

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 General Background of the Study**

Generally, Deposit and Investment policy of a Bank denotes that a bank collects and accepts deposits of amount from the public and organization in different accounts and invests its amount in various sectors. Every bank has to adopt deposit and investment policy to make safe due to various types of risk. Deposit and Investment policy show the different tools, techniques, ideas and paths to a bank for smooth and healthy operation competing market competitors to survive.

The origin of bank in Nepal is not so long. Within the shortest span of time, there has been tremendous growth of bank in Nepal. In the process of development and economic linearization policy of the government in the country, financial institution and commercial joint ventures banks have been established.

Nepal economically from her ancient has been dependent basically on agriculture phenomenon existing in the country. Mostly the prevailing agriculture forces determine the economic aspect of the country. A greater portion of the national income and revenue is desired from this sector. A huge block more than 90% of the total population in the country are involved in the agricultural activities, in spite of their dependency on the sector, most of them are compelled to service below the subsistence level. It means that the income what they receive from the agricultural production is not enough to maintain even a minimum level of living standard.

Nepal is an underdeveloped country and it as an economically back pushed country where most of resources are remaining unused due to lack of financing. Due to in modernization of

Nepal, majority of population remain such below the poverty line. This inadequacy of financing can be removed by the participation of foreign investor in the commercial banks with this view the joint venture banks are welcomed in Nepal. Joint venture banks are in many numbers to these days. They have put their contribution in making flow of funds within the country moves on the track of prosperity very soon.

The primary goal of any country like Nepal is rapid economic development to promote the welfare of the people and the nation as well. Nepal is trying to embark upon the path of economic development by economic growth rate and developing the sector of economy. So the process of economic development depends upon capital formation and its proper utilization plays a paramount role. The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formulation has been the principal variable in setting the overall pace of economic. In this regard, the network of well-organized financial system of the country has great bear. It collects scattered financial resources from the masses and invests them among those engaged in economic and commercial activities of the country. In this way, financial institutions provide savers highly liquid divisible assets at a lower risk while the investor receives a large pool of resources.

Thus the underdeveloped country like Nepal has recognized the importance of banks for the economic development of the country. Simply all the banks collect funds from general public and invest in different sectors. Development and expansion of bank are necessary for the rapid economic development of the country.

Modern banking system started in Nepal after the establishment of Nepal bank limited in 1994 B.S/ the existence of only Nepal bank ltd was functioning in the field of business, hence assumed a great significance to establish another bank and on this assumption Rastriya Banijya bank was established in government sector in 2022 under Rastriya Banijya bank act 2021 according to the recommendation of Nepal Rastra Bank. In fact commercial Banks are notable bank in the eye of people. So there is no doubt and dispute about the significance role and the function of their bank.

The process of development of banking system in Nepal wasn't satisfactory up to 2040; no bank was opened during this period except extending the branches and sub-branches of bank which were established in this period. Nepal started deeply studying and searching what sort of programs, policies, laws and regulations should be brought into practice. The country can't change its status by using only its own capitals in the country without importing the new technologies from foreign country and accordingly law and policies have been enacted by the state to encourage the foreign investment on banking sector.

List of commercial Bank:-

1. Nepal Bank Ltd
2. Rastriya Banijya bank
3. Nabil Bank Ltd
4. Nepal Investment Bank Ltd
5. Standard Chartered Bank
6. Himalayan Bank Ltd
7. Nepal Bangladesh Bank
8. Bank of Kathmandu Ltd
9. Nepal SBI Bank Ltd
10. Everest Bank Ltd
11. Nepal credit and Commercial Bank Ltd
12. Nepal Industrial and Commercial Bank Ltd
13. Lumbini Bank Ltd
14. Kumari Bank Ltd
15. Machapuchehhre Bank Ltd
16. Siddhartha Bank Ltd
17. Laxmi Bank
18. Development Bank Ltd

Commercial banks play important role in the formation of capital in favour of economic growth in the country. What so ever may be the facts behind their doings, the main objectives of such bank is related with two facts: - earning profits and meeting social purpose.

The term deposit and investment have gained so much popularity among the people that we see every one talking about it. People want to earn more therefore they sacrifice their present consumption. Thus, investment is the sacrifice of present consumption for future benefit. It is the use of the money for purpose of making more money to gain income or to increase capital or both. It is a process of exchanging income during one period of time for an asset that is expected to produce earnings in future periods. Thus, consumption in current period is foregone in order to obtain a greater return in the future.

The investment brings forth vision of profit, risk, speculation and wealth. It can be financially rewarding and exciting for the knowledgeable investors whereas it may result in disaster for the uninformed. The investor makes choice among the various available investment alternatives on the basis of their objectives and time horizon. They must consider the expected risk and return of portfolio and must also develop appropriate investment strategies. The term investment generally has a higher risk than saving and return can come in the form of income or capital gain or a mixture of both. Until the investors have adequate saving to meet any unforeseen financial emergency, he/she shouldn't invest.

The banking sector as largely responsible for collecting household saving terms of different types of deposit and regulating them in the society by lending in different sector of the economy. The banking sector has now reached to the most remote areas of the country and has experience a good deal in the growth of economy. By industries under intensive banking programmer has enable the banks to share in the economic growth of country.

One of the most important problems in the banking sector is investing its deposit and capital in various forms of earning assets. This is also called portfolio management. Since there are two types of funds for investment i.e. capital and deposit and constitute the major portion for its investment purpose, the investment policy of bank is highly influenced by the nature of funds available for its investment. Therefore the basis of loan portfolio depends on the

deposit mix it has. If the funds are of permanent nature, the chances of acquiring profitable assets are high. On the contrary, if the funds are of short term nature or likely to be fluctuated, the banks must also give full attention for its liquidity than its investment. As a result the change of earning profit is always at risk.

Hence, a sound deposit and investment policy of bank is such that collect and accept various funds from public and organization and its funds distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks on the other hand.

## **1.2 Introduction of NABIL Bank Limited and Himalayan Bank Limited**

### **1.2.1 Nabil Bank Limited (NABIL)**

Nabil paved the way for the development of banking sector in Nepal by being established as first multinational bank in July 1984 A.D. It was established under a technical service agreement with Dubai bank Limited, Dubai, which was later merged with Emirates Bank Ltd. Dubai. Since its establishment, Nabil Bank Ltd operated as joint venture with Emirates Bank International Ltd. EBIL for 11 years with 50% equity participation. Since 1995 A.D.; Nabil was joint venture with National Bank Ltd of Bangladesh with 50% equity participation. Recently, 50% of equity shares have been transferred by National Bank Ltd., Bangladesh to NB (International) Ltd, a company incorporated according to the laws of republic of Ireland. Among the rest 50%, 20% of its equities have been held by local financial institutions & 30% by Nepalese public. It is the first and major joint venture bank in the country with key points of representation all over the kingdom of Nepal. The bank is recognized as premier financial institution in Nepal in terms of its range and quality of banking services, human capital, asset quality and income. The recognition as the “Bank of the year 2004” for Nepal by the Banker, a publication of the financial times, London is a testimony of this. It has come up with the slogan “Bank of 1<sup>st</sup> Choice and making endeavors towards proving itself as one.

Nabil is the joint venture bank having 17 branches in different parts of the country. It has branches inside Kathmandu valley namely Kamaladi, Kantipath, Newroad, Lalitipur, Jorpati and Maharajgunj. Other branches outside valley are in Birgunj, Alau. Itahari, Butawal, Bhalwadi, Pokhara, Nepalgunj, Biratnagar, Bhairawah, Dharan, Lakeside branch in Pokhara and exchange counter in Tribhuvan International Airport.

### **1.2.2 Himalayan Bank Limited (HBL)**

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Habib Bank Limited, one of the largest commercial banks of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides commercial activities, the bank also offers industrial and merchant banking. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in the near future. Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. The Bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements. To extend more efficient services to its customer, Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the bank to constantly improve its service level but has also kept it prepared for future adoption of new technology.

The Himalayan Bank at present has five branches in Kathmandu Valley namely Thamel, New Road, Maharajgunj, Pulchowk (Patan) and Suryavinayak(moved from Nagarkot). Besides, it has nine branches outside Kathmandu valley namely; Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Pokhara and Dharan. The bank is also operating a counter in the premise of the Royal Palace.

## **1.3 Focus of the Study**

This study will focus on the deposit and investment policies of commercial bank and analyze whether they are successful in utilizing its available funds or not after the adoption of liberal

policy by the government for the growth and development of commercial bank, lots of them are being emerging in the country. During this study period, there are 17 commercial banks operating in the various part of the country. This study mainly focuses on deposit and investment scenario of the commercial banks. It shows what commercial banks are doing to mobilize their funds, whether the return from investment is suitable for them or not. Thus, this study evaluates the performance of commercial banks.

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

## **1.4 Statement of Problem**

Economic development in the country is possible only through the establishment and sound operation of commercial bank. Thus various commercial banks have been established in our country for the economic development. Such commercial banks help in capital formation and its proper utilization. But the developing country like Nepal is suffering from such problems. Commercial banks are also not to operate in full fledge. The development of the country is possible only if such commercial banks are able to invest in productive sector.

Commercial banks have not formulated their investment policy in so organized manner. They have limited consideration towards portfolio optimization. They don't have their own clear vision towards investment portfolio.

There are various problems in resources mobilization by commercial banks in Nepal. The major one is poor investment climate due to heavy regulatory procedure. While making the investment, Commercial banks have to think about the various risks. Associated with it like financial risks, business risk etc. If such risks are ignored then there is high level of chance of losing their principal also. Thus unsecured loan and investment may cause liquidation of those institutions.

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have clear view towards investment policy. Furthermore, the implementation of policy is not practiced in an effective way.

Under such circumstances, the present study will try to analyze the deposit and investment policies of commercial banks. The study attempts to address the following issues:-

- What are the investments and deposit policies of commercial bank of Nepal?
- Deposit and Investment policy adopted by commercial banks and their effectiveness and efficiency.
- How is the performance of bank and with regard of investment and deposit?
- Do the banks with sound investment and deposits position to attain their goals?
- The steps should be taken by commercial bank to improve their investment and deposit.
- How far commercial banks have adopted the national policy and act of government?
- Investment generally depends upon deposits. This study aims to know the correlation between deposits and investment in both banks.
- What are the customer's views and ideas regarding the existing services and adopted investment policy of commercial bank?

## **1.5 Objective of the Study**

- To highlight the overall deposit and investment policies of commercial banks.
- To examine the deposit and investment policies of commercial banks of Nepal.
- To analyze the existing deposit and investment policies of commercial banks of Nepal.
- To make a comparative study of fund mobilization and investment policy.
- To find out the trend of deposit utilization and its projection.



## **1.6 Limitation of the study**

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

- As the study is simple the partial fulfillment of MBS program, the time assigned for it is limited i.e. within the speculative time, the report has to be completed which weakened the adequacy of the study.
- The whole study is based upon the secondary data, so the accuracy of the data is based on the reliability of the sources.
- All the required materials are not given by the bank as they want to keep their records secret.
- The study period covers only period of 5 years from 2001/2002 to 2005/2006.
- The data available in published annual report and into website is assumed to be correct and true.
- Only two banks (Nabil bank and Himalayan bank) are taken and to compare it with the deposit and investment policy.
- This study is confined to evaluate only the deposit and investment polices of commercial banks.

## **1.7 Significance of the study**

At present banks play role in the economic development of the country. Nepal bank ltd is the first commercial bank in Nepal which was established in 1994 B.S. along with this, other commercial banks and joint venture banks are playing very important role in the banking area.

Commercial banks are those banks that supply the financial needs of the modern business by various means. They hold deposit of the public and business units. Commercial banks are restricted to invest their funds in the corporate securities and make their funds available through their lending and investing activities to the

borrowers, individuals etc. as a matter of facts, commercial banks are the backbone of the financial system of the country.

Commercial bank is the source for the economic development of the country. Hence, banks are those institutions that perform the indispensable task of the intermediating between two individuals and institutions in order to raise funds to deficit spending individuals and institutions. In this context, the role of the banks can't be ignored and under emphasized.

## **1.8 Organization of the study**

The entire study has been categorized into five chapter covers some facts pertaining to the investment polices of commercial banks. The followings are the title of the chapter.

### **Chapter I: - Introduction**

It deals with introduction part. It covers background of the study, focus of the study, statement of problem, objectives of the study, limitation, significance and organization of the study.

### **Chapter II: - Review of literature**

It is devoted to the theoretical framework that bounds the study and briefs the review of relevant literature. It is included the review of previous writing and studies relevant to the problem being explored and within the framework of theory structure.

### **Chapter III: - Research Methodology**

It deals with the research methodology used in the study. It further attempts to explain the research design, research process, nature and resources of data and data analysis technique.

#### **Chapter IV: - Presentation and data analysis**

It deals with data presentation and analysis. It includes presentation, analysis and interpretation of data by using various financial and statistical tools.

#### **Chapter V: - Summary, Conclusion and recommendation**

It includes major findings summary, conclusion and recommendation of the study.

Besides these chapters, Bibliography and appendices will be presented at the end of fifth chapter.

# **CHAPTER – II**

## **LITERATURE REVIEW**

### **2. Review of Literature:**

The previous chapter has already highlighted upon the growing commercial Banks in the context of Nepal. Now, in this chapter, there has been highlighted on the deposits and investment policy of commercial banks. This chapter comprises of previous research study articles concerned with this study and other studies with a view for supplement and present research and such review adds to the dimension of the study.

Thus, this chapter highlights the literature available related to the present study. This chapter includes review of the following relevant literature to the CBs.

1. Conceptual review of commercial banks.
2. Development of commercial banks.
3. Functions of the commercial banks.
4. Role of the commercial banks.
5. Review of various research works done in Nepalese context.
6. Review of the other relevant books.

#### **2.1. a. Conceptual review of commercial banks.**

A bank refers to the organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure. The word 'banks' commonly refers to the commercial Banks where receive and hold deposits of fund form other makes loans or extends credit and transfer fund by written order of depositors.

According to Dr. Mali Ram, “Banking means the accepting for the purpose of lending or investment, the deposits of money from the public, repayable by cheques, drafts, and order or otherwise”<sup>1</sup>

Further R.S Sayers in his book modern banking writers, “Ordinary banking business consist of changing cash for bank deposits and bank deposits for each, transferring bank deposits from one person or corporation to another, giving bank deposits in exchange for bills of exchange, government bonds, the secured or unsecured promises of businessmen to repay etc.”<sup>2</sup>

E.S kills gave the meaning of bank emphasizing the bank’s function as creation of money, “A banks business is basically to buy and sell credit”.

“Credit instruments are its stock in trade. Also on the basis of its own credit a bank creates money by transferred by credit instrument”<sup>3</sup>

American Institute of banking defines commercial banks as, “Commercial Bank is a corporation which accepts demand deposits subject of the scope of its other services”<sup>4</sup>

The institution laid emphasis on the four functions of commercial bank as “Receiving and handling deposits of money (Deposit function), handling payment of money (payment function), making loans and investment (loan function) and creating money by extension of credit (Money function)”<sup>5</sup>

## **b. Review of Legislation’s relating to commercial Banks:**

Commercial bank act 2031 was formulated to facilitate the smooth run of commercial banks. All the commercial banks are functioning under this act. This act defines the bank as, “a commercial Bank is one which exchange money, accepts deposits grants loans and performs

---

<sup>1</sup> Dr. Mali Ram “Currency and Banking” Agra Book Store 1969

<sup>2</sup> Sayer’s R.S. “Money Banking” Oxford University press, Calcutta page22

<sup>3</sup> Klse E.S. “money and banking” South western publication 1972

<sup>4</sup> American Institute of Banking “Principle of bank operation” USA 1972

<sup>5</sup> IBID

commercial banking function and which is not a bank meant for a corporation, agriculture, industry or for specific purpose”

Commercial banks are major financial institutions which occupy quite an important place in the framework of every economy because they provide capital for the development for the industry, trade and business and other resources deficits sectors by investing the saving collected as deposits. Besides this, commercial banks render numerous services to their customers in view of facilitating their economic and social life. Commercial banks have changed the economic structure of the world by playing active roles. So commercial banks become the heart of financial system.

The preliminary statement of Nepal bank act 1994 clearly states the need of commercial bank in the country, “In absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the help and therefore with the betterment of the country; this law is hereby promulgated for the establishment of the bank and it’s operation.”<sup>6</sup>

### **Joint Venture Banks:-**

Joint venture bank is also commercial bank. “A JVB is the joining of forces between two or more than two enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production or trade)”<sup>7</sup>

The entry of the foreign banks was restricted by Nepalese authorities for many years even after the development of the financial sector in Nepal to protect the interest of domestic banks. This restriction was lifted in 1984 feeling the need of modernizing the banking sector of the country. The basic reason behind this is the government’s deliberate policy of allowing foreign JBS to operate in Nepal. Government’s liberalization policy also encourage the traditionally run domestic commercial banks to enhance their efficiency and competitiveness

---

<sup>6</sup> Nepal Bank Act 1994, Nepal

<sup>7</sup> Gupta D.P. “The Banking System. Its role in export development & the financing of export form developing”

through modernization, mechanization, via computerization and prompt customers services by setting them to the exposure of the JVBs.

When the Government decided to establish banks with the joint venture, two benefits were expected, first, that competition would force domestic and second, that introduction of new banking procedures, methods and technology would occur.<sup>8</sup>

The existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercial banks. The main beneficiary of this is the bank clients. The increased competition forces the existing banks to improve their quality and extend services by simplifying procedure and by training, motivating their own staff to respond to the new challenges.

The JVBs are in a better position than local commercial banks in profit making. On an average no foreign banks have suffered loss till now but local banks have owned negative profits.

Despite the increase in number of commercial bank. JVBs are concentrated in urban centers especially in major cities, with all their head quarters in Kathmandu alone except that of Nepal SBI bank, which is based in Rupandhehi. This trend has resulted in two way effects on the operations of the Government owned commercial banks in Nepal. First the comparatively attractive interest rates and services promptness of these private banks have drawn the public deposit to their side thereby reducing in financial liabilities of the farmer. Second as the result of reduction in financial liabilities of the government operates commercial banks have been forced to shutdown some of their branches of the remote area of the country. Nevertheless, a look at the activities of these joint venture banks provides a fillip into the tremendous aid they provide to the national economy. They have been instrumental in mobilizing capital more effectively and to a longer extend. Especially they have been more helpful in finding the private sector.<sup>9</sup>

---

<sup>8</sup> Madlin C. and Snock H. "Evaluation of banking supervision in Rastra Bank IMF Jan 31, 1998 page 4

<sup>9</sup> "Facts about Nepaleses economy 1998" Joint venture Bank in Nepal Society for applied Economic July

### List of Joint Venture Commercial Banks

Name of Banks	Year	Paid up capital (Rs. In million)	Foreign Share	Joint venture partner bank
Nabil Bank ltd	1984	491.73	50%	National Bank ltd Bangladesh
Standard charter Bank ltd	1985	339.50	50%	Standard charter Bank UK
Himalayan bank ltd	1992	390.00	20%	Habib bank ltd
Nepal SBI bank ltd	1993	424.98	50%	State Bank of India
Nepal Bangladesh ltd	1994	357.25	50%	IFIC bank, bangladesh
Everest Bank ltd	1993	399.32	20%	Punjab National bank, India

All these joint venture banks are being essential element for economic development of our nation, as these banks are supporting the development of our economy, the country should encourage such foreign investment to ensure financial soundness, stability and fair competition in banking sector.

### **Role of Joint Venture Banks:-**

In the present economic scenario, the need and role of the joint venture banks need not be overemphasized. JVBs definitely help to boost the economy through various productive undertakings. Absences of joint venture banks results in idleness of excessive funds hold by the certain group of society and failure of mobilization of such funds by the certain group who are in need of money. So banks work as an intermediary between two groups.

Following can be explained as the major roles of Joint venture banks.



1. Capital Formation :-

Banks can transfer surplus capital from developed to less developed area where it is scarce and most needed. Canalization of resources from urban sectors to rural sectors to promote economic development.

2. Regional Balance :-

Promote trade capital formation function of banks is concerned with generation, mobilization and canalization of savings. Banks stimulate savings by providing a number of incentives such as interest, safe custody and mobilize the fund that has the opportunity of productive investment.

3. Monetization of Economy:-

Money is the major means for accelerating trade and economic activities. Banks provide adequate paper money and coins available in the market. Businessmen don't hesitate to take money as means of payment as it is widely accepted by banks.

4. Implementation of Monetary policy

A proper banking system is a necessary precondition for the effective implementation of monetary policy. Credit control and regulation by the government is not possible without active co-operation of banking system.

5. Price stability

Bank can control and create the credit in the monetary market. According to financial policy of government, banks could regulate the interest rate in deposits and loans. They also provide different types of banking services for industrialization. Ultimately, this will

increase the supply of product. It will increase employment and public earnings. This helps to control price.

#### 6. Economic Development:-

Banks help in the economic development of the country. Banks provides the opportunities to invest in the productive sectors by providing loans through the collection of deposits deposited by the one who has the excess of it. It plays the role of intermediary between the savings and investment.

### **2.2 Development of commercial banks:-**

The growth of banking development is not old as compared to other developed countries. In the developed countries the commercial banks were established as early as in 17<sup>th</sup> century. They gradually undertook and handled the functions of central banks too; “Banks of England” is the glaring example of this process. Although the correct and adequate chronological history is not available due to the lack of authentic historical records in the respect of banking, there is plenty of historical evidence highlighting the presence of some crude banking practices in Nepal as early as in 8<sup>th</sup> century. According to the historical records in 723 A.D. Gunkam Dev, the king of Kathmandu had borrowed money to rebuild and to rule Kathmandu. Some 57 years later at the end of some century a merchant ‘Shankhadar’ introduce ‘Nepal sambat’ by clearing the indebtedness of the people. In 14<sup>th</sup> century Jayasthiti Malla, the king of Kantipur introduces the various measures to codify the laws relating to commercial banks. At that time the business of the group of people called ‘Tanka Dhari’ who were engaged in the occupation of money lending was more or less similar to that of modern banking and their role had very much influence the economy to expand trade and commerce. They however were motivated mainly with the profit making and so, naturally use to lend against personal securities of merchandise in higher rate of interest. After wards during the premiership of Sri Ranodip in 1880 for providing loans to the people of the Kathmandu valley at 5 percent interest against gold, silver and other ornaments. Tejarath adda was established. Thus, the name of king Gun kamdev, Sundra merchant

shankadhar, business group Tanka Dharis and Tejarath comes serially in the history of Nepalese banking system.

In the overall development of banking system in Nepal “Tejarath Adda” may be regarded as the first remarkable step in organized banking and also the father of modern banking institution. The branches of this institution were opened in a number of districts in Terai region to supply loans to individuals against the security of the landed property. The main objective was to make loans available to individuals at a low rate of interest because money lenders were charging interest at exorbitant rates for a quite long time.

This adds rendered a good service to government service holders. It granted loans as collateral securities but did not accept deposits, which probably was not considered then to be a function falling within the competence of banking. Even later on, with the evaluation some kind of systematic is banking. “The kausi” or the government cashier office had the primary responsibility of handling government accounts.

However, the loan activity of Tearatan could not meet the raising need of whole society. On the one hand it serves only the civil servant leaving the general mass at the mercy of individual money lenders, who were charging, purchasing the standing crops at a very low price etc. On the other hand, with the growing awareness, emergence of some industries and other development programmers the need foreordain-banking facilities was felt more and more imperative. As a result the “Tejarath” was replaced by a commercial bank, Nepal bank ltd, which mark the beginning of a new era in the history of modern banking in Nepal.

### Brief study of commercial banks

#### 1. Nepal bank Limited :-

As a first commercial the Nepal Bank ltd was established in the year 1937 in accordance with the provision of the Nepal bank Act. Its authorized capital was Rs. 100 lakhs. Initially funds were raised from 20 thousand party paid up and 5 thousand fully paid up ordinary shares of Rs. 100 each. By 1949-50, all the 25 thousand shares were fully paid

up. Even 51 percent of shares are hold by his Majesty's Government and the rest, private individual. The government also had representation to the Board of Directors in proportion to its subscription to the share capital. In the construction of the Board of directors, one is chairman, three directors, four from government of which one is from Nepal Rastra Bank and three directors are elected from other share holders. Out of four government nominated directors, one acts invariably as the chairman.

General who presides over the Board meeting and enjoys all rights vested on him under the act.

Thus the active participation of the government both in share capital and management enable the bank to inspire confidence of the people which contributed in its turn, growing prosperity during the past years. This bank had tried to solve a a lot of problems of commercial banking system in the economy. Various facilities were proved by this bank for depositing and borrowing money for commercial and agricultural purposes. It provided facilities for selling the internal and external modesties and helped the business community in various ways. It managed all the business transaction of the government including entire business of currency exchange due to the absence of the banks.

The Nepal bank ltd. was only financial institution up to 1955. So there was a feeling of need of a central bank in the country. In the absence of central bank proper regulation and management of currency of and credit could not be done, Nepal bank ltd had no capacity of face with these problems due to its limitation in respect of financial position, scope of business etc. It is only 1956 that the country's first create central bank. The Nepal Rastra bank was established under the Nepal Rastra bank Act, 1955.

## 2. Rastriya Banijya Bank :-

With the planned economic developed programmer in Nepal in mid fifties the development activities increased more and more consequently both the public as well as the private sector felt the dearth of resources. The existing banking services were not

sufficient to meet the growing need of country. The only commercial bank, the Nepal bank ltd was not sufficient to provide adequate banking facilities. Therefore need was felt for the established of another commercial bank and it was in this context that the Rastriya Banijya bank was established in 1996, purely under public sector. The birth of this bank again ushered a new landmark in the history of banking development in Nepal providing additional banking facilities to the people. Its authorized capital is Rs. 10 million wholly owned by His Majesty's government. Rastriya Banijya Bank began its transaction with 6 employees which now boasts of 211 branches office and 8 supervision offices on 68 districts with about 6000 employees. Ordinarily, the bank would perform all such commercial banking function as emulated in the commercial banking at 1965. The Board of directors is consisting so seven directors. Out of them two directors are nominated as the chairman of the board. The bank is authorized to transact all kinds of business, which is generally considered to be the function of Nepal Bank Ltd again it is authorized to act as an agent of the Nepal Rastra bank ltd and his majesty's Government. Though it is newly established, its working and aims are impressive.

### 3. Nabil Bank Ltd. :-

Nabil Bank ltd, the first foreign joint venture Bank of Nepal, started operations in july1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. It was established with joint investment of United Arab Emirates bank having 50% shares, different financial institutions having 20% share and public having 30% share. It authorized capital is 10 crores, issued capital is 5 crores and paid up capital is 3 crores.

The already established commercial bank, Nepal bank ltd and Rastriya Banijya bank, had certainly added some energy in promoting financial activities to assist grow trade and commerce. However due to inefficiency prevailing in these financial intermediaries, these banks were found insufficient to move parallel with the increasing venture of trade and commerce. Due to wind of globalization, the need of foreign investment to boost the economic activities and basically the need of adding efficiency in Nepalese financial

market, the Nepalese authorities severely felt the need of new technologies and investment. These necessities led the Nepal Rastra Bank, the central bank of the country and the government to introduce a new regulation, allowing new joint venture bank between foreign and Nepali banks. Nabil Bank Ltd commenced its operation on 12<sup>th</sup> July 1984 as the first joint venture bank in Nepal. Dubai Bank Ltd, Dubai (Later acquired by Emirates Bank international Ltd, Dubai) was the first joint partner of Nabil. Currently, NB (international) Ltd, Ireland is the foreign partner of the bank.

Present Capital structure of the bank

N.B. (international) Ltd. Ireland	50%
Nepalese Public	30%
Nepal industrial Development corporation	10%
Rastriya Beema sansthan	9.67%
Nepal Stock exchange	0.33%

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

4. Himalayan Bank Ltd :-

Having 80% share of Nepali investors and 20% share of Habib bank of Pakistan. It was established in 1992 A.D. this is the first joint venture bank managed by Nepali chief executive. The operation of the bank started from 1993 February. The main objectives of the bank is to provide modern banking facilities like tele banking to the business man, industrialist and other professional and to provide loans on agriculture, commerce and industrial sector.

#### 5. Nepal Indosuez Bank Ltd. (NIB)

This bank was established in 1968 A.D having 50% share of Indosuez bank of Paris, 15% share of Rastriya Bema Sansthan 15% share of Rastriya Banijay bank and 20% share of other public. This bank has 12 crores of authorized capital and 6 crores of issued capital. the main objectives of the banks is to provide loans & advances to the agriculture, industries and commerce and to provide modern banking services to the people.

#### 6. Nepal Gridlays Bank Ltd :-

Nepal Gridlays Bank was established in 1985 as a second foreign joint venture bank under the company Act, 1964, Grindlays Bank PLC is the foreign joint venture partner with 50% equity investment. ANZ Grindlays Bank PLC is managing the bank under joint and technical services agreement signed between ANZ Grindlays Bank PLC and Nepali investors. The main objective of the bank is to collect deposits and provide loans to agriculture, commerce and industries and to provide modern banking to the people.

#### 7. Nepal SBI Bank Ltd (SBI)

This Bank was established in 1993 AD with the combined investment of state Bank of India, Karmachari Sanchaya Kosh and Agriculture Development Bank. The main objective of the bank is to carry out modern banking business under the commercial Bank Act 1974. The bank provides loan to agriculture, commerce and industrial sector. The bank started its banking operation on 8<sup>th</sup> July 1983.

#### 8. Nepal Bangladesh Bank Ltd (NBBL)

This Bank was started in 1994 AD with joint investment of OFIC Bank, Bangladesh and other public of Nepal. It has 24 corers of authorized capital, 12 cores of issued capital and 6 cores of paid-up capital.

#### 9. Everest Bank Ltd.

Everest Bank Ltd. was established in 1997 under the company Act 1964 with an objective of carrying out commercial banking activities under the CBs Acts, 1974. United Bank of India Ltd. Under Technical services, agreement signed between it and Nepalese promoters was managing the bank from the very beginning till November 1996 later on it handed over, the management to the Punjab National Bank Ltd. India which holds 20 % equity in the banks share capitals.

#### 10. Bank of Kathmandu Ltd.

This Bank was established in 1993 AD and started functioning from March 1995 A.D. This has 30 % share of Sram Bank of Thailand 45 % share of Nepali Capitalists and 25% shares of general public. Its authorized capital is Rs 24 crores.

#### 11. Nepal Bank of Cylon Ltd.

This bank was established in 1996 AD. The largest joint venture bank with up thrust capital of Rs 100 crores and paid up capital of Rs 50 crores. Its share holders are 45 % of bank of Celon , 25 % of NB group of Nepal and 30 % share of general public. Its head office is at Sidharthanagar, Butwal, Nepal.

#### 12. Lumbini Bank Ltd.

This bank was established in July 1998 as a regional bank having head office in Narayangadh, Chitwan with authorixed capital of Rs 20 crores, issued and paid-up capital of Rs 5 crores ( including share issued for general public)

#### 13. Industrial Development Bank Ltd.



It was established in July 1998 having authorized capital of Rs 25 crores issued and paid-up capital of Rs 12 crores ( including share issued for generally public) as a regional bank in Biratnagar.

#### 14. Nepal Development Bank Ltd.

It was established in 2055, as a regional bank having head office in Biratnagar.

### **2.3 Function of Commercial Banks**

In the contemporary world, Banking is assuring wider function and greater responsibility in the economic areas hence, it is not possible to make an exhaustive catalogue of its functions and services. Some of the fundamental functions usually performed by banks are:

#### a. **Acceptance of Deposits from Public:**

- ❖ The primary functions of Commercial Banks are to accept deposits from the public. Banks maintains demand deposits account from their customers and invert deposits money into cash and vice versa at the direction of the later. Demand deposits are technically accepted in current account, which are withdrawn able any time by the deposits by means of cheques.
- ❖ Deposits are made in fixed accounts, which are withdrawn able only after a specific period. Thus fixed deposits are time liabilities of the banks. Deposits are received in saving bank account subject to certain restriction on the amount receivable and withdraw able. This is how banks pool the scattered savings of the community and services, so to speak as the reservoir of it's saving.

#### b. **Granting loans and advances:**

- ❖ Another major function of commercial banks is to extend loans and advance out of the money which comes to them by way of deposits to businessmen and

interpreters against approved securities such as gold or silver government securities, easily saleable stocks and shares and marketable goods.

Bank advance to customers may be made in the following ways.

- i. Overdraft
- ii. Money at call and short notice loans and
- iii. Various forms of direct loans to traders and producers

c. **Use of Cheques System**

- ❖ Commercial Banks also render important services by providing an expensive medium of exchange such as cheques. In modern business transactions, the use of cheques is found to be much more convenient than the use of cash. In fact, cheques are all known as the most developed credit instrument.

d. **Agency Services**

Banks perform certain functions for and on behalf of their customers, such as:

- i. To collect or make payment for bills, cheques, promissory notes, interest, dividends, rents, subscriptions, insurance premiums etc. for these services the banks usually take some charges.
- ii. To remit funds on behalf of clients by drafts or mail or telegraphic transfer.
- iii. To act as executor, trustee and attorney for the customer's will.
- iv. Sometimes bankers also act as income tax experts not only to prepare income tax returns for the customers but also to help them to get a refund of income tax in appropriate cases.
- v. To work for correspondents, agents or representatives of their clients. Often, bankers obtain passports, travelers' tickets and secure passages for their customers and receive letters on their behalf.

e. **General Utility Services:**

- a) Modern commercial banks usually perform certain general utility services for society, such as:
- b) Letters of credit may be given by the banks in order to provide facilities for transfer of funds from one part of the country to another.
- c) Bank draft and traveler's cheques are issued in order to provide facilities for transfer of funds from one part of the country to another.
- d) Banks manage data in foreign exchange or foreign trade by accepting or collecting foreign bills of exchange.
- e) Certain banks arrange pure safe deposit vaults, so that customer may entrust their securities and valuables to them for safe custody.
- f) Shares floated by Government public bodies and corporation may be underwritten by bank
- g) Bank may act as reprise with respect to the financial standing, business reputation and respectability of customers.
- h) Banks also compile statistics and business information relating to trade, commerce and industry some banks may publish valuable. Journals or bulletins containing research on financial, economic and commercial matters.

## **2.4 Role of Commercial banks**

Nepal has been facing the problem of accelerating the pace of economic development. In this respect the role of commercial bank in the country is vital. The commercial banking system in Nepal is still in its infant stage as compared to other developed countries. However their important role in the economic development of the country has been fully realized and these banks are being oriented in their activities best suited for the overall economic development. Today there are 14 commercial banks in operation. Among these, Nepal Bank Ltd. is the oldest one and was established in 1937 A.D. These banks though not as modern as those of developed countries in their services and management's

the role they are performing for Nepal's overall economic development can not be underestimated. They have been performing a leading role to the best of their capacity in the promotion of agriculture, industry, trade and commerce etc.

Nepal being an underdeveloped country, its industries, agriculture sector, trade and commerce are still in a state of infancy. Their development greatly depends upon the effective role of commercial banks. The insufficiency of capital for the establishment of the industries, modernization in agriculture etc. has become a serious problem for economic development in Nepal.

Presently, the contribution of commercial banks in agriculture sectors has been expanding. It provides the credit facilities for the development of agriculture in cases where agriculture development banks and co-operative societies do not enter into the field. The agriculture sector needs more and more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation bank in promotion agricultural sector is increasing in many of the countries, especially in development countries like Nepal.

The economy of our country is dominated by agricultural sector. This could be well exemplified from the figure that about 80% of the total population is engaged in agriculture and about 40% of the national income comes from the agriculture. Similarly, about 51% of the export trade is in agriculture products. Also if we take into account of the major industries of Nepal, they are mainly based on agriculture. Thus it is very clear that in such a country the financial help to the agriculture sector is most and indispensable for strengthening for the base of national economic structure.

Nepal being a developing country, majority of the farmers in the villages is very poor. They do not have the sufficient capital to invest in this sector. The commercial bank has an important role to play here by helping the agricultural sector through two channels.

- i) By providing fixed capital to Agriculture Development bank by purchasing its shares or debentures.

- ii) By giving direct credit facility to the farmers on the mortgage of their land, house, food-grains and other cash crops like jute, tobacco etc.

As the agricultural development needs capital, the commercial banks are helping by providing financial help to the farmers and they are able to invest or utilize the fund in different ways that make them increase agricultural product. Thus in order to accelerate the tempo of economic development of Nepal. The government and the commercial banks should play crucial role in the agricultural sector of the economy. Thus the second development and wide geographical coverage of commercial banks particularly in agricultural is a prerequisite for accelerated and sustained economic growth. In recent years even though the commercial banks have made rapid progress in mobilizing financial resources they are still inefficient in their lending policies. The lending policies of Nepalese commercial banks resemble more closely to those of the 19<sup>th</sup> century London banks than 21<sup>st</sup> century developing institutions. In a way it would seem apparent that the accreted private sector investment is dependent on the commercial banks giving more emphasis in medium and long term credit for equipment and constructions and more liberal policy on the requests or collateral. In the respect, in recent years the Nepal Rastra Bank has been doing some useful services with its development oriented approach, but it goes, without saying that there is a long way to go to this particular field.

Commercial banks in Nepal have been helping farmers by providing different facilities. The helps are in the field of cultivation, exporting, rice, jute, paddy etc and providing facilities regarding better market for their product, helping to start livestock's poultry firm rice firm, rice mills. Animals husbandry, bee firm etc and also provide provide the guidance for them.

For Nepal's industrial development a significant role of commercial bank is indispensable. Due to insufficiency of capital the industries are depending more and more upon the supply of capital by the banks. It would not be exaggeration to state that commercial banks are mainly responsible for whatever the industrial development has been achieved by Nepal. However, more recently many other financial institution like Agriculture Development Bank (ADB), NIDC have already been established for the

development of agricultural and industrial sector of the country. Nevertheless, the commercial banks are also continuously participating in these activities. Being a mountain many places are very remote and sometimes require many weeks to approach some of the places. Due to lack of transport and communication facilities and other geographical causes the country has been still facing the problem of imbalances economic growth, the five development centers which are established for planned and balance economic growth of country has contribute to some extent in this direction. However, there is still much to be achieved. The scattered capital of the country is unable to solve appropriate role to play here by expanding their branches in the different hilly and terai regions however remote they may be and availing the required capital to the need of the local people.

Industrial sector, the banks are providing the necessary financial help for the industrial establishment in the country. They provide short and medium term loans to industries to purchase machineries, tools, raw, materials etc. and to introduce new and developed techniques of production.

Nepal being a landlocked country coupled with the transportation and geographical difficulties, its foreign trade is still underdeveloped. It is not only foreign trade but also the domestic trade is equally under developed. Only few years ago, Nepal had trade only with India and Tibet. The development of foreign trade is vital. Without the development of foreign trade the economic development of a country will not be possible. It is not only to fulfill the demand for the development and constructional material within the country but also for the fulfillment of the demand of the daily consumption goods, the importance of the foreign trade is increasing day by day. Today Nepal's trade has extended with different countries of the world. The establishment of commercial banks has promoted the domestic and foreign trade of Nepal by spreading their branches within the country and extending close relations with many renowned important banks of other countries. It is helping the exporters and importers by providing those facilities of D.D, L.C., L.B.C., O.B.C. and T.T etc.

The role of commercial banks for the development of transport cannot be overlooked. As the rapid development of roads and highways are in progress the banks have helped in meeting the demand of the means of transportation by providing funds for transport industry. Similarly, banks are playing important role in tourism industries by helping to expand hotel facilities dealing with foreign exchange and accepting traveler cheque from the tourists. Role of CBs in the national economic development can be summarized as follows.

- I. CB extends valuable services to trade and industry. The economic development of the country depends on the growth and development of trade and industry. Investment of huge amounts of money is required for the industry development. Money is too scarce. Its adequate supply is difficult task. Bank undertakes this stupendous task by mobilizing the saving of the people and leading the same to the trades and industrialists, be their ability to create credit, the banks have placed a very large sum of money at the disposal of the nation. The cheques, the banks draft and letters of credit enable traders to transfer large sum of money from one place to another. The use of these documents and the bills of exchange has encouraged both internal and international trade.
- II. CBs extend credits facilities to the right type of person and right type of industries. In this way the banks not only help in the industrialization of the country but they also have a way in the right type of economic development required. They grant loans and advance to manufacturers whose products are in great demand. The manufactures in turn increases their production. This assist in raising the national income of the country by increasing the national production.
- III. CB helps in the uniform development of the different regions in the country. Money from the surplus areas is diverted to the backward areas for the purpose of investment and development. In case of Nepal, presently they are making investment on backward areas under priority sector investment scheme. Thus they are aiding to uplift the economically backward people and region.
- IV. The mechanism of credit creation helps to expand the business. Fluctuations in the credit facilities granted by them have an important hearing on the level of economic activity. Expansions of banks credit are followed by increase in

production, employment, sales and prices. In the developing country the CBs offer more and more credit and increase the resources of the industries, there by causing faster economic growth.

- V. CBs help in capital formation. A high rate of saving and investment constitutes capital formation. They mobilize the small saving of the people and utilize the money for productive use.

In addition to above, CBs provide other valuable services to trade and industry, like discounting bills transfer of money etc. banks have now come to occupy a very important position in the economy of nation. But if banking activities are not properly guided the national economy is likely to be affected badly. Some writers compare credits expansion with blood circulation. To them, circulation of credit should be as smooth as blood circulation.

### **Deposit Collection & Investment**

The existence of any commercial banks largely depends upon the mobilization of deposits. Banks can no longer function well in the absence of a adequate deposits. In other words, deposits are the life blood of any CBs and strength and weakness of the bank largely depends upon the capability to attract more people to deposit their saving. More the bank collect deposits more will be its capability to invest much valuable funds in profitable ventures. But it is also quite true that the amount of growth in deposits should be in proportion to the increase of growth of loans and advances investment. If the ratio of deposit to investment is not maintained properly then the bank face a serious problem of paying more interest amount to its deposits holders that what it can generate income out of it. It is highly necessary that the increase in deposit should be in the proportion to the growth of investment. If the ratio is not maintained properly that is, if the amount of deposit is very large and more than what it can invest, the bank will have to face a serious problem of paying off more interest amount to its deposit holder than what it can generate income from investment. Also if the size of the investment is very big than its deposits, then the



bank will have the problem of shortage of capital to meet the demands of its customers. So it is not only necessary that the bank should be in proportion to the growth of deposits. So that deposit/credit ratio may be properly maintained. Besides every case should be taken to minimize the possibility of bad and doubtful debt as far as possible.

#### A. Investment on Government Securities, Shares and Debentures

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

Some of them are given as:

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

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

#### B. Investment on other Company's share and Debentures

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of NRB

directives, the commercial banks purchase shares and debentures of regional development bank, NIDC and other development banks.

#### C. Sector wise Investment

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

#### D. Priority & Deprived sector Investment

Priority sector includes micro and small enterprises, which help to increase production, employment and income as prioritized under the national development plans with an objective to uplift living standard of general public. Many directives have been introduced and amended as per the requirement by NRB. Commercial banks are directed to invest 5% in priority sector with inclusive of 3% in deprived sector. The credit limits in the priority sectors has been raised to Rs. 2.0 million from Rs 1.0 million on agricultural and service sector and from Rs 1.5 million to Rs 2.5 million on cottage and small-scale industry.

Likewise deprived sector credit includes low income and particularly socially backward women, tribes, physically impaired groups etc. Deprived sector investment is advanced up to Rs 30000 per borrower of micro credit programs and projects. However, priority sector credit programmed is being phased out by NRB.

## Investment Policy

Investment operation of CBs is very risk work. For this purpose CBs should adopt sound and variable policies regarding loans and investment. The most important problem of CBs is to invest its deposits and capital type funds. CBs invest their deposits and fund to fulfill its different purpose, to earn something to pay interest for deposits, to meet the office expenses and to earn profit etc.

“Lending is the essence of commercial banking consequently the formulation and implementation of sound lending policies are among the most important responsibility of the bank directors and management.”<sup>10</sup> According to H.D. Crosse the lending policies should be carefully analyzed and it should be careful while performing its credit creating function effectively and minimize the risk.

According to J.H Clemen, “commercial bank should consider the national interest followed by borrowers and interest of the bank itself.”<sup>11</sup> so consideration should be given on following factors while investing loans.

- a) Lending policy must be well spread.
- b) It should be basically of short-term character.
- c) It should be profitable.
- d) It should be repayable.
- e) It must be with adequate securities.

### Principles Adopted by Commercial Bank in investment or factors affecting lending policy:-

There are various factors affecting investment policy. Before formulating a lending policy many things have to be considered. According to H.D Crosse, “A bank’s lending

---

<sup>10</sup> Crosse H.D. “Management Policies for CB” Principle Halls Ins. England cliff. N J Page 191

<sup>11</sup> Clemen J.D. “Bank lending” Europe Publication Ltd. London 1963 Chapter II and Chapter III

policy is in effect”<sup>12</sup> screening devices by which the directors seek to establish the kind and character of loans they think a bank should make.

As another country the lending practices of CBs in Nepal have also been changing overtime. The income and profit of the bank depends upon its lending procedure, lending policy and investment of its fund in different securities. The greater credit created by the bank, the higher will be the profitability. A sound lending and investment policy is not only prerequisite for the bank's profitability, but also significant for the promotion of commercial saving of a background country like Nepal.

There are some important criteria should be kept into mind before formulating a lending policy by the CBs.

***c. Safety and Security:-***

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

M	=	Marketability
A	=	Ascertain ability
S	=	Stability
T	=	Transferability

❖ **Marketability**

Marketability is the most important factor, which should be considered while accepting securities by the bank. Only those goods, which are kept as security,

---

<sup>12</sup> Crosse H. D. “Management Policies to Commercial banks” Inc. England Cliff, N.J. Page 191

must have qualities of being easily sold in the market whenever it is needed. So it is necessary for the bank to examine the security of goods.

❖ **Ascertain ability**

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

❖ **Stability**

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

❖ **Transferability**

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

*c. Liquidity*

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

“Liquidity is the ability of a bank to satisfy demand for cash in exchange for deposit.”<sup>13</sup>

Liquidity is a great problem to the bank because higher or lower liquidity are not favorable to the bank. Higher liquidity less will be the profit to the bank. Less the liquidity, higher will be the risk to the bank. So to keep balance liquidity the CBs have to maintain the liquidity according to its deposits.

---

<sup>13</sup> Upadhya G.B. & Tiwari N.R. “Principle of Money and banking” Ratna Pustak Bhandar, Page 120

“Liquidity is the protection against the risk that losses may develop if banks are forced to sell or liquidity credit worthy assets in an adverse market.”<sup>14</sup>

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

c. Profitability:-

While framing the investment policy the CBs have to into mind the profitability principle. It is because bank is also a profit maintained institution. The CBs utilize its fund where more profit can be gained. But consideration should be taken on the liquidity position of the bank. If the bank invest on the long term there will be more profit, but there will be lack of liquidity. So while lending by the bank, the balance must be done between the liquidity and profitability. However it is very difficult to maintain the balance between profitability and liquidity principles. If the bank invests its fund on long-term, there will be delay in the repayment of loan and low possibility of the repayment of loan. If more liquidity is deserved there will be less profit because banks have loans, there will be less profit. That is why optimum reconciliation of both the liquidity and profitability concepts has to be carried out in farming investment policy.

Profitability also depends upon the structure of interest rate. In Nepal interest rate is determined by NRB. The difference between the interest charged upon borrowers and the interest paid to depositors minus other expenses of the banks constitutes profit.

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

c. Purpose of Loan:-

The purpose of the loan should be considered as per which the loan is taken. The bank should give suggestion to the borrower to invest money where he can more successful. If borrower misuses the loan granted by the bank. They can never repay and banks will

---

<sup>14</sup> Crosse H.D. “Management Policies for CBs” Printice Hall Inc. England Cliff Page 114

process heavy bad debts. Modern businessman is seeking sound financial advice as well as credit availability from his banker. So before lending the loans, the bank should examine the detailed information about the project or activities.

c. Diversification:-

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

c. Tangibility:-

Though it may be considered that tangible property does not yield an income apart from direct satisfaction of possession of property, many times, intangible securities have lost their value due to price level inflation. CBs should proper tangible security to intangible one.

c. Legality:-

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

Interest Rate Policy

The bank charges certain rate on various kind of loan is called interest rate. Interest rate is charged by the bank, for the service by providing loan to the customer. So it is one of the major profits of the bank. The loan, which is provided to the customer, is greatly affected

by the interest rate. There is inverse relationship between the interest rate and the loans and advances. If the interest rate charged by the bank is very high the demand for the loan and advances will be low and if the interest rate is very low the demand for the loans and advances will be high.

“Interest rate risk exists between changes in conditions in financial markets will alter the balance between the supply and the demand for loan able funds.”<sup>15</sup>

“When funds are plentiful market rate generally trends to decline, the banks seek loan more aggressively and therefore lower their rates to introduce managerial borrowers to come into the market. When funds are scarce banks raise their rates and some potential borrowers may defer the use of credit or seek it elsewhere.”<sup>16</sup>

When the bank changes the interest rate, it should cover,

- a) The cost of the fund loaned.
- b) The cost of making servicing different kinds of loans.
- c) A cost factors resulting the profitable losses which may be incurred over time and,
- d) A reasonable margin of profit

### The interest rate structure

In this part the interest rate structure, the interest spread and the Nepal Rastra Bank and the interest rate are mentioned.

### Basic Concept

Interest is a payment made by the borrower to the lender for the use of capital. Interest is expressed as a rate percent per year. Interest is also known as reward for risk. Greater the risk involved in a loan, higher will be the rate of interest and vice versa. Most of the developing countries of the world face the problem of security of domestic capital in

---

<sup>15</sup> Liariss, C. Lowell “Money and Banking” Allyn and Bacon Boston 1965

<sup>16</sup> Crosse, H.D. “Management Policies for Commercial Bank” Prentice Hall England Cliff N.J. 1963



relation to the size of investment-required achieving high and self-sustaining economic growth. The amount of additional capital is needed at each increasing level of income fore economic development. For the use of existing natural and other resources financial sector should direct the investors into those fields where the expected rate of return is higher than another sector. They earn calculate the rate of return by comprising with the institutional interest rate for the fund, which they had borrowed. So that the interest rate of the existing banks and financial institution is the guideline for the investors.

The monetary authority determines the institutional interest rate after analyzing the economic system adopted by the country. Interest rate depends upon economic activities and existing policies of the nation. On every economy, we find the inverse relationship between interest rate and investment and direct relation between interest rate and saving. Interest rate plays very important role in developing countries like Nepal where the demand of capital is increasing day by day. An appropriate interest rate can divert investment in proper and targeted field. For sound financial development and to mobilize the available resources interest rate should be positive. The interest rate is an effective rationing device for the allocating of scarce resources between alternative investments. It can provide a social discount market-clearing device, influencing in an optional manner the choice of what to produce and how to produce it.

### Interest rate structure in Nepal

In Nepal, there are two kinds of sector in which interest rate prevails. The first is unorganized sector and the second organized sector. Let us discuss them one by one.

#### Unorganized Sector

The unorganized rural credit is prevailing in the rural areas of Nepal where about 88% of the total population live. The unorganized rural financiers are the traditional and important

source of rural credit in Nepal. In the unorganized sector, the credit supplier is indigenous banker and traditional moneylenders. The traditional moneylenders try to keep the peasants and the poor people permanently in debt. At the present situation also the traditional moneylenders are in existence in every part of the country. In the rural property owners, merchants, friends, relatives etc. supply major part of the credit. The aim of these moneylenders is to hold money and lend to needy persons in order to earn the higher rate of interest. The interest rate they charges varies from place to place and it have to borrow. The lenders take high interest rate to the persons who got to foreign countries for earning purpose.

The rate of interest mostly on these kinds of loans is 24% to 36% or above. Sometimes it is 50%, however it is not the same for the different places and situations. This type of high interest rate mainly prevails in the hilly regions, which shows that hilly people are not a ware of the legally permissible Rte. In some of the hilly areas the interest rate is paid in the form of rice, corn etc.

A study conducted by NRB in 1994 reveled that only 20% of the rural borrowers have access to organized sector for arranging a certain part of their total financial requirements. Dominance of the unorganized sectors in the economy requires to be gradually reduced by increasing both number of financial institution and financial instruments. In the unorganized sector, there is a lack of adequate and authentic data so that the discussion of interest rate is only focused on the organized sector.

### Organized Sector

For the study o interest rate, we take the central Bank (in context of NRB), CBs and other financial institutions are the organized sector of the economy. The interest rate prevailing in the organized sector is very low comparing to that prevailing in the organized one.

The following types of interest are found in the organized sector of Nepal.

#### a) Interest on Government securities

The Government fixes certain interest rate on the Government securities. The Government securities are of different maturing periods and the interest is given the six-month installment. There are three types of Government securities, which are:

- i) Treasury Bills
- ii) National Saving Certificates
- iii) Development Bonds

b) **Interest of NRB**

NRB, the monetary authority of the country is non-profit making organization and it promotes the investment of CBs by increasing or decreasing the bank rate. There are two types of interest operated by NRB, which are:

- I) Refinance Rate
- II) NRB Bond rate

c) **Interest of CBs**

The CBs are profit-making organization and they give loans in high interest rate and accept deposit in low interest rate. I have are two type of interest operated by CBs, which are

- i) Deposit Rate
- ii) Lending Rates

d) **Interest of financial Institution**

The agricultural development Bank (ADB) of Nepal and the Nepal Industrial development Corporation (NIDC) flow the loans to the various sectors of the economy with the aim of promoting their investment. They provide loans and charge certain interest to co-operative and other institutions.

**The Interest Spread**

The interest given on deposit and the interest charged on loans both are collectively known as interest rate. The interest spread is defined as the difference between the lending interest rate and deposit interest rate:

i.e. The interest spread = The lending interest – The deposit interest rate

The high interest rate given on deposits attract the customer for more and more saving and depositing it in the banks while the low lending rate decreases the cost of capital promoting investment. Therefore, the good banking system is that which balances between the deposits and loans rate properly.

In the developed countries, the interest spread to be within the limit of 1-2% while in developing countries, it is found to be about 5-6% in maximum but in Nepal it exceeds that limit also.

### **Nepal Rastra Bank and Interest Rate Determination**

Interest rate is a monetary phenomenon and the matter of concern of the monetary authority. In case of Nepal the monetary authority, NRB is responsible for the policy measures, which are adopted to maintain and change the interest rate structure of the country.

### **NRB and Controlled Interest rates**

NRB had controlled the interest for CBs and financial institution for a long time. Before the deregulation of May 1986, there were about 20 controlled lending rates differentiated between sectors, use of funds and types of collateral. Further, the interest rate structure was not very rationale and the central bank was determining the whole set of deposit rates and instruments. The interest rates had not changed much overtime, although a significant and a historical upward revision in interest rate structure took place in 1975. The direct control of lending rates provided on easy mechanism for credit allocation by differentiating between priority and not priority

sectors in which the farmer received concessionary interest rates. The direct control of deposits rates before the deregulatory moves initiation of 26<sup>th</sup> may 1986 was considered a potentially effective instrument for mobilizing domestic savings.

Some of the inconsistencies, existing in the financial system under the controlled interest rate regime, induced NRB to move towards partial deregulation of the financial system. The non-flexibility of interest rates restricted the institutions (with les resources) in mobilizing more saving by offering higher rates. The wide margin between deposits and lending rates, the introduction of CBs with foreign bank's collaboration of commercial banking activities were some of the main reasons motivating the regulatory authority towards financial deregulation. A move towards deregulation by granting CBs and financial institution the authority to fix interest rates were initiated on May 26, 1986.

The overall impact of controlled interest rates and other regulations was that the asset and liability structure of the CBs was tightly controlled. The direct control of deposit and lending rate becomes redundant. During the years after deregulation the banking activities developed rapidly as is evident by the growth of assets, the expansion of bank branches in rural areas and gradual decline of currency deposit ratio over the year.

### **NRB and liberalized Interest Rates**

Effectives August 31, 1989 the interest rates of bank was completely liberalized. According, CBs was granted autonomy in fixing its own deposit and lending rates. The rationale for ending the administered interest rate regime was to let market for ending the determine interest rate structure, bring about flexibility in the mobilization of financial saving and make efficient allocation of available resources.

Interest rate liberalization, however could not fully meet the objectives behind this step. The oligopolistic nature of commercial banking system produced cartel ling in

interest rate structure could not be transparent and depositors and borrowers were not treated uniformly in term of interest rates. Thus instead of fair competition in the market, discrepancies were observed in the interest rate structure. To correct this effective August 22, 1992 the NRB issued the following directives to banks and the other financial institution (40 year of the NRB 1956- 1996 NRB, April 1996)

- i) Interest rate on deposits of at least up to one year to be clearly spells out.
- ii) Range of interest rates on the credit of same type or purpose not to be more than one percent.
- iii) Fixation of interest rate on flat basis to be stopped.

In addition to this, the NRB also suggested CBs to limit the spread of interest rate at 6% within mid-December 1993. This was necessary because the widening interest rate spread had not only a deleterious impact on the global competitiveness of the domestic financial system but also had created exploitative type of financial intermediation. The compliance of the financial institution to this suggestion however remained less than satisfactory. In considering the situation of sluggish economic growth, slowdown in the growth of private sector credit higher interest rate spread of CBs, rising demand of the entrepreneurs and businessman for the reduction of interest rate and as per the commitment of the government in the budget spread of the fiscal year 1998/99 to limit the interest spread within 5%, the NRB issued the following directives on interest rate on July 30, 1998 (NRB, economic Report 1998/99).

- a. The CBs are required to maintain the weighted interest spread of their deposits and lending rates below 5%. In order to maintain this level, CBs had to make necessary adjustment in their interest rate structure.
- b. Counting procedures for weighted Interest Spread:  
The interest spread would be calculated as the weighted difference between interest income of CBs derived from total domestic and foreign loans and advances, money at call and balances held abroad and interest expenditure payable on the deposits held by the CBs.

For the simplicity and understanding the accounting procedure the following simple mathematical formula could be used.

**i) Derivation of weighed average lending (interest) rate**

$$\times \frac{\text{Total interest income form loans and advances, money at call \& balance abroad held}}{\text{Average loans and advances, average money at call, average balance held a broad}} | 100$$

**ii) Derivation of weight average deposit (interest) rate**

$$\times \frac{\text{Total interest expenses on total deposits}}{\text{Average deposit}} | 100$$

**iii) Derivation of weight interest spread**

$$= \text{Weighted average lending rate} - \text{weighted average deposit rate}$$

c. The interest spread would be mentioned on the basis of half yearly statistic (of august to January and February to July) that are filled in a prescribed format and dispatched to banking operation department and inspection and supervision Department of the NRB.

d. If the interest spread of any CBs exceed the stipulated spread limit of 5% the exceeding percent multiplied by total interest income of that period would have to be deposited in a separate special fund created for it. The distribution of dividend out of this fund account is to be restricted. However, such special fund would be taken as a part of supplementary capital for the calculating purpose of capital adequate ratio.

In case oof newly established CBs the provision of interest spread would be applied only after a year from the date of their operation.

NRB rules regarding funds mobilization of CBs

Nepal is one of the countries of the world, which is struggling hard to creep in the path of all the round development of the nation. One of the main hinder now of economic development of nation is the lack of sufficient amount of capital for Industrialization, agriculture, trade and commerce development. It is said that Nepal lacks abundance of capital for developing but the shedder aspect is that we are not utilizing our available resources in proper way so there arise the need for proper utilization policy.

To collect unproductive saving from the people in the form of capital is known as deposit mobilization and this is the main source of formation. To mobilize bank's deposit in different sector and different parts of the nation, to prevent them from the financial problem, central bank (NRB) has established a legal framework by formulating various rules & regulation. These directions must have direct or indirect impact while making decisions. There efforts have been made to discuss those rules & regulation, which is formulated by NRB in term of investment & credit to priority sector, deprived sector other institution single borrower limit, CRR loan loss provision, capital adequacy ratio, interest spread, productive sector investment. A commercial bank is directly related to the fact that how much fund must be collected as paid up capital how much fund is needed to expand the branch, how much flexible & helpful the NRB rules are in this matter etc. But here are discuss only that matter, which are related to investment function of CBs. The provision established by NRB in the form of rules & regulation are discussed here under.

## **Review of various research words done in Nepalese context**

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

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



Mr. Dev Raj Ahhikari in his thesis entitled. "Evaluating the financial performance of NBL"<sup>17</sup> Concludes that the NBL would not fully utilize the resources on high yielding investment portfolio in maximize returns. Operational efficiency of the bank is indicated by the operational loss, has been unsatisfactory. So that bank should manage its investment by using portfolio method.

Upendra Tuladhar, in his thesis entitled "**A study on investment policy of Nepal Grindlays Banks Ltd. in comparison to other joint venture banks (NABIL and HBL)**"<sup>18</sup> had found that "Joint venture banks of Nepal were not effectively information to their clients. These banks had given first priority on education sectors while making investment. The poverty stricken and deprived sectors were given second priority. His study found that the reason behind not providing banking facilities to the rural areas was that these banks were profit oriented only. According to him NGBL had maintained successful liquidity than NABIL and HBL. NGBL had successfully maintained and managed assets towards different income generating activities. Profitability position of NGBL was better than NABIL and HBL. Similarly, growth ratios of NGBL and more satisfactory in compare to NABIL and HBL."

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

---

<sup>17</sup> Adhikari Dev Raj "Evaluating the financial performance of NBL" an unpublished master degree's thesis T.U. 1993

<sup>18</sup> Upendra Tuladhar, **A study on investment policy of Nepal Grindlays Banks Ltd. in comparison to other joint venture banks (NABIL and HBL)**, an unpublished Master Thesis, Shanker Dev Campus, 1999

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

Mr. Deepak Joshi, in his thesis paper, “A study of CB’s of Nepal with special to financial analysis of RBB”<sup>19</sup> concluded that the bank could not maintain proper amount of liquidity. There is gradual increase in the amount of funded debt and capital structure is highly graded. Return on asset is not satisfactory. He suggests that the bank (RBB) should invest its resources in move productive sectors and it should also consider seriously about equity financing.

Dr Sunity shrestha, in her researcher, “Investment planning of commercial bank in Nepal”<sup>20</sup> has made remarkable efforts to examine the investment planning of CB’s of Nepal. On the basis of the study she concludes that bank portfolio (loans and investment planning) of CB’s in Nepal has been influenced by the variable securities rate. Investment planning of CB’s in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central bank (NRB). So that investments are not made in professional manner. Investment planning and operation of CB’s in Nepal has not been found satisfactory in terms of profitability safety, liquidity, productively and social responsibility. To overcome this problem she has suggest, ”CB’s should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects.”

Dr Sunity Shrestha in her article, “Lending operation of CB’s of Nepal and its impact on GDP”<sup>21</sup> has presented with the objectives to make an analysis of contribution of CB’s lending to the gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has

---

<sup>19</sup> Joshi Deepak “ A study on Commercial bank of Nepal with special reference to financial analysis of RBB” an unpublished master

<sup>20</sup> Shrestha (Dr) Sunity “Investment Planning of Commercial bank in Nepal” Ph.D. thesis 1993

<sup>21</sup> Shrestha (Dr) Sunity “ Lending operation of CBs of Nepal and its 1993 on GDP” the Business voice of Nepal (The special issue of Banijaya samacha T.U. Kirtipur, 2055 Page 23-27

been positive in part of lending of CB's to the GDP. In research mythology, she has considered GDP as the dependent variable and various sector of lending viz. Agriculture industrial, commercial, services and general and social sectors as independent variable. A multiple regression technique has been applied to analysis the contribution.

The multiple analyses have been shown that all the variables expect services sectors lending has positive impact on GDP. Thus in conclusion she has accepted the hypothesis i.e. there has been positive impact on GDP. In conclusion she has accepted the hypothesis i.e. there has been positive impact by the lending of CB's in various sector of economy except service sector investment.

In the same way, Mr Dev Lal Kashi, In his article, "The changing face of the banking sectors and the HMG/N recent budgetary policy"<sup>22</sup> concludes that the following on introduction of the perform in the banking sectors as an integrate part of the liberal economic policy, more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily the two-government controlled banks, NBL and RBB have also shown an improvement of non-performing loans and are taking steps to adopt improved technology. However, higher economic growth with social justice bringing a significant benefit to the poor are yet to be achieved as unvisited by the HMG/N

Mr. Ramesh lal shrestha in his article "A study on deposits and credits of CB's in Nepal"<sup>23</sup> concluded that the credit deposit ration would be 51.30 percent, other things remaining the same, in 2004 AD, which was the lowest under the period of review. So he had strongly remanded that the CBs should try to give more credit entering new field as far as possible. Other wise, they might not be able to absorb even its total expenses.

Mr. Bodhi B. Bajracharya in his article, "Monetary Policy and Deposit mobilization in Nepal"<sup>24</sup> has concluded that mobilization of domestic savings in one of the prime objective of the monetary policy in Nepal and CBs and the more active financial intermediary for

---

<sup>22</sup> Kashi Dev Lal " The Changing face of the Banking sector & the HMG/ N recent Budgetory policy" Nepal Bank Patrika, NBL, Vol 25, 1996 page 27-32

<sup>23</sup> Shrestha Ramesh Lal, "A study on deposit and credit of CBs in Nepal", NRB Samacher, NRB 2045 B.S.

<sup>24</sup> Bajracharya Bodhi B. "Monetary policy & deposit mobilization in Nepal" Rajat Jyanti Smarika RBB Kathmandu, 2047 B.S. Page 93-97

generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

Another article outlined “The role of CBs in Nepalese contest”<sup>25</sup> of Mr. Gill Serra, concluded that the five CBs were improving their services, due to the pressure of complementation for the public benefits.

Mr. N.M. Pradhan in his thesis, “A study on investment of Nepal bank Ltd.”<sup>26</sup> has emphasized that there is a greater relationship between deposit and loans and advances. He concluded that through loan and advances as well as deposits are in increasing trend in deposits had led to little increase in loan and advances due to the increase in the interest rates. His recommendation was to grant loans and advances without banking transactions up to rural sector of the kingdom.

Mrs. Ramala Bhatarai, in her thesis entitled, “Lending policy of commercial banks in Nepal”<sup>27</sup> has made an effort to examine the lending policy of CBs. She ha concluded that efficient utilization of recourse is more important than collection of the same. Lower investment means lower capital formation that hampers economic development of the people and the country. So, she recommended that banks should give emphasis on efficient utilization of resources.

Miss Kamala Ojha has drawn her conclusion in her thesis, “A study in priority sector investment in CBs ( with special reference to RBB)”<sup>28</sup> that the bank was unable to meet the requirement of 12% lending in the priority sectors set under NRB directives. During her study period, she further found low interest rate in priority sector but increasing trend of overdue and its misutilization. She has recommended improving supervision; evaluating borrower’s paying capacity and reducing the over due through integrated program of priority sector loan.

---

<sup>25</sup> Serra Grill “ The role of CBs in Nepalese Contest “Rajat Jyanti Smarika RBB, Kathmandu, 2047 B.S. Page 31-36

<sup>26</sup> Pradhan N.M “A study on investment of Nepal Bank Ltd.” an unpublished master degree’s thesis T.U

<sup>27</sup> Bhattarai Ramalal, “ Lending policy of CBs in Nepal” an unpublished master degree’s thesis T.U 1978

<sup>28</sup> Ojha Kamala “A study on priority sector investment in CBs (with special reference to RBB) an unpublished master degree’s thesis T.U 1997

Mr. Sit Bahadur Joshi in his thesis paper outlined. “Lending policy of Commercial Banks in Nepal”<sup>29</sup> concluded that CBs have collected much resource from people but they are far behind in their utilization. CBs in Nepal are still lazy to play an active role to utilize their resources collected from different sector in accordance with the med of the economy.

Mr. N Karmacharya, in his thesis paper, “A study on the deposit mobilization by the Nepal Bank LTD”<sup>30</sup> has concluded to the utilization side of NBL is weak as compared to the collection of resources. He has mentioned that the bank has successfully maintained its liquid assets position but could not mobilize its resources efficiently. He has suggested getting up more banking branches to increase the deposit collection and long term as well as short term credit. He has recommended not to consider security factor only but to provide loan to genuine projects with security.

Mr. Uthan Raj Pamta, in his thesis paper, “A study of Commercial Banks deposits and its utilization,”<sup>31</sup> had made an attempt to highlight the discre pancy between resources collection and resources utilization is due to their lending confined to short terms only. So he recommended the CBs to give emphasis also on long and medium term lending for better utilization of the deposit.

Out of 14 commercial Banks (excluding two recently opened regional CBs) Nepal Bank ltd and Rastriya Banijya bank are operating with a nominal profit, the later turning towards negative from time to time because of non recovery of accrued interest, the margin between interest income and interest expenses is declining because of these two local banks, in traditional off balance sheet operation, these banks have not beer able to increase their income from commission and discount on the contrary, they have got heavy burden of personal and administrative overhead. Similarly, due to accumulated overdue and defaulting loans, profit position of these has been seriously affected.

At the end of his article, he concludes that by its very nature of the public sector, the domestic banks could not complete with the private sector bank. So only remedy to the

---

<sup>29</sup> Joshi Jit Bahadur, “Lending Policy of CBs in Nepal” an unpublished master degree’s thesis T.U 1982

<sup>30</sup> Karmacharya N. “A study on the deposit mobilization by the NBL” an unpublished master degree’s thesis T.U

<sup>31</sup> Pantam, Uttam Raj “A study on CBs deposit & its utilization” an unpublished master degree’s thesis T.U 2033 B.S.

problem of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Dr. Govinda Bahadur Thapa, in his article “The financial system of Nepal,”<sup>32</sup> has expressed his view that the CB’s seems to be doing well in mobilizing deposit likewise loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sector along with the traditional sector.

Another research Mr Udaya Bhadur Silwal Blames CBs from various angles. According to him “CBs are able in the collection of the resources from the people. But in the process of utilizing them they are still behind. CBs in Nepal are not playing active role to utilizing their resources collected from different sectors, according to the need of the economy. Due to lack of proper supervision banks loans are not directed towards productive purpose and the country is always facing the problem of shortage of loans.

He also blames CBs on the ground of higher interest rate. He suggests that bank interest rate should be lowered in order to make the bank investment effective. Further, he blames CBs for not following the principle of diversification. His view is that CBs are investing on business sector only.

Review of “**A Comparative Study on Credit Management in Himalayan Bank Limited and Nabil Bank Limited**”<sup>33</sup> by Darshan Kumar Tamang has laid down the following objectives.

- J To assess the credit practices of selected commercial banks
- J To explore the credit efficiency of selected commercial banks
- J To analyze the industry environment of selected Nepalese Commercial banks in terms of credit practices.

---

<sup>32</sup> Thapa Dr Govida Bhadur “The Financial system of Nepal” Development division, Patan multiple campus latipur 1994

<sup>33</sup> Darshan kumar Tamang, “A comparative Study on Credit Management in Himalayan Bank Limited and Nabil Bank Limited “, an Unpublished Master Dissertation, NCC, 2005

- ) To examine the management quality of selected Nepalese Commercial banks in terms of credit practices.
- ) To explain relationship with loans and advances, non performing loans and net profit of selected commercial banks

**Major findings:**

- ) The ratio of interest income to total income and ratio of interest income from loans and advances to total income was relatively higher in HBL indicating that HBL invested most of its deposits in loans and advances. It has been found that HBL invest more in loan and advances whereas Nabil more in investments in shares and debentures having less risk of default.
- ) The relationship of net profit and non-performing loan is found positive in HBL fwhere as negative in Nabil
- ) Comparative industrial environment and management quality showed that both the banks were relatively positive but the credit efficiency and practice of Nabil was found more better than that of HBL. HBL should develop proper level of portfolio for risk diversification

An analysis of thesis on “**Credit Portfolio Management of Joint Venture commercial Banks in Nepal**”<sup>34</sup> by Raju Shrestha brings out the following points.

**Research Objective**

- ) To review the credit management process of Joint Venture commercial banks.
- ) To review the status of loan portfolio management of commercial banks
- ) Problems and weaknesses in credit management of Joint venture commercial banks.
- ) To review the prevailing laws, rules and regulations enforced by Nepal Rastra Bank and assess its impact and profitability and liquidity of Joint Venture commercial banks

The analysis has been done regarding six major commercial banks. The name and time period for which the analysis has been done can be known form the following table

---

<sup>34</sup> Shrestha, Raju “Credit Portfolio Management of Joint Venture Commercial Banks in Nepal”, An Unpublished Master Dissertation, PYC 2004

Name of the Banks	Period of Analysis (Years)
Standard Chartered Bank (SCB)	2044/45 to 2059/60
Himalayan Bank Limited (HBL)	2049/50 to 2059/60
Nabil bank	2048/49 to 259/60
Everest Bank Limited (EBL)	2054/55 to 2059/60
Nepal State Bank of India (SBI)	2051/52 to 2059/60
Nepal Bangladesh Bank Limited (NBBL)	2052/53 to 2059/60

### Major Finding.

- ) The analysis of SCB shows higher risk index and probability of book value insolvency less than 1%. This attributes that a bank has a higher expected Return on Assets (ROA), a strong capital position and stable earnings. Its current position shows that it has level of cushion available to absorb accounting losses. Nil non- banking assets show it has no pressure to exert profit in future financial statements.
- ) HBL shows low risk index. Probability of book value insolvency shows low risk associated with bank. Some amount of non-banking asset which indicates there is possibility of dilution in future a profit.
- ) NBBL shows higher risk and probability of book value insolvency less than 1%. But it has also some amount of non-banking assets which is also known as non-earning assets which indicates there is possibility of dilution in future accounting profits.
- ) The analysis of SBI shows higher index and probability of book value insolvency less than 1%. Presence of non-banking assets indicates there is possibility of dilution in future accounting profits.
- ) In case of NABIL, risk index is high and probability of book value insolvency less than 1%. Relatively, it has highest risk and lowest probability of book value insolvency among joint venture banks. It means better performance and thickness of book of value cushion available to absorb accounting losses. It has nil non-banking assets i.e. no burden of disposal of non-banking assets in future statements.
- ) Analysis to gain the broader view of joint venture banks, we formulate and three hypothesis. The results show that there is no significant difference in non-performing



assets (NPA) of commercial banks and international standard of 4%. Another two hypothesis related to recent regulation relating to loan loss provision has no effect on profitability and liquidity shows positive results. It means both profitability and liquidity has been unaffected by the recent stringent regulation relating to loan loss provision. The results can be cross-reference from the fact all the joint venture banks that lies in pass category is within 87% to 95% range, where 1% of loan loss provision is required.

## **Review of others relevant Books**

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

Collection of deposit constitutes primary function of Commercial banks. Deposit are the main sources of commercial banks for lending and investment operations. According to Keynes, “Loans are two children of deposit and deposits are two children of loans.” Higher the volume of deposits higher will be the volume of lending and investment, which again generate higher volume of income. So as commercial banks tries to mobilize as much deposits as possible by following various devices.

Dr Mrs Preeti Singh has defined investment in this ways “Investment is the employment of funds with the aim of achieving additional income of growth in value.”<sup>35</sup>

William F. Sharpe and Alexander’s J. Garden define investment in this ways, “Investment in its broadest, sense, means the sacrifice of certain present values for (possible uncertain) future value.”<sup>36</sup>

---

<sup>35</sup> Singh Preeti “Investment management” Himalayan publishing House Bombay

<sup>36</sup> Shape F. William and Alexander J. Garden, “Investment” Pentice Hall of India Pvt. Ltd. New Delhi

“Money is a commodity supplied by the central bank in the form of a currency and by the commercial banks in the form of deposits.”<sup>37</sup> It is now cleared that commercial banks also conducts the function of issuing notes through it is not in actual form. So bank deposit constitutes one of the most influential factors in the whole financial system of a country. They are the largest element of the form of investment.

Frank K. Reilly define investment in this words “An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the tome the funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the fund.”

From the other definition it is clear that an investment means to trade known rupee amount today for some expected future stream of payment of benefits, that will exceed the current outlay by an amount that will compensate the investor for the time the funds are committed for the excepted changes in prices during the period and for the uncertainty involved in expected future cash flows. Thus investment is the most important function of commercial banks. It is the long term commitment of bank in the uncertain and risky environment. It is very challenging task for commercial banks. So a bank has to be very cautions while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of it’s invest able funds.

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

James B. Bexley. Express his view as, “Investment policy fixes responsibilities for the investment disposition of the banks assets in term of allocating funds for investment and loan and establishing responsibility for day to day management of those assets.”

---

<sup>37</sup> Fry M.S. “ Resources mobilization and Financial development in Nepal” PST Published by CEDA

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

# **CHAPTER- III**

## **RESEARCH METHODOLOGY**

### **3.1 Introduction**

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

### **3.2 Research Design**

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

“A researcher design is the management of conditions for collecting and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure.”

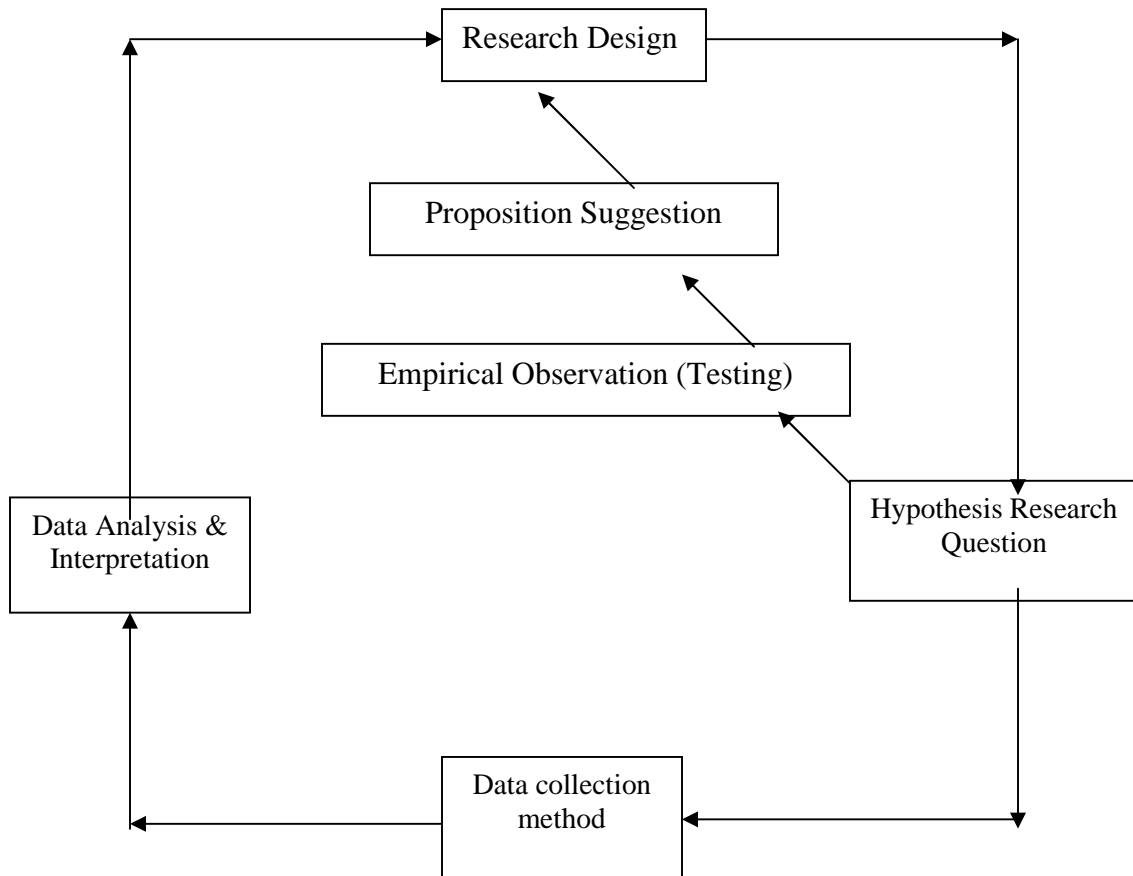
A research design is a plan of action to be carried out in connection with a research project. It is, however, not an unbreakable rule, nor a hard and fast strategy. Research design helps the

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

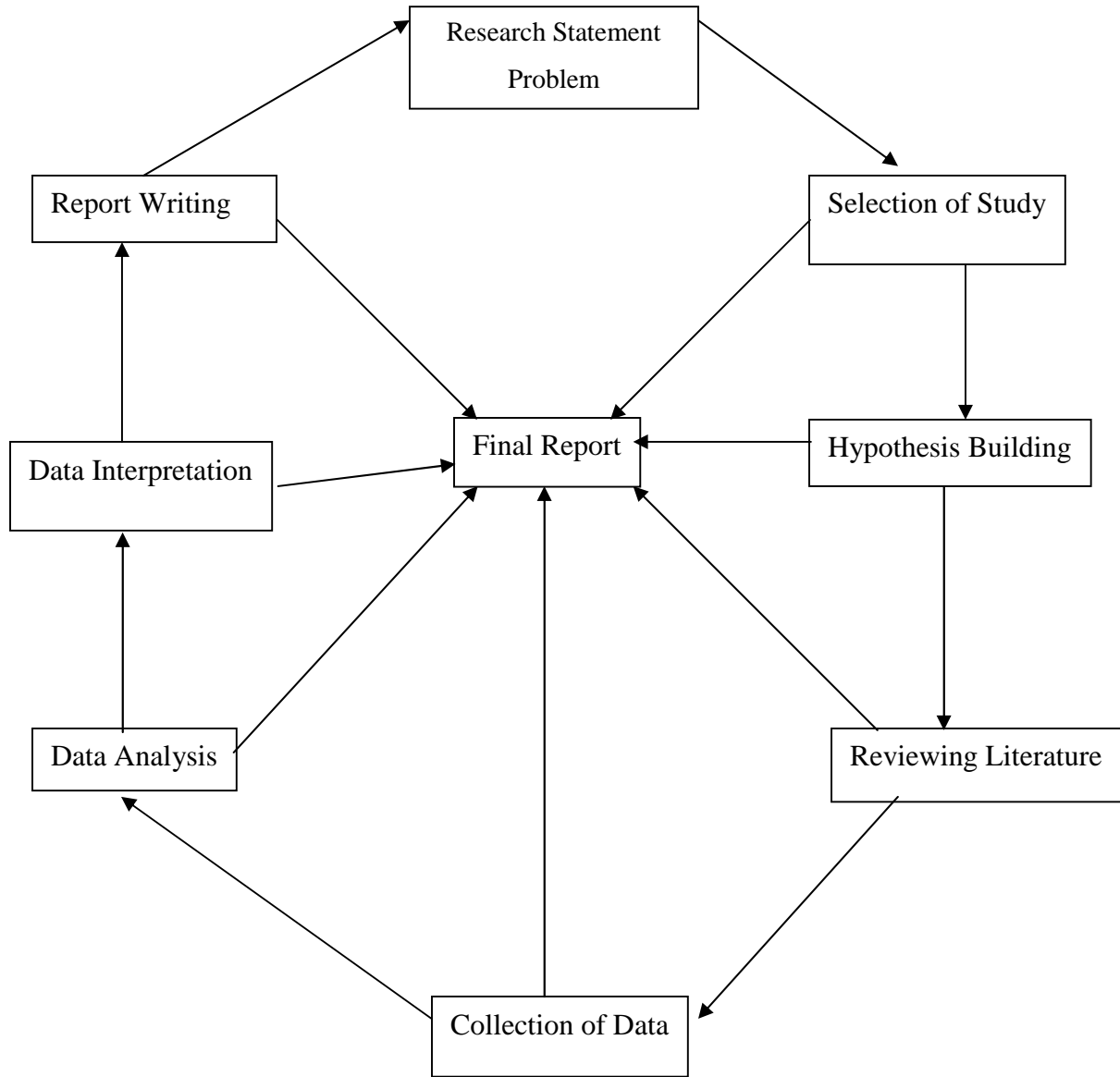
As a matter of fact, research design must include all the aspect of a research project including formulation of scheme for testing of hypothesis and drawing logical conclusion.

Goode and Hatt have, however emphasized about drawing logical conclusion;” A basic aspect of research design therefore is setting up the research so as to allow logical conclusions to be drawn”.

## Research Design



# Research Process



### **3.3 Source of Data Collection**

The researcher must decide about the use of primary data at the outset in a research. In this fieldwork report, the investigator has used secondary method for data collection and has used annual reports, booklets published by the concerned organization, books and other publication as secondary source of information for analysis.

### **3.4 Population and Sample**

The limitation of time and unavailability of the relevant data has forced me to make research on few commercial banks even though there are many CBS in Nepal. The both CBS are government owned i.e., Nabil bank & HBL, have been selected as sample for the present study. The 5 years deposit and investment data are taken for the study.

### **3.5 Data Processing**

Numbers of Tables, essentials for the study have been prepared with the help of structural questionnaire and the secondary data given by NBL and RBB. Tables have prepared according to the nature of data, which are suitable for the discussion, and analysis of the problem.

### **3.6 Methods of data analysis**

The collected data are analyzed by using different statistical and financial tools. The analysis of data will be done according to the pattern of data available. Wide varieties of methods can be applied according to reliability and consistency of data. Especially the following tools and models will be used to analyze the variables.

#### **3.6.1 Financial Analysis**



Financial Analysis or ratio is the mathematical relationship between two accounting figures. It is the whole process of analysis of financial statement of any business or industrial concern specially to take out credit decision.

**Growth Ratios:**

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

- ) Growth rate of Investment
- ) Growth rates of Sector wise investment
- ) Growth rates of Priority & deprived sector investment

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

Where,

$D_n$  = Total deposit in the last year.

$D_0$  = Total deposit in the initial year

$g$  = Growth rate

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

**3.6.2 Statistical Tools**

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

**1. Mean  $\bar{x}$**

Since, huge and unwieldy masses of data are confusing and difficult to remember, so we need a unique value representing them the mean (averages) are the measures which condense a huge of data into single value representing the whole data, Simply, mean is the sum of all the observations divided by the number of observations. The equation for calculating the mean value is:

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{n}$$

Where,

- $\sum X$  = Sum of the observation
- n = No. of observation (year)

## 2. Standard Deviation

It gives the idea of the homogeneity or heterogeneity of the distribution and measures the variation of the data. It is defined as positive square root of the arithmetic mean of the square of the given distribution from their arithmetic mean and denoted by Greek alphabet small sigma ( $\sigma$ ). The equation for calculating standard deviation is:

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

## 3. Co-efficient of correlation.

**Correlation** means the relationship between two or more variables such that the change in one tends to be accompanied by the change in other. The measure of correlation calls the correlation co-efficient. Correlation Co-efficient ( $r$ ) has been calculated by using the formula.

$$\text{Where } Y = rZ\bar{Y}$$

$$r_{xy} = \frac{\sum XY}{\sqrt{\sum X^2} \sqrt{\sum Y^2}} \quad X = X - \bar{X}$$

This formula is all called Product moment formula.

Where,

$r_{xy}$  = Simple correlation of co-efficient between two variables 'X' and 'Y'

$$x = (x \bar{z})$$

$$Y = (y \bar{z})$$

#### 4. Regression

Regression Analysis is one of the most powerful tools of statistics which being used in the determining the strength of relationship between two variables. For applying the regression equation, the following terms is necessary to understand.

##### a) Regression constant 'a'

The value of constant, which is the intercept of the model, indicates the average level of dependent variable when independent variable (s) is zero. In other words, it is better to understand that 'a' constant indicates the mean or average effect on dependent variable of all the variables omitted from the model.

##### b) Regression co-efficient 'b'

The regression co-efficient of each independent variables indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect of all other independent variables in the regression model. In other words, the regression on co-efficient describe how changes in dependent variable effect the value of dependent variables estimate.

The simple regression equation of 'y' on 'x' is expressed as;

$$Y = a + bx$$

Where,

a = numerical constant which determine the distance of the filled line directly above or below the origin (i.e. y intercept)

b = numerical constant which determine the changes in 'Y' per unit change in 'x' (i.e. slope of the line)

Y = dependent variable

X = independent variable

The equation of multiple regression equation is expressed as,

$$Y = a + b_1x_1 + b_2x_2 + \dots + b_n x_n$$

Where,

a = Intercept (Regression Constant) b

= Regression co-efficient of 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> variables respectively.

**5. Analysis of the Time Series:**

$$Y_c = Xa + \Gamma bx$$

To determine the trend of investment and deposit.

## **CHAPTER- IV**

### **Data Presentation & Analysis**

#### **4.1 Analysis of Data**

Effective research toward accelerated economic growth in Nepal affected by several constraints both external and internal. One of the internal constraints being the scarcity of domestic capital relative to the size of investment required for comprehensive development program. The creation of efficient monetary arrangement and reformation of financial system of the country can make an important contribution to mobilize more domestic resources to finance the program of economic development. So much emphasis is therefore being laid these days on the need to enlarge the activities of the financial intermediary in the economy and make them the prime determinants of the saving investment process.

Commercial Banks, being of the financial inter-mediate have played vital role in mobilizing and utilizing saving to the investment. Since other non-banking financial institutions are still less developed in mobilizing and utilizing. Although there is distinctly variation in structure, rules and regulations among banks, their deposit liabilities in recent years have increased many times the amount of their capital accounts. So that over 90% of the assets collected by CBs are financed by resources obtained from their depositors. So in our country also resources of CBs refer to the deposit side. In our country too CBs i.e. Nabil Bank and HBL conducts mobilize their resources mainly with the help of deposits amount. So that the researched refer deposit as resources. Thus, the main objectives of CBs are to accumulate and disburse resources and utilize them on the best way.

#### **4.2 Deposit Position Of Commercial Bank**

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

Since the establishment of CBs, they are playing an important role in the economic development of the country by collecting the scattered resources in th farm of deposit. Table No. 1 & 2 shows the trend of deposit ratio since Ashadh 2001 to Asadh 2005.

Table No :- 1  
Deposit Position of Himalayan Bank Ltd  
(Rs. In 000)

Year	Current	Margin	Saving	Fixed	Call	Others	Total deposit	% change
2001/2002	2634369	4334752	9163946	5480843	883599	21862	22519371	
2002/2003	3503143	386830	10870542	3205372	3041489	-	21007376	(6.71%)
2003/2004	4145447	425019	11759602	4710176	970086	-	22010330	4.77%
2004/2005	5045160	586043	12852414	6107430	222961	-	24591578	11.73%
2005/2006	5028150	488031	14582855	6350202	41612	-	29490850	19.92%

From the above table, it is seen that the deposit collection of Himalayan Bank is not always same. It has been always changed. Firstly it has decreased upto (6.71%) from 2001/2002 to 2002/2003. After that it started increasing slowly from 2002/2003 to 2004/2005. And after it increase rapidly upto 19.92 % in 2005/2006.

**Bar Diagram 1 Showing the Deposit of HBL**

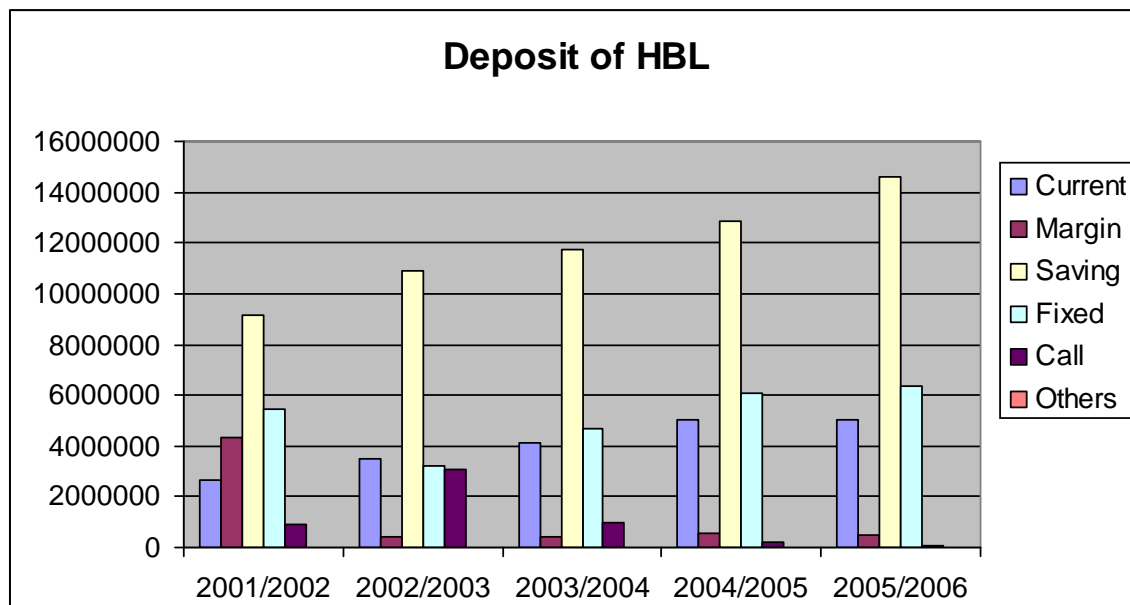
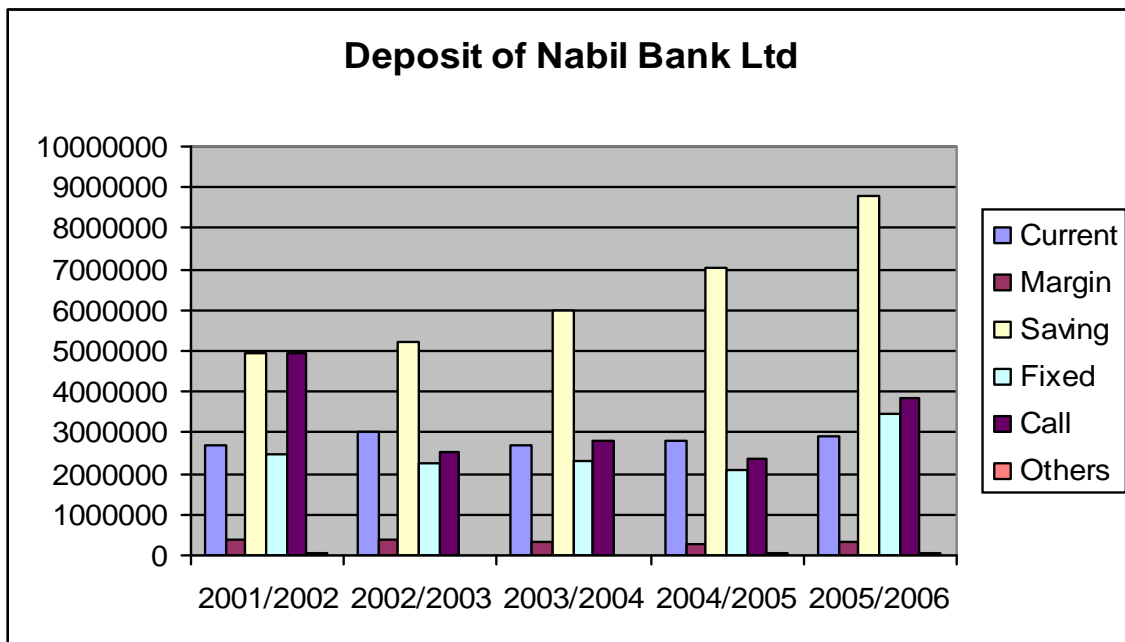


Table No :- 2  
Deposit Position of Nabil Bank Ltd  
(Rs. In 000)

Year	Current	Margin	Saving	Fixed	Call	Others	Total deposit	% change
2001/2002	2703818	364287	4972056	2446845	4944960	74459	13076425	-
2002/2003	3034002	381315	5229723	2252544	2540701	9374	13447659	2.84%
2003/2004	2688966	304682	5994121	2310571	2801405	19284	14119029	4.99%
2004/2005	2799184	296976	7026334	2078535	2341328	44249	14589606	3.33%
2005/2006	2910589	322899	8770759	3449094	3851159	42896	19347396	32.61%

The Percentage change of deposits in every financial year is fluctuating. The table no 2 indicates that the year 2005/2006 recorded a progressive rate of growth in total deposits are going to increase.

**Bar Diagram 2 Showing the Deposit of Nabil bank**



Different Accounts of Himalayan Bank and Nabil Bank Ltd

### 1. Saving Deposit account:-

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

Table No :- 3  
Saving Deposit Position of Himalayan Bank Ltd  
(Rs. In 000)

Year	Saving Deposit	Degree	Change in deposit	% change
2001/2002	9163946	55.70		
2002/2003	10870542	66.07	1706596	18.62%
2003/2004	11759602	71.47	889060	8.18%
2004/2005	12852414	78.12	1092812	9.29%
2005/2006	14582855	88.64	1730441	13.46%
	59229359			

$$Degree \times \frac{Deposit}{Total} | 360$$

The Table No. 3 indicates the amount deposited in saving account from 2001/2002 to 2005/2006. The figure shows the decreasing trend of saving deposits. In the year 2002/2003, the saving deposits is increased to Rs 1706596 thousand, in percentage term 18.62% which shows the high rate of increase in contrast with former and preceding year of the period under review. From the year 2003/2004 deposited amount is increasing throughout but at increasing rate. In the year 2005/2006 deposited amount stood at Rs 1730441 thousand which has increment percentage 13.46.

### **Pie Diagram 3 Showing the Saving Deposit of HBL**



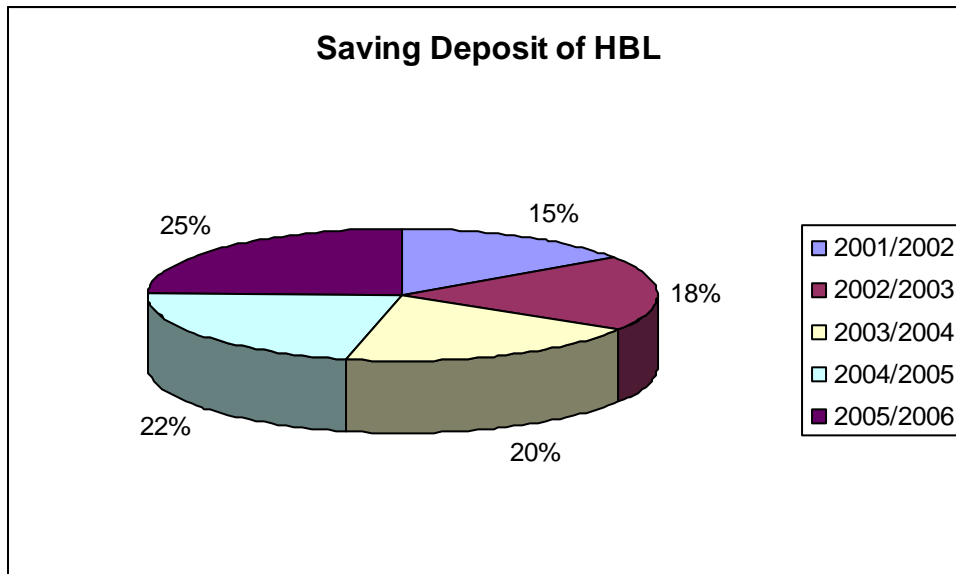


Table No:-4  
Calculation of Trend Analysis  
The Trend Analysis of Saving Deposit of Himalayan bank Ltd for 5 Years

Year (X)	Deposit (Y)	$x - \bar{x}$	$x^2$	$xy$	Trend Value $Y_c$
2001	916	-2	4	-1832	671.4
2002	1087	-1	1	-1087	927.8
2003	1175	0	0	0	1184.2
2004	1285	1	1	1285	1440.6
2005	1458	2	2	2916	1696.6
$\Sigma X = 10015$	$\Sigma Y = 5921$		$\Sigma x^2 = 10$	$\Sigma xy = 1282$	

$N = 5$

$$\bar{x} = \frac{\Sigma X}{N} = \frac{10015}{5} = 2003$$

The Model used for liner regression is

$$Y_c = a + bx$$

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

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

Here,

$$X = 0 \quad N = 5$$

$$a = \frac{\Sigma Y}{N} = \frac{5921}{5} = 1184.2$$

$$b = \frac{\sum XY}{N} - \bar{X} \bar{Y} = \frac{1282}{5} - 256.4$$

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

The equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 1184.2 + 256.4(x)$$

when,

$$X = -2 \quad Y_c = 1184.2 + 256.4(-2) = 671.4$$

$$X = -1 \quad Y_c = 1184.2 + 256.4(-1) = 927.8$$

$$X = 0 \quad Y_c = 1184.2 + 256.4(0) = 1184.2$$

$$X = 1 \quad Y_c = 1184.2 + 256.4(1) = 1440.6$$

$$X = 2 \quad Y_c = 1184.2 + 256.4(2) = 1696.6$$

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

Forecasting for the year 2006 is

$$Y_c = 1184.2 + 256.4(3)$$

$$= 1953.4$$

**Line Graph 4 Trend Analysis of Saving Deposit of HBL**

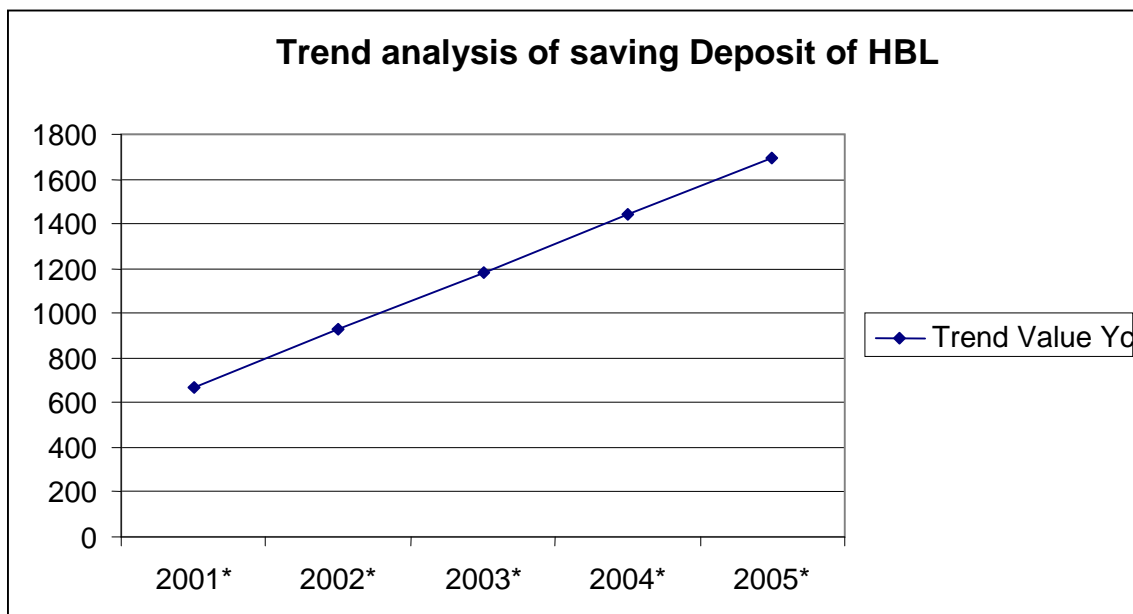


Table No :- 5  
 Saving Deposit Position of Nabil Bank Ltd  
 (Rs. In 000)

Year	Saving Deposit	Degree	Change in deposit	% change
2001/2002	4972056	55.95		
2002/2003	5229723	58.85	257667	5.18%
2003/2004	5994121	67.45	764398	14.62%
2004/2005	7026334	79.10	1032213	17.22%
2005/2006	8770759	98.69	1744425	24.83%

$$\text{Degree} \times \frac{\text{Deposit}}{\text{Total}} \mid 360$$

The table No. 5 indicates the amount of saving account from 2001/2002 to 2005/2006. The figure shows the increasing trend of saving deposits. In the year 2005/2006, the saving deposit is increased to Rs 1744425 thousand in percentage term 24.83%.

The equation of the straight line trend is  $Y_c = a+bx$

**Pie Diagram 5 Showing the Saving Deposit of Nabil Bank**

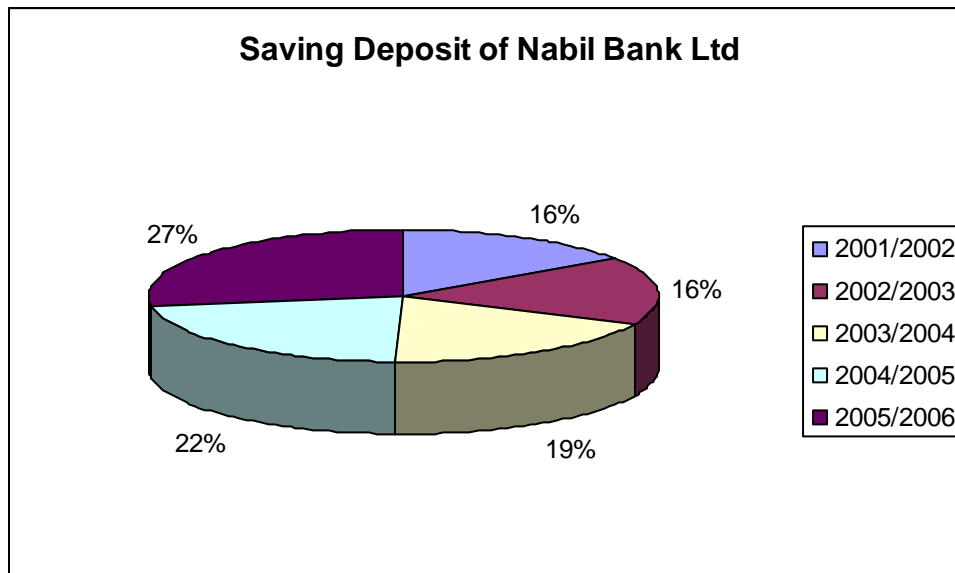


Table No:-6  
Calculation of Trend Analysis  
The Trend Analysis of Saving Deposit of Nabil bank Ltd for 5 Years

Year (X)	Deposit (Y)	$X - \bar{X}$	$X^2$	$XY$	Trend Value $Y_c$
2001	497	-2	4	-994	263.4
2002	522	-1	1	-522	451.4
2003	599	0	0	0	639.4
2004	702	1	1	702	827.4
2005	877	2	2	1754	1015.4
$\Sigma X = 10015$	$\Sigma Y = 3197$		$\Sigma X^2 = 10$	$\Sigma XY = 940$	

$N = 5$

$$\bar{X} = \frac{\Sigma X}{N} = \frac{10015}{5} = 2003$$

The Model used for liner regression is

$$Y_c = a + bx$$

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

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

here,

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

$$a = \frac{\Sigma Y}{N} = \frac{3197}{5} = 639.4$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{940}{5} = 188$$

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

the equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 639.4 + 188(x)$$

when,

$$X = -2 \quad Y_c = 639.4 + 188(-2) = 263.4$$

$$X = -1 \quad Y_c = 639.4 + 188(-1) = 451.4$$

$$X = 0 \quad Y_c = 639.4 + 188(0) = 639.4$$

$$X = 1 \quad Y_c = 639.4 + 188(1) = 827.4$$

$$X = 2 \quad Y_c = 639.4 + 188(2) = 1015.4$$

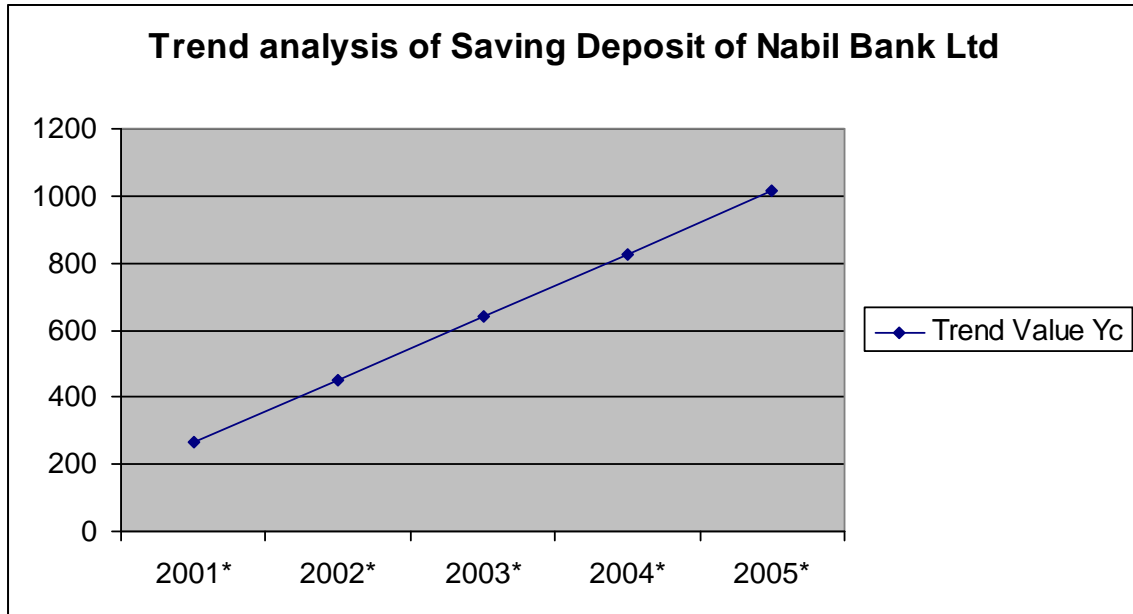
The trend analysis for 5 years shows that the saving deposit has increase in the following year.

Forecasting for the year 2006 is

$$Y_c = 639.4 + 188(3)$$

$$= 1203.4$$

### Line Graph 6 Trend Analysis of Saving Deposit of Nabil Bank



#### 2. Fixed Deposit Account

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

Table No :- 7  
Fixed Deposit Position of Himalayan Bank Ltd  
(Rs. In 000)

Year	Fixed Deposit	Degree	Change in deposit	% change
2001/2002	5480843	76.32		
2002/2003	3205372	44.63	(2275471)	(41.52%)
2003/2004	4710176	65.59	1504804	46.95%
2004/2005	6107430	85.04	1397254	29.66%
2005/2006	6350202	88.42	242772	3.98%
	25854023			

In year 2001/2002 the amount in fixed of CBs was Rs 5480843 thousand and during the year 2002/2003 it reached to Rs 3205372 thousand i.e. it is decreased by (41.52%). During the year 2003/2004 it increased by the amount of Rs 1504804 thousand by 46.95%. In 2004/2005 changes in deposit was Rs 1397254 thousand or 29.66%. During the year 2005/2006 the amount deposits by Rs 242772 or 3.98%

**Pie Diagram 7 Showing the Fixed Deposit of HBL**

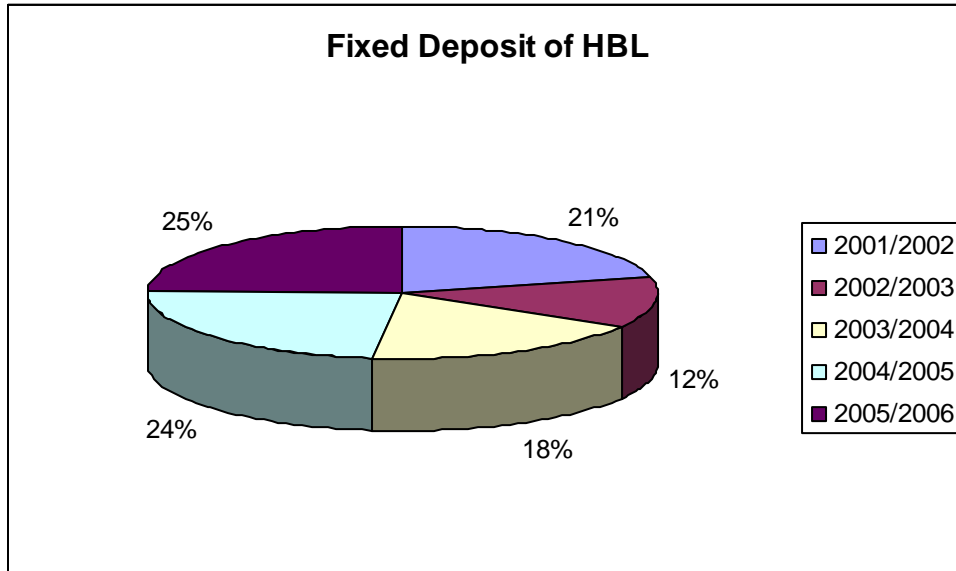


Table No:-8  
Calculation of Trend Analysis  
The Trend Analysis of Fixed Deposit of Himalayan bank Ltd for 5 Years

Year (X)	Deposit (Y)	$X - \bar{X}$	$X^2$	$XY$	Trend Value $Y_c$
2001	548	-2	4	-2192	261.6
2002	320	-1	1	-320	389.2
2003	471	0	0	0	516.8
2004	610	1	1	610	644.4
2005	635	2	2	2540	772
$\bar{X} = 10015$	$\bar{Y} = 2584$		$\bar{X}^2$	$\bar{X}\bar{Y} = 638$	

$N = 5$

$\bar{X} = \frac{\sum X}{N} = \frac{10015}{5} = 2003$

The Model used for liner regression is

$$Y_c = a + bx$$

where 'a' and 'b' are constant to be determined to find the position of trend of deposits.  
let, the trend line by  $Y_c = a + bx$  ----- (1)

here,

$$X = 0 \quad N = 5$$

$$a \times \frac{Y}{N} = \frac{2584}{5} \quad \times 516.8$$

$$b \times \frac{XY}{N} = \frac{638}{5} \quad \times 127.6$$

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

The equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 516.8 + 127.6(x)$$

When,

$$X = -2 \quad Y_c = 516.8 + 127.6(-2) = 261.6$$

$$X = -1 \quad Y_c = 516.8 + 127.6(-1) = 389.2$$

$$X = 0 \quad Y_c = 516.8 + 127.6(0) = 516.8$$

$$X = 1 \quad Y_c = 516.8 + 127.6(1) = 644.4$$

$$X = 2 \quad Y_c = 516.8 + 127.6(2) = 772$$

The trend analysis for 5 years shows that the fixed deposit has increase in the following year.  
Forecasting for the year 2006 is

$$Y_c = 516.8 + 127.6(3) \\ = 899.6$$

**Line Graph 8 Trend Analysis of Fixed Deposit of HBL**

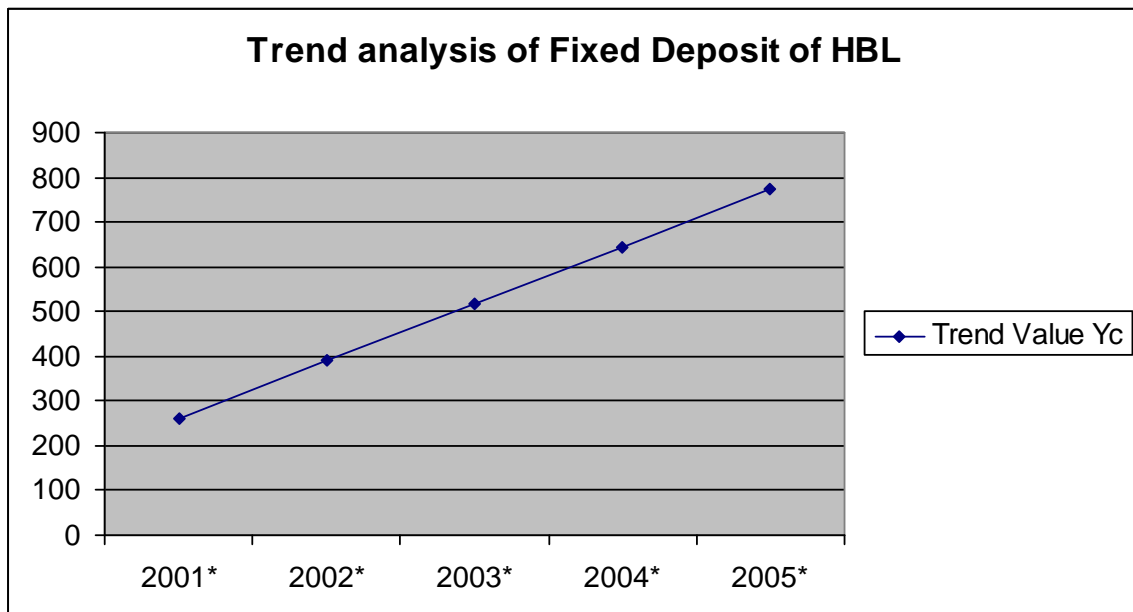


Table No :- 9  
 Fixed Deposit Position of Nabil Bank Ltd  
 (Rs. In 000)

Year	Fixed Deposit	Degree	Change in deposit	% change
2001/2002	2446845	70.26		
2002/2003	2252544	64.68	(194301)	(7.94%)
2003/2004	2310571	66.34	58027	9.27%
2004/2005	2078535	59.68	(232036)	(10.04%)
2005/2006	3449094	99.04	1370559	65.94%
	12537589			

$$\text{Degree} \times \frac{\text{Deposit}}{\text{Total}} \times 360$$

In year 2001/2002 the amount in fixed deposit of Nabil bank was Rs 2446845 thousand and during the year 2002/2003 it reached to Rs 2252544 thousand i.e. it is decreased by (7.94%). During the year 2003/2004 it increased by the amount of Rs 2310571 thousand of by 9.27%. The table indicates that fixed deposit gained the highest rate of speed as 65.94% in year 2005/2006.

**Pie Diagram 9 Showing Fixed Deposit of Nabil Bank**

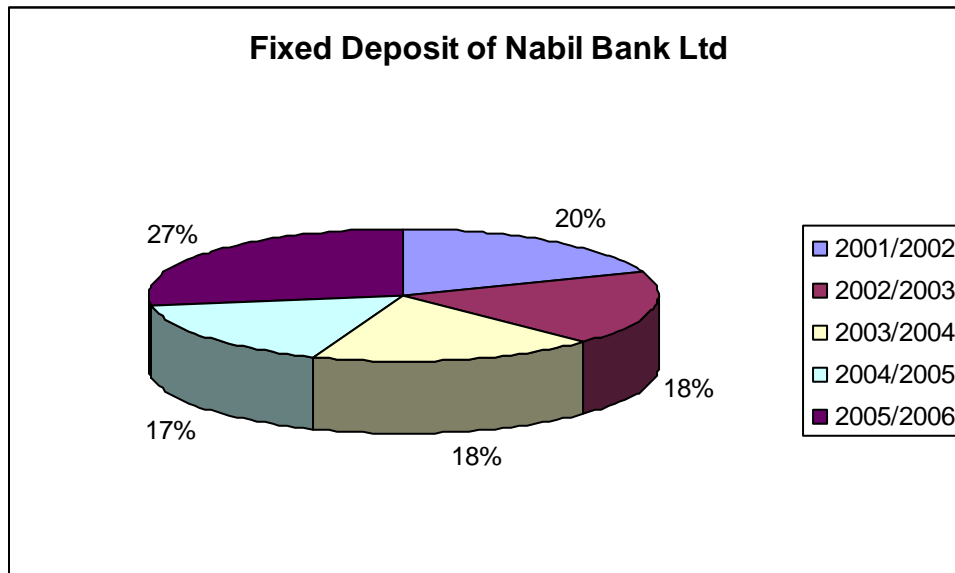


Table No:-10



Calculation of Trend Analysis  
The Trend Analysis of Fixed Deposit of Nabil bank Ltd for 5 Years

Year (X)	Deposit (Y)	$X - \bar{X}$	$X^2$	$XY$	Trend Value $Y_c$
2001	244	-2	4	-488	177.4
2002	225	-1	1	-225	213.8
2003	231	0	0	0	250.2
2004	207	1	1	207	286.6
2005	344	2	2	688	323
$\Sigma X = 10015$	$\Sigma Y = 1251$		$\Sigma X^2 = 10$	$\Sigma XY = 182$	

$N = 5$

$$\bar{X} = \frac{\Sigma X}{N} = \frac{10015}{5} = 2003$$

The Model used for liner regression is

$$Y_c = a + bx$$

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

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

here,

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

$$a = \frac{\Sigma Y}{N} = \frac{1251}{5} = 250.2$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{182}{5} = 36.4$$

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

the equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 250.2 + 36.4(x)$$

when,

$$X = -2 \quad Y_c = 250.2 + 36.4 (-2) = 177.4$$

$$X = -1 \quad Y_c = 250.2 + 36.4 (-1) = 213.8$$

$$X = 0 \quad Y_c = 250.2 + 36.4 (0) = 250.2$$

$$X = 1 \quad Y_c = 250.2 + 36.4 (1) = 286.6$$

$$X = 2 \quad Y_c = 250.2 + 36.4 (2) = 323$$

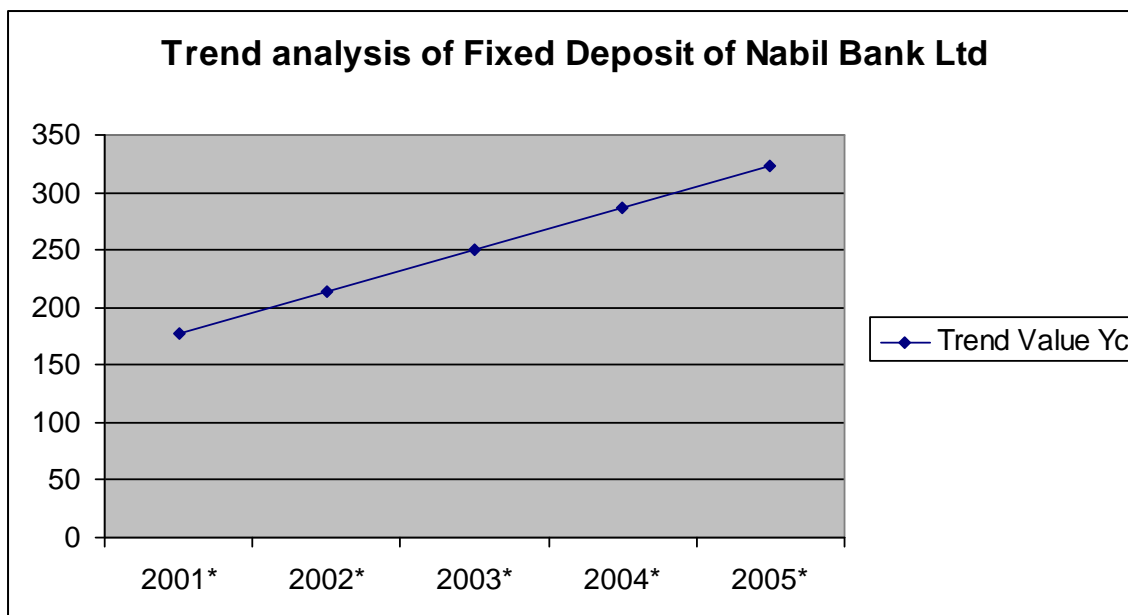
The trend analysis for 5 years shows that the fixed deposit has increase in the following year.

Forecasting for the year 2006 is

$$Y_c = 250.2 + 36.4 (3)$$

$$= 359.4$$

**Line Graph 10 Trend Analysis of Fixed Deposit of Nabil Bank**



### 3. Current Deposits

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

Table No :- 11  
Current Deposit Position of Himalayan Bank Ltd  
(Rs. In 000)

Year	Current Deposit	Degree	Change in deposit	% change
2001/2002	2634369	46.59		
2002/2003	3503143	61.95	868774	32.98%
2003/2003	4145447	73.31	642304	18.34%
2004/2005	5045160	89.22	899713	21.70%
2005/2006	5028150	88.92	(17010)	(0.34%)
	20356269			

$$\text{Degree X} \frac{\text{Deposit}}{\text{Total}} | 360$$

In year 2001/2002 that amount in this deposit in this report was Rs 2634369 thousand and it increase to Rs 3503143 thousand in 2002/2003 increase amount of Rs 868774 or change in

deposit by 32.98.% Again in year 2003/2004 the deposit amount decreased by Rs 642304 or by 18.34%. In the year 2004/2005 the deposit amount increased by Rs 899713 thousand. Then again in year 2005/2006 the deposit amount decreased by Rs (17010) thousand or by (0.34%).

**Pie Diagram 11 Showing Current Deposit of HBL**

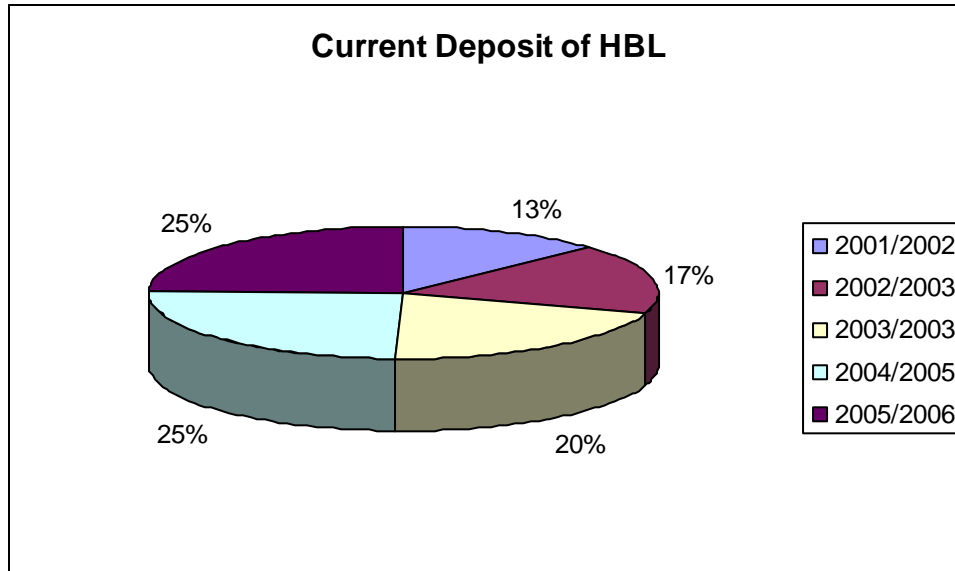


Table No:-12  
Calculation of Trend Analysis  
The Trend Analysis of Current Deposit of Himalayan bank Ltd for 5 Years

Year (X)	Deposit (Y)	$x - \bar{x}$	$x^2$	$xy$	Trend Value $Y_c$
2001	263	-2	4	-526	659.4
2002	350	-1	1	-350	280.2
2003	414	0	0	0	406.6
2004	504	1	1	504	533
2005	502	2	2	1004	659.4
$\Sigma X = 10015$	$\Sigma Y = 2033$		$\Sigma x^2 = 10$	$\Sigma xy = 632$	

$N = 5$

$\bar{x} = \frac{\Sigma X}{N} = \frac{10015}{5} = 2003$

The Model used for liner regression is

$Y_c = a + bx$

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

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

here,

$$X = 0 \quad N = 5$$

$$a = \frac{\sum Y}{N} = \frac{2033}{5} = 406.6$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{632}{5} = 126.4$$

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

the equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 406.6 + 126.4(x)$$

when,

$$X = -2 \quad Y_c = 406.6 + 126.4(-2) = 659.4$$

$$X = -1 \quad Y_c = 406.6 + 126.4(-1) = 280.2$$

$$X = 0 \quad Y_c = 406.6 + 126.4(0) = 406.6$$

$$X = 1 \quad Y_c = 406.6 + 126.4(1) = 533$$

$$X = 2 \quad Y_c = 406.6 + 126.4(2) = 659.4$$

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

Forecasting for the year 2006 is

$$\begin{aligned} Y_c &= 406.6 + 126.4(3) \\ &= 785.8 \end{aligned}$$

### **Line Graph 12 Trend Analysis of Current Deposit of HBL**

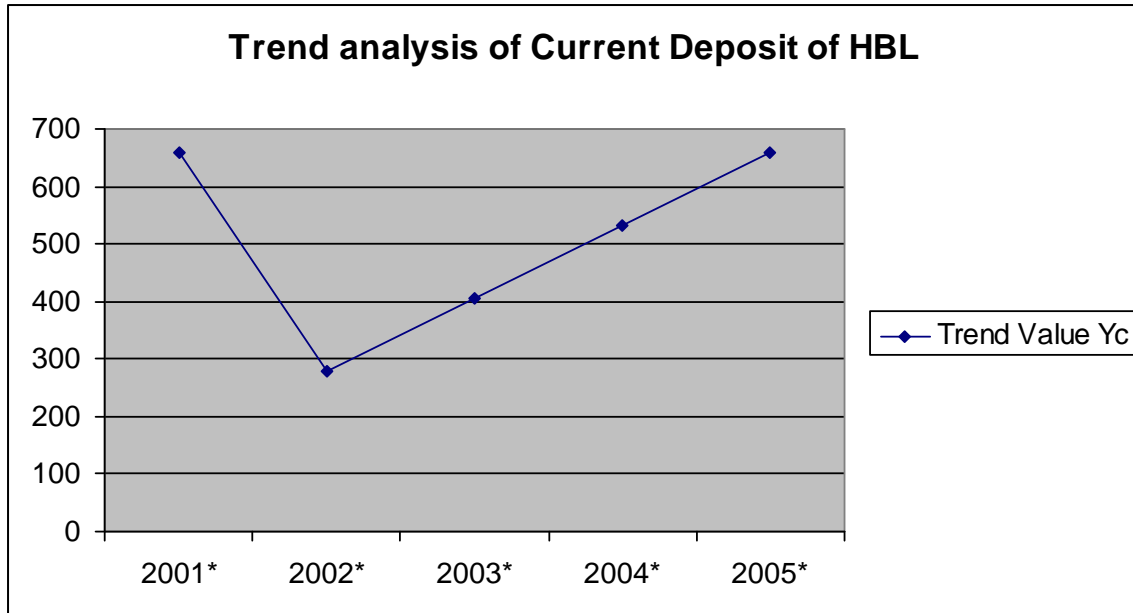


Table No :- 13  
Current Deposit Position of Nabil Bank Ltd  
(Rs. In 000)

Year	Current Deposit	Degree	Change in deposit	% change
2001/2002	2703818	68.85		
2002/2003	3034002	77.26	330184	12.21
2003/2004	2688966	68.48	(345036)	(11.37)
2004/2005	2799184	71.28	110218	3.93
2005/2006	2910589	74.12	111405	3.98
	14136559			

$$\text{Degree} \times \frac{\text{Deposit}}{\text{Total}} \mid 360$$

In year 2001/2002 that amount in this deposit in this report was Rs 2703818 thousand and it decreased to Rs 2688966 thousand in 2003/2004 decrease amount of Rs (345036) in change in deposit by (11.37%). Again in year 2004/2005 the deposit amounts increase up to 110218 or by 3.93 %. Then again in year 2005/2006 the deposit amount increase Rs 111405 or by 3.98%.

**Pie Diagram 13 Showing the Current Deposit of Nabil Bank**

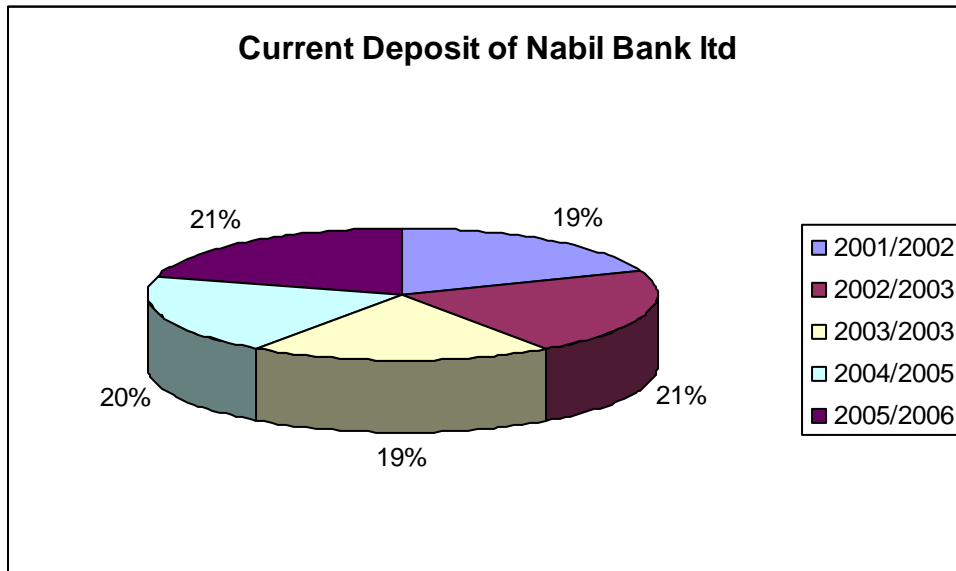


Table No:-14  
Calculation of Trend Analysis  
The Trend Analysis of Current Deposit of Nabil bank Ltd for 5 Years

Year (X)	Deposit (Y)	$x - \bar{x}$	$x^2$	$xy$	Trend Value $Y_c$
2001	270	-2	4	-540	275
2002	303	-1	1	-303	278.6
2003	268	0	0	0	282.2
2004	279	1	1	279	285.8
2005	291	2	2	582	289.4
$\Sigma X = 10015$	$\Sigma Y = 1411$		$\Sigma X^2 = 10$	$\Sigma XY = 18$	

$N = 5$

$$\bar{x} = \frac{\Sigma X}{N} = \frac{10015}{5} = 2003$$

The Model used for liner regression is

$$Y_c = a + bx$$

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

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

here,

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

$$a = \frac{\Sigma Y}{N} = \frac{1411}{5} = 282.2$$

$$b = \frac{\Sigma XY}{\Sigma X^2} = \frac{18}{10} = 3.6$$

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

the equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 282.2 + 3.6(x)$$

when,

$$X = -2 \quad Y_c = 282.2 + 3.6(-2) = 275$$

$$X = -1 \quad Y_c = 282.2 + 3.6(-1) = 278.6$$

$$X = 0 \quad Y_c = 282.2 + 3.6(0) = 282.2$$

$$X = 1 \quad Y_c = 282.2 + 3.6(1) = 285.8$$

$$X = 2 \quad Y_c = 282.2 + 3.6(2) = 289.4$$

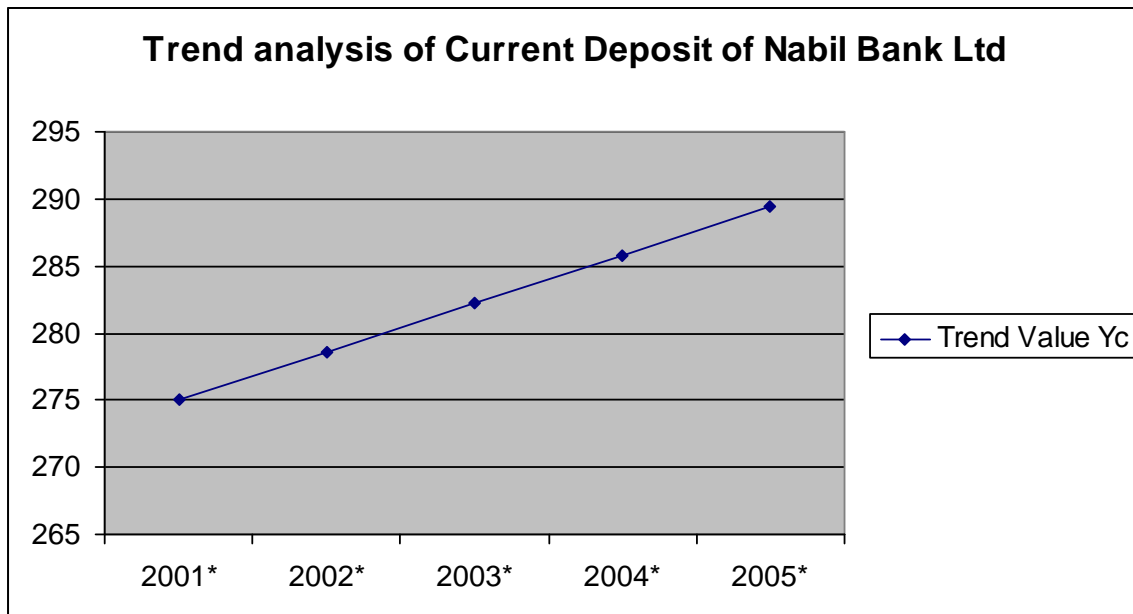
The trend analysis for 5 years shows that the saving deposit has increase in the following year.

Forecasting for the year 2006 is

$$Y_c = 282.2 + 3.6(3)$$

$$= 293$$

**Line Graph 14 Trend Analysis of Current Deposit of Nabil Bank**



#### 4. Margin Deposit

Table No :- 15  
Margin Deposit Position of Himalayan Bank Ltd  
(Rs. In 000)

Year	Current Deposit	Degree	Change in deposit	% change
2001/2002	434752	67.44	-	-
2002/2003	386830	60.00	(47922)	(11.02%)
2003/2004	425019	65.93	38189	9.87%
2004/2005	586043	90.91	161024	37.89%
2005/2006	488031	75.71	( 98012)	(16.72%)
	2320675			

$$\text{Degree} \times \frac{\text{Deposit}}{\text{Total}} \quad | \quad 360$$

In the above table no 15. it is seen that Margin Deposit of HBL is not always the same from the beginning of the period. In the year 2001/2002 that the amount in the margin deposit in this report was Rs 434752 thousand and it decreased to Rs (47922) or by (11.02%). After that it is started increasing to 9.87% in year 2003/2004 and to 37.89% in year 2004/2005. Then from the year 2005/2006 the amount of margin deposit was Rs 4888031 thousand or the deposit amount decreased by (16.72%).

**Pie Diagram 15. Showing the Margin Deposit of HBL**

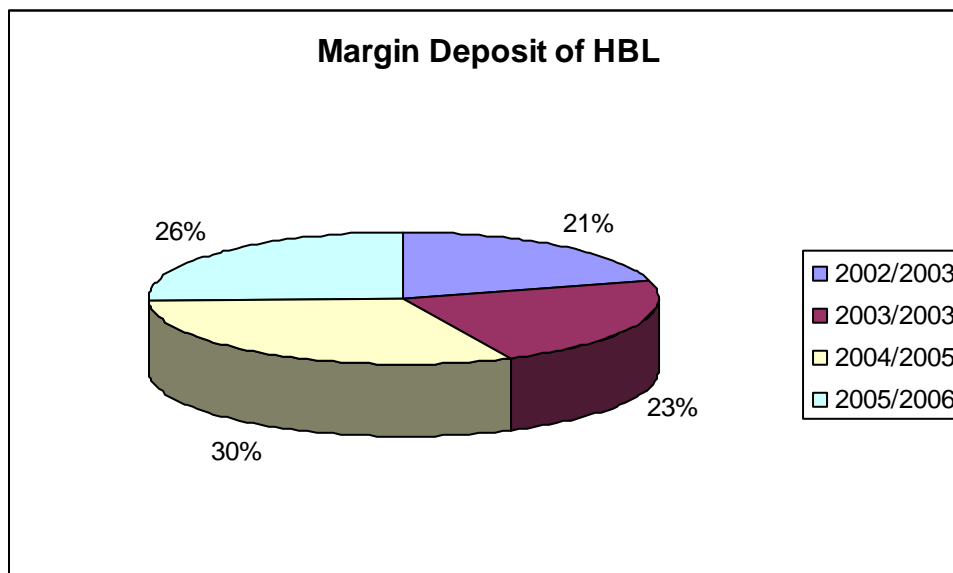


Table No:-16  
Calculation of Trend Analysis  
The Trend Analysis of Margin Deposit of HBL Ltd for 5 Years

Year (X)	Deposit (Y)	$x - \bar{x}$	$x^2$	$xy$	Trend Value $Y_c$
2001	43	-2	4	-86	33.8
2002	38	-1	1	-38	39.8
2003	42	0	0	0	45.8
2004	58	1	1	58	51.8



2005	48	2	2	96	57.8
X = 10015	Y=229		X= 10	XY=30	

N = 5

$$\bar{X} = \frac{\sum X}{N} = \frac{10015}{5} = 2003$$

The Model used for liner regression is

$$Y_c = a + bx$$

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

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

here,

$$X = 0 \quad N = 5$$

$$a = \frac{\sum Y}{N} = \frac{229}{5} = 45.8$$

$$b = \frac{\sum XY}{\sum X} = \frac{30}{5} = 6$$

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

the equation of trend of deposit (Y)

$$Y_c = a + bx$$

$$Y_c = 45.8 + 6(x)$$

when,

$$X = -2 \quad Y_c = 45.8 + 6(-2) = 33.8$$

$$X = -1 \quad Y_c = 45.8 + 6(-1) = 39.8$$

$$X = 0 \quad Y_c = 45.8 + 6(0) = 45.8$$

$$X = 1 \quad Y_c = 45.8 + 6(1) = 51.8$$

$$X = 2 \quad Y_c = 45.8 + 6(2) = 57.8$$

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

Forecasting for the year 2006 is

$$Y_c = 45.8 + 6(3)$$

$$= 63.8$$

### Line Graph 16. Showing Trend Analysis of Margin Deposit of HBL

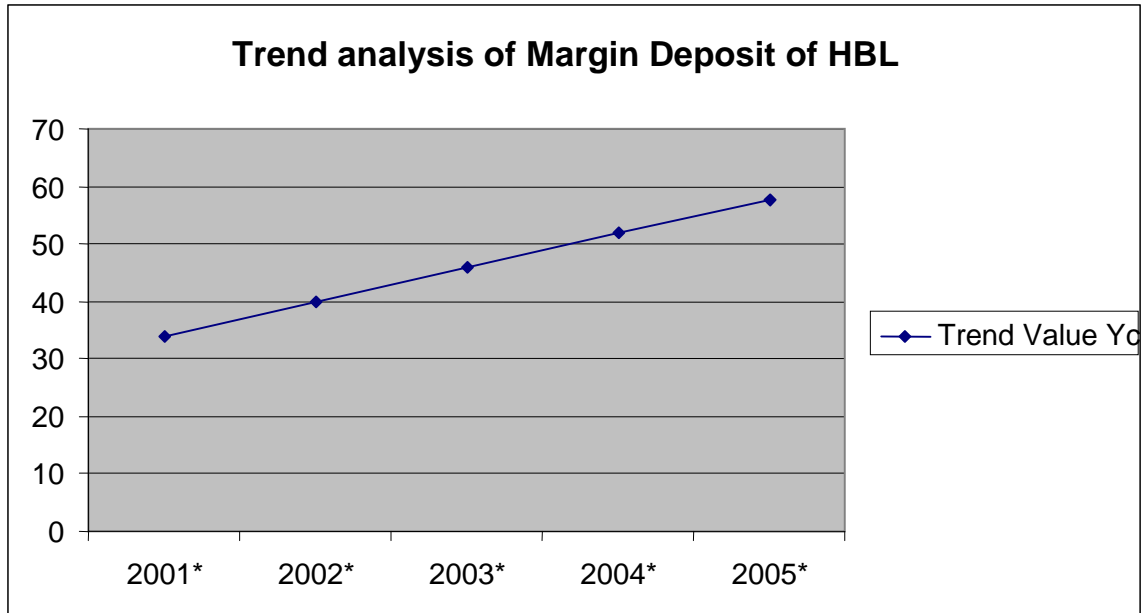


Table No :- 17  
Margin Deposit Position of Nabil Bank Ltd  
(Rs. In 000)

Year	Current Deposit	Degree	Change in deposit	% change
2001/2002	324287	78.52	-	-
2002/2003	381315	82.19	17028	4.67%
2003/2004	304682	65.67	( 76633)	(20.10%)
2004/2005	296976	64.01	( 7706)	(2.53%)
2005/2006	322899	69.60	25923	8.73
	1670159			

$$\text{Degree} \times \frac{\text{Deposit}}{\text{Total}} | 360$$

In the above table no 17. it is seen that Margin Deposit of Nabil Bank is not always the same from the beginning of the period. In the year 2001/2002 that the amount in the margin deposit in this report was Rs 324287 thousand and it increased to Rs 17028 or by 4.67%. After that it is started decreasing to (20.10%) in year 2003/2004 and to (2.53%) in year 2004/2005. Then from the year 2005/2006 the amount of margin deposit was Rs 322899 thousand or the deposit amount increased by 8.73%.

**Pie Diagram 17. Showing the Margin Deposit of Nabil Bank**

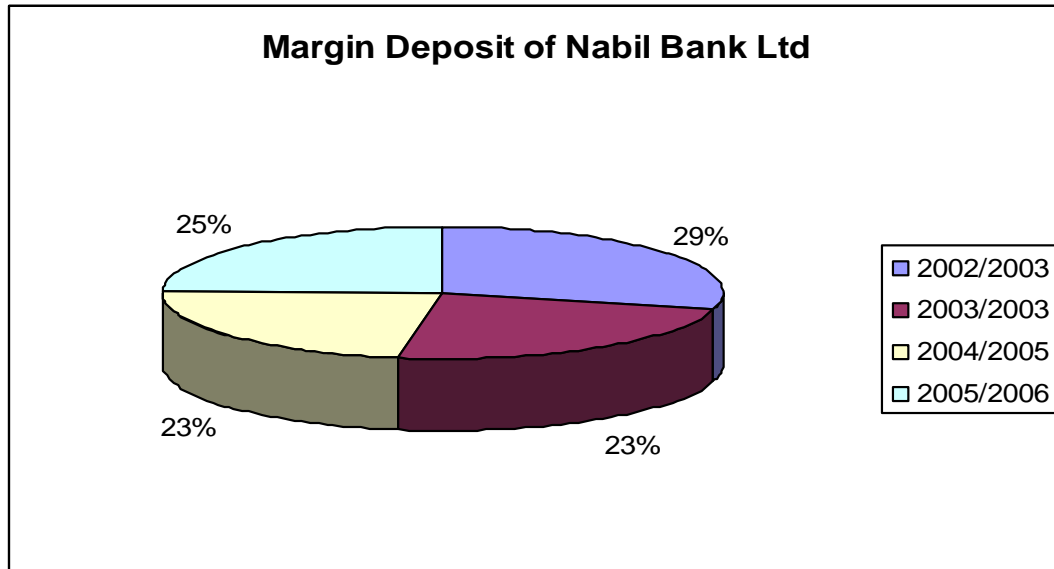


Table No:-18  
Calculation of Trend Analysis  
The Trend Analysis of Margin Deposit of Nabil Bank Ltd for 5 Years

Year (X)	Deposit (Y)	$x - \bar{x}$	$x^2$	$xy$	Trend Value $Y_c$
2001	36	-2	4	-72	39.8
2002	38	-1	1	-38	36.4
2003	30	0	0	0	33
2004	29	1	1	29	29.6
2005	32	2	2	64	39.8
$\Sigma X = 10015$	$\Sigma Y = 165$		$\Sigma x^2 = 10$	$\Sigma xy = -17$	

$N = 5$

$$\bar{x} = \frac{\Sigma X}{N} = \frac{10015}{5} = 2003$$

The Model used for liner regression is

$$Y_c = a + bx$$

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

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

here,

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

$$a = \frac{\Sigma Y}{N} = \frac{165}{5} = 33$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{-17}{10} = -3.4$$

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

$$Y_c = a + bx$$

$$Y_c = 33 - 3.4(x)$$

when,

$$X = -2 \quad Y_c = 33 - 3.4(-2) = 39.8$$

$$X = -1 \quad Y_c = 33 - 3.4(1) = 36.4$$

$$X = 0 \quad Y_c = 33 - 3.4(0) = 33$$

$$X = 1 \quad Y_c = 33 - 3.4(1) = 29.6$$

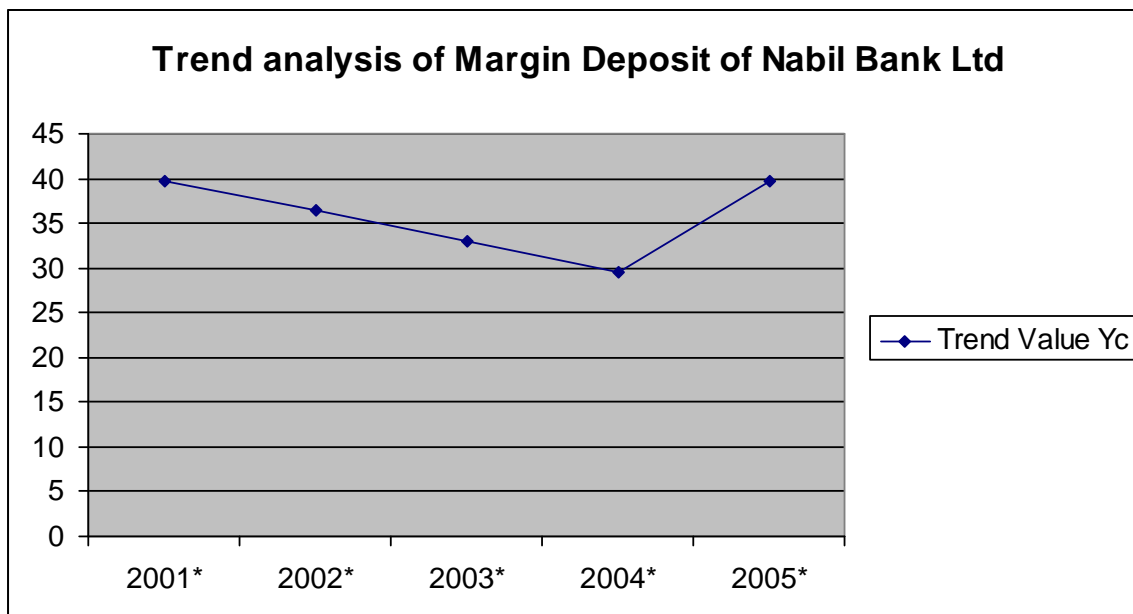
$$X = 2 \quad Y_c = 33 - 3.4(2) = 26.2$$

The trend analysis for 5 years shows that the Margin deposit has decline in following year and increase in the 2005 year.

Forecasting for the year 2006 is

$$\begin{aligned} Y_c &= 33 - 3.4(3) \\ &= 22.82 \end{aligned}$$

**Line Graph 18. Showing Trend Analysis of Margin Deposit of Nabil Bank**



## Structure of Investment

The dissertate with an objective to identity the structure of investment of NRB has tried to percent how these Banks have carried its investment in different sector during these fiscal year 2002/2003 to 2005/2006, Commercial banks invest their funds in different sectors of to economy such as.

#### A. Investment on Government Securities, Shares and Debentures

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

Some of them are given as:

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

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

#### C. Investment on other Company's share and Debentures

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

#### C. Sector wise Investment

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

#### D. Priority & Deprived sector Investment

Priority sector includes micro and small enterprises, which help to increase production, employment and income as prioritized under the national development plans with an objective to uplift living standard of general public. Many directives have been introduced and amended as per the requirement by NRB. Commercial banks are directed to invest 5% in priority sector with inclusive of 3% in deprived sector. The credit limits in the priority sectors has been raised to Rs. 2.0 million from Rs 1.0 million on agricultural and service sector and from Rs 1.5 million to Rs 2.5 million on cottage and small-scale industry.

Likewise deprived sector credit includes low income and particularly socially backward women, tribes, physically impaired groups etc. Deprived sector investment is advanced up to Rs 30000 per borrower of micro credit programs and projects. However, priority sector credit programmed is being phased out by NRB.

#### **Growth rate of Investment**

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

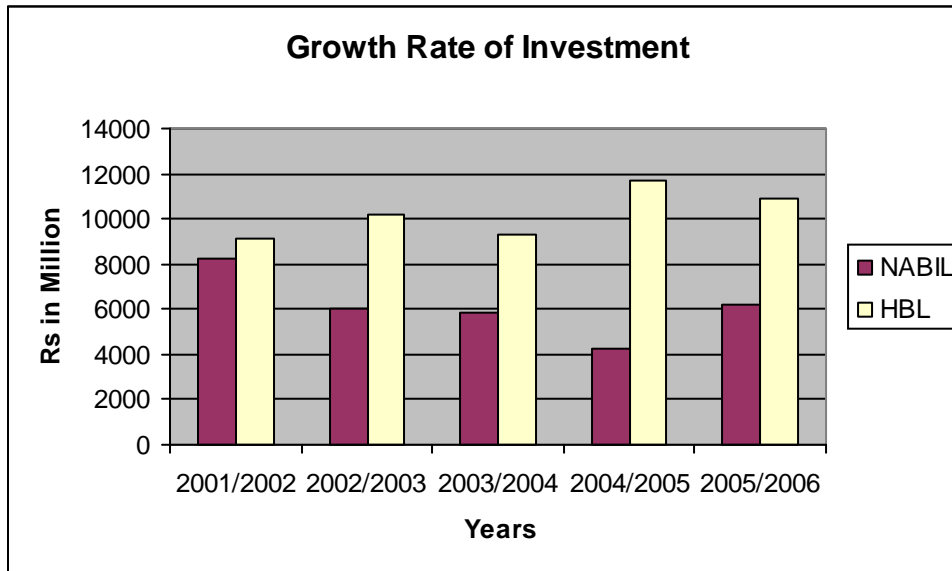
**Table 19. Showing investment & Growth rate**

(Rs in Million)

Year	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	Growth %
Banks						
NABIL	8199	6031	5836	4267	6178	-6.82
HBL	9157	10175	9292	11692	10889	4.43

Source: www.nepalstock.com

**Bar Diagram 19. Showing Growth rate of investment**



The table and the figure above depict higher investment by HBL in government securities. HBL has drastically increased its investment, which is shown by the growth rate of 4.43%. Nabil has lowered its investment to diversify the funds in more productive sectors and in more profitable sectors.

#### **Growth Rate of Sector wise Investment of Nabil:**

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

Table: 20, Showing Sector wise Investment of Nabil

(Rs in Million)

Year	2002/2003	2003/2004	2004/2005	2005/2006	Growth Rate (%)
Sector					
Agriculture	73.1	55.4	51.9	51.1	-10.11
Mining	31.8	0	28.9	21.9	-11.69
Productions	4019.4	4064.6	4375.8	5107.1	8.31
Constructions	84	369.4	665.2	1378.8	154.14
Metal Productions, Machinery & Electrical Tools & Fittings	54.9	74.2	140.9	100	22.13
Transportations, Equipment Production & fitting	44.4	592	1003.7	1309.6	208.97
Transportations, Communication Public Service	366.1	197.4	289.3	673.7	22.54
Wholesalers & Retailers	1620.2	1548.8	1990.1	2068.5	8.48
Finance, Insurance & Fixed Assets	267.6	274	333.5	480.5	21.52
Service Industries	1007.4	952.1	1387.3	1014.3	0.23
Consumable Loan	52.2	54.1	77.2	86.7	18.43
Local Government	0	1	0	0	0
Others	645.1	433.6	634.8	968.8	14.52
Total	8266.2	8616.6	10978.6	13261	17.11

*Source: A Journal on Banking & financial Statistics, NRB*

(The analysis regarding sector wise loans and advances has been done for the period of four years from 2002/2003 to 2005/2006. Due to the unavailability of data of former years i.e. from 2001/2001 to 2001/2002, analysis regarding the same has not been presented.)

The figures in the above table clearly depict various sectors in which Nabil has made investment. Transportation equipment production & fitting has experienced the highest growth rate of 208.94% followed by construction sector, which has the growth rate of 154.14%. Transportation, Communication & public services, metal productions, machinery & electrical tools & fittings, finance, insurance & fixed assets also has the positive growth rate 22.54%, 22.13% and 21.52% respectively. Basic occupational source as agriculture should be facilitated by banks and negative growth rate in such sectors should be minimized. Loans and advances to local government has been totally reduced. Overall growth rate of 17.11% is impressive and such increment in loans and advance to various sectors should be carried forward in the forthcoming years.

#### **Growth rate of Sector wise Investment of HBL:**

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



Table: 21 , Showing Sector wise Investment of HBL

(Rs in Million)

Year	2002/2003	2003/2004	2004/2005	2005/2006	Growth Rate(%)
Sector					
Agriculture	329.3	362.1	516.7	507.6	15.52
Mining	9.9	10	48.2	7	-10.91
Productions	4565.4	5812	5623.8	7803	19.56
Constructuion	121.7	219.8	208	342.2	41.14
Metal Productions, Machinery & Electrical Tools & Fittings	121.6	104.1	111.6	237.9	25.07
Transaportation, Equipment Prodcution & fitting	308.3	334.4	226.1	46.6	-46.73
Transaportation, Communication Public Service	1199.8	1561.5	1313.6	1355.4	4.15
Wholesalers & Retailers	1799.6	1863.3	2013.6	1921	2.20
Finance, Insurance & Fixed Assets	692.8	759	999.3	838.6	6.57
Service Industries	850.3	1183.3	1415.8	1481.2	20.32
Consumable Laon	463.4	259.8	225.5	184.1	-26.49
Local Government	0	0	0	0	0
Others	612.1	532.9	837.1	1148.1	23.33
Total	11074.2	13002.2	13539.3	15872.7	12.75

Source: A Journal on Banking & financial Statistics, NRB

HBL has wide fluctuations in its growth rates. The highest growth rate is in construction sector with the rate of 41.14%. Metal productions, Machinery & Electrical tools & fittings, Service industries, Productions, agriculture and others also shows increment as the result of more loans and advances diverted in these sectors. Transportation, Equipment production & fitting experience the highest negative growth rate of 46.73% followed by the consumable loan with rate of 26.49%. Mining also shows the negative growth rate. Overall growth rate is 12.75% which is needs to be improved.

Amongst the two banks, Nabil has excelled in its performance with the growth rate 17.11% reflecting full support in boosting economy. HBL should follow its footsteps in lending in various productive sectors of the economy.

### Priority and Deprived Sector Investment

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

Table:22 , Showing Priority & Deprived Sector Investment

(Rs in Million)

Year	2002/2003		2003/2004		2004/2005		2005/2006		Growth rate (%)	
	Priority	Deprived	Priority	Deprived	Priority	Deprived	Priority	Deprived	Priority	Deprived
NABIL	895.8	286.2	878.9	271.6	764.7	361.9	803.2	311.1	-5.14	8.14
HBL	665.4	384.1	873.6	385.1	347	495.2	769	416.9	-19.51	20.35

Source: A Journal on Banking & financial Statistics, NRB

The above table shows the priority and deprived sector investment made by Nabil and HBL for the four year periods. Priority and deprived sector investment constitutes of direct and indirect investment in agriculture, domestic industries, services and power sectors. The two banks show decline in loans provided in such sectors with highest negative growth rate of HBL. Priority sector credit programmed is gradually being phased out by NRB. While in the case of deprived sector loans, HBL shows the maximum growth rate of 20.35% followed by Nabil of 8.14%.

### Himalayan Bank Ltd

( Rs. in million )

X = Represent total Investment

Y = Represent total Deposit

Year	X	X = X-9292	X <sup>2</sup>	Y	Y = Y-22010	Y <sup>2</sup>	XY
2001	9157	-135	18225	18619	-3331	11498881	457785
2002	10175	883	779689	17117	-4893	23941449	-4320519
2003	9292	0	0	22010	0	0	0
2004	11692	2400	5760000	24814	2804	7862416	6729600
2005	10889	1597	2550409	26490	4480	20070400	7154560
		X = 4745	X <sup>2</sup> = 9108323		Y = -1000	Y <sup>2</sup> = 63373146	XY = 10021426

$$\begin{aligned}
 \text{A) Average Investment } (\bar{X}) &= A \Gamma \frac{X}{N} \\
 &= 9292 + \frac{4745}{5} \\
 &= 10241
 \end{aligned}$$

$$\text{B) Average Deposit } (\bar{Y}) = A \Gamma \frac{Y}{N}$$

$$= 22010 + \frac{(-1000)}{5}$$

$$= 21810$$

C) Calculation of S.D of Investment :-

$$\text{S.D}(\bar{x}) = \sqrt{\frac{\sum x^2}{N} - \frac{(\sum x)^2}{N^2}}$$

$$= \sqrt{\frac{9108323}{5} - \frac{4745^2}{5}}$$

$$= \sqrt{1821664.6 - 900601}$$

$$= 959.72\%$$

$$\text{C.V}_x = \frac{\text{S.D}}{\bar{x}}$$

$$= \frac{959.72}{10241} \times 100$$

$$= 9.37\%$$

$$\text{S.D}(\bar{y}) = \sqrt{\frac{\sum Y^2}{N} - \frac{(\sum Y)^2}{N^2}}$$

$$= \sqrt{\frac{63373146}{5} - \frac{fZ1000A^2}{5}}$$

$$= \sqrt{12674629.2 - 40000}$$

$$= 3554.52$$

$$\text{C.V}_Y = \frac{\text{S.D}}{\bar{Y}}$$

$$= \frac{3554.52}{21810} \times 100$$

$$= 16.30\%$$

C.V (Deposit) < C.V (Investment). Investment is more consistent than Deposit.

Calculation of Regression equation:-

Let, the regression equation of Y on X be

$$Y - \bar{Y} = b_{YX} (X - \bar{X}) \text{ ----- (1)}$$

And the regression equation of X on Y be

$$X - \bar{X} = b_{XY} (Y - \bar{Y}) \text{ ----- (2)}$$

$$\begin{aligned} b_{YX} &= \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2} \\ &= \frac{5 \times 10021426 - 4745 \times 10000}{5 \times 9108323 - 4745^2} \\ &= \frac{54852130}{23026590} \\ &= 2.3821 \end{aligned}$$

$$\begin{aligned} b_{XY} &= \frac{n \sum XY - \sum X \sum Y}{n \sum Y^2 - (\sum Y)^2} \\ &= \frac{5 \times 10021426 - 4745 \times 10000}{5 \times 63373146 - 10000^2} \\ &= \frac{54852130}{315865730} \\ &= 0.1736 \end{aligned}$$

then the the regression equation of Y on X be

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

$$Y - 21810 = 2.3821 (X - 10241)$$

$$Y - 21810 = 2.3821X - 24395.08$$

$$Y = 2.3821X - 24395.08 + 21810$$

$$Y = 2.3821X - 2585.08 \text{ -----(3)}$$

And the regression equation of X on Y be

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

$$X - 10241 = .1736(Y - 21810)$$

$$X = 0.1736Y - 3786.22 + 10241$$

$$X = 0.1736Y + 6454.78 \text{ ----- (4)}$$

Now substituting the value of Y on equation (4)

$$X = 0.1736Y + 6454.78$$

$$X = 0.1736(2.3821X - 2585.08) + 6454.78$$

$$X = 0.4135X - 448.77 + 6454.78$$

$$X - 0.4135X = 6006.01$$

$$0.5865X = 6006.01$$

$$X = \frac{6006.01}{0.5865}$$

$$0.5865$$

$$X = 10240.43$$

Again substituting the value of X on equation (3)

$$Y = 2.3821X - 2585.08$$

$$= 2.3821(10240.43) - 2585.08$$

$$= 21808.64$$

$$\text{Correlation Co-efficient (r)} = \sqrt{b_{yx} \cdot b_{xy}}$$

$$= \sqrt{2.3821 \times 0.1736}$$

$$= \sqrt{0.4135}$$

$$= 0.6430$$

Since r is less than 1. So the correlation between investment and Deposit is positive correlation of HBL.

Nabil Bank Ltd  
( Rs. in million )

X = represent total Investment  
Y = represent total Deposit

Year	X	X =X-9292	X <sup>2</sup>	Y	Y=Y-22010	Y <sup>2</sup>	XY
2001	8199	2364	5588496	15506	1387	1923769	3278868
2002	6031	196	38416	13447	-672	451584	-13172
2003	5835	0	0	14119	0	0	0
2004	4275	-1560	2433600	14586	467	218089	-728520
2005	6178	343	117649	19347	5228	27331984	1793204
		X =1343	X <sup>2</sup> =8178161		Y = 6410	Y <sup>2</sup> = 29925426	XY= 4211840

$$\begin{aligned} \text{A) Average Investment } (\bar{X}) &= A \Gamma \frac{X}{N} \\ &= 5835 + \frac{1343}{5} \\ &= 6103.6 \end{aligned}$$

$$\begin{aligned} \text{B) Average Deposit } (\bar{Y}) &= A \Gamma \frac{X}{N} \\ &= 14119 + \frac{6410}{5} \\ &= 15401 \end{aligned}$$

C) Calculation of S.D of Investment:-

$$\begin{aligned} \text{S.D } (\sigma_x) &= \sqrt{\frac{\sum x^2}{N} - \frac{X^2}{N}} \\ &= \sqrt{\frac{8178161}{5} - \frac{1343^2}{5}} \end{aligned}$$

$$= \sqrt{1635632.2 \text{ Z } 72145.96}$$

$$= 1250.39$$

$$\text{C.V}_x = \frac{\dagger}{\bar{X}}$$

$$= \frac{1250.39}{6103.6} \times 100$$

$$= 20.48 \%$$

$$\text{S.D.}(\dagger_y) = \sqrt{\frac{Y^2}{N} \text{ Z } \frac{Y^2}{N}}$$

$$= \sqrt{\frac{29925426}{5} \text{ Z } \frac{6410^2}{5}}$$

$$= \sqrt{5985085.2 \text{ Z } 1643524}$$

$$= 2083.64$$

$$\text{C.V}_Y = \frac{\dagger}{\bar{Y}}$$

$$= \frac{2083.64}{15401} \times 100$$

$$= 13.53\%$$

C.V (investment)    C.V (Deposit)

Deposit is more consistent than Investment.

Calculation of Regression equation:-

Let, the regression equation of Y on X be

$$Y - \bar{Y} = b_{YX} (X - \bar{X}) \text{ ----- (1)}$$

And the regression equation of X on Y be

$$X - \bar{X} = b_{XY} (Y - \bar{Y}) \text{ ----- (2)}$$

$$\begin{aligned}
 b_{YX} &= \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2} \\
 &= \frac{5 \times 4211840 - 1343 \times 6410}{5 \times 8178161 - (1343)^2} \\
 &= \frac{12450570}{39087156} \\
 &= 0.3185
 \end{aligned}$$

$$\begin{aligned}
 b_{XY} &= \frac{n \sum XY - \sum X \sum Y}{n \sum Y^2 - (\sum Y)^2} \\
 &= \frac{5 \times 4211840 - 1343 \times 6410}{5 \times 29925426 - (6410)^2} \\
 &= \frac{12450570}{10853903} \\
 &= 1.15
 \end{aligned}$$

Then the regression equation of Y on X be

$$\begin{aligned}
 Y - \bar{Y} &= b_{YX} (X - \bar{X}) \\
 Y - 15401 &= 0.3185 (X - 6103.6) \\
 Y - 15401 &= 0.3185X - 1944 \\
 Y &= 0.3185X - 1944 + 15401 \\
 Y &= 0.3185X + 13457 \text{ ----- (3)}
 \end{aligned}$$

And the the regression equation of X on Y be

$$\begin{aligned}
 X - \bar{X} &= b_{XY} (Y - \bar{Y}) \\
 X - 6103.6 &= 1.15 (Y - 15401) \\
 X &= 1.15Y - 17711.15 + 6103.6 \\
 X &= 1.15Y - 11607.55 \text{ ----- (4)}
 \end{aligned}$$

Now substituting the value of Y on equation (4)

$$\begin{aligned}
 X &= 1.15Y - 11607.55 \\
 X &= 1.15 (0.3185X + 13457) - 11607.55
 \end{aligned}$$



$$X = 0.3663X + 15475.55 - 11607.55$$

$$X - 0.3663X = 3868$$

$$0.6337X = 3868$$

$$X = \frac{3868}{0.6337}$$

$$X = 6103.83$$

Again substituting the value of X on equation (3)

$$Y = 0.3185X + 13457$$

$$= 0.3185 (6103.83) + 13457$$

$$= 15401.07$$

$$\begin{aligned} \text{Correlation Co-efficient (r)} &= \sqrt{b_{yx} \cdot b_{xy}} \\ &= \sqrt{0.3185 \times 1.15} \\ &= 0.61 \end{aligned}$$

Since r is less than 1. So the correlation between investment and Deposit is positive correlation of Nabil Bank Ltd.

## CHAPTER V

### SUMMARY, FINDINGS, CONCLUSION & RECOMMENDATIONS

#### 5.1 Summary

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

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

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

The commercial banks have to prove that they can really contribute to the national economy. They efficient and viable agencies for collection of savings and its mobilization into productive sectors are professionally managed and competent enough to ensure adequate rate

of return on investment and strategically well planned to be competitive with other agencies and are trustworthy.

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

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

## **Major Findings & Conclusions**

### Findings & Conclusions

) It is seen that the deposit collection of HBL is changed. Firstly it has decreased and after that it increase rapidly up to 19.92% in 2005/2006. The Percentage change of deposits of Nabil is in every financial year is fluctuating. It indicates that the year 2005/2006 recorded a progressive rate of growth in total deposits are going to increase.

) HBL and Nabil of the trend analysis for five years shows that the saving deposit has increase in the following year. NABIL, the highest trend value in FY 2005 is Rs 1015.4 million. Whereas, the same of the HBL is Rs 1696.6 million

) The trend analysis of HBL and Nabil for five years shows that the fixed deposit has increase in the following year. NABIL, the highest trend value in FY 2005 is Rs 323 million. Whereas, the same of the HBL is Rs 772 million

) The tread analysis of Nabil for five years shows that the current deposit has increase in the following year which the highest trend value is Rs 289.4 million in FY 2005. The

tread analysis of HBL for five years shows that the current deposit has decline and then after increase in the following years. HBL, the highest trend value in 2001 and 2005 is Rs 659.4 million.

) The tread analysis of HBL for five years shows that the margin deposit has increase in the following year which the highest trend value is Rs 57.8 million in FY 2005. The tread analysis of Nabil for five years shows that the margin deposit has decline and increase in FY 2005 which the highest trend value is Rs 39.8

) The overall growth rate of sector wise investment is highest in case of Nabil with the growth rate of 17.11% followed by HBL with rate of 12.75%. The banks should allocate more funds for sector wise investment for more productive growth results.

) In case of priority and deprived sector loans, two banks have negative growth in the case of priority loans. While in the case of deprived sector loans, its shows the growth rate of 8.14% and 23.35% of Nabil and HBL respectively.

) There is positive correlation between deposits and investment of Nabil. Coefficient of determination shows about 37% variation in investment is explained by the independent variable deposits. The value of r is significant. There is positive correlation between deposits and investment of HBL. Coefficient of determination shows about 41% variation in investment is explained by the independent variable deposit. The value of r is significant.

## **Recommendations**

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

) **Extend rural credit**

They are recommended to look upon new area of lending and investment. The rural economy has always been realizing the credit needs; the governing of non-organized money lending has been prevalent in this area.

) **Strength deposit base**

If it is to generate more profits, it should enhance its deposit collection through introduction of various schemes as of its contemporary banks. Though it has come up with Nabil Bachat scheme with higher interest rates and bumper prizes, it should make more endeavors to increase its deposit collection. It should focus more on low-cost deposits.

) **Simplify lending procedures**

Procedures and policy relating to loan disbursement should be simple yet full-fledged so that borrowers do not have to go through any sort of hassles and disappointments.

) **Introduce more innovative products & services:**

The stiff competition among the banks should be faced by introducing innovative products and services made to meet the customer's needs and requirements. Customers' satisfaction should be on top most priority of all the three banks. The banks should follow innovative approach to marketing.

) **Extensive expansion of branches:**

There should be more expansion of the branches within the various parts of the country so as to facilitate even the general people with the banking services. If the banks reach the each and every nook of the nation, it will surely provide pace to the slow growing economy. Rural credit will be facilitated which will enhance the prosperity of the individuals as well as the nation as a whole.

) **Portfolio Management**

Effective portfolio management is a must for the survival of the banks. Risk of default is always inherent in lending business. The proper remedy could be diversification. Lending

should be diversified to the various business houses carrying out different activities rather than focusing on limited business activities. The amount of credit to be extended to particular business house should also be limited. There is also provision of single obligor limit to ensure this. Some default risk is un diversifiable because it is systematically related to business cycle, which affects almost all investments. However some default risk may be diversified away in a portfolio of independent investments.

#### ) **Implementation of KYC and AML**

“Banks and Financial Institution Ordinance” prohibits the banks to collect deposits, which is earned by the client through illegal sources, the bank should also not be involved in helping the concealing, transforming, transfer, burring the originating source, or misrepresentation of such illegally earned money. It is extremely important to ensure that monies earned through illegal activities within the country and abroad are not run through the financial system in the country for the benefit of those criminals, irrespective of where the crime was committed. Banks have come up with know your customer (KYC) and anti-money laundering (AML) policies and procedures to crack down the ring of criminals and criminal activities. Though initiation is being taken by the banks and they are in the initial phase of it, banks should ensure that they are not handling the proceeds of crime.

#### ) **Diversification towards investment in productive sectors**

Initially, the major portion of the banks consist of business and industrial loans, but slowly banks are turning towards hire purchase, housing financing, auto loans etc. Banks should always bear in mind that their efforts should be more concentrated towards productive sectors so as to have meaningful relationship between commercial banks and national development. So, the banks should strike the balance between two.

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

are giving competitive threats to each other and all other existing banks and moving towards attaining goals.

# BIBLIOGRAPHY

## Books

Bhalla, V.K. (1999). **Investment Management, Securities Analysis and Portfolio Management**, 6<sup>th</sup> Edition, S Chand & Company Ltd.

Bhatt, P.R.(1991). **International Banking**, Common Wealth Publishers, New Delhi.

Bodie, Zvi., Kane, Alex, & Marcus, Alan. J., (1992). **Essentials of Investment**, U.S.A. Second Edition, Irwin Series.

Francis, Jack Clark., (1983). **Management of Investments**, 5<sup>th</sup> Edition, New York, Mc Graw Hill.

Francis, Jack Clark., (1991). **Investment Analysis and Management**, 7<sup>th</sup> Edition, New York, Mc Graw Hill

Chandler, L.V. (1973). **The Economics of Money and Banking**, 6<sup>th</sup> Edition.

Chaudhary, Arun Kumar, **Statistics**, Bhudipuram Prakashan

Dewett, K.K. and Verma, J.D., **Elementary Economic Theory**, New Delhi, S. Chand & Co. Ltd.

Gitman, Lawrence J., **Principles of Managerial Finance**, 3<sup>rd</sup> Edition Singapore, Addison Wesley Longman Pvt. Ltd.

Hirt, Geoffrey A, & Block, Stanley B., (1983). **Fundamentals of Investment Management & Strategy**, U.S.A. Print

Kothati, C.R., **Research Methodology: Methods and Techniques**, New Delhi, Wiley Eastern Pvt. Ltd.



Shrestha, Manohar. K Poudel, Rajan B. and Bhandari, Dipak B., (2005) **Fundamentals of Investment**, 2<sup>nd</sup> Edition, Buddha Academic Publishers & Distributors Pvt. Ltd.

Munankarmi, Shiva Prasad.,(2003). **Management Accounting**, Third Edition, Buddha Academic Publishers and Distributors Pvt. Ltd.

Reily, Frant.K., (1995) **Investment**, The Dryden Press, CBS Publishing Japan Ltd.

Sharpe, William F., Alexander, Gordon J., Bailey, Jeffery V., (2000). **Investment**, Fifth Edition, New Delhi, Prentice Hall of India.

Shrestha, Manohar. K Poudel Rajan. B. and Bhandari, Dipak b. (2005) **Fundamentals of Investment**, 2<sup>nd</sup> Edition, Buddha Academic Publishers & Distributors Pvt.Ltd.

Singh S.P. & Singh S. (1983) **Financial Analysis for Credit management in Banks**, Vikash Publishing House Ltd N.D.

Shrestha, Madhu Sundar., (2006) **Fundamentals of Banking**, 1<sup>st</sup> Edition Buddha Academic Publishers & Distributors Pvt.Ltd.

Vaidya, Shakespeare., **Banking & Insurance Management**, 3<sup>rd</sup> Edition, Ason, Nepal

Vaish,M.C., **Modern Banking**, New Delhi, Vikas Publishing House.

Weston, Besley and Brigham., **Essentials of Management Finance**, 11<sup>th</sup> Edition, Forth Worth, The Dryden Press.

Weston J.F and Brigham, E.F. **Essentials of Management Finance**, 6th Edition, Chicago, The Dryden Press.

Weston, J.Fred & Copeland Thomas E., (1990) **Managerial Finance**, 8<sup>th</sup> Edititon, Forth Worth United States of America The Dryden Press.

Weston, Rae., (1980). **Domestic and Multinational Banking**, British Library.

## Dissertations

Adhikari Dev Raj **“Evaluating the financial performance of NBL”** an unpublished master degree’s thesis T.U. 1993

Tuladhar, Upendra., **A study on investment policy of Nepal Grindlays Banks ltd. in comparision to other joint venture banks (NABIL and HBL)**, an unpublished Master Thesis, Shanker Dev Campus, 1999

Joshi, Deepak., **“A study on Commercial bank of Nepal with special reference to financial analysis of RBB”** an unpublished master

Shrestha (Dr) Sunity **“Investment Planning of Commercial bank in Nepal”** Ph.D. thesis 1993

Shrestha (Dr) Sunity **“Lending operation of CBs of Nepal and its 1993 on GDP” the Business voice of Nepal (The special issue of Banijaya samacha T.U. Kirtipur, 2055**

Joshi Deepak **“A study on Commercial bank of Nepal with special reference to financial analysis of RBB”** an unpublished master

Kashi Dev Lal **“The Changing face of the Banking sector & the HMG/ N recent Budgetory policy”** Nepal Bank Patrika, NBL, Vol 25, 1996

Shrestha Ramesh Lal, **“A study on deposit and credit of CBs in Nepal”**, NRB Samacher, NRB 2045 B.S.

Bajracharya Bodhi B. **“Monetary policy & deposit mobilization in Nepal” Rajat Jyanti Smarika RBB Kathmandu, 2047 B.S.**

Serra Grill **“The role of CBs in Nepalese Contest “Rajat Jyanti Smarika RBB, Kathmandu, 2047 B.S.**

Pradhan N.M **“A study on investment of Nepal Bank Ltd.”** an unpublished master degree’s thesis T.U

Bhattarai Ramalal, **“Lending policy of CBs in Nepal”** an unpublished master degree’s thesis T.U 1978

Ojha Kamala “**A study on priority sector investment in CBs (with special reference to RBB)**” an unpublished master degree’s thesis T.U 1997

Joshi Jit Bahadur, “**Lending Policy of CBs in Nepal**” an unpublished master degree’s thesis T.U 1982

Karmacharya N. “**A study on the deposit mobilization by the NBL**” an unpublished master degree’s thesis T.U

Panta, Uttam Raj “**A study on CBs deposit & its utilization**” an unpublished master degree’s thesis T.U 2033 B.S.

Darshan kumar Tamang, “**A comparative Study on Credit Management in Himalayan Bank Limited and Nabil Bank Limited**”, an Unpublished Master Dissertation, NCC, 2005

Shrestha, Raju “**Credit Portfolio Management of Joint Venture Commercial Banks in Nepal**”, An Unpublished Master Dissertation, PYC 2004

#### Websites

[www.answers.com](http://www.answers.com)

[www.google.com](http://www.google.com)

[www.learninvestment.com](http://www.learninvestment.com)

[www.nepalstock.com](http://www.nepalstock.com)

[www.nrb.org.np](http://www.nrb.org.np)

[www.onlinethesis.com](http://www.onlinethesis.com)

[www.thehimalayantimes.com](http://www.thehimalayantimes.com)

#### Others

Annual Report s (2001/02 to 2005/2006)

Banking & Financial Statistics, “A journal of banking operation department” Nepal Rastra Bank ( 2002/03 to 2005/2006)

Journals of Institute of Chartered Accountants of Nepal, ICAN

Year	Current	Margin	Saving	Fixed	Call	Others	Total deposit
2001/2002	2634369	4334752	9163946	5480843	883599	21862	22519371
2002/2003	3503143	386830	10870542	3205372	3041489	-	21007376
2003/2004	4145447	425019	11759602	4710176	970086	-	22010330
2004/2005	5045160	586043	12852414	6107430	222961	-	24591578
2005/2006	5028150	488031	14582855	6350202	41612	-	29490850

### **Appendix 1**

#### **Deposit Position of Himalayan Bank Ltd**

(Rs. In 000)

#### **Deposit Position of Nabil Bank Ltd**

(Rs. In 000)

Year	Current	Margin	Saving	Fixed	Call	Others	Total deposit
001/2002	2703818	364287	4972056	2446845	4944960	74459	13076425
2002/2003	3034002	381315	5229723	2252544	2540701	9374	13447659
2003/2004	2688966	304682	5994121	2310571	2801405	19284	14119029
2004/2005	2799184	296976	7026334	2078535	2341328	44249	14589606
2005/2006	2910589	322899	8770759	3449094	3851159	42896	19347396

#### **Showing Investment**

(Rs in Million)

Year	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
------	-----------	-----------	-----------	-----------	-----------

Banks					
NABIL	8199	6031	5836	4267	6178
HBL	9157	10175	9292	11692	10889

## **Appendix 2**

### **Showing Sector wise Investment of Nabil** (Rs in Million)

Year	2002/2003	2003/2004	2004/2005	2005/2006
Sector				
Agriculture	73.1	55.4	51.9	51.1
Mining	31.8	0	28.9	21.9
Productions	4019.4	4064.6	4375.8	5107.1
Constructions	84	369.4	665.2	1378.8
Metal Productions, Machinery & Electrical Tools & Fittings	54.9	74.2	140.9	100
Transportations, Equipment Production & fitting	44.4	592	1003.7	1309.6
Transportations, Communication Public Service	366.1	197.4	289.3	673.7
Wholesalers & Retailers	1620.2	1548.8	1990.1	2068.5
Finance, Insurance & Fixed Assets	267.6	274	333.5	480.5
Service Industries	1007.4	952.1	1387.3	1014.3
Consumable Loan	52.2	54.1	77.2	86.7
Local Government	0	1	0	0
Others	645.1	433.6	634.8	968.8
Total	8266.2	8616.6	10978.6	13261

### **Showing Sector wise Investment of HBL** (Rs in Million)

Year	2002/2003	2003/2004	2004/2005	2005/2006
Sector				
Agriculture	329.3	362.1	516.7	507.6
Mining	9.9	10	48.2	7
Productions	4565.4	5812	5623.8	7803
Constructuion	121.7	219.8	208	342.2
Metal Productions, Machinery & Electrical Tools & Fittings	121.6	104.1	111.6	237.9
Transaportation, Equipment Prodcution & fitting	308.3	334.4	226.1	46.6

Transportation, Communication Public Service	1199.8	1561.5	1313.6	1355.4
Wholesalers & Retailers	1799.6	1863.3	2013.6	1921
Finance, Insurance & Fixed Assets	692.8	759	999.3	838.6
Service Industries	850.3	1183.3	1415.8	1481.2
Consumable Laon	463.4	259.8	225.5	184.1
Local Government	0	0	0	0
Others	612.1	532.9	837.1	1148.1
Total	11074.2	13002.2	13539.3	15872.7