hypothesis on Total Interest Earned to Total Outside Assets

Let, the total interest earned to total outside assets of HB Ltd and BOK Ltd is denoted by  $X_1$  and  $X_2$  respectively.

**Null Hypothesis  $H_0$ :**  $\hat{\mu}_1 = \hat{\mu}_2$  i.e., there is no significant difference between the mean ratio of total interest earned to total outside assets of HB Ltd and BOK Ltd.

**Alternative Hypothesis  $H_1$ :**  $\hat{\mu}_1 \neq \hat{\mu}_2$  i.e., there is significant difference between the mean ratio of total interest earned to total outside assets of HB Ltd and BOK Ltd.

### Test Statistic

Under  $H_0$  the test statistic is

$$|t| = X \left| \frac{\overline{X}_1 - Z - \overline{X}_2}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \right|$$

$$|t| = X \left| \frac{Z 0.0102}{\sqrt{0.000048 \left( \frac{1}{7} + \frac{1}{7} \right)}} \right|$$

$$|t| = X \quad 2.7391$$

Degree of freedom (d.f.) =  $n_1 + n_2 - 2 = 7 + 7 - 2 = 12$

Level of Significance ( $\alpha$ ) = 5% = 0.05

$t_{\text{tabulated}}$  (d.f. = 12 and  $\alpha = 0.05$ ) = 2.18

**Decision:**

Since the calculated value of “t” is less than tabulated value of “t” i.e. 2.7391 > 2.18. Hence,  $H_0$  is rejected and  $(H_1)$  is accepted at 5% level of significance. It concluded that there is significant difference between total interest earned to total outside assets of HB Ltd and BOK Ltd.

**4.3.4 Test of Hypothesis on Return on Loan and Advance Ratio**

Let the return on loan and advance of HB Ltd and BOK Ltd be denoted by  $X_1$  and  $X_2$ .

**Null Hypothesis  $H_0$ :**  $\hat{\mu}_1 = \hat{\mu}_2$  i.e., there is no significant difference between the mean ratio of return on loan and advances of HB Ltd and BOK Ltd.

**Alternative Hypothesis  $H_1$ :**  $\hat{\mu}_1 \neq \hat{\mu}_2$ , i.e. there is significant difference between the mean ratio of return on loan and advances of HB Ltd and BOK Ltd.

### Test Statistic

Under  $H_0$  the test statistic is

$$|t| = \frac{|\bar{X}_1 - \bar{X}_2|}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$|t| = \frac{0.0070}{\sqrt{0.000050 \left( \frac{1}{7} + \frac{1}{7} \right)}}$$

$$|t| = 1.8498$$

Degree of freedom (d.f.) =  $n_1 + n_2 - 2 = 7 + 7 - 2 = 12$

Level of Significance ( $\alpha$ ) = 5% = 0.05

$t_{\text{tabulated}}$  (d.f. = 12 and  $\alpha = 0.05$ ) = 2.18

### Decision:

Since the calculated value of “t” is greater than tabulated value of “t” i.e.  $1.8498 < 2.18$ . Hence,  $H_0$  is accepted at 5% level of significance. It concluded that there is no significant difference between the mean ratio of return on loan and advances of HB Ltd and BOK Ltd.

### 4.3.5 Test of Hypothesis on Investment on Government Securities to Current Assets Ratio HB Ltd and BOK Ltd

Let, the Investment on Government Securities to Current Assets ratio of HB Ltd and BOK Ltd be denoted by  $X_1$  and  $X_2$ .

**Null Hypothesis  $H_0$ :**  $\mu_1 = \mu_2$  i.e., there is no significant difference between the mean ratios of Investment on Government Securities to Current Assets of HB Ltd and BOK Ltd.

**Alternative Hypothesis**  $f_{H_1}^A$ :  $\hat{\mu}_1 = \hat{\mu}_2$  i.e., there is significant difference between the mean ratio of Investment on Government Securities to Current Assets of HB Ltd and BOK Ltd.

**Test Statistic**

Under  $f_{H_0}^A$ , the test statistic is

$$|t| = X \left| \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \right|$$

$$|t| = X \left| \frac{0.0512}{\sqrt{0.0076 \left( \frac{1}{7} + \frac{1}{7} \right)}} \right|$$

$$|t| = X \quad 1.0997$$

Degree of freedom (d.f.) =  $n_1+n_2-2 = 7+7-2 = 12$

Level of Significance ( $\alpha$ ) = 5% = 0.05

$t_{\text{tabulated}}$  (d.f.= 12 and  $\alpha=0.05$ ) = 2.18

**Decision:**

Since the calculated value of “t” is less than tabulated value of “t” i.e.  $1.0997 < 2.18$ . Hence,  $f_{H_0}^A$  is accepted at 5% level of significance. It concluded that there is no significant difference between mean ratios of Investment on Government Securities to Current Assets of HB Ltd and BOK Ltd.

**4.3.6 Test of Hypothesis on Loan and Advances to Current Assets Ratio**

Let, the Loan and Advances to Current Assets ratio of HB Ltd and BOK Ltd is denoted by  $X_1$  and  $X_2$  respectively.

**Null Hypothesis**  $f_{H_0}^A$ :  $\hat{\mu}_1 = \hat{\mu}_2$  i.e., there is no significant difference between the mean ratio of Loan and Advances to Current Assets of HB Ltd and BOK Ltd.

**Alternative Hypothesis**  $fH_1^A: \hat{\mu}_1 \neq \hat{\mu}_2$  i.e., there is significant difference between the mean ratio of Loan and Advances to Current Assets of HB Ltd and BOK Ltd.

### Test Statistic

Under  $fH_0^A$  the test statistic is

$$|t| = X \left| \frac{\bar{X}_1 - Z \bar{X}_2}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}} \right|$$

$$|t| = X \left| \frac{Z 0.0460}{\sqrt{0.003863 \left( \frac{1}{7} + \frac{1}{7} \right)}} \right|$$

$$|t| = X \quad 1.3838$$

Degree of freedom (d.f.) =  $n_1 + n_2 - 2 = 7 + 7 - 2 = 12$

Level of Significance ( $\alpha$ ) = 5% = 0.05

$t_{\text{tabulated}}$  (d.f. = 12 and  $\alpha = 0.05$ ) = 2.18

### Decision:

Since the calculated value of “t” is greater than tabulated value of “t” i.e.  $1.3838 < 2.18$ . Hence,  $fH_0^A$  is accepted at 5% level of significance. It concluded that there is no significant difference between mean ratios of Loan and Advances to Current Assets of HB Ltd and BOK Ltd.

## 4.4 Major Findings of the Study

Having completed the basic analysis required for the study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. A comprehensive summary of the major findings of this study is presented. The study derived from the analysis of financial data of HB Ltd and BOK Ltd is given below:

#### **4.4.1 Liquidity Ratio**

Both HB Ltd and BOK Ltd have not maintained current assets less than their current liabilities. Both banks do not capable enough to pay their current obligations. The current ratio of BOK Ltd is better than HB Ltd along with consistency of short term liquidity position during the study period because mean current ratio of BOK Ltd (0.8462) was greater than current ratio of HB Ltd (0.6484). It means BOK Ltd has better short term liquidity position than HB Ltd which showed BOK Ltd was better position to pay short term obligation than HB Ltd. However, the capability to pay of short term obligation of both banks was becoming low because the trend lines go downward direction with some fluctuation.

The mean ratio of cash and bank balance to total deposit BOK Ltd is higher than HB Ltd i.e.,  $0.1125 > 0.0770$  along with the higher ratio all fiscal year. On contrary, HB Ltd ratios were more consistent than that of BOK Ltd. It was observed that BOK Ltd readiness to meet intense customer requirement better than HB Ltd. In other words, above ratios implies a better liquidity position of BOK Ltd as compare to HB Ltd. On the other hand, a higher ratio of non-earning cash and bank balance in BOK Ltd indicates the banks unavailability to invest its fund in income generation areas that might have helped it to improve its profitability than HB Ltd.

BOK Ltd had sound ability to meet quick payment to its customer's deposits than the ability to quick payment to its customer's deposits by HB Ltd because the mean ratio of cash and bank balance to current assets of BOK Ltd was slightly higher than HB Ltd but BOK Ltd ratios were less maintained consistent on meet quick payment to its customer's deposit than that of HB Ltd. The ratio also suggested that both have fared well in meeting their depositor's daily cash requirement and investing the surplus fund in other productive areas.

The mean ratio of investment on government securities to current assets shows that HB Ltd has more portions of total current assets invested in government security (0.2711) than BOK Ltd (0.2247) along with more consistent or uniform in investment on government securities. The ratios of investment on government securities to current assets suggested that HB Ltd has invested its money in more secure area than that of BOK Ltd. The reason behind HB Ltd higher ratio could be attributed to more deposit collection and unavailability of other secured and profitable investment sectors.

The mean ratio of loan and advances to current assets of BOK Ltd is comparatively higher to HB Ltd i.e.  $0.8098 > 0.7638$  with the ratio less variable. Both banks have experienced an increasing trend of loan and advances with very little fluctuation in ratio. The above analysis reveals that BOK Ltd has been more successful in identifying profitable investment sectors and invests to increase its earning. HB Ltd has paid more efforts on investing in risk free assets, rather than increasing its loan and advances volume than BOK Ltd.

From the above findings, it can be concluded that the liquidity position of BOK Ltd is comparatively better than HB Ltd. It has the higher mean current ratio, cash and bank balance to total deposit ratio, cash and bank balance to current assets and mean ratio of loan and advances to current assets. BOK Ltd is in a better position to meet its daily cash requirement. BOK Ltd has a higher current ratio, which justifies that it is also capable enough to meet its current obligations. However, mean ratio of investment on government securities current assets is better than HB Ltd. The higher degree of variability in investment in government securities of HB Ltd during the study period shows lack of concrete policy of the bank in this regard.

#### **4.4.2 Asset Management Ratio**

The mean ratio of loan and advance to total deposit of BOK Ltd is higher than that of HB Ltd i.e.  $0.7291 > 0.5143$  and also have more consistent in ratio of loan and

advance to total deposit. It can be concluded that BOK Ltd seems to be strong in terms of mobilization of its total deposits as loan and advances compared to HB Ltd. On the contrary, the high ratio should not be perceived as a better state of affairs from the point of view of liquidity, as loan and advance are not as liquid as cash and bank balance and other investment.

The mean ratio of total investment to total deposit of HB Ltd is higher than that of BOK Ltd i.e.  $0.4250 > 0.2368$  having significantly consistency of total investment to total deposit ratio. It can be concluded that from mean ratio perspective, HB Ltd has been more successful in mobilization of deposits on various forms of investment compared to the total investment to total deposit ratio of BOK Ltd. Since fiscal year 2001/02, the ratio of HB Ltd is slightly but irregularly decreasing trend of the ratio that indicates the lowering capacity of fund mobilization of collected deposit. However, in case of BOK Ltd, the line suggested that it is irregularly increasing since fiscal year 2000/01 to 2005/06 that mean collected fund mobilization of BOK Ltd is significantly increased since fiscal year 2000/01. In conclusion, HB Ltd has been more successful in mobilizing its resources on various forms of investment than BOK Ltd.

The mean ratio of loan & advances to total working fund of BOK Ltd is higher than that of HB Ltd i.e.  $0.6329 > 0.4637$  with lower consistency i.e. C.V. of BOK Ltd is slightly larger (7.26%) than C.V. of ratio of HB Ltd (6.31). It can be concluded that, BOK Ltd has been more successful in mobilization of deposits on loan and advances compared loan & advances to total working fund ratio of HB Ltd. In case of HB Ltd, the trend line of ratio shows that is slightly increased since fiscal year 2002/03 which indicates the enhancing its capacity of fund mobilization on loan & advances. However, in case of BOK Ltd, the line suggested that is highly fluctuated which means policy of collected fund mobilization on loan and advance is instable. In overall conclusion pertaining to loan and advance to total working fund, the strength of BOK Ltd in mobilizing its total assets as loan and advances much better than HB Ltd.



The mean ratio of investment on government securities to total working fund of BOK Ltd is slightly higher than that of HB Ltd i.e.  $0.1695 > 0.1628$  with very lower consistency as a contrary i.e. C.V. of BOK Ltd (41.23 %) is very larger than C.V. of ratio of HB Ltd (16.54%). In case of HB Ltd, the trend line of ratio shows that is increased nearly in linear trend since fiscal year 2000/01 which indicates the enhancing its capacity of fund mobilization on investment on government securities of its total working fund. However, in case of BOK Ltd, the line suggested that it is sharply fluctuating which suggest that there is no concrete investment policy of total working fund mobilization on government securities. It can be conclude that BOK Ltd has invested slightly larger portion of working fund in government securities than HB Ltd. The ratios also indicates that both the banks have no concrete or certain investment policy with regards to what percentage of working fund to be invested in purchasing government securities because of high fluctuation of ratio of both banks.

The mean ratio of investment on shares and debenture to total working fund of BOK Ltd is higher than that of HB Ltd i.e.  $0.0059 > 0.0014$  with lower consistency as a contrary i.e. C.V. of BOK Ltd is larger than C.V. of ratio of HB Ltd i.e.  $37.09 \% > 30.74 \%$ . There are highly fluctuating trend in investment on shares and debenture to total working fund of BOK Ltd which indicates that high instability to mobilize its total working fund in share and debenture of other companies. But, the trend line of ratio of HB Ltd shows very slightly fluctuate and is increased nearly in linear trend since fiscal year 2000/01 with exception which witnesses the enhancing its capacity of fund mobilization on investment on shares and debenture of its total working fund. It can be concluded that BOK Ltd has invested larger portion of total working fund in shares and debenture than that of HB Ltd. The ratios also indicates that both the banks have no concrete or certain investment policy with regards to what percentage of working fund to be invested in purchasing shares and debenture.

From the above findings we can conclude that BOK Ltd has been more successful in mobilization of its investment to total deposits, working fund as loan and advances, loan and advance to total deposit, government securities and shares and debenture of other companies. On the other hand, HB Ltd appears to be stronger in mobilization of total deposits as total investment. BOK Ltd has fared better in purchasing shares and debentures of other companies, but both have invested marginal amount under this heading. Both the banks have successfully managed their assets towards different income generation activities.

#### **4.4.3 Profitability Ratios**

The profitability ratios of HB Ltd and BOK Ltd reveal that,

The mean ratio of return on total working fund of HB Ltd is higher than that of BOK Ltd i.e.  $0.0124 > 0.0121$  having significantly more consistency i.e. C.V. of BOK Ltd is larger than C.V. of ratio of HB Ltd. The trend lines of return on total working fund of both banks are fluctuating that indicates instability to mobilize its total working fund for rapid turn over.

The mean ratio of total interest earned to total outside assets of BOK Ltd is higher than that of HB Ltd i.e.  $0.0687 > 0.0585$  having more consistency i.e. C.V. of BOK Ltd is larger than C.V. of ratio of HB Ltd i.e.  $9.63\% < 10.71\%$ . It can be concluded that BOK Ltd seems to be more successful in earning high interest on its outside assets than HB Ltd but is in decreasing trend.

The mean ratio of return on loan and advances of HB Ltd is higher than that of BOK Ltd i.e.  $0.0267 > 0.0197$  having significantly more consistency i.e. C.V. of HB Ltd is very low than C.V. of ratio of BOK Ltd. In conclusion, HB Ltd has been more successful in maintaining its higher return on loan and advances than BOK Ltd. The trend lines of return on loan and advances of both banks are fluctuating. It indicates that instability to mobilize its loan and advances for profit earn. However, BOK Ltd is increasing capacity of loan and advances mobilization for

profit earning. In conclusion, it can be said that BOK Ltd profit earning capacity by utilizing available resources is weaker compared to HB Ltd, but nevertheless BOK Ltd is making significant improvements in this regard.

The mean ratio of total interest earned to total working fund of BOK Ltd is higher than that of HB Ltd i.e.  $0.0646 > 0.0554$  having more consistency i.e. C.V. of HB Ltd is larger than C.V. of ratio of BOK Ltd. In other words, BOK Ltd has been more successful in mobilizing its assets to generate high income loan and advances than HB Ltd. It can be concluded that BOK Ltd has been able to earn high interest on its total assets i.e., it has been more successful in mobilizing its assets to generate high income than HB Ltd. The decreasing trend of interest earning ratio with respect to total working fund is a matter of concern, and both the banks need to look for ways to improve upon their interest earnings.

The mean (0.0336) and each year ratio of total interest paid to total working fund of BOK Ltd are higher than the ratio of HB Ltd (0.0251). On contrary the consistency of ratio of BOK Ltd is relatively low than HB Ltd. It indicates that HB Ltd is better to mobilize its fund than BOK Ltd from interest payment point of view. The trend line of BOK Ltd is nearly linear in negative direction which suggested that the ratio is becoming better and better with the time. Overall, it can be said that HB Ltd is in a better position from interest payment point of view than of BOK Ltd. HB Ltd seems to have collected its funds from cheaper sources than BOK Ltd and recently BOK Ltd also try to collect its funds from the cheaper source.

The mean (1.3955) and each year ratios of total interest paid to operating income of BOK Ltd are higher than the ratio of HB Ltd (1.3170) except fiscal year 2004/05. On contrary the consistency of ratio of HB Ltd is relatively high than BOK Ltd. It indicates that BOK Ltd is less effectively mobilizing its resources in bearing assets i.e. loan and investment, investment etc than that of HB Ltd. The trend lines of both banks; HB Ltd and BOK Ltd are nearly linear but in negative

direction. The lines suggest that both banks have lowering their capacity to mobilize fund effective in bearing assets i.e. loan and investment, investment.

On the basis of above, we can conclude that HB Ltd has been more successful in maintaining its higher return on total working fund and return on loan and advances ratio and lower ratio of total interest paid to total working fund and total interest paid to operating income. On the other hand, BOK Ltd has been more successful in term of earning power with respect to total interest earned to total outside assets ratio and total interest earned to total working fund. BOK Ltd has been more successful in mobilization of its funds in interest bearing assets to earn higher total outside assets than HB Ltd. BOK Ltd is in a better position than HB Ltd from interest payment point of view. BOK Ltd has paid higher interest than HB Ltd, whereas the latter seems to have collected its funds from cheaper sources than BOK Ltd.

#### **4.4.4 Risk Ratios**

The Risk ratio of HB Ltd and BOK Ltd reveals that,

The mean ratio and each year's credit risk ratios of BOK Ltd are higher than that of HB Ltd along with higher C.V. (7.26%). It means the HB Ltd is in better condition than BOK Ltd in credit risk point of view along with the better condition of consistency of the ratio. The trends lines of both banks are slowly fluctuate with the fiscal year. The lines of both banks suggest that there are some defects in policy to mobilize the fund in low credit risk free sector.

Based on above findings we can conclude that HB Ltd has lower credit risk than BOK Ltd. BOK Ltd has greater exposure to risk in its financial operations than HB Ltd.

#### **4.4.5 Co-efficient of Correlation Analysis**

Co-efficient of correlation analysis between different variables of HB Ltd and BOK Ltd reveals that;

- Ñ The co-efficient of correlation between total deposits and total investment of BOK Ltd is higher than HB Ltd.
- Ñ The co-efficient of correlation between total deposits and loan and advances of BOK Ltd is slightly higher than HB Ltd.
- Ñ The co-efficient of correlation between total outside assets and net profit of BOK Ltd is slightly higher than HB Ltd.

In conclusion, we can say that there is a significant positive relationship between deposit and total investment, total deposit and loan & advances and total outside assets and net profit in case of BOK Ltd. Similarly, incase of HB Ltd, there exists a significant positive relationship between deposits and total investment, deposit and loan and advances and total outside assets and net profit.

#### **4.4.6 Test of Hypothesis**

The test of significance regarding the parameter of the population, on the basis of sample drawn from the population reveals that:

- Ñ There is significant difference between mean ratio of loan and advances to total deposit of HB Ltd and BOK Ltd.
- Ñ There is significant difference between mean ratio of total investment to total deposit of HB Ltd and BOK Ltd.
- Ñ There is significant difference between mean ratio of total interest earned to total outside assets HB Ltd and BOK Ltd.
- Ñ There is no significant difference between mean ratio of return on loan and advances of HB Ltd and BOK Ltd.
- Ñ There is no significant difference between mean ratio of investment on government securities to current assets of HB Ltd and BOK Ltd.
- Ñ There is no significant difference between mean ratios of Loan and Advances to Current Assets of HB Ltd and BOK Ltd.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter is an accomplished specific and indicative enclosure which contains summary and conclusion of findings and recommendations. Brief introduction to all chapters of the study and genuine information of the present situation under the topic of the study is defined on summary. Conclusions are analysis of applicable data by using various financial and statistical tools, which presents strengths, weakness, opportunities and threats of the commercial banks. And suggestions are obtainable in recommendation, which is arranged on the based from findings and conclusions.

#### **5.1 Summary**

The development of any country depends upon its economic development. Economic development demands transformation of savings or invertible resources into the actual investment formation is the prerequisite in setting the overall pace of the development of a country. It is the financial institutions that transfer funds from surplus spending units to deficit units.

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. In Nepalese content, the history of development of modern banks started from the establishment of Nepal Bank Limited in 1937 A.D. Nowadays there are 23 CBs operating in Nepal which is increasing due to the country moved towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of CBs, successful formulation and effective implementation of investment policy is the prime requisite.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector which deals in the process of channeling the available resources in the needed sectors. It plays the role of agent between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels.

Development of trade, industry and business is the main ground of banks to conduct its activities and fulfill its profit making objectives. The sound investment policy helps all the banks to make profitable investment and which in turns also helps to develop the national economy. Investment policy of commercial banks is very risky one. It is the most important factor from the view point of shareholders and bank management. For this, commercial banks have to pay due consideration while formulating investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loans and investment. Commercial banks are not able to utilize its deposits properly i.e. providing loan and advances or lending for a profitable project, the reason behind it is lack of sound investment policy, increasing trend of this situation certainly lead closure of the banking institutions.

Hence, the sufficient return is not earned due to the lack of stable, strong and appropriate investment policy. They have not been able to utilize their funds more efficiently and productively. Though the directions and guidelines are being provided by the Nepal Rastra Bank but the long term and published policy about their operation does not sound good in the commercial banks. Therefore, the bank's investment policy must be sound and prudent in order to protect public funds.

The main focus of the study is to evaluate the investment policy of commercial banks in Nepal with special reference to Himalayan Bank Limited and Bank of Kathmandu Limited and to suggest for its improvement in the future policy. This

aims to examine its efficiency, effectiveness, systematization and sincerity is disbursing fund and analyzing investment policies. The specific objectives of the study are to find out relationship between total investments, deposits, loans-advance, net profit and assets and compare them, to evaluate the liquidity, assets management, efficiency, profitability and risk portion of the concerned banks, to compare investment policies of the concerned banks and discuss the fund mobilization of sample banks, to analyze the deposit utilization trend of the them, to provide a package of workable suggestion and possible guidelines to improve investment policy of the concerned banks based on the finding of the analysis and to analyze the non performing assets position of the concerned banks.

The study is based on seven years secondary data from the fiscal year 2000/01 to 2006/07 of concerned banks. The data are collected from annual reports, financial statement, official records, periodicals, journals and bulletins, various published reports, web sites and relevant unpublished master's thesis. Besides this, personal contacts with the bank authorities have also been made.

For the fulfillments of the objectives of the study different analyses have been done. Both financial as well as statistical tools have been used to analyze and interpret the facts and information. Under financial tools, various financial ratios related to the investment function of commercial banks i.e. liquidity ratio, assets management ratio, profitability ratio and risk ratio have been studied and interpreted. Under statistical analysis, some relevant statistical tools, i.e. mean, standard deviation, coefficient of variance, correlation co-efficient and hypothesis test have been studied. This analysis gives clear picture of the performance of the banks with regard to its investment policy. Financial & statistical tools have been used for reckoning and secondary data were compiled, processed, tabulated and graphed for better presentation. The finding and conclusion have been drawn and recommendations have been forwarded which are presented as below.



Both HB Ltd and BOK Ltd have not maintained current assets less than their current liabilities. Both banks do not capable enough to pay their current obligations. BOK Ltd has better short term liquidity position than HB Ltd which showed BOK Ltd has better position to pay short term obligation than HB Ltd because mean current ratio of BOK Ltd (0.8462) was greater than current ratio of HB Ltd (0.6484). However, the capability to pay of short term obligation of both banks was becoming low because the trend lines go downward direction with some fluctuation. The mean ratio of cash and bank balance to total deposit BOK Ltd is higher than HB Ltd i.e., 0.1125>.0770 along with the higher ratio in all fiscal year too. It is concluded that BOK Ltd pays attention of readiness to meet intense customer requirement better than HB Ltd. In other words, above ratios implies a better liquidity position of BOK Ltd as compare to HB Ltd. On the other hand, a higher ratio of non-earning cash and bank balance in BOK Ltd indicates the banks unavailability to invest its fund in income generation areas that might have helped it to improve its profitability than HB Ltd. BOK Ltd had sound ability to meet quick payment to its customer's deposits than the ability to quick payment to its customer's deposits by HB Ltd because the mean ratio of cash and bank balance to current assets of BOK Ltd is slightly higher than HB Ltd. The ratio also suggested that both have fared well in meeting their depositor's daily cash requirement and investing the surplus fund in other productive areas. The mean ratio of investment on government securities to current assets shows that HB Ltd has more portions of total current assets invested in government security (0.2711) than BOK Ltd (0.2247). In other words, HB Ltd has invested its money in more secure area than that of BOK Ltd. The reason behind, higher ratio of HB Ltd could be attributed to more deposit collection and unavailability of other secured and profitable investment sectors. The mean ratio of loan and advances to current assets of BOK Ltd is comparatively higher than HB Ltd i.e. 0.8098>0.7638. BOK Ltd has been more successful in identifying profitable investment sectors and invests to increase its earning. HB Ltd has paid more efforts on investing in risk free assets, rather than increasing its loan and advances volume than BOK Ltd.

The mean ratio of loan and advance to total deposit of BOK Ltd is higher than that of HB Ltd i.e.  $0.7291 > 0.5143$ . So it can be concluded that BOK Ltd seems to be strong in terms of mobilization of its total deposits as loan and advances compared to HB Ltd. The mean ratio of total investment to total deposit of HB Ltd is higher than that of BOK Ltd i.e.  $0.4250 > 0.2368$ . Thus, it can be concluded that from mean ratio perspective, HB Ltd has been more successful in mobilization of deposits on various forms of investment compared to the total investment to total deposit ratio of BOK Ltd. The mean ratio of loan & advances to total working fund of BOK Ltd is higher than that of HB Ltd i.e.  $0.6329 > 0.4637$ . In other word, BOK Ltd has been more successful in mobilization of deposits on loan and advances compared loan & advances to total working fund ratio of HB Ltd. In overall conclusion pertaining to loan and advance to total working fund, the strength of BOK Ltd in mobilizing its total assets as loan and advances much better than HB Ltd. Similarly, the mean ratio of investment on government securities to total working fund of BOK Ltd is slightly higher than that of HB Ltd i.e.  $0.1695 > 0.1628$ . It can be conclude that BOK Ltd has invested slightly larger portion of working fund in government securities than HB Ltd. The ratios also indicates that both the banks have no concrete or certain investment policy with regards to what percentage of working fund to be invested in purchasing government securities because of high fluctuation of ratio of both banks. The mean ratio of investment on shares and debenture to total working fund of BOK Ltd is higher than that of HB Ltd i.e.  $0.0059 > 0.0014$ . It can be concluded that BOK Ltd has invested larger portion of total working fund in shares and debenture than that of HB Ltd. The ratios also indicates that both the banks have no concrete or certain investment policy with regards to what percentage of working fund to be invested in purchasing shares and debenture.

The profitability ratios of HB Ltd and BOK Ltd reveal that, the mean ratio of return on total working fund of HB Ltd is higher than that of BOK Ltd i.e.  $0.0124 > 0.0121$  which indicates instability to mobilize its total working fund for rapid turn over. On contrary, the mean ratio of total interest earned to total outside assets

of BOK Ltd is higher than that of HB Ltd i.e.  $0.0687 > 0.0585$ . It can be concluded that BOK Ltd seems to be more successful in earning high interest on its outside assets than HB Ltd but is in decreasing ratio. The mean ratio of return on loan and advances of HB Ltd is higher than that of BOK Ltd i.e.  $0.0267 > 0.0197$ . In conclusion, HB Ltd has been more successful in maintaining its higher return on loan and advances than BOK Ltd. In conclusion, it can be said that BOK Ltd profit earning capacity by utilizing available resources is weaker compared to HB Ltd, but nevertheless BOK Ltd is making significant improvements in this regard. The mean ratio of total interest earned to total working fund of BOK Ltd is higher than that of HB Ltd i.e.  $0.0646 > 0.0554$ . In other words, BOK Ltd has been more successful in mobilizing its assets to generate high income loan and advances than HB Ltd. It can be concluded that BOK Ltd has been able to earn high interest on its total assets. The mean (0.0336) and each year ratio of total interest paid to total working fund of BOK Ltd are higher than the ratio of HB Ltd (0.0251). In conclusion, HB Ltd is better to mobilize its fund than BOK Ltd from interest payment point of view. Overall, it can be said that HB Ltd is in a better position from interest payment point of view than BOK Ltd. HB Ltd seems to have collected its funds from cheaper sources than BOK Ltd and recently BOK Ltd also try to collect its funds from the cheaper source. The mean (1.3955) and each year ratios of total interest paid to operating income of BOK Ltd are higher than the ratio of HB Ltd (1.3170) except fiscal year 2004/05. It indicates that BOK Ltd is less effectively mobilizing its resources in bearing assets i.e. loan and investment, investment etc than that of HB Ltd.

The mean ratio and each year's credit risk ratios of BOK Ltd are higher than that of HB Ltd along with higher C.V. (7.26%). It means the HB Ltd is in better condition than BOK Ltd in credit risk point of view along with the better condition of consistency of the ratio.

Co-efficient of correlation analysis between different variables of HB Ltd and BOK Ltd reveals that;

- Ñ The co-efficient of correlation between total deposits and total investment of BOK Ltd is higher than HB Ltd.
- Ñ The co-efficient of correlation between total deposits and loan and advances of BOK Ltd is slightly higher than HB Ltd.
- Ñ The co-efficient of correlation between total outside assets and net profit of BOK Ltd is slightly higher than HB Ltd.

The test of significance regarding the parameter of the population, on the basis of sample drawn from the population reveals that:

- Ñ There is significant difference between mean ratio of loan and advances to total deposit of HB Ltd and BOK Ltd.
- Ñ There is significant difference between mean ratio of total investment to total deposit of HB Ltd and BOK Ltd.
- Ñ There is significant difference between mean ratio of total interest earned to total outside assets HB Ltd and BOK Ltd.
- Ñ There is no significant difference between mean ratio of return on loan and advances of HB Ltd and BOK Ltd.
- Ñ There is no significant difference between mean ratio of investment on government securities to current assets of HB Ltd and BOK Ltd.
- Ñ There is no significant difference between mean ratios of Loan and Advances to Current Assets of HB Ltd and BOK Ltd.

## **5.2 Conclusion**

This study reveals that the current ratio of both banks; BOK Ltd and HB Ltd, is less than 1, which should not be considered as satisfactory. The liquidity position of BOK Ltd is comparatively better than HB Ltd. It has the higher mean current ratio, cash and bank balance to total deposit ratio, cash and bank balance to current assets and mean ratio of loan and advances to current assets than HB Ltd. BOK Ltd is in a better position to meet its daily cash requirement. BOK Ltd has a higher current ratio, which justifies that it is also capable enough to meet its current

obligations. However, mean ratio of investment on government securities current assets is better than HB Ltd. The higher degree of variability in investment in government securities of HB Ltd during the study period shows lack of concrete policy of the bank in this regard. In contrast, a high ratio of non-earning cash and bank balance is an indication of bank's unavailability to invest its fund in income generation areas.

The asset management position of BOK Ltd is comparatively better than HB Ltd. In other words, BOK Ltd has been more successful in mobilization of its investment to total deposits, working fund as loan and advances, loan and advance to total deposit, government securities and shares and debenture of other companies. On the other hand, HB Ltd appears to be stronger in mobilization of total deposits as total investment. BOK Ltd has fared better in purchasing shares and debentures of other companies, but both have invested marginal amount under this heading. Both the banks have successfully managed their assets towards different income generation activities.

The profitability position of HB Ltd is better than BOK Ltd. In other words, HB Ltd has been more successful in maintaining its higher return on total working fund and return on loan and advances ratio and lower ratio of total interest paid to total working fund and total interest paid to operating income. On the other hand, BOK Ltd has been more successful in term of earning power with respect to total interest earned to total outside assets ratio and total interest earned to total working fund. BOK Ltd has been more successful in mobilization of its funds in interest bearing assets to earn higher total outside assets than HB Ltd. BOK Ltd is in a better position than HB Ltd from interest payment point of view. BOK Ltd has paid higher interest than HB Ltd, whereas the latter seems to have collected its funds from cheaper sources than BOK Ltd.

The mean ratio and each year's credit risk ratios of BOK Ltd are higher than that of HB Ltd. It means the HB Ltd is in better condition than BOK Ltd in credit risk point of view.

In other words, HB Ltd has lower credit risk than BOK Ltd. BOK Ltd has greater exposure to risk in its financial operations than HB Ltd.

Correlation analysis shows that there is a significant positive relationship between deposit and total investment, total deposit and loan & advances and total outside assets and net profit in case of BOK Ltd. Similarly, in case of HB Ltd, there exists a significant positive relationship between deposits and total investment, deposit and loan and advances and total outside assets and net profit.

The hypotheses were tested and following conclusions were drawn:

- ñ There is significant difference between mean ratio of loan and advances to total deposit, between mean ratio of total investment to total deposit and between mean ratio of total interest earned to total outside assets of HB Ltd and BOK Ltd,
- ñ There is no significant difference between mean ratio of return on loan and advances, between mean ratios of investment on government securities to current assets and between mean ratios of Loan and Advances to Current Assets of HB Ltd and BOK Ltd.

### **5.3 Recommendations**

On the basis of analysis, findings and conclusion, following recommendations are forwarded. The banks can be benefited by using these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall investment policy.

#### **To Increase Deposit Collection**

The main source of commercial banks is collecting deposit from public who don't need that fund recently. So, it is recommended to collect more amounts as deposits

through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift, cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.

### **Enhancement of OBS Operation**

The fee-based activities of bank are found to be very profitable and important nowadays in banking business. These are commission, discount and fees. They yield return to a bank. HB Ltd is not in better position regarding the proportion of fee-based activities in respect to loan and advances in comparison with BOK Ltd. Therefore, it is recommended to enhance the off balance sheet (OBS) operation which are very profitable.

### **Increase Investment in Share and Debentures**

To get success in a competitive market and to raise financial and economic development of the country, a commercial bank must mobilize its fund in different sectors such as purchase of share and debenture of other financial and non-financial companies and other government and non-government companies. It is also genuine means of utilization of resource. Thus these companies may get chances to rise. Out of total working fund, investment on shares and debentures of HB Ltd is lower than BOK Ltd. HB Ltd is suggested to invest more of its fund in share and debentures of different companies.

### **To Invest Deprive and Priority Sector**

NRB has directed to commercial banks to invest their certain percentage in deprives and priority sector and it is also responsibility of banks. The study has been found that both the banks have earned high profit because their services are only for profitable sector. It reveals that it has not granted loan on priority and deprives sector. So HB Ltd and BOK Ltd is recommended to thoroughly follow the directives issued by NRB and invest in priority and deprive sector and also to invest on other small-scale industries like, public utilities, health, sanitation and drinking water, education and agricultural etc.

### **To Maintain Effective Liquidity Position**

The liquidity position of a bank may be affected by internal as well as external factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central banks directives, the lending policies, capability of management, strategic planning and funds flow situations. The ratio of cash and bank balance to total deposit and current assets of BOK Ltd is higher than that of HB Ltd which indicates BOK Ltd has higher idle cash and bank balance. It may decrease profit of bank. BOK Ltd is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.

### **Liberal Lending Policy and Sound Credit Collection Policy**

To get success in competitive banking market, commercial bank must utilize their deposit as loan and advances. Loan and advances are the main source of income and also means of utilization resources of commercial banks. Negligence in administrating these assets could be the cause of liquidity crisis in bank and one of the main reasons of the bank failure. Collection of loan has been most challenging task of commercial banks these days, increasing on non-performing assets discloses the failure of commercial banks in recovery of loan. Therefore, it is recommended to HB Ltd and BOK Ltd to follow liberal lending policy when sensations loan and advances with sufficient guaranty and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower, continual follow up and as well as legal procedure if require.

### **Effective Portfolio Management**

Portfolio management refers to the allocation of funds into different components of its assets, having different degree of risk and varying rate of return in such a manner that the conflicting goals of maximum yield and minimum risk can be achieved. The portfolio condition of the banks should be regularly revised from



time to time. Appointing an investment specialist as a portfolio manager or assigning the task of portfolio management to Manager

### **Increase Branches in Rural Areas**

Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country. HB Ltd and BOK Ltd have shown no interest to open branches in rural areas. Both the banks are recommended to expand their branches and banking services and facilities in rural areas and sub urban area and communities to accelerate their economic development. NRB should also implement policies to encourage banks, which provide extensive services while disincentive sings those who are not responsive to the banking needs of the community, including the underprivileged.

Being a developing country, economic environment of Nepal is not in a good condition. The strong economic structure is needed for the rapid overall development. Commercial banks play vital role in the developing country like Nepal. Commercial banks are facing several problems related to investment policy. They have to rush with modern banking technology so that, they would be a professional institutions. If commercial banks follow above- mentioned suggestions, they would be successful in reaching to the modern innovative and competitive banking market

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## APPENDIX - 1

### 1. Current Ratio of HB Ltd and BOK Ltd

(In Rs.)

Fiscal Year	HB Ltd			BOK Ltd	
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities
2000/01	14,585,965,042	18,150,212,607	0.8036	5,680,104,405	5,874,761,797
2001/02	11,196,483,234	19,814,318,986	0.5651	5,594,968,005	5,836,461,797
2002/03	12,874,035,175	22,216,209,101	0.5795	5,535,026,311	6,865,683,234
2003/04	15,170,279,664	23,437,858,634	0.6473	6,935,310,038	8,845,599,664
2004/05	15,856,531,073	26,302,948,194	0.6028	7,195,048,786	9,167,795,175
2005/06	18,030,534,202	27,334,214,056	0.6596	8,792,872,140	11,238,595,175
2006/07	21,122,096,123	31,012,641,456	0.6811	11,256,818,543	13,388,120,038

### 2. Cash & Bank Balance to Total Deposit Ratio of HB Ltd and BOK Ltd

(In Rs.)

Fiscal Year	HB Ltd			BOK Ltd	
	Cash & Bank Balance	Total Deposit	Ratio	Cash & Bank Balance	Total Deposit
2000/01	1,435,174,797	17,636,846,816	0.0814	1,124,228,391	5,713,234,202
2001/02	1,264,671,798	18,619,375,076	0.0679	683,646,099	5,723,234,202
2002/03	1,979,208,996	21,045,086,740	0.0940	692,712,110	6,170,279,664
2003/04	2,001,184,221	22,010,332,984	0.0909	782,882,941	7,741,483,234
2004/05	2,014,470,957	24,814,011,984	0.0812	740,520,482	8,975,175,175
2005/06	1,717,352,336	26,490,851,640	0.0648	728,697,092	10,485,175,175
2006/07	1,757,341,252	30,048,417,756	0.0585	1,315,903,941	12,388,120,038

### 3. Cash & Bank Balance to Current Assets Ratio of HB Ltd and BOK Ltd

(In Rs.)

Fiscal Year	HB Ltd			BOK Ltd
	Cash & Bank Balance	Current Assets	Ratio	Cash & Bank Balance
2000/01	1,435,174,797	14,585,965,042	0.0984	1,124,228,391
2001/02	1,264,671,798	11,196,483,234	0.1130	683,646,099
2002/03	1,979,208,996	12,874,035,175	0.1537	692,712,110
2003/04	2,001,184,221	15,170,279,664	0.1319	782,882,941
2004/05	2,014,470,957	15,856,531,073	0.1270	740,520,482
2005/06	1,717,352,336	18,030,534,202	0.0953	728,697,092
2006/07	1,757,341,252	21,122,096,123	0.0832	1,315,903,941

### 4. Investment on Government Securities to Current Assets Ratio of HB Ltd and BOK Ltd

(In Rs.)

<b>Fiscal Year</b>	<b>HB Ltd</b>			<b>BC</b>
	<b>Invest. on govt. securities</b>	<b>Current Assets</b>	<b>Ratio</b>	<b>Invest. on govt. securities</b>
<b>2000/01</b>	2,224,295,750	14,585,965,042	0.1525	300,805,590
<b>2001/02</b>	3,047,755,359	11,196,483,234	0.2722	542,650,110
<b>2002/03</b>	3,998,870,490	12,874,035,175	0.3106	1,510,705,678
<b>2003/04</b>	3,431,728,940	15,170,279,664	0.2262	2,371,775,077
<b>2004/05</b>	5469728940	15,856,531,073	0.3450	2,146,619,488
<b>2005/06</b>	5144313000	18,030,534,202	0.2853	2,658,369,057
<b>2006/07</b>	6455173471	21,122,096,123	0.3056	2,332,041,251

## 5. Loan and Advances to Current Assets Ratio of HB Ltd and BOK Ltd

(In Rs.)

Fiscal Year	HB Ltd			BOK Ltd	
	Loan and Advances	Current Assets	Ratio	Loan and Advances	Current Assets
2000/01	8,537,666,084	14,585,965,042	0.5853	4,127,047,038	5680
2001/02	8,913,723,565	11,196,483,234	0.7961	4,613,697,306	5594
2002/03	10,001,848,185	12,874,035,175	0.7769	4,542,700,202	5535
2003/04	11,951,869,350	15,170,279,664	0.7878	5,646,698,444	6935
2004/05	12,424,520,646	15,856,531,073	0.7836	5,912,579,472	7195
2005/06	14,642,559,555	18,030,534,202	0.8121	7,259,082,579	8792
2006/07	16,997,997,046	21,122,096,123	0.8047	9,399,327,617	11256

## 6. Loan and Advances to Total Deposit Ratio of HB Ltd

(In Rs.)

Fiscal Year	HB Ltd			BOK Ltd	
	Loan and Advances	Total Deposit	Ratio	Loan and Advances	Total Deposit
2000/01	8,537,666,084	17,636,846,816	0.4841	4,127,047,038	5,713,49
2001/02	8,913,723,565	18,619,375,076	0.4787	4,613,697,306	5,723,28
2002/03	10,001,848,185	21,045,086,740	0.4753	4,542,700,202	6,170,71
2003/04	11,951,869,350	22,010,332,984	0.5430	5,646,698,444	7,741,64
2004/05	12,424,520,646	24,814,011,984	0.5007	5,912,579,472	8,975,78
2005/06	14,642,559,555	26,490,851,640	0.5527	7,259,082,579	10,485,35
2006/07	16,997,997,046	30,048,417,756	0.5657	9,399,327,617	12,388,92

## 7. Total Investment to Total Deposit Ratio of HB Ltd and BOK Ltd

(In Rs.)

Fiscal Year	HB Ltd			BOK Ltd	
	Total Investment	Total Deposit	Ratio	Total Investment	Total Deposit
2000/01	4,083,159,986	17,636,846,816	0.2315	419,815,590	
2001/02	9,157,106,656	18,619,375,076	0.4918	667,459,110	
2002/03	10,175,435,017	21,045,086,740	0.4835	1,816,148,857	
2003/04	9,292,102,510	22,010,332,984	0.4222	2,477,409,627	
2004/05	11,692,341,559	24,814,011,984	0.4712	2,598,253,410	
2005/06	10,889,031,449	26,490,851,640	0.4111	3,374,711,966	
2006/07	11,822,984,558	30,048,417,756	0.3935	2,992,433,866	

## 8. Loan and Advances to Total Working Fund Ratio of HB Ltd and BOK Ltd

(In Rs.)

Fiscal Year	HB Ltd			BOK Ltd	
	Loan and Advances	Total Working Fund	Ratio	Loan and Advances	Total Working Fund
2000/01	8,537,666,084	18,870,803,965	0.4524	4,127,047,038	18,870,803,965
2001/02	8,913,723,565	20,672,433,854	0.4312	4,613,697,306	20,672,433,854
2002/03	10,001,848,185	23,279,341,304	0.4296	4,542,700,202	23,279,341,304
2003/04	11,951,869,350	24,762,024,991	0.4827	5,646,698,444	24,762,024,991
2004/05	12,424,520,646	27,844,694,655	0.4462	5,912,579,472	27,844,694,655
2005/06	14,642,559,555	29,460,389,672	0.4970	7,259,082,579	29,460,389,672
2006/07	16,997,997,046	33,519,141,111	0.5071	9,399,327,617	33,519,141,111

**9. Investment on Government Securities to Total Working Fund Ratio of HB Ltd and BOK Ltd**

(In Rs.)

Fiscal Year	HB Ltd			Invest. on govt. securities
	Invest. on govt. securities	Total Working Fund	Ratio	
2000/01	2,224,295,750	18,870,803,965	0.1179	300,805
2001/02	3,047,755,359	20,672,433,854	0.1474	542,650
2002/03	3,998,870,490	23,279,341,304	0.1718	1,510,705
2003/04	3,431,728,940	24,762,024,991	0.1386	2,371,775
2004/05	5469728940	27,844,694,655	0.1964	2,146,619
2005/06	5144313000	29,460,389,672	0.1746	2,658,369
2006/07	6455173471	33,519,141,111	0.1926	2,332,041

**10. Investment on Share & Debenture to Total Working Fund Ratio of HB Ltd and BOK Ltd**

(In Rs.)

Fiscal Year	HB Ltd			Inv. on Share, Debenture and Bond
	Inv. on Share, Debenture and Bond	Total Working Fund	Ratio	
2000/01	10,691,075	18,870,803,965	0.00057	24,595,000
2001/02	34,265,797	20,672,433,854	0.00166	38,009,000
2002/03	34,265,797	23,279,341,304	0.00147	38,009,000
2003/04	34,265,797	24,762,024,991	0.00138	22,809,000
2004/05	39,908,797	27,844,694,655	0.00143	93,019,550
2005/06	38,557,437	29,460,389,672	0.00131	96,867,892
2006/07	73,423,859	33,519,141,111	0.00219	90,168,896

**11. Net profit to Total Working Fund Ratio of HB Ltd and BOK Ltd**

(In

Rs.)

Fiscal Year	HB Ltd			Net profit
	Net profit	Total Working Fund	Ratio	
2000/01	277,040,174	18,870,803,965	0.0147	65,350,576
2001/02	235,023,510	20,672,433,854	0.0114	9,274,782
2002/03	212,128,485	23,279,341,304	0.0091	82,127,662
2003/04	263,053,495	24,762,024,991	0.0106	127,473,189
2004/05	308,275,171	27,844,694,655	0.0111	139,529,721
2005/06	457,457,696	29,460,389,672	0.0155	202,440,627
2006/07	491,822,905	33,519,141,111	0.0147	262,386,980

## 12. Total Interest Earned to Total Outside Assets Ratio of HB Ltd and BOK Ltd

(In Rs.)

Fiscal Year	HB Ltd			Total Interest Earned
	Total Interest Earned	Total Outside Assets	Ratio	
2000/01	1,326,378,121	18,150,212,607	0.0731	465,029,740
2001/02	1,148,998,491	19,814,318,986	0.0580	473,297,122
2002/03	1,201,233,722	22,216,209,101	0.0541	496,808,827
2003/04	1,245,895,020	23,437,858,634	0.0532	567,096,226
2004/05	1,446,468,083	26,302,948,194	0.0550	607,095,662
2005/06	1,626,473,819	27,594,214,056	0.0589	718,121,378
2006/07	1,775,582,617	31,012,641,456	0.0573	819,003,947

## 13. Net profit to Loan & Advances Ratio of HB Ltd and BOK Ltd

(In Rs.)

Fiscal Year	HB Ltd			Net profit
	Net profit	Loan & Advances	Ratio	
2000/01	277,040,174	8,537,666,084	0.0325	65,350,576
2001/02	235,023,510	8,913,723,565	0.0264	9,274,782
2002/03	212,128,485	10,001,848,185	0.0212	82,127,662
2003/04	263,053,495	11,951,869,350	0.0220	127,473,189
2004/05	308,275,171	12,424,520,646	0.0248	139,529,721
2005/06	457,457,696	14,642,559,555	0.0312	202,440,627
2006/07	491,822,905	16,997,997,046	0.0289	262,386,980

## 14. Total Interest Earned to Total Working Fund Ratio of HB Ltd and BOK Ltd

(In Rs.)

Fiscal Year	HB Ltd			Total Interest Earned
	Total Interest Earned	Total Working Fund	Ratio	

<b>2000/01</b>	1,326,378,121	18,870,803,965	0.0703	465,029,740
<b>2001/02</b>	1,148,998,491	20,672,433,854	0.0556	473,297,122
<b>2002/03</b>	1,201,233,722	23,279,341,304	0.0516	496,808,827
<b>2003/04</b>	1,245,895,020	24,762,024,991	0.0503	567,096,226
<b>2004/05</b>	1,446,468,083	27,844,694,655	0.0519	607,095,662
<b>2005/06</b>	1,626,473,819	29,460,389,672	0.0552	718,121,378
<b>2006/07</b>	1,775,582,617	33,519,141,111	0.0530	819,003,947

### 15. Total Interest Paid to Total Working Fund Ratio of HB Ltd and BOK Ltd

(In Rs.)

<b>Fiscal Year</b>	<b>HB Ltd</b>			<b>BOK Ltd</b>	
	<b>Total Interest Paid</b>	<b>Total Working Fund</b>	<b>Ratio</b>	<b>Total Interest Paid</b>	<b>Total Working Fund</b>
<b>2000/01</b>	734,517,574	18,870,803,965	0.0389	310,484,044	18,870,803,965
<b>2001/02</b>	578,133,464	20,672,433,854	0.0280	285,005,602	20,672,433,854
<b>2002/03</b>	554,128,247	23,279,341,304	0.0238	276,705,159	23,279,341,304
<b>2003/04</b>	491,543,353	24,762,024,991	0.0199	286,297,050	24,762,024,991
<b>2004/05</b>	561,963,770	27,844,694,655	0.0202	241,639,164	27,844,694,655
<b>2005/06</b>	648,841,818	29,460,389,672	0.0220	308,155,647	29,460,389,672
<b>2006/07</b>	767,411,247	33,519,141,111	0.0229	339,181,011	33,519,141,111

### 16. Total Interest Earned to Operating Income Ratio of HB Ltd and BOK Ltd

(In Rs.)

<b>Fiscal Year</b>	<b>HB Ltd</b>			<b>BOK Ltd</b>	
	<b>Total Interest Earned</b>	<b>Operating Income</b>	<b>Ratio</b>	<b>Total Interest Earned</b>	<b>Operating Income</b>
<b>2000/01</b>	1,326,378,121	838,406,526	1.5820	465,029,740	18,870,803,965
<b>2001/02</b>	1,148,998,491	809,207,663	1.4199	473,297,122	20,672,433,854
<b>2002/03</b>	1,201,233,722	889,419,029	1.3506	496,808,827	23,279,341,304
<b>2003/04</b>	1,245,895,020	1,024,776,219	1.2158	567,096,226	24,762,024,991
<b>2004/05</b>	1,446,468,083	1,195,921,799	1.2095	607,095,662	27,844,694,655
<b>2005/06</b>	1,626,473,819	1,393,534,756	1.1672	718,121,378	29,460,389,672
<b>2006/07</b>	1,775,582,617	1,393,361,792	1.2743	819,003,947	33,519,141,111

### 17. Loan and Advances to Total Assets Ratio of HB Ltd and BOK Ltd

(In Rs.)

<b>Fiscal Year</b>	<b>HB Ltd</b>	<b>BOK Ltd</b>
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	<b>Loan and Advances</b>	<b>Total Assets</b>	<b>Ratio</b>	<b>Loan and Advances</b>	<b>Total Assets</b>
<b>2000/01</b>	8,537,666,084	18,870,803,965	0.45243	4,127,047,038	6,201,932,000
<b>2001/02</b>	8,913,723,565	20,672,433,854	0.43119	4,613,697,306	6,356,600,000
<b>2002/03</b>	10,001,848,185	23,279,341,304	0.42964	4,542,700,202	7,444,800,000
<b>2003/04</b>	11,951,869,350	24,762,024,991	0.48267	5,646,698,444	9,496,300,000
<b>2004/05</b>	12,424,520,646	27,844,694,655	0.44621	5,912,579,472	9,888,500,000
<b>2005/06</b>	14,642,559,555	29,460,389,672	0.49703	7,259,082,579	12,278,300,000
<b>2006/07</b>	16,997,997,046	33,519,141,111	0.50711	9,399,327,617	14,570,000,000

## APPENDIX- 2

### BALANCE SHEET (Himalayan Bank Ltd)

	Capital and Liabilities	2001	2002	2003	2004	2005
1.	Share Capital	300,000,000	390,000,000	429,000,000	536,250,000	643,000,000
2.	Reserve Funds	420,591,358	468,114,868	634,132,203	787,916,357	898,000,000
3.	Debentures & Bonds	-	-	-	-	-
4.	Borrowings	79,527,445	534,013,018	608,132,458	659,005,881	506,000,000
5.	Deposit Accounts	17,636,846,816	18,619,375,076	21,045,086,740	22,010,332,984	24,814,000,000
6.	Bills Payable	25,918,729	55,576,127	46,727,205	64,381,663	68,000,000
7.	Other Liabilities	407,919,617	605,354,765	516,262,698	704,138,106	914,000,000
8.	Proposed and Dividend	-	-	-	-	-
9.	Income tax & liabilities	-	-	-	-	-
	<b>Total Liabilities</b>	<b>18,870,803,965</b>	<b>20,672,433,854</b>	<b>23,279,341,304</b>	<b>24,762,024,991</b>	<b>27,844,000,000</b>

	Assets	2001	2002	2003	2004	2005
1.	Cash Balance	149,958,611	462,776,725	397,189,317	274,235,328	286,529,000
2.	Balance with NRB	-	-	-	-	-
3.	Balance with Banks & FI	1,285,216,186	801,895,073	1,582,019,679	1,726,948,893	1,727,900,000
4.	Money at call and Short Notice	4,057,654,500	352,350,000	150,100,000	368,900,000	441,080,000
5.	Investments	4,083,159,986	9,157,106,656	10,175,435,017	9,292,102,510	11,692,000,000
6.	Loan Advances and Bills Purchase	8,537,666,084	8,913,723,565	10,001,848,185	11,951,869,350	12,424,000,000
7.	Fixed Assets	201,678,937	318,843,964	229,871,112	299,642,817	295,822,000
8.	Other Assets	555,469,661	665,737,871	742,877,994	848,326,093	976,458,000
9.	Non-banking Assets	-	-	-	-	-
	<b>Total Assets</b>	<b>18,870,803,965</b>	<b>20,672,433,854</b>	<b>23,279,341,304</b>	<b>24,762,024,991</b>	<b>27,844,000,000</b>

### BALANCE SHEET (Bank of Kathmandu Ltd)

	Capital and Liabilities	2001	2002	2003	2004	2005
1.	Share Capital	233,649,800	463,580,900	463,580,900	463,580,900	463,580,900
2.	Reserve Funds	93,522,953	56,603,720	115,552,336	187,164,330	257,100,000
3.	Debentures & Bonds	-	-	-	-	-
4.	Borrowings	100,000,000	-	498,235,860	912,150,000	6,000,000
5.	Deposit Accounts	5,713,491,833	5,723,289,650	6,170,711,570	7,741,645,424	8,975,700,000
6.	Bills Payable	9,943,198	12,565,198	35,144,115	38,709,420	19,800,000
7.	Other Liabilities	51,326,703	100,606,396	161,592,168	153,094,598	84,600,000
8.	Proposed and Dividend Payable	-	-	-	-	81,400,000
	<b>Total Liabilities</b>	<b>6,201,934,487</b>	<b>6,356,645,864</b>	<b>7,444,816,949</b>	<b>9,496,344,672</b>	<b>9,888,500,000</b>

	Assets	2001	2002	2003	2004	2005
1.	Cash Balance	171,166,712	193,068,534	157,400,326	139,220,903	161,469,000
2.	Balance with Nepal	-	-	-	-	417,860,000



	<b>Rastra Bank</b>					
3.	<b>Balance with Banks/FI</b>	953,061,679	490,577,565	535,311,784	643,662,038	161,183
4.	<b>Money at call and Short Notice</b>	291,998,000	127,387,300	30,350,300	272,321,000	328,873
5.	<b>Investments</b>	419,815,590	667,459,110	1,816,148,857	2,477,409,627	2,598,2
6.	<b>Loan Advances and Bills Purchase</b>	4,127,047,038	4,613,697,306	4,542,700,202	5,646,698,444	5,912,5
7.	<b>Fixed Assets</b>	102,014,492	94,218,749	93,641,781	83,625,007	95,230,
8.	<b>Other Assets</b>	136,830,976	170,237,300	269,263,699	233,407,653	188,987
9.	<b>Non Banking Assets</b>	-	-	-	-	24,087,
	<b>Total Assets</b>	<b>6,201,934,487</b>	<b>6,356,645,864</b>	<b>7,444,816,949</b>	<b>9,496,344,672</b>	<b>9,888,5</b>

## APPENDIX-3

### PROFIT AND LOSS ACCOUNT (Himalayan Bank Ltd)

	Expenses	2001	2002	2003	2004	
1.	Interest Expenses	734,517,574	578,133,464	554,128,247	491,543,353	5
2.	Employees Expenses	85,574,746	101,537,710	120,146,464	152,508,886	1
3.	Office Overhead Expenses	141,115,681	155,786,297	177,132,463	211,046,959	2
4.	Bad Debts Written off	-	-	-	-	
5.	Provision for Loan Loss	134,320,430	166,505,530	202,872,613	186,225,770	
6.	Provision for Non-Banking Assets	-	-	-	10,987,917	
7.	Provision for Staff Bonus	48,335,594	38,782,905	40,002,705	46,730,575	
8.	Provision for Income Tax	154,322,590	114,022,632	147,895,856	157,521,684	2
9.	Net Profit Carried Down	277,040,174	235,023,510	212,128,485	263,053,495	3
	<b>Total</b>	<b>1,575,226,789</b>	<b>1,389,792,048</b>	<b>1,454,306,833</b>	<b>1,519,618,639</b>	<b>1,7</b>

	Income	2001	2002	2003	2004	
1.	Interest Income	1,326,378,121	1,148,998,491	1,201,233,722	1,245,895,020	1,44
2.	Commission and Discount	96,064,795	101,704,124	102,560,741	123,928,995	13
3.	Exchange Gain	119,260,825	104,601,011	109,599,294	112,419,406	13
4.	Non-Operating Income	2,302,689	2,450,921	10,759,557	3,299,067	
5.	Other Income	31,220,359	32,037,501	30,153,519	34,076,151	4
6.	Loan loss provision Written-back	-	-	-	-	
	<b>Total</b>	<b>1,575,226,789</b>	<b>1,389,792,048</b>	<b>1,454,306,833</b>	<b>1,519,618,639</b>	<b>1,70</b>

### PROFIT AND LOSS ACCOUNT (Bank of Kathmandu Ltd)

	Expenses	2001	2002	2003	2004	2005	
1.	Interest Expenses	310,484,044	285,005,602	276,705,159	286,297,050	241,639,164	
2.	Employees Expenses	30,171,110	50,154,670	51,681,518	47,726,373	53,822,309	
3.	Office Overhead Expenses	66,700,572	78,980,949	89,546,626	85,828,545	99,190,178	
4.	Non-Operating Expenses	1,156,252	-	-	-	-	
5.	Profit/Loss from extra-ordinary Activities	-	-	-	-	209,128,717	
6.	Provision for Loan Loss	62,693,626	127,489,633	82,611,649	101,263,085	133,916,898	
7.	Provision for Staff Bonus	10,373,108	2,985,376	13,571,339	20,516,155	22,699,217	
8.	Provision for Income Tax	28,007,390	17,593,606	40,014,391	57,172,203	64,763,233	
9.	Net Profit Carried Down	65,350,576	9,274,782	82,127,662	127,473,189	139,529,721	
	<b>Total</b>	<b>574,936,678</b>	<b>571,484,618</b>	<b>636,258,344</b>	<b>726,276,599</b>	<b>964,689,437</b>	

	<b>Income</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
1.	<b>Interest Income</b>	465,029,740	473,297,122	496,808,827	567,096,226	607,095,66
2.	<b>Commission and Discount</b>	46,222,166	47,871,798	60,745,881	77,707,811	70,324,22
3.	<b>Exchange Gain</b>	63,058,322	48,646,049	67,443,873	64,046,314	72,114,86
4.	<b>Non-Operating Income</b>	-	929,602	23,053	15,459,800	-468,77
5.	<b>Other Income</b>	626,450	740,047	11,236,710	1,966,448	6,494,73
6.	<b>Loan loss provision Written-back</b>	-	-	-	-	209,128,71
	<b>Total</b>	<b>574,936,678</b>	<b>571,484,618</b>	<b>636,258,344</b>	<b>726,276,599</b>	<b>964,689,43</b>

**Comparative Study on Investment Policy of Himalayan  
Bank Limited and Bank of Kathmandu Limited  
Questionnaire**

**Name of Respondent:**

**Position:**

**Institution (Bank):**

**Contact:**

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1. What are the investment policies of your bank?
  
  
  
  
  
  
  
  
  
  
2. What is the major indicator of such investment policies of your bank?
  
  
  
  
  
  
  
  
  
  
3. What are the features of investment policy of your bank?
  
  
  
  
  
  
  
  
  
  
4. What is the liquidity or short term obligation position of your bank since fiscal year 2000/01?
  
  
  
  
  
  
  
  
  
  
5. How is the liquidity position maintained by your bank?
  
  
  
  
  
  
  
  
  
  
6. What is asset management position of your bank?
  
  
  
  
  
  
  
  
  
  
7. How does the bank manage its assets?
  
  
  
  
  
  
  
  
  
  
8. What are the strategies of the bank to invest its assets in loan and advance?

9. What are the strategies of the bank to invest its assets on government securities?
  
10. What are the strategies of the bank to invest its assets on shares and debenture of other institutions?
  
11. What is the profitability of your bank?
  
12. What are the strategies to optimize the return?
  
13. What is the risk position?
  
14. What are the plans to overcome and minimize risk of the bank?
  
15. What services do you provide to your customers?
  
16. What are your plans to strengthen the service to your customers?
  
17. What are the modern technology used by bank at present and will be used by bank in future?

18. What is the human resource position of bank and what are the strategies to develop them for the competition?

19. How does the bank invest their assets in priority sector of directive of NRB?

20. How does the bank plan to reach the people of semi urban and rural area to collect the spread money?