

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Generally, Deposit and Investment policy of a bank denote that bank collects and accepts deposits of amount from the public and organization in different accounts and invests its amount in different sectors with various types of risk. Deposit and Investment policy show the different tools, techniques, ideas and paths to a bank for smooth and healthy operation competing market competitors to survive. The origin of bank in Nepal is not so long. Within the shortest span of time, there has been tremendous growth of bank in Nepal. In the process of development and economic linearization policy of the government in the country, financial institution and commercial joint venture banks have been established (Clark, 1991).

A bank is an Organization, the major function of which is to deal in money and credit. The main business of bank is to pool the scattered idle deposits in the public and channel it for productive use. It collects deposits and invests or lends to those who stand in need of money. Bank in other is a custodian of money received from the depositors. Hence its responsibility towards the general public is pretty different than those who are involved in other type of trades and service. Modern day bank exhibit the trait more of a department store with a wide range of financial product to offer (Bhandari, 2003).

Bank can be a person company or a firm, with a place of business and must be involved in credit creation. The business of a modern day bank is not confined in borrowing deposits and lending advances only, it performs host of other financial activities which has immensely contributed to achieve industrial and commercial progress of every country. "Bank is an institution whose whole debts are widely accepted in settlement of others people's debts"(Cleman, 1963).

"The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confidence of various segments and extends credit to people". Though the commercial banks were establishes with the concept of supplying short-term credit and working

capital need of industries, they have been providing long-term loans for up to 15 years. After the enforcement to lend to priority and deprived sector, these banks initiated to provide credit to small and cottage industries, agriculture and services (Edmistor, 1980).

The banking industry is continuously evolving with introduction of new service delivery channels, new products and adoption of sophisticated technologies. The advancement in the information technology and the conducive global environments has fastened the pace of evolution of this industry too. With the adoption of sophisticated technologies, the dimension of banking and financial services has widened a lot. As such, the banks are now equipped with new and innovative service delivery channels offering a number of products.

Nepal is an underdeveloped country and it as an economically back pushed country where most of resources are remaining unused due to lack of financing. Due to in modernization of Nepal, majority of population remain such below the poverty line. The inadequacy of financing can be removed by the participation of foreign investor in the commercial banks with this view the joint venture banks are welcomed in Nepal. Joint venture banks are in many numbers to these days. They put their contribution in making flow of funds within the country moves on the track of prosperity very soon (Kasha, 1996).

The primary goal of any country like Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal is trying to embark upon the path of economic development by economic growth rate and developing the sector of economy. So the process of economic development depends upon capital formation and its proper utilization plays a paramount role. The increase in capital has always been a sort of prime mover in the process of material growth and the rate capital formulation has been the principal variable in setting the overall pace of economic. It collects scattered financial resources from the masses and invests them among those engaged in economic and commercial activities of the country. In the way, financial institutions provide savers highly liquid assets at a lower risk while the investor receives a large pool of resources. Thus, the underdeveloped country like Nepal has recognized the importance of banks for the economic development of the country. Simply all the banks collect funds from general public and invest in different

development sectors. Development and expansion of banks are necessary for the rapid economic development of the country (Joshi, 2000).

The banks that are established for the development and expansion of trade and commerce in a country are called commercial banks. Profit earning is the main objective of commercial banks. Their business mainly consists of receiving deposits, giving loans and financing the trade and commerce. Generally, they provide short term credit or loans. Apart from accepting deposits and advancing loans, exchanging foreign currencies, transferring money, creating credit, protecting valuable property etc. are other important functions of commercial banks. Generally, banks refer to commercial banks and it is the oldest form of bank. According to, "A banker is a dealer in debt his own and other people's. The banker's business is, then to take the debts of other people to offer his own in exchange and thereby to create money" (Charles, 1999),

According to Nepal Commercial Bank Act 2031 B.S., "Commercial banks mean we should understand those banks, which are established to exchange money, accept deposits advance loans and do commercial business except the banks which are established with the objective of co-operative agriculture, industry and others".

Nepal Bank Limited established in 1994 B.S. is the first commercial bank of Nepal. Later Rastriya Banijya Bank was established in 2020 BS under the govt. ownership. During the last few decades, following the policies of economic liberalization and privatization, various commercial banks are established and operating with the initiation of private sector and joint venture investment in the country.

List of Commercial Bank:-

1. Nepal Bank Ltd.
2. Rastriya Bank Ltd.
3. Nepal Investment Bank Ltd.
4. Standard Chartered Bank Ltd.
5. Himalayan Bank Ltd.
6. Nepal SBI Bank Ltd.
7. Nepal Bangladesh Bank Ltd.
8. Everest Bank Ltd.

9. Nabil Bank Ltd.
10. Bank of Kathmandu Ltd.
11. NCC Bank Ltd.
12. Lumbini Bank Ltd.
13. NIC Bank Ltd.
14. Machapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddhartha Bank Ltd.
18. Agriculture Bank Ltd.
19. Global Bank Ltd.
20. Citizens Bank Ltd.
21. Prime Commercial Bank Ltd.
22. Bank of Asia Nepal Ltd.
23. Sunrise Bank Ltd.
24. Development Bank Ltd.
25. MNB Bank Ltd.
26. Kist Bank Ltd.
27. Janata Bank Ltd.
28. Mega Bank Nepal Ltd.
29. Commerz Bank Ltd.
30. Civil Bank Ltd
31. Sanima Bank Ltd.
32. Century Commercial Bank Ltd.

Commercial banks are those banks, which pool together the saving of community and arrange them for the productive use. They accept deposit from the public and provide the deposits to the public as loan and advance. In fact they circulate the money and create credit. The concept of the commercial banks made the economy strong. And, now it's playing important role to make country economically strong. According to the Black's Law Dictionary "Commercial Bank" mean a bank authorized to receive both demand and time deposits, to engage in trust service, to issue letter of credit, to rent time-demand boxes, and to provide same services. Likewise section 2(a) of the Commercial Bank Act 2031 has defined that "Commercial Bank" means a bank

which operates currency exchange transactions, accepts deposits, provides loan perform, dealings, relating to commerce except the banks which have been specified for the co-operative, agriculture industry of similar other specific object Commercial banks play important role in the formation of capital in favor of economy growth in the country. What so ever may be the facts behind their doings, the main objectives of such bank is related with two facts: earning profits and meeting social purpose.(Bhandari, 2003)

Hence, commercial banks collect the fund from different people and they should pay Interest to the depositors. Therefore, they must deploy collected sources in profitable sector to provide regular interest the depositors. The process in commercial bank assets management must ensure the liquidity solvency and profitability of the institution. Thus, bank should create diversified asset portfolio consisting of different assets of varying maturity pattern that match the several and varied source of supply of its fund (Bhalla, 1997).

The term deposit and investment have gained so much popularity among the people that we see every one talking about it. People want to earn more therefore they sacrifice their present consumption. Thus, investment is the sacrifice of present consumption for future benefits. It is the use of the money for purpose of making more money to gain income or to increase capital or both. It is a process of exchanging income during in future periods. Thus, consumption in current period is foregone in order to obtain a greater return in the future. The investment brings forth vision of profit, risk, speculation and wealth. It can be financially rewarding and exciting for the knowledgeable investors whereas it may result in disaster for the unformed. The investor makes choice among the various available investment alternatives on the basis of their objectives and time horizon. They must consider the expected risk and return of portfolio and must also develop appropriate investment strategies. The term investment generally has a higher risk than saving and return can come in the form of income or capital gain or a mixture of both. Until the investors have adequate saving to meet any unforeseen financial emergency, he/she shouldn't invest (Chandler, 1973).

Commercial banks play vital roles to collect money in the state. Generally, commercial banks are required by the central bank to earn mark a portion of their

loan. Portfolio to priority lending for agriculture, cottage industry, services etc, which includes 0.25% to 3% the deprived sector (poor population). Under this obligation, Commercial banks can lend directly to individuals or self-help groups, charging a 6-7% interest rate, or wholesale funds or equity to microfinance provides serving the poor in Nepal.

Two third of the priority and deprived sector lending and investment are provided by the two public commercial banks. Nepal Bank Limited and Rastriya Baniya Bank until recently the priority lending set at 12% of the loan portfolio. It is now being phased out, ending completely in 2011, while the 3% deprived sector requirement will stay in place and therefore loan and investment in microfinance with it. As of mid July 2003, Rs. 22,605 million were affected to the priority sector, while Rs.3,583 million allocated to deprived sector lending, from which 132.6 million was in the form of equity. Under this requirement, investment made by commercial banks in the rural Microfinance Development Center, an apex organization providing wholesale fund to microfinance can be seen as a new link between the formal finance sector and microfinance (Joshi, 2000).

One of the most important of the banking sector investing its deposit and capital in various form of earning assets. This is also called portfolio management. Since there are two types of funds for investment i.e. capital and deposit and constitute the major portion for its investment purpose, the investment policy of bank is highly influenced by the nature of funds available its investment. Therefore the basis of loan portfolio depends on the deposit mix it has. If the funds are permanent nature, the chances of acquiring portfolio assets are high. On the country, if the funds are short term nature or likely to be fluctuated, the banks must also give full attention for its liquidity than its investment. As a result the change earning profits it always at risk. Hence, a sound deposit and investment policy of bank is such that collect and accept various funds from public and organization and its funds distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand. (Crosse, 1963)

The establishment of the commercial banks has given a new horizon to the financial sectors of Nepal. The study is mainly focused on the investment and deposit policy of Nabil bank ltd. and Himalayan bank ltd. For such a study, information is basically

taken from the published Annual Financial reports, interest, previous thesis and website.

This study will focus on the deposit and investment policies of commercial bank and analyze whether they are successful in utilizing its available funds or not after the adoption of liberal policy by the government for the growth and development of commercial bank, lots of them are being emerging in the country. It shows what commercial banks are doing to mobilize their funds, whether the return from investment is suitable for them or not. Thus, this study evaluates the performance of commercial banks (Madlin & Snock, 1998).

As the study is related to deposit and investment policy of commercial banks its report will be beneficial to them. The suggestions made for this report will help to improve their resources mobilization and return on investment.

1.2 Statement of Problem

Economic development in the country is possible only through the establishment and sound operation of commercial bank. Thus, various commercial banks have been established in our country for the economic development. Such commercial banks help in capital formation and proper utilization. But the developing country like Nepal is suffering from such problems. There are various problems in resources mobilization by commercial banks in Nepal. They have limited consideration towards portfolio optimization. The major one is poor investment climate due to heavy regulatory procedure. They mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They do not have clear view towards investment policy. Furthermore, the implementation of policy is not practiced in an effective way.

Under such circumstances, the present study has tried to analyze the deposit and investment policies of commercial banks. The study attempts to the following issues:

- Whether the adopted deposit and investment policies are able to achieve effectiveness and efficiency of those banks?
- What is the level of performance of those banks with regard to investment and deposit?

- How far commercial banks have adopted the national policy & act of government?
- What type of relationships exists between deposit and investment of those both banks?

1.3 Objective of the Study

Activities are done with some goal or objectives. Without objectives, there is no use of doing a study. Objective acts a blueprint which gives direction that need to be followed to accomplish it in due course. So, this present study has also been done with taking some objectives. The main objective of this study is compare the investment and deposit policy of Nabil bank ltd. and HBL; however, the specific objectives of this are as follows.

- To evaluate the liquidity and efficiency of the selected banks.
- To identify & analyze the performance level of those banks in relation to investment and deposit.
- To compare of fund mobilization & investment policy of sampled banks.
- To forecast the trend of deposit and its utilization and its projection.

1.4 Limitation of the Study

Every study has its own limitation. It is quite possible to conduct the study without limitation. Likewise, this study has also limitations which are as follows:-

- This study is based on secondary data only.
- All the required materials are not given by the bank as they want to keep their records secret.
- The study is based on the data of the last 5 years.
- Only two banks (Nabil bank and Himalayan bank) are taken and to compare it with deposit and investment policy.
- This study is confined to evaluate only the deposit and investment policies of commercial banks.

Suitable strategy plays vital role in a bank for their sustain existence. The study will be helpful to whole to aware the shareholder regarding investment policies their

banks. The study suggests to the management how they can improve their managing power and recommends what is the clue to raise the profit. Though, this is only study but it gives feedback to policy makers, will useful them who formulate the policy for regulation. All stakeholders can identify which bank is the best and to whom have to invest.

1.5 Organized of the Study

The study has been categorized into five chapters each being directed towards some aspect of the study.

The first chapter contains the introduction of the study, which includes the following topics: background of the study statement of the problem, objectives of the study, significance of the study, limitation of the study, organization of the study respectively.

The second chapter is review of literature, which contains conceptual framework, review of previous thesis research paper and published and unpublished master's thesis of difference campus.

This third chapter is concerned with the research methodology, which is applied to collects the data and analyze them in this study. It consists of the following topics: Introduction, Research design, Source of data, Population and Sample, methods of Analyze and Presentation.

The fourth chapter is analyzing chapter which deals with presentation and analysis of relevant data through defines courses of research methodology with financial and statistical analysis related to Deposit and Investment policy of relevant commercial banks.

The fifth chapter is the last chapter of the study which concerned with the summary of the data conclusion and implementation in the future.

Finally, as extension, bibliography and appendices are also presented at the end of the thesis work.

CHAPTER II

LITERATURE REVIEW

2.1 Review of Literature

In the chapter, focus has been made on the review of literature that is relevant to the Deposit and Investment policy of commercial banks. Review of literature is basically a stock taking of available literature in the field of research. Every possible efforts has been made to grasp knowledge and information that is available from libraries, document allocation centers, other information managing bureaus and concerned commercial bank. This chapter helps to take adequate feed back to broaden the information base and inputs to the study. Conceptual framework given by different authors research papers, annual reports, articles etc, which are arranged into the following order.

2.1.1 Conceptual Review of Commercial Bank

A commercial bank is a financial intermediary which collects credit from lenders in the form of deposits and lends in the form of loans. A commercial bank holds deposits for individuals and business in the form of checking and saving accounts and certificates of deposits of varying maturities while a commercial bank issues loans in the form of personal and business loans as well as mortgage. Commercial banks are those financial institutions, which deals in accepting deposits from persons and institution and giving loans against securities. They provide working capital needs on trade, industry and even agriculture sectors. Moreover commercial banks also provide technical and administrative assistance to, industries trade and business enterprises. A bank refers to the organization whose principle operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure. The word “Bank” commonly refers to the commercial banks where and hold deposits of fund form other makes loans or extends credit and transfer fund by written order of depositors. (www.investorglossary.com/commercial-bank.htm)

Commercial bank as financial institutions, perform number of internal functions. Among them, providing credit is considered as most important one. In the words of

Crosse (1963), Commercial banks bring into being the most important ingredient of the money supply, demand deposit through the creation of credit in the form of loan and investment.

Klase (1972) gave the meaning of bank emphasizing the bank's function as creation of money; "A bank's business is basically to buy and sell credit", "Credit instruments are its stock in trade. Also on the bank of its own credit a bank creates money by transferred by credit instrument"

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

The American Institution of banking has laid down the four major function of the commercial bank such as receiving and handling payments for its clients making loan and investments and creating money by extension of credit. (American Institution on Banking, 1972)

Meanwhile, under the free enterprises system like USA, the interest of the nation as well as that of the individual stockholders are supposed to be best served by vigorously profit seeking. But profit is a sole objective of an enterprise and it should not be evaluated just on the basis of the profit earned. Neither the bank nor the community will be best served if the banker unreasonably the safety his fund or liquidity of his bank is an effort to increase income. (American Institution on Banking, 1972)

Commercial Bank Act of Nepal (1974) has defined that, A commercial bank is one which exchanges money, deposits money, accepts deposit, grant loans and performs commercial banking functions and which is not a bank for co-operative, agriculture, industries or for such specific purpose.

Commercial banks are those banks that supply the financial needs of the modern business by various means. They hold deposits of the public and business units. Commercial banks are restricted to invests their funds in the corporate securities and make their funds available through their lending and investing activities to the borrowers, individuals etc. as a matter of facts, commercial banks are backbone of the financial system of the country.

Policy Guidelines on the Establishment of the Commercial Banks

Receiving application for the establishment of commercial banks has been stopped since 1995. Visualizing that such as administrative restriction is not in conformity with the liberal financial policy, the following policy guidelines have been made public on 16th May 2003.(Sources:kishakisi.blogspot.com/---/policy-guidelines-on-establishment-of.html)

a. Paid up Capital

To establish a commercial bank of national level having its office in Kathmandu, joint investment with foreign bank and financial institution or a management contract at least for 3 yrs with such institutions is required. The paid up capital of such bank be at Rs. 1000 million. To establish the commercial banks in all the places in the kingdom other than in the Kathmandu valley, the paid up must be Rs. 250 million (Mandala, 2007)

b. Share Capital

In general, the share of commercial banks will be for the promoters (70%) and general public (30%). The foreign banks and financial institutions could have a maximum of 675% share in investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 20% total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire 50% of the total share. In case of commercial banks to be established outside Kathmandu valley, share investment of promoters and general public stand at 70% and 30% respectively.

c. Legal Procedure

Banks to be established with foreign promoters, participation have also to be registered fulfilling all the legal processes prescribed by the present Nepal laws.

d. Banks Already in Operation

Banks that is already in operation and those who have acquired letter of intent before the enforcement of these provisions have to bring their capital level within seven

years, i.e. by 16 July 2009, as per the recently declared provision. Such increase in the capital should be at a rate of 10 percent should be at minimum.

e. Concerning up Gradation

Banks to be established outside Kathmandu valley could be allowed to operate throughout the kingdom including Kathmandu valley only on the condition that they have brought their paid up capital level to Rs. 1000 million and also fulfilled other prescribed conditions. Until and unless such banks do not get license to operate throughout the kingdom, they will not be allowed to open any office in Kathmandu valley.

f. Promoters Share Payment Procedure

Of the total committed share capital, the promoters has to deposit in NRB an amount equal to 20% along with the application and another 30% at the of receiving the letter of intent on a interest free basis. The bank should put into operate within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the bank comes into operation. Normally, within 4 month from the date of filling the application, NRB should give its decision for the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concerned body.

g. Promoters Qualification and Experience

Action on the application from promoters will not be initiated if it proved that their collateral has been put on auction by the bank and financial institutions as a result of non-payment of loan in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and 5 years have not elapsed from the date of the removed of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process for license issuance if the above events are proved. Of the total promoters, one-third should be its chartered accountant or al least a graduate of Tribhuvan statistics or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, one-fourth promoters should have the work experience of bank or financial institution or similar nature.

h. Promoters Share

Promoter Group's share can be disposed or transferred only on the condition that the bank has been brought in operation; the share allotted to the general public has been floated in the market and after completion of 3 years from the date it has been registered in the Stock Exchange. But before the disposal of such shares it is mandatory to get approval from NRB. The share allotted to general public has to be issued and sold within 3 years from the date the bank cannot issue bonus shares or declare and distribute dividends, shareholders of the promoters group and their family members cannot have access to loans or facilities from the same institution.

i. Disqualify from Becoming Director

An individual who is already serving as a director in one of the bank of financial institutions licensed by NRB cannot be considered eligible to become the director in other banks or financial institutions. Also, stock brokers, market makers and also an individual and institution involved as an auditor of the bank and institutions carrying on financial transactions cannot be a director.

2.2 Concepts of Deposit

Deposit is the sum of money lodged with a bank discount house or other financial institution (Shrestha & Bhandari, 2059). Deposit is nothing more than the assets of an individual which is given to the bank for safe-keeping with an obligation to get something (interest) from it. To a bank these deposits are liabilities. Commercial Bank Act 2031(1974) defines, "Deposits" as the amount deposited in a current savings or fixed accounts of a bank or financial institution. The deposits are subject to withdrawals by means of cheque on a short notice by customers. There are several restrictions on these deposits, regarding the amount of deposit, number of withdrawal etc. These are considered more as investment and hence they earn some interest. The rate of interest varies depending on the nature of the deposits. The bank attracts deposits from customers by offering different rates of interest and different kinds of facilities. Though the bank plays an important role in influencing the customers to save and open deposit accounts with it, it is ultimately the customer who decides whether she/he should deposit his surplus his funds in current deposit a/c, saving deposits or fixed/time decides whether she/he should deposit his surplus funds in

current deposits or fixed/time deposit a/c. Bank deposits arise in two ways. When the banker receives cash, it credits the customer's account, it is known as a primary or a simple deposit. People deposit cash in the banking system and thereby convert one form of money. They prefer to keep their money in deposit accounts and issue cheques against them to their creditors. Deposits also arise when customers are granted accommodation in the form of loans. When a bank grants a loan to a customer it doesn't usually pay cash but simply credits the customer account with amount of loan. Of course, there is nothing that prevents the borrower from withdrawing the entire amount of borrowing in cash but quite often she/he retains the amount with the bank as deposits (Shrestha & Bhandari, 2002).

A. Type of Deposit

There are different types of deposits. But for this study, major three types of deposit are taken. They are:

Current Deposit

A current deposit is a running account with amounts being paid into and drawn out of the account continuously. These accounts are also called demand deposits or demand liabilities since the banker is under an obligation to pay money in such deposits on demand. The account never becomes time barred, because the limitation does not run until a demand is made by the customer on the bank for the payment of deposit. These accounts are generally opened by business houses, public institutions, corporate bodies and other organizations whose banking transactions are numerous and frequent. As these deposits are payable on demand, the banker is obliged to keep larger cash reserves than are needed in the case of fixed and savings deposits. This type of account is just a facility offered by the bank to its customers. So such deposit does not yield any interest returns.

The deposit in which an amount is immediately paid at the demand of any account holder is called demand deposit (Bhandari 2003). Its transaction is continual & a very small portion of such deposit can be invested in the production sector. Though the bank cannot gain significant profit by investing it in new sectors, this is one of the facilities given to the customer. Therefore, the bank doesn't give interest on this account. For this study this type of deposit is not suitable (Bhandari, 2003).

Saving Deposit

According to Commercial Bank Act 2031(1974) saving account means, “An account of amounts deposited in a bank for saving purposes”. The saving deposit bears the features of both of the current and fixed period’s deposits. Savings accounts are mainly meant for non-trading customers who have some potential for saving and who don’t have numerous transactions entering their account. While opening the account the minimum compensating balance differ according to the banks rule. Similarly there is also divergence as to how much amount of money can be withdrawn. But if the customers want to withdraw more money from the bank which is not allowed by it but if she/he gives pre-information to the banks, s/he can withdraw more money. The bank fixes the minimum and maximum amount of withdraw able through a cheque from this deposit. If the bank goes into liquidation, priority is given to the saving deposit than current and fixed deposits while repaying the liabilities.

Fixed Deposit

Fixed deposits constitute a very important resource for bank need not keep greater reserve in respect of such deposits. Under the Commercial Bank Act 2031(1974), “Fixed account means as account of deposited in a bank for certain period of time.” The customers opening such account deposit their money in the account for a fixed period. Usually, only the person or institution who wants to gain more interest opens such type of account. High interest rate is paid to this deposit as compare to saving deposits. The bank and the customers can take benefit from this deposit. The bank invests this money on the productive sector and gains profit and the customer too can be made his financial transaction stronger by getting more interest from this deposit. The principal amount with interest must be returned to the customer after expiry of fixed time.

In England these deposits are repayable subject to a period of notice and hence known as time deposit or time liabilities means that these are withdraw able subject to a period of notice and not on demand (Radhaswamy & Devan, 1979). Fixed deposit receipt is not transferable by endorsement and certainly not negotiable. However, the debt covered by the fixed deposit receipts can be assigned. Bank generally gives loans up to 90% of the deposit against the security of the deposit. For this bank charge some interest higher than the interest allowed on the deposit (Radhaswamy & Devan, 1979).

B. Importance of Deposit

Deposit arises from saving. An individual's income equals consumption plus saving. S/he deposits the saved part of income in the bank and gets interest from it. Banks in turn lend this money and earn profit by charging high interest rates. The borrowers from banks invest this fund in productive sectors yielding power of the economy increases and finally GDP and growth of the economy occurs. It means that the deposit has very important role in the economy. There is a direct relationship between deposit of banks and the investment in the economy. If the volume of deposit is low, the investment in the economy also lags behind due to lack of resources. The deposit of banks is the accumulated capital which can directly be invested. There is a great need of such deposit in the developing countries. Deposit includes the idle money of the public, bank being the inter-mediator to accept this sort of money and help to canalize this in productive sector. So, the importance of banks and financial intermediaries is larger in present context (Bajaracharya, 2057).

2.3 Investment

Investment in laymen words is money paid for the use of the money; the rate of such payment expressed as a percentage per unit of time. Earning of commercial banks is derived in the form of interest income derived from loans and advances made by the banks to trade, industry and other borrowers and the interest earned from investment made in the government made in the government and other securities.

Investment also refers to the expenditure of fund of capital goods such as factories, farm, equipment, livestock and machinery. Capital goods are used to produce other goods or services.

Generally, commercial bank gets its funds from these three sources, viz., share capital, reserve funds and deposits from the public. They are liabilities as far the bank has to returns them to their owners. At the same time, they are also assets in that they are used to acquire income generating assets. A bank has to exercise the utmost care in the distribution of its assets. This is termed as portfolio policy.

Sigh (1985) has defined investment as "Investment is the employment of funds with the aim of achieving additional income or growth in value. The essential quality of an investment is that it involves 'waiting' for a 'reward'".

Sharpe and Gorden (1998) define investment as, “Investment, in its broadest sense, means the sacrifices certain present value for (possible uncertain) future value.”

According to Sharpe, Alexander and Bailey (1999), “Investment can be categorized as Real investment and financial investment. Real investment generally involves some kinds of tangible asset, such as land, machineries or factories. Financial investments involve contracts written on pieces of paper, such as common stocks and bonds”.

“Investment is the value of the part of economics output for any time period that takes of the new structure, new producers, durable equipment and change in investment in inventories. (Joshi, 2000).

Thus, investment is the most important function of commercial banks. It is the long-term commitment of bank in the uncertain and risky environment. It is a very challenging task for commercial banks. So, a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its investible funds.

Investment has following three attributes:

1. Anticipation of return.
2. Involvement of risk.
3. Time dimension.

There are two forms of investment- viz. Financial Investment and Real Investment.

Investment in financial assets like common stocks, bond etc., is called Financial Investment. A financial asset represents a financial claim. It is an asset that is usually documented by some forms of legal representation. Although tangible certificates of ownership typically represent financial assets, the financial asset itself is intangible. They are also called securities. Financial assets themselves do not directly possess productive capacity. Financial assets can be viewed as claims to the income generated by real assets. In this context, the value of financial assets is derived from the value of underlying real assets. Financial assets are also called “Paper Assets”.

A real asset represents an actual tangible asset that may be seen, felt, held or collected. Like real estate, gold etc. Investment in such tangible assets is called real investment. Real assets have productive capacity. The capital formation is the direct

outcome of this productive investment. The real investment and financial investment are complimentary to each other. For example, a company issues shares of common stock to finance the plant and machinery. Here, the purchase of plant and machinery is real investment by the company and on the other hand, investment in common stock by the investor is a financial investment.

Earning of commercial banks is derived in the form of interest income derived from loans and advances made by the banks to trade, industry and other borrowers and the interest earned from investment made in the government and other securities. Every commercial bank gets its fund from three sources- share capital, reserve funds and deposits from the public. They are liabilities as far as the bank has to return them to their owners. At the same time, they are also assets in that they are used to acquire income yielding assets. A bank has to exercise the utmost care in the distribution of its assets. This is termed its portfolio policy.

A part from cash in hand and balances with the central bank, balances with order banks and money, the two principal items of the asset portfolio of commercial banks are the advances of bank credit and investments made in government securities which includes investments made in long term, medium term and short-term securities including the treasury which have maturity of 91 days. Before granting a loan a commercial bank carefully considers the margin of safety offered by security, possible of fluctuations in its value and suitability. In the case of an unsecured loan, the bank should consider the character, capacity and capital of the borrowing customer before granting the loan.

Hence, profit is a life-blood of any organization as it works in human-body. Banks should earn profit to operate smoothly forever. But the bank has to keep itself liquid and earn a profit. A wise banker would reconcile these opposites to meet both criteria. Thus loans, cash or overdraft, bill discounted and purchase, investment in government securities are the main investment activities of a commercial bank.

A. Investment Policy of Bank

Investment operation of CBs is very risk work. For this purpose CBs should adopt sound and variable policies regarding loans and investment. The most important problem of CBs is to invest its deposits & capital type funds. CBs invest their deposits

& funds to fulfill to different purpose, to earn something to pay interest for deposits, to meet the office expenses and to earn profit etc.

“Lending is the essence of commercial banking consequently the formation and implementation of sound lending policies are among the most important responsibility of the bank directors & management” (Crossse, H.D., 1963-page 191).

According to Clemen (1963: chapter II & chapter III), “Commercial bank should consider the national interest followed by borrowers and interest of the bank itself.” So consideration should be given on following factors while investing loans.

- Lending policy must be well spread.
- It should be basically of short-term character.
- It should be profitable.
- It should repayable.
- It must be with adequate securities.

According to Chandler (1973), “A banker seeks optimum combination of earning, liquidity and safety while formulating investment policy.”

Investment management of a bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the interest risk.

Reed et. al. (1980) added that the rate of return on assets is a measure when comparing the profitability of one bank with another or with commercial banking system. A low rate might be this result of conservative lending and investment policies or excessive operating expenses. Banks could, of course, attempt to offers this by adopting more aggressive lending and investment policies to generate more income.

Investment policies include credit analysis and its principal purpose is to determine the ability and willingness of a borrower to repay a requested loan in accordance with the term of them contract. Factors considered in credit analysis are capacity to borrow, character (honesty, integrity, industry, morality, ability to create income, ownership of assets, economic conditions, etc. Loans are the most important assets

held by banks and bank lending provides the bulk of bank income (Reed et al. 1980:203, 235)

Reed et al. (1980: 242) further stressed that more and income banks have developed formal, written lending policies in recent years. They provide guidance for lending officers and there by establish a great degree of uniformity in lending practices. Since lending is important both to the bank and to the community it serves, loan policies must be worked out carefully after considering many factors like:

- Capital position.
- Risk and profitability of various types of loans.
- Stability of deposit.
- Economic conditions.
- Influence of monetary and fiscal policy.
- Ability and experience of bank personnel.
- Credit needs of the area served”

Investment policy provides the bank several inputs through which they can handle their investment operation efficiency ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

In broad sense the investment operation of bank includes lending and investing in different types of securities. We can say lending is the primary investment activity and investment in different types of securities is the secondary investment activity of the commercial banks.

According to Singh (1983), “Investment (credit) policies of banks are conditional to great extent, by the national policy frame work; every banker has to apply his own judgment for arriving at a credit decision, keeping, of course, his bank’s credit policy also in mind.”

They further stated, “The field of investment is more challenging as it offers relatively greater scope to bankers for judgment and discretion their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk, particularly during recent years the credit function has become greater complex.”

Baidya (1997) has an elaborated definition on “Investment” which beseeches of sound investment policy and covers wider aspects. He writes, a sound investment policy of bank is such that its funds are distributed on different types of assets with good profitability on the hand and provides maximum safety and security to the depositors and banks on the other hand. Moreover, risk in banking sector tends to be concentrated in the loan portfolio. When a bank gets into serious financial trouble its problem usually springs from significant amount of loans that have become uncollectible due to mismanagement, illegal economic downturn. Therefore, the banks investment policy must be such it ensures sound and prudent in order to protect public funds.

“Further in details he deals with what type of loan do banks make? And, how much of loan is to be invested? The banks make a variety of loans to a wide variety of customers from many different purposes from purchasing automobile to construct of homes and making trade with foreign countries. There, no uniform rules can be laid down to determine the portfolio of bank. The environment in which the bank operates influences its investment policy. The nature and availability of funds and assets also differ widely from region to region within a country or country to country. For example, the scope of operating a bank in Jumla will be different from the scope of a bank operating in Kathmandu. The investment policy to be applied in Kathmandu may not be applicable to the customer of Jumla because the demand for loans is less in rural areas whereas it is higher in urban areas.”

B. Features of a Sound lending and Investment Policy

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

Many authors have given some necessities or some of the main characteristics for sound lending and investment policies, which must be considered by the commercial banks:

There are basically five features: (sources: www.kisihakisi.blogspot.com/---/features-of-sound-lending-and-fund.html)

I. Safety and Security.

- II. Liquidity.
- III. Profitability.
- IV. Purpose of Loan.
- V. Diversification.
- VI. Tangibility.
- VII. Legality.

I. Safety and Security

CBs adopt safety principle before formulating its investment policy. CBs invest money out of deposits. Deposits are the money kept by the people. So, it invest its deposits safety. While investing its deposits the banks always direct attention toward the securities of the loans. The bank should never invest its fund in those securities, which are subject to too much depreciation and fluctuation because a little difference may cause a great loss. It must not invest in funds into speculative businessmen who may be bankrupt at once and who may earn millions in a minute also. The bank should accept that type of securities, which are commercial, durable, marketable & high market prices. In the cases “MAST” should be applied for the investment. Where;

M=Marketability

A=Ascertain Ability

S=Stability

T=Transferability

- Marketable

Marketable is the most important factor, which should be considered while accepting securities by the bank. Only those goods, which are kept as security, must have qualities of being easily sold in the market whenever it is needed. So, it is necessary for the bank to examine the security of goods.

- Ascertain Ability

It means to say that it can be easily determine the prices of secured goods at any time. If, the prices of the goods cannot be determined easily it should not kept as a security while lending by the bank. For example, the diamond which cannot be easily determined the prices easily determined at any time.

- Stability

There must be stability in those goods, which is taken as a security. If, the change takes places, time to time, it should be rejected.

- Transferability

While accepting the goods as secured goods must have qualities of being transferability from one hand to another or one place to another place.

II. Liquidity

There is much more chance of loss while lending for the long term and low market prices of securities. If, the bank lends for long-term loan, the bank cannot do the payment to its customer who had deposited money. When the customer demands, it cannot meet because there will be no liquidity in the bank. So that, there may be had effort on the reputation of the bank. The bank should in keeps some deposits of the people in liquid form. For the safety of the loan the bank lends for short term also.

“Liquidity is the ability of a bank to satisfy demand for cash in exchange for deposit.” (Upandhya & Tiwari, 120). Liquidity is a greater problem to the bank because higher or lower liquidity are not favorable to the bank. Higher liquidity less will be the profit to the bank. Less the liquidity, higher will be the risk to the bank. So to keep balance liquidity the CBs have to maintain the liquidity according to its deposits.

“Liquidity is the protection against the risk that losses may develop if banks are forced to sell or liquidity credit worthy assets in an adverse market” (Crosse, 114).

When the ratio of loans to deposits is high, the bank will be less able to make additional loan. So, the loan to deposit ratio has psychological effect on the bank’s management. It should be more cautions about it. So before lending it should have to keep into mind about the liquidity position of the bank.

III. Profitability

While framing the investment policy the CBs have to into mind the profitability principle. It is because bank is also a profit maintained institution. The CBs utilize its fund where more profit can be gained. But considers should be taken on the liquidity position of the bank. If the bank invest on the long-term there will be more profit, but there will be lack of liquidity. So while lending by the bank, the balance must be

alone between the liquidity & profitability. However, it is very difficult to maintain the balance between profitability & liquidity principles. If, the bank invest its fund on long-term, there will be delay in the repayment of loan and low possibility of the repayment of loan. If more liquidity is deserved there will be less profit because bank's have loans, there will be less profit. That is why optimum reconciliation of both the liquidity & profitability concepts has to be carried out in farming investment policy. Profitability also depends upon the structure of interest rate. In Nepal interest rate is determined by NRB. The difference between the interest charged upon borrowers and the interest paid to depositors minus other expenses of the banks constitutes profit.

Therefore, the profit of CBs mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. So, they must invest their funds where they gain maximum profit.

IV. Purpose of Loan

The purpose of the loan should be considered as per which the loan is taken. The bank should give suggestion to the borrower to invest money where he can more successful. If, borrower misuses the loan granted by the bank. They can never repay and banks will process heavy bad debts. Modern business is seeking should financial advice as well as credit availability from his banker. So, before lending the loans, the bank should examine the detailed information about the project or activities.

V. Diversification

Diversification means to invest money in different sector or institution but not only to invest to meet in one sector or institution. If, the bank lends one person or institution. More possibility of loss may be raised. Mr. Upandhya & Tiwari have pointed out a proverb, as "A bank should not lay its eggs on the some basket" this saying is very important to the bank and it should be always careful, not to grant is only one sector. To minimize risk a must diversify its investment on different sectors.

VI. Tangibility

Tangibility it may be considered that tangibility properly does not yield an income a part from direct satisfaction of possession of property, many times, intangible

securities have lost their value due to price level inflation. CBs should proper tangible security to intangible one.

VII. Legality

A CBs must follow the rules and regulations as well as different directions issued by NRB, Ministry of Finance. Ministry of Law and other while mobilizing its funds, CBs should not invest its funds in illegal securities because it will bring out many problems for the investors.

C. Meaning of Some Important Terminologies

The study in this section companies of some important banking terminology for which efforts have been made to clarify the meaning, which are frequently used in this research work. Their brief summary is presented below: (Jyoti, 2005)

a) Loan and Advances

Loan, advances and overdrafts have occupied a huge for the mobilization of funds of the commercial banks. Bank deposits can be crossed beyond a desired level but the level of loans, advances and overdrafts will never cross it. Commercial banks and other financial institution may take more preferential collateral while granting loan and advances. Some portion of loan, advances and overdrafts includes that amount which is given to staffs of the banks as home loan, vehicle loan, personal loan and others (Bhatta, 2004)

b) Investment on Government Securities, Shares and Debentures

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

- It may want to space it's maturing so that the inflow of cash coincides with expected withdrawals by depositors of large loan demand of its customers.
- It may wish to have high-grade marketable securities to liquidity if its primary reserve becomes inadequate.
- It may also be forced to invest because the demand for loans decreased or it is not sufficient to absorb excess reserves.

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

c) Investment on other Company's Shares and Debentures

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

d) Off-Balance Sheet Activities

Off-balance sheet activities involve contracts for future purchase and sale of assets and all these activities are contingent obligations. There are not recognized as assets or liabilities on balance sheet. Some good example of these items are letter of credit (L/C), letter of guarantee, bills of collections etc. nowadays, such activities are stressfully highlighted by some economist and finance specialist to expand the modern transaction of a bank.

e) Others use of Fund

A commercial bank must maintain the minimum bank balance with NRB i.e.6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Likewise, 3% cash balance of local cash balance currency, accounts must be maintained in the vault of the bank. Again a part of the fund should be used for bank balance in foreign bank to purchase fixed assets like land, building, furniture, computers, stationery etc.

f) Deposits

Deposit is the most important source of the liquidity for each and every commercial bank. For financial strength of bank, it is treated as a barometer. In the world of Eugene, "a bank's deposits are the amount that it owes to its customers." A deposit is the lifeblood of the commercial banks. Even though,

they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract more and more deposits, for accounting and analyzing purpose, deposits are categorized in three headings.

They are:

- Current Deposits
- Saving Deposits
- Fixed Deposits

2.4 Review of other Relevant Book, Articles/ Journals

In the section, effort has been made to examine and review of some related articles in different economic journals, World Bank discussion papers, magazines, newspapers and other related books and publications.

The banks are such types of institutions, which deals in money and substitute for money. The deals with credit and credit instruments. Good circulation of credit is very much important for the bank. Unsteady and unevenly flow of credit decisions harms the economy and the banks as well. Thus to collect fund & utilize it in a good investment is not a joke for such organization. An investment of fund may be the question of life and death for the bank.

Collection of deposit constitutes primary function of commercial banks. Deposits are the main sources of commercial banks for lending & investment operations.

Shrestha (1988) in his articles, “A study on Deposit and Credit of Commercial Banks in Nepal” concluded that the credit deposit ratio would be 51.30%, other things remaining the same in Nepal, which was the lowest under the period review. Therefore, he had strongly recommendation that the joint venture banks should try goes give more credit entering new field as far as possible, otherwise, they might not be able to adsorbs even the total expenses.

Bexely (1987), expect his views as, “Investment policy fixes responsibilities for the investment disposition of the bank assets in terms of allocating funds for investment and loan, and establishing responsibility for day management of those assets.”

Gitman and Jochnk (1990), “Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns.”

Bhajacharya (1990), in his article, “Monetary Policy and Deposit Mobilization in Nepal” that the mobilization of domestic saving is one of the prime objectives of monetary policy in Nepal. For this purpose, commercial banks stood as the active and vital financial intermediary for generating resources in form of deposit of the investors in different aspects of the economy.

He has explained that commercial banks only can play an important role to mobilize the national savings. Now a day other financial institutions like finance companies, cooperative societies have been established actively to mobilize deposits in the proper sectors so that return can ensure from the investment.

“An investment is a commitment of money that is expected to generate additional money. Every investment entails sacrifice for a future uncertain benefit.” (Clark, 1991)

Reilly (1991) defines investment as, “An investment may be defined as the current commitment of fund for a period of time to derive a future flow of that will compensate the investment unit for the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future of the funds.”

Shrestha (1993) in her article, “Lending operations of commercial banks of Nepal and its impact on GDP”, has presented with the objectives to make an analysis of contribution of commercial bank’s lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology she has considered GDP as the depends variable and various sectors of lending viz. agriculture, industry, commercial, service & general and social sectors as the independent variables. A multiple regression technique has been applied to analyze the contribution. The multiple regression analysis has shown that all the variable except service sectors lending have positives impact on GDP. She has accepted that there has been positive

impact by the lending of commercial banks in various sectors of economy, except service sector investment.

Thapa (1994), in his article, "The financial system in Nepal," has expressed his view that the CBs seems to be doing well mobilizing deposit likewise loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to have adequate funds. The banks are increasing their lending to non-traditional sector along with the traditional sectors.

Cheney and Moses (1995) are concerned with objective of investment and indicate that the risk is in proportion with the degree of returns. They write, "The investment objective is to increase systematically the individual's wealth, defined as assets minus liabilities. The higher the level of the desired wealth, the higher must be the return. An investor seeking higher return must be willing to face higher level of risk."

Kashi (1996) in his article, "The changing face of the banking sectors and the HMG/N recent budgetary policy", concluded that following an introduction of the reform in the banking sectors as an integral part of the liberal economic policy, more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily, the two government controlled banks, Nepal Bank Limited and Rastriya Banijya Bank have also shown an improvement of the non-performing loans and are taking steps to adopt improved technology. However, higher economic growth with social justice bringing significant benefits to the poor are yet to be achieved as envisaged by the HMG/N.

Bhall (1997) has derived a three - pointed basic concept of investment. His view of investment cover:

- Economic investment that is an economic definition of investment.
- Investment in a more general or expected sense which is used by the man of street or ordinary people.
- The sense in which we are going to be very much interested namely financial investment.

He says, "Banks are those institutions which accept deposits from the public and in return provide credit to trade, business and industry that directly makes a remarkable

impact on the economic development of a country. To collect fund and collect as a good investment is a very job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence, sound investment policy is another secret of a successful bank.”

Clarles (1999), emphasizing on the proper management of an investor’s wealth says, “Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor’s wealth, which is the sum of current income and present value of all future income.”

Sharma (2000) has found same results that all the commercial banks are establishing and operating in urban areas, in this study, “Banking the Future on Competition.” His achievements are:

Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are running in those sectors.

- Commercial banks are charging higher interest rate on lending
- They have maximum tax concession
- They do not properly analyze the system

According to him, “Due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effects would show colors only after four or five years.” He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Prdhan (2000) has presented a short glimpse on investment in different sectors, its problem and prospects, through his article, “Deposit mobilization, its problem and prospects”. On his article he has expressed that, “Deposit is the life blood of any financial institution, and be it commercial bank, finance company, co-operative or non-government organization”. He also added, in consideration of 10 commercial banks and nearly three dozens of finance companies, the latest figure does produce a strong feeling that a serious review must be made of problem and prospects of deposit sector. Expect few joint venture banks, other organization rely heavily on the business

deposit receiving and credit disbursement. Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession. He mentioned that deposit mobilization carried out effectively is in the interest of depositors, society, financial sector and the nation. Lower level of deposit raising allows squeezed level of loan delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

A commercial must mobilize its deposit and other funds to profitable, secured and marketable sector. So that it can earn a handsome profit as well as it should be secured and can be converted into profits as well as it should be secured and can be converted into cash whenever needed obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan. Only the investment of the total deposit is not the good sign of banking development. In other word, to accumulated saving in a productive way. If the banks only receives the deposits and not invests, it is the form of loan, how it can pay interest on deposits, how it can pay salary to the staffs and raise surplus in order to declare dividends to shareholders. If the commercial banks do not invest the deposits, economic development of the country will be difficult. So the collection of deposits and extension of credit or investment of deposits of the commercial banks several inputs through which they can handle their investment operation efficiency ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

2.5 Review of Various research works done in Nepalese context

Before this, various students regarding the various aspects of CB's such as financial performance, lending policy investment policy, interest rate structure, resources mobilization and capital structure has conducted several thesis works.

So far various researchers have conducted research work as regards activities of CB's of Nepal. Study of predecessor researchers is relevant to our study. An analysis of some researchers is follows:

Bhattarai (1978), in his thesis entitled, “Lending policy of Commercial Banks in Nepal” has made an effort to examine the lending policy of CBs. She has concluded that efficient utilization of resources is more important than collection of the same. Lower investment means lower capital formation that hampers economic development of the people and the country. So, she recommended that banks should give emphasis on efficient utilization of resources.

Adhikari (1993) in his thesis entitled, “Evaluating the financial performance of NBL” concludes that the NBL would not fully utilize the resources on high yielding investment portfolio in maximum returns. Operational efficiency of the bank is indicated by the operational loss, has been unsatisfactory. So that bank should manage its investment by using portfolio method.

Shrestha (1993), in her researcher, “Investment planning of commercial bank in Nepal” has made remarkable efforts to examine the investment planning of CBs Nepal. On the basis of the study she concludes that bank portfolio (loans and investment planning) of CBs in Nepal has been influenced by the variable securities rate. Investment planning of CBs in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central bank (NRB). So that investments are not made in professional manner. Investment planning and operation of CB’s in Nepal has not been found satisfactory in terms of profitability, safety, liquidity, productivity and social responsibilities. To overcome, this problem she has suggested, “CBs should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects.”

Tuladur (1999), in his thesis entitled, “A study on investment policy Nepal Grindlays Banks Ltd. in comparison to other joint venture banks (Nabil and HBL)” had found that “Joint venture banks of Nepal were not efficient in providing information to their clients. These banks had given first priority on education sectors while making investment. The poverty stricken and deprived sectors were given second priority. His study found that the reason behind not providing banking facilities to the rural areas was that these banks were profit oriented only. According to him NGBL had maintained successful liquidity than Nabil and HBL. NGBL had successfully maintained and managed

assets towards different income generating activities. Profitability position of NGBL was better than Nabil and HBL. Similarly, growth ratios of NGBL and more satisfactory in compare to Nabil and HBL.”

He had performed a competition on investment policy of NGBL with Nabil and HBL. NGBL and Nabil and HBL were successfully operating from more one than years ago. More studies had taken only two banks to compare the investment policy of the NGBL. There were altogether 13 commercial banks operating in Nepal. It would be not reasonable to make decision about the condition of investment policy of NGBL only by comparing it with other bank only. He had performed empirical study also. But only 100 customers of each bank had participated in this study. In this case also, one cannot make decision on the basis of the view of 100 customers. There was lack of study on various risks in investment of commercial bank in this study.

He had not dealt very much on theoretical approach such as liberal lending policy, cost minimization approach, which was very important for the overall and profitability point of view. He had suggested reducing minimum threshold balance i.e. to improve participation of lower class people. But this was possible by operating branches in the rural areas where more lower level people reside.

Karmacharya (2005), in his thesis paper, “A study on the deposit mobilization by the Nepal Bank Ltd.” has concluded to the utilization side of NBL is weak as compared to the collection of resources. He has mentioned that the bank has successfully its resources efficiently. He has suggested getting up more banking branches increase the deposit collection and long term as well as short term credit. He has recommended not to consider security factor only but to provide loan to genuine projects with security.

2.6 Research Gap

The purpose of the research work is quite different from the studies made by the above persons (related to commercial banks). This study focuses in effectiveness in investment policy analysis of Nabil bank & HBL banking with comprehensive manner considering the major items. Different financial & statistical tools have been used in this study. This study is a little bit different than previous studies. It may be one of them research study of deposit and investment policy in few research work with reference to Nabil & HBL. This study tries to indicate the effectiveness of Deposit and Investment Policy of concerned banks.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

A definition of research that fits to different views is a systematic careful inquiry or examination to discover new information or relationship and to expand existing knowledge for some specific purpose. The specific purpose may be academic (problem of theory) or applied (problem or practice) or both.

“Research Methodology is a way to systematically solve about the research problem”. In other words, research methodology describes the method and process applied in the entire aspect of the study. Methodology refers to the various sequential steps undertaken a researcher in studying the problems with certain objectives in view. The basic objective of the present research is to highlight the current position of investment and deposit policy of commercial bank of Nepal. I have selected two commercial banks for the purpose of my research work, which are Nabil Bank Ltd. and HBL. This study has been based on secondary sources of data. The research methodology is followed to achieve the basic goal and objective of this study. The following methodology has been adopted in this study.

3.2 Research Design

Research design is a purpose scheme of action proposed to be carried out in a sequence during the process of research focusing on the management problem to be tackled. It must be a scheme of problem solving through proper analysis for which systematic arrangement of managerial problem and problem area to report writing with the help of collection, tabulation analysis and interpretation of data.

A research design is the arrangement of condition for collection and analysis of data that aims to combine relevance to the research purpose. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances (Kerlinker, 1996).

A research design is a plan of action to be carried out in connection with a research project. It is however, not an unbreakable rule, nor a hard & fast strategy. Research design helps research to control the experimental extraneous and error variance of the

particular research problem under the study topic. In this study the descriptive cum analytical research design has been followed to analyze the deposits and investment policy of the commercial banks in Nepal.

3.3 Source of Data Collection

The researcher must decide about the use of primary data at the outset in a research. In this fieldwork report, the investigator has used secondary data through annual report, websites and other publication for analysis.

3.4. Population and Sample

Population or Universe refers to the industries of the same-nature of its services & product. It is the collection or the aggregate of objects or the set of results of an operation. On the other hand sample means the representative parts of population selected from it with the objectives of investigating its properties. Thus, a sample is just a portion of the population selected with a view to draw conclusion about the population under study.

In context of Nepal, 32 commercial banks are in operation in data. These thirty two banks are regarded as population. But, it is not possible to study all data related with these thirty two banks. Hence two banks have been taken randomly sample from the seven joint venture bank (as of July 2010, Nepal Rastra Bank). The sample banks are as follows: Nabil Bank Ltd. and HBL

The selection procedure of the sample is random. Both banks are joint venture commercial banks. Nabil bank is 1st joint venture commercial bank and HBL is 3rd joint venture commercial bank. So, it would be interested to know which bank performed well as compared between 1st joint venture and 3rd joint venture bank. The share capital structure of these two banks are not same. The share capital of Nabil bank and HBL is 50% & 20% respectively. This factor also helps to select these banks as sample bank to know how the performance of the banks affect by foreign investment.

3.5 Data Analysis Tools

Data analysis refers to the analyzing the data in order to determine the inherent facts or meaning from the tabulated data, presentation & analysis of data is the care of the research work. Data that has been collected are first presented in systematic manner in tabular forms and then analyzed by applying different financial & statistical tools to achieve the objectives of the study. The tools applied are as follows:

3.5.1 Descriptive Analysis

Following financial ratios are calculated & analyzed.

a) Liquidity Ratio

Liquidity ratios are used to judge a firm's ability to meet short-term obligation if a company. Under this ratio the following ratios are calculated.

- NRB balance to total deposit:

NRB has made the commercial banks to deposit certain fund of the commercial bank in the central bank which is changing time to time as the demand of the time. The ratio is calculated as followed;

NRB balance to total deposit ratio = $\text{NRB deposit} / \text{total deposit}$

- Total liquid fund to total deposit:

Total liquid fund to total deposit ratio is the indication of the short term obligation capacity of the demand of the depositor money. Higher ratio shows the higher capacity of payment on demand of the money and vice versa. We have;

Total liquid fund to total deposit = $\text{total liquid fund} / \text{total deposit}$

b) Activity Ratio (Assets Management Ratio)

Activity ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory manner. A commercial bank must manage its asset properly to earn high profit.

Under in this research study, deposit collection and Investment procedure of the selected bank is also explained with the help of activity ratio. Under in this chapter following ratios are analyzed.

- **Loan & advances to total deposit:**

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances. Loan and advances are outside asset which yield profit to the bank. Increment of loan and advances is the main target of all commercial banks. So higher the ratio better is the mobilization of the funds.

We have;

Credit to total deposit = loan and advances/total deposit

- **Total Investment to total deposit:**

A commercial bank mobilizes its deposits by investing its funds in different securities issued by government and other financial institution in this ratio is calculated to know how the banks are mobilizing their deposit in the investment of the various securities. A high ratio indicates the success in mobilizing the funds in securities.

We have;

Total investment to total deposit = total investment/ total deposit

- **Investment on deprived sector to total deposit ratio:**

NRB has directed all the commercial banks to extend minimum 3% of total loan and advances (including bill purchased and discounted) to the deprived sector in order to contribute to the national economy.

We have;

Investment in deprived sector to total deposit ratio = investment in deprived sector/ total deposit

- **Investment on Priority sector to total deposit**

Effective from 2007/08, investment in priority sector shall not be compulsory for the commercial banks. But the CBs should continue investing in those sectors for providing banking services to poor communities and backward areas for overall economic development by channeling credit to more productive and employment oriented areas.

We have;

Investment in priority sector to total deposit ratio = investment in priority sector/total deposit

- **Investment on shares, debentures and bonds to the total deposit ratio:**

Commercial banks use their fund by making investment in different sector. They make investment in government securities, debentures and bonds. It is total amount that the bank mobilizes. This is the asset that the commercial bank mobilizes in order to get the profit.

We have;

Investment on shares, debentures and bonds to total deposit ratio= Investment on shares, debentures and bonds / total deposit

Growth Ratios:

Growth ratios are directly related to the fund mobilization and investment management of commercial banks in maintaining economic position. Growth rates of sector wise investment, priority & deprived sector investment have been calculated of banks under study.

- Growth rate of Investment
- Growth rates of Sector wise Investment
- Growth rates of Priority & Deprived Investment

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

Where,

D_n = Total Investment in the last year.

D_0 = Total Investment in the initial year.

g = Growth rate

n = number of year

The respective growth ratios show the positive or negative growth rate in their respective components.

Statistical Tools:

Using various statistical tools, which are as follows, will draw out the relationship between different variables related to this study.

1. Mean (\bar{X})
2. Standard Deviation (σ)
3. Coefficient of Correlation (c.v)
4. Regression

CHAPTER IV

Data Presentation and Analysis

The chapter “Data Presentation and Analysis” is an important part of the study. Here, the calculated data are interpreted and analyzed to fulfill the objective of this research. Under this chapter various financial ratios are used which are related to analyze the investment policy of the selected banks. The financial indicators of selected banks are compared with the help of statistical tools i.e. Mean, S.D. and C.V. etc.

4.1 Liquidity Ratio

Liquidity ratio measures the ability of banks to meet the investment purposes. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the customer also. Banks have to maintain enough liquidity because they have to meet the demand of deposits, withdrawals, pay maturity etc.

4.1.1 NRB balance to total deposit ratio:

NRB has directed all the commercial banks to deposit certain percentage of total deposit in NRB balance. The ratio is calculated as,

$$\text{NRB balance to total deposit} = \text{NRB deposit} / \text{total deposit}$$

Table 4.1

Calculation of mean, S.D. & C.V. of NRB balance to total deposit ratio

Year (mid July)	2008	2009	2010	2011	2012	mean	S.D.	C.V%
Nabil Bank	1.646	4.769	5.732	7.092	1.175	4.98	2.31	56.62%
HBL	4.128	4.225	3.013	6.714	6.926	5.001	1.55	30.99%

In the above table the ratio of two commercial banks are obtained from annexure A1. Through this table it is analyzed the short term obligation capacity of two banks. NRB has directed all the commercial banks to deposit certain percentage of total deposit in the NRB balance. Due to the change in directives from time to time it seems fluctuating to maintain the liquidity position of the selected banks.

From the above table it has found that Nabil Bank has maintained average 4.08% as NRB balance out of its total deposit. It has fluctuating trend of liquidity position. It

has maintained highest ratio of 7.092% in the year 2011 and lowest ratio of 1.646% in the year 2006. The S.D. of Nabil bank is 2.31 and C.V. is 56.62%.

Himalayan bank has maintained an average ratio of 5.001% as NRB balance. It also has fluctuating trend of liquidity position. It has maintained highest ratio of 6.926% in the year 2012 and lowest ratio of 3.013 in the year 2010. The S.D. of HBL is 1.55 and C.V. is 30.99%.

It is clear from the above table that the selected banks have followed the NRB requirement. The mean ratio of HBL is higher than that of Nabil bank. It indicates that HBL has maintained more liquidity in NRB balance than that of Nabil bank. HBL has more consistency and uniformity to maintain liquidity position as it has lower ratio of C.V. i.e. 30.99%.

4.1.2 Total Liquid fund to total deposit ratio:

The capacity of short term obligation of the bank is measured by the ratio of total liquid fund to total deposit. Higher ratio shows the higher capacity of payment on demand of money and vice versa. The ratio is calculated;

$$\text{Total liquid fund to total deposit} = \frac{\text{total liquid fund}}{\text{total deposit}}$$

Table 4. 2

Calculation of Mean, S.D. and C.V. of total liquid fund to total deposit

Year (mid July)	2008	2009	2010	2011	2012	Mean	S.D.	C.V.
Nabil bank	12.22	8.410	14.487	10.510	9.726	11.07	2.107	19.03%
HBL	10.108	10.848	7.862	12.668	11.498	10.60	1.605	15.14%

Liquidity is the amount kept by bank which is equivalent to the cash. Liquid funds are required to meet the short term obligation and to gain the image and satisfaction of the customers. NRB has directed all the commercial banks to maintain minimum 5% CRR which is changing from time to time. NRB has decreased its minimum requirement from 7% to 5%. Hence, the selected banks have decreased the liquidity ratio so as to increase the amount of loan and advances.

From the above table it has found that Nabil bank has maintained average 11.07% as liquid fund of its total deposit. It has fluctuating trend of liquidity position. It is has

maintained highest ratio 14.487% in the year 2010 and lower ratio of 8.410% in the year 2009. The S.D. of Nabil bank is 2.107 and C.V. is 19.03%.

Himalayan bank has maintained an average ratio of 10.60% as liquid fund. It also has fluctuating trend of liquidity position. It has maintained highest ratio of 12.668% in the year 2011 and lowest ratio of 7.862% in the year 2010. The S.D. of HBL is 1.605 and C.V. 15.14%.

It is clear from the above table that the selected banks have maintained the minimum requirement set by the NRB. The mean of HBL is 10.60% and that of Nabil bank is 11.07%. That mean Nabil bank has maintained higher level of liquidity position than that of HBL. C.V. of HBL is lower than that of Nabil bank which represents more consistency and uniformity in liquidity purposes than that of Nabil bank.

4.2 Activity Ratio (Asset Management Ratio)

A commercial bank must be able to manage its assets very well earn high profit, to satisfy its customers and for its own existence. Assets management ratio measures how efficiency the banks manage the resources it mobilizes. Under this research study deposit collection and investment procedure of the selected bank is also explained with the help of activity ratio. The following ratios measured the assets management ability of the HBL and Nabil bank in comparisons.

4.2.1 Loan & advances to total deposit ratio

This ratio measures the ability of the bank to mobilize their total deposit on loan and advances. Increase in loan and advances results increase in profit of the banks. Hence, commercial banks target to increase the loan and advances to yield higher profit. Higher ratio indicates better utilization of fund. The ratio is calculated as;

$$\text{Credit to total deposit} = \text{loan \& advance} / \text{total deposit}$$

Table 4.3

Calculation of mean, S.D. & C.V. of loan & advances to total deposit ratio

Year (mid July)	2008	2009	2010	2011	2012	Mean	S.D.	C.V.
Nabil bank	67.303	67.076	67.411	74.478	70.895	69.43	2.89	4.16%
HBL	58.57	58.812	62.762	72.927	77.042	66.04	7.56	11.45%

The table shows that Nabil bank has an average mean ratio of 69.43. During 5 years of period the highest investment of Nabil bank in loan and advances is 74.478% in FY 2011 and lowest ratio is 67.303% in the year 2008. S.D. of this bank is 2.89 and C.V. is 4.16%.

HBL has an average mean ratio of 66.04%. It has highest ratio of loan and advances in 77.042% in the year 2012 and lowest ratio is 58.57% in year 2008. S.D. of the concern bank is 7.56 and C.V. is 11.45%.

It is clear from the table that Nabil bank has invested more deposits in loan and advances than that of HBL. It shows that C.V. of HBL is 11.45% and that Nabil bank is 4.16%. Since Nabil has lower C.V. it indicates more consistency in this regard. Nabil bank seems stronger than HBL to advance loan to the market. From this we can concludes that Nabil bank has accepted higher risk to survive in the market.

By the end of mid – July 2012, loan and advances to total deposit ratio of overall commercial banks increased.

4.2.2 Total Investment to total deposit ratio

The main objective of the commercial banks is to make more profit. They make investment in different securities issued by government and other financial institutions. The ratio is calculated to know the efficiency of the commercial banks in utilizing the available deposits in different investment alternatives. The ratio is calculated as;

Total investment to total deposit= total investment/total deposit

Table 4.4

Calculation of mean, S.D. & C.V. of total investment to total deposit

Year (mid July)	2008	2009	2010	2011	2012	Mean	S.D.	C.V.
Nabil bank	31.935	38.322	31.144	28.988	29.456	31.97	3.35	10.48%
HBL	41.105	39.346	41.894	25.116	22.453	33.98	8.41	24.75%

The table shows that Nabil bank has an average mean ratio 31.97%. The S.D. is 3.35 and C.V. is 10.48%. It has the highest ratio of investment of 38.322% in the year 2009 and lowest ratio of investment of 28.988% in the year 2011.

The mean ratio of HBL is only 33.98% and ratios are also in fluctuating trend during 5 years of period. It has the highest ratio of investment of 41.894% in the year 2010 and lowest ratio of investment of 22.453% in the year 2012. It is clear from the above than that of Nabil bank. C.V. of Nabil bank is lower than that of HBL. This represents more consistency of investment procedure of Nabil bank. It seems that Nabil bank is more uniform in investment procedure but on the other hand HBL has more investment alternative that of Nabil bank as it has higher mean ratio.

4.2.3 Investment on deprived sector to total deposit ratio

The banks are operated not only for profit motive but also for special welfare. An effort is made find out new much of amount the selected banks have invested in the deprived sector. The higher ratio shows the higher social concern of the selected banks. The ratio is calculated as;

Investment in deprived sector to total deposit ratio=investment in deprived sector/total deposit

Table 4.5

Calculation of mean, S.D. & C.V. of investment on deprived sector to total deposit ratio

Year (mid July)	2008	2009	2010	2011	2012	Mean	S.D.	C.V.%
Nabil bank	1.608	1.550	1.843	2.342	2.228	1.91	3.20	16.75%
HBL	1.869	1.776	1.966	2.044	3.177	2.17	0.513	23.64%

With regards to direct lending to deprived sector NRB has been changing the directives from time to time by issuing various circulars. As per the NRB directives, commercial banks were required to direct 7 percent of total loan portfolio in the deprived sector for the year 2005/06, 6% for year 2006/07, 4% for the year 2007/08, 3% for the year 2008/09, 3% for the year 2009/10. From the year 2010/11 onwards commercial banks are required to extend minimum 3% of total loan and advances (including bills purchased and discounted to the deprived sector).

Due to the change in NRB directives, the above comparative table reveals that the selected banks have fluctuating trend of investment in deprived sector. Nabil bank has the highest ratio of 3.177 in FY 2010 and the lowest ratio of 1.776 in FY 2009. Similarly, the ratio is not found consistent in any year of study period. HBL has highest ratio of 2.342 in FY 2011 and the lowest ratio of 1.550 in FY 2009.

Comparing the mean ratio of investment on deprived sector of total deposit in deprived Nabil bank has mobilized higher ratio of deposit in deprived sector than that of HBL. Nabil bank has mean ratio of 2.17 and that of HBL has 1.91. C.V. of Nabil bank is 23.64% which is high than that of HBL i.e. 16.75%. The lower percentage of C.V. of HBL shows consistency and uniformity in investment purposes than it has accepted the risk and ignored the profit and also given priority to social welfare.

The outstanding of deprived sector credit of commercial banks in the mid- July 2010 increased by 23.32 percent compared to 76.36 percent in the mid-July 2009. By the end of mid-July 2010, it reached to Rs. 167289.9 million from Rs.13565.1 million in mid-July 2009. The ratio of deprived sector credit to total outstanding of product wise loans and advances stood at 3.56 percent in the current period. Last year it was 2.96 percent.

4.2.4 Investment on priority sector to total deposit ratio

Commercial banks have various options to mobilize their funds. Credit to priority sector is one of them. But from view point of profit commercial banks avoids to extent loan on this sector. However, they make certain portion of their investment in this sector. The ratio is calculated as;

Investment in priority sector to total deposit ratio= investment in priority sector/total deposit

Table 4.6

Calculation of mean, S.D. & C.V. of investment on priority sector to total deposit ratio

Year (mid-July)	2008	2009	2010	2011	2012	Mean	S.D.	C.V.%
Nabil bank	1.310	1.358	0.000	0.000	0.000	-	-	-
HBL	3.956	1.565	2.807	0.000	0.000	-	-	-

The selected bank has not invested continuously in this sector.

4.2.5 Investment on shares, debenture and bonds to total deposit ratio

Investment on shares, debentures and bonds to total deposit reflects the extent to which the selected banks are successful to mobilize their total deposit on purchase of shares and debentures of other companies to generate income and to utilize the excess fund. Higher ratio indicates more portion of investment on shares and debentures out of total deposit. The ratio is calculated as;

Investment on shares, debentures and bonds to total deposit ratio= Inv. On shares, debentures & bonds/ total deposit

Table 4.7

Calculation of mean, S.D. & C.V. of investment on shares, debentures & bonds to total deposit ratio

Year (mid-July)	2008	2009	2010	2011	2012	Mean	S.D.	C.V.
Nabil bank	19.654	15.393	15.908	18.449	11.816	16.24	2.72	16.74%
HBL	21.691	17.859	16.602	12.454	10.183	15.76	4.06	25.76%

The above comparative table shows fluctuating trend of ratios of selected banks. Nabil bank has highest ratio of 19.654 in FY 2008 and the lowest ratio of 11.816 in FY 2012. The average mean ratio of Nabil bank is 16.244. S.D. of the same bank is 2.71 and C.V. is 16.74%.

HBL has the highest ratio of 21.691 in FY 2008 and the lowest ratio of 10.183 in FY 2012. The average mean ratio of the bank is 15.76. S.D. of HBL is 4.06 and C.V. is 25.76%.

The above comparative table shows that the mean ratio of Nabil bank is higher than of HBL. HBL has higher ratio of C.V. is 25.76% than that of Nabil bank. The lower C.V. of Nabil bank shows more consistency of investment procedure of the bank than of HBL.

The selected banks have made more investment only on government securities during the 5 year of study period. They have zero investment of government securities during the 5 years of study period. They have zero investment of government bond, government non-institution. The major portion of investment of selected banks includes the risk free assets like government securities, treasury bills and some investment in foreign banks, local banks and mutual funds, investment on shares, debentures and bond of other companies is not satisfactory due to high risk factor and some regulations of NRB. Like NRB has prohibited banks from investing in shares and securities not listed in stock exchange. Further, banks are prohibited from investing in shares and securities of other banks and financial institutions licensed by NRB.

4.3 Deposit Position of Commercial Bank

Deposit are the main sources to meet the growing demand assistance. The existence of CBs basically depends upon the mobilization of deposit. The CBs may function only when they have adequate deposit. Higher the volume of the deposit, higher will be the volume of lending and investment which again generate higher deposits as possible.

Since, the establishment of CBs they are playing an important role in the economic development of the country by collecting the scattered resources in the form of deposit. Table No.1 & 2 shows the trend of deposit ratio since fiscal years 2008 to 2012.

Table No. 4.8

Deposit Position of Himalayan Bank Ltd. (Rs. In 000)

Year	Current	Margin	Saving	Fixed	Call	Other	Total Deposit	% Change
2008	5028150	488032	14582855	6350202	41612	-	26498051	-
2009	5589580	375026	15784770	8201135	97907	-	30048418	2.21%
2010	4784216	645187	17972441	6423874	2017072	-	31842790	1.12%
2011	3218225	665174	20061048	6377132	4359767	-	34681346	1.77%
2012	3745624	946872	16294680	11328636	5295390	-	37611202	1.82%
							160674607	

From the above table, it seen that the deposit collection of Himalayan Bank is not always same. In Every financial year, the percentage change of deposits is fluctuating.

Figure No: 4.1

Bar Diagram: Showing the Deposit of HBL

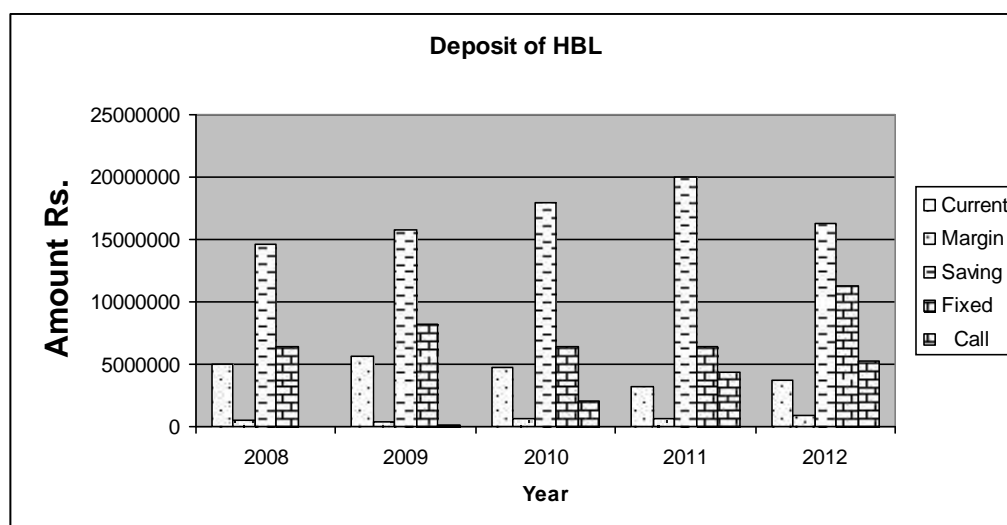


Table no. 4.9

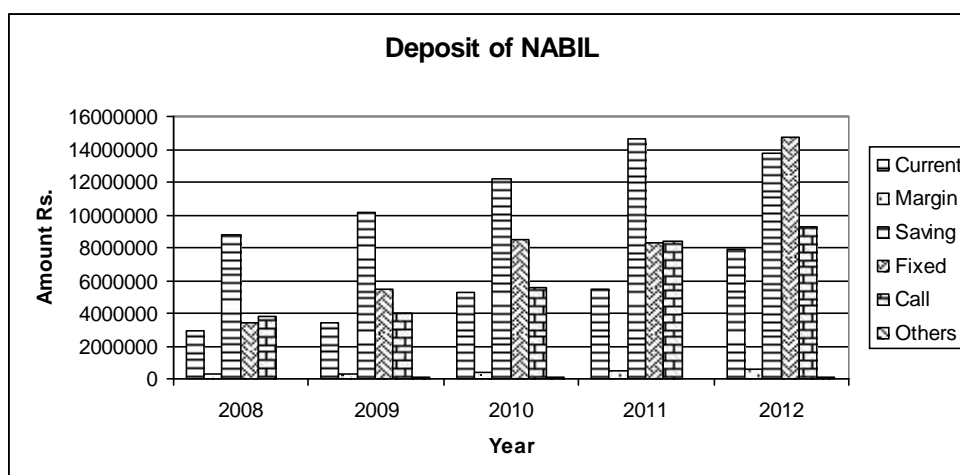
Deposit Position of Nabil Bank Ltd.(Rs. in 000)

Year	Current	Margin	Saving	Fixed	Call	Others	Total Deposit	% Change
2008	2910599	322900	8770759	3449094	3851160	42896	19733499	-
2009	3395240	312060	10187345	5435190	3961633	50808	23342285	2.27%
2010	5284368	361782	12159966	8464086	5563441	81404	31915047	5.40%
2011	5480533	463015	14620407	8310708	8438271	35320	37348254	3.42%
2012	7904620	629857	13783586	14711158	9295058	86422	464100701	5.71%
							158749786	

The Percentage change of deposits in every financial year is fluctuating. The table no 2 indicates that the year 2011/2012 recorded a progressive rate of growth in total deposits are going to increase.

Figure No: 4.2

Bar Diagram: Showing the Deposit of Nabil Bank Ltd.



Different Accounts of Himalayan Bank and Nabil Bank Ltd.

1. Saving Deposit Account

It is a branch of time deposit. It is a kind demand deposit limited to draw money under certain fixed amount awarding to the rule of bank. The account can also be opened jointly. An illiterate person can also open a saving account which can operate easily by the specimen of their thumbprint and photograph attached in the pass book. Pre –notice is needed when sum over fixed amount is required to be withdrawn. The sole amount of opening of this is to promote thrift among the lower income class people.

Table No. 4.10

Saving Deposit Position of Himalayan Bank Ltd

(Rs. In 000)

Year	Saving Deposit	Degree	Change in Deposit	% change
2008	1458255	7.33	-	-
2009	15784770	79.40	14326515	20.02%
2010	17972441	90.40	2187671	3.06%
2011	20061048	100.91	2088607	2.92%
2012	16294680	81.96	(3766368)	-5.26%
	71571194			

Here;

$$Degree = \frac{Deposit\ per\ year}{Total\ Deposit} \times 360$$

The Table No. 3 indicates the amount deposited in saving account from 2008 to 2012. The figure shows the decreasing trend of saving deposit. In the year 2008/2009, the saving deposit is increase in contrast with former and preceding year of the period under review. In 2009/10 change in deposit was Rs.2187671 thousand or 3.06% and in 2010/11 deposit amount increased by 2.92%. From the fiscal year 2011/12, it decreased by the amount of Rs. (3766368) thousand i.e. it is decreased by (5.26%).

Figure No: 4.3

Pie Diagram: Showing the Saving Deposit of Himalayan Bank Ltd

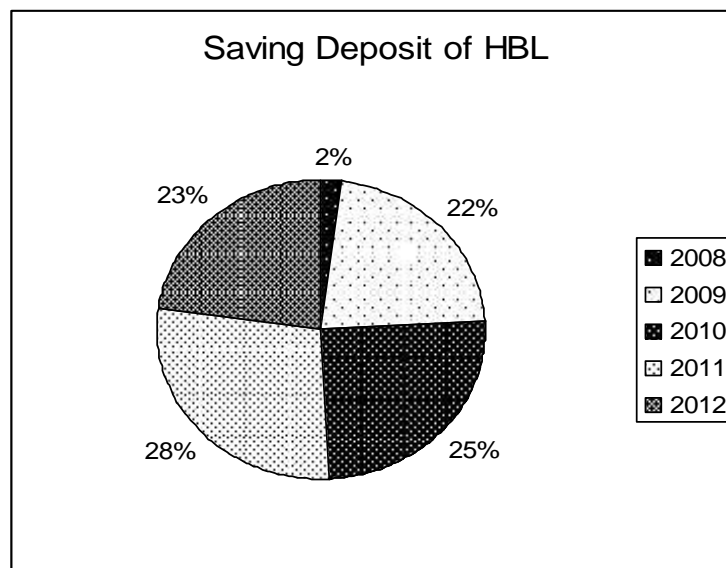


Table No. 4.11

Calculation of Trend Analysis

The Trend Analysis of Saving Deposit of Himalayan Bank Ltd. for 5 year

Year(x)	Deposit(y)	$x = x - \bar{x}$	x^2	xy	Trend Value Y_c
2008	145	-2	4	-290	8.2
2009	157	-1	1	-157	8.8
2010	179	0	0	0	168.2
2011	200	1	1	200	248.4
2012	162	2	4	648	328.6
$\Sigma x = 10040$	$y = 843$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = 401$	

Here;

N = 5

$$\bar{x} = \frac{\Sigma x}{N} = \frac{10040}{5} = 2008$$

The Model used for linear regression is

$$Y_c = a + bx$$

Where 'a' and 'b' are constant to be determined to find the position of trend of deposits.

Let, the trend line by $Y_c = a + bx$ (1)

Here,

$$x = 0 \quad N = 5$$

$$a = \frac{\Sigma y}{N} = \frac{843}{5} = 168.7$$

$$b = \frac{\Sigma xy}{N} = \frac{401}{5} = 80.2$$

Now, Substituting the value of 'a' and 'b' in equation (1)

The equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 132.8 + 80.2 (x)$$

When,

$$X = -2 \quad Y_c = 168.2 + 80.2 (-2) = 8.2$$

$$X = -1 \quad Y_c = 168.2 + 80.2 (-1) = 88$$

$$X = 0 \quad Y_c = 168.2 + 80.2 (0) = 168.2$$

$$X = 1 \quad Y_c = 168.2 + 80.2 (1) = 248.4$$

$$X = 2 \quad Y_c = 168.2 + 80.2 (2) = 328.2$$

The trend analysis for 5 years shows that the saving deposit has increase in the following year.

Forecasting for the year 2011 is

$$Y_c = 168.2 + 80.2 (3)$$

$$= 408.8$$

Figure No: 4.4

Line Graph: Trend Analysis of Saving Deposit of HBL

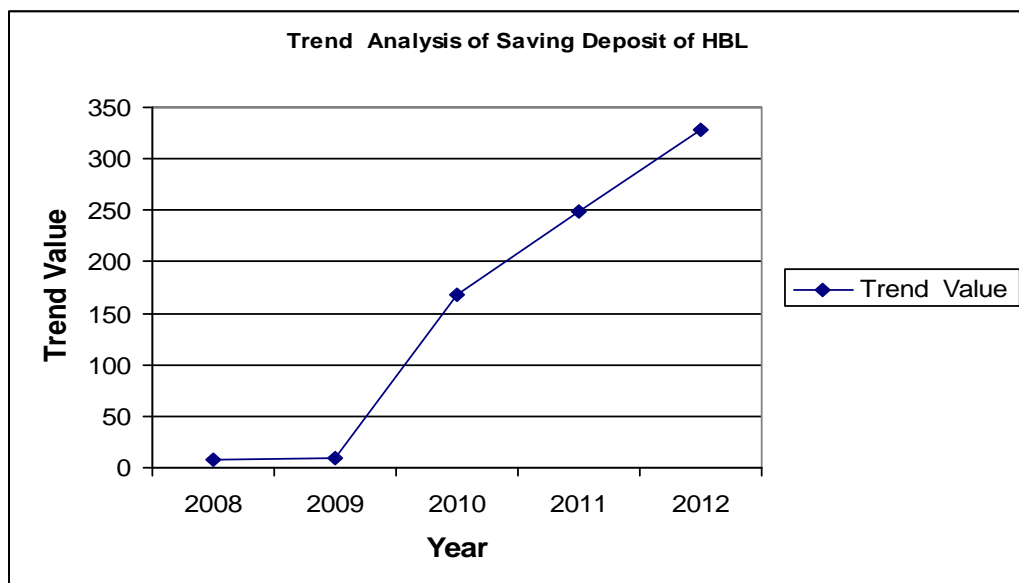


Table No:4. 12

Saving Deposit Position of Nabil Bank Ltd.

(Rs. In 000)

Year	Saving Deposit	Degree	Change in Deposit	% Change
2008	8770759	53.05	-	-
2009	10187354	61.61	1416595	2.38%
2010	12159966	73.55	1972612	3.31%
2011	14620407	88.43	2460441	4.13%
2012	13783586	83.36	(836821)	(1.41%)
	59522072			

Here,

$$Degree = \frac{\text{Deposit per year}}{\text{Total Deposit}} \times 360$$

The Table No. 5 indicates the amount of saving from 2007/2008 to 2011/2012. The figure shows the increasing trend saving deposits. In the year 2010/2011, the saving deposit is increased to Rs. 2460441 thousand in percentage term 24.83% then in the fiscal year 2011/012, the saving deposit decreased by (1.41%) or Rs.(836,8211) thousand.

Figure No: 4.5

Pie Diagram: Showing Deposit of Nabil Bank

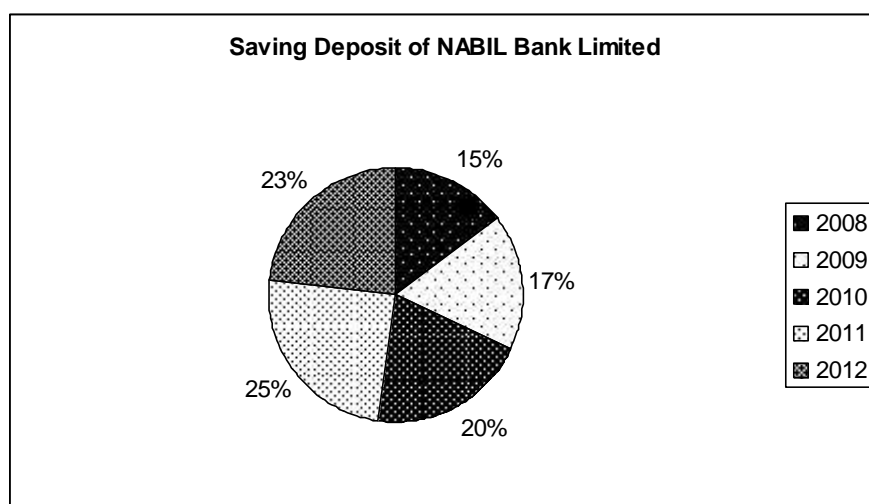


Table No: 4. 13

Calculation of Trend Analysis

The Trend Analysis of Saving Deposit of Nabil Bank Ltd. for 5 years

Year (x)	Deposit (y)	$x = x - \bar{x}$	x^2	xy	Trend Value Yc
2008	877	-2	4	-1754	611.6
2009	1018	-1	1	-1018	900.8
2010	1215	0	0	0	1190
2011	1462	1	1	1462	1479.2
2012	1378	2	4	2756	1768.4
$\Sigma x = 10040$	$y = 5950$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = 1446$	

N = 5

$$\bar{x} = \frac{\Sigma x}{N} = \frac{10040}{5} = 2008$$

The Model used for linear regression is

$$Yc = a + bx$$

Where 'a' and 'b' are constant to be determined to find the position of trend of deposits.

Let, the trend line by $Yc = a + bx$ (1)

Here,

$$x = 0 \quad N = 5$$

$$a = \frac{\Sigma y}{N} = \frac{5950}{5} = 1190$$

$$b = \frac{\Sigma xy}{N} = \frac{1446}{5} = 289.2$$

Now, Substituting the value of 'a' and 'b' in equation (1) the equation of trend of deposit (Y)

$$Yc = a + bx$$

$$Y_c = 1190 + 289.2 (x)$$

When,

$$X = -2 \qquad Y_c = 1190 + 289.2 (-2) = 611.6$$

$$X = -1 \qquad Y_c = 1190 + 289.2 (-1) = 900.8$$

$$X = 0 \qquad Y_c = 1190 + 289.2 (0) = 1190$$

$$X = 1 \qquad Y_c = 1190 + 289.2 (1) = 1479.2$$

$$X = 2 \qquad Y_c = 1190 + 289.2 (2) = 1768.4$$

The trend analysis for 5 years shows that the saving deposit has increase in the following year.

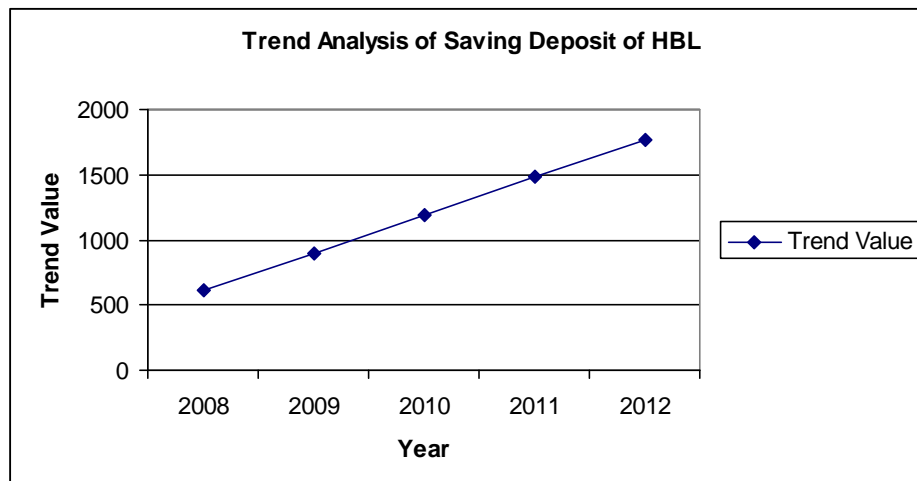
Forecasting for the year 2013 is

$$Y_c = 1190 + 289.2 (3)$$

$$= 2057.5$$

Figure No: 4.6

Line Graph: Trend Analysis of Saving Deposit of Nabil Bank Ltd.



2. Fixed Deposit Account

The main source of CBs to advice loans and to invest in the various sectors of the economy in the fixed deposit itself. The bank can utilize the money of fixed deposit. In the Fixed Deposit, the depositors fixed periods of time say for six months, one year, three years, five years, seven years & so forth. Depositors cannot get refund of the money before the period due. If some depositors want to withdraw his money from fixed deposit before due date the bank make charge some penalty.

Table No: 4.14

Fixed Deposit Position of Himalayan Bank Ltd.

(Rs. In 000)

Year	Fixed Deposit	Degree	Change in Deposit	% Change
2008	6350202	59.10	-	-
2009	8201135	76.33	1850933	4.79%
2010	6423874	59.79	(1777261)	(45.96%)
2011	6377132	59.35	(46742)	(1.21%)
2012	11328636	105.43	4951504	12.80%
	38680979			

Here,

$$Degree = \frac{Deposit\ per\ year}{Total\ Deposit} \times 360$$

Table No. 7 shows of fixed deposit amount of HBL in different fiscal years. In year 2008 the amount in fixed of CBs was Rs. 6350202 thousand and during the year 2009 it reached to Rs. 8201135 thousand i.e. it is increased by 4.79%. During the year 2010 it decreased by the amount of Rs. (1777261) thousand or by (45.96%). In 2009 changes in deposit was (Rs. 46742) thousand or (1.21%). During the year 2012 the amount deposit by increasing by Rs. 4951504 or by 12.80%.

Figure No: 4.7

Pie Diagram: Showing the Deposit of HBL

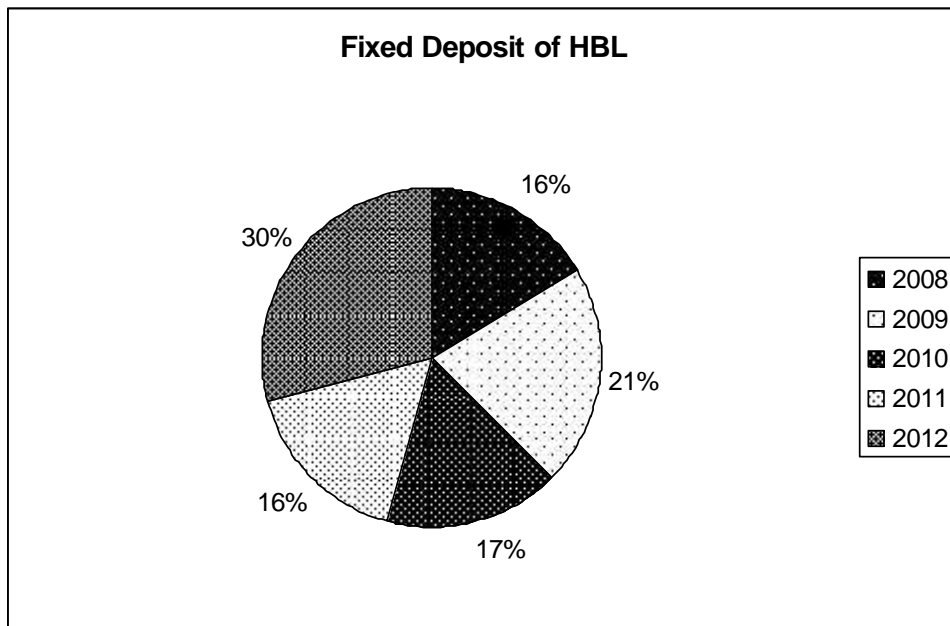


Table No: 4.15

Calculation of Trend Analysis

The Trend Analysis of Fixed Deposit of HBL for 5 year

Year(x)	Deposit(y)	$x = x - \bar{x}$	x^2	xy	Trend Value Y_c
2008	635	-2	4	-1270	448.8
2009	820	-1	1	-820	611
2010	642	0	0	0	773.2
2011	637	1	1	637	935.4
2012	1132	2	4	2264	1097.6
$\Sigma x = 10040$	$\Sigma y = 3866$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = 811$	

N = 5

$$\bar{x} = \frac{\Sigma x}{N} = \frac{10040}{5} = 2008$$

The Model used for linear regression is

$$Y_c = a + bx$$

Where 'a' and 'b' are constant to be determined to find the position of trend of deposits.

Let, the trend line by $Y_c = a + bx$ (1)

Here,

$$x = 0 \quad N = 5$$

$$a = \frac{\sum Y}{N} = \frac{3866}{5} = 773.2$$

$$b = \frac{\sum xy}{N} = \frac{811}{5} = 162.2$$

Now, Substituting the value of 'a' and 'b' in equation (1) the equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 773.2 + 162.2 (x)$$

When,

$$X = -2 \qquad Y_c = 773.2 + 162.2 (-2) = 448.8$$

$$X = -1 \qquad Y_c = 773.2 + 162.2 (-1) = 611$$

$$X = 0 \qquad Y_c = 773.2 + 162.2 (0) = 773.2$$

$$X = 1 \qquad Y_c = 773.2 + 162.2 (1) = 935.4$$

$$X = 2 \qquad Y_c = 773.2 + 162.2 (2) = 1097.6$$

The trend analysis for 5 years shows that the saving deposit has increase in the following year.

Forecasting for the year 2011 is

$$Y_c = 773.2 + 162.2 (3)$$

Figure No: 4.8

Line Graph: Trend Analysis of Fixed Deposit of HBL

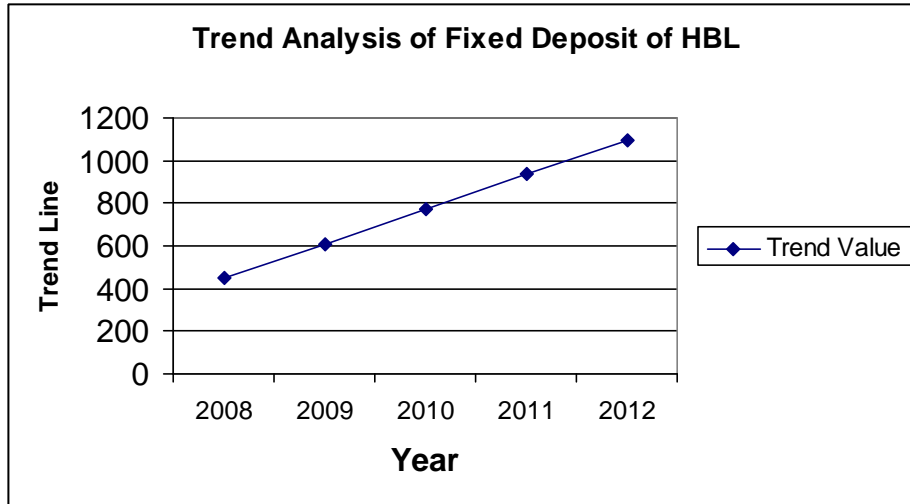


Table No: 4.16

Fixed Deposit Position of Nabil Bank Ltd.

(Rs. In 000)

Year	Fixed Deposit	Degree	Change in Deposit	% Change
2008	3449094	30.75	-	-
2009	5435190	48.47	1986096	4.92%
2010	8464086	75.48	3028896	7.50%
2011	8310708	74.11	(153378)	(0.38%)
2012	14711158	131.19	6400450	15.85%
	40370236			

Here,

$$\text{Degree} = \frac{\text{Deposit per year}}{\text{Total Deposit}} \times 360$$

In year 2008 the amount of fixed deposit of Nabil bank was Rs. 3449094 thousand and during the year 2009, it reached to Rs. 5435190 thousand i.e. it is increased by 4.92%. During the year 2010 it increased by the amount Rs. 3028896 or by 7.50% and in year 2011, the deposit amount decreased by (0.38%) or by amount is (Rs.153378)

thousand. The table indicates that fixed gained the highest rate of speed as 15.85% in year 2012.

Figure No: 4.9

Pie Diagram: Showing Fixed Deposit of Nabil Bank Ltd.

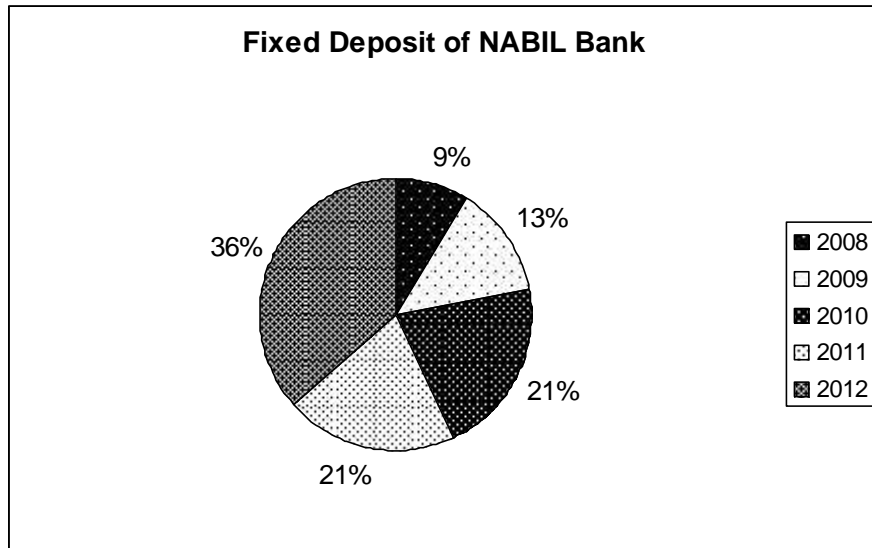


Table No: 4.17

Calculation of Trend Analysis

The Trend Analysis of Fixed Deposit of Nabil Bank Ltd. for 5 year

Year(x)	Deposit(y)	$x = x - \bar{x}$	x^2	xy	Trend Value Yc
2008	344	-2	4	-688	-209.8
2009	543	-1	1	-543	298.6
2010	846	0	0	0	807
2011	831	1	1	831	1315.4
2012	1471	2	4	2942	1823.8
$\bar{x} = 10040$	$\bar{y} = 4035$	$\bar{x} = 0$	$\bar{x}^2 = 10$	$\bar{xy} = 2542$	

$$N = 5$$

$$\bar{x} = \frac{\sum x}{N} = \frac{10040}{5} = 2008$$

The Model used for linear regression is

$$Yc = a + bx$$

Where 'a' and 'b' are constant to be determined to find the position of trend of deposits.

Let, the trend line by $Y_c = a + bx$ (1)

Here,

$$x = 0 \quad N = 5$$

$$a = \frac{\sum y}{N} = \frac{4035}{5} = 807$$

$$b = \frac{\sum xy}{N} = \frac{2542}{5} = 508.4$$

Now, Substituting the value of 'a' and 'b' in equation (1) the equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 807 + 508.4(x)$$

When,

$$X = -2 \qquad Y_c = 807 + 508.4(-2) = -209.8$$

$$X = -1 \qquad Y_c = 807 + 508.4(-1) = 298.6$$

$$X = 0 \qquad Y_c = 807 + 508.4(0) = 807$$

$$X = 1 \qquad Y_c = 807 + 508.4(1) = 1315.4$$

$$X = 2 \qquad Y_c = 807 + 508.4(2) = 1823.8$$

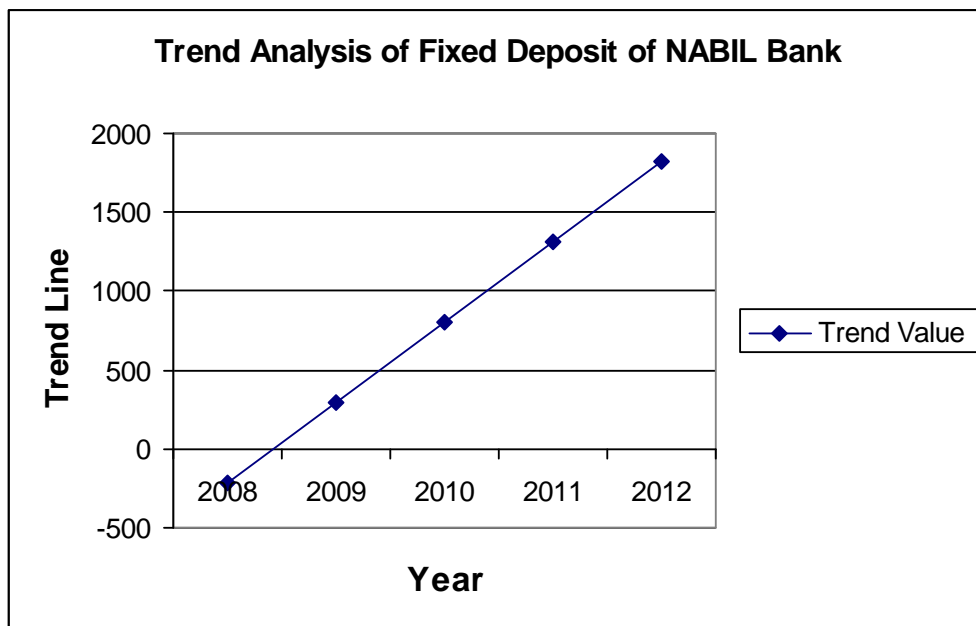
The trend analysis for 5 years shows that the fixed deposit position of Nabil bank. In fiscal year 2008, the trend value of fixed deposit of Nabil bank shows negative then trend value of fixed deposit has increase in the following year.

Forecasting for the year 2011 is

$$Y_c = 807 + 508.4(3) \\ = 2332.2$$

Figure No: 4.10

Line Graph: Trend Analysis of Fixed Deposit of Nabil Bank Ltd.



3. Current Deposit

Current Deposit is also known as demand. Money can be deposited as often as the depositor wishes. As the name implies, the deposited money can be withdrawn immediately up on demand. Individuals, business firms and the corporation own the bulk of such deposit. The type of account can be open with minimum balance. A current deposit is evidenced by a pass book may be held by individuals and a monthly statement of account is given to the concerned depositors to verify and reconcile their bank accounts. The CBs in Nepal do not allow interest in deposit in current account.

Table No: 4.18

Current Deposit Position of Himalayan Bank Ltd. for 5 year

(Rs. In 000)

Year	Current Deposit	Degree	Change in Deposit	% Change
2008	5028150	80.93	-	-
2009	5589580	89.97	561430	2.51%
2010	4784216	77.01	(805364)	(3.60%)
2011	3218225	51.80	(1565991)	(7.00%)
2012	3745624	60.29	527399	2.36%
	22365795			

Here,

$$Degree = \frac{Deposit\ per\ year}{Total\ Deposit} \times 360$$

In year 2008 that amount in this deposit in this report was Rs. 5028150 thousand and it increase to Rs. 5589580 thousand in 2009 increase amount of Rs. 561430 or change in deposit by 2.51%. Again in year 2010 the deposit amount decreased by (Rs. 805364) or by (3.60%) and also deposit amount decreased by (Rs. 1565991) or by (7.0%) in year 2011. Then again in year 2012, the deposit amount increased by Rs. 527399 thousand or by 2.36%.

Figure No: 4.11

Pie Diagram: Showing Current Deposit of HBL

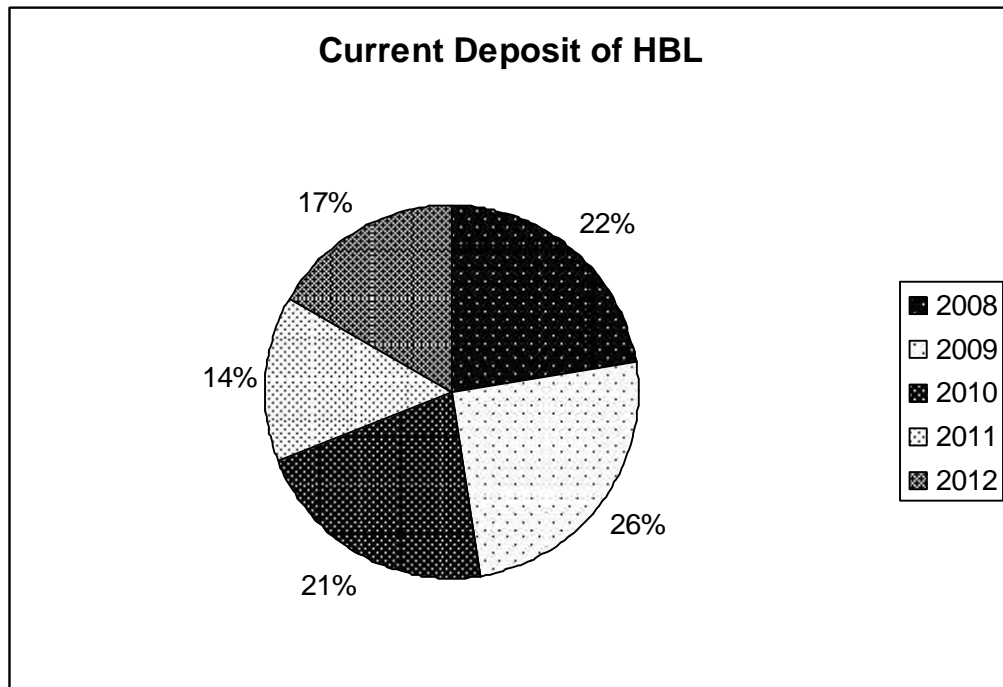


Table No: 4.19

Calculation of Trend Analysis

The Trend Analysis of Current Deposit of Himalayan Bank Ltd. for 5 year

Year (x)	Deposit(y)	$x = x - \bar{x}$	x^2	xy	Trend Value Yc
2008	502	-2	4	-1004	643.8
2009	558	-1	1	-558	545.2
2010	478	0	0	0	446.6
2011	321	1	1	321	348
2012	372	2	4	748	249.4
$\Sigma x = 10040$	$\Sigma y = 2233$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = -493$	

$$N = 5$$

$$\bar{x} = \frac{\Sigma x}{N} = \frac{10040}{5} = 2008$$

The Model used for linear regression is

$$Y_c = a + bx$$

Where 'a' and 'b' are constant to be determined to find the position of trend of deposits.

Let, the trend line by $Y_c = a + bx$ (1)

Here,

$$x = 0 \quad N = 5$$

$$a = \frac{\sum Y}{N} = \frac{2233}{5} = 446.6$$

$$b = \frac{\sum xy}{N} = \frac{-493}{5} = -98.6$$

Now, Substituting the value of 'a' and 'b' in equation (1) the equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 446.6 + (-98.6)(x)$$

When,

$$X = -2 \qquad Y_c = 446.6 + (-98.6)(-2) = 643.8$$

$$X = -1 \qquad Y_c = 446.6 + (-98.6)(-1) = 545.2$$

$$X = 0 \qquad Y_c = 446.6 + (-98.6)(0) = 446.6$$

$$X = 1 \qquad Y_c = 446.4 + (-98.6)(1) = 348$$

$$X = 2 \qquad Y_c = 446.6 + (-98.6)(2) = 249.4$$

The trend analysis for 5 years shows that the current deposit has decline in the following year.

Forecasting for the year 2013 is

$$Y_c = 446.4 + (-98.6)(3)$$

$$= 150.8$$

Figure No: 4.12

Line Graph: Trend Analysis of Current Deposit of HBL

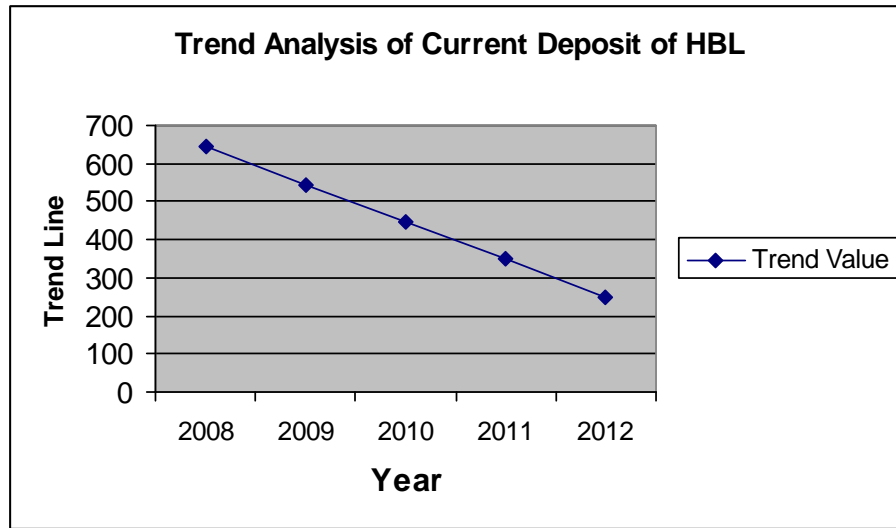


Table No: 4.20

Current Deposit Position of Nabil Bank Ltd. for 5 year

(Rs. In 000)

Year	Current Deposit	Degree	Change in Deposit	% Change
2008	2910590	41.95	-	-
2009	3395240	48.94	484650	1.94%
2010	5284368	76.17	1889218	7.56%
2011	5480533	79.00	196165	0.79%
2012	7904620	113.94	2424087	9.71%
	24975351			

Here,

$$Degree = \frac{Deposit\ per\ year}{Total\ Deposit} \times 360$$

In year 2008 that amount deposit in this report was Rs. 2910590 thousand and it increase to Rs. 3395240 thousand in 2009 increase amount of Rs. 484650 or change in deposit by 1.94%. Again in year 2010, the deposit amount increased by Rs. 1889129 or by 7.56%. In the year 2011, the deposit amount increased by Rs. 196165. Then again in year 2012, the deposit amount increased by Rs. 2424087 thousand or by 9.71%.

Figure No: 4.13

Pie Diagram: Showing Current Deposit of Nabil Bank Ltd.

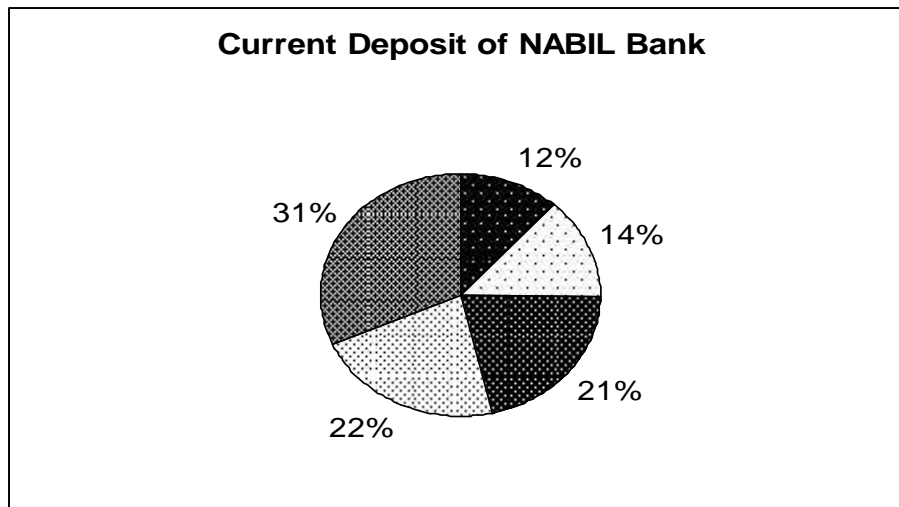


Table No: 4.21

Calculation of Trend Analysis

The Trend Analysis of Current Deposit of Nabil Bank Ltd. for 5 year

Year(x)	Deposit(y)	$x = x - \bar{x}$	x^2	xy	Trend Value Yc
2008	291	-2	4	-582	16.4
2009	331	-1	1	-339	257.8
2010	528	0	0	0	499.2
2011	548	1	1	548	740.6
2012	790	2	4	1580	982
$\Sigma x = 10040$	$\Sigma y = 2290$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = 1207$	

$$N = 5$$

$$\bar{x} = \frac{\Sigma x}{N} = \frac{10040}{5} = 2008$$

The Model used for linear regression is

$$Yc = a + bx$$

Where 'a' and 'b' are constant to be determined to find the position of trend of deposits.

Let, the trend line by $Y_c = a + bx$ (1)

Here,

$$x = 0 \quad N = 5$$

$$a = \frac{\sum y}{N} = \frac{2496}{5} = 499.2$$

$$b = \frac{\sum xy}{N} = \frac{1207}{5} = 241.4$$

Now, Substituting the value of 'a' and 'b' in equation (1) the equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 499.2 + 241.4 (x)$$

When,

$$X = -2 \qquad Y_c = 499.2 + 241.4 (-2) = 16.4$$

$$X = -1 \qquad Y_c = 499.2 + 241.4 (-1) = 257.8$$

$$X = 0 \qquad Y_c = 499.2 + 241.4 (0) = 499.2$$

$$X = 1 \qquad Y_c = 499.2 + 241.4 (1) = 740.6$$

$$X = 2 \qquad Y_c = 499.2 + 241.4 (2) = 982$$

The trend analysis for 5 years shows that the current deposit has increase in the following year.

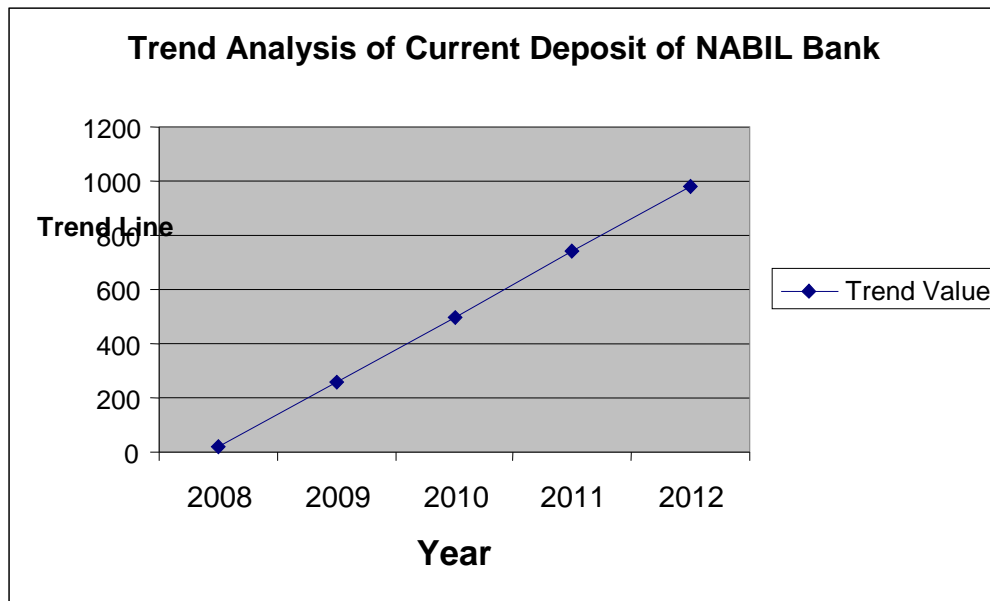
Forecasting for the year 2013 is

$$Y_c = 499.2 + 241.4 (3)$$

$$= 1223.4$$

Figure No: 4.14

Line Graph: Trend Analysis of Current Deposit of Nabil Bank Ltd.



4.4 Structure of Investment

The commercial banks invest their funds in different sector of economy such as.

A. Investment on Government Securities, Shares and Debenture

Though a Commercial bank can earn some interest and dividend from the investment of government securities, shares and debentures, it is not the major portion of income but it is treated as a second source of banking business. A Commercial bank may extend credit by treating it as a second source of banking government securities bonds and shares for several reasons.

Some of them are given as:

- It may want to space it matures so that the inflow of cash coincide with expect withdrawals by depositors or large loan demands of its customers
- It may wish to have high- grade marketable securities to liquidate if its primary reserve becomes in adequate.
- It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserve.

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

B. Investment on Other Company's Share and Debenture

Most of Commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to meet the requirement of NRB directives, the commercial banks purchase shares and debentures of regional development bank, NIDC and other development banks.

C. Sector wise investment refer to the investment in various sectors as agriculture, productions, construction, transportation, communications, wholesalers & retails, consumable loan that are considered essential for overall economic growth of the nation. They constitute the basic infrastructures that provide the logistics support for the growth and prosperity of the economy. By investing in such sectors banks can help the entire nation in pacing up the economic growth and the prosperity of the nation.

D. Priority & Deprived Sector Investment

Priority sector includes micro and small enterprises, which help to increase production, employment and income as prioritized under the national development plans with an objectives to uplift living standard of general public. Many directives have been introduced and amended as per the requirement by NRB. Commercial banks directed to invest 5% in priority sector with inclusive of 3% in deprived sector. The credit limits in the priority sectors has been raised to Rs. 2 million from Rs. 1 million on agricultural and service sector and from Rs. 15 million to Rs. 2.5 million on cottage and small-scale industry.

Likewise deprived sector credit includes low income and particularly socially backward women, tribes, physically impaired groups etc. Deprived sector investment is advanced up to Rs. 30,000 per borrower of micro credit

programs and projects. However, priority sector credit programmed is being phased out by NRB.

4.5 Growth rate of Investment

Investment in government securities ensures the safety of funds with the moderate rate of return. Some portion of deposits collected from the depositors is invested in government securities. They are considered to be free of risk of default and because of its low risk features, it has low yield. Fund are invested in such securities with view of not keeping idle funds. They are more liquid in nature than loans & advances.

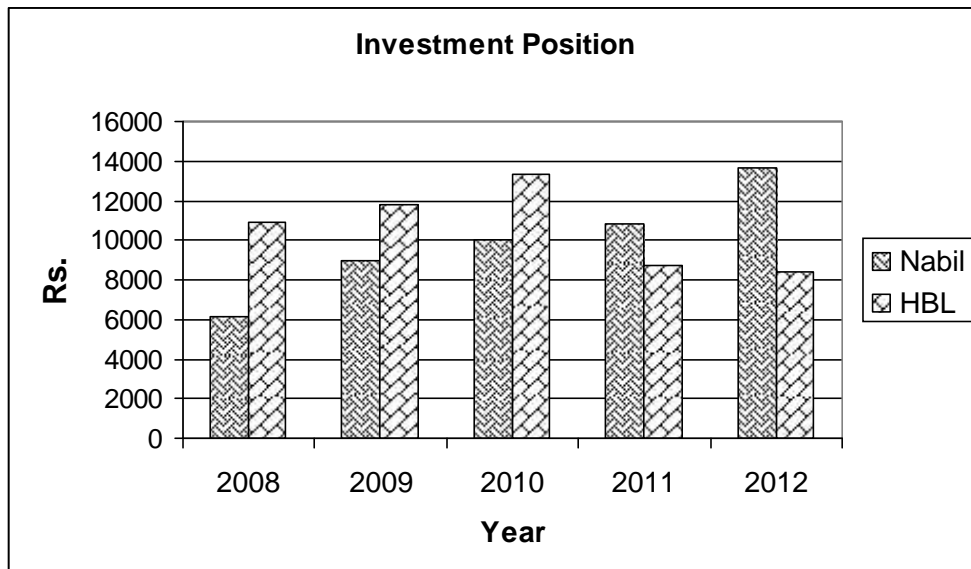
Table 4.22

Showing Investment & Growth Rate (Rs. In million)

Year Bank	2008	2009	2010	2011	2012	Growth %
Nabil	6178	8945	9999	10826	13670	21.96%
HBL	10889	11822	13340	8710	8444	-6.16%

Figure No: 4.15

Bar Diagram: Showing Investment Position of Sample Bank



The table and the figure above depict higher investment by Nabil Bank Ltd. in government securities. Nabil bank has drastically increased its investment, which is shown by the growth rate of 21.96%. HBL has lower its investment to diversify the funds in more productive sectors and in more profitable sectors.

4.6 Growth Rate of Sector Wise Investment of Nabil Bank Ltd.

Sector wise investment means the investment made in various significant sector of the economy. Given below is the table to show the proportion of investment made in the various sectors, total amount of investment made by Nabil.

Table 4.23

Showing Sector wise Investment of Nabil Bank Ltd.

(Rs. In Million)

Year Sector	2008	2009	2010	2011	2012	Growth Rate %
Agriculture	51.1	54.5	115.9	192.9	262.9	50.61%
Mining	21.9	13.9	18.5	15.4	9.0	-19.93%
Production	5107.1	5701.5	6640.7	7829.5	8687.9	14.20%
Construction	1378.8	1923.3	2985.6	4014.5	4780.6	36.46%
Metal production, Machinery & Electrical Tools & Fitting	100.0	163.2	234.9	291.1	294.6	31.01%
Transportation, Equipment production & Fitting	1309.6	1467.9	1791.0	2498.4	129.4	-43.93%
Transportation, Communications & Public service	673.7	917.7	1785.3	1313.2	4197.3	57.99%
Wholesales & Retailers	2086.5	2458.5	3586.5	5094.6	6283.3	32.02%
Finance, Insurance & Fixed Assets	480.2	821.1	1255.6	1964.0	2711.4	54.15%
Service Industries	1047.3	1260.7	1553.6	1979.4	871.3	-3.73%
Consumable Loan	86.7	84.6	116.8	116.2	139.2	12.57%
Local Government	0.0	0.0	0.0	0.0	0.0	0.0
Others	986.8	1036.1	1686.1	2688.0	2810.9	29.91%
Total	13278.7	15903	21769.9	27997.2	31177.8	27.97%

Source: "A Journal on Banking and Financial Statistics", NRB.

The figure in the above table clearly depict various sectors in which Nabil has made investment. Transportation, equipment, communications & fitting has experienced the highest growth rate of 57.99% followed by Finance, Insurance & Fixed Assets sector, which has the growth rate of 54.15% then followed by Agriculture sector which has 50.61%. Construction sector, Wholesaler & Retailers sector, Metal production, Machinery & Electrical Tools & Fitting sector also has the positive growth rate 36.46%, 32.02% and 31.01% respectively. Loans & advances to local government has

been totally reduced. Overall growth rate of 27.97% is impressive and such increment in loans and advance to various sector should be carried forward in the forthcoming year.

4.7 Growth Rate of Sector wise Investment of HBL

Given below is the table to show the proportion of investment made in the various sectors, total amount of investment made by HBL.

Table 4.24
Showing Sector wise Investment of HBL (Rs. In Million)

Year Sector	2008	2009	2010	2011	2012	Growth Rate %
Agriculture	507.6	660.2	639.2	677.0	607.1	4.58%
Mining	7.0	19.6	9.9	8.9	0.0	-
Production	7803.0	8083.2	8783.6	10507.9	11339.8	9.79%
Construction	342.2	462.4	764.6	1799.4	1565.8	46.26%
Metal production, Machinery & Electrical Tools & Fitting	237.9	192.9	528.4	814.6	42.3	-35.06%
Transportation, Equipment production & Fitting	46.6	72.3	60.7	88.9	576.3	87.53%
Transportation, Communications & Public service	1355.4	1436.5	1048.0	849.4	1120.3	-4.65%
Wholesales & Retailers	1921.0	2595.0	2774.0	3740.2	4046.6	20.47%
Finance, Insurance & Fixed Assets	838.6	963.0	1377.0	1429.8	2285.5	28.49%
Service Industries	1481.2	1575.8	1805.6	2117.6	690.5	-17.37%
Consumable Loan	184.2	322.7	265.0	541.0	2067.0	83.03%
Local Government	0.0	0.0	0.0	0.0	298.3	-
Others	1148.1	1603.7	2177.9	3002.7	2336.0	19.43%
Total	15872.8	17987.3	20233.9	25577.4	26975.5	14.18%

Source: "A Journal on Banking and Financial Statistics", NRB.

HBL has wide fluctuations in its growth rates. The highest growth rate is in Transportation, Equipment Production & Fitting of 87.53%. Consumable loan sector, finance, Insurance & Fixed Assets sector, Construction sector, Wholesalers & Retailers sector, Others, Production sector and Agriculture sector also shown

increment as the result of more loan & advances diverted in these sectors. Metal production, Machinery, Electrical Tools & Fitting experience the highest negative growth rate of 35.06% followed by the service industries with rate of -17.37%. Transportation, Communications, Public Service also shown the negative growth rate. Overall growth rate is 14.18% which is need to be improved.

Amongst the two banks, Nabil has excelled in its performance with the growth rate 27.97% reflecting full support in boosting economy. HBL should follow footsteps in lending in various productive sectors of the economy.

4.8 Priority and Deprived Sector Investment

Given below is the table to show the proportion of investment made in the priority and deprived sectors by the two banks under study i.e. Nabil and HBL.

Table No: 4.25

Showing Priority & Deprived Sector Investment

(Rs. in million)

Year	2008		2009		2010		2011		2012		Growth rate %	
Bank	Priorit y	Depriv ed	Priority	Deprived	Priority	Deprived	Prior ity	Depri ved	Prior ity	Depriv ed	Priori ty	Depriv ed
Nabil	764.6 6	361.90 3	365.24	430.2	-	620.3	-	874.8	-	1034	-	7.84%
HBL	374.0	495.2	407.4	533.7	-	626.0	-	709.0	-	1195.2	-	36.23 %

The above table shows the priority and deprived sector investment made by Nabil and HBL for the five year periods. Priority and deprived sector investment constitutes of direct and indirect investment in agriculture, domestic industries, services and power sectors. The both bank was not invest in priority sector in fiscal year 2010 to 2012. In the case of deprived sector loans, HBL shows the maximum growth rate of 36.23% followed by Nabil of 7.84%.

Himalayan Bank Ltd. (Rs. In Million)

X = Represent total Investment

Y = Represent total Deposit

Table No: 4.26

Calculation of Regression and Correlation between deposit & investment

Year	X	$x = X - 13340$	x^2	Y	$y = Y - 31842$	y^2	xy
2008	10889	-2451	60074401	26490	-5352	28643904	13117752
2009	11822	-1518	2304324	30048	-1794	3218436	2723292
2010	13340	0	0	31842	0	0	0
2011	8710	-4630	21436900	34681	2839	8059921	-13144570
2012	8444	-4896	23970816	37611	5769	33281361	-28245024
		$\Sigma x = -13495$	$\Sigma x^2 = 53719441$		$\Sigma y = 1462$	$\Sigma y^2 = 732036$ 22	$\Sigma xy = -$ 25548550

A) Average Investment (\bar{x}) = $A + \frac{\Sigma x}{N}$

$$= 13340 + \frac{-13495}{5}$$

$$= 13340 - \frac{13495}{5}$$

$$= 13340 - 2699$$

$$= 10641.$$

B) Average Deposit (\bar{y}) = $A + \frac{\Sigma y}{N}$

$$= 31842 + \frac{1462}{5}$$

$$= 31842 + 292.4$$

$$= 32134.4$$

C) Calculation of S.D. of Investment

$$\begin{aligned}
\text{S.D } (\sigma_x) &= \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum X}{N}\right)^2} \\
&= \sqrt{\frac{53719441}{5} - \left(\frac{-13495}{5}\right)^2} \\
&= \sqrt{10743888 - 728460} \\
&= 1859.92\%
\end{aligned}$$

$$\begin{aligned}
\text{C.V}_x &= \frac{\sigma}{\bar{x}} \\
&= \frac{1859.92}{10641} \times 100 \\
&= 17.48\%
\end{aligned}$$

Calculation of S.D. of Deposit

$$\begin{aligned}
\text{S.D } (\sigma_y) &= \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum X}{N}\right)^2} \\
&= \sqrt{\frac{73203622}{5} - \left(\frac{1462}{5}\right)^2} \\
&= \sqrt{14640724 - 854976} \\
&= 3815.13\%
\end{aligned}$$

$$\begin{aligned}
\text{C.V}_y &= \frac{\sigma}{\bar{y}} \\
&= \frac{3815.13}{32134.4} \times 100 \\
&= 11.87\%
\end{aligned}$$

C. V. (Deposit) is 11.87% and C.V. (Investment) is 17.48%. Deposit is more consistent than Investment.

Calculation of Regression Equation:-

Let, the regression equation of Y on X be

$$Y - \bar{Y} = byx (X - \bar{X}) \dots \dots \dots (1)$$

And the regression equation of X on Y be

$$X - \bar{X} = bxy (Y - \bar{Y}) \dots \dots \dots (2)$$

$$\begin{aligned} bxy &= \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2} \\ &= \frac{5 \times (-25548550) - (-13495) \times 1462}{5 \times 53719441 - (-13495)^2} \\ &= \frac{-108013060}{86482180} \\ &= -1.2489 \end{aligned}$$

$$\begin{aligned} byx &= \frac{n \sum XY - \sum X \sum Y}{n \sum Y^2 - (\sum Y)^2} \\ &= \frac{5 \times (-25548550) - (-13495) \times 1462}{5 \times 73203622 - (1462)^2} \\ &= \frac{-108013060}{363880666} \\ &= -0.2968 \end{aligned}$$

then, the regression equation of Y in X be

$$Y - \bar{Y} = byx (X - \bar{X})$$

$$Y - 32134.4 = -0.2968 (X - 10641)$$

$$Y - 32134.4 = -0.2968X + 3158.25$$

$$Y = -0.2968X + 3158.25 + 32134.4$$

$$Y = - 0.2968X + 35292.65 \dots\dots\dots (3)$$

And the regression equation of X on Y be

$$X - \bar{X} = b_{xy} (Y - \bar{Y})$$

$$X - 10641 = - 1.2489 (Y - 32134.4)$$

$$X - 10641 = - 1.289Y + 40132.65$$

$$X = - 1.289Y + 40132.65 + 10641$$

$$X = - 1.289Y + 50773.65 \dots\dots\dots (4)$$

Now, substituting the value of Y on equation (4)

$$X = - 1.289Y + 50773.65$$

$$X = - 1.289 \times (- 0.2968X + 35292.65) + 50773.65$$

$$X = 0.3707X - 44076.99 + 50773.65$$

$$X - 0.3707X = 6696.66$$

$$0.6293X = 6696.66$$

$$X = \frac{6696.66}{0.6293}$$

$$= 10641.44$$

Again, substituting value of X on equation (3)

$$Y = - 0.2968X + 35292.65$$

$$= - 0.2968 \times 10641.44 + 35292.65$$

$$= - 3158.38 + 35292.65$$

$$= 32134.27$$

$$\begin{aligned}
\text{Correlation Co-efficient (r)} &= \sqrt{b_{yx} \cdot b_{xy}} \\
&= \sqrt{(-0.2968) \times (-1.2489)} \\
&= \sqrt{0.3707} \\
&= 0.6088
\end{aligned}$$

Since, r is less than 1. So the Correlation between Investment and Deposit is positive
Correlation of HBL.

Nabil Bank Ltd. (Rs. in Million)

X = Represent total Investment

Y = Represent total Deposit

Table No: 4.27

Calculation of Regression and Correlation between deposit & investment

Year	X	$x = X - 9939$	x^2	Y	$y = Y - 31915$	y^2	xy
2008	6178	-3761	14145121	19347	-12568	157954624	47268248
2009	8945	-994	988036	23342	-8573	73496329	8521562
2010	9939	0	0	31915	0	0	0
2011	10826	887	786769	37348	5433	29517489	4819071
2012	13670	3731	13920361	46410	14495	210105025	54080845
		$\Sigma x = -137$	$\Sigma x^2 = 29840287$		$\Sigma y = 1487$	$\Sigma y^2 = 471073467$	$\Sigma xy = 114689726$

A) Average Investment (\bar{x}) = $A + \frac{\Sigma x}{N}$

$$\begin{aligned}
&= 9939 + \frac{-137}{5} \\
&= 9939 - \frac{13495}{5} \\
&= 9939 - 27.4 \\
&= 9911.6.
\end{aligned}$$

B) Average Deposit (\bar{y}) = $A + \frac{\sum y}{N}$

$$= 31915 + \frac{1487}{5}$$

$$= 31915 + 297.4$$

$$= 32212.4$$

C) Calculation of S.D. of Investment

$$\text{S.D } (\sigma_x) = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum X}{N}\right)^2}$$

$$= \sqrt{\frac{29840287}{5} - \left(\frac{-137}{5}\right)^2}$$

$$= \sqrt{5968057.4 - 7507.6}$$

$$= 2442.81\%$$

$$\text{C.V}_x = \frac{\sigma}{x}$$

$$= \frac{2442.81}{9911.6} \times 100$$

$$= 24.65\%$$

Calculation of S.D. of Deposit

$$\text{S.D } (\sigma_y) = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum X}{N}\right)^2}$$

$$= \sqrt{\frac{471073467}{5} - \left(\frac{1487}{5}\right)^2}$$

$$= \sqrt{94214693.4 - 88447.6}$$

$$= 9701.87\%$$

$$\begin{aligned}
C.V_y &= \frac{\sigma}{\bar{y}} \\
&= \frac{9701.87}{32212.4} \times 100 \\
&= 30.12\%
\end{aligned}$$

C. V. (Deposit) is 24.65% and C.V. (Investment) is 30.12%. Deposit is more consistent than Investment.

Calculation of Regression Equation:-

Let, the regression equation of Y on X be

$$Y - \bar{Y} = b_{yx} (X - \bar{X}) \dots \dots \dots (1)$$

And the regression equation of X on Y be

$$X - \bar{X} = b_{xy} (Y - \bar{Y}) \dots \dots \dots (2)$$

$$\begin{aligned}
b_{xy} &= \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2} \\
&= \frac{5 \times 114689726 - (-137) \times 1487}{5 \times 29840287 - (-137)^2} \\
&= \frac{573652349}{149182666} \\
&= 3.8453
\end{aligned}$$

$$\begin{aligned}
b_{yx} &= \frac{n \sum XY - \sum X \sum Y}{n \sum Y^2 - (\sum Y)^2} \\
&= \frac{5 \times 114689726 - (-137) \times 1487}{5 \times 4710734647 - (1487)^2} \\
&= \frac{573652349}{2353156166} \\
&= 0.2438
\end{aligned}$$

then, the regression equation of Y in X be

$$Y - \bar{Y} = b_{yx} (X - \bar{X})$$

$$Y - 32212.4 = 3.8453 (X - 9911.6)$$

$$Y - 32212.4 = 3.8453X - 38113.08$$

$$Y = 3.8453X - 38113.08 + 32212.4$$

$$Y = 3.8453X - 5900.68 \dots\dots\dots (3)$$

And the regression equation of X on Y be

$$X - \bar{X} = b_{xy} (Y - \bar{Y})$$

$$X - 9911.6 = 0.2438 (Y - 32212.4)$$

$$X - 9911.6 = 0.2438Y - 7853.38$$

$$X = 0.2438Y - 7853.38 + 9911.6$$

$$X = 0.2438Y + 2058.22 \dots\dots\dots (4)$$

Now, substituting the value of Y on equation (4)

$$X = 0.2438Y + 2058.22$$

$$X = 0.2438 \times (3.8453X - 5900.68) + 2058.22$$

$$X = 0.9375X - 1438.58 + 2058.22$$

$$X - 0.9375X = 619.63$$

$$0.0625X = 619.63$$

$$X = \frac{619.63}{0.0625}$$

$$= 9914.08$$

Again, substituting value of X on equation (3)

$$Y = 3.8453X - 5900.68$$

$$= 3.8453 \times 9914.08 - 5900.68$$

$$= 38122.61 - 5900.68$$

$$= 32221.93$$

$$\begin{aligned} \text{Correlation Co-efficient (r)} &= \sqrt{b_{yx} \cdot b_{xy}} \\ &= \sqrt{(3.8453 \times 0.2438)} \\ &= \sqrt{0.9375} \\ &= 0.97 \end{aligned}$$

Since, r is less than 1. So the Correlation between Investment and Deposit is positive
Correlation of Nabil Bank Ltd.

4.9 Major Findings of the Study

- NRB has directed all the commercial banks to keep minimum 5% of total deposit in the NRB balance so as to maintain the liquidity position.
Nabil bank has an average mean ratio of 4.08% and the same of HBL is 5.001%.
- The mean ratio of liquid fund to total deposit ratio of both banks suggest that they are sound in this regard.
The overall analysis of liquidity ratio has found that HBL is more consistent to maintain liquidity position than that of Nabil bank. Nabil bank and HBL both have given more priority to increase investment than to maintain liquidity.
- Loan and advances to total deposit ratio of Nabil bank is higher than that of HBL.
An average mean ratio of Nabil bank is more successful in advancing loans.
- Investment to total deposit ratio of both banks is in fluctuating trend. An average mean ratio of Nabil is higher than that of HBL bank ltd.
- Investment on deprived sector to total deposit ratio of the selected bank is in increasing trend. The average mean ratio of Nabil bank is link bit higher than HBL end Nabil bank seem more consistent to make investment in deprived sector than that of HBL.
- It is seen that the deposit collection of HBL is changed. Firstly it has decreased and after that it increase by decreased ratio. The percentage change of deposit of

Nabil in every financial year is fluctuating. It indicates that the year 2011/12 recorded a progressive rate of growth in total deposits are to increase.

- HBL and Nabil of the trend analysis for 5 years shows that the saving deposit has increase in the following year. Nabil the highest trend value in FY 2012 is Rs. 17868.4 million. Whereas, the same of the HBL is Rs. 328.6 million.
- The trend analysis of HBL and Nabil for years shows that the fixed deposits has increase in the following year Nabil the highest trend value in FY 2012 is Rs. 1823.8 million. Whereas the same of the HBL is Rs. 1097.6 million.
- The trend analysis of Nabil for the 5 years shows that the current deposit has increase in the following year which the highest trend value is Rs.982 million in 2012. The - trend analysis of HBL for 5 years shows that the current deposit has decline in the following years. HBL, the highest trend value in 2012 is Rs. 249.4 million.
- The overall growth rate of sector wise investment is highest in case of Nabil with the growth rate of 27.97% followed by HBL with rate of 14.18%. The banks should allocate more funds for sector wise investment for more productive growth results.
- In case of priority and deprived sector loans, two banks have zero growth rate in the case of priority loans. While in the case of deprived sector loans, it shows the growth rate of 7.84% and 36.23% of Nabil and HBL respectively.
- There is positive correlation between deposits and investment of Nabil. Coefficient of determination shows about 24.65% variation in investment is explained by the independent variable deposits. The value of “r” is significant. There is positive correlation between deposits and investment of HBL. Coefficient of determination shows about 11.87% variation in investment is explained by the independent variable deposit. The value of “r” is significant.

CHAPTER V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

It been about six decades the banking sector has emerged and flourished very prosperously to reach this present condition. In the context of Nepal, it has grown with a faster pace than any other form of business. Its growth becomes of the various functions carried out by the commercial banks as per the need of time. Banks provide various services as per the needs and requirement and such functions are considered very helpful for the economic prosperity of the nation.

From the time immemorial banks have related itself to lending business. The word “bank” itself gives us the idea of either borrowing or lending of funds. The bank work is the intermediary between the excess cash holders to those who have it scare. The difference between interest it charges and it offers constitute the major income source of the banks. Though there are various other activities carried out by the bank, lending function still supersedes the rest of its activities. Deposits constitute the major portion of the liability side and loans and advances constitute the major portion of the assets side.

Initially, the major portion of these banks consists of business and industrial loans. But now they are turning away to hire purchase and housing financing, strengthening and institutionalization of commercial bank is very important to have a meaningful relationship between commercial banks & national development through shift of credit to the productive industrial sector.

A CB need to keep optimum relation between deposit collection procedure and loan policy. The idle money collected by the commercial banks as deposits should be properly utilized either by granting loan to the needy parties or by making investment in the productive sector to earn more profit. CB should have sound investment policy for mobilization of the available fund. A deposit is that liabilities of CB which is returnable in demand at any time. So, sound investment policy has appeared to be very necessary to CB. A CB mainly focuses on its two functions i.e.

collection of deposit through various scheme and granting those amount as loan to the customers by providing various facilities.

5.2 Conclusion

Different new clause and acts are added in directives and some old regulations are also amended in different phase of time to uplift banking system in Nepal and to cope with the international standard. To reduce the cost of fund and enhance investment and credit exposure NRB has decreased the CRR to 5%. In order to safeguard the bank from being bankruptcy NRB has directed CBs to make provision of single borrower credit limit of 25% on fund based and 50% on non fund based.

The commercial banks have to prove that they can really contribution to the national economy. They efficient and viable agencies for collection of savings and its mobilization into productive sectors are professionally managed and competent enough to ensure adequate rate of return on investment and strategically well planned to be competitive with other agencies are trustworthy.

Banks should always ensure the safety of depositor money and maximization of shareholders wealth which is possible through the profit it earns through its functions. The bank should always follow wise investment policy to ensure its future growth & prosperity.

Large number of banks is being established in recent days resulting in a very competitive banking scenario. It has also led in lots of improvement in services provided to the customers. The banks are making immerse efforts to attract the majority of customers, customers being life blood of their business.

5.3 Recommendations

Following recommendations are made on the basis of the major findings and conclusions.

1. They are recommendation to look upon new area of lending and investment. The rural economy has always been realizing the credit needs, the government of non-organized money lending has been prevalent in this area.
2. If, it is to generate more profit, it should enhance its deposit collection through introduction of various schemes as of its contemporary banks. Though it has come

up with Nabil Bachat Scheme with higher interest rates and bumper prizes, it prizes, it should make more endeavors to increase its deposit collection. It should focus more on low-cost deposits.

3. The stiff competition among the bank should be faced by introducing innovative products and services made to meet the customer's needs and requirement. Customer's satisfaction should be on top most priority of all the two banks. The banks should follow innovative approach to marketing.
4. There should be more expansion of the branches within the various parts of the country so as to facilitate even the general people with the banking services. If the banks reach the each and every look of the nation, it will surely provide pace to the slow growing economy. Rural credit will be enhances the prosperity of the individuals as well as the nation as a whole.
5. Effective portfolio management is a must for the survival of the banks. Risk of default is always inherent in lending business. The proper remedy could be diversification. Lending should be diversified to be various business houses carrying out different activities. The amount of credit to be extended to particulars business house should be limited. There is also provision of single obligor limit to ensure this. Some default risk is un diversifiable because it is systematically related to business cycle, which affects almost all investments. However some default risk may be diversified away in a portfolio of independent investment.
6. Initially, the major portion of the banks consist of business and industrial loans, but slowly banks are turning towards hire purchase, housing financing, auto loans etc. Banks should always bear is mind that their efforts should be more concentrated towards productive sectors so as to have meaningful relationship between commercial banks and national development. So, the banks should strike the balance between two.

In a nutshell, we can say, the two banks under study are performing well in terms of their investment, deposit collection and profitability. Yet there are various facts to which they can make an improvement Nabil has its 21 years of goodwill and dedication and HBL being a new establishment has succeeded in being highest deposit collection winning the confidence of the public.

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ANNEXURE

Annexure A-I

1.1 Introduction of Nabil Bank Limited and Himalayan Bank Limited

1.1.1 Nabil Bank Limited

Nabil Bank limited, first the foreign joint venture bank of Nepal, started operation in July 1984 A.D. with authorized capital Rs. 100 million. Now, the authorized capital of Rs. 500 million and paid-in-capital of Rs. 49,16,54,400. Since its establishment, Nepal Bank Ltd. Operated as joint venture with Emirates Bank International Ltd. EBIL for 11 years with 50% equity participation. Since 1995 A.D. Nabil was joint venture with National Bank Ltd. of Bangladesh with 50% equity participation. Recently, 50% of equity share have been transferred by National Bank Ltd., Bangladesh to NB (International) Ltd, a company incorporated according to the laws of Republic of Ireland. Among the rest 50%, 20% of its equities have been held by local financial institutions & 30% by Nepalese public. It is the first & major joint venture bank in the country with key points of representation all over the kingdom of Nepal. Nabil was incorporated with the objectives of extending international standard modern banking services to various sector of the society. Pursuing its objectives, Nabil provides a full range of commercial banking service through its 47 points of representation across the kingdom & over 170 reputed correspondent banks across the globe. Nabil is the joint bank having 48 branches in different parts of the country.

Nabil, as a pioneer in introducing many innovative products & marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started on era of modern banking with customer satisfaction measured as a focus objective while doing business.

Operation of the bank including day-to-day operation and risk management are managed by highly qualified & experienced management team. Bank is fully equipped with modern technology which includes AMTs, Credit Card, State of Art, world-renowned software from Infosys. Technology system, Bangalore, India, Internal banking in Nepal in terms of its range and quality of banking services, human capital, asset quality and income. The recognition as the “Bank of the year 2004” for

Nepal by the Banker, publication of the financial times, London is a testimony of this. It has come up with the slogan “Bank of 1st choice and making endeavors towards proving itself as one.

1.1.2 Himalayan Bank Limited(HBL)

Himalayan bank ltd is the joint venture commercial bank to be established after the restoration of multiparty democracy in the country. It was established in January 1993 with an authorized capital of Rs. 240 million by the distinguished business personalities of Nepal partnership with Employees provides Habib Bank Limited, one of the largest commercial banks of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese banking sectors, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

The head office of HBL is at karmachari Sanchayakosh Building, Tridev Marg, Thamel. HBL has 39 branches in the country. Besides, HBL has a separate credit card center at Hariharbhanwan, Pulchowk, Lalitpur at the premises of Patan Branch.

The policy of HBL is to extend quality and personalized services to its customers as promptly as possible. To extend more efficient services to its customers, HBL has been adopting innovative and latest banking technology like, State-of-the-Art technology & modern banking tools. HBL has access to the world wide correspondent network of Habib Bank ltd for fund transfer, letters of credit and any banking business anywhere in the world. Beside, HBL also has correspondent arrangements with 178 internationally renowned banks like American Express Bank, Citibank and ABN Amro

Annexure B-II

Nabil bank Ltd.

NRB balance to total deposit ratio (in million)			
Year(mid- July)	NRB deposit	Total deposit	Ratio
2008	318.4	19347.40	1.646
2009	1113.1	23342.29	4.769
2010	1829.5	31915.0	5.732
2011	2648.6	37348.26	7.092
2012	545.1	46410.70	1.175

HBL

NRB balance to total deposit ratio (in million)			
Year(mid-July)	NRB deposit	Total deposit	Ratio
2008	1093.0	26490.85	4.128
2009	1269.5	30048.42	4.225
2010	959.3	31842.79	3.013
2011	2328.4	34681.35	6.714
2012	2604.8	37611.20	6.926

Annexure A-II

Nabil bank Ltd.

Total Liquid fund to total deposit ratio (in million)			
Year(mid-July)	Liquid fund	Total deposit	Ratio
2008	2365.2	19347.40	12.22
2009	1963.1	23342.29	8.410
2010	4623.5	31915.0	14.487
2011	3925.4	37348.26	10.510
2012	4513.7	46410.70	9.726

HBL

Total liquid fund to total deposit ratio (in million)			
Yeai (mid-July)	Liquid fund	Total deposit	Ratio
2008	2677.6	26490.85	10.108
2009	3259.6	30048.42	10.848
2010	2503.4	31842.79	7.862
2011	4393.5	34681.35	12.668
2012	4324.6	37611.20	11.498

Annexure A-III

Nabil bank Ltd.

Loan and advances to total deposit ratio (in million)			
Year(mid-July)	Loan & advances	Total deposit	Ratio
2008	13021.3	19347.40	67.303
2009	15657.1	23342.29	67.076
2010	21514.6	31915.0	67.411
2011	27816.6	37348.26	74.478
2012	32902.8	46410.70	70.895

HBL

Loan and advances to total deposit ratio (in million)			
Year(mid-July)	Loan & advances	Total deposit	Ratio
2008	15515.7	26490.85	58.57
2009	17672.0	30048.42	58.812
2010	19985.2	31842.79	62.762
2011	25292.1	34681.35	72.927
2012	28976.6	37611.20	77.042

Annexure A-IV

Nabil bank Ltd.

Investment to total deposit ratio (in million)			
Year(mid-July)	Investment	Total deposit	Ratio
2008	6178.53	19347.40	31.935
2009	8945.31	23342.29	38.322
2010	9939.77	31915.0	31.14
2011	10826.38	37348.26	28.988
2012	13670.92	46410.70	29.456

HBL

Investment to total deposit ratio (in million)			
Year(mid-July)	Investment	Total deposit	Ratio
2008	10889.03	26490.85	41.105
2009	111822.98	30048.42	39.346
2010	13340.18	31842.79	41.894
2011	8710.69	34681.35	25.116
2012	8444.91	37611.20	22.453

Annexure A-V

Nabil bank Ltd.

Investment in deprived sector to total deposit ratio (in million)			
Yeai (mid- July)	Inv. In deprived sec	total deposit	Ratio
2008	361.903	19347.40	1.608
2009	430.2	23342.29	1.550
2010	620.3	31915.0	1.843
2011	874.8	37348.26	2.342
2012	1034	46410.70	2.228

HBL

Investment in deprived sector to total deposit ratio (in million)			
Year(mid-July)	Inv. in deprived sec	Total deposit	Ratio
2008	495.2	26490.85	1.869
2009	533.7	30048.42	1.776
2010	626.0	31842.79	1.966
2011	709.0	34681.35	2.044
2012	1195.0	37611.20	3.177

Annexure A-VI

Nabil bank Ltd.

Investment in priority sector to total deposit ratio (in million)			
2008	Inv. in priority sec	Total deposit	Ratio
2009	764.66	19347.40	3.952
2010	365.24	23342.29	1.565
2011	895.80	31915.0	2.807
2012	-	37348.26	-
	-	46410.70	-

HBL

Investment in priority sector to total deposit ratio (in million)			
Year(mid-July)	Inv. In priority sec	Total deposit	Ratio
2008	347.0	26490.85	1.310
2009	407.4	30048.42	1.356
2010	-	31842.79	-
2011	-	34681.35	-
2012	-	37611.20	-

Annexure A-VII

Nabil bank Ltd.

Investment in shares, bond and debentures to total deposit ratio (in million)			
Year(mid-July)	Inv. in bonds	Total deposit	Ratio
2008	3802.5	19347.40	19.654
2009	3593.1	23342.29	15.393
2010	5077.0	31915.0	15.908
2011	6896.3	37348.26	18.449
2012	5483.8	46410.70	11.816

HBL

Investment in shares, bond and debentures to total deposit ratio (in million)			
Year(mid-July)	Inv. In bonds	Total Deposit	Ratio
2008	5746.1	26490.85	21.691
2009	5366.3	30048.42	17.859
2010	5280.3	31842.79	16.602
2011	4319.2	34681.35	12.454
2012	3829.8	37611.20	10.183