

CHAPTER – I

INTRODUCTION

This research work is on investment policy of commercial banks – A case study of Kumari Bank Ltd and Everest Bank Ltd of Birtamode, Jhapa. It focuses on the relationships between Investment, investment policy and challenges of investment in Nepalese economy. It attempts to analyze the current situation of investment in Nepal shedding light on the challenges of investment policies to show the real scenario of financial activities especially in the commercial banks under study. It also attempts to highlight the major problems facing the commercial banks which need to be corrected.

1.1 General Background of the study

Investment has different meanings in finance and economics. In finance, investment is putting money into something with the expectation of gain, usually over a longer term. This may or may not be backed by research and analysis. Most or all forms of investment involve some form of risk, such as investment in equities, property, and even fixed interest securities which are subject, inter alia, to inflation risk. In contrast putting money into something with a hope of short-term gain, with or without thorough analysis, is gambling or speculation. This category would include most forms of derivatives, which incorporate a risk element without being long-term homes for money, and betting on horses. It would also include purchase of e.g. a company share in the hope of a short-term gain without any intention of holding it for the long term. Under the efficient market hypothesis, all investments with equal risk should have the same expected rate of return: that is to say there is a trade-off between risk and expected return. But that does not prevent one from investing in risky assets over the long term in the hope of benefiting from this trade-off.

In economics, investment is related to saving and deferring consumption. Investment is involved in many areas of the economy, such as business management and finance whether for households, firms, or governments. Investment is the amount purchased per unit time of goods which are not consumed but are to be used for future production (i.e. capital). Examples include railroad or factory construction. Investment in human capital includes costs of additional schooling or on-the-job training. Inventory investment is the accumulation of goods inventories; it can be positive or negative, and it can be intended or unintended. In measures of national income and output, "gross investment."

In finance, investment is the application of funds to hold assets over a longer term in the hope of achieving gains and/or receiving income from those assets. It generally does not include deposits with a bank or similar institution. Investment usually involves diversification of assets in order to avoid unnecessary and unproductive risk.

In contrast, dollar (or pound etc) cost averaging and market timing are phrases often used in marketing of collective investments and can be said to be associated with speculation.

Investments are often made indirectly through intermediaries, such as pension funds, banks, brokers, and insurance companies. These institutions may pool money received from a large number of individuals into funds such as investment trusts, unit trusts etc to make large scale investments. Each individual investor then has an indirect or direct claim on the assets purchased, subject to charges levied by the intermediary, which may be large and varied.

Investment definition has been many ways but in this thesis we used only financial sense they are as follows:

According to William F. Shape. Gordon J. Alexander and Jeffery V. Bailey

"Investment, in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain." (Shape Alexander and Bailey, 1998: 1)

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

"Investment is the sacrifice of money today for prospective money tomorrow".

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

Donald. E .Fischer and Ronal J. Jordon

“An investment as a commitment of funds made in expectation of some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk the investor assumes”

For the purposes of this text, we define investment as the commitment of a given present sum of money to an alternative with the expectation of receiving additional sum in the future. This definition underscores two important points. First, the process of investment involves the trading of present income for future income.

Second, the objectives of investment are to receive a future flow of funds larger than the originally invested. Thus, we invest to gain a positive return.

Investment policy is the process of proper utilization of the assets or funds to maximize its value of it is the process to obtain high or favorable return with low risk with the protection from inflation as well as other unfavorable situations. Investment policy is an important ingredient of overall national economic development because it ensures efficient also allocation of fund to achieve the materials and economic well being of the society as a whole. In this regard, commercial bank investment policy push drives to achieve priority of commercial sectors in the context of Nepal's economic development.

Investment policy is the guideline for proper management of any fund or wealth to maximize value or to obtain the high or favorable return with low risk considering the protection of invest forms the inflation and other possible harms. Banks are disbursing their money as investment in trade business and industry. Due to the growth in banking sector in Nepal and huge competition, investments are facing challenges. Therefore, Banks should follow the principle of investment for profit. An investment policy should ensure maximum profit and minimum risk. Investment policy determines the investor's objective and the amount of investable wealth because there is possible relation between risk and return for sensible investment strategies.

Banking sector specially commercial banks play a vital role in the process of analyzing the available resources in the needed sectors. Financial system contains two components i.e. depositary financial institution and non-depositary financial institution. Commercial banks are depositary financial institution whereas employee's provident fund, development bank insurance companies etc are non depositary financial institutions. All the economic activities are directly or indirectly channeled through banks. Banks accept money as a deposit from public

and invest it in the form of loan and advances. Financial institutions act as an intermediary role between the persons who lend and who borrow. Bank pools the scattered fund and mobilize them in productive sector .Bank came into existence mainly with the objective of collecting the idle fund, mobiles them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest and deposited amount of depositor. The word CAMELS can be used to judge the soundness of bank. It stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings performance, Liquidity and Sensitivity for Risk.

1.1.1 Meaning of Bank

A Bank is an organization whose primary functions are concentrated with accumulation of idle money from General public and advancing loan to individuals, traders industries and business houses for expenditure. Generally the bank collects money from those who have spare of it from their income on which it pays interest regularly. The money thus accumulated can be invested different sectors such as business, foreign trades, agriculture's industry and social works for which it charges certain percentages of interest which is higher than interest paid by the bank to accumulated fund. Such charges on advancing loan is the major revenue sources of the bank by which it can bear administration expenses incurring in the process of operating its activities. Thus the bank is a good mediator between depositors and loan takers.

To know the precise and clear meaning of bank, some expert's definition can be given. Chamber's twentieth century dictionary defines a bank as an "Institutions for keeping, lending and exchanging etc of money."

According to Crowther "A banker is a dealer in debts. The bankers business is then to take the debts of other to people, to offer his own in exchange and thereby to create money."

According to World Bank, “Banks are the financial institutions that accept funds in the form of deposit repayable on demand or short notice.”

Therefore a bank is a financial institution, which collects deposits and in turn provides loans by creating credit. Today banking is such a vague term, it does a lot more than deposits and credit like remitting money, issue of money guarantee, letter of credit, controlling, payment, other agency functions, monetary activity of country etc. are also the major function of bank. This multiplicity of bank service and function has led to a bank being labeled “financial supermarket.

1.1.2 Origin and Evolution of Banks

There is no unanimity among the economists about the origin of the world banking the term bank derives from the Italian World Bank which refers to the bench on which the banker would keep its money for lending and exchanging. Some person trace its origin from the Latin word Bancus which refers to the bench on which the banker would keep its money and his record it is believed that the ancestors of modern banking system were merchants goldsmiths and money lenders. Modern banking showed its seed in the medieval Italy despite strong Christian prohibitions against charging interest.

The first banks called the banks of Venice were established in Venice Italy in 1157A.D to finance bank of Genoa was established in 1401 and 1408 respectively. After that bank of Amsterdam was established in 1609AD when the bank of England was established in 1694 it played the vital role for the development of modern banking system. After its establishment banks spread all over the world.

1.1.3 Banking history in Nepal

In the context of Nepal like as in other country the goldsmiths and landlord was the ancient banker. The Nepalese people were highly exploited by Shahu Mahajan by charging higher interest rate compound interest rate and even by manipulating the principal amount .If we try to see the history of banking transaction in depth

evidence of money lending function are found in practice before 8th century. In 780 B.S. Gunakamadev the ruler of Kathmandu reconstructed Kathmandu valley by borrowing debt from the people .14th century Tanka dhari system had been running .in the period of Ranodip Singh in Kathmandu established an office called Tejarath Adda from this office the government distributed salary to their employees and provided loans to government employment @ 5% of interest against the security of gold sliver etc.

Because of the development of economic activities in Nepal the above institution could not be fulfilled the need of people so in Kartik 30, 1994, BS Nepal bank limited was established as one of the semi government commercial bank which had 10 million authorized capital and 842000 paid of capital .it has done the pioneering function in spreading the banking habits among the people. Having felt a need of central bank to control and direct the commercial bank and help the government for making monetary policies Nepal Rastra Bank was set up in 14 Baisakh 2013 B.S.

To fulfill the growing credit requirement of the country the commercial bank Rastriya Banijya Bank was establish in 10th Bhadra 2022B.S Rastriya Banijya Bank is also to provide facilities for the economic welfare of the general public. Nepal is an agriculture country to develop agriculture system and industry agriculture Development Bank and Nepal Industrial Development Corporation was established in 2024BS and 2016 BS respectively.

The initiation of the financial sector liberalization policy by Nepal Rastra Bank a board of joint venture banks entered with the view to accelerate the race of development of nation. At present there are many joint venture banks, which are running successfully in a competitive environment. His majesty government deliberates policy of allowing foreign joint venture banks to operate in Nepal basically targeted to encourage local tradition commercial bank to enhance their capacity through competitor's efficiencies mechanization modernization and

prompt customer service. Nepal Arab Bank LTD was established in 2041 as a first foreign joint venture bank.

Now in our country there are 32 commercial bank, 88 development bank, 77 finance companies, 37 co-operative organizations and 17 non-bank institutions after end of chaitra 2068.

1.1.4 Concept of Commercial banks of Nepal

The commercial banks are those banks, which are established to accept deposits and grant loan to the industries, individual and traders with a view to earn profit. Apart from financing, they also render services like collection of bills and cheques, safekeeping of valuables, financial advising etc. to their customer.

For effective management of investment portfolio, every bank must have a written investment policy the board of directors formulates such policy and it may differ from bank to bank in terms of complexity comprehensives. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective, commercial banks formulate sound investment policies, which eventually contribute to the economic growth of a country. The sound policies help commercial banks maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordination and planned efforts pushes forward the forces of economic growth. Commercial banks in Nepal are playing vital roles to collect money in the state. Nepal has many nationalized and private banking ventures. There are 32 commercial banks in Nepal. All the detail of commercial bank in Nepal on the basis of name, year established, head office, etc are given below:

S.N.	Name of Commercial Bank	Year of establishment A.D.	Head office
1	Nepal Bank Limited	1937	Kathmandu
2	Rastriya Banijya Bank Limited	1966	Kathmandu
3	Nabil Bank Limited	1984	Kathmandu
4	Nepal Investment Bank Limited(Previously Nepal Indosuez Bank)	1986	Kathmandu
5	Standard Chartered Bank Limited(Previously Nepal Grindlays Bank Limited)	1987	Kathmandu
6	Himalayan Bank Limited	1993	Kathmandu
7	Nepal SBI Bank Limited	1993	Kathmandu
8	Nepal Bangladesh Bank Limited	1993	Kathmandu
9	Everest Bank Limited	1994	Kathmandu
10	Bank of Kathmandu Limited	1995	Kathmandu
11	Nepal Credit and Commerce Bank Limited(Previously Nepal Bank of Ceylon Limited)	1996	Bhairawa
12	Lumbini Bank Limited	1998	Narayangrah
13	Nepal Industrial and Commercial Bank Limited	1998	Biratnagar
14	Machhapuchre Bank Limited	2000	Phokara
15	Kumari Bank Limited	2001	Kathmandu
16	Laxmi Bank Limited	2002	Birjung
17	Siddharth Bank Limited	2002	Kathmandu
18	Global Bank Limited	2007	Birjung
19	Citizens Bank International Limited	2007	Kathmandu
20	Prime Commercial Bank Limited	2007	Kathmandu
21	Bank of Asia Nepal Limited	2007	Kathmandu
22	Grand Bank Nepal limited	2008	Kathmandu

23	NMB Bank Limited	2009	Kathmandu
24	Kist Bank Limited	2009	Kathmandu
25	Develpoment Credit Bank Ltd	2009	Kathmandu
26	Mega Bank Limited	2009	Kathmandu
27	Sunrise bank limited	2009	Kathmandu
28	Janata Bank limited	2009	Kathmandu
29	Commerz and Trust bank limited	2010	Kathmandu
30	Civil Bank limited	2010	Kathmandu
31	Century commercial bank limited	2011	Kathmandu
32	Sanima Bank limited	2011	Kathmandu

Source: www.nrb.org.com

Although bank can be categorized into different types on the on basic of its function objective etc World Bank always refers to the commercial bank. Basically the functions of commercial bank all over the world are same of Basic functions are various types of deposits facility namely currently saving and fixed safety of public money remittance of money guarantee locker facilities letter of credit loans serving as agent of credit foreign exchange etc. The commercial banks of Nepal also do all these functions.

Mainstream function of commercial bank remains the mobilization rigid and scattered saving of public for providing credit to needy firm industry or people to get productive use all other function can be said as auxiliary function.

Commercial banks is a profit oriented financial service institution certain of the interest is given to the deposits and a certain rate of interest is charge by the bank in the loan facility the second charge interest rate is higher than the first .it is the main earning of the bank.

According to Nepal company act 2031 BS A commercial bank refers to such type of bank which deal in money exchange accepting deposit advance loan and commercial transaction expect specific banking related to co- operative agriculture

industry and other objective. Basic source of funds of commercial bank are capital reserve undistributed profit and several of deposits basic use of the funds are loans advance and investment.

1.2 Profiles of Kumari Bank Ltd and Everest Bank Ltd

Kumari Bank Limited (KBL)

Kumari Bank Ltd. came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. Kumari Bank Limited has been providing wide range of modern banking services through 29 points of representations located in various urban and semi urban part of the country, 20 outside and 9 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS Banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 35 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customers.

Within 12 years of its establishment the bank has been able to recognize itself as an innovative and growing institution striving to enhance customer value and satisfaction of banking transparent business practice professional management, corporate governance and total quality management as the organization mission. The bank has an authorized capital of Rs 2000000000; out of which, the issued and paid capital is Rs 1603800000.

Everest Bank Limited (EBL)

Everest Bank Limited started its operation in 1994 with a view and objective of extending professionalized and efficient banking services to various segment of the society. The bank is providing customer friendly services through its branch network at the branches of the bank are conducted through Anywhere Branch Banking System (ABBS) which enables customers for operational transaction from any branches. The bank has 47 Branches, 60 ATM Counters and 27 Revenue Collection Counters across the country making it a very efficient and accessible bank for its customers, anytime, anywhere.

Recognizing the value of offerings a complete range of services, they were pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals.

EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamode Branch, which is the first of its kind. EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society. EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

Punjab National Bank (PNB), its joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India and over 6000 ATM counters, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and

international banking. For its excellence in banking services, it was recently awarded the "Best Bank Award 2011" amongst all banks in India by the leading corporate magazine, Business India. The bank has been conferred with "Bank of the Year 2006, Nepal" by the Banker, a publication of financial times, London. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector. This bank has a authorized capital of Rs 2000000000, out of which, the issued and paid capital is Rs 1,391,570,439 .

1.3 Statement of problem

After restoration of multiparty democratic system in 2046 B.S the government of Nepal adopted the policies of privatization and liberalization in Nepalese market. Due to that policy many financial institutions came into operation and as a result, in these days commercial banks, developments banks and financial companies are operating with high competition. The fast growth of such organizations has made pro-rata increment in collecting deposit and their investment. They collected the huge amount from public but couldn't allocate in new investment sectors.

The increasing rate of liquidity has pulled in a downward trend in investment. It impacted adversely on interest to the depositors and lower market value of shares.

Though several commercial banks have been established in short period. Strong, stable and appropriate investment policy has not been enacted. A huge collection of deposit and investment policy play vital role for the economic development of whole country.

Banking plays a significant role in the development of national economy whose primary function is borrowing and lending. Today, banks perform variety of functions and operate in the complex and versatile market by entering in the neck-to-neck competition. A very unhealthy activity is seen happening in the banking

business. After the loan is provided by the bank, regular inspection and monitoring are not made to know whether the debtor has used the loan in productive purpose or not. Due to these reasons, there is great amount of unrecovered bank loan. Banks only depend upon the direction and guidelines of Nepal Rastra Bank but they don't have clear view and have not formulated their own organized investment policy. In view of this problematic situation facing the banks this study is directed toward examine the investment policies and practices of Kumari Bank Ltd and Everest Bank Ltd. This study basically deals with the following issues of joint venture banks.

- a. What are the investment policies of Kumari Bank Ltd and Everest Bank Ltd?
- b. What are the impacts of their investment policies on loan investment and recovery?
- c. Are the available funds for investment properly utilized or not?
- d. What is the relationship between investment on loan and advances with total deposits and total net profit?
- e. What is the investment portfolio behavior of the banks?

1.4 Objectives of the study

The main objective of the study is to assess the investment policy and strategy followed by the bank with reference to Kumari Bank Ltd and Everest Bank Ltd. The specific objectives of this study are mentioned below:

- a. To examine the nature of investment policies of KBL and EBL under this study.
- b. To examine the impact of investment policies on investment of both banks under study.

- c. To analyze the deposit utilization for five years of KBL & EBL.
- d. To find out relationship between total investment, deposit, loan & advance and net profit.
- e. To evaluate the liquidity, efficiency, risk position and profitability of the selected banks.
- f. To analyze the financial position of KBL and EBL in terms of deposit collection and investment procedure.

1.5 Justification of the study

Suitable policies strategies play vital role in a bank for their sustained existence. The outcome of this study will be helpful to aware the shareholders regarding investment policies of their banks. The study suggests to the management how they can improve their managing power and recommends what is the clue to raise the profit. However, this study also gives feedback to policy makers and will be useful for them who formulate the policy for regulation. The study of investment policy has intermediate effect on all those involved in financial activities directly or indirectly. The government, depositors, shareholder, manager, general public and even the researcher feel the need of this study indiscriminately for the information and knowledge necessary to them. All stakeholders can identify which bank is the best have to invest their money for economic gains.

1.6. Limitations of the study

Every type of research work has its own limitations. In view of this reality this study also has some limitations as following:

- 1) This study is mainly concerned to only two banks i.e. Kumari Bank Ltd and Everest Bank Ltd of Birtamode branches.

- 2) The whole study is based on secondary data made available from the respective banks and websites on net, articles and newspapers.
- 3) The study is based only on the latest five years data.
- 4) Lack of sufficient time and resources has also been a limitation for the researcher.

1.7 Organization of the study

The study has been organized into five chapters as given below:

Chapter - 1 Introduction of study

Chapter - 2 Review of literature

Chapter - 3 Research Methodology

Chapter - 4 Presentation and Analysis of Data

Chapter 5 Summary, Conclusions and Recommendations

Chapter 1: Introduction

To start the thesis report, this chapter includes the background of the study, meaning, introduction to investment and investment policy, introduction to KBL, introduction to EBL, statement of problem, objective of the study, significance of the study, and limitation of the study. This chapter has been targeted to help the reader to understand get the rhythm of the subject matter of the thesis report.

Chapter 2: Review of Literature

This chapter deals with review of the different relevant literature of the study field. Therefore, it includes conceptual framework along with the review of major books, journal, research work, thesis periodicals, annual reports, and internet etc. related to this topic.

Chapter 3: Research Methodology

This chapter deals with research methodology and it includes introduction, research design, sources of data, population and sample, sampling procedure, source and technique of data collection, tools and techniques for data analysis which are financial tools, statistical tools.

Chapter 4: Presentation and Analysis of Data

This chapter deals with analysis and presentation of the data using financial and statistical tools described in chapter three. Similarly this chapter also includes the major findings of the study.

Chapter 5: Summary, findings, Conclusions and Recommendations

In this chapter, the summary of the entire thesis has been comprised. Conclusions of the study have also been included in this chapter. And lastly possible and viable recommendations have also been presented in this chapter.

Finally, an extensive, bibliography and appendices are also presented at the end of the thesis work.

CHAPTER – II

LITREATURE REIVEW

This chapter deals with the review of the literature to gain the basic knowledge and insight into the problem for the study. Review of literature means reviewing research studies or other relevant proposition in the related area of the study. Reviewing research studies on once chosen field of study and find what remains to be done; in the related area of the study is called review of literature. "This purpose of reviewing the literature is to develop some expertise in one's area. To see what new contribution can be made and to receive some ideas for developing a research design." (*Wolf and Pant 1999; 30*)

Scientific research must be based on the past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study in other words, there has to be continuity in research. A careful and successful review of literature helps the researcher in avoiding any duplication of work done earlier. It enables the researcher in discovering important variable relevant to the area of the present research.

Some vision has been mentioned with the purpose of reviewing the literature. This chapter is divided into two different sections.

- (1) Conceptual Review.
- (2) Review of related studies.

2.1 Conceptual Review

This sub-chapter presents the theoretical aspect of the study. It includes the concept of commercial bank, investment, investment policy of commercial banks, investment policy of KBL and EBL and feature of sound lending policy.

2.1.1 Commercial Bank

The financial institutions in Nepal can be broadly classified into two basis of banking and non-banking financial institutions. Commercial banks are the banking institutions which creates demand deposits, that is, deposit account which is subject to withdrawal by the owner on demand as subject transfer to a third party by means of a cheque. In that respect, it differs from all other financial institutions. Moreover, deposits in a commercial bank circulate as money, while deposits in other financial institutions do not. In fact, the greater part of money supply is the direct consequence of the profit-seeking or money-creating activities of commercial banks.

A commercial bank is a legally formed financial institution, which operates for profit. Like other industrial or commercial enterprise a bank too seeks to earn maximum income through the suitable employment of its resources. It is a financial – sort of an intermediary between people with surplus funds and people in need of funds. It accepts deposits for the purpose of lending or investment and thereby hopes to make a profit – profit, which are adequate to enable the bank to pay interest at the prescribed rates to its depositors, meet establishment expenses, build reserves, pay dividend to the shareholders, etc.

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services.”(American Institute of Banking, 1972:345)

“The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintains economic confidence of various segments and extends credit to people” (Grywinshky,1991)

2.1.2 Investment

Investment is the use of money to earn income or profit. The term also refers to the expenditure of funds for capital goods. Such items as factories, firm equipment, livestock and machinery. Most people invest part of their income for future financial gain. Others make investment to protect the purchasing power of their savings against rising prices. Some invest because they want to buy their own business, such as a store or a gas station.

Investment can be defined as sacrifice of present consumption with expectation of return in future. Investment takes place at present but return can be expected in future but return is uncertain too. Uncertainty is measured by risk that is why there is always involvement of risk in investment. Therefore, before making any kind of investment, a person should learn as much as possible about how the money will be used. The person also should find out what he\she can gain from investment. Every investment involves some risk that is a chance for loss.

Some scholars have given the actual meaning of investment are as follows:

Rabindra Bhattarai (2004: 142) argued that investment is made in assets. Assets in all are of two types real assets (land, building, factories etc.) and financial assets (stock, bond, treasury bill etc.). These two investments are not competitive but complementary. Highly developed institutions for financial greatly facilitate real investment.

According to Bexely, (1987:124) “Investment policy fixes responsibilities for the investment disposition of the bank assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets”

According to Francis “An investment is a commitment of money which is as expected to generate additional money. Every investment entails some degree of risk, it requires a present certain sacrifice for a future uncertain benefit.”

2.1.3 Investment policy of Commercial Banks

The main sources of a bank are Capital funds, Borrowing, Other liabilities and Deposits. These sources are invested in following assets cash and bank balance, Investment Loans, Advances and bills purchased/discounted, fixed assets, and other assets.

Accepting deposits from it customer in various accounts like current, fixed and saving account of Kumari Bank Limited are:-

- | | |
|----------------------------------|-----------------------------|
| a) KBL Recurring Deposits Scheme | b) Mero Laghu Muddati Khata |
| c) Fixed Deposits | d) Liquid Deposits |
| e) Kumari Savisng | f) Twinkle Star Saving |
| g) Subha Laxmi Saving | h) Surpuls Saving |
| i) Business Account | j) Checking Account |
| k) Time Deposits | l) Call Deposits |
| m) Kumai Smart Bachat Khata | n) Kumari Big Saving Khata |

Granting loan and advance in terms of overdraft demand loan, time loan of Kumari Bank Limited are:

a) Vehicle Loan	f) Term Loan
b) Home Loan	g) Short Term Loan
c) Consumer Product Financing	h) Hire Purchase
d) Education Loan	i) Bill Discounting Purchase
e) Travel Loan	j) Loan Syndication

Accepting deposits from its customer in various accounts like current, fixed and saving account of Everest Bank Limited are:-

- a) Current Account
- b) Savings Account: Normal Saving Account, Nari Bachat Khat, Saving Premium Account, Baal Bachat Khata, Saugat Bachat Khata, Freedom Saving Account
- c) Fixed Deposit Account: Supreme Deposit Account, Cumulative Deposit Scheme, Cash Certificate Scheme, Unfixed Fixed Deposit Scheme, PIZZA deposit Scheme
- d) Recurring Deposit Account: Sunaulo Bhavishya Yojana, Flexi Recurring Deposit Account, SADICHHA Recurring Deposit Account
- e) FCY Deposit Account: USD Account, EBL NRN Deposit Account, Retirement Plan Account

Granting loan and advance in terms of overdraft demand loan, time loan of Everest Bank Limited are:

- a) Corporate Loan: Working Capital Finance, Project Finance, Trade Finance, Consortium Finance
- b) Retail Loan: Home Loan, Home Equity Loan, Vehicle Loan, Education Loan, Future Lease Rental, Professional Loan, Flexi Loan, Loan against Life Insurance Policy, Share Loan, Tractor and Water Pump Finance.

2.1.4 Features of Sound Lending Policy

The income and profit of the bank depends upon its lending procedure & investment policy of its funds in different securities. The greater the credit created by the bank the higher will be the profitability. A sound lending &

investment policy is not only prerequisite for the bank's profitability but also crucially significant for the promotion of commercial saving of a backward country like Nepal. It is not better to keep the available resources idle. The bank should be able to clear the policy of its investment by making a deep study on the subjects as to which sector would be the trust worthy & dependable to invest the funds collected in the bank, they should have the ability to use the policy of banking investment in its goal.

Some important features for sound lending and investment policy which most of the banks must consider can be explained as under:

a. Safety and Security

The bank should be very much conscious in investing procedures and profitable sectors. The bank should never invest its fund on those securities, which are subjected to too much for volatile and floatable. Since a little change cause a great loss. In the same speculative businessman, who may be bankrupt at once and who may earn millions in minute also should not be finalized at all. The bank should accept that type of securities, which are commercial durable, marketable and high market prices. In this purpose "MAST" should be followed for the investment.

Where,

M stands for Marketability

A stands for Ascertainability

S stands for Stability and

T stands for Transferability

And similarly, the five "C" should be followed in taking the decision regarding the advances of fund. The five "C" stand for capital, capacity, collateral, character and condition.

b. Liquidity

Customers deposit their saving at the banks in different accounts having full confidence that the bank will repay their money at any time when they need. To keep such confidence of the depositors, the bank must maintain this point in mind while investing its excess fund in different securities or at the time of lending so that it can meet current or short- term obligations when they become due for payment. The liquidity position of a bank is such a key factor that it must be able to meet its cash requirement either by its cash in case of demand from such customers. Once the customers lost their trust and interest in the bank they will immediately withdraw their all deposits and sell their share causing great and unexpected losses to the bank even the best bank can hardly survive in such condition. So it is very important for the bank to maintain its goodwill and trust in the market. Therefore the bank must maintain its liquidity. There is no meaning if the bank has adequate assets but not liquid i.e. they can't serve the purpose of liquidity when required.

c. Profitability

It is a fact that a commercial bank can maximize its volume of wealth through maximization of return on their investment and lending so, they must invest their funds where they gain maximum profit. The profit of commercial bank mainly depends on the interest rate, volume of loan and its time period and nature of investment in different securities.

d. Purpose of Loan Suitability

This is very hard task for every banker that why a customer needs loan because if the borrower misuses the loan given by bank, he will never be able to repay loan. In order to avoid such situation, advances should be allowed to select suitable borrowers and it should demand all the essential detailed information about the scheme of the project or activities would be examined before lending and bank

must keep in mind the overall development plans of the nation and the credit policy of the concerned authority by central bank.

e. Diversification

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

f. Tangibility

Thought it may be considered that tangible property does not yield and income apart from direct satisfaction of possession of property intangible securities, which have lost their value due to price level inflation therefore commercial bank should maintain proper tangible security to an intangible one.

g. Legality

A commercial bank must follow the rules and regulation as well as different directions issued by Nepal Rasta Bank, Ministry of Finance, Ministry of law and other while mobilizing its funds. Illegal sectors can bring many problems for the investors.

2.2 Review of Related Studies

This section provides a picture about what Nepalese or International scholars have done in similar subject. In this section review of book, review of article/journal, review of research paper and review of thesis work are included.

2.2.1 Review of Books

Sayers (1967) in his book 'modern banking' focuses in the economic importance of commercial banks and their function of creation of money. According to him

the special interest of economists in the bank because by their operations they can affect the monetary situation in sense of the availability of the purchasing power. When a bank makes an advance by allowing customers to overdraw his accounts the banks in effect exchanges its own promise to pay off the immediately against the customer's promise to pay off the advance later on the economics importance of this exchange is that the bank's promise to pay immediately is absolutely effective purchasing power, when play's and instrumental role in increasing the total demand of the goods and services. Here people use banks for the purpose of making payments and as sources of loans; the letter involves society's interest in the distribution between different used of the resources that can be debuted to adding to the real capital of nature.”

Sunity Shrestha (1998) has expressed similar view on investment. She stress on the fulfillment of credit needs of various sectors which ensure investment. She expressed in her book portfolio Behaviour of commercial Banks in Nepal. “The Commercial banks fulfill the credit needs of various economic sectors including policy of commercial banks which is based on the profit maximization of the institute as well as the economic enhancement of the country.”

Bhuman/Sharita (2056) in their book have highlighted function of credit creation, accepting various types of deposits and advancing loan in different field. According to the authors, the various marketing concept by bank, commercial-oriented concept of commercial banks following Nepal Rastra Bank directives.

Chency and Moses (1998) are concerned with the objective of investment and indicate that the risk is in proportion with the degree of return. They write “the investment objective is to increase systematically the individual's wealth: defined as assets minus liabilities. An investor seeking higher return must be willing to face higher level of risk.”

William j. Sharpe and Alexander j. Gordon (1999) has defined in this way “Investment, in its broadest sense as the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is generally uncertain. In the same cases the element of time predominates (for example government bond). In other cases risk is the dominant attribute (for example call option in common stock). In both time and risk are important.”

2.2.2 Review of Article/Journal

There are various investment policies which deal in the context of Nepalese commercial and other financial banks. In this section some of the related articles and journals have been reviewed briefly.

Bodhi B. Bajaracharya (1991) in his article Monetary policy and Deposit mobilization in Nepal concluded that the mobilization of domestic saving was one of the prime objective of the monetary policy in Nepal and for this purpose commercial banks were the vital active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the country.

Gilles Serra (1990) in his article ‘the role of commercial Banks in Nepalese Context’ has concluded that due to the pressure of competition for public welfare, five commercial banks are improving their services.

Sunil Chopra (1990) in his article ‘Role of foreign banks in Nepal’ concluded that the Commercial Banks played an increasingly dynamic and vital role in the economic development of the country.

Ram Lal Shrestha (1999), in his article “A study on deposit & credit of commercial bank in Nepal” concluded that the credit deposit ratio would be

51.30% other things remaining same, which was the lowest under the period of review. So he had strongly recommended that the commercial banks should try to give more credit earning field as far as possible. Otherwise, they might not be able to absorb even its total expenses.

Bishowambhar Pyakuryal (1987) in his article, “workshop on Banking and National Development” described the present changing context of the economy calls for a substantial revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize their resources in an efficient manner. Therefore, the task of utilization of resources is as much crucial as the mobilization. The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposits.

Mieno, (2006), in his article, “ *Fund Mobilization and Investment Behaviour in Thai Manufacturing Firms in the Early 1990s*”, has examined the capital structure and investment behavior of firms in Thailand in the early 1990s. Five important results are obtained. First, there are serious information problems between manufacturing firms and financial institutions. Second, the debt ratios of listed firms are higher than those of non-listed firms. Third, the low debt ratios of listed firms are simply a reflection of increased capital accounts generated by initial public offerings in the form of stock premiums or capital surpluses.

2.3 Review of Research Paper

Many researchers have published their research article about the investment policy in Nepal. Some research paper has studied and summarized as below:

Bohara (2002) conducted a study on “A comparative study on investment policy of joint venture banks and financial companies of Nepal,” The main objectives were:

- a) To find out the liquidity and profitability position of above both joint venture banks in comparison with finance companies.
- b) To analyzed the deposit utilization trend and its future projection for next five years for joint venture banks and finance companies.

The major findings of the research study were as follows:

- a) all finance companies had balanced the higher growth rates in comparison to joint venture banks altogether finance companies have not got sufficient investment opportunities.
- b) The liquidity position of joint ventures banks was comparatively better than that of financial companies.
- c) The profitability position of all finance company was higher than joint venture banks.

Shrestha (2004) conducted a study on “Nepal Rastra Bank Guidelines on Investment policy of commercial banks in Nepal (A case study of Nepal Investment Bank)”. The study was mainly based on secondary data. The major findings of the study were:

- a) The performance of NIBL regarding deposit collection granting loan & advance & investment was quite satisfactory but didn't seem to follow definite policy.
- b) The bank was good position to meet the daily cash requirements and it maintained the average cash & bank balance in respect to total deposit.
- c) NIBL did not efficiently utilize its equity capital hence return on equity was not satisfactory because of lack of sound investment policy for mobilization of its equity capital.
- d) Interest earned to total operating income of NIBL was high. However the bank failed to maintain net profit on the study.

Joshi (2005) conducted a study on “Investment policy of commercial banks in Nepal: A comparative study of Everest Bank Limited, Nabil Bank Limited & Bank of Kathmandu Limited” with the objective were:

- a) To analyzed the trends of deposit utilization towards total investment and loan and advances.
- b) To examined the growth ratios of loan and advances, total investment with other financial variables.
- c) To evaluated the liquidity, efficiency and profitability and risk position.
- d) To calculate hypothetical test to find whether there was difference between the various important ratios of EBL and NABIL and BOK.
- e) To discussed about fund mobilization and investment policy of EBL, NABIL and BOK.

The major findings of the study were as follows:

- a) EBL had good deposit collection & has made enough investment on government securities but it is maintained moderate investment policy on loan & advances.
- b) In analysis of profitability, total interest earned to total outside assets of EBL was lowest at all. But overall analysis of profitability ratios EBL was average profitability ratios comparison to other compared banks i.e. Nabil & BOK.
- c) The liquidity position of the EBL was comparatively better than NABIL & BOK. EBL had the highest cash & bank balance to total deposit, cash & bank balance to current assets ratio.
- d) Nabil had lowest liquidity position than that of other two banks.
- e) The view point of risk ratio, EBL has higher capital risk but average of credit risk ratio in compared to Nabil & BOK.
- f) EBL had maintained high growth ratios in total deposit, loan and advances and net profit but it has moderate positive investment policy.

- g) EBL had moderate risk between NABIL and BOK regarding various aspects of banking function.

Mr. Shrestha S.L (2006), in his thesis “A study of financial performance of Commercial Banks” concluded that the liquidity position of commercial bank had found relatively highly leveraged compared to the joint venture banks. Loan and advance have been their main forms of the investment. Two third assets have been used for earning purpose.

Chauhan (2008) conducted a study on “A comparative study on investment policy of NABIL bank ltd and Nepal Investment bank Ltd.”The study is mainly based on secondary data with the following objectives.

- a) To evaluate the trend of deposit utilization.
- b) To study the assets management system, profitability and risk position of the commercial Banks under study.
- c) To provide suggestion for improvement on the basis of findings.
- d) To analyze the relationship between total investment and deposit, deposit and loan and advances, net profit and outside assets of commercial Banks.

The major findings of the research study were as follows:

- a. The position of NIBL is comparatively better than that of NABIL. But still NIBL needs to mobilize its assets in more secure investment like government securities and share and debentures.
- b. The assets management position of both the banks was overall satisfactory. In comparison to NIBL. NABIL seems slightly weaker in mobilizing its assets in loans and advances, whereas in term of total investment NABIL’s position was better than that of NIBL.

- c. In terms of recovery of loan NABIL's position was getting better year by year. On the basis of mean, the credit risk ratio of NABIL was better than NIBL.
- d. The analysis of profitability ratios reveal that NIBL was lagging behind to earn high return on its loan and advances in comparison to NABIL. NIBL has not been able to earn high profit through the efficient utilization of its owned.
- e. NABIL seems to have earned higher amount of interest on its outside assets in comparison to NIBL. Overall it can be concluded that the profitability position of NABIL was comparatively better than that of NIBL.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They do not have clear view toward investment policy. Moreover, the investment policy is not made in or efficient way.

Yadav, (2009), conducted a study on "A study on Comparative Financial performance of Joint Venture banks in Nepal." The objectives of the study are as follows:

- a. To find out comparative and competitive position of two JVBs banks.
- b. To rank the Nabil and NBBL in terms of financial operational profitability, productivity position.
- c. To show the trend of total deposits, investments, total income, total expenses and total net income.
- d. Measuring financial risk of Nabil and NBBL.

- e. To provide package of recommendation and possible guidelines to improve banking business based on the findings of the study.

The research findings of the study are as follows:

- a. Capital structure ratios of both banks are low. Debt portion is more used in NBBL but profitability position is lower than Nabil.
- b. The trend of total deposits, total investment, total expenses, total net income, indirect expenses and interest earning of NBBL is exceptionally higher than Nabil.
- c. Both Banks should be developed separately and training department so they would be able to study different of management and supply practical suggestion to develop as an innovation approach in bank management and bank operation.

Thapa, (2010), has conducted a research entitled “ Investment Policy of Commercial Banks in Nepal.” The objectives of the study are as follows:

- a. To evaluate liquidity, activity and profitability ratios of RBB in comparison with NBL and industry average.
- b. To analyze the relationship of loan and total investments with total deposit and net profit of RBB and to compare it with that of NBL and industry average.
- c. To use trend analysis to compare loan and advance, total investment, total deposit and net profit of RBB and compare the same with other two.
- d. To examine the loan loss provision of RBB and NBL.

The major findings of the study are as follows:

- a. RBB has good deposit collecting, enough loan and advance and investment in government securities.
- b. It has comparatively better liquidity position than NBL.
- c. The profitability position of RBB and advance is worse. RBB and advance needs to take immediate steps to increase its profitability.
- d. There is significant relationship between deposit and loan and advance. There is insignificant relationship between deposit and investment, and outside assets and net profit.

Tapol,(2011), conducted a study on “ Investment Practice of Commercial Banks in Nepal”. The objectives of the study are as follows:

- a. To measure the financial performance.
- b. To find out comparative and competitive position of two JVBS banks of Nepal.
- c. Measuring risk of Nabil & NIBL bank.
- d. To find out the relationship between different variables like investment, deposits loan and advances, net profit & compare them between NABIL & NIBL.
- e. To recommended measure for the improvement of the financial performance and efficiency on the basis of the conclusion drawn the research.

The findings of the study are as follows:

- a. The mean ratio of return on loan and advances of NIBL is lower than that of NABIL. On the other hand, NIBL’s variability between ratios is lower than that of NABIL.

- b. The mean ratio of credit risk ratio of NIBL is higher than that of NABIL and NIBL's ratios are more homogenous than that of NABIL.
- c. From the analysis of growth ratio, NABIL has lower rate on total deposits, loan & advances, total investment and net profit than NIBL. Therefore NIBL has successfully collected and utilized fund amount of its customer than NABIL.
- d. Banks are recommended to activate foreign technology and investment in Nepal by means of their wide international sector and make Nepalese personnel capable of operating these banks as efficiency as international banks.

2.4 Research Gap

The purpose of the various research works is quite different from the studies made by the above persons related to commercial bank. This study focuses in effectiveness in investment policy analysis of KBL and EBL. Thus, this study will help to bridge the research gap on the comparatively study on investment policy of both banks i.e KBL and EBL specially related to investment functions of the international joint venture and national joint venture commercial banks that have been presented below:

- a) Are the available fund for investment properly utilized or not?
- b) What is the investment portfolio behavior of the banks?
- c) What are the investment policies of international joint venture of EBL and national joint venture of KBL?
- d) Are they maintaining sufficient liquidity?
- e) How far the banks have been successful in their investment strategies?
- f) Is there any relationship of investment and loan and advances with total deposits and total net profit?

CHAPTER – III

RESEARCH METHODOLOGY

The basic objective of the study is to compare investment policy of two commercial banks namely Kumari Bank Limited and Everest Bank Limited. This chapter includes research design, population and sample, sources of data, sampling method, method of data collection, tools and techniques used for analysis.

3.1 Research Design

The research is conducted on historical and analytical case study basis. Therefore descriptive and analytical research methodology has been followed, to achieve the desired objectives.

3.2 Population and Sample

The population or universe consists of number of unity usually very large which refers the totality of all observations. In other word, the collection or aggregative of objects or the set of result of an operation is called population.

This technique of taking part of the population for a studying purpose is known as sampling or a representative part of population which the researcher selects for the purpose of investigation is called a sample. It is a tool which enables the research is to draw conclusion about the objects or items that are included in the sample. It refers to the chosen part of population.

For the study purposes, whole commercial banks are the population data and the commercial banks under the study constitute the sample. In the context of Nepal, there are altogether 32 commercial banks running till date which all are the population of the study. But it is not possible to study all data related with these thirty two banks, Therefore here only two banks has been taken as sample from the whole population i.e. thirty two banks. The sample banks are as follows:-

-) Kumari Bank Ltd: It is a national joint ventures bank which came into existence as the fifteenth commercial bank Ltd of Nepal by starting its banking operation from Chaitra 21, 2057 B.S. with an objective of providing competitive and modern banking service in the Nepalese financial market.
-) Everest Bank Limited: It is an international joint ventures bank of Punjab National bank which started its operation in 1984 with a view and objective of extending professionalized and efficient banking service to various segment.

3.3 Sampling Method

There are different types of sampling methods for the purpose of this study purposive or judgment sampling has been used in this study. Judgment samples are selected from the population through research intension or on some other subjective basis. The selection of the sample is deliberate and purposive. It is not random. In the judgmental sampling subject are selected as the basis of their experience in the subject investigated.

3.4 Sources of Data

Basically the research is based on secondary data. For the purpose of the study the annual reports of the bank are used as the major sources of data. Besides the annual reports of the bank required data and information have been collected for the purposes of study all data were collected from NRB directives and reports. The information related to the past and current works conducted in the research fields were collected from the following sources:

-) NRB reports and bulletins and official website.
-) Balance sheet and profit and loss account of concerned banks annual reports.
-) Published and unpublished articles\ reports from various sources.

-) Electronics data from website.
-) Nepal stock Exchange reports.
-) Official website of Securities Board of Nepal.
-) Official website of Kumari Bank Limited and Everest Bank Limited.
-) Economics survey reports.

Formal and informal discussion with the senior staff of the bank were held which was helpful in understanding and obtaining the additional information of the related problem.

3.5 Method of Data Collection

In course of the research work, after identification of data, the required data for the study have been gathered through procedure which is as follows:-

- a) First of all, annual reports of KBL and EBL were downloaded from their respective website to pen drive and printed later on.
- b) Financial statement published by banks from time to time and additional information were collected from NRB, securities Board of Nepal, Economics survey.

3.6 Tools and Techniques for Analysis

Financial ratios are the major tools used for the descriptive analysis of the study. In addition to the financial tools, simple statistical tools were also used to achieve the objective of study. Besides these, some graph, charts and tables have been presented to analyze and interpret the finding of the study.

3.6.1 Financial Tools

Financial analysis is the key of determining the financial strength and weakness of the firm by properly establishing relationship between the items of the financial statement. In this study financial ratio has been used.

Ratio Analysis

An arithmetic relationship between two figures is known as ratio. Ratio analysis is a powerful tool of financial analysis. In financial analysis a ratio is used as a yard stick for evaluating the financial statement of a firm. The absolute accounting figure presented in the financial statement does not provide meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. Therefore the relationship between two accounting figures expressed mathematically, is known as financial ratio. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm financial performance.

Jain, S.P and Narang, K.L defined about "Ratio is the numerical or an individual relationship between two figures. It is expressing one number in term of another i.e. one figure divided by another number in order to calculate the ratio." Likewise Pandey, I.M. said that "A ratio is a yard sticks provide a measure of relationship between two accounting figure. It's defined or the indicated quotient of two mathematical two expression and as the relationship between two or more thing."

Therefore ratio analysis is the expression of the relationship between two items either from balance sheet or from income statement of or from both statement ratios is useful technique to interpret the financial statement. So the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. Even though there are several ratios, only those have been covered in these studies which are related to investment operation of the banks. In this study following ratios are calculated & analyzed:

- | | |
|-------------------------|--------------------|
| I. Liquidity Ratio | II. Activity Ratio |
| III Profitability Ratio | IV. Risk Ratio |
| V. Growth Ratio | |

I. Liquidity Ratio

Liquidity ratio is done to measure the short term financial soundness of the business. The ratio assesses the capacity of the company to repay its short term liabilities. Liquidity ratio is also an effective source to ascertain whether the working capital has been effectively utilized. Banks and other many lenders for short period are interested in the current assets of the company i.e. short term financial position of the business.

Different types of ratio have been used to measure the liquidity position of an enterprise. In connection with commercial bank, different liquidity ratio such as cash and bank balance to total deposit ratio, cash and bank balance to current assets ratio, investment on government securities to current assets ratio, current ratio are used to measure the liquidity position of both the banks. Now these ratios are briefly described as under.

a) Cash and Bank Balance to Total Deposit Ratio:

Cash is the primary reserve of the banks. By its experience bank must keep a certain percentage of deposits in the form of cash for contingent reason. This analysis indicated that the ability of banks funds to cover their current, saving fixed call and other deposits. In addition to this it also assesses that what proportion of total deposits is utilized and what proportion of cash and bank balance remain.

This ratio is calculated by using the following formula:

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

b) Cash and Bank Balance to Current Assets Ratio:

The cash and bank balance to current assets ratio measure of liquidity. The cash and bank balance to current assets ratio measures the proportion of cash and bank balance held by commercial bank out of its total current assets. Current assets of commercial bank includes cash and bank balance, money at call and short notice loans and advances for commercial banks [i.e. loans, cash credit and overdraft and bills discounted and purchased], investment on government securities and other, interest receivable and other miscellaneous current assets.

This ratio is calculated by using the following formula:

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

c) Investment on Government Securities to Current Assets Ratio

Investment on Government securities to current assets ratio is determined to find out the percentage of current assets invested in government securities i.e. treasury bill and government bond.

This ratio is calculated by using the following formula:

$$\text{Investment on Government Securities to Current Ratio} = \frac{\text{Investment On Govt. Securities}}{\text{Current Assets}}$$

d) Current Ratio

The current ratio is the ratio of total current assets to total current liabilities. It is calculating by dividing current assets by current liabilities which are expressed as follows:

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

Current assets represent those assets which can be converted into cash and bank balance within accounting period such as cash and bank balance, investment in treasure bills, money at call or placement, loan and advances, bills purchased and discount, inter branch account, other short term loans, receivable and prepaid expenses etc.

Current liability refers to short-maturing obligations. This include all deposit liabilities, inter-bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, provision and accrued expenses, etc.

e) Loan and Advances to Current Assets Ratio

Loan and Advance includes short term loan, overdraft, revolving overdraft and standby credit, line of credit and other lending. This ratio is computed as:

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

II. Activity Ratio (Assets Management Ratio)

Funds of creditors and owners are invested in various assets to generate sales and profit. Activity ratio or assets management ratio is employed to evaluate the efficiency with which the firm manage and utilize its assets. These ratios are also called turnover ratio because they indicate the speed with which assets are being converted or turned over into sales. Activity ratio, thus involves relationship between sales and assets. But non manufacturing organization like bank insurance company provides service but no goods. So that, the ratios relating to inventories and sales do not applicable to those service-oriented organization. This analysis is related with the measuring the efficiency in assets management as well as the effectiveness of the investment of resources in the business concern. With the help of this analysis, we can easily know whether the funds have been used effectively or not. Activity ratio has been briefly described in this study are presented below:

a) Loans and Advance to Total Deposit Ratio:

This ratio examines to what extent, the commercial banks are able to utilize the deposits funds to earn profit by providing loans and advances. It is computed by dividing total amount of loans and advances by total depositor's fund. Higher ratio represent the greater efficiency or proper utilization of funds provided by the outsiders i.e. deposit. This ratio is calculated by using the following formula:

$$\text{Loans and Advance to Total Deposit Ratio} = \frac{\text{Total Loans and Advance}}{\text{Total Deposit}} | 100$$

A higher this ratio indicates commercial bank's efficiency in investing its deposits and low ratio indicates commercial bank's inability to put its deposits into lending although it helps to maintain sound liquidity position.

b) Total Investment to Total Deposit:

This head of analysis measure that how successfully the banks are mobilizing their deposits on investment. Here, the investment includes investment on loans, cash, credit and overdraft, government securities and shares, debentures of other companies and banks, bills purchase and discount money at call and short notice where as total deposit includes current, fixed saving and call and other deposit. It also assesses the company's financing policy. If they don't have good financing policy than they can't earn proper return.

It is calculated by using the following formula:

$$\text{Total Investment to Total Deposit} = \frac{\text{Total Investment}}{\text{Total Deposit}} | 100$$

The higher ratio means more utilization of funds and vice versa.

c) Loan and Advances to Total Working Fund Ratio

This ratio indicates the ability of the bank to utilize its deposit in the form of loan and advances to earn high return. Loan and advances is the major components in the total working fund. It is calculated by using the following formula:

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

In this study, the total working funds includes all assets of on balance sheet items.

d) Investment on Government Securities to Total Working Fund Ratio

This ratio shows the relationship between the banks investment on securities in comparison to the total working funds. It is calculated by using the following formula:

$$\text{Investment on Government Securities to Total working Fund Ratio} = \frac{\text{Investment On Gov. Securities}}{\text{Total Working Fund}}$$

III. Profitability Ratio

Maximization of profit is the main objective of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern. According to the Lord Keynes, "Profit is the engine that drives the business enterprises." The profit is also important to preserve the existence of business as well as strengthen and expand it.

Profitability is the net and end result of a number of corporate policies and decision. Bhattacharya, S. K. & Derdon, John said that "Profitability analysis essentially related to the profit earned by an enterprise during a particular period to various parameters like sales, shareholders equity, capital employed and total assets."

Profitability ratios are designed to provide answer to basically the following questions:

- Does the firm earn adequate profit?
- What rate of return does it represent?
- What is the rate of return on equity ?
- What is the rate of profit for ratios division and segments the firm? And so on.

Higher profitability ratio means the financial performance of bank is better and vice versa. There are different types of the ratio. Out of them some important ratios have been briefly described in this study are presented below:-

a) Return on Loan and Advances

Return on loan and advance ratio indicates how efficiently the bank has utilized its resources in form of loan and advances. It can be computed as:

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

b) Return on Equity Ratio

This ratio indicates how well the firm has used the resources of owners. The earning of the satisfactory return is the most desirable objectives of a firm. This ratio is calculated by using the following formula:

$$\text{Return on Equity Ratio} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

c) Total Interest Earned to Total outside Assets Ratio

This ratio measures the capacity of the firm for earning interest through proper utilization of outside assets.

This ratio is calculated by using the following formula:

$$\text{Total Interest earned to total outside assets Ratio} = \frac{\textit{Total Interest Earned}}{\textit{Total Outside Assets}}$$

Higher ratio implies efficient use of outside assets to earn interest and vice versa.

IV. Risk Ratio

These ratios indicate the amount of risk associated with the various banking operations, which ultimately influences the banks investment policy. The possibility of risk makes bank investment a challenging task, even bank has to take risk to get return on investment. The risk taken is compensated by the increase in profit. So, the bank has to have idea of the level of risk one has to bear while investing funds. Under this ratio following ratios are analyzed:

a) Credit Risk Ratio

Credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances. It is help to know the profitability of loan non-repayment on the probability of loan to go default. This ratio is calculated by using the following formula:

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

V. Growth Ratio

For evaluate and examine the growth and expansion of the banking business regarding the investment function, following ratios are evaluated under this study.

- a) Growth Ratio of Total Deposit
- b) Growth Ratio of Loan and advances
- c) Growth ratio of total investment
- d) Growth Ratio of Net Profit

3.6.2 Statistical Tools

Some statistical tools are also been used for the analysis of data. In this study different types of statistical tools are used. They are arithmetic mean, standard deviation, coefficient of correlation between the two variables, coefficient of variation, trend analysis of important variables and hypothesis testing. While analyzing the investment policy of commercial bank with the help of statistical tools such analysis help to draw conclusion regarding which of the organization is better managed.

There are different types of statistical tools which are as follows:

a) Average (Arithmetic mean)

The average is the measures which condense a huge mass of data in to single value representing the whole data. Averages are the typical value around which most of the data tend to cluster. There are different types of average, but in this study, only arithmetic means is taken for the analysis of data. Arithmetic means of given set of observation is their sum divided by no of observation. It can be computed as follows:

$$\text{Mean} = \frac{\sum X}{N}$$

Where,

\bar{X} Arithmetic mean

$\sum X$ Sum of value

N = No. of observation

The purpose for computing the mean for set of observation is to obtain a single value which is representative of all the items and which the mind can be grasp

simply and quickly. The single value is the point of location around which the individual items cluster.

b) **Standard Deviation**

Karl Pearson introduced the standard deviation concept in 1823. It is denoted by the Greek letter sigma (σ). The standard deviation is the absolute measure of dispersion in which the drawbacks presents in other measure of dispersion are removed. It is said to be the best measure of dispersion as it satisfied must of the requisites of a good measure of dispersion. The value of the standard deviation depends upon whether the other return data are scattered or clustered around the central value. If the other value are scattered from the central values is the more volatile or risky. There are standard deviation will be higher. Similarly, if the value is clustered around the mean, the return distribution is regarded less volatile or less risky, there are standard deviation will be lower.

Standard deviation is defined as the positive square root of the mean of square of the deviation taken from the arithmetic mean. It is calculated by follows:

$$\text{Standard Deviation (S.D)} = \sqrt{\frac{\sum fX^2 - \frac{(\sum fX)^2}{N}}{N}}$$

Where,

N = No. of observation

The standard deviation measures the absolute dispersion or variability of a distribution. A small standard deviation indicates a high degree of uniformity or homogeneity of the data. A large standard deviation indicated just the opposite.

c) Coefficient of Variation (C.V)

Standard deviation discussed above is an absolute measure of dispersion. It measures the variation which is expressed in term of original units of series. Coefficient of variation is relative measure of dispersion based on standard deviation. It is obvious that C.V. is independent in unit. Hence, C.V. is suitable measure for comparing variability of two series (or set of data of distribution) with the same or different units. It is calculated as follows:

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

Where,

C.V. = Coefficient of variation

\bar{u} X Standard deviation

\bar{X} X Arithmetic mean

That series (or group) for which has been the greater C.V. is said to be more variable or conversely less homogenous. On the other hand the series for less C.V. is said to be less variable or more consistent, more uniform, more stable or more homogenous.

d) Correlation Coefficient Analysis:

Correlation coefficient analysis is one of the most widely used and also one of the most widely abused statistical measure, it measured the degree of relationship between two variables. In other words the term coordination indicates the relationship between two such variable in which change in the value of one variable, the value of the other variable also change.

The correlation between the different variables of sample banks is compared to measure the performance of these banks. If the two variables are so related that the change in the value of one independent variable results the change in the value of dependent variable then they are said to have 'correlation'. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient between the two variables describes the degree of relationship between two variables. It interprets whether two or more variables are correlated positively or negatively. Karl person method is applied in this study. The correlation is denoted by r and is calculated by using the following formula.

$$\text{Correlation coefficient (r)} = \frac{\Sigma XY - \Sigma X \Sigma Y}{\sqrt{N \Sigma X^2 - (\Sigma X)^2} \sqrt{N \Sigma Y^2 - (\Sigma Y)^2}}$$

Where,

N = Number of pairs of X and Y observed

X = Values of Investment, Loan and Advance

Y = Values of Total Deposit

r = co-efficient of correlation

$$\text{Probable Error of r (P.Er)} = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

Interpretation of correlation coefficient (r)

The value of 'r' exists between + 1 and – 1 following general rules are given which would help in interpreting the result.

1. When r = + 1, there is perfect positive correlation between the two variable.
2. When r = - 1, there is perfect negative correlation between the two variable.

3. When $r = 0$, the variables are uncorrelated. In other words, there is no linear relationship between two variables.
4. Closer the value of 'r' to + 1, closer the relationship between two variables. Closer the value of 'r' to 0, lesser the relationship.

One very convenient and useful way of interpreting two values of coefficient of correlation between two variables are used to square of coefficient of correlation, which is called coefficient of determination $(r)^2$. Interpretation of coefficient of determination is very simple. For example, when $r = 0.9$, the coefficient of determination $(r)^2$ will be $(0.9)^2 = 0.81$. It means 81% change on dependent variable is explained by a change in independent variable. The remaining 19% change is unexpected. It means the change is caused by other variables.

e) Least Square Trend Analysis

This topic is to examine trend of deposit collection, its utilization and net profit of Kumari Bank Ltd. and Everest Bank Ltd. To utilize deposits, a commercial bank may grant loan and advances and invest some of the funds in government securities and shares and debentures of other companies. Regarding this topic, trend of deposit, loan and advances, total investments and net profit are forecasted for next five years. The study is based on the following assumptions:

-) Nepal Rastra Bank will not change its guidelines to commercial banks.
-) The forecast will be true only when the limitation of least square method is carried out.
-) The main assumption is that other things will remain unchanged.
-) The bank will run in present stage.

Regression lines expressed in terms of algebraic relation are known as regression equation. It can be calculated as follow:

$$Y = a + bx$$

Two normal equations are:

Where,

y = Dependent variance

x = Coded time in year

a = *y - intercept*

b = slope of the line

In the above model,

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

$$\sum XY = a \sum X + b \sum X^2$$

e) **Chi-square Test**

The formula to calculate the chi-square test is given bellow:

$$\text{Chi-square } (\chi)^2 = \sum \frac{(O-E)^2}{E}$$

Where, O = Observed Frequency

E = Expected Frequency

In this study chi-square test is tested as following:

H_0 : The banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

H_1 : The banks are not successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

H_0 : Everest Bank Ltd. capacity to mobilize its deposits on total investment is better than Kumari Bank Ltd.

H_1 : Everest Bank Ltd. capacity to mobilize its deposits on total investment is not better than Kumari Bank Ltd.

CHAPTER – IV

DATA ANALYSIS AND PRESENTATION

The main aim of this chapter is presentation and analysis of data according to research methodology to attain the objective of this study. In this chapter, an attempt has been made to analyze Investment policy of commercial banks of KBL and EBL for its operational period of five years that is 2006/07 to 2010/11.

The data for this study are presented in tabular form and are analyzed with the financial tools viz. ratio analysis and statistical tools such as mean, S.D, C.V etc. The data are specifically used from the balance sheet and profit and loss account of the banks under study.

4.1 Ratio Analysis

The following ratios are used to analyze of this study are as follows:

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. Short term lenders such suppliers and creditors use liquidity analysis to assess the risk level and ability of a firm to meet its current obligation satisfying these obligations required the use of the cash resources available as of the balance sheet data and the cash to be generated.

Different types of ratio have been used to measure the liquidity position of two banks which are as under:

4.1.1.1 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio measures the availability of bank highly liquid funds to meet its unanticipated calls on different types of deposit. This analysis indicates the ability of banks fund to cover their current saving, call and other deposits.

Cash and bank balance to total deposit ratio of KBL and EBL are presented by following table.

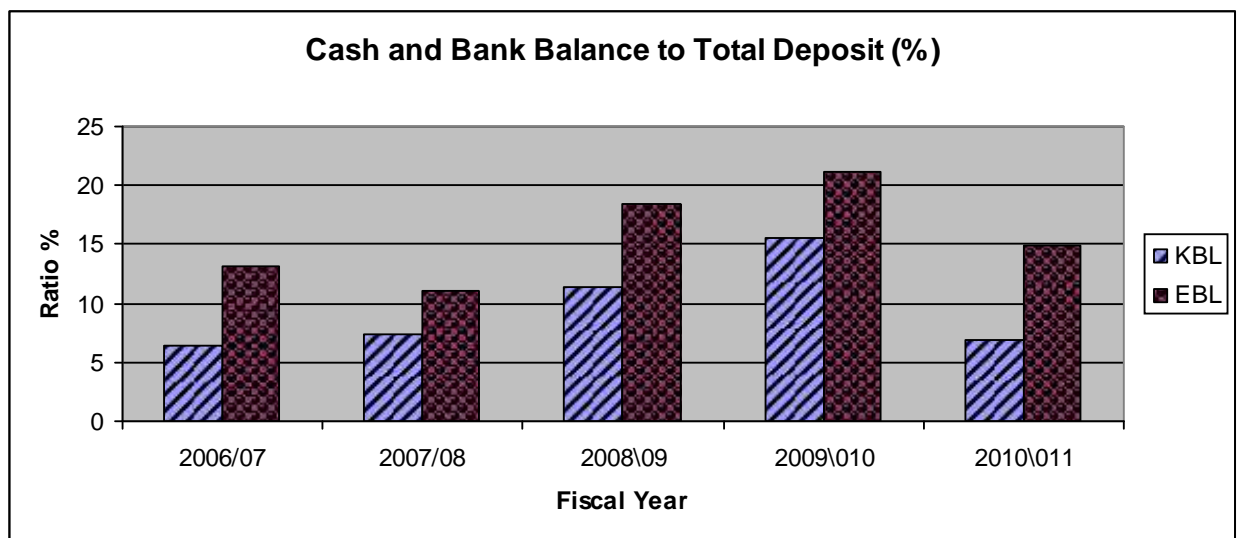
Table No. 4.1: Comparative Cash and Bank Balance to Total Deposit (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	6.37	7.31	11.3	15.62	6.88	9.49	3.53	37.20
EBL	13.10	11.10	18.50	21.20	14.90	15.76	3.65	23.16

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure 4.1

Comparative Cash and Bank Balance to Total Deposit



As shown in Table 4.1 and figure 4.1, the cash and bank balance to total deposit ratio of both banks have fluctuating trend. The KBL is ranges from a minimum of

6.37% in FY 2006\07 to maximum of 15.62% in FY 2009\010. Similarly, in case of EBL, Highest ratio was 21.20% in FY 2009\010 and lowest ratio was 11.10% in FY 2007\08.

The mean ratio of EBL is higher than KBL i.e. 15.76% > 9.49%. On the basis of coefficient variances, it can be concluded that EBL bank's ratios are less consistent than that of KBL i.e. 23.16 % < 37.20%.

After analyzing of above table that the cash and bank balance position of KBL with respect to deposit is not better against the readiness to service its customers deposits than that of the EBL. It implies the better liquidity position of EBL. In contrast, a high ratio non-earning cash and bank balance may be unfit which indicates the banks inability to invest its funds in income generating areas.

Thus, EBL may invest in more productive areas like short-term marketable security, treasury bills etc. ensuring enough liquidity which will help the bank to improve its profitability. (Detail in Appendix – 1)

4.1.1.2 Cash and Bank Balance to Current Assets Ratio:

Cash and bank balance is the most liquid form of current assets. Bank must keep cash and bank balance in its vault to meet cash requirement of its call on time depositors and other official expenses. (Detailed in Appendix – 2)

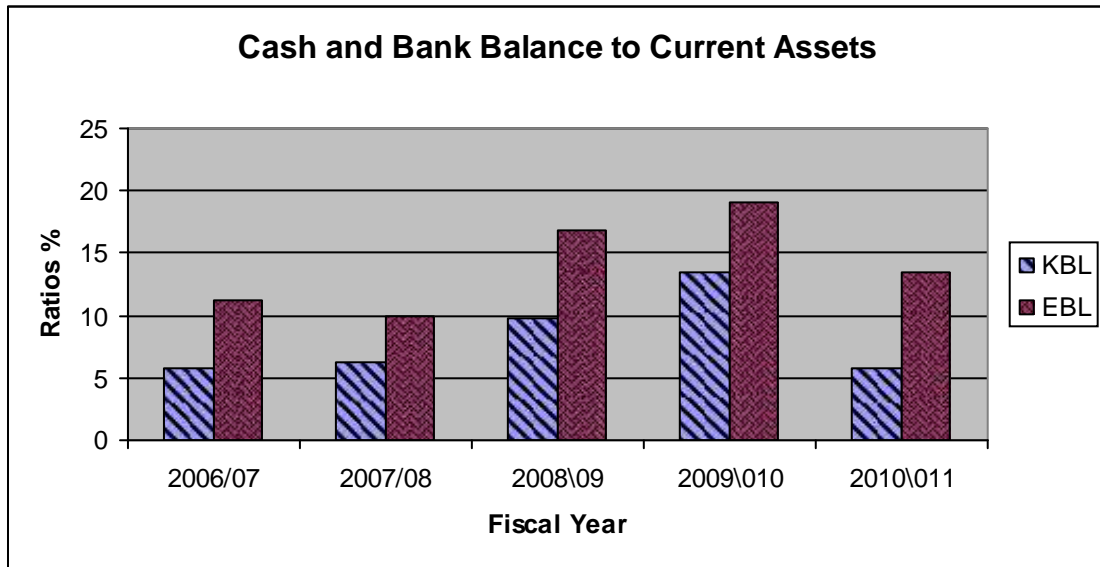
The CBB to Current Assets (CA) ratio of sample banks are presented below:

Table No. 4.2: Cash and Bank Balance to Current Assets

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	5.73	6.31	9.71	13.46	5.79	8.20	3.01	37.61
EBL	11.20	10.00	16.90	19.10	13.45	14.13	3.42	24.20

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure 4.2: Comparative Cash and Bank Balance to Current Assets



The above Table No. 4.2 and figure 4.2 shows that the ratio of CBB to CA of two sample Banks for F/Y 2006/07 to 2010/011. Ratio of KBL is 5.73%, 6.31%, 9.71%, 13.46%, and 5.79%. Ratio of EBL is 11.20%, 10.00%, 16.90%, 19.10% and 13.45%.

Average proportion of KBL and EBL is 8.20% and 14.13% respectively. It shows that EBL is maintaining the highest cash and bank balance than KBL and KBL is maintaining the lowest CBB. C.V. KBL and EBL is 37.61% and 24.20% respectively. So EBL is more consistent because it has low C.V. and KBL is low consistent. (Details in Appendix 2)

4.1.1.3 Investment on Government Securities to Current Assets Ratio

This ratio analyzes that percentage of a commercial bank's is current assets, which is invested on different Government securities. More or less each commercial bank

is interested to invest their collected fund on different securities issued by government in different times to utilize their excess funds and for other purposes.

Table No. 4.3

Investment on Government Securities to Current Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	10.64	9.87	5.91	8.55	13.90	9.77	2.62	26.82
EBL	17.00	12.08	14.10	10.64	15.69	13.90	2.31	16.62

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure No. 4.3

Investment on Government Securities to Current Assets Ratio (%)

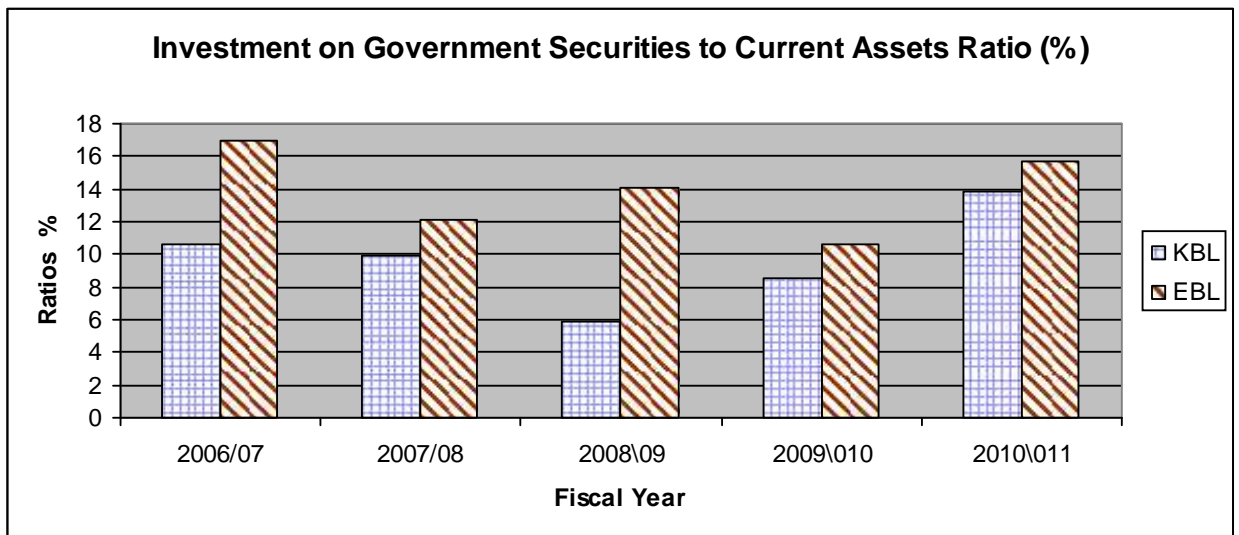


Table 4.3 and figure 4.3 shows that both bank's investment on government securities to current assets ratio is in fluctuating trend. During the study period of KBL is the highest ratio maintained by it was in the year 2010\011 i.e. 13.90% and the lowest was 5.91% in the FY 2008\09. On the other side EBL's highest ratio was 17.00% in FY 2006\07 and the lowest was 10.64% in FY 2009\010.

Overall, the mean of investment on government securities to current assets of EBL was higher than that of KBL i.e.13.90%>9.77%. It means EBL has invested more of its current assets in government securities than KBL. On the other hand, coefficient of variability of ratio of EBL was less than that of KBL i.e. 16.62 %< 26.82%., which means that the variability of ratio of EBL was more homogenous than that of KBL. Lastly, it is concluded that both banks liquidity position from the point of view on investment on government securities is good.(Detail in Appendix 3)

4.1.1.4 Current Ratio

Current ratio indicates the availability of current assets against current liabilities. This ratio is applied to test the solvency as well determining short term financial strength of the commercial bank.

The following table presents the current ratio of two sample banks.

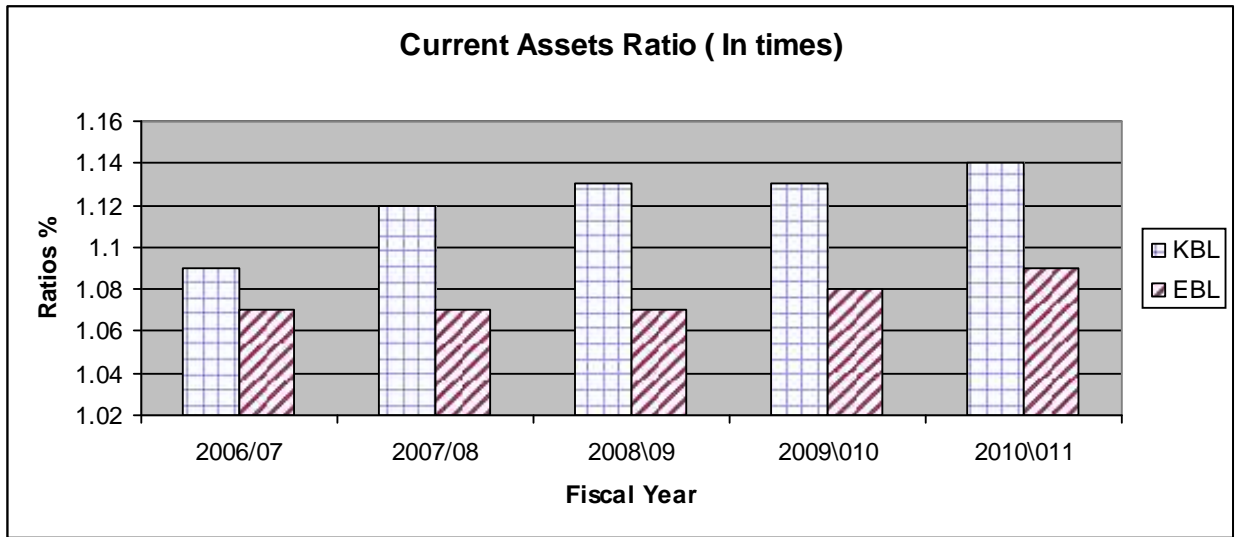
Table No. 4.4

Comparative Current Assets Ratio (In times)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	1.09	1.12	1.13	1.13	1.14	1.12	0.017	1.52
EBL	1.07	1.07	1.07	1.08	1.09	1.08	0.00146	0.136

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure No. 4.4



The above Table No. 4.4 and figure No. 4.4 shows that the current ratio of KBL and EBL for F/Y 2006/07 to 2010/011. The current ratio of EBL is increasing trend from the 1.09 times to 1.14 times in F/Y 2006/07 to 2010/011. CR of EBL's ratio is constant in FY 2006/07 to 2008/09 after than its ratio increasing way from 1.07 to 1.09 in F/Y 2008/09 to 2010/011.

Average proportion of KBL and EBL is 1.12 and 1.08 times respectively. Average ratio of KBL is higher than EBL bank. Higher ratio indicates better maintain of CA. So KBL has been able to maintain safety margin to protect the interest of creditors. CV of current ratio of KBL and EBL is 1.52% and 0.136% respectively. (Detailed in Appendix - 4)

4.1.1.5 Loan and Advances to Current Assets Ratio

To make high profit by mobilizing its fund in the best way, commercial banks should not keep its all collected funds as cash and bank balance but they should be invested as loan & advances to the customers. Loan and advances are also included in the current assets of a commercial bank because generally they provide short-term loan, overdrafts and cash credit. If sufficient loan and advances cannot

be invested, it should pay interest on those unutilized deposit funds and may lose some earnings. But high loan and advances may also affect to keep bank in most liquid position because they can only be collected at the time of maturity only.

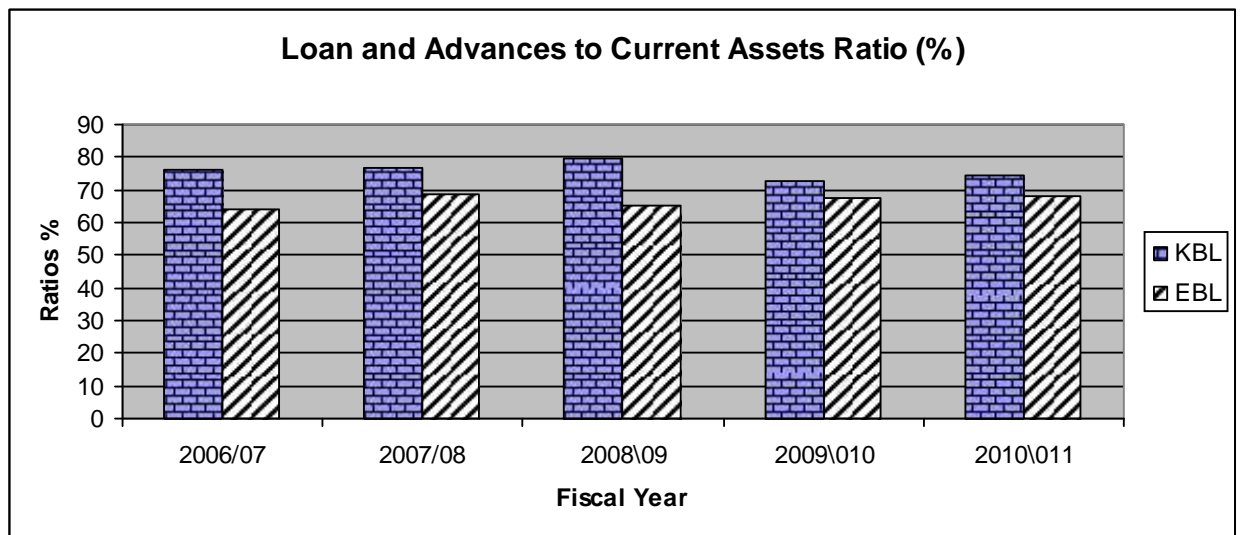
Table No. 4.5

Loan and Advances to Current Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	76.14	76.58	79.78	72.96	74.46	75.95	2.29	3.02
EBL	64.26	68.46	65.46	67.34	68.22	66.75	1.63	2.44

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure No. 4.5



The table 4.5 and figure 4.5 shows that the KBL maintained highest ratio in the FY 2008\09 i.e. 79.78% and lowest in the FY 2006\2007 i.e. 76.14%. On the other hand, EBL maintained highest ratio in FY 2007\08 i.e. 68.46% and lowest ratio is

64.26% in FY 2006\07. While examining the mean ratio, EBL has maintained lower ratio i.e. 66.75% than that KBL i.e. 75.95% Similarly, KBL has also high coefficient of variation compare to EBL i.e.3.02>2.44. It indicates inconsistency of KBL bank's ratio on comparison to EBL.

Lastly, it can be said that KBL and EBL were not poor to mobilize their fund as loan and advances with respect to current assets. The higher mean ratio of loan and advances to current assets of KBL reveals that its liquidity position with regard to this is more satisfactory than EBL. (Detailed in appendix 5)

4.1.2 Analysis of the Assets Management Position of the Banks

Assets management ratio measures how efficiently the bank manages the resources at its fund mobilizes. A commercial bank must be able to manage its assets very well to earn high profit, to satisfy its customers and for its own existence. The following ratios measured the assets management ability of the KBL is compared with EBL.

4.1.2.1 Loans and Advance to Total Deposit Ratio

This ratio examines to what extent commercial banks are able to utilize the depositor's fund to earn profit by providing loans and advance. A high ratio of loan & advances indicates better mobilization of collected deposits and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view.

The following table presents the ratio of two sample banks

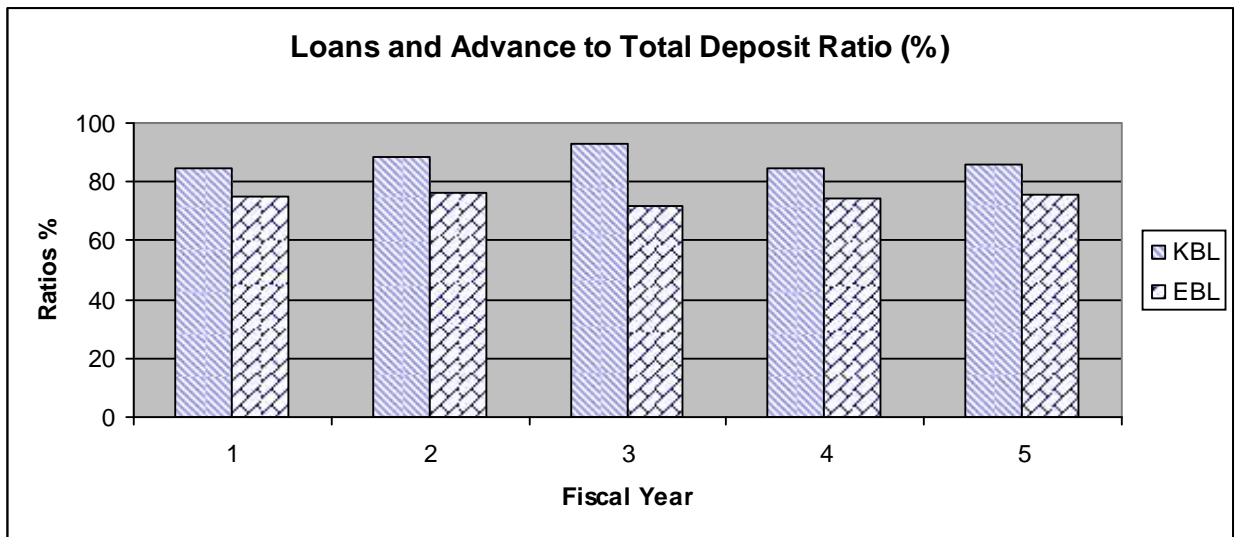
Table No. 4.6

Comparative Loans and Advance to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	84.58	88.73	92.89	84.70	86.11	87.40	3.12	3.57
EBL	75.13	76.49	71.68	74.61	75.51	74.68	1.62	2.17

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure 4.6 Loans and Advance to Total Deposit Ratio (%)



The table 4.6 and figure 4.6 shows that fluctuating trend in both banks whereas KBL ratio has increasing in starting three years i.e. 84.58% to 92.89% in the FY 2006/07 to 2008/09 and decreasing in last two years i.e. 84.70% to 86.11% in the FY 2009/010 to 2010/011. During the study period the highest ratio maintained by RBL is 76.49% in the FY 2007/08 and lowest is 71.68% in FY 2008\09.

KBL mean ratio was higher than that of EBL i.e.870.40%>74.98% therefore KBL seems to be good at mobilizing its deposit as loan and advances. On the basis of

co-efficient of variation we can say that KBL banks loans and advances were less consistent than EBL as it has higher C.V. i.e.3.57%>2.17%.

From the description, EBL is found slightly weak in comparison to KBL, to mobilize higher amount of loan and advances. (Detailed in Appendix – 6)

4.1.2.2 Total investment to Total Deposit Ratio

This ratio shows the relationship between investment and total deposit to determine extend to which total deposit are used in investment for generating revenue of the bank.

It is presented as below

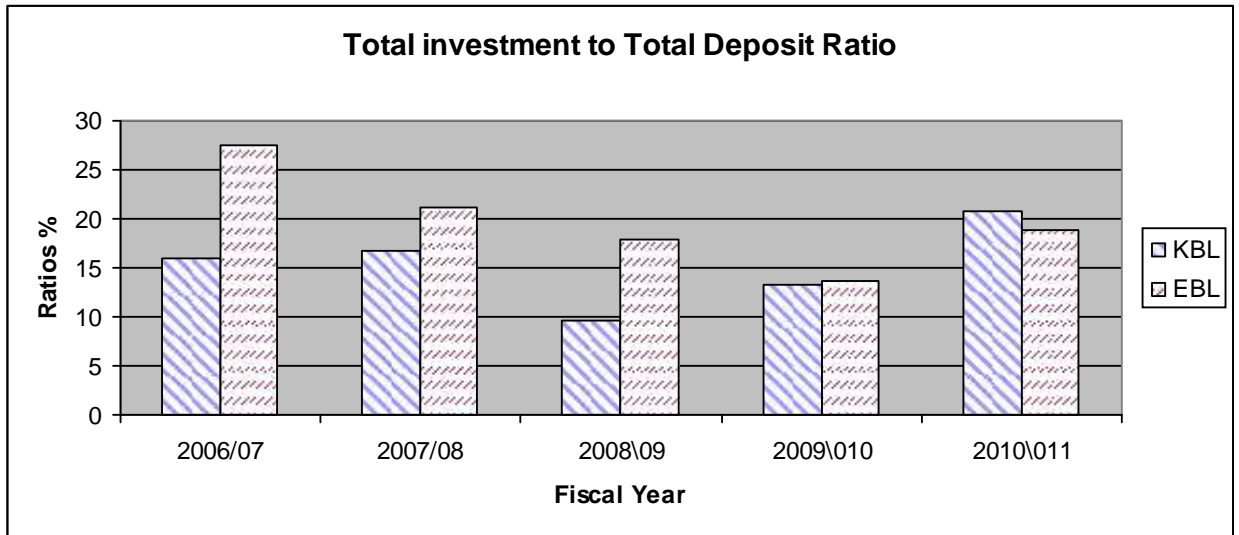
Table No. 4.7

Total investment to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	15.90	16.74	9.62	13.18	20.80	15.25	3.73	24.46
EBL	27.41	21.10	17.85	13.56	18.83	19.75	4.54	22.99

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure 4.7: Total investment to Total Deposit Ratio



The above table 4.7 and figure 4.7 shows that the ratio of KBL is in increasing trend from 2006/07 to 2007/08 but it has decreased during FY 2008/09. The mean ratio of KBL is 15.25%. The S.D is 3.73 and C.V is 24.46%. It has the highest ratio of investment of 20.80% in the year 2010/011 and lowest ratio of investment of 9.62% in the year 2008/09.

The mean ratio of EBL is 19.75% and ratios are also in fluctuating trend during 5 years of period. It has the highest ratio of investment of 27.41% in the beginning year 2006/07 and lowest ratio of investment of 13.56% in the year 2009/010. It is clear from the above table that EBL has higher mean ratio than that of KBL. C.V of EBL is lower than that of KBL. This represents more consistency of investment procedure of EBL. Total investment to total deposit ratio of KBL and EBL are presented in the bar diagram, in figure 4.7.(Detailed in Appendix - 7)

4.1.2.3 Loan and Advances to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation. A high ratio indicates mobilization of fund and loan & advance and vice-versa.

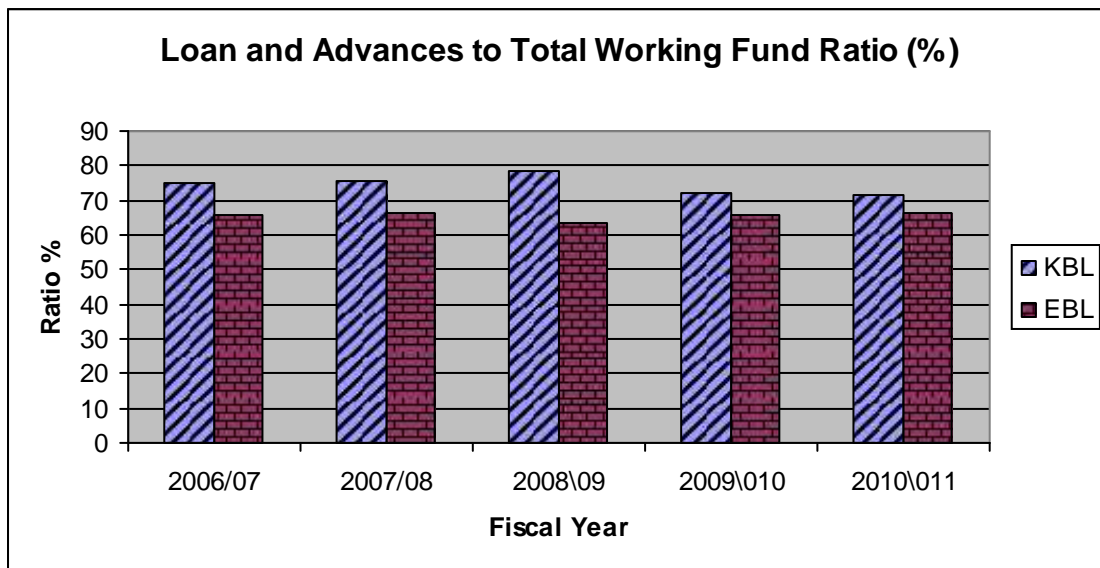
Table No. 4.8

Comparative Loan and Advances to Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	74.92	75.44	78.72	71.95	71.38	74.48	2.65	3.56
EBL	65.53	66.33	63.69	65.64	66.31	64.90	1.53	2.36

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure 4.8: Comparative Loan and Advances to Total Working Fund Ratio



The table 4.8 and figure 4.8 shows that KBL has maintained increasing ratio i.e. 74.92% to 78.72% in the last three years during the study period i.e. from FY 2006/07 to 2008/09. After that decrease and slightly stability in this ratio i.e.

around 71% in the last two years during the study period i.e. from FY 2009/010 to 2010/011. Similarly, on the other hand EBL has maintained stability in this ratio i.e. around 65% in last four years i.e. from FY 2006/07 to 2009/010.

Analyzing the mean ratio, it can be said the KBL has maintained higher ratio i.e.74.48% than EBL i.e. 64.90%. This table reveals that EBL was good at mobilizing its total working funds as loan and advances and higher C.V. of KBL ratio state that its ratios are less consistent than that of EBL i.e.3.56%>2.36%.

According to above analysis, it can be concluded that KBL's fund mobilization, in terms of loan and advances with respect to total working fund is slightly more satisfactory than EBL. (Detailed in Appendix-8)

4.1.2.4 Investment on Government Securities to Total Working Fund

This ratio is very important to know the extent to which the banks are successful in mobilizing their total working fund on different types of government securities to maximize the income. All the deposits of the banks should not be utilized in loan and advances and other credit from security and liquidity point of view.

A high ratio indicates better mobilization of fund as investment on government securities and vice-versa.

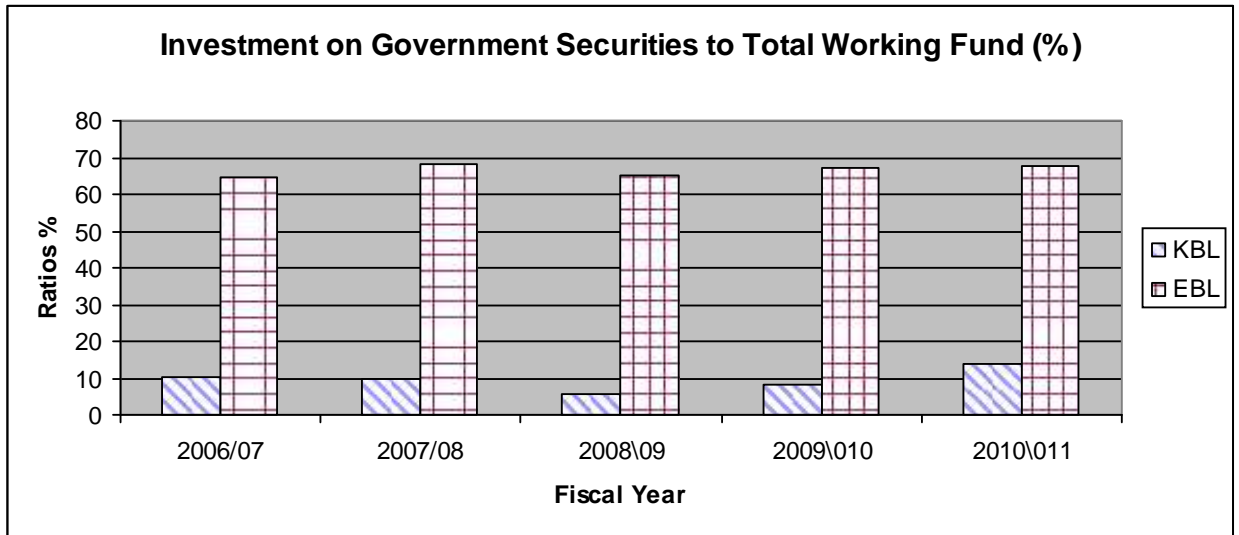
Table No. 4.9

Investment on Government Securities to Total Working Fund (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	10.47	9.78	5.83	8.43	13.69	9.64	2.57	26.66
EBL	64.45	68.13	65.25	67.07	67.59	66.50	1.41	2.12

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure 4.9: Investment on Government Securities to Total Working Fund (%)



From the above table 4.9 and figure 4.9, it is clear that both banks have vast different in investment policy on government securities, in case of KBL, the ratios have shown fluctuating trend. It maintained the highest ratio in last year i.e. 13.69% and lowest ratio was 5.83% in 2008/09. Other side, the ratio proportion of investment on government securities to total working fund is found is increasing trend in the case of EBL. It has maintained highest ratio in FY 2007/08 i.e. 68.13% and lowest in FY 2006/07 i.e. 64.45%.

The comparison of mean ratios of KBL and EBL reveal that EBL was better at mobilizing its working fund as investment in government securities. Likewise, KBL bank's variability between ratios during the study was lesser than that of EBL i.e. 2.12 % < 26.66%. (Detailed in Appendix-9)

4.1.3. Analysis of the Profitability position of Banks

The main objective of commercial banks is to earn profit providing different types of banking services to its customers. Profit indicates the efficiency of the bank. A bank can make the profit through the sound lending policy and the quality of service it provides. To meet various objectives like to have a good liquidity

position, meet fixed internal obligation, overcome the future contingencies, grab hidden investment opportunities, expand banking transactions in different places, and finance government is need of development funds etc. a commercial bank must have sufficient profit of course, profitability ratios are the best indications of overall efficiency. Here mainly those ratios are presented and analyzed which are related with profit as fund mobilization

4.1.3.1: Return on Loan and Advances

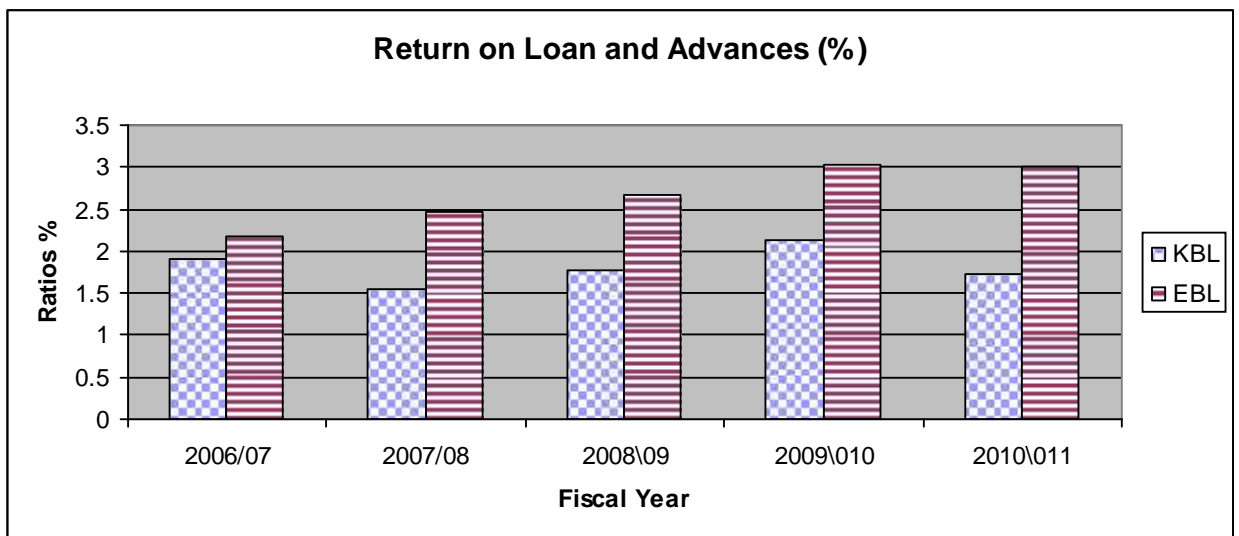
Table No. 4.10

Return on Loan and Advances (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	1.91	1.54	1.77	2.14	1.72	4.08	2.27	55.64
EBL	2.17	2.46	2.67	3.02	3.00	2.76	0.34	12.32

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure 4.10: Return on Loan and Advances (%)



The table 4.10 and figure 4.10 shows that the ratios of return on loan and advances of KBL and EBL are in increasing trend. In case of KBL it has maintained the highest ratio 3.02% in FY 2009/010 and lowest 2.17% in the beginning year of the study, whereas, EBL ratio increase from 1.91% in FY 2006/07 to 4.08% in the year 2010/011. On the other hand when the mean ratio are observed, KBL seem to be good maintain high return on loan and advances in comparison to the EBL, KBL has mean ratio of 4.08% whereas EBL had lower ratio 2.76% Likewise high C.V of KBL i.e. 55.64% indicates high variability of ratios than that of EBL. (Detailed in Appendix-10)

4.1.3.2: Return on Equity Ratio

The bank can earn more profit if they mobilize the equity capital properly. The return on equity capital measures the extent to which a bank is successful to mobilize its capital. A high ratio indicates higher success to mobilize its owned equity and vice-versa. This ratio was calculated by dividing net profit by total equity capital including paid up equity capital, and various reserves and surplus.

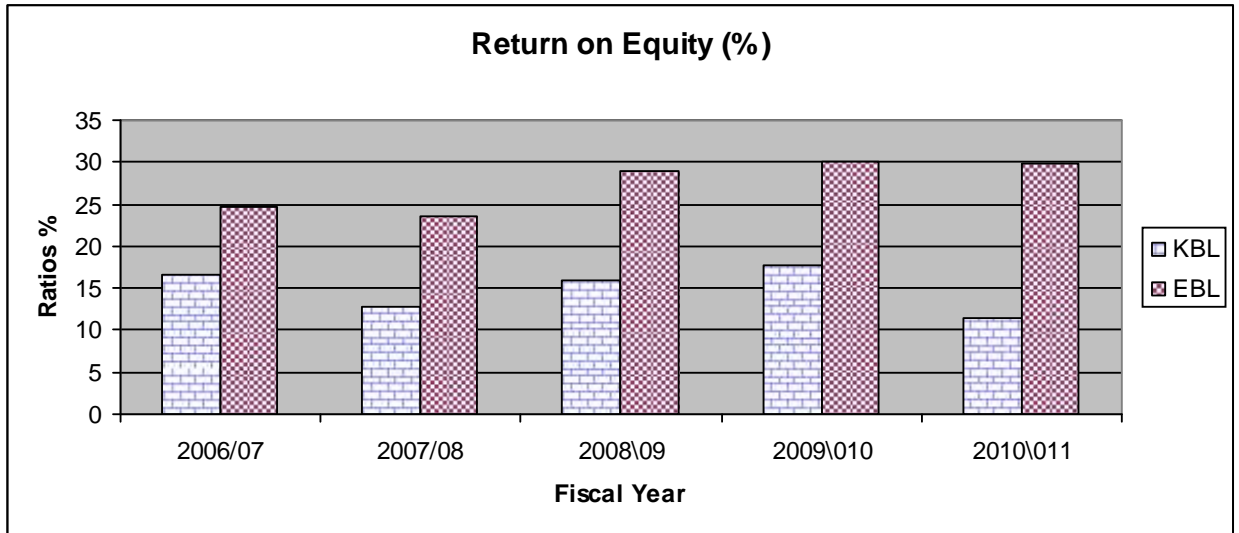
Table No. 4.11

Return on Equity (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	16.60	12.82	15.90	17.73	11.35	14.88	2.40	16.13
EBL	24.67	23.49	28.95	30.15	29.91	27.43	2.79	10.17

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure No. 4.11



The above table and figure shows that KBL has an average mean ratio of 14.88% and the same of EBL is 27.43%. It indicates that EBL is more successful in mobilizing its capital than that of KBL. It is clear that EBL has more earning power than that of KBL. EBL has maximum return on earning which is pleasing to the shareholders and in the case of KBL it is just acceptable. Return on equity of KBL and EBL is presented in figure 4.1(Detailed in Appendix-11)

4.1.3.3 Total Interest Earned to Total outside Assets Ratio

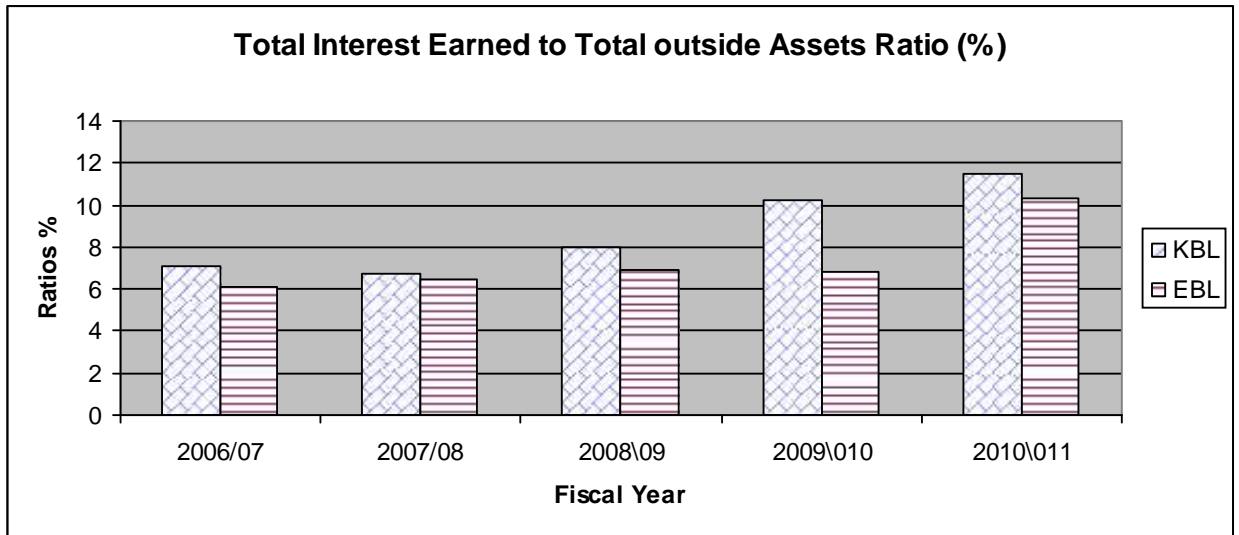
The main assets of a commercial bank are its outside assets, which included loan and advances, investment on government securities, investment in shares and debentures and other all types of investment. A high ratio indicates high earning on such total assets and vice-versa.

Table No. 4.12 Total Interest Earned to Total outside Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	7.06	6.76	7.95	10.24	11.46	8.69	1.84	21.17
EBL	6.06	6.45	6.87	6.79	10.33	7.70	1.62	21.04

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure 4.12: Total Interest Earned to Total outside Assets Ratio (%)



The table 4.12 and figure 4.12 shows that the mean ratio of KBL is 8.69% and EBL is 7.70%. In an average KBL has higher earning power than that of EBL. Both banks have fluctuating trend of ratios. KBL has highest ratio is 11.46% in FY 2010/011 and lowest is 6.76 in FY 2007/08. But EBL has stability in last four years i.e. nearly 6% and after than EBL has the highest ratio is 7.7% in FY 2010/011. (Detailed in Appendix-12)

4.1.4 Risk Ratio

Bank has to take risk to get return on its investment. The risk taken compensated by the increase in profit. Risk ratio measures the risk associated with the banking variables. A bank raise capital accepts deposit and finally grant loan. These entire things come along with the risk. A bank must consider the risk associated with it. Higher the ratio higher will be the profit and vice versa.

4.4.1 Credit Risk Ratio

Actually credit risk ratio shows the proportion of non- performing assets in total loan and advances of a bank. Bank utilizes their fund in providing credit to different sectors. There is risk of default or non- repayment of loan. While making investment, bank examines the credit risk involved in the project. But due to unavailability of the relevant data, here we presented the credit risk as the ratio of total loan and advances to total assets.

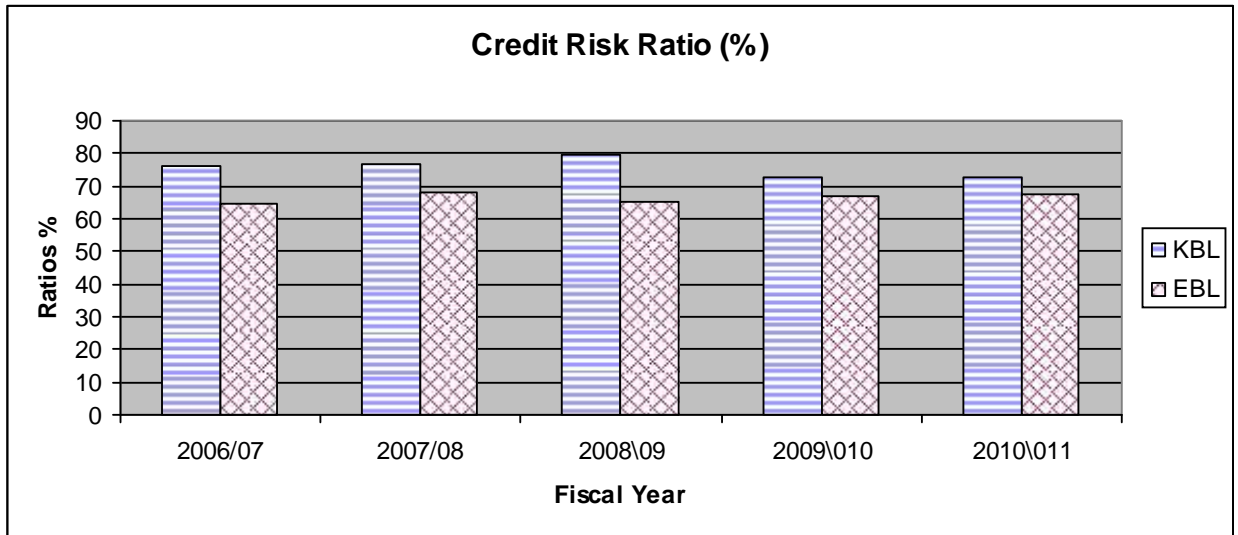
Table No. 4.13

Credit Risk Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V.
	2006/07	2007/08	2008\09	2009\010	2010\011			
KBL	76.04	76.68	79.81	72.93	72.84	75.66	2.60	3.44
EBL	64.45	68.13	65.25	67.07	67.59	66.50	1.41	2.12

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure No. 4.13



The table 4.13 and figure 4.13 shows that credit risk ratio of both the banks are somewhat stable throughout the study period. KBL has maintained stability in this, ratio i.e. around 76% in the first two years i.e. from 2006/07 to 2007/08. Similarly, EBL has maintained stability in this ratio i.e. around 67% in the last two years i.e. from 2009/010 to 2010/011. In case of KBL, its ratio reached to 79.81% in 2008/09 and lowest i.e.76.04% in 2006/07. Ratio Whereas the ratio of EBL is highest at 68.13% in FY 2007/08 and lowest at 64.45% in FY 2006/07. (Detailed in Appendix-13)

On the basis of mean ratio, it can be said that credit risk of KBL is higher than EBL i.e. 75.66% > 66.50%. On the other hand, C.V. also higher of KBL than that of EBL i.e. 3.44% > 2.12%. Which shows that KBL's credit risk ratio are more variable than that of EBL.

4.1.5 Growth Ratio

Growth ratio represents how well the commercial banks are maintaining their economic and financial position. Therefore those growth ratios are analyzed and interpreted which are directly related to the fund mobilization and investment

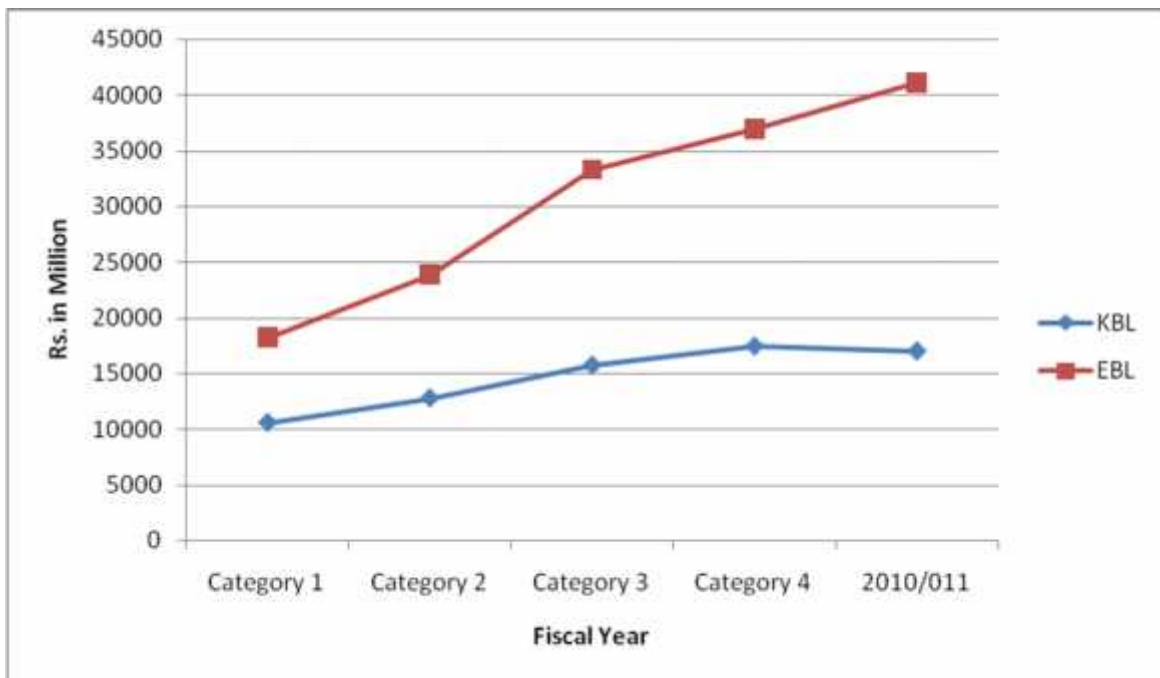
management of commercial banks. Under this study, four types of growth ratios i.e. growth ratio of total deposit, loan and advances, total investment and net profit are given in table 4.14.

Table No. 4.14: Growth Ratio of Total Deposits (%)

Banks	Fiscal Year					Growth Ratio
	2006/07	2007/08	2008\09	2009\010	2010\011	
KBL	10557.42	12774.28	15710.40	17432.25	16986.28	12.62
EBL	18186.25	23976.30	33322.95	36932.31	41127.90	22.63

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure No. 4.14: Growth Ratio of Total Deposits (%)



The table 4.14 and figure 4.14 reveals that the growth ratio in case of KBL is lower than that of EBL. There ratio of KBL is i.e. 12.62% whereas the same of EBL is 22.63%. It indicates that EBL's performance in collecting deposit is better than that of KBL. (Detailed in Appendix – 14)

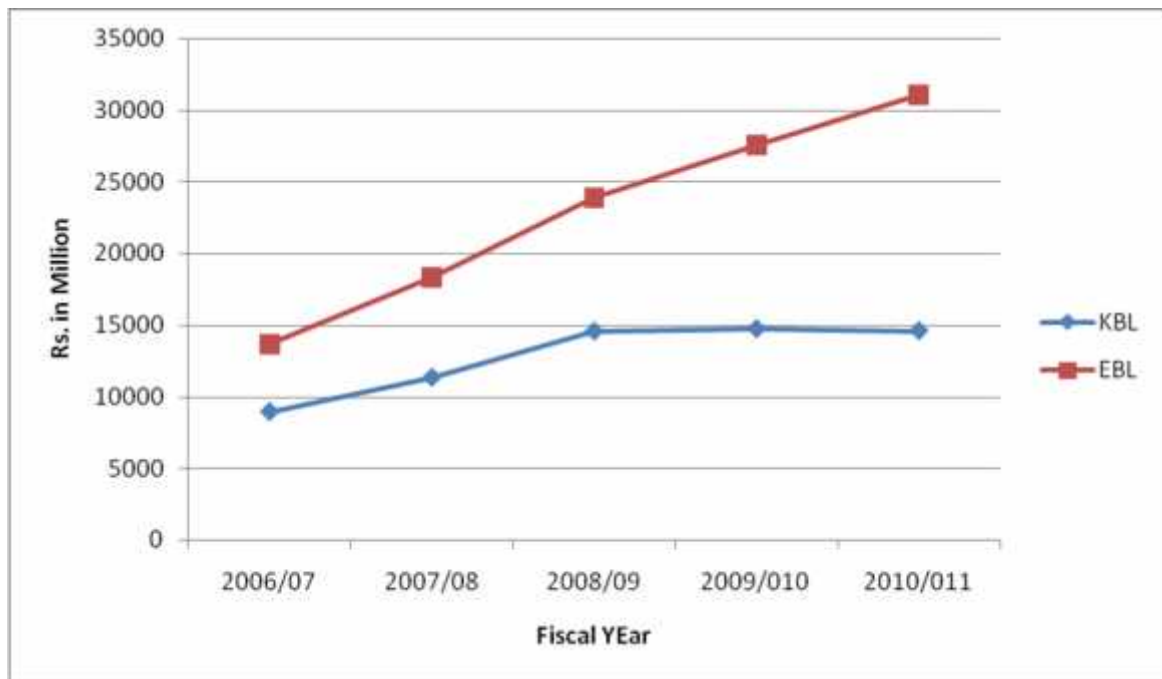
Table No. 4.15

Growth Ratio of Loan and advances (%)

Banks	Fiscal Year					Growth Ratio
	2006/07	2007/08	2008\09	2009\010	2010\011	
KBL	8929.01	11335.09	14593.35	14765.91	14626.07	13.13
EBL	13664.08	18339.09	23884.67	27556.36	31057.69	22.78

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure 4.15: Growth Ratio of Loan and advances



When we analyze the growth ratio of loan and advances, we find that KBL has failed to increase its loan and advances with higher growth rate in comparison to EBL. The growth of loan and advances of KBL 13.13% and that of EBL is 22.78%. (Detailed in Appendix – 14)

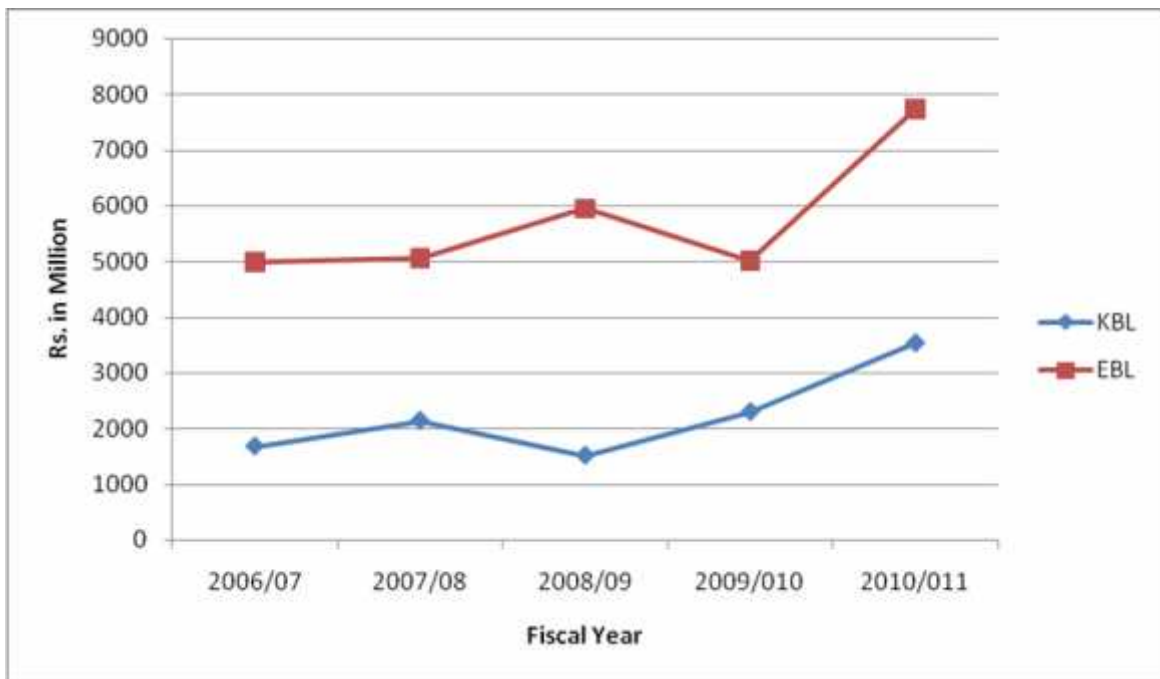
Table No. 4.16

Growth Ratio of Total Investment (%)

Banks	Fiscal Year					Growth Ratio
	2006/07	2007/08	2008\09	2009\010	2010\011	
KBL	1678.42	2138.80	1510.83	2296.87	3533.62	20.46
EBL	4984.30	5059.60	5948.50	5008.30	7743.90	11.64

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

Figure No. 4.16: Growth Ratio of Total Investment (%)



From the analysis, we can concluded that growth ratio of total investment is EBL is significantly lower than that of KBL i.e. $11.64 < 20.46\%$. EBL's growth rate is less than half than the EBL's growth rates. This shows that EBL is poor maintain growth ratio on investment. (Detailed in Appendix – 14)

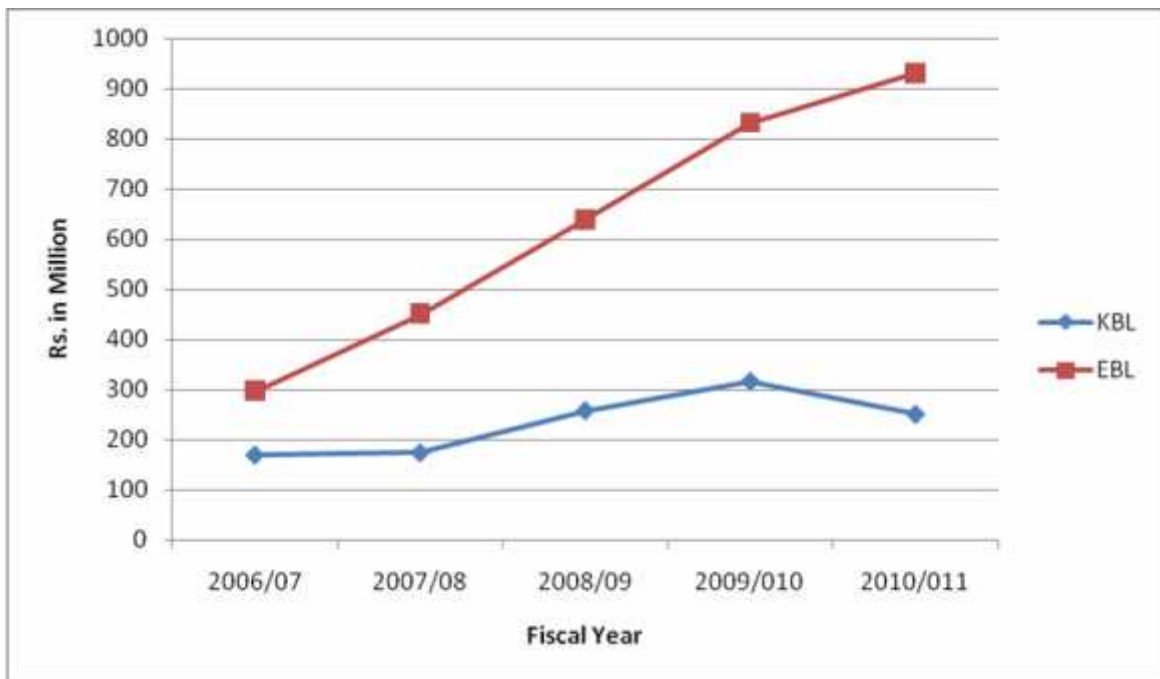
Table No. 4.17

Growth Ratio of Net Profit (%)

Banks	Fiscal Year					Growth Ratio
	2006/07	2007/08	2008/09	2009/010	2010/011	
KBL	170.26	174.93	258.38	316.54	251.24	10.22
EBL	296.40	451.20	638.70	831.80	931.30	33.14

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011

4.17: Growth Ratio of Net Profit (%)



From the analysis of growth ratio of net profit, KBL seems to be comparatively vary poor at maintaining higher growth ratio than EBL i.e. 10.22% < 33.14%.

Lastly, from the above analysis, it can be concluded that during the study period, KBL has comparatively shown poor performance in maintaining higher growth ratios in total deposit, loan and advances and growth ratio of net profit. Thus, KBL

should emphasize in improving its performance in these areas. (Detailed in Appendix – 14)

4.2 Correlations Analysis

Correlation between the important variables is analyzed under this topics.

4.2.1 Correlation between Deposit and Loan & Advances

Deposit have most important factor in run of commercial bank and similarly Loan and advances are also important to mobilize the collected deposit. Therefore we can say that deposits and loan and advances are the life blood of any commercial banks. Correlation coefficient measures the degree of relationship between two variables i.e. deposit and loan and advances. In This analysis deposit is independent variable (X) and loan and advances is dependent variable (Y). The main objective of finding out of correlation (r) between these two variables is to justify whether deposits are significantly used as loan and advances or not. The table below shows the value of 'r', 'r²', Probable Error P. Er and 6 P. Er between deposit and loan and advances of KBL and EBL during the study period.

Table No. 4.18: Correlation between Deposit and Loan and Advances (%)

Banks	Evaluation			
	R	r ²	P.Er	6 P.Er
KBL	0.9793	0.9590	0.01834	0.11
EBL	0.9967	0.9934	0.002947	0.018

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011 (Appendix – 15)

According to above table, in case of KBL, it was found that of co-efficient of correlation between deposit and loan and advances was 0.9793. It shows positive relationship between these two variables. Moreover, we consider the value of co-efficient of determination,(r²) which is 0.9590 and it means 95.90% of loan and

advance decision is depend upon deposit and only 4.10% of loan and advance was depend upon other variables. Similarly, considering the value 'r' was 0.9793 and comparing it with probable error (P.E.) and 6P.Er i.e.0.01834 and 0.11. We find that 'r' is greater than the value of 6P.Er therefore it reveals that significant relationship between deposit and loan and advances in case of KBL.

Similarly, EBL, the co-efficient of correlation between deposit and loan and advances was 0.9967, which indicates positive correlation between these two variables. Likewise, the value of co-efficient determination (r^2), was found 0.9934 and it means 99.34% of the variation in the dependent variable has been explained by the independent variable. Moreover, by application of probable error, the value of $r = 0.9967$ was highly greater than 6P.Er i.e. 0.018, which means value of 'r' was highly significant. In other words, there is highly significant relationship between deposit and loan and advances in case of EBL.

In conclusion, we can say that there is positive relationship between deposit and loan and advances of two banks which means both the banks are able to utilize their deposits as loan and advances in proper way. But the relationship is highly significant in case of EBL in comparison to KBL, which means EBL is better in utilizing its deposits as loan and advances than KBL.

4.2.2 Correlation between Deposit and Total Investments

Coefficient of correlation between deposit and investment measures the degree of relationship between these two variables. In This analysis deposit is independent variable (X) and investment is dependent variable (Y).

The main purpose of finding out of correlation (r) between these two variables is to justify' whether deposits are significantly invested or not. The table below shows the value of 'r', ' r^2 ', Probable Error (P.Er) and 6 P.Er between deposit and investments of KBL and EBL.

Table No. 4.19: Correlation between Deposit and Total Investment (%)

Banks	Evaluation			
	R	r ²	P.Er	6 P.Er
KBL	0.5232	0.2737	0.2191	1.3146
EBL	0.6904	0.4766	0.1583	0.9498

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011, (Appendix -15)

According to above table 4.18, in case of KBL it was found that co-efficient of correlation between deposit and total investment value of 'r' was 05232. It was shows positive relationship between those variables. Similarly, the value of co-efficient of determination (r²), was found 0.2737, which shows that 27.37% of the dependent variable has been explained by the independent variable. Similarly, considering the value of 'r' was 0.5232 and comparing it with 6P.Er. i.e. 1.3146, we find that's lesser than the value of 6P.Er. i.e. which reveals that the value of 'r' was not significant.

Similarly, in case of KBL, the co-efficient of correlation between deposit and total investment was 0.6904, which shows positive relationship between these two variables. Likewise, the value of co-efficient of determination (r²) was found 0.4766, and it means 47.66% of the variation in the dependent variable has been explained by the independent variable. Moreover, by application of probable error,(r) i.e. 0.6904 is found to be lesser than 6P.Er. i.e. 0.9498 which reveals that the value of 'r' was not significant. That means there is no significant relationship between deposit and total investment.

According to above analysis, the conclusion can be drawn that in both KBL and EBL there was positive relationship between deposits and total investment. But the both bank's value of 'r' was insignificant, it means KBL and EBL do not have any certain investment policy and are not able to use the deposits in proper way.

4.2.3 Correlation between Outside Assets and Net Profit

Coefficient of correlation between outside assets and net profit measures the degree of relationship between these two variables. In this analysis outside assets is independent variable (X) and net profit is dependent variable (Y). The main purpose of finding out of correlation (r) between these two variables is to justify whether net profit is significantly correlated with respect to outside assets or not. The table below shows the value of 'r', 'r²' Probable Error (P.Er) and 6 P.Er between other side assets and net profit of KBL and EBL.

Table No. 4.20: Correlation between Outside Assets and Net Profit

Banks	Evaluation			
	R	r ²	P.Er	6 P.Er
KBL	0.8272	0.6843	0.09523	0.5714
EBL	0.9895	0.9791	0.0063045	0.037827

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011, (Appendix -15)

The above table shows that the correlation coefficient of KBL is 0.8272 and it shows positive relationship between outside assets and net profit. There is significant relationship between these two variables. The coefficient of determination (r²) is 0.6843 which depicts that the dependent variable (net profit) is explained by the independent variable (outside assets) about 68.43%. Similarly, the probable error (P.Er) of KBL is 0.0063045. Since, the obtained value of r > P.Er the value of 'r' is significant and the value of r > 6 P.Er. shows that it is definitely significant.

In the case of Kumari Bank the correlation coefficient is 0.9895 and it shows positive relationship between deposit and investment. There is significant relationship between these two variables. The coefficient of determination (r²) is 0.9795 which depicts mat the dependent variable (net profit) is explained by the

independent variable (total outside assets) about 97.95%. Similarly, the probable error (P.Er) of Nabil Bank is 0.0063045. Since, the obtained value of $r > P.Er$ the value of 'r' is significant and the value of $r > 6 P.Er$ shows it is definitely significant.

In conclusion it can be said that in case of EBL, the value of 'r' is highly significant and value of co-efficient of determination is very good whereas, in case of KBL, the value of both 'r' and r^2 are well.

4.3. Trend Analysis

4.3.1 Trend Analysis of Total Deposit

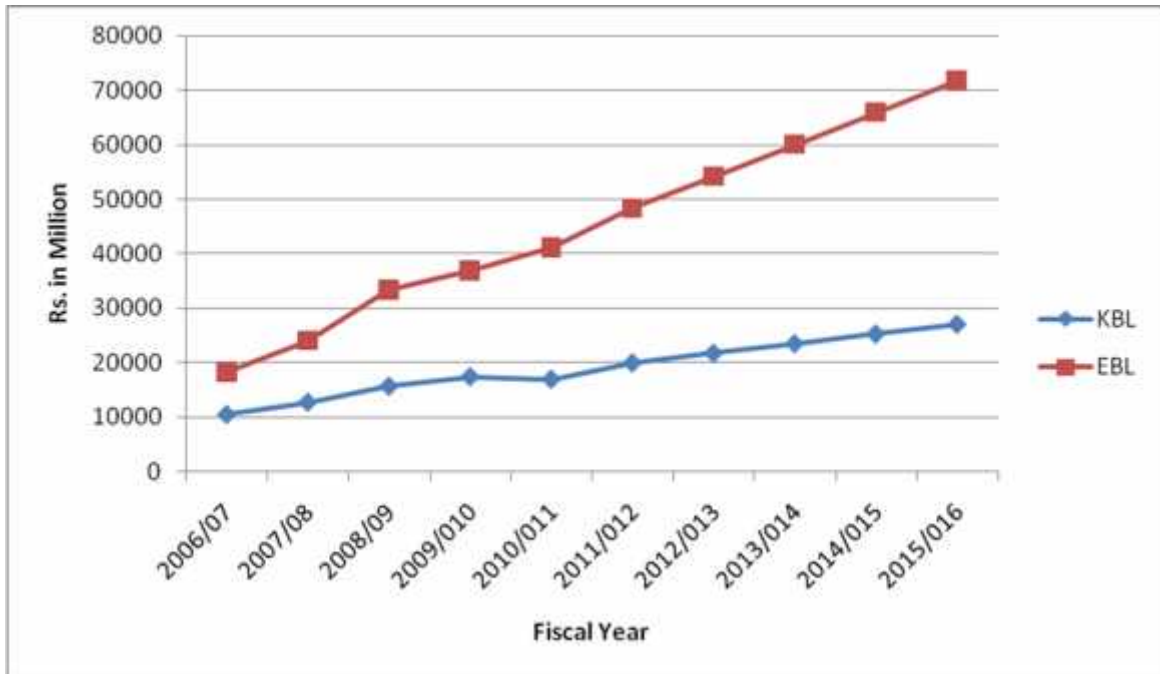
The trend value of total deposit of Kumari Bank and Everest Bank Limited is calculated for five years from 2006/07 and 2010/011. The forecast for next five years till 2015/016 has been also done on the basis past data of total deposit of KBL and EBL.

Table 4.21: Trend Values of Total Deposits of KBL and EBL

years	Deposits (Rs. In millions)	
	KBL	EBL
2006/07	10557.42	18186.25
2007/08	12774.28	23976.30
2008/09	15710.4	33322.95
2009/10	17432.25	36932.31
2010/11	16986.28	41127.9
2011/12	19946.84	48360.93
2012/13	21698.41	54244.86
2013/14	23449.98	60128.89
2014/15	25201.55	66012.72
2015/16	26953.12	71896.65

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\011, (Appendix – 16)

Figure 4.18: Trend Lines of Total Deposit of KBL and EBL



According to above table 4.20 of trend values of total deposit shows that the deposits of both the banks KBL and EBL has increasing trend. Other things remaining the constant, the deposits of KBL in the year 2015/016 will be Rs.26953.12 million and the EBL will be Rs.71896.65 million, which are the highest under the study period. From the figure 4.18 analysis it can be concluded that EBL bank's deposit is comparatively better than that of KBL.

4.3.2 Trend analysis of Loan and Advances

An effort has been made to forecast the amount of loan & advances of Kumari Bank and Everest Bank for the next 5 years from 2010/011 to 2015/016.

Table 4.22**Trend Values of Total Loan and Advances of KBL and EBL**

years	Deposits (Rs. In millions)	
	KBL	EBL
2006/07	8929.01	13664.08
2007/08	11335.09	18339.09
2008/09	14593.35	23884.67
2009/10	14765.91	27556.36
2010/11	14626.07	31057.69
2011/12	17297.34	36101.73
2012/13	18779.83	40502.18
2013/14	20262.32	44902.63
2014/15	21744.81	49303.08
2015/16	23227.30	53703.53

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\01, (Appendix – 17)

Figure 4.19: Trend Values of Total Loan and Advances of KBL and EBL



The table 4.21 and figure 4.19 shows that the loan and advances of both banks KBL and EBL are increasing trend. Other thing the constant, total loan and advances of KBL in the FY 2015/016 will be Rs.23227.30 million, which is the highest under the study period. Likewise, the same of EBL will be Rs.53703.53 million. From the figure 4.21 trend analysis it is clear that the loan and advances of EBL is proportionally better than that of KBL.

4.3.3 Trend analysis of Total Investment

Under this topic, an attempt has been made to analyze total investment of KBL and EBL for five years from 2006/07 to 2010/011 and forecast of the same for next five years till 2015/016.

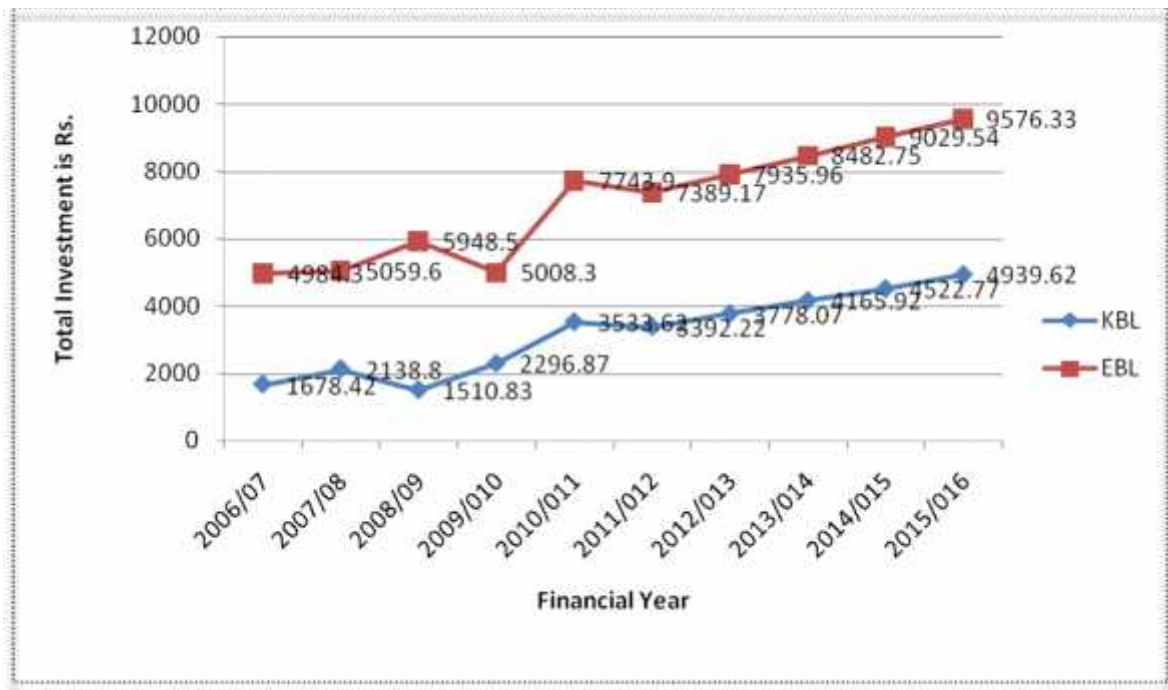
Table 4.23

Trend Values of Total Investment of KBL and EBL

years	Deposits (Rs. In millions)	
	KBL	EBL
2006/07	1678.42	4984.30
2007/08	2138.8	5059.60
2008/09	1510.83	5948.50
2009/10	2296.87	5008.30
2010/11	3533.62	7743.90
2011/12	3392.22	7389.17
2012/13	3778.07	7935.96
2013/14	4165.92	8482.75
2014/15	4522.77	9029.54
2015/16	4939.62	9576.33

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\01, (Appendix – 18)

Figure 4.20: Trend Values of Total Investment of KBL and EBL



The table 4.23 makes clear that total investment of KBL and EBL are in increasing trend. Other things remaining the same, the total investment of KBL in the year 2015/016 will be rs.4939.62million, which is highest under the study period. Similarly, the same of EBL will be rs.9576.33 million.

From figure 4.20trend analysis it can be concluded that the total investment of EBL is comparatively better than of KBL.

4.3.4Trend Analysis of Net Profit

Under This topic, the trend values of net profit for 5 years from 2006/07 to 2010/011 is calculated and forecast of the same for next five years till 2015/016.

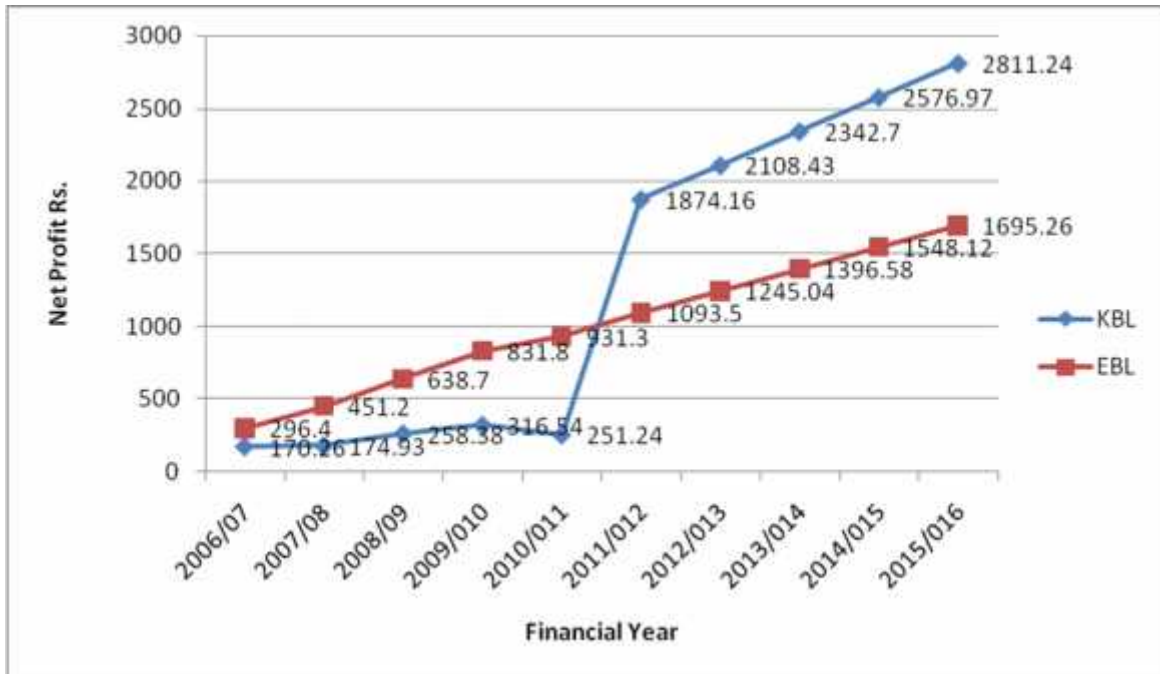
Table 4.24

Trend Values of Net Profit of KBL and EBL

years	Deposits (Rs. In millions)	
	KBL	EBL
2006/07	170.26	296.40
2007/08	174.93	451.20
2008/09	258.38	638.70
2009/10	316.54	831.80
2010/11	251.24	931.30
2011/12	1874.16	1093.50
2012/13	2108.43	1245.04
2013/14	2342.70	1396.58
2014/15	2576.97	1548.12
2015/16	2811.24	1695.26

Source: Annual Reports of KBL and EBL, 2006\07 to 2010\01, (Appendix – 19)

Figure 4.21: Trend Values of Net Profit of KBL and EBL



From the table 4.24 and figure 21 of trend values of net profit, it has been found that the expected amounts of both the banks are increasing trend. Other things remaining the same, the net profit of KBL in the year 2015/016 will be rs.2811.24 million, which is the highest under the study period. Similarly, the same of EBL will be rs.1695.26 million.

4.4 Chi-Square test calculated as follows:

The chi-square test calculated as follows:

- a. Loan and Advances to Total Deposit Ratio

Fiscal Year	KBL	EBL	Total
2006\07	84.58	75.13	159.71
2007\08	88.73	76.49	165.22
2008\09	92.89	71.68	164.57
2009\010	84.70	74.61	159.31
2000\011	86.11	75.51	161.62
Total	437.01	373.42	810.43

H_0 : The banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

H_1 : The banks are not successful to mobilize the total deposit on loan and advance for the purpose are not successful of profit generation.

Row\Column	O	E	O-E	$(O-E)^2$	$\frac{(O-E)^2}{E}$
1,1	84.58	86.12	-1.54	2.3716	0.0275
1,2	75.13	73.59	1.54	2.3716	0.0322
2,1	88.73	89.09	-0.36	0.1296	0.0014
2,2	76.49	76.13	0.36	0.1296	0.0017
3,1	92.89	88.74	4.15	17.2225	0.1940
3,2	71.68	75.83	-4.15	17.2225	0.2271
4,1	84.70	85.91	-1.21	1.4641	0.0170
4,2	74.61	73.43	1.18	1.3924	0.0189
5,1	86.11	87.15	-1.04	1.0816	0.0124
5,2	75.51	74.69	0.82	0.6724	0.0090
$\sum \frac{(O-E)^2}{E}$					0.5412

Here, $E = \frac{RT \times CT}{N}, = \frac{159.71 \times 437.01}{810.43}, = 84.74$

Calculation $\chi^2 = 0.5412$

Degree of Freedom = $(r-1)(c-1) = (10-1)(2-1) = 9$

Tabulated Value of χ^2 at 5% level of significance of 9 d.f. is 16.919.

Decision: Since calculated value of χ^2 is less than tabulated value of χ^2 , the null hypothesis H_0 is accepted i.e. the banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation.

b. Total Investment to Total Deposit Ratio

Fiscal Year	KBL	EBL	Total
2006\07	15.9	27.41	43.31
2007\08	16.74	21.10	37.84
2008\09	9.62	17.85	27.47
2009\010	13.18	13.56	26.74
2000\011	20.8	18.83	39.63
Total	76.24	98.75	174.99

H_0 : EBL bank capacity to mobilize its deposits on total investment is better than KBL.

H_1 : EBL bank capacity to mobilize its deposits on total investment is not better than KBL.

Row\Column	O	E	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
1,1	15.90	24.44	-8.54	72.9316	2.984108
1,2	27.41	18.87	8.54	72.9316	3.86495
2,1	16.74	21.35	-4.61	21.2521	0.995415
2,2	21.10	16.49	4.61	21.2521	1.288787
3,1	17.85	15.50	2.35	5.5225	0.35629
3,2	9.62	11.97	-2.35	5.5225	0.461362
4,1	13.56	15.09	-1.53	2.3409	0.155129
4,2	13.18	11.65	1.53	2.3409	0.200936
5,1	18.83	22.37	-3.54	12.5316	0.560197
5,2	20.80	17.27	3.53	12.4609	0.721534
$\sum \frac{(O-E)^2}{E}$					11.58871

Here, $E = \frac{RT \times CT}{N} = \frac{43.31 \times 98.75}{174.99} = 24.44$

Calculation $\chi^2 = 11.58871$

Degree of Freedom = $(r-1)(c-1) = (10-1)(2-1) = 9$

Tabulated Value of χ^2 at 5% level of significance of 9 d.f. is 16.919.

Decision: Since calculated value of χ^2 is less than tabulated value of χ^2 the null hypothesis H_0 is accepted i.e. EBL bank capacity to mobilize its deposits on total investment is better than KBL.

4.5 Major Findings of the study

- ✓ The cash and bank balance position of KBL with respect to deposit was not better against the readiness to service its customer deposits than that of the EBL. It implied the better Liquidity position of EBL. In contrast, a high ratio of non earning cash and bank balance might be unfit which indicates the banks inability to invest its funds in income generating areas.
- ✓ Investment on government securities to current assets ratio of KBL was in fluctuating trend. On the other hand EBL's ratio was in decreasing trend. EBL had invested more of its current assets in government securities than KBL. Overall, the liquidity position of both the banks from the point of view on investment on government securities was satisfactory.
- ✓ KBL had maintained stability in loan and advances to current assets ratio i.e. around 76% in the first two years during the study period i.e. from 2006/07 to 2007/08. EBL maintained highest ratio in the year 2007/08 i.e.68.46% and lowest in the year 2006/07 i.e. 64.26%. Coefficient of variation among ratios was higher in case of KBL than EBL i.e. 3.02%>2.44%. It indicated inconsistency of KBL banks ration in comparison to EBL.
- ✓ EBL was found slightly weak in comparison to KBL to mobilize higher amount of loan and advances. But as the same time the high ratio might not be too good from KBL liquidity position.
- ✓ Total investment to total deposit ratio of KBL was in fluctuating trend. On the basis of mean ratio EBL banks capacity to mobilize its deposits on total investment was better than that of KBL because it mean ratio is 19.75% where as KBL had 15.25%.

- ✓ KBL's fund mobilization, in terms of loan and advances with respect to total working fund was slightly more satisfactory than EBL.
- ✓ Investment on government securities to total working fund ratio of both banks were in fluctuating trend. The comparison of mean ratios of KBL and EBL reveal that EBL was better at mobilizing its working fund as investment in government securities.
- ✓ The ratio of return on loan and advances of KBL were in decreasing trend and that EBL is in increasing trend. On the other hand, when the mean ratios were observed, KBL seem to be good to maintain high return on loan and advances in comparison to the EBL. KBL had mean ratio of 4.08% whereas EBL had quite lower ratios 2.76%.
- ✓ ROE of KBL was in decreasing trend. EBL had decreasing trend upto FY 2007/08 and thereafter it had increasing trend. On the basis of mean ratio it can be sad that KBL had been weaker to earn high profit to its shareholders in comparison to EBL, which can be viewed by the lower mean ratio i.e. 14.88% < 27.43%.
- ✓ KBL had slightly high-mobilized fund than EBL into interest bearing assets i.e. government securities, shares, debentures of other companies, loan and advances etc. KBL had efficiently used its fund (outside) to earn high interest income comparison to EBL.
- ✓ Growth rate of total deposit, loan and advance and net profit of EBL was higher than KBL.
- ✓ In case of coefficient of correlation of deposit and loan and advances and total outside assets and net profit EBL has maintained higher significant relationship than KBL. But in case of coefficient of correlation of deposits

and total investment KBL had maintained higher significant relationship than KBL.

- ✓ The trend values of total deposits, total loan and advances, total investment and net profit of EBL have better than KBL.

CHAPTER- V

Summary, Conclusion and Recommendations

This chapter includes three aspects of the study. First aspect of the study focuses on summarizing the fact findings, second aspects of the study emphasizes to make concluding remarks upon them and the third aspect of the study focuses on making some useful suggestions and recommendations based on findings of the study.

5.1 Summary

Investment simply means an assets or item that is purchased with the hope that it will generate income or appreciate in the future. In general sense, investment means to pay out money to get more. It involves the commitment of resources that have been saved or put away from current consumption to the future. Investment policy comprises the set of guidelines and procedures that direct the long-term management of the investor's assets. This study was carried out as academic requirements for master's degree of business studies, on the topic of "A comparative study on investment policy of KBL and EBL." The study was conducted with the main objectives of analyze the investment policies of KBL and EBL. Because of, the overall improvement and development of economy in the country is done by the proper mobilization of domestic resources and these activities are carried out the well organized financial institutions viz. commercial banks, finance companies, development banks and other financial intermediaries

Commercial Banks need to keep optimum relation between deposit collection procedure and loan policy. The idle money collected from the customers by the commercial banks as deposits should be properly utilized either by granting loan to the needy parties or by making investment in the productive sector to earn more profit. Commercial banks should have sound investment policy for mobilization of the available fund. A deposit is that liabilities of commercial

banks which is returnable in demand at any time. So, sound investment policy has appeared to be very necessary to commercial banks. Commercial bank mainly focuses on its two functions i.e. collection of deposit through various scheme and granting those amount as loan to the customers by providing various facilities.

Nepalese commercial banks lag for behind fulfilling the responsibility to invest in the crucial sector of the economy for the uplift of the national economy. Thus the problem is very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy. Good investment policy ensures maximum amount of investment to all sector with proper utilization. Thus the interest was expressed to comparative analyze the investment policy of KBL and EBL.

Various materials were reviewed in order to find out the clear destination of the research work. Meanings of commercial bank, concept of investment, investment policy, features of sound investment policy, were reviewed as conceptual review. Besides, review of books, review of articles, review of research paper and review of related thesis were also included in research review section.

The study has covered 5 years from 2006/07 to 2010/011 A.D. Altogether 32 commercial banks are functioning in Nepal till date which are the population of the study, among these banks KBL and EBL have been selected as sample banks for study.

The conclusions are drawn after the study and recommendations are advanced to overcome the weakness in efficiency and improve the present fund mobilization and investment policy of the banks under study.

5.2 Conclusion

This study is based on investment policy of commercial banks. The major finding or conclusion derived from the study of ratio analysis, correlation coefficient analysis and regression analysis are summarized as below:

Ratio Analysis

Different types of ratio are calculated in this study. The major conclusion from the study of ratio analysis is summarized below:

Liquidity Ratio:

Cash and bank balance to total deposit ratio shows the EBL is better utilization of its deposit than KBL. EBL has strong liquidity position because it has highest proportion of cash and bank balance than KBL. On the basis of C.V. the ratio during the study period, there is EBL is more consistent than KBL.

Cash and bank balance to current assets ratio show the EBL is maintaining the highest cash balance than KBL. C.V. of the ratio during the study period KBL is more consistent than EBL.

The analysis of liquidity position of sample banks i.e. KBL and EBL banks has revealed satisfactory position. The liquidity position of EBL is comparatively better than that of KBL.

Activity Ratio:

The assets management position of both banks is overall satisfactory. On the basis of loans and advance to total deposit of KBL and EBL, it is found that KBL is better utilization of total deposit for investing in loans and advance than EBL, whereas in terms of investment EBL's position is better than that of KBL.

Profitability Ratio:

The analysis of profitability ratios that KBL is lagging behind to earn high return on its loan and advances in comparison to EBL. KBL has not been able to earn high profit through the efficient utilization of its owned capital.

EBL seems to have earned higher amount of interest on its outside assets in comparison to KBL because the mean ratio of EBL is slightly higher than KBL . Overall it can be concluded that the profitability position of EBL is comparatively better than that KBL.

Risk Ratio

On the basis of mean, the credit risk ratio of EBL is better than KBL.

Growth Ratio

Growth ratio of total deposit, Loan and advances and net profit EBL performance is better than KBL. But in case of growth ratio of net profit, EBL seems to be comparatively poor at maintaining higher growth ratio than EBL.

Correlation Coefficient Analysis:

In case of coefficient of correlation of deposit and loan and advances and total outside assets and net profit of EBL has maintained higher significant relationship than KBL.

Regression Analysis:

When observed the trend value of total deposits, loan and advances, total investment and net profit, EBL seems to have better position than KBL.

The major investment of these banks consisted of business and industrial loan, which indicates mobilization of funds in productive sectors. However, these banks have started investing in hire purchase, housing and financing sector due to the growing banking sector and cut throat competition. It is found that both selected banks have strong financial performance but comparatively Everest Bank is in better position. It is concluded that Everest Bank has adopted better investment policy than that of KBL.

5.3 Recommendations

In this research study, various financial and statistical tools are used to analyzed and interpret of data. So, on the basis of analysis and interpretation of data the following recommendation can be advanced for improvement of future performance of two selected bank i.e. KBL and EBL.

- a. Liquidity and profitability are like two wheels of the same car and both are very inter-related and have converse relation; one can be achieved only at the cost of the others. Highly liquid bank may have less profitability as it has to hold more assets in the form of cash. However, the bank has to maintain sufficient fund in the form of cash and liquid assets to meet various commitments like depositors claim, personnel expenses, interest payments, to exploit unforeseen opportunities etc. Since, EBL has held more liquidity its profitability ratios are lower than Kumari Bank. So. EBL is highly recommended to maintain reasonable liquidity so as to increase profitability of the bank.
- b. Profit is the life blood of any organization. Profit maximization is the main objectives of any banking industries. The growth ratio of net profit of Kumari Bank is too low in comparison to EBL. So, Kumari Bank is recommended to diversify its investment on more profitable sector and adopt sound investment policy.

- c. The study reveals that EBL has invested fewer funds in government securities than KBL. The liquidity position of KBL shows that it has kept relatively more funds as cash and bank balance, which does not earn any return. Idle funds ultimately affect the profitability of bank. So, KBL is recommended to invest more funds in government securities like, treasury bills, development bonds, saving certificates which are free of risk and profitable as well.
- d. The study reveals that return on loan and advances of KBL are in decreasing trend and that EBL is in increasing trend. So, KBL is recommended to invest to increase the funds to invest in loan and advances and EBL is recommended to invest more funds in loan and advances.
- e. In the present situation of rapidly growing cut throat competition in the banking sector, the business should be customer oriented. Marketing function can be taken as an effective tool for attracting and retaining customers, thus the commercial banks should active and strengthen its marketing function. For this purpose the banks should adopt new vision and formula with new strategies to satisfy their customer by providing them facilities convenient for them.
- f. Portfolio management of bank assets basically means allocation of funds into different sectors having different degrees of risk and varying role of return in such a way the maximum yield can be achieved by taking minimum risk. For this purpose portfolio condition of both the banks should be examined time to time and attempt should be made to maintain equilibrium in the portfolio condition as far as possible.
- g. Return on shareholder's equity KBL is very low. So, it is suggested to KBL, should invest productive sector yielding high return on shareholder's equity.

- h. KBL and EBL should conduct study on micro analysis and find out the probability to invest on small medium enterprises.
- i. Current ratio of KBL and EBL is found below the standard (i.e. 2:1), so it is recommended that the banks should maintain adequate CA to cover its current liabilities.
- j. At last, two selected JVBs are profit oriented organization and they should not forget their responsibility to their customers, society and nation. So they provide their activities in rural areas to contribute to the economic development of the country.

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APENDIX – 1

Cash and Bank Balance to Total Deposit Ratio of Kumari Bank Ltd

Fiscal Year	Cash & Bank Balance (Rs.)	Total Deposit (Rs.)	Ratio%
2006\07	672.11	10557.42	6.37
2007\08	933.84	12774.28	7.31
2008\09	1776.3	15710.4	11.3
2009\010	2723.83	17432.25	15.62
2010\011	1168.52	16986.28	6.88
Mean			9.49
Standard Deviation			3.53
Coefficient of Variation			37.20

Cash and Bank Balance to Total Deposit Ratio of Everest Bank Ltd

Fiscal Year	Cash & Bank Balance (Rs.)	Total Deposit (Rs.)	Ratio%
2006\07	2391.42	18186.25	13.1
2007\08	2667.97	23976.3	11.1
2008\09	6164.37	33322.95	18.5
2009\010	7818.82	36932.31	21.2
2010\011	6122.8	41127.9	14.9
Mean			15.76
Standard Deviation			3.65
Coefficient of Variation			23.16

APENDIX – 2

Cash and Bank Balance to Total Current Assets Ratio of Kumari Bank Ltd.

Fiscal Year	Cash & Bank Balance (Rs.)	Current Assets (Rs.)	Ratio%
2006\07	672.11	11726.59	5.73
2007\08	933.84	14801.46	6.31
2008\09	1776.3	18290.73	9.71
2009\010	2723.83	20236.84	13.46
2010\011	1168.52	20185.51	5.79
Mean			8.20
Standard Deviation			3.01
Coefficient of Variation			36.71

Cash and Bank Balance to Total Current Assets Ratio of Everest Bank Ltd.

Fiscal Year	Cash & Bank Balance (Rs.)	Current Assets (Rs.)	Ratio%
2006\07	2391.42	21262.48	11.20
2007\08	2667.97	26788.83	10.00
2008\09	6164.37	36489.69	16.90
2009\010	7818.82	40919.67	19.10
2010\011	6122.8	45528.5	13.45
Mean			14.13
Standard Deviation			3.42
Coefficient of Variation			24.20

APENDIX – 3

Investment on Government Securities to Current Assets of Bank L Kumari td

Fiscal Year	Inv. On Govt. Securities (Rs.)	Current Assets	Ratio %
2006\07	1247.96	11726.59	10.64
2007\08	1469.09	14801.46	9.87
2008\09	1080.09	18290.73	5.91
2009\010	1729.92	20236.84	8.55
2010\011	2806.11	20185.51	13.9
Mean			9.77
Standard Deviation			2.62
Coefficient of Variation			26.82

Investment on Government Securities to Current Assets of Everest Bank Ltd

Fiscal Year	Inv. On Govt. Securities (Rs.)	Current Assets	Ratio %
2006\07	3614	21262.48	17.00
2007\08	3237	26788.83	12.08
2008\09	5146	36489.69	14.10
2009\010	4354	40919.67	10.64
2010\011	7144	45528.5	15.69
Mean			13.90
Standard Deviation			2.31
Coefficient of Variation			16.62

APENDIX – 4

Current Ratio of Kumari Bank Ltd

Fiscal Year	Current Assets (Rs.)	Current Liabilities (Rs.)	Ratio
2006\07	11726.59	10679.71	1.09
2007\08	14801.46	13161.71	1.12
2008\09	18290.73	16221.19	1.13
2009\010	20236.84	17906.98	1.13
2010\011	20185.51	17655.32	1.14
Mean			1.12
Standard Deviation			0.017
Coefficient of Variation %			1.52

Current Ratio of Everest Bank Ltd

Fiscal Year	Current Assets (Rs.)	Current Liabilities (Rs.)	Ratio
2006\07	21262.48	19931.06	1.07
2007\08	26788.83	24928.11	1.07
2008\09	36489.69	34101.20	1.07
2009\010	40919.67	37919.00	1.08
2010\011	45528.50	41909.90	1.09
Mean			1.08
Standard Deviation			0.00146
Coefficient of Variation %			0.136

APENDIX -5

Loan and advance to total Current Assets of Kumari Bank Ltd.

Fiscal Year	Loans and Advances (Rs.)	Current Assets (Rs.)	Ratio %
2006\07	8929.01	11726.59	76.14
2007\08	11335.09	14801.46	76.58
2008\09	14593.35	18290.73	79.78
2009\010	14765.91	20236.84	72.96
2010\011	14626.07	20185.51	74.46
Mean			75.95
Standard Deviation			2.29
Coefficient of Variation			3.02

Loan and advance to total Current Assets of Everest Bank Ltd.

Fiscal Year	Loans and Advances (Rs.)	Current Assets (Rs.)	Ratio %
2006\07	13664.08	21262.48	64.26
2007\08	18339.09	26788.83	68.46
2008\09	23884.67	36489.69	65.46
2009\010	27556.36	40919.67	67.34
2010\011	31057.69	45528.50	68.22
Mean			66.75
Standard Deviation			1.63
Coefficient of Variation			2.44

APENDIX -6

II. Activity Ratio (Assets Management Ratio)

Loan and advance to Total Deposit of Kumari Bank Ltd

Fiscal Year	Loans and Advances (Rs.)	Total Deposit (Rs.)	Ratio %
2006\07	8929.01	10557.42	84.58
2007\08	11335.09	12774.28	88.73
2008\09	14593.35	15710.4	92.89
2009\010	14765.91	17432.25	84.70
2010\011	14626.07	16986.28	86.11
Mean			87.40
Standard Deviation			3.12
Coefficient of Variation			3.57

Loan and advance to Total Deposit of Everest Bank Ltd

Fiscal Year	Loans and Advances (Rs.)	Total Deposit (Rs.)	Ratio %
2006\07	13664.08	18186.25	75.13
2007\08	18339.09	23976.3	76.49
2008\09	23884.67	33322.95	71.68
2009\010	27556.36	36932.31	74.61
2010\011	31057.69	41127.9	75.51
Mean			74.68
Standard Deviation			1.62
Coefficient of Variation			2.17

APENDIX -7

Total Investment to Total Deposit of Kumari Bank Ltd.

Fiscal Year	Total Investment (Rs.)	Total Deposit (Rs.)	Ratio %
2006\07	1678.42	10557.42	15.90
2007\08	2138.8	12774.28	16.74
2008\09	1510.83	15710.4	9.62
2009\010	2296.87	17432.25	13.18
2010\011	3533.62	16986.28	20.80
Mean			15.25
Standard Deviation			3.73
Coefficient of Variation			24.46

Total Investment to Total Deposit of Everest Bank Ltd.

Fiscal Year	Total Investment (Rs.)	Total Deposit (Rs.)	Ratio %
2006\07	4984.30	18186.25	27.41
2007\08	5059.60	23976.30	21.10
2008\09	5948.50	33322.95	17.85
2009\010	5008.30	36932.31	13.56
2010\011	7743.90	41127.9	18.83
Mean			19.75
Standard Deviation			4.54
Coefficient of Variation			22.99

APENDIX -8

Loan and Advances to Total Working Fund of Kumari Bank Ltd.

Fiscal Year	Loans and Advances (Rs.)	Total Working fund (Rs.)	Ratio %
2006\07	8929.01	11918.31	74.92
2007\08	11335.09	15026.6	75.44
2008\09	14593.35	18538.57	78.72
2009\010	14765.91	20522.47	71.95
2010\011	14626.07	20491.78	71.38
Mean			74.48
Standard Deviation			2.65
Coefficient of Variation			3.56

Loan and Advances to Total Working Fund of Everst Bank Ltd.

Fiscal Year	Loans and Advances (Rs.)	Total Working fund (Rs.)	Ratio %
2006\07	13664.08	21851.10	62.53
2007\08	18339.09	27646.5.	66.33
2008\09	23884.67	37501.70	63.69
2009\010	27556.36	41982.80	65.64
2010\011	31057.69	46840.30	66.31
Mean			64.90
Standard Deviation			1.53
Coefficient of Variation			2.36

APENDIX – 9

Investment on Government Securities to Total Working Fund Ratio of Kumari

Fiscal Year	Inv. On Govt. Securities (Rs.)	Total Working fund (Rs.)	Ratio %
2006\07	1247.96	11918.31	10.47
2007\08	1469.09	15026.6	9.78
2008\09	1080.09	18538.57	5.83
2009\010	1729.92	20522.47	8.43
2010\011	2806.11	20491.78	13.69
Mean			9.64
Standard Deviation			2.57
Coefficient of Variation			26.66

Investment on Government Securities to Total Working Fund Ratio of Everest

Fiscal Year	Inv. On Govt. Securities (Rs.)	Total Working fund (Rs.)	Ratio %
2006\07	3614	21851.10	64.45
2007\08	3237	27646.5.	68.13
2008\09	5146	37501.70	65.25
2009\010	4354	41982.80	67.07
2010\011	7144	46840.30	67.59
Mean			66.50
Standard Deviation			1.41
Coefficient of Variation			2.12

APENDIX – 10

iii Profitability Ratio

Return on Loan and Advances of Kumari Bank Ltd

Fiscal Year	Net Profit (Rs.)	Loan and Advances (Rs.)	Ratio %
2006\07	170.26	8929.01	1.91
2007\08	174.93	11335.09	1.54
2008\09	258.38	14593.35	1.77
2009\010	316.54	14765.91	2.14
2010\011	251.24	14626.07	1.72
Mean			4.08
Standard Deviation			2.27
Coefficient of Variation			55.64

Return on Loan and Advances of Everest Bank Ltd

Fiscal Year	Net Profit (Rs.)	Loan and Advances (Rs.)	Ratio %
2006\07	296.40	13664.08	2.17
2007\08	451.20	18339.09	2.46
2008\09	638.70	23884.67	2.67
2009\010	831.80	27556.36	3.02
2010\011	931.30	31057.69	3.00
Mean			2.76
Standard Deviation			0.34
Coefficient of Variation			12.32

APENDIX -11

Return on Equity Ratio of Kumari Bank Ltd

Fiscal Year	Net Profit (Rs.)	Equity Capital (Rs)	Ratio %
2006\07	170.26	1025.63	16.60
2007\08	174.93	1364.89	12.82
2008\09	258.38	1624.95	15.90
2009\010	316.54	1785.76	17.73
2010\011	251.24	2213.84	11.35
Mean			14.88
Standard Deviation			2.40
Coefficient of Variation			16.13

Return on Equity Ratio of Everest Bank Ltd

Fiscal Year	Net Profit (Rs.)	Equity Capital (Rs)	Ratio %
2006\07	296.40	1201.50	24.67
2007\08	451.20	1921.20	23.49
2008\09	638.70	2203.60	28.95
2009\010	831.80	2759.10	30.15
2010\011	931.30	3113.60	29.91
Mean			27.43
Standard Deviation			2.79
Coefficient of Variation			10.17

APENDIX – 12

Total Interest Earned to Total Outside Assets Ratio of Kumari Bank Ltd

Fiscal Year	Total Interest Earned (Rs.)	Total Outside Assets (Rs)	Ratio %
2006\07	791.28	11202.6	7.06
2007\08	957.25	14169.07	6.76
2008\09	1374.72	17298.39	7.95
2009\010	1872.07	18281.59	10.24
2010\011	2251.79	19646.02	11.46
Mean			8.69
Standard Deviation			1.84
Coefficient of Variation			21.17

Total Interest Earned to Total Outside Assets Ratio of Everest Bank Ltd

Fiscal Year	Total Interest Earned (Rs.)	Total Outside Assets (Rs)	Ratio %
2006\07	1144.41	18898.2	6.06
2007\08	1548.66	23994.6	6.45
2008\09	2186.81	31819.2	6.87
2009\010	3102.45	35269.5	8.79
2010\011	4331.03	41919.4	10.33
Mean			7.70
Standard Deviation			1.62
Coefficient of Variation			21.04

IV. RISK RATIO

APENDIX – 13

Credit Risk Ratio of Kumari Bank Ltd.

Fiscal Year	Total Loans and Advances (Rs.)	Total Assets(Rs.)	Ratio %
2006\07	9062.43	11918.31	76.04
2007\08	11522.38	15026.6	76.68
2008\09	14795.26	18538.57	79.81
2009\010	14966.08	20522.47	72.93
2010\011	14926.23	20491.78	72.84
Mean			75.66
Standard Deviation			2.60
Coefficient of Variation			3.44

Credit Risk Ratio of Everest Bank Ltd.

Fiscal Year	Total Loans and Advances (Rs.)	Total Assets(Rs.)	Ratio %
2006\07	14082.70	21851.10	64.45
2007\08	18836.40	27646.5.	68.13
2008\09	24469.60	37501.70	65.25
2009\010	28156.40	41982.80	67.07
2010\011	31661.80	46840.30	67.59
Mean			66.50
Standard Deviation			1.41
Coefficient of Variation			2.12

V. GROWTH RATIO

APPENDIX - 14

Sample calculation of growth ratio of total deposits

$$D_n = D_0(1+g)^{n-1}$$

Where,

D_n = Total Deposits in the n^{th} year.

D_0 = Total Deposits in the initial year.

g = growth rate.

n = Total number of year.

Here,

For KBL,

$$D_{2010/11} = 16986.28$$

$$D_{2006/07} = 10557.42$$

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

Now,

$$D_n = D_0(1+g)^{n-1}$$

$$16986.28 = 10557.42 D_0(1+g)^{5-1}$$

$$\text{Or, } (1+g)^4 = 16986.28/10557.42$$

$$\text{Or, } (1+g) = (1.6089)^{1/4}$$

$$\text{Or, } 1+g = 1.1262$$

Therefore $g = 1.1262-1=0.1262$ i.e. 12.62%

Similarly other growth ratios have been calculated by performing same method which is mentioned above.

APPENDIX – 15

Calculation Correlation between Deposit and Loan & Advances OF KBL

Year	Deposits(X)	Loan & Adv. (Y)	XY	X²	Y²
2006/07	10557.42	8929.01	94267308.75	111459117.1	79727219.6
2007/08	12774.28	11335.09	144797613.5	163182229.5	128484265
2008/09	15710.4	14593.35	229267365.8	246816668.2	212965864
2009/010	17432.25	14765.91	257403034.6	303883340.1	218032098
2010/011	16986.28	14626.07	248442520.3	288533708.2	213921924
N=5	73460.63	64249.43	974177843	1113875063	853131371

We have,

$$\text{Correlation coefficient (r)} = \frac{\Sigma XY - \Sigma X \Sigma Y}{\sqrt{N \Sigma X^2 - (\Sigma X)^2} \sqrt{N \Sigma Y^2 - (\Sigma Y)^2}}$$

$$= \frac{5 \times 974177843 - 73460.63 \times 64249.43}{\sqrt{5 \times 1113875063 - (73460.63)^2} \sqrt{5 \times 853131371 - (64249.43)^2}}$$

$$= 0.9793$$

Coefficient of Determination (r^2) = $r \times r = 0.9793 \times 0.9793 = 0.9590$

Again probable Error (P.E.) = $0.6745 \times \frac{1-r^2}{\sqrt{N}} = 0.6745 \times \frac{1-0.9590}{\sqrt{5}} = 0.01834$

Note:- Similarly remaining correlation coefficient can be calculated.

Trend Analysis

APPENDIX – 16

Toatl Deposit

Estimation of deposit of Kumari Bank for the year 2006/07 to 2015/016. (Rs. in million)

Year	Deposit(Y)	Year (X)	XY	X ²
2006/07	10557.42	1	10557.42	1
2007/08	12774.28	2	25548.56	4
2008/09	15710.4	3	47131.2	9
2009/010	17432.25	4	69729	16
2010/011	16986.28	5	84931.4	25
sum	73460.63	15	237897.58	55

Here, the actual equation of linear trend is $Y = a + bx$

Two normal equations are

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

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$73460.63 = 5a + 15b \dots\dots\dots (I)$$

$$237897.58 = 15a + 55 \dots\dots\dots (II)$$

to solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$237897.58 = 15a + 55b$$

$$220381.89 = 15a + 45b$$

$$\underline{\hspace{1cm} - \hspace{1cm} -}$$

$$17156.69 = 10b$$

$$b = 17156.69 / 10$$

$$b = 1715.67$$

Substituting the value of 'b' in equation (I), we get

$$73460.63 = 5a + 15 \times 1715.67$$

$$5a = 73460.63 - 26273.55$$

$$a = 47187.08 / 5$$

$$a = 9437.42$$

Thus, the required trend is

$$Y = 9437.42 + 1715.67X$$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2011/012} = 9437.42 + 1715.67 \times 6 = 19946.84$$

$$Y_{2012/013} = 9437.42 + 1715.67 \times 7 = 21698.41$$

$$Y_{2013/014} = 9437.42 + 1715.67 \times 8 = 23449.98$$

$$Y_{2014/015} = 9437.42 + 1715.67 \times 9 = 25201.55$$

$$Y_{2015/016} = 9437.42 + 1715.67 \times 10 = 26953.12$$

Estimation of deposit of Everest Bank for the year 2006/07 to 2015/016. (Rs. in million)

Year	Deposit(Y)	Year (X)	XY	X ²
2006/07	18186.25	1	18186.25	1
2007/08	23976.30	2	47952.6	4
2008/09	33322.95	3	99968.85	9
2009/010	36932.31	4	147729.24	16
2010/011	41127.9	5	205639.5	25
sum	153545.71	15	519476.44	55

Here, the actual equation of linear trend is $Y = a + bx$

Two normal equations are

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

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$153545.71 = 5a + 15b \dots\dots\dots (I)$$

$$519476.44 = 15a + 55 \dots\dots\dots (II)$$

to solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$519476.44 = 15a + 55b$$

$$460637.13 = 15a + 45b$$

$$\underline{\hspace{1cm} - \hspace{1cm} -}$$

$$58839.31 = 10b$$

$$b = 58839.31 / 10$$

$$b = 5883.93$$

Substituting the value of 'b' in equation (I), we get

$$153545.71 = 5a + 15 \times 5883.93$$

$$5a = 153545.71 - 88258.96$$

$$a = 65286.74 / 5$$

$$a = 13057.35$$

Thus, the required trend is

$$Y = 13057.35 + 5883.93X$$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2011/012} = 13057.35 + 5883.93 \times 6 = 48360.93$$

$$Y_{2012/013} = 13057.35 + 5883.93 \times 7 = 54244.86$$

$$Y_{2013/014} = 13057.35 + 5883.93 \times 8 = 60128.89$$

$$Y_{2014/015} = 13057.35 + 5883.93 \times 9 = 66012.72$$

$$Y_{2015/016} = 13057.35 + 5883.93 \times 10 = 71896.65$$

APPENDIX – 17

Loan and Advances

Estimation of Loan & Advances of Kumari Bank for the year 2010/011 to 2015/016. (Rs. in millions)

Year	Loan & advances (Y)	Year (X)	XY	X ²
2006/07	8929.01	1	8929.01	1
2007/08	11335.09	2	22670.18	4
2008/09	14593.35	3	43780.05	9
2009/010	14765.91	4	59063.64	16
2010/011	14626.07	5	73130.35	25
sum	64249.43	15	207573.23	55

Here, the actual equation of linear trend is $Y = a + bx$

Two normal equations are

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

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$64249.43 = 5a + 15b \dots\dots\dots (I)$$

$$207573.23 = 15a + 55 \dots\dots\dots (II)$$

to solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$207573.23 = 15a + 55b$$

$$192748.29 = 15a + 45b$$

$$\underline{\quad\quad\quad} - \underline{\quad\quad\quad} =$$

$$14824.94 = 10b$$

$$b = 14824.94/10$$

$$b = 1482.49$$

Substituting the value of 'b' in equation (I), we get

$$64249.43 = 5a + 15 \times 1482.49$$

$$5a = 64249.43 - 222373.41$$

$$a = 42012.02/5$$

$$a = 8402.40$$

Thus, the required trend is

$$Y = 8402.40 + 1482.49X$$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2011/012} = 8402.40 + 1482.49 \times 6 = 17297.34$$

$$Y_{2012/013} = 8402.40 + 1482.49 \times 7 = 18779.83$$

$$Y_{2013/014} = 8402.40 + 1482.49 \times 8 = 20262.32$$

$$Y_{2014/015} = 8402.40 + 1482.49 \times 9 = 21744.81$$

$$Y_{2015/016} = 8402.40 + 1482.49 \times 10 = 23227.30$$

Estimation of Loan & Advances of Everest Bank for the year 2010/011 to 2015/016. (Rs. in million)

Year	Loan & advances (Y)	Year (X)	XY	X ²
2006/07	13664.08	1	13664.08	1
2007/08	18339.09	2	36678.18	4
2008/09	23884.67	3	71654.01	9
2009/010	27556.36	4	110225.4	16
2010/011	31057.69	5	155288.5	25
sum	114501.9	15	387510.2	55

Here, the actual equation of linear trend is $Y = a + bx$

Two normal equations are

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

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$114501.90 = 5a + 15b \dots\dots\dots (I)$$

$$387510.20 = 15a + 55 \dots\dots\dots (II)$$

to solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$387510.20 = 15a + 55b$$

$$343505.70 = 15a + 45b$$

$$\underline{\quad\quad\quad} - \underline{\quad\quad\quad} =$$

$$44004.5 = 10b$$

$$b = 44004.5 / 10$$

$$b = 4400.45$$

Substituting the value of 'b' in equation (I), we get

$$114501.90 = 5a + 15 \times 4400.45$$

$$5a = 114501.90 - 66006.75$$

$$a = 48495.15 / 5$$

$$a = 9699.03$$

Thus, the required trend is

$$Y = 9699.03 + 4400.45X$$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2011/012} = 9699.03 + 4400.45 \times 6 = 36101.73$$

$$Y_{2012/013} = 9699.03 + 4400.45 \times 7 = 40502.18$$

$$Y_{2013/014} = 9699.13 + 4400.45 \times 8 = 44902.63$$

$$Y_{2014/015} = 9699.03 + 4400.45 \times 9 = 49303.08$$

$$Y_{2015/016} = 9699.03 + 4400.45 \times 10 = 53703.53$$

APPENDIX – 18

Total Investment

Estimation of Total Investments of Kumari BANK for the year 2006/07 to 2015/016

(Rs. In Millions)

Years	Investment	Years (x)	XY	X ²
2006/07	1678.42	1	1678.42	1
2007/08	2138.8	2	4277.6	4
2008/09	1510.83	3	4532.49	9
2009/010	2296.87	4	9187.48	16
2010/011	3533.62	5	17668.1	25
sum	11158.54	15	37344.09	55

Here, the actual equation of linear trend is $Y = a + bx$

Two normal equations are

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

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$11158.54 = 5a + 15b \dots (I)$$

$$37344.09 = 15a + 55 \dots (II)$$

To solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$37344.09 = 15a + 55b$$

$$33475.62 = 15a + 45b$$

$$\underline{\quad\quad\quad - \quad\quad\quad - \quad\quad\quad}$$

$$3868.47 = 10b$$

$$b = 3868.47/10$$

$$b = 386.85$$

Substituting the value of 'b' in equation (I), we get

$$11158.54 = 5a + 15 \times 386.85$$

$$-5a = 5802.75 - 11158.54$$

$$-a = 5355.79/5$$

$$a = 1071.12$$

thus, the required trend is $Y = 1071.12 + 386.85X$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2011/012} = 1071.12 + 386.85 \times 6 = 3392.22$$

$$Y_{2012/013} = 1071.12 + 386.85 \times 7 = 3778.07$$

$$Y_{2013/014} = 1071.12 + 386.85 \times 8 = 4165.92$$

$$Y_{2014/015} = 1071.12 + 386.85 \times 9 = 4552.77$$

$$Y_{2015/016} = 1071.12 + 386.85 \times 10 = 4939.62$$

Estimation of Total Investments of Everest BANK for the year 2006/07 to 2015/016
(Rs. In Millions)

Years	Investment	Years (x)	XY	X ²
2006/07	4984.3	1	4984.3	1
2007/08	5059.6	2	10119.2	4
2008/09	5948.5	3	17845.5	9
2009/010	5008.3	4	20033.2	16
2010/011	7743.9	5	38719.5	25
sum	28744.6	15	91701.7	55

Here, the actual equation of linear trend is $Y = a + bx$

Two normal equations are

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

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$28744.60 = 5a + 15b \dots \text{(I)}$$

$$91701.70 = 15a + 55 \dots \text{(II)}$$

To solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$91701.70 = 15a + 55b$$

$$86233.80 = 15a + 45b$$

$$\underline{\quad\quad\quad} - \underline{\quad\quad\quad}$$

$$5467.90 = 10b$$

$$b = 5467.90/10$$

$$b = 546.79$$

Substituting the value of 'b' in equation (I), we get

$$28744.60 = 5a + 15 \times 546.79$$

$$5a = 8201.82 - 28744.60$$

$$a = 20542.75/5$$

$$a = 4108.43$$

thus, the required trend is $Y = 4108.43 + 546.79X$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2011/012} = 4108.43 + 546.79 \times 6 = 7389.17$$

$$Y_{2012/013} = 4108.43 + 546.79 \times 7 = 7935.96$$

$$Y_{2013/014} = 4108.43 + 546.79 \times 8 = 8482.75$$

$$Y_{2014/015} = 4108.43 + 546.79 \times 9 = 9029.54$$

$$Y_{2015/016} = 4108.43 + 546.79 \times 10 = 9576.33$$

APPENDIX – 19

Trend analysis of Net Profit

Estimation of Total Investments of Everest BANK for the year 2006/07 to 2015/016

(Rs. In Millions)

Years	Investment	Years (x)	XY	X ²
2006/07	296.4	1	296.4	1
2007/08	451.2	2	902.4	4
2008/09	638.7	3	1916.1	9
2009/010	831.8	4	3327.2	16
2010/011	931.3	5	4656.5	25
sum	3149.4	15	11098.6	55

Here, the actual equation of linear trend is $Y = a + bx$

Two normal equations are

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

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$3194.40 = 5a + 15b \dots (I)$$

$$11098.60 = 15a + 55 \dots (II)$$

To solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$11098.60 = 15a + 55b$$

$$9583.20 = 15a + 45b$$

$$\underline{\quad\quad\quad - \quad\quad\quad - \quad\quad\quad}$$

$$1515.40 = 10b$$

$$b = 1515.40/10$$

$$b = 151.54$$

Substituting the value of 'b' in equation (I), we get

$$3194.40 = 5a + 15 \times 151.54$$

$$-5a = 2273.10 - 3194.40$$

$$-a = 921.30/5$$

$$a = 184.26$$

thus, the required trend is $Y = 184.26 + 151.54X$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2011/012} = 184.26 + 151.54 \times 6 = 1093.50$$

$$Y_{2012/013} = 184.26 + 151.54 \times 7 = 1245.04$$

$$Y_{2013/014} = 184.26 + 151.54 \times 8 = 1396.58$$

$$Y_{2014/015} = 184.26 + 151.54 \times 9 = 1548.12$$

$$Y_{2015/016} = 184.26 + 151.54 \times 10 = 1695.26$$

Trend analysis of Net Profit

Estimation of Total Investments of Everst BANK for the year 2006/07 to 2015/016 (Rs. In Millions)

Years	Investment	Years (x)	XY	X ²
2006/07	170.26	1	170.26	1
2007/08	174.93	2	349.86	4
2008/09	258.38	3	775.14	9
2009/010	316.54	4	1266.16	16
2010/011	251.24	5	1256.2	25
sum	1171.35	15	3817.62	55

Here, the actual equation of linear trend is $Y = a + bx$

Two normal equations are

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

$$\sum XY = a \sum X + b \sum X^2$$

Putting the values on normal equations from the above table

$$1171.35 = 5a + 15b \dots (I)$$

$$3817.62 = 15a + 55 \dots (II)$$

To solve the above equation we multiply equation (I) by three and subtracting (I) from (II) we get,

$$3817.62 = 15a + 55b$$

$$3514.05 = 15a + 45b$$

$$\underline{\quad\quad\quad - \quad\quad\quad -}$$

$$2342.7 = 10b$$

$$b = 2342.7/10$$

$$b = 234.27$$

Substituting the value of 'b' in equation (I), we get

$$1171.35 = 5a + 15 \times 234.27$$

$$-5a = 3514.05 - 1171.35$$

$$-a = 2342.70/5$$

$$a = 468.54$$

thus, the required trend is $Y = 468.54 + 234.27X$

Forecasting the deposit for the upcoming next 5 years

$$Y_{2011/012} = 468.54 + 234.27 \times 6 = 1874.16$$

$$Y_{2012/013} = 468.54 + 234.27 \times 7 = 2108.43$$

$$Y_{2013/014} = 468.54 + 234.27 \times 8 = 2342.70$$

$$Y_{2014/015} = 468.54 + 234.27 \times 9 = 2576.97$$

$$Y_{2015/016} = 468.54 + 234.27 \times 10 = 2811.24$$

APPENDIX - 20

Comparative Balance Sheet of Kumari Bank Ltd.

Balance Sheet	2006/07	2007/08	2008/09	2009/010	2010/011
Liabilities					
Capital	750,000	1,070,000	1,304,935	18006015	603,800
Resrve and Surplus	275,630	294,885	320,016	479,743	610,036
Debenture & Bond		400,000	293,420	400,000	400,000
Borrowing	212,970	100,000	298,420	429,739	660,925
Deposit	10,557	12,774	15,710	17,432	16,986
Bills Payble	16,554	65,296	70,087	42,312	8,118
Praposed Dividend Payable	6,578		65,837	156,816	6,581,717
Tax Liablities	11,006	-9,650	43,289	23,498	
Other Liablities	94,733	331,786		275,594	216,044
Total Liablities	11,918,311	15,026,599	18,538,565	20,522,474	20,491,785
Assets					
Cash Balance	190,748	565,641	5,491,085	574,065	524,780
Balance With NRB	384,844	244,576	1,120,760	1,663,997	526,948
Bank balance with Banks	96,520	123,624	106,429	485,765	116,794
Money Call	372,215	55,360	120,000	300,000	451,520
Investment	1,678,418	2,138,797	2,296,872	1,510,828	3,533,622
Loan and Advanxces	8,929,013	11,335,087	14,593,346	14,765,912	14,626,073
Fixed Assets	189,323	222,000	247,832	2,856,379	306,276

Non Banking Assets	2,394	3,140			
Other Assets	74,833	338,370	380,258	330,222	405,767
Total Assets	11,918,311	15,026,599	18,538,565	20,522,474	20,491,785

APPENDIX – 21

Comparative Balance sheet of Kumari Bank Ltd.

Particulars	2006/070	2007/08	2008/09	2009/010	2010/011
Interest Income	791,284	957,245	1,374,722	1,871,066	2,251,791
Interest Expenses	397,053	498,734	1,188,918	816,202	1,566,551
Net Interest Income	394,231	458,511	558,519	682,148	685,240
Commission and Discount	40,764	48,494	79,104	10,088	99,707
Other Operating Income	15,280	17,805	19,746	41,613	53,635
Exchange Fluctuation Income	20,294	41,807	37,924	41,294	36,719
Total Operating Income	470,570	566,618	862,023	698,665	875,302
Staff Expenses	74,243	89,570	115,984	143,277	168,351
Other Operating Expenses	104,079	148,143	168,795	217,606	212,938
Exchange Fluctuation Loss					
Profit before Provision for Possible losses	292,247	328,905	501,139	413,885	494,012
Provision for Possible Losses	24,950	64,023	574,030	130,780	113,779
Operating Profit	267,297	264,881	356,482	488,061	380,232
Non Operating Income/(Loss)	669,885	15,588	11,116	699,180	632,371
Loan Loss Provision Written Back	62,645	724,096	47,021	14,824	13,787
Profit from Regular Activities	274,231	287,710	404,615	503,585	394,652
Profit/(Loss) from extra-ordinary Activities	-816,882	-4,531,068	-876,031	-352,000	-342,296
Net profit after considering all activities	273,414	2,831,798	403,739	503,233	394,310
Provision for Staff Bonus	24,855,899	25,743,626	36,703,549	45,748,525	35,846,391

Provision for Income Tax		8,250,603	108,656,303	140,942	1,072,269
* Current Year's	78,296,082	807,215	1,136,696	140,371	100,032
* Upto Previous year		1,784,443	3,063,398	1,521,507	3,023,417
* Deffered Tax			-8,076,777	-950,239	4,170,997
Net Profit/Loss	1,702,629	1,749,302	2,583,791	3,165,423	2,512,369

APPENDIX - 22

Comparative Balance Sheet of Everest Bank Ltd.

Balance Sheet	2006/07	2007/08	2008/09	2009/010	2010/011
Liabilities					
Capital	518,000	518,000	831,400	838,821	127,960

Resrve and Surplus	444,808	683,515	89,837	136,480	147,953
Debenture & Bond	3,000,000	3,000,000	3,000,000	3,000,000	30,000
Borrowing				312,000	464,600
Deposit	13,802,444	18,186,253	23,976,298	33,322,946	3,693,310
Bills Payble	15,805,995	26,776,480	49,429,700	148,655	14,514
Praposed Dividend Payable	1,146,667	68,146,323	1,407,903	230,524	276,252
Tax Liabilities		15,278,110	4,114,310	20,522	-1,136
Other Liabilities	7,635,586	16,346,045	720,443,59 2	378,574	566,081
Total Liabilities	15,959,284	21,432,574	27,149,342	36,916,848	41,382,760
Assets					
Cash Balance	2,593,476	534,996	8,229,894	944,695	1,091,500
Balance With NRB	1,139,514	1,178,198	1,080,914	4,787,163	5,625,113
Bank balance with Banks	1,541,049	6,782,256	7,640,678	4,325,118	1,102,200
Money Call		66,960,000	346,000,00		
Investment	4,200,515	49,843,145	5,059,557	5,948,480	5,008,307
Loan and Advanxces	9,801,307	13,664,081	18,339,085	23,884,673	27,556,356
Fixed Assets	1,520,898	1,700,974	3,605,124	4,271,574	463,094
Non Banking Assets		7,436,642			
Other Assets	178,007	2,226,600	3,762,154	4,921,661	536,187
Total Assets	15,959,284	21,432,574	27,149,342	36,916,848	4,138,766

APPENDIX – 23

Comparative Balance sheet of Kumari Bank Ltd.

articulars	2006/070	2007/08	2008/09	2009/010	2010/011
Interest Income	903,411	1,144,408	1548657	2,186,814	3,102,451
Interest Expenses	-401,397	-517,166	63,609	10,212	1,572,790
Net Interest Income	502,013	627,242	916,047	1,173,940	1,529,661
Commission and Discount	8,816,345	117,718	150,264	202,094	2,081,023
Other Operating Income	489,023	679,675	79,133	106,403	142,311
Exchange Fluctuation Income	230,737	284,045	64,452	62,526	47,879
Total Operating Income	662,153	841,332,298	1,209,898	1,544,965	1,927,976
Staff Expenses	-70,924,675	-86,118,226	157,957	186,919	226,364
Other Operating Expenses	-14,356,216	-17,754,564	233,766	292,010	352,511
Exchange Fluctuation Loss					
Operating Profit	4,476,665	5,776,684	818,174	1,066,035	1,349,100
Provision for Possible Losses	-70,465	-89,695	-99,340	-93,084	-77,010
Operating Profit	377,200	487,972	4,519,287	972,950	1,272,090
Non Operating Income/(Loss)	295,946	131,521	743,554	8,044	12,338
Loan Loss Provision Written Back		11,686,657	-18,998	985,999	383,553
Profit from Regular Activities	3,801,603	5,009,745	724,355	-55,491	1,367,282
Profit/(Loss) from extra-ordinary Activities		795,224	65,868	980,450	-61,192
Net profit after considering all activities	3,801,603	5,001,793	89,131	89,131	1,306,790
Provision for Staff Bonus	-345,600	-454,708	216,913		1,181,799
Provision for Income Tax				276,864	357,020

* Current Year's	-1,067	1,443	-9,445	24,278	
* Upto Previous year	-1,556,081	-13,931,012			-794,721
Net Profit/Loss	2,372,909	2,964,092	4,511,218	638,732	831,765