

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The economy of a nation depends on the use of available resources in an efficient way. Proper utilization of assets appreciates in wealth position of individual's and country as well. Integrate and speedily development of the country is possible only when competitive banking and financial services reaches nook and corners of the country. To grow financial activities, it requires developing the banking habit of the community as well as potentially strong lending opportunities. Simply Bank is an institution, whose main function is to accept deposit and invest it. Bank collects deposit from public by providing attractive sound interest and concern profit by lending it on mainly in business organization, industrials, agricultural sector etc, so we can say the main task of commercial bank is to mobilize idle resources in productive areas by collecting if from scattered sources and generating profit. Bank plays an important role in the economic development of the country. Financial institution gathers scattered financial resources from the mass and distribute fund for commercial and economic activities to develop trade, industry and facilitate a process of economic development. All economic activities are directly or indirectly channeled through the Banks.

Successful formulation of investment policy and its proper utilization or implementation is the prime requisite for the development of performance of Bank and other financial institution. Sound investment policy has positive impact on economic development of the country. A healthy development of any banks depends heavily on its investment policy. A sound and viable investment policy is one of the major effective for the economy to attain the economic directed towards the acceleration of the pace of development. Bank should attract to its customers by implementing best or competitive investment policy. It helps to increase the quality of banking services as well as volume of quality deposits, loan and investment. Investment management of bank is operating as per investment policy adopted by bank the best investment policy helps to minimize risk to make profit and to increase efficiency of investment operation.

A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to various sectors. “Investment portfolio is one such tool that helps for proper utilization of resources. A portfolio is usually defines as a combination of assets, it is a collection of securities, portfolio means the lists of holding in securities owned by an investor or institution” (oxford dictionary of finance and banking- New addition 1997). Portfolio theory deals with the selection of optimal portfolio i.e. portfolio provides the highest possible returns for any specified degree of risk or the lowest possible risk for any specified return. Portfolio theory has been developed for the financial assets. Thus, making investment from the selected optimal portfolio i.e. portfolio that provides the highest rate of return with least possible amount of risk in the real investment portfolio.

Finally, commercial banks and financial institution are the backbone of the Nepalese economy at present. It plays vital role in capital formulation, proper utilization of collecting fund, providing various type of banking services. Mobilization of saving is most essential for the economic growth of the country. Commercial banks are the mediator of mobilization saving. Development of country directly related to the volume of investment in productive sectors. In this regard, this study attempts to explore the investment pattern or policy of Himalayan Bank Ltd. and Everest Bank Ltd.

1.2 Introduction of Sample Banks

Himalayan Bank Ltd.(HBL)

Himalayan Bank Ltd is one of the largest and reputed private sector banks of Nepal. The Bank was incorporated in 1992 by a few eminent individuals of Nepal in partnership with the Employees Provident Fund and Habib Bank Limited of Pakistan. The Bank commenced its operations on January 1993. Himalayan Bank is also the first commercial bank of Nepal with most of its shares held by the private sector of Nepal. Besides Commercial banking services, the bank also offers industrial and merchant banking service. In Nepal’s market there are many commercial banks operating. HBL was established under commercial bank Act, 2031 as pioneer commercial bank in 1993 AD. It was established with a view to encourage efficient

banking service as the fourth joint venture bank in Nepal. It is a joint venture with Habib Bank of Pakistan. (www.hbl.com.np).

Everest Bank Ltd.(EBL)

Everest Bank Ltd established in 1994 and started its operation with its first branch at NayaBaneshwor Kathmandu with a small capital. Now its Head office is situated Lazimpat Kathmandu with view and objective of extending professionalized and efficient banking services to various segments of the society .EBL joined hands with Punjab National Bank (PNB) India as its joint venture partner in 1997. PNB is the largest public sector bank of India having 111 years of banking history with more than 4400 offices all over India and is known for its strong system and procedures and distinct work culture. Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operation ever since its inception and today it has established itself as a leading private sector bank of the Nation. (www.ebl.com.np).

1.3 Statement of the Problem

Investment is the most important factor from the point of view of shareholders and the bank management. Though several commercial banks have been established in Nepal within short period of time, sufficient return have not been earned and strong, stable and appropriate policy have not been followed which has been a major problem now. The banks collect lots of deposits but they do not have enough investment opportunity, banks use to discourage depositors by reducing the interest on deposits and increasing the minimum shareholder balance. Such condition may cause the highly liquid market and that could provide negative impact to the whole country. If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the banks cannot obtain the profitable return as well as it should sometime lose its principal. In this study different commercial banks investment policy are analyzed and compared.

On the basis of the above statement, the following research questions have been developed:

1. Is deposit mobilization and investment pattern of HBL and EBL banks are effective?
2. What are the liquidity, efficiency, profitable position and risk portion of HBL and EBL?
3. What should the bank do for having optimum investment policy?

1.4 Objectives of the Study

Investment decision is one of the major decision functions of financial management. The main purpose of this study is to assets the investment policy and strategies. The basic objectives of this study are given below:

1. To compare investment patterns of concerned Banks and discuss the deposit mobilization of HBL and EBL banks
2. To evaluate the liquidity, efficiency, profitability position and risk portion of HBL and EBL.
3. To provide a package of workable suggestion and possible guidelines to improve investment policy of HBL and EBL based on the finding of the analysis.

1.5 Significance of the Study

The significance of the study can be highlighted as follows:

1. The study investment pattern analysis of two commercial banks deserves some importance in this field. This study provides a useful feedback for academic institution, banks employees, trainees and investors.
2. This study provides the guidance to the management of banks, financial institution, related parties, shareholders and general public who are customers, depositors and creditors.
3. General public can also get information about investment activities of a bank with the help of study.
4. It is useful to the overall banking management.

1.6 Limitations of the Study

The major limitation is the time constraint, unavailability of the sufficient proper related materials and lack of research experience. For the completion of the study the following facts are the basic information.

1. Among the several commercial banks in Nepal, this study has chosen only two commercial banks.
2. The study is based on secondary data collected from the banks, which may not be far from limitation due to inherent characters.
3. This study is done in short time and information of only five years is taken.

1.7 Organization of the study

The whole study has been divided into five chapters. These are as follows:

Chapter 1: Introduction

This chapter deals with the introduction part of the study. It includes background, introduction of sample banks, statement of the problems, objectives of the study, significance of the study, limitation of the study and organization of the study.

Chapter 2: Review of Literature

The second chapter deals with review of available literature, which include review of books, journals, articles and annual reports published by the banks, other related authorities and research gap as well.

Chapter 3: Research Methodology

This chapter seeks to explain the research methodology, which is used to evaluate the investment patterns of commercial banks. It includes research design, population and sample of the study, nature and sources of data and data analysis tools.

Chapter 4: Data Presentation and Analysis

This chapter deals with presentation and analysis of data. It is the main body of research which is mainly concerned with the analysis of different financial ratios related to investment policy and fund mobilization of HBL and EBL bank .Further this chapter is also concerned with statistical analysis.

Chapter 5: Summary, Conclusion and Recommendation

This is the last chapter of the study, which provides summary and major findings, conclusion and recommendation for improving the future performance of study banks.

Finally, an extensive references at the end of the thesis.

CHAPTER- II

REVIEW OF LITERATURE

The review of literature is taken as an essential part which cornerstone of the study. So that the past studies and their conclusion might be known and help to conduct further research. It is an integral and mandatory process in research work. So the review of literature provides the guidelines for further study and also helps to avoid the unnecessary duplication in the research. This chapter is basically concerned with review of literature relevant to the investment policy of commercial banks.

2.1 International Context

2.1.1 Meaning of Investment

Duffie (2002) has stated the word “Investment” can be defined in many ways according to different theories and principles. It is a term that can be used in a number of contexts. However, the different meanings of investment are more alike than dissimilar. Generally, “Investment is the application of money for earning more money. Investment also means savings or savings made through delayed consumption”. Duffie (2001) has stated according to economics, “Investment is the utilization of resources in order to increase income or production output in the future. An amount deposited into a bank or machinery that is purchased in anticipation of earning in one in the long run is both examples of investment. Although there is a general broad definition to the term investment, it carries slightly different meanings to different industrial sector”.

Musiela & Rutkowski (1998) defined according to economists, “Investment refers to any physical or tangible assets, for example a building or machinery and equipment. On the other hands finance professionals define an investment as money utilized for buying financial assets, for example stocks, bonds, billion, real properties and precious items. According to finance, the practice of investment refers to the buying of financial product or any valued item with anticipation that positive returns will be received in the future. The most important features of financial investment is that they carry high market liquidity. The method used for evaluating the value of a financial investment is known as valuation”

Musiela & Rutkewski (1998) stated according to business theories, “Investment is that activity in which manufacture buys a physical asset, for example, stock or production equipment, in expectation that this will help the business prosper in the long run. Investment is the commitment of money or capital to purchase the financial instruments or other assets in order to gain profitable return in the form of interest, income or appreciation of the value of instrument. Investment is related to saving or deferring consumption”.

Bodie & Merton (2002) have focused an Investment involves the choice by an individual or an organization such as a pension fund after some analysis or thought, to place or lend money in a vehicle, instrument or assets, such a property, commodity, stock, bond, financial derivatives (future or options) or the foreign assets denominated in foreign currency, that has certain level of risk and provides the possibility of generating returns over a period of time. When an asset is bought or a given amount of money is invested in the bank there is anticipation that some return will be received from the investment in the future.

Investment is a term frequently used in the fields of economics, “business management and finance. It can mean savings alone, or saving made through delayed consumption. Investment can be divided into different types according to various theories and principles. While dealing with the various options of investments the defining term of investment need to be kept in mind”.

Investment in terms of Economics

Clewlow & Strickland (1998) defined according to economic theories, “Investment is defined as the per-unit production of goods, which have not been consumed, but will however, be used for the purpose of future production. Examples of this type of investment are tangible goods like construction of a factory or bridge and intangible goods like 6 months of one-the-job training. In terms of national production and income, Gross Domestic Product (GDP) has an essential constituent known as gross investment”.

Investment in terms of Finance

Tuckman (2002) has focused “In finance, investment refers to the purchasing of securities or other financial assets from the capital market. It also means buying money market or real properties with high market liquidity. Some examples are gold, silver, real properties and precious items.

Financial investments are in stocks, bonds and other types of security investments. Indirect financial investments can also be done with the help of mediators or third parties, such as a pension funds, mutual funds, commercial banks and insurance companies”.

2.1.2 Investment Types

“A particular investor normally determines the investment types after having formulated the investment types after having formulated the investment decision, which is termed as capital budgeting in financial lexicon. With the proliferation of financial market there are more options for investment types. According to the financial terminology investment means the following:

1. Purchasing securities in money or capital markets.
2. Buying Monetary or Paper Financial Assets in Money or Capital Markets.
3. Investment in Liquid Assets like Gold, Real Estate and collectibles.

2.1.2.1 Capital Investment

Capital investment is defined as the expenditure that may be incurred by a business organization in order to purchase machineries and other fixed assets. This expenditure is normally beneficial as it lays the foundation for future investments of similar kind. Capital spending is normally performed for categories that are expected to last for more than a single year. The value of the assets being bought with capital spending is supposed to be important as far as the preparation of the cash flow statement is concerned.

Hull (2002) said as per as the capital investment plans, the companies spend primarily on buying new plants or equipments that may be related to their field of work. Now a

days the number of investors willing to opt for the medium of capital investment is on the rise. The phenomenon of working capital is relevant in the context of capital investment as well as determining a company's operational status. The efficiency of operations of a company is normally inversely proportional to the building up of working capital. Methods like Net Present Value and Internal Rate of Return are employed when the proposals for venture capital investments are judged.

2.1.2.2 Financial Market Investment

Gould (1968) stated "When investing in the financial Market, traders are produced with the opportunity to deal in financial securities, commodities and other freely interchangeable goods at affordable rates of transaction. The prices of these are reflective of effective market speculation. It has been observed that there has been noticeable evolution and an increase in the various financial markets. These markets are making the best of efforts to enhance the factor of liquidity. The different financial markets that are available at the present time are:

1. Real Estate Market.
2. Bond Market.
3. Commodities Market.
4. Stock or Equities Market.
5. Spot or Cash Market.
6. Forex Market.
7. Over-the-Counter Market.
8. Derivative Market."

There is an existence of general as well as specialized financial markets in today's world. General Markets are where a diverse group of commodities are traded, where as specialized ones are those, which specialize in dealing with only one kind of commodity or good.

The financial markets of today bring buyers with different interests on to the same platform. The process enables them to locate prospective customers and enhances the efficiency of the Market operations as a whole.

2.1.2.3 Stock Investment

Hull (2002) focused “The process of stock investment enables the stock traders or investors to trade in securities. Investors can operate individually or under the guidance of investment management companies. The system of stock investment is not devoid of prices and the process involves a considerable amount of risk and uncertainty. The ones who are most likely to be affected by the harsh nature of the stock investment are the new investors and those, who are not wise in their decision making process”.

It could be assumed safely that stock market investment is definitely not the right option if an investor is interested in making quick money. It is usual for the investors and the traders to be confronted with expenses like the following.

1. Commissions.
2. Fees to be paid for Brokerage and other services.
3. Taxes.

2.1.2.4 Share Market Investment

Questa (1999) stated “Shares are purchased and sold on the primary and secondary share markets. To invest in the share market, investors acquire a call option, which is the right to buy a share, or a put option, which is the right to sell a share. In general, investors buy put options if they expect prices to rise, and call options if they expect prices to fall. For currency rate exchanges, investors may buy a swap option.

The value of a derivative depends on the value of the underlying asset. The various classifications of derivatives relevant to share market investment are:

1. Swap
2. Futures Contract
3. Forward Contract
4. Option Contract”.

Before a share is chosen for investment, a technical analysis of the share is performed. The price and volume of a share over a period of time are tracked and then a business

plan is constructed. A fundamental analysis involves a close study of the company associated with the share, and its performance over time. The fundamental analysis is important for the share market investor.

2.1.2.5 Land Investment

Pattilo (1998) defined “Land as investment is a long-term investment and as the price of land all over the world has taken an upswing, this form of investment can be termed as a safe bet. Big development companies, wealthy individuals and well-off farmers have involved themselves in land investment. However, a system for efficient development of land must be in place. With the increase in land prices, investment in land can be very lucrative as capital gains are easily realized. Besides, land is a tangible asset and the investors can use it in their best interests.

Land investment forms a major part of real estate investment. The attachments to lands and buildings are not an essential requirement of land investment and it is the main point of difference between land investment and real estate investment. Land can be termed as the most basic form of asset. The land developer is entrusted with the duty of developing the land. Land appreciates in value with establishment of buildings and other proper amenities on it”.

2.1.2.6 Retirement Investment

Questa (1999) said “Retirement investment planning ensures financial security in the post retirement period. The resulting retirement benefits prove to be of great use for retirees. A considerable amount of money should be invested in retirement investment plans. Money must not be withdrawn indiscriminately from retirement accounts. An individual's various retirement investments must be monitored regularly. Both social security and investment in stocks may contribute to an individual's retirement.

The first step to success in retirement investing is to develop the habit of saving early in life. Next, a sound investment strategy is necessary, one which allows for an amount of risk but also enhances the average annual returns on investment. Investment in short-term government bonds and government treasury bills are two examples of areas for retirement investment”.

2.1.2.7 Real Estate Investment

Pattilo (1998) focused “Real estate can broadly be defined as immovable property. Land and things attached to it in permanence, such as buildings, come under the category of real estate. Investment in real estate has its fair share of risks. But one advantage of real estate is that it gives the owner the right to transfer the title to the land.

Real estate investors often own more than one unit of real estate. The investor uses one unit as his or her residence and accrues rental income from the others. Investment in real estate also involves value appreciation of property over time, which leads to capital gains. The whole program of real estate investment is a long-term process”.

2.1.2.8 Gold Investment

Lucas (1967) stated “Gold investment is a long-term investment scheme involving low risks. People willing to invest in gold have a natural advantage because the demand for gold is much more than its actual supply. The price of gold is generally in a continual rise. However, investors should not invest all their funds in one kind of gold investment. The gold industry is huge and has many facets, and a savvy investor can exploit this. Money can be invested directly in gold mines, for example, which can be more lucrative than investing in physical gold”.

Gold investors prefer to buy gold in its cheapest forms such as krugerrands, sovereigns and bars. Gold bars are the cheapest while gold sovereigns, because of their smaller size, are worth paying an extra premium for.

2.1.2.9 Portfolio Investment

Cox & Ross (1976) defined “Portfolio investment refers to the passive holdings of the financial securities such as foreign stocks, foreign bonds and other foreign financial assets, which are not under the control of the investors.

Unlike foreign direct investment, the issuers of securities do not control the portfolio investment. The foreign direct investment involves the investors to make investment to acquire the lasting interest in the enterprises that are operational outside the

domestic economy. A typical foreign direct investment relationship allows the parent enterprise and a foreign affiliate to form together a transnational corporation.

The portfolio investments are primarily connected with the portfolio diversification process and the examples of portfolio investment are:

1. Purchasing of shares in a foreign company
2. Purchasing of bonds that is issued by a foreign government
3. Acquisition of the assets in a foreign country.”

Lucas (1976) postulated “The developing countries use the portfolio investment as a growing tool in the economy and take some measures to encourage the use of portfolio investment. While going for liberalization and economic reforms in order to bring about the substantial and rapid economic growth, the government takes up some policies and instruments. The portfolio investment is one of the most famous financial instruments that are taken up by government to enhance the economic growth. The foreign direct investments are also encouraged by the developing countries while going for the economic reforms”.

2.1.2.10 Business Investment

Jarrow & Turnbull (1999) stated “Business investment can give investors a chance to invest in different kinds of businesses. Business investment can be a good option for the investors to manage their own portfolios.

A number of business investment opportunities exist. Investors may choose from different business investment plans depending on the market conditions and trends. Business investment typically means purchasing an asset in the form of stocks or bonds with a hope of getting returns and interest in the future. Companies also release their shares and bonds in the capital market in order to collect money for some financial purpose. The assets that are purchased may be physical, intangible, or financial depending on the nature of the asset”.

Business finance, on the other hand, refers to the business finance loan, which is one of the easiest ways to acquire funds for a company. Considering the cutthroat competition of the business world, having financial support seems to be crucial.

Finance is the most important aspect for an entrepreneur both in order to start a new business and to expanding an existing business.

2.1.3 Sound Lending and Investment Policy Features

The commercial banks are inspired with the goal of earning profit. There are many reasons after the goals of gaining profit. In order to reach their desired goals, they profit must invest the resources. It is not better to keep the available resources idle. The bank should be able to clear the policy of its investment by making a deep study on the subjects that which sector would be the trust worthier & dependable to invest the funds collected in the bank, they should have the ability to use the policy of banking investment in its goal. The income and profit of the bank depends upon its investment policy & term Landry procedure of its funds in different securities. The greater the credit created by the bank the Higher will be the profitability. A sound bending & investment policy is not only prerequisite for the bank's profitability but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Therefore, the following principles or features of investment policy must be abided by the commercial banks in order to achieve the goals.

Charels (1998) said in pure financial sense the subsequent use of the term investment will be in the prevalent financial sense of the placing of the money in the hands of others for their use, in return for proper instruments entitling the holders to fixed income payments or the participation in expected profits. But for manufacturing and trading firms, the term investment will be those long-term expenditures that aim at increasing plant, capacity of efficiency or at building up goodwill, thereby producing an increased return over a period. Whereas an economist view, investment as a productive process by means of which additions are made to capital equipment.

Higher the credit higher will be the profitability. The income and profits of the bank depends upon its lending procedures, lending policy and investment of its funds in different securities. Sound Lending and investment policy is not only prerequisite for banks profitability but also crucially significant for the promotion of commercial savings of a backward country like Nepal. Investment and investment problem will resolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further source

of income. Management of surplus resources is a way as to make it work for providing benefit to the supplier of the funds by letting third party to use such resources. However, the investment needs to be a procedural task. It must follow a definite investment process, which definitely begins for the formulation of proper investment policy. Sound lending and investment policies which must be considered by commercial banks have been studied and presented as follows.

Safety and Security

Bank should never invest funds on those securities, which are subjected to too much for volatility (Depreciation and Fluctuation) because a little alternate may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who may earn millions in minute also. Only durable, marketable and high market valued securities should be accepted.

Profitability

Profit of Commercial Bank depends upon the interest rates, volume of loan, its time period and nature of investment in different securities. It is a fact that maximizes the volume of wealth through the maximization of the return on their investment and lending. So banks must invest funds where they gain maximum profit. Ambition of profit to commercial bank seem reasonable as bank has to cover all the expenses and make payment in the form of dividend to the shareholder who contribute to build up the bank's capital and interest to the depositors. For this the bank calculates the cost of funds and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligation, it will go ahead of investment. A good bank is one who invests most of its funds in different earning assets standing safety from the problem of liquidity i.e., keeping cash reserve to meet day-to-day requirement of the depositors. We know very well that liquidity is maintained at the cost of profitability and vice versa. For a bank, liquidity and profitability are likely two wheels of carts. In the absence of any one of them, the bank cannot forge ahead. A bank is set up to maximize profitability. The profit is excess of incomes over expenses. Banks have to meet following obligation.

1. Interest on deposits and borrowings
2. Personal expenses

3. Operating expenses
4. Provision of possible losses
5. Reserves

In order to meet aforesaid obligation and to pay maximum dividends to shareholders, the bank is required to make incomes in excess of aforesaid expenses / obligation.

Liquidity

Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. Inadequate liquidity damages credit- standing of those organizations. But if banks fail to repay the deposits on demand, the trust of public in the bank fades away. This leads to the "runs" in the bank and bankruptcy thereof. Liquidity is the ability of the firm to satisfy its short-term obligation as they came due. Generally people use to deposits their earning in the different account of the bank, having confidence that the bank will repay their money whenever it is needed. In order to maintain the confidence to the depositors, the bank must always be ready to meet current or short-term obligation when they become due for repayment. Liquidity is important for motives cited as under:

1. Transaction Motive

1. Withdrawal of deposits
2. Loan disbursement
3. Personnel expenses

2. Speculative Motive

1. Foreign exchange holding
2. Unforeseen opportunities
3. Potential investments

3. Precautionary Motive

To meet contingencies like fines, errors, tax, guarantee invocation etc.

Banks maintain liquidity in the form of:

1. Cash and bank balance (first line of defense)
2. Placement / money at call or short notice (second line of defense)
3. Investment in government securities and other securities readily convertible into cash (third line of defense)

Purpose of Loan

This is very important question for any banker is that, why a customer is in need for loan. If borrower misused the loan granted by the bank, he can never repay. Therefore, in order to avoid this situation each and every bank should demand all the essential detailed information about the scheme of the project or activities would be examined before lending.

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.

Tangibility

A commercial bank should proper tangible security to an intangible one. Thought it may be considered that tangible property does not yield an income apart from intangible securities, which have lost their value due to price level inflation.

Legality

Bhalla (1983) stated commercial bank must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of law and other while mobilizing its funds. hiegalsecrete will bring out any problems to investors.

2.1.4 Some Important Terms

The various sections in this study comprise some important banking terms. The efforts have been made to clarify the meaning, which are frequently used in this study are given below.

Deposits

It means the amounts deposited in different accounts such as fixed account, current account and saving account of a bank or any financial institution. Deposits are the important source of liquidity for commercial banks. It is also the main source of fund that the bank generally uses for the generation of profit. Therefore, the efficiency of deposits depends on its ability to attract deposits. Deposits are being the borrowed amount from the depositors or from the general public or any institution. Depending upon the nature of deposit, interest rate is determined. There are also the deposits for which the interest is not offered, bank keeps them safely and repays on demand. Personal customers can have savings, current, fixed and recurring deposits account with the bank while business customers are normally not authorized to have savings and recurring deposits account. Deposits constitute the liability of bank. Bank deposits are the amount that it owes to the customers. Deposits are the lifeblood of the banks. Though bank has bulk of bank liabilities, success of bank depends upon the extent they may attract more and more deposits. There are many factors, which affect the deposits, which are as follows.

1. Types of customer
2. Physical facilities of bank
3. Management and accessibility of customer
4. Range of the services provided by the bank
5. Interest rate paid on deposits

Further economic condition influence on the amount of deposits the bank receives. The three headings of deposits are as follows.

1. Current account
2. Fixed account

3. Saving account

Loan and Advances

Loan, advances and overdraft are the main source of income for a bank. Bank deposit can cross beyond a desired level but the level of loans, advances and overdraft will never cross it. Banks give loans to the needy customers for productive purposes. Loans are given to the business customers to meet their working capital and long-term requirement. Personal customers take loans against their fixed deposit and for consumer credit. Small loans for productive purpose are also given to personal customer. 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 and other purpose. In mobilization of commercial bank funds, loans, advances and overdrafts have occupied a large portion. They are the main source of income. Deposits can be crossed beyond a desired level but loans, advances and overdrafts will never cross it. These facilities provide services, which enjoy the customer of the bank. The funds borrowed from banks are much cheaper than the money borrowed from unorganized moneylenders. Increase in economic and business activities with the lower interest rate increases the demand for loan. Due to the limited resources with the growing demand there is fear that Commercial banks and other Financial Institutions take more preferential collateral while granting loans bothering the customers. There is an undesirable effect of too low interest rate.

Investment on Government Securities, Shares and Debentures

Bank invests to earn interest and dividend in these government securities and debentures, which are the secondary source of income. A commercial bank extends credit purchasing on Government securities, shares and debentures for some reasons, which are as follows.

1. It may want to space its maturities so that the inflow of cash coincide with expected withdrawals by depositors or large loans demand of the customers.
2. It may wish to have high grade marketable securities to liquidate, if its primary source of reserves becomes inadequate.

3. It may also be forced to invest because the demand for loan has decreased or it is not sufficient to absorb its excess reserve. However, investment portfolio of Commercial bank is established and maintained with a view to the nature banks liability. This is because depositors may demand funds in great volume without previous notice to the banks. The investment must be a type that can be marketed quickly with little or no shrinkage in value.

Investment on other Companies Share and Debentures

Due to excess fund but least opportunity of the profitable investment and also to meet the requirement of NRB directives commercial bank utilizes funds to purchase shares and debentures of other companies (Financial and non Financial). Like most commercial banks purchase shares of regional development banks, NIDC and other development banks.

Off-Balance Sheet Activities

Feorge (1996) stated Off-balance sheet activities involve contracts for future purchase sale of assets and all these activities are contingent obligations. These are not recognized, as assets are liabilities on balance sheet. Some good examples of these items are letter of credit (L/C), letter of guarantee, bins of collection etc. Now days, some economist and finance specialists to expand the modern, transaction of a bank stressfully Highlight sub activities.

2.1.5 Investment Strategy

Das (2002) stated “Investment strategy is actually the plan, which is followed by an investor to make profits and to achieve financial stability. Based on this investment strategy the investor identifies the areas where the money can be invested safely. At the same time the returns from that money is also of equal importance. The investment strategy also helps the investor to reduce the risk factor from the investment portfolio”.

Now several investment options are available in the market. There are thousands of people who are making money from these options. Again, there are also a large number of investors who are facing losses every day. This means that if the

investment is done in a proper manner, the profit can be made from every possible medium otherwise the result may be the opposite.

But to make the investment successful, an investor needs to do the homework properly. He or she needs to follow the market closely to invest. There are several sources like the financial market news, several journals, internet and many more that can provide vital information about the financial market. This information is very important to form a strategy. At the same time, the financial planners can also provide assistance to form an investment strategy, which suits the need of the investor.

Das (2002) focused “Before planning a strategy for investment, one needs to be sure about the aim of his or her investment. One needs to decide about the desired returns and more importantly the amount of risk that he or she can bear. These factors are going to decide the suitable medium of investment for the investor.

The investment medium may be anything; the investment portfolio of the investor should be diversified. Investing in one single medium may increase the amount of risk. In multi-investment, the risks related to one medium are covered through another one”.

Das (2002) elaborated “An essential of investment refers to why investment, or the need for investment, is required. The investment strategy is a plan, which is created to guide an investor to choose the most appropriate investment portfolio that will help him achieve his financial goals within a particular period of time. An investment strategy usually involves a set of methods, rules, and regulations, and is designed according to the exchange or compromise of the investor's risks and returns. Investment strategies can be broadly categorized into the following types:

1. Active strategies: One of the principal active strategies is market timing (an investor is able to move into the market when it is on the low and sell the stocks when the market is on the high), which is applied for maximizing yields.
2. Passive strategies: Frequently implemented for reducing transaction costs.

One of the most popular strategies is the buy and hold, which is basically a long term investment plan. The idea behind this is that stock markets yield a commendable rate

of return in spite of stages of fluctuation or downfall. Indexing is a strictly passive variable of the buy and hold strategy and, in this case, an investor purchases a limited number of every share existing in the stock market index, for example the Standard and Poor 500 Index, or more probably in an index fund, which is a form of a mutual fund.

Additionally, as the market timing strategy is not applicable for small-scale investors, it is advisable to apply the buy and hold strategy. In case of real estate investment the retail and small-scale investors apply the buy and hold strategy, because the holding period is normally equal to the total span of the mortgage loan”.

2.1.6 The Fundamentals of Investment Management

The fundamentals of investment management taken by the investment management companies include the processing of the securities and assets in such way so as to gain the maximum benefit for the client investors.

Brealey et al. (2002) said “The client investor in the investment management may either be an insurance company, a corporation or a pension fund or even may be private investor going for collective investment schemes like mutual fund. The investment managers are sitting at the centre of all investment management taking all the decisions on behalf of the client's investments. The investment managers generally take the fundamentals of investment management only. The investment advisor makes an assessment on the needs and risk profile of each client.

One of the prime tasks of the investment management firms is to allocate the asset and the exercise of allocating funds among these assets is of high importance, while the classes of the assets being stocks, bonds, commodities and real estate. The asset allocation carries significant effect on the performance of a fund as the different asset classes show different interaction effects and market dynamics, while some researches even suggest that the asset allocation are having the predictive power in fund's success. It is the prime task of the investment manager to allocate the asset in the most feasible way in order to ensure the success of the fund”.

The diversification is another measure that the investment managers take up seriously after asset allocation. The managers construct a list of planned holding depending on

the theory of portfolio diversification and the list eventually indicates the amount or percentage that the fund should invest in a particular bond or stock.

Brealey et al.(2002) focused “A number of different styles of fund management are available that an investment management institution can take up while growth, market neutral, value, indexed, small capitalization, etc being the examples. Every style of fund management has its own distinctive adherents and features while in any particular financial environment it shows distinctive risk characteristics. The performance of the fund is the main acid test for fund management firms and managers. In order to make the performance measurement accurate, all the financial institutions measure the performance of each fund and also get it measured by external performance measurement firms. The aggregate industry data showing how the funds performed against some given indices over various time periods is the main index for performance measurement of a fund”.

2.1.7 Return on investment

Musiela & Rutkowski (1998) defined “Return on investment or ROI refers to how money can be received from investments. It is represented as a ratio of money earned or suffered as a loss in an association to the invested amount of money. The money, which is earned, is known as profit, interest, net income or gain. The money lost is known as loss. The return on investment (ROI) is normally expressed as a percentage”.

The amount of money that is invested is termed as capital, asset or principal. Return can either be positive or negative, which means return can either mean a profit or loss. Return on investment can be calculated on previous or present investment and it is also applied for calculating the estimated rate of return of future investment. Return on investment (ROI) is frequently used on an annualized or yearly basis.

2.1.8 Investment Risk

On ground of assurance of the return, there are two kinds of Investments - Riskless and Risky. Riskless investments are guaranteed, but since the value of a guarantee is only as good as the guarantor, those backed by the full faith and confidence of a large stable government are the only ones considered riskless. Even in that case the risk of

devaluation of the currency (inflation) is a form of risk appropriately called "inflation risk."

2.1.8.1 Types of risk

Depending on the nature of the investment, the type of investment risk will vary.

a) Capital Risk

Demeterfi et al. (1999) stated "A concern with any investment is that you may lose the money you invest - your capital. This risk is therefore often referred to as capital risk".

b) Currency Risk

Demeterfi et al. (1999) said "If the assets you invest in are held in another currency there is a risk that currency movements alone may affect the value. This is referred to as currency risk."

c) Liquidity Risk

Demeterfi et al. (1999) focused "Many forms of investment may not be readily saleable on the open market (e.g. commercial property) or the market has a small capacity and may therefore take time to sell. Assets that are easily sold are termed liquid; therefore this type of risk is termed liquidity risk".

d) Financial Risk

Demeterfi et al. (1999) defined "The risk that there may be a disruption in the internal financial affairs of the investment, thereby causing a loss of value, is called financial risk. A prime example of that form of risk was experienced by the investors in Enron, or one of the dot-com stocks that really never did have a profitable financial footing. Many of the employees of Enron experienced both liquidity and financial risk as the price decline in the stock of that company occurred just as there was a freeze on stock liquidation in their retirement plans".

e) Market Risk

Demeterfi et al (1999) elaborated “Perhaps the most familiar but often least understood form of investment risk is market risk. In a highly liquid market like the collective stock exchanges in the United States and across the developed world, the price of securities is set by the forces of supply and demand. If there is a high demand for a given issue of stock, or a given bond, the price will rise as each purchaser is willing to pay more for the security than the last one. The reverse of that occurs when the sellers want to rid themselves of an issue more than the buyers want to buy it. Each seller is willing to receive less than the last one and the market price, or valuation, declines”.

Andrés & Rowland (2008) in their article have stated that investment flows constitute an important part of the balance of payments, and it is of this reason crucial for policy makers to understand their behavior and determinants, both to be able to evaluate the impact of policy decisions on the balance of payments and to be able to correctly forecast this. Investment flows have, indeed, played an important role in recent emerging market crises, and large inflows of portfolio investment, in particular, often turns out to be a curse rather than a blessing, when such flows come to a sudden stop or even reverse.

Policy makers should play a major role in fostering good fundamentals as a result of sound, transparent and publicly known policies. Good fundamentals affect inflows as reflected in our empirical results. In addition, sound fundamentals can absorb sudden stops at a much lesser cost than unbalanced economies. Unexpected transitory shocks to the capital account of an unbalanced economy may translate into a permanent shock with high output costs. However, good fundamentals take time to consolidate, and their impact on capital flows might not be instantaneous. Finally, not everything is asymmetric information and sound fundamentals. As shown, the influence of external factors continues to be, and should continue to be a main determinant of capital inflows to developing countries as the global economy tends to greater integration. The above policy orientation does not solve the issue of volatile and scarce capital flows. However, it should be able to alleviate some of the threats posed in the current global capital markets with asymmetric information

Brown, Florax & McNamara (2010) in their article contribute to the relatively small literature on the regional investment. A conceptual model of location determinants is developed, which considers the importance of agglomeration economies, market structure, labor availability and productivity, infrastructure, and fiscal determinants. A cross-regressive model containing spatially lagged explanatory variables and a spatial Durbin model containing spatially lagged explanatory variables, including the lagged dependent variable, are estimated.

The study find a positive impact associated with local agglomeration economies, market size, labor productivity, and transportation infrastructure. Spatial spillovers are found to be of a competitive nature at the state level, implying that a factor that attracts more investment to a particular state is associated with lower investments in neighboring states. Market structure was found to be the most important factor in investment location, which suggests that the manufacturing sector as a whole still prefers to locate near demand centers. One potential policy implication is that policy makers should focus on economic development policies that attract people if they wish to attract manufacturing investment. Moreover, the attempts to increase the investment flows in a particular state may have competitive implications for investment flows to neighboring states. This may point to the possibility of unintended consequences on the impact of states' economic development policies as well as any federal transfers used to attract investment.

2.2 National Context

Pradhan (2003) in their articles has studied about the strong role and impact of saving, investment capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has collected for the period of 1974-75 to 2000-01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression equation used in this study have been estimated at current prices as well as in real terms with the entire study period divided into different sub period. The result presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The result of the empirical analysis led to these important conclusions. First saving, investment and capital formation have

positive impact on economic development. Second the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third there is strong role played by saving and capital formation on economic development while weak-role played by investment.

Mahat (2010) in their articles has stated that can be measured using different parameters. The concept of productivity and profitability can be applied while evaluating efficiency of banks. The term productivity refers to the relationship between the quantity of inputs employed and the quantity of outputs produced. An increase in productivity means that more output can be produced from the same inputs or the same outputs or the same outputs can be produced from fewer inputs. Interest expense to interest income ratio shows the efficiency of banks in mobilizing resource at lower cost and investing in high yielding asset. In other words, it reflects the efficiency in use of funds.

According to Mahat, the analysis of operational efficiency of banks will help one in understanding the extent of vulnerability of banks under the changed scenario and deciding whom to bank upon. This may also help the inefficient banks to upgrade their efficiency and be winner in the situations developing due to slowdown in the economy. The regulators should also be concerned on the fact that the banks with unfavorable ratio may bring catastrophe in the banking industry.

Poudyal (2011) in his research has put forward following objectives:

1. To analyze the repayment position of the priority sectors.
2. To find trends of priority sectors loan.
3. To analyze how far Nepal Bank Ltd. Has been able to grant credit to priority sectors.
4. To examine the impact of loan on priority sectors.
5. To analyze the impact of probable cause of misuse of the loan by the borrowers.

The researcher has used some statistical and financial tools are:

1. Financial Tools: debt management ratio/solvency ratio, liquidity ratio, turnover/efficiency ratio, profitability ratio.
2. Statistical Tools: mean, standard deviation, coefficient of variation, correlation coefficient, regression, probable error.

Similarly, the major findings of the study were as follows:

1. The procedure of loan sanctioning is rather slow and clumsy.

2. Bank was not able to fulfill the purposed target of corresponding loan to the priority sector.
3. Banking procedures are so complicated that a layman is not able to understand it completely.
4. Loan repayment was more satisfactory from agriculture sector than the cottage industries and service sector.
5. Short-term credit was important for rural people.
6. Loan repayment was mainly due to the miss utilization of loan, other important causes are linked with social expenses like expenses in marriage ceremony, medical treatment, cremation etc.
7. Loan in priority sector has significantly generated the employment opportunity.

2.3 Legal Provision of NRB Directives

Nepal Rastra Bank is the central monitoring body of the financial institutions of Nepal. For the smooth and effective operations of FI, the bank provides circulars in regular time interval. The circular related to the investment are as follows:

a) Provision for Investment in Deprived Sector

Commercial banks are compulsorily required to extend their credit and investment in the deprived sector such as co-operative institutions and the rural banks that are licensed through NRB. The new provision obligates the commercial banks to invest 4.5% of total loan and advances to the deprived sector.

b) Provision for Investment in Productive Sector

Nepal, being a developing country needs to develop infrastructure and other primary productive sectors like agriculture, industry etc. For this, NRB has directed commercial banks to extend at least 45% of their credit to the productive sectors like agriculture sector and industrial sectors.

c) Investment in Stocks and Securities

Commercial banks are also required to minimize exposures to risk involved in investing the deposits of the saver and other financial resources at their disposal in earning assets. Commercial banks are required to compile and submit their financial reports keeping in view:

1. Nepal Rasta Bank Act
2. Commercial Bank Act
3. International Accounting System
4. Nature and type of their respective transaction
5. Directives of the Nepal Rastra Bank
6. Monetary and Financial Statistics Manual of IMF

b. Investment Management Regulation

A commercial bank formulating a written policy may decide to invest in shares and securities of an organized institution.

Likewise, Commercial Banks are not allowed to invest in any shares, securities, and hybrid investment issued by any banks and financial institutions licensed by NRB. Where such investment exists prior to issuances of this directive, such investment brought within the restrictive limitation by the FY 2003/04. However, investments on rural microfinance development banks' share are free from such restriction.

2.4 Research Gap

All of the previous studies made are concerned with comparing the total investment with the total flow of loan and advances, and do not enlightens on each component of the investment. Tracing this defect, the present study is conducted to analyze the investment priority given by the banks in each component of the investment, such as treasury bond, development bonds, corporate securities and debentures, interbank lending and so on.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Research Design

To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to analyze the investment policy of commercial banks.

3.2 Population and Sample

Currently there are 28 commercial banks operating in Nepal. The study of all these banks in this study is almost impossible. So, two commercial banks, namely Himalayan Bank Limited and Everest Bank Limited, have been selected randomly as sample of the study.

3.3 Nature and Sources of Data

The study is based on secondary data. The secondary data have been extracted from the annual reports of HBL and EBL. Besides annual reports, the official website of sampled banks, NEPSE, SEBON and NRB have also been reviewed.

3.4 Data Analysis Tools

The collected data have no meaning if such data are not analyzed. To analyze the data in this research, the researcher has used some statistical and financial tools which are explained here.

3.4.1 Financial Tools

The major financial tools used in this research are as follows;

A) Mobilization of Collected Deposit

Effective mobilization of collected deposit is the major responsibility of the bank for its extant and competitiveness. Mainly the bank mobilizes the deposit by making

investment in loan and advances and other investment sector. Under this section such mobilization rate has been ascertained.

1. Investment in Loan and Advances to Total Deposit

This ratio measures the bank's ability to mobilize the depositors fund to earn profit by providing loans and advances. It also measures the extent to which the banks are successful in mobilizing deposits for the purpose of profit generating.

$$\text{Inv. in Loan and Advance to Total Deposit} = \frac{\text{Total Loan and Advances}}{\text{Total Deposit}}$$

2. Investment in Other Sector to Total Deposit

Besides loan and advances, the bank makes investment in other sector like in government securities, corporate shares and debentures, interbank lending and other to increase the profit. This ratio indicates the utilization of total deposit in such investment.

$$\text{Inv. in other Sector to Total Deposit} = \frac{\text{Other Sector Investment}}{\text{Total Deposit}}$$

B) Liquidity Ratio

The liquidity ratios measure the ability of firm to meet its short-term obligations and reflect the short-term financial strength/solvency of firm.

Banking industry has its survival in its ability to create credit and its credit creation ability is dependent upon its liquidity ratio. The liquidity ratio of banking industry depends upon the banking habit of people. Where the banking practice is more prevalent, the low current ratio does not necessarily increase its liquidity risk. Therefore, it is necessary to have a proper balance between high liquidity and lack of liquidity. The ratios used in short-term liquidity analysis evaluate the adequacy of the firm's cash resources relative to cash obligation.

As financial tools, following ratios have been used to find out the liquidity position of HBL and EBL

1. Cash Reserve Ratio

Each bank has to keep the cash reserve ratio as directed by the NRB. The cash reserve ratio is calculated by using the following formula.

$$\text{CRR} = \frac{\text{Cash and Bank Balance}}{\text{Total Local Deposit}}$$

2. Fixed Deposit to Total Deposit Ratio

This ratio indicates the percentage of total deposit has been collected in form of fixed deposit. Higher ratio indicates better opportunity available to the bank to invest in sufficient profit generating long term loans.

This ratio can be computed by dividing fixed deposit by total deposit as follows:

$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

C) Turnover/Efficiency Ratio

Turnover ratio measures the performance efficiency of an organization that whether it is using its resources properly or not. To carry out operations, a firms needs to invest in both short term and long term. Turnover ratios describe the relationship between the firms level of operations and assets needed to sustain the activity. Activity ratio can also be used to forecast a firm's capital requirement. Activity ratios enable to analyst to forecast these requirements and to access the firm's ability to acquire the assets needed to sustain the forecasted growth. The activity ratios analyzed in the study are:

1. Credit Risk in Investment in Loan and Advances

The non performing loan to total loan measures the credit risk on the total loan and thus represents the quality of the assets the bank is carrying on. Higher the ratio indicates higher risk on the assets and vice-versa.

$$\text{NPL to Total Loan} = \frac{\text{Non Performing Loan}}{\text{Total Loan}}$$

2. Loan Loss Provision to Total Loans and Advances

Each bank has to keep the loan loss provision for loan and advances as per the direction of Nepal Rastra Bank. The loan loss provision to total loans and advances measures the aggregate percentage of loan loss provision kept by bank on loans and advances and thus eventually measures the security position. It is calculated as follows:

$$\text{LLP to Loans Advances} = \frac{\text{Loan Loss Provision}}{\text{Total Loans and Advances}}$$

3. Productivity Per Employee

An important ratio that looks at a company's profit in relation to the mobilization of human resources. This ratio is most useful when compared against other companies in the same industry. Ideally, a company wants the highest interest income to number of employees as possible, as it denotes higher efficiency.

$$\text{Productivity Per Employee} = \frac{\text{Total Interest Income}}{\text{Number of Employees}}$$

D) Profitability Ratio

Profitability is the different between the revenues and the expenditure over a period. Profitability ratios measure the efficiency of a business enterprise. Profit is the main element that makes an organization to survive for long-term. The profit measures the management ability regarding how well they have utilized their funds to generate surplus, for this following ratios have been analyzed.

1. Return on Total Deposit Ratio

Return on total deposit ratio measure how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. It explains the ability of management in efficient mobilization of deposit in earning profit. The ratio is calculated as:

$$\text{Return on Total Deposit Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Deposits}}$$

2. Return on Total Assets (ROA)

This ratio measures the productivity of the assets. It shows the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio evaluates the overall return on investment earned by the firm. Net profit refers to the profit after deduction of interest and tax. Total assets mean the assets that appear in assets side of the balance sheet. It measures the efficiency of banks in utilization of the overall operation. Higher ratio shows the higher return on the assets used in the business thereby indicating effective use of the resources available and vice-versa. This ratio is calculated as:

$$\text{Return on Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

3.4.2 Statistical Tools

To achieve the objectives of the study set out in first chapter, the following statistical tools have been efficiently utilized in fourth chapter to analyze the data.

A) Mean

The arithmetic mean (or simply the mean) of a list of numbers is the sum of the list divided by the number of items in the list. The mean is the most commonly-used type of average and is often referred to simply as the average.

$$\text{Mean } (\bar{X}) = \frac{x_1 + x_2 + \dots + x_n}{N}$$

B) Standard Deviation

Standard deviation is a widely used measure of the variability or dispersion, being algebraically more tractable though practically less robust than the expected deviation or average absolute deviation. It may be thought of as the average difference of the scores from the mean of distribution, how far they are away from the mean. A low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data are spread out over a large range of values.

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

C) Coefficient of Variation

The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from each other.

$$\text{C.V.} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100\%$$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Secondary Data Analysis

4.1.1 Mobilization of Collected Deposit

Deposit is the major source of fund for banking operation. However, the bank has to efficiently mobilize such deposit to yield profit. Investment in loan and advances and other like in government securities, corporate shares and debentures, inter bank loan etc. are the major use of such collected deposit. Thus, under this section the deposit mobilization on loan and advances and other investment have been analyzed.

4.1.1.1 Investment in Loan and Advances to Total Deposit

Investment in loan and advances is considered as the major source of income of the bank. The greater the bank invests the funds in loan and advances, the higher will be the chance of earning interest, if the credit risk is low. Thus, to examine the mobilization rate of collected deposit in loan and advances the ratio has been calculated.

Table 4.1
Investment in Loan and Advances to Total Deposit

(Rs. in Millions)

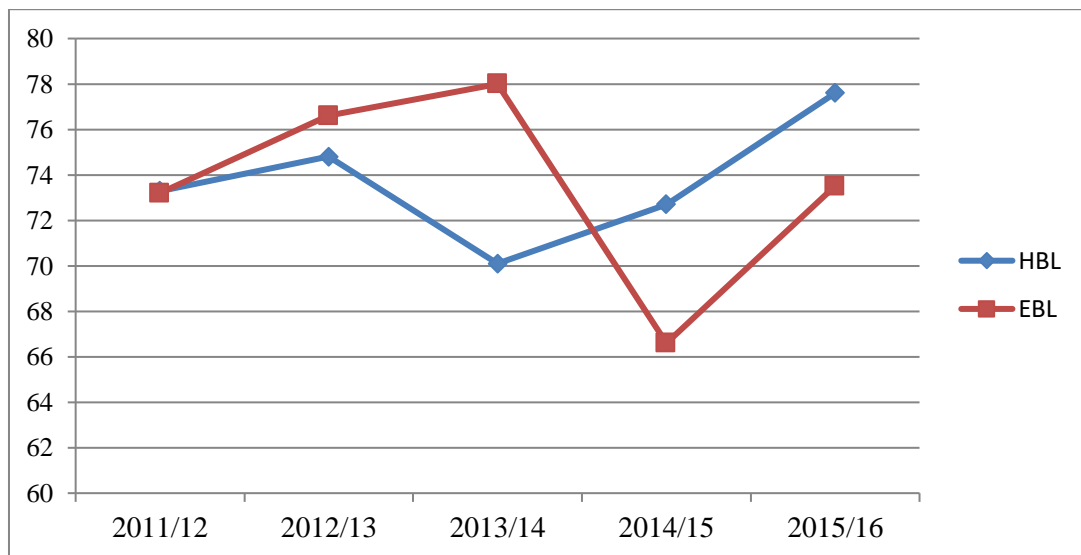
Fiscal Year	HBL			EBL		
	LA	TD	Ratio	LA	TD	Ratio
2011/12	34965.4	47730.9	73.3	36616.8	50006.1	73.2
2012/13	39723.8	53072.3	74.8	44197.7	57720.4	76.6
2013/14	45320.3	64674.8	70.1	48450.3	62108.1	78.0
2014/15	53476.2	73538.2	72.7	55363.5	83093.7	66.6
2015/16	67745.9	87335.7	77.6	68911.5	93735.4	73.5
Mean			73.7			73.6
S.D.			2.47			3.93
C.V.%			3.35			5.34

(Annual Reports of EBL and HBL)

The Table 4.1 measured the mobilization of total deposit in loan and advances. The table showed that both loan and advances and the total deposit collection of HBL were in increasing trend. The deposit collection amount ranged from Rs. 47730.9 millions in the fiscal year 2011/12 to Rs. 87335.7 millions in the fiscal year 2015/16. Moreover, the mobilization of deposit in loan and advances of the bank had been in increasing trend in most of the years. In average, HBL mobilized 73.7 percent of the total collected deposit in granting loan and advances. Also, the coefficient of variation in the ratio in the five year periods was 3.35 percent, indicating quite uniformity in the ratio.

Alike HBL, it can also be inferred that EBL has also been successful to convince the depositors for retaining and to entice the potential depositors for opening the deposit account, as a result the deposited amount of the bank has increased in each fiscal year. The deposit of the bank has increased from Rs. 50006.1 millions in the fiscal year 2011/12 to Rs. 93735.4 millions in the fiscal year 2015/16. Also, the total loan and advances has been increased by the bank in the observed periods. Consequently, the mobilization of deposits in loan and advances has been increased in each fiscal year. The bank, in average, has mobilized 73.6 percent of total deposits in loan and advances, and the variation in the ratio is 5.34 percent

Figure 4.1
Investment in Loan and Advances to Total Deposit



(Source: Table 4.1)

Looking at the figure 4.1 EBL is slightly more efficient than HBL in mobilizing total deposits in loan and advances. However, it can be inferred that EBL is more dependent in loan and advances than HBL for earning interest income, since high portion of the deposits is invested in loan and advances.

4.1.1.2 Investment in Other Sector to Total Deposit

The deposit collection amount by the bank is invested in different sectors like treasury bills, government bonds, corporate shares and bonds and others. Thus, the investment in other sector to total deposit ratio measures actually how much deposit has been mobilized in these sectors.

Table 4.2

Investment in Other Sector to Total Deposit

(Rs. in Millions)

Fiscal Year	HBL			EBL		
	Inv.	TD	Ratio	Inv.	TD	Ratio
2011/12	10031.5	47730.9	21.0	7863.6	50006.1	15.7
2012/13	12992.0	53072.3	24.5	9263.8	57720.4	16.0
2013/14	19843.2	64674.8	30.7	6504.2	62108.1	10.5
2014/15	17114.6	73538.2	23.3	15102.6	83093.7	18.2
2015/16	19306.0	87335.7	22.1	181198.7	93735.4	19.3
Mean			24.3			16.0
S.D.			3.4			3.04
C.V.%			14.00			19.00

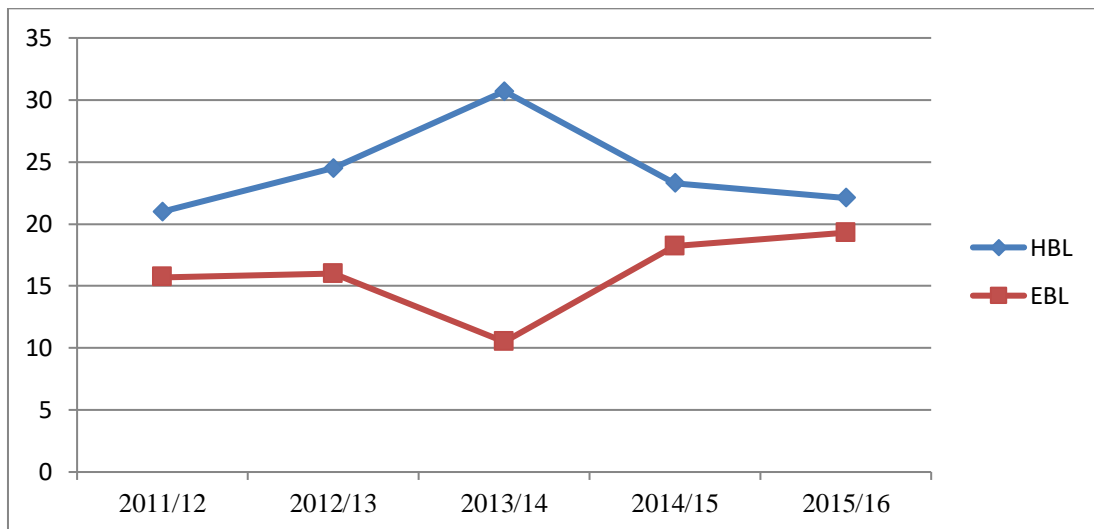
(Annual Reports of EBL and HBL)

It seems that HBL has considered the investment in government securities, foreign banks and corporate shares and debentures more lucrative with reasonable risk up to the fiscal year 2013/14. This statement can be substantiated with the increase in investment amount till the first three fiscal years, i.e. from Rs. 10031.5 million to Rs. 19843.2 million, and the decrease in the investment amount in the later period, i.e. Rs. 19306.0 million by the end of the fiscal year 2015/16. Also, the investment to total deposit ratio of HBL has decreased in most of the fiscal years. In average, the bank has mobilized only 24.3 percent of the total deposit in investment, and the variation in such mobilization is 14.0 percent

Undoubtedly, HBL has given less preference to investment in comparison to loan and advances while mobilizing the collected funds

The investment in corporate shares and debentures, in government securities including treasury bills, development and saving bonds, and in foreign banks and securities has been considerably neglected by HBL; as a result such investment has fluctuated during the periods. The bank, in average, has mobilized only 16.0 percent of the total collected deposits in investment, with the variation of 19.0 percent in the ratio.

Figure 4.2
Investment in Other Sector to Total Deposit



(Source: Table 4.2)

Looking at the figure 4.2 the mobilization of total deposits in investment is higher in HBL in comparison to that of EBL. Thus, the fund mobilization of HBL is more diversified than that of EBL. It would be better if EBL also be less dependent on loan and advances while utilizing the deposits to yield profit and eventually diversify its collected funds.

4.1.2 Liquidity Ratio

Liquidity ratio is a rigorous measure of a firm's ability to serve its short-term obligation. It reflects the short-term financial solvency of a firm as a whole.

4.1.2.1 Cash Reserve Ratio

Cash reserve ratio is the most crucial tool for measuring the liquidity of the bank. NRB has directed 5.5 percent CRR of commercial banks.

Table 4.3
Cash Reserve Ratio
(Ratio in %)

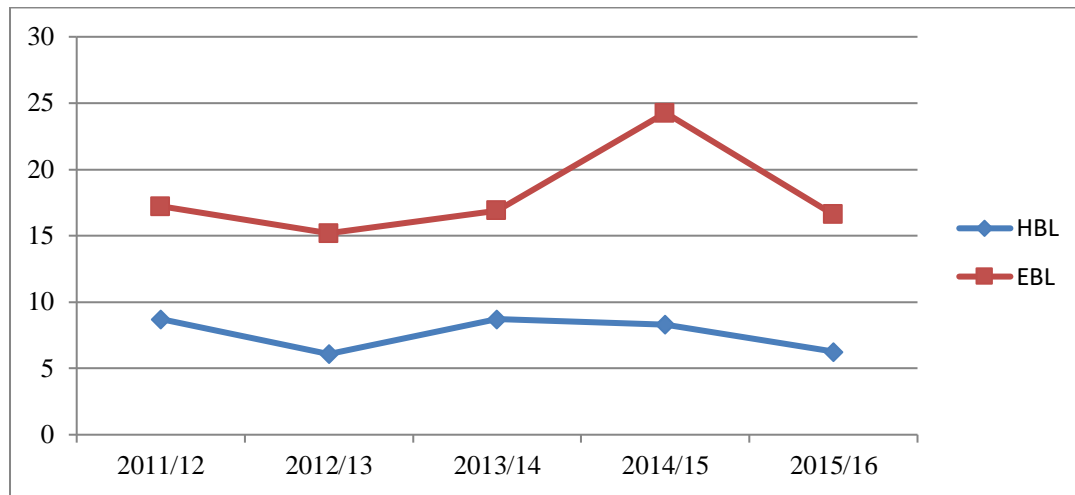
Fiscal Year	HBL	EBL
	CRR	CRR
2011/12	8.72	17.22
2012/13	6.08	15.19
2013/14	8.72	16.91
2014/15	8.32	24.27
2015/16	6.27	16.61
Mean	7.6	18.0
S.D.	1.2	3.2
C.V.%	15.8	17.8

(Annual Reports of EBL and HBL)

Observing the CRR of HBL, it has been ascertained that HBL has given enough emphasis in managing the suffice liquidity, since the CRR maintained by the bank is just above the benchmark directed by NRB. In average, the CRR of the bank is 7.6 percent with the swung up in ratio by 15.8 percent

In each fiscal year, EBL has met the minimum requirement of NRB for cash reserve ratio. This indicates that the bank has contemplated the demand for payment that may arise at any moment. Moreover, in average, the CRR of EBL is 18.0 percent and the variation in the ratio is 17.8 percent, indicating extreme consistency in the ratio.

Figure 4.3
Cash Reserve Ratio



(Source: Table 4.3)

From the figure 4.3 the average CRR of EBL is higher than the average CRR of HBL, it can be inferred that EBL is more superior to HBL in managing the liquidity. In other words, it can be assumed that EBL is more concern about to prevent the chances of the bankruptcy than HBL does.

4.1.2.2 Fixed Deposit to Total Deposit Ratio

Fixed deposit is a long-term and high interest bearing deposit. More fixed deposit may be an advantage if it can be invested in long-term credit. Fixed deposits are long-term deposit and banks can mobilize them on investment, loans and advances.

Table 4.4
Fixed Deposit to Total Deposit Ratio

(Rs. in Millions)

Fiscal Year	HBL			EBL		
	FD	TD	Ratio	FD	TD	Ratio
2011/12	11866.6	47730.9	24.9	11866.6	50006.1	23.8
2012/13	13964.6	53072.3	26.3	13964.6	57720.4	24.2
2013/14	13589.3	64674.8	21.0	14528.8	62108.1	23.4
2014/15	10305.4	73538.2	14.0	19784.8	83093.7	23.8
2015/16	16763.5	87335.7	19.2	25999.0	93735.4	27.7
Mean			21.1			24.6
S.D.			4.37			1.58
C.V.%			20.71			6.42

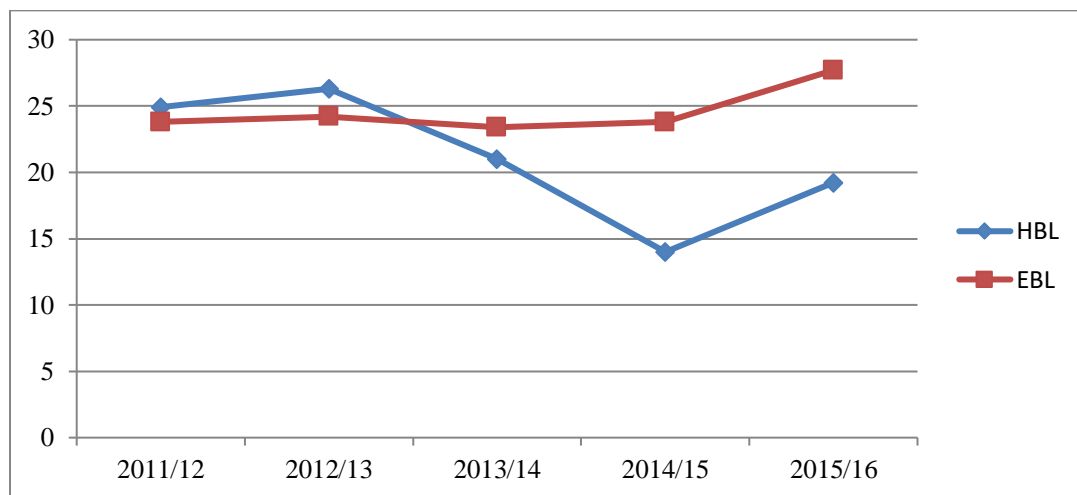
(Annual Reports of EBL and HBL)

Analyzing the deposit section of the bank, the ratio of HBL has also fluctuated during the observed periods. The fixed deposit of HBL has been Rs. 11866.6 million at the inception of the observed period and by the end of the fiscal year 2011/12, it has been raised to Rs. 16763.5 millions. It can be inferred that the pace of growth in fixed deposit is lower than the pace of growth of total deposit. In average, the preponderance of fixed deposit on total deposit of HBL is 21.1 percent, and the variation in such ratio is 20.71 percent

The fixed deposit collection of EBL has been raised in each fiscal year, and thus the fixed deposit amount has been increased from Rs. 50006.1 millions in the fiscal year 2011/12 to Rs. 93735.4 millions in the fiscal year 2015/16. However, the bank has ignored the preponderance of the fixed deposit in total deposit; as a result the fixed deposit to total deposit of the bank has oscillated during the periods. Nonetheless in average, EBL has collected 24.6 of the total deposit through fixed deposit, and the variation in such ratio is 6.42 percent.

Figure 4.4

Fixed Deposit to Total Deposit Ratio



(Source: Table 4.4)

Paraphrasing the analysis, it can be assumed that EBL requires less liquidity in comparison to HBL, since the proportion of fixed deposit to total deposit is higher in EBL, demanding less immediate payment. However, it is not meant that EBL should pay less concern for liquidity management. Though both banks are concerning to increase deposit, it would be better if both banks seek for increasing the proportion of fixed deposit on total deposit.

4.1.3 Efficiency Ratio

Efficiency ratio or activity ratio or utilization ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effective use of resources of a firm. Higher the rate means more efficient in management on the utilization of its resources and vice-versa.

4.1.3.1 Productivity Per Employee

This ratio is most useful when compared against other companies in the same industry. Ideally, a company wants the interest income through efficient mobilization of human resources. Eventually, the higher interest income to employee signals the better capability of the bank in mobilizing the human resources to yield high income.

Table 4.5
Productivity Per Employee

(Ratio in Times)

Fiscal Year	HBL			EBL		
	Int. Inc.	No.	Ratio	Int. Inc.	No.	Ratio
2011/12	4724.8	733	6.4	4959.9	625	7.9
2012/13	4627.3	830	5.6	4936.9	643	7.7
2013/14	4742.9	835	5.7	5177.5	696	7.4
2014/15	4627.7	856	5.4	4996.4	696	7.2
2015/16	5015.8	857	5.9	5057.0	739	6.8
Mean			5.8			7.4
S.D.			0.34			0.38
C.V.%			5.86			5.14

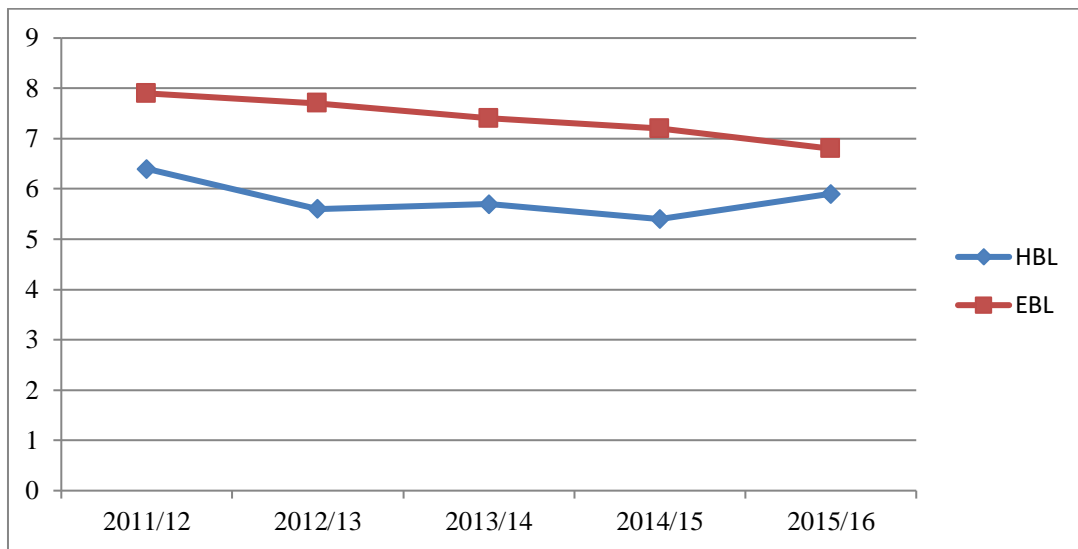
(Annual Reports of EBL and HBL)

It is palpable that the interest income of the HBL bank is highest, Rs. 5015.8 millions in the fiscal year 2015/16, and is lowest, Rs. 4627.3 millions in the fiscal year 2012/13. However, the bank has increased the number of employees for the first five fiscal years. In other words, the productivity per employee of the bank has decreased due to the interested income fluctuated during the periods. In average, the ratio is 5.8 million times and the variation in the ratio is 5.86 percent.

In EBL , increment in the number of employees, the productivity per employee in augmenting the interest income fluctuated during the periods, i.e. from 6.8 million

times in the fiscal year 2015/16 to 7.9 million times in the fiscal year 2011/12. This indicates that the efficiency of EBL in mobilizing human resources to get high interest income per employee has debilitated during the periods. In average, the productivity per employee of the bank is 7.4million times and the variation in such ratio is 5.14 percent

Figure 4.5
Productivity Per Employee



(Source: Table 4.5)

Undoubtedly the productivity per employee of EBL is higher than that of HBL on the basis of average ratio.

4.1.3.2 Credit Risk in Investment in Loan and Advances

Bank makes investment by utilizing its collected fund. The credit risk ratio measures the risk behind making investment or granting loan. Actually, the proportion of non-performing assets shows credit risk ratio in investment in loan and advances of a bank

Table 4.6
Credit Risk in Investment in Loan and Advances

(Ratio in %)

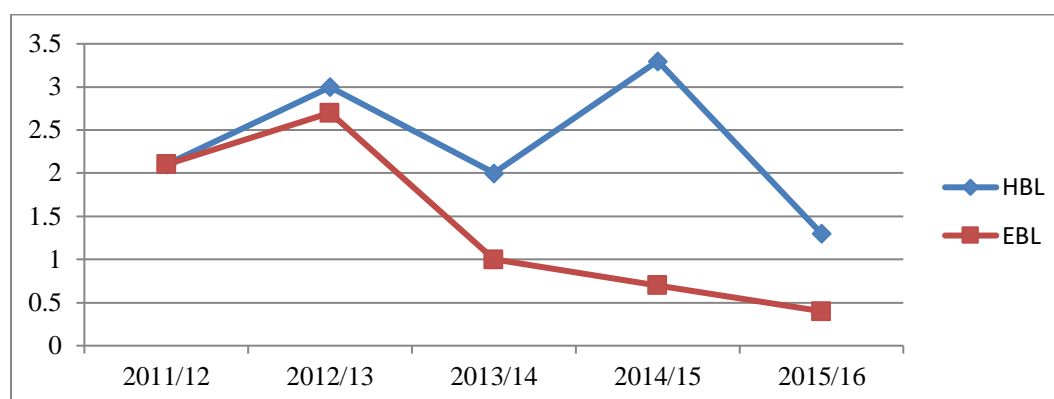
Fiscal Year	HBL			EBL		
	NPL	LA	Ratio	NPL	LA	Ratio
2011/12	751.1	34965.4	2.1	751.1	36616.8	2.1
2012/13	1186.1	39723.8	3.0	1186.1	44197.7	2.7
2013/14	911.5	45320.3	2.0	470.4	48450.3	1.0
2014/15	1783.9	53476.2	3.3	367.1	55363.5	0.7
2015/16	851.3	67745.9	1.3	264.4	68911.5	0.4
Mean			2.3			1.38
S.D.			0.72			0.87
C.V.%			31.30			63.04

(Annual Reports of EBL and HBL)

The Table depicted the ratio of non-performing loan to total loan to measure the loan situation of the observed banks. The table showed that the non-performing loan of HBL was in fluctuating trend and thus ranged from Rs. 751.1millions in the fiscal year 2011/12 to Rs. 1783.9millions in the fiscal year 2014/15. In average, the non-performing loan covered 2.3 percent of the total loan, which indicated low risk in the loan.

Despite the increment in the loan and advances, EBL has persistently attempted to prevent the loan from becoming default. As a consequence, the non-performing asset to total loan has been considerably decreased in most of the observed periods. However, the non-performing asset of the bank is Rs. 751.1 million at the inception of the observed periods and by the end of the fiscal year 2015/16, it has been observed to be Rs. 264.4 millions. However, the granting of loan and advances has increased from Rs. 36616.8 millions in the fiscal year 2011/12 to Rs. 68911.5millions in the fiscal year 2015/16. The inverse trend between non-performing assets and loan and advances has led to the decrease in credit risk in each fiscal year. In brief, the credit risk ratio has ranged from 0.4 percent to 2.7 percent in the observed periods. In average, the credit risk ratio of EBL is 1.38 percent, with the oscillation of 63.04 percent

Figure 4.6
Credit Risk in Investment in Loan and Advances



(Source: Table 4.6)

It is palpable from the figure 4.6 that the loan and advances of EBL is less susceptible to the credit risk than that of HBL. HBL needs to re-engineer, without any procrastination, its credit management policy, after evaluation the reasons behind the greater chances of the default loan, to make its loan and advances less vulnerable to the credit risk.

4.1.3.3 Loan Loss Provision to Investment in Total Loan and Advances

The bank has to keep loan loss provision to remain safe from the disaster caused by the loan turning into loss loan. Thus this ratio measures the bank's loss provision in proportion to total loan and advances. The higher ratio indicates higher risk on the total loans and vice-versa.

Table 4.7
Loan Loss Provision to Investment in Total Loan & Advances

(Ratio in %)

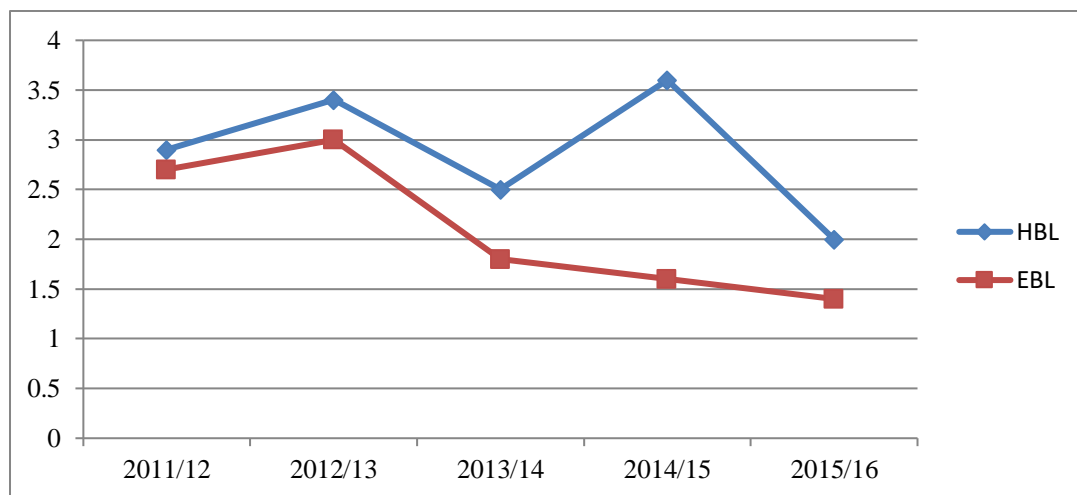
Fiscal Year	HBL			EBL		
	LLP	LA	Ratio	LLP	LA	Ratio
2011/12	1003.0	34965.4	2.9	1003.0	36616.8	2.7
2012/13	1333.9	39723.8	3.4	1333.5	44197.7	3.0
2013/14	1128.9	45320.3	2.5	878.2	48450.3	1.8
2014/15	1951.7	53476.2	3.6	881.0	55363.5	1.6
2015/16	1354.9	67745.9	2.0	956.4	68911.5	1.4
Mean			2.9			2.1
S.D.			0.58			0.63
C.V.%			20.0			30.0

(Annual Reports of EBL and HBL)

The Table measured the credit risk of the sampled banks. In average, HBL kept 2.9 percent of the total loan as loan loss provision within the first five year periods. And the loan loss provision amount in this period ranged from Rs.1003.0millions in the fiscal year 2011/12 to Rs. 1951.7millions in the fiscal year 2014/15.

However, the non-performing loan of EBL in proportion to the loan and advances has been decreased consistently during the observed periods, indicating that the increment in loan loss provision is the result of the increment in performing loans. Whatever, the loan loss provision of the bank has increased from Rs. 878.2millions in the fiscal year 2013/14 to Rs. 1333.5millions in the fiscal year 2012/13. In average, 2.1 percent of the loan and advances of the bank requires to be secured through provision, and the variation in such security is 30.0 percent

Figure 4.7
Loan Loss Provision to Investment in Total Loan and Advances



(Source: Table 4.7)

Categorically, the loan and advances of EBL associates low credit risk than that of HBL, indicating that there is low chance of turning good loan to bad debt and thus low requirement of loan loss provision.

4.1.4 Profitability Ratio

Profit is the ultimate output of a company and its existence is not justified if it fails to make sufficient profit. Therefore the company should continuously evaluate the

efficiency of the company in terms of profit. The profitability ratio is calculated to measure the operating efficiency of the company.

4.1.4.1 Return on Total Deposit Invested

This ratio measures the bank's efficiency in mobilizing the total deposit perfectly to earn profit. A high ratio indicates high efficiency of banks in mobilizing the total deposit in most fruitful sector and vice-versa. The net profit to total deposit ratio of EBL and HBL is presented in the table below.

Table 4.8
Return on Total Deposit Invested

(Ratio in %)

Fiscal Year	HBL			EBL		
	NPAT	TD	ROD	NPAT	TD	ROD
2011/12	958.6	47730.9	2.0	1090.6	50006.1	2.2
2012/13	943.6	53072.3	1.8	1471.1	57720.4	2.5
2013/14	959.1	64674.8	1.5	1549.7	62108.1	2.5
2014/15	1112.2	73538.2	1.5	1574.3	83093.7	1.9
2015/16	1935.9	87335.7	2.2	1730.2	93735.4	1.8
Mean			1.8			2.2
S.D.			0.28			0.29
C.V.%			15.6			13.18

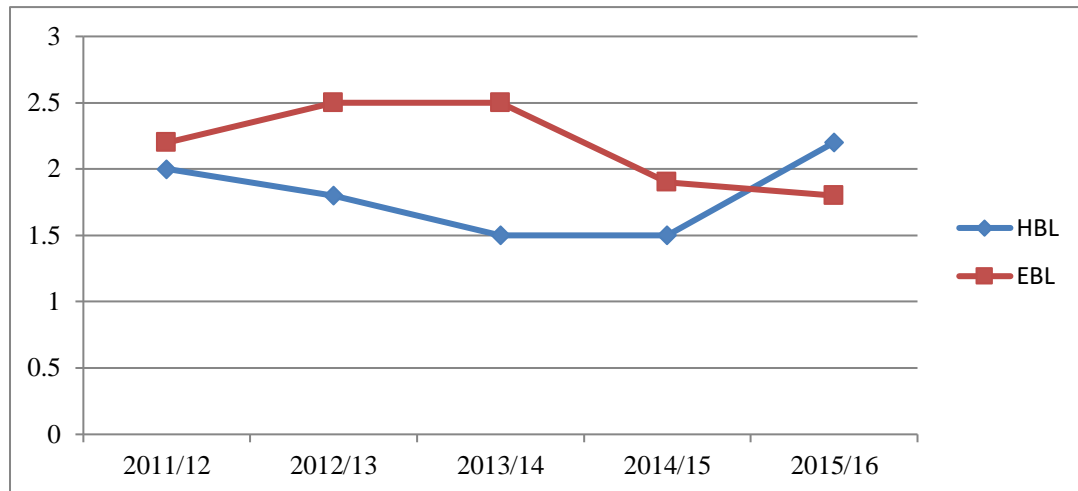
(Annual Reports of EBL and HBL)

The net profit of HBL has increased in most of the fiscal years. However, in the fiscal year 2012/13, the bank has to face the decrease in net profit in comparison to that of the previous year. Despite the highest total deposit in the some fiscal years the bank has to experience the lowest return on total deposit in such years, indicating that the investment of total deposit of the bank is not so lucrative in such year. In average, the return on total deposit of the bank is 1.8 percent, with the variation of 15.6 percent

In each fiscal year, the net profit of EBL has been increased. More specifically, the net profit of the bank amounts Rs. 1090.6millions in the fiscal year 2011/12 and Rs. 1730.2millions in the fiscal year 2015/16. Along with the increment in net profit, the total deposit of the bank has also increased simultaneously, and by the end of the fiscal year 2015/16, the accumulated deposits worth Rs. 93735.4 millions. In average,

the return on total deposit of the bank has been measured to be 2.2 percent, which means that the bank has generated Rs. 2.2 profit from Rs. 100 investment of total deposit. The variation in the ratio has observed to be 13.18 percent

Figure 4.8
Return on Total Deposit



(Source: Table 4.8)

Undoubtedly, it can be considered that EBL is more efficient than HBL in mobilizing the total collected deposit to yield high profit, since the average return on total deposit of EBL is higher than that of HBL.

4.1.4.2 Return on Total Assets

The ROA may also be called profit-to-assets ratios. The ROA measures the profitability of the total investments of a firm. This ratio is regarded as a measure of a company's efficiency in the use of its assets to generate sales. A more efficient company will generate a higher level of sales with a given level of total assets than its less efficient competitor. The high ROA represents the high profitability of the firm and vice versa.

Table 4.9
Return on Total Assets

(Ratio in %)

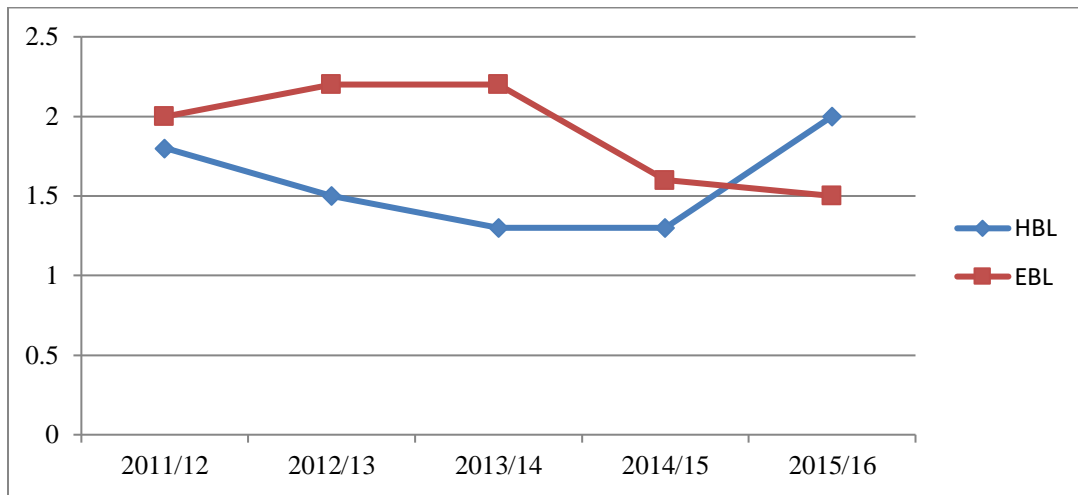
Fiscal Year	HBL			EBL		
	NPAT	TA	ROA	NPAT	TA	ROA
2011/12	958.6	54364.4	1.8	1090.6	55813.1	2.0
2012/13	943.6	61113.5	1.5	1471.1	65741.1	2.2
2013/14	959.1	73589.8	1.3	1549.7	70445.0	2.2
2014/15	1112.2	82801.5	1.3	1574.3	99167.2	1.6
2015/16	1935.9	99863.0	2.0	1730.2	113885.0	1.5
Mean			1.6			1.9
S.D.			0.28			0.30
C.V.%			17.5			15.8

(Annual Reports of EBL and HBL)

The table shows that along with the increment in the total assets of the HBL bank, the net profit of the bank has also increased in most of the fiscal year. But the rate of the increment in the net profit of the bank could not cope with the rate of the increment of the total assets, as a result the net profit to total assets of the bank has followed fluctuating trend. In average, HBL has generated Rs. 1.6 from Rs. 100 investment of total asset and the variation in such earnings is 17.5 percent.

Alike in HBL, the total asset of EBL has been raised in each fiscal year. The total asset of the bank has been measured to be Rs. 113885.0millions by the end of the fiscal year 2015/16. More concisely, the return on total assets of the bank has been ascertained to have ranged from 2.0 percent in the fiscal year 2011/12 to 2.3 percent in the fiscal year 2013/14. The average return on total assets of the bank has been observed to be 1.9 percent and the variation in the ratio is 15.8 percent

Figure 4.9
Return on Total Assets



(Source: Table 4.9)

Comparing from the figure 4.10 two banks on the basis of return on total assets, it can be categorically said that EBL is more efficient than HBL in mobilizing the fund to yield higher profit. In other word, the investment of EBL is more fruitful than that of HBL, since even with lower fund the return on total assets of EBL is higher than that of HBL.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

In this last chapter of the study summary, conclusion and recommendation is discussed and explore the facts and matter required for various parts of the study. Through the analytical chapter by using some important financial as well as statistical tools, makes a comparative analysis of various aspects of the investment of concern commercial banks.

5.1 Summary

Investment policy is the proper management of any fund or wealth to maximize value or to obtain high or favorable return with low risk considering the inflation and other possible harms. Due to the growth on banking sector in Nepal and huge competition, investments are comparatively losses. Therefore, Banks should follow the principle of investment for profit making. An investment policy should ensure maximum profit and minimum risk. The study mainly aims to analyze and identify the investment policy distribution and practices followed by the selected banks, to analyze the financial position of EBL Bank and HBL Bank in terms of deposit collection and investment procedure, policy, to find out relationship between total investment, deposit, loan and advance and net profit and to suggest and recommend on the investment policy of sample banks.

The central banks are required to direct the commercial banks. Commercial banks should move as per the direction given by the central bank. Banks should have optimum policy to collect the deposit in various accounts. Deposit is the major organ of commercial bank to live in the industry. Higher the deposit, higher will be the chance of mobilization of working fund and to earn profit. Banks should not invest their fund haphazardly. It should be careful while advancing loan because loan is the blood of the commercial banks for survival. If commercial banks does not apply sound investment policy it will be in great trouble in future to collect it in time, hence the possibility of bankruptcy thereto. Banks should invest their fund in various portfolios after the deep study of the project to be safe from being bankruptcy. If banks concentrate the investment in few organizations there is a high chance of

default risk. Diversification is needed to all the business houses but it has seen massive importance to commercial banks.

Hence, the commercial banks should implement the investment policy considering the directives issued by NRB. Commercial banks should not cross the boundary level set by central bank to make investment policy. In overall, it can be concluded that the role of NRB in investment policy of commercial banks has both positive & negative impact.

5.2 Major Findings of the Study

On the basis of the analysis, the following major findings have been drawn;

1. Undoubtedly, investment in loan and advances is the major use of collected deposit. In average, 73.7 percent of the collected deposits of HBL and 73.6 percent of the collected deposit of EBL has been invested in loan and advances.
2. Next to investment in loan and advances, investment in other sector like government securities, corporate shares and debentures and interbank lending is the major use of collected deposit. This other sector investment has represented 24.3 percent in HBL and 16.0 percent in EBL of total collected deposit.
3. Both the banks have met the minimum cash reserve ratio specified by the NRB in the observed periods. However, the average CRR of EBL, 18.0 percent is higher than that of the HBL, 7.6 percent.
4. The average fixed deposit to total deposit of EBL is higher than that of HBL. The ratio is 24.6 percent in EBL and 21.1 percent in HBL, indicating that EBL requires less liquidity to meet the immediate obligation.
5. The credit risk in investment in loan and advances is lower in EBL in comparison to that of HBL. The average credit risk in such investment is 1.38 percent in EBL and 2.8 percent in HBL. Also the loan loss provision to investment in loan and advances of EBL is 2.1 percent and that of HBL 5.8 percent.
6. EBL is more efficient than HBL is mobilizing the human resources. The productivity per employee of EBL is 7.4 percent and that of HBL 3.05 percent.

7. EBL is more efficient than HBL in generating profit from the investment of collected deposit. The average return on investment of total deposit of EBL is 2.28 percent and that of HBL is 1.8 percent. In addition, the return on total assets of EBL is 1.98 percent and that of HBL is 1.58 percent. Hence, EBL has greater capability than HBL to achieve high profitability from the investment of available fund.

5.3 Conclusion

Analyzing the data, it can be considered that the mobilization in investment occupies crucial ramifications of total assets in banking sector. However, among various investments, the investment in loan and advances is highest of each bank, and it is ubiquitous in banking sector. Next to investment in loan and advances, investment in government securities is highest. Though, the investment in corporate securities and debentures is comparatively low, it cannot be denied that such investment is lucrative to the bank. Categorically, EBL is more dependent in loan and advances than HBL for earning interest income. Generally, it can be said that each bank has preferred to loan and advances first, then to government securities, then to interbank lending and finally to corporate investment.

The investment policy adopted by both the banks has not adversely affected the minimum cash reserve ratio specified by NRB. Between the two banks, the liquidity maintained by EBL is superior to that of HBL, since both the CRR and fixed deposit to total deposit of EBL is greater than those of HBL respectively. Also, both the banks have followed conservative policy to finance the total assets.

In addition, it can be inferred that the credit risk in investment in loan and advances is lower in EBL in comparison to that of HBL. EBL is more efficient the HBL is mobilizing the human resources. Further, EBL is more efficient than HBL in generating profit from the investment of collected deposit. Eventually it can be concluded that the investment policy of EBL is better than that of HBL.

5.4 Recommendations

On the basis of the analysis, the following recommendations have been provided for the enhancement of banking investment;

1. The mobilization of fund in other investment is lower than that in investment in loan and advances. It would be worthwhile if HBL and EBL recognize the investment that is lucrative and mobilize the fund in portfolio basis.
2. Mainly the invested amount of loan and advances of HBL and EBL has been mobilized by the borrower in real estates, the non productive sector. It would be better if both the banks reduce such investment by analyzing the purpose of borrower for loan.
3. To minimize the risk, HBL and EBL have given more preference to government securities in other investment. It would be better if both the banks diversify its investment by investing more amount in corporate shares and debentures to earn capital gain and interest amount.
4. The decreasing trustworthiness among banks has led to the increasing debilitation of liquidity in financial sector. It would be better if HBL and EBL focus on inter-bank lending, one of the sources of income and forms of investment, to have sound liquidity among banking sector.
5. HBL and EBL should identify the much risky assets of portfolio and thus try to reduce the investment amount on that sector and increase the investment amount in other secured assets.
6. As the return on investment is not always clear, so the HBL and EBL need to prepare the strategy so as to face the ongoing challenges in investment. A balanced investment strategy is generally required in the process of investment, which possesses long time period and some risk tolerance.
7. NRB should set directive that would be suitable for the banks and would be pragmatic for the banks to adopt.

REFERENCES

- Andrés, C., & Rowland, P. (2008). Investment Flows into Emerging Markets. *Journal of Accounting and Finance*, 17 (11), 5-71.
- Bhalla, V.K. (1983). *Investment Management Security Analysis & Portfolio Management* (5th ed.). New Delhi: S. Chand & Co. Ltd.
- Bodie, Z., & Merton, R.C. (1999). *Finance*. New Jersey: Prentice Hall.
- Brealey, R.A., Razavi, B., & Myers, S. (2002). *Principles of Corporate Finance*. New York: McGraw Hill.
- Brown, J.P., Florax, R.J.G.M., & McNamara, K.T. (2010). Investment Flows in U.S. Manufacturing. *Journal of Financial Research*, 10 (3), 75-105.
- Charles, P.J. (1988). *Investments Analysis & Management* (2nd ed.). John Wiley & sons, Inc.
- Clelow, L., & Strickland, C. (1998). *Implementing Derivative Models*. New Jersey: John Wiley & Sons.
- Cox, J.C., & Ross, S.A. (1976). The Valuation of Options for Alternative Stochastic Processes. *Journal of Financial Economics*, 3 (1), 145-166.
- Das, S. (2000). *Structured Products and Hybrid Securities*. New Jersey: John Wiley & Sons.
- Demeterfi, K., Derman, E., Kamal, M., & Zou, J. (1999). A Guide to Volatility and Variance Swaps. *Journal of Derivatives*, 6 (4), 9-32.
- Department of Banking Operation.(2016). *Banking and Financial Statistics.2001-2015*. Nepal Rastra Bank Bulletin No. 61. Retrieved from <http://www.nrb.org.np/pdf-file>.
- Duffie, D. (2001). *Dynamic Asset Pricing Theory*. New Jersey: Princeton University Press.
- Everest Bank Kathmandu. (2016). *Annual report 2011/12–2015/16*. Retrieved from <http://www.ebl.com.np/pdf-file>
- Feorge, L. (1996). *Investment & Portfolio Management*. London: Holt Saunders International Edition.

- Gould, J. (1968). Adjustment Costs in the Theory of Investment of the Firm. *Review of Economic Studies*, 35 (6), 47-55.
- Himalayan Bank Kathmandu. (2016). *Annual report 2011/12-2015/16*. Retrieved from <http://www.hbl.com.np/pdf-file>.
- Hull, J.C. (2002). *Options, Futures and Other Derivatives*. New Jersey: Prentice Hall.
- Jarrow, R.A., & Turnbull, S. (1999). *Derivative Securities: The Complete Investor's Guide*. Kansas: South-Western College Publishing.
- Lucas, R. Jr. (1967). Optimal Investment Policy and the Flexible Accelerator. *International Economic Review*, 8 (1), 78-85.
- Mahat, P.K. (2010). *Monetary and Financial Reports in Nepal*. Kathmandu.
- Musiela, M., & Rutkowski, M. (1998). *Martingale Methods in Financial Modelling*. New York: Springer-Verlag Berlin Heidelberg.
- Pattillo, C. (1998). Investment, Uncertainty, and Irreversibility. *IMF Staff Papers*, 45 (3), 522-553.
- Poudyal, U. (2011) *Investment in Priority Sector with Special Reference to Nepal Bank Ltd*. Unpublished Master's thesis in Economics, CEDECEN, Tribhuvan University, Kirtipur.
- Pradhan, R. (2003). *Role of Saving, Investment and Capital Formation in Economic Deployment a case of Nepal*.
- Questa, G.S. (1999). *Fixed Income Analysis for the Global Financial Market: Money Market, Foreign Exchange, Securities, and Derivatives*. New Jersey: John Wiley & Sons.
- Ross, S.A., Westerfield, R.W., & Jaffe, J. (2002). *Corporate Finance*. New York: McGraw Hill.
- Tuckman, B. (2002). *Fixed Income Securities: Tools for Today's Markets*. New Jersey: John Wiley & Sons.