

Investment Analysis of Commercial Banks in Nepal

(Himalayan Bank limited and Everest Bank Limited)

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RECOMMEDATION

This is to certify that the Thesis

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Entitled:

Investment Analysis of Commercial Banks in Nepal

(Himalayan Bank Limited, Everest Bank Limited)

Has been prepared as approved by this campus in the prescribed format of the Faculty of Management. This thesis is forwarded for examination

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VIVA-VOCE SHEET

We have conducted the Viva-voce examination of the thesis presented

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Investment Analysis of Commercial Banks in Nepal

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It is found that, the thesis to be the original work of the student and written according to the prescribed formant. We recommended the thesis to be accepted as partial fulfillment of the requirement for Master Degree of Business Studies(M.B.S.)

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DECLARATION

I hereby declare that the work reported in this thesis entitled "Investment Analysis of Commercial Banks in Nepal (Himalayan Bank Limited and Everest Bank Limited)" Submitted to office to the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business studies (M.B.S.) under the supervision of Lecturer Dinesh Malego, Patan Multiple Campus, Tribhuvan University, Patan Dhoka, Patan.

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Abbreviations:

NSBI BL:	Nepal SBI Bank Limited
HBL:	Himalayan Bank Limited
EBL:	Everest Bank Limited
RRR:	Required Rate of Return
NRB:	Nepal Rastra Bank
CAPM:	Capital Assets Pricing Model
IRR:	Internal Rate of Return
NPV:	Net Present Value
EIR:	Expected Inflation Rate
ERR:	Expected Rate of Return
ENR:	Expected Nominal Rate of Return
GON:	Government of Nepal
NIBL:	Nepal Investment Bank Limited
CRR:	Cash Reserve Ratio
JVB:	Joint Venture Bank
BOKL:	Bank of Kathmandu
NBBL:	Nepal Bangladesh Bank Limited
SCBL:	Standard chartered Bank Limited
NBL:	Nepal Bank Limited
CV:	Coefficient of Variation
SD:	Standard Deviation
G:	Growth Rate

CHAPTER – 1

Introduction

1.1 General Background of Study

Investment in financial sense is placing of money in the other for their use expecting a return or the participation in expected profits. But for manufacturing and trading firms the terms investment will be long term expenditures that aim at increasing return of efficiency or at building up goodwill thereby producing and increasing return over as period. Investment also seek to manage their wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other risks.

Investment by individuals, business and government involves a present sacrifice of income to get on expected on future benefit as a result investment raises an economy of nations.

Investment is related to saving or deferring consumption. 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. 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 pension funds, mutual funds, commercial banks, and insurance companies.

An investment is one of the decisions of finance function that involves the decision of capital to establish commercial or industrial venture. In other words it involves commitment of funds into long-term assets that would yield benefits in coming future period. Two aspects of the investment decisions are:

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

Since the future is uncertain therefore there are difficulties in calculation of expected return. Along with uncertainty comes the risk factor which has to be taken into consideration. This risk factor plays a very significant role in calculating the expected

return of the prospective investment. Therefore while considering investment proposal it is important to take into consideration both expected return and the risk involved.

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

Bank plays a very important role in investment by collecting scattered saving from individual and providing loans to individuals and industries for economic activities. Bank itself invests in different securities of the company and industries. It helps to mobilize the idle saving in financial activities. Banking has played a very important part in the economic development of all the nations of the world therefore it is termed as the life blood of modern commerce. The study mainly focuses on the investment analysis of the commercial banks by comparing three main commercial banks of Nepal.

The term bank or banking can be referred to any person, firm or company accepting deposit of money subject to withdrawal by cheque, draft or order.

While talking about investment we cannot forget that saving is primary factor for investment. Saving is needed to finance capital investment to increase and maintain the productive capacity of the country. It is commonly known fact that an investment is possible when there is adequate saving. If all the income and saving are consumed for basic needs; then there is no saving, neither existence of investment. Therefore, saving and investment are interrelated.

Financial institutions play an important role to increase economic activities in the country by collecting the public money. They not only collect idle money from public but also provide loan to investors, who are in need of fund. In addition they invest money in different securities.

1.1.1 Features of a sound lending and Investment Policy:

Sound lending and investment policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial savings of a underdeveloped country like Nepal. Income and profit of the financial institutions like commercial banks and financial institutions depend upon its lending procedure.

There are basically five features:

- a. Safety and Security
- b. liquidity
- c. profitability
- d. Suitability
- e. Diversification

a. Safety and Security

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied for the investment.

Where,

M- Marketability

A- Ascertain ability

S- Stability

T- Transferability

Bank must take care of the belongings of public while investing and providing loan received in the form of deposits. The risk and return involved must be analyzed thoroughly so that depositor's money is advanced safely where the risk of loss does not exit.

b. Liquidity

Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence, every firm must

keep proper cash balance with them while investing in different securities and granting loan for excess fund.

c. Profitability

Commercial banks can maximize its wealth through maximization of return on their investment and lending. Therefore, these types of banks should invest their funds where they earn maximum profit. Generally the profit of commercial banks depends upon the interest rate of the bank, volume of loan provided, time period of loan and nature of investment on different securities. A good bank is one who invests most of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserves to meet day to day requirements of the depositors.

d. Suitability

Bank should always try to know why a customer needs loan because if the borrower misuses the loan granted by bank he will never be able to repay loan. In order to avoid such circumstances, advances should be allowed to select the suitable borrowers.

e. Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

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

1.1.2 Concept of Commercial Banks

Commercial banks are those, which pool together the saving of the community and arrange them for the productive use. They accept deposits from the public and provide same deposits to the public as loan and advances. In fact, they circulate the money and create credit. The concept of the commercial banks made the economy strong. And now it's playing important role to make country economically strong. According to the Black's law Dictionary "Commercial Bank" means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time-deposit boxes, and to provide similar services. Likewise section 2(a) of the Commercial Bank Act 2031 has defined that "Commercial Bank" means a bank which operates currency, exchanges transactions, accepts deposits, provides loan, perform, dealings, relating to commerce except the banks which have been specified for the co-operative, agricultural, industry of similar other specific object.

Hence, the term commercial bank is used taking meaning of all banking habits. That's why joint stock banks, member banks, and credit banks are frequently used interchangeably with the term commercial banks. But it is different than central bank. Central Bank cannot be interchangeable with other banks. In this way, a commercial bank is different from a central bank. While the primary objective of a commercial bank is the maximization of profit the central bank is primarily concerned with the effects of its operations on the functioning of the economy. Moreover, while there may certainly be many competing commercial banks, there exists only one central bank in a country. While the commercial banks compete against each other, the central bank comes out if any; ordinary banking business for the general public, incomplete if confines itself mainly to controlling the operations of the banking system in country.

1.1.3 History of Banking in Nepal

Similar to other countries goldsmith and landlords were the ancient bankers in Nepal. Tejarath Adda established during the tenure of the then Prime Minister Rannodip Singh was the first step towards the institutional development of banking in Nepal though all the banking activities were carried out by it. Tejarath Adda did not collect

deposits from the public but provided loans, government employees and public against billions.

Banking in true sense terms started with the inception of Nepal Bank Limited on 30th Kartik 1994 B.S. right from inception, it carried out functions of a commercial bank.

Nepal Bank Limited had a Herculean responsibility of attracting people towards banking sectors from predominant non institutional transactions as well as introducing other banking services.

This is the main reason of establishing Nepal Rastra Bank as a central bank of Nepal in 2013 B.S. Since then it has been functioning as a government bank it has its own limitations and reluctances to go to the unprofitable sectors. To cope with these difficulties, government set up Rastriya Banijya Bank in 2033 B.S as a fully government owned commercial bank. Gradually, Agricultural Bank and Industrial bank came into existence. Deposit all these efforts of the government, financial sector was found sluggish. Banking service to the satisfaction of the customer.

However, the inception of Nepal Arab Bank Limited in 2041 B.S. as a first joint venture bank proved to be a milestone in the history of banking.

With evolution of globalization and liberal economic policies, Nepalese financial sector is also able to attract foreign investors as well as private investors within the country. The following is to-date list of major commercial banks operating in Nepal:

Table No.1.1

List of Commercial Banks & their Date of Operation in B.S.

S.N.	Name of the Commercial Banks	Date of Operation in B.S.
1.	Nepal Bank Limited	1994/07/30
2.	Rastriya Banijya Bank	2022/10/10
3.	Agriculture Development Bank	2024/11/07
4.	Nabil Bank Ltd.	2041/03/29
5.	NIC ASIA Bank Ltd.	2070/02/30
6.	Standard Chartered Bank	2043/10/16
7.	Himalayan Bank Ltd.	2049/10/05
8.	Nepal SBI Bank Ltd.	2050/03/23
9.	Nepal Bangladesh Bank Ltd.	2050/02/23
10.	Everest Bank Ltd.	2051/07/01
11.	Bank of Kathmandu Ltd.	2051/11/28
12.	Nepal credit and Commercial Bank Ltd.	2053/06/28
13.	Nepal Industrial and Commercial Bank Ltd.	2055/04/05
14.	Lumbini Bank Ltd.	2055/04/01
15.	Macchapuchhre Bank Ltd.	2057/06/17
16.	Kumari Bank Ltd.	2057/12/21
17.	Laxmi Bank Ltd.	2058/12/21
18.	Siddhartha Bank Ltd.	2059/09/09
19.	Global Bank Ltd.	2063/09/18
20.	Citizen Bank International Ltd.	2064/03/07
21.	Prime Bank Ltd.	2064/06/07
22.	Sunrise Bank Ltd.	2064/06/25
23.	Development Credit Bank Ltd.	2057/10/10
24.	NMB Bank Ltd.	2053/08/11
25.	Kist Bank Ltd	2066/01/24
26.	Janta Bank	2066/12/23
27.	Mega Bank	2067/04/07
28.	Commerz and Trust Bank	2067/06/04
29.	Civil Bank	2067/08/10
30.	Century Commercial Bank	2067/11/26
31.	Sanima Bank Ltd	2061/08/11

1.2 Focus of the Study

The establishment of the Joint Venture (Commercial) banks has given a new horizon to the financial sector of Nepal. The study is mainly focused on the investment policy of a joint-venture bank namely Himalayan Bank and Everest Bank in the Five year period from 65/66 to 69/70. Investment analysis involves determining the investor's objectives and the amount of his or her investable wealth. Investor's objectives should be stated in terms of both risk and return. We must know how to quantify risk. Merely saying "risky" or "no risky" does not give any concrete idea to compare various financial assets and to reach to ideal decision.

A good investment analysis accepts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. The loan provided by commercial banks is guided by several principles such as length of time, their purpose, perfectibility, safety etc. Those fundamental principles of commercial banks investment are fully considered while making investment analysis.

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

Profiles of the Banks in study

a. Himalayan Bank Limited:

Himalayan Bank was established in Jan 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits. This is the first Joint venture Bank managed by Nepalese Chief Executives. There are 17 branches of HBL inside valley and 24 branches outside valley in operation. Authorized capital and paid-up capital are Rs.3,000,000,000 and Rs. 2,400,000,000 , Per share income is Rs. 39.94 and Per share Market value is Rs.653 in FY 068-069.

b. Everest Bank Limited:

Everest Bank Limited was established in 1994, under the company Act. It is also foreign joint venture bank and the partner was United Bank of India and managed from very beginning till November 1996. Later on it handed over the management to the Punjab National Bank Ltd, India that holds 20% equity on the banks share capital. Altogether 47 branches counter of Everest bank are in operation. Authorized capital and paid-up capital of Everest Bank Limited are Rs. 1,840,000,000 and 1,391,635,700. Its market value per share Rs.1033. and EPS is Rs.88.55. in FY 068-69.

1.3 Statement of the Problem

The main economic goal of developing countries is to accelerate the growth rate. Although most of the developing countries are predominantly agricultural, Industrial development is main need of these countries for their economic development and investment is the dominant factor for industrial development. But rate of investment in Nepal is very low. The main cause behind it is political instability, low investor confidences, lack of knowledge on Investment management, lack of improved prospectus to investors, restriction on foreign portfolio investment of Nepal, lack of efficient capital market and slow privatization process.

Investment greatly depends on saving behavior of citizens but the saving rate of Nepalese is very low because most of the citizens are below poverty level. They don't have enough income for daily consumption. Some people hardly save some money but they want to save for future. Only few people invest in industries. People must be motivated to use their saving and mobilize their excess fund in economic activities.

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

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

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

With altogether 265 banks and non bank financial institutions licensed by NRB are in operation. Out of them, 32 are “A” class commercial banks, 88 “B” class development banks and 69 “C” class finance companies, 24 “D” class micro credit development banks, 16 saving and credit co-operative and 36 NGOs are operating in Nepal, the market seems overcrowded and the banks are now finding a tough competition among themselves. Since the entry barriers are not so high due to the governments liberal policy, this competition is expected to be more intense in the near future, as there is always the possibility of a new player entering this sector (Banking and Financial Statistic, July 2012).

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

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

Commercial banks don't seem to invest their funds in more profitable sector. They are found to be more interested in investment in risky and highly liquid sector i.e. treasury bills development bonds and other securities. They keep high liquid position and flow

lower funds to the productive sectors, this result into lower profitability to commercial banks and ignorance to the national economic growth process. This is the main reason for crisis in the commercial banks and in the whole national economy as well.

This study has tried to answer the following research questions:

- a. What is the current position of commercial banks regarding investment policy?
- b. Is there any trend of investment of selected commercial banks?

1.4 Objectives of the Study

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

The main objectives of this study are as follows:

- a. To analyze the present investment policy of sample banks.
- b. To examine investment trend of selected commercial banks.
- c. To make the suggestion, recommendation of the study.

1.5 Significance of the Study:

Need of the study is to explore the existing situation as well as future prospectus of marketing and financial returns. The collected fund is utilized in a good manner as investment then only good return and sustainability is possible. Return on investment first, sustains the institution and provides handful income to the investors. The better the investment analysis, the more valuable the company, the higher return the shareholders etc and vice versa. Since the different parties, shareholders, general public and government are directly affected by the investment analysis of the financial institutions, the researcher feels the need to study it.

As it is a well-known fact that the commercial banks can affect the economic condition of the whole country, the effort is made to highlight the investment analysis of commercial banks expecting that the study can bridge the gap between deposits and

investment policies. Thus the present study will make a modest attempt to analyze investment analysis of Himalayan Bank Ltd and, Everest Bank Ltd.

1.6 Limitations of the Study

-) This study is done for partial fulfillment for masters of Business studies (MBS).
-) This Study has focused the year 2065/66 to 2069/70
-) This study is confined to five commercial banks. These banks are of average in nature. They are expected to depict the true picture of banking in Nepal.
-) This study is mainly based on secondary data available and NRB and concerned banks.
-) Validity of secondary data relies upon the source.
-) This Study has focused primary limitations and other limitations.

1.7 Organization of the Study

The whole study has been divided into five chapters.

Chapter first has been dealt with introduction. This includes background, statement of problem, objectives of the study, significance of the study, limitation of the study and organization of the study. Chapter second deals with the review of available literature. It includes review of books, journals, previous thesis and web sides, research gap etc. Chapter third explains the research methodology used in the study, which includes research design, source of data, population and samples, method of data analysis etc. Chapter fourth, which is the important chapter of the study, has included presentation and analysis of data and and The fifth chapter summarizes the main conclusion of the study and offers suggestions, recommendation and other supportive document has also been incorporated for further improvement and conclusion of the study. A bibliography and appendices has also been attached at the end of the study.

CHAPTER – 2

Review of Literature

2.1 Concept

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

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

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

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

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

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

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

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

Investment is done usually to get some return from it in future. There is no use of investment if there is not return. Even the parents invest on their children education with a hope that their children will earn money in future with that education they

received. Therefore, there must be return from Investment made on capital goods or financial goods. It's another thing that the return may be positive and negative.

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

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

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

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

$$ERR=ENR-EIR$$

$$\text{Or, } ENR=ERR+EIR$$

If Investors concerned with real returns, their securities will be priced in the market place so that expected nominal returns incorporate the expected rate of inflation.

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

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

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

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

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

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

The banks that collect deposits and advance loans are called commercial banks. According to these definitions commercial banks accepts deposit and provide loans but other financial institutions also collect deposits. To differentiate commercial bank from other institution Dr. Shyam Joshi had defined it as a great institution that conducts the payment mechanism of a country. The individuals and institution make payment to each other through the mechanism of commercial bank. The commercial bank plays a leading role in the smooth operation of an economy. It makes available all financial services to individuals and institutions (Joshi, 1990).

The World Bank (2000), “*Investment promotes economic growth and contributes to a nation’s wealth*”. When people deposit money in a saving account into bank. For example, the bank may invest by lending the fund of various business companies. These firms, in return, may invest the money in new factories and equipment to increase their production. In addition to borrowing from the banks, most companies issue stocks and bonds that they sell to investors to raise capital needed for business

expansion. Government also issues bonds to obtain funds to invest in such projects as the construction of dams, roads and schools. All such investment by individuals, business and govt. involves a present sacrifice of income to get an expected future benefits. As a result, investment raises a nation's standard of living (The World Bank Encyclopedia, 2000).

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

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

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

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

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

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

The situation is such that huge portion of investment has still to be made with external resources. The amount of saving of a typical household in Nepal is small because the people have limited opportunities for Investment. They prefer to spend saving on commodities rather than on financial assets. This restricts the process of financial intermediation, which might otherwise bring benefits such as reduction of investment risk and increase in liquidity. When capital is highly mobile international, saving from abroad can also finance the investment needed at home. When capital is not mobile internationally, saving form abroad will limit investment at home.

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

- a. Financial Investment and
- b. Physical Investment

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

Capital formation refers to the creation of physical productive facilities such as building tools, equipment and roads. The process of adding to the amount of stock of the real assets produces growth in the economy. It means increasing a country's stock of real capital. It implies addition to the existing supply of capital goods in a country. It represents an additional new capital stock to existing stock after deducting depreciation, damage and other physical deterioration of the existing capital stock. Economic progress in country depends upon its rate of capital formation. Hence, a key factor in the development of an economy is the mobilization of domestic resources. In the process of capital formation, the capacity to save by certain classes of people and institution becomes quite important. These people have varied asset-preferences, which change from time to time. The need of entrepreneurs who actually use savings for productive purpose also varies over time (Pradhan and Yadav: 2002). According to Yadav Pant (2003), "*A bank is a service-oriented institution, which provides many kinds of services for its customer, all of which are equally important*". Moreover, the quality of services should be up to the mark to meet the customer's requirement. Customers are the key players for a service organization, without whom such organization can never exist.

2.1.1 Principle of Investment Policy

It is universally known fact that the most important problem in banking administration is that of investing its deposits and paid up capital in various forms of earning assets. This is also known as portfolio policy. The bank's portfolio is being nothing but an arranged and digested scheme of its assets.

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

The guiding principle of investment is as follows:

a. Safety

Safety would be the first guiding principle of a bank, so far as its advances and investment are concerned, because the very existence of a bank depends on the safety of its outstanding, which should never therefore be sacrifice to the profit-earning capacity of its advances. This has led people to believe that a bank will never advance any loan, unless it is fully secured.

b. Liquidity

While making advances and investments, the bank must see that the money it is lending is not going to be locked up for a long time, which would make its loans and advances less liquid and more difficult to realize in cases of emergency. A bank can afford to lend funds only for a short period, as its liabilities are either payable on demand or at short notice.

c. Diversification of Risk

“A bank should not lay all its eggs on the same baskets.” This saying is very important to the bank and it should be always careful not to grant loan in only one sector. To minimize risk, a bank must diversify its investment on different sectors.

d. Return

Another important factor that it determines the decision of the bank whether or not to grant loan or to make an Investment will depend upon the answer to the question whether or not it will get a fair return on its investment. A bank always aims at securing maximum profits for its share-holders.

e. 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.

f. Stability of Price

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

2.1.2 Some Important Terms

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

a. 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.

b. Investment on Government Securities, Share and Debenture

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

c. Investment on Other Company's Share and Debenture

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

d. Deposits

Financial institution collect deposits from the customers in various accounts, like: current account, saving account and fixed account. Therefore, the sums of money collected by the financial institutions from the depositors in various accounts are called deposits. Deposit is the main source of fund of the financial institutions.

2.1.2 Review of Legislative Provision

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

Compulsory Cash Reserve Ratio (CRR) and Refinancing

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

NRB issues new monetary policy on 2013 for fiscal year 2012/13. The provision under this policy as follows:

-) CRR increased to 6 percent for commercial banks, 5.5 percent to development banks, and 5 percent to finance companies. Earlier, it was 5 percent for all BFIs.
-) Bank rate increased by one percentage point to 8 percent
-) Deposit insurance of up to Rs 300,000 from Rs 200,000.
-) Deprived sector lending by BFIs increased by 0.5 percentage points. Commercial banks, development banks and finance companies need to lend 4

percent, 3.5 percent and 3 percent of their respective loan portfolio to the deprived sector.

-) Refinancing rates for agriculture and hydropower lowered to six percent from seven percent. BFIs to initially issue loans under the facility at rates of up to 9 percent.
-) Refinancing facility to migrant returnees on loans take for commercial purposes.
-) National Financial Literacy Policy and Financial Sector Development Strategy to be formulated. Financial Stability Unit to be set up at the central bank and it will bring out Financial Stability Report.
-) For overseas travellers, foreign currency facility for each travel increased to US\$2500 for public and US\$5000 for entrepreneur. Earlier, there was a cap of US\$5000 for a year.
-) Commercial banks allowed to invest up to 30 percent of the amount parked in agency banks abroad in low risk instruments such as call deposit and certificate of deposit.
-) Interbank lending transaction set at maximum of 7 days.
-) PAN number mandatory while taking loan more than a set limit.

(Source: Monetary Policy for Fiscal Year 2012/13 NRB, Central office, Baluwatar, Kathmandu, Nepal)

Policy Guidelines on the Establishment of the Commercial banks

a. Paid up Capital

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

b. Share Capital

In general, the share of commercial banks will be available for the promoters (70 percent) and general public (30 percent). The foreign banks and financial institutions could have a maximum of 67 % share in investment on the commercial banks of national level. In order to provide adequate opportunity for investment to the Nepali promoters in national level banks, only 20 % of total share capital will be made available to general public on the condition that the foreign bank and financial institutions are going to acquire 50% of the total share. In case of commercial banks to be established outside Kathmandu Valley, share investment of promoters and general public should stand at 70% and 30% respectively.

c. Legal Procedure

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

d. Banks Already in Operation

Banks that is already in operation and those who have already acquired letter of intent before the enforcement of these provisions have to bring their capital level within seven years, i.e. by 16 July 2009, as per the recently declared provision. Such increase in the capital should be at a rate of 10 percent should be at the minimum.

e. Concerning up Gradation

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

f. Promoters Share Payment Procedure

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

g. Promoters Qualification and Experience

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

h. Promoters Share

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

i. Branch Expansion

The commercial banks established in national level will initially be authorized to open a main branch office in Kathmandu Valley. They will be authorized to open one more branch in Kathmandu Valley only after they have opened two branches outside the Kathmandu Valley.

j. Disqualify from Becoming Director

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

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

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

2.2 Review of Related Studies

There are a lot of research have been performed on Investment policy of Commercial banks. The findings of some of the studies are presented below.

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

- J To examine the liquidity asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.

- J To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI Bank Ltd.
- J To analyze relationship between deposit and investment, deposit and loans and advances, net profit and outside assets of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.

The study was conducted through secondary data.

The research findings of the study are as follows:

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

Bohara (2002),”A comparative study on Investment Policy of Joint Venture Banks and finance companies of Nepal”.

The main objectives of the study were as follows:

- To analyse the investment policy of joint venture banks.
- To analyse the investment deposit relation of selected banks and financial companies.

- To evaluate the total deposit and loans and advances of the banks and finance companies.

The main findings of his study were as follows:

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

Raya (2003), *“Investment Policy and Analysis of Commercial Banks in Nepal” made a comparative study of SCBNL with NIBL and NB Bank”*.

The main objectives were as follows:

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

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

The main findings were as follows:

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

Silwal (2004), "*Investment Policy of Commercial Bank*" a comparative studies of NABIL and SBI Bank on the basis of analysis and findings of the study as follows:

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

that SBI has greater ratios of all because its large portion of fund is invested as loan and advances but neglected to invest on other sectors. NABIL has not properly used its existing fund as loan and advances. To overcome this situation NABIL is strongly recommended to follow liberal lending policy.

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

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

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

Aryal (2005), “*Investment Policy of JVBs in Nepal*” a comparative study of EBL with NABIL Bank and NB Bank Ltd.

The major objectives were;

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

The major findings were;

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

Dhungana (2006), "*A Comparative Study on Investment Policy of Nepal, Bangladesh Bank and Other Joint Venture Banks*", tries to compare the Investment policy of NBBL with HBL and NSBI. The main objectives were as follows;

- To examine the liquidity asset management and profitability position and investment policy of EBL with NABIL Bank and NB Bank Ltd.
- To evaluate the total deposit and loans and advances of the banks.
- To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.

The major findings and conclusion were as follows:

- NBBL has not good deposit collection, it hasn't made enough cash and bank balance and it has made negligible amount of investment in government securities.
- NBBL's ratio of OBS operation to loan and Advances lower than that of HBL but its ratio is greater than that of NSBI.
- The profitability position on NBBL is comparatively not better than that of HBL but better than that of NSBI.
- The credit risk ratios and interest risk ratios of NBBL is higher than that of HBL and NSBI. Banks profitability is solely depends on Interest charged by a bank.
- Trend of deposit collection, lending, Investment and net profit were not better than HBL but better than NSBI.

Maharjan (2007), *“Investment Policy Analysis of Joint Venture Banks in Nepal”* a comparative study of HBL bank with Nepal SBI bank and Nepal Bangladesh Bank.

The objectives of the study were;

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

The major findings were;

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

Joshi (2008), “*Investment Policy of Commercial Bank of Nepal*” a comparative study of EBL with NABIL Bank and BOK.

The objectives of the study were;

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

The major findings were;

- EBL has higher idle cash and bank balance. It may decrease profit of bank. EBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances.
- Before mobilizing funds, EBL is recommended to collect a large variety of deposit through schemes like cumulative deposit scheme, price bonds scheme, gift cheque scheme, house building deposit scheme, recurring deposit scheme, deposited linked life insurance scheme, monthly interest scheme, direct finance housing scheme, education loan and scheme, vehicle loan scheme, and many others.
- It is good to invest more on share & debentures as it encourage financial and economic development of the country. A commercial bank must mobilize its fund in different sector such as to purchase share & debentures of other

financial and non financial companies out of total working fund. EBL has invested its more of the funds i.e. total investment on total deposit ratio, in comparison to other commercial banks but percentage of investment on share and debenture in very nominal.

- Portfolio condition of a bank should be regularly revised from the time to time. It should always try to maintain the equilibrium in the portfolio condition of the bank. So it can be said “all eggs should not be kept in the same basket”.
- EBL has to make way for small depositors and entrepreneurs for the promotion and mobilization of small investor’s fund. So it is recommended that the bank should fix minimum level of bank balance and the amount needed to open an account should also be affordable for such small depositor’s.
- The risk taken by EBL, from the angle of credit and capital are in an average whereas the consistencies of the same are highly volatile which may result higher loss. The bank should not test those risks on an experiment basis as seen from the consistency angle. Rather, before taking any of the risk as stated above, EBL should carefully study it so as to achieve higher returns from the above risk.
- Ojha (2009), “*Lending Practices: A study on NABIL Bank Ltd., SCB Nepal Ltd. and Himalayan Bank Ltd.*” with the objectives of;
 - Ñ To determine the liquidity position, the impact of deposit in liquidity and its effect on; lending practices.
 - Ñ To measure the bank’s lending strength.
 - Ñ To analyze the portfolio behavior of lending and measuring the ratio and volume of loans and advances made in agriculture, priority and productive sector.
 - Ñ To measure the lending performances in quality, efficiency and its contribution in total income.

The study was conducted on the basis of secondary data.

The research findings of the study are:

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

Thapa (2010), "*Investment policy of Nepal Bangladesh Bank Limited and other joint venture banks*". The main objectives were as follows;

- J To analyze the relationship between loan and advance and total investment with other financial variable of NB bank and compare them with NABIL and NGBL.
- J To evaluate the liquidity, asset management efficiency, profitability and risk position of NB bank in comparison to NABIL and NGBL.
- J To study the various risks in investment of NB bank in comparison to NABIL and NGBL.

The major findings were as follows;

- NB Bank has good deposit collections, it has better liquidity position, it has made enough loan and advances but has made the negligible amount of investment in government securities.

- The credit risk ratio, interest risk ratio, capital risk ratio, and profitability position of NB bank is comparatively worse than that of NABIL and NGBL.
- Also there is significant relationship between deposit and loan and advances, outside assets and net profit of NB bank. But there is no significant relationship between deposit and Investment of NB bank and the position of NB bank in regard to utilization of fund to earn profit is not better in comparison to NABIL and NGBL.

Khatriwada (2011). *“Investment analysis of Commercial Banks in Nepal”* a comparative study of NEB, NSBIBL, BOK, HBL, NIBL. The major objectives were;

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

The major findings of the study were:

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

than other banks. The mean ratio of investment on government securities to total assets ratio of NSBIBL is 20.80% which is higher than other banks and NIBL has 11.44% which is less ratio than other banks. The mean ratio of investment on share and debenture to total asset ratio of BOKL is 2.31% which is higher than other banks. BOKL has use its more fund on share and debenture of other companies than other banks. EBL has 0.11% which is less ratio of investment on share and debenture of other companies than other banks. It means EBL less invest its fund on share and debenture

2.3 Concluding Remarks

Since so many years the study has been done on the topic investment analysis. Most of the studies were related with secondary data. They mainly focus on the data available. However, such special study related to awareness regarding investment analysis has been limited. In this study, the researcher has attempted to evaluate the Secondary data by conducting field survey, in order to know somehow about the practical experience of investment analysis. So this study will be fruitful to those interested persons, students, scholars, stakeholder, Civil Society, teachers, businessmen and government for academically as well as policy perspective..

CHAPTER -3

Research Methodology

3.1 Introduction

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

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances (Kerlinger, 1996). In this study descriptive and analytical research design has been used.

3.3 Sources of Data

Mainly, the study is conducted on the basis of the secondary data. The data required for the analysis are directly obtained from the balance sheet and the P/L account of the concerned bank's annual reports. Supplementary data and information are collected from the number of institutions and regulating authorities like NRB, Economic Survey and national planning commission etc. All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Formal and informal talks with the concerned authorities of the banks were also helpful to obtain the additional information of the related problem. Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4 Population and Sample

The limitation of time and unavailability of the relevant data has forced me to make research on the HBL and EBL only even though there are 32 commercial banks established in Nepal which is selected from the population. The above banks are studied and their investment performances are comparatively studied.

CHAPTER - 4

Data Presentation and Analysis

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

4.1. Presentation and Analysis of Secondary Data:

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

4.1.1 Ratio of Commercial Banks Investment to Sample Banks Investment

4.1.1.1 Ratio of HBL Investment to Total Commercial Banks Investment

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

Table No 4.1

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

Year	Total Investment of commercial banks	HBL Investment	Ratio (%)
2065/066	108954.8	12752	11.7
2066/067	130856.9	8531.5	6.52
2067/068	134041.09	8295.2	6.19
2068/069	149557.36	8664.4	5.79
2069/070	181272.66	10070.5	5.56
Mean			7.15
S.D			2.3
C.V.			0.32

Source: Banking and Financial Statistics, NRB 069/070

The table 4.1 shows the investment made by all commercial banks and by HBL bank alone. From The table no.it shows that portion of investment made by HBL is decreasing every year except in 2068/069 and 2069/070. In the FY 2069/070 the ratio is almost 5.56%, which is optimum in comparison with total 32 commercial banks of the country. The mean ratio is 7.15 during the study period.

4.1.1.2. Ratio of EBL Investment to Total Commercial Banks Investment

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

Table No. 4.2

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

Year	Total Investment of Commercial Banks	EBL Investment	Ratio (%)
2065/066	108954.8	5061.1	4.65
2066/067	130856.9	5950	4.55
2067/068	134041.09	5010	3.74
2068/069	149557.36	7745.5	5.18
2069/070	181272.66	7865.3	4.34
Mean			4.49
S.D			0.46
C.V.			0.10

Source: Banking and Financial Statistics, NRB 069/070

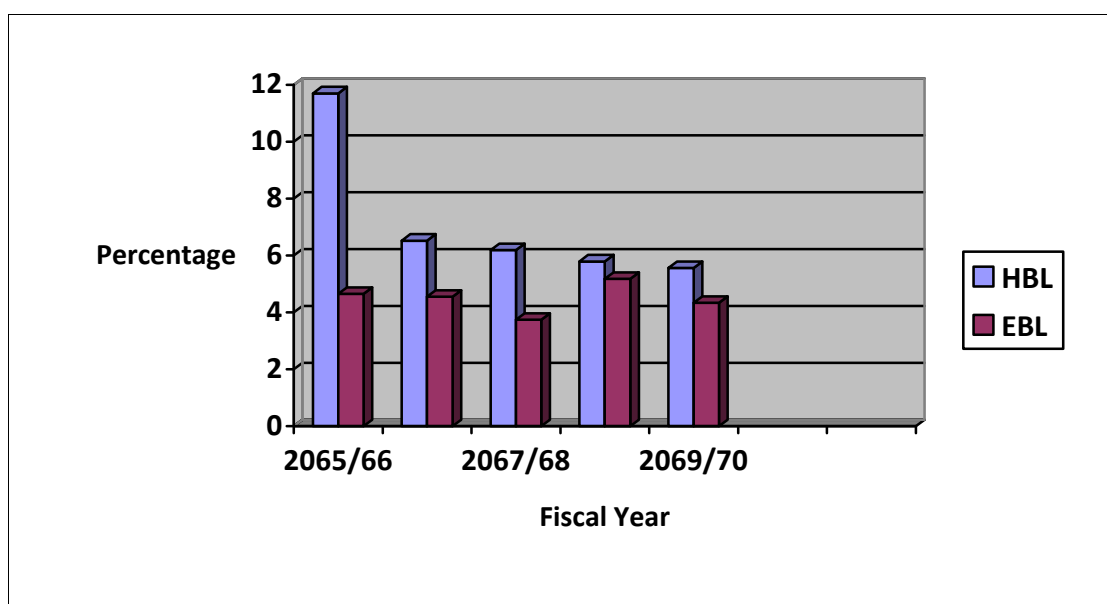
The table 4.2 shows the investment made by all commercial banks and by EBL alone. From The table no.it shows that portion of investment made by EBL is increasing every year except in 2067/068. The mean ratio is 4.49 during the study period.

The table 4.1 and Table 4.2 shows that HBL covers more percentage than EBL on investment made by total commercial banks. Mean of the ratios of HBL Investment is also higher than EBL. Similarly the standard deviation and coefficient of variation between the ratio of HBL Investment to total commercial bank is comparatively higher than EBL. It means there is more variability in Investment in HBL than EBL. It is due to higher rate of increment of investment pattern in HBL.

It can be concluded that the investment made HBL is increasing and EBL covers less percentage than HBL bank.

Figure No. 4.1

Total Commercial Banks Investment to Total Investment Ratio (in million)



4.1.2 Segregation of Investment

4.1.2.1. Segregation of Investment of HBL Bank

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

Table No. 4.3 Segregation of Investment of HBL (Rs in million)

Year	Investment	Gov. sec	%	Shares & other invest	%	NRB Bond	%
2065/066	12752	7471.7	60	5280.3	41		
2066/067	8531.5	4212.3	49	4319.2	50		
2067/068	8295.2	4465.4	54	3829.8	46		
2068/069	8664.4	4725.6	54	2257	26	1681.8	19.41
2069/070	10070.5	6440.6	64	870.6	8.65	2759.3	27.4

Source: Banking and Financial Statistics, NRB 069/070

The table 4.3 show the investment made by HBL in different sectors. HBL is found to invest its fund in Government securities, shares shares and debenture of other

industries. and NRB bond. From the FY 2065/066 to 2067/068 the most of investment in Government Securities and shares and debenture of other industries.. And from FY 2068/069 it's invested in NRB Bond. It can be concluded that HBL is increasing its investment in different sectors.

4.1.2.3. Segregation of Investment of EBL

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

Table No.4.4

Segregation of Investment of EBL

(Rs in million)

Year	Investment	Gov. sec	%	Shares and other invest	%
2065/066	5061.1	4906.5	96.94	154.6	3.05
2066/067	5950	5146	86.48	804	13.51
2067/068	5010	4354.4	86.91	655.6	13.08
2068/069	7745.5	7145	92.24	600.5	7.75
2069/070	7865.3	6068.9	77.16	1796.4	22.83

Source: Banking and Financial Statistics, NRB 069/070

The table 4.4 show the investment made by EBL in different sectors. EBL is found to invest its fund in Government securities, shares and debenture of other industries. The most of its fund investment in government securities and less in share debenture of other industries. It can be concluded that EBL is increasing its investment in government sector as well as in share and debenture but still needs to investment other sector.

4.1.3 Asset Management Ratio

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

4.1.3.1 Ratio of Total Investment to Total Deposit

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

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

Table No.4.5

Total Investment to Total Deposit Ratio of HBL

(Rs in million)

Year	Investment	Deposit	Ratio (%)
2065/066	12752	31805.3	40.09
2066/067	8531.5	34681	24.6
2067/068	8295.2	37609.4	22.05
2068/069	8664.4	40920.6	21.17
2069/070	10070.5	47731	21.09
Mean			25.8
S.D.			7.25
C.V.			0.28

Source: Banking and Financial Statistics, NRB 069/070

The table 4.5 shows the investment and deposit ratio of HBL. From the FY 2065/066 to 2069/070 the investment and deposit goes on increasing trend except in FY 2066/067 and 2067/068 the investment decrease. The average ratio of total investment to total deposit is 25.8, standard deviation is 7.25 and co-efficient variation is 0.28 percent.

Table No.4.6

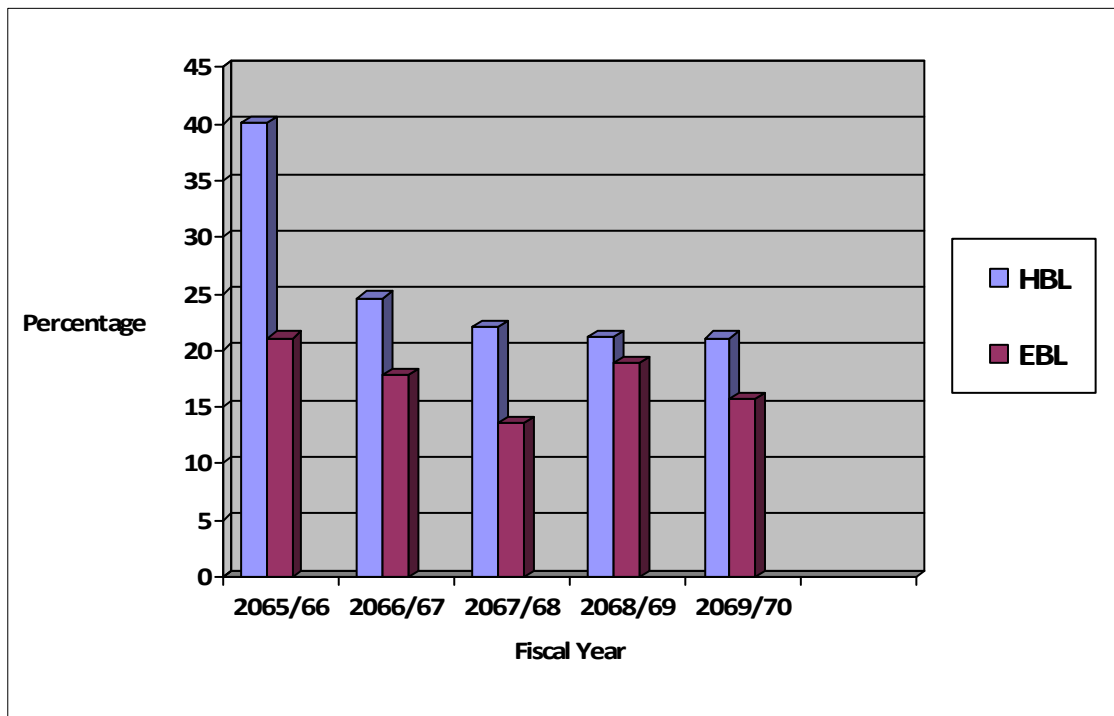
Total Investment to Total Deposit Ratio of EBL (Rs in million)

Year	Investment	Deposit	Ratio (%)
2065/066	5061.1	23976.3	21.1
2066/067	5950	33322.9	17.85
2067/068	5010	36932.3	13.56
2068/069	7745.5	41127.9	18.83
2069/070	7865.3	50006.1	15.72
Mean			17.52
S.D.			2.59
C.V.			0.15

Source: Banking and Financial Statistics, NRB 069/070

The table 4.6 shows the investment and deposit ratio of EBL. From the FY 2065/066 to 2069/070 the investment and deposit goes on increasing trend except in FY 2067/068 the investment decrease. The average ratio of total investment to total deposit is 17.52, standard deviation is 2.59 and co-efficient variation is 0.15 percent.

Figure No. 4.2: Total Investment to Total Deposit Ratio (in million)



4.1.3.2 Ratio of Total Investment plus Loan and Advance with Deposits

Loan and Advancement is also another type of investment of banks. Since the major functions of commercial banks are of deposits collection and lending, it is very important to have a look at the credit to deposit ration. Lending is a high risk Investment for a bank and the main income source of the bank is also the interest earned from loan and advances. This ratio actually measures the extent to which the banks are successful to mobilize the total deposits on Investment plus loan and advances for the purpose of profit generation. A high ratio of investment plus loan and advancement indicates better mobilization of collected deposits and vise-versa. But it should be noted that too high ratio may not be better from its liquidity point view. This ratio is calculated by dividing total Investment plus loan & advances by total deposits. The following table exhibits the ratio of total investment plus loan and advancement to total deposits of HBL and EBL.

Table No.4.7

Total Investment plus Loan and Advancement to Deposits ratio of HBL(Rs in million)

Year	Investment + Loan & Advances	Deposits	Ratio (%)
2065/066	32737.2	31805.3	102.93
2066/067	33823.6	34681	97.52
2067/068	37271.8	37609.4	99.1
2068/069	40321	40920.6	98.53
2069/070	44353.1	47731	92.92
Mean			98.2
S.D.			3.21
C.V.			0.032

Source: Banking and Financial Statistics, NRB 069/070

The table 4.7 shows the investment plus loan and advancement to deposit of HBL. From FY 2065/066 to 2069/070 the investment plus loan and advancement to deposit goes on increasing. The average ratio of total investment plus loan and advancement to deposit is 98.2, standard deviation is 3.21 and coefficient variation is 0.032.

Table No.4.8

Total Investment plus Loan and Advancement to Deposits ratio of EBL(Rs in million)

Year	Investment + Loan & Advances	Deposits	Ratio (%)
2065/066	8600	8064	99.57
2066/067	10034	10098	90.97
2067/068	14326	13802	89.73
2068/069	19044	19098	95.50
2069/070	23873	23976	88.47
Mean			92.85
S.D.			4.117
C.V.			0.044

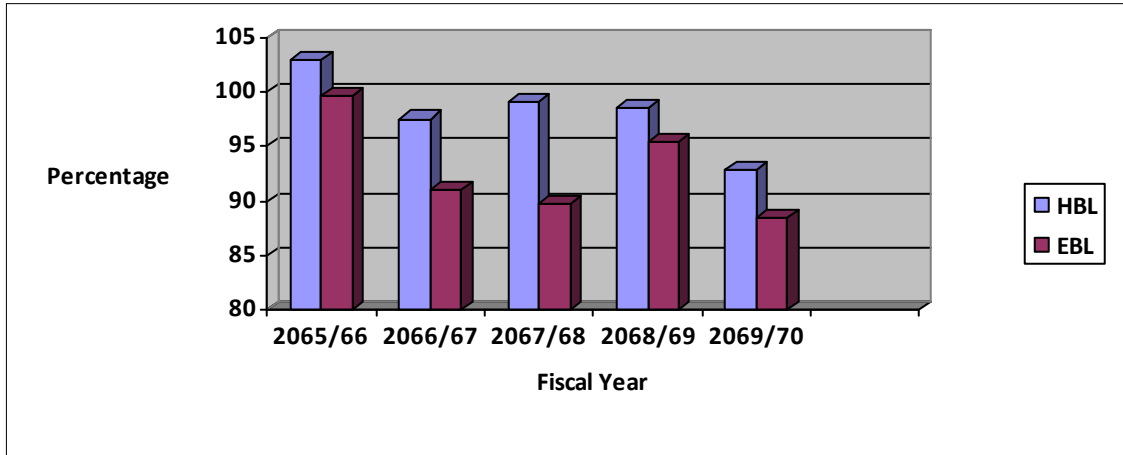
Source: Banking and Financial Statistics, NRB 069/070

The table shows the investment plus loan and advancement to deposit of EBL. From FY 2065/066 to 2069/070 the investment plus loan and advancement to deposit goes on

increasing. The average ratio of total investment plus loan and advancement to deposit is 92.85, standard deviation is 4.12 and coefficient variation is 0.044.

Figure No. 4.3: Total investment plus Loan and Advancement to Deposits ratio

(in million)



4.1.3.3 Ratio of Investment and Total Assets

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

Table No.4.9

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

Year	Investment	Total Assets	Ratio (%)
2065/066	12752	37526.8	33.98
2066/067	8531.5	40790.7	20.91
2067/068	8295.2	44768.8	18.52
2068/069	8664.4	49298.5	17.57
2069/070	10070.5	55898.5	18.01
Mean			21.8
S.D.			6.19
C.V.			0.28

Source: Banking and Financial Statistics, NRB 069/070

The table 4.9 shows the total investment to total assets of HBL. From FY 2065/066 to 2069/070 the total investment to total assets goes on decreasing. The average ratio of total investment to total assets is 21.8, standard deviation is 6.19 and coefficient variation is 0.28.

Table No 4.10

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

Year	Investment	Total Assets	Ratio (%)
2065/066	5061.1	28565.9	17.71
2066/067	5950	38000.3	15.65
2067/068	5010	42053	11.91
2068/069	7745.5	46895.6	16.51
2069/070	7865.3	56609.2	13.89
Mean			15.13
S.D.			2.03
C.V.			0.13

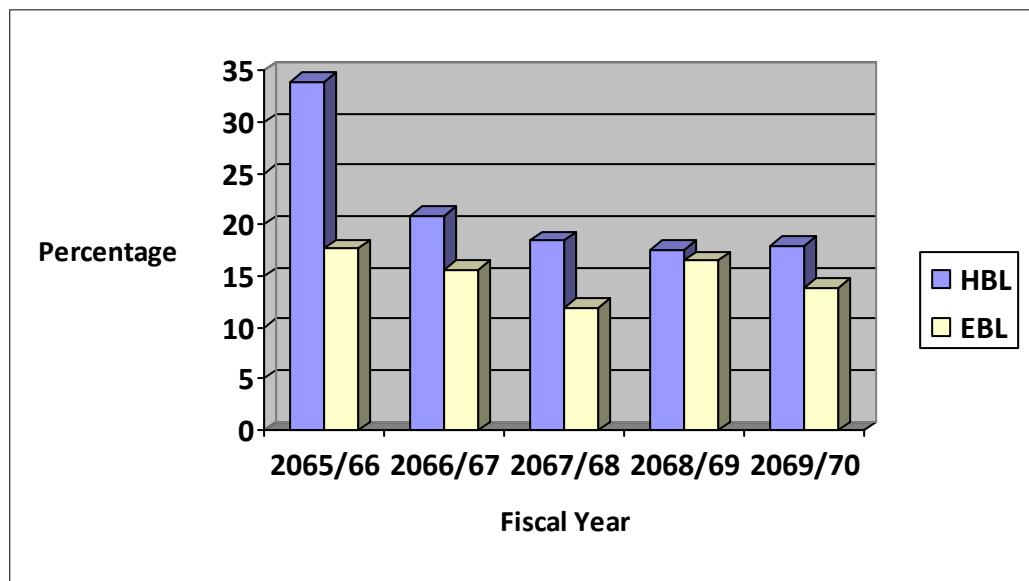
Source: Banking and Financial Statistics, NRB 069/070

The table 4.10 shows the total investment to total assets of EBL. From FY 2065/066 to 2069 /070 the total investment to total assets goes on decreasing. The average ratio of total investment to total assets is 15.13, standard deviation is 2.03 and coefficient variation is 0.13

The table 4.9. & 4.10. shows that the ratio of total investment to total asset. The average ratio of HBL is higher than EBL. It means HBL has used more assets for investment and EBL has used fewer assets for investment than HBL. C.V of HBL and S.D of HBL's ratio is also greater than EBL which show that HBL is operating in higher risk than EBL.

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

Figure No.4.4: Total Investment to Total Assets Ratio (in million)



4.1.3.4. Investment on Government Securities to Total Assets Ratio

The commercial banks mostly invest its funds collected in various government securities issued by government because they consider them most liquid, that is, they can realize cash at short notice and without mush loss in capital invested. And also such securities would serve as the basis for loan from the central bank at the bank rate. The government securities are the safest place to invest the funds. They can be

easily sold in the market or they can be converted into the cash in other ways. But they are not so much liquid as cash and bank balance.

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

Table No 4.11

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

Year	Investment on government securities	Total Assets	Ratio (%)
2065/066	7471.7	37526.8	19.91
2066/067	4212.3	40790.7	10.32
2067/068	4465.4	44768.8	9.97
2068/069	4725.6	49298.5	9.58
2069/070	6440.6	55898.5	11.52
Mean			12.26
S.D.			3.87
C.V.			0.3155

Source: Banking and Financial Statistics, NRB 069/070

The table 4.11 shows the investment on government securities to total assets of HBL. From FY 2065/066 to 2068/069 the investment on government securities to total assets goes on decreasing. The average ratio of the investment on government securities to total assets is 12.26, standard deviation is 3.87 and coefficient variation is 0.31.

Table No.4.12

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

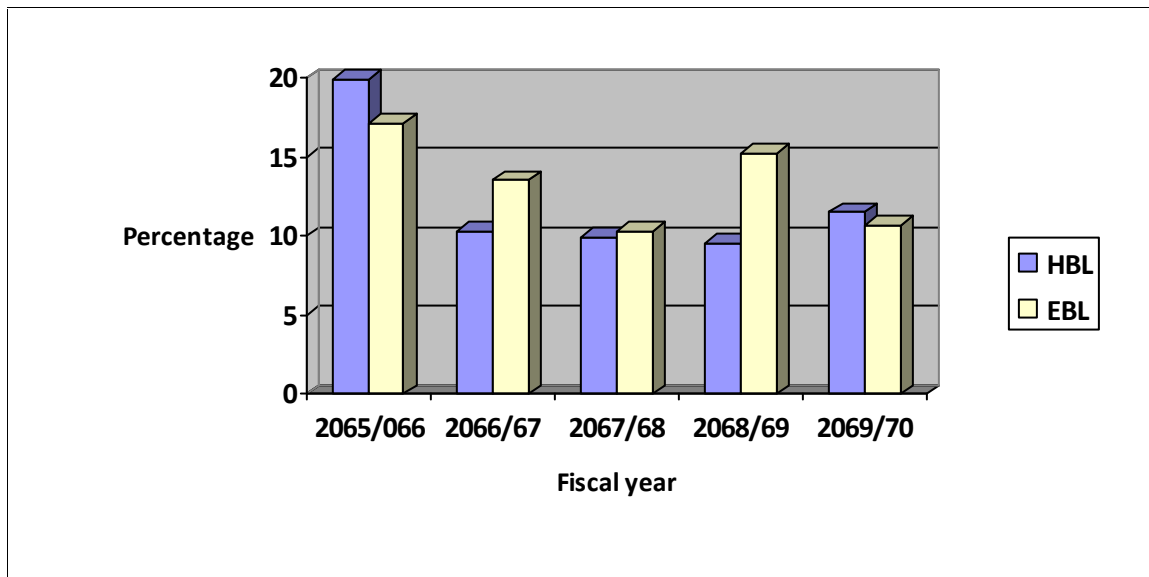
Year	Investment on government securities	Total Assets	Ratio (%)
2065/066	4906.5	28565.9	17.17
2066/067	5146	38000.3	13.54
2067/068	4354.4	42053	10.35
2068/069	7145	46895.6	15.23
2069/070	6068.9	56609.2	10.72
Mean			13.4
S.D.			2.61
C.V.			0.194

Source: Banking and Financial Statistics, NRB 069/070

The table 4.12 shows the investment on government securities to total assets of EBL. From FY 2063/064 to 2067/068 the investment on government securities to total assets goes on decreasing. The average ratio of the investment on government securities to total assets is 13.4, standard deviation is 2.61 and coefficient variation is 0.19.

The table 4.11 & 4.12 Shows that the ratio of investment on government securities to total assets. The average ratio of EBL is higher than HBL and standard deviation and co-variance of HBL is higher than EBL.

Figure No. 4.5: Investment on government Securities to Total Assets Ratio (in million)



4.1.3.5 Investment on Shares and Debentures to Total Assets Ratio

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

Investment on shares and debentures to total assets ratio reflects the extent to which the banks are successful to mobilize their assets on purchase of shares and debentures of other companies to generate incomes and utilize their excess fund. A high ratio indicates more portion of investment on shares and debentures out to total assets and vice-versa. This ratio is calculated by dividing investment on share and debentures by total assets.

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

Table No 4.13

Investment on Share and other investment to Total Assets Ratio of HBL

(Rs in million)

Year	Share and other investment	Total Assets	Ratio (%)
2065/066	5280.3	37526.8	38.44
2066/067	4319.2	40790.7	7.39
2067/068	3829.8	44768.8	0.46
2068/069	2257	49298.5	10.83
2069/070	870.6	55898.5	39.84
Mean			7.86
S.D.			4.4
C.V.			0.55

Source: Banking and Financial Statistics, NRB 069/070

The table 4.13 shows the investment on share and debentures to total assets of HBL. From FY 2065/066 to 2069/070 the investment on share and debentures to total assets goes on increasing except in 2067/068. The average ratio of the investment on government securities to total assets is 7.86, standard deviation is 4.4 and coefficient variation is 0.55.

Table No 4.14

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

Year	Investment on Share and Debentures	Total Assets	Ratio (%)
2065/066	154.6	28565.9	1.422
2066/067	804	38000.3	0.1457
2067/068	655.6	42053	0.030
2068/069	600.5	46895.6	0.20
2069/070	1796.4	56609.2	2.07
Mean			1.733
S.D.			0.88
C.V.			0.50

Source: Banking and Financial Statistics, NRB 069/070

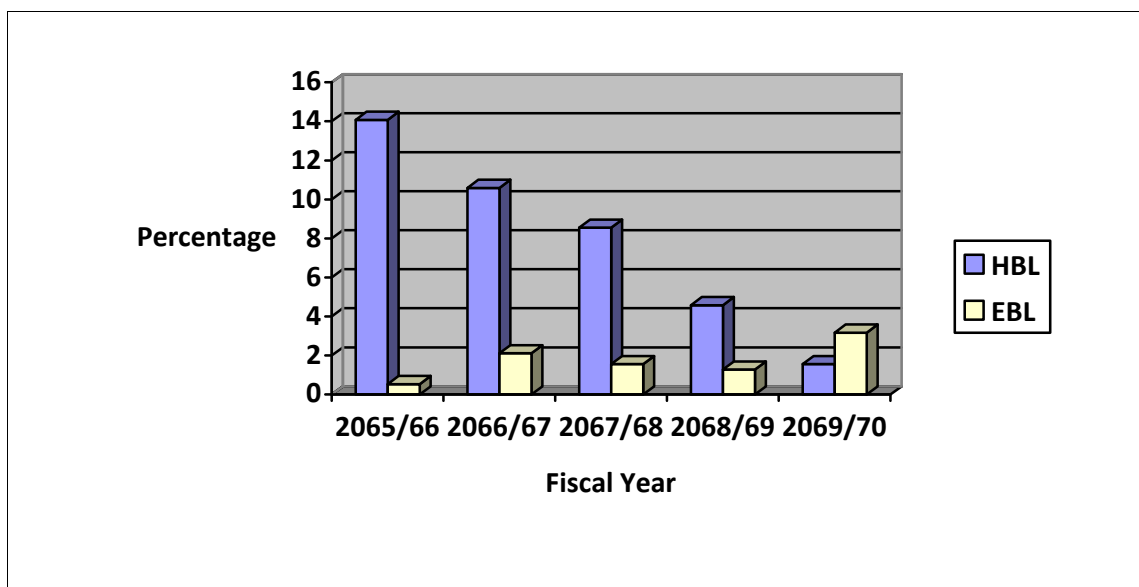
The table 4.14 shows the investment on share and debentures to total assets of EBL. From FY 2065/066 to 2069/070 the investment on share and debentures to total assets goes on decreasing except in 2069/070. The average ratio of the investment on government securities to total assets is 1.73, standard deviation is 0.88 and coefficient variation is 0.5.

The table 4.13 & 4.14 shows that the ratio of investment on share debenture to total assets. The average ratio of HBL is higher than EBL. On the basis of mean ratios, it can be stated that HBL has invested higher amount in shares and debentures in comparison to EBL. But it shows that all banks invest fewer funds in share and debentures of other companies. Similarly C.V. of HBL is also higher than EBL. It means that ratio of HBL is more variable than ot EBL. HBL is increasing its investment on share and debentures than EBL is decreasing its investment on share and debenture.

From the above it can be concluded that EBL don't invest much on share and debenture of other company. It may be because of higher risk involved with it. But commercial bank should invest in other company's shares also to develop the industry and to develop the country.

Figure No. 4.6: Investment on Shares and Debentures to Total Assets Ratio

(in million)



4.1.4 Growth Ratios

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

4.1.4.1 Growth Ratio of Total Investment

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

Table No.4.15

Growth Ratio of Investment

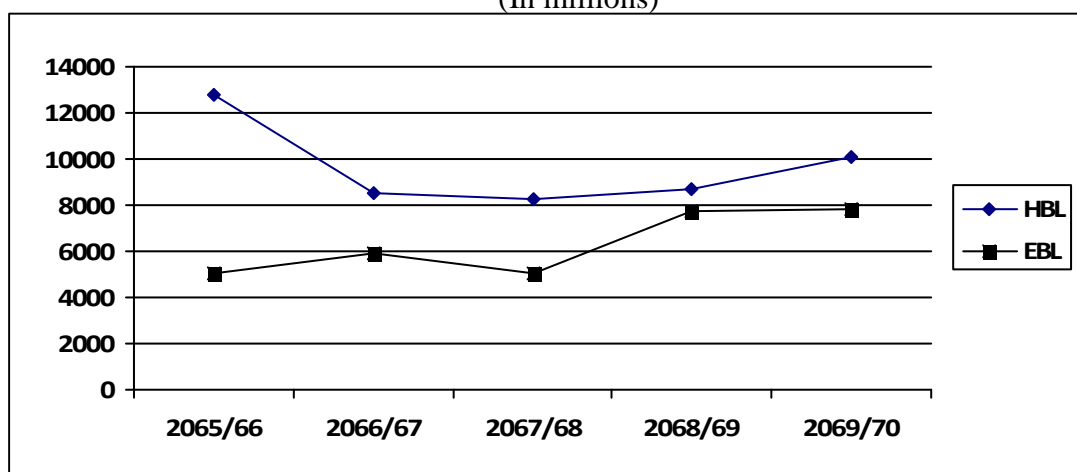
(Rs in million)

Year	HBL	EBL
2065/066	12752	5061.1
2066/067	8531.5	5950
2067/068	8295.2	5010
2068/069	8664.4	7745.5
2069/070	10070.5	7865.3
Growth Ratio %	-3.04	11.58

Source: Banking and Financial Statistics, NRB 069/070

Figure: 4.7 Growth Ratio of Investment

(In millions)



The table 4.15 and graph 4.7 show that the growth rate of investment of sample bank. All banks have been increasing there investment in different sectors. HBL has higher growth rate of investment than EBL. HBL has higher investment than EBL.

4.1.4.2 Growth Ratios of Deposits

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

Table No 4.16

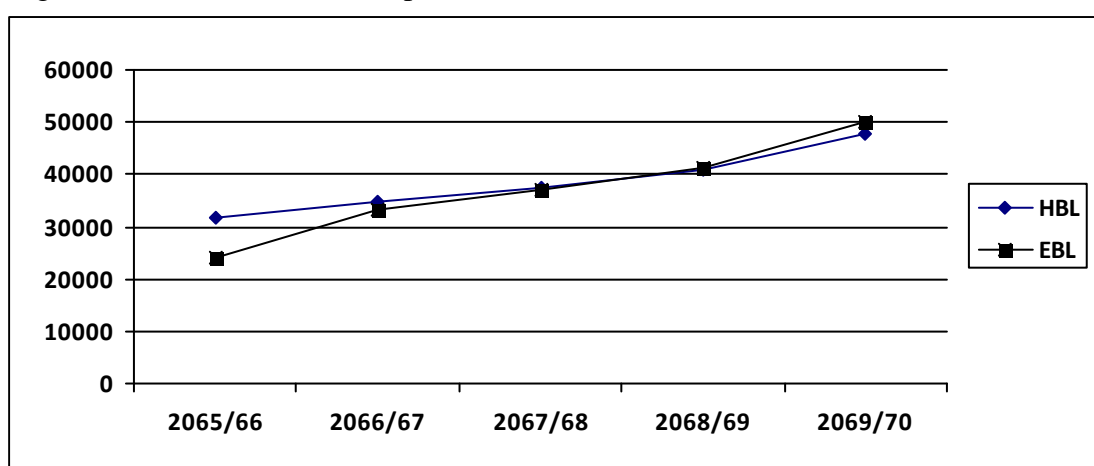
Growth Ratio of Deposit

(Rs in million)

Year	HBL	EBL
2065/066	31805.3	23976.3
2066/067	34681	33322.9
2067/068	37609.4	36932.3
2068/069	40920.6	41127.9
2069/070	47731	50006.1
Growth Ratio %	8.59	16.55

Source: Banking and Financial Statistics, NRB 069/070

Figure 4.8 Growth Ratio of Deposit



The table 4.16 and graph 4.8 shows that the deposit collection of banks. All the banks are increasing their deposits. EBL has higher growth ratio of deposit than HBL. HBL has collected higher deposit than EBL.

4.1.4.3 Growth Ratio of Loan and Advances

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

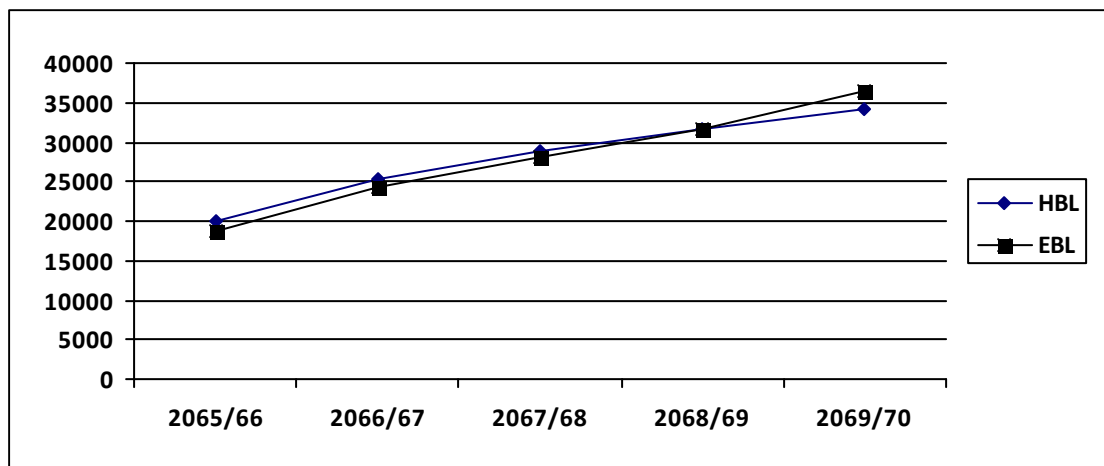
Table No 4.17

Growth Ratios of Loan and Advance (Rs in million)

Year	HBL	EBL
2065/066	19985.2	18814.3
2066/067	25292.1	24366.2
2067/068	28976.6	28129.7
2068/069	31656.6	31534.7
2069/070	34282.6	36376
Growth Ratio %	11.73	14.48

Source: Banking and Financial Statistics, NRB 069/070

Figure 4.9 Growth Ratios of Loan and Advances (in million)



The table 4.17 and graph 4.9 shows growth ratio of loan and advances. Both banks are increasing its loan and advances. EBL has higher growth ratio than HBL. EBL has higher loan and advances than HBL.

4.1.5 Statistical Analysis

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

4.1.5.1 Testing of Hypothesis

Hypothesis means the presumption as quantitative statement of the population parameter which may be true or false. In order to make proper decision about the quantitative statement of the population, testing hypothesis technique is used. The testing of hypothesis is carried out by using sample information. Hence in statistics, hypothesis is a statistical statement about the values of one or more parameters of the population. After setting the hypothesis, it is necessary to test the reliability of such statistical statements.

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

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

Step 1: Setting of hypothesis

- a. Null Hypothesis
- b. Alternative hypothesis

Step 2: Selecting suitable and proper test statistic

Step 3: Selecting the level of significance

Step 4: Finding the critical region

Step 5: Making decision

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

a. Test of Significance difference between HBL and EBL

<u>HBL</u>	<u>EBL</u>
Mean = 98.2	Mean = 92.85
S.D = 3.21	S.D = 4.117
N = 5	N = 5

Null hypothesis (H_0): $\mu_1 = \mu_2$ i.e. there is no significant different between two mean ratios of loan and advances to total deposit of HBL and EBL

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

We have

Test Statistic,

$$\text{Where, } s^2 = \frac{n_1s_1^2 + n_2s_2^2}{n_1 + n_2 - 2} =$$

$$\frac{5 * 3.21 * 3.21 + 5 * 4.117 * 4.117}{5 + 5 - 2} = 17.03$$

Test Statistics :

t_{α} , the test statistics is

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

$$= \frac{98.2 - 92.85}{\sqrt{17.03 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= 2.0498$$

$$T = 2.0498$$

$$|t| = 2.0498$$

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

Level of significance = 5%

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

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

4.1.6 Trend Analysis and Projection for Next 5 Years

The objective of this topic is to analysis trend of investment of HBL and EBL. To utilize investment of a commercial bank may grant loan and advances and invest in government securities and shares and debentures of other companies. Under this topic an attempt is made to analyze trend of investment of HBL and EBL also forecast their trend for next five years. The projections are based on the following assumptions:

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

4.1.6.1 Trend Analysis of Total Investment

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

Table No. 4.18

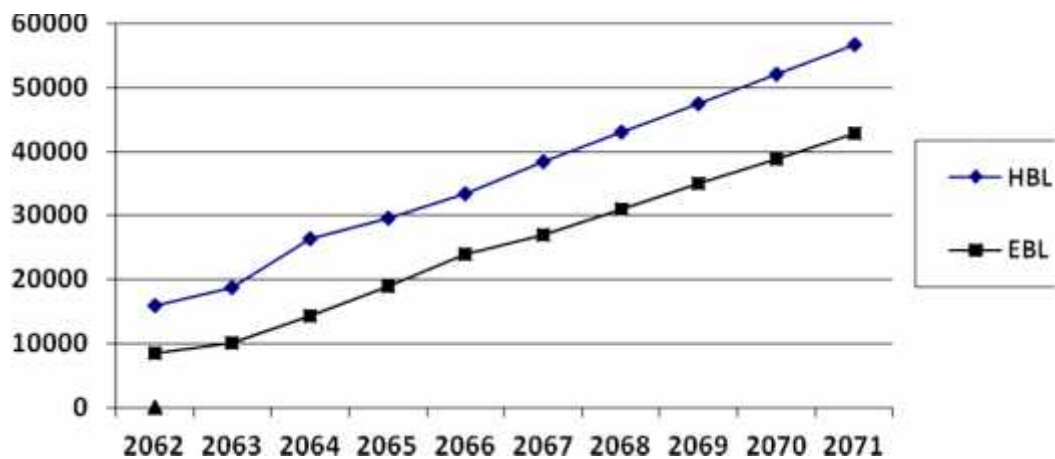
Trend values of Investment

(Rs in million)

Year	HBL	EBL
2062/063	15960	8600
2063/064	18755	10034
2064/065	26406	14326
2065/066	29494	19044
2066/067	33325	23873
2067/068	38429	27042
2068/069	42976	30998
2069/070	47523	34953
2070/071	52069	38909
2071/072	56616	42865

From the table 4.18 shows that it is found that investment trend of commercial banks is in increasing trend. Other things remaining the same, the trend value of investment of HBL will be higher than the EBL.

Figure No. 4.10 Trend Value Investment (in Millions)



4.2 Major Findings of the Study:

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

1. Mean ratio of HBL investment to total commercial banks investment (7.15) which is extremely higher than that of EBL to total commercial banks which (4.49). The portion of HBL Investment is decreasing every year in the Total Investment of Commercial banks.

2. HBL and EBL both have invested most of their fund in government securities than other banks. Both banks have invested fewer funds to share and capital of other company. The commercial banks mostly invest on government securities, NRB bond and share and debentures of other company.

3. The mean ratio of Investment to Total deposit of HBL (25.8) which is higher than EBL (17.52). Loan and advances is also another type of Investment of Commercial bank. The mean ratio of Investment plus loan and advances to deposit ratio of HBL is (98.2) which is higher than EBL (92.85). It shows that the bank uses most of its fund from deposit on Investment and loan and advances. The mean ratio of total investment to total assets ratio of HBL (21.8) which is greater than EBL (15.13). Similarly EBL has fewer ratios than HBL. The mean ratio of investment on government securities to total assets ratio of EBL (13.4) which is higher than HBL (12.26).

4. Growth ratio of Investment of EBL is 11.58 which are higher than HBL. Growth ratio of deposit of EBL (16.55) which is higher than HBL (8.59). Growth ratio of loan and advance of EBL (14.48) which is higher than HBL (11.73). It shows that every growth ratio of EBL is higher than HBL that means EBL is in very good position than HBL.

5. The trend value of investment of HBL is greater than EBL. So, its shows that HBL investment policy is better than EBL.

CHAPTER - 5

Summary, Conclusion and Recommendation

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

5.1 Summary

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

The beginning and establishment of financial institution depends upon the level of economic activities and monetary transaction in the country. In Nepal history of modern financial institution begins with the establishment of NBL in 1937A .D. Since then several financial institutions have come into existence. But Nepalese Industries have been facing challenges especially due to inadequacy of financial resources. Although numerous financial institutions have emerged both in regional as well as in international financial centers to extend credit facilities to the financially viable enterprise. But there still a big gap between demand for and supply of financial resources and gap seems ever widening over the years. Globalization and freeing up of the economy, decentralization, restructuring the large firms, worldwide communication networks and transfer and acquisition of state of the art, technology and other application, all have brought the challenges and opportunities to entrepreneur. Those who can respond to these challenges and mobilize necessary financial resources become successful and those who do not, fall victim in their rapidly changing economic environment. Banks play a crucial role in this matter. Commercial banks not only collect the scattered saving from individual by accepting

deposits but also provide various types of loan. And they invest in various share and debentures of other companies. A healthy development of any bank depends heavily upon its Investment policy. A sound and variable investment policy can be effective one for the economy to attain the economic objectives directed towards the acceleration of the pace of development. A good Investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and Investment.

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

According to the objective of the study; primary data as well as secondary data has been used to achieve the study. Secondary data were collected from annual report of different banks, daily newspaper, campus library, magazine, bulletins and website etc. This study has been mentioned already that the research concentrates only on the investment of three commercial banks. The researcher has evaluated of data for the least five years period i.e. 2065/066 to 2069/070. The researcher has analyzed the data by using financial tools like ratio analysis as well as statistical tools like mean.

5.2 Conclusion

After study and analysis of given data we conclude that banking is one of sectors of business. Both banks are running in profit. They invest in different sector. From the analysis of data the mean ratio of Investment to total deposit, investment plus loan and advances to deposit ratio, total investment to total asset ratio of HBL is higher than EBL. HBL has collected more deposit and investment than that of EBL, but its growth rate of deposit is less than that of EBL. But the mean ratio of investment on govt. securities to total asset ratio of EBL is higher than HBL.

Growth ratio of deposit, investment and loan and advance of EBL is higher than HBL. It shows that EBL is running successfully than HBL.

5.3 Recommendation

On the basis of analysis of finding of study, the following recommendation and suggestion are forwarded;

-) The average ratio of investment plus loan and advance to total deposit ratio of HBL is higher than EBL, it means it has invested more than deposit so that its liquidity position is not good. So, it needs to decrease its investment.
-) EBL has invested its more funds only in government securities so it is recommended that it should invest in other different sector also like share and debenture different industries, business and so on.
-) Growth ratio of deposit of HBL is too less than EBL so it is recommended that it should increase its deposit collection. It needs to plan and develop different schemes to collect more deposit. Likewise increase interest rate, insurance policies, decrease bank loan interest, minimum amount for opening accounts, different compensation policies etc.
-) Growth ratio of loan and advance of HBL is lower than that of other banks so it is recommended that it should increase its loan and advance by reducing loan interest rate, bank credit policies, compensation policies etc.
-) Both banks have invested fewer funds in share and debenture of other companies so it is recommended that they should increase their investment in share and debenture to develop the different industries as well as country.
-) The commercial banks have been established gradually after the commercial banks act 2031 B.S. With the passage of time so many commercial banks, as a joint venture, have been established gradually because of the liberal and market friendly economic policy of government of Nepal. But banks should provide some social response by expanding their operation in rural areas rather than urban areas. And banks can give response to poor and disadvantage groups. By establishing the branches in rural areas, minimum amount for opening accounts and interest rate should be reduced for creditors.
-) In the light of growth competition in the banking sectors, the business of the banks should be customer oriented. It should focus not only towards big clients but also towards small clients. They should treat every client equally.

They should bring different schemes to focus the customers like, increase interest rate, bank credit policies, bank loan insurance policies, evening counters, social responsibilities etc.

) Majority of commercial banks have been found to be profit oriented ignoring their social responsibility, which is not a proper strategy to sustain in long run. So all the banks are suggested to render their serves even in the rural areas providing special loans to the deprived and priority sectors, which might further intensify the goodwill of the banks in future.

) The Economic Liberalization policy adopted by Nepal government has created and environment of strict competition even in the banking sectors. In the context, all the banks are suggested to formulate and implement some sound and attractive financial; and non-financial strategies to meet required level of profitability such as risk analysis diversification, social responsibility, bank credit policy, compensation policy etc.

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