CHAPTER-I
INTRODUCTION

1.1 General Background of the Study

Investment, in the broader sense, means the sacrifice of current currencies and resources for the sake of future currencies and resources. An investment is one of the decisions of finance function that involves the decision of capital to establish commercial or industrial venture. In other words it involves commitment of funds into long-term assets that would yield benefits in coming future period. Two aspects of the investment decisions are:

- The evaluation of the prospective profitability of the investment.
- The measurement and comparison of cut-off rate against that the prospective return of the investment could be compared.

Investment is primary factor for economic development of any country. Investment refers to as using present money to get long term benefit. Investment in its broadest sense means the sacrifice of current money for future money. Two different attributes are generally involved time and risk. The sacrifice takes place in the present. The reward or result of sacrifice comes later and the magnitude is generally uncertain. Time and risk are predominates for investment. Such as investment in government bonds time is predominates whereas in common stock time and risk both are important (*Sharpe, Gordon, Alexander and Bailey, 2000 P. 187*).

The main source of investment is saving. A distinction is often made between investments and saving. Saving is defined as forgone consumption; investment is restricted to real investment of the sort that increases national output in the future. This definition classified investment as real and financial investments. Real investment generally involves some kind of tangible assets such as land, machinery, or factories. Financial investment involves contacts written on pieces of paper, such as common stock and bonds. By and large, two forms of investments are complementary, not competitive.

Bank plays a very important role in investment by collecting saving from individual and providing loans to individuals and industries for economic activities. Bank itself invests in different securities of the company and industries. It helps to mobilize the idle saving in financial activities. Banking has played a very important part in the economic development of all the nations of the world therefore it is termed as the life blood of modern commerce. The study mainly focuses on the investment analysis of the commercial banks by comparing six main commercial banks of Nepal. The term bank or banking can be referred to any person, firm or company accepting deposit of money subject to withdrawal by cheque, draft or order.

While talking about investment we cannot forget that saving is primary factor for investment. Had there been no saving none of the investment can be expected. So saving is the backbone of investment. Saving is needed to finance capital investment to increase and maintain the productive capacity of the country. It is commonly known fact that an investment is possible when there is adequate saving. If all the income and saving are consumed for basic needs; then there is no saving, neither existence of investment. Therefore, saving and investment are interrelated.

Financial institutions play an important role to develop the business activities by collecting the public money. Financial institutions involve commercial banks, saving and loan associations, credit unions pension fund and insurance companies. Especially commercial banks play significant role for development of financial activities. They render various services to their customers facilitating their economic and social life. They not only collect idle money from public but also provide loan to investors, who are in need of fund. In addition they invest money in different securities.

1.2 General Background of Commercial Banks

Nepal is considered much liberal as banks and finance institution are opened for foreign investment for quite a long time. As a result, the country now has 32 commercial banks which is a lot of improvement in the banking sectors.

Most of the commercial banks in Nepal are joint venture with a foreign bank. But some of the new banks were opened during last 7/8 years without foreign collaboration and some foreign banks have withdrawn their investment from Nepal. According to some analyst the withdrawal of foreigners as the result of some anomalies in the Nepali banking sector irrespective of what the withdrawing foreign bank would say officially to the Nepali authorities of the general public. General background of the selected banks is as follows:

1.2.1 Everest Bank Limited (EBL)

Everest bank limited started in 1994 with a view and objective of extending professionalized and efficient and efficient banking services to various segment of the society. EBL joined hands with Punjab national bank (PBN) India as its joint venture partner in 1997. PBN is the latest nationalized bank in India having 110 years of banking with more than 4500 office all over India. In this bank 50% share holding by Nepali promoters and 30 % by general by general public and 20 % by Punjab National bank. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries , which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and UK. Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

1.2.2 Himalayan Bank Limited (HBL)

Another foreign Joint Venture Bank namely Himalayan Bank Limited was incorporated in the year 1992 A.D (2049 B.S). It was also established under the Commercial Bank Act 2031. Its foreign investment partner is Habib Bank Limited of Pakistan which holds its 20% share. This is first joint venture bank managed by local chief executive. There are 23

branches of Himalayan Bank Limited are in operation in the different cities of the nation. Its authorized and paid-up capital are Rs. 2,00,00,00,000 and Rs. 1,21,62,15,000 respectively.

Capital market also plays a very important role in Investment. The shares issued by the company to raise capital for investment are traded in capital market. Since future is uncertain and investment decision involves risk, benefits of investment are difficult to measure and cannot be predicted with certainty. But capital market provides a means for distributing risk among various parties. It provides and allocates funds to firms with profitable investment opportunities and offers an avenue of liquidity for individuals to invest current income or borrow against future income. Capital market brings together those who have surplus funds to lend and those who desire to borrow to finance the investment in industrial or commercial venture. Development of financial market and investment moves in similar cyclical patterns.

1.3 Focus of the Study

The establishment of the Joint Venture (Commercial) banks has given a new horizon to the financial sector of Nepal. The study is mainly focused on the investment policy of a joint-venture bank namely Himalayan Bank, and Everest Bank in the Five years period from 2064/65 to 2068/69.

Investment analysis involves determining the investor's objectives and the amount of his or her invest able wealth. Investor's objectives should be stated in terms of both risk and return. It must be known how to quantify risk. Merely saying "risky" or "no risky" does not give any concrete idea to compare various financial assets and to reach to ideal decision.

A good investment analysis accepts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The loan provided by commercial banks is guided by several principles such as length of time, their purpose,

perfectibility, safety etc. Those fundamental principles of commercial banks investment are fully considered while making investment analysis.

This study is expected to provide definitely a useful feedback to the policy makers of commercial banks of Nepal, and to the government and central bank in formulating strategies for the improvement in the performance of commercial banks.

1.4 Statement of the Problem

Due to tough competition and lack of peace and political instability, Nepalese banks are facing problem to invest their funds in different sectors. So the banks have been facing low liquidity transaction. In other side the demand of loan is very low.

With 32 commercial banks, 62 development banks and 81 financial companies operating in Nepal, the market seems overcrowded and the banks are now finding a tough competition among themselves. Since the entry barriers are not so high due to the governments liberal policy, this competition is expected to be more intense in the near future, as there is always the possibility of a new player entering this sector (Banking and Financial Statistic, 2068/069).

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They don't have clear view towards Investment policy. There is a lack of sound investment policy of commercial bank. Furthermore, the implementation of policy is not in an effective way.

Commercial banks have been facing tough competition due to limited and narrow capital market and investment opportunities. They are even discouraging depositors by offering very low interest and minimum threshold balance. This will definitely make bad impact on economy of a country. There is lack of knowledge on financial risk, interest rate risk, management risk business risk, liquidity risk, default risk, purchasing risk etc.

Commercial banks don't seem to invest their funds in more profitable sector. They are found to be more interested in investment in risky and highly liquid sector i.e. treasury bills development bonds and other securities. They keep high liquid position and flow lower funds to the productive sectors, this result into lower profitability to commercial banks and ignorance to the national economic growth process. This is the main reason for crisis in the commercial banks and in the whole national economy as well.

This study has tried to answer the following research questions:

- What is the present investment ratio of the commercial banks?
- Are there any significant differences between the investment quantity of the commercial banks?
- What are the common and unique investment policies of commercial banks?
- What are the trend and their projection regarding investment of commercial banks?

1.5 Objectives of the Study

Investment is necessary for economic development of the country. This study attempts to assess the role and impact of investment on economic development of the country.

The main objectives of this study are as follows:

- To reveal the investment volume of selected banks.
- To compare the ratio of investment of selected two banks.
- To analyze investment policies of selected commercial banks.
- To make the suggestion and recommendation regarding the investment of commercial banks.

1.6 Significance of the Study

The need of the study is to explore the existing situation as well as future prospectus of marketing and financial returns. The collected fund is utilized in a good manner as investment then only good return and sustainability is possible. Return on investment first, sustains the institution and provides handful income to the investors. The better the investment analysis, the more valuable the company, the higher return the shareholders

etc and vice versa. Since the different parties, shareholders, general public and government are directly affected by the investment analysis of the financial institutions, the researcher feels the need to study it.

As it is a well-known fact that the commercial banks can affect the economic condition of the whole country, the effort is made to highlight the investment analysis of commercial banks expecting that the study can bridge the gap between deposits and investment policies. Thus the present study will make a modest attempt to analyze investment analysis of Himalayan Bank Ltd., and Everest Bank Ltd.

1.7 Limitations of the Study

This research study is carried targeting to fulfillment for Master Degree of Business Studies (MBS). Therefore, it may not contain all aspect of the investment policy of the said banks. Some of other limitations of this study is as follows:

- This study has focused the fiscal years 2064/65 to 2068/69
- This study is confined to two banks: HBL and EBL. These banks are of average in nature. They are expected to depict the true picture of commercial banks in Nepal.
- This study is mainly based on secondary data available in NRB and concerned banks. However, primary data were also collected through questionnaire to know public opinion about investment.
- The accuracy of this study report basically depends on the data provided by the concerned banks.

1.8 Organization of the Study

The whole study has been divided into five chapters.

Chapter I: This chapter has been dealt with introduction. This includes background, statement of problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

Chapter II: This chapter deals with the review of available literature. It includes review of books, journals, previous thesis and web sides, research gap etc.

Chapter III: This chapter explains the research methodology used in the study, which includes research design, source of data, population and samples, method of data analysis etc.

Chapter IV: The fourth, which is the important chapter of the study, has included presentation and analysis of data.

Chapter V: The fifth chapter summarizes the main conclusion of the study and offers findings, recommendation and other supportive document has also been incorporated for further improvement and conclusion of the study.

A bibliography and appendices has also been attached at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Investment is a present sacrifice for the sake of future benefits. Therefore, investment always involves risk. Present decision about selecting the best alternatives should always take the future risk into consideration. The few alternatives of investment in the past have now expanded into hundreds. Hence, the complexity of investment has also been increasing day by day. To select the best alternative and to construct an efficient portfolio, a wise analysis and decision is required. Before making any decision on investment we must be well informed about the factors, which affect investment. Investment decision related with saving, capital formation, capital market, risk involve with it, return, inflation etc.

2.1.1 Principle of Sound Investment Policy

It is universally known fact that the most important problem in banking administration is that of investing its deposits and paid up capital in various forms of earning assets. This is also known as portfolio policy.

The funds of banks are generally invested either in those assets, which are non-profitable, or those, which are profitable. Non-profitable assets include cash reserve and the dead stock and profitable assets includes call money, investment, advances and loan, cash credits, overdrafts, discounting of bills and acceptances etc.

The guiding principle of sound investment is as follows:

2.1.1.1 Safety

Safety would be the first guiding principle of a bank, so far as its advances and investment are concerned, because the very existence of a bank depends on the safety of its outstanding, which should never therefore be sacrifice to the profit-earning capacity of the advances. This has led people to believe that a bank will never advance any loan, unless it is fully secured. Such is no doubt the ideal conception of banking, but as a result

of its competition from other banks, every bank has to grant a certain number of loans to its customers against their personal security. In such cases, the bank uses direction and never lends a sum obviously beyond its customer's resources. Consequently, to maintain a banking concern in sound condition should be above suspicion.

2.1.1.2 Liquidity

While making advances and investments, the bank must see that the money it is lending is not going to be locked up for a long time, which would make its loans and advances less liquid and more difficult to realize in cases of emergency. A bank can afford to lend funds only for a short period, as its liabilities are either payable on demand or at short notice. If it makes advances for long term there is no likelihood of it being able to recall such loans in time to meet the demands of its depositors.

2.1.1.3 Diversification of Risk

It is also necessary to remember that a prudent bank must avoid investing all its funds in meeting the needs of any one industry or any one group of industries for considerations of self-interest as well as the larger public good. The imprudence on putting one's own eggs into one basket cannot be too often reiterated. Therefore bank should invest their funds in different field than investing in same field or sector.

2.1.1.4 Return

Another important factor that it determines the decision of the bank whether or not to grant loan or to make an Investment will depend upon the answer to the question whether or not it will get a fair return on its investment. A bank always aims at securing maximum profits for its share-holders. The difference between borrowings and lending rate constitutes the gross profit and no bank ordinarily will think of an advance without a satisfaction margin of profit.

2.1.1.5 Marketability

The investments of the bank should be such as can be easily sold and realized in cash readily. Loans given against commercial paper representing goods in transit or against

stocks and shares of well-known companies are easily realizable while loans given against immovable property cannot be easily realized. The bank must make sure that the securities, in which he invests his funds, are easily saleable without appreciable loss.

2.1.1.6 Stability of Price

The primary object of a bank in buying securities is not to gain by a possible rise in their prices. This is the aim of speculating dabbler. Therefore the price of the securities should be liable to wide fluctuations.

2.1.1.7 Stock Exchange Securities

This consists of government securities as well as securities of the joint stock company. These securities are easily and quickly realizable. As they are quoted on the stock exchanges so their values can be easily ascertained. In case of need, a bank can either sell them or pledge them without any hesitation. But before accepting them, the bankers should see that the shares of the companies are not partly paid, that sufficient margin has been kept and they are negotiable. Speculative shares should not be accepted (Mali, 1965 P. 9).

2.1.2 Meaning of Selected Terminologies

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

2.1.2.1 Loan and Advances

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

Funds borrowed from the banks are much cheaper than those borrowed from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest

rate. Furthermore, an increase in an economic and business activity always increases the demand for funds. Due to limited resources and increasing loans, there is some fear that commercial banks and other financial institutions too may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loans from their institutions would be available on special request only and there is a chance of utilization of resources in economically less productive fields. There lies the undesirable effect, of low interest rate.

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

2.1.2.2 Investment on Government Securities, Share and Debenture

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

Some of them are given as:

- It may want to space it's maturating so that the inflow of cash coincides 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 funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in volume.

2.1.2.3 Investment on Other Company's Share and Debenture

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

2.1.2.4 Deposits

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

i. Current Deposits
ii. Saving Deposits
iii. Fixed Deposits

2.2 Review of Articles and Journals

Investment, in its broadest sense, means the sacrifice of current rupees (dollars) and resources for the sake of future rupees (dollars) and resources. In other words, it is a commitment of money and other resources that are expected to generate additional money and resources in the future. Such a commitment takes place in the present and is certain to occur but the reward comes in the future and always remains uncertain. Therefore, every investment entails some degree of risk.

Investments are made in assets. Assets generally are two types: real assets (Land, Building, Factories etc) and financial assets (Stock, Bonds, T-Bills etc). These two types of investment are not competitive but complementary, highly developed institution for financial investment greatly facilitating real investment (Bhattari, 2006).

Country's growth rate is largely depending on investment and commercial banks are keys for investing funds in productive works as they deal with money. They collect funds and utilize it in a good Investment, which is not an easy task for them. Therefore an investment of funds may be the question of life and death for the bank. They must have effective and good investment policy to exist in this world of competition.

The problem of the investor is to select the funds whose objectives and degree of risk taking most closely match its own situation. The one that will accomplish for him what he would wish to do for himself if he could diversify and manage his own holding (Bhalla, 1983).

Investment is the value of that part of economics output for any time period that takes the form of new structure, new producers' durable equipment and change in inventories (Joshi, 2057).

According to Sunity Shrestha (1998), "*Bank portfolio (loans and investments) of commercial banks has been influenced by the variable securities rates Investment planning of commercial banks in Nepal*", investment is directly traced to fiscal policy of government and under heavy regulatory procedure of NRB. So the investments are not made in professional manner. Investment planning of the commercial banks in Nepal has not been found satisfactory in terms of profitability, safety, liquidity, productivity and Social responsibility. To overcome this problem, she has suggested, commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects.

Total risk of security can be divided into systematic and unsystematic components. Systematic risk is risk that cannot be diversified away for it affects all securities in the market. Unsystematic risk is unique to the particular securities and can be eliminated with efficient diversification. If the assumption of the CAPM or APT factor model holds this risk does not matter to investors. As a result, diversification of assets by a company in an effort to reduce volatility would not be a thing of value.

Investment is done usually to get some return from it in future. There is no use of investment if there is not return. Even the parents invest on their children education with a hope that their children will earn money in future with that education they received. Therefore, there must be return from Investment made on capital goods or financial goods. It's another thing that the return may be positive and negative.

Internal Rate of Return (IRR) and Net Present Value (NPV) are the only appropriate means by which to judge the economic contribution of investment proposal. The important distinctions between the internal-rate of return method and the present-value method involve the implied internal rate of return.

Inflation is a major concern for investors. But and large, people have come to fear significant inflation, particulars when it is unpredictable. Capital rationing is likely to result in investment because depreciation charges do not reflect replacement cost and firm's taxes grown at a faster rate than inflation. In estimating cash flows one should take account of anticipated inflation. Otherwise a bias arises in using an inflation-adjusted required return and non-inflation-adjusted cash flows and there is a tendency to reject some projects that should be accepted.

There is no completely satisfactory way to summarize the prices changes that have occurred over a given time period for a large number of goods and services available. Nevertheless, the government has attempted to do so measuring the cost of a specific mix of major items at various points in time. The 'overall' price level computed for this representative combination of items is termed a cost-of-living index. The percentage changed in this index over a given time period can then be viewed as a measure of the inflation (or deflation) that took place from the beginning of the period to the end period. This measure of inflation may not be relevant as the price of the goods might change according to the quality also.

The simplest view of investor's attitude towards inflation is that they are concerned with real returns, not nominal returns and that a single price index is adequate to characterize the difference. Looking to the future, investors do not know what the rate of inflation will be, nor do they know what the nominal return on investment will be. However in both cases they have expectation about what these figures will be which are denoted as EIR (Expected inflation rate) and ENR (Expected nominal returns), respectively. Thus the Fisher Model implies that ERR (Expected real return) on an Investment can be approximated by.

ERR=ENR-EIR Or, ENR=ERR+EIR

If Investors concerned with real returns, their securities will be priced in the market so that expected nominal returns incorporate the expected rate of inflation.
At the start of given Investment holding period nominal interest rate for securities having no risk of default should cover both a requisite, expected real return and the expected rate of inflation. At the end of the period, the real return actually received will be the difference between the nominal return and the rate of inflation actually experienced. Only when actual inflation equals expected inflation will the actual real return equal the expected real return on such securities. Although deviations of actual inflation from expected inflation may have relatively little effect on the real return on investments in general, they have a significant effect on specific Investment.

There is risk associated with Investment, as alas, there is risk associated with most elements of our lives. In the eyes of investors and creditors, a company's business risk complexion may change as a result of the investment it chooses. Because Investment proposals entail differing degrees of business risk, we must analyze not only their expected profit but also the possible deviation from that expectation. Risk is expressed in terms of the dispersion of the probability distribution of possible net present values or possible internal rates of return and is measured by the standard deviation. Risk can be measured under the assumption of serial independence of cash flows over time or when cash flows from one period to the next are dependent over time. For dealing with

situation of moderate correlation of cash flows over time, probability trees are useful. Simulation techniques often can be applied to analyze risk Investment (Vanhorn, 2003).

Most people store their money with bank, which keeps an account of how much money is costumer deposit. People gain access to their money through cash machine, counter transaction or by writing cheques. Banks may provide interest when a certain amount of money is kept in the account, but will charge customers who borrow money. Banks also provide financial services, such as pensions and insurance policies (The World Bank Encyclopedia, 2000).

According to World Bank, “Banks are financial institutions that accept funds in the form of deposit repayable on demand or in short notice” (Joshi, 1990).

In brief, bank is an institution, which accepts deposits in different accounts, provides loans of different types and creates credit.

In general, the term bank is used to mean commercial bank. The commercial bank is the oldest type of bank. The profit maximization is the main objective of this bank. The modern commercial banks collect deposits in current, saving and fixed account from general public and the institution. It provides loans to individuals and institution from the deposits. In this way banks mobilize saving for productive works and thus for industrial development. The modern commercial banks provide loan not only to traders but also to agriculture, industry and service. Although this bank concentrates itself on short-term loan, it has started to provide even medium and long-term loans to some extent. The difference between the rate of investment on deposits and loan is the main source of its income. The function of a commercial bank is not unique in all countries.

The banks that collect deposits and advance loans are called commercial banks. According to these definitions it is known as commercial banks accept deposit and provide loans but other financial institutions also collect deposits. To differentiate commercial bank from other institution Dr. Shyam Joshi had defined it as a great

institution that conducts the payment mechanism of a country. The individuals and institution make payment to each other through the mechanism of commercial bank. The commercial bank plays a leading role in the smooth operation of an economy. It makes available all financial services to individuals and institutions (Joshi, 1990).

The World Bank (2000), "*Investment promotes economic growth and contributes to a nation's wealth*". The bank may invest by lending the fund of various business companies. These firms, in return, may invent the money in new factories and equipment to increase their production. In addition to borrowing from the banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issues bonds to obtain funds to invest in such projects as the construction of dams, roads and schools. All such investment by individuals, business and govt. involves a present sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living (The World Bank Encyclopedia, 2000).

The above statement clearly specifies the importance of investment and the role of banks for the development of the country. Bank is the major financial need for the various developments. The banks can play the vital role for the financing activities in the business. The saving and investment is most necessary for the developing country, which can be managed by banks. Capital accumulation also plays vital to accelerate the economic marginal propensity of consumption. As a result, such countries are badly in trapped into the vicious circle of poverty. Therefore the basic problem of the developing countries is to raise the level of saving and thus investment and the problem can be solved through well-established banks.

In general, bank means an institution that accepts deposits in different accounts and provides loans of different types. Bank can be defined according to the functions of a bank or the service it provides such as commercial bank, central bank and industrial bank. In the words of leaf a bank is a person or corporation which holds it out to receive from the public, deposits payable on demand by cheque.

With the title of 'Banking the future on competition' Mr. Sharma wrote in Business age that the commercial banks are establishing and operating mostly in urban areas. From his studies he found that:

i. Commercial banks are establishing and providing their service in urban area only. They don't have interest to establish in rural areas. Only the branch of Nepal Bank Ltd and Rastriya Banijya Bank Ltd. are running in those sectors.
ii. They have maximum tax concession.
iii. They don't properly analyze the credit system.

He found that due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and personal guarantee, whose negatives side effects would show colors only after four or five years (Sharma,2000).

According to Pradhan and Yadav (2002), "*Saving is income not consumed, It is one the important and perhaps the chief sources of investment*". In developing countries about 45% of the incremental saving is invested domestically, while in developed countries about 75% of the incremental saving is invested domestically. This suggests that capital is more mobile in developing countries than in developed countries. Saving are of great significance in a country's development. While saving results in high economic growth rate, rapid development leads in turn high savings. Nepal's saving rate is lower as to other developing countries, however, even to achieve 5 to 6 percent economic growth rate, more than 25 percent annual Investment of GDP is considered necessary. As the country's current domestic saving are about 14% the economic resources are short by nearly 11% in proportion of the GDP.

The situation is such that huge portion of investment has still to be made with external resources. The amount of saving of a typical household in Nepal is small because the people have limited opportunities for Investment. They prefer to spend saving on commodities rather than on financial assets. This restricts the process of financial intermediation, which might otherwise bring benefits such as reduction of investment risk

and increase in liquidity. When capital is highly mobile international, saving from aboard can also finance the investment needed at home. When capital is not mobile internationally, saving form abroad will limit investment at home.

Wherever there is investment there must be Capital formation. The development of an economy requires expansion of productive activities, which in turn is the result of the capital formation, which is the capital stock of the country. The change in the capital stock of the country is known as investment. Therefore Capital formation is closely related to investment. Investment generally takes two forms:

i. Financial Investment and
ii. Physical Investment

Physical Investment related to real investment in the economy or industry, which is known as capital formation. Capital formation shows the change in gross fixed assets of productive units of manufacturing industries.

Capital formation refers to the creation of physical productive facilities such as building tools, equipment and roads. The process of adding to the amount of stock of the real assets produces growth in the economy. It means increasing a country's stock of real capital. It implies addition to the existing supply of capital goods in a country. It represents an additional new capital stock to existing stock after deducting depreciation, damage and other physical deterioration of the existing capital stock. Economic progress in country depends upon its rate of capital formation. Hence, a key factor in the development of an economy is the mobilization of domestic resources. In the process of capital formation, the capacity to save by certain classes of people and institution becomes quite important. These people have varied asset-preferences, which change from time to time. The need of entrepreneurs who actually use savings for productive purpose also varies over time (Pradhan and Yadav: 2002).

According to Yadav Pant (2003), "*A bank is a service-oriented institution, which provides many kinds of services for its customer, all of which are equally important*".

Moreover, the quality of services should be up to the mark to meet the customer's requirement. Customers are the key players for a service organization, without them such organization can not exist.

2.3 Review of Legislative Provision

Legislative environment has significant impact on the commercial banks established, their mobilization and utilization of resources. All the commercial banks have to conform to the legislative provisions specified in the commercial Bank Act, 2031 and the rules and regulation formulated to facilitate the smooth running of commercial banks.

2.3.1 Compulsory Cash Reserve Ratio (CRR) and Refinancing

Under the provision in Nepal Rastra Bank, (NRB) Act 2002, the NRB has formulated and implemented five annual monetary policies so far. The focus of monetary policy has been to insure price, external and financial sector stability so as to create the environment supportive for high and sustainable economic growth.

NRB issues new monetary policy on 2010 for fiscal year 2010/11. The provision under this policy are as follows:

- The compulsory cash reserve ratio (CRR) has been kept unchanged at minimum 5 percent on account.
- The bank rate has been kept unchanged at 6.25 percent. This rate has been used to impose penalty on the amount of shortfall if any commercial bank fails to maintain the CRR.
- The refinance rate on export credit in Nepalese currency has been lowered by 1 percentage point to 2.5 percent from 3.5 percent. The refinance rate to rural development banks however has been kept unchanged at 3.5 percent.
- The sick industries refinance rate has been kept unchanged at 1.5percent.
- The sick industry refinance facility of Rs. 2.0 billion has been continuing for 2010/11 as well. The sick industry refinance facility has been put in place since 2002/03.

- NRB will continue the refinance facility of Rs. 500 million, similar to sick industry refinance, on the loans used by dalits, indigenous, backward, madheshi, and marginalized group as defined by the GON and on the loans used for foreign employment with objectives of providing relief to these sections of society and promoting foreign employment.
- In the context of commercial banks providing substantial amount of short -term credit to the development banks and finance companies, the penal rate has been increased from 1.5 percent to 2 percent to check the misused of standing liquidity facility (SLF).

Policy Guidelines on the Establishment of the Commercial banks under the act of bank and financial institution 2063 NRB issue new policy to establishment of bank and financial institution on 2063/03/29 and timely changed on 2063/12/13 as follows:

- Paid up Capital: To establish a commercial bank of national level the paid up capital must be at Rs. 2000 million.
- Share Capital: In general, the share of commercial banks will be available for the promoters (70 percent) and general public (30 percent). To operation joint venture of the foreign banks and financial institution could have a maximum of 85 percent to minimum 20 percent share investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 15 percent of total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire more than 50 percent of the total share. Within 15 percent the bank and financial institution put off provision 5 percent for its staff.
- Banks already in operation: Banks those are already in operation and have already acquired letter of intent before the enforcement of these provisions have to bring their capital level within seven years, i.e. by 30Ashad 2070, as per the recently declared provision.

- Legal procedure: Banks to be established with foreign promoters' participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.
- Promoter's share payment procedures: Of the total committed share capital, the promoters have to deposit in NRB an amount equal to 5 percent along with the application and another 45 percent at the time of receiving the letter of intent on a interest fee basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the bank comes into operation. Normally, within 4 months from the date of filling of the application, NRB should give its decision on the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concerned body.
- Promoters' qualification and experience: Action on the application from promoters will not be initiated if it is proved that their collateral has been put on auction by the bank and financial institution as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit Information Bureau and 3 years have not elapsed from the date of the removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process for license issuance if the above events are proved. Of the total promoters, one - third should be at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, banking or statistics. Likewise, one-fourth promoters should have the work experience of bank or financial institution or similar nature.
- Promoters' share: Promoter Group's share can be disposed or transferred only on the condition that the bank has been brought in operation, the share allotted to the general public has been floated in the market and after completion of 3 years from the date it has been registered in the Stock Exchange. But before the disposal of such shares it is mandatory to get approval from NRB. The share allotted to general public has to be issued and sold within 3 years from the date the bank cannot issue bonus shares or declare and distribute dividends, shareholders of the

promoters group and their family members cannot have access to loans or facilities from the same institution.

- Disqualify from becoming director: An individual who is already serving as a director in one of the bank or financial institutions licensed by NRB cannot be considered eligible to become the director in other banks or financial institutions. Also, stock brokers, market makers and also an individual and institution involved as an auditor of the bank and institutions carrying on financial transactions cannot be a director.
- Investment: One person, family, firm, invest maximum 15 percent of a firm and 1 percent of another firm.
- Promoter: No more than one promoter from one family in one firm.

While reviewing the books and articles and past studies, it is found that banks are not just the storehouse of the country's wealth but also are the reservoirs of resources necessary for economic development and employment generation. There are still different obstacles in the effective operation of the commercial banks in Nepal. Therefore these obstacles should be eradicated for the economic development of Nepal.

The review of above relevant literature helps me to better understand the Investment policy of Commercial banks and its main drawbacks and problems. On the basis of feedback derived from the literature review further analysis of my study had been under track.

2.4 Review of Thesis

There are numerous research have been performed on investment policy of Commercial banks. The findings of some of the studies are presented below.

Loudari (2001) studied about the investment policy in his research entitled "*A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.*" with the objectives of:

- To examine the liquidity asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
- To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI Bank Ltd.
- To analyze relationship between deposit and investment, deposit and loans and advances, net profit and outside assets of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.

The study was conducted through secondary data. The research findings of the study are as follows:

- Current ratios for both the Banks is satisfactory.
- Although cash reserve ratio (CRR) is managed by both banks as per Nepal Rastra Bank directives, both banks have not paid sufficient insight toward cash management. Their cash reserves have fluctuated in a high degree.
- Nepal SBI Bank Ltd. has increased investment in government securities where as Nepal Indosuez Bank Ltd. has decreased.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and share and debenture than that of Nepal SBI Bank Ltd.
- The analysis of growth ratios shows that growth ratios of total deposits, loans and advances, total investment and net profit of Nepal Indosuez Bank Ltd. are less than that of Nepal SBI Bank Ltd.
- The trend value of loans and advances to total deposit ratio is decreasing in case of both the banks. The trend value of total investment to total deposits ratio is also decreasing in case of both the banks.

Bohara (2002) also pointed some bases of investment policy in his thesis entitled "A *comparative study on Investment Policy of Joint Venture Banks and finance companies of Nepal"*.

The main objectives of the study were as follows:

- To analyze the investment policy of joint venture banks.

- To analyze the investment deposit relation of selected banks and financial companies.
- To evaluate the total deposit and loans and advances of the banks and finance companies.

The main findings of his study were as follows:

- The sample firms have the higher current ratio than 1, so the liquidity position of those firms is good, they can easily maintain the liquidity crisis, the cash and bank balance to total deposit ratios of finance companies is higher than that of JVBS.
- The average loan and advance to total deposit ratios of finance companies are higher than JVBS, which indicate that finance companies are successfully invested their deposit collections as loan and advances in comparison to JVBS.
- Total investment to total deposit ratio of JVBS except BOK is greater than that of finance companies.
- Profitability position of the JVBS except BOK is better than that of finance companies. But return on total asset ratios is higher than that of JVBS.
- JVBS have a large amount of risk weighted assets than finance companies. Comparatively, interest-bearing liabilities are lower in JVBS and they have more interest bearing assets.
- The growth ratio of total investment of finance companies is comparatively higher than that of JVBS.
- Finance companies have the higher correlation coefficient between total deposit and Investment.
- Trend values of total investment and deposits of all the firms are in increasing trend.

Raya (2003) conducted research entitled *"Investment Policy and Analysis of Commercial Banks in Nepal" made a comparative study of SCBNL with NIBL and NB Bank".*

The main objectives were as follows:

- To discuss fund mobilization and Investment policy of SCBL in respect to its fee based off-balance sheet transaction and fund based on balance sheet transaction.
- To evaluate the quality, efficiency and profitability and risk position.

- To evaluate trend of deposit, investment, loan and advances and projection for next years.

  The main findings were as follows:
- Mean current ratio of SCBL is slightly higher than that of SCBL and Nepal Investment bank.
- Mean ratio of cash and bank balance to total deposit of SCBL is lower than NIBL and NBBL.
- Liquidity position of SCBL is comparatively better than NIBL and NBBL. It has the lowest cash and bank balance to total deposit and cash and bank balance to current ratio. SCBL has a good deposit collection. It has made enough Investment on government securities but it has maintained low investment policy on loan and advances.
- SCBL is comparatively average successful in it's on balance sheet operation. But off balance sheet operation activities in compared to NIBL and NBBL has maintained the strong position.
- SCBL is comparatively higher position than that of other banks, as well as its use to provide interest to the customers for different activities.
- There is significant relationship between deposit of loan and advances and between asset and net profit of SCBL.

Silwal (2004) in his thesis entitled "*Investment Policy of Commercial Bank: a comparative studies of NABIL and SBI Bank*" mentioned some important findings as follows:

- The liquidity position of a bank is affected by external as well as internal factors. The affecting factors may be interest rates, position of loan and advances and savings, investment situations, central banks directives, the lending policies, capability of management and so forth. As NABIL has maintained ratios of cash and bank balance to total. So, NABIL is recommended to increase cash and bank balance to meet current obligation and loan demand.
- To get success in competitive banking environment, depositor's money must be utilized as loan and advances. Negligence in administering this asset could be one

of the main reasons of a bank failure. It has been found from the study that SBI has greater ratios of all because its large portion of fund is invested as loan and advances but neglected to invest on other sectors. NABIL has not properly used its existing fund as loan and advances. To overcome this situation NABIL is strongly recommended to follow liberal lending policy.

- Commercial banks can not move away from their target that is profit and customers satisfaction. They should be careful in increasing profit to maintain the trust of shareholders, investors and customers. SBI profitability position is worse than that of NABIL. So, SBI is recommended to utilize risky assets and shareholders fund to gain highest profit margin.

Although the securities issued by government yields the lowest interest rates are considered to be risk free. From this study, it is found that SBI has maintained lowest in comparison to NABIL. Therefore, it is recommended to SBI that if it has idle funds it should invest them in government securities. It should always look from the "something is better than nothing" viewpoint.

- Most of the JVBs have focused their banking services especially to big clients such as multinational companies, large-scale industries and so forth. The minimum level of bank balance and the amount needed to open an account in banks are very high. So, small depositors are very far from enjoying the banking facilities provided by such JVBs. Therefore, these banks should open its door to the small depositors and entrepreneurs for promoting and mobilizing small investors funds.
- The project oriented approach has be encouraged in lending business of the banks, in which security is not necessary, risk is high but the project is important from the point of view of national economy. So, it is recommended to both banks to follow the project-oriented approach.
- In the light of growth competition in the banking sectors, the business of the banks should be customer oriented. It should focus not only towards big clients but also towards small clients.

Aryal (2005) also pointed some policies of investment; the banks have been adopting in his dissertation entitled *"Investment Policy of JVBs in Nepal: a comparative study of EBL with NABIL Bank and NB Bank Ltd."*

The major objectives were;

- To examine the liquidity asset management and profitability position and investment policy of EBL with NABIL Bank and NB Bank Ltd.
- To analyze the relationship of deposit and investment, deposit and loan and advances and net profit.
- To evaluate the growth rates in total deposit, loan and advances and investment position.

The major findings were;

- The liquidity position of EBL is comparatively better than NABIL and NBBL. It has higher cash and bank balance to total deposit can cash bank balance to current assets ratio. It has made enough investment on government securities but has maintained moderated investment policy on loan and advances.
- EBL is comparatively average successful in it's on balance sheet operation as well as off balance sheet activities in compared to NABIL and NBBL.
- Profitability ratio of EBL is comparatively worse than the NABIL and NBBL.
- Risk ratio shows that EBL has maintained higher risk which indicates heterogeneous variability in its operation. Whereas there is moderate risk taken by NABIL and NBBL
- EBL has the highest value of coefficient of correlation between deposit and loan and advances that other compared banks. EBL is moderately successful in mobilization of fund and earn return i.e. net profit from such mobilized funds.
- The deposit of EBL, NABIL and NBBL are in increasing trend which leads its profit also to the increasing trend.
- There is significant different between OBS operation to loan and advances of EBL, NABIL and NBBL. Likewise there is significant difference in between total interest earned to total outside assets of EBL, NABIL and NBBL.

Maharjan (2007) analyzed the investment policies of Joint Venture commercial banks in the thesis- "*Investment Policy Analysis of Joint Venture Banks in Nepal*: *a comparative study of HBL bank with Nepal SBI bank and Nepal Bangladesh Bank*."

The objectives of the study were;

- To examine the current profitability trend of the selected banks.
- To evaluate the investment policy of the banks.
- To analyze the impact of investment policy on the performance of the sample banks.

The major findings were;

- HBL is one of the successful commercial banks of Nepal whereas Nepal SBI and Nepal Bangladesh are in increasing developing period.
- HBL has made a great achievement within last 10 years period and also said that only joint venture commercial banks are running in profit. And HBL is one of the successful commercial banks of Nepal. Nepal SBI is still in developing period. Nepal Bangladesh is also increasing its developing period. HBL has made a great achievement within last 10 years period. It has also invested in different sectors. These commercial banks should take favorable step for the development of rural parts of the country.

Joshi (2008) also mentioned some important findings related with investment policy of commercial banks in his dissertation - "*Investment Policy of Commercial Bank of Nepal a comparative study of EBL with NABIL Bank and BOK."*

The objectives of the study were;

- To find out the capital position and their profit trend for the upcoming years.
- To analyze the investment policy of the sample banks.
- To evaluate the deposit position and loan and advances and different types of loans.

The major findings were;

- EBL has higher idle cash and bank balance. It may decrease profit of bank. EBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.

- Before mobilizing funds, EBL is recommended to collect a large variety of deposit through schemes like cumulative deposit scheme, price bonds scheme, gift cheque scheme, house building deposit scheme, recurring deposit scheme, deposited linked life insurance scheme, monthly interest scheme, direct finance housing scheme, education loan and scheme, vehicle loan scheme, and many others.
- It is good to invest more on share & debentures as it encourage financial and economic development of the country. A commercial bank must mobilize its fund in different sector such as to purchase share & debentures of other financial and non financial companies out of total working fund. EBL has invested its more of the funds i.e. total investment on total deposit ratio, in comparison to other commercial banks but percentage of investment on share and debenture in very nominal.
- Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said "all eggs should not be kept in the same basket".
- EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor's fund. So it is recommended that the bank should fix minimum level of bank balance and the amount needed to open an account should also be affordable for such small depositor's.
- The risk taken by EBL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle. Rather, before taking any of the risk as stated above, EBL should carefully study it so as to achieve higher returns from the above risk.

Ojha (2009) made research on lending procedures of commercial banks in the thesis entitled *"Lending Practices: A study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd."* with the objectives of;

- To determine the liquidity position, the impact of deposit in liquidity and its effect on; lending practices.

- To measure the bank's lending strength.
- To analyze the portfolio behaviour of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.
- To measure the lending performances in quality, efficiency and its contribution in total income.

The study was conducted on the basis of secondary data. The research findings of the study are:

- The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current asset.
- The measurement of lending strength in relative terms has revealed that the total liability to total assets of SCBNL has the highest ratio. The high ratio is the result of high volume of shareholder equity in the liability mix. Himalayan Bank Ltd. has high volume of saving and fixed deposits as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean.
- The loan and advances and investment to deposit ratio has shown that NABIL Bank Ltd. has developed the highest proportion of its total deposits in earning activities. This is the indicative of that in fund mobilizing activities NABIL Bank Ltd. is significantly better.
- The lending in commercial purpose is highest in case of NABIL Bank Ltd. and least in case of SCBNL. SCBNL has highest contribution in service sector lending. It has contributed 25.47% of its total credit in general use and social purpose.

Khatiwada (2011) tried to analyze the investment of some selected commercial banks in the dissertation entitled "*Investment analysis of Commercial Banks in Nepal a comparative study of NEB, NSBI, BOK, HBL, NIBL.*"

The major objectives were:

- To analyze the investment policy of sample banks.
- To examine the investment trend of sample banks.

- To analyze investment sector of sample banks.
- To examine the effect of investment policy on performance.

The major findings of the study were;

- Mean ratio of HBL investment to total commercial banks investment is 10.64% which is extremely higher than other banks. The portion of HBL investment is increasing every year. The ratio of NSBI and BOK is 3.61% which is less than other banks.
- NSBI had invested most of its fund in government securities than other banks. Likewise, EBL, BOK, HBL, and NIBL had started to invest in other sector from FY 2062. All these banks have invested fewer funds in share and capital of other companies. The commercial banks mostly invest on government securities, NRB bond and share and debentures of other company.
- The mean ratio of Investment of Total Deposit of HBL is 31.60% which is higher than other banks. Likewise NIBL, BOK, EBL and NSBI. Loan and advances is also another type of Investment of Commercial bank. The mean ratio of Investment plus loan and advances to deposit ratio of NSBIBL is 107.63% which is higher than other banks, HBL has less than other banks. It shows that the bank uses most of its fund from deposit on Investment and loan and advances. The mean ratio of total investment to total assets ratio of HBL is 26.88% which is greater than other banks. Similarly EBL has fewer ratios than other banks. The mean ratio of investment on government securities to total assets ratio of NSBIBL is 20.80% which is higher than other banks and NIBL has 11.44% which is less ratio than other banks. The mean ratio of investment on share and debenture to total asset ratio of BOK is 2.31% which is higher than other banks. BOK has use its more fund on share and debenture of other companies than other banks. EBL has 0.11% which is less ratio of investment on share and debenture of other companies than other banks. It means EBL less invest its fund on share and debenture.

Rana (2012) has conducted a study entitled on *" Financial Performance of Commercial Bank with Special Reference to Himalayan & NABIL Bank Ltd."* The main objective of the study is to analyze the liquidity position & the profitability of these two banks is as follows.

- To analyzed the liquidity management of sample banks
- To analyze the deposit and investment position of the banks.
- To find out the relationship between deposit, investment, loans and advances and net profit.
- To find out the trend analysis of deposit, investment, loans and advances and net profit.

Major findings of the study are as follows:

- The high liquidity ratios are maintained by these banks.
- The measurement of assets management has revealed that the total liability to total assets of NABIL has the highest ratio than of NABIL.
- Considering EPS, performance of NABIL is better than NABIL but comparing net profit and shareholders' equity, the performance of NABIL is better.
- The overall liquidity ratio of NABIL is better, it has low degree of surviving capacity in the adverse liquidity position caused by interest sensitive deposit.

Dhungana (2012) has conducted a study entitled on *"Investment & Liquidity Management of Insurance Companies."* The specific objectives of the study are as follows;

- To analyze the investment pattern.
- To analyze liquidity management of the Insurance companies.
- Trend of profit of the insurance companies.

The major findings of the study are as follows:

- Most of the insurance companies are found investing in government securities & debenture, share of other companies' securities, bank & finance companies.
- They are not investing in real estate and mutual fund.
- All insurance companies seem to be risk avoiding while making their investment.

2.5 Research Gap

Since so many years the study has been done on the topic investment analysis. Most of the studies were related with secondary data. They mainly focus on the reports based on the data available. However, such special study related to awareness regarding investment analysis has been limited. The main gap in these studies is the specific analysis of investment of the commercial banks. These studies are failed to deep search the latest rend and focus in the case of banks' investment. In its contrary here in this study, the researcher has attempted to evaluate the primary as well as secondary data by conducting field survey, in order to know somehow about the practical experience of investment analysis. So this study will be fruitful to those interested persons, students, scholars, stakeholder, Civil Society, teachers, businessmen and government for academically as well as policy perspective.

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. Research methodology describes the methods and process applied in the entire subject of the study. This chapter attempts to have an insight into the investment policy adopted by HBL and EBL.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances (*Kerlinker, 1996 P. 72*).

According to Wolff and Pant (2003), "Research design is an overall framework or plan for the collection and analysis of data".

3.3 Sources of Data

Mainly, the study is conducted on the basis of the primary as well as secondary data. Primary data obtained from and questionnaire analysis. The secondary data required for the analysis are directly obtained from the balance sheet and the profit and loss account of the concerned banks' annual reports. Supplementary data and information are collected from the number of institutions and regulating authorities like NRB, Economic Survey and national planning commission etc. All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Primary data obtained from questionnaire survey report. Formal and informal talks with the concerned authorities of the banks were also helpful to obtain the additional information of the related problem.

Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4 Data Presentation

The presentation of data is the basic organization and classification of the data for analysis. There are a number of methods which can be used to simplify the data. The easiest way to understand data is by examining it in tables, diagrams and graphs. Before presenting and analyzing the data, they should be corrected by editing, coding, classification and tabulation.

3.5 Population and Sample

The limitation of time and unavailability of the relevant data has forced this researcher to focus the study on the HBL and EBL only even though there are 32 commercial banks established in Nepal. These two are selected from this population. In this chapter the above banks are thoroughly studied and their investment performances are comparatively studied.

3.6 Method of Analysis

Different kinds of accounting and statistical tools are available to meet the purpose of any study or to check and analyze the facts and data collected for the purpose of the study. These tools may be from very simple average to highly sophisticated ones. Because of limited time, resource and nature of the study simple analytical statistical tools such as simple average, percentage, graph and standard deviation are adopted in this study. Simultaneously, accounting tool such as ratio analysis has been used for the analysis.

3.6.1 Financial Tools

“A widely used tool for the financial analysis is ratio analysis. It is defined as the systematic use of ratio to interpret the financial statement so that the strength and

weakness of a firm as well as its historical performance and current financial condition can be determined" (Khan & Jain, 1999; P117).

"The weakness of management and strength of it can be found through ratio analysis. So an organization should use this tool to know about its situation and to take corrective action. In order to bargain more effectively for outside funds, the management of a firm should be interested in all aspect of financial analysis that outside supplier of capital use it in evaluating the firm" (Van Horne; P758)

A ratio is a mathematical relationship between two related items expressed in quantitative form. It may be expressed in proportion, in rate or times, or in percentage. Hence, an analysis of financial statement with the help of ratios may be termed as ratio analysis. Some of the ratios used in this research are as follows:

3.6.1.1 Liquidity Ratios

Liquidity ratios are used to measure the firm's ability to meet the short term solvency of the company. There are three types of liquidity ratios.

i. Current Ratio: "Current ratio is the relationship of current assets and current liabilities. The current asset is those assets, which can be converted into cash within short period." (Dangol, 2054; P372)

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

Current assets includes inventories, cash in hand, cash in bank, bill receivable, account receivable, marketable securities, prepaid expenses, loan and advance etc. and whereas current liabilities includes bills payable, cash credit, outstanding expenses, bank overdraft etc.

The ratio shows that the firm's current position to pay its current obligation. Higher ratio shows the favorable position of the firm. Standard of this ratio is taken 2:1. Lower the

ratio indicates unfavorable position of the firm. This shows the solvency position of the business is not good.

ii. Quick Ratio/Acid-Test Ratio or Liquid Ratio: The ratio is calculated by using following formula.

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

All the current assets are not equally liquid so quick assets do not include those current assets which are not converted in short period. The examples of these assets are prepaid expenses and inventories. The standard ratio is taken as 1:1.

3.6.1.2 Profitability Ratio

Profit is the main objective of the firm. The company should aim at earning maximum profit by fulfilling social responsibilities. It is necessary to have enough profit, to meet the different obligations of the firm. Every investor invests his saving only after when he is confident of reasonable return.

In addition, the adequate return to its shareholders depends on profitability of company. In other words, profit provides money for repaying debt and providing internal funds. Therefore, it shows the overall efficiency of the business concern. Following profitability ratios have been used in the present study.

i. Return on current assets: This ratio analysis the earning power of the current assets of the company. This ratio is calculated by dividing net profit by total current assets.

ii. Return on net working capital: This ratio measures the profitability of net working capital & also shows the efficiency of working capital. The ratio is obtained by dividing the net profit by net working capital.

iii. Return on investment: Investments refers to the long term funds supplied by the creditor and owner of the firm. It is also known as net worth. It can be computed in two ways. First, it is equal to long term liabilities plus owner's equity. Alternatively, it is equivalent to net working capital plus fixed assets. It is calculated by dividing net profit by capital employed.

The higher ROI shows efficient use of long term fund.

3.6.1.3 Turnover Ratio

The relationship between sales and assets are indicated by turnover ratios. It is also known as activity, efficiency, or assets utilization ratio. This ratio shows efficiency of asset management, i.e. how efficient the assets management is. It means how efficient and rapidly, firm can convert its assets into sales. The greater turnover ratio indicates higher utilization of assets. Thus, it measures the degree of effectiveness in use of resource or fund by a firm. There are following turnover ratios that can be calculated.

i. Inventory Turnover Ratio: The inventory turnover ratio measures how quickly inventory can be converted into sales. It is the test of efficient inventory management. It is computed by dividing the cost of goods sold by the average inventory for the period. The method of calculating this ratio is as follows.

$$\text{Inventory Turnover} = \frac{\text{Sales}}{\text{Inventory}}$$

A high inventory turnover is the indicator of good inventory management. A low inventory turnover implies excessive inventory levels than warranted by production and sales or over investment on inventory or a slow moving inventory.

ii. Receivable (Debtor) Turnover Ratio: This ratio shows the relationship between sales and account receivable of the company. It indicates the velocity of debt collection of the

firm. In other words, the debtor turnover ratio is a test of the liquidity of debtors of a firm. It can be calculated in two ways.

$$\text{Debtor turnover} = \frac{\text{Sales}}{\text{Debtors}}$$

The higher the ratio, the more efficient is the management on collecting the debtors. It indicates that within a short period, the firm is collecting the cash from debtors. A low ratio shows that debts are not being collected rapidly.

iii. Current Assets Turnover Ratio: This ratio shows relationship between current assets and sales. It analyses how far company can efficiently utilize its current assets. The ratio shows the requirement of working capital for one rupee of sales. It can be calculated as follows.

$$\text{Current assets turnover} = \frac{\text{Sales}}{\text{Current assets}}$$

A low working capital turnover relation may reflect an inadequacy of working capital because of low turnover of inventory or receivable.

iv. Cash and Bank Balance Turnover Ratio: It shows the effectiveness of management in case of application of cash in ordinary course of business. It measures how rapidly cash can convert into sales in the company. It is calculated by sales divided by cash & bank balance, which can be shown in the following formula.

$$\text{Cash turnover} = \frac{\text{Sales}}{\text{Cash \& bank balance}}$$

The higher ratio indicates cash is rapidly converted in sales and good cash management and how ratio indicates show, weak cash management.

3.6.2 Statistical Tool

The help of statistical tools is essential to measure the relationship of two or more variable. In this study, the following statistical tools are used.

3.6.2.1 Standard Deviation

"Standard deviation is the most popular and most useful measures of dispersion and gives uniform, correct and stable result." (Joshi, 1986; P158) the chief characteristic of standard deviation is based on mean. Mean doesn't give the clear picture about two distributions with same average because scattered may differ in those distributions.

Therefore, a standard deviation is superior to the mean deviation, quartile deviation and range because it is used for further mathematical treatment. It is the positive square root of average sum of squares of squares of average sum of squares of deviation of observation from the arithmetic mean of the distribution. Different formulae can be used to calculate standard deviation, among them following formulae has been used here.

$$\text{Standard Deviation}(\sigma) = \sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2}$$

3.6.2.2 Co-efficient of Variation (CV)

"Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the coefficient of standard deviation .The percentage of measure of co-efficient of standard deviation is called co-efficient of variation". (Bajracharya, 2057, P179/180)

It is denoted by C.V. Thus,

$$C.V = \frac{\sigma}{\bar{X}} \times 100$$

Where,

$\exists$ = Standard deviation

$\bar{X}$ = Mean value of variables

It is used for comparing the homogeneity and the uniformity of two or more distributions. The less the CV, more the uniformity and consistency etc will be and the more the CV is the less the uniformity, consistency etc. will be.

3.6.2.3 Correlation Co-efficient (r)

"Correlation co-efficient is defined as the association between the dependent variable and independent variable. It is a method of determining the relationship between these two variables. It is the two variables are so related the change in the value of dependent variable then it is said to have correlation coefficient". (Shrestha & Silwal, 2059; P315). It can be calculated by using the method of Karl Person's Correlation Co-efficient, which is a widely used mathematical method of correlation co-efficient between two variables.

The formula for computing the correlation coefficient(r) using direct method is as follows:

$$\text{Correlation coefficient}(r) = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2} \times \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

N = Number of pairs of X and Y observed

X = Values of Investment, Loan and Advance

Y = Values of Total Deposit

r = co-efficient of correlation

3.6.2.4 Multiple Regression Analysis

In multiple regression analysis, two or more independent variables are used to predict the valued of a dependent variable. It is a statistical technique for investigating the relationship between one dependent variable and a set of two or more independent variables. It is used to predict (or control) relationship between profit (dependent variable) with two independent variable (investment plus loan and advance) and deposit.

3.6.2.5 Trend Analysis

Trend analysis includes the projection of unseen future based on the historical data. Here the trend analysis is specially used to forecast the investment in consequent five years.

3.6.2.6 Probable Error

The probable error of the correlation co-efficient is applicable for the measurement of reliability of the computed value of the correlation co-efficient 'r'. It is also denoted by P.E. It is calculated by the following formula.

$$P.E. = \frac{0.6745\ (1- r^2)}{\sqrt{N}}$$

Where,

r = Correlation Co-efficient

n = Number of pairs of observation.

P.E. is used to interpret whether the calculated value of r is significant or not.

i. If r < P.E., it is insignificant, i.e. there is no evidence of correlation.

ii. If r > P.E., it is significant.

iii. P.E. < r < 6 PE nothing can be concluded.

3.6.3 Segregation of Investment

Segregation of investment comprises the components of overall investment. Mostly commercial banks are found to invest in government securities, share and debentures of other companies, NRB bonds and other sector.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter is concerned with financial analysis and statistical analysis that is concerned about comparative analysis and interpretation of available data. Various financial and statistical tools have been used in this part. Necessary figures and tables are also presented in this part to describe about the Investment mechanism of the banks.

4.1 Presentation and Analysis of Secondary Data

This section provides interpretation and analysis of secondary data. The main purpose of this chapter is to study, evaluate and analyze those major financial performances, which are mainly related to the investment management and fund mobilization. It is notable that all types of financial ratios are not studied under this chapter. Some of the important ones are highlighted under different sections.

4.1.1 Ratio of Sample Banks Investment to Commercial Banks Investment

This ratio indicates the portion of investment made by sample banks.

4.1.1.1 Ratio of HBL Investment to Total Commercial Banks Investment

This ratio indicates the portion of investment made by Himalayan bank to total investment made by commercial banks of Nepal. It shows how much Himalayan bank is directly involved in investment. And the ratio is derived by dividing investment made by HBL by Total Investment made by commercial banks.

Table No. 4.1

HBL Investment to Total Commercial Banks Investments Ratio (Rs. in millions)

Year	Total Investment of commercial banks	HBL Investment	Ratio (%)
2064/065	49669	2878	5.79
2065/066	60181	5510	9.16
2066/067	82172	10891	13.25
2067/068	92581	11822	12.77
2068/69	108955	13340	12.24
Mean			10.64
S.D			2.81
C.V.			0.26

Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.1 shows ratio of the investment made by HBL and total commercial banks. From the table it shows that the HBL portion on total investment for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 5.79, 9.16, 13.23, 12.77 and12.24 respectively. The portion of investment made by HBL is increasing each year except in 2064/065. In the FY 2066/067 the ratio is almost 13.25%, which is optimum during the study period. The mean is 10.64 during the study period.

4.1.1.2 Ratio of EBL Investment to Total Commercial Banks Investment

This ratio indicates the portion of investment made by EBL to total investment made by commercial banks of Nepal. It shows how much EBL has invested. The ratio is derived by dividing investment of EBL by Total Investment of commercial banks.

Table No. 4.2

EBL Investment to Total Commercial Banks Investment Ratio (Rs in Millions)

Year	Total Investment of Commercial Banks	EBL Investment	Ratio (%)
2064/065	49669	2483	5.00
2065/066	60181	2120	3.52
2066/067	82172	4201	5.11
2067/068	92581	4985	5.38
2068/069	108955	5059	4.64
Mean			4.73
S.D			0.65
C.V.			0.14

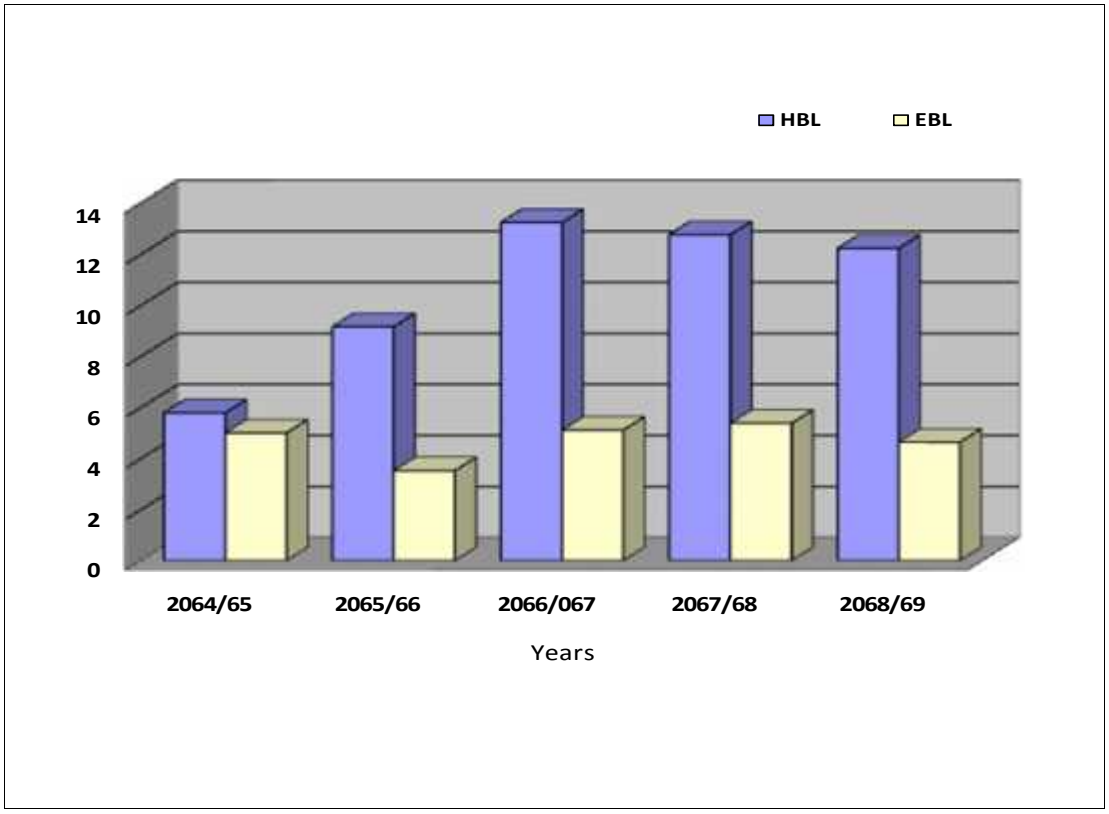
Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.2 shows the investment made by all commercial banks and EBL alone. From the table it shows that the EBL portion on total investment for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 5.00, 3.52, 5.11, 5.38 and 4.64 respectively. From the table it is seemed that portion of investment made by EBL is increasing every year except in 2065/066. The mean ratio is 4.73 during the study period.

These two tables (table no. 4.1 and 4.2) show that HBL covers more percentage of investment than EBL. Mean of the ratios of HBL investment is also higher than that of EBL. Similarly the standard deviation and coefficient of variation between the ratios of HBL Investment to total commercial bank is comparatively higher than of EBL. It means there is more variability in investment in HBL than of EBL. It is due to higher rate of increment of investment pattern in HBL. It can be concluded that the investment made HBL is increasing.

Figure No. 4.1:

Total Investment Ratio of Sample banks to Total Commercial Banks (in millions)



Source: Table No. 4.1 and 4.2

Figure No. 4.1 shows the total commercial banks' investment to total investment ratio of sample banks in which HBL has higher investment than EBL during the study period.

4.1.2 Segregation of Investment

4.1.2.1 Segregation of Investment of HBL Bank

HBL invest its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies, NRB bonds and other sector. Here an attempt is made to segregate the Investment made by HBL.

Table No. 4.3

Segregation of Investment of HBL (Rs in millions)

Year	Investment (Total)	Gov. Sec	%	Shares & Deben.	%	NRB Bond	%	Others	%
2064/065	2878	2782	96.67	96	3.33				
2065/066	5510	5470	99.27	40	0.73				
2066/067	10891	5145	47.24	40	0.37			5706	52.39
2067/068	11822	6455	54.60	72	0.61			5295	44.79
2068/069	13340	7472	56.01	90	0.67			5191	38.91

Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.3 shows the investment made by HBL in different sectors. HBL is found to invest its fund in Government securities, shares and debenture of other industries, NRB bond and others. From the fiscal year 2064/065 to 2065/066 the most of investment in Government Securities and least of investment in share and debentures of other companies are seen but from the FY 2065/066 its investment in other sector is also seemed to be increased. It can be concluded that HBL is increasing its investment in different sectors.

4.1.2.2 Segregation of Investment of EBL Bank

EBL invests its collected funds in different sectors. Mostly commercial banks are found to invest in government securities, share and debentures of other companies, NRB bonds and other sector. EBL and HBL have to consider profitable to spread their investment in other sectors also. Here an attempt is made to segregate the investment made by EBL.

Table No. 4.4

Segregation of Investment of EBL (Rs in millions)

Year	Investment	Gov. Sec	%	Shares and Deben.	%	NRB Bond	%	Others	%
2064/065	2483	2466	99.32	17	0.68				
2065/066	2120	2100	99.06	20	0.94				
2066/067	4201	3549	84.48	20	0.47			632	15.05
2067/068	4985	4705	94.38	20	0.40			260	5.22
2068/069	5059	4906	96.98	16	0.32			138	2.73

Source: Banking and Financial Statistics, NRB 068/069

The table 4.4 show the investment made by EBL in different sectors. EBL is found to invest its fund in Government securities, shares and debenture of other industries. It is seemed that the most of its fund investment is in government securities and less in share debenture of other industries. From the FY 2065/066, it has invested in other sectors too. It can be concluded that EBL has started to increase and investment in other sector too but still less investment in share and debentures.

It can be concluded that the investment made by the sample banks in different sectors are increasing. It is found that mostly sample banks are investing its fund in Government securities, share and debenture of other industries, NRB bond and other sectors.

4.1.3 Asset Management Ratio

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

4.1.3.1 Ratio of Total Investment to Total Deposit

A commercial bank may finance its deposit fund to small industries building up of bank credit depends upon mutual connections and relationship between the banks and the customers. Banks needs to satisfy themselves regarding the technical knowledge and capacity for hard and sustained work on the part of borrows and the quality and marketability of the goods produced by them. Therefore commercial banks may mobilize its bank deposit by investing its fund in different securities issued by government and other financial or non-financial companies. Now effort has been made to measure the extent to which the banks are successful in mobilizing the total deposits on Investment.

In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement, central bank's norms etc. are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice versa. This ratio is calculated by dividing total Investment by total deposit.

Table No. 4.5

Total Investment to Total Deposit Ratio of HBL (Rs. in millions)

Year	Investment	Deposit	Ratio (%)
2064/065	2878	22761	12.64
2065/066	5510	24831	22.19
2066/067	10891	26456	41.71
2067/068	11822	29906	39.53
2068/069	13340	31805	41.94
Mean			31.60
S.D.			12.00
C.V.			0.38

Source: Banking and Financial Statistics, NRB 068/069

The table 4.5 shows the investment and deposit ratio of HBL. From the FY 2064/065 to 2068/069 the investment and deposit goes on increasing trend except in FY 2064/065 the investment decrease. From the table it shows that the HBL portion on total investment to

total deposit for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 12.64, 22.19, 41.71, 39.53 and 41.94 respectively. The average ratio of total investment to total deposit is 31.60, standard deviation is 12.00 and co-efficient variation is 0.38 percent.

Table No. 4.6

Total Investment to Total Deposit Ratio of EBL (Rs in millions)

Year	**Investment**	**Deposit**	**Ratio (%)**
2064/065	2483	8064	30.79
2065/066	2120	10098	20.99
2066/067	4201	13802	30.44
2067/068	4985	19098	26.10
2068/069	5059	23976	21.10
Mean			25.88
S.D.			4.28
C.V.			0.17

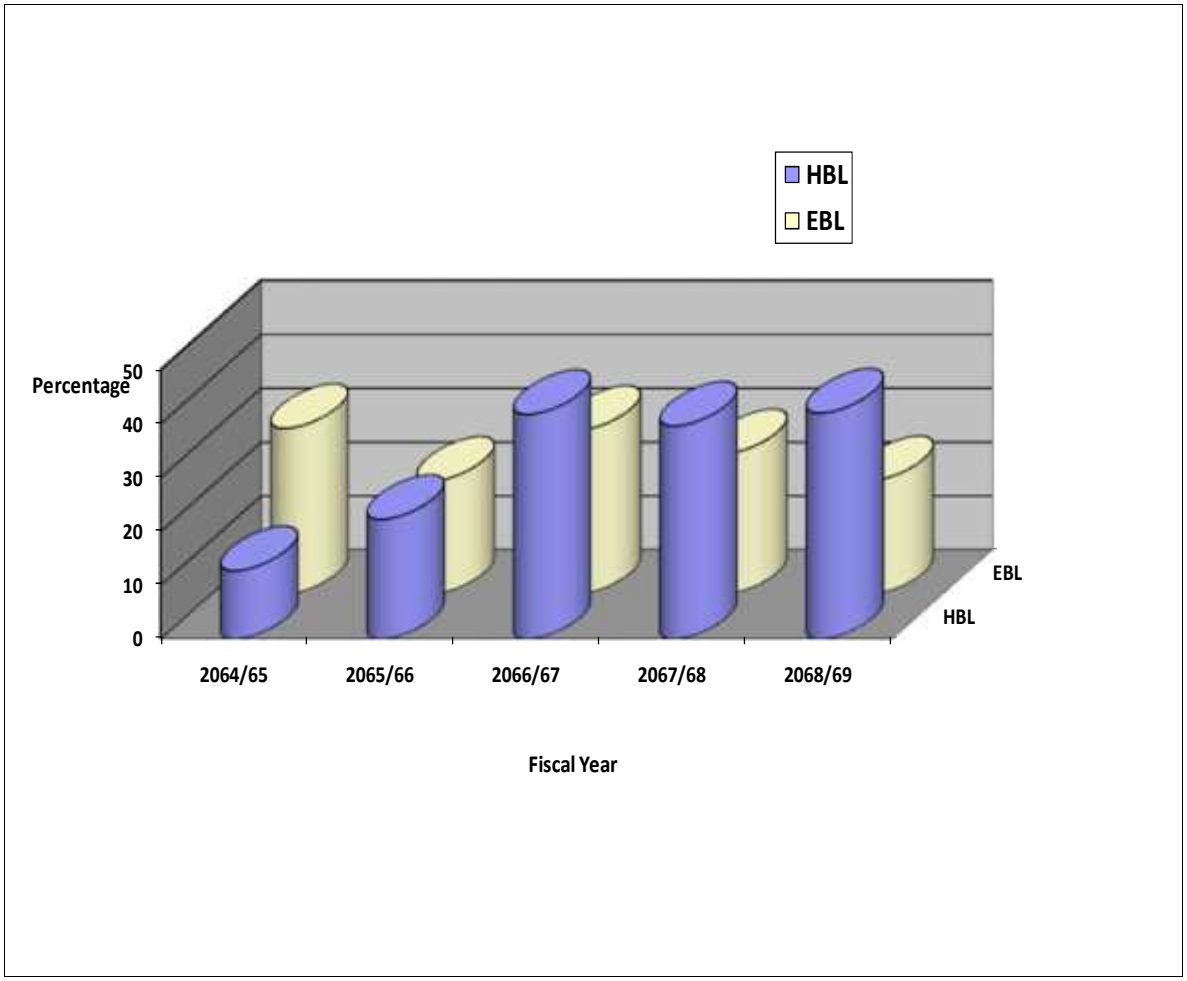
Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.6 it shows that the EBL portion on total investment to total deposit ratio for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 30.79, 20.99, 30.44, 26.10, and 21.10 respectively. From the table shows the investment and deposit ratio of EBL. From the FY 2066/065 to 2068/069 the investment and deposit goes on increasing trend except in FY 2064/065 the investment decrease. The average ratio of total investment to total deposit is 25.88, standard deviation is 4.28 and co-efficient variation is 0.17 percent.

The contributions of two HBL and EBL banks to the total investment can be compared as mentioned in the given figure.

Figure No. 4.2:

Total Investment to Total Deposit Ratio (in millions)



Source: Table No. 4.5 and 4.6

The figure (No. 4.2) shows that the total investment to total deposit ratio of HBL is greater than EBL except in the year 2064/65.

4.1.3.2 Ratio of Total Investment plus Loan and Advance to Deposits

Loan and Advancement is also another type of investment of banks. Since the major functions of commercial banks are of deposits collection and lending, it is very important to have a look at the credit to deposit ration. Lending is a high risk Investment for a bank and the main income source of the bank is also the interest earned from loan and advances. This ratio actually measures the extent to which the banks are successful to

mobilize the total deposits on Investment plus loan and advances for the purpose of profit generation.

A high ratio of investment plus loan and advancement indicates better mobilization of collected deposits and vice-versa. But it should be noted that too high ratio may not be better from its liquidity point view. This is calculated by dividing total Investment plus loan and advances by total deposits. Following are the ratio of total investment plus loan and advancement to total deposits of HBL.

Table No. 4.7

Total Investment plus Loan and Advancement to Deposits ratio of HBL

(Rs in millions)

Year	Investment Plus Loan and Advances	Deposits	Ratio (%)
2064/065	15960	22761	70.12
2065/066	18755	24831	75.53
2066/067	26406	26456	99.81
2067/068	29494	29906	98.62
2068/069	33325	31805	104.8
Mean			89.78
S.D.			14.09
C.V.			0.16

Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.7 shows the investment plus loan and advancement to deposit of HBL. From the table it shows that the HBL portion on total investment plus loan and advancement to deposit ratio for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 70.12, 75.53, 99.81 98.62 and 104.80 respectively. From FY 2064/065 to 2068/069 the investment plus loan and advancement to deposit goes on increasing. The average ratio of total investment plus loan and advancement to deposit is 89.78, standard deviation is 14.09 and coefficient variation is 0.16.

Table No. 4.8

Total Investment plus Loan and Advancement to Deposits ratio of EBL

(Rs in millions)

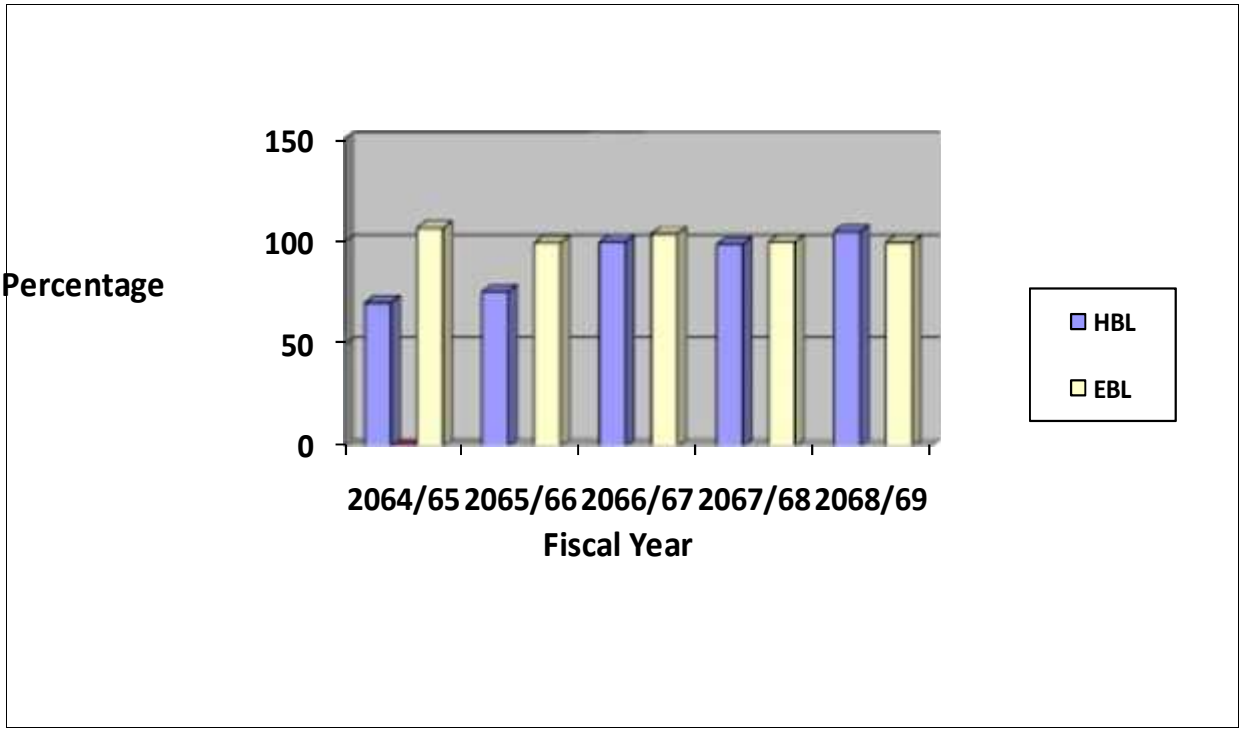
Year	Investment + Loan and Advances	Deposits	Ratio (%)
2064/065	8600	8064	106.48
2065/066	10034	10098	99.36
2066/067	14326	13802	103.79
2067/068	19044	19098	99.72
2068/069	23873	23976	99.57
Mean			101.78
S.D.			2.87
C.V.			0.03

Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.8 shows the investment plus loan and advancement to deposit of EBL. From the table it shows that the EBL portion on total investment plus loan and advancement to deposits ratio for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 106.48, 99.36, 103.79, 99.72 and 99.57 respectively. From FY 2064/065 to 2068/069 the investment plus loan and advancement to deposit goes on increasing. The average ratio of total investment plus loan and advancement to deposit is 101.78, standard deviation is 2.87 and coefficient variation is 0.03.

Figure No. 4.3:

Total investment plus Loan and Advancement to Deposits ratio (in millions)



Source: Table No. 4.7 and 4.8

The figure no.4.3 shows that the total investment plus loan and advancement to deposit of EBL is greather than HBL bank except in the year 2068/069

4.1.3.3 Ratio of Investment and Total Assets

A commercial bank's working fund should play very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on investment for the purpose of income generation. A high ratio indicates a better mobilization of fund as Investment and vice-versa. This ratio is calculated by dividing total investment by total assets i.e. total working fund. The following table exhibits the ratio of investment to total assets of HBL, and EBL

Table No. 4.9

Total Investment to Total Assets Ratio of HBL (Rs in millions)

Year	Investment	Total Assets	Ratio (%)
2064/065	2878	26751	10.76
2065/066	5510	29103	18.93
2066/067	10891	31065	35.06
2067/068	11822	34646	34.12
2068/069	13340	37527	35.55
Mean			26.88
S.D.			10.17
C.V.			0.38

Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.9 shows the total investment to total assets of HBL. From the table it shows that the HBL portion on total investment to total assets ratio for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 10.76, 18.93, 35.06, 34.12, and 35.55 respectively. From FY 2064/065 to 2068/069 the total investment to total assets goes on increasing. The average ratio of total investment to total assets is 26.88, standard deviation is 10.17 and coefficient variation is 0.38.

Table No 4.10

Total Investments to Total Assets Ratio of EBL (Rs in millions)

Year	Investment	Total Assets	Ratio (%)
2064/065	2483	9953	24.95
2065/066	2120	15059	14.07
2066/067	4201	16715	25.13
2067/068	4985	23335	21.36
2068/069	5059	28566	17.71
Mean			20.64
S.D.			4.26
C.V.			0.20

Source: Banking and Financial Statistics, NRB 068/069

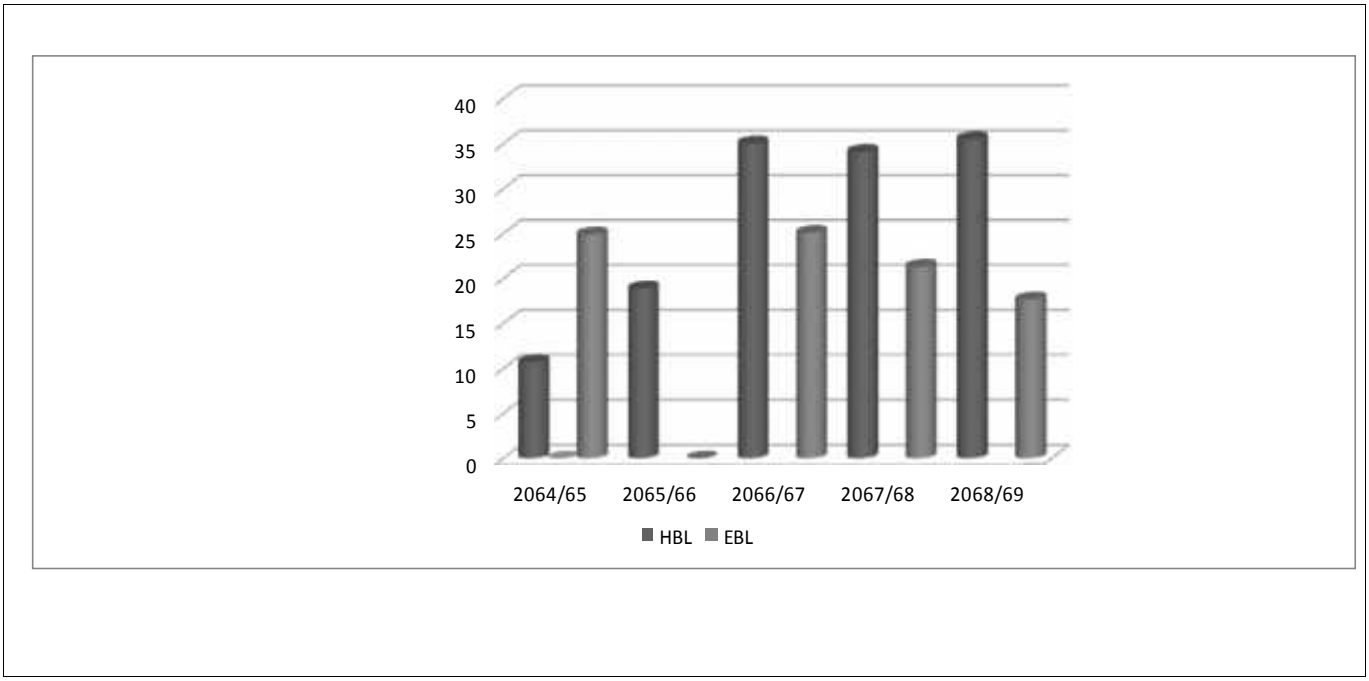
The table no. 4.10 shows the total investment to total assets of EBL. From the table it shows that the EBL portion on total investment to total assets ratio for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 24.95, 14.07, 25.13, 21.36 and 17.71 respectively. From FY 2064/065 to 2068/069 the total investment to total assets goes on increasing. The average ratio of total investment to total assets is 20.64, standard deviation is 4.26 and coefficient variation is 0.20.

The tables 4.10 shows that the ratio of total investment to total asset. The average ratio of HBL is higher than EBL bank. It means HBL has used more assets for investment and EBL has used fewer assets for investment than HBL banks. C.V of HBL ratio is lower than EBL banks which means that ratio of HBL is more variable than EBL banks. Similarly S.D of HBL's ratio is also greater than EBL banks which show that HBL is operating in higher risk than EBL banks.

It can be concluded that the ratio of total investment to total asset of HBL is higher than the ratio of EBL .

Figure No. 4.4:

Total Investment to Total Assets Ratio (in millions)



Source: Table No. 4.9 and 4.10

The figure (No. 4.4) shows that the total investment to total assets ratio of EBL is decreasing since year 2065/66.

4.1.3.4. Investment on Government Securities to Total Assets Ratio

The commercial banks mostly invest its funds collected in various government securities issued by government because they consider them most liquid, that is, they can realize cash at short notice and without much loss in capital invested. And also such securities would serve as the basis for loan from the central bank at the bank rate. The government securities are the safest place to invest the funds. They can be easily sold in the market or they can be converted into the cash in other ways. But they are not so much liquid as cash and bank balance.

Here an effort is made to examine the position of a bank's total assets that is invested on different government securities. This ratio is very important to know the extent of which the banks are successful in mobilizing their total working fund on different types of government securities to maximize the income. All the deposits of the bank should not be utilized in loan and advances and other credit from security and liquidity point of view. Therefore, to some extent, commercial banks seem to be interested to utilize their deposits by purchasing government securities. A high ratio indicates better mobilization of fund as Investment on government securities and vice-versa.

This ratio is calculated by dividing investment on government securities by total assets. The following table shows the ratios of investment on government securities to total working fund of HBL and EBL.

Table No 4.11

Investment on Government Securities to Total Assets Ratio of HBL (Rs in millions)

Year	Investment on Government securities	Total Assets	Ratio (%)
2064/065	2782	26751	10.39
2065/066	5470	29103	18.79
2066/067	5144	31065	16.59
2067/068	6455	34646	18.63
2068/069	7472	37527	19.91
Mean			16.86
S.D.			3.41
C.V.			0.20

Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.11 shows the investment on government securities to total assets of HBL. From the table it shows that the HBL portion on investment on government securities to total assets ratio for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 10.39, 18.79, 16.59, 18.63 and 19.91 respectively. From FY 2064/065 to 2068/069 the investment on government securities to total assets goes on increasing. The average ratio of the investment on government securities to total assets is 16.86, standard deviation is 3.41 and coefficient variation is 0.20.

Table No. 4.12

Investment on Government Securities to Total Assets Ratio of EBL (Rs in millions)

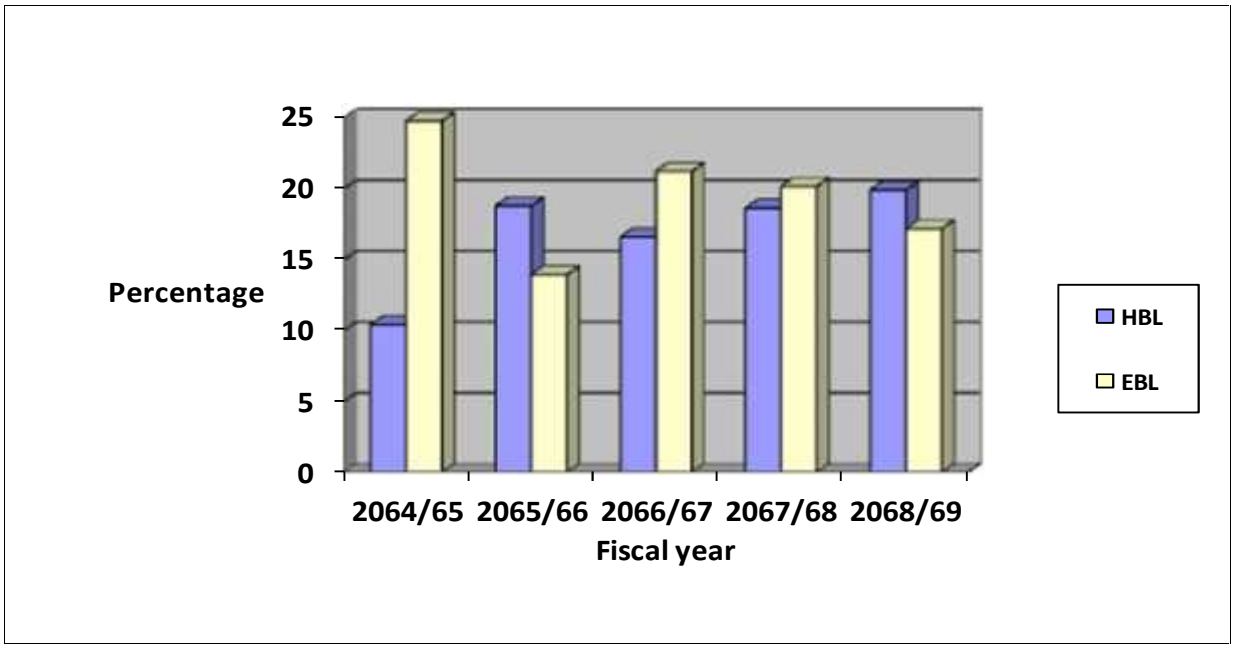
Year	Investment on government securities	Total Assets	Ratio (%)
2064/065	2466	9953	24.79
2065/066	2100	15069	13.93
2066/067	3549	16715	21.23
2067/068	4705	23335	20.16
2068/069	4906	28566	17.17
Mean			19.46
S.D.			3.68
C.V.			0.19

Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.12 shows the investment on government securities to total assets of EBL. From the table it shows that the EBL portion on investment on government securities to total assets ratio for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 24.79, 13.93, 21.23, 20.16 and 17.17 respectively. From FY 2064/065 to 2068/069 the investment on government securities to total assets goes on increasing. The average ratio of the investment on government securities to total assets is 19.46, standard deviation is 3.68 and coefficient variation is 0.19.

Figure No. 4.5:

Investment on government Securities to Total Assets Ratio (in millions)



Source: Table No. 4.11 and 4.12

The figure (No. 4.4) shows that the total investment on government securities to total assets ratio of HBL and EBL are in normal phase i.e. no remarkable differences between these two sample banks.

4.1.3.5 Investment on Shares and Debentures to Total Assets Ratio

To study the investment management of HBL and EBL total investment has been separated into two parts i.e. Investment on government securities and Investment on shares and debentures. Nowadays, a commercial bank is interested to invest its fund not only on government securities but also in shares and debenture of other different types of companies. During the study period, most of the commercial banks of Nepal have found to purchase the share of other companies too.

Investment on shares and debentures to total assets ratio reflects the extent to which the banks are successful to mobilize their assets on purchase of shares and debentures of

other companies to generate incomes and utilize their excess fund. A high ratio indicates more portion of investment on shares and debentures out to total assets and vice-versa. This ratio is calculated by dividing investment on share and debentures by total assets.

The following table shows the ratios of investment on shares and debentures to total assets ratio of HBL and EBL.

Table No 4.13

Investment on Share and Debentures to Total Assets Ratio of HBL (Rs in millions)

Year	Investment on Share and Debentures	Total Assets	Ratio (%)
2064/065	96	26751	0.36
2065/066	40	29103	0.14
2066/067	40	31065	0.13
2067/068	72	34646	0.21
2068/069	90	37527	0.24
Mean			0.22
S.D.			0.08
C.V.			0.38

Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.13 shows the investment on share and debentures to total assets of HBL. From the table it shows that the HBL portion on investment on share and debentures to total assets ratio for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 0.36, 0.14, 0.13, 0.21 and 0.24 respectively. From FY 2064/065 to 2068/069 the investment on share and debentures to total assets goes on increasing. The average ratio of the investment on government securities to total assets is 0.22, standard deviation is 0.08 and coefficient variation is 0.38.

Table No 4.14

Investment on Share and Debentures to Total Assets Ratio of EBL (Rs in millions)

Year	Investment on Share and Debentures	Total Assets	Ratio (%)
2064/065	17	9953	0.17
2065/066	20	15069	0.13
2066/067	20	16715	0.12
2067/068	20	23335	0.08
2068/069	16	28566	0.06
Mean			0.11
S.D.			0.04
C.V.			0.35

Source: Banking and Financial Statistics, NRB 068/069

The table no. 4.14 shows the investment on share and debentures to total assets of EBL. From the table it shows that the EBL portion on investment on share and debentures to total assets ratio for the year 2064/65, 2065/66, 2066/67, 2067/68 and 2068/69 are 0.17, 0.13, 0.12, 0.08 and 0.06 respectively. From FY 2064/065 to 2068/069 the investment on share and debentures to total assets goes on increasing except in 2068/069.

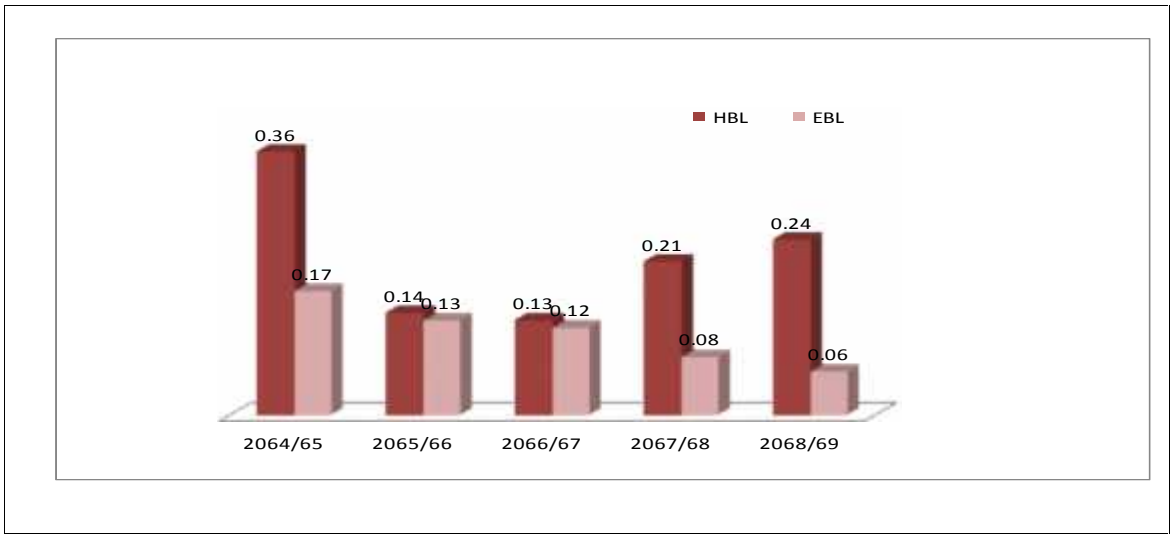
Here it is seemed that the ratio of investment on share debenture to total assets. The average ratio of HBL is higher than other banks likewise EBL. On the basis of mean ratios, it can be stated that HBL has invested higher amount in shares and debentures in comparison to other banks. But it shows that all banks invest fewer funds in share and debentures of other companies. Similarly C.V. of HBL is also higher than that of other banks likewise EBL. It means that ratio of HBL is more variable than EBL. HBL is increasing its investment on share and debentures than other banks likewise EBL are decreasing its investment on share and debenture.

From the table it can be concluded that all the banks doesn't invest much on share and debenture of other company. It may be because of higher risk involved with it. But

commercial bank should invest in other company's shares also to develop the industry and to develop the country.

Figure No. 4.6:

Investment on Shares and Debentures to Total Assets Ratio (in millions)



Source: Table No. 4.13 and 4.14

The figure (No. 4.6) shows that the investment on shares and debentures to total assets ratio of HBL is higher than EBL.

4.1.4 Growth Ratios

Growth Ratios represent how well the Commercial banks are maintaining their economic and financial position. Here those growth ratios are analyzed and interpreted which are directly related to the fund mobilization and investment management of a commercial bank. The high ratio generally indicated better performance of a bank and vice-versa.

4.1.4.1 Growth Ratio of Total Investment

This ratio shows whether the sample bank had increased the total investment or decreased the investment. The following table shows the growth ratio of HBL bank.

Table No. 4.15

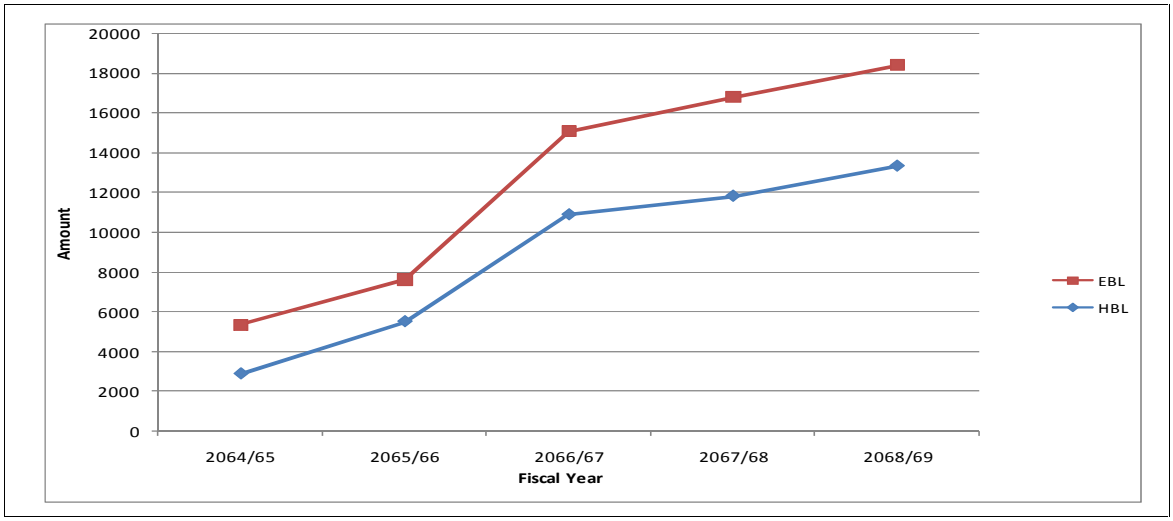
Growth Ratio of Investment (Rs in millions)

Year	HBL	EBL
2064/065	2878	2483
2065/066	5510	2120
2066/067	10891	4201
2067/068	11822	4985
2068/069	13340	5059
Growth Ratio %	46.73	19.47

Source: Banking and Financial Statistics, NRB 068/069

Figure 4.7

Growth Ratio of Investment (In millions)



Source: Table No. 4.15

The table no. 4.15 and figure no. 4.7 show the growth rate of investment of sample bank. All banks increasing their investment in different sectors. HBL has higher growth rate of investment than EBL Likewise, HBL has higher investment than other banks likewise EBL. The calculation method of growth ratios is shown in appendix 1.

4.1.4.2 Growth Ratios of Deposits

The bank collects its deposit from public. The growth ratio of deposits represent whether the banks had been able to increase its deposit collection or not. The following table represents the growth ratios of deposits of HBL and EBL.

Table No 4.16

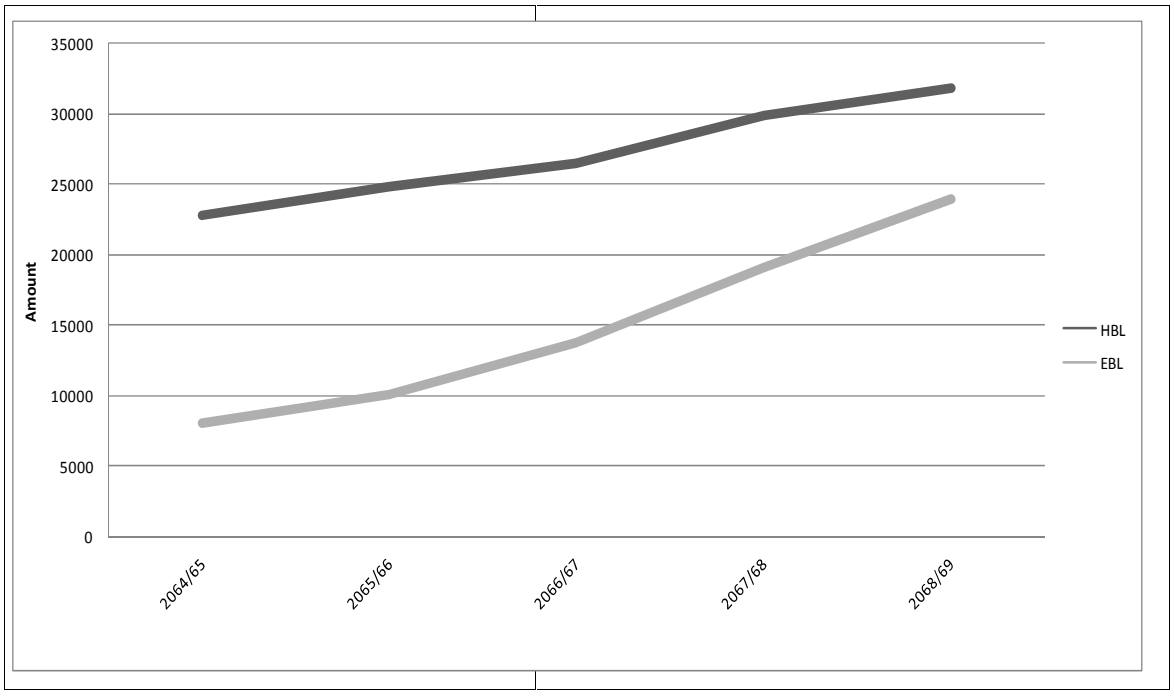
Growth Ratio of Deposit (Rs in millions)

Year	HBL	EBL
2064/065	22761	8064
2065/066	24831	10098
2066/067	26456	13802
2067/068	29906	19098
2068/069	31805	23976
Growth Ratio %	8.72	31.31

Source: Banking and Financial Statistics, NRB 068/069

Figure No 4.8

Growth Ratio of Deposit (Rs in millions)



Source: Table No. 4.16

The table no. 4.16 and graph no. 4.8 show that the deposit (collection) of banks. All the banks are increasing their deposits. EBL has higher growth ratio of deposit than the HBL. Likewise, HBL has collected higher deposit than other banks like EBL. The calculation method of growth ratios is shown in appendix 2.

4.1.4.3 Growth Ratio of Loan and Advances

Loan and Advances growth ratio shows whether the banks are increasing its loan and advances or decreasing. The following table shows the position of loan and advances of HBL and EBL.

Table No 4.17

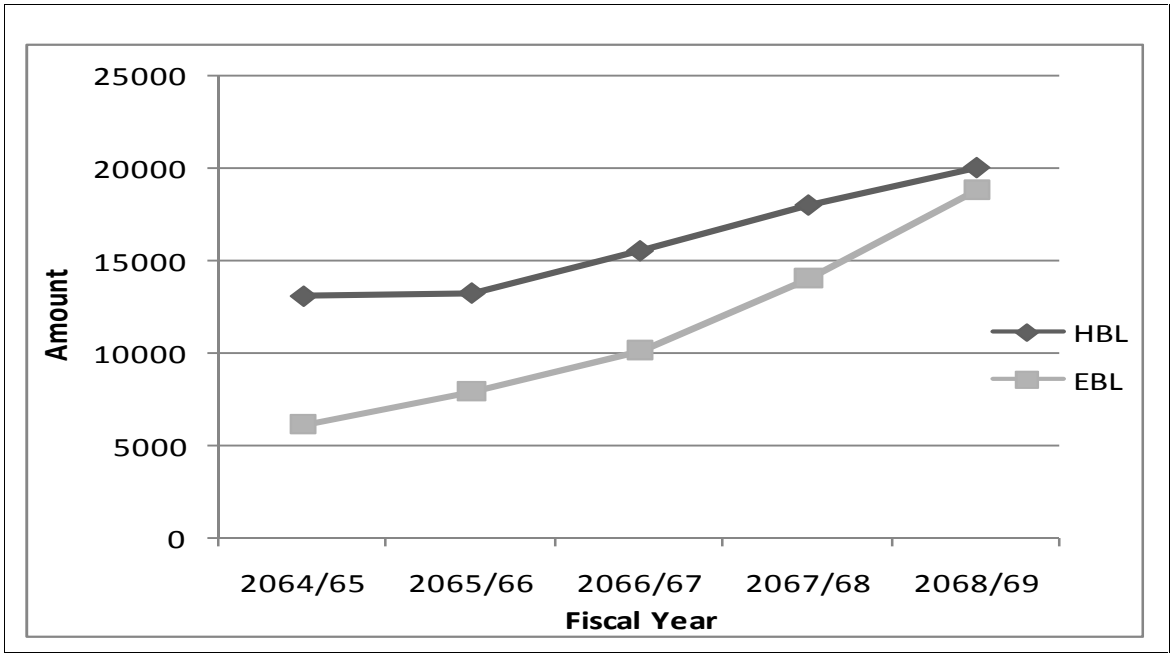
Growth Ratios of Loan and Advance (Rs in millions)

Year	HBL	EBL
2064/065	13082	6117
2065/066	13245	7914
2066/067	15516	10124
2067/068	17972	14059
2068/069	19985	18814
Growth Ratio %	11.18	32.43

Source: Banking and Financial Statistics, NRB 068/069

Figure 4.9

Growth Ratios of Loan and Advances (in millions)



Source: Table No. 4.17

The table and graph shows growth ratio of loan and advances. All the banks are increasing its loan and advances. EBL has higher growth ratio than other banks likewise and HBL. EBL has higher loan and advances than other banks likewise HBL. The calculation method of growth ratios is shown in appendix no.3.

4.1.5 Statistical Analysis

Here, statistical tools such as co-efficient of correlation analysis between different variables, trend analysis of Investment, loan and advances are used to achieve the objectives of the study.

4.1.5.1 Testing of Hypothesis

Hypothesis means the presumption as quantitative statement of the population parameter which may be true or false. In order to make proper decision about the quantitative statement of the population, testing hypothesis technique is used. The testing of hypothesis is carried out by using sample information. Hence in statistics, hypothesis is a

statistical statement about the values of one or more parameters of the population. After setting the hypothesis, it is necessary to test the reliability of such statistical statements.

For this purpose, an experiment is conducted by using sample information and the hypothesis is rejected if the results obtained are improbable under this hypothesis. If the results are not improbable, the hypothesis is accepted. The procedure of drawing such conclusion based on sample information is known as testing of hypothesis.

In this topic, an effort has been made to test the significance regarding the parameter of the population on the basis of sample drawn from the population. The various steps in test of hypothesis can be used which are as follows:

Step 1: Setting of hypothesis

a. Null Hypothesis
b. Alternative hypothesis

Step 2: Selecting suitable and proper test statistic

Step 3: Selecting the level of significance

Step 4: Finding the critical region

Step 5: Making decision

Test of Hypothesis on Investment plus Loan and Advance on Total Deposit Ratio of HBL and EBL

a. Test of Significance difference between HBL and EBL

HBL	EBL
$\bar{x}_1$= 89.78	$\bar{x}_2$= 101.78
n_1= 5	n_2= 5
$\sum x_1^2$= 993.93	$\sum x_2^2$= 41.11

Null hypothesis (H_0): « $_1$ = « $_2$ i.e. there is no significant different between two mean rations of loan and advances to total deposit of HBL and EBL

Alternative hypothesis (H_1): $\mu_1 \neq \mu_2$ (two tailed test) i.e. there is significant difference between two mean ratio of loan and advances to total deposit of HBL and EBL.

We have

$$S^2_p = \frac{1}{n_1 + n_2 - 2}(x^2_1 + x^2_2)$$

$$= \frac{1}{5+5-2}(993.93+41.11)$$

$$= 129.38$$

Test Statistic,

$$T = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{s^2_p\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

Where,

$\bar{x}_1$ = mean ratio of HBL

$\bar{x}_2$ = mean ratio of EBL

S^2_p= an unbiased estimate of the common population variance σ^2. Using actual mean method.

T = -1.668

/t/=1.668

Degree of freedom (d.f) = $n_1+n_2-2 = 5+5-2=8$

Level of significance = 5%

Critical value: The tabulated value of t at ~ 5% for two tailed test of for 8 d.f is 2.306.

Decision: Since calculated value of t is less than tabulated value the null hypothesis. H_0 is accepted and hence alternative hypothesis H_1 is rejected. That is there is non-significant difference between mean ratios i.e. investment and deposit of HBL and EBL

4.1.5.2 Multiple regression analysis

Multiple regression is defined as the statistical device which is used to estimate (or predict) the value of one dependent variable when the values of two or more independent variable are known or given. In multiple regression analysis, two or more independent variables are used to predict the valued of a dependent variable. It is a statistical technique for investigating the relationship between one dependent variable and a set of two or more independent variables.

Thus this multiple regression analysis is used to predict (or control) relationship between profit (dependent variable) with two independent variable (Investment plus loan and advance) and deposit. In this analysis y, x, x_1 and denote profit, investment plus and advance and deposit respectively. Clearly profit depends on investment plus loan and advances and deposit. So, the multiple regression equation y on x and x_1 is as follows:

$y = a + bx + b_1x_1$…….i

Where a, b, and b_1 are regression parameters whose values are to be determined. To find the values of a, b, and b_1 we have to solve the following normal equations.

$\sum y = na + b\sum x + b_1\sum x_1$.....ii

$\sum xy = a\sum x + b\sum x^2 + b_1\sum xx_1$.....iii

$\sum x_1y = a\sum x_1 + b\sum xx_1 + b_1\sum x^2_1$.....iv

<u>FOR HBL</u>

To find out the profit in future, let's assume x and x_1 as 300 Then,

$y = a + bx + b_1x_1$

$= -2.512 + 0.014 \times 300 + 0.0105 \times 300$

$= 4.84$

The profit is $4.84 \times 100000000 = 484000000$

Keeping the value of x as constant and changing the value of x_1 as 350.

$y = a + bx + b_1x_1$

$= -2.512 + 0.014 \times 300 + 0.0105 \times 350$

$= 5.363$

The profit is 5.36 × 100000000 = 536000000

Again, Keeping the value of x_1 is as constant and changing the value of x as 350.

$y = a + bx + b_1x_1$

$= -2.512+ 0.014 \times 350 + 0.0105 \times 300$

$= 5.54$

The profit is 5.54 ×100000000 = 554000000.

Interpretation:

When it is assumed as the investment plus loan and advance and deposit is 300 each, the profit is Rs. 484000000. In next step investment plus loan and advance is constant and deposit is change with 50, the profit is 536000000. Similarly investment plus loan and advance is change and deposit is constant, that time profit is 554000000 which is more profit than other.

FOR EBL

To find out the profit in future, let's assume x and x_1 as 200. Then

$y = a + bx + b_1x_1$

$= -1.15 + 0.08 \times 200 + (-0.06 \times 200)$

$= 2.85$

The profit is 2.85 × 100000000 = 285000000

Keeping the value of x as constant and changing the value of x_1 as 250

$y = a + bx + b_1x_1$

$= -1.15 + 0.08 \times 200 + (-0.06 \times 250)$

$= -0.15$

The profit is -0.15× 100000000 =-15000000

Again keeping the value of x_1 as constant and changing the value of x as 250

$y = a + bx + b_1x_1$

$= -1.15 + 0.08 \times 250 + (-0.06 \times 200)$

$= 6.85$

The profit is 6.85 ×100000000 = 685000000.

Interpretation:

When it is assumed that the investment plus loan and advance and deposit is 200 each, the profit is Rs 285000000. In next step investment plus loan and advance is constant and deposit is change with 50, the profit is -15000000. Similarly investment plus loan and advance is change and deposit is constant, that time profit is 685000000, which is more profit than other.

Interpretation:

When it is assumed that the investment plus loan and advance and deposit is 200 each, the profit is reached to Rs 258000000. In next step investment plus loan and advance is constant and deposit is change with 50, the profit is 256000000. Similarly investment plus loan and advance is change and deposit is constant, that time profit is 328000000.

The calculation method of required value of HBL, EBL are shown in appendix no 4.

4.1.5.3. Co-efficient of Correlation Analysis between Investment and Deposits

Under this topic, Karl Pearson's coefficient of correlation has been used to find out the relationship between investment plus loan and advances and deposit. It is already mentioned that investment is dependent upon saving i.e. deposit. Longer the duration of deposit, higher the banker's ability to acquire long term asset. In the other words banker can't invest more on long asset if duration of deposit is short. In this sense it can be said that Investment is the function of deposit. Theoretically it is assumed that long-term asset yield higher return. It means longer the duration of deposit, higher would be the profitability of the bank. But Investment may not be the function of deposit only.

Sometimes investment is made from the funds raised from the sources. In such situation investment is not dependent upon deposit only co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis deposits is independent variable (Y) and Investment plus Loan and Advances is dependent variable (X).

The detail calculations in this regard are done in Appendix- 5 and the table no. 4.18 shows the value of rxy, r^2 and P.Er and 6 P.E between those variables of EBL, HBL during the study period.

Table No. 4.18

Correlation between Investment and Deposits

S. No	Banks	R	r^2	P.E.	6 P.E.
1	HBL	0.3527	0.1244	0.0264	0.1584
2	EBL	0.2166	0.0469	0.2751	1.6507

Source: Banking and Financial Statistics, NRB 068/069

From the table no. 4.18, in the case of HBL coefficient of correlation between investment and deposit is 0.3527 which shows that there is a positive correlation between deposit and investment and the value of co-efficient of determination (r^2) is 0.1244. Which means 12.44% Investment is depend on deposit and 87.56% Investment decision depends on other variables. And its Probable Error (P.E.) is 0.0264 and similarly 6P.E. is 0.1584 which is less than coefficient of correlation (r). It means correlation of coefficient between deposit and investment of HBL is also significant though there is positive relation between them.

Likewise in the case on EBL, coefficient of correlation between Investment and deposit is 0.2166 which shows that there is a positive correlation between deposit and investment and the value of co-efficient of determination (r^2) is 0.0469. Which means 4.69% Investment is depend on deposit and 95.31% Investment decision depends on other variables. And Probable Error (P.E.) is 0.2751 and similarly 6P.E. is 1.6507 which is more than coefficient of correlation (r). Therefore it reveals that relationship between deposit and investment is insignificant.

4.1.5.4. Trend Analysis and Projection for Next Five Years

The objective of this topic is to analysis trend of investment of HBL and EBL. To utilize investment of a commercial bank may grant loan and advances and invest in government

securities and shares and debentures of other companies. Under this topic an attempt is made to analyze trend of investment of HBL and EBL also forecast their trend for next five years. The projections are based on the following assumptions:

a. The main assumption is that other things will remain unchanged.
b. The bank will run in present position.
c. The economy will remain in the present stage.
d. Nepal Rastra Bank will not change its guidelines to commercial banks.

4.1.5.4.1 Trend Analysis of Total Investment

Under this topic an attempt is made to analyze the trend of Investment of and EBL and forecast the trend for next 5 years. Here, Investment includes investment on government securities and investment in share and debenture of other companies plus loan and advances. Since loan and advances are also the investment of the bank, it is also included with total investment. The following table shows the trend values of 10 years from 2062/063B.S. to 2071/072B.S. of HBL and EBL.

Table No. 4.19

Trend values of Investment (Rs in millions)

Year	HBL	EBL
2062/063	15960	8600
2064/065	18755	10034
2064/065	26406	14326
2065/066	29494	19044
2066/067	33325	23873
2068/069	38429	27042
2068/069	42976	30998
2069/070	47523	34953
2070/071	52069	38909
2071/072	56616	42865

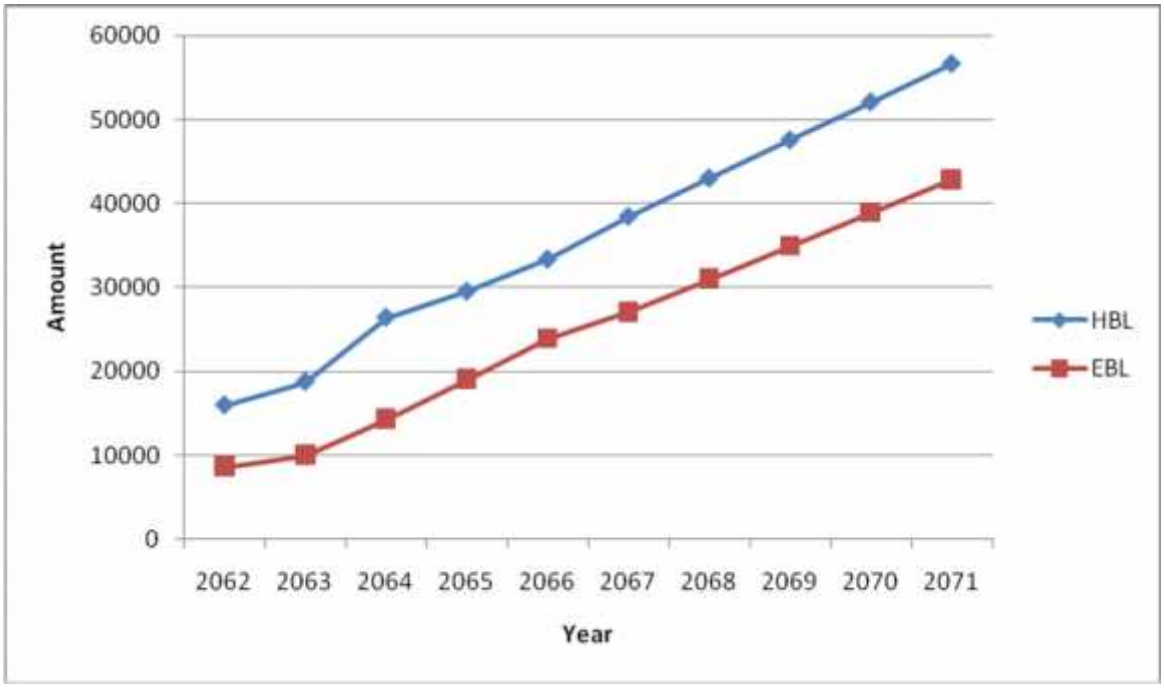
Source: Banking and Financial Statistics, NRB 068/069

From the table no. 4.19 it is found that investment trend of commercial banks is in increasing path. Other things remaining the same, the investment of HBL will be higher than the EBL banks.

In conclusion, we can say that all the commercial banks have followed the policy of maximizing the investment. Calculation of trend of Investment is shown in appendix 6.

Figure No. 4.10

Trend Value Investment (in Millions)



Source: Banking and Financial Statistics, NRB 068/069

From the Figure no. 4.10 it is found that investment trend of commercial banks is in increasing path. Other things remaining the same, the investment of HBL will be higher than the EBL banks.

4.2 Presentation and Analysis of Primary Data

Under the presentation and analysis of primary data, here includes the first hand data to justify the study on the topic of primary questionnaire methods.

4.2.1 Questionnaire Analysis

Here, another tool is used to analyze investor awareness. A number of questions were put up by means of copies of questionnaire. The questionnaire so collected is thus related to find out the opinion of investor. Their response have been analyze as follows:

i. Sector-wise Investment Analysis: Regarding the sector of investment the investors are asked whether the banking is the sector most of the investors are like to invest with three options to answer. The result sheet is as follows:

Table No 4.20

Sector-Wise Preference for Investment

S.N.	Research Variable	No. of persons	% of persons
1.	Yes	35	70
2.	No	10	20
3.	Cannot say	5	10
	Total	50	100

Source: Field Survey, 2012

In the question whether the banking is the sector most of the investors are like to invest, 70% of investors said replied with Yes, 20% of them said 'No', and rest of them said 'Cannot say'. It is clear that most of the investors are attracted in banking sector.

ii. Investors Awareness Analysis: To assess about the awareness of investors it is asked to the public – "Do you think Nepalese investor are aware about stock market?" The responses are listed in the table no. 4.21.

Table No. 4.21

Investors Awareness on the Stock Market

S.N.	Research Variable	No. of persons	% of persons
1.	Yes	12	24
2.	No	9	18
3.	Little know	29	58
	Total	50	100

Source: Field Survey, 2012

Most of the general public i.e. 58% of total respondents in the quest-ion 'do you think Nepalese investor are aware about stock market?', replied with 'Little know', 24% of them said 'Yes', and 18% of them said 'No'. Regarding the awareness most of the investors said they were not familiar with stock markets.

iii. Financial Publication Analysis: The question asked to the public to know the regular publication trend of commercial banks regarding the investment was "Are the banks duly publishing their financial statements?" The answers are in the table no. 4.22

Table No. 4.22

Financial Publication Analysis

S.N.	Research Variable	No. of persons	% of persons
1.	Yes	25	50
2.	No	10	20
3.	Cannot say	15	30
	Total	50	100

Source: Field Survey, 2012

When question asked to the public are the banks duly publishing their financial statement, 50% of them said (Yes), 30% of them said (Cannot say) and rest of them said (No).

iv. Political Environment Analysis:

Table No. 4.23 Political Environment Analysis

S.N.	Research Variable	No. of persons	% of persons
1.	Yes	40	80
2.	No	0	0
3.	Don't know	10	20
	Total	50	100

Source: Field Survey, 2012

When question asked to the public does the political environment affects the banks investment policy, 80% of them said (Yes), 20% of them said (Don't know) and none of them said (No). So, we can say that political environment mostly affects the banks investment policy.

v. Factors Influencing Analysis:

Table No. 4.24

Factors Influencing Analysis

S.N.	Research Variable	No. of persons	% of persons
1.	Past performance	33	66
2.	History of Board of Director	10	20
3.	Excepted profit	7	14
	Total	50	100

Source: Field Survey, 2012

When question asked to the public, what are the most influencing factors that affect the bank's investment policy. 66% of them said (Past performance), 20% of them said (History of Board of Director) and rest of them said (Excepted profit).

v. Trend Analysis:

Table No. 4.25

Trend Analysis

S.N.	Research Variable	No. of persons	% of persons
1.	Consumers Banking	35	70
2.	Industrial Loan	10	20
3.	Wholesale Banking	5	10
	Total	50	100

Source: Field Survey, 2012

When question asked to public, now, which is the following trend is prevalent in bank. 70% of them said (Consumer banking), 20% of them said (Industrial loan) and rest 10% of them said (Wholesale banking).

vii. Landing Process Analysis:

Table No. 4.26

Landing Process Analysis

S.N.	Research Variable	No. of persons	% of persons
1.	Above all	23	46
2.	Income	10	20
3.	Social status	9	18
4.	Marketing	8	16
	Total	50	100

Source: Field Survey, 2012

When question asked to the public, what do you think of landing process at bank? 46% of them said (Above all), 20% of them said (Income), 18% of them said (Social status) and rest 16% of them said (Marketing).

viii. Bank Loan Analysis:

Table No. 4.27

Bank Loan Analysis

S.N.	Research Variable	No. of persons	% of persons
1.	Yes	15	30
2.	No	27	54
3.	Will not say	8	16
	Total	50	100

Source: Field Survey, 2012

In response of the question asked to the public 'Have you even obtained of bank loan?' 54% of them said (No), 15% of them said (Yes) and rest 16% of them said 'can't say'.

ix. Loan Type Analysis:

Table No. 4.28

Loan Type Analysis

S.N.	Research Variable	No. of persons	% of persons
1.	Home loan	20	40
2.	Business loan	15	30
3.	Mortgage	13	26
4.	Education loan	2	4
	Total	50	100

Source: Field Survey, 2012

When question asked to the public, what types of bank loan you obtained from bank. 40% of them said (Home loan), 30% of them said (Business loan), 26% of them said (Mortgage loan) and rest 4% of them said (Education loan).

x. Public Opinion Analysis:

When question asked to the public, what are the major things to be taken for increase of investment from banking in Nepal? Most of the people have their own opinion, most of

them said that there should be good political environment, some said that increase in investment sector, some said decrease in expenditure, some said increasing in saving, some said government should encourage to banks and some said government should make good economic and financial policy.

4.3 Major Findings of the Study

From the analysis of financial data, the main findings are as follows:

- Mean ratio of HBL investment to total commercial banks investment is 10.64% which is extremely higher than that of other banks to total commercial banks. The portion of HBL Investment is increasing every year in the Total Investment of Commercial banks.
- EBL and HBL had invested most of their fund in government securities from FY 2065/066. All the banks had invested fewer funds to share and capital of other company. The commercial banks mostly invest on government securities, NRB bond and share and debentures of other company.
- The mean ratio of Investment of Total deposit of HBL is 31.60% which is higher than other banks like EBL. Loan and advances is also another type of Investment of Commercial bank. HBL has less than EBL banks. It shows that the bank uses most of its fund from deposit on Investment and loan and advances. The mean ratio of total investment to total assets ratio of HBL is 26.88% which is greater than EBL banks. Similarly EBL has fewer ratios than HBL banks. The mean ratio of investment on government securities to total assets ratio is 19.46% which is higher than HBL banks.
- Growth ratio of Investment of HBL is 46.73% which is higher than other banks like EBL. All the banks are increasing their investment. Growth ratio of loan and advance of HBL has 11.18% which is lower growth ratio of loan and advance. All the banks are increasing their loan and advance.
- Growth ratio of deposits of EBL is 31.31% which is higher than the HBL banks and HBL has 8.72% which is lower growth ratio of deposit. All the banks are increasing their deposit.

- From the Statistical Analysis of financial data of banks it is found that Total Investment and Total deposit of all bank has positive relation. Similarly Probable Error (P.E.) is 0.0016 and 6P.E. is 0.0094 which shows that (r) is highly greater than 6P.E. Therefore it reveals that relationship between deposit and Investment is significant. In the case of EBL, coefficient of correlation between Investment and deposit is 0.2166 which is less than other banks it shows that there is a positive correlation between deposit and Investment and the value of co-efficient of determination (r^2) is 0.0469. Which mean only 4.69% Investment depends on deposit and 95.31% Investment decision depends on other variables. Its Probable Error (P.E.) is 0.2751 and similarly 6P.E.is 1.6507 which shows that (6P.E) is higher than (r). It means correlation of coefficient between deposit and Investment of HBL is not significant though there is positive relation between them.
- Total Investment of two banks is also in increasing trend. The estimated Investment of HBL will be Rs. 56616 million which is higher than the EBL banks and EBL will be Rs. 42865 in the FY 2071/072 B.S.
- On analyzing the primary data more people would like to invest their money in banking sector.
- Public has no more knowledge about stock market when analyzing the primary data.
- Most people believe that banks duly published their financial statement.
- Political environment mostly affects the banks investment policy when analyzing primary data.
- Companies past performance influencing bank's investment policy when analyzing primary data.
- Consumer banking is prevalent in Nepal when analyzing primary data.
- Social status, income and marketing are seen for landing process at bank when analyzing primary data.
- Less people are taking banking service and some people will not say their banking transaction.

- On analyzing the primary data, more people have taken home loan than other loan. Less people want to take business loan form bank.
- Political environment is not suitable for investment in Nepal and there is not more investment sector.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The last chapter of this study is summary, conclusion and recommendation developed from the analysis of various aspects of the investment of commercial banks by using some financial as well as statistical tools. After completing the basic analysis required for the study the final and the most important task of the researcher is to be summarized the study and recommendation for the future importance.

5.1 Summary

Industrial development is very important for economic development of any country. And there must be investment made on productive activities for Industrial development. Investment is one of the financial activities which involve the decision of capital to establish commercial or industrial venture. It involves uses of funds to long term assets that would yield benefits in the future.

The beginning and establishment of financial institution depends upon the level of economic activities and monetary transaction in the country. In Nepal history of modern financial institution begins with the establishment of NBL in 1937A .D. Since then several financial institutions have come into existence. But Nepalese Industries have been facing challenges especially due to inadequacy of financial resources. Numerous financial institutions have emerged both in regional as well as in international financial centers to extend credit facilities to the financially viable enterprises. But there still a big gap between demand for and supply of financial resources and gap seems ever widening over the years.

Globalization and freeing up of the economy, decentralization, restructuring the large firms, worldwide communication networks and transfer and acquisition of state of the art, technology and other application, all have brought the challenges and opportunities to entrepreneur. Those who can respond to these challenges and mobilize necessary

financial resources, become successful and those, who cannot, fall down in their rapidly changing economic environment. Banks play a crucial role in this matter. Commercial banks not only collect the scattered saving from individual by accepting deposits but also provide various types of loan. And they invest in various share and debentures of other companies. A healthy development of any bank depends heavily upon its Investment policy. A sound and variable investment policy can be effective one for the economy to attain the economic objectives directed towards the acceleration of the pace of development. A good Investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and Investment.

Establishment of commercial banks has continued in response to economic liberalization policies of the government. So, now in Nepal there are many commercial banks competition with each other in their business. These banks are mainly concentrated themselves on financing foreign trade commerce and industry.

According to the objective of the study; primary data as well as secondary data has been used to achieve the study. Secondary data were collected from annual report of different banks, daily newspaper, campus library, magazine, bulletins and website etc. This study has been mentioned already that the research concentrates only on the investment of five commercial banks. The researcher has evaluated of data for the least five years period i.e. 2064/065 to 2068/069. The researcher has analyzed the data by using financial tools like ratio analysis as well as statistical tools like mean.

5.2 Conclusion

After study and analysis of given data we conclude that banking is one of sectors of business. All the banks are running in profit. They invest in different sector. From the analysis of data HBL is running successfully and the growth ratio of investment is higher than EBL banks. It has collected more deposit and investment than that of EBL banks, but its growth rate of deposit and loan and advance is less than that of EBL banks. EBL is also running successfully, and the growth ratio of deposit is higher than HBL banks. Its growth rate of investment and loan and advance is increasing.

From above data we can say that HBL has collected more deposit and invest more fund and loan and advance than after EBL.

5.3 Recommendations

On the basis of analysis of finding of study, the following recommendation and suggestions can be forwarded:

- Investment ratio of HBL is higher than EBL show that EBL has to increase the investment amount.
- Total investment to total deposit ratio of HBL is higher than EBL show that EBL has to increase to total deposit.
- The average ratio of total investment to total assets of HBL is higher than EBL. so EBL has to increase the total assets
- The average ratio of investment plus loan and advance to total deposit ratio of HBL is higher than that of EBL, it means it has invested more than deposit so that its liquidity position is not good. So, it needs to decreases its investment.
- Growth ratio of deposit of HBL is too less than that of EBL so it is recommended that it should increase its deposit collection. It needs to plan and develop different schemes to collect more deposit. Likewise increase interest rate, insurance policies, decrease bank loan interest, minimum amount for opening accounts, different compensation policies etc.
- Growth ratio of loan and advance of HBL is lower than that of EBL so it is recommended that it should increased its loan and advance by reducing loan interest rate, bank credit policies, compensation policies etc.
- All that of banks invested fewer funds in share and debenture of other companies except HBL so it is recommended that they should increase their investment in share and debenture to develop the different industries as well as country.
- The commercial banks have been established gradually after the commercial banks act 2031 B.S. With the passage of time so many commercial banks, as a joint venture, have been established gradually because of the liberal and market

friendly economic policy of government of Nepal. But banks should provide some social response by expanding their operation in rural areas rather than urban areas. And banks can give response to poor and disadvantage groups. By establishing the branches in rural areas, minimum amount for opening accounts and interest rate should be reduced for creditors.

- In the light of growth competition in the banking sectors, the business of the banks should be customer oriented. It should focus not only towards big clients but also towards small clients. They should treat every client equally. They should bring different schemes to focus the customers like, increase interest rate, bank credit policies, bank loan insurance policies, evening counters, social responsibilities etc.
- Majority of commercial banks have been found to be profit oriented ignoring their social responsibility, which is not a proper strategy to sustain in long run. So all the banks are suggested to render their serves even in the rural areas providing special loans to the deprived and priority sectors, which might further intensify the goodwill of the banks in future.
- The economic liberalization policy adopted by Nepal government has created an environment of strict competition even in the banking sectors. In the context, all the banks are suggested to formulate and implement some sound and attractive financial; and non-financial strategies to meet required level of profitability such as risk analysis diversification, social responsibility, bank credit policy, compensation policy etc.

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