

CHAPTER- I

INTRODUCTION

1 Background Of The Study

Nepal is a landlocked country, situated in the lap of Himalayas, lies between two giant countries India and China. Nepal is one among the least developed countries. To develop the country economic growth is necessary. Thus, the primary goal of any nation is to embark upon the path of economic development by economic growth rate and developing all sectors of economy.

Naturally Nepal is the rich country, the reason behind Nepal's underdeveloped economy is not due to the lack of resources but it is due to lack of proper utilization of the available resources. Lack of proper skilled manpower, infrastructure, technology, financial support, government policies and corporate culture is the main reason. The mobilization of the domestic resources is one of the key factors in the development of the country. The well-organized financial system of a country plays a great role in the economic development of that country, as it transfers financial resources from savers to those who need them. As part of the financial system, financial institutions such as commercial banks, finance companies and financial co-operative are important vehicles for economy growth.

Bank is the financial institution who collects immobilized money in the form of deposits from every corner and parts of the country and this will provide capital for the development of the industry, trade and business and other resources deficit sectors. The modern age is the business competition

age. In every business financing activities is very important part. The bank can play a vital role for the financing activities in the business. The saving and investment is most necessary for the developing country, which can be managed by the banks. Capital accumulation also plays a vital role to accelerate the economic growth of the developing countries; which is quiet low with a relatively higher marginal propensity of consumption. As a result, such countries are badly trapped into the vicious circle of poverty. Therefore, the basic problem for developing countries will be to raise the level of saving and investment.

The modern age is the competition age. Due to the competition the bank must follow the sound investment policy. Investment is the application of money for earning more money. It means the use of money at present to earn income or profit for future. Investment in financial sense is placing of money in the other for their use expecting a return or participation in expected profits. Investment means utilized for buying financial assets, for example stocks, bonds, bullion, real properties, and precious items. It is the act of proper utilization of funds to be mobilized so that achievement of a high return could be ensured.

In commercial sector, investment is the use of fund at present for benefit in the future. There is the sacrifice of present consumption of fund for earning more in the future. Taxes, inflation, depression, labor relations, government action and countless other social phenomena affect the productivity and value of invested saving. All the above term create problem in investment. Therefore, an amount of technical information on financial matters is necessary.

Investment has to undergo various types of risk, e.g. Business risk like possibility of being weak in earning power of investment due to competition, uncontrollable costs, change in market demand etc. and Market risk like possibility of strong change in market price and collateral value of securities and real properties etc. All the investor does not achieve success. Therefore, simply making an investment is not sufficient. One should also follow sound investment policy.

The term investment has primary significance in financial sector, which refers to the process of determining the proper area in order to lodge a firm's fund to procure expected gain or profit known as a favorable return by its maximum utility at minimized risks. According to the investor's view, there must be a compulsory return on their investment but there may be unfavorable situations so that investor may incur loss. However, investment is the act of proper utilization of funds to be mobilized so that achievement of a high return could be ensured.

The banks collect deposit from depositors and invest it in various sectors. Investment policy is the overall spectrum of policies that guide bank's investment operations. The success of bank depends upon its investment policy. The sound investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. If the banks will apply the sound investment policy that secure to competition and to take competitive advantage. A sound investment policy is not only pre-requisite for bank's profitability but also crucially significant for the promotion of commercial savings of a backward country like Nepal. Feature of sound investment policy is safety, liquidity, security, diversification, and profitability.

1.1 Banking History of Nepal

A simple form of banking was practiced by the ancient temple of Egypt, Babylonia, and Greece, which loaned at high rates of interest the gold and silver deposited for safekeeping. Private banking existed by 600 BC and was considerably developed by the Greeks, Romans and Byzantines. Medieval banking was dominated by the Jews and Levantines because of the strictures of the Christian Church against interest and because many other occupations were largely closed to Jews. The forerunners of modern banks were frequently charge red for a specific purpose.

“The origin of the word “Bank” is linked to Latin word “Bancus”, which means a beanch, Italian word “Banca” meaning a bench, French word “banque” meaning a bench. Sinch there is no unanimity, it difficult to say exactly from which of these words the term “Bank” has been derived form. Bank of Venice, set up in 1171 in Venice, Italy is regarded as the first modern bank. Subsequently, Bank of Barcelona (1401) and Bank of Genoa (1407) were established, The Bank of Amsterdm (1609), The Bank of England (1694), The Bank of Hindustan established in 1770 is regarded as the first bank in India. The real growth of banks accelerated only after the introduction of the Banking Act-1833.” (<http://www.answers.com>)

In Nepal development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. In involvement of landlord, rich merchants shopkeepers and other individual money holder has acted as fence to institutional credit in presence of unorganized money market. In Nepalese chronicle it was recorded that the new era known as Nepal sambat was introduced by Shankhadhar Sakwa, a

sudra merchant of Kantipur in 879 or 880 A.D after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal. Towards the end of 8th century, Gunkamdev had borrowed money to rebuild the Kathmandu valley since 780 BC. Mall regime was an evidence of banking activities. It is beloved that financing for foreign trade with Tibet became quite popular during the regime of malla. However the absence of regulatory measures money lenders were known to have charged high rate of interest and extra on loans.

When “Tejarath adda” established during 1877 A.D. it play vital role in banking system as regulatory and promotional organ. It did not collect deposits from the public but gave loans to government employees. It was only in Kartik 30, 1994 B.S that the first commercial bank was established with the name of Nepal Bank Ltd (NBL) as a semi- government organization. NBL had a responsibility of attracting people towards banking sector from pre-dominant moneylender’s net and of expanding banking services. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban centers. In Baishakh 14, 2013 B.S., Nepal Rastra bank (NRB) was established as a central bank under Nepal Rastra Bank Act 2012 B.S. Since then, it has been functioning as the government’s bank and has contributed to the growth of financial sector.

Integrated and speedy development of the country is possible only when competitive banking service reaches nooks and corners of the country. Keeping this in mind, government set up Rastriya Banijya Bank (RBB) in B.S. 2022 as a fully government owned commercial bank under Commercial Bank Act 2021 B.S.

As the name suggests, commercial banks are to carry out commercial transactions only. But they also had to carry out the functions of all types of financial institutions. HeOnce, Industrial Development Centre (IDC) was set up in B.S. 2013 for industrial development. In 2016, IDC was converted to Nepal Industrial development Corporation (NIDC). Similarly, Agricultural Development Bank (ADB) was established in B.S. 2024 to provide finance for agricultural produces so that agricultural productivity could be enhanced by introducing modern agricultural techniques. With the establishment of RBB and ADB, banking services spread to both urban and rural areas. This helped the common people reduce their burden of paying higher rate of interest to the moneylenders.

On the long run commercial bank act was felt. According it was established in 2021 B.S, the commercial bank Act 2032 B.S was established. In 2041 B.S established the Nepal Arab Bank Limited (Nepal) was the pioneer Joint Venture Banks of Nepal making the history of joint venture banks. In 2043 B.S the second joint venture bank, Nepal Indosuez Bank Ltd (currently Nepal Investment Bank Ltd) was established and same year; Nepal Grendlays Bank Ltd (currently Standard Chartered Bank Nepal Ltd.) in the form of joint venture bank was also established. The establishment of joint venture bank gave a new horizon to the financial sectors of the country. They are expected to enter foreign capital, technology, experiences, healthy competitive concept, expertise and skills in the management of Nepalese commercial banks.

The banks and financial institutions licensed by NRB are classified as A, B, C and D class institutions. Commercial banks are A class institutions, whereas development banks are categorized as B, finance companies as C and micro finance development banks as D. There are some Co-operatives

and Non-Government Organizations licensed or limited financial activities as non classified financial institutions. Due to the liberal licensing policy adopted by Nepal Rastra bank in the past, the number of banks and financial institutions has increased tremendously in the few years. Besides, there are significant numbers of co-operatives and postal saving offices that undertake limited banking and near banking financial services. Similarly, substantial amount of financial assets is created by non-bank financial sector; which comprises saving funds and trusts like Employee Provident Fund, Citizen Investment Trusts and insurance companies in the Nepalese financial system. Consequently, by the end of Mid- January 2010, altogether 254 banks and non-bank financial institutions licensed by NRB are in operation. Out of them, 26 are “A” class commercial banks, 73 “B” class development banks, 78 “C” class finance companies, 17 “D” class micro-finance development banks, 16 saving and credit co-operatives and 45 NGOs. The number of commercial bank branches operating in the country increased to 850 in mid- January 2010 from 752 in mid July 2009. By the end of Mid- January 2010, total 430 branches region. However, in the western, eastern, mid- western and far- western region are 18.94 percent (161), 17.56 percent (150), 7.41 percent (63) and 5.41 percent (46) respectively. *(Source: Banking and Financial Statistics (Mid-Jan2010, No. 54)*

1.2 Brief Profile of the Concerned Banks

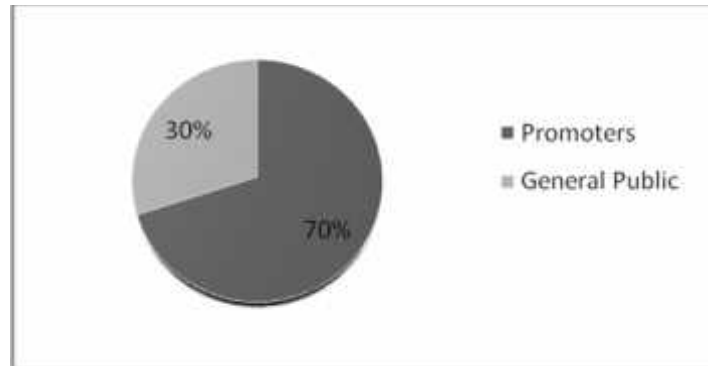
Among the twenty six licensed commercial banks, a brief profile of two (2) selected banks is presented below:

1.2.1 Kumari Bank Limited

KBL Limited is fifteenth commercial bank of Nepal. It was starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an

objective by of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1,186,099,200.00 of which 70% is contributed from promoters and remaining from public

Figure 1.1
Shareholder Pattern of KBL



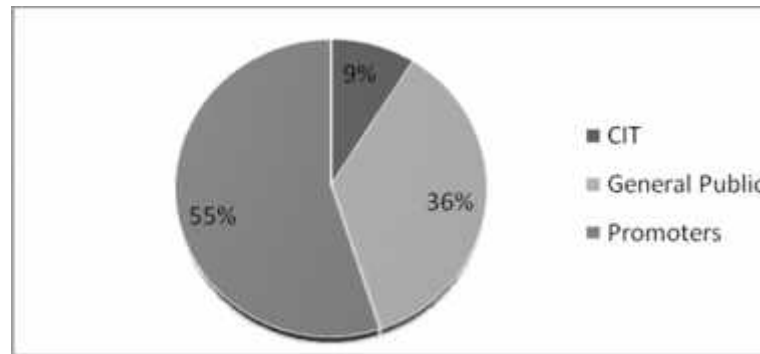
KBL Ltd has been providing wide-range of modern banking services through 22 points of representations located in various urban and semi urban part of the country, 13 outside and 9 inside the valley. The bank is pioneer in providing some of the latest lucrative banking services like E-Banking and SMS Banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value.

The key focus of the bank is always center of serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

1.2.2 Laxmi Bank Limited

LBL was incorporated in April 2002 as the 16th commercial bank in Nepal. The current shareholding constitutes of promoters holding 55.42 percent, Citizen Investment 9.02 percent and the general public holding 35.56 percent. Promoters represent Nepal's leading business families with diversified business interests. The Bank's shares are listed and actively traded in the Nepalese Stock Exchange.

Figure 1.2
Shareholder pattern of LBL



LBL has grown with branches in Birgunj, Banepa, two in Pokhara, Biratnagar, Narayanghat, Pulchowk, Lalitpur, Teku, New Road, Janakpur, New Baneshwor, Damak, Bhatbhateni, Itahari, Maharajgunj and Bhairahawa. Following the merger with Hisef Finance Ltd decade old first generation finance company, its office in Hattisar, Kathmandu was converted to that of LBL.

1.3 Statement of Problems

From the point of view of financial sectors, banks and shareholders, the term “**investment**” is the most important word of the world. No doubt, commercial banks are the Kingpins in the economic sector of a country;

however they have to face a number of problems due to increasing competition and commercial complexity in global prospective.

Appropriate investment, which follows smooth operation, sufficient dividend to the shareholders, optimum service to customers, motivation to personnel, are the most important factors to each commercial bank. Several commercial banks and financial institutions have been established in a short period of time, but most of them are unable to earn sufficient return on investment. There is a lack of sound investment policy.

Similarly, there is an unhealthy competition among the banks to attract and retain the new and old customers respectively. In this regard, they have compromised on security aspects and sanctioned loans to customers beyond customers' real requirement. In the long run, it will prove very costly to both borrowers and the bank.

All the banks do not have expert lending officials and loans / investment are being made without proper analysis of risks. Since loan is the risky asset, proper appraisal of the project is a must. Similarly, shrinkage in the value of investment portfolio erodes capital of the bank.

There is also lack of effective investment diversification. Banks are not serious towards research and development. Sometimes, their loan portfolio is diversified while sometimes concentrated. They are unable to foresee the profitable areas and act accordingly. Moreover, banks in Nepal are copying the products of international marketing, that too, very late. They do not have vision to activate money market of the country by launching products that suits our requirement.

In the context of Nepalese commercial banks, the investment policies have not been formulated in the clear view of an organizational manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. Furthermore, the implementation of the policies is not in an effective way. Thus, there are many dimensions to be considered. This study basically deals with the following issues of the banks:

- Commercial banks are considered efficient but how far are they efficient.
- Relationship of investment and loan and advances with total deposits and net profits.
- Whether these commercial banks are able to meet obligations.
- Fund mobilization and investment policy are effective and efficient or not?
- Are they maintaining sufficient liquidity position or not?

1.4 Objective Of The Study

The objective of the study is to assess the investment policy and strategy followed by the commercial bank in Nepal. In this study with reference to selected 2(Two) bank, they are LBL Limited and Kumri Bank Limited. The main objective of this study is comparatively evaluating the investment policy of those 2 (Two) banks and to recommend corrective measures, if any, in order to improve its performance. Besides, these may be other objectives too.

1. Analyze the investment policy of those 2 (Two) banks
2. Evaluate liquidity, activity and profitability ratios.
3. Analyze relationship of loan and advances, and total investment with total deposits and net profit.

4.To know the growth rate of bank in terms of deposits, loans and advances, investment and profit of bank.

5.Provide suggestions and recommendations on the basis of findings.

1.5 Limitation of the Study

This study will be limited by the following factors:

- This study concentrates only on those factors that are related with investment.
- This study is based on the secondary data.
- The whole study is based on the data of five years and the conclusion drawn confines to these periods only
- The truth of research result is based upon the available data from the bank.

1.6 Organization of the Study

The whole study is divided into five chapters.

First Chapter

The first chapter is the introductory chapter. It consists of general background, statement of problems, objective of the study, importance of the study, limitations of the study and organization of the study.

Second Chapter

The second chapter deals with the review of literature, which consist of conceptual framework and review of relevant research studies.

Third Chapter

This chapter is concerned with the research methodology used in this study. It includes research design, sources of data, population and sample and methods of analysis.

Fourth Chapter

This chapter is the heart of the study. This chapter is the interpretation, which includes the analysis of different financial and statistical tools to drawn out the conclusion and findings.

Fifth Chapter

The fifth chapter is associated with the summary, conclusion and recommendations. The bibliography and appendices are also included as supplements to the above chapters.

CHAPTER II

REVIEW OF LITERATURE

2 Introduction

Every study is based on past knowledge. The previous study cannot be ignored because they provide the foundation to the present study. Review of Literature means reviewing research studies. It is an analytical expression on the concerned topic. Review of Literature refers to the analyzing, assessing, reevaluating and re-examining the previously written works. Thus, in the preparation of this thesis various books, articles, thesis etc has been consulted and reviewed. This chapter is further divided into conceptual framework and review of related studies.

2.1 Conceptual Framework

2.1.1 Commercial Bank

A commercial bank is a type of financial intermediary and a type of bank. It is also known as business banking. It is a bank that provides checking accounts, savings accounts, and money market accounts and that accepts time deposits.

“The term "commercial" was used to distinguish it from an investment bank. The primary difference between a commercial bank and its counterpart is that a commercial bank earns revenue by issuing primary loans from its pool of deposits while an investment bank brings debt and equity offerings to market for a fee. Since the two types of banks no longer have to be separate companies, some have used the term "commercial

bank" to refer to banks that focus mainly on companies. In some English-speaking countries outside North America, the term "trading bank" was and is used to denote a commercial bank. During the great depression and after the stock market crash of 1929, the U.S. Congress passed the Glass-Steagal Act 1933-35 (Khambata 1996) requiring that commercial banks engage only in banking activities (accepting deposits and making loans, as well as other fee based services); whereas investment banks were limited to capital markets activities. This separation is no longer mandatory. It raises funds by collecting deposits from businesses and consumers via checkable deposits, savings deposits, and time (or term) deposits. It makes loans to businesses and consumers. It also buys corporate bonds and government bonds. Its primary liabilities are deposits and primary assets are loans and bonds.” (Source: <http://www.answers.com>).

“Commercial banking can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to normal individual members of the public” (Source: <http://www.answers.com>)

“Commercial banks are the largest source of finance and its business is largely confined to business institutions. Hence, the name is termed as commercial banks. Though the commercial banks were established with the concept of supplying short term credit and working capital needs of the industries, they started to provide long-term loan for up to 10 years by the provision made in commercial bank Act 1974. After the enforcement to lend in priority and deprived sector, these banks initiated to provide credit to small and cottage industries, agriculture and services etc.” (Source: *Hriday Bir Singh (2009), “Banking and Insurance, Page 6”*)

“Commercial bank is an entity, which accepts deposits and makes short-term loans to business enterprises, regardless of the scope of its other services.”(*Source: American Institution of Banking, 1972*)

"The business of banking is collection of funds from the community and extension of credit to people for useful purposes. Banks have played a pivotal role in making money from lenders to borrowers. Banking is a profit seeking business, not a community to carry profit seeker, expected to pay dividend and otherwise, add to wealth of shareholders"(*Source: Ronald Grywinshki, the New Fashioned Banking (Harvard Business review: 1993)*)

“A commercial bank means bank which deals in exchange currency, accepting deposit, giving loans and doing commercial transactions.”(*Source: Commercial Bank Act 1974, Nepal*)

Commercial bank is a financial institution which, collect money from depositors as deposits and invest it as a loan for profit motive. It is also known as business banking. It is a bank that provides checking accounts, savings accounts, and money market accounts and that accepts time deposits. It helps other financial institutions like industrial bank, development bank, agriculture bank, co-operative, hire purchase companies and finance companies in various aspects. Commercial banking can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to normal individual member of the public. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban centers.

2.1.2

Commercial Bank In Nepal

In Nepalese financial history, in Kartik 30, 1994 BS Nepal bank Ltd was established as a first commercial bank which is semi government organization. Nepal Bank Ltd responsibility of attracting people towards banking sector from pre-dominant money lender's and expanding banking services. In BS 2022 Rastriya Baniya Bank was established as a fully government owned commercial bank under Commercial Bank Act 2021 BS. As the name suggests, commercial banks are to carry out commercial transactions only. But they also had to carry out the functions of all types of financial institutions. Commercial banking Act 2032 BS was amended in 2041 BS to increase competition between commercial banks. So, provision was made to allow private sector including foreign investment to open commercial banks. As a result, Nabil Bank Ltd the then Nepal Arab Bank Ltd was established in 2041 BS as a first joint venture bank with the partnership of Dubai Bank Ltd.,Dubai. In 2043 B.S the second joint venture bank, Nepal Indosuez Bank ltd (currently Nepal Investment Bank Ltd) was established and same year; Nepal Grendlays Bank Ltd (Currently Standard Chartered Bank Nepal Ltd.) in the form of joint venture bank was also established. The establishment of joint venture bank gave a new horizon to the financial sectors of the country. They are expected to enter foreign capital, technology, experiences, healthy competitive concept, expertise and skills in the management of Nepalese commercial banks. After the adoption of economic liberalization policy, particularly the financial sector liberalization that paved the way for establishment of new banks and non-bank financial institutions in the country. Consequently, by the end of Mid – January 2010, altogether 254 banks and non- bank financial institutions licensed by NRB are in operation. Out of them, 26 are “A” class commercial banks, 73 “B” class development banks, 78 “C”

class finance companies, 17 “D” class micro-finance development banks, 16 saving and credit co-operatives and 45 NGOs.

The number of commercial bank branches operating in the country increased to 850 in Mid – January 2010 from 752 in mid July 2009. Among the total bank branches, 50.59 percent bank branches are concentrated in the central region alone. By the end of Mid – January 2010, total 430 branches are being operating in this region. However, in the western, eastern, mid-western and far- western region are 18.94 percent (161), 17.65 percent (150), 7.41 percent (63) and 5.41 percent (46) respectively. (*Source: “Banking and Financial Statistics-No 54 January 2010 - Part I”*)

2.1.3 Investment

Generally, investment is the application of money for earning more money. It means the use of money to earn income or profit. The term also refers to the expenditure of funds for capital goods-such items as factories, farm equipment, livestock, and machinery. Most people invest part of their income for future financial gain. It means sacrifice of money today for future earnings and resources.

The word "investment" can be defined in many ways according to different theories and principles. It is a term that can be used in a number of contexts. However, the different meanings of "investment" are more alike than dissimilar.

According to economics, investment is the utilization of resources in order to increase income or production output in the future. Investment refers to

any physical or tangible asset, for example, a building or machinery and equipment.

According to the business theories, investment is that activity in which a manufacturer buys physical assets, for example, stock or production equipment, in expectation that will help the business to prosper in the long run.

Investment in financial sense is placing of money in the other for their use expecting a return or participation in expected profits. Investment means utilized for buying financial assets, for example stocks, bonds, bullion, real properties, and precious items. It is the act of proper utilization of funds to be mobilized so that achievement of a high return could be ensured.

According to Jones “investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with managing an investor’s wealth, which is the sum of current income and present value of all future incomes” (*Jones, 1991*)

According to William F. Shape, Gordon J. Alexander and Jeffery V. Baily. "Investment is in broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved time and risk. The sacrifice takes places in the present and its magnitude generally are certain" (*Shape Alexander and Baily, 1998*)

From the above definitions, we can say that investment means use of money today by expecting more income in future. If someone invests his fund today, he will get financial benefit in the future from the mobilization of his fund. The value of money in future is increased than the current

value, for the expected change in price during the period and for the uncertainty involved in cash flow. So, it is clear that investment is the mobilization of funds today with expected additional return in future but the return maybe negative also, if wrongly invested without sound knowledge of investment and their related factors.

Dr. (Mrs.) Preety Singh has defined investment in this way, “Investment is the employment of funds with the aim of achieving additional income or growth in value.” *Dr. Preety Singh*

So it clarify that investment means sacrifice of money today for future profit by maximum utilization of fund and resources to minimized risk .In other words, it is a commitment of money and resources that are expected to generate additional money and resources in the future. Future is uncertain; Investment is related to future return, so the investment is also uncertain. Therefore, investment always involves risk. So the risk must be minimized by utilization of maximum resources and fund.

2.1.4 Features Of Sound Investment Policy

The main goal of commercial bank is profit. The bank collects money as a deposit from depositors and it's invested as loan. Different between the interest of deposit and loan is called profit of bank. Profit is depends upon its sound lending procedure and invest policy. The greater the credit created by the bank, the 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 backward country like Nepal.

Shakespeare Baidya, has given his view on sound investment policy. He said that, “A Sound investment policy of a bank is such that its funds are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and bank on the other hand, Moreover risk in banking sectors trends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal manipulation of loan misguided lending policy or unexpected economic downturn. So the bank investment policy must be such that it is sound & prudent in order to protect public funds.”(Shakespeare Baidya, “*Banking Management*” 1997; 44)

Some required features for sound lending and investment policies which most of the banks must consider could be explained as under:

a) Safety

It is important factor of sound investment policy of bank. The bank must be invested in safety sector. The bank loan should be granted only to reliable borrowers. . It must be ensured that the reputation of the borrower is impeccable in the business community. It must not invest funds into speculative businessman who may be bankrupt at once and who may earn millions in a minute also. A good banker should know his customers and be able to judge not only his integrity but also his ability to use the bank’s money to his advantage and repay it within the stipulated period.

Banks collect money from the depositors, who are general public and business person. Banks should assure the depositors the guarantee of safety of their money. When the debtors of the banks do not repay the loans in time and it loses on its investments, the bank shall become insolvent. In this

condition depositors will not be assuring of safety of their money. So banks should always pay adequate attentions to conform that the loan proposal is safe enough to advance loan. Bank should not advance loan even if it generates interest in higher rate, if the loan proposal is doubtful. By all means, the loan extended by the bank, must be safe and secured. The banker is only a custodian of deposits of the public. Hence, the banker must ensure that the advance made is not only on safe hands but also remains so, throughout the period of lending and is repaid with interest when it is due. In this way, the safety is the prime factor for the smooth operation of banks.

b) Liquidity

Liquidity means payable capacity of depositors demand. It is the position of the firm to meet current or short-term obligations. It is the life-blood of banking system, without which, the existence of banks is out of question. It is essential for a sound banking system. General public or customers deposit their savings at the bank in different accounts with full of confidence of repayment by the banks whenever they require. In order to retain good credit standing and trust and confidence of its customers every banks must maintain enough liquidity to meet its various obligations. . Central banks have made it obligatory on the commercial banks to keep a certain proportion of their assets in cash to endure liquidity. This provision specifies the essentiality of liquidity for a bank.

c) Profitability

Profit is major objective of the commercial bank, which influences the banking activities. A sound banking system should be able to earn sufficient profit. They have to pay the corporation tax like any other company, pay interest to its depositors, dividend to share holders, salaries to the staff and meet other expenses. Default risk is always high in the

banking business as banks deal in loans and advances. Loan loss provisioning is maintained according to the classification of loans. Banks have to make provision for depreciation of fixed assets. Profit alone ensures all such expenses. So unless the bank earns, it cannot operate soundly. The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different sector. Commercial bank can maximize its volume of wealth through maximization of return on their investment and lending. So, they must invest their fund where they gain maximum profit and secured sector.

d) Purpose Of Loan

Purpose of loan is very important of bank. Banks should always pay adequate attentions to conform that the loan proposal is safe enough to advance loan. It is very important to be reminded that most of the bank failures in the world are due to shrinkage in the value of loan and advances. The substantive question a banker is; “**why is a customer in need of loan?**” This is a very important question for a banker. The banker must examine is how loan proceeds will be used. Bankers allow loans and advances to the customers only for productive purposes and not for hoarding or for speculative activities. If borrower misses use the loan granted by the bank, they can never repay which affected bank will possess heavy bad debts. The business of the borrower should be a legal one and in consonance with the government’s policies. If the client is involved in a business, which is against the government’s policies, against the environmental policies or which may bring health hazards to the community it operates in, though the proposal may look lucrative, it must be turned down outright, as such units will finally be thrown from the market. Directives of the government with regard to any restriction, quantity, quality, quota or value wise imposition, should be kept in view. If

any permit or license is required, the party should be in possession of that. Detailed information about the plan and scheme of project or activities should be examined before lending.

e) Diversification

“Do not put all your eggs in one basket.” this quote clarified that the importance of diversification. A bank should always be careful not to grant a loan to only one sector. The bank should spread the loan in various sectors, many firms and industries, and against different securities. Hence the policy should fix a cap on all these aspects so; all banks must diversify their funds or make portfolio investments. Diversification helps to earn a good return and minimize the risk and uncertainty.

f) Security

When a bank lends a loan to their client, the loan will be returned to the bank or not there is no any guarantee. In this situation to minimize risk the bank must require collateral for security. The security must be sufficient; no compromise should be made in obtaining maximum securities from the client. At the time of a distress situation also, the securities must be sufficient enough to cover the bank's loan and interest. At all times, the bank must be in a safe position to realize its lending. The bank must not require collateral for short term loans; it is a short period loan which matures within one year or less. The strength of a business in terms of their balance sheet, financial statements, credit history and time in business as well as the relationship with the lending institution all enter into the loan approval decision process.

2.2 Review Of Nepal Rastra Bank Directives for Investment

Nepal Rastra Bank is the apex authority to regulate and supervise financial institutions in the country. It has been enacting various policies, directives

and circulars in line with its central banking objectives since its inception. The NRB Act, 2002 has empowered Nepal Rastra Bank as an autonomous institution to conduct regulatory and supervisory activities independently. It's on the part of Nepal Rastra Bank to maintain financial stability in the country by raising confidence of both depositors and investors. *(Source: NRB, "Bank Supervision Report 2009, Page No. 3)*

“In addition to other prevailing laws of the country, the main legislative framework for supervision function includes:

- ❖ Nepal Rastra Bank Act, 2002 (2058)
- ❖ Bank and Financial Institutions Act, 2006 (2063)
- ❖ Company Act, 2006 (2063)
- ❖ Supervision By Laws, 2002 (2059)
- ❖ Directives to commercial banks and financial institutions
- ❖ New Capital Adequacy Framework, 2007

NRB has continued to review the relevant legislations and regulations in 2008/09 in order to put in place up-to date regulatory framework that meets international standards and resolves the issues of the banking industry.”*(Source: NRB, "Bank Supervision Report 2009, Page No. 10)*

2.2.1 Capital Adequacy

NRB has issued the New Capital Adequacy Framework 2007 (updated July 2008) which is designed on the basis of capital adequacy requirements under BASEL II. It has following objectives;

“The main objective of this framework is to develop safe and sound financial system by way of sufficient amount of qualitative capital and risk

management practices. This framework is intended to ensure that each commercial banks maintain a level of capital which,

- Is adequate to protect its depositors and creditors;
- Is commensurate with the risk associated activities and profile of the commercial banks;
- Promotes public confidence in the banking system.”

(Source: NRB, “Capital Adequacy Framework 2007(Updated July 2008), Page No.2)

2.2.1.1 Eligible Capital Fund

Nepal Rastra Bank classified about Eligible Capital Fund accordance to the “*Capital Adequacy Framework 2007(Updated July 2008).*”

Qualifying capital consists of Tier 1 (Core) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital. Thus, for the purpose of calculation of regulatory capital, banks are required to classify their capital into two parts as follows;

a) Core Capital (Tier 1)

The key element of capital on which the main emphasis should be placed is the core (Tier 1) capital, which comprises of equity capital and disclosed reserves. This key element of capital is the basis on which most market judgments of capital adequacy are made; and it has a crucial bearing on profit margins and a bank’s ability to compete.

The BCBS has therefore concluded that capital, for supervisory purposes, should be defined in two tiers in a way, which will have the effect of requiring at least 50% of a bank’s capital base to consist of a core element

comprised of equity capital and published reserves from post-tax retained earnings.

In order to rank as Tier 1, capital must be fully paid up, have no fixed servicing or dividend costs attached to it and be freely available to absorb losses ahead of general creditors. Capital also needs to have a very high degree of permanence if it is to be treated as Tier 1.

Element of Tier 1 Capital

- i. Paid up Equity Capital
- ii. Irredeemable non-cumulative preference shares which are fully paid-up and with the capacity to absorb unexpected losses. These instruments should not contain any clauses whatsoever, which permit redemption by the holder or issuer upon fulfillment of certain condition. Banks should obtain prior approval of NRB for this kind of instruments to qualify as a component of core capital.
- iii. Share Premium.
- iv. Proposed Bonus Equity Share.
- v. Statutory General Reserve.
- vi. Retained Earnings available for distribution to shareholders.
- vii. Un-audited current year cumulative profit, after all provisions including staff bonus and taxes. Where such provisions are not made, this amount shall not qualify as Tier 1 capital.
- viii. Capital Redemption Reserves created in lieu of redeemable instruments.
- ix. Capital Adjustment reserves created in respect of increasing the capital base of the bank.
- x. Dividend Equalization Reserves.

- xi. Any other type of reserves notified by NRB from time to time for inclusion in Tier 1 capital.

Deductions From Core (Tier 1) Capital

Banks shall be required to deduct the following from the Tier 1 capital for capital adequacy purposes. The claims that have been deducted from core capital shall be exempt from risk weights for the measurement of credit risk.

- i. Book value of goodwill.
- ii. Miscellaneous expenditure to the extent not written off e.g. VRS expense, preliminary expense, share issue expense, deferred, revenue expenditure, etc. However, software expenditure or software development expenditure, research and development expenditure, patents, copyrights, trademarks and lease hold developments booked as deferred revenue expenditure are subject to 100% risk weight and may not be deducted from Tier 1 capital.
- iii. Investment in equity of financial institutions licensed by Nepal Rastra Bank (Investment in shares of Rural Development Banks and other institutions, where the waiver has been explicitly provided by NRB are subject to risk weight of 100% and shall not be deducted from Tier 1 Capital)
- iv. All investments in equity of institutions with financial interest.
- v. Investments in equity of institutions in excess of the prescribed limits.
- vi. Investments arising out of underwriting commitments that have not been disposed within a year from the date of commitment.

- vii. Reciprocal crossholdings of bank capital artificially designed to inflate the capital position of the bank.
- viii. Any other items as stipulated by Nepal Rastra Bank, from time to time.

b) Supplementary Capital (Tier 2)

The supplementary (Tier 2) Capital includes reserves which, though unpublished, have been passed through the profit and loss account and all other capital instruments eligible and acceptable for capital purposes. Elements of the Tier 2 capital will be reckoned as capital funds up to a maximum of 100 percent of Tier 1 capital arrived at, after making adjustments referred to in deductions from Core Capital. In case, where the Tier 1 capital of a bank is negative, the Tier 2 capital for regulatory purposes shall be considered as zero and hence the capital fund, in such cases, shall be equal to the core capital.

Element of Supplementary Capital (Tier 2)

- I. Cumulative and/or redeemable preference shares with maturity of five years and above.
- II. Subordinated term debt fully paid up with a maturity of more than 5 years; unsecured and subordinated to the claim of other creditors, free of restrictive clauses and not redeemable before maturity. Since, subordinated term debt is not normally available to participate in the losses; the amount eligible for inclusion in the capital adequacy calculations is limited to 50% of core capital. Moreover, to reflect the diminishing value of these instruments as a continuing source of strength, a cumulative discount (amortization) factor of 20% per annum shall be applied for capital adequacy computations, during the last 5 years to maturity. The banks should obtain written approval of NRB for

including any subordinated debt instruments (like Debenture/ Bonds) in supplementary (Tier 2) capital.

- III. **Hybrid capital instruments:** Those instruments which combine certain characteristics of debt and certain characteristics of equity. Each such instrument has a particular feature, which can be considered to affect its quality as capital. Where these instruments have close similarities to equity, in particular when they are able to support losses on an ongoing basis without triggering liquidation, they may be included in Tier 2 capital with approval from Nepal Rastra Bank.
- IV. General loan loss provision limited to a maximum of 1.25 of total Risk Weighted Exposures. General loan loss provision refers to the provisions created in respect of Pass Loans only and it does not include provisions of rescheduled/ restructured and classified loans. The additional loan loss provisions created in respect of Personal Guarantee loans and loans in excess of Single Obligor Limits are specific provisions and hence cannot be included under this category. Such provisions however can be deducted from the gross exposures while calculating risk weighted exposures for credit risk. However, provisions created in excess of the regulatory requirements or provisions which is not attributable to identifiable losses in any specific loans shall be allowed to be included in the General Loan Loss Provision and shall be eligible for Tier II capital subject to a maximum of 1.25% of total risk weighted exposures.
- V. Exchange equalization reserves created by banks as a cushion for unexpected losses arising out of adverse movements in foreign currencies.
- VI. Investment adjustment reserves created as a cushion for adverse price movements in bank's investments falling under "Available for Sale" category.

- VII. Revaluation reserves often serve as a cushion against unexpected losses but may not be fully available to absorb unexpected losses due to the subsequent deterioration in market values and tax consequences of revaluation. Therefore, revaluation reserves will be eligible up to 50% for treatment as Tier 2 capital and limited to a maximum of 2% of total Tier 2 capital subject to the condition that the reasonableness of the revalued amount is duly certified by the internal auditor of the bank.
- VIII. Any other of reserves notified by NRB from time to time for inclusion in Tier 2 capitals.

2.2.1.2 Capital Funds

The capital fund is the summation of Tier 1 and Tier 2 capital. The sum total of the different components of the Tier 2 capitals will be limited to the sum total of the various components of the Tier 1 capital net of deductions as specified in mention above. In case the Tier 1 capital is negative, Tier 2 capital shall be considered to be “Nil” for regulatory capital adequacy purposes and hence, in such a situation, the capital fund shall be equal to the Tier 1 capital.(*NRB, “Capital Adequacy Framework 2007(Updated July 2008), Page No.9*)

2.2.1.3 Minimum Capital Requirements

Unless a higher minimum ratio has been set by Nepal Rastra Bank for an individual bank through a review process, every bank shall maintain at all times, the capital requirement set out below:

- a. A Tier 1 (core) capital of not less than 6% of total risk weighted exposure;
- b. A total capital fund of not less than 10 % of its total risk weighted exposure.

The capital Adequacy Ratio (CAR) is calculated by dividing eligible regulatory capital by total risk weighted exposure. The total risk weighted exposure shall comprise of risk weights calculated in respect of bank's credit, operational and market risks. The methodologies to calculate RWE for each of these risk categories are described in detail in subsequent chapters (*NRB, "Capital Adequacy Framework 2007(Updated July 2008), Page No.9*)

2.2.1.4 Total Weighted Risk Assets

For the purpose of calculation of capital fund, the risk-weighted asset has been classified into following two components:

- a) On-Balance Sheet Risk –weighted Assets
- b) Off-Balance Sheet Risk-weighted Items

2.2.1.5 Capital Fund Ratio

According to the **section 1; NRB Unified Directives 2067**, has described about Capital Fund Ratio as follow.

This ratio would measure the total capital fund on the basis of total risk-weighted assets of licensed institutions. The capital fund ratio shall be determined as follows:

$$\text{Capital Fund Ratio} = \frac{\text{Core Capital} + \text{Supplementary Capital}}{\text{Sum of risk –weighted assets}} \times 100$$

Sum of risk weighted assets = Total on balance sheet risk
weighted assets + Total off balance
sheet risk weighted items

2.2.2 General Loan Loss Provision

According to the **NRB Unified Directives 2067, under Unified Directive no 2; section 1** has described about General Loan Loss Provision as follow.

“Banks shall classify the loan and advances and general loan loss provision accordance to **Section 78; Nepal Rastra Bank Act 2058.**”

2.2.2.1 Classification Of Loan And Advances

- a) **Pass:** - All Loans and Advances which are not past due for a period up to 3(three) months shall be included in this category.
- b) **Substandard:** - All loans and advances which are past due for a period of more than 3 (three) months and up to 6 (six) months shall be included in this category.
- c) **Doubtful:** - All loans and advances which are past due for a period of more than 6 (six) months or up to 1 (one) year shall be included in this category.
- d) **Loss:** - All loan and Advances which are past due for a period of more than 1 (one) year shall be included in this category.

Note:-

- 1) There is no restriction in classifying the loan and advances from low risk category to high-risk category by the banks. For instance, loans falling under Substandard may be classified into Doubtful or Loss, and loans falling under Doubtful may be classified into Loss category.
- 2) The term Loan and Advances also includes Bills Purchased and Discount.

2.2.2.2 Loan Rescheduling And Restructuring

According to the **NRB Unified Directives 2067, under Unified Directive no 2; section 8** has described about Loan Rescheduling and Restructuring as follow.

The term “Reschedule” means process of extending repayment period/time of credit taken by the borrower and the term “restructuring” means process of changing the nature or conditions of loan/facility, adding or deleting of conditions and change in time limit.

Bank may reschedule or restructure loans only upon submission of a written plan of action by the borrower, which is resurrecting on the following grounds. The basis of loan restructuring or rescheduling shall be enclosed with each credit files.

- a) Evidence of existence of adequate loan documentation and securities.
- b) Licensed institution is assured on possibility of recovery of restructured or rescheduled loan.
- c) To restructured or rescheduled loan, written work plane must be required and also 25% of outstanding interest till restructured or rescheduled days.

2.2.2.3 Loan Loss Provisioning

According to the **NRB Unified Directives 2067, under Unified Directive no 2; section 9** has described about Loan Loss Provision as follow.

The loan loss provisioning on the outstanding loans and advances and bills purchases shall be provided on the basis of classification made as per this Directives, as follows:

Classification of Loan

Loan Loss Provision

Pass	1%
Substandard	25%
Doubtful	50%
Loss	100%

Full provisioning as per Sub-section (1) shall be made against the uninsured priority, deprived sector loans and small and medium scale industrial loans.

However, in case of insured loans, the provisioning requirement will be only 25% of the rates stated under Sub-section (1).

2.2.2.4 Interest Rate To Be Approved

Banks shall implement the interest rates for deposits and lending, procedures for calculation of interest, penal interest, commission and service charges only after approval. Banks cannot vary (upward or downward) the interest rate for deposits in excess of 0.5 percent over the published rates.

2.2.2.5 Submission Of Return On Interest Rate

According to the Nepal Rastra Bank unified Directive no 15; Clause 4 has describe about “Submission of Return on Interest Rate” given below.

Banks shall compulsorily submit particulars of interest rates on deposits and lending to Banks and Financial Institutions Regulation Department and related Supervision Department Nepal Rastra Bank within 7 days of each quarter ending. Further, banks shall submit the whole arrangements and procedures relating to interest rates as per the Clause 3 of Nepal Rastra

Bank Unified Directive No 15/067 at the time of initial implementation and changes made there to within 7 days.

2.2.2.6 Interest Rates To Be Published

Banks shall publish the particulars as per Clause 4 above at times of each amendment made in the interest rates on deposit and lending in National daily newspapers.

Recognition of Interest Income

This is describe under unified directive No 15/67; clause 7 given below.

The interest accruals on loan and advances shall be recognized as income on cash basis. Interest accrued but not realized in cash shall be recognized in the year of cash realization. Interest receivable for a period shall be debited to “Interest Receivable Account” and credit to “Interest suspense account”.

2.2.2.7 Action For Non-Compliance

If the licensed institutions found not complying with the directives relating to branch/offices, actions may be initiated under the Nepal Rastra Bank Act, 2058

2.2.3 Maintenance Of Liquidity

According to the Nepal Rastra Bank Unified Directive No 13/067, to followed Nepal Rastra Bank Ace 2058; clause 79, has described about “*Maintenance of Liquidity*”

- 1) Bank shall maintain mandatory balance with Nepal Rastra Bank at 5.5 % of total deposit liabilities.

- 2) The principal amount paid by the commercial banks against the Nepal government/NRB Bonds shall be eligible for the purpose of calculation of Compulsory Cash Reserve Ratio up to period of receipt of reimbursement.
- 3) Proof as to the principal amount paid shall be submitted by the commercial banks at the time of submission of returns on Compulsory Cash Reserve Ratio to Nepal Rastra Bank. Where a false statement is found to have been made, a penalty shall be imposed equivalent to the amount applicable on non-fulfillment of the Compulsory Cash Reserve Ratio.
- 4) Penalty shall be imposed in case the balance to be maintained as above.
 - a) For first time shortfall in maintaining the mandatory balance, at the rate of bank percentage on such shortfall amount.
 - b) For second time shortfall in maintaining the mandatory balance, at double the rate percentage of the existing bank rate on such shortfall amount.
 - c) For third time and successive shortfalls in maintaining the mandatory balance, at triple the rate of the existing bank rate on such shortfall amount.
- 5) The penalty at the existing bank rate on shortfall amount shall be on weekly basis. Such shortfall amount shall be multiplied by the percentage of bank rate and divided by 52.
- 6) For the purpose of application of bank rate, the highest refinance rate as prescribed by Nepal Rastra Bank shall be considered as the bank rate and penalty on the shortfall amount shall be calculated at such highest refinance rate.

2.3 Review Of Articles

Murari R. Sharma (1988) in his article, “*A Study of Joint Venture Banks in Nepal; coexisting and crowding out*” pointed out that it is very much beneficial for Nepalese to let joint venture banks to enhance the development of local commercial banks. But the government should charge more cost to joint venture banks than the local commercial banks. He suggested HMG to treat equally to joint venture banks and local banks, both types of banks will coexist complementing each other and contributing the nations accelerated development”.

Sunil Chopra (1989) in his article, “*Role of Foreign Banks in Nepal*” had conducted that the joint venture banks playing an increasingly dynamic and vital role in the economic development of the country that will undoubtedly increase with time.

Dr. Sunity Shrestha (2055) in her article, “*Lending Operation of Commercial Banks and its Impact on Gross Domestic Product (GDP)*” has presented with the objectives to make an analysis of contribution of commercial banks leading to the Gross Domestic Product (GDP) of Nepal. She has set a hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz., agriculture, industrial and commercial service, general and social sector as independent variables. A multiple regression technique has been analyzed in the contribution.

Sharma, M.P. & Bhatt, M.P. (2002), in their article “*Priority receiver sector*” has present “The commercial banks should take care of board national interest & they showed not confine their lending activities only to

commercial area providing quick interest if some proportion could be directed to the area conducive to build economic infrastructures of the country it would create atmosphere conducive to their investment in future. In our society where ignorance & literacy is in wild scale, it is necessary that the banks search entrepreneurs instead of entrepreneurs searching bank. So, they have opined that the priority sector program is a timely & opportunities there by increasing production & the general living standard or rural poor. But the success of the largely depends upon the interpreted operation with other program design for rural development. Further they agree that various programmes: Rural development land reform, back to the village national, champion audit literacy etc. couldn't materialise their objectives despite their some theoretical philosophy & food objectives.”

the article “*Financial crisis of 2007- 2010*” from *Wikipedia, the free encyclopedia* describe “ the financial crisis of 2007 to the present is a crisis triggered by a liquidity shortfall in United States Banking system. It has resulted in the collapse of large financial institution, the bailout of banks by national governments and downturns in stock markets around the world. In many areas, the housing market has also suffered, resulting in numerous evictions, foreclosures and prolonged vacancies.

The immediate causes or trigger of the crisis was the bursting of the United States housing bubble which peaked in approximately 2005-2006. Already- rising default rates on “subprime” and adjustable rate mortgages (ARM) began to increase quickly thereafter. An increase in loan packaging, marketing and incentives such as easy initial terms and a long-term trend of rising housing prices had encouraged borrowers to assume difficult mortgages in the belief they would be able to quickly refinance at more favorable terms. However, once interest rates began to rise and

housing prices started to drop moderately in 2006-2007 in many parts of the U.S, refinancing became more difficult. Defaults and foreclosure activity increased dramatically as easy initial terms expired, home prices failed to go up as anticipated, and ARM interest rates reset higher.

Low interest rates and large inflows of foreign funds created easy credit conditions for a number of years prior to the crisis, fueling a housing construction boom and encouraging debt-financed consumption. The combination of easy credit and money inflow contributed to the U.S housing bubble. Loans of various types (e.g. mortgage, credit card, and auto) were easy to obtain and consumers assumed an unprecedented debt load. As part of the housing and credit booms, the number of financial agreements called mortgage-backed securities (MBS) and collateralized debt obligations (CDO), which derived their value from mortgage payments and housing prices, greatly increased. Such financial innovation enabled institutions and investors around the world to invest in the U.S housing market. As housing prices declined, major global financial institutions that had borrowed and invested heavily in subprime MBS reported significant losses. Falling prices also resulted in homes worth less than the mortgage loan, providing a financial incentive to enter foreclosure. The ongoing foreclosure epidemic that began in late 2006 in the U.S continues to drain wealth from consumers and erodes the financial strength of banking institutions. Defaults and losses on other loan types also increased significantly as the crisis expanded from the housing market to other parts of the economy. Total losses are estimated in the trillions of U.S dollars globally.

While the housing and credit bubbles built, a series of factors caused the financial system to both expand and become increasingly fragile, a process

called financialization. Policymakers did not recognize the increasingly important role played by financial institutions such as investment banks and hedge funds also known as the shadow banking system. Some experts believe these institutions had become as important as commercial (depository) banks in providing credit to the U.S. economy, but they were not subject to the same regulations. These institutions as well as certain regulated banks had also assumed significant debt burdens while providing the loans described above and did not have a financial cushion sufficient to absorb large loan defaults or MBS losses. These losses impacted the ability of financial institutions to lend, slowing economic activity. Concerns regarding the stability of key financial institutions drove central banks to provide funds to encourage lending and restore faith in the commercial paper markets, which are integral to funding business operations. Governments also bailed out key financial institutions and implemented economic stimulus programs, assuming significant additional financial commitments.”

This paper concluded that “New lending declined substantially during the financial crisis across all types of loans. Some of this decline could reflect a drop in demand as firms scale back expansion plans during a recession. However, they show that there may be a supply effect as well: banks with less access to deposit financing and more revolving line exposure reduced their lending more than other banks. While this is consistent with the existence of a supply effect at the bank level, it is possible that there was a shifted in lending from one set of banks to another without affecting the aggregate supply of credit. If, however, bank-borrower relationships matter for the lending process, then borrowers may not be able to easily switch from one lender to another. Ultimately, to determine the real

effects of the financial crisis, researchers will need to examine the investment and performance of potential borrowers, not just lenders.”

David Scharfstein and Victoria Ivashina (2008) in his research paper “*Bank Lending during the Financial Crisis of 2008*” the goal of this paper is to understand a key mechanism through which financial crises can affect the real economy, namely the supply of credit to the corporate sector. Towards this end, they examine data on loan syndications, which is the primary source of loans for large corporations. In these syndications a lead bank “originates” a loan and lines up other financial institutions to buy a portion of the loan. This market has evolved over the last twenty years as the main vehicle through which banks and other financial institutions lend to large corporations.

2.4 Review Of Thesis

A number of researchers who conducted their research study on the investment policy of commercial banks. The following are the review of those studies:

Mr. Prasanna Shrestha (2003) in her study “*A comparative study on investment policy of joint venture banks*” has studied primarily of four commercial banks i.e. Himalayan Bank Ltd., Nepal SBI Bank Ltd., Everest Bank Ltd. & Bank of Kathmandu Ltd. The main objectives of her studies are as follows:

- To compare, analysis & evaluate the investment policy of these four commercial banks.
- To evaluate, liquidity, activity & portfolio ratios of these banks.
- To find out the deposit collection & the effectiveness of fund mobilization.

The Conclusion of the research study is as follows:

- HBL is more successful in mobilizing the fund in proper way in comparison to other three commercial banks.
- All these banks should have to increase the deposit collection, investment in securities shares & debentures.
- All banks should be in rural areas & have to take effective marketing strategy for their promotion.
- New technology has to be introducing so to develop new banking system.

Rajesh Dhital (2004), in his research study entitled, “*A Comparative Study of Investment Policy of Standard Chartered Bank Nepal Limited and bank of Kathmandu Limited*” has highlighted the following objectives:

- To find out the relationship between total investment, deposit, loan and advances, net profit and outside assets and compare them.
- To compare the investment policy of the concerned banks.
- To evaluate the liquidity, asset management, profitability and risk portion of SCBNL and BOKL.
- To analyze the deposit utilization trend and its projection for five years.
- To provide package and workable suggestions.

His major findings were,

- The liquidity position of both banks is satisfactory but BOKL is comparatively better than SCBNL.
- SCBNL is not able to provide its deposit as loan and advances in comparison to BOKL.

- SCBNL has more portion of deposit invested as investment.
- Profitability position of SCBNL is better.
- SCBNL has bared lower degree of liquidity and credit risk compared to BOKL.
- All relationships between different variables taken for study are insignificant except deposit and interest earned in case of SCBNL whereas more relationships were significant in case of BOKL.
- Trend values are in increasing trend.
- The test of hypothesis showed no significant difference.

In his study, he recommended to increase more deposit, adopt liberal lending policy, expand the branches, and adopt project-oriented approach. His study is based only on the two banks; it cannot provide the information of the other banks.

After detail study of the previous thesis, it has been concluded that the other research studies have researched and analyzed the data on the topic related to financial performance and investment policy up to the FY 2001 / 02. That is why; it has been tried here, in this study to analyze the data related to investment policy of the four JVBs up to FY 2005 / 06. Study period of this research is different than previous studies although there are similar topics.

More secondary data and only few primary data are used in this study. The factors of all the three banks have been analyzed and studied.

Jyoti 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 objectives that follow:

- To discuss fund mobilization and investment policy of EBL, NABIL and BOK Ltd.
- To evaluate the liquidity, efficiency and profitability and risk position
- To evaluate the liquidity, efficiency and profitability and risk position
- To evaluate the liquidity, efficiency and 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 and BOK.

The secondary data were used to conduct the study. The research findings of the study were;

The liquidity position of the EBL was better than NABIL and BOK. EBL had the highest cash and bank balance to total deposits and cash and bank balance to current assets ratio. Nabil had the lowest liquidity position. EBL had good deposit collection and made enough investment on Government Securities, but it maintained a moderate investment policy on loans and advances. From the analysis of assets management or activity ratio, it was concluded that EBL was average, or in between NABIL and BOK. The total investment of EBL was in between the other two banks. In the study,

loans and advances to total deposit were higher in BOK, but total investment to total working fund ratio was higher in BOK. However, the coefficient of variation was higher in EBL. In analysis of profitability, total interest earned to total outside assets of EBL is lowest at all. However, overall analysis of profitability ratios showed that EBL was an average in comparison to other compared banks i.e, NABIL and BOK, from the viewpoint of risk ratio, EBL had higher capital risk ratio, but average of credit risk ratio of NABIL and BOK.

Geeta Regmi (2006) conducted *“A Comparative Study on Investment Policy Of Everest Bank and Hif malayan Bank Limited* “with the objectives as given below;

- To find out the relationship between total investments, deposits, loans and advances, net profit and assets and compare them.
- To evaluate the liquidity, asset management, efficiency, profitability and risk portion of EBL and HBL
- To analysis the deposit utilization trend and its projections for five years of HBL and EBL
- To provide package of a workable suggestions and possible guidelines to improve investment policies.

The study was carried out the basis of secondary data. The research findings of the study were;

The liquidity position of EBL was comparatively better than HBL. EBL had the highest cash and bank balance to total deposit ratio, cash and bank balance to current assets ratio than that of HBL. Both EBL and HBL had almost same pattern of investment on government securities, but

fluctuating ratios showed the unstable policy of investment. EBL has higher loan and advances to current assets ratio and successful in deposit collection as well. The assets management ratios of both banks are satisfactory. Both bank EBL and HBL had provided its most portion of deposit as loan and advances. Moreover, EBL had invested its more portions as loan and advances, in case of investment in other sectors, HBL had adopted diversified investment policy. EBL invest its working fund in government securities and other companies share and debentures than that of HBL, so HBL is less effective in comparison to EBL. In profitability analysis HBL had maintained high profit margin regarding profitability position. HBL was more successful to generate income through loan and advances and operating income and it has earned more from total outside assets and total working fund. From the study, it was concluded that profitability of HBL was better than that of EBL. From the risk point of view, HBL had borne lower liquidity risk and credit risk in comparison to EBL regarding various aspects of banking activities. It could be said that HBL had followed a stable liquidity policy justified by lower coefficient of variation.

Saju Shrestha, (2007) conducted a study on “*A Comparative Analysis on Investment performance of commercial banks in Nepal*” with the following objectives:

- To analyze the investment activities and fund mobilization with respect to fund based on-balance sheet transactions and fee based off-balance sheet transactions
- To study the asset utilization system, profitability and risk position of commercial banks under study

- To evaluate the growth ratios of loan and advance and total investment and respective growth rate of total deposit and net profit
- To appraise the suggestion on the basis of findings for further growth of the banks under study

The study was conducted on the basis of secondary data. The research findings of the study were as follows:

The liquidity position of NIBL was Stronger than NABIL and HBL. At the same time, liquidity position of NIBL was highly fluctuating, which showed that NIBL bore higher risk than other two banks. NIBL had the least investment in Government Securities, which considered the least risky asset. From the analysis of assets, management ratio of NIBL in comparison to NABIL and HBL was more successful regarding asset management and deposit mobilization. NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor. In the profitability analysis, none of the three banks profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position. From the risk point of view, NABIL and NIBL were facing higher risk than HBL, but the risk level of all three banks seemed almost the same. From the analysis of growth ratios, NIBL's collection of deposit, granting of loans and advances and net profit were better but in terms of investment, HBL is better. The coefficient of correlation analysis between different variables of NABIL, NIBL and HBL revealed that NABIL was weaker regarding mobilization of deposits as loans and advances and NIBL was performing extremely well regarding earning profits from outside assets. From the trend analysis study, it was found that all banks were mobilizing their total

deposits into loans and advances in increasing trend which was the indication of efficient mobilization.

Machchindra Sanjel, (2008) conducted a study on “*Analysis of Investment Policy of Commercial Banks*” comparative study of Standard Chartered Bank, Nepal Bangladesh Bank and Himalayan Bank Limited with the following objective;

- To evaluate the liquidity, assets management, efficiency and profitability of HBL, NBBL and SCBNL.
- To analyze the deposit utilization trend of the HBL, NBBL and SCBNL.
- To analyze the relationship between total investment with other financial variables of HBL, NBBL and SCBNL and comparison between them.
- To recommend the package of workable suggestions and possible guidelines to improve investment policy of HBL, NBBL and SCBNL based on the finding of the study.

The study was conducted on the basis of secondary data. The research findings of the study were as follows:

SCBNL has satisfactory current ratio and it is also seen that it is being able to serve its customers demand, but liquidity capacity of SCBNL on the basis of its most liquid assets i.e. cash & bank balance is seen low because it has invested more in government securities. SCBNL utilizes its current assets investing in government securities rather than cash balance. NBBL kept more current assets as cash and bank balance and has poor capability

to pay short-term obligation of outsiders. HBL stands at moderate level and has also poor capability towards current obligation.

The overall conclusion can be drawn that the assets management ratio of HBL has been better, mostly in mobilizing its total deposit at loans & advances than on investment on Govt. securities. HBL has been successful in mobilizing their total assets on loans and advances for the purpose of income generation. Also HBL is successful to mobilize its total assets on purchase of shares & debentures of other companies to generate incomes and utilize their excess fund. SCBNL attempts to make investment rather than loans and advances. It shows SCBNL is operating with lower risk of loan loss.

From the data analysis of profitability ratios, it can be concluded that SCBNL is being able to maintain high return on loans advances, total assets and equity and low interest expenses. NBBL is capable to earn interest but had not effective operation of resources. High amount of operating income of HBL came from interest and others are normally generated.

In sum it can be concluded that, growth ratio of NBBL is successful in increasing its sources of fund (deposit collection & lending loans and advances) and increasing net profit. It has been also improving to total investment. The volatility is undesirably high in each ratio every bank.

From all the correlation analysis of variable shows that positive relation between deposit and loans & advances, deposit and total investment, indicating HBL is in better position at all to grant loans & advances second position to grant loan & advances for mobilizing the collected deposit and

SCBNL is successful for mobilizing collected deposit as investment in compare to NBBL.

CHAPTER III

Data Presentation and Analysis

3.1 Introduction

Research methodology is a sequential procedures and methods to achieve the objectives of the study. “Research is common parlance refers to a search for knowledge. The Webster international Dictionary gives a very inclusive definition of research as a careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something (Saravanel, 1990; 1).” “Research methodology is a way to systematically solve the research problem (Kothari, 1990; 10).” A sound research study needs to follow a proper methodology in other to achieve predetermined objectives. Thus, this chapter deals with research design, population and sample, nature and sources of data and tools for analysis of data and definition of key terms.

3.2. Research Design

It is the plan, structure and strategy of investigation adopted to gain answers to research questions and to control variances. The descriptive and analytical research design will help to achieve the objectives of this study.

Some statistical and financial tools will be used to examine facts and descriptive techniques to evaluate investment performance of commercial Bank and comparing between themselves.

3.3 Nature And Sources Of Data

The source of data collections is generally classified as primary and secondary. The researcher must decide at the outset about the use of primary or secondary data in an investigation.

The following are the data collection techniques which are used for the study

3.3.1 Primary Data

Primary data means the data collection from direct source as interviews with the related personal on their own words. For any research work, information is considered as the lifeblood. Thus the primary source of data is very reliable source; it is the major task to gather the information and data. This data procedure is very costly and difficult.

3.3.2 Secondary Data

Data collected by someone else, used already and are made available to others in the form of published statistics are known as secondary data. The primary data is also a source of secondary data. This data collection technique is very easy and low cost. Secondary data have been taken mainly from the following sources:

- Published and unpublished documents and annual reports of the company such as balance sheet and profit and loss account and cash flow statements are major sources of data.
- Journals, leaflets, other supportive books.
- Internet

Basically the data used in this study are secondary data. The following are the data collection techniques which are used for the study:

- Annual report of the LBL Limited and KBL Limited.
- Supportive book from central library of Tribhuvan University Kritipur, library of Shanker Dev Campus.
- Studies of various books, booklets, magazines, Published report.
- Internet.

3.4 Population And Sample

Since new commercial banks are being incorporated every year, the number of commercial banks in Nepal has been increasing rapidly. Currently, however, there are twenty six (26) licensed commercial banks and among them two banks have been taken as sample for this study namely, **KBL.**, and **LBL**

3.5 Periods Covered

This study will cover the time period of five financial years. The data and the facts related to these periods will be used for the purpose of this study.

3.6 Data Presentation And Analysis Techniques

The data presentation and analysis are focal part of the study. A number of financial, statistical and accounting tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data has been done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools and financial tools are use. The data extracted from annual reports, financial statements and other available information are processed and tabulated in various tables and charts under different headings according to their nature.

3.7 Tools For Analysis

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. Such as graph, percentage, co-efficient of correlation analysis, trend analysis, test of hypothesis, mean standard deviation, co-efficient of variation adopted in this study. In the same way, some useful financial tools such as ratio have also been used for financial analysis. Following are the brief introductions of the financial and statistical tools used in this study.

3.7.1 Financial Tools

Financial tools are those which are used for the analysis and interpretation of financial data. Financial tools have been used to examine the financial strength and weakness of bank. It is the relationship between financial variables contained in the financial statements (i.e. balance sheet, profit and loss account and income statements). There are several financial to spot out the financial strength and weakness of the firm. There are several financial tools, which could be applied in order to analyze the investment policy of commercials banks. The financial tools used in this sty are as follows: Liquidity Ratio, Activity Ratio, Profitability Ratio, Risk Ratio and Growth Ratio.

3.7.1.1 Ratio Analysis

Ratio analysis is a powerful and the most widely used tool of financial analysis. A ratio defines as “The indicated quotient of two mathematical expression” and as the relationship between two or more things (*Source: Webster’s New Collection Dictionary, 1975; 958*).

Ratio can be calculated between any two items of financial statements. It means there may be as many ratios as there is the number of items. But under the ratio analysis technique, it is not practical to work out all the ratios. Hence only the required ratios have been worked out (*Kothari; Quantitative Techniques, 1994:488*)

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. Ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance (*Pandey, "Financial Management" 1979: 97*).

3.7.1.1.1 Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short-term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (*Van Horne, "Financial Management and Policy", 1999: 693*).

The liquidity ratio is also known as solvency ratio or working capital ratio. It is extremely essential for a firm to be able to meet its current obligations as they become due. Liquidity ratios measure the ability of the firm to meet its current obligations. A firm should ensure that it does not suffer from lack of liquidity, and also that it is not too much highly liquid. Lack of sufficient liquidity will result on bad credit worthiness & loss of creditor's

confidence. In the contest of burning competition in manufacturing sector, insufficient liquidity will leave the concerned company behind. On the other hand, high liquidity is also bad as it results in lower profitability because of underutilized assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity. (*Pandey; “Financial Management” 1993; 101*)

These ratios indicate the ease of turning assets into cash. They include the current ratio, Quick Ratio, and working capital.

a) Current Ratio

This ratio shows the relation between current assets and current liabilities. The current ratio is calculated by dividing current assets by current liabilities. The objective of this ratio is to measure the ability of the firm to meet its short term obligation. The following formula can be used to ascertain this ratio.

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

If the current ratio of a firm is less than 2:1, it means the firm has difficulty in meeting its current obligation. If the current ratio is more than 2:1, the company may have an excessive investment in current assets that do not produce satisfied return. (*Ratna Man Dangol: Accounting for Financial Analysis and Planning; 2063:308*)

Higher current ratio indicates better liquidity position. In other words, current ratio represents a margin of safety. The higher the current ratio, the greater margin of safety, the larger the amount of current assets in relation

to current liabilities and, the more the bank's ability to meet its current obligations. Current assets includes cash bank balance, money at call of short notice, loan and advances, investment on government securities and other interest overdraft bills purchase and discount, receivable and miscellaneous current assets where as current liabilities includes deposit and other accounts.

If current ratio is too low or, it may able to raise it by, paying some debts or, increasing current assets from loans or, other borrowings with a maturity of more than one year or, converting non- current assets into current assets or, Putting profits back into the business etc.

b) Cash And Bank Balance To Current Assets Ratio

This ratio measures the proportion of most liquid assets. It 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. Higher ratio shows the bank's ability to meet the demand for cash. This ratio can be calculated by using the following formula:

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

c) Investment On Government Securities To Current Asset Ratio

Investment on government securities is risk free but less profitable. It shows the percentage of investment on government securities in the total current assets. It includes treasury bills and development bond. This ratio

is calculated by dividing investment on govt. securities by current assets. .
This ratio can be calculated by using the following formula:

$$\text{Investment on Government Securities to Current Assets ratio} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

d) Loan And Advance To Current Assets Ratio

Loan & advances are current assets, which generates income for the bank and show the percentage of loan and advances in the total assets. Loan & advances include loans, advances, cash credit, loan & foreign bill, purchase & discounted. This ratio can be computed by dividing loans and advances by current assets. This ratio can be calculated by using the following formula:

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

3.7.1.2 Assets Management Ratio

Asset management ratios are employed to evaluate the efficiency with which the firm manage & utilizes its assets. These ratios reflect how efficiently the bank is managing its resources. Thus these ratios measure the degree of effectiveness in use of resources or funds by bank. It is also called turnover ratios because it indicates the speed with which assets are being converted or turnover. The following ratios are used in this asset management ratio:

a) Loan & Advance To Total Deposit Ratio

This ratio shows how successfully the banks are utilizing its total deposits on loan & advances for generating profit. Higher ratio implies the better utilization of total deposits. This ratio can be calculated by using the following formula:

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

b) Total Investment To Total Deposit

This ratio is calculated to find out how successfully the banks are utilizing their total deposits on loan and advances and advances for profit generating purpose. Greater ratio implies the better utilization of total deposits. This can be obtained by,

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

c) Loan & Advances To Total Working Funds

Loan & advance is the major component in the total working fund (total assets), which indicates the ability of bank to canalize its deposits in the form of loan & advances to earn high return. This can be obtained by dividing loan & advances by total assets. This ratio can be calculated by using the following formula:

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

d) Investment On Shares And Debentures To Working Fund Ratio

This ratio shows the bank investment on shares and debentures of the subsidiary and other companies. This ratio can be calculated by dividing investment in shares and debentures by working fund. This is calculated as follows;

$$\text{Investment on shares and Debentures to Working Fund Ratio} = \frac{\text{Investment on shares and debentures}}{\text{Working Fund}}$$

This numerator includes investment on debentures, bonds and shares of the other companies

3.7.1.3 Profitability Ratio

Profitability ratios are the indicator of the financial performance of any institution. It is calculated to measure the efficiency of the firm in terms of generating profit. The profitability ratios are these ratios, which indicate the degree of success in achieving desired profit levels. These ratios have also been used to determine the efficiency of the lending, its quality and contribution in total profitability. Higher the profitability ratios, better the financial performance of the bank and vice versa. Profitability ratios can be evaluated through the following ratios:

a) Return On Total Working Fund Ratio (ROA)

This ratio indicates the overall profitability of all working funds, i.e., total assets, it is also known as return on assets (RAO). A firm has to earn satisfactory return on assets or working fund for its survival. This ratio is calculated by dividing net profit (loss) by total working fund.

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

The numerator indicates the portion of income left to the internal equities after all costs, expenses have been deducted.

b) Total Interest Earned To Total Investment Assets Ratio

This ratio measures the interest earning capacity of a bank through the efficient utilization of investment. Higher ratio implies efficient use of investment to earn interest. This ratio is calculated by dividing total interest earned by total Investment and can be mentioned as,

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

The Investment includes loan and advances, bills purchased and discounted and all types of investments. The numerator comprises of total interest income from loan, advances, cash credit and overdrafts, government securities and other investments.

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by dividing total interest earned by total outside assets. This can be presented as,

c) Return on Loan and Advances Ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances. This ratio is calculated by dividing net profit (loss) by loan and advances. This can be expressed as,

$$\frac{\text{Net Profit (loss)}}{\text{Loan and Advances}}$$

3.7.1.4 Risk Ratios

Risk taking is the prime business of banks investment management. It increases effectiveness and profitability of the bank. These ratios indicate the amount of risk associated with the various banking operations which ultimately influences the banks investment policy. The following ratios are evaluated under this topic:

a) Liquidity Risk Ratio

This ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance that are kept in the bank for the purpose of satisfying the deposit demand for cash. This ratio is calculated by dividing total cash and bank balance by total deposits. It can be stated as,

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

b) Credit Risk Ratio

It measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non-

performing loan to total loan & advances. Here, dividing total loan and advances by total assets derives this ratio. This can be stated as,

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

3.7.1.5 Growth Ratios

To examine and analyze the expansion and growth of the bank's business, following growth ratios are calculated under this topic

- a) Growth ratio of total deposits
- b) Growth ratio of loan and advances
- c) Growth ratio of total investment
- d) Growth ratio of net profit

3.7.2 Statistical Tools

To achieve the objective of this study, some important statistical tools are used such as mean, Standard deviation, co-efficient of variation co-efficient of correlation, trend analysis and test of hypothesis (t-Statistic) which are as follows:

3.7.2.1 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.

3.7.2.2 Co-efficient Of Variation

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

$$\text{Co-efficient of Variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100 \%$$

3.7.2.3 Co-efficient of Correlation

This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variable, the effect on one variable may affect another correlated variable. This study tries to find out relationship between the following variables.

- a) Co-efficient of correlation between deposit and loan and advances.
- b) Co-efficient of correlation between total deposit and total investment.
- c) Co-efficient of correlation between total Outsides Assets and Net Profit.

This tool analyzes the relationship between these variables and helps the bank to make appropriate policy regarding deposit collection, fund utilization and maximization profit.

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

$$\text{Coefficient of Correlation (r)} = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}}$$

The result of coefficient of correlation is always between +1 to -1.

Where,

r = +1, there is perfect positive correlation

r = -1, there is perfect negative correlation

r = 0, there is no correlation

r lies between 0.7 to 0.999 (-0.7 to -0.999) there is a high degree of positive (+v or negative) correlation

r lies between 0.5 to 1.699, there is a moderate degree of correlation

r is less than 0.5, there is low degree of correlation

3.7.2.4 Trend Analysis

These analyses analyze the trend of deposit, loan and advances, investment and net profit of LBL and KBL make the forecast for the next 5 years.

- I. Trend analysis of total deposit
- II. Trend analysis of loan and advance
- III. Trend analysis of total investment
- IV. Trend analysis of net profit
- V. Trend analysis of non-performing assets

The trends of related variables are calculated as, $y = a + bx$

Where,

y = dependent variable

x = independent variable

a = y-intercept

$b = \text{slope of trend line}$

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Financial Analysis

The main purpose of this chapter is to study, evaluate and analyze those major financial performances, which are mainly related to the investment management and fund mobilization of KBL Limited and LBL Limited. It is notable that all types of financial ratios are not studied under this chapter. Only those ratios are calculated and analyzed which are very important to evaluate fund mobilization of a commercial bank. The important ratios that are studied for this purpose are given below.

1. Liquidity Ratio
2. Asset Management Ratio
3. Profitability Ratio
4. Risk Ratio
5. Growth Ratio

4.1.1 Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. Difference between current assets and current liabilities is known as working capital, which provides liquidity in business organizations. A commercial bank must maintain a fair liquidity position to satisfy the credit needs of the community, to meet demands for deposit withdrawals, pay matured obligations in time and convert non-cash into cash to satisfy immediate needs without loss to the bank and without consequential impact on long-run profitability of the bank.

a) Current Ratio

The calculation of current ratio is based on a simple comparison between current assets and current liabilities. This is the broad measure of liquidity of the bank. The standard of current ratio for banking companies is 2:1, which means the bank has to maintain total currents double of its total current liabilities. Where, current assets consist of cash and bank balance, money at call on short-term notice, loans and advances, investment in Government Securities and other interest receivable and other miscellaneous current assets. Current liabilities, on the other hand, consist of deposits, loan and advances, bills payable, tax payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Current ratios of KBL Ltd. and LBL Ltd. and their means, standard deviations and coefficients of variation during the period of study between 2005/2006 and 2009/2010 are presented in Table No1 (**details in Appndixes-4.1- A**) given below.

Table-4.1.1-A

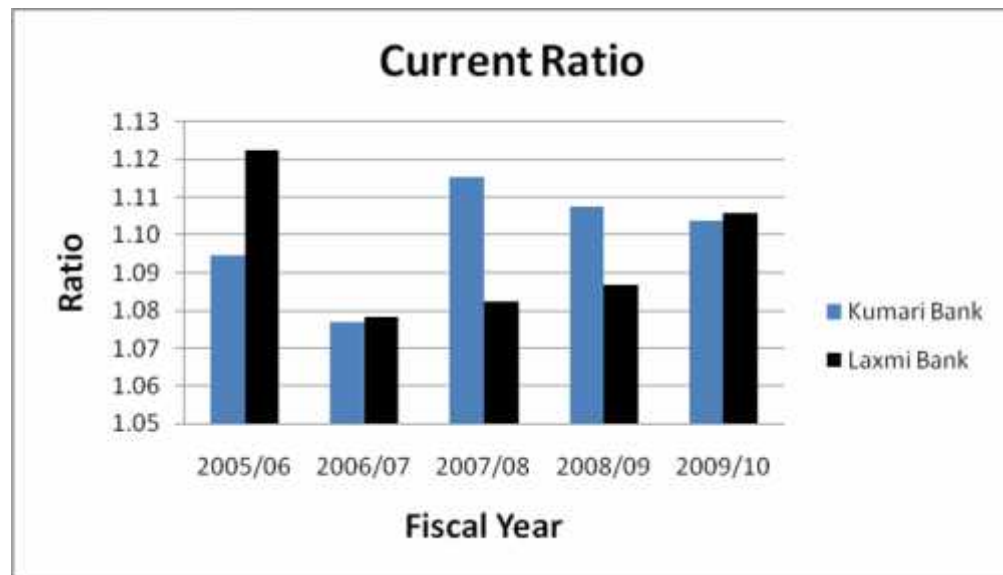
Current Ratio

Year	KBL			LBL		
	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
2005/06	8918.34	8146.43	1.095	5080.02	4526.16	1.122
2006/07	11728.99	10892.68	1.077	8323.35	7718.30	1.078
2007/08	14804.60	13271.36	1.116	12490.66	11538.64	1.083
2008/09	18290.73	16513.61	1.108	18138.68	16689.15	1.087
2009/10	20236.84	18336.72	1.104	20669.90	18689.92	1.106
Mean			1.100			1.095
Standard Deviation			0.015			0.018
Coefficient of Variance			1.35%			1.69%

Source : "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-A)

According to the table the current ratio of both bank have meet current ratio standard in all year. Comparatively the ratio of LBL is higher than the KBL in FY 2005/06, 2006/07 and 2009/10 i.e. 1.12 and 1.11. Same as KBL have higher in FY 2007/08 and 2008/09. Which have higher ratio these means Liquidity position is better. But both banks have greater than 1, these mean both bank have capable for pay current liabilities. Mean ratio show that KBL has lower than the LBL. KBL has more consistent than the LBL.

Figure – 4.1.1-A



Given Multiple bar diagram shows that LBL has high ratio in FY 2005/06, 2006/07 and 2009/10. In FY 2007/08 and 2008/09 KBL has high ratio. KBL has fluctuation ratio whereas LBL has from FY 2006/07 to increasing trend.

b) Cash And Bank Balance To Current Assets Ratio

This ratio shows the banks liquidity position in terms of the most liquid assets i.e. cash and bank balance. A high cash and bank balance to current

ratio indicates high proportion of the most liquid assets in total current assets. This further indicates the banks' ability to meet daily cash payments for the requirement of their depositors. However, much higher of this ratio is not preferred as the bank has to pay interest on deposits and will increase the cost of fund that might impair their profitability. Likewise, lower of this ratio is detrimental to the bank, as the bank will have hard times to make the payments against the cheques presented by customers. Therefore, bank has to strike a balance of cash and bank balance, which is just adequate for the customers demand against deposit when required, and less interest payable against the cash deposit.

Table-2 shows the cash and bank balance to total current assets (**details in Appendix 4.1-B**) of LBL and KBL limited and -their means, standard deviations and coefficient of variation during LBL and KBL limited and their means, standard deviations and coefficient of variation during FY 2005/06 to 2009/2010:

Table-4.1.1-B

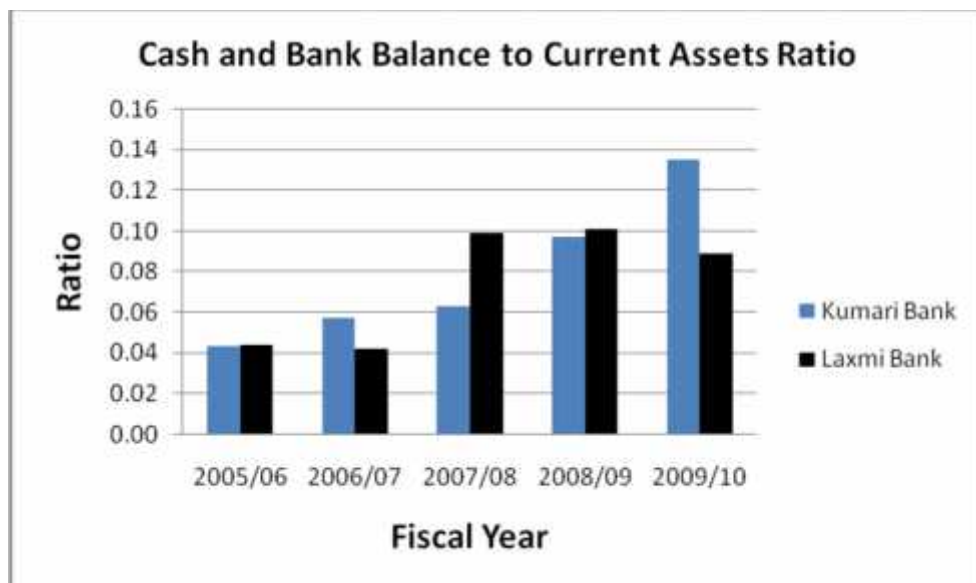
Cash And Bank Balance To Current Assets Ratio

Year	KBL			LBL		
	Cash & Bank Balance	Current Assets	Ratio	Cash & Bank Balance	Current Assets	Ratio
2005/06	389.63	8918.34	0.0437	225.12	5080.02	0.0443
2006/07	672.11	11728.99	0.0573	350.40	8323.35	0.0421
2007/08	933.84	14804.60	0.0631	1238.16	12490.66	0.0991
2008/09	1776.30	18290.73	0.0971	1832.78	18138.68	0.1010
2009/10	2723.83	20236.84	0.1346	1840.70	20669.90	0.0891
Mean			0.079			0.075
Standard Deviation			0.037			0.030
Coefficient of Variance			46.38%			39.27%

Source : "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-B)

On the basis of the above table, we can see that both banks are in a fluctuating trend under the period. Mean ratio show the KBL has more cash and bank balance ratio than LBL Ltd. i.e. $0.079 > 0.075$. Coefficient of variance also shows the KBL has higher percentage than the LBL. I.e. $46.38\% > 39.27$ this states that cash and bank balance in liquidity position of KBL is higher than the LBL. But the both bank has lower ratio than the standard. Both banks have minimum cash balance, which is risk but more profitability for the bank.

Figure-4.1.1-B



Given figure shows that both bank has increasing trend but the current ratio figure is on standard. Comparatively FY 2005/06, 2007/08 and 2008/09 LBL has higher ratio and in FY 2006/07 and 2009/10 KBL has high ratio than the LBL.

c) Investment On Government Securities To Current Asset Ratio

The ratios the current assets invested in government securities, treasury bills and Development Bonds, which are issued by government. These

securities are regarded as safest investment for the bank in terms of its riskiness, but are not so much liquid as cash and bank balance. These securities are marketable and therefore, they are easily converted into cash and as such are risk-free.

The table- 3 shows the ratio of investment on Government Securities to current Assets ratio details in **Appendix 4.1-C**.

Table-4.1.1-C

Investment On Government Securities To Current Asset Ratio

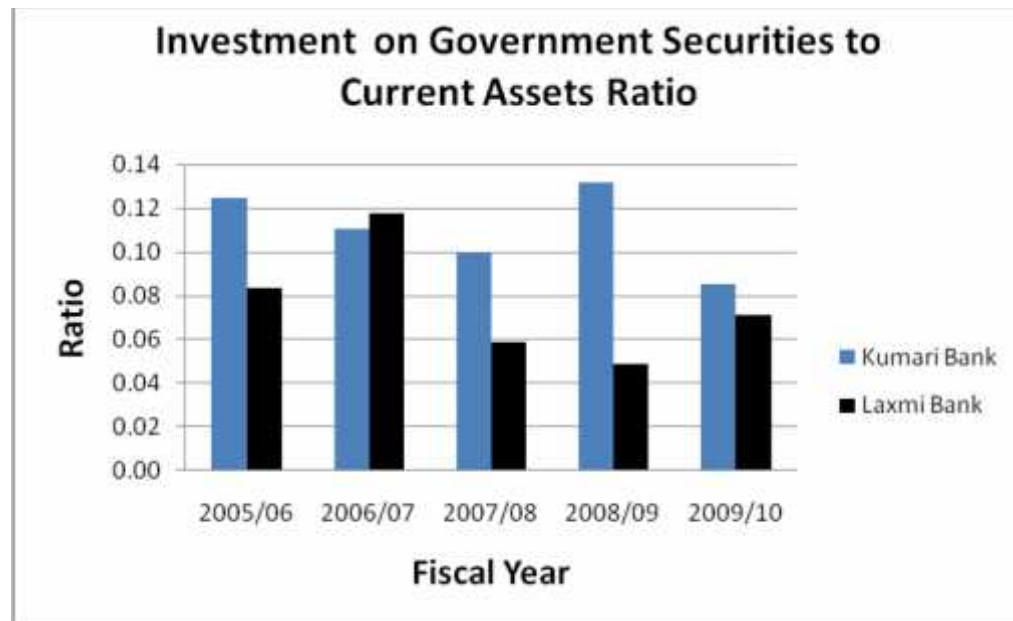
Year	KBL			LBL		
	Investment on Govt Securities	Current Assets	Ratio	Investment on Govt Securities	Current Liabilities	Ratio
2005/06	1114.32	8918.34	0.12	424.19	5080.02	0.08
2006/07	1297.87	11728.99	0.11	977.80	8323.35	0.12
2007/08	1469.10	14804.60	0.10	734.70	12490.66	0.06
2008/09	2404.86	18290.73	0.13	883.64	18138.68	0.05
2009/10	1729.92	20236.84	0.09	1470.35	20669.90	0.07
Mean			0.110			0.076
Standard Deviation			0.019			0.027
Coefficient of Variance			16.96%			35.09%

Source : "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-C)"

From the above table, Comparatively, KBL has higher ratio than the LBL. In FY 2005/06, 2007/08, 2008/09 and 2009/10 KBL has higher ratio than the LBL which means KBL has invest in government securities is higher than the LBL. KBL has high mean ratio i.e. 0.110 than the LBL i.e 0.076. KBL has lower coefficient variance than the LBL i.e. 16.96 % < 35.09% it means KBL has more consistence than the LBL. But the both bank has invested very low portion of Current assets in government securities. It is

risk free assets so both banks must increase to invest on government securities.

Figure-4.1.1-C



Above figure has shown that the KBL has invested on government securities higher than the LBL. Both bank invested very fluctuating trend. KBL has increasing trend but the LBL has deceasing trend than the LBL. Both bank lines are same trend. In FY 2006/07 both bank has increase but comparatively LBL has higher ratio, in FY 2007/08 and 2008/09 both bank has decreasing trend, comparatively KBL has higher ratio, in FY 2009/10 both bank has increasing trend, LBL has higher ratio than the KBL.

d) Loan and Advance to Current Assets Ratio

A commercial bank should not keep its entire collected fund as bank and balance but they should be invested as loan and advances to the customers because they must earn high profit by mobilizing funds from the long-

term survival of the bank. They must pay interest on the deposits fund even if they don't grant loan and advances and may lose some earnings. But high loan and advances may also be harmful because they can only be collected at the time of maturity and this will affect liquidity position of the bank.

Loan and advances are also included in the current assets of a commercial bank because they generally provide short-term advances, overdrafts and cash credit. This ratio is calculated by dividing loan and advances by current assets ratio. The following table show the ratio given below (details in Appendix 4.1-D)

Table-4.1.1-D

Loan And Advance To Current Assets Ratio

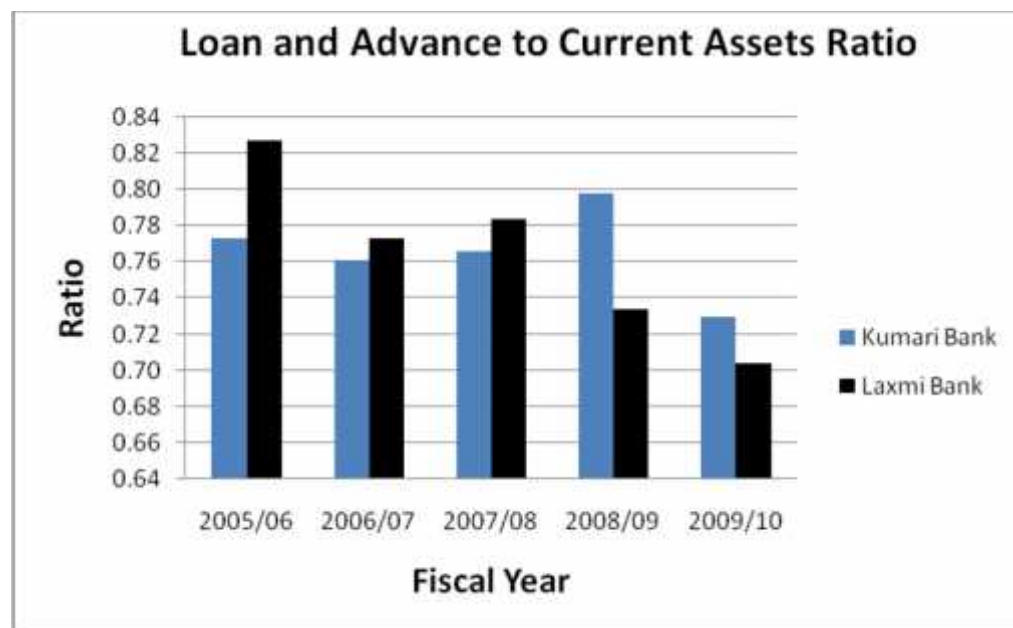
Year	KBL			LBL		
	Loan and Advance	Current Assets	Ratio	Loan And Advance	Current Assets	Ratio
2005/06	6892.00	8918.34	0.77	4202.36	5080.02	0.83
2006/07	8929.00	11728.99	0.76	6437.45	8323.35	0.77
2007/08	11335.00	14804.60	0.77	9794.00	12490.66	0.78
2008/09	14593.00	18290.73	0.80	13315.60	18138.68	0.73
2009/10	14765.91	20236.84	0.73	14560.11	20669.90	0.70
Mean			0.765			0.765
Standard Deviation			0.025			0.047
Coefficient of Variance			3.20%			6.18%

Source : "Annual Report of KBL Ltd and LBL Ltd (See in Appendix4.1-D)

The table -4 shows that KBL has higher ratio in FY 2008/09 and 2009/10 i.e.0.80>0.73 and 0.73>0.70 respectively. In FY 2005/06, 2006/07 and 2008/09 LBL has recorded highest ratio i.e0.0.83>0.77, 0.77>0.46 and

0.78>0.77 respectively. So here we can see that the ratios of both banks are less stable and are of fluctuating nature. While examining the mean ratio both bank has equal i.e.0.765=0.765 and CV of LBL is the highest in comparison to KBL which indicates less uniform values on ratios of these banks. Both bank has equally potential to mobilize current assets as loan and advances. Both bank has invest high portion of current assets as loan and advance, which are harmful for both banks.

Figure -4.1.1-D



From the above show comparatively in FY 2005/06, 2006/07 and 2007/08 LBL has high and in FY 2008/09 and 2009/10 KBL has high . Both banks have invested on decreasing trend.

4.1.2 Assets Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit, to satisfy its customers and for its own existence. Asset management ratio measures how efficiently the bank manages its resources at its commands.

The following ratios are studied comparatively to measure the assets management ability of KBL and LBL.

a) Loan & Advance To Total Deposit Ratio

In the process of portfolio management of banks, various factors such as availability of fund, liquidity requirement, central bank norms etc are considered in general. This ratio actually measures the bank's success in mobilizing the deposit on loan and advances for the purpose of profit generation. A high ratio is the indicator of high success to mobilize the banking fund or total deposit in investment and vice versa. But it should be noted that too high ratio might not be better from the liquidity point of view. This ratio is calculated by dividing loan and advances by total deposits.

The ratio is calculated by dividing total investment by total deposit and the ratios of KBL and LBL Ltd are presented in the following table. (Details in Appendix 4.1-E)

Table -4.1.2-A

Loan & Advance To Total Deposit Ratio

Year	KBL			LBL		
	Loan and Advance	Total Deposit	Ratio	Loan and Advance	Total Deposit	Ratio
2005/06	6892.00	7769.00	0.8871	4202.36	4444.35	0.9456
2006/07	8929.00	10557.00	0.8458	6437.45	7611.00	0.8458
2007/08	11335.00	12774.00	0.8873	9794.00	11367.00	0.8616
2008/09	14593.00	15710.40	0.9289	13315.60	16051.30	0.8296
2009/10	14765.91	17432.25	0.8470	14560.11	18082.96	0.8052
Mean			0.879			0.858
Standard Deviation			0.035			0.053
Coefficient of Variance			3.92%			6.23%

Source : "Annual Report of KBL Ltd and LBL Ltd (See in Appendix4.1-E)

The above table shows that the ratios of two banks are fluctuating trend. In FY 2005/06 LBL has higher ratio than KBL. In FY 2006 /07to 2009/10 KBL has higher than the LBL. The mean shows that KBL has higher than the LBL i.e. $0.8979 > 0.858$ a CV of KBL is less than the LBL i.e. $3.92\% < 6.23\%$ which means KBL has more consistence than the LBL.

This analysis shows that comparatively KBL is in good position in mobilizing its total deposit in investment and has also maintained consistency in its ratios but LBL also is in good position in mobilizing its total deposit in investment. On basis of liquidity points of view both bank have invest very higher it is harmful for bank.

Figure - 4.1.2-A

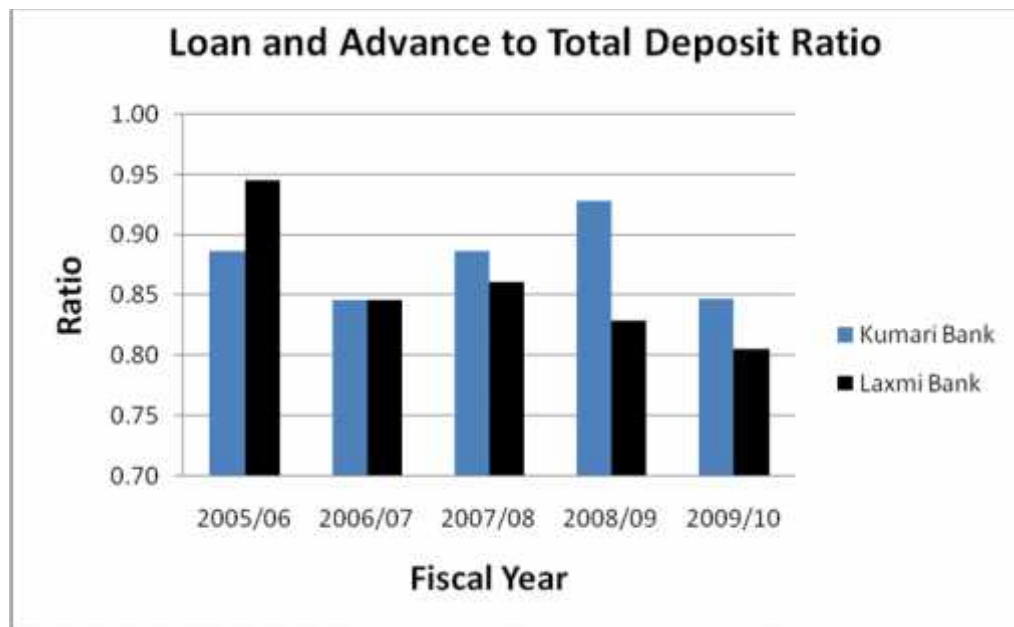


Figure shows that KBLs first decrease and after then increasing trend but LBL line is haphazardly increase and decrease trend. Both banks have the high mobilization of total deposits in investment also maintained consistency in its ratios.

b) Investment to Total Deposit

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial and non-financial companies. Here, efforts have been made to measure the extent to which the bank are successful in mobilizing the total deposit on investment.

In the process of portfolio management of banks, various factors such as availability of fund, liquidity requirement, central bank norms etc, are to be

considered in general. A high ratio is the indicator of high success to mobilize the banking fund or total deposit in investment and vice-versa. The ratio is calculated by dividing total investment by total deposit and the ratios of KBL and LBL presented in the following table. (*details in appendix 4.1-F*)

Table -4.1.2-B

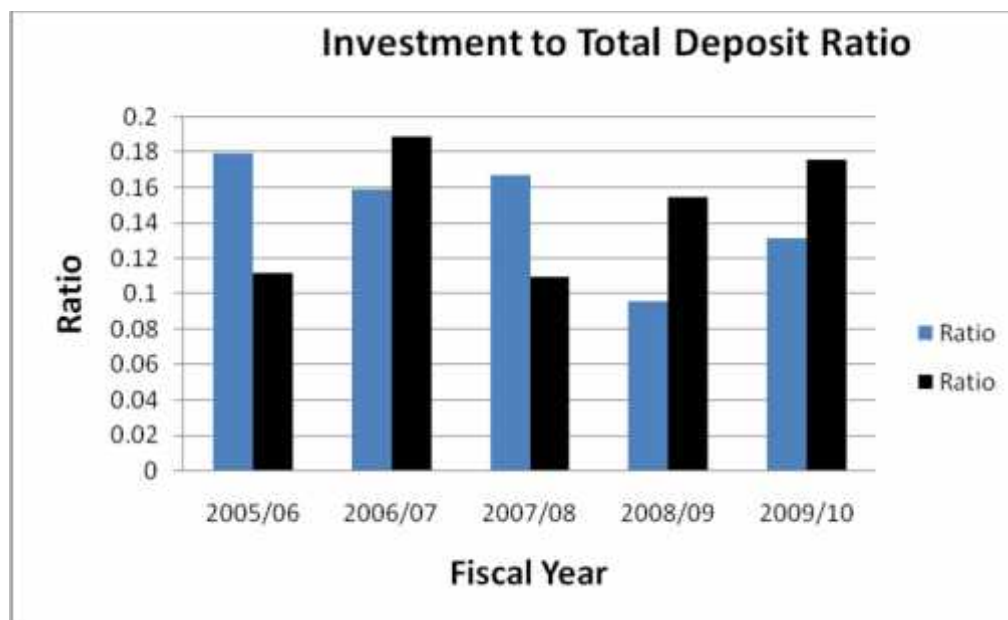
Investment to Total Deposit Ratio

Year	KBL			LBL		
	Investment	Total Deposit	Ratio	Investment	Total Deposit	Ratio
2005/06	1394.00	7769.00	0.1794	499.31	4444.35	0.1123
2006/07	1678.00	10557.00	0.1589	1437.14	7611.00	0.1888
2007/08	2138.00	12774.00	0.1674	1251.20	11367.00	0.1101
2008/09	1510.00	15710.40	0.0961	2483.15	16051.30	0.1547
2009/10	2296.87	17432.25	0.1318	3186.91	18082.96	0.1762
Mean			0.147			0.148
Standard Deviation			0.033			0.036
Coefficient of Variance			22.68%			24.33%

Source : "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-F)

The above table shows that the ratios of KBL and LBL are fluctuating trend. The mean ratio shows that comparatively LBL has the high mobilization of total deposits in investment but both banks have satisfactory. This table shows that KBL is highly consistent in ratios through the study period with CV 22.65% whereas LBL has highly inconsistent in comparison to KBL.

Figure – 4.1.2-B



The above figure shows that both bank are invest is haphazardly. In FY 2005/06 KBL has high ratio, in FY 2006/07 LBL has higher than the KBL and both bank has increasing than the previous year, in FY 2007/08 KBL has higher ratio than the LBL but both bank has lower ratio than the previous year, in FY 2008/09 LBL has higher than KBL and increasing trend KBL has decreasing trend and in FY both bank has increasing trend.

c) Investment On Shares And Debentures To Working Fund Ratio

Commercial banks invest not only in the government securities but also in the shares and debentures of other companies. During the study period, most of the commercial banks including KBL and LBL have purchased the shares of other companies too.

Investment on shares and debentures to total working fund ratio reflects the extent to which the banks are successful to mobilize their total working fund on purchase of shares and debentures of other companies to generate

income and utilize excess fund. A high ratio indicates more portion of investment on shares and debentures and vice-versa.

This is calculated by dividing investment on shares and debentures by total working fund. *(Details in appendix 4.1-G)*

Table – 4.1.2-C

Investment On Shares And Debentures To Working Fund Ratio

Year	KBL			LBL		
	Investment on Share & Debenture	Total Working Fund	Ratio	Investment on Share & Debenture	Total Working Fund	Ratio
2005/06	0.35	9010.28	0.00004	13.36	5205.19	0.00257
2006/07	0.35	11918.31	0.00003	54.25	8582.69	0.00632
2007/08	18.22	15026.60	0.00121	88.36	12695.02	0.00696
2008/09	18.35	18538.57	0.00099	118.96	18386.41	0.00647
2009/10	21.92	20522.47	0.00107	126.03	20952.25	0.00602
Mean			0.001			0.006
Standard Deviation			0.00058			0.0018
Coefficient of Variance			87.41%			31.16%

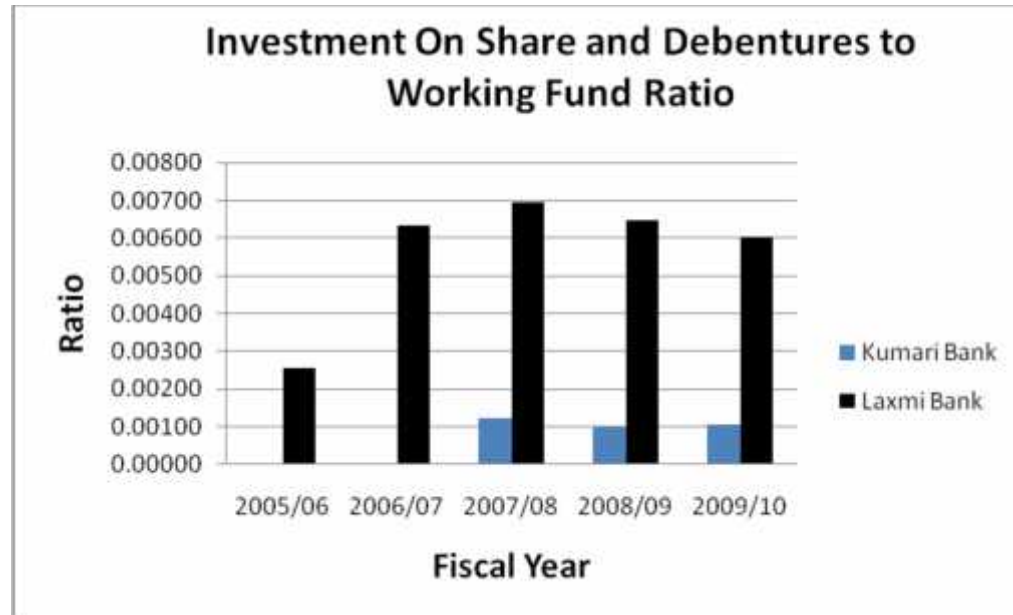
Source : *"Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-G)*

The above table shows that the ratios are in fluctuating trend. Both banks have invested a very minimum amount in share and debenture of the other companies. Comparatively, LBL has invested high amount in share and debenture in every year which has mean ratio of 0.06 of total working fund and which is higher than the KBL i.e. 0.01.

Higher ratio is best for the bank but both banks are invest very little amount of its total working fund in shares and debenture of their companies. The CV in the above table also shows that LBL is more

consistent and has maintained a stable ratio than KBL during the study period of five years.

Figure – 4.1.2-C



In the above figure - 7, we can see that kumara bank has invested in share and debenture is very low than the LBL.

4.1.3 Profitability Ratio

The Major Objective of all commercial banks is to earn profit. Strictly speaking, no bank can survive without profit. Profit is the indicator of efficient operation of a bank. The bank acquires profit by providing different services to its customers or by making investment of different kinds. Sufficient profit is a must to have good liquidity to grab the hidden investment opportunities, expand banking transaction, finance government is needed of development fund, overcome the future contingencies and meet fixed internal obligation for a bank.

The profitability ratios are the best indicators of overall efficiency. It measures the efficiency of a bank. Higher the ratio higher will be the

efficiency of a bank. Here, mainly those major ratios are presented and analyzed through which the effort has been made to measure the profit earning capacity of KBL Ltd and LBL Ltd.

a) Return On Total Working Fund Ratio (ROA)

Return on total working fund ratio is a measuring for the profitability with respect to each financial resources investment of the bank’s assets. If the bank’s total working fund is well managed an efficiently utilized, return on such assets will be higher and vice-versa. Minimizing taxes within the legal options available will also improve the return.

This ratio is calculated by dividing net profit by total working fund or total assets. The following table shows the profitability position with respect to total working fund of KBL and LBL Ltd. *(Details in appendix 4.1-H)*

Table- 4.1.3-A
Return On Total Working Fund Ratio (ROA)

Year	KBL			LBL		
	Net Profit	Total Working Fund	Ratio	Net Profit	Total Working Fund	Ratio
2005/06	103.6662	9010.2762	0.0115	35.3853	5205.1903	0.0068
2006/07	170.2629	11918.3114	0.0143	65.5795	8582.6900	0.0076
2007/08	174.9302	15026.5992	0.0116	120.0313	12695.0200	0.0095
2008/09	261.4426	18538.5651	0.0141	189.0000	18386.4130	0.0103
2009/10	316.5423	20522.4747	0.0154	327.0370	20952.2496	0.0156
Mean			0.013			0.010
Standard Deviation			0.00174			0.0035
Coefficient of Variance			12.96%			34.66%

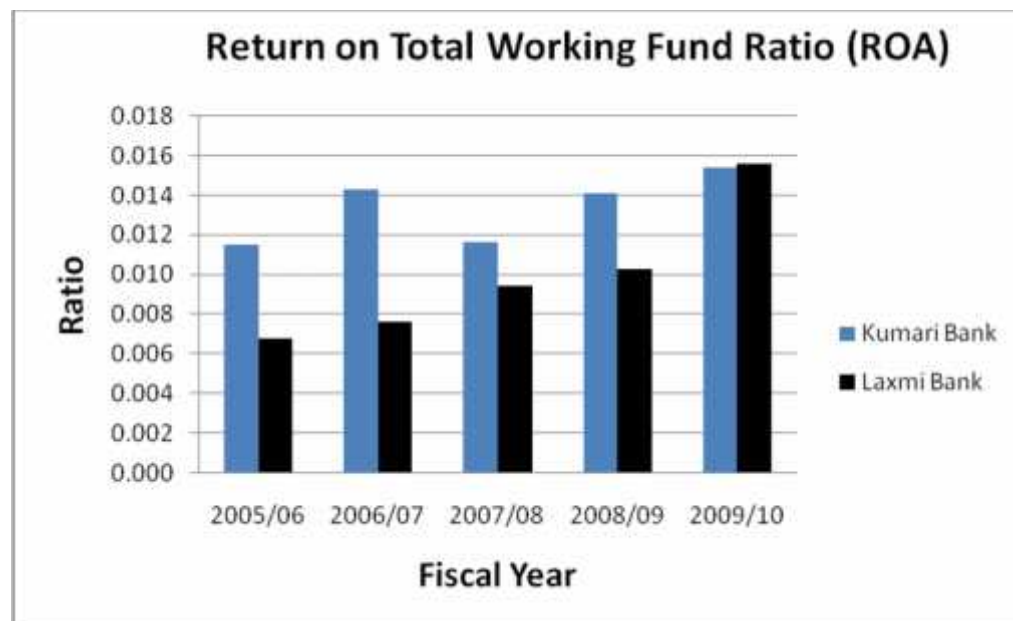
Source : "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-H)

The above table shows that the ratios of KBL and LBL are in fluctuating trend .KBL has higher ratio than the LBL Ltd in FY 2005/06, 2006/07, 2007/08 and 2008/09 i.e. 0.011, 0.0143, 0.0166 and 0.0141 respectively same as LBL has lower ratio than the KBL wheras only one fiscal 2009/10 has higher. Mean ratio of KBL is higher than the LBL Ltd. i.e. 0.013> 0.010. Same as coefficient of variance of KBL is lower than the LBL Ltd.

When the mean ratios are observed, KBL seems to have earned higher return on total assets (ROA) which is slightly higher than that of LBL Ltd.

From the above analysis, it can be said that KBL has the highest capacity to earn high return on total working fund but it has maintained less consistent ratios than that of LBL.

Figure – 4.1.3-A



In the above figure, KBL line is higher than the LBL. It means KBL has the highest capacity to earn high return on total working fund and LBL line

is less than two KBL so it has low capacity to earn high return on total working fund.

b) Total Interest Earned To Total Outside Assets Ratio

The main assets of a commercial bank are its outside assets, which include loan and advances, investment on government securities, investment on share and debentures and all other types of investment. Thus, this ratio reflects the extent to which the banks are successful to earn interest as a major income on all the outside assets. A high ratio indicates high earning power on such outside assets and vice-versa.

This ratio is calculated by dividing total interest earned by total outside assets. The following table exhibits the ratio of total interest earned to total investment of KBL Ltd and LBL Ltd. *(Details in appendix 4.1-I)*

Table – 4.1.3-B

Total Interest Earned To Total Investment Ratio

Year	KBL			LBL		
	Total Interest	Total Investment	Ratio	Total Interest	Total Investment	Ratio
2005/06	605.53	1394.00	0.43	319.25	499.31	0.64
2006/07	791.28	1678.00	0.47	470.49	1437.14	0.33
2007/08	957.25	2138.00	0.45	711.01	1251.20	0.57
2008/09	1374.72	1510.00	0.91	1098.99	2483.15	0.44
2009/10	1871.07	2296.87	0.81	1787.69	3186.91	0.56
Mean			0.616			0.508
Standard Deviation			0.228			0.123
Coefficient of Variance			37.1 %			24.2%

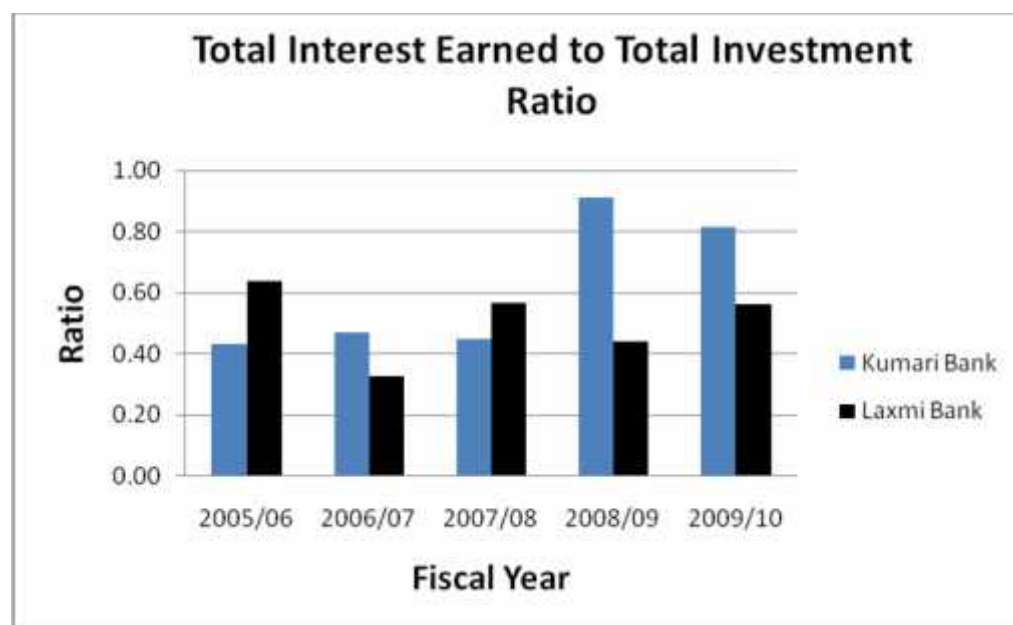
Source : "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-I)

The above table shows that the ratios of KBL Ltd are lower than LBL in FY 2005/06,2006/07 and 2007/08 and in FY 2008/09 and 2009/10 KBL has high ratio than LBL. Mean ratio standard deviation and coefficient of variance of KBL is also higher than the LBL i.e. $0.616 > 0.508$ and $0.228 > 0.123$ and $37.1\% > 24.2\%$ respectively.

While analyzing, the mean ratios, we can see that KBL has the highest mean ratio which indicates that it has than highest capacity to earn interest income from the outside assets whereas LBL has the lowest mean ratio which indicates that comparatively, LBL is not in a strong position to earn interest income from the total outside assets. From the CV observed LBL seems to have more consistent ratios than the KBL.

The comparative total interest earned to total outside assets of two banks is presented in the below diagram.

Figure -4.1.3-B



The above figure shows that KBL line is lower in FY 2005/06 and 2007/08 than LBL. It means it has lower capacity to earn interest income from outside assets in every year. The line show that the income from outside is very little different of both bank. So that the LBL income from outside is also good position but comparatively low.

c) Return On Loan And Advances Ratio

Return on loan and advances ratio measures the earning capacity of commercial banks on its deposits mobilized as loan and advances. Mostly loan and advances include loan cash credit, overdrafts, bill purchased and discounted. A higher ratio indicates greater success to mobilize fund as loan and advances and vice-versa.

The ratio is calculated by dividing net profit by loan and advances. The following table shows this ratio of the three banks. **(Details in appendix 4.1-J)**

Table -4.1.3-C
Return On Loan And Advances Ratio

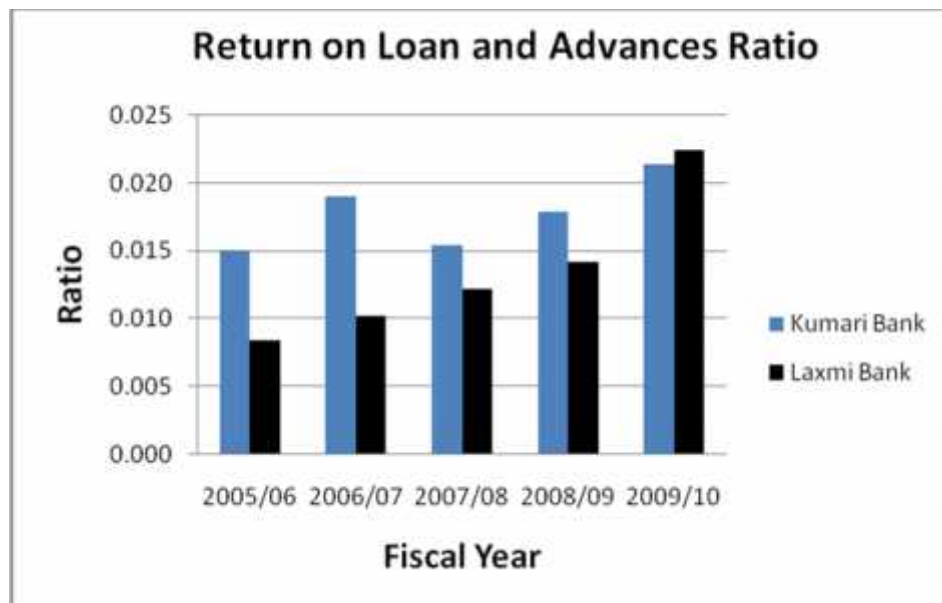
Year	KBL			LBL		
	Net Profit	Loan & Advance	Ratio	Net Profit	Loan & Advance	Ratio
2005/06	103.666	6892.000	0.015	35.385	4202.362	0.008
2006/07	170.263	8929.000	0.019	65.579	6437.450	0.010
2007/08	174.930	11335.000	0.015	120.031	9794.000	0.012
2008/09	261.443	14593.000	0.018	189.000	13315.604	0.014
2009/10	316.542	14765.912	0.021	327.037	14560.110	0.022
Mean			0.0178			0.0135
Standard Deviation			0.0026			0.0055
Coefficient of Variance			14.90%			40.41%

Source : "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-J)

The above table shows ratios of both banks increasing trend. In fiscal 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 are 0.015, 0.019, 0.015, 0.018, and 0.021 respectively. Comparatively LBL has lower than the KBL .Mean ratio of KBL is 0.0178 which is higher than the LBL i.e. 0.0135 and CV of KBL is lower than the LBL i.e. 14.90 < 40.15%. KBL is more consistence than the LBL.

The mean ratio shows comparatively that KBL has the higher capacity to mobilize its deposit as loan and advances and earn high return than the LBL. Observing the Coefficient of Variance, KBL has more stable and homogeneous ratio than LBL. It is concluded that KBL has higher capacity is the highest and consistent whereas LBL has maintained the low consistent and less capacity to earn on loan and advances.

Figure – 4.1.3-C



In the above figure, KBL line has higher than the LBL and the line fluctuating is haphazardly first three year after then increasing trend. LBL

line has lower than the KBL the line show FY 2009/10 but the increasing than previous year. LBL also are increasing trend.

4.1.4 Risk Ratios

The possibility of risk makes bank's investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is satisfied by the increase in profit. So, the banks operating for high profit have to accept risk and manage it efficiently. A bank has to have the idea of the level of risk that one has to bear while investing its funds.

Through the following ratios, efforts have been made to measure the level of risk in the KBL and LBL Ltd.

a) Liquidity Risk Ratio

The liquidity risk of a bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as the banks liquidity sources and deposit. The ratio of total cash and bank balance to the total deposit is the indicator of bank liquidity needed.

The risk is low if funds are kept idle as cash and bank balance. But this reduces profitability. When bank grants loan, its profitability increases and so does the risk. The higher liquidity ratio indicates less risk and less profitable bank and vice-versa. This ratio is calculated by dividing cash and bank balance by total deposits (**details in Appendix 4.1-K**). The following table shows the liquidity risk ratio inherent in the two banks.

Table – 4.1.4-A

Liquidity Risk Ratio

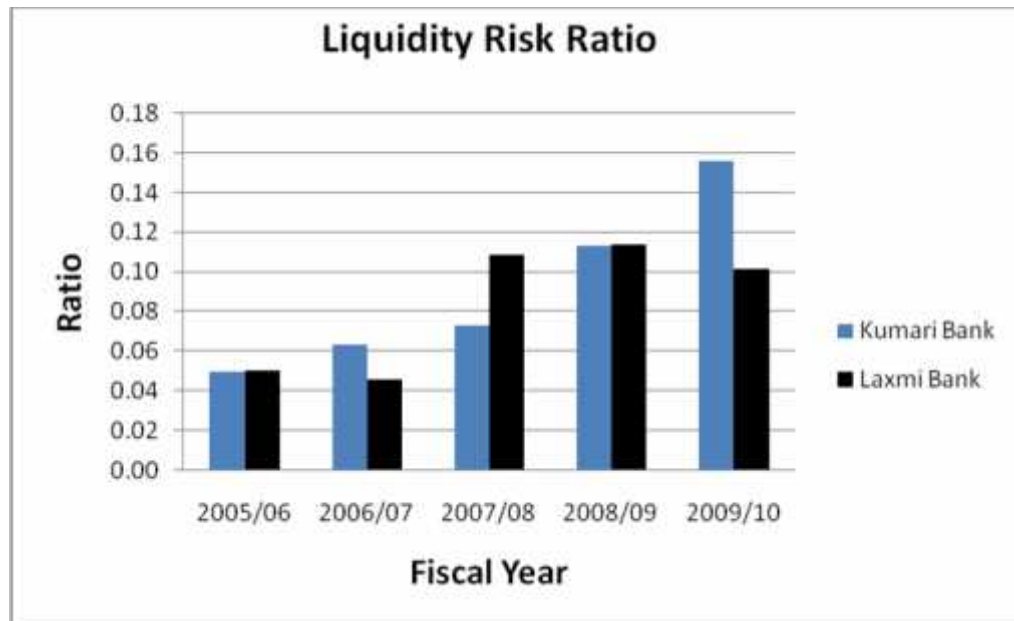
Year	KBL			LBL		
	Total Cash and Bank Balance	Total Deposit	Ratio	Total Cash and Bank Balance	Total Deposit	Ratio
2005/06	389.63	7769.00	0.050	225.12	4444.35	0.0507
2006/07	672.11	10557.00	0.064	350.40	7611.00	0.0460
2007/08	933.84	12774.00	0.073	1238.16	11367.00	0.1089
2008/09	1776.30	15710.40	0.113	1832.78	16051.30	0.1142
2009/10	2723.83	17432.25	0.156	1840.70	18082.96	0.1018
Mean			0.0912			0.0843
Standard Deviation			0.0432			0.0332
Coefficient of Variance			47.39%			39.34%

Source : "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-K)

The above show that the liquidity ratios show that they are in fluctuating trend. In FY 2005/06, 2006/07, 2008/09 and 2009/10 the ratio of KBL has higher than the LBL. Mean ratio of KBL is higher than the LBL i.e. $0.0912 > 0.0843$, and the Coefficient of Variance of KBL is higher than the LBL Ltd. i.e. $47.39\% < 39.34\%$.

The comparison of mean ratio of the LBL has lower than the KBL, which indicates that high liquidity risk. Thus, which mean it operate with high risk which increase profitability and it has also maintained homogeneous ratio than the KBL. On the other hands KBL has higher liquidity which indicates that it operates with lower risk and which lower profitability. Coefficient of variance of KBL is higher than the LBL which indicate that the KBL is consistent than the LBL.

Figure – 4.1.4-A



The above figure shows that both banks have increasing trend in every year. KBL line in FY 2005/06 and 2006/07 is higher than the LBL and in FY 2007/08 LBL has higher line, in FY 2008/09 both banks have same line and FY 2009/10 KBL has higher line than the LBL.

b) Credit Risk Ratio

Credit risk ratio helps to check the profitability of loan non-payment or the possibility of loan to go into default or it is also said that is measures the risk behind making investment or granting loan. The ratio is calculated by dividing the total loans and advances by the total assets of the bank and is expressed in percentage. *(Details in Appendix 4.1-L)*

Table-4.1.4-B
Credit Risk Ratio

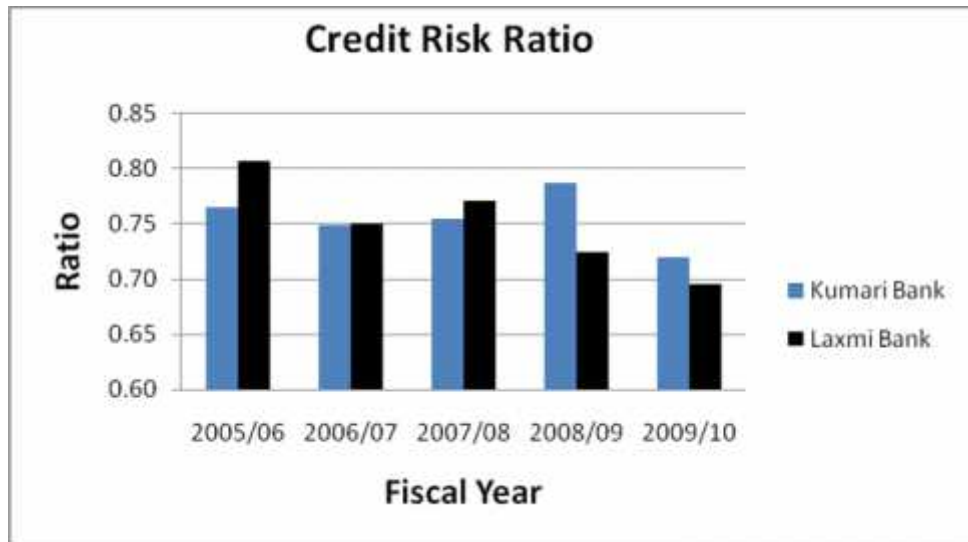
Year	KBL			LBL		
	Total Loan and Advance	Total Assets	Ratio	Total Loan and Advance	Total Assets	Ratio
2005/06	6892.00	9010.28	0.7649	4202.36	5205.19	0.8073
2006/07	8929.00	11918.31	0.7492	6437.45	8582.69	0.7501
2007/08	11335.00	15026.60	0.7543	9794.00	12695.02	0.7715
2008/09	14593.00	18538.57	0.7872	13315.60	18386.41	0.7242
2009/10	14765.91	20522.47	0.7195	14560.11	20952.25	0.6949
Mean			0.7550			0.7496
Standard Deviation			0.0246			0.0432
Coefficient of Variance			3.26%			5.76%

Source: "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-L)

From the above table LBL has higher ratio in FY 2005/06, 2006/07, and 2007/08 and in FY 2008/09 and 2009/10 KBL has lower ratio than the LBL. Mean ratio of LBL is higher than the KBL i.e. $0.7099 > 0.7439$ and coefficient of variance of KBL is less than the KBL i.e. $3.0498 < 9.3161$.

The ratio indicate in FY 2005/06, 2006/07, and 2007/08 of LBL has higher credit risk than the KBL and in FY 2008/09 and 2009/10 KBL has higher than the LBL. Mean ratio shows that the LBL has a higher risk in granting loan than the KBL. The coefficient of variance shows the LBL has more consistent than the KBL.

Figure -4.1.4-B



From the above figure both bank has Credit risk is increasing trend which is better for both bank. In FY 2005/06, 2006/07, and 2007/08 KBL has low Credit risk ratio and FY 2008/09 and 2009/10 has high ratio.

4.1.5 Growth Ratio

The growth ratio represents how well the commercial banks are maintaining their economic and financial position. Under this topic, those growth ratios are analyzed and interpreted which are directly related to the fund mobilization an investment management of commercial banks. These ratios are as follows.

- a) Growth ratio of total deposit
- b) Growth ratio of loan and advances
- c) Growth ratio of total investment, and
- d) Growth ratio of net profit

a) Growth Ratio Of Total Deposit

Growth rate of total deposit show the collect money of depositors and goodwill of bank. The following table shows the growth rate of KBL and LBL (*Details in Appendix 4.1-M*)

Table -4.1.5-A
Growth Ratio Of Total Deposit (%)

Year	KBL	LBL
2005/06	7769.00	4444.35
2006/07	10557.00	7611.00
2007/08	12774.00	11367.00
2008/09	15710.40	16051.30
2009/10	17432.25	18082.96
Growth Ratio (%)	22.39%	42.03%

Source: "Annual Report of KBL Ltd and LBL Ltd (See in Appendix4.1-M)

The above table shows that the growth ratio of total deposit of KBL is lower than the LBL Ltde i.e. 22.39 % < 42.03%.. LBL has collect higher than KBLed. Both banks have collect deposit in increasing trend in FY 2005/06 , 2006/07 and 2008/09 KBL has collected higher deposit than the LBL i.e 7769 > 444.35, 1055 > 7611 and 12774 > 11367 and in FY 2008/09 and 2009/10 LBL has collected higher than the KBL.

b) Growth Ratio of Loan and Advances

The growth ratio of loan and advances is shows investing capacity of bank. More loan flow has given increase profit for bank. The bank growth ratio must be increase every year. The following table shows the growth ratio of loan and advances of KBL and LBL in given below. (**Details in Appendix 4.1-N**)

Table – 4.1.5-B
Growth ratio of loan and advances

Year	KBL	LBL
2005/06	6892.00	4202.36
2006/07	8929.00	6437.45
2007/08	11335.00	9794.00
2008/09	14593.00	13315.60
2009/10	14765.91	14560.11
Growth Ratio (%)	20.98%	36.43%

Source: "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-M)"

From above table show that KBL has 20.98% of growth ratio of loan and advances and LBL has 36.43% of growth ratio. Comparatively LBL has higher ratio than KBL which indicate that the LBL has flow loan better than the KBL. Both banks flow loan in increasing trend. Every FY KBL has flown the loan than the LBL.

c) Growth Ratio of Total Investment

Investment is important for bank. Bank profit is depending on the investment so the growth ratio of total investment must be increase every year. The following table shows the growth ratio of total investment of KBL and LBL Ltd. *(Details in Appendix 4.1-O)*

Table – 4.1.5-C
Growth ratio of Total Investment

Year	KBL	LBL
2005/06	1394.00	499.31
2006/07	1678.00	1437.14
2007/08	2138.00	1251.20
2008/09	1510.00	2483.15
2009/10	2296.87	3186.91
Growth Ratio (%)	13.30%	58.95%

**Source: "Annual Report of KBL Ltd and LBL Ltd
(See in Appendix 4.1-M)**

From above table shows that the growth ratio of total investment of KBL and LBL are 13.30% and 58.95% respectively. LBL has higher ratio than the KBL which means the LBL investment is higher than KBL. Both banks investment is increasing trend.

d) Growth Ratio of Net s Profit

Net profit is important for the every profitable business. The Major Objective of all commercial banks is to earn profit. The bank cannot survive without profit. Profit is the indicator of efficient operation of a bank. The bank acquires profit by providing different services to its customers or by making investment of different kinds.

The growth ratio of net profit represents how well the commercial banks are maintaining their net profit in every year. The following table shows the growth ratio of KBL and LBL. Detail in (**Appendix 4.1-P**)

Table – 4.1.5-D
Growth Ratio of Net Profit

Year	KBL	LBL
2005/06	103.67	35.39
2006/07	170.26	65.58
2007/08	174.93	120.03
2008/09	261.44	189.00
2009/10	316.54	327.04
Growth Ratio (%)	13.19%	74.36%

Source: "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.1-M)"

From the above table shows that the KBL has 13.19% and LBL has 74.36% growth ratio of net profit. LBL has very higher ratio than KBL which indicate the net profit is higher than the LBL. Both bank have net profit is increasing trend.

4.2 Statistical Analysis

Under this, some statistical tools are used to achieve the objective of the study. Following statistical tools are used for this purpose.

1. Coefficient of correlation analysis
2. Trend analysis
3. Test of hypothesis

4.2.1 Coefficient Of Correlation Analysis

In this topic, Karl Pearson's coefficient of correlation has been used to find out the relationship between deposit and total investment, deposit and loan and advances, outside assets and net profit.

To find out those relationships, the following formula is used

$$\text{Coefficient of correlation (r)} = \frac{\Sigma XY}{\sqrt{\Sigma X^2} \sqrt{\Sigma Y^2}}$$

Here, the probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of coefficient of correlation 'r'. The probable error (P.Er) is defined by;

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

Where,

r = correlation coefficient

N= Number of pairs of observations

Conclusion

1. If $r < \text{P.Er}$, the value of 'r' is not significant no matter how high r value is i.e. there is no evidence of correlation between the variables.
2. If $r > 6 \text{ P.Er}$ the value of 'r' is significant i.e. there is evidence of correlation between the variables.

The upper and lower limits within which the correlation coefficient in the population is expected to lie are $(r + \text{P.Er.})$ and $(r - \text{P.Er})$ respectively.

a) Correlation Between Deposit And Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between two variables. In correlation analysis,

deposit is independent variables(X) and total investment is dependent variables(Y).The purpose of computing coefficient of correlation is to justify whether the deposits are significantly used in proper way or not and whether there is any relationship between these two variables or not. The following table shows the coefficient of correlation between deposit and total investment i.e r, r², P.Er, 6 P.Er and co-efficient of determination (r²) of KBL and LBL (*Annex 4.2-A*)

Table -4.2.1-A

Correlation between Deposit and Total Investment

Bank	R	r²	P.Er	6P.Er
KBL Ltd	0.6134	0.3763	0.1714014	1.0284
Kaxmi Bank Ltd	0.9495	0.9016	0.0270498	0.0270

Source: "*Annual Report of KBL Ltd and LBL Ltd (See in Appendix4.2-A)*"

From the above table, we find that the value of co-efficient of correlation (r) between deposit (independent) and total investment (dependent) is 0.6134 and 0.9495of KBL and LBL. It shows that there is high degree positive relationship between these two variables. Similarly co-efficient of determination (r²) is 0.3763 and 0.9016 KBL and LBL respectively, which indicates that 37.63 % and 9016% of KBL and LBL ‘s total variation in dependent variable (Total Investment) is due to the effect of independent variable (Deposit) and rest is due to the effect of other factors. Further the value of 6 P.Er is 1.0284 for KBL Ltd which is greater than the r so the value of r is not there is no evident of correlation between total investment and deposit. The LBL has 0.0270. The co-efficient of correlation (r) between deposit and total investment is significant for LBL because (r) is greater than 6 times of P.Er

Both KBL and LBL have strong positive relationship between deposit and investment. It seems that both bank has utilize the deposit in proper way.

b) Correlation Between Deposit And Loan And Advances

Coefficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis, deposit is independent (X) and loan and advances (Y). The main objective of computing 'r' between these two variables is to justify whether deposit are significantly used as loan and advances in proper way or not.

The following table exhibits the value of r, r², P.Er and 6P.Er between deposit and loan and advances of KBL and LBL Ltd for the period. (*Annex 4.2-B*)

Table 4.2.1-B
Correlation between Deposit and Loan and Advances

Bank	r	r²	P.Er	6P.Er
KBL	0.9889	0.9778	0.0060898	0.0365
LBL	0.9990	0.9980	0.0005553	0.0033

Source: "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.2-B)

The above table shows that coefficient of correlation (r) between deposit and loan and advances of KBL and LBL are 0.9889, and 0.990. It means there is a high degree of positive relationship between these two variables. Moreover, coefficient of determination (r²) of KBL and LBL is 0.9778 and 0.9980, which means 97.78%, and 99.80% of the variation in the dependent variation in the dependent variable (loan and advances) has been explained by the independent variables (deposit) and remaining has been explained by the other factor. Further, value of 6P.Er of KBL and LBL is 0.0365 and 0.0033 it shows that the value of coefficient of

correlation (r) of KBL and LBL is higher than the value of 6 P.Er which means that the value of 'r' is significant.

From the above analysis, it can be concluded both bank KBL and LBL has positive relationship between deposit and loan and advances. Both bank has approximately same i.e. 0.9979 and 0.9957 'r' which means that it has successful in mobilizing deposit as loan and advances.

c) Correlation Between Investment And Net Profit

The outside assets include loan and advances and all types of investment of a commercial bank. In this analysis, total outside assets is independent variable (X) and net profit is dependent variable (Y). The main Objective of calculation of this correlation is to justify whether the net profit is significantly correlated with total outside assets or not.

The following table exhibits the value of r , r^2 , P.Er and 6P.Er between total outside assets and net profit of KBL and LBL Ltd for the period. (Annex 4.1-D)

Table 4.2.1-C
Correlation between Total Investment and Net Profit

Bank	r	r^2	P.Er	6P.Er
KBL	0.5614	0.3151	0.18821	1.1293
LBL	0.9483	0.8992	0.02770	0.1662

Source: "Annual Report of KBL Ltd and LBL Ltd (See in Appendix 4.2-C)

From the above table, it is found that the coefficient of correlation between total Total investment (independent) and net profit (dependent) of KBL Ltd and LBL Ltd is 0.5614 and 0.9483, which indicates highly positive relationship for KBL and LBL. Similarly, while considering the coefficient of determination (r^2) of KBL and LBL is 0.3151 and 0.8992. It is indicate

that 31.51 %, and 89.92% of the variation in the dependent variable has been explained by the independent variable. Moreover, by considering the 6P.Er, we can say that there is no significant relationship between total investment assets and net profit of KBL because the value of 'r', i.e. 0.5614 is low than 6P.Er i.e. 1.1293. LBL has significant relationship between total investment and net profit.

In conclusion, we can say that KBL has positive relationship between investment and net profit but not significant value which shows it is not successful in earn profit by mobilizing its outside assets in comparison to LBL. LBL also has positive relationship between outside assets and net profit it also has better position in obtaining of the net profit from mobilized fund.

4.2.2 Trend analysis and projection for next five years

The main objective of this analysis is to analyze the trend of deposit collection. Utilization and net profit of KBL Ltd and LBL Ltd Granting loan and advances and investing some of the funds in government securities and shares and debenture of other companies by the commercial banks is the utilization of deposits. This topic analysis the trend of total deposit, loan and advances, total investment and net profit and are forecast for next five years. On the basis of past performance and recorded the projection are based on the following assumption

- a. The main assumption is that other things will remain unchanged.
- b. The bank will run in this present position.
- c. The economy will remain in the present stage.

- d. The forecast will be true only when the limitation of least square methods is carried out.
- e. Nepal Rastra Bank will not change its guideline to commercial banks.

The trends of related variables can be calculated as,

$$y = a + bx \dots\dots\dots i)$$

Where,

a, b = constant coefficient

y = Estimating variable

Using the least square method

$$\sum Y = Na + b \sum x \dots\dots\dots ii)$$

Again multiplying eqⁿ. i) by x, we get

$$\sum xy = a \sum x + b \sum x^2$$

When deviation from mean (Midyear)

I.e. x and sum $\sum x = 0$

From the equaton ii)

$$\sum y = na + 0$$

$$a = \frac{\Sigma y}{n}$$

From the equaton ii)

$$\Sigma xy = \mathbf{0} + \mathbf{b} \Sigma x^2$$

$$b = \frac{\Sigma xy}{\Sigma x^2 n}$$

From the equation (IV) and (V), the values of (a) (b) have been found, the required trend line $y = a + bx$ with the help of given time, i.e. the value of y can be estimated.

a) Trend Analysis Of Total Deposits

An effort has been made under this topic to calculate the trend values of deposits of KBL and LBL for the five years from 2005/06 to 2009/10 and forecast has been done for next five years from 2010/11 to 2014/15 (Calculation in appendix4.3-A). The following table shows the trend values of deposits for ten years from F/Y 2005/06 to 2014/15.

Table 4.2.2-A
Trend Value of Total Deposit.

Year	KBL	LBL
2005/06	7952.55	4367.82
2006/07	10400.54	7939.57
2007/08	12848.53	11511.32
2008/09	15296.52	15083.07
2009/10.	17744.51	18654.83
2010/11	20192.50	22226.58
2011/12	22640.49	25798.33
2012/13	25088.48	29370.08
2013/14	27536.47	32941.83

2014/15	29984.46	36513.58
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**Source: "Annual Report of KBL Ltd and LBL Ltd
(See in Appendix 4.3-A)**

Figure 4.2.2-A



From the above comparative table, it is clear that total deposits of two banks are in increasing trend. Other things remaining same or constant, total deposit in F/Y 2010/11 to 2014/15 of KBL is predicated to be 20192.50Million, 22640.49Million, 25088.48Million, 27536.47 and 29984.46 Million which is highest under the period. From the above trend analysis, LBL has deposit collection position is better than the KBL. In FY 2010/011LBL has predicts 22226.5, 25798.33, 29370.08, 32941.83 and 36513.58 million which is higher than the KBL i.e. 4823.47 Million.

b) Trend analysis of loan and advances

Here the trend values of loan and advances of KBL and LBL for the five years from 2005/06 to 2009/10 and forecast has been done for next five years from 2010/11 to 2014/15 .The following table shows the trend values of loan and advances for ten years from F/Y 2005/06 to 2014/15. (Appendix 4.3-B)

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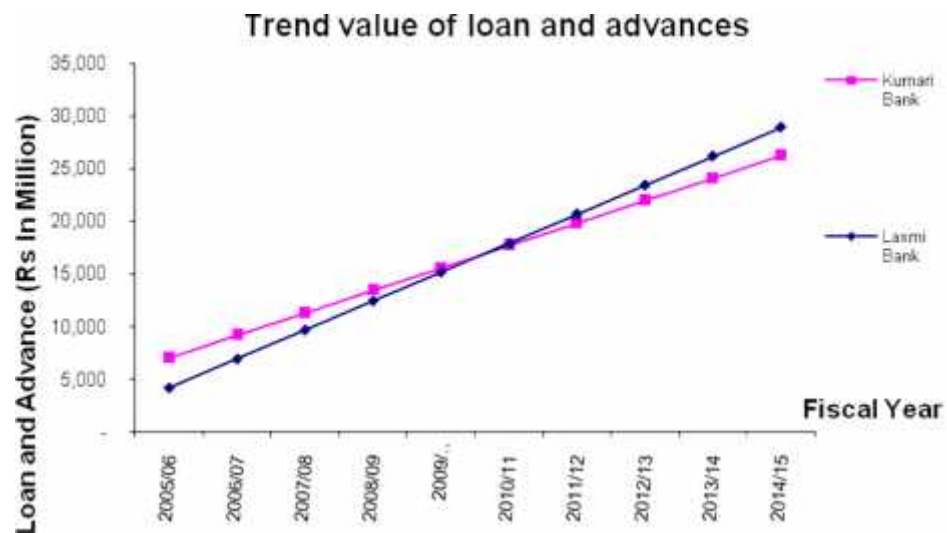
Table 4.2.2-B
Trend Value of Loan and Advances

(Rs. In Millions)

Year	KBL	LBL
2005/06	7,020.62	4,143.18
2006/07	9,161.80	6,902.54
2007/08	11,302.98	9,661.91
2008/09	13,444.16	12,421.27
2009/10.	15,585.35	15,180.64
2010/11	17,726.53	17,940.00
2011/12	19,867.71	20,699.36
2012/13	22,008.89	23,458.73
2013/14	24,150.08	26,218.09
2014/15	26,291.26	28,977.46

Source: "Annual Report of KBL Ltd and LBL Ltd
(See in Appendix 4.3-B)

Figure 4.2.2-B



From the above comparative table and figure, loan and advance of two bank are in increasing trend. Other things remaining constant, loan and advances of KBL in F/Y 2010/2011, 2011/12, 2012/13 and 2013/14 is

predicated to be 18,545.40 Million, 20,874.60 Million, 23,203.80 Million, 25,533.00 Million, and 27,862.20 Million respectively. The trend value of LBL are 18409.06 Million, 21268.98 Million, 24128.9 Million, 26988.82 million and 29848.74 above comparative trend value shows LBL is in better position than KBL in utilization of deposit in term of loan and advances.

c) Trend analysis of Investment

Here the trend values of investment of KBL and LBL for the five years from 2005/03 to 2009/10 and forecast has been done for next five years from 2010/11 to 20014/15 .The following table shows the trend values of investment for ten years from F/Y 2005/06 to 2014/15. (*Annex 4.3-C*)

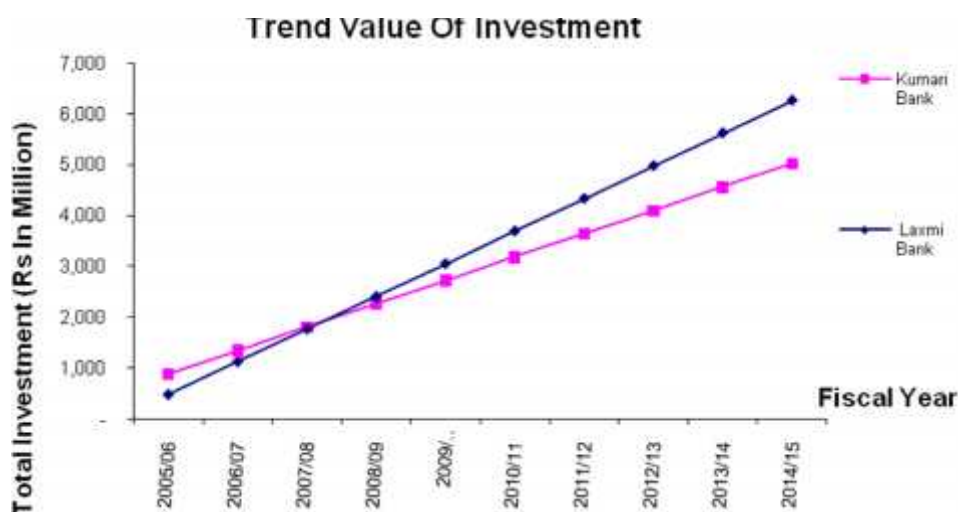
Table 4.2.2-C
Trend Value of Total Investment

(Rs. In Millions)

Year	KBL	LBL
2005/06	884.63	487.30
2006/07	1,344.00	1,129.42
2007/08	1,803.37	1,771.54
2008/09	2,262.75	2,413.66
2009/10.	2,722.12	3,055.78
2010/11	3,181.50	3,697.90
2011/12	3,640.87	4,340.02
2012/13	4,100.25	4,982.14
2013/14	4,559.62	5,624.26
2014/15	5,019.00	6,266.38

Source: "Annual Report of KBL Ltd and LBL Ltd
(See in Appendix4.3-C)

Figure 4.2.2-C



The above table and Figure shows that both banks are in increasing trend. The investment of KBL is higher than the LBL. Both banks trend line is go up to in parallel line. Other things remaining the same; KBL has predicted to be investment in F/Y 2010/11, 2011/12, 2012/13, 203/14 and 2014/15 are 22,875.22 Million, 26,259.48 Million , 29,643.74 Million, 33,028.00 million and 36,412.26 respectively. LBL has predicted to be 21656.86 million, 25032.98 million, 28409.1 million, 31785.22 million and 35161.34 are in FY 2010/11, 2011/12, 2012/13, 203/14 and 2014/15 respectively. Data shows that in FY 2005/06 KBL has high trend value than LBL. KBL has better investment than LBL.

d) Trend value of Net profit

Here the trend values of net profit of KBL and LBL for the five years from 2005/03 to 2009/10 and forecast has been done for next five years from 2010/11 to 20014/15 .The following table shows the trend values of net profit for ten years from F/Y 2005/06 to 2014/15. (**Annex 4.3-D**)

Table 4.2.2-D

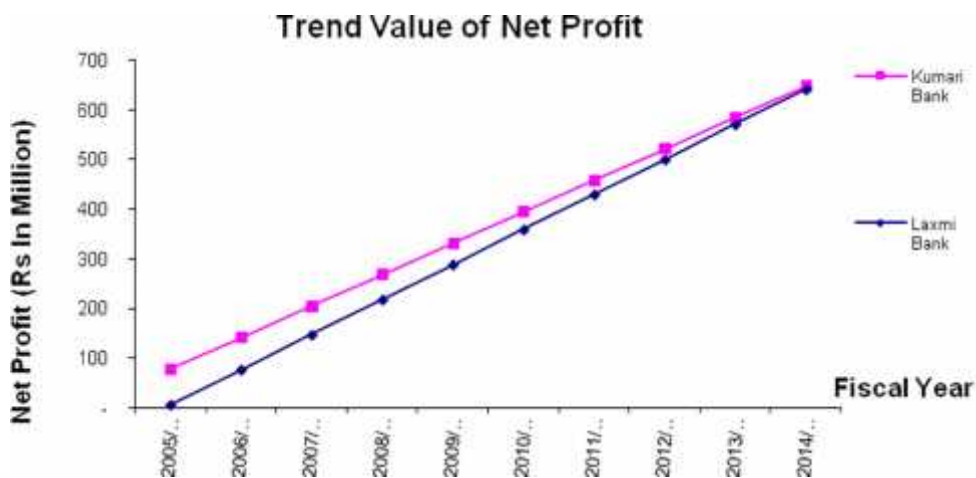
Trend Value of Net Profit Rs

(In Millions)

Year	KBL	LBL
2005/06	78.75	6.06
2006/07	142.06	76.73
2007/08	205.37	147.41
2008/09	268.68	218.08
2009/10.	331.99	288.75
2010/11	395.29	359.42
2011/12	458.60	430.10
2012/13	521.91	500.77
2013/14	585.22	571.44
2014/15	648.53	642.11

Source: "Annual Report of KBL Ltd and LBL Ltd
(See in Appendix 4.3-D)

Figure 4.2.2-D



The above table shows that KBL has higher net profit trend than the LBL. In FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 are 78.76 million, 142.06 million, 205.36 million, 268.66 million and 331.96 million respectively and LBL has 6.2 million, 76.87 million, 147.54 million,

218.21 million and 288.88 million respectively. Other things remaining the same, net profit of KBL in FY 2010/11, 2011/12, 2012/13, 2013/14 and 2014/15 is predicted to be 395.26 million, 458.56 Million, 521.86 Million, 585.16 Million and 648.46 Million. LBL in FY 2010/11, 2011/12, 2012/13, 2013/14 and 2014/15 is predicted to be 359.55 million, 430.22 Million, 500.89Million, 571.56 Million and 642.23 Million respectively. Comparatively, KBL is predicated to earn high profit than LBL. KBL line is higher than LBL. It means KBL is able to earn more profit.

e) Trend Analysis of Non-Performing Assets

Here the trend values of non-performing Assets of KBL and LBL for the five years from 2005/03 to 2009/10 and forecast has been done for next five years from 2010/11 to 20014/15 .The following table shows the trend values of non-performing Assets for ten years from F/Y 2005/06 to 2014/15. (Annex 4.3-E)

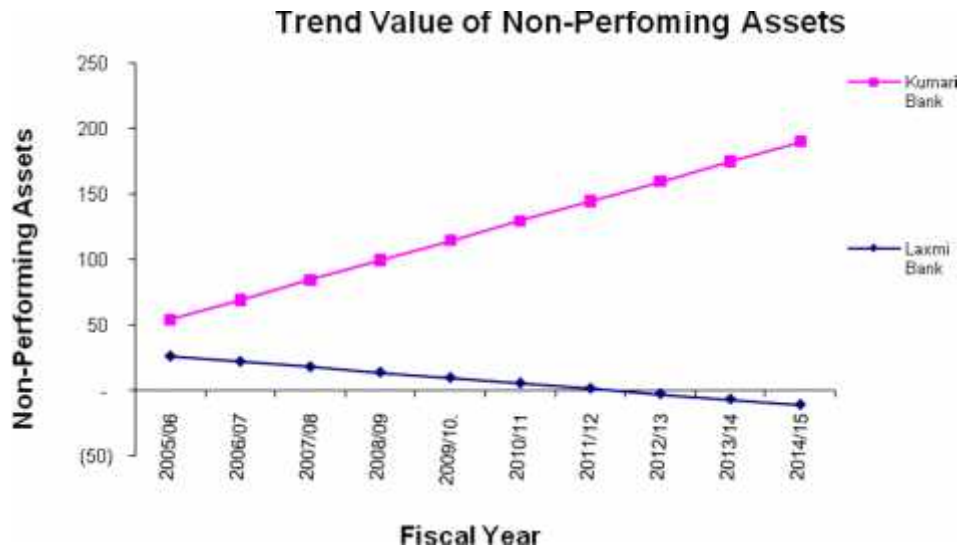
Table 4.2.2-E

Trend Value of Non- Performing Assets

Year	KBL	LBL
2005/06	54.40	26.45
2006/07	69.50	22.33
2007/08	84.60	18.20
2008/09	99.70	14.08
2009/10.	114.80	9.95
2010/11	129.91	5.82
2011/12	145.01	1.70
2012/13	160.11	(2.43)
2013/14	175.21	(6.55)
2014/15	190.31	(10.68)

**Source: "Annual Report of KBL Ltd and LBL Ltd
(See in Appendix4.3-E)**

Figure4.2.2-E



Given Table and figure shows the trend value of KBL is increasing trend and LBL has decreasing trend. In FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 KBL have 54.40, 69.50, 84.60, 99.70, and 114.80 and the prediction also have increasing trend in FY 2014/15 have prediction 190.35. It is not good for bank the KBL must decrease the non performing assets. . In FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 LBL have 26.45, 22.33, 18.20, 14.08 and 9.95 which is decreasing order. In FY 2014/015 the LBL have negative prediction of non-performing assets i.e. - 10.68 which is better for bank. Comparatively LBL has better non - performing assets than the KBL. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the assets. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders' value.

4.3 Major Findings

This section includes the key findings of the study obtained from the analysis of the data. Conclusions derived from the findings are presented in the next chapter. The major findings of financial performance Analysis of KBL and LBL are given below

1. According to the Current Ratio of KBL has 1.095, 1.077, 1.116, 1.108 and 1.104 and LBL has 1.122, 1.1078, 1.083, 1.087, and 1.106 in FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. In every FY both bank has maintain the current ratio.
2. Cash and Bank Balance to Current Assets Ratio of KBL is 0.0437 which mean 4.37 of Current Asset is Cash and Bank Balance and remaining are invested on other liquid asset. 0.573, 0.0631, 0.0971 and 0.1346 Cash and Bank balance to Current Assets Ratio of KBL in FY 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Maximum Ratio is in FY 2009/10 and the minimum ratio in FY 2005/06 of KBL. LBL has 0.0443, 0.0421, 0.0991, 0.1010 and 0.0891 in FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Maximum ratio in FY 2008/09 and minimum in FY 2006/07. In FY 2009/10 LBL has 8% of Current Assets has Cash and bank Balance and 92% are Invest in other Liquid Assets which is better.
3. In FY 2005/06 KBL and LBL has 12% and 8% invested on Government Securities of Current assets and remaining are invest on other Liquid asset and cash and bank balance. KBL has 0.11, 0.10, 0.13 and 0.09 and LBL has 0.12, 0.06, 0.05, and 0.07 of FY 2006/07, 2007/08, 2008/09 and 2009/10 respectively. In FY 2008/09 KBL has maximum and in current FY 2009/10 has minimum inversed on government securities.

LBL has invested maximum in FY 2007/08 and 2008/09 has invested on minimum. In this FY 2009/10 LBL has invested 7% only.

4. KBL has 0.77 and LBL has 0.83 Loan and Advance to Current Assets Ratio in FY 2005/06 which means KBL has invested 77% and LBL has 83% of Current assets on Loan and Advance. In FY 2006/07, 2007/08, 2008/09 and 2009/10 Loan and Advance to Current Assets Ratio of KBL has 0.76, 0.77, 0.80 and 0.73 and LBL has 0.77, 0.78, 0.73, and 0.70 respectively. It shows that the both banks have invested on most of Current assets as loan and advance. The maximum ratio of KBL in Fiscal year 2008/09 and minimum in Current FY 2009/10. The maximum ratio of LBL in FY 2005/06 and minimum in Current FY 2009/10.
5. KBL has 0.8871, 0.8458, 0.8873, 0.9289 and 0.8470 and LBL has 0.9456, 0.8458, 0.8616, 0.8296 and 0.8052 in FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. KBL has maximum ratio in FY 2008/09 and which is 0.9289 it means 92.89% of Total Deposit invested on Loan and advance and minimum in FY 2006/07. LBL has maximum ratio in FY 2005/06 and minimum in current FY 2009/10. Both banks have proper utilized total deposit in every year.
6. Investment to total deposit ratio of KBL has 0.1794, 0.1589, 0.1674, 0.0961 and 0.1318 and LBL has 0.1123, 0.1888, 0.1101 0.1547 and 0.1762 in FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. KBL has maximum ratio in FY 2005/06 i.e. 0.1794 which means 17.94% of Total Deposit has invested on investment and minimum in FY 2008/09. LBL has maximum in FY 2006/07 i.e. 0.1888 and minimum in FY 2007/08.
7. Investment on Shares and Debentures to Working Fund ratio of KBL has 0.00004, 0.00003, 0.00121, 0.00099 and 0.00107 and LBL has 0.00257, 0.00632, 0.00696, 0.00647 and 0.00647 of FY 2005/06,

2006/07, 2007/08, 2008/09 and 2009/10 respectively. The maximum ratio of KBL in FY 2007/08 and minimum in FY 2005/06. The maximum ratio of LBL in FY 2007/08 and minimum in FY 2005/06. Both banks have invested on share and debenture very low portion of total Working Fund.

8. The maximum ratio of KBL and LBL has 0.0154 and 0.0156 of FY 2009/10 respectively. It means Net Profit is 1.54% of Total Working Fund of KBL and 1.56% of Working Fund of LBL. The minimum ratio of both Banks in FY 2005/06 of KBL and LBL.
9. Total interest to total Investment of KBL has 0.43, 0.47, 0.45, 0.91 and 0.81 and LBL has 0.64, 0.33, 0.57, 0.44 and 0.56 in FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The maximum interest earns in FY 2008/09 of KBL and 2007/08 of LBL i.e. 0.91 and 0.57 respectively it means total interest is 91% and 57% of investment.
10. In FY 2009/10 Return on Loan and Advance ratio is 0.021 which is high ratio of KBL and 0.022 of LBL. It means net profit of KBL and LBL 2.1% and 2.2% of Loan and advance. In FY 2005/06, 2006/07, 2007/08 and 2008/09 KBL has 0.015, 0.019, 0.015 and 0.018 and LBL has 0.008, 0.010, 0.012 and 0.014 Return on Loan and advance ratio. In FY 2005/06 KBL and LBL has minimum ratio.
11. Total Cash and bank balance to total deposit ratio of KBL is 0.050, 0.064, 0.073, 0.113 and 0.156 and LBL is 0.0507, 0.0460, 0.01142 and 0.1018 of FY 2005/09, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The maximum ratio is 0.156 in FY 2009/10 of KBL and 0.1089 of LBL in FY 2007/08. It means Total Cash and Bank Balance of KBL and LBL has 15.6% and 10.89% of Total deposit. In FY 2009/10 total Cash and Bank Balance of KBL and LBL has 15.6% and 10.18% of total deposit. In FY 2009/10 KBL has maintain high liquidity which increase cost of fund.

12. KBL has 0.7649, 0.7492, 0.7543, 0.7872 and 0.7195 and LBL has 0.8073, 0.7501, 0.7715, 0.7242, and 0.6949 In FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 Credit risk ratio. In FY 2007/08 KBL has maximum Credit risk ratio and in FY 2005/06 LBL has maximum Credit risk ratio.
13. KBL and LBL has 22.39% and 42.03% Growth ratio of Total Deposit. Comparatively LBL has higher ratio. KBL and LBL has 20.98% and 36.43% Growth ratio of Loan and Advances. Comparatively LBL has higher. Growth ratio of Investment of KBL and LBL has 13.30% and 58395% are respectively. Growth ratio of KBL and LBL has 13.19% and 74.36% respectively.
14. Correlation between Deposit and Total Investment of KBL has shown 0.6134 which is moderate correlation between two variables but the 6PER value is greater than the r so it has shown the there is no evidence correlation between two variables. LBL has shown high degree of correlation between deposit and Total Investment. The value of 6 PER also has shown significant given r value.
15. Correlation between Deposit and Loan and Advances of both bank KBL and LBL has shown high degree of correlation and the value of 6 PER has shown significant the given r value.
16. Correlation between Investment and Net Profit of KBL has shown the positive correlation but the there is no evidence and LBL has shown the high degree of correlation.
17. The trend value of KBL has shown on increasing trend in FY 2005/06 the Trend value is 7952.55 and in FY 2006/07 Trend value is 10400.54 and in FY 2009/10 the trend Value is 17744.51 which is higher. The prediction is also increasing trend in FY 2014/15 the trend value is 29984.6 which is higher. The trend value of LBL also have shown on increasing trend in FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10

the trend value is 4367.82, 7939.57, 11511.32, 15083.07 and 18654.83 respectively. The prediction of LBL is also in increasing trend in FY 2014/15 the trend value is 36513.58.

18. KBL has trend value of Loan and Advances is 7020.62, 9161.80, 11302.98, 1344.16 and 15585.35 which are increasing trend and prediction is also increasing trend the higher trend value of FY 2014/15 is 26291.26. LBL has trend value of Loan and advances are 41443.18, 6902.54, 9661.91, 12421.27 and 15180.64 in FY 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The prediction of LBL also increasing trend the higher value is 28977.46 in FY 2014/15.
19. KBL has trend value of Investment of FY 2005/06 has 884.63 and in FY 2009/10 has 2722.12 which is high value. The trend value of Investment is increasing trend. The prediction of FY 2014/15 is 5019 which is higher value. LBL has 487.30 in FY 2005/06 and 3055.78 in FY 209/10 which is increasing trend and Prediction of FY 6266.38 which is high value.
20. KBL has 78.75 trend value of Net Profit in FY 2005/06 and 331.99 in FY 2009/10 and LBL has 6.06 in FY 2005/06 and 288.75 in FY 2009/10. Both banks are in increasing trend. The prediction of both bank has in FY 2014/15 are 648.53 and 642.11 respectively.
21. Trend Value of Non-performing Assets of KBL has 54.40, 69.50, 84.60, 99.70 and 114.80 in FY 2005/06, to 2009/10 which are increasing trend and prediction in FY 2014/15 has 190.31 which are also increasing trend. Trend Value of LBL has 26.45, 22.33, 18.20, 14.08 and 9.95 in FY 2005/06 to 2009/10 respectively which are decreasing trend. In FY 2014/015 the trend value is on negative so the prediction of Non-performing is decreasing.

CHAPTER V

Summary, Conclusion and Recommendation

5. Introduction

This chapter presents the summary of the study, conclusions derived from the analysis of data and their interpretation and recommendations offered for the improvement of the investment policies of the banks under study. Thus, the chapter is divided into three sections. The first section of this chapter focuses on summarizing the whole study, second section draws conclusions from the analysis of data and interpretation of the results thereof; and the third section offers recommendations for improvement of the investment policy of the concerned bank.

5.1 Summary

Nepal is a landlocked and economically poor country lies between two economically and physically giant country India and China. Nepal is one among the least developed countries. To develop the country economic growth is necessary. Thus, the primary goal of any nation is to embark upon the path of economic development by economic growth rate and developing all sectors of economy. Naturally Nepal is the rich country; the mobilization of the domestic resources is one of the key factors in the development of the country. The well-organized financial system of a country plays a great role in the economic development of that country, as it transfers financial resources from savers to those who need them. As part of the financial system, financial institutions such as commercial banks,

finance companies and financial co-operative are important vehicles for economy growth.

Among the financial institution Commercial banks have been playing important role in the economic growth of the developing countries like Nepal. In Nepalese financial history, in Kartik 30, 1994 BS Nepal bank Ltd was established as a first commercial bank which is semi government organization. In BS 2022 Rastriya Banijya Bank was established as a fully government owned commercial bank under Commercial Bank Act 2021 BS. As the name suggests, commercial banks are to carry out commercial transactions only. After the adoption of economic liberalization policy, particularly the financial sector liberalization that paved the way for establishment of new banks and non-bank financial institutions in the country. Consequently, by the end of Mid – January 2010, altogether 254 banks and non- bank financial institutions licensed by NRB are in operation. Out of them, 26 are “A” class commercial banks, 73 “B” class development banks, 78 “C” class finance companies, 17 “D” class micro-finance development banks, 16 saving and credit co-operatives and 45 NGOs.

The main goal of commercial bank is profit. Due to the competition the bank can't earn profit easily. Profit is depends upon its sound lending procedure and invest policy. 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 backward country like Nepal. Nepal's Commercial Banks face many problems related to fund mobilization and investment.

Although several banks have been established in the 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 are the major policy statements for Nepalese commercial banks. However, a long term and published policy about their operation is not found even in the joint venture banks.

The main concentration of the study is to diagnosis the investment policy of KBL and LBL to suggest measures to improve the investment policy of the bank. The study has been constrained by various common limitations

The both banks are established in one year period gap. KBL Limited is fifteenth commercial bank of Nepal. It was starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective by of providing competitive and modern banking services in the Nepalese financial market. It has 29 branches. The bank has paid up capital of Rs. 1,186,099,200.00 of which 70% is contributed from promoters and remaining from public. LBL was incorporated in April 2002 as the 16th commercial bank in Nepal. It has 25 branches. The current shareholding constitutes of promoters holding 55.42 percent, Citizen Investment 9.02 percent and the general public holding 35.56 percent. Promoters represent Nepal's leading business families with diversified business interests. The Bank's shares are listed and actively traded in the Nepalese Stock Exchange.

The study is based on the secondary data from FY 2005/06 to 2009/10. The data have been basically obtained from annual reports and financial

statement, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's degree thesis.

In this study, the financial tool ratio analysis viz. liquidity ratio, asset management ratio, profitability ratio, risk ratios and statistical tools like mean, standard deviation, coefficient of variation, coefficient of correlation, and trend analysis have been used for the analysis and interpretation of the data. The data, which were employed in this research, are obtained from the annual reports of the concerned banks.

4.1 Conclusion

The major economic indicators of Nepal have not been very positive during the study period. , in FY 2009/10 the national economy witnessed low economic growth, increased trade deficit, double digit inflation, liquidity squeeze in the banking sector, decreased agriculture production, unemployment, unstable capital market and reduction in governments foreign currency reserves has been occurred. Further, the year saw increasing petroleum and gold prices the international market. Considering the above economic indicators and political situation of the nation, the overall external environment cannot be considered favorable for business. The economy was not able to gain the expected momentum due to various reasons such as political instability, weak security situation, energy crisis and weak distribution system. Competition in the banking sector increased along with scarcity of skilled human resource increased operating cost, limited investment opportunities and unstable foreign exchange and interest rates. On the basis of the study although the bad situation, that it seems sample banking are doing good progress in terms of liquidity, investment, net profit etc.

Investment is the major essence of every commercial bank. The formulation and implementation of sound investment policies are among the important responsibilities of the bank management. Therefore, the main objectives of the study are to assess and evaluate the investment policy and strategy adopted by the concerned banks. From the above analysis, we found out the major stamina of investment policy adopted by concerned bank, and concluding results are as follows.

From the analysis, it has been found that the liquidity positions shown; Current ratio of KBL and LBL both has maintained satisfying liquidity position in every year. The bank must invest on liquid assets like gold share and debenture etc. rather than the loan and advance. Cash and bank balance to current assets ratio is low than the standard that there may be some difficulties to meet demand of its customer on their daily demand deposit to pay at any time but it may earn more due to invest cash to different sectors both bank must increase cash and bank balance. However, much higher of this ratio is not preferred as the bank has to pay interest on deposits and will increase the cost of fund that might impair their profitability. Likewise, lower of this ratio is detrimental to the bank, as the bank will have hard times to make the payments against the cheques presented by customers. Therefore, bank has to strike a balance of cash and bank balance, which is just adequate for the customers demand against deposit when required, and less interest payable against the cash deposit. Comparatively LBL has invested in government securities is higher than the KBL, but both bank has investment is low. Investment in government securities is risk free investment. So both banks must increase investment on government securities. Loan and advance to current ratio shows that both banks have invest high portion of current assets as loan and advance, which are harmful. So they must decrease investment current assets as loan

and advance. Total deposit to loan and advance ratio shown that Comparatively LBL had good position in mobilizing its total deposit as loan and advance in past. In FY 2009/10 KBL has good position .But the LBL also has good position. Both banks have invested total deposit as loan is high. It is better for bank but the according to the liquidity point of it is harmful so the bank must decrease long term loan and invested on liquid asset and short term loan. The both banks have invested total deposit very successfully. Investment on share and debenture shown comparatively LBL has invested in other company share and debenture is higher than the KBL but the separately shown the both bank has invested very low. Share and debenture is liquid assets so they must increase investment on share and debenture. Profitability ratio has shown that KBL has better than the LBL, although the LBL has investment is. LBL follows the portfolio investment. KBL has earned from loan and advance is less than the LBL. KBL has liquidity risk is higher than LBL in the past. In FY 2009/10 also has liquidity risk higher than the LBL. The KBL must increase investment on liquid assets. LBL has higher credit risk than the KBL in the past. In FY 2009/10 the Credit risk is lower than the FY 2008/09. Comparatively KBL has high credit risk in FY 2009/10. Both banks must decrease credit risk. Both bank must follows the portfolio investment strategy.

Co-relation between deposit and investment shows that KBL has moderate degree and the LBL has high degree of relationship between two variables. It seems that KBL does not utilize the deposit in proper way but the LBL has utilized the deposit in proper way. Coefficient of correlation (r) between deposit and loan and advances of KBL and LBL are high degree of positive relationship between these two variables. Correlation between investment and net profit of KBL has moderate positive relationship and the LBL has high degree of positive relationship which shows KBL does

not earn profit by mobilizing total investment but the LBL has successful in earn profit by mobilizing investment.

Comparatively trend value show the LBL has deposit collection is higher than the KBL in FY 2009/10. LBL has predicted higher than the KBL. Comparatively trend value shows LBL is in better position than KBL in utilization of deposit in term of loan and advances in FY 2009/10 and the prediction also high. The investment of KBL is higher than the LBL. Other things remaining the same; KBL has predicted higher than the LBL. KBL has better investment than LBL.

The most of the branch of both bank has in city area the access in banking system is limited for the rural people. Banks should increase its networks in rural area to collect the funds. By the research, it seems that banks have not given priorities in investment in infrastructure development such as hydropower projects, road construction as well as other national infrastructure. For the investment in infrastructure, the bank's deposit and investment volume may not sufficient as international banks so that bank must increase its business in rural people.

4.2 Recommendations

After going over the above summary and conclusion of the study, following recommendations and suggestion can be made to overcome the weakness, inefficiencies and to make better polices regarding fund utilization and investment of concern banks i.e. KBL and LBL Ltd.

a) Increase More Deposit

The commercial bank's main source of fund is collecting deposit from public who don't need that fund recently. Deposit collection plays a

significant role in term of daily activities in the commercial banks. Without enough deposit collection, banks cannot operate efficiently. It has been found that comparatively, LBL has deposit collection are higher than the KBL in current FY. It is recommended to them to collect more amount as deposit through large variety of deposit scheme and facilities, like cumulative deposit scheme, prize bonds scheme, gift cheques, recurring deposit scheme (life insurance) and monthly interest scheme. The minimum amount needed to open an account should also be minimized so that it will attract other small depositors.

b) Liberal Lending Policy

To get success in competitive environment, depositor's money must be utilized as loan and advances. The large item of the bank in the asset side is loan and advances. If it is neglected, then it could be the main cause of liquidity crises in the bank and one of the main reasons for a bank's failure. It has been found that both banks have large portions of fund invested as loan and advances and negligence to invest other sectors. To overcome this, these banks are recommended to follow liberal lending policy, invest more percentage of total deposit in loan and advances and maintain more stability on the investment policy.

c) More investment in government securities

From the study, it has been found that both banks have not invested more amounts in government securities. Investment on those securities issued by government, i.e. treasury bill, development bonds, saving certificate are free of risk and highly liquid in nature but such securities yield low interest rate of particular maturity due to lower risk in future, it is more better in regard to safety than other means of investment . So both banks are strongly recommended to give importance opportunities to invest more

amount in government securities as there is lack of investment opportunities now-a-days and the banks are heavily investing in treasury bills even with very low interest.

d) Increase Investment On Shares And Debentures

To be successful in a competitive market a commercial bank must mobilize its funds in different sectors like purchase of shares and debentures of other financial and non-financial companies and other government and non-government companies. It is also a genuine means two banks are recommended to invest more funds in shares and debentures of different other companies to earn more profit.

e) Effective Portfolio Management

Portfolio management is very important for each and every investor. The term investment has included many parts of risk. Risk is a chance of loss or variability of the return of a certain period. There is a high chance of return in the more risky projects. Portfolio management plays a vital role by dividing total investment in many sectors. Portfolio management of the bank assets basically means allocation of funds in different components of banking assets having different degrees of risk and varying rate of return in such a way that the conflicting goal of maximum risk can be achieved. Both banks have been increasing total investment in every year. This is due to appropriate portfolio management. So, it is recommended that the portfolio condition of the banks should be exclaimed carefully from time to time and alteration should be made to maintain equilibrium in the portfolio condition as far as possible. Therefore it can be said that all the eggs should not be kept in the same basket. These banks should utilize effective portfolio management to increase total investment.

f) Project Oriented Approach

The project oriented approach is to be encouraged in lending business of the banks, in which security is not necessary. The project should be allowed to make themselves capable to generate their focus and to repay loans timely. So, it is recommended to these banks to adopt project – oriented approach, the possibility of increasing loan loss can be minimized by this approach.

g) Innovative Approach Of Marketing

Well marketing role has played an important role in the banks development. Due to growth of high competition in the banking sector, the business of the bank should be customer oriented. Marketing is one of the best or effective tools to attract customers so it must be strong and active. Without effective marketing any organization could be alone in the competitive market. Different marketing method like advertisement through audio-visual, public web site, documentary, etc is fowled. Likewise draw attention of customers through new technologies like e-banking, internet banking service, increase investment through wide international banking network should be introduced. So it is recommended to follow appropriate marketing tools to be successful in the competitive market.

h) Expansion Of Branches

Economic growth of a country depends upon the high growth of the commercial banks. If the service of the commercial banks expands all over the nation it will collect idle money from different areas and can be utilized for income generation purpose. So the CBs should expand its branches all over the rural and urban areas. NRB and Government have also encouraged the Joint Venture Banks to expand the banking services in the

rural areas and communities without making unfavorable impact in their profits. KBL has 29 branches and LBLh has 25 branches. Most of the branches of both banks are in developed region. Therefore, these banks are recommended to expand its branches and provide banking services and facilities to the rural areas and communities to accelerate the economic development of the rural areas.