

Chapter - 1

Introduction

1.1. Background of the Study

Economic well-being in the long run depends significantly on how wisely or foolishly one invests. The history of investment is as old as human civilization. It is the barter system when people started exchanging goods for their requirements. As requirement of the people grew up day by day, they felt the necessity of different modes of activities that can satisfy their needs. As a result different group of people emerged in the name of merchants, money lender gold smith, etc. They become heavily involved in the activities of collecting and distributing essential commodities, in the later days, these activities were termed as buying and selling activities. To support these activities there requires some sort of precious materials demanded and accepted by majority, which we call gold, silver, etc. These substances were used as medium of exchange. For conducting buying activities such precious materials were supplied by a group of people who were called investors and that supplying activities were called investing activities. By doing so they used to receive some additional values which we call interest.

The individual money lender, gold smith and the merchants are the pioneer to develop the investment culture. They expanded their function as lending, money exchange and loan on the security of precious metal and gold. They also started to lend their money in fix assets and for the long term benefits. But the culture of the organized investment had begun with the establishment of the world's first bank "Bank of Vanis" in the year 1157.¹ Gradually the institutional investor

¹ Khadka Serjung and Singh Hridaya Bir, (2061), Banking and Insurance, P. 06, Kathmandu, Asia Publication,

established all around the world. Now the investment without bank is almost impossible.

The government is also a main investor of the economy but the investment made by the government is only for the development of the nation and welfare of the people. The investment of the government is for the prosperity of the nation. The objective of government investment and business investment differ in the sense that the former intends to the welfare of society and the country and later intends to make profit. The investment of the private sector seeks profit and return for the sacrifice of their liquidity.

There have been developed enormous tools and techniques to analyze the risk and return of the investments. Investors use these tools before they make investment decisions. That is why, now investors feel assured to invest their money in different sectors. The scope of investment has expanded from national to abroad. This is denoted by Foreign Direct Investment (FDI).

Investors consider a number of factors to make investment decisions. Some of these factors are security of the invested fund, profitability of the project or investment, liquidity of the fund, diversification of the investment, marketability, price level stability, etc.

1.2. Rational of the Study

Investment is the main activity which leads towards the economic development of any institution. The investment of one rupee in the economy has its multiple effects to many years. The recent economic summit organized by Nepal Industrial Organization has pointed the necessity of the heavy investment of four

hundred billion for the double digit growth in the nation². Urbanization, civilization, uniform development, infrastructure development and economic growth are the outcome of the managed investment. Investment must be planned, implemented and controlled. Investment decisions many times have been irreversible decisions to bring the changes that are sought so it needs careful analysis on what has been done and how has been done. Investment decision is very sensitive and important decision in the sense that it can change the life of the people, social unit and country, that is why it is necessary to analyze the way or pattern of the investment.

The investment decision require special attention and importance because of some reason, they are the investment decisions have long term implications for the firm and can influence its risk complexion, the investment decisions involve mobilization of large amount of funds and the investment decisions are irreversible decision.

The investment decision is made by each member of the society. They are an individual, family, group, union, firm, trader, broker, institution, industry, bank, finance, social group, government, NGOs and INGOs. The banking industry is that industry which naturally involve in the investment of huge fund for the development, growth of the trade, commerce & industry and individual needs. It flows much of funds in the forms of credit in the market. The commercial banking industry plays the dominant role in the investment market and the credit creation.

Commercial banks are the main mobilizer of the economy. The economy can not function without the banking system and culture. Commercial banks are those

² www.ekantipur.com

financial institution, which deal in accepting deposit of person and institutions and lending credit to them against marketable collateral. The main function of the commercial bank is to lend their deposit and capital fund in interest earning assets. The commercial bank provides working capital to trade, business, industry and even agricultural sectors. Moreover commercial banks also provide technical and administrative assistant to industries, trade and business enterprises.

It is necessary to analyze the investment pattern of the commercial banking industry because it holds 90% investment market of the country³ (which is at annex at detail) and the investment is that decision which have long term effect in the financial system. In the context of our country the commercial banks are those who play the dominant role in the investment market. So it is necessary to analyze the investment pattern of the commercial banking industry which reflects the overall pattern of our country.

1.3. Significance of the Study

Commercial Banks fulfill the credit need of the various sectors of the economy including agriculture, industry, commerce and business, social service sector and community development. It provides credit for the both long term and short term or governmental and non governmental projects. Now a days the banks also play the role of development bank that provide long term loans unlike previously when banks used to provide only short term loans.

The investment in the current financial system is one of the basic factors to mobilize the economy and the commercial banking industry is the dominant

³ Banking and Financial Statistics, Vol. 49(mid-july 2007), Nepal Rastra Bank, bank and financial institution regulation department. Statistic Division.

player of the investment in the economy. So this study on the investment pattern analysis of the commercial banks has sound significant to the concern people and the institution who try to know the investment situation and pattern of the financial intremediatory (especially commercial banks). This study will also help to the student and researchers who try to commit research on the topic of investment analysis of the commercial banks in the future dates.

1.4. Statement of the Problem

Commercial Banks collect money from the people and invest them in different sectors by way of loan and advances. There are limited studies as regards to the issues of investment of banking sector made in the country. Investment has been made in different sectors by different organizations. Mostly commercial banks are dominating the investment sectors. Mare investment in different sectors is not the proof that these investments are being utilized properly? As it is found that banks are investing for housing and vehicles, are these the proper sectors for the banks to invest? So many private sectors banks are being established in the form of foreign collaboration to invest in the country, are these doing properly? Mostly they are concentrating in the town areas should not they go to the mountains and hills for investment? By whole means that banks are making investments, what are the different patterns of investment?

1.5. Objectives of the Study

The main objective of the study is to analyze the investment pattern of commercial banking industry. Besides this other specific objectives of the study are to focus on the following issues:

- ❖ To analyze the areas of investment of commercial banks and government sector;
- ❖ To analyze the different approaches that the commercial banks are adopting and find the basis;
- ❖ To analyze the relationship between investment and other indicators of the banking industry;
- ❖ To provide the suggestions on the basis of findings of the analysis.

1.6. Focus of the Study

This study mainly focuses on the investment pattern of banking sectors as banks are the dominant investors of the economy. In the year 2007 the commercial banks hold 91.8% of the total investment of the financial market of the country followed by finance companies 4.55%, Micro credit Development Banks 1.96%, Development Banks 1.51% and others 0.18%⁴. Researches done elsewhere have revealed that developed countries like, Canada, Australia, Newzland had invested heavy fund in their earlier days of development. The investment has multiple effect on the economic system for many years and effect on many variables. Finance is thus like fuel for providing energy to move the tempo of economic development and financial intermediatery (institution) naturally, serves as reservoir of that fuel i.e. finance.

1.7. Limitation of the Study

The finding of this research will be of limited use because of the following constraints:

⁴ Banking and Financial Statistics, Vol. 49(mid-july 2007). Nepal Rastra Bank, bank and financial institution regulation department. Statistic Division

- ❖ The analysis of study will cover only the data and information of five consecutive fiscal years.
- ❖ There are 25 commercial banks till 2065/10/30 and as per the available data only first 20 commercial bank has been taken as the sample for the study.
- ❖ Nepal Rastra Bank, Central Bureau of Statistics and Ministry of Finance are taken as authentic source of data.

1.8. Hypothesis Formulation

Some of the hypothesis that can be raised during the study will be:

- H 1:** Banking investment towards the trade and industry are highest than the investment of other investors.
- H 2:** All banks investment is guided by policies of Nepal Government and Nepal Rastra Bank.
- H 3:** There is no significant difference among the banks on the approaches they are adopting while making investment decisions.
- H 4:** There is no relation between profit and Investment made by the commercial banks.
- H 5:** Individual commercial bank has limited authority as regards to making decisions about making investment on their own due to the interferences of Nepal Rasta Bank.,

1.9. Chapter Schemes

The thesis report has been organized in relative five chapters. They are : (1) Introduction (2) Review of Literature (3) Research Methodology (4) Presentation and Analysis of Data (5) Summary, Conclusion and Recommendation.

Introduction chapter includes the information about the general background of the study, statement of problem, focus of the study, formulation of hypothesis, limitation of the study and organization of the study.

Review of Literature is the second chapter which consist the definition of the terminology, conceptual foundation of the theory and zest from the review of related books, journals, research paper and articles.

Research Methodology is the third chapter to include the detail procedure followed in the thesis. This consists of research design, population and the sample of the study, nature and the source of the data, data collection procedure, identification of the tools and the method of analyzing the data.

Presentation and Analysis of the Data in the tabular format and the necessary mathematical calculation is done in the chapter four. This chapter briefly includes the mathematical calculation, drawing of the graph, calculation of correlation, and realising hypothesis etc.

Summary Conclusion and Recommendation serves the final chapter where the researcher give the brief summary of the research, draw a conclusion on the basis of analysis of the data and give some recommendation on the basis of the finding of the calculation.

Besides these five chapters bibliography and annex also prepared and presented at the end of the thesis.



Chapter – 2

Review of Literature

2.1. Introduction

Review of Literature can be viewed as the fundamental conceptualization part of any research that inform about the desired research area and the depth of the subject matter to the researcher. It is characterized as the knowledge gathering process. So this part discusses the issues under three headings:

- a. Conceptual Review for defining different academic terms, approaches and the various alternatives.
- b. Growth of Banking in Nepal.
- c. Review of Dissertations and Thesis written by different scholars of Nepal.

2.2. Conceptual Review

In this conceptual framework process some definition about the key term are tried to find out

2.2.1. Definition of Investment

Funds used to get additional income are called investment. It is done to increase the value of property or to get extra income.⁵

Especially an investment is the current commitment of rupees/dollars for a period of time in order to derive future payments that will compensate the

⁵ Ghimire, Shiva Raj, 2065, Fundamental of investment, page no. 01,(5th ed), K.P. Pustak Bhandar. Kathmandu..

investor for the time the funds are committed, the expected rate of inflation and the uncertainty of the future payments.⁶

According to the **F. Amling**- The investment may be defined as the purchase by an individual or institutional investor of a financial or real assets that produces a return proportional to the risk assumed over some future investment period.

According to the **Gardnar Eakliy** - The broader category of the investment includes, of course the purchase or construction by business of new plant and equipment of all kinds, along with construction of new residential structures whereby business of households.

Investment is defined as the sacrifice of current liquid fund for the more return in future. The investment equally includes risk and return. Without analyzing the risk and return the investment can't be made. So the risk and return analysis is the important procedure of investment analysis.

2.2.2. Meaning of Banking Investment

It is clear from the above definitions that sacrifice of current liquidity for the future return is called investment. A company has its three major activities related to monetary transaction. These are operating activities, investing activities and financing activities. A company basically highlights or mentions its investment related operation in investing activities and gain or loss from basic transaction is on the operating activities but the banking industries are different from other kind of companies. According to Officers of NRB- "the basic function of the bank is to lend money and earn profit and interest in different types of return. So the both activities operating and investing are investment of the bank.

⁶ Reilly, and Brown, 2004, Investment Analysis and Portfolio Management, p. 04. (7th ed), Singapore: Thomson Asia P. Ltd.

The loan and advance is the operating credit flow or credit creation of bank which include loan to Govt. organization, Pvt. Sectors, financial institution, domestic, foreign and import bills purchase and loans against collected bills but the investment is the banking investment on the govt. securities, bonds and investment on non resident i.e. foreign companies.” The word investment refers not only with the CB’s investment for internal assets collection but also the CB’s each and every credit flow in the market, that maybe in the real estate, securities, industries, agriculture or in consumer finance. The investments of the other industries are naturally different with the investment of a bank.

2.2.3. Definition of Risk and Return

a) Risk

Risk means the uncertainty about future rate of return.⁷ The risk is present in each and every investment alternative. The deviation between the expected and actual return brings variability in the return and the variability is called risk. The level of risk increases and decreases with the deviation of the variability of the return. Risk and return in an investment go equally and risk is the facilitator of the return. There are many factor of the investment risk. Basically there include two risk in the total risk of the investment. They are

I) Systematic Risk

Systematic risk is those portions of the total risk which can’t be control or diversify. It affects the entire firm in the economy. These risks are war, inflation, recession, depression, interest rate change etc.

⁷ Bodie, Can and Marcus, 2004, Investment, p. 136, Tata McGraw-Hill, New Delhi.

II) Unsystematic Risk

The unsystematic risk is that portion of the total risk which can be managed or diversified by the management's efficiency. It is known as the avoidable risk or market risk. These risks are risk of new product development, risk of patent right, labor strike, disorganized management, change of consumer preference etc.

b) Return

It is the main clue which evokes motivation for investment in the heart of the investor. If there is no return there will not be investment because people do not want to engage their money for no return. They need return from the engagement of their money. It is the reward obtained in future for risking the investment at present. The amount that invested money will earn is called the investment return because the tax code requires investment to pay taxes on the general income and capital gain earned by the investment, the investment return is usually measured on an after tax basis. If the investment after tax rate of return is uncertain then there is uncertainty about the rate of return. The uncertainty is frequently called risk.

2.2.4. Factors to be Considered for Investment

It is the main process of the investment decision making. The basis of investment and the factors to be considered for making an investment decision may be different according to the sector and project. But the various writers have suggested some variable which should be considered and analyzed clearly with the full expertise to minimize the investment risk. According to Peter S. Rose some of these factors are as follows. ⁸

⁸ Peter S. Rose, 2002, Commercial Banks Management, p.685, (5th edition), New York: Mc Graw Hill, Irwin, USA,

a) Safety

The invested fund should be safe. Concentration on the return only may be harmful while making decision of the investment. The investment decision should be made after the proper analysis of the security of the fund and the sector of the desired investment. If the most of the investment in unsafe and risky sector that may lead toward the insolvency of the investing company. So the security of the fund is very much essential in all kind of investment. Recently in USA the big banks like Lehman Brothers have declared of insolvency that due to their heavy investment in unsafe housing sector. They focused only on the high return and flowed the credit but at the end the market price got down and they couldn't collect back their fund and compelled to declared insolvency.

b) Profitability

Profit is the zest of the investment which the investor should earn. If there is no profit there will not be investment. So the investment should be made on the profitable sector to utilize the fund. If there is high profit there definitely be high risk but the investor should analyze and try to minimize the risk.

c) Liquidity

Before doing investment decision the investor should first think about the liquidity of the investing fund. The principle of liquidity focus on the liquidity of the investment. The investor must invest his fund on the liquid sector to maintain the uncertain future needs of the money. So the investing fund should be moreover on liquid form.

d) Diversification

The theory of the diversification mostly applies in the case of investment. There is a saying – “one should not carry his all eggs on one basket. If the basket falls down all the eggs will spoils.” Similarly the investor must diversify its investment to minimize the risk. It is equally applicable in the government investment for the uniform development of the nation. So the diversification is very much important in the investment. The diversification in the banks investment can be shown in the figure which is at the index.

e) National Interest⁹

Investment is the main factor of the economic development. Government operates its economic activities through the economic policy. Government formulates the economic rules, fiscal and monetary policy and various yearly budgetary plans from which it stresses on the priority sector development and the uniform development of the nation. Being the main mobilizer of the money in the economy the commercial banks should not flow its credit and investment against the government’s plans and objective. The commercial banks must cooperate with the policy and the plans of the government for the nation’s wellbeing.

2.3. Approaches to Investment Decision Making

According to the **Dr. Prasanna Chandra** (*Director of Centre for Financial Management*) there are four basic approaches of the investment decision making. These are as follows:¹⁰

⁹ Khadka Serjung and Singh Hridaya Bir, (2061), Banking and Insurance, p, 153, Kathmandu, Asia Publication,

¹⁰ Chandra, Prasanna, 2006, Investment Analysis and Portfolio Management, p. 13, (2nd edition), New Delhi, Tata McGraw Hill publishing company ltd.

2.3.1. Fundamental Approach

Investment decision is based on the analysis of the intrinsic value of the alternative and comparison with the market values. However there are uncertainties associated with the fundamental analysis, exclusive reliance on fundamental analysis should be avoided. Equally important, excessive refinement and complexity in fundamental analysis must be viewed with caution.

2.3.2. Psychological Approach

According to this approach the investment decision is some how guided by the emotion and ego of the investor rather than the mathematical reason. When greed and euphoria sweep the market, prices rise to dizzy heights. On the other hand fear and despair envelop the market, prices falls to abysmally low levels, as like in the recent change in the Nepalese stock market. Some time the psychic values appears to be more important than intrinsic values, the psychological approach suggest that it is more profitable to analyze how investors tend to behave as the market is swept by waves of optimism and pessimism which seem to alternate.

2.3.3. Academic Approach

Over the last five decades or so the academic community has studied various aspect of the capital market with the help of fairly sophisticated method of investigation. There appears to be substantial support for the following tents:

- a) Investment market is reasonably efficient in reacting quickly and rationally to the flow of information.

- b) Stock price behavior corresponds to a random walk. This means successive price change is independent. As a result the past price behavior can't be used to predict future price behavior.
- c) There is strong positive correlation between risk and return.

2.3.4. Eclectic Approach

This approach draws the conclusion of the above three approaches. The basic premises of the eclectic approach are as follows

- a) Fundamental analysis is helpful in establishing basic standards and benchmarks.
- b) Technical analysis is useful in broadly gauging the prevailing mood of investors and the relative strength of supply and demand forces. However the mood of the investors can vary unpredictably excessive reliance on technical indicators can be hazardous.
- c) The market is neither as well ordered as the academic approach suggest nor as speculative as the psychological approach indicates. While it is characterized by some inefficiencies and imperfections, it seems to react reasonably efficiently and rationally to the flow of information. Like wise despite many instances of mispriced investment alternatives, there appears to be fairly strong correlation between risk and return.

2.4. Available Investment Alternatives

There are many investment alternatives in the market. Some of these suggested by Dr. Prasanna Chandra are as follows:¹¹

¹¹ Chandra, Prasanna, 2006, Investment Analysis and Portfolio Management, p. 30, (2nd edition), New Delhi, Tata McGraw Hill publishing company Ltd.

2.4.1. Non Marketable Financial Assets

- a) Bank Deposits
- b) Post Office Time Deposits
- c) Nagarik Bachat Pattra
- d) National Saving Certificate
- e) Company Deposits
- f) Employee Provident Fund

2.4.2. Money Market Instruments

- a) Treasury Bills
- b) Certificate of Deposit
- c) Commercial Paper
- d) Repos / Repurchase Agreements

2.4.3. Bond or Fixed Income Securities

- a) Government Securities
- b) Saving Bonds
- c) Private Sector Debenture
- d) Public Sector Undertaking Bond
- e) Preference Share

2.4.4. Equity Share

There are different categories of the equity shares. These are follows

- a) Blue Chip Share
- b) Growth Share
- c) Income Share
- d) Cyclical Share
- e) Defensive Share
- f) Speculative Share

2.4.5. Mutual Fund Scheme

- a) Equity Scheme
- b) Hybrid Scheme
- c) Debt Scheme

2.4.6. Financial Derivative

- a) Futures
- b) Options

2.3.7. Life Insurance

There are various investment plans in the insurance scheme. They are

- a) Endowment Assurance
- b) Money Back Plan
- c) Whole Life Insurance
- d) Unit Linked Plan

- e) Term Insurance
- f) Immediate Annuity
- g) Deferred Annuity
- h) Riders

2.4.8. Real Estate

- a) Residential House, Multilayer Apartments and Colonies
- b) Commercial Property
- c) Agricultural Land
- d) Sub Urban Land

2.4.9. Precious Objects

- a) Gold and Silver
- b) Precious Stones
- c) Art Object
- d) Painting and Antique

2.5. Growth of Banking in Nepal¹²

The history of banking in Nepal is not so long but we can find the institutional development of the banking culture with the establishment of “Tejarath Adda” by a Rana prime minister to provide the credit facility to the government clerk and solders of the kingdom. Before that there were no any institutes which provide loans to people except the individual local money lenders and landlords

¹² Khadka Serjung and Singh Hridaya Bir, (2061), Banking and Insurance, p.38,(4th ed), Kathmandu, Asia Publication,

and merchants. As from the history of Nepal the former governments use to take loan from the merchants and goldsmith to fulfill the credit need of the country. But the Tejarath Adda also began to serve the normal public slowly after it became popular among the government officers and solders. It shows the small effort of the Rana regime to establish the banking foundation in the unprivileged Nepalese society. As a result in the 1994 B.S. **Nepal Bank Ltd** was established with the authorized capital of Rs. 1, 00, 00,000. It was the first national commercial bank. At that time the bank had Rs. 25, 00,000 issued capital and only Rs. 42, 000 (forty-two thousand) paid up capital. The bank served Nepal and Nepalese people alone till 18 years until the Nepal Rastra Bank established as a Central Bank. Nepal Bank Limited is the pioneer of the banking in Nepal. It has played main role to develop the industry and commerce in the country and to build the national economy strong.

Nepal Rastra bank is the head of the banks in Nepal. It is the bank of government. It has right to issue notes and control the commercial banks. It the economic advisor of the government. It had suggested to establish the Rastraya Banijya Bank to make the national economy strong and to use the same national currency all over the country because at that time many people of Terai region use to transect in to the Indian currency. Nepal Bank Ltd had 70% Indian currency of its total deposit in the Bank. It was the challenge to substitute the Indian currency totally. According to the useful suggestion of the NRB the government formed a separate act named Rastra Banijya Act -2021, and RBB was established in 2022 according the same act. The main objective of the bank was to provide the banking service to the public all over the country and to promote the industry trade and commerce in the nation.

There were only two government owned commercial banks and one central bank in the Nepalese financial market until 2041 B.S. Establishment of the foreign joint

venture bank started slowly in the 40th decade in the Nepalese financial market. At first Nepal Arab Bank Limited was established in 2041 B.S. with the joint venture of Arab Bank of UAE. Similarly Nepal Investment Bank in 2042 and Nepal Greenland Bank (Standard Chartered Bank) in 2043 were established before the democracy. After the democracy in the 2047 new government adopted the liberal financial policy than before and foreign investment attracting policy. In this way the government opened the door of investment in the country and many banks were established than before. They are like Himalayan Bank (2049), Nepal S.B.I. Bank (2050), Nepal Bangladesh Bank (2051), Everest Bank Limited (2051), Bank of Kathmandu Ltd (2051) etc. Till now there are 25 commercial Banks in the country whose name are in the Annex. The growth of the commercial banks and other financial institution can be shown below

Table: 2.1
Growth of Financial Institution

Type of Financial Institution	Year								
	1980	1985	1990	1995	2000	2005	2006	2007	2008
Commercial Banks "A"	2	3	5	10	13	17	18	20	25
Development Banks "B"	2	2	2	3	7	26	28	38	59
Finance Companies "C"	-	-	-	21	45	60	70	74	78
Micro Credit "D"	-	-	-	4	7	11	11	12	12
Development Bank									
Saving and Credit Cooperatives (limited Banking activities)	-	-	-	6	16	16	16	16	16
NGO (limited Banking activities)	-	-	-	-	7	46	46	46	46
Total	4	5	7	44	95	176	189	206	236

Source: Nepal Rastra Bank; Statistics Unit

During the last two and half decades the number of financial institutions has grown significantly. At the beginning of 1980s there were only two commercial Banks and development banks in the country. After the introduction of the economic liberalization policy, particularly the financial sector liberalization, that imputes in the establishment of new bank non bank financial institution. Consequently by the end of 2008 altogether 236 bank and non bank financial institutions licensed by NRB are in operation. Out of them 25 are "A" class Commercial Banks, 59 "B" class Development Banks, 78 "C" class Finance Companies, 12 "D" class Micro-Credit Development Banks, 16 saving and credit cooperative and 46 NGOs.

2.6. History of Banking¹³

The word Bank has developed from the Italian word "Banko" and the French word "Banky". Far ago people used to complete their money transaction and matters sitting on a Bench. If they got success they worshiped that bench and if they failed then they destroyed that bench. In this way there had been connection between the word bench and the money transaction. Later on the word bench developed in the Bank. The merchants, money lenders and the goldsmiths are the pioneer of the banking culture. They used to lend money and flow credit to the needy people individually. They issued a receipt on the collection of the money and lending the money. Later on they had begun to give the interest to those who saved their money with them and charged interest on the credit. The receipt of that era was widely acceptable by the community as a medium of exchange. As the transaction increased, the credit capacity of those individual merchants, money lender and goldsmiths also increased and they developed toward the modern institutional bank.

¹³ ¹³ Khadka Serjung and Singh Hridaya Bir, (2061), Banking and Insurance, p.05,(4th ed) , Kathmandu, Asia Publication.

The bank hadn't established at the same time all around the world. According to the Chanakya Economics: - "In 2000 B.C. in the Babylonia there were powerful merchant banker group, which perform various banking activities like deposit, lend loan, issuing Hundi etc." In the mid of the 12th century in 1157 the "*Bank of Vanis*" was established as the first bank of the world in Italy. There after in 1401 *Bank of Barcelona* in Spain, in 1407 *Bank of Genoa*, in 1607 *Bank of Amsterdam* in Holland, in 1619 *Bank of Hamburg* in Germany. But the establishment of the modern banking started only on the 17th century by the British goldsmiths. In 1694 "*Bank of England*" was established as the modern bank of that era. From the establishment of the Bank of England the use of the scientific and advance technology in bank was started and it led toward the rapid growth of the banking industry in the world.

There are countless modern and highly developed banks in the world now. The life without bank cannot be imagining in this world. These banks are playing important role to develop and mobilize the economy. According to the changes in time the mentality of the people regarding bank is being changing. Now days the worlds common banks like World Bank, International Monetary Fund, Asian Development Bank are active to maintain the regional and global economic balance.

2.7. Review of Dissertations and Thesis

Miss Rojina Shrestha (2003) studied "Investment Policy of the Commercial Banks of Nepal (A comparative study of NABIL and NBBL)" and found that the reason behind not providing banking facilities to the rural areas was they don't want to take risk; they are only profit oriented. She found positive correlation between deposit and loans and advance. Also there was similar relation of

deposit and investment in NABIL and NBBL. The NBBL had been found slightly lower than NABIL. The analysis of the deposit, loan and advance, total investment, and total profit of the both banks, showed increasing trend. NABIL has higher position than NBBL. NABIL had not been able to maintain its growth ratio even though its establishment was earlier than another.

Dr. Sunity Shrestha, (PH.D. thesis, 1993) on the topic of "Investment Planning of Commercial Banks in Nepal", found that commercial banks invest on the average 75% of their total deposit on the loan & advances and 20% of the total deposit on the government securities. Nepalese commercial banks are found below the standard set by the government but the foreign joint venture banks have higher capital adequacy ratio but it was also declining every year. On the analysis of the investment pattern of the commercial banks she found that the investment of the commercial banks in development bond is highest, 86% of the total investment in securities. The security yields of the commercial banks are satisfactory. Lending on the various economic sectors classified as agriculture, industry, commerce, service and general purpose social service sector showed that industrial sector only shared maximum percentage of bank loan. Similarly priority sector loan showed cottage and small industry as important sector for bank loan. The outstanding loan and overdue loan were found to be the highest in cottage and small industry and the secured loan has been found to have high loan default.

Mr. Indra Pokharel (1982) studied the "Investment pattern and policy of RBB". He found that there has never been any clear and specific investment policy. Especially in the investment pattern and trend the bank is in a state which can not be said satisfactory because bank investment is mainly toward the security of gold and silver. Finally he concluded and suggested that the role of the bank

should be as a development agent rather than a more profit making institution. He further adds that the bank should made investment only after thorough feasibility study of the projects by experts and the analyzers but not on the personal relation and political enforcement.



Chapter – 3

Research Methodology

Any study remains questioned of validity unless it follows a prescribed and reasonable pattern of study. In this connection this part tries to explore the methods and tools used from data collection to the interpretations of the research being carried out. Research Methodology is the part of the research which tries to give the answer the question how the researcher has been conducted his study?

3.1. Research Design

It is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variable¹⁴. In this report many past year's dependent and independent data's are analyzed, described and interpreted through the quantitative analytical research and used descriptive research method.

3.2. Population and Sample

The universe of this study is constituted by all the commercial banks existing at present in Nepal. The population size and the structure of the study is the number of commercial bank which is total 25 in number till 2065/05/30 and as per the available data only first 20 commercial bank has been taken as the sample for the study. The names of the commercial banks are as follows

¹⁴ F.N. Kerlinger (1986) Foundation of Behavioral Research, p. 09, (3rd edition), New York, Holt, Rimehart and Winston.

Table: 3.1
Total Number of the Commercial Bank in Nepal

S.N.	Name of the bank	Date of establishment	Head office
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Limited	1984/07/16	Kathmandu
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu
7	Himalayan Bank Limited	1993/01/18	Kathmandu
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu
10	Everest Bank Limited	1994/10/18	Kathmandu
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar, Rupendehi
13	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitawan
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar, Morang
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski
16	Kumari Bank Limited	2001/04/03	Kathmandu
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Limited	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	Development Credit Bank Ltd.	2001/01/23	Kamaladi, Kathmandu
25	NMB Bank Ltd.	1996/11/26	Babarmahal, Kathmandu

Source: Nepal Rastra Bank's official website www.nrb.gov

3.3. Sources of Data

Primary and secondary are the two basic sources of the data. In the thesis report some relevant updated information and data has been taken through the personal interview with the respective officer's of NRB, using the personal interview method and the published and already collected data of the financial institution regulatory bodies like NRB, MOF and CBS will serve as the secondary data.

3.4. Analytical Tools

To analyze the secondary data some selected financial and statistical tools are used. Ratio analysis is used to measure the performance and statistical tools like mean, percentage, trends, correlation etc have been used to interpret the data.

3.4.1. Financial Tools

Financial tools are used to measure the strength and the weakness of the commercial banks. The selected financial tools are

A) Ratio Analysis

Ratio analysis is that financial measure which tries to establish the relation between two numerical values. Following ratios have been used to analyze the financial statement of the commercial banking industry.

I) Liquidity Ratio

This ratio measures the liquidity position of the industry. It stress on the capacity to pay the short term liability of the industry. Following ratios will be used to analyze the liquidity position of the banking industry.

- (a) Cash and bank Balance to Total Deposit ratio.
- (b) Current Ratio.
- (c) Investment on Gov. Securities to current assets ratio.
- (d) Loan and advance to current assets ratio.

II) Assets Management Ratio

It measures the managerial efficiency of the bank. It shows that how efficiently the bank manages resources in its command. Following ratios have been used to analyze the assets management efficiency of the bank.

- (a) Loan & advance to total deposit ratio.
- (b) Total investment to total deposit ratio.
- (c) Loan losses ratio.

$$\text{Loan losses ratio} = \frac{\text{Total loan loss provision}}{\text{Total loan \& advance}}$$

III) Profitability Ratio

Profit is the main factor for the substance of the business organization. Profit is the engine that drives business organization (Lord Keynes). The success and the failure of the business are measured on the basis of the profit. Profit shows the working efficiency of the management. Following ratios have been to analyze the profitability position of the commercial banking industry.

- (a) Return on loan & advance
- (b) Return on equity (ROE)

IV) Risk Ratio

Risk and return are the two faces of the bank's investment coin. This ratio has been used to find out the various risk position of the bank. Following ratios will be used to find out the risk position of the bank

(a) Credit risk ratio

$$\text{Credit Risk Ratio} = \frac{\text{Non Performing Loan}}{\text{Total Loan \& advance}}$$

V) Growth Ratio

It is focus on the growth of the banking industry. To examine and analyze the expansion and growth of the banks business following growth ratios has been calculated

- (a) Growth ratio of total deposit.
- (b) Growth ratio of loan & advances.
- (c) Growth ratio of total investment.
- (d) Growth ratio of net profit.

3.4.2. Statistical Tools

The statistical tools used to analyze the data numerically with the help of different measurement. It is also an important analytical tool of descriptive research method. The following statistical tools have been used to analyze the collected data.

A) Measurement of Central Tendency

It is one of the major statistical tools of analyzing data. In this measurement mean, median, have been calculated.

B) Measurement of Coefficient of Correlation

It shows the positive and negative relation between the numerical variables. Karl Person's coefficient of correlation theory will be used to establish the relation between variables and data.

C) Trend Analysis

We can find the many variables in the financial report of the banks but out of them only selected variable are chosen and analyze. The following analysis will be maid on this section.

- (I) Trend analysis of total deposit
- (II) Trend analysis of loan & advance
- (III) Trend analysis of total investment
- (IV) Trend analysis of net profit

D) Test of Hypothesis

Hypothesis is the explanation of the possible outcome. The most common use of the hypothesis is to test whether an existing theory can be used to solve the problem. Hypothesis is thus a statement about the relationship between two or more variables which needs to be investigated for its truth.¹⁵ In this research some research hypothesis are formulated on the basis of problem of the study and try to prove them.



¹⁵ Wolf and Pant, 2005, Social science Research and Thesis Writing, p. 78., Buddha Academic Publisher, Kathmandu.

Chapter - 4

Presentation and Analysis of Data

This chapter tries to analyze what bankers do while investing in different sectors, what are the different sectors prioritized by banks, do these sectors are really being addressed, what kind of collateral that banks accepts against the loan, what is the situation of non performing loan of the banking industry, what extent the decisions are influenced by Nepal Rastra Bank and Ministry of Finance, etc.

4.1. Presentation and Analysis of Banks Branches Spread

The main objective of the study is to analyze the investment pattern of the commercial banking industry, that is why the growing number of the commercial banks funds is going in which sectors or direction? To analyze that we first analyze the access of the banking industry in the country. It is found that there are 23 commercial banks and they are operating their activities across the nation with their 596 branch network. It is found that the private sector joint venture banks are spreading their network through out the nation slowly but the three government based banks RBB, NBL, and ADBN are maintaining their wide network which had been rubbed, destroyed by the revolutionary forces during the thirteen year long political insurgency and revolution period. The reasons behind not expanding the branch of the government based commercial banks are they have maximum level of NPL. The main motto of the branch network expansion of CBs is to grasp the market share and to earn profit from the remittance distribution. Commercial banks have to take inform NRB before the

expansion of new branch. NRB has directed some condition regarding the branch expansion. According to official sources of NRB, Banks and Financial Institution Regulation Division; Non Performing Loan of the bank must be not more than 5% level, which is considered satisfactory level. Capital Adequacy Ratio of the bank must be 10%. The bank must meet paid up capital requirement or moving toward meeting the paid up capital requirement plan. Electronic networking mandatory with the new branch. And the bank must conduct the Economic viable study of the desired location. The banks are trying to collect the saving of the normal people as much as they can through the expansion of their branch. The expansion of branch network is found in the table below.

Table 4.1
Branch Spread of the Commercial Banks

S. N.	Name of the Banks	Year		Change
		2006 June	2008 March	Increase/ decrease
1	Nepal Bank Limited	102	99	-3
2	Rastriya Banijya Bank	114	114	0
3	Agriculture Development Bank Ltd.	147	147	0
4	NABIL Bank Limited	16	26	10
5	Nepal Investment Bank Limited	13	18	5
6	Standard Chartered Bank Nepal Limited.	9	13	4
7	Himalayan Bank Limited	16	16	0
8	Nepal SBI Bank Limited	13	18	5
9	Nepal Bangladesh Bank Limited	17	17	0
10	Everest Bank Limited	19	23	4
11	Bank of Kathmandu Limited	10	17	7
12	Nepal Credit and Commerce Bank Limited	10	12	2
13	Lumbini Bank Limited	6	5	-1
14	Nepal Industrial & Commercial Bank Limited	10	12	2
15	Machhapuchhre Bank Limited	12	13	1
16	Kumari Bank Limited	5	10	5
17	Laxmi Bank Limited	5	13	8
18	Siddhartha Bank Limited	4	7	3
19	Global Bank Ltd.	0	3	3
20	Citizens Bank International Ltd.	0	5	5
21	Prime Bank Ltd	0	1	1

22	Sunrise Bank Ltd.	0	1	1
23	Bank of Asia Nepal Ltd.	0	1	1
	Total Branches	535	596	61

Source: Economic Survey 2064/65, Finance Ministry. Nepal Government

As we analyze the table 4.1 we find that the private sector joint venture banks are spreading their branch network gradually. Though Nepal Bank Limited is the oldest financial institution it is on the third position on the branches spread. The Agricultural Development Bank (upgraded as A grade commercial bank in 3rd Chaitra 2062) ¹⁶ now is the bank with large network of branches in the country. The Rastraya Baniya Bank is on the second position in terms of their branches. These three government based bank have access in the rural areas of the country.

The privatizing and modernization in the banking industry establish with the establishment of the foreign joint venture banks before 20 years. They are proving good history in this time period. Though these institutions were originally established to serve the trade and commercial sector of the economy, the government now wishes to involve them in the areas where local banks (ADB, NRB, and RBB) have been involved. Now these foreign joint venture and private banks have became pioneer to give modern banking service to Nepalese consumer. The detail branch network spread of the commercial banks according the district wise is on the annex.

4.2. Presentation and Analysis of Some Ratios of the Commercial Banking Industry

The Ratio discussed here presents the service rendered by the commercial banks towards the community. As the per capita deposit and per capita credit shows

¹⁶ www.nrb.org.np

the popularity of the banks in one hand and on the other hand shows the growing awareness of the people toward the banks role.

Table 4.2
Some Ratio of Commercial Banking Industry

Year	Per Capita Deposit	Per Capita Credit	Deposit / GDP %	Credit / GDP %	Credit / Deposit %	Investment / Deposit %	C & I/ Deposit %	T. Liquid / T. Deposit %
2001	7851.7	4713.7	44.2	32.8	60.0	14.0	74.0	32.4
2002	7997.6	4888.8	43.8	34.9	61.1	18.5	79.6	29
2003	8806.9	5378.9	41.4	34.5	61.1	22.3	83.3	20.2
2004	10099.8	6048.9	43.6	35.3	59.9	21.2	81.1	19.8
2005	10903.2	7072.1	42.8	38.0	64.9	23.8	88.7	15.2
2006	11515.5	6991.2	45.1	40.1	60.7	28.2	88.9	13.3
2007	13344.2	9166.2	46.9	45.2	68.7	27.7	96.4	13.1

Source: Banking and Financial Statistics, Vol. 49(mid-July 2007). Nepal Rastra Bank, Bank and Financial Institution Regulation Department. Statistic Division.

The per capita deposit of the commercial banks has continuously increased over time rising from Rs.7851.7 in year 2001 to Rs. 13344.1 in 2007. This shows the rapidly growing awareness among the people to save money in bank rather than to hold money at home. It has also resulted in the gradual increase in the per capita credit of these banks rising from Rs. 4713.7 in 2001 to Rs. 9166.2 in 2007.

The ratio of the total deposit to the gross domestic product (GDP) range have been found to minimum 41.4% in 2003 to maximum 46.9% in 2007. Some fluctuation has been found in the data between years 2001 to 2005. But the ratio

of the total credit to the gross domestic product range has been found gradually increased with minimum 32.8% in 2001 to maximum 45.2% in 2007.

The credit lending of the banking industry over its deposit is also gradually increased. It was found 74% in 2001 and increased to 96.4% in 2007. This shows that maximum percentage of the deposit have lend by commercial bank in the market. The deposit was broadly divided in to credit and investment. Credit hold more than 60% amount of deposit and investment hold average 25% amount. In the year 2007 the 68.7% of deposit was invested through the credit and 27.8% of the deposit was invested in govt. securities, non residents and other securities. . The ratio of the liquid fund to the total deposit has been found to range from 31.1% to 32.4% between 2001 to 2007. It is decreasing year by year which shows the rate of depositing the money in the bank is more than drawing money from one's account.

4.3. Assets Composition of the Commercial Banking Industry

Total assets composition of the commercial banking industry has divided in the four major title/ headings. These are liquid fund, Investment, loan and advance and other assets. The details of these headings are presented on the annex. Here the short summary of the brief table is presented to make easy to understand the interpretation.

Table 4.3
Assets Composition of Commercial Banking Industry

S. N.	Assets	Year				
		2003	2004	2005	2006	2007
1	Liquid Fund (% to total)	38163.16 12.5 %	46252.8 13.6 %	38369.4 9.38 %	38842.1 9.06 %	44089.7 8.99 %
2	Investments	45386.3	49668.6	60181.1	82173.7	93530.8

	(% to total)	14.85 %	14.62 %	14.72 %	19.17 %	19.06 %
3	Loan and Advance (% to total)	124522.4 47.25 %	140031.5 41.25 %	163718.8 40.04 %	176820.2 41.21 %	231829.5 40.75 %
4	Other Assets (% to total)	97489.4 31.9 %	103863.8 30.56 %	146659.4 35.86 %	130870.2 30.52 %	121188.1 24.7 %
	Total Assets	305561.26	339816.7	408928.7	428706.2	490638.1
	Growth Rate	-	11.21%	20.34%	4.84%	14.45%

In million

Source: Banking and Financial Statistics, Vol. 49(mid-July 2007). Nepal Rastra Bank,

Analyzing the table, total assets of the commercial banking industry has increased gradually but in the year 2005, it grew by 20.34 % and in 2007 it grew by 14.45 %. Loan and Advance has been found the major assets which hold more than 40 % of the total assets. The loan and advance is the main source of income of the banking industry which include all the banking credit flow, purchase of bills and loan against bills. The investment of the bank is also increasing in its assets composition which includes the banking investment on the government's securities and non residents. It was 14.85 % of the total assets in 2003 and now 19.06 % in 2007.

Proportion of the liquid fund is decreasing in the assets composition year by year. The liquid fund includes cash and bank balance in the bank in domestic and foreign currency and money at short call. It was 12.56 % in 2003 and came 8.99 % in 2007. It means the rate of drawing by the people is decreasing year by year. They only want to save their fund for future rather to invest in market.

The other assets of the commercial banking industry were slightly increased till the year 2005 but it decreased there after which include the fixed assets, accrued interest, staff loan , sundry debtors and cash in transit. The fund decreased from

liquid fund and other assets was added on the investment and loan and advance. The detail of the above table with their specific sub heading is on the annex at table no 7.

4.4. Analysis of the Sector Wise Loan and Advance of the Commercial Banking Industry.

To meet the objective and to substance in the competitive market, the commercial banks invest in various sectors like agriculture, mining, production, construction, service sector, consumer loan and etc. There are thirteen different sectors for the commercial banks lending operation classified by NRB. In the 1990 there were only five differential sectors namely agriculture sector, industrial sector, commercial sector, service sector, and general purpose social sector.¹⁷ According to Official sources of NRB, the change has been made in the sectors to make the regulation and supervision process effective and fruitful.

Investment made by commercial banks relating to agriculture, irrigation, seed, fertilizer, livestock, poultry, hatchery and establishment of rice mills are included in the agriculture investment. Investment related to survey of natural mining, mining construction are categorized as mining sector investment. Commercial banks investment related to establishment of business and industry, production houses are included in the production sector. Banking credit and loans toward the construction of the residential house, business complex, mall, official building, housing company, construction material and small tools, fittings, related material for joining construction material are included in construction sector.

¹⁷ Dr. Sunity Shersttha, Investment Planning Of Commercial Banks In Nepal, Ph D thesis, Central library, kirtipur, kathmandu.

Metal production, machinery and electrical tools & fittings sector include the banking investment toward the production of metal goods shutters, grill, ladders, gate, fence, metal frames of different industrial equipment, machinery and electrical equipment, and fittings related to these. Commercial banks loan and investment in production of transportation equipment, parts, and fittings related to different vehicle like Motorcycle, cars, bus, truck, lorry etc. are included in the transportation equipment production and fittings. But the banking loans and investment in the transportation company operation, purchase of busses, investment on communication industry like production of news paper, television broadcasting, Radio, FM and other public service are included in different sector that is transportation, communication and public service.

Investment relater to the wholesale and retail business operation and expansion are included in wholesale and retail sector. Banking investment in the finance, insurance, and fix assets have it different sector. Investments in service sector industries like investment in consultancy service, bank, notary public, travel and tourism, hotels, restaurant, casino, parquet and decorating etc which don't produce physical goods but produce and deliver service are included in the service sector. Commercial banks recent growing investments toward the consumer finance are included in consumer loan sector. It include the loan rendered to an individual for the various purpose like financing house construction, vehicle purchase, purchase of furniture and home appliance, gad gates, jewelry etc.

According to Official sources of NRB, local government like Metropolitan City, Municipality, and Village Development Committee can take loan from

commercial banks against collateral or in the guarantee. These kinds of loans are included in the local government sector. As we see the data very negligible amount have been landed on these sectors. Besides these there are various other sectors where commercial banks flows their credit. Besides these twelve sectors rest sector and areas are included in the other sector which is also decreasing year by year.

Table 4.4
Sector wise Loan and Advance of Commercial Banking Industry
In Million

S. N.	Sectors	Year				
		2003	2004	2005	2006	2007
1	Agriculture	3730.0	4152.7	4415.5	4572.0	13882.0
2	Mining	394.3	366.3	520.2	477.7	1315.0
3	Production	41671.0	44622.3	53743.5	56432.2	62369.6
4	Construction	2789.0	3688.0	8722.7	13398.0	19770.6
5	Metal producing, Machinery & Electrical Tools & Fittings	1429.4	1302.5	1795.9	1590.9	2919.4
6	Transportation Equipment Production and Fittings	1370.0	1529.5	3156.2	2658.7	3243.2
7	Transportation, Communication & Public Service	6169.0	7053.5	8997.0	11697.5	13130.8
8	Wholesalers and Retailers	25422.5	27073.9	34412.3	35073.6	45635.7
9	Finance, Insurance and Fixed Assets	4117.0	4383.1	6390.0	10024.0	13917.5
10	Service Industries	12151.4	12472.5	14984.6	14062.6	18367.4
11	Consumer Loan	3322.5	3554.4	3587.6	5839.4	8120.1
12	Local Government	1.5	2.8	0.0	0.0	24.1
13	Others	21954.3	23235.3	18597.6	20542.9	29149.3
	Total	124521.9	136962.3	159323.1	176369.6	231844.7
	% growth	-	9.9%	16.33%	10.7%	31.45%

Source: Various issues of banking and financial statistics, Nepal Rastra Bank, Bank and Financial Institution Regulation Department. Statistic Division.

The table above presents the investment made by commercial banking industry on various sectors during 2003 to 2007. The data shows that figure of all sectors seem to increase. However, in terms of percentage to the total this is not so, there can be seen the evidence of increase, decrease and constant. This means some sectors are increasing, some decreasing, and some constant.

Table 4.5
Sector wise Loan and Advance of Commercial Banking Industry
In Percentage (%) Figure

S. N.	Sectors	Year					Average
		2003	2004	2005	2006	2007	
1	Agriculture	3.0	3.03	2.77	2.59	5.99*	3.74
2	Mining	0.32	0.27	0.33	0.27	0.57	0.35
3	Production	33.46	32.6	33.73	32.0	26.9	31.74
4	Construction	2.24	2.69	5.47	7.6	8.53	5.31
5	Metal producing, Machinery & Electrical Tools & Fittings	1.15	0.95	1.13	0.90	1.26	1.07
6	Transportation Equipment Production and Fittings	1.1	1.12	1.98	1.51	1.4	1.42
7	Transportation, Communication & Public Service	4.95	5.15	5.65	6.63	5.66	5.58
8	Wholesalers and Retailers	20.42	19.77	21.6	19.89	19.68	20.27
9	Finance, Insurance and Fixed Assets	3.31	3.2	4.01	5.68	6.0	4.44
10	Service Industries	9.76	9.11	9.41	7.97	7.92	8.83
11	Consumer Loan	2.66	2.6	2.25	3.31	3.5	2.86
12	Local Government	0.001	0.002	0.00	0.00	0.01	0.0026
13	Others	17.63	16.96	11.67	11.65	12.58	14.096
	Total	100.00	100.00	100.00	100.00	100.00	

Agriculture sector had minimum investment amount of Rs. 3730.0 million in 2003 which increase to Rs. 13882.0 million. The figure have heavy increase in the

in the year 2007 that is due to the up grading of the ADBN in A grade commercial bank. Among the thirteen sectors local government sector have minimum amount landed by commercial banks and except that the mining sector have got minimum in all the years. The amount invested for mining is increased in 2007 from Rs. 366.3 million in 2004 to 1315.0 million in 2007.

Production is the major sector for the commercial banks investment. Maximum amount of fund have been invested in the production sector which include mainly industrial investment. Production sector investment was Rs 41671.0 million in 2003 and it reached Rs. 62369.6 million in 2007. The banking investment on industry sector was highest then other sectors from the past. It also have already found by Dr. Sunitee Shrestha in her Ph. D. thesis in 1992. Here the first hypothesis of the study is accepted. The hypothesis was

H₁: Banking investment toward the trade and industry are highest than the investment in other sectors.

Here the bellow table tells that average 30% of the total commercial banking industry's investment are in the production sector i.e. industry from last five years.

The wholesalers and retailers sector ranks second highest investment among the entire investment sector in the five years period. This sector covers average 20% commercial banks investment and slightly being decreased. In the national economy this is an important sector. Service industries are the major areas which play the role of a pillar for the economic growth in this modern competitive market. This industry has got third priority with average 8% of commercial banking investment from various years. It seems that the investment in the figure

amount is increasing but if we analyze the proportion figure in percentage of this industry in next table, it is found decreasing year by year.

The rapid growing sector in terms of CBI's loan and advance is construction. This sector had got Rs. 2789 million investment of the commercial banking industry in 2003 and it reached Rs. 19770.6 million in 2007. This sector captures 8% share of commercial banking investment which is more than the investment in the service industries in the year 2007. The commercial bank's interest on the consumer finance is shown in the growing figure of the consumer loan sector from the last five years. There were only Rs. 3322.5 million in 2003 which was 2.6 % of the total investment but now it grew to Rs. 8120.1 million in 2007 which is 3.5% of the total CB's investment

As same we find other sector increased in the million amount figure but some of them maybe decreased in their proportion with the total investment amount of the corresponding years. The following table shows the proportion in percentage of these sectors amount with the total of that year.

Table 4.6

Analyzing Decreasing, Increasing and Constant trend of different Sectors

S.N.	Trend	Sectors	Comments
1.	Decreasing	a) Production c) Service Industries d) Others	Proportion of these Sectors with the total Figure is decreasing.
2	Increasing	a) Agriculture b) Construction c) Finance, Insurance and Fixed assets d) Consumer Loan	Rapid growing
		a) Metal producing, Machinery & Electrical Tools & Fittings	

3	Constant	b) Transportation Equipment Production and Fittings c) Transportation, Communication & Public Service d) Mining e) Wholesale and Retail e) Local Government
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4.5 Analyzing the change / effect on the GDP and GNI

We want something change on the object from our effort. As like same it is tried to analyze the change on the GDP and GNI from the investment of huge amount of the Commercial Banking Industry. Below the table shows some figure amount of GDP and GNI of various years.

Table: 4.7
GDP and GNI of Various Years

Sectors	Year				
	2003	2004	2005	2006	2007
Gross Domestic Product GDP	492,230.8	536,749.1	589,412.0	646,409.0	719,476.0
Growth rate %	7.13	9.04	9.81	9.68	11.29
Per Person GDP	20,340.0	21,694.0	23,300.0	25,289.0	27,497.0
Gross National Income GNI	491,555.1	535,065.2	591,048.1	659,010.0	734,520.8
Growth Rate %	7.13	8.85	10.46	11.5	11.45
Per Person GNI	20,312.0	21,626.0	23,365.0	25,481.0	27,778.0

Source: Economic Survey 2064/65, Ministry of Finance, Nepal Government

Above table presents the important data figure of the GDP and GNI. GDP is the total monetary value of the product and the service produce in the country within an economic year. Similarly the national income is also the monetary value of the final production in a country. National income also adds the earning

of national outside the nation and subtracts the earning of foreign people in the country.

The million figure of the GDP and per people GDP is increasing gradually. It was Rs. 492230.8 million in 2003 and reached Rs. 719476.00 million in 2007. As like the same the GNI and per people GNI both also increasing year by year. Both the figure of GDP and GNI are near about same to each other that are due to the same method of calculating GDP and National Income.

If we relate the commercial banking sectors credit and investment and the above table, we find both have positive relation. But the CBI's loan and advance and investment only is not the responsible for the respective change (growth) in the GDP and GNI. There are other factors like Government's investment, foreign Subsidies, foreign debts, Foreign direct investment, and the contribution of the social sector NGO's and INGO are also responsible for the figure increase in the GDP and GNI. It is another part of issue to analyze the relation, contribution, and the mechanism, channel of distribution, and the results and change from the effort of these factors with GDP and GNI. This is beyond the horizon of thesis study so this thesis report suggests further study on this issue.

4.6. Security Wise Loan and Advance of the Commercial Banking Industry

Commercial Banks are principally investment type institution. The main function of the banks is to flow credit and investment. In this process the matter of safety of the fund is the prime concern of the bank otherwise the commercial banks bankrupt soon. For the safety it accepts certain collateral as a security little more valued of the flowed loan. There is various kind of the security which

commercial banks use as the collateral while making loan. We can find sort summary of the security on the below table and detail on the table 4 at annex.

Table 4.8
Security Wise Loan and Advance of the Commercial Banking Industry
In Million

S. N.	Security	Year				
		2003	2004	2005	2006	2007
1	Gold / Silver	2,284.2	1,286.5	1,435.4	1,820.8	2,875.2
2	Government Securities	1,789.5	4,274.5	3,077.4	3,118.2	3,602.6
3	Non Gov Securities	838.7	905.7	1,007.0	1,324.4	2,749.4
4	Fixed account Receipt	2,375.0	2,519.0	2,674.5	8,027.6	6,077.4
5	Assets Guarantee	82,074.4	96,478.4	125,829.9	136,027.6	190,961.4
	A) Fixed Assets	60,939.3	73,156.5	98,189.5	106,433.9	156,107.6
	B) Current Assets	21,135.1	23,321.9	27,640.4	29,593.7	34,853.8
6	On Bills Guarantee	89,45.9	9,044.4	9,403.1	9,004.9	7,559.8
7	Guarantee	60,25.1	5,681.4	6,819.6	8,533.7	9,882.3
8	Credit card	43.1	28.4	127.6	155.1	182.7
9	Earthquake Victim Loan	116.4	101.5	87.1	5.6	0.0
10	Other	11,678.6	7,420.9	8,861.3	8,351.6	7,953.7
	Total	116,170.9	127,741.3	159,323.1	176,369.6	231,844.7

Source: Various issues of banking and financial statistics, Nepal Rastra Bank, Bank and Financial Institution Regulation Department. Statistic Division

The outstanding credit of the commercial banking industry according to security is presented in the above table. Basically there are ten types of assets which CB uses as security in lending loan. Flowed loan on the all security have been increased except on the bills guarantee and earthquake victim loan.

According to the table CB's loan on the guarantee of the gold/ silver is fluctuated during the five year period. But in the 2007 it reached Rs. 2875.2 million from Rs. 1286.5 million in 2004. Commercial banks flows loan on the security of the government securities and non government securities. Loan on the both

securities are increasing but it seems that the CB has flowed more loan on the guarantee of the government securities than non government securities

Fixed accounts of the costumer in their banks also serve as the collateral for making loan. There was minimum Rs. 2375 million in 2003 which reached to Rs. 8027.6 million in 2006. But it slightly decreased in 2007 and stood at Rs. 6077.4 million.

The main guarantee of the commercial banks loan is the assets. Commercial banking industry has floated its seventy percentage loan in assets guarantee and the figure is increasing year by year. It was Rs. 82,074.4 million in 2003 which reached Rs. 190,961.4 million in 2007. The assets have been divided into two major categories that are fixed assets and current assets. There are other subcategories of the fixed and current assets which are on the table 4 at annex. Fixed assets hold maximum share and the priority on the guarantee than the current assets. The fixed assets include land and buildings, machinery and tools, furniture and fixture, vehicle and other. Where as current assets includes agricultural products like rice, raw jute, other agricultural products and non agricultural products like raw material, semi readymade goods, ready made goods.

Other type of securities which the commercial banks holds as guarantee while floating the loan are bills, guarantee, credit card and other. The figures on the respective securities are increasing year by year. The bills guarantee includes foreign bills and domestic bills. It has other sub category in foreign bills. The figure of the loan amount was Rs. 8945.9 million in 2003 and reached Rs. 7559.8 million in 2007. Guarantee is also the security for CB loan. It was Rs. 6025.1 in 2003 which reached Rs. 9882.3 million in 2007. The loan made on the guarantee of

credit card is increasing and the figure on this section will also increase in the near future. Rest of the above security which the CB uses as a guarantee for making loan is included in the other sector. The figure on this section was Rs. 11678.6 million in 2003 which reached Rs. 7953.7 million in 2007 which is decreasing

4.7. Analysis of Government investment and CBI's Investment

It is the part of the object of this study to comparatively analyze the govt. investment and CBI's investment. Government's expenses in the economy are an investment which makes the base and the infrastructure for the future development. Main source of government income is the tax and revenue collected from the public and it also tries to give the more than which it collects through the budget taking internal and external debt. All the expenses of the government are investment but here we consider only the government's operating and capital nature expenses on the social and economic sector. Because the variable on these sector are the key factors of the economic development these are like education, health, water, local development, irrigation, forest, industry and mining, communication and electricity etc.

Commercial banks are those institutions whose main function and object is to flow credit and loan. The loan flowed by the commercial banks are investment. The operating activities and the investing activities both are investment for a bank. The investment of the government and the commercial banks are analyzed to meet the objective in below table.

Table 4.9
Glimpse of the Govt. Investment and CBI 'S Investment

Sectors	Year
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	2003	2004	2005	2006	2007
Govt. expenses / investment on operating activities	23,965.4	26,321.3	30,376.6	32,912.4	37,882.3
Govt. expenses / investment on capital nature activities	19,613.9	20,319.2	23,335.6	26,446.1	33,488.8
Total Govt. Investment (A)	43,579.3	46,640.5	53,712.2	59,358.5	71,371.1
CBI's loan and Advance	124,521.9	136,962.3	159,323.1	176,369.6	231,844.7
CBI's Investment	45,386.3	49,668.6	60,181.1	82,173.7	93,530.8
Total CBI's investment (B)	169,908.2	186,630.9	219,504.2	258,543.3	325,375.5
Total Investment A+B (C)	213,487.5	233,271.4	273,216.4	317,901.8	396,746.6
Proportion of A on C %	20.41	19.97	19.66	18.67	17.98
Proportion of B on C %	79.59	80.03	80.34	81.33	82.2

In million

Source: Economic Survey 2064/65, Ministry of Finance, Nepal Government and Banking and financial statistics Vol. 49, Nepal Rastra Bank.

According to the table commercial banking industry has flowed more money than the government in the market. In the year 2003 the CBI flowed total Rs. 213487.5 million funds in different sectors but in the same year govt. flowed (Expense) only Rs. 43579.3 million in different essential sectors. Both the amount expense on the operation and investment by commercial bank and the government are increasing gradually year by year. But the investment made by commercial banking industry is four times more than government. In 2007 the government expense Rs. 71,371.1 million in operation and investment activities where as commercial banking industry Flowed Rs. 325375.5 million through its operating and investing activities. The detail of the sectors of the govt. operating and capital nature investment and the Commercial banking loan and advance and investment are on the annex at table no 5, 6 and 7.

4.8. Analysis of the Non Performing Loan of the Commercial Banking Industry

Non performing loan is very important factor for the measurement of the CBI's lending efficiently. Investment and credit creation only is nothing but the credit creation/ investment in right way (effective way) is important thing which is also the base of the long run operation of the bank. It is also an important factor to analyze the investment pattern of the commercial banking industry. The table 8 in annex presents the twenty A grade commercial bank's non performing loan status.

According to the table three government owned banks RBB, NBL and ADB have maximum percentage of the non performing loan. In the year 2003 NBL had 60.47% of Non Performing loan of its gross loan which gradually decreased to till the year 2007 and stood at 14.6% NPL of its gross loan. Similarly RBB had 60.15% NPL in the year 2003 and it also gradually decreased till the year 2007 and stood at 26.43% of its gross loan. The non performing loan of these two banks has rapidly decreased during this five year period that is due to the foreign expert management team on these two banks. Beside these two banks some private sector joint venture banks also had two digits on the percentage of the NPL. In the year 2003 the NCC Bank had 20.63% NPL of its gross loan which was maximum among the joint venture private sector banks. Similarly other banks like Nepal SBI Bank, NBBL, LBL and HBL had NPL more than 10%. At that time Siddhartha Bank and Laxmi Bank had no any NPL. In the year 2003 the commercial banking industry had gross loan RS. 111,900.59 million out of which Rs. 32,226.06 million was non performing loan which was 28.8% of the total gross loan.

The structure of the non performing loan of the commercial banking industry is highly dependent on the three govt. owned commercial banks than other private sector joint venture banks. The NPL of the commercial banking industry has

decreased gradually from the year 2003. It was 28.8% in 2003 which came to 9.65% in the year 2007 that is due to the heavy decrease in the NPL figure of the govt. owned commercial banks.

In the year 2007 almost commercial banks have improved their condition on non performing loan. Almost banks have their minimum non performing loan except five commercial banks. The NRB has directed that up to 5% NPL of the gross loan is satisfactory in A grade commercial banks. Among the 20 A grade commercial banks Nepal Bangladesh Bank has maximum 35.13% NPL of their gross loan. That is why the NRB deserve its management and took full charge of the bank under its control. Now the NRB's management team is handling the bank. Nepal Credit and Commerce Bank also had maximum NPL. It has 30.63% of its gross loan is NPL. Besides these two banks other like RBB, LBL, ADB and NBL are the banks being high NPL in the year 2007. These banks have 26.43%, 19.85%, 16.5% and 14.6% NPL of their gross loan respectively.

4.9. Analysis of the Investment and Other Indicator of the Commercial Banking Industry

It is one of the objective of this study is to find and analyze the relation between the investment and other indicators like deposit, liquidity, profit, total assets and liabilities. As it is mentioned above on the other chapter that the operating activities of the commercial bank is also the investment but we only analyze the amount included by the NRB on the title " Investment " in the sources and usages of the fund in the year 2006 and 2007. This is also the limitation of this study.

Table 4.10
Some Variables of Commercial Banking Industry

In Million

Indicators / Variables	Year	
	2006	2007
Total Investment	82,173.7	93,530.8
<i>% change</i>	-	13.82
Deposit	291,245.5	337,497.2
<i>% change</i>	-	15.88
Liquid Fund	38,842.1	44,089.7
<i>% change</i>	-	13.51
Total Assets / Liabilities	428,706.2	490,638.1
<i>% change</i>	-	14.45
Profit	7,983.5	8,797.9
<i>% change</i>	-	10.20

Source: Banking and financial statistics, Vol. – 49, Nepal Rastra Bank, Regulation Division

In the above table only two year's data are posted and tried to analyze. The total investment is increased in 2007 than 2006 by 13.82%. Similarly all the figure of the variables (deposit, total assets/liabilities, liquid fund, and profit) has increased in the range of 10% to 15% from their respective figure in last year. It shows that the total investment, deposit, liquid fund, profit are correspondent to the total assets/ liabilities or it can be said that increase in the total assets and liabilities are dependent on the growth of the other variable like investment, liquid fund, deposit and profit etc.

The investment has direct relation with profit. Growth of the profit is the outcome of the growth in the investment. So here also profit is increased accordingly with the increase in the investment. In above table the 10.2% increase in the profit is seemed to the outcome of the 13.82% growth of the investment. But the investment only is not responsible for the growth in the profit. The loan and advance lending of the commercial banks are also the responsible factor for the pointed growth. It will be discuss on the next section. The investment is also a dependent variable. The growth of the investment is dependent on the growth on the deposit. If the deposit grows then only the growth on the credit and

investment is possible and vice a versa. So there is also the positive relation between the deposit and investment.

The liquid fund and the investment have opposite relation. If the position of the liquid fund decreased then only additional fund for the credit and investment is possible. If the bank has to maintain more and more liquid fund to pay their costumer's account year by year then the fund for the investment may not grow. So the position of the liquid fund should not grow for the growth in the investment.

Table 4.11
Some Ratios of the Variables

Some Ratios	Year	
	2006	2007
Investment / Deposit	28.22%	27.71%
Investment/ Total Assets	19.17%	19.06%
Liquid Fund / Total Assets	9.06%	8.99%
Deposit / Total Liabilities	67.94%	68.79%
Profit / Investment	9.72%	9.41%

Source: Banking and financial statistics, Vol. - 49, Nepal Rastra Bank, Regulation Division

Analyzing the ratio the total investment holds only 28% of the total deposit. Due to the positive relation with the investment, the figure of the investment increased in the year 2007 with the positive increase in the deposit. Similarly the total investment holds 19% share on the total assets of the CBI. Deposit is the major liabilities of the CBI, which holds average 68% in the total liabilities. Similarly liquid fund is the major factor of the CBI operation, which holds average 9% share on the total assets of the industry. The profit is the outcome of the various factor like efficient management, investment, credit and loan and

other hidden factors but here only with the proportion with the investment is measured which is average 9.5%.

4.10 Analysis of the Profit and Investment

The profit and the investment both of the commercial banking industry have increased in the last five year period. Though it is another fact that the growth of the investment and the profit is not same but the every additional rupee of the investment has added little amount on the profit. In the year 2005 the added investment amount generated twice growth in return and in 2006 the additional investment has generated 3 times more return than the increase in the investment. In the year 2007 the profit and the investment both have been increased but the rate of the increment is not same.

Table 4.12
Analysis of Profit and Investment

In million

Sectors	Year				
	2003	2004	2005	2006	2007
Total Investment of CBI Loan and Advance + Investment	169,980.2	186,630.9	219,504.2	258,543.3	325,375.5
% increase	-	9.84	17.61	17.79	25.85
Total Profit	3,494.7	3,811.5	5,026.4	7,983.5	8,798.0
% increase	-	9.06	31.87	58.83	10.20
Profit / Total Investment	2.06%	2.04%	2.29%	3.09%	2.70%

Source: Banking and financial statistics, Vol. - 49, Nepal Rastra Bank, Regulation Division

In the analysis of data it can be seen that profit and investment have positive relation. If investment increases then the profit also increases and vice a versa. Here the 4th hypothesis of the study is rejected and the alternative hypothesis is accepted. The hypothesis was

Null Hypothesis

H4: H0; There is no relation between profit and Investment made by the commercial banks.

Alternative Hypothesis

H4: H1; There is relation between profit and investment made by the commercial Banks

The profit of the commercial banking industry has minimum percentage share of the investment. From the last five years the CBI had got average 2.4% profit of his total operating and investing investment activities.

4.11. Ratio Analysis of the CBI

Ratio analysis is important measure of the financial statement which provides the clue for the decision making. As the laboratory test is very important in the medical science like same the ratio analysis is important is the management research. Following ratios have been analyzed of the commercial banking industry.

4.11.1. Liquidity Ratio

In the liquidity ratio the cash and bank balance ratio with the total deposit, current ratio, investment on govt. securities to current assets and loan and advance to current assets ratios were observed. The cash and bank balance ratio of CBI was 10.51% in 2006 which slightly increased in 2007 that is 10.71%. The current ratio of the CBI is in weak position. This was 1.06:1 in 2006 and 1.17: 1 in 2007. The CBI investment on government securities is 19.62% in 2006 and 17.53% in 2007 of its current assets.

4.11.2. Assets Management Ratio

The assets management ratio is tested to measure the managerial efficiency. The loans and advance to total deposit, investment to total deposit and loan loss ratio have been observed and found that 67.84% of the CBI's deposit has been invested as a credit in the market out of which only 12.44% of total loan and advance is reserved for loan loss provision which is lower than the provision of the previous year.

4.11.3. Profitability Ratio

The profitability ratio has been observed to analyze the business efficiency of the management. It gives exact result in a single firm but in the industry the decision on the base of the findings may not reflect all the firms within the industry. It means the calculated figure may not give the exact image of the individual firms. To analyze the profitability return on loan and advance ratio and return on equity have been measured. The return of loan and advance of CBI is 4.6% and 3.84% in 2006 and 2007 respectively. The return on equity of the CBI is 48.2% and 30.72% in 2006 and 2007 respectively.

4.12. Responses of the Interview

For the purpose of analyzing what approaches the commercial banks have adopted in making decisions of investments. A number of officials from commercial banks and central banks were enquired. The responses received from them were similar nature. The Responses received from them have been analyzed.

Following information have been collected through the personal interview with them.

On the query about what specific criteria that the banks have made in the category of loan and advances. The official's responses were that the areas where

banks flows loan in course doing its regular operating activities are come under this heading. Generally this heading includes the loans and advance, Bills purchased and loans against collected bills. The sub heading in this major heading are in the annex at table no 7.

Generally it can be observed that banks invest money in different sectors. To some sectors it invests more and to some it invests less. So enquiries were made what are the specific areas to where banks concentrate its funds as investment. The responses received revealed that there are thirteen different sectors where banks invest. Previously it was only five sectors. This means that banks have widened its investment sectors. In another word it can be stated that the pattern of investment is changing. The officials response that the sectors had been changed to monitor and supervise the Commercial Banking Investment more efficiently than past.

As it can be observed that the sectors measured by NRB, CBS and MOF are little different. So enquiries were made why the regulatory bodies of the economic system have different measurement sectors. The responses revealed that that is the objective or the purpose of the measurement. NRB have to supervise the commercial Banks of the nation but the CBS and MOF have to measure the GDP, GNI and other economic variable like import, export, FDI, Agriculture etc. so the sectors of the measurement differs on the regulatory body.

As it is observed from the data that average 60% funds of the total assets and 95% funds of the deposit of the CBI have been invested in the market. The respective official's views on the queries that what is the base of the CB's investment set by NRB. It revealed that there are no about of any particular bases for commercial banking lending set by NRB. The lending and the investment of

the commercial banks are guided by their individual credit policy. Commercial banks are free to lend their fund in any sector of the country, they won't get any interfere from NRB in their individual decision making but they must meet the NRB standard and shouldn't go beyond NRB directive. If it is found going CB's investment out of the directive then only NRB interfere with the commercial banks but don't stop the right of lending of the CB. In broad sense the NRB never interfere on the investment decision of commercial Banks. But the commercial banks must meet the NRB' standard for no any objection. Commercial banks have restriction to lend more than 25% of their core capital on funded loan and more than 50% of their core capital on none funded to an individual. Except these the basic and major principle of the banks lending is the safety of the fund, profitability, liquidity of the fund, diversified investment, marketable investment and the national interest.

As being regulatory body of the commercial banks the NRB some time take action on the banks if it is found not meeting the NRB directive on the on site and off site inspection/ supervision. It takes action according to its policy. The pattern of action varies according to the fault of the commercial banks. Basically NRB informs the banks and subtract its capital fund until and unless the bank meets the fault. A very high level action of the NRB is the Case of action of the Nepal Bangladesh Bank Limited.

On the queries of any directive regarding the priority sector landing of the commercial banking industry set by NRB; the officials revealed that before 2007 there were that kinds of directive in the practice but now the NRB have no any directive regarding priority sector lending. It has been eliminated from last year. Because it is felt by board committee that directive became controversy with the

principle of Liberal Economic Policy. Now there is only deprived sector lending directive for the commercial banks that is 3% of the total lending.

It has been tried to see the social movement of the banking industry that to what extent the commercial banking industry helps the people really victim by the natural disaster. It is found that the banking industry have flowed loan to the earth quack victims in 2045, but these figure are still outstanding. At that time mostly Govt. based banks had flowed loans to the earth quack victims. This proves that the bank not only earns profit but it also fulfills the social responsibility in need.

4.13. Major Findings of the Study

1. Commercial banking industry's loan is more on the trade and industry i.e. production sector than other sectors. Average 31.74% of the CBI's loan is on this sector.
2. Wholesale and retail and the service sector are the second and third majority of the commercial banking lending.
3. Construction sector is the rapidly growing sector for the commercial banking investment. There was only Rs. 2789.0 million fund investment in the year 2003 which increased to Rs 19770.6 million in the year 2007.
4. Consumer financing loans are increasing in the urban areas. It was only Rs. 3322.5 million in 2003 which grow to Rs 8120.2 million in 2007.
5. Assets are the major security of the commercial banks loan. Among assets fixed assets holds thrice more fund than the current assets.

6. Bills guarantee is the second major assets of the CBI loan. Among bills foreign bills holds more share than the domestic bills.
7. Position of the liquid fund in the commercial banking industry is decreasing year by year. The share of the liquid fund on the total assets was 13.6% in the year 2004 but in 2007 it is only 8.99%.
8. Government investment in the country is less than the total investment by the commercial banking industry. Commercial banking industry has flowed 4 times more fund than the funds flowed by the government.
9. Nepal Bangladesh Bank and the Nepal Credit and Commerce Bank have maximum NPL in the Year 2007. These banks have 35.13% and 30.63% NPL of their total loan respectively.
10. NPL of the government owned commercial banks are decreasing but the NPL of some private sector joint venture commercial banks like NBBL, NCCB and LBL are increasing.
11. NPL of the commercial banking industry is decreasing year by year and it is 9.65% in 2007 which is lowest during five year period.
12. The commercial banking industry has got average 2.4% profit of its total investment.
13. The patterns of banking investment measurement have been change five sectors to 13 sectors that is due to manage and regulate the banking investment effectively.
14. Commercial banks have maintained is social responsibility by lending loans to Earth Quack Victims in 2045 B.S.

15. There are no any particular bases for commercial banking lending set by NRB. The lending and the investment of the commercial banks are guided by their individual credit policy. The main bases of the lending are the safety, profitability, liquidity, marketability, diversification and nation interest.
16. Commercial banks are free to lend their fund in any sector of the country, they won't get any interfere from NRB in their individual decision making but they must meet the NRB directive. If it is found going CB's investment out of the directive NRB interfere the commercial banks but don't stop the right of lending of the commercial bank.



Chapter - 5

Summary, Conclusion and Recommendation

5.1. Summary

Development and prosperity are dependent on the knowledge and investment. The investment without knowledge gives negative return. Banking industry is that whose main objective is to collect small fund of the people and invest them. The economic well being depends on how and where they invest. Investment is important for the economic circulation. One rupee of the additional investment has its multiple effects in the economy till many years.

The investment culture had been developed with the beginning of human civilization. But at that time the means and the way they invest was different. The gold smith, merchants and money lender were the pioneer of the investment culture. The culture of individual investment later on developed in the new form that was investment groups and that group finally developed to the modern banks. The culture of the banking had started with the establishment of the world's first bank "Bank of Vanis" in 1157 in Italy. In the early age the investment horizon was narrow and it was bounded by the borders of the nations. But now there is no any horizon for the investment within the world. Now a day's investment without involvement of bank is impossible. There are also the world's common banks like World Bank, International Monetary fund and Asian Development Bank are in operation to maintain the regional economic balance between the nations and finance the nation's mega projects and developments.

The main motto of the study is to analyze the pattern of the investment of the commercial banking industry. It is tried to see in which direction or way or

sector, where the banking investment was going on. Beside that this study has also other objectives like (1) to compare the banking investment with government investment, (2) to analyze the approaches that the banking industry are adopting and find the base (3) and finally to analyze the relation of investment with other variables. The main objective of the study has been fulfilled with the help of the secondary data of the banking industry provided by the NRB. But the behavioral objective (objective 2) of this study i.e. to analyze the different approach and find the basis; the fundamental concept only has been generated on this issue.

To complete the study different books, article, and dissertation were reviewed for the fundamental conceptualization and selected were mentioned in the chapter two. A descriptive analytical research method of study was followed to overcome the objective. All of the objectives of the study of has been tried to solve with the help of the analysis of the data. A small interview was conducted with the responsible director of the NRB to make clear concept of the hypothesis and other issue.

5.2. Conclusion

1. Unmanaged political condition of the country has affected in the investment of the nation. Drawing of the fund from the bank has decreased from 2003 which proves that there is unsecured environment for investment in the country.
2. The Government's decision of changing management on the Nepal Bank Limited and Rastraya Banijya Bank has changed the bank's condition and made them competitive.

3. There is positive relation between the investment and profit but the rate of the growth between the variables is not the same.
4. Nepal Rastra Bank never interfere on the individual investment decision making of the commercial banks unless it found banks are not meeting the directive of NRB.

5.3. Recommendation

1. Three Government owned commercial banks NBL, RBB and ADB are affected by high NPL. Some debtor's negligence and misbehavior may affect the future of the banks. If regulatory body let it go like this then this may also hamper other banks too. So there should be hard and fast actionable policy for those bad debtors.
2. Banking investment in agriculture sector is low that is only 3.74% in average. Still more than 70% of the total population is dependent on the agriculture. So the banks have to increase their investment on the agriculture sector for the future development of the nation.
3. Till now the CBI' investment on the electricity production is measuring through the category of production which should be change and to monitor through separate category to develop the hydro power in the nation.

5.4. Further Areas of Research

Due to some limitation the study couldn't cover some related area. This study recommends further study on those areas.

1. In this study it is tried to analyze the investment pattern of banking industry but due to some limitation this study couldn't cover the **portfolio behavior analysis**. This area deserves further study to be conducted to analyze the efficiency of the thirteen differential sectors.
2. During the data collection and analysis, various data were collected from NRB, MOF and CBS. But the data from the three sources were not same. So the data taken from NRB has been considered as authentic data. The variance on the data has made some difficulties in this thesis. So it is recommended further study on the **nature, causes and effect of the variance of the data in the regulatory institution**. Due to the limited time this was out of the horizon of this study.
3. It was very important to analyze the outcome / results of the CB's investment. But due to the internal limitation a small effort only have done by comparing the whole figure of the GDP and GNI with the growth of investment of the commercial banking industry. This area deserves further detail study on another point of view.
4. Analysis of the commercial banking loan according to the time series analysis also deserve more study because of the limited boundary this study cannot include that aspect analysis of the CBI loan.



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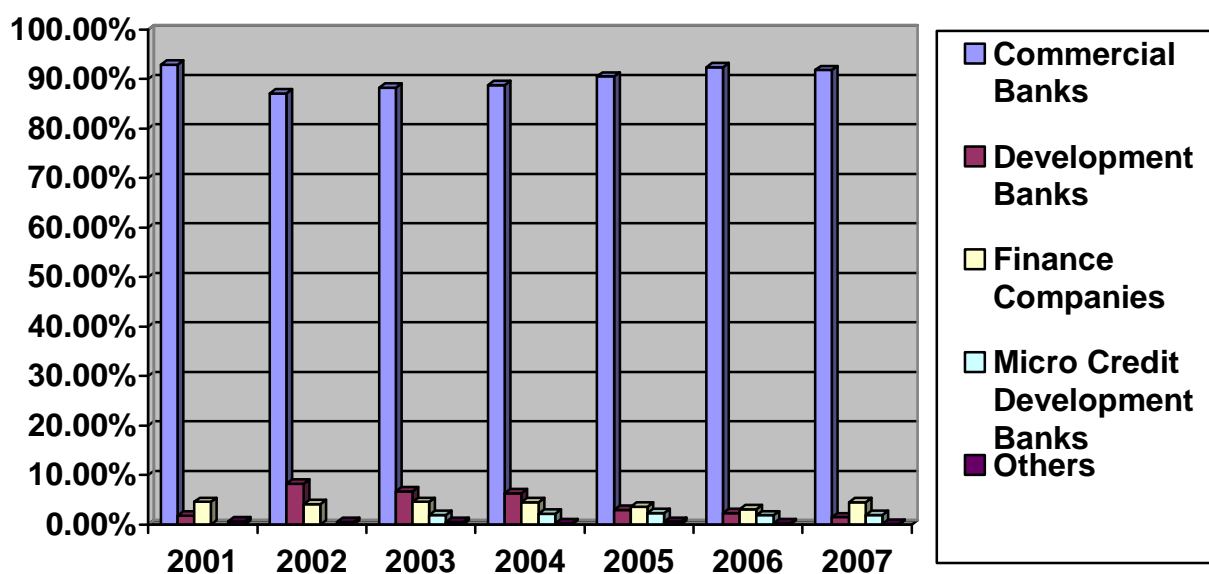
ANNEX

Table: 1
Share of Financial Institution on the Total Investment

Investment	2001	2002	2003	2004	2005	2006	2007
Commercial Banks	92.9%	87.1%	88.2%	88.8%	90.5%	92.37%	91.8%
Development Banks	1.8%	8.3%	6.7%	6.3%	3.0%	2.38%	1.51%
Finance Companies	4.6%	4.1%	4.6%	4.5%	3.6%	3.13%	4.55%
Micro Credit Development Banks	-	-	2.0%	2.2%	2.3%	1.88%	1.96%
Others	0.7%	0.5%	0.5%	0.3%	0.6%	0.24%	0.18%

Source: Banking and Financial Statistics, Vol. 50. Nepal Rastra Bank, bank and financial institution regulation department.

Bar Diagram: 1
Share of Financial Institution on the Total Investment



Source: Banking and Financial Statistics, Vol. 50. Nepal Rastra Bank, bank and financial institution regulation department. Statistic Division

Table: 2
Total Investment of the Commercial Banking Industry

In Million

S. N.	Particulars	Year				
		2003	2004	2005	2006	2007
1	Investments					
a.	Govt. Securities	39,045.5	42,384.3	47,678.2	57,464.7	63,889.5
b.	NRB Bond	-	-	-	-	-
c.	Govt. Non Financial Institution			100.4	0.0	0.0
d.	Other Non Financial Institution	-	-	-	-	-
e.	Non Residence			3,043.4	74.4	553.5
2	Share and Other Investment	6,340.8	7,284.3			
a.	Non Resident			6,467.5	17,515.0	21,374.8
b.	Others			2,891.5	7,119.7	7,713.2
	Total Investment	45,386.3	49,668.6	60,181.1	82,173.7	93,530.8
	Investment Growth Rate	32.7%	9.4%	21.2%	24.5%	13.8%

Source: Banking and Financial Statistics, Vol. 49. Nepal Rastra Bank, bank and financial institution regulation department. Statistics unit.

Table: 3
Total Profit of Commercial Banks

In Million

S. N.	Name of the Banks	Year				
		2003	2004	2005	2006	2007
1	Nepal Bank Ltd.	658.9	371.0	1,399.5	2,329.7	417.7
2	Rastraya Banijya Bank		342.0	388.4	1,973.2	1,777.4
3	NABIL Bank Ltd.	680.4	635.1	816.5	979.2	654.7
4	Nepal Investment Bank Ltd.	115.7	157.1	265.5	385.1	515.7
5	Standard Chartered Bank Nepal Limited.	469.9	556.7	537.9	662.2	692.1
6	Himalayan Bank Limited	641.0	720.4	752.3	513.38	828.4
7	Nepal SBI Bank Limited	133.9	133.8	4.6	132.0	359.9
8	Nepal Bangladesh Bank Limited	312.9	178.3	96.9	457.0	576.9
9	Everest Bank Limited	198.3	271.3	275.8	380.0	300.6
10	Bank of Kathmandu Limited	117.3	207.2	158.0	330.7	278.5
11	Nepal Credit and Commerce Bank Limited	90.4	116.0	98.3	31.2	(104.6)
12	Lumbini Bank Limited	21.0	(53.1)	(166.2)	(801.6)	225.9
13	Nepal Industrial & Commercial Bank Limited	(7.9)	3.3	108.8	148.8	231.9
14	Machhapuchhre Bank Limited	23.2	45.2	116.3	159.7	93.0
15	Kumari Bank Limited	33.9	72.4	93.6	163.5	278.8
16	Laxmi Bank Limited	4.5	18.4	37.5	38.4	65.5
17	Siddhartha Bank Limited	1.3	36.4	42.7	100.1	192.5
18	Agricultural Development Bank Ltd. *	-	-	-	***	1,452.0
19	Global Bank Ltd.	-	-	-	***	(24)
20	Citizens Bank International Ltd.	-	-	-	***	(14.9)
	TOTAL	3,494.7	3,811.5	5,026.4	7,983.5	8,798.0

Source: various issue of Banking and financial statistics, Nepal Rastra Bank.

*** Data not available

* Agricultural Development Bank has been upgrade as A class licensed Bank on 2062 chaitra 03. So all the financial figures of ADB/N are considered in commercial banking part from the year 2062/63.

Table: 4
Security wise investment of commercial banking Industry
In million

S. N.	Security	Year				
		2003	2004	2005	2006	2007
1	Gold/ Silver	2284.2	1286.5	1435.4	1820.8	2875.2
2	Government Securities	1789.5	4274.5	3077.4	3118.2	3602.6
3	Non Gov Securities	838.7	905.7	1007.0	1324.4	2749.4
4	Fixed account Receipt	2375.0	2519.0	2674.5	8027.6	6077.4
4.1	On own bank	1609.3	1894.1	1713.6	6384.2	3443.9
4.2	On Other bank	765.7	625.0	960.9	1643.4	2633.5
5	Assets Guarantee	82074.4	96478.4	125829.9	136027.6	190961.4
5.1	Fixed Assets	60939.3	73156.5	98189.5	106433.9	156107.6
5.1.1	Land and building	49693.2	57449.1	78325.8	85937.7	133060.1
5.1.2	Machinery and tools	2898.0	3102.9	4167.0	4708.1	4321.9
5.1.3	Furniture and fixture	286.1	271.4	297.9	260.2	239.6
5.1.4	Vehicle	4666.3	8323.4	10645.9	11554.6	14053.1
5.1.5	Other fix assets	3395.7	4009.7	4753.0	3973.2	4432.9
5.2	Current Assets	21135.1	23321.9	27640.4	29593.7	34853.8
5.2.1	Agricultural products	2520.5	2577.2	2524.5	2263.7	3143.5
5.2.1.1	Rice	1192.4	1428.2	1150.9	1088.0	1307.1
5.2.1.2	Raw jute	207.7	139.9	75.8	84.5	119.3
5.2.1.3	Other agricultural products	1120.4	1009.1	1297.9	1091.2	1717.0
5.2.2	Non agricultural products	18614.6	20744.7	25115.9	27330.0	31710.4
5.2.2.1	Raw materials	3170.1	2844.9	3924.4	4745.9	6900.5
5.2.2.2	Semi readymade goods	1287.2	2100.7	2524.4	1630.9	1937.1
5.2.2.3	Ready made goods	14157.4	15799.7	18667.0	20953.1	22872.8
5.2.2.3.1	Salt, sugar, ghee, oil	1776.6	1746.9	1666.7	2247.0	3045.6
5.2.2.3.2	Clothing	1108.4	828.7	1231.1	2247.0	3045.6
5.2.2.3.3	Other goods	11272.3	13223.5	15769.3	17912.4	18967.0
6	On Bills	8945.9	9044.4	9403.1	9004.9	7559.8

	Guarantee					
6.1	Domestic bills	708.0	411.8	151.6	180.8	272.4
6.2	Foreign bills	8237.9	8632.6	9251.4	8824.1	7287.5
6.2.1	Import bills and later of credit	6356.0	6982.1	7351.3	7480.5	6425.3
6.2.2	Export bills	1149.0	994.9	111.6	938.9	492.9
6.2.3	Against export bills	521.4	469.5	329.6	249.4	207.4
6.2.4	Other foreign bills	211.4	186.0	458.9	155.3	161.9
7	Guarantee	6025.1	5681.4	6819.6	8533.7	9882.3
7.1	Government guarantee	750.4	589.9	549.9	1846.8	365.2
7.2	Institutional guarantee	2227.4	2402.1	3300.4	4338.3	5245.6
7.3	Personal guarantee	981.0	803.7	675.5	445.1	1710.5
7.4	Group guarantee	207.6	168.2	159.0	164.5	165.3
7.5	On other guarantee	1858.8	1717.5	2134.8	1738.9	2395.7
8	Credit card	43.1	28.4	127.6	155.1	182.7
9	Earthquake Victim Loan	116.4	101.5	87.1	5.6	0.0
10	Other	11678.6	7420.9	8861.3	8351.6	7953.7
	Total	116170.9	127741.3	159323.1	176369.6	231844.7

Source: various issue of Banking and financial statistics, Nepal Rastra Bank.

Table 5
Government Investment (capital nature)

In million

S.	Sectors	Year				
		2003	2004	2005	2006	2007
1.	Social Service	7,050.9	7,135.2	7,940.7	10,151.8	15,529.3
A	Education	940.7	1,003.4	1,260.4	1,609.6	1,604.9
B	Health	159.3	142.2	409.3	948.2	1,185.5
C	Drinking water	1,669.9	2,065.8	1,440.0	1,949.8	3,182.7
D	Community Development	4,009.4	3,538.8	4,468.6	4,682.4	7,671.6
E	Other social services	271.6	385.0	362.4	961.8	1,884.6

2	Economic services	12,561.0	13,129.0	15,394.9	14,797.1	17,939.5
A	Agriculture	187.0	160.2	217.5	265.4	1,374.2
B	Irrigation	1,840.9	2,070.9	1,921.5	2,462.7	3,012.6
C	Land ...	14.0	17.9	65.2	72.5	27.6
D	Measurement	18.1	33.9	23.4	26.4	38.5
E	Forest	373.7	459.8	410.7	148.0	152.5
F	Industry and Mining	425.1	40.5	23.5	31.0	92.1
G	Communication	1,680.1	356.5	536.8	283.6	251.0
H	Transportation	3,664.9	3,958.0	4,149.6	4,178.1	6,382.1
I	Electricity	3,881.6	4,746.2	7,219.1	6,256.4	5,450.0
J	Other Economic services	475.6	1,285.1	827.6	1,073.0	1,158.9
3	Credit and Investment	2.0	55.0	00	1,497.2	20.0
	Total	19,613.9	20,319.2	23,335.6	26,446.1	3,348.88

Source: Economic survey, 2064/65, Finance Ministry, Nepal Government

Table: 6
Government Investment (Operating Nature)

S. N.	Sectors	Year				
		2003	2004	2005	2006	2007
1.	Social Service	18,886.9	20,808.5	23,208.8	25,382.6	29,497.5
A	Education	12,300.9	13,379.5	15,960.2	17,729.8	19,976.0
B	Health	3,492.7	3,826.4	4,273.0	4,851.3	6,218.5
C	Drinking water	354.6	351.5	396.1	407.9	463.0
D	Community Development	1,286.8	1,687.2	1,509.1	1,542.5	1,904.7
E	Other social services	1,451.9	1,563.9	1,070.4	851.1	935.3
2	Economic services	5,078.5	5,512.8	7,167.8	7,529.8	8,384.8
A	Agriculture	1,784.0	1,856.0	2,117.2	2,437.5	2,766.2
B	Irrigation	503.7	401.1	410.9	403.7	451.3
C	Land ...	72.6	74.1	76.0	65.3	77.0
D	Survey	242.4	262.8	278.9	305.0	317.3
E	Forest	1,271.4	1,323.7	1,582.1	1,675.2	1,712.6
F	Industry and Mining	364.9	498.0	491.8	412.6	499.4
G	Communication	69.7	86.7	1,060.2	1,123.3	1,189.3
H	Transportation	303.3	297.1	316.9	333.7	333.8
I	Electricity	31.4	34.3	85.2	105.3	102.8
J	Other Economic services	435.1	67.9	748.6	668.2	935.1
	Total	23,965.4	26,321.3	30,376.6	32,912.4	37,882.3

Source: Economic survey, 2064/65, Finance Ministry, Nepal Government

Figure: 1
Classification of Nepalese Financial Sector

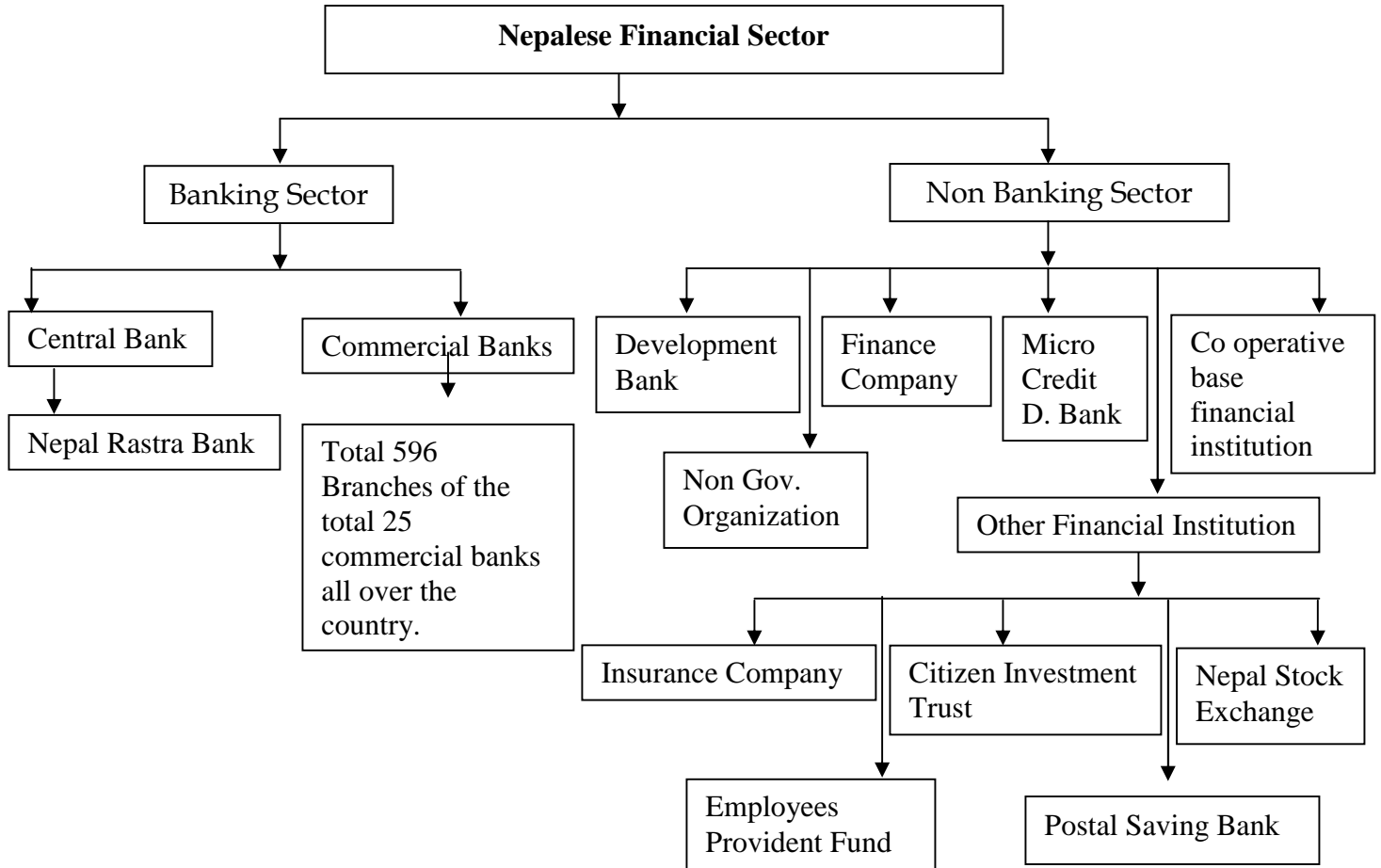
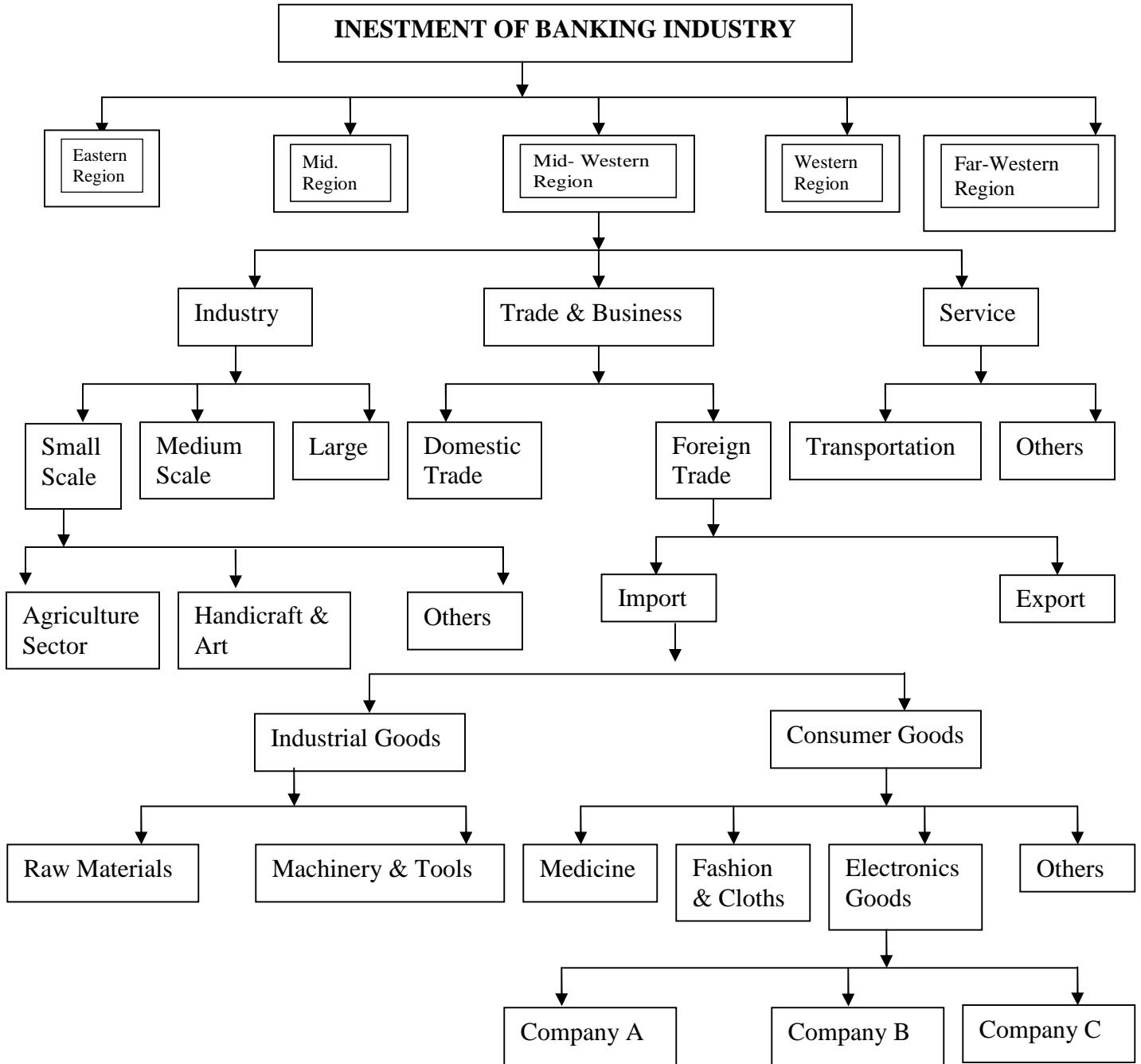


Figure: 2
Diversified Investment of Commercial Banking Industry



ANNEX -2

Question for the interview with the officials of NRB

1. What are the specific criteria of the category loan and advance?
2. Why there are thirteen differential sectors? Why not other?
3. Can't it be categorized as agriculture, industry, and service?
4. What are the bases of the commercial banks lending set by NRB?
Base- on what ground CB makes loan.
5. What is the difference between loan and advance and investment?
6. What action the NRB takes if it found the banks have not mentioned the NRB standard and guidelines? How much time it is found violating the standards? Which are those banks?
7. What is the percentage of NPL in the banks set by NRB?
8. What is the position of reserve requirement of CB?
9. If a bank flows loan to operate TMT ROAD producing company, In which category it is placed in 13 differential sector of loan and advance.
10. What is the meaning of the sector local government? In which condition the Banks flow loan to the local government?
11. Do NRB interfere on the commercial banks decision about making investment? If yes, what is that condition? Does CB have limited authority regarding making loan?

12. What is the priority of the commercial Banking investment?
13. What are the policy and the guidelines for branch network expansion of commercial banks?
14. What is the meaning of the security “Earth Quick Victim Loan”?
15. what is the mandatory requirements of the commercial banks set by NRB in terms of
- Reserve Ratio:
 - Investment on Govt. securities
 - Liquid cash holding
 - Priority sector investment
 - Productive sector investment
 - Single borrower limit
 - Person
 - Company
 - Firm
16. What is the case of Nepal Bangladesh Bank? Why NRB overtake the Management of NBBL?
17. Meaning of Investment of a Bank?

Note: The responses of these questions have been adjusted in the body of the research.