

A Study on Investment Policy of Machhapuchchhre Bank

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2069/06/24

RECOMMENDATION

This is to certify that the thesis

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Entitled

A Study on Investment Policy of MachhachpuchhareBank

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

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“A Study on Investment Policy of Machpuchchhare Bank”

And found thesis to be the original work of the student and written according to the prescribed format we recommend the thesis to be accepted as partial fulfillment of the requirement for degree of Master of Business studies (MBS)

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DECLARATION

I hereby declare that the work reported in this thesis entitled A Study on Investment Policy of Machhapuchhare Bank, submitted to ShankerDev Campus faculty of management ,Tribhuvan University is my original work for the partial fulfillment of the requirement for this Master of Business Studies (MBS) under the thesis supervision of Ass. Prof. Dr. SiluBajracharyaand Mr. KiranThapa, ShankerDev Campus .

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Manoj Lamichhane August 27, 2012

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LISTS OF ABBREVIATION

| | |
|--------------|---|
| AD | : Anno Domini |
| APEC | : Asia Pacific Economic Co-corporation |
| MBL | : Machhapuchchhare Bank Limited |
| ADB | : Agriculture Development Bank |
| ATM | : Automatic Teller Machine |
| ABBS | : Any Branch Banking System |
| BS | : BikramSambat |
| BC | : Before Christ |
| CB | : Commercial Bank |
| CV | : Coefficient of Variation |
| COV | : Covariance |
| SCAR | : Supplementary Capital Adequacy Ratio |
| MBS | : Master in Business Studies |
| NPA | : Non performing Assets |
| NPL | : Non Performing Loan |
| HMG | : His Majesty Government |
| SWIFT | : Society for Worldwide interbank Financial Telecommunication |
| NIDC | : Nepal Industrial Development Corporation |
| TDS | :Tax Deduction at Source |
| CRAR: | Risk Weighted Assets Ratio (CRAR). |
| ROA | : Non Performing Assets |
| CAMEL | : Capital Assets, Management, Earnings, Liquidity, Sensitivity to Market Risk |
| SFDM | : Small Frams developments Banks |

CHAPTER I

INTRODUCTION

1.1 Background of the study

Financial institution is an important branch of economy. It is one of the king of business world and promoter of economic activities. Economics is dominated by the ups and downs of financial activities, which play vital role for the development demands transformation of saving or resources in to actual investment .Capital formation is one of the important factors in economic development. A key factor of the economic development is the mobilization of the impossible only when competitive banking and financial services reach every nook and corners of the country. Most of the people earn and spend money rarely, Their current money income exactly balances with their consumption. These imbalance will lead either to borrow or to save. Most people like to save some money at that time and deposit it in bank and other who need money, borrow it from bank.

Origin of commercial banking activities in Nepal can be traced to ancient Nepal. The first recorded borrowings were in 723 AD when king GunakamaDev borrowed money to rebuild Kathmandu. Then in 14th century, in the prosperous period of Malla king JayasthitiMalla, people were classified in to 64 categories according to their occupations. One of them was 'Tanka Dhari' whose main occupation was investment of money. The king used to borrow money for financing the wars, but the interest rate had not yet been fixed. Several kings and prime ministers tried to solve that problem by trying to regulate commercial transactions and fixed property, but all were in. However,

the institutional form of commercial banking activities has been performed at first instance by 'TejarathAdda' during the reign of RannodipRana, Prime minister of Nepal. The Adda was initiated to provide credit to the public at lower rate of interest rate, 5% against gold and silver. The first commercial bank of Nepal was established in 1937 AD. To help government in the formulation of monetary policy and for the institutional development of banking sectors, Nepal Rastra Bank was established in 1956 AD, Similarly RastriyaBanijya bank was established in the year 1965 AD with 100% government ownership as the second commercial bank in Nepal. Then, in 1956 AD Nepal Rastra Bank was established Nepal Industrial Development Corporation(NIDC) to facilitate the industrial sectors. Latter on, other bank were established to promote financial transaction Agriculture Development bank of Nepal was established in 1967 AD in Government sectors for providing financial assistance in agriculture sector. Then in 1984 Ad, Nepal Arab Bank ltd (currently NABIL) was established as the first joint venture bank and started its operation, Now there are several Commercial bank, finance companies, development bank, co-operatives etc are operated in Nepalese market.

Bank is the creator and operator of money. In fact they are the backbone of economics development. The primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal being listed among least development by economic growth rate and developing all sectors of economy. Even through the process of economic development depends upon various factor, the economists are now convinced that the capital information and its proper utilization play a paramount role for rapid economic development of resources. "It has widely been accepted that the economic activities of a country are greatly influenced by

the development of a sound banking systems. There is no step in business where bank has no influence today's so called development with the help of their banking systems"(Encyclopedia Americana 1976:748)

The most important feature of commercial bank is working as financial intermediary between financial purpose of savers and borrowers. It produces its profit principally from the different of interest on deposit and investment. commercial bank has become the hearts of financial systems as they hold the deposits of millions of people, government and business units and make funds available through their investment, investing and to lay out money for profit to individual persons, business organization, and use money that belongs to somebody else, and return it to bank at a later time with including interest.

The important function of commercial banks is receiving deposit of investment of money. "The financial institutions in Nepal refers to any institution established with the objectives of providing loan to agriculture, co-operative, industry or any other specific economic sector or accepting deposited from public. The term also refers to any other institution called financial institution by HMG Nepal by publishing a notice in the gazette. However the term does not signify commercial bank" Financial companies are those mediators, which help to collect small saving and mobilize saving in various task purchase, purchase of land, housing loan etc. between the person who has got saving and investors and big financial companies and the person or organizations which need the loan of small amount (NRB Act, 2012)

There is no limitation of human needs. The necessities of human are increasing for different types of goods & services. As a result many organizations & business houses have

been opened are company. So provide superior product & services to the customer it is not easy to produce good & service without capital. Capital is one of the four components of productions. (capital, Labor, Land & management). Capital functions established for financial money. However in the modern age, It is very easy due to establishment of money financial institution. The first money transaction institution in the world was commercial bank established in Vanish Itlay 1157 AD

1.2 Profile of Machhapuchchhre Bank Limited.

Machhapuchchhre Bank Limited registered in 1998 as the first regional commercial bank from the western region of Nepal started its banking operations from its own head office located in the foothills of Machhapuchchhre Mountain peak in the picturesque town of Pokhara since year 2000. The Bank facilitates its customer needs by delivering the best of services in combination with the latest state of the art technologies and prudent international practices.

The Bank is the pioneer in introducing the latest technology in the banking industry in the country. It was the first bank to introduce centralized banking software, GLOBUS BANKING SYSTEM of Temenos NV, Switzerland. Currently, it is using the latest version of GLOBUS referred to as T-24 BANKING SYSTEM. The bank provides modern banking facilities such as Any Branch Banking, Internet Banking, Mobile (SMS) Banking, Safe Deposit Locker facilities, Utility Bill payment (Telephone & Mobile), ATM (VISA Debit Cards and Debit card associated with SCT Network) to its valued customers. Besides these, the Bank is providing 365 Days banking and Evening Counter services to the customers through many of its offices. The Bank had been promoted by individuals and companies with local roots but from

different walks of life with a vision and dedication to provide the best financial products and services in the most efficient and professional manner.

With the merger of its own kind, in fact the first biggest merger of two independent groups of the existing Machhapuchchhre Bank Ltd. and the then Standard Finance Company with a paid up capital of above one billion rupees promoted by amongst other prominent local businessmen, the highly renowned Non Resident Nepalese, has given a big impetus to the Bank. With this merger, now with a paid up capital of over 2.47 billion rupees, 54 branch offices and 60 ATMs spread all across the country, it is one of the biggest 31 full- fledged national level commercial banks operating in Nepal. It takes pride in having its own buildings for its Corporate Office in Lazimpat, Head Office in Naya Bazar, Pokhara, and Branch offices in Jomsom, Baglung and Damauli. It also has a new Structure fit for office of the corporate level coming up in Kathmandu.

Table 1.1

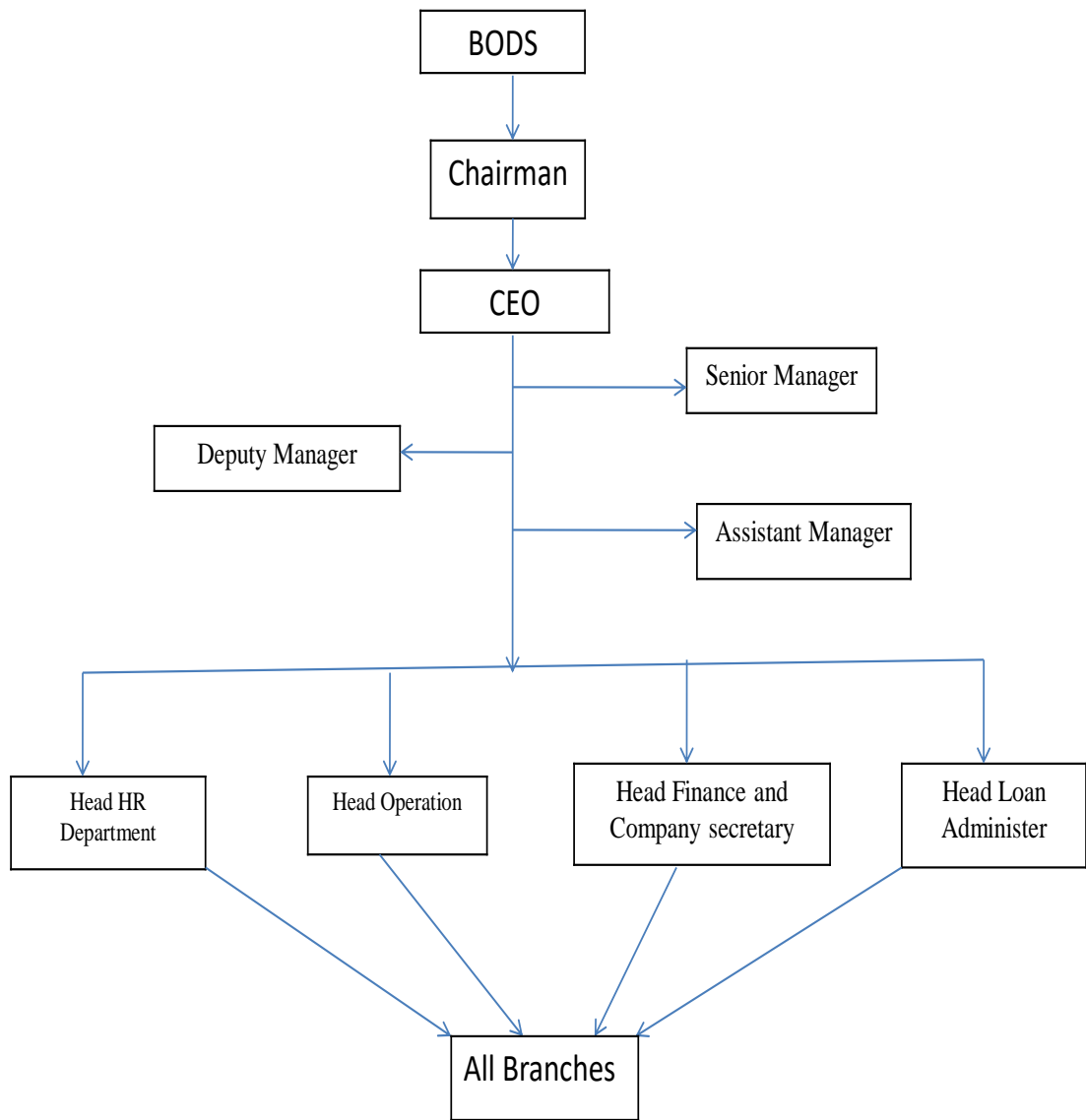
| | |
|--|------------------|
| Authorized capital (20,000,000@ Rs 100 each) | Rs,2,000,000,000 |
| Issued Capital (14,792,696 Share @ Rs 100 each) | Rs,1,479,269,600 |
| Paid Up Capital (8,216,513 Share @ Rs 100 each) | Rs,821,651,300 |

Machhapuchchhre Bank Limited caters different types of Deposit accounts tailored to suit the needs of its customers, both individuals and organizations. We open deposit accounts both in Local currency and foreign currencies. Interest paid on Deposits is subject to Tax Deduction at Source (TDS), as per rules of government of Nepal, circulated from time to time. Accounts Statements can be mailed or collected from the branches in the desired

frequency at your choice.No account maintenance charge, if minimum balance condition is fulfilledMachhapuchchhre Bank Limitedprovides various types of Loans and Advances designed to suit the varied requirements of Industrialist, Business Houses, Professionals, Entrepreneurs and Individuals. Please select one suitable to your requirement.Your requirement is something special, please contact to our nearest branch and we provide you a product tailor-made to your needs.

The formation of direction committee includes 7 director from the shareholders Among the directors one is the chairman as in other commercial banks. One director is from the public shareholders and remaining 6 are from the promoters shareholders. Similarly functional organization chart of MBL is headed by CEO and under it there are there important managerial bodies who lead the department heads.

Machhapuchchhre Bank Limited Functional Organizational Chart



Source:Annual Report MBL

1.3 Statement of the Problem

Definition of investment: In finance, the purchase of a financial product or other item of value with an expectation of favorable future returns. In general terms Investing Tips The 3 Most Timeless Investment Principles (1 of 3) Always Invest with a Margin of Safety: Margin of safety is the principle of buying a security at a significant discount to its intrinsic value, which is thought to not only ...Investment determiners the future of bank .it is very sensitive subject that what sort of investment policy a bank should make. A investment policy is a written document that bank designs to analyze, administer, monitor, recover and handle the investment operations, Every bank formulates its own investment policy but a strong, stable and appropriate investment practice has not been followed by the bank.

Machhapuchhare bank Limited has been facing several challengers some of them arising due to confused policies and defaulting by the borrowers.Due to cut throat competition of financial environment, MBL Machhapuchchhre Bank Limitedcaters different types of deposit accounts tailored to suit the needs of its customers, both individuals and organizations. We open deposit accounts both in Local currency and foreign currencies. Interest paid on Deposits is subject to Tax Deduction at Source (TDS), as per rules of Governmentof Nepal, circulated from time to time.Accounts Statements can be mailed or collected from the branches in the desired frequency at your choice.No account maintenance charge, if minimum balance condition is fulfilledMachhapuchchhre Bank Limitedprovides various types of Loans and Advances designed to suit the varied requirements of Industrialist, Business Houses, Professionals, Entrepreneurs and Individuals. Please select one suitable to your requirement

NRB has imposed many rules and regulation so that MBL have sufficient liquidity and security. Also causes of the global financial crisis 2008 were affecting by the investment policy of the Machhachchhre bank. Therefore this study will deals with the following issues:

1. What is the trend of deposit of the bank ?
2. What is the investment strength of the bank ?
3. What is composition of investment of the bank?
4. What is the profitability position of the bank?

1.3.1 Objectives of the study

The main objective of the study is to analysis about the investment policy of MBL. Thus the current study mainly purpose at pointing causes of depression of crises of bank. Other specified of the study are as follows.

1. To examine the trend of deposit of the Machhapuchchhre bank.
2. To analyze the investment pattern and strength of Machhapuchchhrebank.
3. To analyze the investment composition of the Machhapuchchhre bank.
4. To analyze the profitability position of the Machhapuchchhre bank.

1.5 Significance of the study:

Research it self has its own importance because it aims to gain knowledge and to add the new literature in existing field. The significance of the study lies mainly in filling a research gap on the study investment policy of commercial bank with the respected to MBL Ltd. This study will help to reveal the financial position of the bank and if occupies

an important role in the series of the studies of commercial bank. There are researcher in MBL on other topic .Investment policy is essential function where the whole banking business rested upon .A small numbers of book dealing with aspects are found but not sufficient. So that willselected this topics and done there work on various aspect of MBL. A detailed study of past financial statements and related data provides valuable clues of determiningthe liability of historical business decision and working results. If favorable trends in financial Planning and operational efficiencyare noticeable in the past accounting period, a banker will seek firm assurances that these trends will be maintained in the future. This is where the need for projected financial statements arises. A banker lends on the firm assurance of continued future growth and productivity. This study may be important for researchers, scholars, Investors, sector,students, government and other parties

1.6Limitations of the study

There are somelimitation in this study. This study may not be able to expose every aspects of the topics. The study has following limitation:

- This study has concerted on the investment policy of MBL only.
- This is basically depended on secondary data collection from the bank financial statement, publication s and journals.
- Data of last five years only has taken into consideration to conduct the study
- Deposit and credit are inter related Credit alone is not sufficient to describe investment aspect. Therefore attention must also give on deposit aspect.

- The analytical report prepared is based on availability of data & information received by the research

1.7 Organization of the study

The whole study will be divided in to five chapter introduction,review of literature, research methodology, data analysis and presentation and summary, conclusion and recommendation.

- Introduction is presented in the first chapter. This chapter deals with general background, statement of problem. Objectives of the study, significance of the study limitation of the study, research methodology and chapter plan.
- Second chapter deals with the review of literature. It contained conceptual framework and review of related study, journals, book, Article and unpublished desecrations related to the study have been reviewed under this topic.
- Third chapter is related to the related to the research methodology, which presents research design, population and sample, nature and source of data, data collection procedures and techniques, data analysis tool and limitations of the methodology.
- Chapter fourth deals with presentation and analysis of data through a define course of research methodology. This chapter is to analysis different financial ratios and statistical analysis related to study.
- The final chapter is giving summary, conclusions and recommendation that explain the major finding and some solid suggestions for improvement to the concerned institution.

CHAPTER II: REVIEW OF LITERATURE

2.1 Conceptual Framework

This Chapter includes the review of previous studies and conceptual framework for the related studies. To present the real framework of the study mere analysis is not enough. Review of some related materials should be deals with to give the research a clear vision. Past study and knowledge provides foundation to the present study. This helps the research to explore what kind of research studies have already been conducted in his or her field of study and thus helps to reduce the probability of duplication.

2.1.1 Guiding principles of investment policy

The investment business is very risky. Therefore, commercial bank should adopt sound policy regarding loans. The loans which are provided by the commercial bank involve several consideration s such as length of the time, types of borrowers, kind of security etc. Generally a sound investment policy of bank is guide by three major principles. They are following

a, Safety or security

bLiquidity

c Profitability

a .Safety or Security

The first Principle of investment is safety or security. When commercial bank is going to lend some money to the borrower, direct attention must be given toward the security of the loan . For the safety or security of loan, bank examines the economic condition and capability of the party. Moreover, the bank demands for collaterals Gold and Silver are acceptable collaterals. However, other goods are also taken as collaterals by the commercial Bank , For such Goods, the bank studies the prevailing market pries first, then only the bank grants loan to the lender . To minimize risk , commercial bank advances of market value of the security. The value, which is reduced by the bank for the purpose of safety is called margin . Nepal Rastra Banks fixes the margin rates according to the needs of the country . The margin rate depends on the nature and durability of good and capacity and behavior of the party

b. Liquidity

Liquidity generally means capacity to produce cash on demand for deposits. Bank provides loan from the deposit of depositors the bank should return back depositor's money promptly if they demand so, the bank has to maintain the capacity for payment as the demand of depositors. Over liquidity causes the lack of proper investment opportunities. On the country , under liquidity causes the less faith by depositors and shareholders upon the bank , so the bank should maintain proper degree of liquidity. Generally of a bank is measured by the ratio of loan to total deposits of the bank. The higher is the ratio; the liquidity and vice-versa

C. Profitability

Only safety and liquidity are not sufficient for a sound and viable investment policy of a bank . Profitability is also equally improvement. Therefore the bank should give attestations to profitability too. The profit of a bank partially depends upon the volume of investment, the higher the volume of investment the greater will be the rate of profit. The bank earns profit from the difference of interest rates between investment and deposits. Profit is necessary to sustain the bank. In some cases of NRB directives, the CBs must invest their money in the sector even is no profit.

2.1.2 Types of Loan

Overdraft facility a limit is assigned in the current account of the customer upto which the customer can overdraw his account. An overdraft account is a fluctuating type of account and therefore the customer can deposit when he has money and overdraw when the requires. The customer can deposit and withdraw as many times as he desire provide the total debit amount does not exceed the credit limit assigned.

Clean Advances are unsecured loans granted for a short period and after taking into account the net liquid resources of the borrower. After study of character, capacity and capital of a party and after determining that the borrower can repay at a short notice, the party is considered eligible for such credits. Under this a customer is allowed to overdraw his account without having to provide security to the bank. Such overdrawing is allowed on exceptional case and not to regular basis.

Demand loan is a working capital loan provided for not more than a year. It is a revolving types of loan, Which once settled is reinstated by the settled amount. This means the customer can settle withdraw as many times as he pleases within the expiry period of the loan.

Bank make a wide variety of loans to a wide variety of customers for many different purposes for customers, the cause of loan purchasing may be investment in business,purchasing automobiles, taking dream reaction , pursuing college educations, constructing home and office building etc. On the basic of loan purpose, bank loans can be divided in to seven broad categories.

- **Agricultural loans**

Agricultural loan are the credit etened to support farm and branch operation. This loan is extended to assists in planning and harvesting crops, strong crops and marketing them. Agriculture loan also support the feeding and care of livestock.

- **Financial institution loan**

It is the credit extended to bank and other financial services provides. Mostly, finance companies, insurance companies credit bank, co-operative firms saving and credit firms, money transfer firms are the customers of financial institution loan provide by bank.

- **Real Estate Loan**

It is the credit extended to purchase or improve real property, such as land buildings such loans are secured by real property land, building and other structure Real estate loan include long term to finance the purchase of farmland, houses, apartments, commercial structure and foreign properties.

- **Individual or Consumer Loans**

This is the loans extended to private for individuals for private and households purposes. Generally, individual loans are extended to finance the purchase of automobiles, appliances (TV, computer set, Washing machine, refrigerator etc) Customer can also use individual loans for medial care personal expenses.

- **Commercial and industrial Loan:**

Commercial and industrial loans are the credit extended to support the production and distributions. of their product and services. It is granted business to cover such expenses as purchasing inventories, paying taxes and meeting payrolls too.

- **Pre-shipment Loans**

It is a time loan of revolving nature provided to exporters to manufacture goods for export against the security of an Export LC, once the export houses receive letter of credit from the importer, it may approach the bank for financing the purchase of raw material, cost of labor and overhead, settle upfront charges or to pay sub contractors. Such types of finance is known as pre-shipment finance.

- **Post shipment Loans**

After completion of manufacturing of goods, the exporter ship the good as per the L.c terms and submits all required documents to the bank and request for a loan which is called post shipment Loan (as provide only after shipment goods) Post shipment finance entails less risk when compared with pre-shipment finance. In case of post shipment finance , the exporter receives the export letter of credit . He approaches the bank only after manufacturing of goods or buying the goods from the market and making shipment according to the terms and conditions of LC. The client can send the documents for collection in which case may have to wait for receiving the fund for the last three weeks. So as an alternative the client may request the bank to negotiate the documents and purchase the same and thereby make the cash available to him immediately.

- **Mortgage Loan**

Mortgage loan extended against the strength of fixed assets (mortgage properties) like land building is known as mortgage loan. Mortgage loan can be in the term loan as overdraft which entirely depends on the borrowers request. The main feature of this type of loan is that the borrower need have a firm to borrower. His earning sources and value of property will be sufficient to obtain such loans.

- **Hire Purchase loans**

In case of hire purchase loan the article belongs to the owner and is given on hire to the customer. The hirer (borrower) will pay the owner the hire money agreed between them by installments normally on (EMI) i.e.on equal monthly installment basis over period of time. if the hire fails to pay any installments due, the owner (financial bank)

will have unrestricted and undisputed right to take over the position of the article or vehicle given on hire.

- **Lease Financing Receivables**

Bank can lend physical equipments to the customer, in addition to money buy such equipment and vehicle and provide on lease to customers.investment. People do no buy the heavy and costly equipment that is seldom needed for them for example crosser machine, pressing machines and other plants used for constructions etc . They prefer to get them on pledge. Bank

- **Miscellaneous loan**

All those not classified above are included in this categories. Higher education loan, marriage loan, dreams tour loan can be include in miscellaneous loans.

2.1.3 Elements Of Effective Investments Policy

Investment polices should be effectives for the well management of loan without the effectives investment policy. Loan management of a bank can not be regulated as successful. For effectives investment policy, the following elements should be contained in the investment policy as suggested by the federal deposit insurance corporation of United Stated : (Singh, 2063: 119)

1. Characteristics of a Good Loan Portfolio

The loan should specify the characteristics of a good loan portfolio for the bank in terms of types, maturities, sizes and equality of loans.

2. Specification of Investment Authority

The specification of the investment authority should be given to each loan officer and loan committee. This helps to measure the maximum amount and types of loan that each persons and committee can approve.

3. Line of responsibility

There should be the lines of responsibility in making assignment and reporting information within the loan departments.

4. Documentation

All documents required for loan should be determined clearly. That is to accompany each loan application and bank's credit file. Basically, financial statement, security and agreements are the main documents to be attached with loan file.

5. Line of Authority to Review Credit Files

There should be clear line of authority within the bank, detailing who is responsible for maintaining and reviewing the bank's credit files.

6. Collateral Guidelines

All essential guidelines should be established for taking, evaluating and perfecting loan collateral.

7. Loan Procedure

There should be perfect policies and procedures for setting loan investment and fees and the terms for repayment of loans.

8. Quality Standards

There should be a statement of quality standards application all loans.

9. Loan limit

The preferred under limit for total loans outstanding should be determined in the loan management it specified the maximum ratio of total loans to total assets allowed.

10. Loan Area

A description of the bank's principal trade should be made in the loan management, which most loan should come from.

11. Solving loan problems

There should be a discussion of the preferred procedures for detecting, Analyzing and working out problem loan situations.

Bank investment policy must be flexible due to continuing changes in economics condition and regulation. Any exception to the bank's investment policy should be fully documented and reasons why a variance from the investment policy was permitted should be listed in the loan file. The violation of a bank's investment policy should be in frequent events.

2.1.4 Criteria for Providing Loan

Set-up of well established criteria for disbursing advances and loan is most essential to survive, thrive and enlargement of the bank. Loan should not be allowed to all demanding parties, Action and inactions taken in haunch to flow loan and advances without systematic, scientific and through study cum analysis may lead to ditch. Ergo well defined and setup criteria to grant loan must be visible to the personnel. (Klisee.1978)

1. Personal Character

Intensive analysis of loan demander is essential to determine loan disbursement policy. Persons character must be studies to know the intention to pay the loan. Their practice to repay loan, credit worthiness, habit to use acquired fund, past trend regarding the receipt and payment of loan are to be received. Dubious person's should not be accepted.

2. capacity/competency

Whether the person is capable in making contract according to correct Act 2056 or not should be checked out at first considering the patent and expertise of persons in concerned field, decision about the flow of loan is to be taken.

3. Capital

Examination of loan demander is appropriate to match his demand with has status and business .this ultimately helps to know the amount of money he needs as investment. Indeed, their financial feasibility should be stronger than their demanded to get the faith of the lenders.

4. Security

Priority should be given to readily marketable and handy collateral. Decision about the flow of loan is made considering nature of business and types of securities proposed. Accept banks having securities above and near about and denies the loan proposal containing inferior quality security.

5. Credit information

It is appropriate to get the information relating with loan proponent from the persons or businessmen working together in the concerned sector. Credit information denotes knowing whether he is black listed or not, his capacity and his demand etc. If information obtained is satisfactory, the proposal will be accepted and will be rejected in reverse plight.

6. External Environment

External environment of industry of business shown by loan proponent needs to be evaluated on the eve of providing loan to know the facts about use of right business. It is pivotal to evaluate external environment of business where business originates, thrives and survives since modification of external environment is almost impossible in accordance with own motto and plight.

2.1.5 Loan Approval Process

Loan I approved by the approving authority only after being convinced that the loan will be repaid together with investment. There are many process involved to approve the loans which have been appended below. (Dahal and Dahal, 2002: 212)

1. Application

A borrower is normally required to submit an application to the bank along with required documents :Project proposal, historical financial statements and documents pertaining to company's legal existence.

2. Conducting the interview

The documents submitted give much information about the borrower, but collecting information buy interviewing the borrower is of great importance. Normally, such an interview takes place at the bank premise. Many pertinent questions as possible should be asked during the initial interview. The questions should be covered following contains:

- Loan purpose
- Loan Amount
- Repayment Sources
- Repayment schedule
- History of the business
- Banking relationship

3. The Credit Analysis

There is a practice of analyzing five Cs of credit by the financial institutions. Except them historical analysis also conduct in credit analysis. These five Cs are considered as below.

- Character if refer to the personal traits ethics, honesty and integrity of borrower which is very important for investment decision.
- Capacity it is being used in two sense
 - Legal capacity to borrow money
 - Capacity to generate enough income to repay loan or through liquidation of assts

Capital: it refers to net worth of the borrower. This is covered under capacity above

While analyzing the leverage ratio

4. Forecasting and risk return

Based on the finding of historical analysis and in light of present and foreseeable future environment the analyst has to forecast impending major risks the analyst should also highlight to what extent inherent risk will be mitigated and unmitigated risks can be covered.

5. Return

The amount of loan has got inherent cost as it is obtained from either shareholder or depositor or creditor. The analysis should be made to calculate total return (interest, fee and commission) and compare whether it meets banks standard

6. Liquidation

The analyst should ascertain bank's ability to recover loan in case of liquidation of the borrower. If liquidation analysis reveals insufficient security, additional security may be asked for.

7. Creditworthiness and debt structure

If the analyst finds the borrower creditworthy and decides to extend loan, he should structure the debt facility to be extended.

8. Preparation of credit Report

Prepare the structured credit report containing the loan approval process in a precise order. It entails the answers to the vital questions during initial interview as well as consequences of checking various sources of credit information and the result of financial statement analysis. Sometimes on layer higher than analysis may be approving authority but ultimately works as this authority.

Approving authority decides the approval decision of loan facility after analyzing the contents of appraisal form. In this way, loan approval process comes to an end. Some writers have divided the entire process into the points as:

- Evaluations of loan proposal
- The types of loan
- Determination of necessary documentation
- Loan acceptance charge

2.1.6 Pricing of loan

Pricing Commercial loan is a vague process that needs estimating the return the bank should earn on a particular loan and then forming a loan agreement that will generate the desired return. The yield on loan covers not only the interest rate charged for borrowed funds but also the charges a bank makes for commitments and compensating balance. In certain cases, service fee income also falls under total return.

The interest rate can either be fixed or variable rate terms to check evaluation to the general level of interest that increases bank's cost of funds, loan will be made on fixed rate if there is no possibility of rise in interest rate. Major pricing terms are (Subedi, 2003: 35)

- Fixed rate

Fixed interest rate is agreed by an organization until maturity if there is no chance of increase in rate of interest.

- Variable Rate

Depending on the base rate, varying interest rate is installed. It is classified as:

- prime base: highest graded customer obtains it.
- Prime plus : prime rate plus a fixed percentage is charged under it.
- Prime times: under it the rate will mount by the multiple

Commitment Fees

It is levied by bank to customer for agreement to available fund. It is charged on used and unused portion of a credit line.

- Compensating Balance

It is deposit balance to be kept as per the deed of lender until the over of loan period. It is to be kept on average rather than a strict minimum.

2.1.7 Loan review

Loan review is the examination of outstanding loans to make sure whether borrower are adhering to their credit agreement and the bank is following its own loan policies or not. After advance of loan, bank should maintain continuous relationship with the borrower until principal and interest are fully recovered. For this purpose, bank should conduct loan review of all borrowers. The changing environment affect the borrowers financial condition and his or her ability to repay the loan. The bank's department must be sensitive toward s it. So the banks should periodically review all loans until.

- Regular

The bank must conduct regular loan review for all types of loans. It is important especially for large and criticize loan. Loan Review should be carried cut on periodic basic such as monthly quarterly. Halfyearly or yearly.

- Large loans

In the case of he large loans, the more frequently loan review is essential, because default on these loan agreements can seriously affect the bank's own financial condition.

2.1.8 Troubled Loans

Even adequate carefulness and precaution the bank has taken, some may fall into trouble due to uncontrolled environment circumstances such troubled loans should be review more frequently.

2.1 Definition

If the economic slows down or if the industries in which the bank has made a substantial portions of ifs loans develop significant problem , the frequently of loan review should be increased to safeguard the bank from unexpected risk.,

- Structuring
- To make the loan review perfect it should be structured carefully to ensure all important aspect of loans and borrowers are checked properly .the loan review should be able to check the following aspects of loan :
- The completeness of loan documentation.
- An assessment for whether the loan conforms to the bank's investment policies and to the standards applied to its loan portfolio by examiners form the regulatory agencies.
- The record of borrower payments.
- The quality and condition of any collateral pledged the loan.
- An evaluation of weather the borrowers financial condition and forecast have changed.

2.2 Review of Relevant Studies

Some researchers have collected their research on financial Performance and investment policy compliance with NRB directive. Besides this there are some books,article, dissertation and other relevant study concerned with the landing and investment. Some of the relevant studies, Their objectives, finding and conclusion and other literature relating to the topic have been reviewed.

“Of course one the primary function of development in banking is deposit mobilization, without deposit coming as they do from the public and the saver, bank will not have the resources to lend. With adequate resources investment can have a wider average to meet the credit needs of all the sectors of the economic. Deposit and credit operation always go together and each is interconnected. Unless there are advances, deposit cannot rise “ (Rabinson, 1962:7)

Investment is the essence of commercial Banking; consequently the formulation and implementation of sound of investment policies are among the most important responsibilities of bank directors and management, Well conceives investment policies and carefull investment practices are essential

2.2.2 Review ofThesis

Acharya (2002) has conducted study on the topic of. Investment and Deposit pattern of joint venture Bank in Nepal”. The major objectives of the study were to carry out the comparative analysis and evaluation of deposit collection and investment of Everest Bank Himalayan Bank Ltd. The researcher has used various financial and statistical tools

like liquidity, profitability, Correlation coefficient, Simple average, Standard deviation etc. He has found that average fixed deposit to total deposit to Everest bank is Greater than average ratio of Himalayan Bank, But average ratio with respect to short-term loan to total deposit of MBL is greater than that of EBL regarded to investment in field as far as possible, Otherwise, They might not be able to absorb even its total expenses.

Bajracharya (1990) In this article, "Monetary Policy and deposit Mobilization in Nepal" has stated that mobilization of domestic saving is one of the prime objective of the monetary policy in Nepal, Commercial bank is the active financial intermediary for generating resources in the deposit of private sector and providing credits to investor in different sector of the economy.

Pradhan (1996) In this article entitles, Deposit Mobilization its problem and prospects, "told that deposit is the lifeblood of any financial institution, organization. be it commercial bank, finance companies, co-operative, or non-government organization. He further adds in consideration of most of the commercial bank and some finance companies, the latest figure does produce a strong feeling that a serious review must be made problems and prospects of deposit sector.

Through this research, he has pointed out following problems of deposit mobilization in Nepalese context.

-Unavailability of financial service in rural areas.

- due to lack of proper education, most Nepalese don't go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash ornaments or kind. Their reluctance to deal with institution system are governed by their

lower level of understanding about financial organizations , process requirement, office hours withdrawal system , availability of depositing facilities and so on.

- Due to lesser office hours of banking system people prefer for holding the cash in the personal possession. Repayment to ensure timely cash inflows. She has further recommended launching demand driven or customer oriented schemes so as to initiate depositors and so focus on diversification of investment.

Sigdel (2009) on her study, Deposit collection and investment of MBL” has mentioned the main objectives of the study is to analyze about the deposit collection and investment patterns of MBL. The objectives were to analyse the general deposit and investment policy of MBL to measure the trend of current deposit collection and investment compositions of MBL . To evaluate the liquidity , assets management efficiency ,profitability and risk position of the machhapuchhare bank Limited, to analyze the growth ratio of total deposit, loan and advance, total investment and net profit, to analyze the trend values of different variables related to investment.

She has found that the total deposit volume consists of interest bearing deposit and interest free deposits, which is in increasing trend. The bank has been able to lure the customer of competitive market for deposit, the bank need to updated customers demand and arrange for special schemes, facilities and services in order to increase the volume of deposit collection considerably by synchronizing the NRB directives as well. She has found that the maximum amount of deposit collection from saving account of deposit is collected from the saving account and it is in increasing trend which is good for the bank is suggested to keep suitable and consistency growth ratio of net profit.

In this sub section, different relevant studies and research article published in magazine, Newspaper and other electro media are presented.

Shrestha (1988) in this article “ A study on Deposit and credit of Commercial bank in Nepal” Has conducted that the credit deposit ratio of commercial Bank in Nepal “ has conducted that the credit deposit ratio of commercial bank would be 51.30 % other thing remaining the same in 2004AD. Which was the lowest under the period of review? so, he was strongly which was the commercial bank should try to give more entering new government securities MBL proved to be better than NBBL during the study period. As a whole MBL seems to be superior to NBBL with respect to total investment to total deposit ratio.

Agrawl (2002) has conducted a study entitled “Deposit and investment position of yeti finance company ltd ‘has mentioned the following specific objectives. The major objectives of the study were to determine the financial position. To determine the trend of deposit position and to determine trend investment position company for period of five years. For this study purpose he has used various financial and statistical tools that the financial position of the organization. From this research he has found that the financial position of the financial company is rapidly increasing trend. And the pokhara finance companies has collected maximum amount of deposit in from the fixed deposit which is good result for pokhara finance companies but its term deposit , daily deposit and current deposit is increase and decreasing order . The total investment position to total deposit ratio of the company is seems to be slightly diversified in each year. He further added that the loan and advance to total working fund ratio of the company is quite normal. The

quick ratio each year has been greater than the standard ratio 2:1 it means the quick assets of the company remained idle in the every year, which is not good for the company.

Pandey (2002) in his thesis on “NRB directives their implementation and impact on the commercial bank; a case study of HBL ltd has put some outstanding description on the performance of the joint venture Commercial Bank.

“The directives if not properly addressed, have potential to wreck the financial system of the country as they are the only tools of the NRB to supervise and monitor the financial institution. The directives in themselves are not important unless properly implemented. The implementation part depends on the commercial bank. So it is felt that there is a need to find out if the directives are being followed. In case the commercial bank making such huge profit with full compliance of the directives, then the commercial Bank would deserve votes of praise because they would then be investment in the economic development of the country.

2.3 Review of Relevant NRB Directives

NRB is the apex institution in the money and capital market. Being the nation central bank, it directs, supervises and controls the function of the commercial bank and other financial institutions, NRB has issued various directives in order to develop a healthy, competitive and secured banking and economic systems to ensure national development. The following are the some of the relevant directives that NRB circulated to the commercial bank.

2.3.1 Directives to Maintained Minimum Paid - up Capital

NRB has directed all the commercial bank established to operate in Kathmandu valley compulsorily in the minimum capital fund of Rs 1 billion by the end of fiscal year 2003/04. The heading of the paid up capital ,general reserve, share premium, non-redeemable preference share and retained earning would be considered for calculating minimum capital funds, the commercial bank could not use the retained earning includes in the core capital fund to he extent of minimum capital fund of falling short of the commercial bank could not maintain a minimum capital fund rs 1 billion till end fiscal year 2003/04, they were not allowed to declare and distribute dividend and bonus . (Economic Report,2003/04 p 57)

According to the revised policy, a commercial bank with its headquarters outside of Kathmandu valley will be operate its office Kathmandu and in other parts of the country provided that its functioning for 3 years is found satisfactory, its paid-up – capital is in the minimum of 10 billion and it has net other conditions as prescribed , Any regional level commercial bank which is already in operation will be given permission , on request , to operation provided that its paid up capital is in the minimum of 1.0 billion and has also entered into a 3 years term technical contract with a foreign bank. Other conditions to be met by the bank .

2.3.2 New Nepal Rastra Bank directives:

Review of its regulation and directives clarification of ambiguous point and elimination and improvisation there of is a normal process of NRB, Accordingly ,a promoter of the bank holding more 1percent of the total share is not allowed to use loan facility from the

same bank . for fiscal year 2002/03 only bank were allowed to restructure those loan for which no interest is due , loan provision of 1 percent was allowed in such an instance only. Loan flow to small framers development bank (SFDB) limited is deemed as loans to the deprived class.

Protective provision

Provision of up to Rs 10 Million has been made to protect small and medium industries through the deposit insurance and credit guarantee corporation

Banking Listing

Commercial bank and the finance companies have been issued directives on blank listing and credit information for transparency and relevancy in their loan options and to regulated the process of black listing of loan defaulters . The directives will also enable accessing information from one single source.

2.3.3 BASEL Committee on Banking Supervision

The Internationally BASEL committee has been coordinating since year in the banking regulation, policy and directives. In 1975 the BASEL committee was established by the central bank governors of ten group (g-10) countries. In 1999 New BASEL Accord was developed and published. The BASEL committee on banking supervision (BCBS) has also laid down certain minimum risk based capital standards that apply to all internationally active commercial bank. That is banks capital should at least be 8% of their risk-weighted assets. This in fact helps bank to provide protection to the depositors and the creditors. Based on the Basel norms under the Basel capital Accord, 1988, the

Indian Bank also issued similar capital adequacy norms. According to these guidelines, the bank will have to identify their Tier-I and Tier-II capital and assign risk weights to the assets. Having done this they will have to assess the capital to Risk Weighted Assets Ratio (CRAR). The minimum CRAR which the India is required to meet is set at 9% it should be taken into consideration that the bank's capital refers to its ability of bank withstand losses due to risk exposures.

In Nepal, for the commercial bank, Nepal Rastra Bank adopted the Basel Accorded policies and directives, According to the Nepal Rastra Bank's directives and policies under the 2060 provision to the development bank and commercial bank, at the end of fiscal year Ashwin, Poush, Chitra and Ashad list of the classification of loan and advances should send within week remaining loans to be collected is divided into four categories:

1. Pass
2. Sub-standard
3. Doubtful
4. Loss

Pass loan is the performing loan and sub-standard, doubtful and loss is non-performing loan. In fiscal Year 2062/03, half Yearly (2062 Poush and 2063 Ashad) Loan classification and provision should submit 1 week to Nepal Rastra Bank. The NPA amount should be classified on the installment basis loan provision that is term loan. In each and every end of fiscal year Poush and Ashad NPL of loan provision should be provided for the loan outstanding and bills purchased which are classified as follows

Table1.2

| SN | Classification of Loan | Loan Loss provision |
|-----------|-------------------------------|----------------------------|
| 1 | pass | 1.00% |
| 2 | Sub- Standard | 25.00% |
| 3 | Doubtful | 50.00% |
| 4 | Loss | 100.00% |

Sources: BFLS United Direction

If quality of assets of NPA is found default then rescheduling and restructuring of the loan should be done according to the need, situation and emphasis of the bank, Asset quality has direct impact on the financial performance of the bank . Measure of asset quality is the proportion of non-performing loans (NPLS) to total loan. If substandard assets is rescheduled, restructured then that assets can not be classified in pass assets loan. That asset is classified under substandard loan, But loan loss provision will not be 25% instead of 25%, 12.5% will be declared.

2.3.5 Deprived Sector Credit

The NRB has directed the commercial bank to extend some portion of their priority sector investment towards the deprived sector. The deprived sector investment. Is discriminatory with respect to the aging of commercial bank ranging from 0.25% to 3.00% of their six month total outstanding loans. The table has presented the deprived sector loan percentage on their total priority sector investment of the respective bank

Required Deprived sector Credit to different Commercial Bank (Economic Report, 2001/02:23)

Table 1.3

| Bank | Deprived Sector Investment (As % of Total Outstanding Loan) |
|---------------------------|---|
| NBL,RBB,Nabil, Scbnl, HBL | 3.00% |
| NSBIBL, NBBL, EBL,BOK | 2.50% |
| BCCL,NICBL,LBL | 0.75% |
| Other New bank (if any) | 0.25% |

2.4 Research Gap

Some researches have conducted their research about MBL at different topic. The major objectives of Acharya,(2002). the study were to carry out the comparative analysis and evaluation of deposit collection and investment of the bank. Agrawal(2002), mentioned the trend of deposit position and to determine the trend of investment position of the company. Pradhan(1996), on his study is that the commercial bank has plenty of total funds available with them without investment anywhere. Devkota(2002), study on his dissertation the problems of the investment policy of he commercial bank,these problems may destroy the economics activities of country, Sigdel(2009), on her study, “deposit collection and investment pattern of MBL”. has mentioned the main objective is to the analyzed about only deposit collection and investment patterns. She has study about only deposit the deposit and investment policy of MBL but not the investment policy adopted

by the bank concedes with the investment practices. In this research the study will study about the investment practice of MBL She has analyzed to measure the trend of current deposit collection and investment composition of the bank. But this study will analyze the trend values of different variables related to investment and how the global crises are affecting the loan investment and investment policies. This study will try to study about the effect of worldwide global crises and recession on banking investment banking sector and investment.

CHAPTER: III, RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a process of arriving to the solution of problem through planned & systematic dealing with the collection analysis & interpretation of the fact & figured Research Methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. It tried to make clear view of method and process adopted in the entire aspect of the study. It is known as a path from which we can systematically solved the research problem.

This study was carried out to analyzed the investment policy of commercial bank of MBL. To archives these objectives the researcher had conducted. The research methodology containing, Research design, data sources data collection procedure, tools for Analyzed & Method in the report presentation.

3.2 Research Design

A research design is an overall framework or plan for the collection and analysis of data their focuses on the data collection method. The research instruments utilized the sampling plan to be followed. Research design is the plan, strategy of investigation conceived so to obtain answer to research questions and to control variance. The problem of methodology, data gathering, data analysis and report writing are the basic elements of a research design. The crux of this research is analyze the soundness of MBL to relation to Investment, Capital, Profitability and liquidity.

Research design is arrangement of condition & analysis of data in a manner that aims to combine relevance to the research purpose with Economy Producers.

The research entitled “A study on Investment Policy Of Machhapuchchhre Bank” Inn concerned with past phenomena both numerical as well as opinions. Therefore this is type of historical research design. The collection data and information are described and analyzed using some statistical tools. Thus, the study had followed the descriptive as well as analytical design.

In this study totally depends on the secondary sources of information. All problems find in secondary sources of information. The secondary source of may be available in the front of publication of reputed individuals and institution, reports of research of research organization. Article published in trade and professional journals and magazines and government reports and documents. The whole study divided into introduction, review of literature, research methodology, data analysis and presentation and summary, conclusion and recommendation.

3.3 Nature of sources of Data

The data used in present study is secondary data which have been taken mainly from the annual reports of the subjected bank. Besides these the following sources of data are also considered.

- NRB reports and directives
- Various publications dealing in the subject matter of the study.
- Various article published in the newspaper.
- Unpublished dissertations of previous years.
- Official website of MBL and different websites related to the study etc.

3.4 Population & Sample

In general, the population refers to the whole industries of the same nature and its services and products. Thus the total number of commercial Bank operated in Nepal is the population of the study, Among them only Machapuchchhare Bank is taken as sample.

3.5 Data collection Procedure

This study is mainly based on secondary data and such required data are gathered from the secondary sources mentioned above. The annual reports of the bank have obtained from the field visiting of head Office of MBL and website of the bank. NRB publication such as quarterly Economic Bulletins, Banking and financial statistic, Economic report, Directives etc have been collected from the official website of MBL and NRB. Existing literature related to subject Matter have been collected from Various research.

3.6 Analysis of data

Data collected from various sources have been managed, analyzed and presented in proper tables and formats. To analyze the collected data various tools have been used.

3.6.1 Financial Tools

Financial analysis is the use for financial statement to analyze a company's financial position and performance and to assess future financial performance (Wild, Subramanyam and Halsey, 2003:13) While adopting financial tools a ratio analysis is used as benchmark for evaluating the financial position and performance.

Ratio analysis is a financial tool That is used to measure the financial position of firm. It makes a relationship between the figure of strength and weakness of a firm. A ratio is

simply one number expressed in terms of another and as such if expressed in term of percentage, proportion and as a coefficient (logarithmic graph) and (Brek even chart) are the graphic forms which re used to express a ratio. The technique of ratio analysis is the whole process of any business of analysis of financial statements of any business of industrial concern especially to take output and credit decision. Through this technique, a comparative study is made between different statistical concerning varied fact of a business unit. Just as the blood pressure, pulse and temperatures are the measure of the health of an individual, so does ratio analysis measure the economic of financial health of a business concerns. Thus, the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concern” (Kothari 1994:487) Ratio analysis is a mathematical relationship between two related items expressed in quantitative from. The ratio is the measurement of quantitative relationship between two or more than of financial statement connected with each others. The following ratios will be used which are relevant for the study

A, Liquidity Ratio

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

Analysisof the profitability position

Profit is the key factor for the firm’s expansion and development. Profit making is the main objective of the organizations. Thus it is regarded as the engine of diversification of the firm. Without generating profit organization can’t survive in the society. Manly

profitability ratios are calculated to measure the economic efficiency of the organization .sufficient amount of profit is to be earned or generated by every commercial bank for the successful day to day operation and long run survival in the present competitive environment. The operating efficiency and its ability to adequate return to its shareholders ultimately depend upon the profit earned by the company. Profitability denotes the values created by the use of available resources. It is more than the total of the input resources, A high profitability ratio refers as the symbol of good management capacity of the bank. Some profitability ratio are calculated below.

i) Net Interest to Total Assets Ratio

Net interest means receive interest minus interest paid. It also known as interest spread. The high ratio indicates that profitability of the bank. Similarly, The low ratio indicates that low profitability of the bank.

$$\text{Net interest to total assets ratio} = \frac{\text{NetInterest}}{\text{TotalAssets}}$$

ii) Net profit to assets ratio

It measure the profitability of fund invested in the bank asserts. It is computed by dividing the net profit by total assets including profit and loan account higher ratio is preferable since it has more operating efficiency of the firm and vice versa.It is expressed as.

$$\text{Net profit to total assets ratio} = \frac{\text{NetProfit}}{\text{TotalAssets}}$$

3.6.2 Statistical Tools

The financial statistical tools used in this study are standard deviation (SD), Coefficient of Variation(CV) and correlation coefficient (r)

Standard Deviation

Standard Deviation is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean, It measure the absolute dispersion, Karl pearson introduced the concept of standard deviation in 1823and this is denoted by the small Greek letter σ

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(X-\bar{X})^2}{N}}$$

Coefficient of Variance (CV)

The standard deviation in the above from was given as absolute measure of dispersion ,Hence, where the mean value of the variable is not equal, it is not appropriate to compare two parts of variables based on standard deviation only. The relative measure of dispersion based on the standard deviation is known as the coefficient of standard deviation.

$$\text{Coefficient of SD} = \frac{S.D}{Mean} = \frac{\sigma}{x}$$

The coefficient of dispersion based on standard deviation multiplied by 100 is known symbolically.

$$\text{Coefficient of Variation C.V} = \frac{\sigma}{x} \times 100$$

Where

C.V.= Coefficient of Variation

σ = Standard Deviation

X= Arithmetic Mean

It is independent of unit. So, two distributions can be compared with the help of C.V. FOR their variability. Less the C.V. more will be uniformity. Consistent etc. and vice versa,

Time Series

When a series of data pertaining to a series of counting period should be studied, its characteristics and its future direction is best estimated by the time series. Time series analysis a series of data keeping in mind the various short term and long term fluctuations. The trend of a series of data is represented by the following formula.

$$Y = a + bx$$

Y= dependant variable

X=Independent Variable

a =intercept of the time

b = Slope of trend line

CHAPTER- IV:DATA PRESENTATION AND ANALYSIS

In this chapter the relevant information available has been used by analyzing the Investment Policy of MBL for the fulfillment of the research objectives. Five years data covering from the 2062/63 bs to 2066/67 Bs have been analyzed and interpreted as per the research methodology defined in chapter three. This study is based on both primary and secondary data are the annual reports of the bank, NRB publication, books, journals, published or unpublished report etc primary data have been collected through questionnaire with the staff of the bank.

For the purpose of analysis data have been presented in the form of table and charts. Data presentation and analysis is done to fulfill the objective of the study. This is an analytical chapter, where an attempt has been made to analyze and evaluate major financial items, which have an impact on lending and fund mobilization of Machapuchhare bank Ltd.

4.1 Analyzing the profitability position

Profit is the key factor for the firm's expansion and development. Profit making is the main objective of the organization. Thus it is regarded as the engine of diversification of the firm. Without generating profit organization can't survive in the society. Mainly profitability ratio are calculated to measure the economic efficiency of the organization. Sufficient amount of profit is to be earned or generated by every commercial bank for the successful day-to-day operation and long run survival in the present competitive environment. The operating efficiency and its ability to adequate return to its shareholders ultimately depended upon the profit earned by the company. Profitability

denotes the value created by the use of available resources. It is more than the total of the input resources, A high profitability ratio refers as the symbol of good management capability of the bank. Some profitability ratio are calculated below.

4.1.1 Return on Total Assets Ratio:

This ratio is used to measure the profit earning capacity of the bank by utilizing is available resources i,e total assets. This ratio is also called ‘profit to total assets ratio’

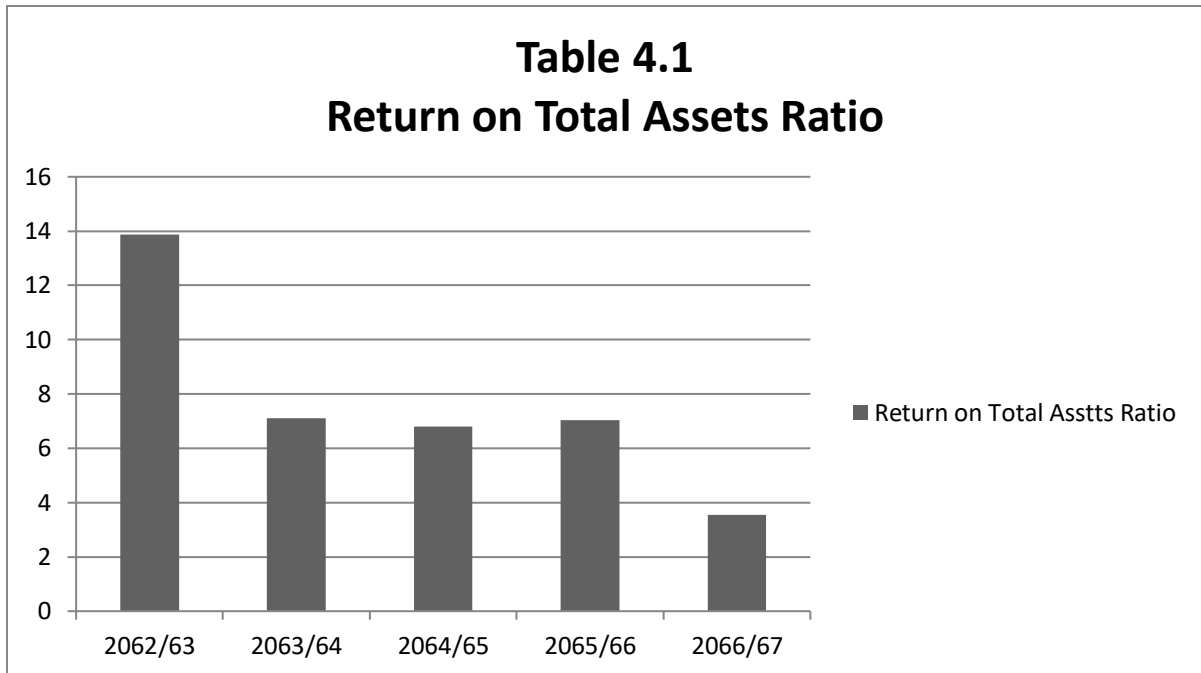
Banks collects the scattered funds from the public in thefrom of deposits. The Volume of credit extension deposit base of a bank besides others factors. The deposits collected by MBL can be divided as current, saving, fixed call and other deposits. The deposit collection of the banks in 5 years (FY2062/63 to 2066/67) is presented in the table below.

Table 4.1
Return On Total Assets Ratio (In million)

| F/Y | Net Profit In Million | Total Assets In Million | Ratio |
|---------|--------------------------|----------------------------|-------|
| 2062/63 | 114 | 821.6 | 13.87 |
| 2063/64 | 76.8 | 1081.03 | 7.10 |
| 2064/65 | 85.02 | 1249.85 | 6.80 |
| 2065/66 | 123.25 | 1749.08 | 7.04 |
| 2066/67 | 73.31 | 2067.88 | 3.54 |
| Mean | 94.478 | 1393.888 | 6.78 |
| S.D | 15.34 | 453.11 | 3.38 |
| C.V. | 16.24 | 32.50 | 49.96 |

Source: Annual Report (2062/63 to 2066/67)

This table 4.1 shows the return on total assets ratio and during the period from F.Y 2062/63 to F.Y 2066/67 . The ratio are 13.87%,7.10%, 6.80%, 7.04% & 7.54% respectively. Trend of this ratios increasing go to F.Y 2062/63



This figure 4.1 present the return on total assets ratio of the bank during the study period. Return on total assets is changeable in trend. The ratio has increased in first years and it has decrease in two fiscal year then last year highly increased, The ratio is lower in the final year of the4 study i.e 3.54

4.1.2 Net profit

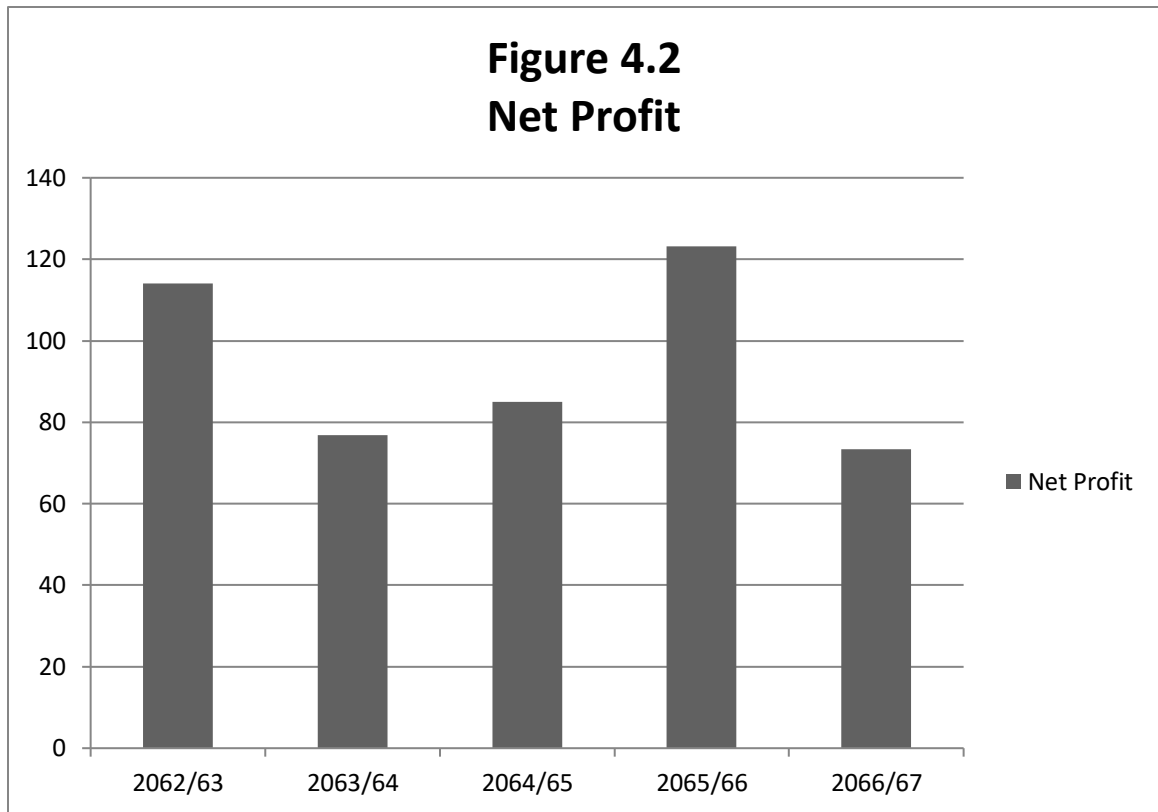
The volume of net profit measures of a firm in every aspect of its operation and strategy. Management of those bank who have been able to increase their net profit in a constant and sustainable manner over a period of time, are considered as efficient and successful, whereas management of the bank who have not been able to grow their earning in a sustainable manner can be considered as inefficient

Table -4.2
Net profit (in million)

| Fiscal Year | Net Profit In million |
|-------------|--------------------------|
| 2062/63 | 114 |
| 2063/64 | 76.8 |
| 2064/65 | 85.02 |
| 2065/66 | 123.25 |
| 2066/67 | 73.31 |
| Mean | 94.476 |
| S.D. | 15.34 |
| C.V | 16.24 |

Source: Annual Report (2062/63 to 2066/67)

Table 4.2 shows the net profit of the bank during the research period. Net profit has increasing trend of this period. It decreases from Rs 114 Million in the year 2062/63 to RS 123 million in the fiscal year 2065/66 . The volume of profit is fluctuation and slightly. The average net profit of MBL is Rs 94.476million. The standard deviation and coefficient of variation of the net profit is 15.34 and 16.24. The coefficient of variation 16.24 indicates .



Above figure 4.2 shows the volume of net profit is increasing every year the banks net profit has every year position figure. In fiscal year 2062/63 to 2066/67 net profit has changeable every year. The volume of net measure the success of a firm in every aspect. MBL has shown significant improvement of its operating and strategic activities.

4.1.3 Total Deposit of MBL

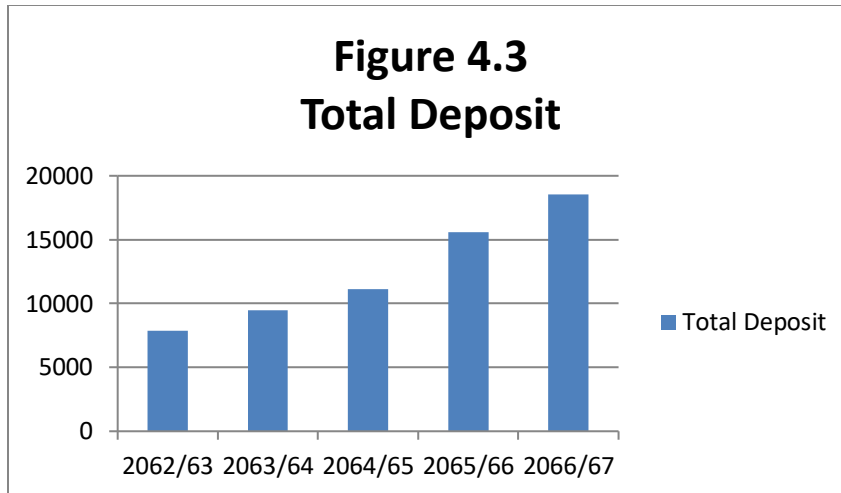
Banks collect the scattered funds from the public in the form of deposit the volume of credit extension depends upon the deposit base of a bank besides other factors. The deposit collection by MBL can be divided as current, saving fixed call and other deposit collection of bank in five year (FY 2062/63to 2066/67) is presented in he below

Table 4.3
Total Deposit of MBL(in million)

| Fiscal Year | Total Deposit In Million |
|-------------|-----------------------------|
| 2062/63 | 7893.298 |
| 2063/64 | 9475.451 |
| 2064/65 | 11102.242 |
| 2065/66 | 15596.791 |
| 2066/67 | 18535.917 |
| Mean | 12520.74 |
| S.D | 3958 |
| C.V | 31.61 |

Source: Annual Report (2062/63 to 2066/67)

Above table -4.3 the total deposit collection of bank five year study period. Fiscal year 2062/63 to 2066/67 has seemed to be in fluctuating in trend rs 7893.298,9475.451,11102.242,15596.791,18535.917 million respectively. The highest deposit volume seems with RS 18535.917 in fiscal year 2066/67. The average deposit volume to the bank is RS 12520.74 million, Which seems to be satisfactory. The deposit volume of the bank is almost seems to be constant on previous three years due to immerse of so many other commercial bank and financial institutions that diverted the customers fund,. But from the fiscal year 2066/67 the bank rose up its deposit collection dramatically by introducing new deposit schemes with comparatively higher rate of interest and other facilities. The above table shows that the MBL has been successful in capturing the deposit from the market during the study period. The above volume of deposit can be presented in bar diagram which is as follows .



The figure -4.2 exhibits that the period of total deposits of MBL has been highly fluctuate . The overall trend of total deposit is increasing. The main cause of decrease in deposit collection amount in previous year good awareness to banking transaction in public as well as lack of alternative investment.

4.1.3 Interest income

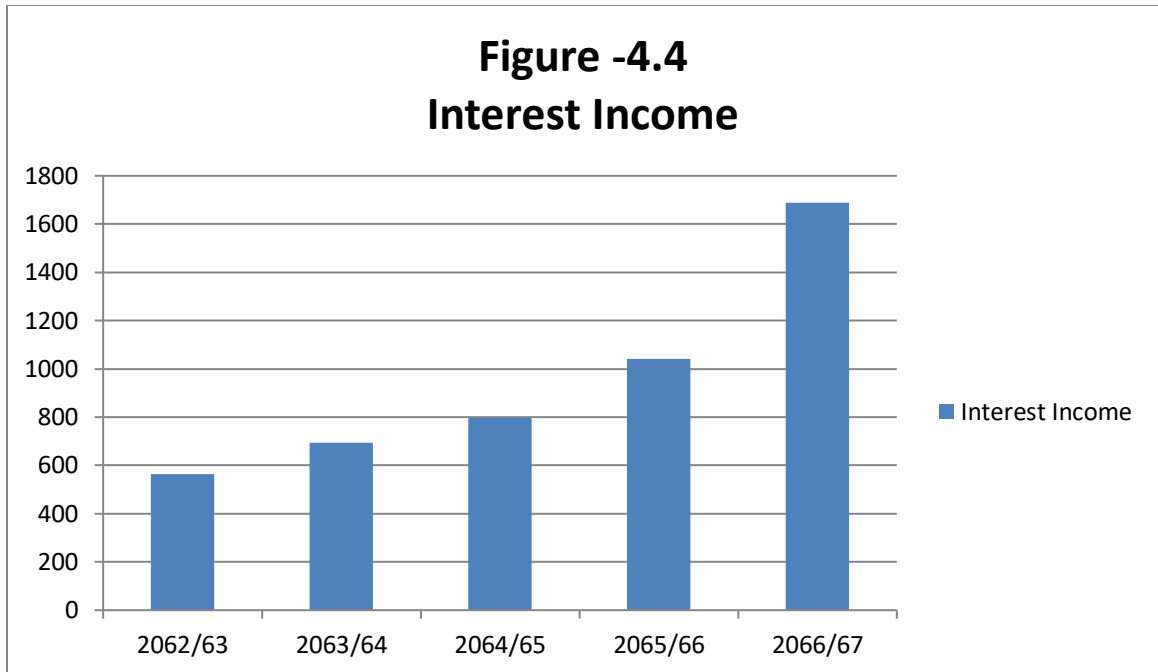
Volume of interest income shows now efficiently the bank has mobilized their resources in interest bearing assets i.e. Loan and advanced and investment in government securities. The high volume is favorable contribution of investment and investing activities in income.

Table 4.4
Interest income of MBL

| Fical year | Interest income In Million |
|------------|-------------------------------|
| 2062/663 | 563.362 |
| 2063/64 | 964.482 |
| 2064/65 | 796.59 |
| 2065/66 | 1041.817 |
| 2066/67 | 1688.63 |
| Mean | 969.45 |
| S.D | 39.82 |
| C.v | 41.07 |

Source: Annual Report (2062/63 to 2066/67)

Above table – 4.4 shows the volume of interest income earned by the bank during the research period. Total interest income has reached from Rs 1688.6 million in the year 2066/67 to rs 563.362 million in the year 2062/63. The volume of interest income is increasing slightly and has reached at Rs 1688.6 million in the last year of study period. The Mean and standard deviation of interest income is 969.45 and 39.82. The coefficient of variation 41.07% indicate interest income.



The figure -4.4 shows that the interest income of MBL in the initial years in the study period the volume of interest income is increasing every year. The trend of interest period is increasing highly which shows the great future of the bank. The increasing trend of interest income is the result of the banks success on strong recovery of non-n performing assets.

4.1.4 Investment

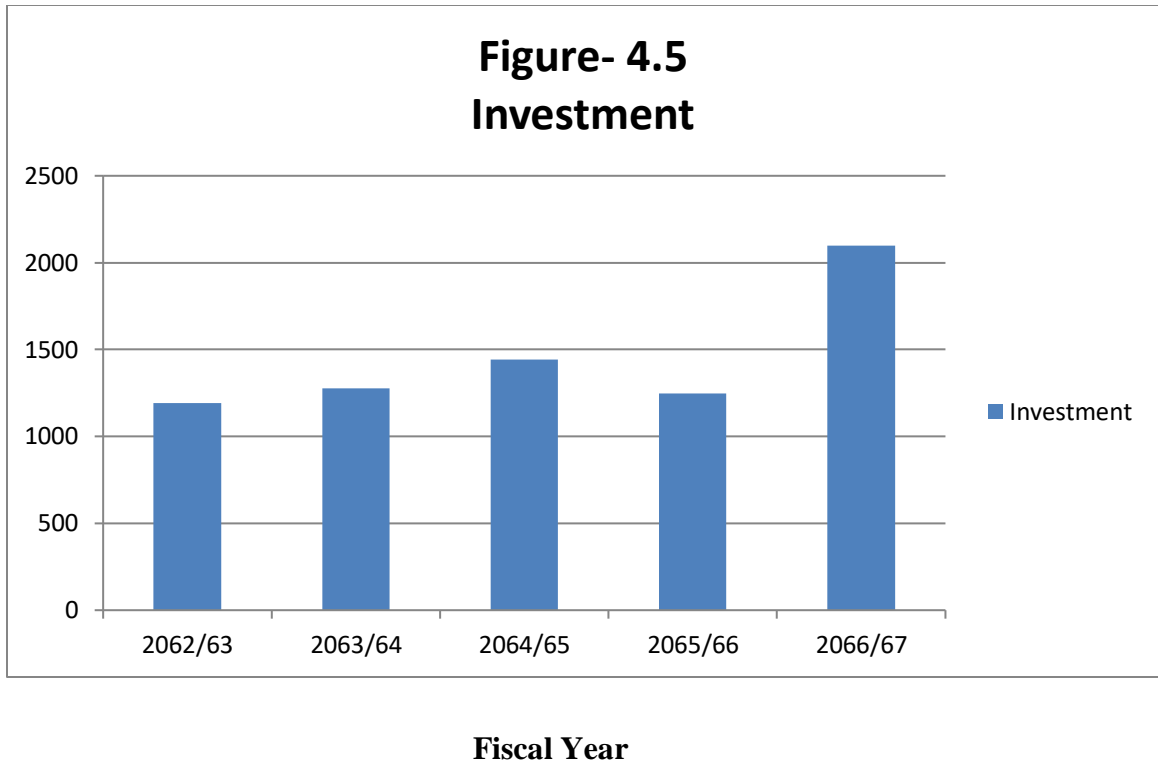
Investment is the employment of funds with the aim of achieving additional income or growth in value. It is concerned with the management of an investor's wealth, which is the sum of current income and present value of all income. Since the mobilization of fund in investment is depends upon the available market option and unavailability of investment situation this assets does not carry certain direction at all.

Table 4.4
Investment

| Fiscal Year | Investment (In Million) |
|--------------------|--------------------------------|
| 2062/63 | 1190.829 |
| 2063/64 | 1278.467 |
| 2064/65 | 1443.551 |
| 2065/66 | 1246.159 |
| 2066/67 | 2096.792 |
| Mean | 3451.1596 |
| SD | 2047.22 |
| CV | 59.31 |

Source: Annual Report (2062/63 to 2066/67)

Above table – 4.4 shows the volume of investment by the bank during the research period. Total investment has reached from Rs 2096.792 million in the year 2066/67. The volume of investment is increasing slightly in the last year of study period. The standard deviation and coefficient of variation of interest income is 2047.22 and 59.31%. The coefficient of variation 41.59% indicate interest income.



The figure -4.5 shows that the interest income of MBL in the initial years in the study period the volume of interest income is increasing every year. The trend of interest period is decreasing highly which shows the great future of the bank. The increasing trend of Investment is the result of the banks success on strong recovery of non-n performing assets

4.1.5 Analysis of Liquidity Ratio

Analysis of Current Ratio: This ratio measure the short term solvency of the bank. It is measure dividing current assets and current liabilities, The ratio measure the short solvency of the bank.

Table 4.6
Analysis of current Ratio

| Fiscal Year | MBL | | |
|--------------------|--------------------------------|--------------------------------|--------------|
| | CA In million | CL In million | Ratio |
| 2062/63 | 8,796.65 | 8,032.44 | 1.00 |
| 2063/64 | 10,386.44 | 9,932.80 | 1.07 |
| 2064/65 | 11,526.83 | 11,124.45 | 1.05 |
| 2065/66 | 16,528.82 | 15,613.10 | 1.06 |
| 2066/67 | 19,597.87 | 18,701.12 | 1.04 |

Source: Annual Report (2062/63 to 2066/67)

The above table shows the current ratio MBL for five years. In fiscal year 2062/63, there was a current ratio of 09.1. Similarly, in 1 year 2063/64 the ratio came to 1.07. Then in 2064/65 it went down to 1.05 and in FY 2065/66 it was slightly higher and reached to 1.06. In FY 2066/67 it further went down to 1.04 which is the lowest of the study period. From the above analysis, it can be concluded that in all study periods banks have been able to maintain a current ratio greater than 1, which ultimately indicates that the bank would be able to pay its current liabilities with its current assets. In the case of a financial institution, the current ratio can be compared with the quick ratio as a bank doesn't hold any inventory except cash and it also doesn't require a 2:1 standard like other industries.

A, Analysis of cash and bank balance to total Deposit: this ratio measure the total cash and bank balance available to bank to pay out its deposit s cash demand on time.

4.1 Analyzing the investment Strength towards NRB Directives

In this section, the investment performance of the bank in terms of its quality and turnover is measured. MBL has invested its collected fund in different investment alternatives like Nepal Govt. Securities, Share of different companies, debenture and bonds issued by various institution and other I investment such as mutual fund, Swift investment, local bank and foreign bank etc.

4.2.1Nepal Government Treasury Bills

Investment activities are classified into two different categories, investment in government securities and share, bonds and debenture of other non- Government companies, Government securities are secured but they don't give more return to the investors. Government securities are considered as the liquid as cash balance of the commercial bank , Which can be easily in the market. From the risk point of view , government securities are less risky as compare to investment in other securities of different companies and loan and advances. So they are known as the safe locker. Commercial Bank is the profit making organization: their their target is to generate more profit by making investment in different sector of the economy. So , they invest excess fund on government securities for diversification of investment they don't prefer to invest their fund on government securities due to their objective of profit maximization. As per directives of NRB, the total amount of investment of a commercial bank in share and securities of organized institution should be limited up to 30% of paid capital of

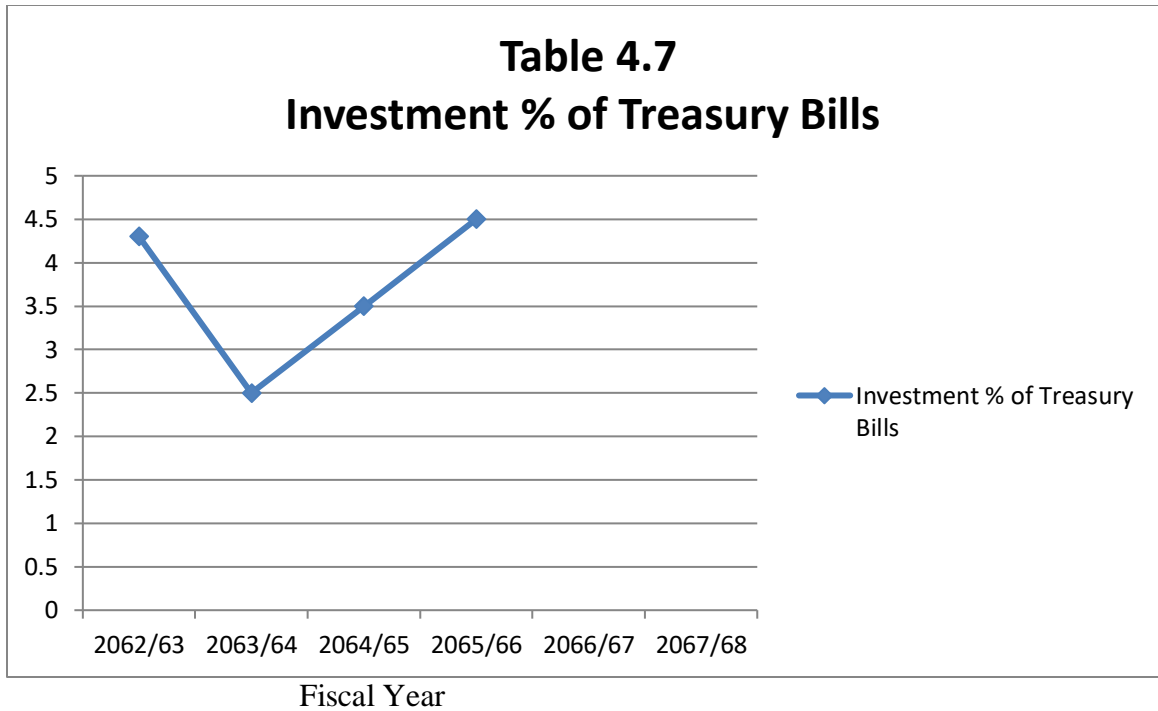
hebank. The following table shows the investment policy of MBL in Nepal government securities. (Appendix i)

Table 4.7

Investment % of Treasury Bills In total Deposit (in million)

| Year | Nepal Government Treasury Bills In million | Total deposit In million | Investment% Nepal Government Treasury Bills |
|---------|---|-----------------------------|---|
| 2062/63 | 951.27 | 7893.298 | 0.12 |
| 2063/64 | 904.71 | 9475.451 | 0.095 |
| 2064/65 | 827.25 | 11102.242 | 0.0745 |
| 2066/67 | 477.86 | 15596.791 | 0.030 |
| 2067/68 | 1896.48 | 18535.917 | 0.10 |

The table 4.7 shows the percentage of investment in the other investment at total deposit of MBL Ltd. Bank investment on organization Treasury bills in fiscal year 2062/63 to 2067/68 0.12, 0.095, 0.0745, 0.030, 0.10 respectively . In the study period is the highest percentage of investment of other investment is 0.12 in fiscal year 2062/63 and is lower 0.030 in fiscal year 2066/67



The above figure-4.7 shows the Investment percentage of Treasury Bills fluctuations in the every year in fiscal year 2062/63 increasing trend and lower percentage 2064/65,

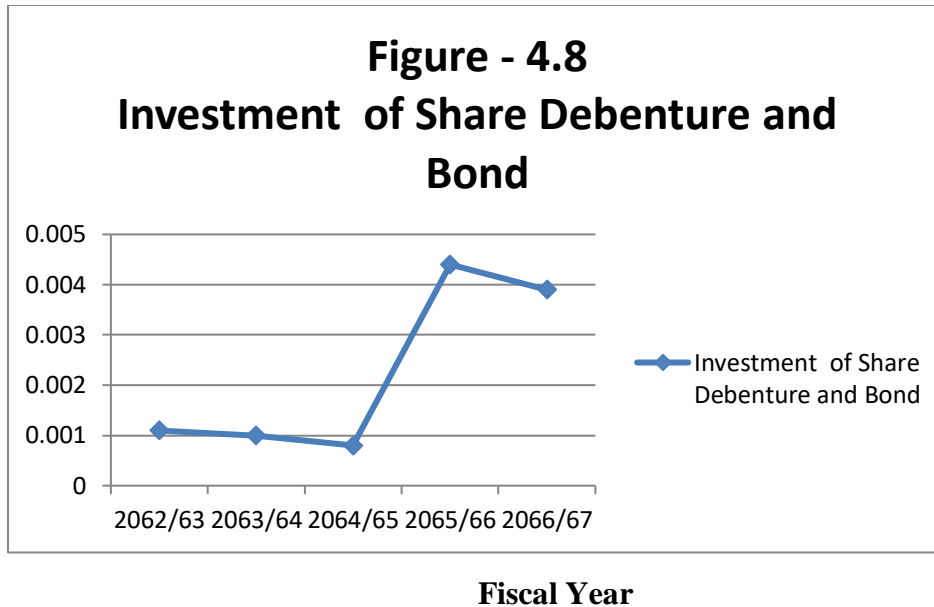
4.2.3 Share Bond and Debenture

MBL has investment its available fund on share issued by different financial companies, bank & agencies and foreign Bank. MBL invested its resources on rural development bank and other bank and agencies. The following table shows the investment on some deposit amount of MBL in order companies share.

Table 4.8
Share Bond and Debenture (Million)

| Fiscal Year | Share Bond and Debenture In million | Total deposit In million | Investment % of Share Bond and Debenture |
|--------------------|--|-------------------------------------|---|
| 2062/63 | 8.7 | 7893.298 | 0.0011 |
| 2063/64 | 9.29 | 9475.451 | 0.001 |
| 2064/65 | 8.9 | 11102.242 | 0.0008 |
| 2065/66 | 69.385 | 15596.791 | 0.0044 |
| 2066/67 | 73.085 | 18535.917 | 0.0039 |

Above table shows has the investment percentage of Share Bond and Debenture for five year period. MBL has invested its collected fund in companies share , Government of Treasury bills debenture and bond ,MBL has invested his collected fund in Share Debenture and Bond 0.0011%, 0.001%, 0.0008%, 0.0044% and 0.0039 in fiscal year 2062/63 to 2066/67 respectively.



The figure -4.8 shows that investment of share and debenture and bond of MBL in the initial years in the study period the volume of interest income is decreasing every year. The trend of investment of share debenture and bond the great future of the bank. The increasing trend of Investment of share debenture and bond is the result of the banks success on strong recovery of non-n performing assets

4.3Analyzing the investment composition

The commercial bank diversified their market risk by investing their available fund in different secured and unsecured sectors. In earlier time , commercial bank is interested to invest their fund only in loan and advance but now a days also pay their attention to invest their fund in government securities like treasury bills national saving bonds and development bonds and non government securities like debenture, bonds etc of different companies.

Investment activities are classified in two different categories, investment in government and share, bonds, and debenture of otherNon –government companies. Government

securities are secured but they don't give more return to the investors, Government securities are considered as the liquid as cash balance of the commercial bank, With can be easily converted in to cash or can be sold easily in the market. From the risk point of view, government securities are less risky as compare to investment on other securities of different companies and loan and advance, So they are known as the safe locker. Commercial bank is the profit making organization, their target is to generate more profit by making investment in different sector of the economy. So, they invest excess fund on government securities for diversification of investment they don't prefer to invest their fund on government securities due to their objective of profit maximization. As per directives of NRB , the total amount of investment of a commercial bank in share and securities of organized institution should be limited up to 30% of paid capital

Table -4.9
Investment Composition of MBL

| | |
|----|---|
| 1 | Nepal Government Treasury Bills |
| 2 | Nepal Government Saving Bonds |
| 3 | Nepal Government Other Securities |
| 4 | Nepal Rastra Bank Bond, |
| 5 | Foreign Securities |
| 6 | Local Licensed Institution |
| 7 | Foreign Bank |
| 8 | Organized institution Shares |
| 9 | Organization Institution Bond and Debenture |
| 10 | Other Invest Mutual Fund SWIFT investment |

The commercial bank diversified their market risk by investing their available fund in different secured and unsecured sectors. In earlier time, commercial bank is interested to invest their fund only in loan and advance but now a days. They also pay their attention to investment to invest their fund in government securities like treasury bills national saving bonds and development bonds and non government securities like share debenture ,bonds etc. of different companies. The given table show the investment composition of MBL (appendix table iv)

Table 4.10
Investment composition of MBL

| Year | 2062/63 | 2063/64 | 2065/66 | 2066/67 | 2067/68 |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Nepal Gov Treasury Bills | 951.27 | 904.47 | 827.25 | 477.86 | 1896.48 |
| Share Debentures and bond | 8.75 | 9.29 | 59.26 | 69.38 | 73.08 |

Above table shows the investment composition of MBL ltd for the five year period. MBLhas invested its collected fund in different investment alternatives like Nepal Government Treasury Bills , Share of different Companies, debenture and bonds issued by various institution and other investment such mutual fund, swift investment , Local bank and foreign bank etc.

4.4Least Square Trend (Regression) Analysis

Regression is the statistical tool, which is used to determine the statistical relationship between two or more variable and to make prediction of one variable on the basis of other

variable. The trend analysis exhibits the behavior of given variables in series of time. Commercial bank don't carry consistency over all the period and several factors cause the increase or decrease in the volume of various items of bank operation. Under this study we shall measure the trend analysis of deposit , investment and net profit of MBL.

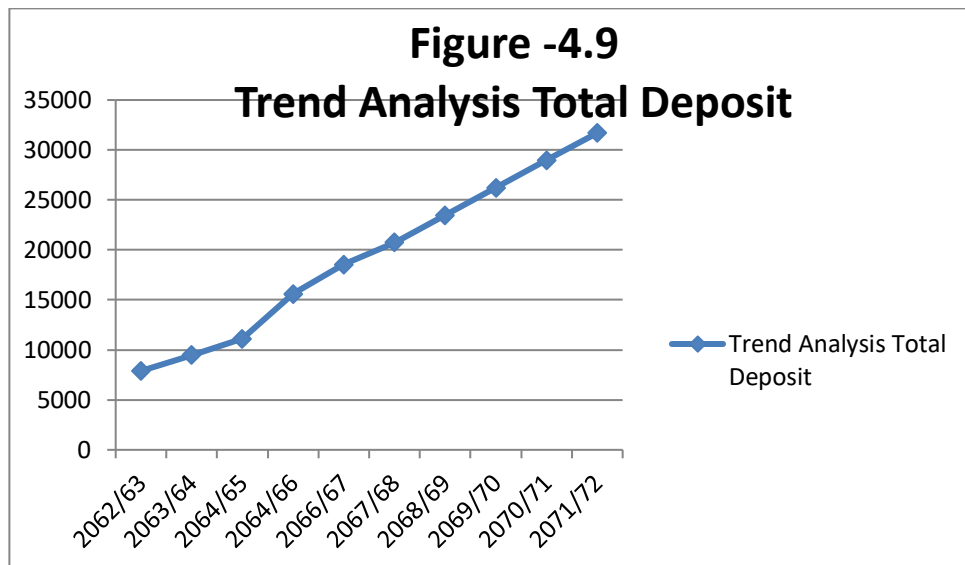
4.4.1 Trend Analysis of total Deposit.

Deposit is one of the very sensitive liabilities of commercial bank. The following table shows the trend values of total deposit and projection of total deposit of machhapuchchhare Bank up to fiscal Year 2071/72 The calculation of trend forecasted has been presented

Table 4.11
Trend Analysis of Total Deposit

| Fiscal Year | Trend analysis of Total Deposit In million |
|--------------------|---|
| 2062/63 | 7893.298 |
| 2063/64 | 9475.451 |
| 2064/65 | 11102.242 |
| 2065/66 | 15596.791 |
| 2066/67 | 18535.917 |
| 2067/68 | 20742.68 |
| 2068/69 | 23483.33 |
| 2069/70 | 26223.98 |
| 2070/71 | 28964.63 |
| 2071/72 | 31705.28 |

Shows the Table 4.11 it is clear the trend of analysis of Total Deposit , Other thing remaining same, the Total deposit will be reach 31705.28 million in Fiscal year 2071/72.



Shows the figure 4.9 Trend analysis of Total Deposit of MBL in increasing trend .trend coming Year 2071/72.

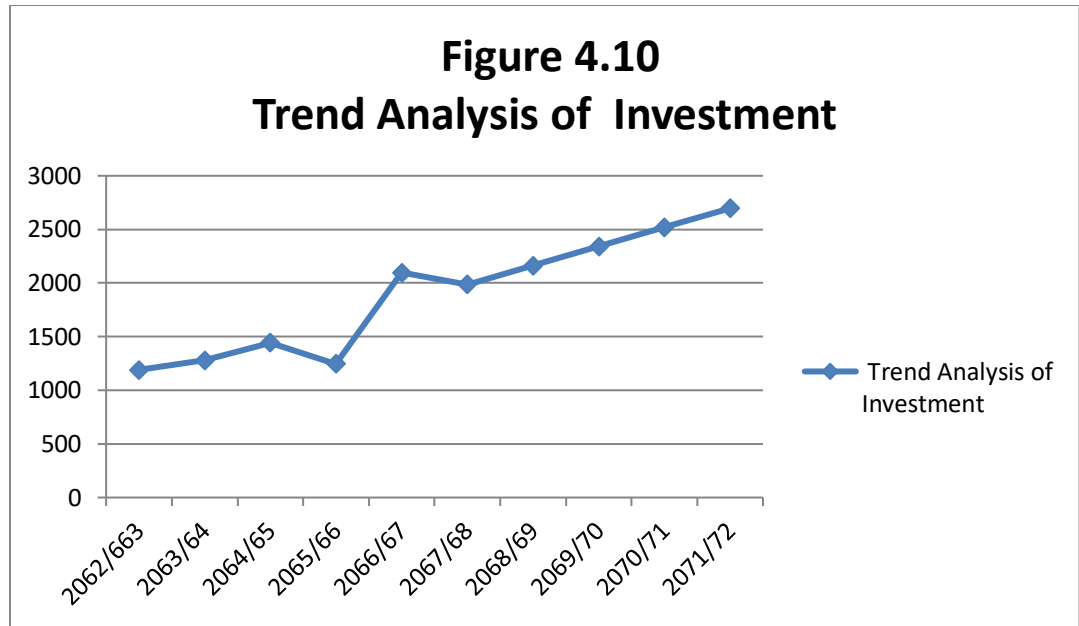
4.4.2 Trend Analysis of Investment

The following table shows the trend values of investment has been calculate for five years 2062/63 to 2066/67 and forecast for next five year i.e 2067/68 to 2071/72 has been made. The calculated of trend forecast has been presented in appendix

Table 4.12
Trend Analysis of Investment

| Fical year | Interest income In million |
|------------|-------------------------------|
| 2062/663 | 1190.829 |
| 2063/64 | 1278.467 |
| 2064/65 | 1443.3551 |
| 2065/66 | 1246.159 |
| 2066/67 | 2096.792 |
| 2067/68 | 1985.04 |
| 2068/69 | 2163.00 |
| 2069/70 | 2340.964 |
| 2070/71 | 2518.925 |
| 2071/72 | 2696.89 |

The above table shows the investment of MBL is increasing trend. Other thing remaining same, the investment of MBL reached up to 2696.89 million in fiscal year 2071/72. The trend values of Interest income of he bank plotted in the trend lines given diagram 4.10 below.



The figure 4.10 shows the investment of MBL in the investment every year study period of the volume of investment increasing every year. The trend investment analysis.

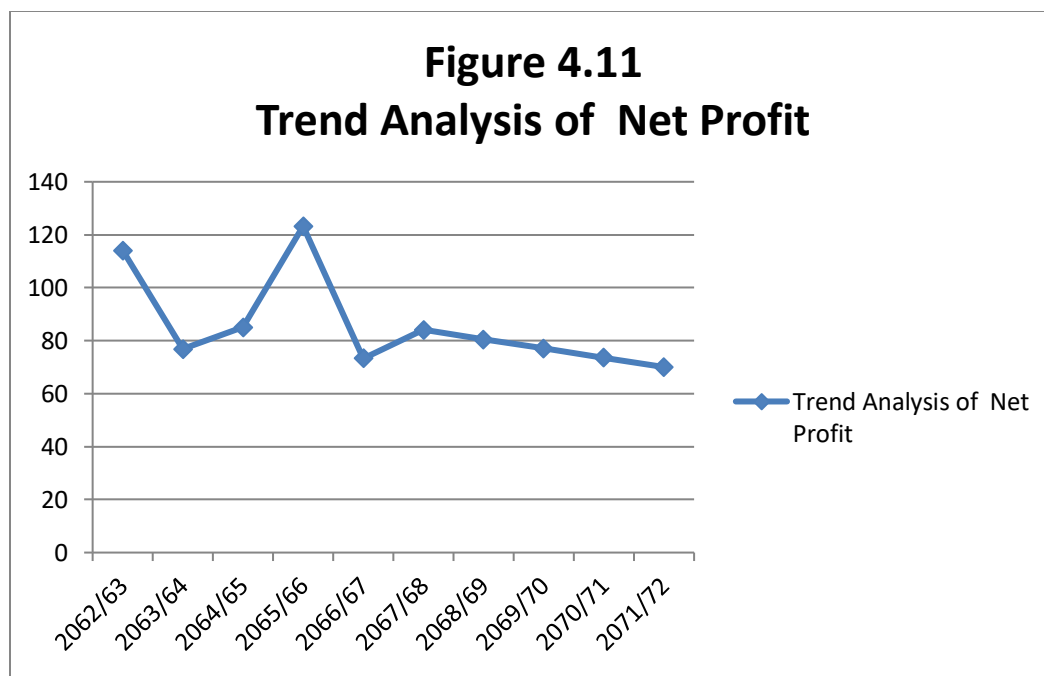
4.4.3 Trend Analysis of Net Profit

The following table shows the trend values of Net profit has been calculate for five years 2062/63 to 2066/67 and forecast for next five year i.e 2067/68 to 2071/72 has been made. The calculated of trend forecast has been presented in appendix

Table -4.13
Trend Analysis of Net Profit

| Fiscal Year | Trend Analysis of Net Profit In Million |
|--------------------|--|
| 2062/63 | 114 |
| 2063/64 | 76.8 |
| 2064/65 | 85.02 |
| 2065/66 | 123.25 |
| 2066/67 | 73.31 |
| 2067/68 | 84.06 |
| 2068/69 | 80.5 |
| 2069/70 | 77.03 |
| 2070/71 | 73.54 |
| 2071/72 | 70.05 |

The above table shows the net profit of MBL is increasing trend. Other thing remaining same, the interest income of MBL reached up to 290.13 million in fiscal year 2071/72. The trend values of net profit of the bank plotted in the trend lines given diagram 4.11 below.



The trend of net profit shows that the profit of MBL is decreasing initial trend and 2066/67 increasing trend for the following year .

4.5 Major Finding of the study

Having completed the basic analysis required for this study, the final and the most important task and research is to enlist the findings. This will give meaning to the desired results. On the basis of various categories of analysis adopted in this study , a comprehensive summary of the major findings of this study is presented below.

- MBL investment their fund in Nepal government of Treasury Bills , national saving ,bonds and debenture and non Government securities like share debenture, bonds etc,
- Analysis of liquidity Ratio of MBL highest percentage 1.07 % in fiscal year 2063/64 and lowest percentage 2062/63 is 1%.
- Return on Total Assets ratio of the MBL has fluctuated every year ,in the starting first two year increasing trend then next year ratio is fluctuated .

- The bank has profit has every year positive figure, in the study period the volume of net profit is increasing every year and the highest profit in the fiscal year 2065/66.
Study period
- The overall trend to total deposit is increasing trend of the study period . The fiscal year 2066/67 the bank raised up its deposit collectionRs18535.917 million.
- The trend of investment interest income is increasing highly of the bank at during the research period. Total interest income has reached from Rs 1688.63 million in the year 2066/67.
- The volume of investment is in increasing trend of the fiscal year 2062/63 to 2063/64, The investment of MBL has reached up to 2096.792 million in theyear 2066/67 .
- The bank investment the highest percentage of government treasury bills in fiscal year 2067/68 Rs 1896.48 million and lowest percentage in fiscal year 2064/65 rs 827.25 million
- The volume of investment percentage of share debenture and bond at total deposits by the bank Share Debenture and Bond 0.0011%, 0.001%, 0.0008%,0.0044% and 0.0039 in fiscal year 2062/63 to 2066/67 respectively.
- In the study period is the highest investment isrs2096.792 million in fiscal year 2066/67 and lower is rs 1190.829 million fiscal year 2062/63.
- Bank has investee much collected fund in Nepal Government Treasury Bill. Highest investment at Nepal Government Treasury Bill Rs1896.48 million Fiscal year 2066/67, and lower investment Nepal Government Treasury bills is 477.86 million fiscal year 2065/66.

- Trend value of total deposit is in increasing trend. The total deposit of the bank is predicated to be Rs 31705.28 million in fiscal year 2071/72
- If present trend continuously occurs, the net investment of the banks is predicated to be rs 2696.792 million 2071/72
- The net profit of MBL is in increasing trend. The net profit of the bank is predicated to be or increased up to Rs 123.25 million in Fiscal year 2065/66

CHAPTER V: SUMMARY CONCLUSION AND RECOMMENDATION

This unit has three sections. The first section provides a brief summary of the study. The second section draws conclusions and the third chapter offers recommendations for corrective measures to be undertaken by the concerned institution.

The first part of the chapter briefly summarizes the total study in respect with the general introduction of the study, various theoretical and application associations of the present study, study research methodology, and key findings of the study. The second part of the chapter deals with the present researcher's conclusions drawn on the basis of this research. Finally, the recommendations have been presented in the third section of the chapter.

5.1 Summary

The study was conducted as an academic requirement of a master of business studies on the topic of "An investment policy of Machhapuchchhare Bank" Analysis of Machhapuchchhare Bank Limited in the framework of CAMEL. The study aims to analyze financial performance Machhapuchchhare Bank Limited in the framework.

Various materials relating to the performance evaluation were received in order to build up the conceptual foundation and reach to the clear destination of research during the research. The areas that formed part of the conceptual review were, concept of commercial bank, functions of commercial bank, commercial banking industry in Nepal Directives, New Basel Capital Accord. Besides these, review of journals, articles and review of dissertations were carried out under research review.

MBL Ltd. Is the pioneer banking institution of the country, established 1974ADMBL has played a major role in the economic development of the country. Although established with the initial vision supporting trade, it has ,with passage of time, contributed remarkable to he development of all field of economic activity in the country . At present, the bank is operating through 47 branches of the country with 492 staff. MBL ltd., till recently was being investment most of the fund in government Treasury billand company's share. In analysis of investment composition the bank .Bank has investment in he highest fund in the company share first second fourth and fifth year in study period government securities in first and third year. Lastly, the calculating trend values of total assets,and investment and net profit, it other thing remains same the position five year increase trend.

The analysis had been made to compare the banks ratio with NRB standard,trend of ratio and industrial average . The core capital adequacy ratio

5.2 Conclusion

The overall investment policy of MBL on the basis of various categories of analysis adopted in this study , the following conclusion have been secured on the basis of the major finding of this study is presented below.

Conclusions of the study are summarized as follows:

5.2.1 Analyzing the profitability position of he bank return on total assets ratio of the bank has fluctuated every year. In initial period of he study since has shows the increasing trend ,after that decreasing and finally change highly positive figure of the study period.

5.2.2 NepalGovernment Treasury billsare less risky compare to investment in other

securities of different companies and loan and advances, so the MBL use that safe locker. MBL has investment in Nepal government Treasury bill maximum 0.12% in fiscal year 2062/63 and minimum 0.03% at fiscal year 2065/66 of the total deposit. MBL follows the NRB Directives to invest some fund in government sector.

5.2.3 MBL had maintained the Liquidity ratio as per the NRB standards during the study period. It indicated that bank is running with adequate capital during all fiscal years. In this point of view MBL was found sound.

5.2.4 MBL has been invested its funds in other investments such as mutual fund SWIFT investment and others. MBL has been investing lower position of funds in investments as other investments.

5.2.5 MBL invests its funds in government securities like treasury bills national saving bonds and development bonds and nongovernment securities like shares debenture, bonds etc. and other investment of different companies, MBL diversifies their maximum fund in Nepal government securities and company's shares. MBL has been investment his fund according to NRB Directives and diversifies the maximum percentage of total investment in government sector and nongovernment sector.

5.2.6 MBL has invested its available fund on share issued by different financial companies, bank & agencies and foreign bank commercial bank is the profit making organization, their target is to generate more profit by making investment different sector of the economy. So, they investment, According to NRB directives,

MBL has been invested its funds in company's share. MBL has maximum investment of 0.012.% of total deposit fund in company's shares.

5.2.7 The trend /regression analysis shows that the projection of deposit, investment and net profit for next five year is increasing continuously. It means there is good possibility to be in lighted in the field of banking.

5.3 Recommendations

Major recommendations of the study are given below

5.3.1 Profitability position of the bank return on Total Assets Ratio of the bank has been

Increasing trend in initial period , then decreasing and finally bank change highly positive figure on the study period ,since the probability of the bank seems to be fluctuated. So the bank should explore new areas of investment.

5.3.2 Current condition of non performing loan of MBL is not so deteriorating .Therefore, it can be recommended that to be sincere while disbursing loan the bank,Need to follow international standards.

5.3.3 Bank net profit has positive figure in every year .in the study period the volume of net profit is fluctuation trend and last year bank earned highest profit of the study period So the bank should invest riskless sector to continue earn profit.

5.3.4 The volume of deposit is increasing every year. So the bank should formulated new idea and alternative policy i.e. like giving higher interest rate in fixed deposit and other deposits to enhance resource mobilization.

5.3.5 Interest income of the bank has been observed increasing trend so the bank should mobilize its total assets where there is least chance of crisis as productive sector.

5.3.6 Bank investment trend has been increasing every year. The regular increment on investment signifies that there is able to manage its available funds property. So thebank should advise to give importance to more interest on Nepal government Treasury bill for safety and diversification.

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APPEDIX 1

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20. Citizen Bank International Ltd
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22. Bank of Asia Nepal Ltd.
23. Sunrise Bank Ltd.
24. DCBL Bank Ltd.
25. NMB Bank Ltd
26. Kist Bank Ltd.

$$\sum y = na + b \sum x$$

$$472.38 = 5a + b \times 0$$

$$a = \frac{472.38}{5}$$

$$a = 94.476$$

Then, Equation II

$$-34.93 = 940 + b \times 10$$

$$-34.93 = 10b$$

$$b = \frac{-34.93}{10}$$

$$b = -3.493$$

The Regression trend is

$$Y = a + bx$$

Forecasting the total Deposit for the following seven years

$$Y = a + bx$$

| Y | abx | | in million |
|---------|--------|--------|--------------|
| 2067/68 | 94.476 | -3.49 | ×3 84.006 |
| 2068/69 | 94.476 | -3.496 | ×4 80.5 |
| 2069/70 | 94.476 | -3.496 | ×5 77.03 |
| 2070/71 | 94.476 | -3.496 | ×6 73.54 |
| 2071/72 | 94.476 | -3.496 | ×7 70.05 |

Appendix III
Calculation of Trend Value / Regression analysis
Trend Value analysis of Investment (In Million)

| Fiscal Year | Year (X) | Investment | XY | X² |
|--------------------|-----------------|-------------------|-----------|----------------------|
| 2062/63 | -2 | 1190.829 | -2381.66 | 4 |
| 2063/64 | -1 | 1278.467 | -1178 | 1 |
| 2064/65 | 0 | 1443.3551 | 0 | 0 |
| 2065/66 | 1 | 1246.159 | 123.25 | 1 |
| 2066/67 | 2 | 2096.792 | 146.62 | 4 |

N=5 $\sum x = 0$ $\sum Y = 7255.80$ $\sum XY = 1779.61$ $X^2 = 10$

Here,

Actual Trend equation of the Linear Trend

Two Normal equation

$\sum y = na + b \sum x \dots\dots\dots(i)$

$$\sum xy = a \sum x + b \sum x^2 \dots\dots\dots(ii)$$

Putting the value from the normal equation from the above table

$$\sum y = na + b \sum x$$

$$7255.80 = 5a + b \times 0$$

$$a = \frac{7255.80}{5}$$

$$a = 1451.1592$$

Then, Equation II

$$1779.61 = 1451.1592 \times 0 + b \times 10$$

$$1779.61 = 10b$$

$$b = \frac{1779.61}{10}$$

$$b = 177.961$$

The Regression trend is

$$Y = a + bx$$

Forecasting the total Deposit for the following seven years

$$Y = a + bx$$

| Y | a | bx | | in Million |
|---------|-----------|---------|----|------------|
| 2067/68 | 1451.1592 | 177.961 | ×3 | 1985.04 |
| 2068/69 | 1451.1592 | 177.961 | ×4 | 2163.00 |
| 2069/70 | 1451.1592 | 177.961 | ×5 | 2340.964 |
| 2070/71 | 1451.1592 | 177.961 | ×6 | 2518.925 |
| 2071/72 | 1451.159 | 177.961 | ×7 | 2696.89 |

Appendix v
Calculation of Trend Value / Regression analysis
Trend Value analysis of Total Deposit (In Million)

| Fiscal Year | Year (X) | Total Deposit | XY | X² |
|--------------------|-----------------|----------------------|-----------|----------------------|
| 2062/63 | -2 | 7893.295 | -2381.66 | 4 |
| 2063/64 | -1 | 9475.451 | -1178 | 1 |
| 2064/65 | 0 | 11102.242 | 0 | 0 |
| 2065/66 | 1 | 15596.791 | 123.25 | 1 |
| 2066/67 | 2 | 18535.917 | 146.62 | 4 |

N=5 $\sum x = 0$ $\sum Y = 62603.70$ $\sum XY = 27406.57$ $X^2 = 10$

Here,

Actual Trend equation of the Linear Trend

Two Normal equation

$\sum y = na + b \sum x$ (i)

$\sum xy = a \sum x + b \sum x^2$ (ii)

Putting the value from the normal equation from the above table

$$\sum y = na + b \sum x$$

$$62603.70 = 5a + b \times 0$$

$$a = \frac{62603.70}{5}$$

$$a = 12520.73$$

Then, Equation II

$$27406.57 = 12520.73 \times 0 + b \times 10$$

$$27406.57 = 10b$$

$$b = \frac{27406.57}{10}$$

$$b = 2740.65$$

The Regression trend is

$$Y = a + bx$$

Forecasting the total Deposit for the following five years

$$Y = a + bx$$

| Y | a | bx | | in million |
|---------|----------|---------|----|------------|
| 2067/68 | 12520.73 | 2740.65 | ×3 | 20742.68 |
| 2068/69 | 12520.73 | 2740.65 | ×4 | 23483.33 |
| 2069/70 | 12520.73 | 2740.65 | ×5 | 26223.98 |
| 2070/71 | 12520.73 | 2740.65 | ×6 | 28964.63 |
| 2071/72 | 12520.73 | 2740.65 | ×7 | 31705.28 |

Appendix VI
Comperative Balance sheet
of
Machhapuchchhare Bank Ltd, Nayabazar
Pokhara, Nepal

| Liabilities | 2062/63 | 2063/64 | 2064/65 | 2066/67 | 2067/68 |
|---|-----------------|------------------|------------------|------------------|------------------|
| Share Capital | 715 | 821.651 | 901.339 | 1479.369 | 2066.067 |
| Reserve and funds | 216.091 | 178.613 | 262.0081 | 220.928 | 146.314 |
| Bond & debenture | - | - | | | |
| Loan and Borrowing | 131.675 | 228.504 | 88.508 | - | 150.000 |
| Deposits | 7893.298 | 9475.452 | 11102.242 | 15596.791 | 18335.917 |
| Bills Payable | 11.365 | 21.482 | 10.311 | 24.445 | 15.402 |
| Proposed Dividend | 5.645 | 4.114 | 8.649 | 0.1120 | - |
| Income and Tax Liabilities | 10.462 | 7.372 | 3.037 | 11.765 | - |
| Other Liabilities | 86.294 | 70.228 | 122.453 | 157.472 | 203.961 |
| Total Liabilities | 9069.830 | 10807.617 | 12498.548 | 17490.782 | 20678.791 |
| Assets | | | | | |
| Cash Balance | 280.421 | 385.940 | 560.317 | 743.199 | 1049.321 |
| Balance at Nrb | 489.421 | 785.688 | 893.295 | 1755.982 | |
| Balance at Bank & financial Institution | 44.412 | 112.451 | 134.95170.00 | 267.468 | |
| Money at all and short notice | 718.475 | 694.000 | 70.00 | | 661.564 |
| Investment | 1190.829 | 1278.467 | 1443.551 | 1246.159 | 2096.792 |
| Loan and advanced & bill purchase | 6068.427 | 7129.892 | 8642.323 | 12516.012 | 14289.793 |
| Fixed assets | 104.943 | 259.533 | 535.886 | 664.138 | 732.291 |
| Non Banking Assets | 12.533 | 3.393 | - | 4.500 | |
| Other Assets | 160.699 | 158.251 | 218.225 | 293.304 | 438.633 |
| Total Assets | 9069.830 | 10807.617 | 12498.548 | 17490.782 | 20678.791 |

Source: Annual Reports of MBL

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20. Citizen Bank International Ltd
21. Prime Commercial Bank Ltd
22. Bank of Asia Nepal Ltd.
23. Sunrise Bank Ltd.
24. DCBL Bank Ltd.
25. NMB Bank Ltd
26. Kist Bank Ltd.

- 27. Janta Bank Nepal Ltd.
- 28. Mega Bank Ltd.
- 29. Civil Bank Ltd.
- 30. Century Bank Ltd.
- 31. Sanima Bank Ltd.
- 32. Commerce and Trust Bank Ltd.

(Source : www.nrb.org)

Appendix II
Calculation of Trend Value / Regression analysis
Trend Value analysis of Net Profit(In Million)

| Fiscal Year | Year (X) | Net Profit | XY | X ² |
|-------------|----------|------------|--------|----------------|
| 2062/63 | -2 | 114 | -228 | 4 |
| 2063/64 | -1 | 76.8 | -76.8 | 1 |
| 2064/65 | 0 | 85.02 | 0 | 0 |
| 2065/66 | 1 | 123.25 | 123.25 | 1 |
| 2066/67 | 2 | 73.31 | 146.62 | 4 |

$N=5 \quad \sum x = 0 \quad \sum Y = 472.38 \quad \sum XY = -34.93 \quad \sum X^2 = 10$

Here,

Actual Trend equation of the Linear Trend

Two Normal equation

$\sum y = na + b \sum x \dots\dots\dots(i)$

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$$a = 94.476$$

Then, Equation II

$$-34.93 = 940 + b \times 10$$

$$-34.93 = 10b$$

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$$b = -3.493$$

The Regression trend is

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Forecasting the total Deposit for the following seven years

$$Y = a + bx$$

| Y | abx | | in million |
|---------|--------|--------|----------------|
| 2067/68 | 94.476 | -3.49 | ×3 84.006 |
| 2068/69 | 94.476 | -3.496 | ×4 80.5 |
| 2069/70 | 94.476 | -3.496 | ×5 77.03 |
| 2070/71 | 94.476 | -3.496 | ×6 73.54 |
| 2071/72 | 94.476 | -3.496 | ×7 70.05 |

Appendix III
Calculation of Trend Value / Regression analysis
Trend Value analysis of Investment (In Million)

| Fiscal Year | Year (X) | Investment | XY | X² |
|--------------------|-----------------|-------------------|-----------|----------------------|
| 2062/63 | -2 | 1190.829 | -2381.66 | 4 |
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|---------|-----------|---------|----|------------|
| 2067/68 | 1451.1592 | 177.961 | ×3 | 1985.04 |
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| 2070/71 | 1451.1592 | 177.961 | ×6 | 2518.925 |
| 2071/72 | 1451.159 | 177.961 | ×7 | 2696.89 |

Appendix v
Calculation of Trend Value / Regression analysis
Trend Value analysis of Total Deposit (In Million)

| Fiscal Year | Year (X) | Total Deposit | XY | X² |
|--------------------|-----------------|----------------------|-----------|----------------------|
| 2062/63 | -2 | 7893.295 | -2381.66 | 4 |
| 2063/64 | -1 | 9475.451 | -1178 | 1 |
| 2064/65 | 0 | 11102.242 | 0 | 0 |
| 2065/66 | 1 | 15596.791 | 123.25 | 1 |
| 2066/67 | 2 | 18535.917 | 146.62 | 4 |

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$$b = 2740.65$$

The Regression trend is

$$Y = a + bx$$

Forecasting the total Deposit for the following five years

$$Y = a + bx$$

| Y | a | bx | | in million |
|---------|----------|---------|----|------------|
| 2067/68 | 12520.73 | 2740.65 | ×3 | 20742.68 |
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| 2069/70 | 12520.73 | 2740.65 | ×5 | 26223.98 |
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| Proposed Dividend | 5.645 | 4.114 | 8.649 | 0.1120 | - |
| Income and Tax Liabilities | 10.462 | 7.372 | 3.037 | 11.765 | - |
| Other Liabilities | 86.294 | 70.228 | 122.453 | 157.472 | 203.961 |
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| Balance at Nrb | 489.421 | 785.688 | 893.295 | 1755.982 | |
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| Non Banking Assets | 12.533 | 3.393 | - | 4.500 | |
| Other Assets | 160.699 | 158.251 | 218.225 | 293.304 | 438.633 |
| Total Assets | 9069.830 | 10807.617 | 12498.548 | 17490.782 | 20678.791 |

Source: Annual Reports of MBL