CHAPTER - I

INTRODUCTION

A country's economic development depends more on real factors such as industrial development, modernisation of agriculture, organisation and management of internal trade and expansion of foreign trade, especially exports and less on the monetary factors contributed by banking. Economic growth indicates the development of the country. One of the crucial problems of developing economy is that of capital formation. In particular, in a country like Nepal, vital financial resources are either hoarded or spent unproductive activities. There is a good deal of difference between hoarding and saving and the people in the countryside must be able to realise this difference. This can be easily done by the banks. It is true that Nepal is a poor country and very low income levels prevail here. Yet, huge amounts of money and lying idle in our country. It is true that the amount of capital available in Nepal for investment is surprisingly and inexplicably large. Only need to exploit this idle capital. If bank can offer attractive interests on savings, people can be induced to direct their savings from wasteful activities to the banks.

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 General Public for which it should pay sound interest regularly. The money thus accumulated can invested in different sectors for the development of the industry, trade, business, agricultures, social works and other resources deficit sectors. The mobilization of the domestic resources is one of the key factors in the economic development of the country. Commercial banks formulate sound investment policies to make it more effective which eventually contribute to the economic development of the country. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth. Thus the bank is a good mediator between depositors and loan takers.

Investment is defined simply to be the sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifice of current consumption takes place at present with certainty and the investor expects desired level of wealth at the end of his investment horizon. The general principle is that the investment can be retired when cash is needed. The decision to investment now is a most crucial decision as the future level of wealth is not certain. Time and risk are the two conflicting attributes involved in the investment decision. Broadly investment alternatives fall into two categories: real assets and financial assets. Real assets are tangible while financial assts involve contracts written on pieces papers such as common stocks, bonds and debentures. Financial assets are brought and sols in organised security markets.

An investment is a commitment of funds made in the expectation of the some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk, the investor assumes. Investment is concerned with the management of an investors' wealth, which is the sum of current income and present values of all future income funds to be invested, came from assets already owned t borrowed money and saving or foregone consumption by the investor.

Investment has to undergo various types of risk e.g. business risk, possibility of being wane in earning power of investment due to competition, uncontrollable costs, change in demand etc., market risk, possibility of change in market price and collateral value of securities and real properties. All the investors do not achieve success; therefore, simply making an investment is not sufficient. One should follow sound investment policy.

This is a common factor that investment is possible only when there are adequate savings. If all of the income is spend on for daily usage, there will be no amount left for making investment. So, collection and investment are always inter-related. Every people wish to collect or save their income and invest in highly return firm. In terms of Bank, collection means deposits, borrowings, income, savings of customer etc.

Investment policy fixes responsibilities for the investment deposition of the bank assets in term of allocation funds for investment and loan establishing responsibility for day to day management of those assets. (*Baxley; 1987:124*)

Investment by individual, business and government involves a present sacrifice of income to get on expected future benefit; as a result investment raises a nation's standard of living. (*The world Book Encyclopaedia; 1976:232*)

Investment is the sacrifice of current dollars for future dollars and, time and risk is involved in investment. Sacrifice takes place in the present and is certain. The reward comes later, it at all, and the magnitude is generally uncertain. In some case the element of time predominates. In other cases risk is the dominant attribute. (*Sharpe, Alexander, Gordon and Bailey, 1994: 1*)

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

According to (*Sharpe, Alexander and Bailey; 1999*), “Investment can be categorized as real investments and financial investments. Real investments genera1ly involve some kinds of tangible assets, such as land, machinery or factories. Financial investments involve contracts written on pieces of paper, such as common stocks and bonds."

Above mentioned definition about the investment clarifies the investment means to trade money for expected money for future stream of payments or benefits that will exceed the current cash outflow which is the benefits to the investors for sacrificing the time and commitment or due to uncertainty and risk factors. Financial institution must be able to mobilize their deposits collection funds in profitable, secured and marketable sector so that they can earn good return to their investment.

The bank and finance companies are such type of financial institutions, which deal in money and substitute of money, or deal with credit and credit instruments. Good management of credit and credit instrument is very important for the banks and financial institutions to collect funds and utilize it in good investment sector. Any way the goal of investment is the maximization of the owner's economic welfare. Intelligent investors always search for the project with minimum risk and higher return.

General Background

It has been fully established that economic development if any country can be active only through a balanced growth in the fields of industry, trade, commerce and agriculture. It has equally self-evident that the development in these fields cannot be made possible without the existence of a sound banking system in the country. Many countries, aspiring for the rapid economic development, have developed several banking and non-banking specialized financial institutions with objectives of meeting the financial needs of their economy.

Banks are among the most important financial institution in the economy and essential business in the thousands of local town and cities. Certainly, banks must be identified by their functions, services and roles they perform in the economy. Now a day, the functions of banks are changing, but the functions of their principal competitors are also changing. The competitors like financial institution including security dealers, brokerage firms and insurance companies are trying to be similar as possible to bank in the services they offer.

There are various concepts among the economists about the origin of the word "Banking". The term bank derives from the Latin Bancus, which refers to the bench on which the banker would keep its money and his records. Some persons trace its origin to the French word "Banque" and the Italian word "Banca" which means a bench for keeping; lending and exchanging go money in the market. The first bank called the "Bank of Venice" was established in Venice, Italy in year 1157. The bank of Barcelona and the bank of Genoa were established in 1401 and 1407 respectively. In England the banking began with English goldsmith only after 1640. The bank of Amsterdam was the great bank in seventeenth century.

Banking in Nepal

In Aspect of Nepal, surrounded by China and India, the two regional superpowers, Nepal is still in the list of the least developed countries in the world. Majority of the population is still much below the poverty line. The agro-dominated economy is further worsened by the complex geographical situation. Various factor like the landlocked situation, poor resource mobilization lack of institutional commitment, erratic ii government policies, political instability etc. are responsible for the slow pace of development in Nepal. The Nepalese people were highly exploited by 'Sahu Mahajan' by charging higher interest rate, compound interest rate and even by manipulating the principal amount. The history of modern banking system in Nepal is very short less than a -half-century. Before 1936 in Nepal, there were no banks at all. The introduction of 'Tejarath Adda' during the tenure of the Prime Minister Ranoddip Singh (1993 B.S) was the first step towards the institutional development of banking in Nepal. The first commercial bank 'Nepal Bank Limited' was established on 30th Kartik 1994 B.S. and started to perform proper banking activities. With the realization of central bank to develop monetary policy as well as to have proper control over commercial banks and banking sectors, Nepal Rastra Bank was established on 14th Baisakh 2014 B.S. under Nepal Rastra Bank Act 2012. Likewise, Rastriya Banijya Bank under the full ownership of government was established on l0th Magh 2022 B.S. as per Rastra Bank Act 2012. The growth of banks accelerated only after the adoption of liberal economic policy by Nepalese Government.and Nepal Rastra Bank. This has attracted many new investors and encouraged them to open many new modern banks with joint venture of foreign banks. Nepal Arab Bank Ltd was established on 29th Ashad 2041 B.S. as the first modern bank with the joint venture of Dubai Bank Ltd., U.A.E. Nepal Indosuez Bank Limited (now known as Nepal Investment Bank Limited) emerged in 1985 as the second joint venture commercial bank. Nepal Grindlays Bank Limited {now known as Standard Chartered Bank Nepal Limited after July 16, 2001) was established in 1987 as the third joint venture bank in the country.

After the restoration of democracy in 1991, the elected government adopted open and liberalized economic policies, then there was a gradual increase in the number of joint venture banks, domestic commercial banks are came to existence to cater the financial needs of the country. Nepal Rastra Bank realized the need of more financial institutions in the market and hence started the policy of distribution of licenses under the Commercial Bank Act 2031, Development Bank Act 2052 and Finance Company Act 2042. Later in the year 2063 all these three acts were replaced by a new act for all the financial institutions by the name of "Bank and Financial Institution Act 2063".

Hence all the licenses for the financial institutions now are being given according to the above mentioned new act. At the present, there are in total 26 commercial banks, 63 development banks, and 15 gramin bikas banks, 77 finance companies, 45 NGOs and 116 Hulak bachat banks operating in Nepal. In Nepalese context, the contribution made by the financial institutions, especially banks, to the overall economy of the country cannot be overstated. With the emergence of private banking in the mid-1980's the number of financial players such as commercial banks, finance companies and cooperatives has skyrocketed. Now the network of such financial players, including government banks, has spread virtually throughout the country. The financial institutions have really come of age in Nepal.

Commercial Banks

Most under-developing countries are faced with the problem of proper mobilization of the financial, physical and human resources. And one of the chief undertakings used to overcome the problem of mobilizing financial resources both external and internal is to set up banks and activate them. The commercial banks should therefore come forward at this for developing the economic condition of country. The growth of commercial banks really helped in the progress of Nation's economy as this stimulated to the business and encouraged people to move forward with their business and introduced new entrepreneurs in the market. It became lot easy for a person to start a business. Therefore, commercial bank plays a vital role in the economic and financial life of the country. By economic development’s we generally mean the development of the leading sectors of the economy like agriculture, industry, trade and commerce etc. the development of these sectors requires a regular supply of sound banking system.

The, commercial banks in Nepal are one of the two components in financial sector basically known as the banking sector component. The other component, non-banking sector, includes co-operatives, *gramin bikas banks*, development banks, financial companies and NGOs.

Banks playa predominant role in under developed economy in many ways as they promote capital formation by developing banking habit of people and collection saving. People have mobilized them in productive channels. Thus their role in the economic development is to remove the deficiency of capital by stimulating saving and investment.

Commercial bank in current year presents a new picture- a picture of innovation in practice of wider horizon and of new enterprises. The most remarkable diversification of banking function in the banks increasing participation in medium and long term financing industries and other sector so they are not only financial institution of finance agriculture and industry and other economic activities but are more than financial institution in the sense that they help saving, create deposits and make the subsequent distribution of such accumulated funds.

In addition to the acceptance of deposits, lending and investing they provide a multiple of services including accepting traveller's cheque and underwriting, purchase and sale of securities, govt. bonds of customers, buy and sale of foreign exchange, the insurance of commercial letter of credit supply of timely credit and market information, providing remittance facilities and so on.

Commercial bank act 2031 B.S. defines:

"A commercial bank is that bank which exchange money, accepts deposits, grants loan and performs banking functions".

Functions of Commercial Banks

For the poor and least developed countries like Nepal, having low per capita income and GDP, faces many economic problems such as inflation and deflation of monetary trade, trade deficit and budget deficit. Commercial banks play important role in removing such problems by capital formulation for deficits spending units (trade and Industry as well as general public). They also finance in small arid cottage industries and agricultural sector under priority sector investment scheme to serve the marginal people.

The American Institute of Banking has laid down the four major functions of the commercial banks such as receiving and handling deposit, handling payments for its clients, making loans and investments and creating money by extension of credit.

Nepal commercial bank act 2031 B.S has defined commercial bank as stated earlier and it has also emphasized on their functions. Major of them is as follows:

1. They accept custody of funds with or without interest and open fixed accounts and saving accounts in the name of depositions
2. They supply loans (short-term debt as well as long term debts whatever necessary for trade and commerce) or make investment.
3. They help to issue shares and debentures of any company or any others corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent.
4. Conduct transactions in bonds, provisionary notes or bills of exchange foreign exchange relating to commerce or corporation as are redeemable within the kingdom.
5. They grant overdraft.
6. They issue letter of credit, draft and traveller's cheque.
7. They remit or transit fund to different place with in or out side the country.
8. They purchase, sell or accept the securities of Government of Nepal.

Besides this, the commercial bank arranges the amount of foreign exchange required by various organizations arid travellers. Moreover, foreign trade transactions are facilitated thorough the issuance of Letter of credit. Bank also provides locker facilities to the customers to keep valuable ornaments and documents. Bank also provides references about the financial position of their customers as and when required. The bank works as an agent of its customers to receive and make payments, pay and collect rent, pay insurance premium, etc. In case of joint venture commercial bank, it issues internationally valid Credit cards, ATM cards, Tele-banking etc. Besides, bank has many more functions and roles in the development of national economy.

An Overview of Machhapuchchhre Bank Ltd.

Machhapuchchhre Bank was registered in 1998 as the first regional bank to start banking business from the western region of Nepal with its head office in Pokhara. Today with the paid of capital of above 1,480 million rupees (with the allocation of 50% share of Emirates Bank Limited, Dubai, 20%share of Nepalese Financial institutions and 30% of general public)., it is one of the full fledged commercial bank operating in Nepal, and it ranks in the topmost among the private commercial banks. MBL has achieved a remarkable success in banking sector in terms of market share and profitability compared to private commercial banks because of its reliable and professional services.

Machhapuchchhre Bank Limited is striving to facilitate its customer needs by delivering the best services with providing modern banking facilities to its valued customers. Due to their prompt and quality services MBL has achieved its remarkable success in banking sector and has proved its high status in the eye of public. MBL has been improving its performance from very beginning since its establishment.

The bank in the last few years have really opened up with branches spread all around the country. At this stage, it has its Corporate Office in Kathmandu and branch offices in other parts of Kathmandu (Baluwatar, Thapathali, Swoyamhu, Baudha, Gwarko-Lalitpur, Kamal Binayak-Bhaktapur, Sano thimi-Bhaktapur) and major towns of Nepal (Banepa, Damauli, Waling, Beni, Dulegaunda-Tanahun, Gajuri-Dhading, Aanbukhaireni-Tanahun, Itahari Chowk, Dhankuta Bazar, Ilam Bazar, Jaljala Chowk-Biratnagar, Sahid Chowk-Narayangadh, Butwal Bazar, Devkota Chowk-Bhirahawa, Link Road Ghantaghar-Birgunj) and different parts of Pokhara (Mahendrapul, Ram Bazar, Bagar Bazar, Lake Side, Lekh Nath) in addition to the Head Office in Naya Bazar, Pokhara. A full fledged banking branch is in operation in Jomsom located high up in the mountains too. The bank aims to serve the people of both the urban and rural areas.

MBL strongly recognizes the important role of human resources in successfully meeting its business objectives. Currently it has total of staff strength of 439 compared to 313 in the previous year.

The bank constantly interacts with existing and potential customers and gets feedback and suggestions. This will help to design products and services to suit the requirements and expectations of customers. The banks objective is to provide quality services to its customers MBL has providing the following different types of services to the customers:

- 365 days service
- ATM with any branch banking
- Any Where Banking
- Evening Banking
- Internet banking
- SMS banking
- Safety deposit locker
- Loans and Advances
- Credit card and debit card
- Remittances
- Tele banking
- Bank guarantee
- Funds transfer
- clearing collection
- Bills purchased
- Telephone bill payment
- Mobile bill payment etc.

Statement of the Problem:

The main objective of commercial bank is to maximize its profit by utilizing its resources in effective way for this purpose, it is essential for a commercial bank to accumulate adequate deposit to invest in productive project which ensures regular amount of interest as revenue regularly and recoverable of the principal amount on the matured date. As result of change in environment, it brings new challenges and opportunities. The bank requires adequate sources to meet these challenges and proper utilization of opportunities. The bank could not create a reputed image among the General Public till such challenges are handled properly. If the bank becomes unable to generate profit regularly it should ignore such opportunities and look forward for policy change, which makes difficult to survive in highly competitive market. .In order to attract potential inventors towards the bank, from the view point of quality and quantitative deposits and to make effective use of such deposit in productive sector, the bank should make proper study on the trend of deposit, trend of withdrawal, financial soundness, CR ratio, ratio of deposits to investment and risk involving in making investment.

After the restoration of democracy, the first elected government in 1991 adopted liberalized and market oriented economic policies followed by liberalization in the financial sectors, these measures include the deregulation of the interest rate, free entry of banks and financial institutes removal of statutory liquidity ratio, enactment of new commercial banks, finance company and development of banks acts so as to encourage private sectors including foreign banks and financial institutions. Since then, various financial institutions i.e. joint venture banks, domestic commercial banks, financial companies, co-operative banks and other financial institutions are come into existence to cater the financial needs of the country by, assisting financial development of the country.

From these financial institutions, they collect a large amount of deposits but investment practices of these collected funds are comparatively very low. Nowadays, due to the less investment opportunity bank uses to discourage depositors by reducing the interest on deposits and increasing the minimum threshold balance. Such condition may cause the high liquid market and can impact the condition of the country negatively. Due to the throat-cut competition of financial environment bank seems to be ready to grant deposits, unsecured loan and investment may cause liquidation of those banks. If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should sometimes losses its principal. This will definitely make bad impact upon the economic health of the country.

Commercial banks have played a vital role by accepting deposits and providing various types of loans. Loan affects the overall development of the country. The problem of lending has become a serious for developing country. Commercial banks give too many loans, advances, overdraft, and many other facilities to encourage deposit to their customer and they spend big amount of deposits as office operation expenses and for staffs. Commercial banks are found to make loan only on short-time basis against moveab1e merchandise but they don't invest on long-term projects because of the safety minded and not considering the profit potential of the project. Another reason is that, they follow conservative lending policy, which is based on strong security even in this age. Because of this, they may not earn sufficient return and most of the joint venture banks may have to be collapsed due to poor investment policy or lack of investment strategy in future.

Commercial banks are not utilizing their deposits due to lack of sound investment policy. They have lot of deposits but very little investment opportunities. Their investment has been found to have lower productivity that is due to the lack of supervision regarding whether their investment is properly utilized or not. Commercial banks invest their funds in limited areas to achieve higher amount of profit. The investment towards the agriculture and industrial sector is found to be inadequate. Many commercial banks are not found investing even a minimum percentage in priority sectors due to the lack of supervision of central banks. It is to be said that commercial banks only serves rich community of the urban areas not the poor as they do not seems to be capable to invest their funds in profitable sectors. They make an investment on less risky and highly liquid sectors, they keep high liquid sector and they keep high liquid position and flow lower funds in productive sectors. These types of unfavourable and unsecured loans highly reduce the rate of return, which discourage the depositors.

Nepalese commercial banks have riot formulated their investment policy in an organized manner. They only depend upon the directions and guidelines of central bank but they don't have clear view and have not formulated their own organized investment policy. Furthermore, the implementation of investment policy is not in an effective and efficient way. Lack of foresightedness in policy formulation and absence of strong commitments towards its proper implementation has caused many problems to commercial banks. Profit is important to every commercial bank as well as shareholders and depositors point of view and it is possible when, they invest on safe, sound and profitable projects. Every bank must have profit to survive in the competitive market where a 1ot of money and very little investment opportunity exist. Therefore, appropriate investment policy is the basic function of all the commercial banks, joint venture and other financial institutions.

The main focus of the study will be towards the investment matters of the bank. Investment policy is the main factor for the every banks and financial institutions.. Thus, the study will try to explain the following points specially related to the investment function of the Machhapuchchhre Bank Ltd.

- Has the bank been able to collect and utilize the funds efficiently?
- What is the relationship between investment and loan & advances with total deposits?
- Does the investment decision affect the total earnings of the bank?
- Is MBL Bank is adopting investment practice and fund mobilization policy as directed by the Central Bank?

1.7 Objective of the study

Investment decision is one of the major decision functions of financial management. The objective of the study is mainly focused to assess and evaluate the investment policy and strategies followed by the Machhapuchchhre Bank Ltd. Besides this, the following specific objectives are to support the evaluation and studies are as follows:

- To study the resource mobilization and investment policy of MBL.
- To identify investment sector.
- To find out the relationship between deposit and investment trends of the bank.
- To evaluate financial efficiency and performance (profitability, risk, liquidity and assets management) of MBL.
- To recommend the policies to be adopted by the sample organization in the financial analysis for its future development

1.8 Statement of the Problem

Effective and efficient fund mobilization and investment policy is two major factors for any developing country aspiring for a sustainable economic development. Investment activity is the one of the major activity of any financial institution because only deposit collection carries no meaning. Investment policy of collected fund is the most important theme from the point of both management and shareholders and good investment policy has a positive impact on economic development of the country and vice versa. So, the investment policy of commercial banks should be in accordance with the spirit of the economic advancement of the people.

As the financial services industry becomes more complex, the financial information is more difficult to understand. Quality governance is impossible without effective analysis and evaluation of financial information. In the context of Nepal, there are less availability of research work, articles and journals in investment policy of commercial banks and other financial institutions. Thus the study will certainly help management of the MBL and stakeholders as follows:

1. The findings of this study will be worth to the share holders to see the financial health of MBL and helpful for them in identifying the productivity of their resources and justifying the rational of their investment decision.
2. This study is to reveal the strengths and weaknesses of the bank, point out the pitfalls and suggest the remedies. From this, management can prevent the future problems and can strengthen its performance.
3. The performance of the bank are of great interest to the several outsiders such as customers, financing agencies, stock brokers, academicians, policy formulators and general public etc. This study will be helpful for a1l interested person and parties who can get the information of the financial performance of MBL. This information helps them judge and decide in which of the banks they are more secured and they can get more benefits.

1.9 Limitations of Study

There will be some limitations while undergoing this study. The main limitations of the Study will be as follows:

- The study is based on secondary data collected from the Bank.
- The study has been carried out based on the published financial documents such as balance sheets, profit and loss accounts, related journals, magazines and brochures. These published documents have their own limitations.
- The study period has covered five years data only.
- Out of numerous factors, only those factors related to investment policy are considered.
- The study focuses an investment aspect of banking performance only.
- The study is carried out in only one bank.

1.10 Organization of the study

Since the study carried out to different stages and procedures, as it needed as well the study organized in the following chapters in order to make the study easy to understand:

Chapter 1 : Introduction

The introduction of commercial bank and other financial institution frame to shown in clear. This chapter includes the general background and introduction framework of the study. It deals with the introduction that includes background profile of commercial bank, statement of the problem, objectives of the study, significance of the study, limitation and organization of the study.

Chapter 2: Review of Literature

This chapter includes the Review of Literature and review of theoretical background of the relevant field as well as major's findings of previous studies in the relevant field which concerned to the subject matter.

Chapter 3: Research Methodology

This chapter includes the methodology use through the research work, design and sources of data, population sampling, data collection and analysis techniques to clarifying about the related study.

Chapter 4: Data Presentation and Analysis

The heart of this study in which all relevant collected data are analyzed and interpreted. Analysis of data is mainly divided into heading as different tools are used. They are financial analysis and statistical analysis, which relevant with studied periods

Chapter 5: Summary, Conclusion and Recommendations

This chapter will be suggestive to all concern, in accordance of analysis and interpretation of data in chapter 4. Recommendations are made for concerned authorities and institutions as well as conclusion of the study are also carried out.

CHAPTER - II

REVIEW OF LITERATURE

This chapter has been classified into the following sections:

2.1 Conceptual Framework

Bank plays an important role in the economic development of a country. Banking, when properly organized, aids and facilitates the growth of trade and industry and hence of national economy. In the modern economy, banks are considered hot as a dealer in money but as the leaders of development. Banks are not just the storehouses of the country's wealth but are the reservoirs of resources necessary for economic development.

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of the country. No function is more important to the economy and it constitutes than financing. "Bank assists both the flow of goods and service from the products to the consumers and financial activities of the government. Banking provides the country with a monetary system of payment and it *is* important part of the financial system, which makes loans to maintain and increase the level of consumption and production in the economy." (*American Institute of Banking; 1972:162*)

Commercial banks deal with other people's money. They have to find ways of keeping their liquid assets so that they could meet demands of their customers. In this anxiety "to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must be made to understand the bank is fully solvent.

"Investment Policy fixed responsibility for the investment deposition of the banks assets in terms of allocating funds for the investment and loan establishing responsibility for day to day management for these assets." (Bexley; 1987:12)

Commercial Bank Act 2031 B.S. of Nepal has defined that "Commercial bank is one of which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for cooperative, agriculture, industries or such specific purpose."(*Commercial Bank Act; 2031 B.S.)*

Investment can be defined as the 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's why there is always involvement of risk in investment. Investment in other words can be defined as the management of an investor's wealth, which are the sum of current income and the present value of all future income. Funds are invested to increase wealth. Investors also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other factors.

Optimal investment decision plays a vital role in each and every organization. But especially for the commercial banks and other financial institutions the sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institutions, they must mobilize (i.e., investment on different sectors) their collections {deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose these banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested. This information includes as financial background, nature of business as well as its ability to repay the loan back. These all information should be gathered from the viewpoint of security.

The income and profit of the bank depend upon the lending procedure applied by the bank as well as lending policy and investment. in different securities also affect the income and profit. In the investment procedures and policies it is always taken in mind that "the greater the credit created by the bank, higher will be the profitability." A sound lending and investment policy is not only pre-requisite for bank's profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

The sound policies help commercial banks to maximize quality and quantity of investment and thereby, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

Investment operation of commercial banks is very risky one. For this, commercial banks have to play due consideration while formulating investment policy regarding loan investment. Investment policy is one facet of the overall spectrum of policies that guide banks investment operations. A healthy development of any bank depends, heavily upon its investment policy. A sound and viable investment policy can attract both borrowers and lenders, which helps to increase the volume and quantity of deposits, loans and investment. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability and safety etc. These fundamental principles of commercial bank's investment are fully considered while making investment policy. Emphasizing upon this "lending is the essence of commercial banking consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors & management well conceived lending policies and careful lending practices are essential if a bank is to perform its creating function effectively and minimizing the risk inherent in any extension of credit." (*Cross; 1963:87*)

"Investment policy should incorporate several elements such as regulatory environment, the availability of funds, the selection of risk, loan portfolio balance and term structure of the liabilities". (*Naughton; 1994*)

2.1.1 Investment policy of bank

The commercial banks are inspired with the goal of earning Profit, There are many reasons after the goal of gaining profile A bank is a legal person. The shareholders are the owner of the bank. The board of directors is the agent of the bank. It operates the bank. To run the banks many employees are appointed. It needs a great amount of expenses to run the bank, whether it is direct or indirect, there is continuous expense in the bank. In addition to it, the aim of any person or institution to invest the money to the bank is to earn more profit only. A bank established without the aim of gaining the profit is the central bank. Other banks are inspired with the object of earning profit and helping the economic development and finally to take the social responsibility. They should have the ability to use the policy of banking investment and to implement it much more carefully otherwise a bank may be unsuccessful in its goal. (*Bhandari; 2003:126*)

Without investment, a bank can't gain profit. The bank can't be Successful until it gains profit. Therefore, after the establishments of bank it collects much deposit gets the deposits, from the current, saving and fixed, deposit account. In this way, the bank, apart from the amount deposited from such accounts, collects the capital by selling its shares. The bank can take loans. Thus, a great capital fund is formed in the bank from different sources. It is not better to keep such capital fund inactive. The bank should able to clear the policy of its investment by making a deep study on the subjects that which sector would be the more trust-worthy and dependable to invest the amount collected in the bank. If the bank applies following investment policies or principles it can be successful in its goal. Hence these principles or policies or theories are as follows: -

- **Principle of Liquidity**

Liquidity means the whole stock in the economy. In the case of Nepal the money in use, the money in the accounts of current, saving and fixed period and the money in margin account refer to liquidity. The liquid property means cash stock of the commercial banks the amount of short term, current account and short-term government and business security and the Treasury bill.

A bank should not forget the principle of liquidity while it is following its investment policy. The commercial banks are considered to be as financial mediators. The commercial banks have liability to the deposits and they immediately should give it in the time when the depositors asked. For this purpose, the bank should keep adequate liquid funds. And also they should gain profit by utilizing the deposit as a loan and advances. If the bank can't return the deposits at the time of demand it may lose the customers and their trust. If adequate liquid fund is kept, they can return the deposits at will of the depositors but such bank can't run for a long time. In same way, if they invest the whole deposit loan and advances, they can't give it at the time of demand by the depositors, so, the commercial bank try to move the liquidity and profit together. It is a great challenge for the managers of the bank.

The commercial banks should attract deposits because a deposit is called raw materials of banking, without which bank can't run. It is important thing in which sectors the amount of each deposit is to be invested. The interest is not given for the amount of current account. But as it has to give payment immediately, plenty of liquidity is necessary for it. From the viewpoint of property, loan and advances are more income generating sectors but they are less liquid able. The amount would not be recovered in the time of want. Similarly keeping more money in the bank is very more liquid able, but does not generate income to the bank. The quantity of liquidity is less for investment so maintenance of co-ordination between the property and the liquidity by keeping some parts pf its own property as a liquid property to provide loan and to invest it is the success of the commercial banks. The central bank pays attention to this reality to give direction on liquidity to the commercial banks. (*Bhandari; 2003:127*)

- **Principle of profitability**

The objective of the commercial banks is to earn profit. The bank should follow the objective by focusing it on the sectors in which it can earn much profit. The bank should not keep its means and materials inactive; it should keep on investing the means and materials in appropriate and safe area. The banks can gain much profit from the safe and long-term investment. But there is less liquidity in such investment. It may loss the investment in the sector where profit is not gained. Where much risk is there, is much profit. But some times it may create a situation where the bank should face the great economic loss, by loss of the investment in such a risky sector. So the profit and liquidity are two opposite principle. If the bank pays its attention only for profit, the liquidity becomes less, if it pays its attention on the liquidity, it can't be a long-term investment and the bank doesn't get profit. So it should maintain equality in it. The profit of the bank is the interest rate and the bank charge. So, the bank should always think to apply an appropriate investment policy in such sector from which can earn much. (*Bhandari; 2003:128*).

- **Principle of safety**

A bank should pay special emphasis on safety. If the invested area is unsafe, it isn't good omen for the bank. The bank should pay much emphasis on the principle of safety, to follow the investment policy. There will be no doubt of loss whether it is great or little, if the bank has not invested in a safe sector. The bank should think it with much sensibility. To invest in an unsafe sector with the hope of gaining much is to accept the security of low quality. To invest large loan against less securities by receiving commission, to invest in new places without care, observation and to flow the long-term loan including these all-various reasons will make unsafe of the bank's investment. They should be avoided as much as can be. There will be no loss to the bank, if it invests in profitable sector. So, the bank should seriously study whether there is a possibility of investment or not. It should invest in a safe sector. If the property taken as the securities are ruined, securities is low in standard or low valued and if there is no possibility of sale of the security, the bank suffers from loss. The bank should follow the principle of safety, should flow the short-term loan and invest in profitable sector. In such conditions there will be no possibility of loss. The secured sectors mean the securities of the inland and foreign, company's shares debentures al\d government bond etc. (*Bhandari; 2003:128*)

- **Principle of diversification**

The principle of diversification means, the banking policy of investing the money in the various sectors. The bank should not follow the policy of investment only in one or two sectors. If It follows such policy, certainly its investment policy will not be successful. The bank by studying and analyzing the different sectors where it is possible to earn more from little investment should extend its investment. If it invests in many sectors, it becomes successful to keep it in balance. There will be less profit from investment of some sector and there will be maximum profit from some another sector. There may be loss too in some sector. On the whole a bank should be able to itself a competent. If it happens so, the banking transaction does not go up and down. It can run the bank comfortably and smoothly. In the case of earning profit, the bank should follow the policy of investing various fields. So, there is a statement "a bank should not lay all its egg in the same basket." By following this principle, on the basis of gold, silver, diamond, development bond, shares of company, debentures, goods, imports and export bills and other appropriate securities, the banks have moved ahead of their investment policy. The bank always gets success in their working capacity from such investment and the bank becomes successful in its goal. (*Bhandari; 2003:129*)

- **Principle of marketability**

A bank should adopt the principle of marketability in investment policy. In certain way, the bank moves its investment or flows loan against security. To invest the money, the bank *should* follow the policy of taking the security of high quality as far as possible. The market of Nepal is small. In such a small market in order to livingness to its banking transaction, a bank should flow its loan by taking the first class securities. The bank should keep in mind the main principle of marketability while it makes investment. Are the goods taken as securities saleable in the market or not? Can the loan be recovered by selling it in the market *or* not? The bank should adopt the investment policy by paying the attention to the different aspects, it should study the market evaluate of the goods which are taken as security. The bank should do such thing, which would help to earn the profit and make the investment policy successful. The bank should not investment money by taking the securities of goods, which are not saleable in the market and though they are sold but not fetch the reasonable price, and there is no value of such things. The bank should take as far as possible such goods which keeps may be safely and freshly in the market and the loan will be recovered like, gold, silver, diamond, company's shares certificates, debentures, development bond and other similar types of securities of immovable property like house, land can't be sold in time. So if the bank provides loan by taking reasonable goods as security it can be sold in the market easily and the bank can be saved from becoming insecure. (*Bhandari; 2003:129*)

2.1.2 Principle of a Good Investment Policy

In choosing specific investment, investors' will need define ideas regarding a number of features that their portfolios should possess. These features should be consistent with the investors' general objectives and, in addition, should afford them all the incidental conveniences and advantages which are possible in their circumstances. The following are the suggested features as the ingredients from which many successful investors compound their selection policies.(*Bhallal; 1983:2*)

Principle of Safety

The safety sought in investment is not absolute or completes the word means, rather protection against loss under reasonable likely. It calls for careful review of economic and industrial trends before choosing any type of investments or the time to invest. Thus, this principle recognizes that errors are unavoidable and requires extensive diversification. (*American .Institute of Banking; 1972: 149*)

Adequate Liquidity and Collateral Value

An investment is a liquid asset if it can be converted into cash without delay at full market value in any quantity.

For an investment to be liquid it must be I) reversible or II) marketable. The difference between reversible and marketability is that reversibility is the process whereby the transaction is reversed or terminated while marketability involves the sale of the investment in the market for cash. To meet emergencies, every investor must have a sound portfolio to be sure for the additional funds, which may be needed for the business opportunities. Whether money is raising is to be done by sale or by borrowing it will be easier if the portfolio contains a planned proportion of higher-grade and readily saleable investment.

Stability of Income Stability of income must be looked at different ways just as was security of principle. An investor must consider stability of monetary income and stability of the purchasing power pf income. However, emphasis on income stability may not always be consistent with other investment principles. If the income stability is stressed, capital growth and diversification will be limited.

Capital Growth

Capital appreciation has today become an important principle. Recognizing the connection between corporation and industry growth and very large capital appreciation, investors and their advisors constantly are seeking "growth stock". It is exceedingly difficult to make successful choice. The ideal "growth stock" is the right issue in the right industry, bought at the right time.

- **Tax Status**

To plan an investment program without regarding to one's tax status may be costly to the investor. There are really two problems involved here that, one concerned with the burden of income taxes upon that income. When investors' incomes are small, they are anxious to have maximum cash returns on their hand, investors who are not presses for cash income often find that income taxes deplete certain types of investment incomes less than others. Thus affecting their choice.

- **Purchasing Power Stability**

Since an investment nearly always involves the commitment of current funds with the -objective of the investor should consider receiving greater amounts of future funds, the purchasing power of the future funds. For maintaining purchasing power stability, ; investors should carefully study I) the degree of price level inflation they accept, II) the possibility of gain and loss in the investment available to them and III) the limitations imposed by personal and family considerations.

- **Conceivability**

To be safe from social disorders, government confiscation or unacceptable levels of taxation, property must be conceivable and level no record of income received from its use of sale. Gold and precious stones have long been estimated for purposes because they combine high value with bulk and are readily transferable. (*American Institute of Banking; 1972: 149*)

2.1.3 Some Important terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which frequently used in this study, which are given below.

Deposits

For a commercial bank, deposit is the most important source of the liquidity. For a bank's financial strength, it is treated as a barometer. In the word of Eugene, “A bank's deposits are the amount that it owes to its customers.” Deposit is the lifeblood of the commercial bank. Though, they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits, for accounting and; analyzing purpose, deposits are categorized in three headings. They are:

a) Current deposits

b) Saving deposits

c) Fixed deposits

Loans & Advances

Loan, advances and overdrafts are the main source of income for a bank. Bank deposits can cross beyond a desired level but the level of loans, advances and overdraft will never cross it. The facilities of granting loan, advances and overdrafts are the main service in which customers of the bank can enjoy.

Fund borrowed form banks are much cheaper then those borrowed from unorganized moneylenders. The demand from loan has excessively increased due to cheaper interest rate. Furthermore, an increase in an economic and business activities always increase the demand for funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loans from these institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect, of low interest rate.

In addition to this, some portion of loan, advances and overdraft includes that amount which is given to the staff of the bank for house loan, vehicle loan, personal loan and others, in mobilization of commercial banks fund, loan, advances and overdraft have occupied a large portion.

Investment on Government Securities, Shares and Debentures

Though a commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by purchasing; government securities bond and shares for several reasons. Some of them are given as:

i) It may want to space its maturates so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers.

ii) It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.

iii) It may also be forced to invest because the demand for loans has decreased or it not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors' may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or shrinkage in value.

Investment on other company's Shares and Debentures

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

Other use of Funds

A commercial bank must maintain the minimum bank balance with NRB i.e. 8% for fixed deposit and 6% for current and saving deposit account in local currency. Similarly, 3 % cash balance of all local currency accounts must be maintained by it according to the rules of NRB to have a good liquidity position. Again, apart of funds should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationery etc.

- **Off Balance Sheet activities**

Off Balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligation. These are not recognized as assets or liabilities on balance sheet. Some good examples of these items are letter of credit, letter of guarantee, bills for collection etc. Nowadays, such activities are stressful1y highlighted by some economists and finance specialists to expand the modern transactions of a bank.

2.2 Review of Journals and Articles

Bajracharya (1990), in his article, *"Monetary Policy and Deposit Mobilization in Nepal"* has concluded that mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal and commercial banks are the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

Kishi (1996), in his article, "*The Changing Face of the Banking Sector and the HMG/N recent Budgetary Policy"*, conducted that following an introduction of the reform in the banking sectors as an integrate part of the liberal economy policy, more banks and finance companies have come up as a well come measure of competition. Slowly and steadily, the two government controlled banks, Nepal Bank Ltd. and Rastriya Banijya Bank have also shown an improvement of non-performing loans and are taking steps to adopt improved technologies. However, higher economic growth with social justice bringing an significant benefit to the poor are yet to be achieved as envisaged by the HMG/N.

Shrestha (1998), in his article *"A study on Deposit and Credit of Commercial Bank in Nepal"*, conducted that in Nepal, the credit deposit ratio would be 51.30% other things remaining the same. It was the lowest under the period of review. Therefore, he had strongly recommended that the joint venture banks should try to give more credit entering few field as far as possible; otherwise they might not be able to absorb even the total expenses.

Shrestha (1998) has given a short glimpse on the *"Portfolio Management in Commercial Banks; Theory and Practice"*. Mr. Shrestha has highlighted following issues in the article. The portfolio management becomes very important for individuals as well as institutional investors. Investors would like to select a best mix of investment assets subject to the following aspect:

- Higher return, which is comparable with attractive opportunities available according to the risk class of investors.
- Good liquidity with adequate safety of investment.
- Economic, efficient and effective investment mix.
- Flexible investment.
- Certain capital gains.

In view of above aspect, following strategies can be adopted:

- Do not hold any single security i.e. try to have a portfolio of different securities. Do not put all the eggs in one basket i.e. to have a diversified investment.
- Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return but with added objective of wealth maximization.

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

- To find out investible assets (generally securities) having scope for better returns depending upon individual characteristics health, need, disposition, liquidity, tax liability, etc.
- To find out the risk of the securities depending upon the attitude investor toward risk.
- To develop alternative investment strategies for selecting 'a better portfolio that will ensure a trade-off between risk and return, so as to attach the objective of wealth maximization at lower risk.

- To identify securities for investment to refuse volatility of return and risk.

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

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

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

2.3 Review of Thesis

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

Khadka (1998) conducted a study on *"A study on the investment policy of NABIL Bank Ltd. in comparison to other Joint Venture Banks of Nepal"* with the objective of:

- To evaluate the liquidity, asset management efficiency and profitability positions in relation to fund mobilization of NABIL Bank Ltd. in comparison to other Joint Venture Banks.

- To discuss fund mobilization and investment policy of NABIL Bank Ltd. in respect to its fee based off-balance sheet transactions and fee-based on-balance sheet transactions in comparison to other JVBS.
- To evaluate the growth ratios of loan & advances respective growth rate of total deposits and net profit of NABIL Bank Ltd. in comparison to other JVBS.
- To find out the relationship between deposits and total investment, deposits and loan & advances, and net profit and outside Ltd. in comparison with other JVBS.

The study was conducted using secondary data.

The research findings of the study are as follows:

- The liquidity position of NABIL Bank Ltd. is comparatively worse than that of other JVBS. NABIL Bank has more portions of current assets as loan & advances but less portion as investment on government securities.
- NABIL Bank Ltd. is comparatively less successful in on-balance sheet operation as well as off balance sheet operations than that of other JVBS.
- Profitability position of NABIL Bank Ltd. is comparatively not better than that of other JVBS. The mean ratio of return on loan & advances of NABIL Bank Ltd. has been found slightly lower than that of other JVBS. Similarly, the mean ratio of total interest earned to total outside assets of NABIL Bank Ltd. has been found slightly lower than that of other JVBS.
- Though NABIL Bank Ltd. seems to be more successful to increase its sources of funds as well as mobilization of it by increasing loan & advances and total investment, it seems to be failure to maintain its high growth rate of profit in comparison to that of other JVBS (i.e.; Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd.).
- There is significant relationship between deposit and loan and advances as well as outside assets and net profit but not between total deposits and total investment in case of both NABIL Bank Ltd. and other JVBS.

Raya (2003) in his master's thesis entitled *"Investment policy and analysis of commercial banks in Nepal: "A comparative study of Standard Chartered Bank Ltd. with Nepal Investment Bank Ltd. and Nepal Bangaladesh Bank Ltd"* with the following objectives:

- To examine and evaluate the Investment policy of Standard Chartered Bank Ltd. and compare the same with NIBL and NBBL of Nepal to achieve these prime objectives.
- To discuss mobilization and investment policy of SCBL in respect to its fee based off balance sheet transaction and fund based on balance sheet transaction with NIBL and NBBL.
- To conduct hypothesis test to find whether there is significant difference between the various important ratios of SCBL with the ratio of NIBL and NBBL respectively.
- To evaluate the liquidity, efficiency and profitability and risk position.
- To provide packages of workable suggestions and possible guide improve investment policy of SCBL and the other compare banks based on the findings of the analysis for the improvement of financial performance of SCBL in future.

For the purpose of study, only secondary data is used in this study to gather the required information regarding existing position of commercial banks.

The research revealed the following major findings:

- The liquidity position of SCBL is comparatively better than NIBL and NBBL. SCBL has good deposit collection, it has made enough investment on government securities but it has maintained low investment policy on loan and advances.
- SCBL is comparatively average successful in its on balance sheet operation, but off balance sheet operation activities in compared to NIBL and NBBL has maintained the strong position.

- The profitability ratio of SCBL is comparatively higher position than that of NIBL and NBBL.
- SCBL has lower risk in comparison to other banks it's regarding various aspects of the banking function.
- The SCBL's investment policy is better than that of other banks.

Dhungana (2002) conducted a study on *"Investment Policy of Nepal Bangaladesh Bank Limited & other Joint Venture Banks (Himalayan Bank Limited and Nepal State Bank of India Limited"* with the objective of:

- To study fund mobilization and investment policy with respect to fee based off balance sheet transaction and fund based on balance sheet transactions.
- To evaluate the liquidity efficiency of assets management and profitability position.
- To evaluate the trends of deposits utilization towards total investment and loan and advances and its projection for next five years.
- To evaluate the growth ratios of loan and advances and total investment with respect to growth ratios of total deposit and net profit.
- To study the various risk in investment.

The study was conducted on the basis of secondary data.

The research findings of the study are:

- The liquidity position NBBL is not better than that of HBL and NSBI.
- NBBL is in better position regarding its on balance sheet activities. The ratios of NBBL are highly variable which reveals NBBL has not followed stable policy.
- NBBL is not better regarding off-balance sheet transactions. The ratios of NBBL are highly variable also. The position of NBBL is comparatively not better than that of HBL but better than that of NSBI.

- The credit risk ratios and interest rate risk ratios of NBBL is higher than that of HBL and NSBI.
- NBBL has not maintained adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate liabilities.
- NBBL has maintained high growth rate.
- Deposit collection position, lending position, investment position and net profit position of NBBL is not better in comparison to HBL but better than that of NSBI.

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 Ltd.)"* with objectives of:

- To highlight the NRB directives regarding investment policy (loan, advances and investment)
- To analyze the liquidity of NIBL.
- To find out the relationship between total deposit and loan and advances, total deposit and total investment.
- To make the trend value analysis of deposit utilization and its projection for next five years.
- To find out whether NRB guidelines are actually being implemented.
- The study was conducted on the basis on secondary data.

The main findings of the study are:

Bank is in good position to meet the daily cash requirement as bank has maintain, the average cash and bank balance in respect to total deposit. .The performance of NIBL regarding deposit collection, granting loan and advances and investment is quite satisfactory but does not seem to follow a definite policy.

NIBL has not efficiently utilized its equity capital hence return on equity is not satisfactory because of .lack of sound investment policy for mobilization of its equity capital. Interest earned to total operating income of NIBL is high. However, bank failed to maintain net profit on the study.

From the analysis of coefficient of correlation, there is positive and significant relation between total deposits and loan and advances and current assets and current liabilities and loan loss provision and loan and advances but there is negative and no significant relationship between outside assets and net profit.

Trend analysis and projection for next five year of total deposits, loan and advances, investment and net profits are in increasing trend.

Mahat (2004) conducted a study on *"Investment Policy of Nepal Bangladesh Bank Limited"* with the objective of:

- To find out the Non-Performing Assets position of the bank.
- To evaluate the portfolio management of the bank.
- To find out the bank's investment on priority sector.
- To analyze the deposit utilization and Its relationship with total investment and net profit of the bank.
- To suggest measures to improve the investment policy of the bank.

The study was conducted on the basis of secondary data:

The research findings of the study are:

- The proportion of non-performing assets on total loan & advances of the bank is more than the satisfactory level. It should be less then 5% to be graded as internationally A-grade commercial bank. For the Nepalese context, NPA level of the bank is higher than these standards. So, the management of. the bank should give its attention in time to manage NP A level within the satisfactory level.
- The loan & advances portfolio of the bank is not satisfactory. The lending is not properly diversified. Half of the loan from total portfolio is given to industrial sectors. Bank is unable to explore the new and profitable sectors for the lending

purpose; so, the bank has very risky portfolio of loan & advances. If industrial sector will not function properly, its impact to the bank will be huge.

- Bank .is not fulfilling its priority sector investment requirement every year, during the study period. In the course of failure to fulfill the directive credit requirement, bank is subject to penalty, which affects the profitability of the bank. The average priority sector lending of the bank is less than required 12% landmark.
- The relation of total deposit is positive to total investment i.e. if total deposit increases, bank's loan & advances, investment on government securities, shares and debentures of other companies also increases. But the bank's investment, in the form of loan & advances and other investments have not positive relation to total net profit of the bank. Bank's total profit is irrespective to its total investment.

Joshi (2005) conducted a study on *"Investment Policy of Commercial Banks in Nepal: A comparative study of Everest Bank Limited with NABIL Bank Limited and Bank of Kathmandu"* with the objective of:

- To discuss fund mobilization and investment policy of EBL, NABIL and BOK Ltd.
- To evaluate the liquidity, efficiency arid profitability and risk position.
- To evaluate the growth ratios of loan & advances, total investments with other financial variables.
- To analyze the trend of deposits utilization towards total investment and loan & advances.
- To conduct hypothetical test to find whether there is significant difference between the various important ratios of EBL, NABIL & BOK.

The study was conducted on the basis or secondary data:

The research findings of the study are:

The liquidity position of the EBL is comparatively better than NABIL and BOK. EBL has the highest cash and bank balance to total deposits, cash and bank balance to current assets ratio. NABIL has the lowest liquidity position than that of other two banks. EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on loan & advances.

From the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to NABIL and BOK. The total investment of EBL is in between in compared to other two banks.

In the study, loan & advances to total deposit is higher in BOK but total investment to total deposit is higher in NABIL. Investment on shares and debentures to total working fund ratio is higher in BOK. But the coefficient of variation is higher in EBL.

In analysis of profitability, total interest earned to total outside assets of EBL is lowest at all. But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared banks i.e., NABIL and BOK. From the viewpoint of risk ratio, EBL has higher capital risk ratio but average of credit risk ratio in compared to NABIL and BOK.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Having stated about introduction and historical background of commercial bank in chapter first then following conceptual framework, the task has come to make decisive choice of research methodology to support the study in realistic term with sound empirical analysis. The study will try to come at conclusion regarding what position Machhapuchchhre Bank has got in the commercial banking sectors of Nepal. Thus this chapter highlights the research methodology used in the study for analysis of investment policy of the Machhapuchchhre Bank limited.

Research Methodology describes the methods and process applied in the entire subject of the related study. The research methodology is the process of arriving to the solution of the problems through planned and systematic dealing with the collection, analysis and interpretation of facts and figures. As the research entirely considers about the "Investment Analysis of Machhapuchchhre Bank Ltd.". The main purpose of this study is to show investment and its utilization in MBL with its financial positions, collection and uses of funds, its prospects and its position in context of Nepal as well as to recommend suggestions for its improvement. Those research methodologies have been used which proves helpful to investment analysis. For the purpose of achieving the objective, the following methodology is used. The data has been collected by acquiring various kinds of reports, bulletins and journals from the organization. Similarly data has been acquired from NRB also.

The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. The study report is based mostly on secondary information of MBL. In addition to this, reference has been made in library consult, class lectures, books related to banking, financial management and accounting during the preparation of this study. Here, the researcher have tried to evaluate about the investment policy of concerned commercial Banks by presenting the collected raw data properly in the table, chart, & graphs to make the study meaningful, attractive, & easy to understand. The methodology presented in this study is as follows.

3.1.1 Research Design

Research design of the present study is descriptive study. The design is however made in simple form but at the same time, it covers the main apprehension of the study. Since the main objectives of this study is to analysis the investment policy of the bank, all the indicators that shows the Investment situation of the bank were calculated using data obtained from the five year end internally generated accounting records maintained by individual Machhapuchchhre Bank Limited. The study depends on the secondary data. It includes all the process of collecting, verifying and evaluating of past evidence systematically and objectively to reach the final conclusion. Various financial parameters and effective research techniques are employed to especially identify the strength and weaknesses in investment policy of the bank. The study is designed as to give a clear picture of the bank's investment circumstances with the help of available data and with some useful suggestions and recommendation.

3.1.2 Nature & Source of Data

The study is mainly based on the secondary data relating to the study of investment analysis of MBL, as they are available at MBL. The data relating to the investment e.g. loans and advances, deposits and profit/loss are directly obtained from bank's Annual Report and Financial Statements of this bank. Likewise, newspapers, journals, periodicals, magazines, reports and unpublished thesis have been taking as other sources of data during the study.

According to the need and objectives, all the secondary data complied, processed and tabulated in time series in order to judge the reliability of data provided by the banks and other sources they were complied with the annual report of auditor. Formal and informal talks to the concern head of departments of the bank were also helpful to obtain the additional information of the related problem.

3.1.3 Population, & Sampling

The population refers to the industries of the same nature and its series and product in general. Thus, the total commercial bank constitutes the population of the data and the bank under study constitutes the sample for study.

There are altogether 26 commercial banks functioning all over the country and most of their stocks are traded actively in the stock market. In this study investment policy of MBL is evaluate which is selected from the population. The population is as follows:

1. Nepal Bank Ltd.
2. Rastriya Banijya Bank Ltd.
3. Agricultral Development Bank
4. Nabil Bank Ltd.
5. Nepal Investment Bank Ltd.
6. Standard Chartered Bank Ltd.
7. Himalayan Bank Ltd.
8. Nepal SBI Bank Ltd.
9. Nepal Bangaladesh Bank Ltd.

10. Everest Bank Ltd. Nepal
11. Bank of Kathmandu Ltd.
12. Lumbini Bank Ltd.
13. Nepal Industrial and Commercial Bank Ltd.
14. Nepal Credit and Commerce Bank Ltd.
15. Kumari Bank Ltd.
16. **Machhapuchchhre Bank Ltd.**
17. Laxmi Bank Ltd.
18. Siddhartha Bank Ltd.
19. Global Bank Ltd.
20. NMB Bank Ltd.
21. DCBL Bank Ltd.
22. .KIST Bank Ltd.
23. Citizens International Bank Ltd.
24. Prime Bank Ltd.
25. Sunrise Bank Ltd.
26. Bank of Asia Nepal Ltd.

3.1.4 Data Processing

After the collection of data from different sources, it has been compiled in one form and is presented. Required facts are selected and analyzed which are presented in the form of table and chart. The data are analyzed yearly according to the information gathered.

3.1.5 Method of Data Presentation and Analysis

The data presentation and analysis are focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data will be done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage, coefficient of correlation, and the technique of least square are adopted in this study. In the same way, some strong financial tools such as ratio analysis and trend analysis have also been used for financial analysis. The data extracted from annual report, financial statement and other available information are processed and tabulated in various tables and charts under different headings according to their nature.

3.1.6 Tools for Analysis

As mentioned above for the purpose of data analysis, financial as well as statistical tools are used to make the analysis more effective, convenience, dependable and, genuine. Analysis and presentation of the data is the core of the study. The researcher has followed financial analysis as well as statistical tools. Financial analysis helps the judgment about the operating performance of investment position and statistical tools help the find out the trends of financial position of the bank. The financial and statistical tools are most reliable.

3.2 Financial Tools

Financial Analysis basically helps to analyze the strength and weakness of a firm. Ratios are very important financial tools to interpret the financial performance of a firm. Financial ratio analysis is a reliable way to understand how a company is performing financially. Ratio analysis is one of the important financial tools has been used in this study. It helps to show mathematical relationship between two accounting items or figures. By applying ratios to an organization's financial statements, managers are able to better evaluate its short and long term financial performance. Although there are various types of ratios to analyze and interpret the financial statement, only five ratios have been taken in this study, which are mainly related to the investment policy of the bank. They are as follows.

3.2.1 Liquidity Ratios:

Difference between current assets and current liabilities is known as working capital, which provides the liquidity in business organizations. It is extremely essential for a business organization to be able to meet its obligations as they become due, so it should maintain sufficient liquidity neither excess nor less. As it measures the ability of the firm to meet its short-term obligations, it reflects the short-term financial strength and weakness of the firm.

A high degree of liquidity shows inability of proper utilization of funds whereas the lack of liquidity shows, the signal of poor credit worthiness, loss of creditors' confidence or even in legal tangles resulting in the closure of the company. So the firm should maintain appropriate liquidity over the immediate future to need its short-term liabilities as they fall due. To measure the liquidity position of banks under study the following ratios have been calculated:

i) Current Ratio:

The calculation of current ratio is based on a simple comparison between current assets and current liabilities. It measures short-term solvency, so it is often called liquidity solvency ratio and working capital ratio. Current ratio is calculated by applying following formula.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

Where, current assets represents the amount of liquid i.e. cash and near cash assets available to the business which can be converted into cash within a year. Likewise, current liabilities give an indication of the upcoming cash requirements are payable within a year from current assets.

The proportion of current ratio is 2:l or more is considered satisfactory. Thus, the conventional rule is based on the assumption that even if half decreases the current assets, the firm can meet its current obligations. It is not any hard and fast assumption that the current ratio must equal to 2:1. So many firms below this standard are also seen sound and meeting those obligations efficiently. It is the trend over time rather than the absolute value that gives the most valuable information.

ii) Cash & Bank Balance to Current Asset Ratio:

Cash and bank balance to current assets ratio reflects the portion of cash and bank balance in total of current assets. Cash and bank balance are highly liquid assets than other in current assets portion so this ratio visualizes higher liquidity position than current ratio. This ratio can be calculated by using the following formula:

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

The ratio shows the percentage of readily available fund within the bank. present study cash and bank balance represent total of local currency, foreign currencies, cheques in hand and various bank balances in local as well as foreign banks.

iii) Cash & Bank Balance to Total Deposit Ratio:

Cash and bank balance to deposit ratio reflects the ability of banks immediate funds to meet their current deposits, margin, call and saving deposits. This ratio is computed by dividing the amount of cash and bank balance by the total deposit. This ratio can be calculated by applying the following formula.

$$\text{Cash and bank balance to deposits ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposits}}$$

Higher ratio shows higher liquidity position and ability to cover the deposits and vice versa. In this study, cash and bank balance includes total cash in hand and total cash at banks. Similarly, deposits include all type of deposits, money at call and other deposits.

iv) Investment on Government Securities on Current Assets Ratio:

Investment on government securities on current assets ratio reflects the current assets invested on government securities, treasury bills and development bonds. This ratio can be computed by dividing investment on government securities by current assets. This ratio can be calculated by applying the following formula.

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

Investment on government securities includes treasury bills, development bonds, saving bonds, government securities etc.

iv) Loan & Advances to Current asset Ratio:

It shows the relationship between loan & advances to current assets or it shows the banks liquid capacity of discounting and purchasing the bills and loan, cash credit and overdraft facilities to the customers. This ratio can be computed in the following way:

$$\text{Loan and advances to current assets ratio} = \frac{\text{Loan \& advances}}{\text{Total Current Assets}}$$

Loan & advances are the current assets, which is the general income to the bank. It shows the percentage of loan & advances in the total current assets. In the present study loan & advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currencies.

3.2.2 Assets Management Ratio / Activity Ratios:

Assets management ratio or activity ratios are employed to evaluate the efficiency with which the firm manage and utilizes its assets. The efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into revenues. The greater the rate of turnover or conversion, the more efficient is the management/utilization of assets.

These ratios are concerned with measuring the efficiency in asset management. If available assets are not utilized efficiently, the investment upon them will be idle and profitability decreases, and also if the investment is not sufficient, then adequate production and revenue can not be made and profitability decreases. So, proper balance between revenue and assets is desired for the reflection of optimum utilization of the assets. Here, some of these ratios are computed to assess the banks' efficiency in uti1ization of available assets.

i) Loan & Advances to Total Deposits Ratio:

Commercial banks utilize the outsider's fund for profit generation. Loans & advances to deposit ratio shows whether the banks are successful in utilizing the outsiders' funds for profit generation on the loan & advances or not. This ratio can be calculated by using the following formula:

$$\text{Loan \& advances to Deposits ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposits}}$$

Generally, a high ratio reflects higher efficiency to utilize outsiders' fund and vice- versa. Here, Loan & Advances refer to total of loan; advance and overdraft (i.e., in local currency plus convertible foreign currencies) and total deposits refer to total of kinds of deposits.

ii) Loan & Advances to Working Fund Ratio:

Loan & advances is the major component in the total working fund, which indicates the capability of bank to channel its deposits in the form of loan and advances to earn high return. This ratio can be calculated by applying the following formula.

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

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

iii) Total Investment to Total Deposits Ratio:

Total investment to total deposits ratio indicates how properly firms' deposits have been invested on government securities and debentures of the other companies. This ratio can be computed by dividing the total amount of investment by total amount of deposits collections. This ratio can be calculated by using the following formula:

$$\text{Total investment to total deposits ratio} = \frac{\text{Total investment}}{\text{Total deposits}}$$

Here, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

iv) Investment on Government Securities to Total Working Fund Ratio:

Investment on government securities to total working fund ratio shows how much part of total investment is there on government securities in percentage. This ratio is computed by dividing investment on government securities by total working fund. This can be shown as,

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

v) Investment on Shares & Debentures to Total Working Fund Ratio:

Investment on shares and debenture to total working fund ratio shows the investment of banks and other financial institutions on shares and debentures of the other companies in terms of total working fund. This ratio is computed by dividing shares and debentures by total working fund. This can be shown as,

$$\text{Investment on shares and debentures to total working fund ratio} = \frac{\text{Investment on shares and debenture}}{\text{Total working fund}}$$

Here, total investment includes investment on government securities, investment on debentures, bonds and shares of other companies.

3.2.3 Profitability Ratios:

One of the important objectives of the commercial bank is to earn more Management, owner and creditors of the bank expect reasonable and more return. Efficiencies of any firm can be measured in term of profit. Profitability ratio also indicates public acceptance of the service of bank and run competitively. In this study, the profitability ratios are computed by relating the profits of banks to their investment. To measure the profitability ratio of MBL following ratios has been calculated and analyzed.

i) Return on Total Assets Ratio (ROA):

Return on total assets ratio measures the profitability with respect to the total assets. In the present study, this ratio is calculated and analyzed to measure the profitability of all financial resources invested in the banks assets. A higher ratio usually indicates efficiently in utilizing its overall resources and vice versa. The ratio can be computed by following process:

$$\text{Return on total assets ratio} = \frac{\text{Net Profit}}{\text{Total assets}}$$

ii) Return on Loan & Advances Ratio:

Return on loan and advances ratio shows how efficiently the banks and the other financial institutions have utilized their resources to earn good return from providing loan and advances. This ratio is computed by dividing net profit/loss by the total amount of loan and advances. This can be shown as:

$$\text{Return on loan and advances ratio} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

iii) Interest Earned to Total Assets Ratio:

This ratio reveals how much interest mobilizing the assets in the banks has generated Interest occupies signif1cant place in income for the banks. Generally, banks earn interest through the provision of loans and advances, overdrafts and investments in securities. This ratio is found by following way:

$$\text{Interest earned to total assets ratio} = \frac{\text{Total interest earned}}{\text{Total Assets}}$$

Here, Interest earned represents the total interest earned in Income statement of the Bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

iv) Interest Earned to Total Outside Assets Ratio:

This ratio measures the capacity of the firm for earning interest through appropriate utilization of outside assets. This ratio is computed by dividing total interest earned by total outside assets. It can be calculated as,

$$\text{Interest earned to total outside assets ratio} = \frac{\text{Total interest earned}}{\text{Total outside assets}}$$

Higher ratio shows the efficiency of using the outside assets to earn profound interest.

v) Interest Paid to Total Working Fund:

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

$$\text{Interest paid to total working fund} = \frac{\text{Total interest Paid}}{\text{Total working fund}}$$

3.2.4 Risk Ratios:

Risk means, possibility of incurring loss or misfortune. Risk taking is the most important business of every bank's investment management. When a firm wants to bear risk and uncertainty, the profitability and effectiveness of the firm increases. These ratios indicate the amount of risk associated with the various banking operation, which ultimately influences the investment policy of the bank. To measure the risk ratios of MBL following ratios has been calculated and analyzed.

i) Credit Risk Ratio:

Credit risk ratio helps to check the probability of loan non-repayment or the possibility of loan to go into default. Credit risk ratio is expressed as the percentage of non performing loan to total loan and advances. This ratio is calculated by dividing total loan and advances by total assets. It can be shown as,

$$\text{Credit Risk Ratio} = \frac{\text{Total loan \& advances}}{\text{Total assets}}$$

ii) Capital Risk Ratio:

The capital risk of a bank indicates how much assets value may decline before the position of deposition and other creditors are jeopardized. Therefore, a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposits, liabilities and other corporate responsibilities. Capital risk ratio measures bank's ability to attract deposits and inter bank funds. It also determines the level of profit, a bank can earn if a bank chooses to take high capital risk, and its ROE will be higher and vice versa. It can be shown as:

$$\text{Capital Risk Ratio} = \frac{\text{Capital}}{\text{Risk Weighted Assets}}$$

Only Loans & advances are taken as risk weighted assets.

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3.2.5 Growth Ratios:

Growth ratio represents how well the banks are maintaining their economic and financial condition. It is related to the fund mobilization and investment management of the bank. The higher ratio represents the superior performance. To measure the risk ratios of MBL following ratios has been calculated and analyzed.

E.l) Growth ratio of total deposit

E.2) Growth ratio of total investment

E.3) Growth ratio of loan & advances

E.4) Growth ratio of net profit

3.3 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical statistical tools such as standard deviation, Coefficient of Variation Karl Pearson's Coefficient of correlation, method of least square are adopted which are as follows:

3.3.1 Standard Deviation

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

3.3.2 Coefficient of Variation

The Coefficient of variation is the most commonly used measure of relative variation. It is the relative measures of dispersion, comparable across distribution, which is defined as the ratio if the standard deviation to the mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. It can be shown as:

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

3.3.3 Coefficient of Correlation

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

i) Coefficient of correlation between deposit and loan and advances.

ii) Coefficient of correlation between total deposit and total investment.

iii) Coefficient of correlation between total outside assets and net profit.

The above analysis tools analyze the relationship between these the relevant variables and helps the bank to make appropriate policies regarding deposit collection, fund utilization (loan and advances and investment) and profit maximization.

To find out those relationships, the following formula is used:

$$r = \frac{xy}{x^2 \quad y^2}$$

Where, $x = (X - \overline{X})$, $y = (Y - \overline{Y})$

The result of coefficient is always between -1 to + 1, when r = + l, it means there is significant relationship between two variables and when r = -1, It means there is no significant relationship between two variables,

3.3.4 Trend Analysis

Under this topic we analyze and interpret the trend of deposits, loan and advances, investment and net profit of MBL that helps to make forecasting for next five years. The following trend value analyses have been used in this study.

i) Trend analysis of total deposit

ii) Trend analysis of loan and advances .

iii) Trend analysis of total investment

iv) Trend analysis of net profit

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter contains data collected from various sources. These are presented and analyzed to measure the various dimensions of the problems of the study and the major findings of the study are presented systematically. The data relating to the investment management and fund mobilization are analyzed

4.1 Financial Tools

Financial tools basically help to analyze the strength and weakness of a firm. Ratios are very important financial tools to interpret the financial performance of a firm. Financial ratio analysis is reliable way to understand how a company is performing financially. Although there are various types of ratios to analyze and interpret the financial statement, only five ratios have been taken in this study, which are mainly related to the investment policy of the bank. They are as following:

4.1.1 Liquidity Ratios

i) Current Ratio

Table-4.1

Current ratio (times) (Rs. in Million)

F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Current assets	1360.33	2988.57	3544.01	3431.49	4704.86			
Current liabilities	620.92	8127.78	9780.93	11265.51	15721.44			
Ratio	2.19	0.37	0.36	0.30	0.30	0.70	0.75	107.14 %

Source: Annual Report of MBL 2004/05 to 2008/09

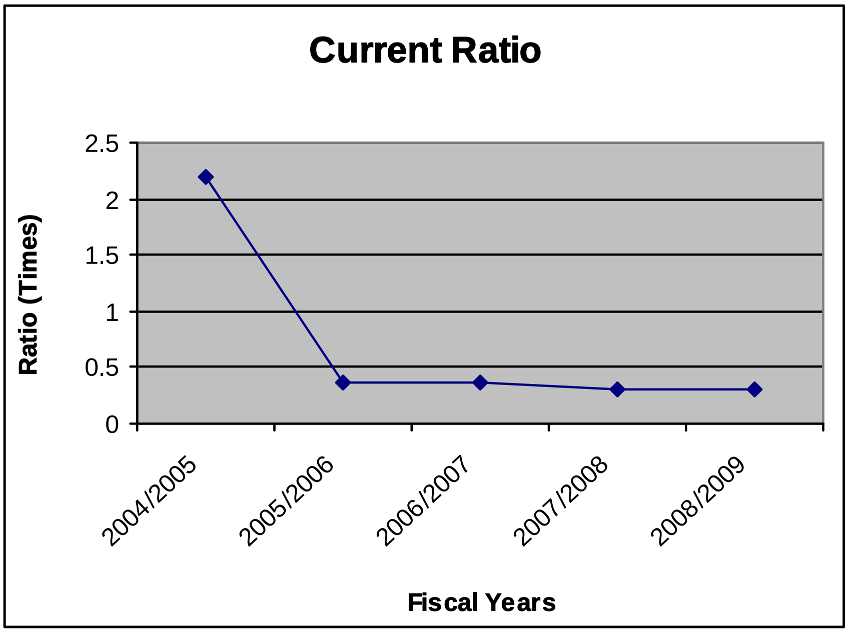
The above Table-4.1 shows that the current' liabilities of MBL have exceeded current assets in average, in the study period from 2004/2005 to 2008/2009. The highest ratio is 2.19 in 2004/2005 while the lowest is 0.30 in the year 2007/2008 and 2008/2009 with an average ratio of 0.70 during the study period. The ratio shows the fluctuating trend during the period. The coefficient of variation (C.V.)

between the ratios for the study period is 107.14%, which shows that the current ratios during the study period are not so consistent. In general, the bank is able to meet its short- term obligations.

The above ratios are not consistent because the optimal standard ratio should be 2: 1, but this standard ratio is not applicable in banks and financial institutions. Banks hold huge portion of deposit as a core deposits (the minimum level of deposits, which the commercial banks hold at all the times) and this deposit remains all time throughout the year. This core deposit forms the fixed liability of the bank though it is current in nature. So the ratio maintained by the commercial banks at the level of around 1:1 is regarded as good and sufficient to meet the normal contingencies. But the ratios of MBL is below the normal ratio over the five years period except on 2004/2005 which shows' that MBL has not maintained satisfactory liquidity position.

Figure-4.1

Current ratio (times)



ii) Cash & Bank Balance to Current Assets Ratio

Table-4.2

Cash & bank balance to current assets ratio (Rs. in Million)

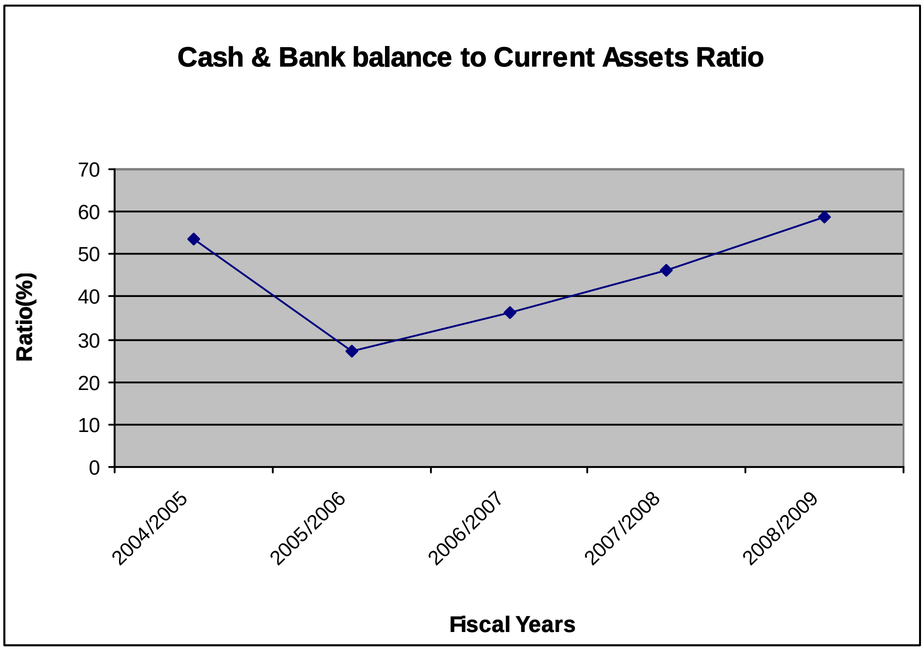
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Cash & Bank Balance	731.13	813.92	1284.08	1588.56	2766.65			
Current assets	1360.33	2988.57	3544.01	3431.49	4704.86			

Ratio (%)	53.75	27.23	36.23	46.29	58.80	44.46	11.49	25.84 %

Source: Annual Report of MBL 2004/05 to 2008/09

The above table shows that the mean, standard deviation and coefficient of variation of cash and bank balance to current assets ratio of MBL is better which has fluctuating trend. The highest ratio is 58% in 2008/2009 and lowest ratio is 27.23 in 2005/2006. The mean ratio of the study period is 44.46% and the C. V. between them is 25.84%

Figure-4.2
Cash & bank balance to current assets ratio



iii) Cash & Bank Balance to Total Deposits Ratio

Table-4.3

Cash & bank balance to total deposit ratio (Rs. in Million)

F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Cash & Bank Balance	731.13	813.92	1284.08	1588.56	2766.65			
Total deposit	5586.80	7893.30	9475.45	11102.24	15596.79			
Ratio %	13.08	10.31	13.55	14.31	17.74	13.80	2.38	17.25 %

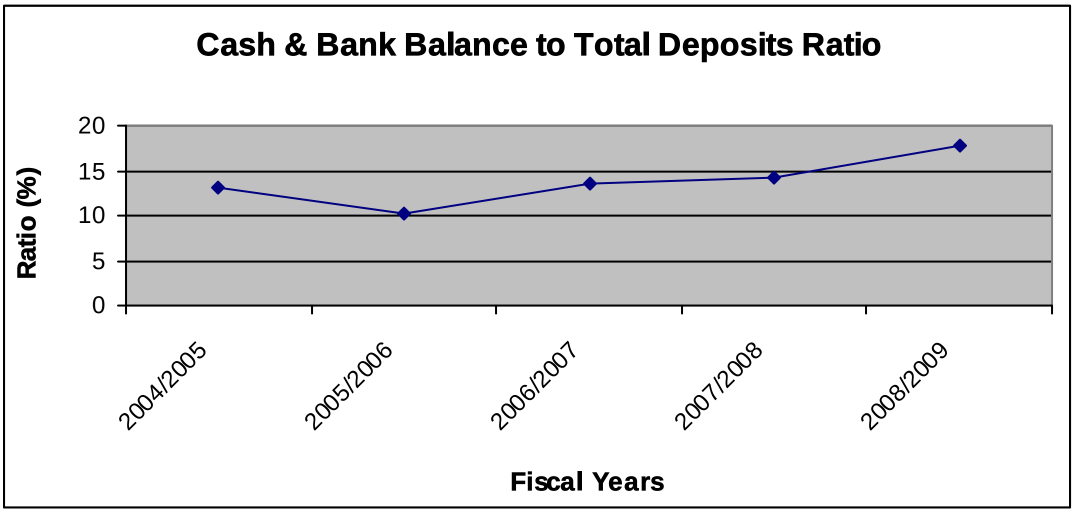
Source: Annual Report of MBL 2004/05 to 2008/09

The ratio of cash & bank balance to total deposit ratio is in increasing trend. MBL has lowest ratio at FY 2005/2006 with 10.31% and the highest ratios of 17.74%at FY 2008/2009. The mean ratio of the study period is 13.80% with standard deviation of 2.38 % and coefficient of variation of 17.25%.

According to NRB guidelines, there should be minimum balance of 6% of total deposit liability. The above analysis of cash & bank balance to total deposit shows that MBL is successful in maintaining this balance on the study period.

Figure -4.3

Cash & bank balance to total deposit ratio



iv) Investment on Government Securities to Current Assets Ratio

Table -4.4

Investment on government securities to current assets ratio (Rs. in Million)

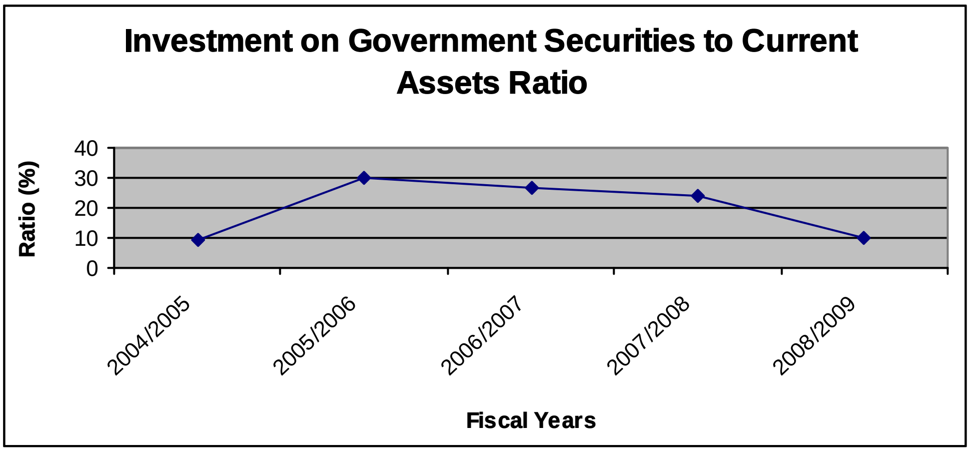
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Government securities	127.33	904.47	951.27	827.35	477.81			
Current assets	1360.33	2988.57	3544.01	3431.49	4704.86			
Ratio %	9.36	30.26	26.84	24.11	10.16	20.15	8.70	43.17 %

Source: Annual Report of MBL 2004/05 to 2008/09

The above analysis shows that the investment on government securities to current assets ratio was in decreasing trend except fiscal year 2004/2005. According to the NRB directives issued, there shall be no restriction as to investments by the banks in the securities of Government and securities issued by Nepal Rastra Bank. Bank and finance companies can purchase and get endorsed (transferred) in their name only those Government securities which were primarily issued by NRB.

Figure -4.4

Investment on government securities to current assets ratio



v) Loan & Advances to Current Assets Ratio

Table-4.5

Loans & advances to current assets ratio (Rs. in Million)

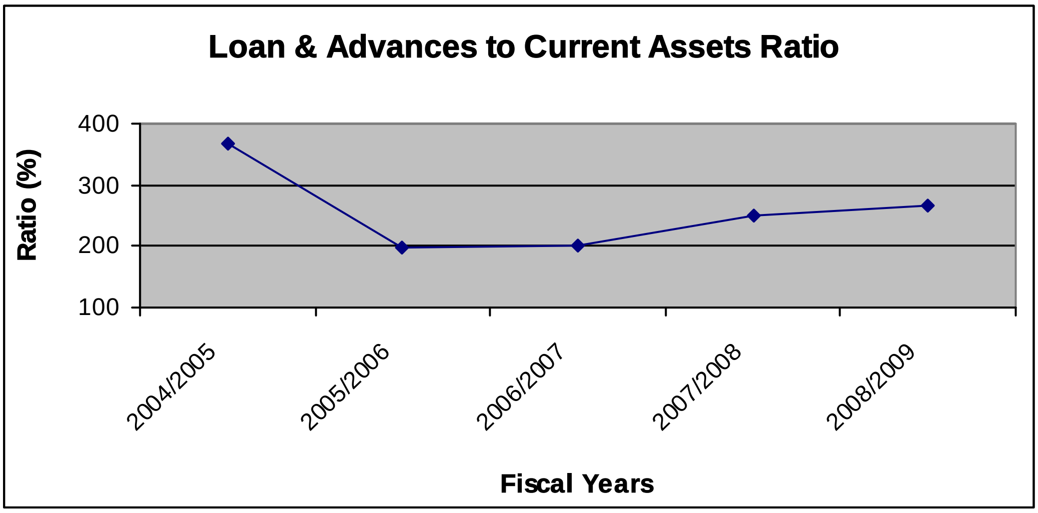
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Loan & advances	4982.08	5956.35	7085.43	8554.09	12489.62			
Current assets	1360.33	2988.57	3544.01	3431.49	4704.86			
Ratio %	366.24	199.30	199.93	249.28	265.46	256.04	61.08	23.85 %

Source: Annual Report of MBL 2004/05 to 2008/09

The above table reveals that the loans and advances to current assets ratio is in fluctuating trend. The average mean ratio is 256.04%, standard deviation of 61.08% and coefficient of variation of 23.85%. So; this ratio seems to be not consistent and variable.

Figure -4.5

Loans & advances to current assets ratio



4.1.2 Assets Management Ratio/ Activity Ratios

i) Loans & Advances to Total Deposits Ratio

Table-4.6

Loans & advances to total deposits ratio (Rs. in Million)

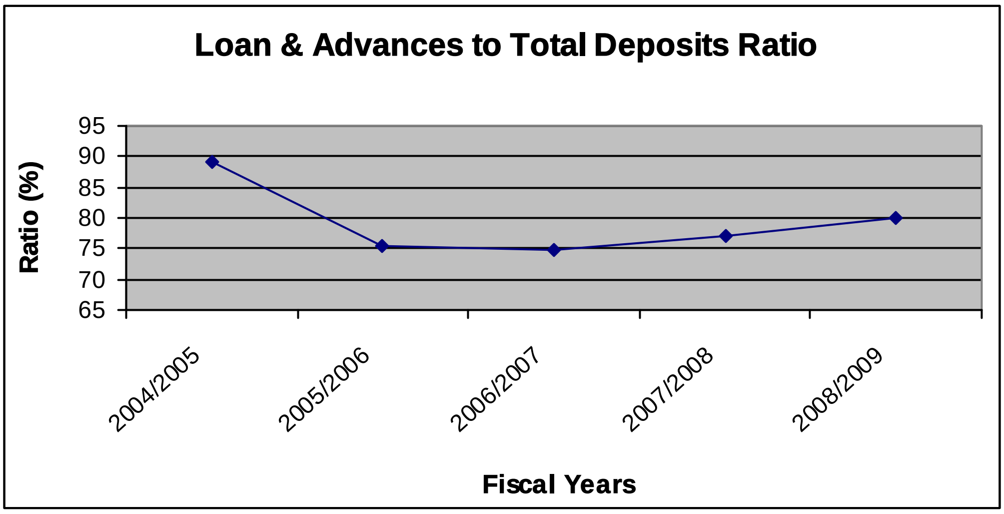
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Loan & advances	4982.08	5956.35	7085.43	8554.09	12489.62			
Total deposit	5586.80	7893.30	9475.45	11102.24	15596.79			
Ratio %	89.18	75.46	74.78	77.05	80.08	79.31	5.26	6.63 %

Source: Annual Report of MBL 2004/05 to 2008/09

.The above table shows that the loans & advances to total deposit ratios are in fluctuating trend. It was in decreasing trend till 2006/2007 but there is sudden increase after 2007/2008. The average mean ratio is 79.31% with standard deviation of.5.26% and coefficient of variation is 6.63%. It shows that the ratios may be consistent and less variable.

Figure -4.6

Loans & advances to total deposits ratio



ii) Loan & Advances to Total Working Fund Ratio

Table-4.7

Loan & advances to Total working fund ratio (Rs. in Million)

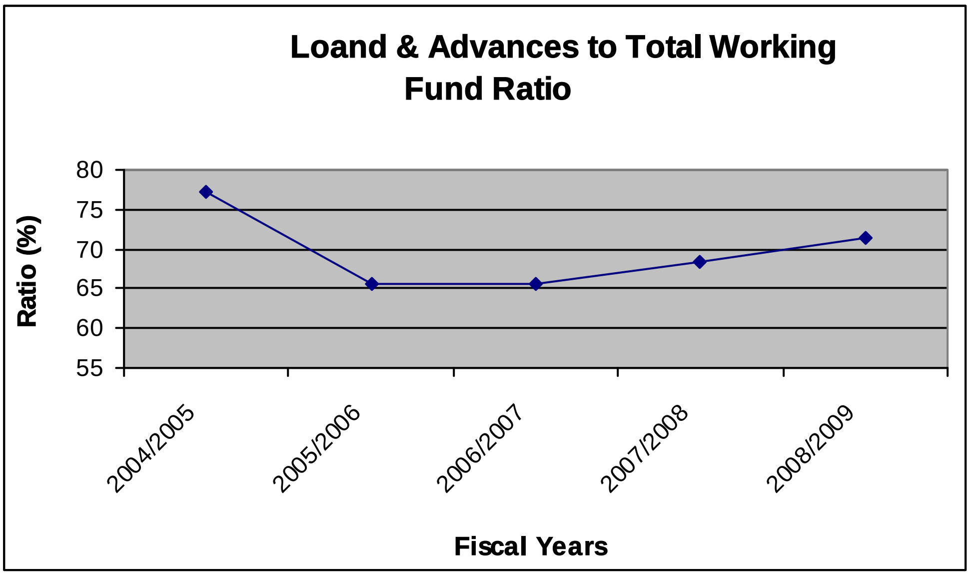
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Loan & advances	4982.08	5956.35	7085.43	8554.09	12489.62			
Total working fund	6456.46	9069.83	10807.62	12498.55	17490.78			
Ratio %	77.16	65.67	65.56	68.44	71.41	69.65	4.29	6.16 %

Source: Annual Report of MBL 2004/05 to 2008/09

Referring to the above table, we can see that MBL has ratio of ranging from 65.56% in 2006/2007 and 77.16.91 in 2004/2005 which is an average ratio. So, we can conclude that MBL has maintained medium loan & advances to total working fund ratio. The standard deviation is 4.29% and coefficient of variation is 6.16%, which shows that the loan & advances to working capital fund is less variable and consistent.

Figure -4.7

Loan &advances to total working fund ratio



iii) Total Investment to Total Deposit Ratio

Table-4.8

Total investment to total deposits ratio (Rs. in Million)

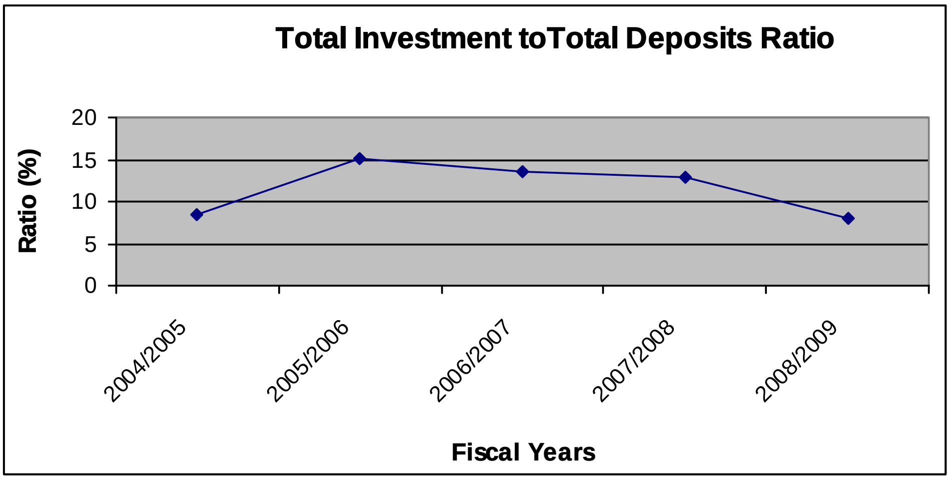
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Total investment	468.61	1191.37	1278.47	1443.55	1246.16			
Total deposit	5586.80	7893.30	9475.45	11102.24	15596.79			
Ratio %	8.39	15.09	13.49	13.00	7.99	11.59	2.87	24.76 %

Source: Annual Report of MBL 2004/05 to 2008/09

In the Table-4.8, MBL Bank has fluctuating trend regarding the ratios. During the study period the highest ratio was in FY 2005/2006 with 15.09% and the lowest in the FY 2008/2009 with 7.99%. The mean value of MBL is 11.59% and standard deviation of 2.87%. The coefficient of variation reveals that the investment policy is in average position.

Figure -4.8

Total investment to total deposits ratio



iv) Investment on Government Securities to Total Working Fund Ratio

Table-4.9

Investment on government securities to total working fund ratio (Rs. in Million)

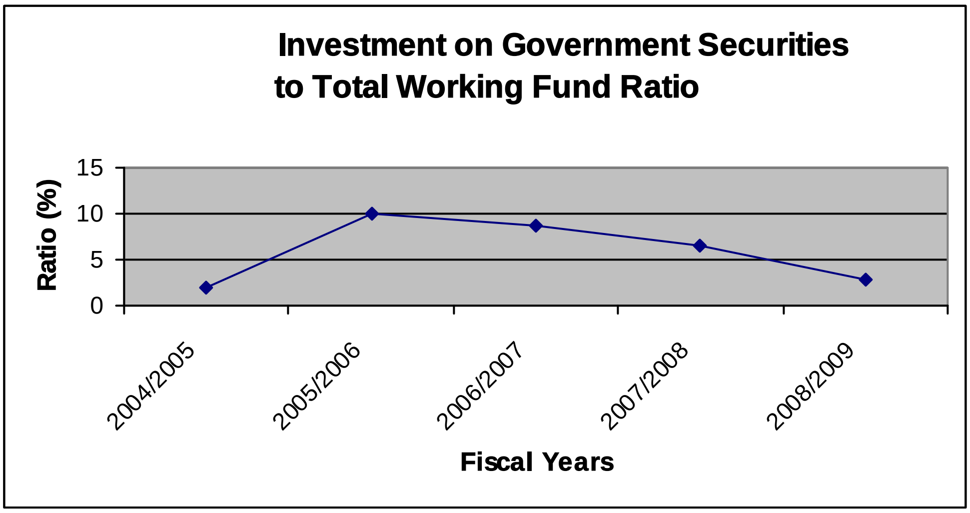
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Government securities	127.33	904.47	951.27	827.35	477.81			
Total working fund	6456.46	9069.83	10807.62	12498.55	17490.78			
Ratio %	1.97	9.97	8.80	6.62	2.73	6.02	3.19	53.00 %

Source: Annual Report of MBL 2004/05 to 2008/09

Referring to the above table, we can find that the investment on government securities to total working fund has the decreasing trend. The mean ratio was found to be 6.02% with 3.19% standard deviation and coefficient of variation of 53.00%. The ratio seems to be inconsistent during the study period.

Figure -4.9

Investment on government securities to total working fund ratio



v) Investment on Shares and Debentures to Total Working Fund Ratio

Table-4.10

Investment on shares and debentures total working fund ratio (Rs. in Million)

F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Shares & debentures	9.30	9.30	9.30	59.30	69.39			
Total working fund	6456.46	9069.83	10807.62	12498.55	17490.78			
Ratio %	0.14	0.10	0.09	0.47	0.40	0.24	0.16	66.67 %

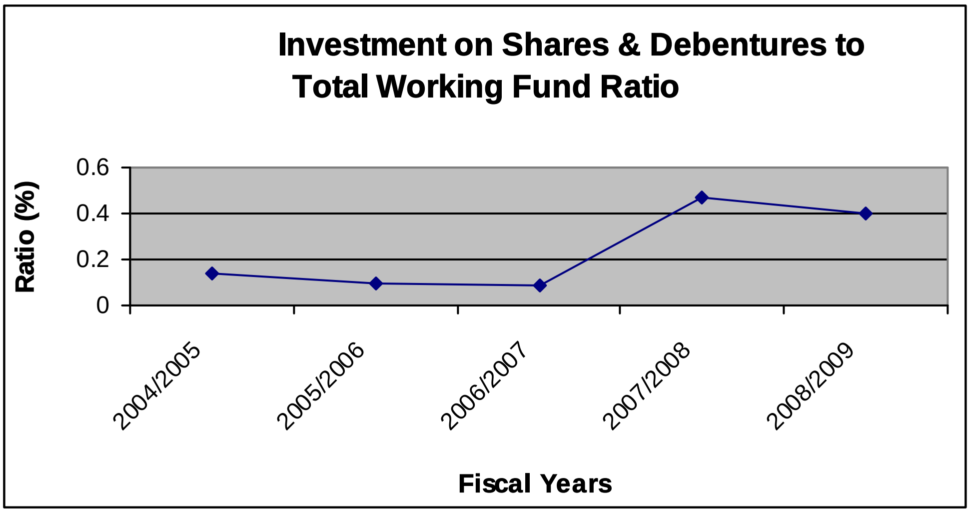
Source: Annual Report of MBL 2004/05 to 2008/09

Banks may invest in shares and securities of anyone organized institution not exceeding 10 % of the paid up capital of such organized institution. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the Core capital Fund.

Bank shall invest in the shares and securities of organized institutions, which are already listed in the stock exchange, or arrangement exists for listing within one year.

Figure -4.10

Investment on shares and debentures total working fund ratio



4.1.3 Profitability Ratios

i) Return on Total Assets Ratio

Table-4.11

Return on total assets ratio (Rs. in Million)

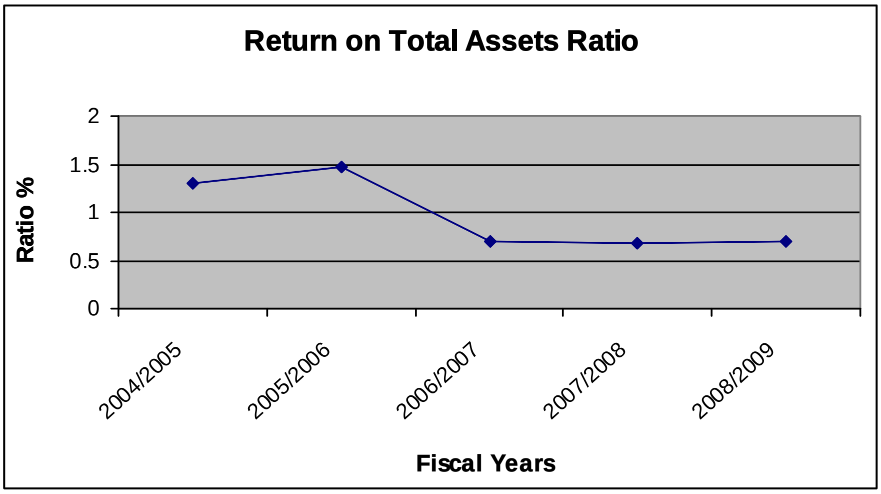
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Net Profit	84.87	134.00	74.06	85.02	123.25			
Total assets	6456.46	9069.83	10807.62	12498.55	17490.78			
Ratio %	1.31	1.48	0.69	0.68	0.70	0.97	0.36	37.11 %

Source: Annual Report of MBL 2004/05 to 2008/09

The above Table-4.11 explains that the return on tota1 assets ratios is in fluctuating trend during the study period. The ratio ranges from 0.68% in 2007/2008 to 1.48% in 2005/2006. The mean ratio is found to be 0.97% with 37.11% C. V. between them, which indicates that the ratios are less variable.

Figure -4.11

Return on total assets ratio



ii) Return on Loan & Advances Ratio

Table-4.12

Return on loan & advances ratio (Rs. in Million)

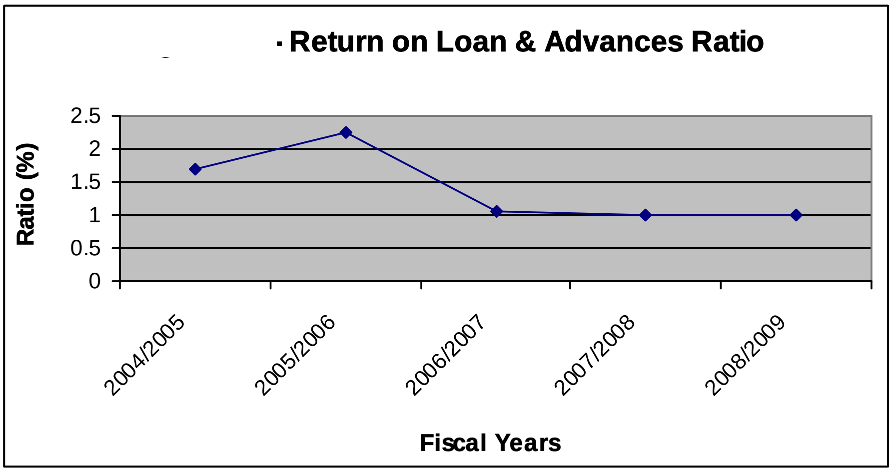
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Net Profit	84.87	134.00	74.06	85.02	123.25			
Loan & advances	4982.08	5956.35	7085.43	8554.09	12489.62			
Ratio %	1.70	2.25	1.05	0.99	0.99	1.40	0.49	35.00 %

Source: Annual Report of MBL 2004/05 to 2008/09

The above table shows that the return on loan & advances ratios is in fluctuating trend. It has increased in second year and is in decreasing trend after third year. The return is decreasing so we can conclude that profit from loan & advances are stable.

Figure -4.12

Return on loan & advances ratio



iii) Total Interest Earned on Total Assets Ratio

Table -4.13

Total interest earned to total assets ratio (Rs. in Million)

F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Net interest	194.90	274.70	296.76	388.68	461.44			

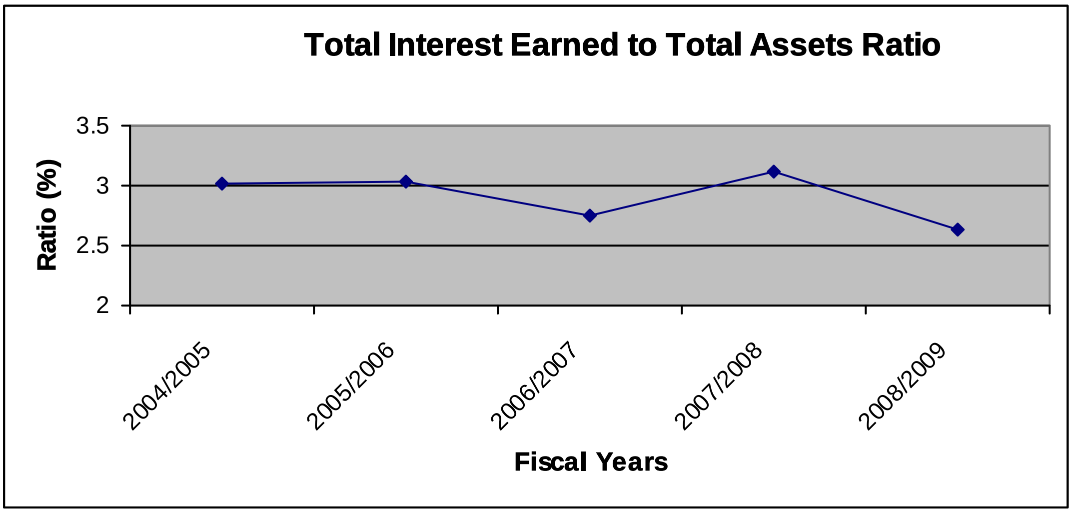
earned								
Total working fund	6456.46	9069.83	10807.62	12498.55	17490.78			
Ratio %	3.02	3.03	2.75	3.11	2.64	2.91	0.17	5.84 %

Source: Annual Report of MBL 2004/05 to 2008/09

.The above table reveals that the return on total assets is in fluctuating trend. The average mean ratio is 2.91%, standard deviation of 0.17% and coefficient of variation of 5.84%. So; this ratio seems to be consistent and less variable.

Figure -4.13

Total interest earned to total assets ratio (%)



iv) Total Interest Earned to Total outside Assets

Table-4.14

Total interest earned to total outside assets ratio (Rs. in Million)

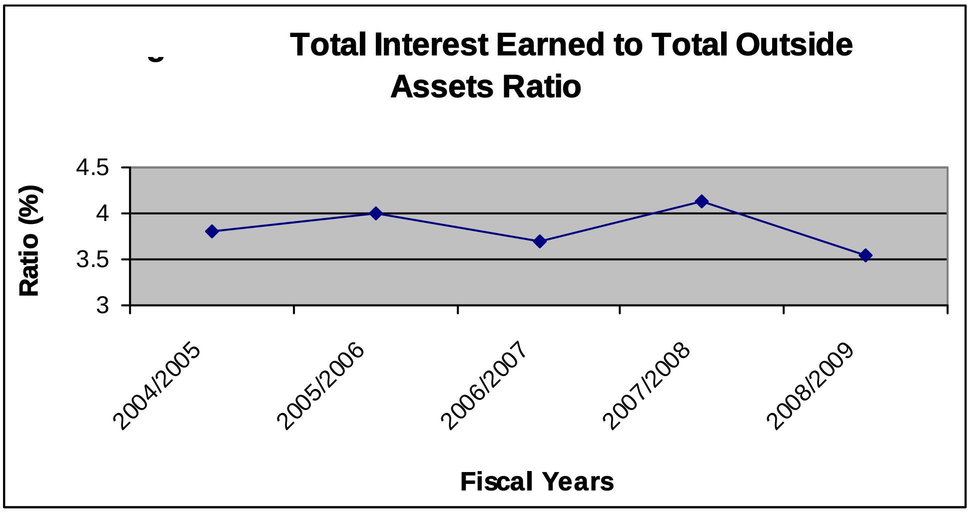
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Net interest earned	194.90	274.70	296.76	388.68	461.44			
Total outside assets	5118.71	6870.12	8046.00	9440.74	13036.82			
Ratio %	3.81	3.99	3.69	4.12	3.54	3.83	0.20	5.22%

Source: Annual Report of MBL 2004/05 to 2008/09

The above Table-4.14 shows that the ratio of total interest earned to total outside assets of MBL is in fluctuating trend. The highest is 4.12% in 2007/2008 and the lowest in FY 2008/2009 with mean of 3.83%, standard deviation of 0.20% and coefficient of variation of 5.22%. The ratio seems to stable and consistent.

Figure -4.14

Total interest earned to total outside assets ratio (%)



v) Interest Paid to Total Working Fund

Table-4.15 Total interest paid to total working fund ratio (Rs. in Million)

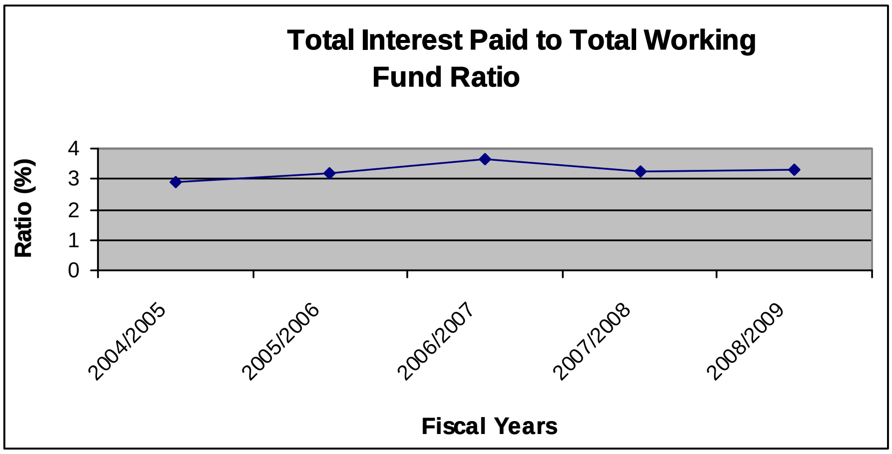
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Total interest paid	187.03	288.66	397.72	407.72	580.04			
Total working fund	6456.46	9069.83	10807.62	12498.55	17490.78			
Ratio %	2.90	3.18	3.68	3.26	3.32	3.27	0.22	6.82 %

Source: Annual Report of MBL 2004/05 to 2008/09

The above Table-4.15 shows that the interest paid to total working fund ratio is in fluctuating trend. The ratio ranges between 2.90% in 2004/2005 to 3.68% in 2006/2007. The mean of the ratio is found to be 3.27% with 6.82% C. V. between them, which means that the ratio is consistent during the study period.

Figure -4.15

Total interest paid to total working fund ratio



4.1.4 Risk Ratios

i) Credit Risk Ratio

Table-4.16

Credit risk ratio (Rs. in Million)

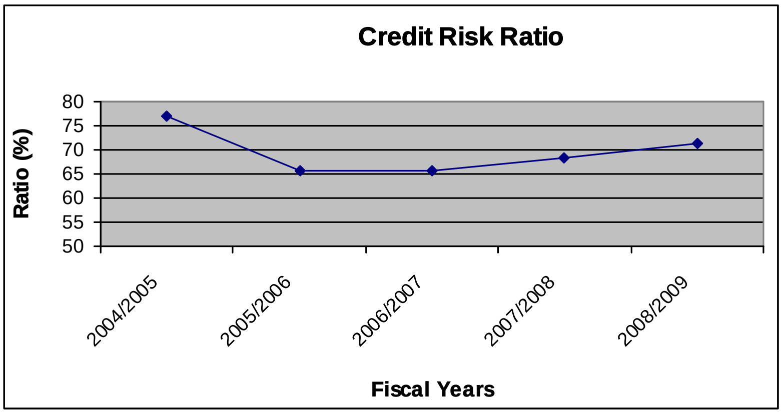
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Loans & advances	4982.08	5956.35	7085.43	8554.09	12489.62			
Total assets	6456.46	9069.83	10807.62	12498.55	17490.78			
Ratio %	77.16	65.67	65.56	68.44	71.41	69.65	4.29	6.16%

Source: Annual Report of MBL 2004/05 to 2008/09

The ratio of MBL has followed fluctuating trend. It has ranged from 65.56% to 77.16%. The mean ratio is found to at 69.65% with standard deviation of 4.29.% and coefficient of variation of 6.16%. It indicates that the credit policy of MBL is consistent and stable.

Figure -4.16

Credit risk ratio



ii) Capital Risk Ratio

Table-4.17

Capital risk ratio (Rs. in Million)

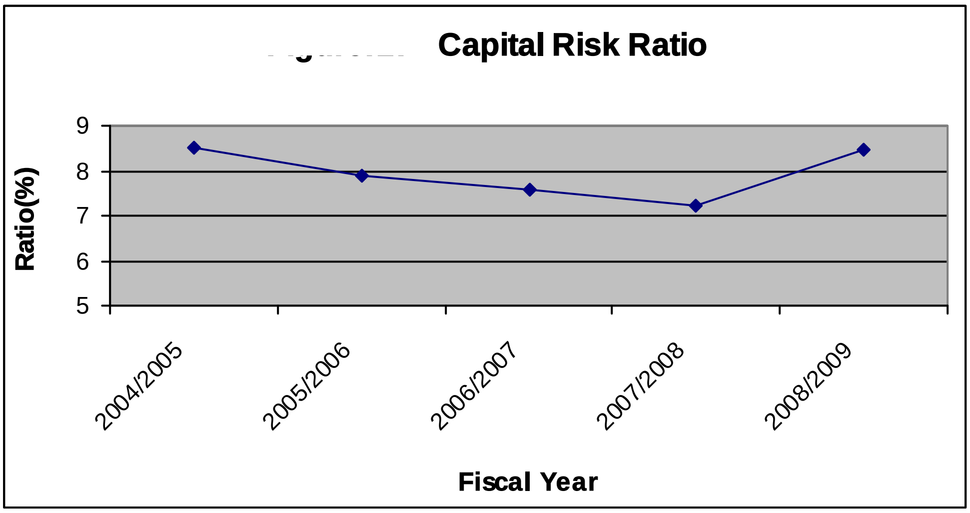
F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Mean	S.D.	C.V.
Share capital	550.00	715.00	821.65	901.34	1479.27			
Total assets	6456.46	9069.83	10807.62	12498.55	17490.78			
Ratio %	8.52	7.88	7.60	7.21	8.46	7.93	0.57	7.19 %

Source: Annual Report of MBL 2004/05 to 2008/09

The above table shows that the capital risk ratio of the MBL was in decreasing trend till 2007/2008 & suddenly increased in FY 2008/2009. It ranges from 7.21% in FY 2007/2008 to 8.52% in FY 2004/2005 with mean of 7.93%, standard deviation of 0.57% and coefficient of variation of 7.19% which shows that the ratios are consistent and stable during the study period.

Figure -4.17

Capital risk ratio (%)



4.1.5 Growth Ratios

i) Growth Ratio of Total Deposit

Table-4.18 Growth ratio of total deposit (Rs. in Million)

F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Ratio
MBL	5586.80	7893.29	9475.45	11102.24	15596.79	29.26%

Source: Appendix A.1

ii) Growth Ratio of Total Investment

Table-4.19 Growth Ratio of total investment (Rs. in Million)

F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Ratio
MBL	468.61	1191.37	1278.47	1443.55	1246.16	27.70%

Source: Appendix A.2

iii) Growth Ratio of Loan & Advances

Table-4.20 Growth Ratio of Loan & Advances (Rs. in Million)

F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Ratio
MBL	4982.08	5956.35	7085.43	8554.09	12489.62	25.83%

Source: Appendix A.3

iv) Growth Ratio of Net Profit

Table-4.21 Growth Ratio of net profit (Rs. in Million)

F/Y	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Ratio
MBL	84.87	134.00	74.06	85.02	123.25	9.78%

Source: Appendix A.4

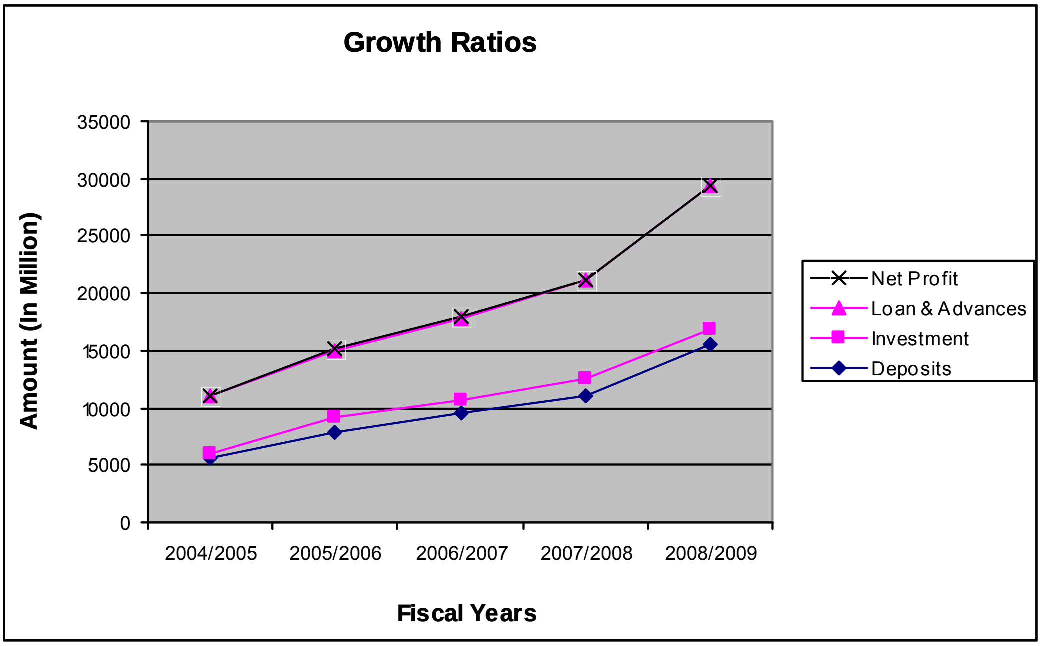
The above table 4.18 to 4.21 explains the growth ratios of total deposits, total investment, loan & advances and net profit of MBL during the study period. The analysis shows that the MBL bank has sufficient growth in total deposit i.e. 29.26%. The total deposit was highest in 2008/2009 and lowest in 2004/2005 by which we can predict that deposit has increasing trend.

The analysis of above table 4.19 shows that the total investment of the bank is in increasing trend. Similarly, loan & advances of the bank is also in increasing trend with the net growth rate of 25.83% during the study period.

The above table-4.21 reveals that the profit of MBL bank is in fluctuating trend. The bank has growth rate of 9.78% during the study period. (See Appendix Al, A2, A3 and A4)

Figure -4.18

Growth Ratios



4.2 Statistical Tools

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

4.2.1 Coefficient Correlation Analysis

4.2.1.1Coefficient of Correlation between Total Deposits and Loan & Advances

Deposits have played a very important role in the performance of a commercial bank and similarly loan & advances are important to mobilize the collected deposits. Coefficient of correlation between deposit and loan & advances measure the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan & advances are dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as loan & advances in a proper way or not. The Table-4.22 shows the value of 'r', 'r^2', Probable Error (P.Er.) and 6P.Er. between total deposits and loan & deposits.

Table-4.22

Coefficient of correlation between Total Deposits and Loan & Advances

Correlation coefficient (r)	r^2	P.Er.	6*P. Er.	Remarks
0.93	0.86	.0.04	0.24	r ≥ 6*P. Er.

Source: Appendix B.1

The above table shows that the correlation (r) between deposits and loan & advances of the bank is 0.93 and probable error multiplied by six is found to be 1.44. Since, r > 6*P.Er. and r is positive and near to 1. So, it is inferred that there is positive correlation between total deposits and loan & advances during the study period.

4.2.1.2 Coefficient of Correlation between Total Deposits and Total Investment

Coefficient of correlation between total deposit and total investment measure the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and investment is dependent variable (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The table-4.23 shows the value of 'r', 'r^2', Probable Error (P.Er.) and 6P.Er.between total deposits and total investment.

Table-4.23

Coefficient of Correlation between Total Deposits and Total Investment

Correlation coefficient (r)	r^2	P.Er.	6*P. Er.	Remarks
0.65	0.423	0.175	1.05	r ≤ 6*P. Er.

Source: Appendix B.2

The above table shows that the correlation (r) between total deposits and total Investment of the bank is 0.65 and probable error multiplied by six is found to be l.05. Since r <6 *P.Er, it is insignificant and there is no correlation between total outside assets and net profit.

4.2.1.3 Coefficient of Correlation between Total outside Assets and Net Profit

Coefficient of correlation between total outside assets and net profit measure the degree of relationship between these two variables. In this analysis, total outside asset is independent variable (X) and net profit is dependent variable (Y). The main objective of computing 'r' between these two variables is to find out whether outside assets and net profit us significantly correlated or not. The table-4.24 shows the value of 'r', 'r^2', Probable Error (P .Er.) and 6P .Er. between total outside assets and net profit.

Table-4.24

Coefficient of Correlation between Total outside Assets and Net Profit

Correlation coefficient (r)	r^2	P. Er.	6*P.Er.	Remarks
0.31	0.096	0.27	1.62	r ≤ 6*P. Er.

. *Source: Appendix B.3*

The above table shows that the correlation (r) between deposits and loan & advances of the bank is 0.31 and probable error multiplied by six is found to be l.62. Since r <6 *P.Er, it is insignificant and there is no correlation between total outside assets and net profit.

4.2.2 Trend Analysis

Under this topic, we analyze and interpret the trend of deposits, loan & advances, investment and net profit of Machhapuchchhre Bank Limited that helps to make forecasting for next five years. The following tend value analysis have been used in this study.

- Trend analysis of total deposit
- Trend analysis of loan & advances
- Trend analysis of total investment
- Trend analysis of net profit

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

4.2.2.1Trend Analysis of Total Deposits

Here, an effort has been made to calculate the trend values of total deposits of MBL for five years from FY 2004/2005 to 2008/2009 and forecasted the same for next five years till 2013/2014. The following table-21 shows the trend values total deposits of MBL for 10 years from 2004/2005 to 2013/2014.

Table- 4.25

Trend value of total deposits of MBL

(2004/2005 to 2013/2014)

(Rs. in Million)

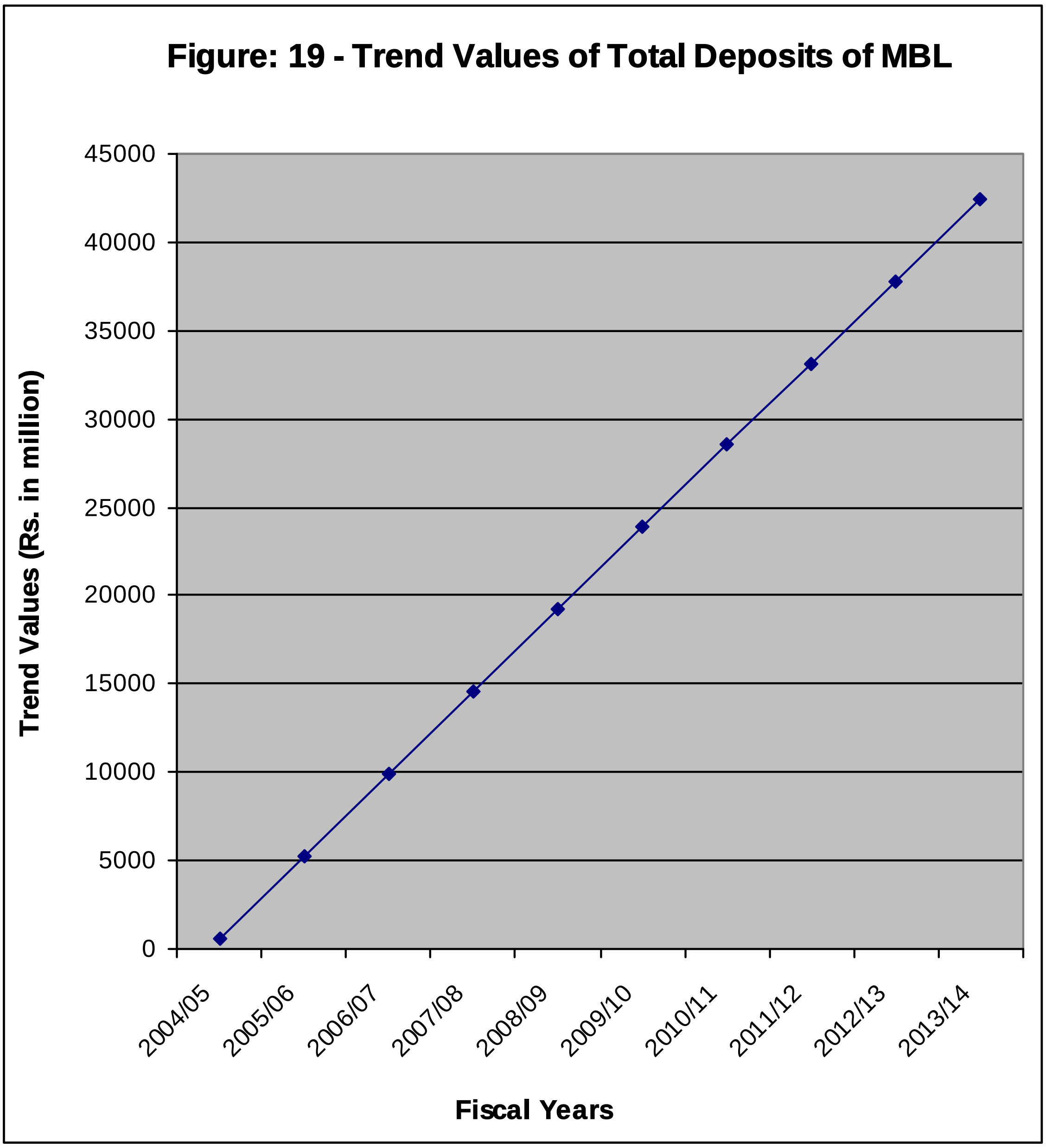
Fiscal Years	Trend Values
2004/2005	639.33
2005/2006	5285.12
2006/2007	9930.91
2007/2008	14576.70
2008/2009	19222.49
2009/2010	23868.28
2010/2011	28514.07
2011/2012	33159.86
2012/2013	37805.65
2013/2014	42451.44

Source: Appendix C.1

From the above Table-42.25, it is clear that the total deposit of MBL is in increasing trend. Other things remaining same, the total deposits of the bank will be Rs. 42451.44 million in the FY 2013/2014, which is the highest under the study period.

Figure- 4.19

Trend value of total deposits of MBL



4.2.2.2Trend Analysis of Loan & Advances

Here, the trend values of total loan & advances from FY 2004/2005 to 2008/2009 and the forecast for next five years till 2013/2014 have been done.

Table- 4.26

Trend value of loan & advances of MBL

(2004/2005 to 2013/2014)

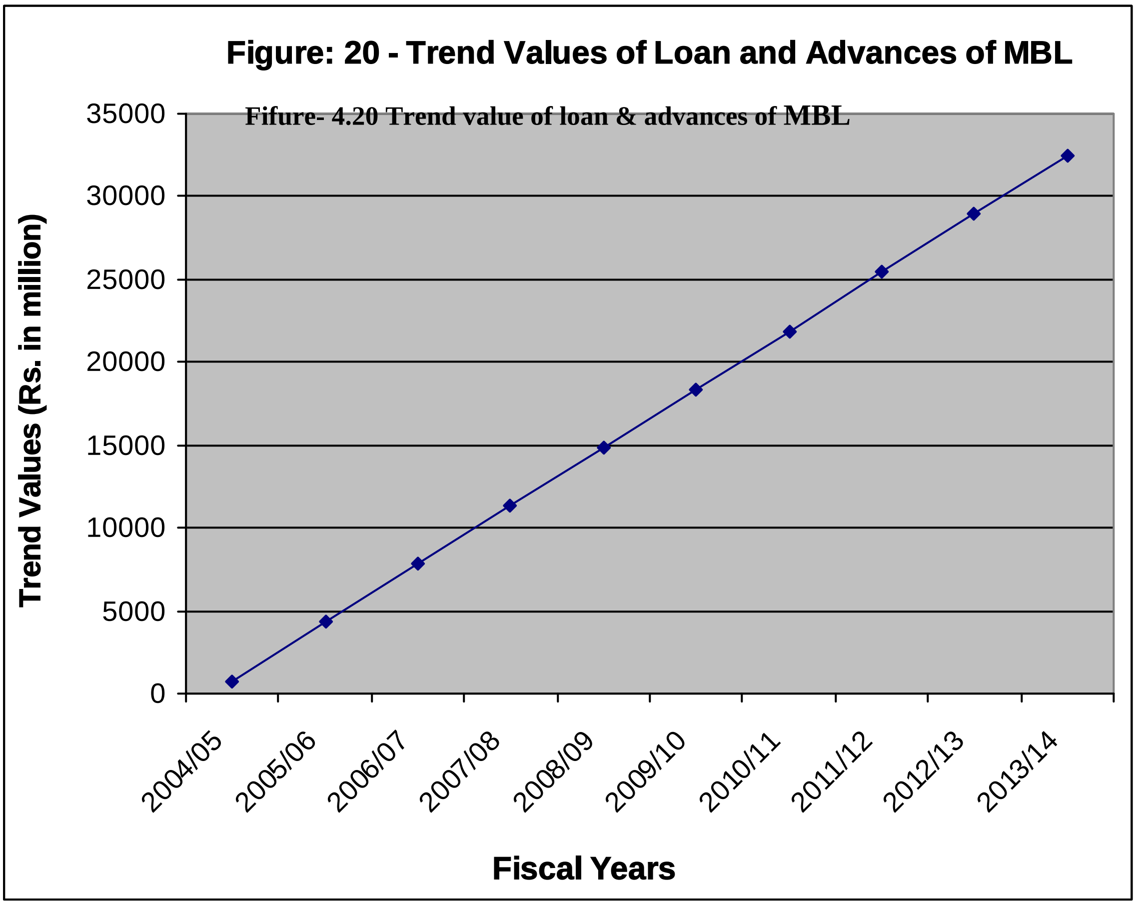
(Rs. in Million)

Fiscal Years	Trend Values
2004/2005	768.39
2005/2006	4290.95

2006/2007	7813.51
2007/2008	11336.07
2008/2009	14858.63
2009/2010	18381.19
2010/2011	21903.75
2011/2012	25426.31
2012/2013	28948.87
2013/2014	32471.43

Source: Appendix C.2

The above Table-4.26 shows that the loan & advances of MBL is in increasing trend. Other things remaining same, total loan & advances of MBL in FY 2013/2014 will be Rs.32471.43 million, which is the highest under the study period.



Fifure- 4.20 Trend value of loan & advances of MBL

4.2.2.3 Trend Analysis of Total Investment

Here, an attempt has been made to analyze the trend values of total investment of MBL for five years from FY 2004/2005 to 2008/2009 and forecasted the same for next five years till 2013/2014. The following table shows that the trend values of total investment of MBL for 10 years from FY 2004/2005 to 2013/2014.

Table-4.27

Trend values of total investment of MBL

(2004/2005 to 2013/2014)

(Rs. in Million)

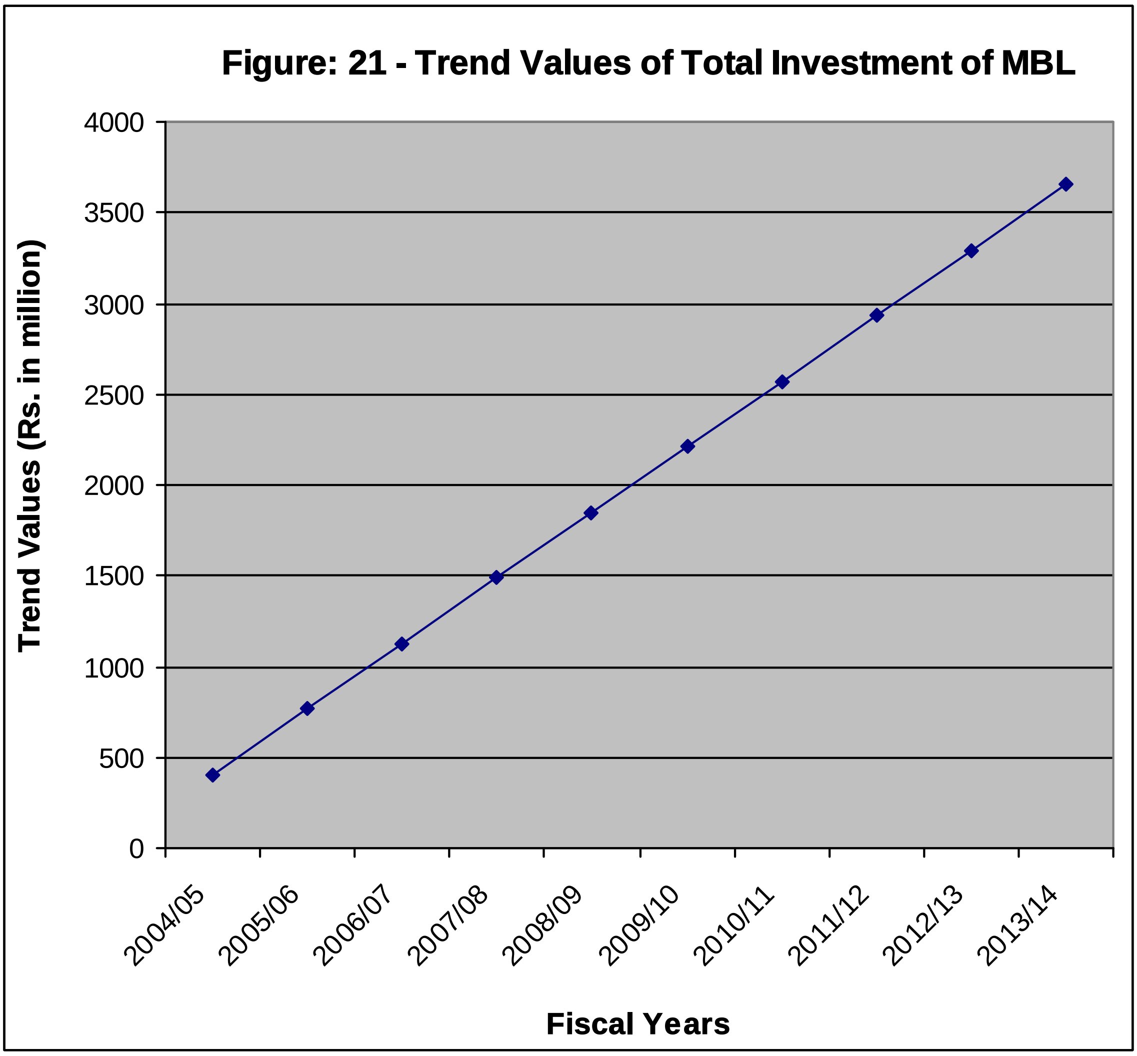
Fiscal Years	Trend Values
2004/2005	402.71
2005/2006	764.17
2006/2007	1125.63
2007/2008	1487.09
2008/2009	1848.55
2009/2010	2210.01
2010/2011	2571.47
2011/2012	2932.93
2012/2013	3294.39
2013/2014	3655.85

Source: Appendix C.3

From the above table-4.27, it is clear that the total investment of MBL us in increasing trend. Other things remaining same, total investment of the bank in FY 2013/2014 will be Rs.3655.85 million, which is the highest under the study period.

Figure-4.21

Trend values of total investment of MBL



4.2.2.4 Trend Analysis of Net profit

Here, an attempt has been made to analyze the trend values of total net profit of MBL for five years from FY 2004/2005 to 2008/2009 and forecasted the same for next five years till 2013/2014. The following table shows that the trend values of total net profit of MBL for 10 years from FY 2004/2005 to 2013/2014.

Table-4.28

Trend values of net profit of MBL

(2004/2005 to 2013/2014)

(Rs. in Million)

Fiscal Years	Trend Values
2004/2005	89.12
2005/2006	94.68
2006/2007	100.24
2007/2008	105.80

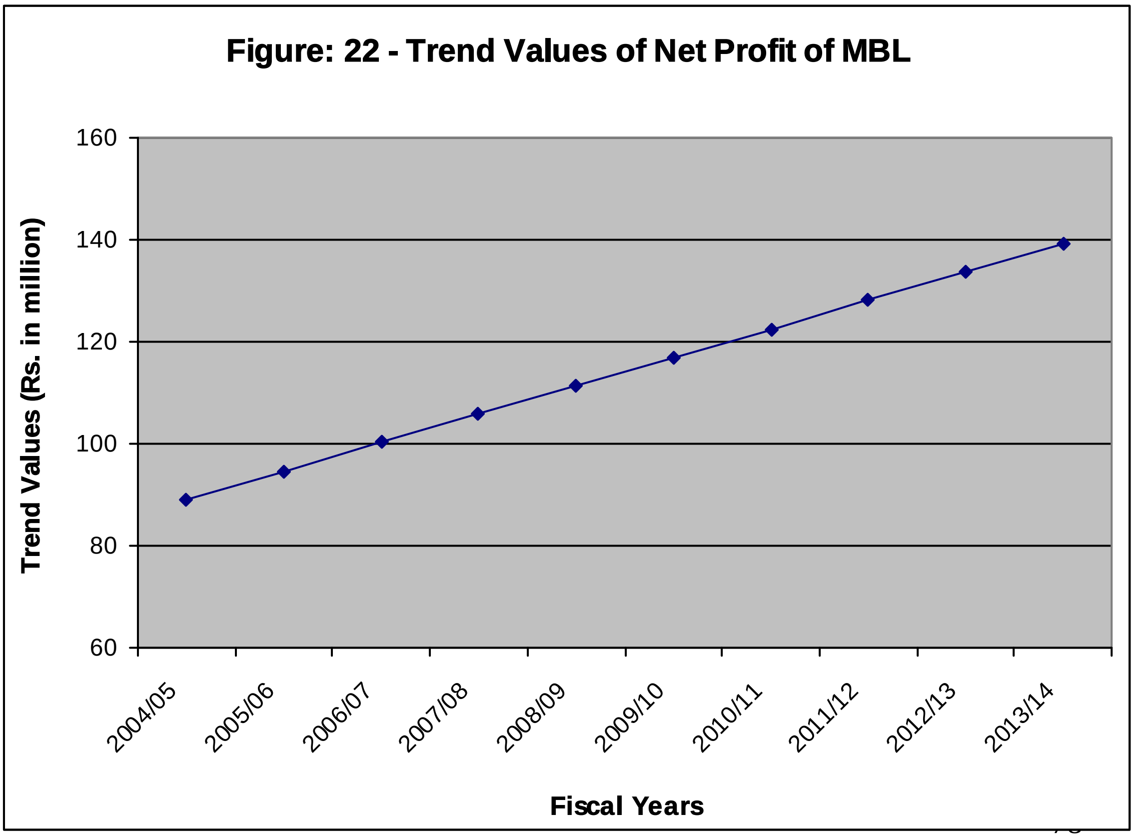
2008/2009	111.36
2009/2010	116.92
2010/2011	122.48
2011/2012	128.04
2012/2013	133.60
2013/2014	139.16

Source: Appendix C.4

From the above Table-4.28, it is clear that the net profit of MBL is in increasing trend. Other things remaining same, the net profit of MBL will be Rs.139.16 million, which is the highest under the study period.

Figure-4.22

Trend values of net profit of MBL



4.3 The Major Findings of the Study

The preceding chapter have discussed and explored the facts and matters for the various parts of the study. Analytical part, which is the heart of the study, makes an analysis of various aspects of the investment policy of commercial banks by using some of important financial as well as statistical tools.

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist finding issues and gaps of the study and give suggestions for further improvement. This would be meaningful to the top management of the bank to initiate action and achieve the desire result. The objective of the researcher is only to point errors and mistakes but also to correct them and give directions for further growth and improvement.

The main findings of the study that are derived on the basis of financial data analysis of MBL are presented below:

4.3.1 Findings from the Liquidity Ratios Analysis

- From the analysis of the current ratio, current liabilities of MBL have exceeded current assets in average of the study period from 2004/2005 to 2008/2009. The highest ratio ranges from lowest 0.30 in 2007/2008 and 2008/2009 to highest 2.19 in 2004/2005 with an average ratio of 0.70. The ratio shows the fluctuating trend during the period. The coefficient of variation (C.V) between the ratios for the study period is 107.14%, which shows that the current ratios during the study period are not so consistent. In general, the current ratio analysis of the bank over the five years period indicates that the bank has been able to meet its short-term obligations and has not satisfactory liquidity position.

- The cash & bank balance to current assets ratio of MBL is in increasing trend except fiscal year2004/2005. The highest ratio is 58.80% in 2008/2009 and the lowest is 27.23% in 2005/2006. The mean ratio for the study period is 44.46% and the C.V. between them is 25.84%. On the basis of C.V. the ratios seems to variable and inconsistent.

It indicates that MBL is in better position in maintaining its cash &bank balance to meet its daily requirements to make the payments on customers deposits withdrawal.

- The cash & bank balance to total deposits ratio of MBL has fluctuating trend. The mean ratio is for the study period. The mean ratio of the study period is 13.80% with standard deviation of 2.38 % and coefficient of variation of 17.25%, which shows that the ratios are not consistent.

According to NRB guidelines, there should be minimum balance deposit liability. The above analysis indicates that the cash & bank balance position of MBL with respect to total deposit is better to serve its customers deposit withdrawal demands. It implies the satisfactory liquidity position of MBL.

- The investment on government securities to current assets ratio of MBL has the decreasing trend except in fiscal year 2004/2005. The mean of the ratio for the study period is 20.15% and C. V. between them is 43.17%. On the basis of the C. V, it can be concluded that the ratios are variable and less consistent. Investment on government securities is the secondary defense mechanism for commercial banks. It shows the proportion of additional source of liquidity in addition to cash and bank balance in total current assets.

- The loan & advances to current assets ratio of MBL Bank is in increasing trend with mean ratio of 256.04% and C.V. of 23.85% which be less consistent and variable.

4.3.2 Findings from the Assets Management Ratio/ Activity Ratios

- The mean ratio of loan & advances to total deposit ratio of MBL is 79.31% with C.V. of 6.63%. It has fluctuating trend. The C.V. between ratios shows that the ratio are satisfactorily consistent and less variable over the study period. The ratio is also called CD ratio i.e. Credit-Deposit ratio and around 70% of CD ratio is taken as standard. From this point of view, the loan & advances to total deposit ratio of the bank is few higher than the standard. Loan and advances is the proportion of bank investment into most risky assets. High level of risk is not desirable for commercial banks as any default can create risk.

- The loan & advances to total working fund ratio ranges from the minimum of 65.56% in 2006/2007 to the maximum of 77.16 % in 2004/2005. The mean ratio is 69.65% and the C. V. between them is 6.16%, which shows that the ratios are consistent over the study period. This shows that loan & advances comprise 69.65 % in average of the total assets of the bank. This shows that about Seventy percent of the assets of the bank comprises loan & advances i.e. risky assets. Loan & advances is the most risky and most productive assets of the bank. High ratio suggests high risk and eventually high return of the bank. So, MBL has taken moderate risk towards the mobilization of its fund to risky assets.

- The investment to total deposit ratios is in fluctuating trend during the study period. The highest ratio is 15.09% in 2005/2006 and lowest is 7.99% in 2008/2009 with mean ratio of 11.59%. The C. V. of 24.76% shows that the ratios are less consistent and more variable. The figures suggest that the bank has mobilized significant amount i.e. about 11 percent in average of its total deposits in government securities and shares and debentures of other companies.

- Investment on government securities to total working fund ratio is in decreasing trend during the study period. The mean ratio is found to be 6.02% with 53% C. V. between them, which indicates that the ratios are variable and not consistent during the study period. Investment on government securities is the risk free investment for the commercial banks. This ratio shows the proportion of risk assets in the total assets of bank. Analysis shows that the bank has mobilized about six percentage of fund on government securities i.e. low productive and risk free sector.

- Investment on shares and debentures to total working fund ratio has ranged from 0.09% in 2006/2007 to 0.47% from 2007/2008. The mean ratio is found to be 0.24% with 66.67% C. V. between them, which indicates that, the ratio less variable and less consistent over the study period. So, MBL has invested very nominal percentage of total working fund into shares and debentures of other companies.

4.3.3 Findings from Profitability Ratios

- Return on assets (ROA) ratios is fluctuating during the study period. The ratios range between 0.68 in 2007/2008 to 1.48% in 2005/2006. The mean of the ratios is found to be 0.97% with 37.11% C.V. between them, which indicates that the ratios are variable and consistent during the study period. The return on assets of the bank is good in average and it indicates the good earning capacity of the bank assets and good utilization of its assets.

- The return on loan & advances ratios are fluctuating with overall decreasing trend ranging between 0.99% in 2007/2008 and 2008/2009 to 2.25% in 2005/2006. The mean of the ratios is found to be 1.40% with 35% C. V. between them, which indicates that the ratios are less variable and consistent.

- The interest earned to total assets ratio of MBL has fluctuating trend. The mean ratio is found to be 2.91% and coefficient of variation between them is 5.84% during the study period. The ratios are consistent and less variable.

- The total interest earned to total outside asset ratios is consistent over the period ranging from 3.54% in 2008/20099 to 12.2% in 2007/2008. The mean of the ratio is found to be 3.83% with 5.22% C.V. between them, which indicates that the ratios are satisfactorily consistent during the study period.

  The analysis shows that the MBL has average 3.83% income margin from outside assets. If the margin is higher than cost of fund, the bank will be on profit.

- The interest paid to working fund of MBL is in fluctuating trend with the highest of 3.68% in 2006/2007 to lowest of 2.90% in 2004/2005. The mean ratio of total interest paid to total working fund during the study period is 3.27% with C.V. of .6.82%. The ratio seems to be consistent.

4.3.4 Findings from the Risk Ratios

- The credit risk ratio of MBL has the fluctuating trend with the highest of 77.16% in 2004/2005 to lowest of 65.56% in 2006/2007. The mean ratio of the credit .risk ratio during the study period is 69.65%. The MBL has average lending policy. The ratio seems to be stable and consistent with 4.29% standard deviation and coefficient of variation of 6.16%.

- The capital risk ratio of MBL is in decreasing trend. The ratio ranges highest 8.52% in 2004/2005 to lowest 7.21% in 2007/2008 with coefficient of variation of 7.19% which reveals that the ratios are consistent and less variable during the study period.

4.3.5 Findings from Growth Ratios

The analysis of growth ratios of total deposits, total loan & advances, total investments and net profit of MBL during the study period shows that total deposits of bank is in increasing trend with the net growth rate of 29.26%. The analysis shows that the total investment of the bank is also in increasing trend with over the years having net growth rate of 27.70% during the study period. Similarly, loans & advances of the bank are also in increasing trend with the net growth rate of 25.83%.. Relatively, the net profit of the MBL Bank is fluctuate but in increasing trend with net growth rate of 9.78% during the study period.

The major source of fund of the bank is deposit from its customers and it is in increasing trend with slow growth rate. Similarly, the bank's utilization of its funds in the form of loan & advances and investment are also in increasing trend with satisfactory and high growth rate respectively. The bank has satisfactory growth rate of profit with increasing trend, which actually shows the performance of the bank in its overall operation.

4.3.6 Findings from the Correlation Analysis

- The correlation between total deposits and total loan & advances shows that the correlation (r) between deposits and loan & advances of the bank is 0.93 and probable error multiplied by six is found to be 1.44. Since r >6*P .Er .and r is positive and near to 1. So, it is inferred that there is positive correlation between total deposits and loan & advances during the study period.

The increase and decrease of total deposit of the bank strong affects the volume of loan & advances.

- The correlation between total investment and total deposit shows that the correlation coefficient (r) between total deposits and total investment of the bank is 0.65 and probable error multiplied by six is found to be 1.05. Since r<6*P.Er, it is insignificant and there is no correlation between total deposit and total investments during the study period in MBL.

- The correlation between total outside assets and net profit shows that the correlation (r) between deposits and loan & advances of the bank is 0.31 and probable error multiplied by six is found to be l.62. Since r <6*P.Er, it is insignificant and there is no correlation between total outside assets and net profit.

4.3.7 Findings from the Trend Analysis

- The trend analysis of different variables of the MBL shows that the growth rate of deposits are in increasing trend. Other things remaining same, the total deposits of MBL will be Rs.42451.44 million in FY 2013/2014, which is the highest under the study period.

- The growth rate of loans & advances is also in an increasing trend. Other things remaining same, the loan & advances of MBL will be Rs.32471.43 million in FY 2013/2014, which is the highest under the study period.

- The total investment of MBL is in an increasing trend. Other things remaining same, total investment of the bank in FY 2013/2014 will be Rs.3655.85 million, which is the highest under the study period.

- Other things remaining same, the net profit of MBL will be Rs.139.16 million, which is the highest under the study period.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The last chapter of this includes summary, conclusion and recommendation which were developed from the fact findings through analysis of various aspects of investments of commercial banks by using some important financial as well as statistical tools.

5.1 Summary

The development of every country is always measured by its economic indicators. Therefore, every country has given emphasis on the development of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector, which deals in the process of channelling the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered savings and put them into productive channels. In the absence of such institutions it is possible that the saving

will not be safely and profitably utilized within the economy. It will be diverted aboard or channelled into unproductive conspicuous consumption including real estate speculation.

Investment operation of commercial banks is a very risky one. It is the most important factor from the point of view of shareholders and bank management. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both borrowers and lenders, which helps to increase the volume of quality deposits, loans and investment.

The major source of income of a bank is interest income from loan and investment and fee based income. As .loan and advances dominate the assets side of the balance sheet of any bank, similarly earnings from such loans & advances occupy a m3jor space in the income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loans-& advances. Hence loan is known as risky assets and investment operation of commercial banks is very risky one. Risk of and-payment of loan is known as credit risk of default risk. Performing loans have multiple benefits to the society by helping for the growth of economy while non- performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

Though several banks have been established in our country within short period of time, stable, strong and appropriate investment policy has not been followed by the commercial banks to sufficient return. They have not been able to utilize their funds more effectively and productively. Thus proper utilization of the resources has become more relevant and current issue for the banks. The directions and guidance provided by Nepal Rastra Bank mare the major policy statements for the Nepalese commercial banks. However, along term and published policy about their operation is not found even in the joint venture banks.

The main objective of this study is to evaluate the investment policy of MBL and to suggest measures to improve the investment policy of the bank. This study has been constrained by various common .limitations.

The study is based on the secondary data from F/Y 2004/2005 to 2008/2009. The data have been basically obtained from annual reports and financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Beside this, personal contacts with the bank personnel have also been made.

Financial as well as statistical tools have been deployed in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to investment function of commercial banks i.e. liquidity activity ratio, loans & advances portfolio, profitability ratio and growth ratio have been analyzed and interpreted. Under statistical analysis, some related tools i.e. co-efficient of correlation and trend analysis have been used. This analysis gives clear picture of the performance of the bank with regard to its investment operation.

In this study, the word investment is conceptualized as the investment of income, savings or other collected funds. The term investment covers a wide range of activities. It is only possible where there is an adequate saving. 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.

The primary objective of these commercial banks is always to earn profit by investing or granting loan & advances to people associated with trade, business and industry etc. That means they are required to mobilize their sources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank 1oans support the growth of new business and trade empowering the economic activities of the country.

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

As there has been number of commercial bank established, the research has taken into consideration to single bank only.

“Machhapuchchhre Bank Ltd.” (MBL) was the first commercial bank established in 1998 as the first regional bank to start banking business from the western region of Nepal with its head office in Pokhara.

5.2 Conclusion

Liquidity Ratios

- The current ratio of the bank over five years is 0.70 times on an average during the study period. Although the current ratio of 2:1 is considered as standard, acceptability of the value depends upon the industry. For the banks, a current ratio of 1:l or above would be considered acceptable. Therefore the liquidity position of MBL .is below the normal level.

- Similarly, 44.46% of mean cash & bank balance to current assets ratio shows that around forty five percent of the total current asset is very liquid. 25.84% C.V. shows that the ratios are not so consistent during the study period.
- The cash and bank balance to total deposit ratio is also sufficient to meet the short-term obligation of the bank. The mean cash & bank balance to total deposit ratio of 13.80% shows that the bank has maintained enough liquidity to meet its short term liquidity.
- The investment on government securities to current ratio is 20.15% on an average during the study period, which indicates that the bank has maintained sufficient amount to adequate liquid assets to meet the unexpected future liquidity needs. But the ratios over the study period do not seem consistent during the study period with 43.17% C. V.
- The loan & advances to current assets ratio is 256.04% on an average during the study period, which indicates that the bank has invested more than 2.5 times of current assets as loan & advances. The ratio seems to be volatile during the study period.

Assets Management Ratios/ Activity Ratios

- The mean CD ratio of the bank is 79.31% which is greater than the standard CD ratio. Around 70% of CD ratio is taken as standard. It shows that the bank meets its lending policy on its deposit properly. The ratio seems to be consistent during the study period.
- The mean of loan & advances to working fund ratio is 69.65% in average and the ratios seems to be less variable during the study period. This shows that MBL is satisfactorily utilizing its working fund for the purpose of income generation.

- The mean of investment to total deposit ratio is 11.59% and the ratios are variable. MBL has invested around twelve percent of its total deposits into government securities and shares and debentures of other companies.
- MBL has invested 6.02% of total working fund on government securities in average. The ratios are inconsistent and fluctuating also. So the bank has less investment on risk-free area which has less return also. The inconsistency of the ratios shows that the bank has not specific policy for the investment on government securities. But it has mobilized about six percent of its fund on government securities i.e. low productive and risk free sector.
- The bank has very nominal investment on shares and debentures of other companies. The mean investment is 0.24% during the study period and the ratios are inconsistent with c. v. of 66.67%.

Profitability Ratios

- The return on assets ratios has a fluctuating trend with mean ratio of 0.97% on an average. The C. V. of 37.11% shows that the ratio seems consistent and less variable during the study period.
- The return on loan & advances ratios is in decreasing trend with the mean value of 1.40% in an average. The ratio seems to be less variable and consistent.
- The interest earned to total assets ratios is in fluctuating trend with mean of 2.91% in an average. The ratio during the study period seems to be consistent and less variable.
- The interest earned to total outside assets ratio is found to be 3.83% in an average during the study period. The C. V. of 5.22% indicates that the ratios are consistent. The analysis shows that the MBL has average 3.83% income margin from outside assets. If the margin is higher than cost of fund, the bank will be on profit.

- The interest paid to working fund ratios is in fluctuation trend with 3.27 % in an average during the study period. The ratio seems to be consistent and less variable.

Risk Ratios

- The credit risk ratio of the bank has a fluctuating trend with 69.65% in an average during the study period. The bank has an average lending policy, i.e. it has been utilizing only around 70% of total assets as loan & advances. The ratio seems to be consistent during the study period.
- The capital risk ratio of the bank is in decreasing and suddenly increased in year 2008/2009 with 7.93% in an average during the study period. The ratios seem to be consistent and less variable due to the C. V. of 7.19%.

Growth Ratios

The growth ratio of total deposits during the study period is 29.26% and the amount of deposits is in an increasing trend every year smoothly. The growth rate of investments during the study period is 27.70% with the increasing trend except FY 2008/2009. Similarly, the growth ratio of total loan & advances of the bank during the study period is found to be 25.83% and also is in increasing, trend every year. The net profit of the bank is in fluctuating trend with the net growth rate of 9.78% during the study period.

Hence, the above results show that the bank has been collecting the deposits funds in increasing trend and it has been increasing its loan & advances with similar rate. So, both the sources and uses of fund are in an increasing trend. The investment has also the growth rate of 27.70% with increasing trend which shows that it doing the investment in increasing trend. And it is been achieving its profit through the investments.

Findings from the Correlation Analysis

- The correlation between total deposits and total loan & advances shows that the correlation (r) between deposits and loan & advances of the bank is 0.93

and probable error multiplied by six is found to be 0.24. Since, r >6*P. Er. And is positive and near to 1. So, it is inferred that there is positive correlation between total deposits and loan & advances during the study period.

The increase and decrease of total deposit of the bank strong affects the volume of loan & advances.

- The correlation between total investment and total deposit shows that the correlation coefficient (r) between total deposits and total investment of the bank is 0.65 and probable error multiplied by six is found to be 1.05Since r<6*P. Er., it is insignificant and there is no correlation between total deposit and total investments during the study period in MBL.

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Trend Analysis

The trend analysis of different variables of the MBL shows that the growth rate of deposits are in increasing trend. Other things remaining same, the total deposits of MBL will be Rs.42451.44 million in FY 2013/2014, which is the highest under the study period. And hence the growth rate of loans & advances is also in an increasing trend. Other things remaining same, the loan & advances of MBL will be Rs.32471.43 million in FY 2013/2014, which is the highest under the study period. The total investment of MBL is in an increasing trend. Other things remaining same, total investment of the bank in FY 2013/2014 will be Rs.3655.85 million, which is the highest under the study period. Similarly, Other things remaining same, the net profit of MBL will be Rs.139.16 million, which is the highest under the study period.

5.3 Recommendations

Suggestions help to take corrective actions in their activities in future. On the basis of analysis and findings of the study, following suggestions can be advanced to overcome weakness, inefficiency and for the satisfactory improvement of the present" fund mobilization and investment policy of MBL.

Improve current ratio

Current ratio shows the bank's ability to meet the current obligations. Generally 2:1 is considered as the standard current ratio but for the banks and financial institutions, 1:1 is considered as the standard current ratio. The current ratio of MBL seems to be less than 1, so it is suggested to increase the bank's current ratio as soon as possible as it could impose bad impact on depositors. Once the depositors' confidence is lost, it hard to bring it back.

Maintain Credit Deposits (CD) ratio

The mean credit deposits ratio of MBL during the study period is 79.31% which seems to be higher than the standard ratio. The 70% of CD ratio is considered as standard ratio, so it is suggested that MBL should maintain the CD ratio.

Increase Loans & Advance

The mean of loan & advances to working fund ratio is only 69.65% which shows that MBL is efficient using its working funds. The major source of income and objectives of the bank is interest income by investing or granting loan and advances. So, it is suggested to lend more in the productive sectors to get income from the working fund.

Increase investment in shares and debentures of the other company

The bank has very nominal investment on shares and debentures of other companies. The mean investment is 0.24% during the study period. Banks may invest in shares and securities of anyone organized institution not exceeding 10 percent of the paid up capital of such organized institution. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall capital fund. So MBL is suggested to investment debentures of other companies so it can get either dividend and capital gain after selling those shares and debentures in capital market after holding for some time.

Increase more Deposits

The main source of commercial banks is collecting deposits form public who don't need that fund recently. Without enough deposit collection, banks cannot operate smoothly. The growth rate of the deposits is very low, so it is suggested to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bonds scheme, gift cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme etc.

Liberal Lending policy and sound credit collection policy

Loans & advances are the main source of income and also utilization resources of commercial banks. So, commercial banks must utilize their deposits as loans and advances to get success in competitive banking market. Negligence in administrating these assets could be the cause of liquidity crisis in the bank and one of the main reasons of the bank failure. When the bank grants loan & advances, it must be collected after a certain period. Collection of loan has been the most challenging task for commercial banks these days, increasing on l1on-performing assets discloses the failure of commercial banks in recovery of loan.

Therefore, it is recommended for MBL to follow liberal policy when sanctioning loan & advances with sufficient guarantee and implement a sound collection policy including procedure which rapid identification of bad debtor loans, immediate contact with borrower, continual follow up and as well as legal procedure if required.

Investment vision

The term investment is very important for commercial bank and main function also. Investment means use of their resource in different income sector. The study shows that the trend of investment of MBL is increasing satisfactory level. At the present scenario the bank should invest their resources in productive sector as industry and hydropower which gives good return in long term an contribute to develop national economy as well as bank should reduce to mobilize their capital in unproductive sector as real estate business, housing and vehicle loans. So, MBL is recommended to keep wide vision in investment while utilizing their resources and invest in different areas.

Extend branches over the country

MBL do not have branches in the rural areas of the country except Jomsom. All the branches are limited to the district headquarters or urban areas only. Therefore, MBL is recommended open branches in rural areas too to help in economic development of the country. Government of Nepal has also encouraged the commercial banks to expand banking service in rural areas and communities without making unfavourable impact in their profit.

MBL is taken as the one of the most leading commercial bank in Nepal. It is one of the most successful bank in Nepal with widest network than any other commercial banks in Nepal. Today is the world of competition; the competition is growing day by day in the banking sector. It must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted onto cash whenever needed.

An income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater the credit created by the bank the higher will be the profitability. MBL has achieved a remarkable success in banking sector in terms of market share and profitability compared to joint venture banks because of its reliable and professional services.

MBL is the innovator in introducing many new products such as credit cards, Internet Banking, Anywhere Banking, ATM with Any branch banking, Tele banking. Due to their prompt and quality services MBL has achieved its remarkable success in banking sector and has proved its high status in the eye of public. MBL has been improving its performance from very beginning since its establishment.

The bank is recognized as a premier financial institution in Nepal in terms of its range and quality banking services, human capital, asset quality and in come. After one decades of operation the bank has clearly exhibited that through consistently keeping its philosophy and its customers at the core of its business it stands today as the premier bank in the country, poised to be the Bank of 1st choice to all its stakeholders, going forward. MBL today is full service bank in every sense, able to meet the entire large range of financial requirements of its customers. To achieve, its mission, MBL has set its values of Customer Focused, Result Oriented, Innovative, Synergistic and Professional.

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Appendices

A. Growth Ratios

A .l Growth Ratio of Total Deposit

A.1. Growth Ratio of Total Deposit (Rs. In Million)

Bank / FY	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Rate
MBL	5586.80	7893.30	9475.45	11102.24	15596.79	29.26%

Source: Annual Report of MBL 2004/05 to 2008/09

Growth rate can be calculated as follows:
Here,
Dn. = total deposit in nth year
Do = total deposit in initial year
g = growth rate
We have,

$Dn. = Do(l+g)^n$

$D_{2008/2009} = D_{2004/2005}(1+g)^{5-1}$

$15596.79 = 5586.80(1+g)^4$

$1+g = 1.2926$

$g = 29.26\%$

A .2 Growth Ratio of Total Investment

A.2 Growth Ratio of Total Investment (Rs. In Million)

Bank / FY	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Rate
MBL	468.61	1191.37	1278.47	1443.55	1246.16	27.70%

Source: Annual Report of MBL 2004/05 to 2008/09

Growth rate can be calculated as follows:
Here,
Dn. = total deposit in nth year
Do = total deposit in initial year
g = growth rate
We have,

$Dn. = Do(l+g)^n$

$D_{2008/2009} = D_{2004/2005}(1+g)^{5-1}$

$1246.16 = 468.61(1+g)^4$

$1+g = 1.2769$

$g = 27.70\%$

A .3 Growth Ratio of Loans & Advances

A.3 Growth Ratio of Loans &Advances (Rs. In Million)

Bank / FY	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Rate
MBL	4982.08	5956.35	7085.43	8554.09	12489.62	25.83%

Source: Annual Report of MBL 2004/05 to 2008/09

Growth rate can be calculated as follows:
Here,
Dn. = total deposit in nth year
Do = total deposit in initial year
g = growth rate
We have,

$$Dn. = Do(l+g)^n$$

$D_{2008/2009} = D_{2004/2005}(1 +g)^{5-1}$
$12489.62 = 4982.08(1+g)^4$
$1+g = 1.2583$
$g = 25.83\%$

A.4 Growth Ratio of Net Profit

A.4 Growth Ratio of Net Profit (Rs. In Million)

Bank / FY	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	Growth Rate
MBL	84.87	134.00	74.06	85.02	123.25	9.78%

Source: Annual Report of MBL 2004/05 to 2008/09

Growth rate can be calculated as follows:
Here,
Dn. = total deposit in nth year
Do = total deposit in initial year
g = growth rate
We have,

$$Dn. = Do(l+g)^n$$

$D_{2008/2009} = D_{2004/2005}(1 +g)^{5-1}$
$123.25 = 84.87(1+g)^4$
$1+g = 1.09776$
$g = 9.78\%$

B. Coefficient of Correlation Analysis

B .1 Coefficient of correlation between total deposit and total investment

B.1 Coefficient of correlation between total deposit and total investment

FY	Deposit (X)	Investment (Y)	$x = (X-\overline{X})$	$y=(Y-\overline{Y})$	xy
2004/2005	5586.80	468.61	-4344.11	-657.02	2854167.15
2005/2006	7893.29	1191.37	-2037.62	65.74	-133953.14
2006/2007	9475.45	1278.47	-455.46	152.84	-69612.51
2007/2008	11102.24	1443.55	1171.33	317.92	372389.23
2008/2009	15596.79	1246.16	5665.88	120.53	682908.52
	X = 9654.57	Y = 5628.16			xy = 3705899.25

Source: Annual Report of MBL 2004/05 to 2008/09

$\overline{X}$ = 9930.91, $\overline{Y}$ = 1125.63

∃x = 3367.64,   ∃y = 339.10

$$\text{Coefficient of correlation (r)} = \frac{xy}{N∃x∃y}$$

$$= \frac{3705899.25}{5 \times 3367.64 \times 339.10}$$

$$= 0.65$$

$$\text{P.Er.} = \frac{0.6745 \times l\text{-}r^{2.}}{N}$$

$$= \frac{0.67458 \times (1\text{-}0.65^2)}{5}$$

$$= 0.175$$

6P.Er. = 6 x 0.175

= 1.05

B .2 Coefficient of correlation between total deposit and loan & advances

B.2 Coefficient of correlation between total deposit and loan & advances

FY	Deposit (X)	Loan & Advances (Y)	x = (X-$\overline{X}$)	y = (Y-$\overline{Y}$)	xy
2004/2005	5586.80	4982.08	-4344.11	-2831.43	12300043.38
2005/2006	7893.29	5956.35	-2037.62	-1857.16	3784186.36
2006/2007	9475.45	7085.43	-455.46	-728.08	331611.32
2007/2008	11102.24	8554.09	1171.33	740.58	867463.57
2008/2009	15596.79	12489.62	5665.88	4676.11	26494278.13
	X = 9654.57	Y = 5628.16			xy = 43777582.76

Source: Annual Report of MBL 2004/05 to 2008/09

$\overline{X}$ = 9930.91, $\overline{Y}$ = 7813.51

∃x =3367.64,   ∃y = 2623.38

$$\text{Coefficient of correlation (r)} = \frac{xy}{N∃x∃y}$$

= 43777582.76

$$5 \times 3367.64 \times 2623.38$$

$= 0.93$

P.Er. = $\frac{0.6745 \times 1 - r^{2}}{N}$

$= \frac{0.67458 \times (1-0.93^2)}{5}$

$= 0.04$

6P.Er. = 6 x 0.04

$= 0.24$

B .3 Coefficient of correlation between total outside asset & net profit

B.3. Coefficient of correlation between total asset & net profit

FY	Total Asset (X)	Net Profit (Y)	$x = (X-\overline{X})$	$y = (Y-\overline{Y})$	xy
2004/2005	5118.71	84.87	-3383.77	-15.37	52008.54
2005/2006	6870.12	134.00	-1632.36	33.76	-55108.47
2006/2007	8046.00	74.06	-456.48	-26.18	11950.65
2007/2008	9440.74	85.02	938.26	-15.22	-14280.32
2008/2009	13036.82	123.25	4534.34	23.01	104335.16
	X = 2512.39	Y = 501.2			xy = 98905.56

Source: Annual Report of MBL 2004/05 to 2008/09

$\overline{X} = 8502.48$, $\overline{Y} = 100.24$

∃x = 2674.45, ∃y = 23.76

Coefficient of correlation (r) = $\frac{xy}{N∃x∃y}$

$= \frac{98905.56}{5 \times 2674.45 \times 23.76}$

$= 0.31$

P.Er. = $\frac{0.6745 \times 1 - r^{2}}{N}$

$= \frac{0.67458 \times (1-0.31^2)}{5}$

$= 0.27$

6P.Er. = 6 x 0.27

= 1.62

C. Trend Analysis

C.1 Trend Analysis of Total Deposit of MBL (Rs. in Million)

Year (t)	Total Deposit (y)	x = t-2006.5	x^2	xy	y_{c} = a+bx
2004/2005	5586.80	-2	4	-11173.60	639.33
2005/2006	7893.29	-1	1	-7893.29	5285.12
2006/2007	9475.45	0	0	0	9930.91
2007/2008	11102.24	1	1	11102.24	14576.70
2008/2009	15596.79	2	4	31193.58	19222.49
	y = 49654.57		x^2 = 10	xy = 23228.93	

Source: Annual Report of MBL 2004/05 to 2008/09

N = 5

$a = \frac{y}{N} = \frac{49654.57}{5} = 9930.91$

$b = \frac{xy}{N} = \frac{23228.93}{5} = 4645.79$

Projected Trend value of total Deposit of MBL (2009/2010 - 2010/2014)

Year (t)	x	yc = a+bx
2009/2010	3	23868.28
2010/2011	4	28514.07
2011/2012	5	33159.86
2012/2013	6	37805.65
2013/2014	7	42451.44

The eq^n. the straight line trend is yc = a+bx

yc = 9930.91 + 4645.79x

C .2Trend Analysis of Loans & Advances

C.2 Trend Analysis of Loans & Advances of MBL (2009/2010 - 2010/2014)

(Rs.in Million)

Year (t)	Total Loans & Advances (y)	x = t-2006.5	x^2	xy	yc = a+bx
2004/2005	4982.08	-2	4	-9964.16	768.39
2005/2006	5956.35	-1	1	-5956.35	4290.95
2006/2007	7085.43	0	0	0	7813.51
2007/2008	8554.09	1	1	8554.09	11336.07
2008/2009	12489.62	2	4	24979.24	14858.63
	y = 39067.57		$x^2 = 10$	xy = 7612.82	

Source: Annual Report of MBL 2004/05 to 2008/09

N = 5

$$a = \frac{y}{N} = \frac{39067.57}{5} = 7813.51$$

$$b = \frac{xy}{N} = \frac{17612.82}{5} = 3522.56$$

Projected Trend value of Loan & advances of MBL (2009/2010 - 2010/2014)

Year (t)	x	yc = a+bx
2009/2010	3	18381.19
2010/2011	4	21903.75
2011/2012	5	25426.31
2012/2013	6	28948.87
2013/2014	7	32471.43

The eq^n. the straight line trend is yc = a+bx

yc = 7813.51 + 3522.56x

C .3 Trend Analysis of Total Investment

C.3 Trend Values of Total Investment of MBL (2009/2010 - 2010/2014)

(Rs. in Million)

Year (t)	Total Investment (y)	x = t-2001.5	x^2	xy	yc = a+bx
2004/2005	468.61	-2	4	-937.22	1545.37

2005/2006	1191.37	-1	1	-1191.37	3044.87
2006/2007	1278.47	0	0	0	4544.38
2007/2008	1443.55	1	1	1443.55	6043.88
2008/2009	1246.16	2	4	2492.32	8834.96
	y = 5628.16		x^2 = 10	xy = 1807.28	

Source: Annual Report of MBL 2004/05 to 2008/09

N = 5

$$a = \frac{y}{N} = \frac{5628.16}{5} = 1125.63$$

$$b = \frac{xy}{N} = \frac{1807.28}{5} = 361.46$$

Projected Trend value of Total Investment of MBL (2009/2010 - 2010/2014)

Year (t)	x	yc = a+bx
2009/2010	3	2210.01
2010/2011	4	2571.47
2011/2012	5	2932.93
2012/2013	6	3294.39
2013/2014	7	3655.85

The eq^n. the straight line trend is yc = a+bx

yc = 1125.63 + 361.46x

C .4 Trend Analysis of Net Profit

C.4 Trend Values of Net Profit of MBL(Rs. in Million)

Year (t)	Net Profit (y)	x = t-2001.5	x^2	xy	yc = a+bx
2004/2005	84.87	-2	4	-169.74	89.12
2005/2006	134.00	-1	1	-134.00	94.68
2006/2007	74.06	0	0	0	100.24
2007/2008	85.02	1	1	85.02	105.80
2008/2009	123.25	2	4	246.50	111.36
	y = 501.2		x^2 = 10	xy = 27.78	

Source: Annual Report of MBL 2004/05 to 2008/09

N = 5

$$a = \frac{\sum y}{N} = \frac{501.2}{5} = 100.24$$

$$b = \frac{\sum xy}{N} = \frac{27.78}{5} = 5.56$$

Projected Trend value of Net Profit of MBL (2009/2010 - 2010/2014)

Year (t)	x	yc = a+bx
2009/2010	3	116.92
2010/2011	4	122.48
2011/2012	5	128.04
2012/2013	6	133.6
2013/2014	7	139.16

The eq^n. the straight line trend is yc = a+bx

yc = 100.24 + 5.56x