

**STUDY ON INVESTMENT POLICY OF NEPAL INVESTMENT BANK
LIMITED AND KIST BANK LIMITED**

A Thesis

Submitted By:

Prakash Koirala

Nepal Commerce Campus

Campus Roll No: 1606/065

Exam Roll No: 250743

T.U. Registration No: 7-1-280-136-2002

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Faculty of Management

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RECOMMENDATION

This is to certify that the thesis

Submitted By:

Prakash Koirala

Entitled

**STUDY ON INVESTMENT POLICY OF NEPAL INVESTMENT BANK
LIMITED AND KIST BANK LIMITED**

has been prepared, as approved by this department in the prescribed format of faculty of management. This thesis forwarded for examination.

.....
Prof Dr. Sushil Bhakta Mathema
(Head of Research Department & Thesis Supervisor)

.....
Mrs. Jyoti Pandey
(Campus Chief)

Date:

VIVA-VOCE SHEET

We have conducted the Viva-voce examination of the thesis presented by

PRAKASH KOIRALA

Entitled

**STUDY ON INVESTMENT POLICY OF NEPAL INVESTMENT BANK
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and found the thesis to be original work of the student written according to the prescribed format. We recommend this thesis to be accepted as partial fulfillment of the requirement for the degree of Master's of Business Studies (M.B.S.)

VIVA-VOCE COMMITTEE

Chairman, Research Department: _____

Member (Thesis supervisor): _____

Member (External expert): _____

Date:

DECLARATION

I hereby declare that this thesis entitled “STUDY ON INVESTMENT POLICY OF NEPAL INVESTMENT BANK LIMITED AND KIST BANK LIMITED” submitted to the Central Department of Management, Tribhuwan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master's of Business Studies (MBS) under the supervision and guidance of Professor Dr. Sushil Bhakta Mathema, Nepal Commerce Campus, Tribhuwan University.

.....
Prakash Koirala

Date:

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Needless to say "to err in human" and I cannot be the exception for any remaining errors in the calculation and the descriptions reported in this thesis are of course, entirely my responsibilities.

Prakash Koirala

Kathmandu

Date:

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ABBREVIATIONS

A.D.	:	Anno Domini
B.S.	:	Bikram Sambat
C.V.	:	Coefficient of Variation
CB	:	Commercial Bank Development
CEO	:	Chief Executive Officer
DICGC	:	Deposit Insurance and Credit Guarantee Corporation
e.g.	:	For Example
EBIT	:	Earning before Interest and Taxes
NIBL	:	Nepal Investment Bank Limited
EPF	:	Employees' Provident Fund
EPS	:	Earning Per Share
etc.	:	Et cetera
Fc	:	Foreign Currency
FD	:	Fixed Deposit
FY	:	Financial Year / Fiscal Year
GDP	:	Gross Domestic Product
govt.	:	Government
HMG	:	His Majesty's Government
i.e	:	That is
IBR	:	International Bank for Reconstruction
IMF	:	International Monetary Fund
IPO	:	Initial Public Offering
JVB	:	Joint Venture Bank
Ltd.	:	Limited
m	:	Million
MBS	:	Master's Degree of Business Studies
NBL	:	Nepal Bank Limited
NEPSE	:	Nepal Stock Exchange Limited
NIDC	:	Nepal Industrial Development Corporation
NRB	:	Nepal Rastra Bank
P	:	Page
PNB	:	Punjab National Bank
pp	:	Pages
PPA	:	Power Purchase Agreement
RBB	:	Rastriya Banijya Bank
Rs.	:	Rupees
S.D.	:	Standard Deviation
SBI	:	State Bank of India
SEBON	:	Securities Board of Nepal
TU	:	Tribhuvan University
viz.	:	Videlicet
vol.	:	Volume

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is a developing country with an agricultural economy. In recent years, the country's efforts to expand into manufacturing industries and other technological sectors have achieved much progress. Farming is the main economic activity followed by manufacturing, trade and tourism. The chief sources of foreign currency earnings are merchandise export, services, tourism and remittances. Financial institutions are playing crucial role to development and have been growing in satisfactory level. After the establishment of democracy in 2046, Nepal has followed free economy and well facilitated by the government and focusing to come up private sector to contribute economic development of the country. Increasing numbers of financial institution are indicating the financial flourishing of the country that may lead the prosperous future of the country.

Generally, banks play a significant role in the development of a country. It is a resource which maintains the self confidence of various segments of society and extends credit to the people. The financial sector is an indispensable part for the upliftment of a country. The financial sector is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stock exchange, foreign exchange markets, mutual fund, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities, and thereby developing society and the country as a whole. Thus, today the financial institutions and commercial banks have become the base for measuring the level of economic development of a country.

A bank is an institution, which deals with money and credit. It accepts deposits from the public and mobilizes the fund to productive sectors. A commercial bank is a bank, which deals in exchanging currency, accepting deposits giving loans and doing commercial transaction. Commercial bank is a financial intermediary accepting deposits and granting loans. It offers the widest menu of services of any financial institution.

Commercial Banks are those banks who pool together the saving of the community and arrange for their productive due. They supply the financial needs of modern business by various means. They accept deposit from the public on the condition that they are repayable

on demand or on short notice. Commercial Banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital, financing. They can't finance in fixed assets. They grant loans in the form of cash credit and overdrafts. Apart from financing, they also render services like collection of bills and cheque, safe keeping of valuables financing advising etc to their customers.

In recent times, many commercial banks are providing consumer financing facilities. They provide direct housing loan, home equity loan, vehicle loan, education loan, loan for household appliances, etc. These all activities affect the cash flows, liquidity and profitability of the banks. Commercial bank is different from central bank and the distinction between the two terms is essentially based on their objects, while the primary objective of a commercial bank is the maximization of profit, the central bank is primarily concerned with the effects of its operation on the functioning of commercial bank, there may central bank comes out it any ordinary Banking business for the general public in complete. It confines itself mainly for controlling the operation of the banking system in a country.

Investment in financial sense is placing of money in the other for their use expecting a return or the participation in expected profits. But for manufacturing and trading firms the terms investment will be long term expenditures that aim at increasing return of efficiency or at building up goodwill thereby producing and increasing return over as period. Investment also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other risks.

Investment by individuals, business and government involves a present sacrifice of income to get on expected on future benefit as a result investment raises an economy of nations. Investment usually involves putting money into a bet, which is not necessarily marketable in order to enjoy a series of return the investment is expected to yield. On the other hand speculation is usually a shorter run phenomenon. Speculators tend to buy assets with the expecting of a profit than can be earned from subsequent price charge and sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future.

According to William F. Shape, Gordon J. Alexander and Jeffery V. Baily "Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two

different attributes are generally involved time and risk. The sacrifice takes place in the present and its magnitude generally is certain" (Alexander and Baily, 1998:)

In the study of the financial institutions the investment and investment problems will revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further source of income. Thus the investment is the management of the surplus recourses in such a way as to make it work for providing benefits to the supplier of the funds by letting it to third party. However, the investment needs to be a procedural task. It must follow a definite investment process, which definitely being the formulation of proper investment policy.

"Investment as the sacrifice of money today for prospective money tomorrow. Investment in its broadest sense means sacrifice of current rupees for future rupees" it is defined by William J Sharpe and Alexander j Gordon for the term 'Investment'. Therefore, every investment entails some degree of risk.

An investment policy has played very important role in the development of the organization. Investment is the implementation of financial management decision, which is basically to operate in the financial sector. Investment always involves a certain amount of risk that is there is the chance that an investment will yield not a profit but a loss.

As globalization integrates the economies of neighboring and of trading states, they are typically forced to trade off such rules as part of a common tax, tariff and trade regime, e.g. as defined by a free trade pact. Investment policy favoring local investors over global ones is typically discouraged in such pacts, and the idea of a separate investment policy rapidly becomes a fiction or fantasy, as real decisions reflect the real need for nations to compete for investment, even from their own local investors. A strong and central criticism of the new global rules, made by many in the anti-globalization movement, is that guarantees are often available to foreign investors that are not available to local small investors, and that capital flight is encouraged by such free trade pacts.

Investment policy in many nations is tied to immigration policy, either due to a desire to prevent human capital flight by forcing investors to keep local assets in local investments, or by a desire to attract immigrants by offering passports in a safe haven nation, in exchange for a substantial investment in a business that will create jobs there. A frequent criticism of such joint immigration-investment policy is that they encourage organized crime by

providing incentive for money-laundering and safe places for "bosses" to move to when the heat rises in their home country.

A good investment policy attracts both the borrowers and lenders which help to increase the volume and quality of the deposits, loans and investment. The bankers have the responsibilities of safe guarding the interest of the depositors, share holders and the society they are serving.

Commercial banks should formulate the sound investment policies to ensure maximum amount of investment to the entire sector with proper utilization and can be able to achieve its own objectives of profit maximization and social welfare.

1.2 Focus of the Study

Commercial banks are in the vast numbers, presently. There are altogether 31 commercial banks operating in the country. The large numbers of commercial bank is leading them to huge competition. There are various factors that can make a commercial bank leader in the market, but the commercial bank having a sound investment policy can lead the market. This study focuses on the investment policies of the commercial banks. The limited resources and time has lead to make this study, a comparative study of investment policy between two leading commercial banks of Nepal. This study focuses on the investment policy of Nepal Investment Bank Limited and KIST Bank Limited

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Profile of the banks:

Nepal Investment Bank Limited

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner

(holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

-) A group of companies holding 50% of the capital
-) Rashtriya Baniya Bank holding 15% of the Capital.
-) Rashtriya Beema Sansthan holding the same percentage.
-) The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

NIBL, which is managed by a team of experienced bankers and professionals having proven track record, can offer what the stakeholders looking for. They want to assure that make choice of a bank will be guided among other things by its reliability and professionalism.

To be the leading Nepali bank, delivering world class service through the blending of state-of-the-art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all stakeholders. It is committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance. By operating 44 branches and 72 ATMs, it's service priority to focus perfect customer services. With establishment of modern banking technology its vision to be the most preferred provider of financial services in Nepal.

Table 1.1

Capital Formation or Share Capital of the Nepal Investment Bank Limited

Share Capital	Amount
Authorized Capital	Rs 4,000,000,000
Issued Capital	Rs 3,012,924,200
Paid up Capital	Rs 3,012,924,200

Source: Annual Report of NIBL

KIST Bank Limited

KIST Bank Limited started its operations initially in 2003 as a 'C' class finance company with a paid up capital of Rs 30 million, 17 promoters and 7 staff. After the promoting as commercial bank, it has a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank has been focusing on expanding its operations outside the valley and has identified some of the emerging economies which offer large business potential. With a vision of becoming the best Bank on operational excellence and superior financial performance, has the authorized Capital of NPR 10 billion; issued capital of NPR 2 billion and Paid-Up Capital NPR 2 billion.

The Bank has wider range of products and services, which covers business banking, institutional banking, small and medium enterprises banking, consumer banking, micro-financing, transaction banking. The bank has also been providing cards, remittance, internet banking, mobile banking (both through four wheeler vehicle and cell phone), etc services. The bank has 51 branches, 78 ATMs, 365 days banking and provides evening banking services from all branches. Deposit and withdrawal services are available from all branches at free of cost. The bank is equipped with a robust system for risk management. The professional management team, along with dedicated employees, is always looking forward to serving the customers, understanding their needs and designing the tailored-made products and services, who are equipped with a state-of-art technology and IT infrastructures.

Table 1.2

Share Capital of KIST Bank Limited.

Share Capital	Amount
Authorized Capital	Rs 10,00,00,00,000
Issued Capital	Rs 2,00,00,00,000
Paid up Capital	Rs 2,00,00,00,000

Source: Annual report of KIST Bank Limited

1.3 Statement of Problem

The numbers of commercial bank are growing day by day. In this context due to crisis in the political stability and other insurgencies had led down the economic growth, many business sectors are not doing well. There is high flow of fund in the market but the people are scared of investing their fund or saving due to unreliable and unsafe investment opportunities and projects.

Today new banks are being established and existing is opening their branches in the different areas. There is vast competition among the commercial banks. Commercial banks are at high time to focus their eyes for the better productive management for survival and growth. Commercial banks also have lot of deposits and in comparison to it less good investment opportunities. Currently commercial are facing problem of investment being default. The political instability, poor management, recession, strikes and insurgencies are liable for the investment being default and in some cases credit clients are intentional defaulters. The central bank, Nepal Ratra Bank have been helping the commercial banks in this context and protecting their investments but in the same way commercial banks too must have good plans for their investments.

The problems related to investment function of commercial banks of Nepal have been presented briefly as under:

1. To know what are the conditions of two banks?
2. Are fund mobilization and investment pattern of NIBL and KIST more effective and efficient?
3. Is there any stability in fund mobilization & investment practices of NIBL and KIST?
4. What is the relationship between investment & loan and advances with total deposit and net profit?
5. Does the investment decision affect the total earning of the bank or not?

1.4 Objectives of the Study

Commercial Banks are established with the intention of earning profit and economic development of the country through providing investment facilities. Financial analysis is tools for measuring the success of any business performance. All the detail financial information of bank is shown by the financial analysis. The basic objectives of the study are to examine and evaluate the investment policy of Nepal Investment Bank Limited and KIST Bank Limited.

1. To compare the liquidity, asset management efficiency, profitability and risk position of Nepal Investment Bank Limited and KIST Bank Limited,
2. To analyze the growth rate of bank in terms of deposit, loan and advances investment and profitability of the banks,
3. To evaluate the trend of deposit, investment, Loan & advances, and net profit and their projection for next five years of NIBL and KIST Bank Limited.

1.5 Significance of the Study

Effective and optimal fund mobilizing policy depicts the health of the banks. This would make a good impact on economy of a country if the banking sector poses a firm and by astronauts' behavior that is only possible when the fund mobilizing policy of the banks consider customer, national and government interest. The proper mobilization & utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic prosperity of the nation. The success and prosperity of the banks relies heavily upon the successful formulation and effective implementation of investment practices.

The significances of the study are pointed out below:-

1. The study helps to know how well the banks (NIBL and KIST Bank) are utilizing their deposits.
2. The study is important to policy makers and academic professionals to formulate policies and plans on the basis of the performance of these banks.
3. The study helps these banks to compare each other's performance and plan accordingly for future.
4. The study helps these banks to make sound programs and policies based on the recommendation suggested.
5. The study guides to investors, customers (depositors, loan takers as well as other types of clients), competitors, personnel of the banks, stockbrokers, dealers, market makers, etc. to take various decisions regarding deposits and borrowings.
6. Moreover, the study will be fruitful to students and various other groups having interested in banking sectors. The study will help to increase their knowledge regarding deposits, fund and its utilization and investment situations of Nepalese commercial banks.

1.6 Limitations of the Study

The study is conducted for the partial fulfillment of MBS, so it possesses some limitations of its own kind. The study has been limited to analyze whole commercial banks, so study has been conducted via two sample banks i.e. Nepal Investment Bank Limited and KIST Bank Limited among all the 31 commercial banks. This study analyzes data of last five annual reports of the respective banks, which used in this study are secondary data which

have been retrieved from the annual reports and other sources. The lack of resources, time and unavailability of sufficient information are other limitations of this study.

1.7 Organization of the Study

The study has been organized into five chapters. They are as follows:

Chapter I: Introduction

This is the introductory chapter, which has covered background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study etc.

Chapter II: Review of Literature

This chapter has included conceptual framework i.e. theoretical analysis and review of related different studies. In this chapter, it has been attempted to show how this present study is different from previous studies.

Chapter III: Research Methodology

This chapter has dealt with the research design, population and sample, sources of data, data collection techniques and data analysis tools (financial tools and statistical tools) and methods of analysis and presentations.

Chapter IV: Presentation and Analysis of Data

This chapter describes the research methodology employed in the study. It has included secondary data and primary data presentation, data analysis, interpretation, testing of hypothesis and major findings.

Chapter V: Summary, Conclusion and Recommendations

The last chapter states the summary, conclusion of the whole study and recommendations. It also offers several avenues for future research. Bibliography and appendix are incorporated at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

A literature review is a text written by someone to consider the critical points of current knowledge including substantive findings, as well as theoretical and methodological contributions to a particular topic. Literature reviews are secondary sources, and as such, do not report any new or original experimental work. Also, a literature review can be interpreted as a review of an abstract accomplishment.

Most often associated with academic-oriented literature, such as a thesis or peer-reviewed article, a literature review usually precedes a research proposal and results section. Its main goals are to situate the current study within the body of literature and to provide context for the particular reader. Literature reviews are a staple for research in nearly every academic field.

2.1 Conceptual framework

A conceptual framework is a tool researchers use to guide their inquiry; it is a set of ideas used to structure the research, a sort of map that may include the research question, the literature review, methods and data analysis. Researchers use a conceptual framework to guide their data collection and analysis.

2.1.1 Evolution of Bank

Banks have developed around 200 years ago. The natures of banks have changed as the time has changed. The term bank is related to financial transactions. It is a financial establishment which uses, money deposited by customers for investment, pays it out when required, makes loans at interest exchanges currency etc. Banks have developed around 200 years ago. The natures of banks have changed as the time has changed. The term bank is related to financial transactions. It is a financial establishment which uses, money deposited by customers for investment, pays it out when required, makes loans at interest exchanges currency etc.

Commercial banks are an organization which normally performs certain financial transactions. It performs the twin task of accepting deposits from members of public and make advances to needy and worthy people from the society. When banks accept deposits its

liabilities increase and it becomes a debtor, but when it makes advances its assets increases and it becomes a creditor. Banking transactions are socially and legally approved. It is responsible in maintaining the deposits of its account holders.

According to the Indian Banking Company Act 1949, "A banking company means any company which transacts the business of banking. Banking means accepting for the purpose of lending or investment of deposits of money from the public, payable on demand or otherwise and withdrawable by cheque, draft or otherwise."

Commercial bank being the financial institution performs diverse types of functions. It satisfies the financial needs of the sectors such as agriculture, industry, trade, communication, etc. That means they play very significant role in a process of economic social needs. The functions performed by banks are changing according to change in time and recently they are becoming customer centric and widening their functions. Generally the functions of commercial banks are divided into two categories viz. primary functions and the secondary functions.

i) Primary functions

The primary functions of a commercial bank include accepting deposits and granting loans and advances.

a. Accepting deposits:

The most important activity of a commercial bank is to mobilize deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. Depending upon the nature of deposits, funds deposited with bank also earn interest. Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

b. Grant of loans and advances

The second important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts. The rate of interest charged on loans and advances varies depending upon the purpose, period and the

mode of repayment. The difference between the rate of interest allowed on deposits and the rate charged on the Loans is the main source of a bank's income.

- i. **Loans:** A loan is granted for a specific time period. Generally, commercial banks grant short-term loans. But term loans, that is, loan for more than a year, may also be granted. The borrower may withdraw the entire amount in lump-sum or in installments. However, interest is charged on the full amount of loan. Loans are generally granted against the security of certain assets. A loan may be repaid either in lump-sum or in installments.
- ii. **Advances:** An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances is to meet the day to day requirements of business. The rate of interest charged on advances varies from bank to bank. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

Modes of Short-term financial assistance:

Banks grant short-term financial assistance by way of cash credit, overdraft and bill discounting.

a.Cash Credit:

Cash credit is an arrangement whereby the bank allows the borrower to draw amounts up to a specified limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when he requires. Interest is charge don the amount actually withdrawn. Cash Credit is granted as per agreed terms and conditions with the customers.

b.Overdraft

Overdraft is also a credit facility granted by bank. A customer who has a current account with the bank is allowed to withdraw more than the amount of credit balance in his account. It is a temporary arrangement. Overdraft facility with a specified limit is allowed either on the security of assets, or on personal security, or both.

c. Discounting of Bills

Banks provide short-term finance by discounting bills, that is, making payment of the amount before the due date of the bills after deducting a certain rate of discount. The party gets the funds without waiting for the date of maturity of the bills. In case any bill is dishonored on the due date, the bank can recover the amount from the customer.

ii) Secondary functions

Besides the primary functions of accepting deposits and lending money, banks perform a number of other functions which are called secondary functions. These are as follows

- a. Issuing letters of credit, traveler's cheques, circular notes etc.
- b. Undertaking safe custody of valuables, important documents, and securities by providing safe deposit vaults or lockers;
- c. Providing customers with facilities of foreign exchange.
- d. Transferring money from one place to another; and from one branch to another branch of the bank.
- e. Standing guarantee on behalf of its customers, for making payments for purchase of goods, machinery, vehicles etc.
- f. Collecting and supplying business information;
- g. Issuing demand drafts and pay orders; and,
- h. Providing reports on the credit worthiness of customers

2.1.2 History of Banking in Nepal

The history of banking in Nepal is believed to be started from the time of Prime Minister Ranoddip Singh in 1877 A.D. he introduced many financial and economic reforms. The Tejaratha Adda was established at that time and its basic purpose was to provide credit facilities to the general public at a very concessional interest rate. The Tejarath Adda disbursed credit to the people on the basis of collateral of gold and silver. All employees of government were also eligible for this type of loan, which was settled by deducting from their salary. Tejaratha Adda extended credit only; it did not accept deposits from the public.

The initiation of formal banking system in Nepal commenced with the establishment in 1937 of Nepal Bank Limited (NBL), the first Nepalese commercial bank.⁹ The country's central bank, Nepal Rastra Bank (NRB) was established in 1956 by Act of 1955, after nearly two

decades of NBL having been in existence. A decade after the establishment of NRB, Rastriya Banijya Bank (RBB), a commercial bank under the ownership of His Majesty's Government of Nepal (HMG/N) was established. Thereafter, HMG/N adopted open and liberalized policies in the mid 1980s reflected by the structural adjustment process, which included privatization, tariff adjustments, liberalization of industrial licensing, easing of terms of foreign investment and more liberal trade and foreign exchange regime was initiated. With the adoption of liberalization policy, there has been rapid development of the domestic financial system both in terms of number of financial institutions and as ratio of financial assets to the GDP. As of July 2005, the number of commercial banks has reached 17 and their branches numbered 375. A total of 60 finance companies and other Development Banks and numerous credit cooperatives have also been established.

In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. HMG/N emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management. These policies opened the doors for foreigners to enter into banking sector under joint venture. Consequently, the third commercial bank in Nepal, or the first foreign joint venture bank, was set up as Nepal Arab Bank Ltd (now called as NABIL Bank Ltd.) in 1984.

Thereafter, two foreign joint venture banks, Nepal Indosuez Bank Ltd. (now called as Nepal Investment Bank) and Nepal Grindlays Bank Ltd (now called as Standard Chartered Bank Nepal Ltd.) was established in 1986 and 1987 respectively. Thereafter, another 12 commercial banks have been established within the period of 12 years. Nepalese banking system has now a wide geographic reach and institutional diversification. Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all the potentialities of business till this time. It is evident from the Rural Credit Survey Report that the majority of rural credit is supplied by the unorganized sector at a very high cost – perhaps being at two or three time of the formal sector - suggesting that the financial sector is still in the path of gradual development. Overdue loans and inefficiency of the older and the larger of commercial banks have aggravated and have been made to compete with the new trim

banks with no rural operations. Also, the commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities. Following table reflects the present development of commercial banking institutions in Nepal.

2.1.3 Meaning of Investment Policy

The word "investment" can be defined in many ways according to different theories and principles. It is a term that can be used in a number of contexts. However, the different meanings of "investment" are more alike than dissimilar. Generally, investment is the application of money for earning more money. Investment also means savings or savings made through delayed consumption. According to economics, investment is the utilization of resources in order to increase income or production output in the future. An amount deposited into a bank or machinery that is purchased in anticipation of earning income in the long run are both examples of investments

Investment has different meanings in finance and economics. In economics, investment is the accumulation of newly produced physical entities, such as factories, machinery, houses, and goods inventories. In finance, investment is putting money into an asset with the expectation of capital appreciation, dividends, and/or interest earnings. This may or may not be backed by research and analysis. Most or all forms of investment involve some form of risk, such as investment in equities, property, and even fixed interest securities which are subject, among other things, to inflation risk.

The most important feature of financial investments is that they carry high market liquidity. The method used for evaluating the value of a financial investment is known as valuation. According to business theories, investment is that activity in which a manufacturer buys a physical asset, for example, stock or production equipment, in expectation that this will help the business to prosper in the long run.

Investment usually involves putting money into abet, which is not necessarily marketable in order to enjoy a series of return the investment is expected to yield. On the other tend speculation is usually a shorter than phenomena. Speculators tend to buy assets with expecting of a profit that can be earned from subsequent price change & sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future.

Investment is nothing but deploying our saving in manner that ensures safety of our money & provides a sustained return to supplement our regular income (Delhi Stock exchange 2002). The term investment covers a possible where there are a devour saving. If all the income & saving are consumed to solve the problems of hand to month and to other basis needs then there is non-existence of in investment are interrelated.

The "Investment Policy" has defined as a document that formalizes an institution's goals, objectives and guidelines for asset management, investment advisory contracting, fees and utilization of consultants and other outside professionals.

2.1.4 Features of Investment Policy

The commercial banks are inspired with the goal of earning profit. There are many reasons after the goals of gaining profit. In order to reach their desired goals, they profit must invest the resources. It is not better to keep the available resources idle. The bank should be able to clear the policy of its investment by making a deep study on the subjects that which sector would be the trust worthier & dependable to invest the funds collected in the bank, they should have the ability to use the policy of banking investment in its goal. The income and profit of the bank depends upon its investment policy & term Landry procedure of its funds in different securities. The greater the credit created by the bank the higher will be the profitability. A sound bending & investment policy is not only prerequisite for the bank's profitability but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Therefore, the following principles or features of investment policy must be abided by the commercial banks in order to achieve the goals.

a. Safety and Security

Commercial banks must pay a special attention to the principle safety and security. There will be a loss whether it is small or big, if the bank has not invested in secure and safe sectors; investment in unsafe and insecure sectors with the hope of getting more return is to accept the security of law quality. The condition of unsafe arise when a bank invest in large loan against less securities by receiving commission, invests in new places without careful observation, lending to long-term borrowers etc. All these unsafe conditions should be avoided as much as possible. A bank should be very much conscious in investing procedures and profitable sectors. It should never invest its fund on those securities, which are subjected to high volatility because of a little alternation may cause a great loss. It must not invest its

fund into speculative businessman, who may be bankrupt at once and who may earn millions in minute also. Only Commercial durable, marketable and high market valued securities should be accepted. For This purpose "MAST" should be followed, where MAST stands for:

- M - Marketable
- A - Ascertainable
- S - Stability
- T - Transferability

b. Profitability

The profit of commercial bank mainly depends on the interest rate, volume of loan and its time period and nature of investment in different securities. It is a fact that 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. Ambition of profit to commercial bank seem reasonable as the bank has to cover all the expenses and make payment in the forms dividend to the shareholder who contribute to build up to bank's capital and interest to the depositors. For this, the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity. Obligation, it will go ahead for investment good bank is one who invests more of its fund in different earning assets standing.

c. Liquidity

It is the position of the firm to meet current or short-term obligations. General public or customers deposit their saving at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence of the customers, every firm must keep proper cash balance with then while investing in difference securities and granting loan from excess fund.

d. Purpose of Loan

This is very important question for any banker is that, why a customer is in need for loan. If borrower misused the loan granted by the bank, he can never repay. Therefore, in order to avoid this situation, each and every bank should demand all the essential detailed information about the scheme of the project or activities would be examined before lending.

e. Diversification

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

f. Tangibility

A commercial bank should proper tangible security to an intangible one. Though, it may be considered that tangible property does not yield an income apart from intangible securities, which have lost their value due to price level inflation.

g. Legality

A commercial bank must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of law and other while mobilizing its funds. Higher secretets will bring out any problems to investors.

2.1.5 Some Important Terms

The various sections in this study comprise some important banking terms. The efforts have been made to clarify the meaning, which are frequently used in this study are given below.

a. Loan and Advances

Loan, advances and overdraft are the main source of income for a bank. Bank deposit can cross beyond a desired level but the level of loans, advances and overdraft will never cross it.

b. Investment on Government securities, shares and debentures

A commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures. It is not the major portion of income, but it is treated as a second source of income of banking business. A commercial bank may extend

credit by purchasing government securities bond and shares for several reasons. Some of them are given as:

- It may want to spare, its maturity so that the inflow of cash coincide, with expected withdrawals by depositors or large loan demands of its customers.
- It may also be forced to invest because the demand for loans are decreased or are not sufficient to absorb its excess reserves.
- It may wish to have grade marketable securities to liquidate if its primary reserve becomes inadequate.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of bank liabilities that since depositors may demands fund in great volume without previous notice to banks. The investment must be a type that can be marketed quickly with little or no shrinkage in value.

c. Deposits

Financial institution collect deposits from the customers in various accounts, like: current account, saving account and fixed account. Therefore, the sums of money collected by the financial institutions from the depositors in various accounts are called deposits. Deposit is the main source of fund of the financial institutions.

d. Investment on Other Company's Share and Debenture

Due to excess funds and least opportunity to invest these funds in much more profitable sector and to meet the requirement of Nepal Rastra bank's directives many commercial banks have to utilize their funds to purchase shares and debentures of other financial and non-financial companies. Now-a- days most of the commercial banks purchase shares and debentures of regional development bank, NIDS and other development bank's Shares.

e. Other use of fund

A commercial bank must maintain the minimum bank balance with NRB i.e. 6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Similarly 3% cash balance and local case balance, in local currency accounts must be maintained in the vault of the bank. Again a part of the fund should be sued for bank balance

in foreign bank and to purchase fixed assets like land, building, furniture, computers and stationary etc.

f. Off-balance sheet activities

Off-balance sheet activities involve contracts for future purchase sale of assets and all these activities are contingent obligations. These are not recognized, as assets are liabilities on balance sheet. Some good examples of these items are letter of credit (L/C), letter of guarantee, bins of collection etc. Now days, some economist and finance specialists to expand the modern, transaction of a bank stressfully Highlight sub activities.

2.1.6 NRB directives to investment policy

1. As per NRB guidelines, Bank’s exposure on “Productive Sector (Agriculture, Power, Tourism and Cottage and Small Scale Industries) is required to reach 20% of total loan total loan & advances within the next three years i.e. F/Y 2069-70.
2. Provision for investment in priority sector NRB has directed to commercial banks to extend at least 12% of its total outstanding credit to priority sector.
3. Provision for investment in deprive sector to banks are required to disburse credit to the deprived sector at the following stipulated ratio.

Table 1.3

Name of the Banks	Required Deprived Sector Lending as % of total outstanding credit
Commercial Banks	3%
Development Banks	2.00%
Finance Companies	1.50%

Source: NRB Unified Directives 2067

4. Licensed institutions shall implement the interest rates for deposits and lending, procedures for calculation of interest, penal interest, commission and services only after approval. The institutions cannot vary the interest for deposits in excess of 0.5% over the published rates.

5. Directive to raise capital fund all commercial banks are directed to raise their capital funds at a minimum level of Rs. 2000 million.

6. Maintenance of Liquidity in NRB

Group	Total Deposit
A, B & C institutions	5.5%
B and C class institutions accepting current a/c deposit	5.5%
B and C class institutions accepting deposits other than current a/c deposit)	2%

Source: NRB Unified Directives 2067

Maintenance of Minimum Capital Fund

Group (institutions)	Required capital fund on the basis of weighted risk assets (in %)	
	Core capital	Capital fund
A	6.00%	10%
B and C	5.50%	11%
D	4%	8%

Source: NRB Unified Directives 2067

7. Loan classification and loss provision, NRB has directed to classify their outstanding loan and advances, investment and other assets into four categories.

Loan Classification	Loan Loss Provisioning
Pass	1
Substandard	25
Doubtful	50
Loss	100

Source: NRB Unified Directives 2067

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

-) For the loans that have been rescheduled or restructured into pass loan, 12.5% of provisioning shall be done. If the payment of principal and interest for the rescheduled or restructured loan is regular for 2 years, it can be converted in pass loan. The loan granted to the investors investing in Initial Public Offering (IPO) cannot be rescheduled or restructured
8. With the objective of lowering the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle size borrowers to the bank loans, NRB has directed commercial banks to set an upper limit for single borrower limit. According to the directive, with effective from Magh 1, 2067 (January 15, 2010) commercial banks may extend credit to single borrower or group of related borrowers in such a way that the amount of Fund Based Loans and Advances and Non Fund Based Off-Balance Sheet facilities like letters of credit, guarantees, acceptances, commitments up to 25% of its Core Capital Fund.

However, NRB has made special arrangement regarding investment in Hydropower project, Electricity transmission line and construction of cable car project. Commercial banks may lend up to 50% of their core capital as funded as well as non funded facilities. But, in the case of investment of more than 25% of core capital, there shall be compulsorily be Power Purchase Agreement (PPA) signed with the concerned entity.

9. Margin Lending

Loan against the pledge of shares of companies listed in Nepal Security Exchange Limited in the nature of margin lending may be extended up to 50% of the average value of the pledged shares as calculated on the basis of closing price of previous 180 working days or 50% of prevailing market price of shares, whichever is lower. Once the loan has been extended either the upward revision on the credit limit or grant of additional credit shall not be allowed by way of revaluing the value of such pledged shares.

The tenor of such loan shall not exceed one year. Where the borrower enjoying margin type lending repays at least 25% of the total loan and there are no dues in interest, the margin lending against pledge of shares may be renewed up to 75% of the balance principal amount.

2.1.7 Review of Books

Banks are such an institution, which deals with credit and substitutes for money. They deal with credit and instruments. In modern era good circulation of credit is important for any bank or other financial intermediates (commercial banks, joint venture banks, finance companies, development banks, co-operatives etc.). Banks cannot get its aim of profit earning without mobilizing its fund in right sectors and different activities. Many types of activities and other things can originate for the purpose of receiving investment from the finance company.

According to William F. Sharpe, Gordon T, Alexander and Jeffery V. Bialy, “Investment in a broaden sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes places in the present and its magnitude as generally uncertain.”

In the words of Gitman and Joehnk, “Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.”

The term investment can cover a wide range of activities. It often refers to investing money in certificate of deposits, bonds, common stocks or mutual funds. Expert investors would include other financial assets such as warrants, puts and calls future contracts and convertible securities. Investing encompasses very conservative position and aggressive speculation.

Frank K. Reilly defines investment as, “An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of funds.”

According to Pandey, “In investment decision expenditure and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out of that investment decision affects the firm’s value. The firm’s value will increase if investments are profitable and add to the shareholders wealth. Thus, investment should be evaluated on the basis of a criterion, which is compatible with the objective of the shareholder’s funds maximization. Investments will all to the shareholders wealth if it yield benefit in excess of the minimum benefits as per the opportunity cost of capital.”

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

Singh and S., “The investment or credit policies of banks are conditional, 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 bank’s credit policy also in mind.”

According to Mr. Baidhya, “A sound investment policy of a bank is such that funds are distributed on different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sectors 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 loan, misguided lending policy or unexpected economic downturn. Therefore, the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds.”

2.1.8 Journal and Articles

Various articles were published on financial impact, which deals in the context of Nepalese Commercial Banks and financial sector of Nepal some of the articles are reviewed briefly.

Morris (1991), in his discussion on “Latin American Banking System in the 1980’s” has concluded that most of the bank concentrated on compliance with central bank rules on reserve requirement credit allocation (Investment Decision) and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked. He further add that miss management in financial institution has involved inadequate and over optimist loan appraisal high risk diversification of loan portfolio and investment high risk concentration related parties lending etc are major cause of investment and loan that has gone bad.

Bajracharya (1992), has mentioned in his article “Monetary Policy and Deposit” mobilization in Nepal has concluded that the mobilization of domestic saving is one of the monetary policies in Nepal, for this purpose commercial banks stood as the vital and active financial intermediary for generating resource in the from of deposit of the private sector so far providing credit to the investors in different aspect of the economy.

Shrestha (1999), in her article “Lending operation of commercial banks of Nepal and its impact of gross domestic product (GDP)” has presented with the objectives to make an analysis of contribution commercial banks lending to the gross domestic product of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending such as agriculture, industrial, commercial service, general and social sector as independent variables a multiple regression techniques has been analyzed in the contribution. The multiple analysis have shown that all the variables expect service sector lending have positive impact of GDP. Thus, in conclusion she has accepted the hypothesis i.e. there has been positive impact by the lending of commercial banks in various sectors of economy except service sector investment.

Giri H (2007), 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.

Shakya P (2006), in his research paper, “Role of saving investment and capital formation in Economic Development – A case of Nepal” has studied about the strong role and impact of saving, investment capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has collected for the period of 1974-75 to 2000-01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression equation used in this study have been estimated at current prices as well as in real terms with the entire study period divided in to different sub period.

The result presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The result of the empirical analysis led to there important conclusions. First saving, investment and capital formation have positive impact on economic development. Second the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third there is strong role played by saving and capital formation on economic development while weak-role played by investment.

Puri (2008), in his article “Efficient Banking” he has accomplished, efficiency of banks can be measured using different parameters. The concept of productivity and profitability can be applied while evaluating efficiency of banks. The term productivity refers to the relationship between the quantity of inputs employed and the quantity of outputs produced. An increase in productivity means that more output can be produced from the same inputs or the same outputs or the same outputs can be produced from fewer inputs. Interest expense to interest income ratio shows the efficiency of banks in mobilizing resource at lower cost and investing in high yielding asset. In other words, it reflects the efficiency in use of funds.

According to Mr. Puri, the analysis of operational efficiency of banks will help one in understanding the extent of vulnerability of banks under the changed scenario and deciding whom to bank upon. This may also help the inefficient banks to upgrade their efficiency and be winner in the situations developing due to slowdown in the economy. The regulators should also be concerned on the fact that the banks with unfavorable ratio may bring catastrophe in the banking industry.

2.1.9 Review of Thesis

Investment Policies have been studied by many individuals and various organizations. These studies have their own status because of the nature of study, objective of study, area of study and other variables which have been sought for, from the specific study. Some of them are related to this study report are considered as reference to this study report. They are:

A study done by **Mrs. Adhikari, Kriti (2056 B.S)** entitled with “A study on deposit mobilization and utilization of commercial banks with reference to NBL” with the objectives is:

- i. To sketch the deposit mobilization of NBL.
- ii. To analyze the impact of interest rate in deposit mobilization.
- iii. To analyze the impact of branch expansion on the deposit mobilization.

This study covers ten years data from the year 2046 B.S. to 2056 B.S. It is limited to deposits and loans and advances only. The study is primarily based on secondary data. In this study, statistical tools like percentage changes, correlation test is done and to test its significance analysis, probable error test is carried out.

On the theses, the writer found that NBL has been much sufficient in the collection of resources from the people in both urban and rural areas of the country but in the process of utilization, the bank is still behind. The interest rate has played an important role in mobilizing and utilizing the resources of the bank. So, the structure of interest rate should be changed according to the need of nation. It is also suggested that to expand availability of banking services, branch expansion policy should be continued to mobilize resources as well as accelerate lending to productive sector.

A study done by **Mr. Pradip, Gupta (2007)** entitle with “Deposits and reinvestment problems of Nepalese Commercial Banks” said that strengthening and the institutionalization of the commercial banks is very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms is also needed such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade of by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in lending, one window service from NRB, need of strong supervision and monitoring from NRB, diversity scope of activities for commercial banks, professional culture within commercial banks, etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.

The commercial banks in Nepal must work hard to prove that they are really efficient and viable agencies for mobilization of saving and its channelization into productive sectors, are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive.

A study done by **Mrs. Shrestha Aakash (2009)** entitle with “Investment Analysis of Commercial Banks” (A comparative study of Himalayan Bank Limited and Nepal State Bank of India Limited).

The objectives of the study were:

- J To analyze percentage of investment made by HBL & NSBIL in total investment made by commercial banks.
- J To analyze investment trend, deposit trend and total income and their projection for next five years of HBL & NSBIL and compare them.
- J To identify investment sector of HBL & NSBIL.
- J To evaluate the liquidity, assets management efficiency and profitability and risk position of HBL in comparison to that of NSBIL.
- J To study the relationship between the investment and deposit of the bank.

The major finding of study was as follows:

- J Percentage of HBL's investment to total commercial investment is extremely higher than NSBIL.
- J Both HBL & NSBIL have invested mostly on government securities but HBL has invested in NRB bonds also as well as in other productive sector.
- J NSBIL is better than HBL from liquidity point of view.
- J HBL has higher profitability than NSBIL.
- J HBL is exposed to more risk than NSBIL.
- J HBL has maintained higher growth rate in net profit in comparison to NSBIL.

A study done by **Mrs. Bhattarai, Prakirti (2009)** entitled with "Investment policy Analysis of Joint Venture Banks (With special reference to BOK, NSBIL & EBL)".

The objectives of the study were as follows.

- J To evaluate the liquidity management, assets management efficiency, profitability position, investment practices of BOK, NSBIL & EBL.
- J To find out the relationship between deposit and total investment, deposit and loan and advances, and net profit and outside assets.

His major findings enumerated below:

- J NSBIL has better liquidity position. It is in a good position to meet its daily cash requirement and current obligation. Liquidity position of EBL & BOK has not been satisfactory.
- J NSBIL's loan and advance to total deposit ratio is lower than EBL & BOK. It does not seem to follow any definite policy regarding the management of its assets.
- J The profitability position of all the banks is not satisfactory. The banks have not adopted sound investment policy in utilizing their surplus funds.
- J BOKL & EBL are exposed to high credit risk and capital risk.
- J NSBIL & BOK have not been successful to increase their sources of fund. EBL has been successful in maintaining its higher growth rate of total deposit.
- J There is significant relationship between total deposit and total investment of BOK & EBL but the same is not significant in case of NSBIL.

A study done by **Thapa Puja (2010)** entitle with “Investment policy of commercial banks in Nepal).

The objectives of the study were as follows:

- J To discuss fund mobilization and investment policy of EBL in respects to its fee based off balance sheet transaction and fund based on balance sheet transaction of NIBL & BOK.
- J To evaluate the liquidity, efficiency, profitability, and risk position.
- J To evaluate the growth ratios of loan and advances and total investment with other variables.
- J To analyze the trend of deposits utilization towards total investment and loan and advances and its projection for next five years.
- J To conduct the hypothetical test to find out whether there is significant difference between the important ratios of EBL, NIBL & BOK.
- J To provide packages of workable suggestion and possible guidelines to improve investment policy of EBL and other banks.

Her major findings were enumerated as below:

- J EBL is comparatively better than NIBL & BOK in terms of liquidity.
- J EBL has been less successful than NIBL & BOK in its on balance sheet operation as well as off balance sheet activities.
- J The profitability position of EBL is worse than NIBL & BOK.
- J EBL is more exposed to more credit risk and capital risk, but lower interest rate risk than NIBL & BOK.
- J EBL has maintained high growth rates in total deposits, loan and advances but it has moderate position in investment.
- J There is significant relationship between deposit, loan and advances and outside assets and net profit of EBL.

A study done by **Pudaisaini, Gangaram (2011)** entitle with “An Investment analysis of RBB in comparison with NBL”.

The specific objectives of the study were:

-) To evaluate liquidity, profitability and activity ratios of RBB in comparison with NBL and industry average.
-) To analyze relationship of loan and advance and total investment with total deposit and net profit of RBB and to compare it with that of NBL and industry average.
-) To use trend analysis to compare loan and advances, total investment, total deposit and net profit and compare the same with NBL.
-) To examine the loan loss provision of RBB and NBL.
-) To provide the suggestion and recommendation on the basis of findings.

The major findings of the study were:

-) RBB has good deposit collection, enough loan and advances and investment in government securities. It has comparatively better liquidity position than NBL.
-) RBB is in comparatively better position regarding loan and advances but it does not have good position regarding investment in shares and debenture of other companies, off balance sheet operation. Loan loss ratio shows low quality of loan and advance.
-) The profitability position of RBB is worse. RBB needs to take immediate steps to increase its profitability.
-) There is significant relationship between deposit and loan and advance. There is insignificant relationship between deposit and investment, and outside assets and net profit.

A study done by **Shrestha, (2012)** entitle with “Investment portfolio analysis of JVB’s”.

The specific objectives of the study were:

-) To analyze the risk and return ratios of commercial banks.
-) To evaluate the financial performance of JVB’s.
-) To provide suggestion package based on the analysis of data.
-) To study existing investment policies taken by NIBL in various sector.
-) To study portfolio structure of NIBL in investment as compared to other JVB’s.
-) Preference given by NIBL for investment between, loan investments, investment in real fixed assets, investment in financial assets.

The main findings of the study were:

-) BOK has highest return on shareholders' fund and total assets. It has also been successful in mobilizing its deposits as investments. NIBL and EBL have invested high amount of deposits as loan and advances in comparison to BOK, NIBL and HBL.
-) Among the JVB's, looking at investment portfolio, EBL has invested highest amount of funds in government securities, NIBL has invested highest amount of funds in NRB bonds in comparison to other JVB's.
-) BOK has highest EPS and EBL the lowest EPS among the JVB's.

2.1.10 Research Gap

There is a certain gap between the present research and past research. Previous several researches are done in this topic called "Investment portfolio Analysis". The information of this very research is also based on secondary y data as well as primary data, but many effective tools and techniques are used to get the desired result as per the objective of this study. To analyze the facts financial tools as well as statistical tools were used to get the desired objective of the study. Financial tools include ratio analysis and the statistical tools include mean, standard deviation, coefficient of variation, and correlation of coefficient analysis and also include trend analysis. In present context, these are the heart issue in Nepalese commercial banks. The previous researchers could not submit the present fact. This research will deliver the answer to the recent questions and it will also give the latest information about the current practices of concerned commercial banks.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is the process of arriving at the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. It is the plan, structure and strategy of investigations conceived to answer the research question or test the research hypothesis. Research design is used to control variance (Wolff & Pant, 2003). It includes different dependent & independent variables, types of research design, research questions and hypothesis sample, data collection activities, technique of analysis etc.

3.1 Research Design

This study is analytical in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw relevant conclusion. The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendations, conclusion etc. are the most significant information among them, they are derived with the help of some financial and statistical tools were adapted to evaluate the investment policy of Nepal Investment Bank and Kist Bank Limited.

Finally research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. To achieve this study descriptive and analytical research designs have been used.

3.2 Population and Sample

Under the study of investment policy of Nepalese commercial banks, the total number of commercial banks including domestic and joint venture banks operating in the Nepal is the population. At present there are thirty commercial banks are running in Nepal (NRB). All 30 licensed Nepalese CBs consider as the total population out of them this study will be concern with two CBs as a sample by using convent sample method. In the sample, banks are taken according to their rapid growth rate & gradually growth rate which head office is in Kathmandu by which we can compare about the investment policy of this bank. For this

population, Nepal Investment Bank Limited and KIST Bank Limited have been selected as sample and its data related to investment policy are comparatively studied.

3.3 Nature and Sources of Data

This study mainly based on secondary data of the two commercial banks like NIBL and KIST Bank. Nepal Rastra Bank, SEBON, and different library are other providers of the data. The reviews of literature of the proposed study are based on the text books, official publications, journals, unpublished thesis, web site etc. The necessary data and information at macro level have been collected from relevant institutions and authorities such as NRB Ministry of Finance, NEPSE, SEBON and their respective publications similarly the required micro level data derived from annual reports of selected banks, SEBON and NEPSE. In addition to above, supplementary data and information were collected from different library such as library of Nepal Commerce Campus, T.U. Central library, SEBON etc. The internet is also considered as an additional source.

3.4 Methods of Analysis

Various financial and statistical tools have been used to achieve objective of the study. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tools such as percentage, graphs are used in this study. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The various calculated results obtained through financial and statistical tools are tabulated under the different headings. Then they are compared with each other to interpret the results.

3.4.1 Financial Tools

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

Ratio analysis

Ration analysis is the mathematical relationship between two accounting figures. It is a part of the whole process to analyze financial statements of any business or industrial concern especially to take output and credit decisions. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's to it overtime. The qualitative

judgment regarding financial performance of a firm can be done with the help of ratio analysis.

a. Liquidity ratios

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

“Liquidity ratios examine the adequacy of funds, the solvency of the firm's ability to pay its obligation when due (Hampton, 1999)”. Various types of liquidity ratios are applied in this study, which is explained below:

i) Current ratio

The current ratio is the ratio of total current assets and current liabilities. It shows the relationship between current assets and current liabilities.

Mathematically it is represented as:

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

Where,

Current assets include cash and bank balance, money at call or short-term notice, loans and advances, investment in government securities and other interest receivable and miscellaneous current assets where as current liabilities include deposits and other accounts of short-term loan, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

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

ii) Cash and bank balance to total deposit ratio

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

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

Where, total deposits consist of deposits on current account; saving account; fixed account, money at call and other deposits.

iii) Cash and bank balance to current assets ratio

This ratio measures the percentages of liquid assets i.e. cash and bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand.

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

Hence, cash and banks balance includes cash in hand, foreign cash and foreign banks.

iv) Investment on government securities to current asset ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. This ratio can be calculated dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows,

$$\text{Investment of Government Securities to Current Asset Ratio} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

v) Total deposit to total working fund ratio

This ratio is used to find the percentage of total deposit on total working fund. This ratio can be calculated dividing the amount of total deposit by total working fund and can be stated as follows,

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

B. Assets management ratios (Activity ratios)

Asset management ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources .The following financial ratios related to investment policy is calculated under asset management ratio and interpretations are made by these calculations.

i) Loan and advances to Total deposit ratio

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total collections/deposits on loan and advances for the purpose of earning profit.

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

ii) Total investment to total deposit ratio

Investment is one of the major sources of earning money. This ratio includes how properly firms' deposits have been invested on government securities and shares and debentures of other companies. This ratio can be computed dividing total amount of investment by total amount deposit collection, which can be shown as;

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

iii) Loan and Advances to total working fund ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks and finance companies in terms of earning high profit from loan and advances. Loan and advances amount by total working fund. That is formulizing as;

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

Where, total working fund include total amount of assets given balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e., letter of credit, letter of guarantee etc.

iv) Investment on government securities to total working fund ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by;

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

v) **Investment on shares and debentures to Total working fund ratio**

Investment on shares and debentures to total working fund ratio shows the investment of Banks and finance companies on the shares and debentures of obtained dividing on shares and debentures by total working fund. That can be calculated as;

Investment on Shares and

$$\text{Debentures to Total Working Fund Ratio} = \frac{\text{Investment on Share \& Debenture}}{\text{Total Working Fund}}$$

C. **Activity ratios**

Activity ratios measure the performance efficiency of an organization from various angles of its operation. These ratios indicate the efficiency of activity of enterprises to utilize the available funds, particularly short term funds. These ratios are use to determine the efficiency, quality and the contribution of loan and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds.

i) **Loan loss provision to total loans and advances ratios:**

This ratios describes the quality of assets that bank is holding. Nepal Rastra Bank has directed the commercial banks to classify its loan and advances into the category of pass, sub standard, doubtful and loss on the basis of maturity of principal to make the provision of 1, 25, 50 and 100 percentages respectively. The provision for loan loss reflects the increasing probability of nonperforming loans in volume of loan and advances. This ratio is calculated by dividing the loan loss provision by total loan and advances as presented as under.

$$\text{Loan Loss Provision to Total Loans and Advances ratios} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loan and Advances}}$$

ii) **Nonperforming loans to total loans and advance ratio:**

This ratio measures the proportion of nonperforming loans and the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and advances and bad recovery rate and vice versa. This ratio is computed by dividing the nonperforming loans by total loans and advances as under.

$$\text{Non Performing Loans to Total Loans and Advance ratio} = \frac{\text{Total Non Performing Loans}}{\text{Total Loan and Advances}}$$

D. Profitability ratios

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

i) Return on total assets

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 be expressed as;

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

ii) Return on loan and advances ratio

Return on loan and advances ratio shows how efficiency of the Banks and finance companies have utilized their resources to earn good return from provided loan and advances. This ratio is computed to divide net profit/loss by the total amount of loan and advances. It can be mentioned as;

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

iii) Total interest earned to total working fund ratio

Total interest earned to total working fund is calculated to find out the percentage of interest earned to total assets. Higher the ratio indicates the better performance of financial institutions in the form of interest earning on the better working fund. This ratio is calculated dividing total interest earned from investment by total working fund and is mentioned as below;

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

iv) Total interest earned to total loan and advances ratio

Total interest earned to total loan and advances is calculated to find out the percentage of interest earned to total loan and advances. Higher the ratio indicates the better performance of financial institutions in the form of interest earning on the better loan and advances. This

ratio is calculated dividing total interest earned by total loan and advances and is mentioned as below;

$$\text{Total Interest Earned to Total Loan and Advances Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Loan and Advances}}$$

v) Total interest paid to total working fund ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated by dividing total interest paid by total working fund.

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

vi) Total interest paid to total deposit ratio

This ratio measures the percentage of total interest expenses against total deposit. A high ratio indicates higher interest expenses on deposit and vice-versa. This ratio is calculated by dividing total interest paid by total deposit.

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

E. Growth ratios

Here, the growth ratios represent how well the commercial banks are maintaining their economic and financial condition. The higher ratios represent the better performance of the selected firms to calculate, check and analyze the expansion and growths of the selected Banks of the following growth ratios are calculated. Growth ratios are directly related to the fund mobilization and investment of those firms.

-) Growth ratio of total deposit
-) Growth ratio of loan and advances
-) Growth ratio of total investment
-) Growth ratio of net profit

3.4.2 Statistical tools

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as arithmetical mean, standard deviation, coefficient of variation, trend analysis adopted which are as follows:

A. 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

$$\begin{aligned} \bar{X} &= \text{Arithmetic mean} \\ N &= \text{Number of observations} \\ X &= \text{Sum of observations} \end{aligned}$$

B. Standard deviation

Standard deviation is an important and widely used to measure dispersion. A standard deviation is the positive square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic mean. It is denoted by the letter σ (sigma).

In this study standard deviation of different ratios are calculated.

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

Where,

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

$$\frac{\sum X^2}{N} = \text{Sum of Squares of Observation}$$

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

C. 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 others and vice versa. It is calculated as;

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

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

Where,

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

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

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

D. Trend Analysis

Under this topic ratio between deposit and loan and advances as well as ratio between deposit and total investment is forecasted for next five years.

The trends of related variables can be calculated as, $Y = a + bx$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Under this part, the collected data through secondary sources have been represented in the suitable formats (i.e. table and charts), analyzed using various statistical and financial tools and certain inferences and interpretation have also been made finally.

4.2 Liquidity Ratios

The liquidity of the commercial banks (CBs) is measured by the extent to which they maintain liquid cash balance both in vault and at Nepal Rastra Bank (NRB) in relation to their balance of deposit. So the liquidity ratios have been calculated to identify the liquidity positions of CBs on the basis of sample banks.

4.2.1 Current Ratio

Current ratio indicates the ability of bank to meet its current obligation. Standard current ratio is 2:1 in general but for banking and for seasonal business current ratio of 1:1 is acceptable.

Current assets consist of cash and bank balances, money at call or short notice, loan and advances, investment in government securities, interest receivable and other miscellaneous assets.

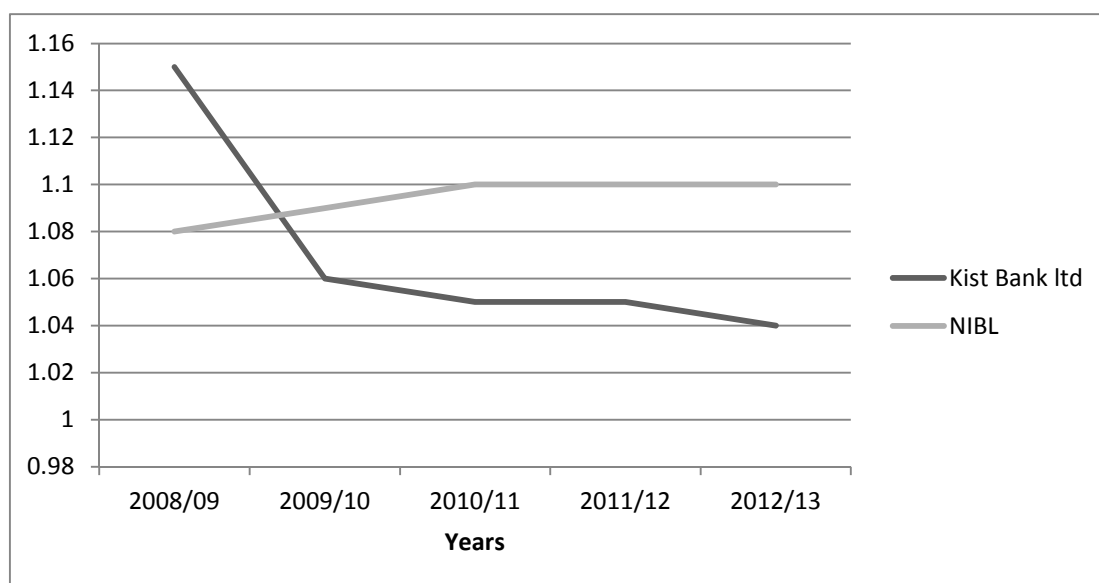
Current Liabilities consist of deposits, borrowings, bills payable, tax provision, staff bonus, dividend payable and other miscellaneous current liabilities. Current ratio of Kist Bank and NIBL from the fiscal year 2008/09 to 2012/13 is given below.

Table 4.1
Current Ratio (times)

Fiscal Year	Kist Bank.	NIBL
2008/09	1.15	1.08
2009/10	1.06	1.09
2010/11	1.05	1.10
2011/12	1.05	1.10
2012/13	1.04	1.10
Mean	1.07	1.09
S.D	0.040	0.010
C.V (%)	3.73	0.91

Sources: Appendix 5

Figure 4.1
Current Ratio



Throughout the study period, current ratios of Kist Bank and NIBL show the stable trend. In average, current ratio of Kist Bank is 1.07 times and current ratio of NIBL is 1.09 times. The current ratios of Kist Bank and NIBL are above than the acceptable level of 1:1.

Coefficient of variation (C.V) of Kist Bank is 3.7383% but CV of NIBL is 0.9141%. It shows the current ratio of Kist Bank is more consistent than NIBL.

4.2.2 Cash & Bank Balance to Total Deposit Ratio

This is the most important ratio for measuring the extent of the liquidity of the commercial banks. The sound ration indicates that the liquid position of the bank is strong enough to meet the immediate demand of cash by its customers. This ratio is obtained by dividing the total cash with the bank itself and the cash reserve ratio (CRR) maintained in the NRB as:

Cash and bank balance is composed of cash on hand including foreign cheques, other cash items; balance with domestic banks and abroad. Deposit includes current deposits, saving, deposits, fixed deposits, money at call or short notice and other types of deposits. Cash and bank balance to total deposit ratio of KIST BANK& NIBL from the fiscal year 2008/09 to 2012/13 are given below.

Table 4.2
Cash & Bank Balance to Total Deposit Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	14.14	16.96
2009/10	10.50	13.61
2010/11	12.58	16.24
2011/12	14.60	20.70
2012/13	16.03	21.23
Mean	13.57	17.74
S.D	1.89	2.86
C.V (%)	13.92	16.11

Sources: Appendix 6

Figure 4.2

Cash & Bank Balance to Total Deposit Ratio

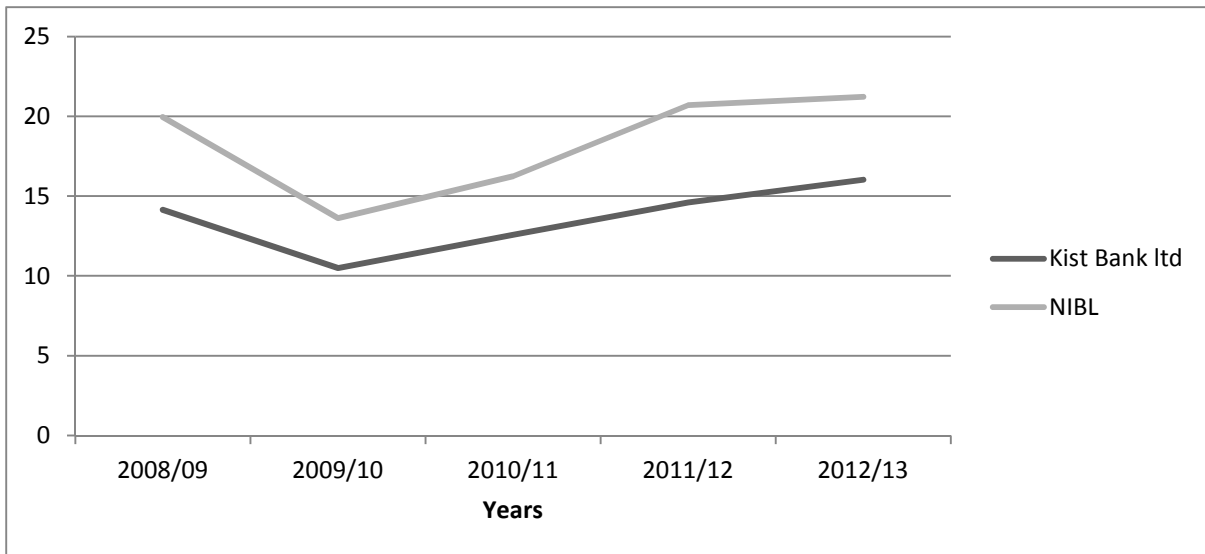


Table 4.2 shows that the cash and bank balance to total deposit ratio of the two banks has followed fluctuated trend from FY 2008/09 to 2012/13.

In average, KIST BANK has maintained lower cash & bank balance to total deposit ratio than NIBL i.e. $13.57 < 17.74$. It states that cash and bank balance to total deposit ratio of KIST BANK is lower than NIBL. The C.V of KIST BANK is 13.92%, which is comparatively lower than that of NIBL 16.1063%. So, NIBL is the more consistent than that of Kist Bank.

4.2.3 Cash and Bank Balance to Current Asset Ratio

This ratio shows the bank's liquidity capacity on the basis of cash and bank balance that is the most liquid assets. High ratio indicates the bank's ability to meet the daily cash requirements of their customer deposits and vice versa. But high ratio is not preferred, as the bank has to pay more interest on deposit and will increase the cost of fund. Lower ratio is also very dangerous, as the bank may not be able to make the payment against the cheques presented by the customers. Therefore, bank has to balance the cash and bank balance to current asset ratio in such a manner that it should have the adequate cash for the customer's demand against deposit when required, and less interest is required to be paid against the cash deposit. We have

Cash and bank balance to current asset ratio of KIST BANK& NIBL from the fiscal year 2008/09 to 2012/13 are given below.

Table 4.3

Cash & Bank Balance to Total Current Assets Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	11.77	15.24
2009/10	9.41	12.13
2010/11	11.16	14.22
2011/12	13.76	18.24
2012/13	14.21	18.38
Mean	12.06	15.64
S.D	1.76	2.40
C.V (%)	14.56	15.33

Sources: Appendix 7

Figure 4.3

Cash and Bank Balance to Current Asset Ratio

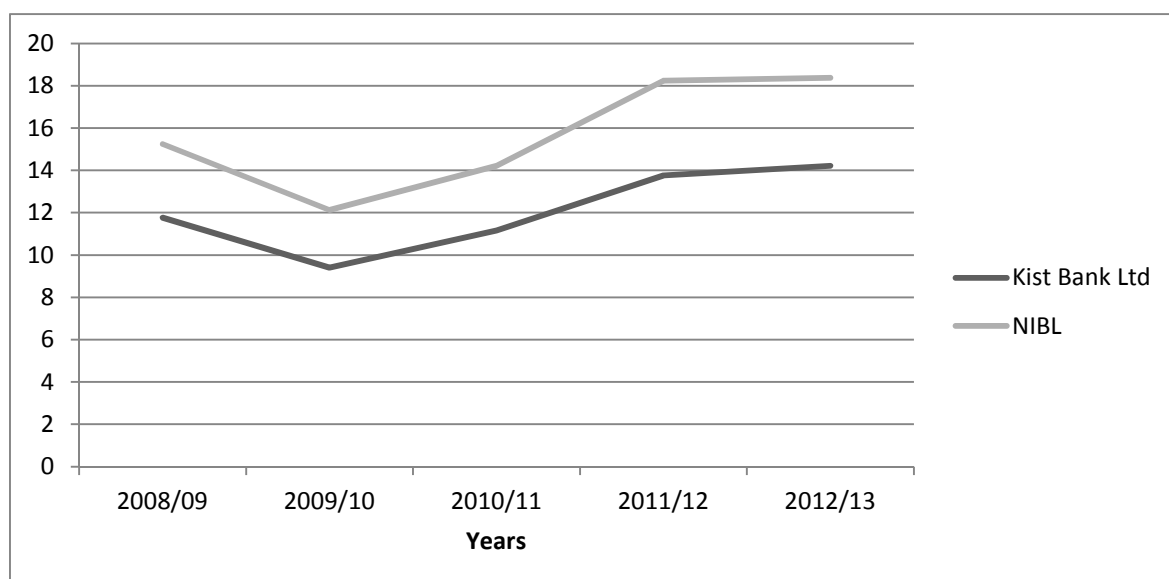


Table 4.3 shows that the cash and bank balance to total current asset ratio of the two banks has followed fluctuated trend from FY 2008/09 to 2012/13.

In average, KIST BANK has maintained lower cash & bank balance to total current ratio than NIBL i.e. 12.06 < 15.64. It states that liquidity position on current assets of KIST BANK is lower than NIBL. KIST BANK has maintained 14.56% cash balance from current assets but NIBL has maintained 15.33% cash balance from current assets. It means Kist has taken more risk to meet the daily cash requirement of its customer deposit than NIBL.

4.2.4 Investment on Government Securities to Current Asset Ratio

The commercial banks are interested to invest their funds collected in various government securities issued by government. The government securities are the safest place to make investment. But the government securities are not so much liquid as cash and bank balance. They can be easily sold in the market or they can be converted into cash in other ways. The main purpose of this ratio is to examine the portion of commercial bank's current assets that invested on government securities. We have Investment on Govt. securities to current asset ratio of KIST BANK & NIBL from the fiscal year 2008/09 to 2012/13 is given below.

Table 4.4

Investment on Government Securities to Total Current Assets Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	4.55	4.87
2009/10	9.25	7.48
2010/11	10.08	7.50
2011/12	14.18	9.54
2012/13	11.34	8.30
Mean	9.88	7.54
S.D	3.59	1.53
C.V (%)	36.35	20.31

Sources: Appendix 8

Figure 4.4

Investment on Government Securities to Current Asset Ratio

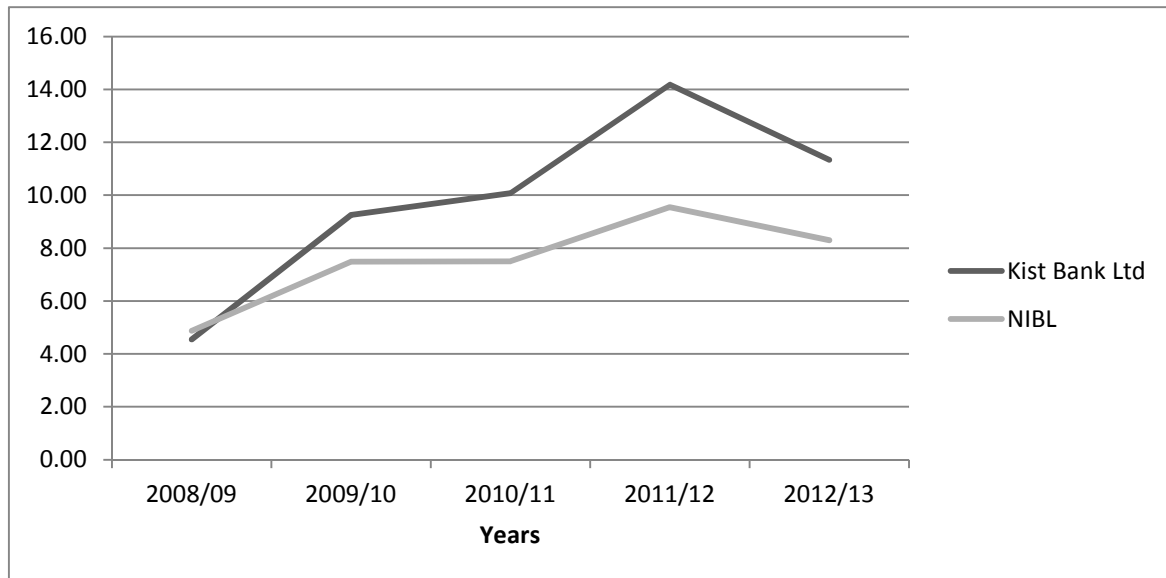


Table 4.4 shows that the investment on government securities to total current asset ratio of the two banks has followed decreasing trend from FY 2008/09 to 2012/13.

In average, KIST BANK has invested 9.88% of current assets on government securities which is less than the investment made by NIBL i.e 7.53 %. It means NIBL is weaker than Kist Bank in investing their current assets to government securities.

The C.V of KIST BANK is 36.34%, which is comparatively lower than that of NIBL 20.31%. So that NIBL is less consistent than that of Kist Bank while investing their current assets on government securities.

4.2.5 Total Deposit to Total Working Fund Ratio

Deposits are the main sources of funds for commercial banks. More than 50% of the total assets have been found to be financed through deposits. Total deposit includes saving, fixed, call, current and fixed deposits. Where, total working fund is the total assets. It is composed up of current assets, fixed assets, miscellaneous assets and investment: loans for development bank etc.

Total Deposit to Total Working Fund ratios of KIST BANK& NIBL from the fiscal year 2008/09 to 2012/13 are given below.

Table 4.5

Total Deposit to Total Working Fund Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	77.87	88.09
2009/10	84.25	87.42
2010/11	83.03	85.92
2011/12	89.14	86.70
2012/13	83.89	85.34
Mean	83.64	86.70
S.D	3.59	0.99
C.V (%)	4.29	1.14

Sources: Appendix 9

Figure 4.5

Total Deposit to Total Working Fund Ratio

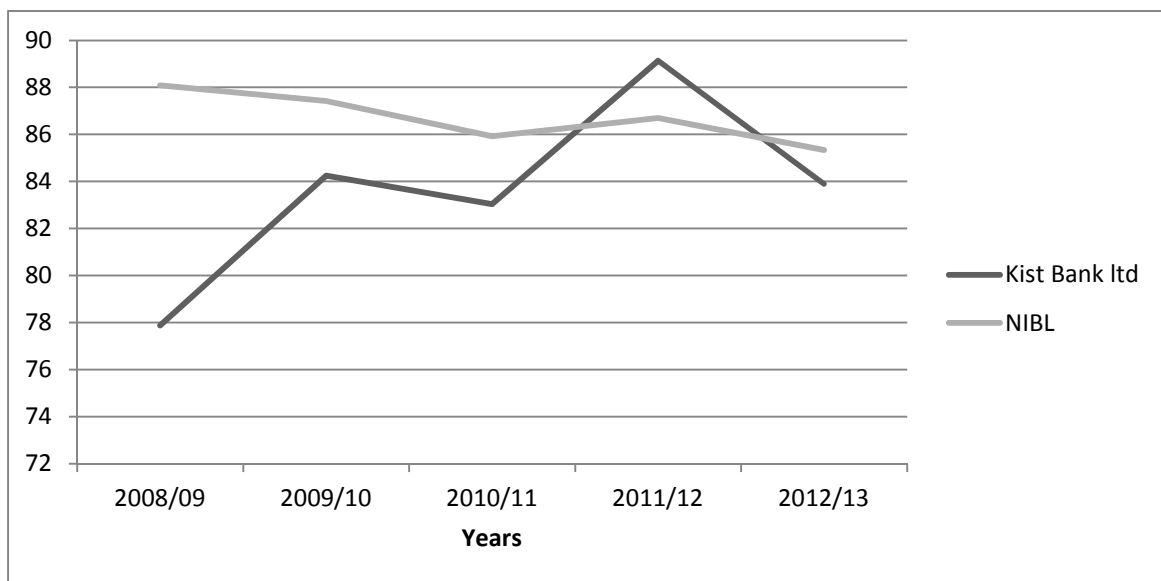


Table 4.5 shows that the total deposit to working fund ratio of KIST BANK and NIBL followed the fluctuating trend from FY 2008/09 to 2012/13.

In average, KIST BANK collected 83.63% of total funds from deposits and NIBL collected 86.69% of total funds from deposits. It indicates that, bank's main source of fund is deposit. In the above table deposit has more than 80% contribution on total funds of the two banks.

The C.V of KIST BANK is 4.289%, which is comparatively higher than that of NIBL. So that NIBL is more consistent than that of KIST BANK while collecting their funds from deposit.

4.3 Asset Management Ratio

Asset management ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory manner. A commercial bank must manage its asset properly to earn high profit. Under this chapter following ratios are studied.

4.3.1 Loan and Advances to Total Deposit Ratio

Deposits are the main sources of funds for commercial banks. More than 50% of the total assets have been found to be financed through deposits. Total deposit includes saving, fixed, call, current and fixed deposits. On the contrary, credit & advances also called as loan & advances are the sales figure of banks. So the ratio shown below provides the beautiful insight regarding how efficiently the funds are utilized in commercial banks. Higher ratio is desirable.

Loan and advances to total deposit ratio of KIST BANK& NIBL from the fiscal year 2008/09 to 2012/13 are given below.

Table 4.6

Loan and Advances to Total Deposit Ratio (%)

Fiscal Year/Banks	Kist Bank Ltd.	NIBL.
2008/09	78.34	77.61
2009/10	77.34	80.48
2010/11	82.50	81.96
2011/12	72.60	73.03
2012/13	79.77	74.32
Mean	78.11	77.48
S.D	3.26	3.43
C.V (%)	4.17	4.43

Sources: Appendix 10

Figure 4.6

Loan and Advances to Total Deposit Ratio

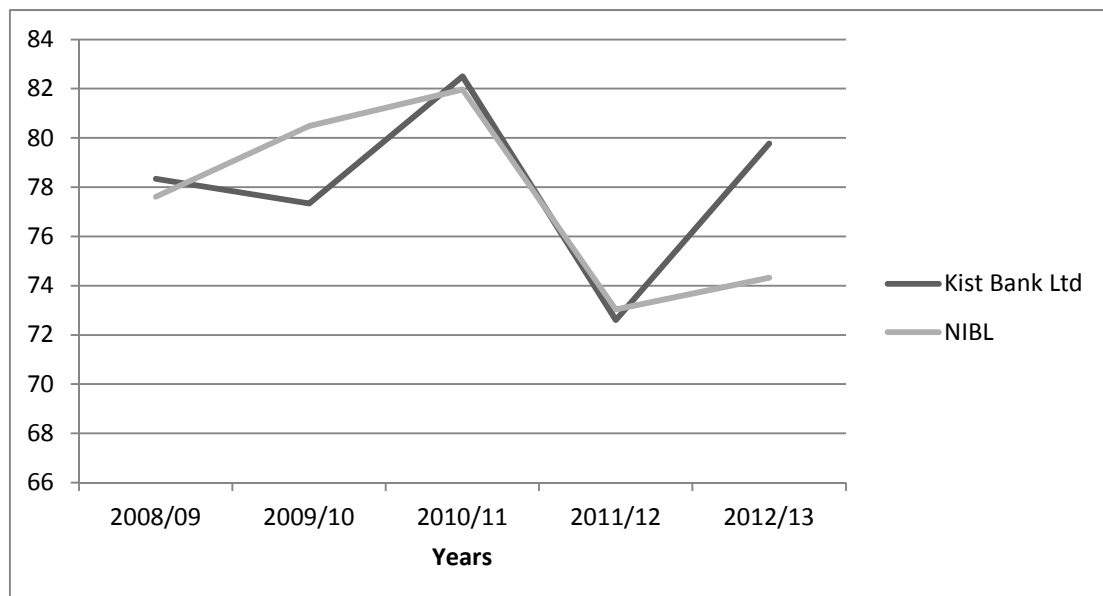


Table 4.6 shows that the loan and advances to total deposit ratio of KIST BANK is in stable trend. On the other hand NIBL has the similar trend of loan and advances to total deposit ratio.

In average, loan and advances to total deposit ratio of KIST BANK i.e. 78.11% is lower than the ratio of NIBL i.e 77.48%.

The C.V of KIST BANK is 4.1695%, which is comparatively lower than that of NIBL i.e 4.4289%. So that KIST BANK is less consistent than that of NIBL while mobilizing their total deposits on loan and advances.

4.3.2 Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposits by investing its fund in different securities issued by government and other financial or non financial institutions. Now, effort has been made to measure the extent to which the banks are successful in mobilizing the total deposits on investment.

In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement Central banks 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 to total deposit ratio of KIST BANK & NIBL from the fiscal year 2008/09 to 2012/13 are given below.

Table 4.7

Total Investment to Total Deposit Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	12.50	15.85
2009/10	12.89	17.24
2010/11	12.01	14.81
2011/12	15.45	18.31
2012/13	13.27	18.32
Mean	13.22	16.90
S.D	1.19	1.39
C.V (%)	8.98	8.19

Sources: Appendix 11

Figure 4.7

Total Investment to Total Deposit Ratio

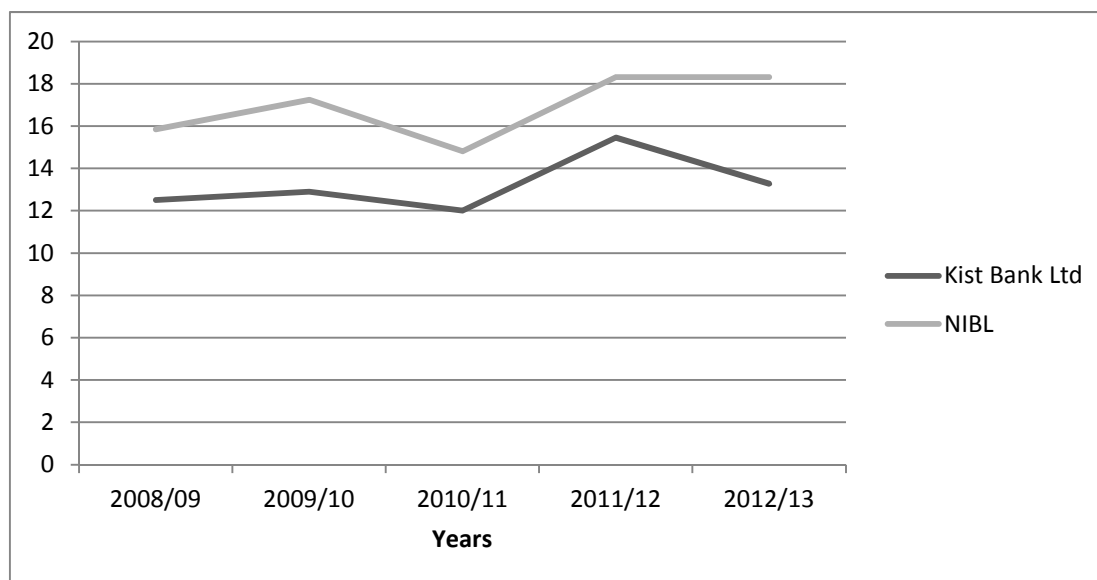


Table 4.7 shows that the total investment to total deposit ratio of KIST BANK shows increasing trend, whereas ratio of NIBL shows decreasing trend. In average, total investment to total deposit ratio of KIST BANK i.e. 13.22% is higher than the ratio of NIBL i.e 16.90%.

The C.V of KIST BANK is 8.98%, which is comparatively higher than that of NIBL i.e 8.19%. So that KIST BANK is less consistent than that of NIBL while investing their total deposits on government securities, shares and other investments.

4.3.3 Loan and Advances to Total Working Fund Ratio

Loan & advances is an important part of total assets (total working fund). Commercial bank must be very careful in mobilizing it total assets. As loan and advances in appropriate level to generate profit this ratio reflects the extent to which the commercial banks are success is mobilizing their assets, loan & advances for the purpose of income generation. A high ratio indicates better is mobilization of funds as loan and advances and vice versa.

Where, total working fund is the total assets. It is composed up of current assets, fixed assets, miscellaneous assets and investment: loans for development bank etc.

Total loan and advances to total working fund ratio of KIST BANK& NIBL from the fiscal year 2008/09 to 2012/13 are given below.

Table 4.8
Total Loan and Advances to Total Working Fund Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	61.01	68.37
2009/10	65.16	70.36
2010/11	68.50	70.42
2011/12	64.71	63.32
2012/13	66.92	63.43
Mean	65.26	67.18
S.D	2.51	3.19
C.V (%)	3.85	4.75

Sources: Appendix 12

Figure 4.8

Total Loan and Advances to Total Working Fund Ratio

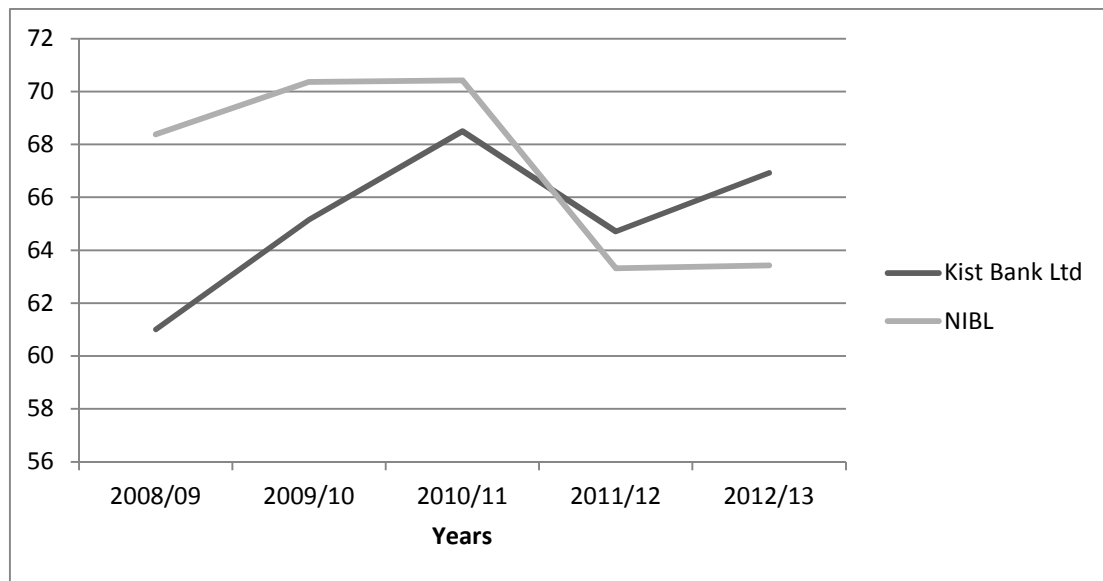


Table 4.8 shows that the Total loan and advances to working fund deposit ratio of the two banks shows the fluctuating trend.

In average, the ratio of KIST BANK is 65.26% which is lower than that of NIBL i.e 67.18%. This indicates that NIBL is in good condition to mobilize its total assets on loan and advances.

The C.V of KIST BANK is 3.85%, which is comparatively lower than that of NIBL i.e 4.75%. So that KIST BANK is less uniform than that of NIBL while mobilizing their total assets on loan and advances.

4.3.4 Investment on Government Securities to Total Working Fund Ratio

Investing in securities of government is one of the major schemes of banks. Those securities include mostly treasury bills and other marketable securities of government issued by NRB on behalf of the government. These assets are almost risk-free and are sellable at higher value in the future also.

Investment on government securities to total working fund ratio of KIST BANK& NIBL from the fiscal year 2008/09 to 2012/13 are given below.

Table 4.9

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

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	4.26	4.78
2009/10	8.69	7.33
2010/11	9.43	7.36
2011/12	13.42	9.38
2012/13	10.74	8.18
Mean	9.30	7.40
S.D	2.99	1.50
C.V (%)	32.17	20.39

Sources: Appendix 13

Figure 4.9

Investment on Government Securities to Total Working Fund Ratio

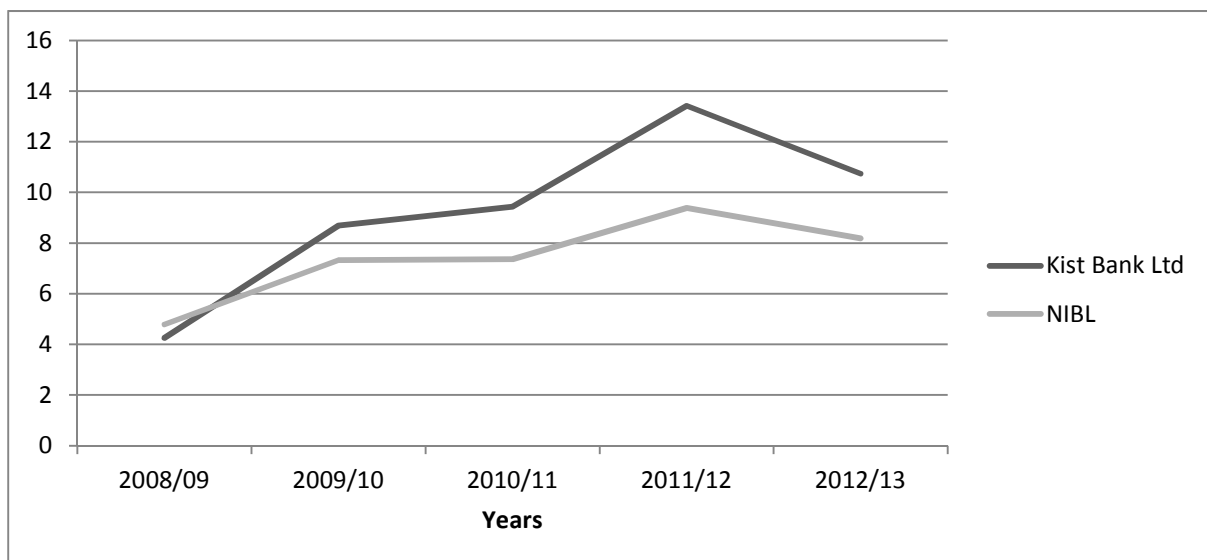


Table 4.9 shows that the investment on government securities to working fund ratio of the two banks shows the increasing trend.

In average, the ratio of KIST BANK is 9.30% which is higher than that of NIBL i.e 7.40%. This indicates that NIBL has invested fewer portions of its total assets on government securities than KIST BANK.

The C.V of KIST BANK is 32.17%, which is comparatively higher than that of NIBL i.e 20.38%. So that KIST BANK is more uniform than that of NIBL while investing their total assets on government securities.

4.3.5 Investment on Shares and Debentures to Total Working Fund Ratio

All the resources of a bank are not used as loan and advances. A bank mobilize its fund in various ways. To some extent commercial bank seems to utilize its fund by purchasing government securities. A government security is a safe medium of investment though it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund on different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as investment on government securities is a current asset which is invested by external parties. These types of securities can be sold in the market.

Investment on shares and debentures to total working fund ratio of KIST BANK & NIBL from the fiscal year 2008/09 to 2012/13 are given below.

Table 4.10

Investment on Shares and Debentures to Total Working Fund Ratio (%)

Fiscal Year/Banks	Kist Bank Ltd.	NIBL.
2008/09	5.47	9.18
2009/10	2.17	7.74
2010/11	0.54	5.36
2011/12	0.35	6.49
2012/13	0.39	7.45
Mean	1.78	7.24
S.D	1.96	1.27
C.V (%)	110.07	17.62

Sources: Appendix 14

Figure 4.10

Investment on Shares and Debentures to Total Working Fund Ratio

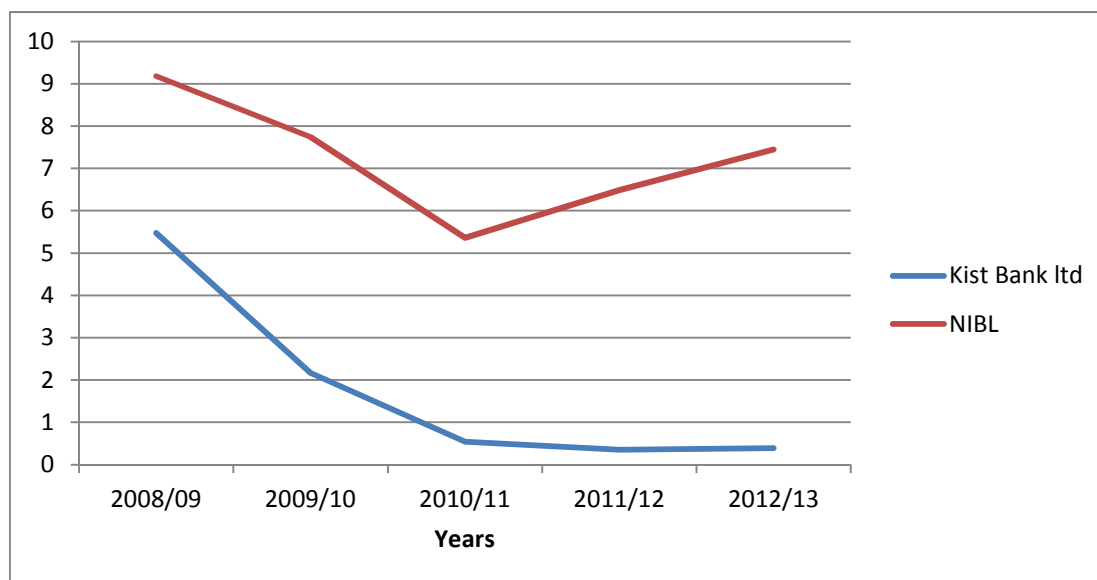


Table 4.10 shows that the investment on share and debentures to working fund ratio of the two banks shows the decreasing trend.

In average, the ratio of KIST BANK is 1.78% which is lower than that of NIBL i.e 7.24%. This indicates that NIBL has invested more portions of its total assets on shares and debentures than Kist Bank.

The C.V of KIST BANK is 110.67%, which is comparatively highly than that of NIBL i.e 17.62%. So that KIST BANK is more uniform than that of NIBL while investing its total assets on shares and debentures.

4.4 Activity Ratio

Activity ratios measure the performance efficiency of an organization from various angles of its operation. These ratios indicate the efficiency of activity of enterprises to utilize the available funds, particularly short term funds. These ratios are use to determine the efficiency, quality and the contribution of loan and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds.

4.4.1 Loan Loss Provision to Total Loans and Advances ratio:

This ratios describes the quality of assets that bank is holding. Nepal Rastra Bank has directed the commercial banks to classify its loan and advances into the category of pass, sub standard, doubtful and loss on the basis of maturity of principal to make the provision of 1, 25, 50 and 100 percentages respectively. The provision for loan loss reflects the increasing probability of nonperforming loans in volume of loan and advances. This ratio is calculated by dividing the loan loss provision by total loan and advances as presented as under.

Loan Loss Provision to Total Loan and Advances ratio of KIST BANK& NIBL from the fiscal year 2008/09 to 2012/13 are given below

Table 4.11

Loan Loss Provision to Total Loans and Advances Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	1.23	1.62
2009/10	1.14	1.56
2010/11	3.02	1.93
2011/12	2.19	3.05
2012/13	2.15	2.80
Mean	1.95	2.19
S.D	0.70	0.61
C.V (%)	35.73	28.13

Sources: Appendix 15

Figure 4.11

Loan Loss Provision to Total Loans and Advances Ratio

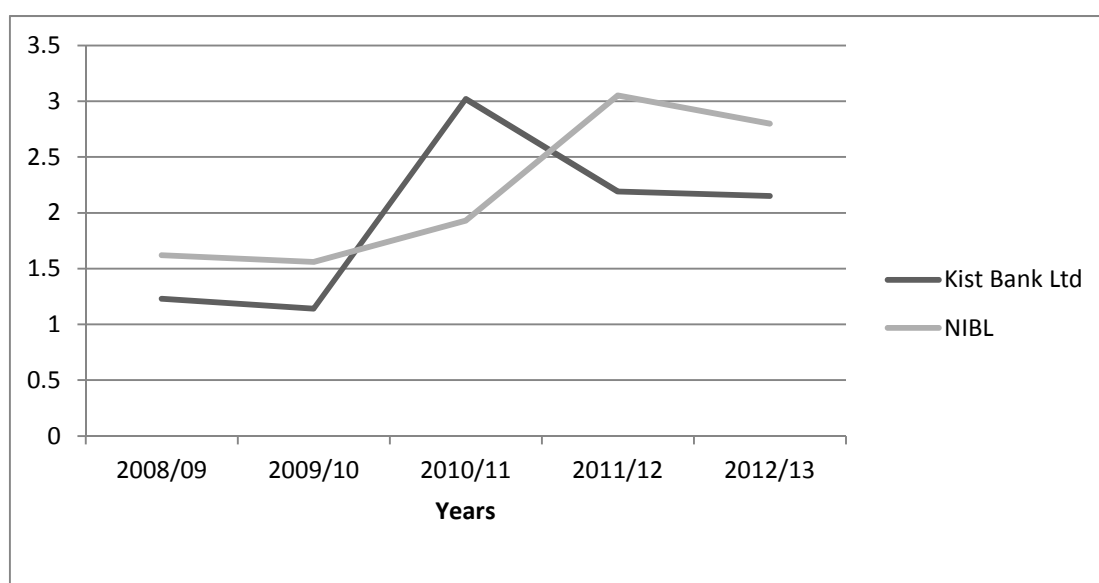


Table 4.11 shows that the loan loss provision to total loan and advances ratio of the two banks shows the trend. In average, the ratio of KIST BANK is 1.94% which is lower than that of NIBL i.e 2.19%. This indicates that NIBL has more portions of loan loss provision on its total loan & advances than Kist Bank.

The C.V of KIST BANK is 35.73%, which is comparatively higher than that of NIBL i.e 28.13%. So that Kist Bank is more consistent on maintaining quality assets than NIBL.

4.4.2 Non Performing Loans to Total Loans and advance ratio:

This ratio measures the proportion of nonperforming loans and the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and advances and bad recovery rate and vice versa. This ratio is computed by dividing the nonperforming loans by total loans and advances as under.

Non Performing Loans to Total Loan and Advances ratio of KIST BANK& NIBL from the fiscal year 2008/09 to 2012/13 are given below.

Table 4.12

Non Performing Loans to Total Loans and advance Ratio (%)

Fiscal Year/Banks	Kist Bank Ltd.	NIBL.
2008/09	0.22	0.59
2009/10	0.20	0.63
2010/11	2.62	0.96
2011/12	4.03	3.42
2012/13	4.99	1.97
Mean	2.41	1.51
S.D	1.95	1.07
C.V (%)	80.83	71.03

Sources: Appendix 16

Figure 4.12

Non Performing Loans to Total Loans and advance Ratio

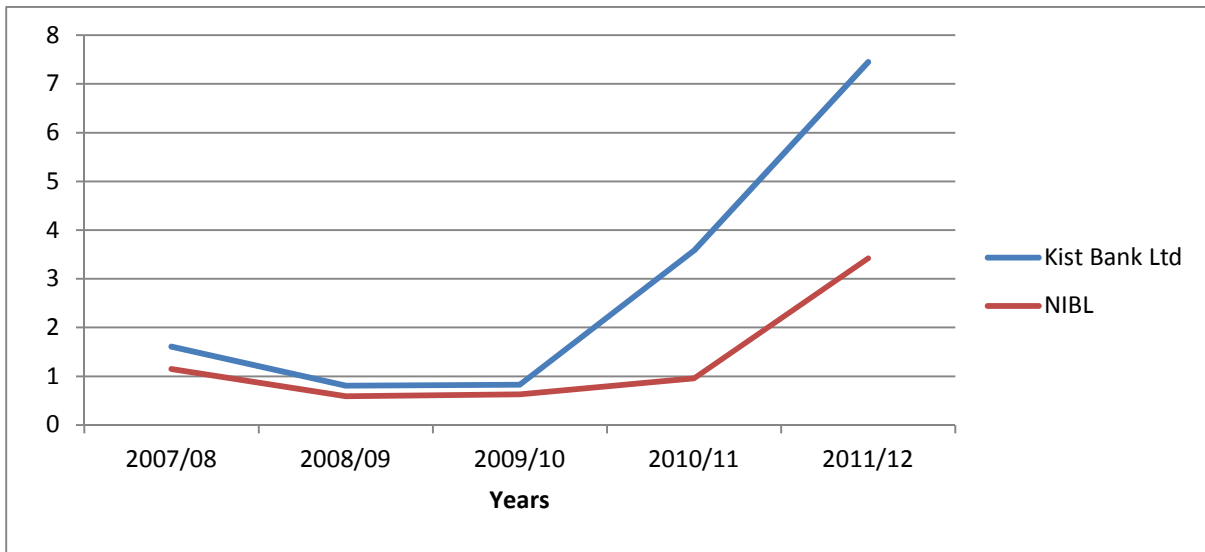


Table 4.12 shows that the non performing loan to total loan and advances ratio of the two banks shows the decreasing trend.

In average, the ratio of KIST BANK is 2.41% which is higher than that of NIBL i.e 1.51%. This indicates that KIST BANK has more portions of nonperforming loans on its total loan & advances than NIBL.

The C.V of KIST BANK is 80.83%, which is comparatively lower than that of NIBL i.e 71.03%. So that NIBL is more consistent on maintaining quality assets than KIST BANK.

4.5 Profitability Ratio

The ultimate objective of all the banks is to earn profit. Strictly speaking, no bank can survive without profit. Profit is the indicator of efficient operation of bank. The bank acquires profit by providing different services to its customers or by making investment of different kinds. We also need the indicators of profitability position in order to identify the overall efficiency

of management and utilization of the funds collected and used in the banks. The major ratios that we consider under this section are:

4.5.1 Return on Loan and Advances

This ratio is useful in evaluating the overall efficiency of the management of the banks in generating meaningful returns in a year. This ratio is calculated by dividing the net profit after taxes by total loan & advances in an accounting period as:

Table 4.13

Return on Loan and Advances Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	1.32	0.25
2009/10	1.17	0.31
2010/11	0.41	0.29
2011/12	0.69	0.25
2012/13	-0.53	0.41
Mean	3.06	0.30
S.D	0.56	0.06
C.V (%)	92.49	19.58

Sources: Appendix 17

Figure 4.13

Return on Loan and Advances Ratio

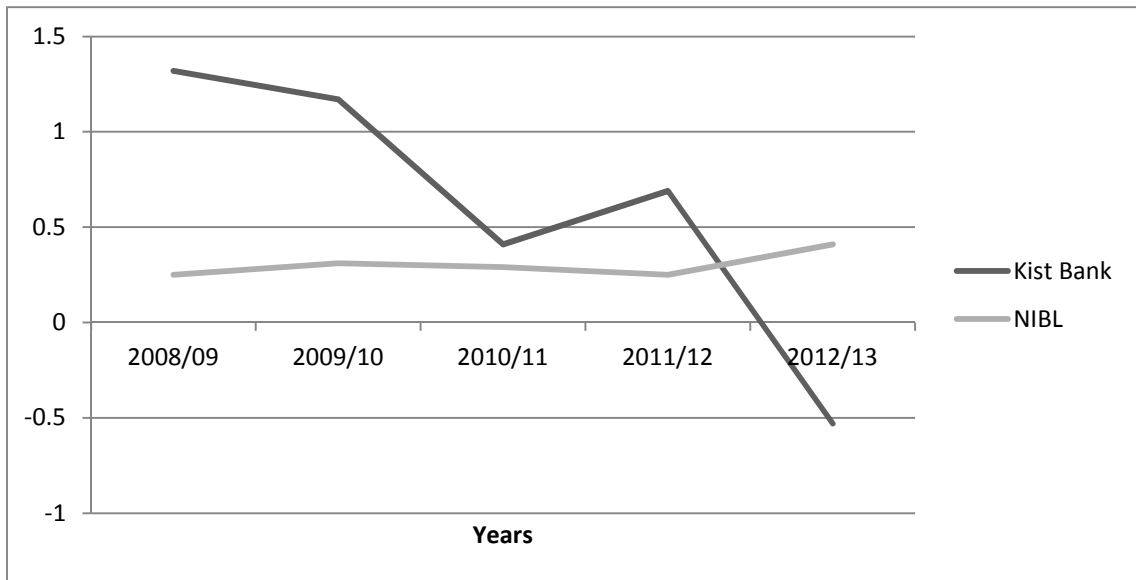


Table 4.13 shows that the return on loan and advances ratio of the two banks shows the fluctuating trend.

In average, the ratio of KIST BANK is 0.61% which is higher than that of NIBL i.e 0.30%. This indicates that NIBL has been able to generate high return on loan and advances than KIST BANK.

The C.V of KIST BANK is 92.49% in comparison with the C.V. of NIBL i.e. 19.58%. It states that NIBL is more efficient in generating returns on its loan and advances than KIST BANK.

4.5.2 Return on Total Working Fund Ratio

This ratio is measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank's working fund is well managed and efficiently utilized. The ratio is useful in evaluating the overall efficiency of the management of the banks in generating meaningful returns in a year.

This ratio measures the earning capacity of a commercial bank on its total assets.

Table 4.14

Return on Total Working Fund Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	0.80	0.17
2009/10	0.76	0.22
2010/11	0.28	0.20
2011/12	0.44	0.16
2012/13	-0.36	0.26
Mean	0.38	0.20
S.D	0.35	0.04
C.V (%)	91.88	17.84

Sources: Appendix 18

Figure 4.14

Return on Total Working Fund Ratio

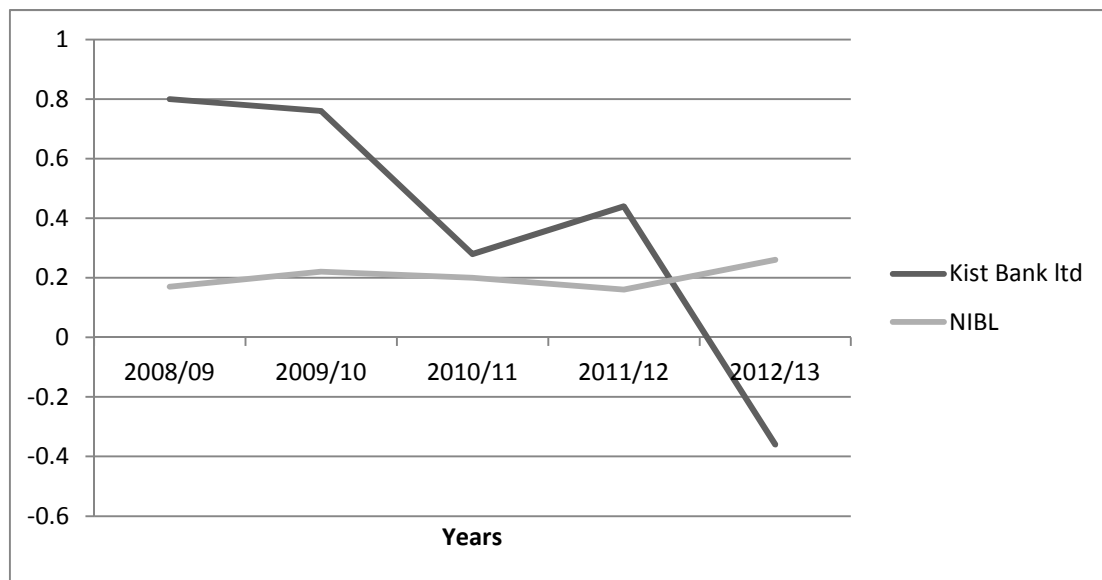


Table 4.14 shows that the return on total working fund ratio of the two banks shows the fluctuating trend.

In average, the ratio of KIST BANK is 0.38% which is higher than that of NIBL i.e 0.20%. This indicates that Kist Bank has been able to generate more return on available sources i.e. total assets than NIBL.

The C.V of KIST BANK is 91.88%, which is comparatively higher than that of NIBL i.e 17.84%. So that NIBL is utilizing its total assets with more efficiently than KIST BANK.

4.5.3 Total Interest Earned to Total Working Fund Ratio

This ratio shows the earning capacity as interest of a bank by mobilizing its total assets or working funds. So higher the ratio reflects higher the earning capacity and higher ratio will be preferred.

Table 4.15

Total Interest Earned to Total Working Fund Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	5.33	0.62
2009/10	8.01	0.81
2010/11	10.47	0.99
2011/12	9.61	0.91
2012/13	9.16	0.80
Mean	8.52	0.83
S.D	1.78	0.12
C.V (%)	20.80	15.03

Sources: Appendix 19

Figure 4.15

Total Interest Earned to Total Working Fund Ratio

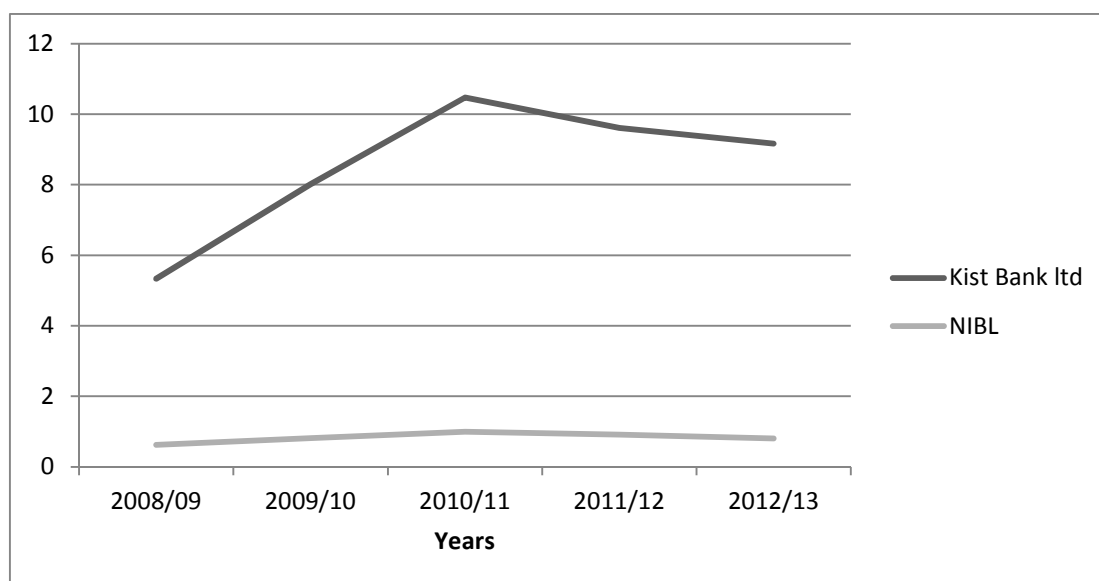


Table 4.15 shows that the total interest earned to total working fund ratio of the two banks shows the fluctuating trend.

In average, the ratio of KIST BANK is 8.51% which is higher than that of NIBL i.e 0.82. This indicates that Kist Bank seems stronger to generate more interest income on available sources i.e. total assets than NIBL.

The C.V of KIST BANK is 20.80%, which is comparatively higher than that of NIBL i.e 15.03%. So that KIST BANK is more consistent and stable to earn interest in respect of total assets than NIBL.

4.5.4 Total Interest Earned to Total Loan and Advances Ratio

This ratio shows the earning capacity as interest of a bank by mobilizing its total assets or working funds to loan and advances. So higher the ratio reflects higher the earning capacity and higher ratio will be preferred.

Table 4.16

Total Interest Earned to Total Loan and Advances Ratio (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	8.74	0.90
2009/10	12.29	1.15
2010/11	15.29	1.41
2011/12	14.85	1.44
2012/13	13.68	1.27
Mean	12.9700	1.2340
S.D	2.3569	0.1965
C.V (%)	18.1723	15.9213

Sources: Appendix 20

Figure 4.16

Total Interest Earned to Total Loan and Advances

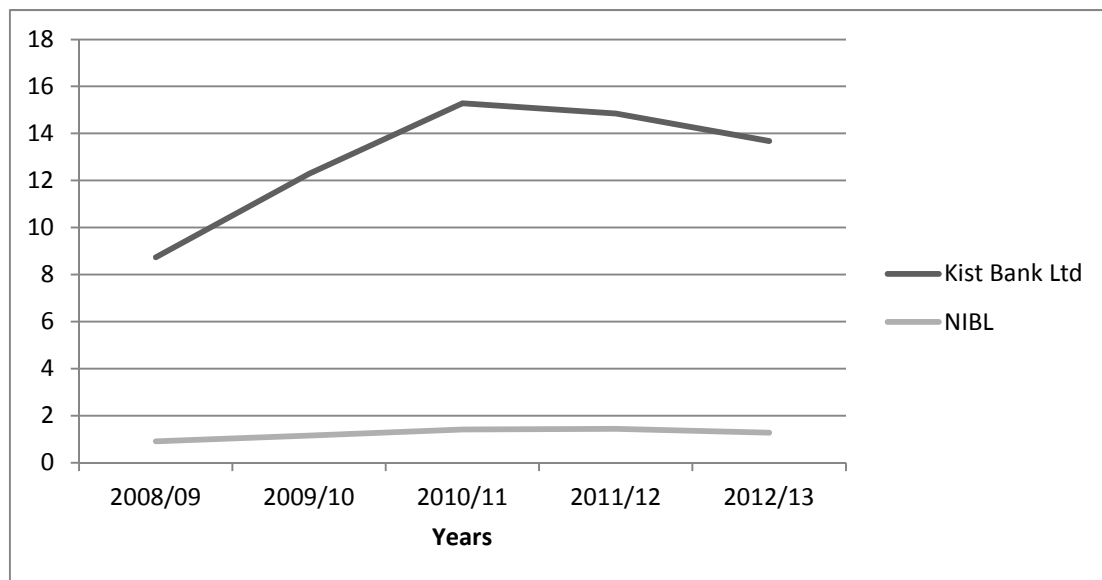


Table 4.16 shows that the total interest earned to total loan and advances ratios of both the banks are in increasing.

In average, the ratio of KIST BANK is 12.97% which is higher than that of NIBL i.e 1.23%. This indicates that NIBL seems weaker to generate more interest income on loan and advances than KIST BANK.

The C.V of KIST BANK is 18.17%, which is comparatively higher than that of NIBL i.e 15.92%. So that NIBL is lower consistent and stable to earn interest in respect of total loan and advances than KIST BANK.

4.5.5 Total Interest Paid to Total Working Fund Ratio

This ratio shows the percentage of interest paid against total working fund.. So higher the ratio reflects higher interest expenses on total assets and vice versa.

Table 4.17

Total Interest Paid to Total Working Fund Ratio (%)

Fiscal Year/Banks	Kist Bank Ltd.	NIBL.
2008/09	3.04	0.32
2009/10	5.11	0.45
2010/11	6.84	0.62
2011/12	7.02	0.58
2012/13	5.12	0.38
Mean	5.426	0.470
S.D	1.444	0.1145
C.V (%)	26.613	24.3522

Sources: Appendix 21

Figure 4.17

Total Interest Paid to Total Working Fund Ratio

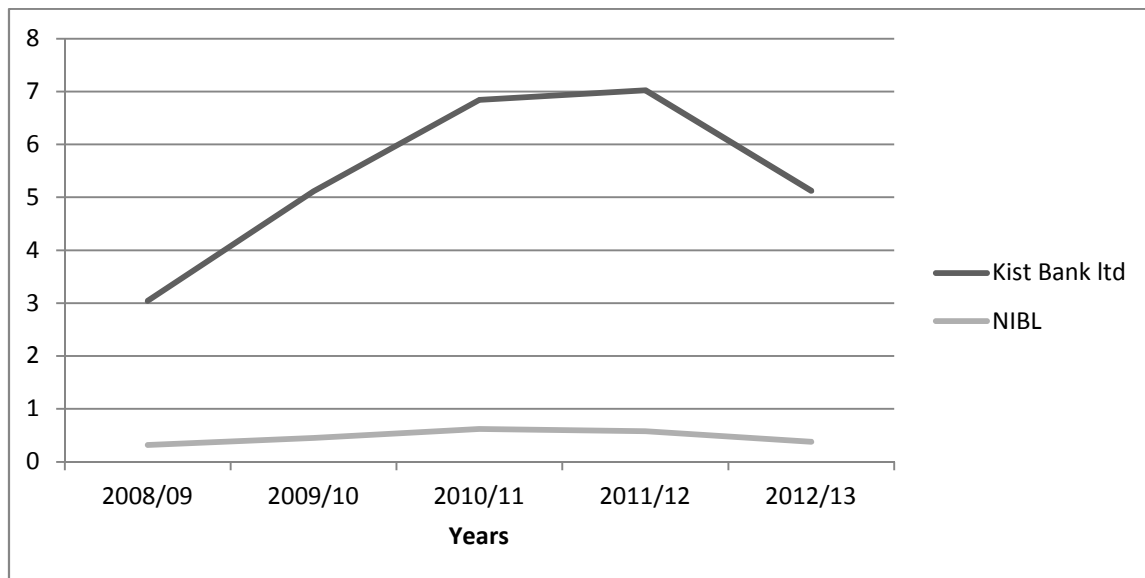


Table 4.17 shows that the total interest paid to total working fund ratio of KIST BANK& NIBL is in fluctuating.

In average, the ratio of KIST BANK is 5.42% which is higher than that of NIBL i.e 0.47%. This indicates that KIST BANK is paying more interest on its total working funds than NIBL.

The C.V of KIST BANK is 26.61%, which is comparatively higher than that of NIBL i.e 24.35%. It shows that NIBL is successful to collect its working funds from less expensive sources in comparison to Kist Bank.

4.5.6 Total Interest Paid to Total Deposit Ratio (Cost of deposit).

Generally interest is paid on deposit. This ratio shows the percentage of interest paid against total deposit. The ratio shows the cost of deposit. Higher ratio reflects higher cost of deposit.

Table 4.18

Total Interest Paid to Total Deposit Ratio (%)

Fiscal Year/Banks	Kist Bank Ltd.	NIBL.
2008/09	3.90	0.36
2009/10	6.06	0.51
2010/11	8.24	0.72
2011/12	7.87	0.67
2012/13	6.10	0.44
Mean	6.4340	0.5400
S.D	1.5489	0.1360
C.V (%)	24.0742	25.1879

Sources: Appendix 22

Figure 4.18

Total Interest Paid to Total Deposit Ratio

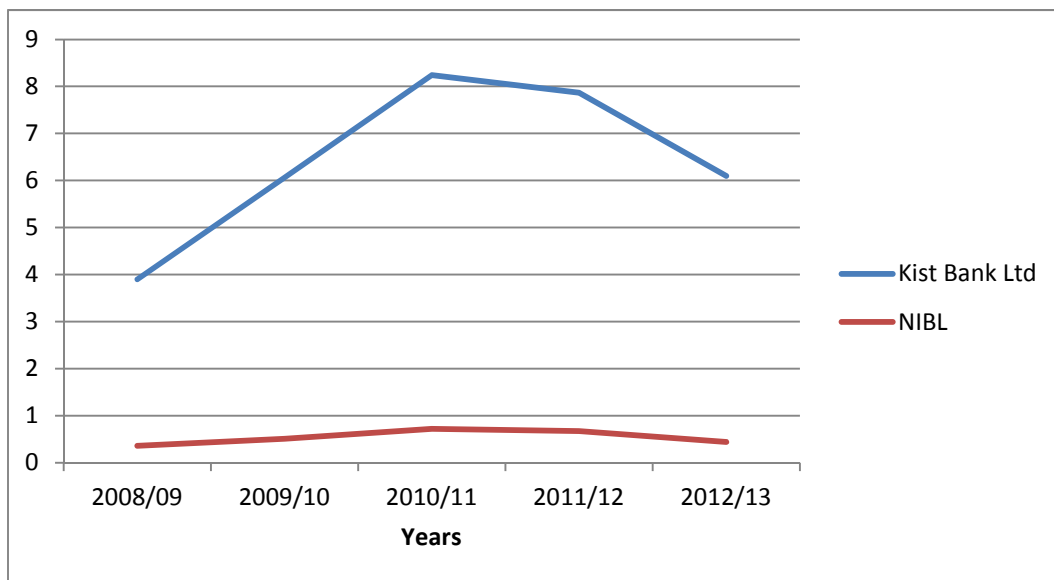


Table 4.18 shows that the total interest paid to total deposit ratio of KIST BANK& NIBL is in fluctuating trend.

In average, the ratio of KIST BANK is 6.43% which is higher than that of NIBL i.e 0.54%. This indicates that KIST BANK is paying more interest on its total deposit than NIBL.

The C.V of KIST BANK is 24.07%, which is comparatively lower than that of NIBL i.e 25.18%. It shows that NIBL is successful to collect its deposit at lower cost in comparison to Kist Bank.

4.6 Growth Ratios

Growth ratios are directly related to the fund mobilization and investment management of a commercial bank. It represents how well the commercial banks are maintaining the economic and financial position. Under this topic, four of growth ratios are studies which are as follows:

- i. Growth Ratio of Total Deposit.
- ii. Growth Ratio of Total Loan and Advances.
- iii. Growth Ratio of Total Investment.
- iv. Growth Ratio of Net Profit.

The ratios are calculated using the following guideline

Calculation of Growth Rate

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

Where

D_n = Total amount in last year of the study period

D_o = Total amount in the initial year of the study period

g = Growth rate of the amount during the study period.

n = Total no of study period

Detailed calculation has been presented in Appendix 27

4.6.1 Growth Ratio of Total Deposit

Table 4.19

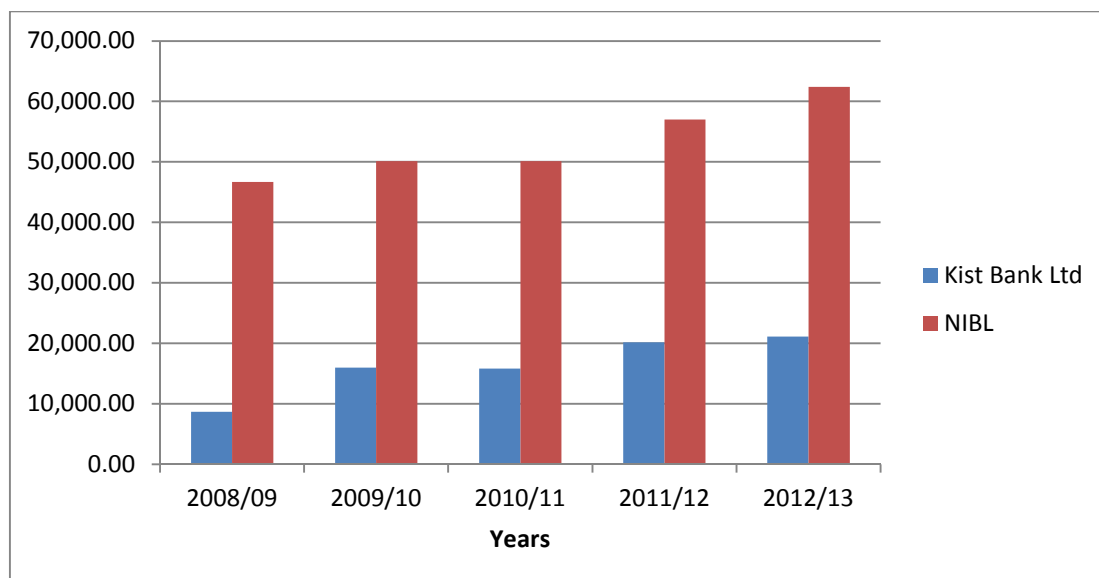
Growth Ratio of Total Deposit (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	8,684.08	46,698.10
2009/10	15,962.63	50,094.73
2010/11	15,808.49	50,138.12
2011/12	20,173.99	57,010.60
2012/13	21093.11	62428.85
Growth Rate (%)	24.84	7.52

Sources: Appendix 1&2

Figure 4.19

Growth Ratio of Total Deposit



The above table shows the comparative growth ratio total deposit of KIST BANK& NIBL. The above table shows that the growth ratio of KIST BANK is higher than NIBL. During the study period, the growth rate of KIST BANK is 24.84% against the growth rate of NIBL i.e. 7.52%. During the study period, the growth ratio indicates that KIST BANK is doing very well than NIBL while collecting the deposit. Though the amount of deposit of NIBL is higher than of KIST BANK though out the study period, but KIST BANK is inching closer to NIBL while collecting the deposit.

4.6.2 Growth Ratio of Total Loan and Advances

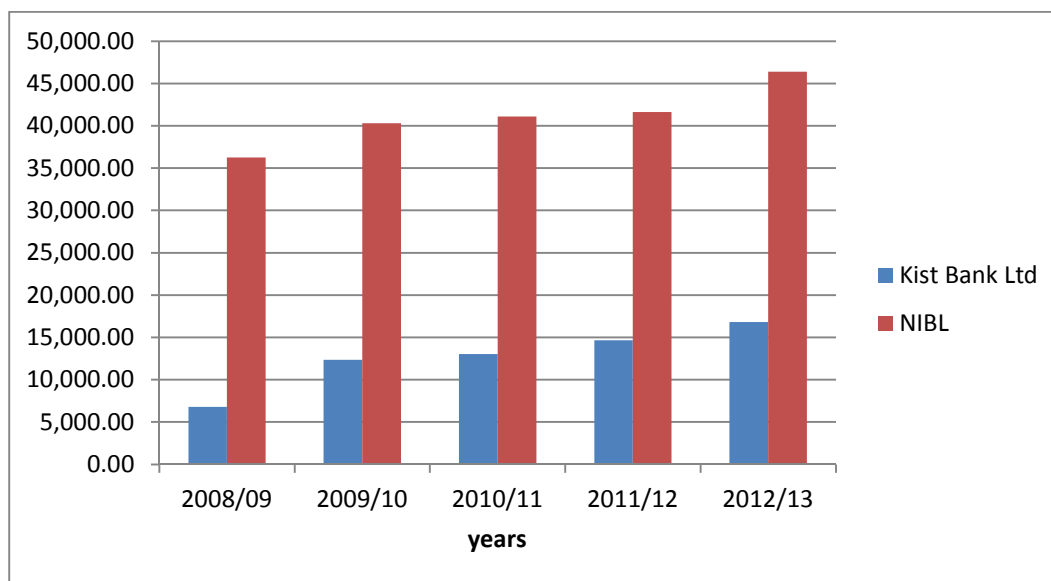
Table 4.20

Growth Ratio of Total Loan and Advances (%)

Fiscal Year/Banks	Kist Bank Ltd.	NIBL.
2008/09	6,803.44	36,241.21
2009/10	12,345.84	40,318.31
2010/11	13,042.57	41,095.51
2011/12	14,645.32	41,637.00
2012/13	16,826.62	46,400.05
Growth Rate (%)	25.41	6.37

Sources: Appendix 1 & 2

Figure 4.20
Growth Ratio of Total Loan and Advances



The above table shows the comparative growth ratio total loan and advances of KIST BANK & NIBL. The above table shows that the growth ratio of NIBL is lower than KIST BANK. During the study period, the growth rate of KIST BANK is 25.41% as against the growth rate of NIBL i.e. 6.37%. The growth ratio indicates that Kist Bank seems in better position while granting loan and advances in comparison with NIBL.

4.5.3 Growth Ratio of Total Investment

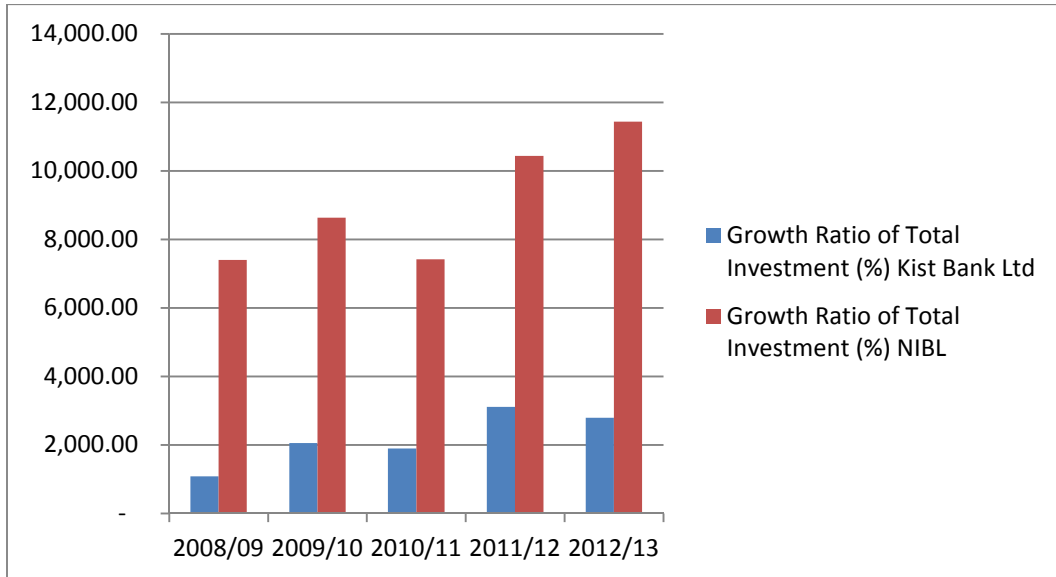
Table 4.21
Growth Ratio of Total Investment (%)

Fiscal Year/Banks	Kist Bank Ltd.	NIBL.
2008/09	1,085.10	7,399.81
2009/10	2,057.67	8,635.53
2010/11	1,899.00	7,423.11
2011/12	3,116.57	10,438.49
2012/13	2,798.35	11,435.27
Growth Rate (%)	26.72	11.49

Sources: Appendix 1 & 2

Figure 4.21

Growth Ratio of Total Investment



The above table shows the comparative growth ratio of total investment of KIST BANK& NIBL. The above table indicates that KIST BANK has increasing trend whereas NIBL has fluctuating trend in respect of level of Investment. KIST BANK has growth rate of 26.72% on total investment where as NIBL has only growth rate of 11.49% on total investment.

The above table indicates that KIST BANK seems in better position while making investments in comparison with NIBL.

4.6.4 Growth Ratio of Net Profit

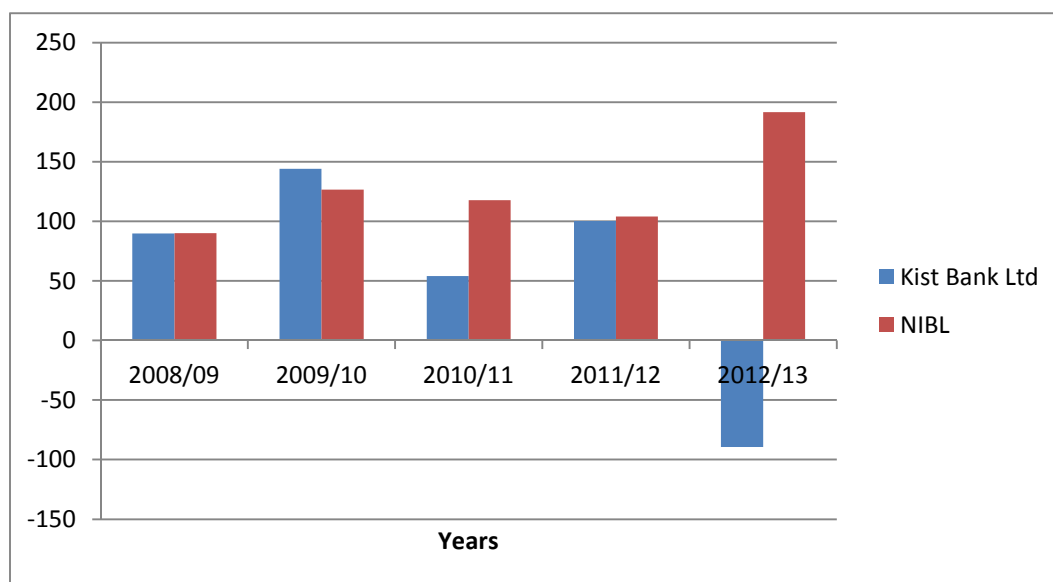
Table 4.22
Growth Ratio of Net Profit (%)

Fiscal Year	Kist Bank Ltd.	NIBL.
2008/09	89.66	90.06
2009/10	144.14	126.59
2010/11	54.08	117.66
2011/12	100.33	104.13
2012/13	-89.49	191.50
Growth Rate (%)	-0.047	20.76

Sources: Appendix 3&4

Figure 4.22

Growth Ratio of Net Profit



The above table shows the comparative growth ratio net profit of KIST BANK and NIBL. The above table indicates that net profit of both the banks is in increasing trend throughout

the study period. Growth rate of net profit of KIST BANK& NIBL is -0.47% & 20.76% respectively. Volume wise net profit of NIBL is better than KIST BANK.

4.7 Statistical Analysis

Under this heading some statistical tools such as trend analysis of deposits, loan and advances, investment and net profit are used to achieve the objectives of the study.

4.7.1 Trend Analysis of Deposit Utilization and Position and Projection for Next Five Years

This heading finds out the trend of deposit utilization of KIST BANK and NIBL during five years study period and it projects the next five years trend. A commercial bank may grant loan and advances and invest some of the funds in government securities and shares and debentures of other companies to utilize deposit. Here, ratio between deposit and loan and advances as well as ratio between deposit and total investment is forecasted for next five years. The projections are based on the following assumptions.

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

4.7.1.1 Trend Analysis of Total Investments to Total Deposit Ratio

This heading analyzes the trend of total investment to total deposit ratio of KIST BANK and NIBL in comparison with five years study period and projects trend of next five years. The following table describes the trend values of total investment to total deposit ratio of KIST BANK in comparison to NIBL.

Table 4.23

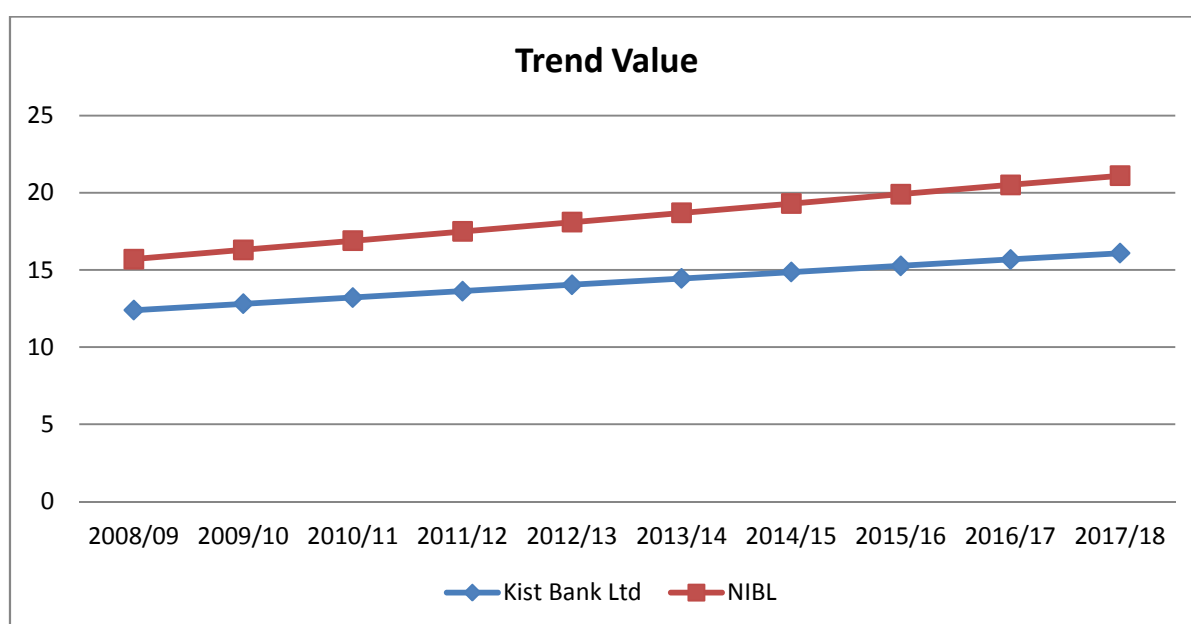
Trend Values of Total Investment to Total Deposit Ratio (%)

Fiscal Year/Banks	Kist Bank Ltd.	NIBL.
2008/09	12.40	15.70
2009/10	12.81	16.30
2010/11	13.22	16.90
2011/12	13.63	17.50
2012/13	14.04	18.10
2013/14	14.45	18.70
2014/15	14.86	19.30
2015/16	15.27	19.91
2016/17	15.68	20.50
2017/18	16.09	21.11

Sources: Appendix 23&24

Figure 4.23

Trend Values of Total Investment to Total Deposit Ratio



The above comparative table shows the trend of KIST BANK in comparison to NIBL of total investment to total deposit ratio. The ratio of KIST BANK and NIBL are increasing trend. Other things remaining the same, the ratio of total investment to total deposit of KIST BANK will be 16.09% in F/Y 2017/18, which is the highest during the study period. On the other hand, the ratio of NIBL will be 21.11 in F/Y 2017/18, which is highest during the study period. In conclusion, NIBL is the strongest than Kist Bank while utilizing its deposit in investments. The above mentioned trend values have been fitted in the trend lines.

4.7.1.2 Trend Analysis of Loan and Advances to Total Deposit Ratio

This heading analyzes the trend of loan and advances to total deposit ratio of KIST BANK and NIBL in comparison with five years study period and projects trend of next five years. The following table describes the trend values of loan and advances to total deposit ratio of KIST BANK in comparison to NIBL.

Table 4.24

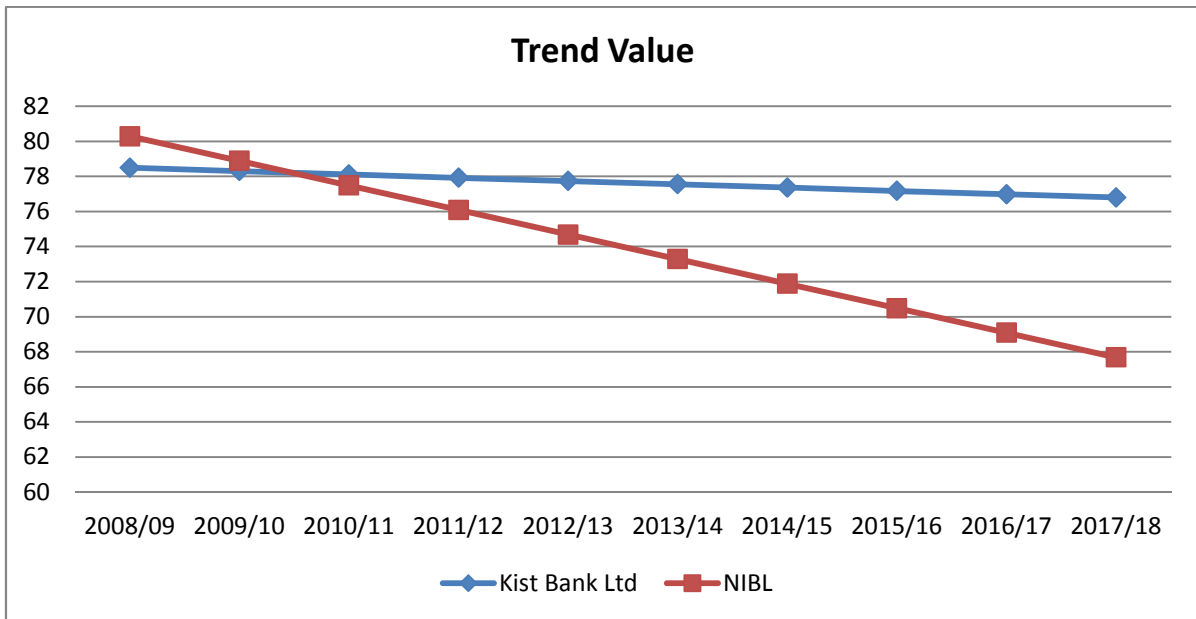
Trend Values of Loan and Advances to Total Deposit Ratio (%)

Fiscal Year/Banks	Kist Bank Ltd.	NIBL.
2008/09	78.49	80.28
2009/10	78.30	78.88
2010/11	78.11	77.48
2011/12	77.92	76.08
2012/13	77.73	74.68
2013/14	77.55	73.28
2014/15	77.36	71.88
2015/16	77.17	70.48
2016/17	76.98	69.08
2017/18	76.79	67.68

Sources: Appendix 25&26

Figure 4.24

Trend Analysis of Loan and Advances to Total Deposit Ratio



The above comparative table shows the trend of KIST BANK in comparison to NIBL of loan and advances to total deposit ratio. The ratio of NIBL and Kist Bank are decreasing trend.

Other things remaining the same, the ratio of loan and advances to total deposit of KIST BANK will be 76.79% in F/Y 2017/18, which is the lowest during the study period. On the other hand, the ratio of NIBL will be 67.68% in F/Y 2017/18, which is the moderate during the study period. In conclusion, NIBL is stronger than KIST BANK while mobilizing its deposit in relation with loan and advances. The above mentioned trend values have been fitted in the trend lines with comparatively applying five years data from F/Y 2008/09 to F/Y 2012/13.

The main findings of the study are derived on the analysis of financial data of KIST BANK and NIBL are given below.

4.8 Major Findings of the Study

1. Liquidity Ratio

The liquidity position of KIST BANK and NIBL reveals that:

- J Throughout the study period, current ratios of KIST BANK & NIBL show the stable trend. Both Banks are in same position in terms of liquidity position. The current ratios of KIST BANK and NIBL are above than the standard level of 1:1.
- J The mean ratio of cash and bank balance to total deposits of NIBL is higher than Kist Bank; it states that cash and bank balance in liquidity position of NIBL is higher than Kist Bank.
- J In average, KIST BANK has maintained lower cash & bank balance to total current asset ratio than NIBL. It states that the in terms of cash and bank balance to current asset ratio, liquidity position of KIST BANK is lower than that of NIBL.
- J In average, both the banks have invested moderate part of its current assets in govt. securities. Comparatively, KIST BANK invested more part of its current assets in govt. securities than NIBL. It means NIBL is weaker than Kist Bank in investing their current assets to government securities.
- J Deposit is the main source of funds of commercial banks. More than 80% of funds come from deposits. The average ratio of deposits to total working fund of KIST BANK is lesser than that of NIBL and KIST BANK is less consistent than that of NIBL while collecting their funds from deposit.

2. Asset Management Ratio

- J The mean ratio of loan and advances to total deposit of KIST BANK is higher than that of NIBL. Further KIST BANK is higher consistent than that of NIBL and while mobilizing their total deposits on loan and advances.
- J The mean ratio of total investment to total deposit of KIST BANK is lower than NIBL. But KIST BANK is more consistent than NIBL while investing their total deposits on government securities, shares and other investments.

- J The mean ratio of loan and Advances to total working fund of KIST BANK is lower than NIBL. Also the variability of ratios of KIST BANK is lower than NIBL.
- J In average, the ratio of investment on govt. securities to total working fund of KIST BANK is 32.17% which is higher than that of NIBL i.e 20.38%. This indicates that NIBL has invested fewer portions of its total assets on government securities than KIST BANK.
- J In average, the ratio of investment on share and debenture to total working fund of KIST BANK is 110.07% which is more than that of NIBL i.e 17.62%. This indicates that Kist Bank has invested more portions of its total assets on shares and debentures than NIBL.

3. Activity Ratio

- J In average, the ratio of loan loss provision to total loan and advances of KIST BANK is 35.72% which is more than that of NIBL i.e 28.12%. This indicates that Kist Bank has more portions of loan loss provision on its total loan & advances than NIBL
- J In average, the ratio of nonperforming loan to total loan and advances of KIST BANK is 80.83% which is higher than that of NIBL i.e 71.03%. This indicates that KIST BANK has more portions of nonperforming loans than NIBL. Further, NIBL is more consistent on maintaining quality assets than KIST BANK.

4. Profitability Ratio

The profitability ratio of KIST BANK and NIBL reveal that:

- J In average, return on loan and advances ratio of KIST BANK is 92.49% which is higher than that of NIBL i.e 19.58%. This indicates that Kist Bank has been able to generate high return on loan and advances than NIBL. Further Kist Bank is more efficient in generating returns on its loan and advances than NIBL.
- J In average, return on total working fund ratio of KIST BANK is 91.88% which is higher than that of NIBL i.e 17.84%. This indicates that Kist Bank has been able to generate more return on available sources i.e. total assets than NIBL. Further Kist Bank is utilizing its total assets with more efficiently than NIBL.

-) In average, total interest earned to total working fund ratio of KIST BANK is 20.89% which is higher than that of NIBL i.e 15.03%. This indicates that Kist Bank seems stronger to generate more interest income on available sources i.e. total assets than NIBL. But, KIST BANK is more consistent and stable to earn interest in respect of total assets than NIBL.
-) In average, total interest earned to total loan and advances ratio of KIST BANK is 18.17% which is higher than that of NIBL i.e 15.92%. This indicates that NIBL seems weaker to generate more interest income on loan and advances than KIST BANK. Further NIBL is more consistent and stable to earn interest in respect of total loan and advances than KIST BANK.
-) In average, total interest paid to total working fund ratio of KIST BANK is 26.61% which is higher than that of NIBL i.e 24.35%. This indicates that KIST BANK is paying more interest on its total working funds than NIBL. But, KIST BANK is more successful to collect its working funds from less expensive sources in comparison to NIBL.
-) In average, total interest paid to total deposit ratio of KIST BANK is 24.07% which is lower than that of NIBL i.e 25.18%. This indicates that KIST BANK is paying less interest on its total deposit than NIBL.

5. Growth Ratios

From the analysis of growth ratios of KIST BANK and NIBL, it reveals that:

-) The growth ratio of deposit of KIST BANK is higher than that of NIBL. It means the performance of KIST BANK to collect deposit is greater than NIBL.
-) The growth ratio of loan and advances of KIST BANK is higher than that of NIBL. It means that the performance of Kist Bank to grant loan and advances in compared to NIBL banks is better.
-) The growth ratio of total investment of KIST BANK is higher than that of NIBL. The growth ratio indicates that KIST BANK seems in better position while making investments in comparison with NIBL.
-) The growth ratio of net profit of both the banks is in increasing trend throughout the study period. Growth rate of net profit of KIST BANK & NIBL is -0.47% & 20.76% respectively. Volume wise net profit of NIBL is better than KIST BANK. But in terms of growth rate KIST BANK is not far from NIBL.

6. Trend Analysis and Projection for Next Five Years

The trend analysis of total investment to total deposit ratio and loan and advances to total deposit ratio and projection for next five years of KIST BANK and NIBL reveals that:

- J The total investment to total deposit ratio of KIST BANK and NIBL both are increasing trend from the F/Y ended 2008/09 to 2017/18., In conclusion, NIBL is the strongest than Kist Bank while utilizing its deposit in investments.
- J The loan and advances to total deposit ratio of Kist Bank is in increasing trend where as the ratio of NIBL is in decreasing trend. In conclusion, Kist Bank is stronger than NIBL while mobilizing its deposit in relation with loan and advances.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is an accomplished specific and indicative enclosure which contains summary and conclusion of finding 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 CBs. And suggestions are obtainable in recommendation, which is arranged on the basis of finding and conclusions.

5.1 Summary

The development of any country depends upon its economic development. Economic development demands transformation of savings or investible 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 31 CBs operating in Nepal financial market which is increasing due to the country's move towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of CBs, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a very high competition in the banking industries but very less opportunity to make investment. The opportunities are hidden. Thus these CBs should take initiative action in search of the new opportunities. So they can easily survive in this competitive banking business world & earn profit. A bank and its investment have a lot to do with the economic health of the country because the bank loans support the growth of new business & trade empowering the economic activities of the country.

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 sector. 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. In the absence of such institution it is possible that the saving will not be safely and profitable utilized within the economy. It will be diverted aboard into unproductive sectors.

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 economic condition of the nation. 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 type of 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 guidance are being provided by the Nepal Rastra Bank but the long term and published policy about their operation does not sound good in the joint venture banks. Therefore, the bank's investment policy must be such that it is sound and prudent in order to protect public funds.

The main focus of the study is to comparative study of investment practices of commercial banks of Kist Bank Limited and Nepal Investment Bank Limited and to suggest for its improvement in the investment policy. The study has been constrained by various common limitations.

The study is based on secondary data from the fiscal year 2008/09 to 2012/13. The data are collected from annual reports, financial statement, official records, periodicals, journals and

bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contacts with the bank have also been made.

For the fulfillments of the objectives of the study many 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, activity ratio, profitability ratio and growth ratio have been studied and interpreted. Under statistical analysis, some relevant statistical tools, i.e. trend analysis has been studied. This analysis gives clear picture of the performance of the bank with regard to its investment practices. Financial & statistical tools are used to reckoning and secondary data were compiled, processed, tabulated and graphed for better presentation. From which various finding have shown in above chapter from that finding conclusion have been drawn which are presented as below.

5.2 Conclusion.

In Average current ratios of KIST BANK& NIBL show the stable trend. Both the Banks are in same position in terms of liquidity position. The current ratios of KIST BANK and NIBL are above than the standard level of 1:1.

The mean ratio of cash and bank balance to total deposits of KIST BANK is higher than NIBL; it states that cash and bank balance in liquidity position of KIST BANK is higher than NIBL. The ratio of KIST BANK is less consistent than that of NIBL.

In average, KIST BANK has maintained higher cash & bank balance to total current asset ratio than NIBL. It states that the in terms of cash and bank balance to current asset ratio, liquidity position of KIST BANK is higher than that of NIBL.

In average, both the banks have invested moderate part of its current assets in govt. securities. Comparatively, KIST BANK invested less part of its current assets in govt. securities than NIBL. It means KIST BANK is weaker than NIBL in investing their current assets to government securities.

Deposit is the main source of funds of commercial banks. More than 80% of funds come from deposits. The average ratio of deposits to total working fund of KIST BANK is lesser than that of NIBL and KIST BANK is less consistent than that of NIBL while collecting their funds from deposit.

The mean ratio of loan and advances to total deposit of KIST BANK is higher than that of NIBL. Further KIST BANK is higher consistent than that of NIBL and while mobilizing their total deposits on loan and advances.

The mean ratio of total investment to total deposit of KIST BANK is lower than NIBL. But KIST BANK is more consistent than NIBL while investing their total deposits on government securities, shares and other investments.

The mean ratio of loan and Advances to total working fund of KIST BANK is lower than NIBL. Also the variability of ratios of KIST BANK is lower than NIBL.

In average, the ratio of investment on govt. securities to total working fund of KIST BANK is 35.99% which is lower than that of NIBL i.e 36.97%. This indicates that NIBL has invested more portions of its total assets on government securities than KIST BANK. Further KIST BANK is less uniform than that of NIBL while investing their total assets on government securities.

In average, the ratio of investment on share and debenture to total working fund of KIST BANK is 8.53% which is less than that of NIBL i.e 38.34%. This indicates that NIBL has invested more portions of its total assets on shares and debentures than Kist Bank. But NIBL is more uniform than Kist Bank while investing their total assets on shares and debenture.

In average, the ratio of loan loss provision to total loan and advances of KIST BANK is 9.19% which is lesser than that of NIBL i.e 10.13%. This indicates that NIBL has more portions of loan loss provision on its total loan & advances than Kist Bank. Further, NIBL is more consistent on maintaining higher amount of loan loss provision on its total loan and advances than KIST BANK.

In average, the ratio of nonperforming loan to total loan and advances of KIST BANK is 7.53% which is higher than that of NIBL i.e 6.75%. This indicates that KIST BANK has more portions of nonperforming loans than NIBL. Further, NIBL is more consistent on maintaining quality assets than KIST BANK.

In average, return on loan and advances ratio of KIST BANK is 5.52% which is higher than that of NIBL i.e 1.36%. This indicates that Kist Bank has been able to generate high return on loan and advances than NIBL. Further Kist Bank is more efficient in generating returns on its loan and advances than NIBL.

In average, return on total working fund ratio of KIST BANK is 3.47% which is higher than that of NIBL i.e 0.93%. This indicates that Kist Bank has been able to generate more return on available sources i.e. total assets than NIBL. Further Kist Bank is utilizing its total assets with more efficiently than NIBL.

total interest earned to total working fund ratio of KIST BANK is 39.56% which is higher than that of NIBL i.e 3.89%. This indicates that Kist Bank seems stronger to generate more interest income on available sources i.e. total assets than NIBL. But, KIST BANK is more consistent and stable to earn interest in respect of total assets than NIBL.

In average, total interest earned to total loan and advances ratio of KIST BANK is 61.14% which is lower than that of NIBL i.e 5.71%. This indicates that NIBL seems weaker to generate more interest income on loan and advances than KIST BANK. Further NIBL is more consistent and stable to earn interest in respect of total loan and advances than KIST BANK.

In average, total interest paid to total working fund ratio of KIST BANK is 25.58% which is higher than that of NIBL i.e 2.23%. This indicates that KIST BANK is paying more interest on its total working funds than NIBL. But, KIST BANK is more successful to collect its working funds from less expensive sources in comparison to NIBL.

In average, total interest paid to total deposit ratio of KIST BANK is 31.14% which is higher than that of NIBL i.e 2.55%. This indicates that KIST BANK is paying more interest on its total deposit than NIBL. But, KIST BANK is more successful to collect its deposit at lower cost in comparison to NIBL.

5.3 Recommendations

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall investment policy.

1. The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply as 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 situation. As KIST BANK has maintained lower cash and bank to total deposit and current assets ratio, KIST BANK is recommended to increase cash and bank balance to meet current obligations and loan demand.

2. To get success in competitive banking environment, depositors' money must be utilized as loan and advances. Negligence in administering these assets could be the main cause of liquidity crisis in the bank and one of the main reasons of a bank failure. It has been found from the study that NIBL have greater ratios at all, because its large portion of fund invested as loan and advances and negligence to invest on other sector. KIST BANK have not properly used their existing fund as loan and advances to overcome this situation, KIST BANK and NIBL are strongly recommended to follow liberal lending policy.
3. As bank of private sector commercial banks cannot keep their eyes closed from the profit motive. They should be careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and it's all customers. NIBL has high profit earning capacity.
4. Out of working fund, KIST BANK have not invested its more funds as total investment in comparison to NIBL. Though, the percentage of invested by both banks have very nominal. So, it is recommended that both banks to invest their more funds in different types of companies' indifferent areas.
5. In terms of recovery of loan of KIST BANK is backward in comparison to NIBL. The loan loss ratio is comparatively high that makes negative impact on profit. It may be facing a lot of problems on recovering loans. It has large non-performing asset as loan un-recovered. Therefore it is recommended to apply recovery act that would help to realize overdue loan in time.
6. Most of the banks have focused their banking services especially to big clients such as multinational companies, large-scale industries, manufactures and exporters of

garments and carpets. The minimum level bank balance and the amount needed to open an account in these banks are very high amount. So, small depositors are very far from enjoying the banking facilities provided by such joint venture banks. So, the two banks should open its doors to the small depositors and entrepreneurs for promoting and mobilizing small investors' funds and to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme etc.

7. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool of attracting and retaining customers. For this purpose, the banks should develop an "Innovative approach to Bank Marketing" and formulate new strategies of serving customers in a more convenient and satisfactory way.

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Appendix 1
Kist Bank Limited
Comparative Balance Sheet

Rs. in Million

Capital & Liabilities					
Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Borrowings	130.00	600.00	910.04	8.40	695.97
Deposits	8,684.08	15,962.63	15,808.49	20,173.99	21,093.11
Bills Payable	16.01	9.03	1.34	3.53	2.12
Proposed and Dividend payable	77.12	100.00	24.90	0.00	0.00
Income Tax Payable	3.36	7.67	0.00	9.88	22.09
Other Liabilities	195.86	178.63	152.05	193.53	1,177.88
<u>Current Liabilities</u>	<u>9,106.42</u>	<u>16,857.96</u>	<u>16,896.82</u>	<u>20,389.33</u>	<u>22,991.16</u>
Share Capital	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00
Reserves and Funds	45.12	89.26	143.33	243.57	154.08
Debentures and Bonds	0.00	0.00	0.00	0.00	0.00
Total Capital and Liabilities	11,151.54	18,947.22	19,040.15	22,632.89	25,145.24
Assets					
Cash Balance	383.62	563.29	762.96	695.91	697.88
Bank Balance	844.54	1,112.04	1,225.39	2,250.23	2,684.21
Money at Call and Short Notice	1,184.50	1,366.28	413.06	129.07	197.85

Loan, Advances & Bills Purchased	6,803.44	12,345.84	13,042.57	14,645.32	16,826.62
Investments in Govt. Securities	474.82	1,646.46	1,795.25	3,037.20	2,700.00
Other Current Assets	135.90	352.62	472.06	580.70	598.16
Investment in Shares	610.28	411.21	103.75	79.37	98.35
Other Investment	0.00	0.00	0.00	0.00	0.00
<u>Current Asets</u>	<u>10,437.10</u>	<u>17,797.73</u>	<u>17,815.04</u>	<u>21,417.80</u>	<u>23,803.07</u>
Fixed Assets	714.44	1,149.48	1,225.11	1,215.09	1,342.18
Non Banking Assets	0.00	0.00	0.00	0.00	0.00
Total Assets (Total Working Fund)	11,151.54	18,947.22	19,040.15	22,632.89	25,145.25

Appendix 2

Nepal Investment Bank Ltd.

Comparative Balance Sheet

Rs. in Million

Capital & Liabilities					
Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Borrowings	38.80	37.31	280.76	567.58	310.57
Deposits	46,698.10	50,094.73	50,138.12	57,010.60	62,428.85
Bills Payable	82.34	38.14	8.25	2.98	2.89
Proposed and Dividend payable	485.45	602.27	602.27	150.65	942.00
Income Tax Payable	38.30	37.20	0.00	0.00	0.00
Other Liabilities	709.98	860.37	1,117.66	924.48	1,647.21
<u>Current Liabilities</u>	48,052.96	51,670.02	52,147.07	58,656.29	65,331.51
Share Capital	2,407.07	2,409.10	3,011.37	3,766.16	4,144.81
Reserves and Funds	1,500.77	2,176.30	2,148.39	2,283.79	2,875.84
Debentures and Bonds	1,050.00	1,050.00	1,050.00	1,050.00	800.00
Total Capital and Liabilities	53,010.80	57,305.41	58,356.83	65,756.23	73,152.15
Assets					
Cash Balance	1,833.46	1,525.44	1,718.67	1,963.97	2,172.98
Bank Balance	6,084.54	5,290.45	6,421.70	9,839.78	11,079.10
Money at Call and Short Notice	0.00	0.00	150.00	205.36	267.40

Loan, Advances & Bills Purchased	36,241.21	40,318.31	41,095.51	41,637.00	46,400.05
Investments in Govt. Securities	2,531.30	4,201.85	4,294.60	6,169.49	5,985.49
Other Current Assets	390.65	399.44	439.39	615.19	728.51
Investment in Shares	4,868.51	4,433.68	3,128.51	4,269.00	5,449.78
Other Investment	0.00	0.00	0.00	0.00	0.00
<u>Current Asets</u>	51,949.68	56,169.17	57,248.38	64,699.79	72,083.32
Fixed Assets	1,060.75	1,136.25	1,108.45	1,056.44	1,068.84
Non Banking Assets	0.38	0.00	0.00	0.00	0.00
Total Assets (Total Working Fund)	53,010.80	57,305.41	58,356.83	65,756.23	73,152.15

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Appendix 3

Kist Bank Limited

Comparative Profit and Loss Account

Rs. in Million

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Interest Income	594.76	1,517.07	1,994.33	2,175.41	2,302.57
Interest Expences	338.98	967.32	1,302.98	1,587.91	1,286.52
Net Interest Income	255.78	549.75	691.35	587.50	1,016.05
Commission and Discount	4.33	16.77	68.04	42.56	75.15
Other Operating Income	63.62	86.61	80.71	80.08	99.69
Exchange Fluctuation Income	0.04	2.79	7.67	15.34	23.56
Total Operating Income	323.77	655.91	847.77	725.49	1,214.45
Staff Expences	42.55	142.97	193.64	234.55	238.53
Other Operating Expences	97.77	236.50	291.21	304.75	330.59
Exchange Fluctuation Loss	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Provision for Possible Loss	183.45	276.44	362.92	186.19	645.33
Provision for Possible Losses	46.58	58.89	273.20	71.64	720.07
Operating Profit	136.86	217.55	89.71	114.55	-74.74
Not Operating Income/Loss	0.51	2.41	3.60	-4.05	-13.54
Provision for Possible Loss Written Back	0.00	0.00	0.00	86.28	16.16
Profit from Regular Operations	137.37	219.96	93.31	196.78	-72.12

Profit/Loss from Extra Ordinary Activities	0.00	0.00	0.00	-42.52	-17.09
Net Profit after Considering all Activities	137.37	219.96	93.31	154.27	-89.21
Provision for Staff Bonus	12.49	20.00	8.48	14.02	0.00
Provision for Income Tax	35.22	55.82	30.75	39.92	0.28
Net Profit/Loss	89.66	144.14	54.08	100.33	(89.49)

Appendix 4

Nepal Investment Bank Ltd.

Comparative Profit and Loss Account

Rs. in Million

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Interest Income	326.79	465.35	580.34	598.26	587.83
Interest Expences	168.70	255.38	362.03	381.44	277.48
Net Interest Income	158.10	209.97	218.31	216.82	310.35
Commission and Discount	26.28	24.29	26.94	31.97	33.63
Other Operating Income	8.76	16.83	15.30	15.78	19.94
Exchange Fluctuation Income	18.53	22.41	22.81	26.42	36.02
Total Operating Income	211.67	273.49	283.36	290.98	399.94
Staff Expences	22.57	27.99	32.65	34.02	37.99
Other Operating Expences	41.39	43.36	45.61	46.89	51.58
Exchange Fluctuation Loss	0.00	0.00	0.00	0.00	0.00
Operating Profit Before Provision for Possible Loss	147.71	202.15	205.10	210.08	310.36
Provision for Possible Losses	16.62	9.31	26.73	74.37	95.83
Operating Profit	131.09	192.84	178.37	135.71	214.53
Non Operating Income/Loss	0.30	1.06	0.84	1.42	1.04
Provision for Possible Loss Written Back	11.47	5.00	10.66	26.77	93.00
Profit from Regular Operations	142.85	198.90	189.87	163.89	308.57

Profit/Loss from Extra Ordinary Activities	0.00	0.00	-5.29	-0.17	-7.44
Net Profit after Considering all Activities	142.85	198.90	184.58	163.72	301.13
Provision for Staff Bonus	12.99	18.08	16.78	14.88	27.38
Provision for Income Tax	39.80	54.23	50.14	44.70	82.26
Net Profit/Loss	90.06	126.59	117.66	104.134	191.503

Appendix 5

Current Ratio (times)

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Kist Bank Ltd					
Total Current Assets	10,437.10	17,797.73	17,815.04	21,417.80	23,803.07
Total Current Liabilities	9,106.42	16,857.96	16,896.82	20,389.33	22,991.16
Current Ratio (times)	1.15	1.06	1.05	1.05	1.04
NIBL					
Total Current Assets	51,949.68	56,169.17	57,248.38	64,699.79	72,083.32
Total Current Liabilities	48,052.96	51,670.02	52,147.07	58,656.29	65,331.51
Current Ratio (times)	1.08	1.09	1.10	1.10	1.10

Appendix 6

Cash and Bank Balance to Total Deposit Ratio (%)

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Kist Bank Ltd					
Cash and Bank Balance	1,228.16	1,675.33	1,988.35	2,946.15	3,382.09
Total Deposit	8,684.08	15,962.63	15,808.49	20,173.99	21,093.11
Ratio (%)	14.14	10.50	12.58	14.60	16.03
NIBL					
Cash and Bank Balance	7,918.00	6,815.89	8,140.37	11,803.75	13,252.09

Total Deposit	46,698.10	50,094.73	50,138.12	57,010.60	62,428.85
Ratio (%)	16.96	13.61	16.24	20.70	21.23

Appendix 7

Cash and Bank Balance to Current Asset Ratio (%)

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Kist Bank Ltd					
Cash and Bank Balance	1,228.16	1,675.33	1,988.35	2,946.15	3,382.09
Total Current Asset	10,437.10	17,797.73	17,815.04	21,417.80	23,803.07
Ratio (%)	11.77	9.41	11.16	13.76	14.21
NIBL					
Cash and Bank Balance	7,918.00	6,815.89	8,140.37	11,803.75	13,252.09
Total Current Asset	51,949.68	56,169.17	57,248.38	64,699.79	72,083.32
Ratio (%)	15.24	12.13	14.22	18.24	18.38

Appendix 8

Investment in Government Securities to Current Asset Ratio (%)

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Kist Bank Ltd					
Investment in Government Securities	474.82	1,646.46	1,795.25	3,037.20	2,700.00
Total Current Asset	10,437.10	17,797.73	17,815.04	21,417.80	23,803.07

Ratio (%)	4.55	9.25	10.08	14.18	11.34
NIBL					
Investment in Government Securities	2,531.30	4,201.85	4,294.60	6,169.49	5,985.49
Total Current Asset	51,949.68	56,169.17	57,248.38	64,699.79	72,083.32
Ratio (%)	4.87	7.48	7.50	9.54	8.30

Appendix 9

Total Deposit to Total Working Fund Ratio (%)

Particulars / Year	2008/09	2009/10	20010/11	20011/12	2012/13
Kist Bank Ltd					
Total Deposit	8,684.08	15,962.63	15,808.49	20,173.99	21,093.11
Total Working Fund	11,151.54	18,947.22	19,040.15	22,632.89	25,145.25
Ratio (%)	77.87	84.25	83.03	89.14	83.89
NIBL					
Total Deposit	46,698.10	50,094.73	50,138.12	57,010.60	62,428.85
Total Working Fund	53,010.80	57,305.41	58,356.83	65,756.23	73,152.15
Ratio (%)	88.09	87.42	85.92	86.70	85.34

Appendix 10

Loan and Advances to Total Deposit Ratio (%)

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Kist Bank Ltd					
Loan and Advances	6,803.44	12,345.84	13,042.57	14,645.32	16,826.62
Total Deposit	8,684.08	15,962.63	15,808.49	20,173.99	21,093.11
Ratio (%)	78.34	77.34	82.50	72.60	79.77
NIBL					
Loan and Advances	36,241.21	40,318.31	41,095.51	41,637.00	46,400.05
Total Deposit	46,698.10	50,094.73	50,138.12	57,010.60	62,428.85
Ratio (%)	77.61	80.48	81.96	73.03	74.32

Appendix 11

Total Investment to Total Deposit Ratio (%)

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Kist Bank Ltd					
Total Investment	1,085.10	2,057.67	1,899.01	3,116.57	2,798.35
Total Deposit	8,684.08	15,962.63	15,808.49	20,173.99	21,093.11
Ratio (%)	12.50	12.89	12.01	15.45	13.27
NIBL					
Total Investment	7,399.81	8,635.53	7,423.11	10,438.49	11,435.27

Total Deposit	46,698.10	50,094.73	50,138.12	57,010.60	62,428.85
Ratio (%)	15.85	17.24	14.81	18.31	18.32

Appendix 12

Loan and Advances to Total Working Fund Ratio (%)

Particulars / Year	2008/09	2009/10	20010/11	20011/12	2012/13
Kist Bank Ltd					
Loan and Advances	6,803.44	12,345.84	13,042.57	14,645.32	16,826.62
Total Working Fund	11,151.54	18,947.22	19,040.15	22,632.89	25,145.25
Ratio (%)	61.01	65.16	68.50	64.71	66.92
NIBL					
Loan and Advances	36,241.21	40,318.31	41,095.51	41,637.00	46,400.05
Total Working Fund	53,010.80	57,305.41	58,356.83	65,756.23	73,152.15
Ratio (%)	68.37	70.36	70.42	63.32	63.43

Appendix 13

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

Particulars / Year	2008/09	2009/10	20010/11	20011/12	2012/13
Kist Bank Ltd					
Investment on Government Securities	474.82	1,646.46	1,795.25	3,037.20	2,700.00
Total Working Fund	11,151.54	18,947.22	19,040.15	22,632.89	25,145.25
Ratio (%)	4.26	8.69	9.43	13.42	10.74

NIBL					
Investment on Government Securities	2,531.30	4,201.85	4,294.60	6,169.49	5,985.49
Total Working Fund	53,010.80	57,305.41	58,356.83	65,756.23	73,152.15
Ratio (%)	4.78	7.33	7.36	9.38	8.18

Appendix 14

Investment on share and debenture to Total Working Fund Ratio (%)

Particulars / Year	2008/09	2009/10	20010/11	20011/12	2012/13
Kist Bank Ltd					
Investment on Government Securities	610.28	411.21	103.75	79.37	98.35
Total Working Fund	11,151.54	18,947.22	19,040.15	22,632.89	25,145.25
Ratio (%)	5.47	2.17	0.54	0.35	0.39
NIBL					
Investment on Government Securities	4,868.51	4,433.68	3,128.51	4,269.00	5,449.78
Total Working Fund	53,010.80	57,305.41	58,356.83	65,756.23	73,152.15
Ratio (%)	9.18	7.74	5.36	6.49	7.45

Appendix 15

Loan Loss Provisions to Total Loan & Advances Ratio (%)

Particulars / Year	2008/09	2009/10	20010/11	20011/12	2012/13
Kist Bank Ltd					

Loan Loss Provisions	83.65	140.26	394.43	321.22	362.24
Total Loan & Advances	6,803.44	12,345.84	13,042.57	14,645.32	16,826.62
Ratio (%)	1.23	1.14	3.02	2.19	2.15
NIBL					
Loan Loss Provisions	585.95	630.13	792.18	1,269.69	1,300.57
Total Loan & Advances	36,241.21	40,318.31	41,095.51	41,637.00	46,400.05
Ratio (%)	1.62	1.56	1.93	3.05	2.80

Appendix 16

Non Performing Loans to Total Loan & Advances Ratio (%)

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Kist Bank Ltd					
Non Performing Loans	15.30	24.09	341.45	590.30	840.32
Total Loan & Advances	6,803.44	12,345.84	13,042.57	14,645.32	16,826.62
Ratio (%)	0.22	0.20	2.62	4.03	4.99
NIBL					
Non Performing Loans	213.91	254.03	395.28	1,425.39	913.10
Total Loan & Advances	36,241.21	40,318.31	41,095.51	41,637.00	46,400.05
Ratio (%)	0.59	0.63	0.96	3.42	1.97

Appendix 17

Return on Loan and Advances Ratio (%)

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Kist Bank Ltd					
Net Profit	89.66	144.14	54.08	100.33	-89.49
Loan and Advances	6,803.44	12,345.84	13,042.57	14,645.32	16,826.62
Ratio (%)	1.32	1.17	0.41	0.69	-0.53
NIBL					
Net Profit	90.06	126.59	117.66	104.13	191.50
Loan and Advances	36,241.21	40,318.31	41,095.51	41,637.00	46,400.05
Ratio (%)	0.25	0.31	0.29	0.25	0.41

Appendix 18

Return on Total Working Fund Ratio (%)

Particulars / Year	2008/09	2009/10	2010/11	2011/12	2012/13
Kist Bank Ltd					
Net Profit	89.66	144.14	54.08	100.33	-89.49
Total Working Fund	11,151.54	18,947.22	19,040.15	22,632.89	25,145.25
Ratio (%)	0.80	0.76	0.28	0.44	-0.36
NIBL					
Net Profit	90.06	126.59	117.66	104.13	191.50

Total Working Fund	53,010.80	57,305.41	58,356.83	65,756.23	73,152.15
Ratio (%)	0.17	0.22	0.20	0.16	0.26

Appendix 19

Total Interest Earned to Total Working Fund Ratio (%)

Particulars / Year	2008/09	2009/10	20010/11	20011/12	2012/13
Kist Bank Ltd					
Interest Earned	594.76	1,517.07	1,994.33	2,175.41	2,302.57
Total Working Fund	11,151.54	18,947.22	19,040.15	22,632.89	25,145.25
Ratio (%)	5.33	8.01	10.47	9.61	9.16
NIBL					
Interest Earned	326.79	465.35	580.34	598.26	587.83
Total Working Fund	53,010.80	57,305.41	58,356.83	65,756.23	73,152.15
Ratio (%)	0.62	0.81	0.99	0.91	0.80

Appendix 20

Total Interest Earned to Total Loan and Advances (%)

Particulars / Year	2008/09	2009/10	20010/11	20011/12	2012/13
Kist Bank Ltd					
Interest Earned	594.76	1,517.07	1,994.33	2,175.41	2,302.57
Total Loan and Advances	6,803.44	12,345.84	13,042.57	14,645.32	16,826.62

Ratio (%)	8.74	12.29	15.29	14.85	13.68
NIBL					
Interest Earned	326.79	465.35	580.34	598.26	587.83
Total Loan and Advances	36,241.21	40,318.31	41,095.51	41,637.00	46,400.05
Ratio (%)	0.90	1.15	1.41	1.44	1.27

Appendix 21

Total Interest Paid to Total Working Fund Ratio (%)

Particulars / Year	2008/09	2009/10	20010/11	20011/12	2012/13
Kist Bank Ltd					
Interest Paid	338.98	967.32	1,302.98	1,587.91	1,286.52
Total Working Fund	11,151.54	18,947.22	19,040.15	22,632.89	25,145.25
Ratio (%)	3.04	5.11	6.84	7.02	5.12
NIBL					
Interest Paid	168.70	255.38	362.03	381.44	277.48
Total Working Fund	53,010.80	57,305.41	58,356.83	65,756.23	73,152.15
Ratio (%)	0.32	0.45	0.62	0.58	0.38

Appendix 22

Total Interest Paid to Total Deposit Ratio (%)

Particulars / Year	2008/09	2009/10	20010/11	20011/12	2012/13
Kist Bank Ltd					

Interest Paid	338.98	967.32	1,302.98	1,587.91	1,286.52
Total Deposit	8,684.08	15,962.63	15,808.49	20,173.99	21,093.11
Ratio (%)	3.90	6.06	8.24	7.87	6.10
NIBL					
Interest Paid	168.70	255.38	362.03	381.44	277.48
Total Deposit	46,698.10	50,094.73	50,138.12	57,010.60	62,428.85
Ratio (%)	0.36	0.51	0.72	0.67	0.44

Appendix 27

Sample Calculation of Growth Rate

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

Where

D_n = Total amount in last year of the study period

D_o = Total amount in the initial year of the study period

g = Growth rate of the amount during the study period.

n = Total no of study period

Growth rate of deposit of NIBL

Here,

$$D_{2013} = 62,428.85$$

$$D_{2008} = 46,698.10$$

$$n = 5 \text{ years}$$

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

$$\text{or, } 62428.85 = 46698.10 (1+g)^{5-1}$$

$$\text{or, } (1+g)^4 = 62428.85/46698.10$$

$$\text{or, } (1+g) = 1.3369^{1/4}$$

$$\text{or, } g = 1.3369^{1/4} - 1$$

$$\text{or, } g = 0.0753$$

Therefore, growth rate of deposit of NIBL during the five years study period=0.0753 or 7.53%

