CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Nepal is one of the least developed countries of the world. The development of the any country largely depends upon its economic development .Thus the primary goal of the nation, including Nepal is rapid economic development to promote the welfare of the people and nation as well .Nepal, being a developing country is trying to embark upon the path of economic development by economic growth rate and developing all sector of economy .As per the National economy survey (2008/09), the growth rate of Nepalese economy was estimated at 7.0 percent. According to preliminary estimates of central bureau of statistics(CBS), government of Nepal, GDP growth rate is estimated to be 3.8 percent in basic price and 4.7 percent in producer's price in 2008/2009.On the sectoral basis, agriculture production is estimated to grow by 2.1% compared to that of the previous year and under non-agriculture sector, the industrial sector production is estimated to grow marginally by 1.8 percent where as the service sector is estimated to expand by 2.5 percent in 2008/09. Even though, the process of economic development depends upon various factors, however economist are now convinced that capital formation and its proper utilization plays a vital roles .The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formation has been the principle variable in setting the overall pace of economic development .In this regard , the network of well-organized financial system of the country has great bear. It collects scattered financial resources from the masses and invests them among those engaged in economic and commercial activities of the country, in the way financial institutions provide service high liquid divisible assets at a lower risk while the investor, receiver a large pool of resources .

A bank is a financial institution , which can play significant role in the upliftment of the economic situation of the developing country like Nepal. Bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They peruse economic growth rapidly, developing the banking habit among the people by collecting small scattered resources in one bulk, using them in further productive purpose and rendering the valuable services to the country. Commercial bank deals with the offer of collected deposits and provides the loan for commercial purpose. Commercial Bank Act (2031 BS) states, "Accepting deposits granting loan and performing commercial banking functions are the main motto of commercial bank". In the other words, commercial bank's facilitates also become right hand for the growth of trade and industry of national economy of developing country like Nepal.

In case of the history of bank, an institution banking system came in to existence in Nepal only in the 19th century .Nepal Bank Limited was the first financial institution of Nepal established on the 30th of kartik 1994 B.S. Being a commercial bank, it focuses on income generating and profit maximization. As it was only one commercial bank to look the economic condition of the country. Only Nepal bank Limited was not sufficient to look all the sector of country. So in 2013 BS another bank names “Nepal Rastra Bank " was established as the central bank of Nepal to regulate and control banking management system of country. Then in 2022 B.S.” Rastriya Banijya bank “was established under Rastra Banijya Bank Act 2021. This act is now revised as commercial bank act 2031 B.S. For the development of industry, commerce and trade, Nepal Industrial Development was established under Industrial Development Corporation act 2016. For the development of agriculture sector, Agricultural development bank was established on Marg7th 2024 B.S. under Agricultural Bank Act 2024.

The joint venture bank was introduced in Nepal (2041B.S) with the establishment of Nabil Bank Ltd. Nepalese government kept on liberalizing the economic policies and improving the infrastructure. As a result, Nepal Indosuez Bank limited and Nepal Grindlays

Bank Limited were established in 6^{th} Magh 2042 B.S. and 16th Margh 2043B.S. respectively .Nepal Grindlays Bank Limited is now being operated with new ownership and name, Standard Chartered Bank Nepal Limited .After the restoration of democracy in Nepal in 2046B.S .government adopted liberalized and market oriented economic policies that created conductive environment for the development of banking sector. As a result various joint venture commercial banks are established one after another. Up to FY2008/09 there are twenty six commercial banks, sixty three development banks and seventy seven finance companies are operating their banking activities.

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

The role of commercial bank is economy is obviously prime requisite in the formulation of banks policy. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors .To make it more effective commercial banks formulate sound investment policies, which eventually contribute to the economy of a country. The sound investment policies help commercial banks to maximize quality and quantity of investment and thereby, achieve the own objectives of profit maximization and social welfare. The banking sector has to play development role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for the future economic development. Formulation of sound investment policies and coordinated and planned effort forward the forces of economic development because it ensure efficient allocation of funds to achieve the material and economic well being of the society as a whole . In this regard, commercial banks investment policy is also a push drive to achieve priority of industries in the context of Nepal's economic development .Investment policy is one fact of the overall spectrum of policies that guide banks investment operation .A healthy development of any bank depends upon its investment policy.

A good investment policy can be effective on for the economy to attain the economic objective 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 deposit, loan and investment. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial banks investment are considered while making investment policy. Nepalese commercial banks lag far behind fulfilling the responsibility to invest in the crucial sector of the economy for the enlistment of the national economy. Thus the problem has become very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy .Sound investment policy can minimize interest rate spread and non-performing assets, which cause the bank failure. Good investment policy ensure maximum amount of investment to all sectors with proper utilization .Formulation amount of investment policies and co-ordinate and planned efforts depends upon the growth of not only a particular bank but also a society. Seen in this light, the study of investment policy of Nabil Bank and Himalayan Bank assumes special importance. In today's completion market, it has become increasingly important for banks to know about investment policies to get success in competition.

1.2 Justification of the study

Deposit collection and its mobilization in order to achieve an optimum return is the main focus of any financial institutions. They have to carry out their activities in this competitive world against risk and uncertainties. They however, are not the game of chance or fate but are the result of competence, skill and wisdom .So, investment activities can create an image or goodwill if handled with destroys them if mishandled. The proper mobilization of fund always ensures good return and helps to sustain the institution. That also encourages the investors with financial rewards and the government will generate and increase the revenues. Although commercial banks play a vital role in investing various sectors of the country, there are many cases that most banks have not mobilized its deposit in a safe manner. As a result, non performing assets have been increasing recently. A deep and through study of it is always necessary and acceptable. Therefore a study in investment policy of banks is attempted in this dissertation. A deep and through study of it is always necessary and acceptable. Investment policy therefore is the most in important tool for the economic development of the country .A better investment policy yields more profitability or sustainability in the face of risks and uncertainties. It rewards directly or indirectly the people inside its sphere.

The study of investment policy in banking sector provides required information to the management of the banks which helps them to take correct decision and timely action when plans, policies and strategies are being made and liquidity or growth ratio etc. can be obtained. Similar information is required to the concerned bank for selecting the proper sectors for their investment and other benefit as well. Banks have to carry out their activities in this competitive world against risk and uncertainties. They however, are not the game of chance or fate but are the result of competence, skill and wisdom. So, investment activities can create an image or good will if handed with sagacity or destroy them if mishandled.

The proper mobilization of fund always ensures good return and helps to sustain the institution. That also encourage the investors with financial rewards and the government will generate and increase the revenues. Depositors too can choose the best banks or financial institutions of their convenience and interest .The study helps the government to formulate rules and policy and implements them in the favor of nation interest.

The study of investment policy has and intermediate effect on all those involved in financial activities directly or indirectly .The government, depositors, shareholders, managers, general public and even the researcher feel the need of this study indiscriminately for the information and knowledge necessary to them. Depositors too, can choose the best or apparent banks or financial institutions of their convenience and interest. Moreover, the study helps the government to formulate rules and policy and implements them in the favor of nation interest. The study might be somewhat limited because it is concerned in only two Banks i.e. Nabil Bank and Himalayan Bank Limited.

1.3 Statement of Problems

Number of commercial banks is increasing in Nepalese economy. There is high flow of money in the market but less viable and investable project. In the current situation there is mismatch of deposit and investable funds of banks. Therefore, the introduction of a new bank is just sharing a cake rather than pumping new capital or new technology, as Nepalese market is almost felt safeguarded. Few commercial banks are continuously making profit and satisfying their customers to power their money into banks, as there are very few sectors to make profitable investment and the investors are always reluctant to risk. They do not take initiation to invest in other sectors. Therefore, commercial banks have lot of deposits but a very little investment opportunity. They even discouraging people by offering very low interest rate and high minimum threshold balance. This will definitely make adverse impact on the economic development of a country. This has decelerated the pace of economy development. Lack of sound investment policy is another reason for commercial banks not to proper utilizing its deposit.

In fiscal year 2008/09 There are twenty six commercial banks operating in Nepal. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Many banks are increasing liquidity, has caused a downward trend in investment sectors.

It has ensured bad impacts on interest rate to the depositors, lower dividend to the shareholders, lower contribution to national revenue, longer, market value of share etc, For the assessment of such adverse impact, this study has shown the contrast and analyzed the investment policy of commercial banks.

Thus, the present study will make an attempt to analyze investment policy of NABIL and HBL. Special problem related to investment function of the commercial banks in Nepal have been presented briefly as follows:

a) What is the liquidity, efficiency of assets management, profitability and risk position of concerned commercial banks?

b) What is the empirical relationship between the variable that affect investment policy of banks?

c) What is the comparative position of commercial banks on fund mobilization and investment policy?

d) What are the views and ideas of the financial executives and customers regarding the knowledge on the various aspect of the investment policy adopted by commercial banks?

1.4 Objectives of the study.

The basic objective of this study is the comparative evaluation of the investment policy adopted by NABIL and HBL .The specific objectives of this study are as follows:

a) To evaluate the liquidity, efficiency of assets management, profitability and risk position of concerned commercial banks and compare with each other.

b) To find out the empirical relationship between the variable, that affecting the investment policy.

c) To make a comparative study on fund mobilization and investment policy of the selected banks.

d) To study the views and ideas of the financial executives and customers regarding the knowledge on the investment policy adopted by commercial banks.

1.5 Test of Hypothesis

In testing of hypothesis, an assumption is made about the number of commercial banks operating in Nepal till this date as population. To test whether the assumption or hypothesis is right or not, a sample of Nabil Bank and Himalayan Bank is obtained, sample statistic is obtained, observe the difference between hypothesized values is significant.

Following hypothesis have been set to test in this study.

1. Ho: There is no significant difference between Loan and Advances to total deposit ratio of Nabil and HBL.
   H1: There is significant difference between Loan and Advances to Total deposit ratio of Nabil and HBL.

2. Ho: There is no significant difference between total investment to total deposit ratio of NABIL and HBL.
   H1: There is significant difference between Total Investment to Total Deposit ratio of NABIL and HBL.

3. H0: There is no significant difference between Loan Loss Provision to loan and Advances ratio of NABIL and HBL .
   H1: There is significant difference between Loan Loss Provision to Loan and Advances ratio of NABIL and HBL.

4: H0: There is no significant difference between Return on Loan and Advances of NABIL and HBL.
   H1: There is significant difference between Return on Loan and Advances of NABIL and HBL.

1.6 Limitation of the study

This study is about the investment policy of Nabil bank and Himalayan Bank .Every research has its own limitations which are as follows:

1) The study is mainly based on secondary data collected from the banks .Research based on secondary data may be far form accuracy due to inherent character .

2) A whole study is based on the data of five years period i.e. from fiscal year 2004/05 to 2008/2009 and hence the conclusion drawn confines only to the period.

3) Only two banks are taken for the study i.e. NABIL and HBL.

4) There are many factors that affect investment decision and valuation of the firm.

However, this study concentrates on only those factors, which are Deposit, Loan and Advances, Investment on Securities, Total Assets, Equity Capital, Net Profit and Market Price per share related to investment.

1.7 Organization of the study

This study has been divided into five chapters. They are as follows:

The first chapter is introductory chapter, which contains general background of the study, justification of the study, statement of the problems, objectives of the study, test of hypothesis, limitation of the study and organization of the study.

The second chapter deals with the review of literature which contains conceptual review, reviews of related study.

The third chapter is research methodology that indicates the methods and techniques to collect the data and analyze them in this study. It includes introduction, research design, population and sample data collection procedure and methods of analysis.

In the fourth chapter, the researcher attempt to analyzed and evaluate data with the help of analytical tools and interprets the result obtained.

Lastly, the chapter five deals with summary and conclusion of the whole study and supply some valuable recommendation for the improvement of banks in future .A bibliography and appendix has also been included in the last part of the study.

CHAPTER TWO
REVIEW OF LITERATURE

The first chapter has already presented the problem and objective of this study. This chapter basically concerned with review of literature relevant to the investment policy of commercial banks .So, every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, internet, magazines and concerned commercial banks.
Reviewing and studying process has helped to take adequate feedback to broaden the information bases and inputs to this study. Here, mainly two parts conceptual framework and review of related research work are included for the bases and to make the study more purposive.

2.1 Conceptual Review

2.1.1 Concept of Banking

Bank plays a significant role in the development of country .It facilitates the growth of trade and industry of the national economy. However, bank is a resource for economic development, which maintains the self- confidence of various segment of society and extends credit to people.

According to Encyclopedia (1984), “A bank is a business organization that receives and holds deposits of funds from others makes loan or extends credits and transfers funds by written orders of depositors." The business of banking is one of collecting funds from the community and extending credit to people for useful purpose .Banks have played a vital role in moving money from lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit motive, it is expected to pay dividends and otherwise add to the wealth of its shareholders.

In Nepalese context, there are three types of banks, operated by performing their activities in different sectors, such as, Central Bank (Nepal Rastra Bank), Commercial bank and Development banks.

2.1.2 Concept of Commercial Bank

Commercial banks are that financial institutions which deal in accepting deposits of persons and institutions and giving loans against securities. They provide working capital needs of trade, industry even to agriculture sectors .Moreover, commercial banks also provides technical and administrative assistance to industries, trades and business enterprises.

The American Institute of banking has laid down the four major function of the commercial bank such as receiving and handing deposits, handling payments for its clients, making loans and investments and creating money by extension of credit. A commercial bank is one, which exchange money deposit, accepts deposit, grants loan and performs commercial banking functions.

Under the Nepal Commercial Bank Act (2031BS) that has been defined and emphasized about commercial banks they provide short term and long term loan whenever necessary for trade and commerce. They accept deposit from the public and provide loans in different forms .They purchase and discount the bills of exchange, promissory notes and exchange foreign currency.

American Institute of Banking (1972) states that "Commercial banks is a corporation which accepts demand deposits subjects to cheque and makes short term loans to business enterprises, regardless of the scope of its other services." A commercial banker is a dealer in money and substitute for money such as cheque, bills of exchange. It also provides variety of financial services. Principally, commercial banks accept deposits and provide loans, primary to business firms. Commercial banks pool together the savings of the community under different account that seems they help in capital formation.

2.1.3 Concept of joint Venture Bank

A joint venture is an association of two or more people or parties undertaken to make the operation highly effective with their collective effort. Joint venture bank plays an important role in the economic development of the country. Joint venture means the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (Gupta, 1994)

In Nepal the history of joint venture bank in not very old .About the history of foreign joint venture banks in Nepal, Nabil Bank Ltd , was established on July 12, 1984 under a technical services agreement with Dubai Bank Limited, Dubai, which was later merged with Emirates Bank Ltd, Dubai .Joint venture banks are working under commercial Bank Act 2031 BS, Which are backbones for the economic development of the country. Beside this joint venture banks have been also creating completion for venture banks of Nepal are in a better position than local commercial banks in terms of profit making and services providing .Joint venture banks play vital roles in attracting foreign investment by familiarizing the foreign investors.

2.1.4 Concept of Investment

The banks are such types of institutions, which deal in money and substitute for money. They deal with deposit, credit and credit instrument. Good circulation of credit is very much important for financial institution and bank unsteady and unevenly flow of credit harms the economy and profitability of commercial banks. Thus to collect fund and utilize it in good investment is the prime objective of commercial banks.

Investment is any vehicle into which funds can be place with the expectation that will preserve or increase in value and generate positive returns (Gitman and Joehank, 1999)

Investment is the employment of funds with the aim of achieving additional income for the growth in value (Singh, 1992). As per Dr. Singh the investment is the key factor to achieve additional income for the growth of banks.

Investment, in its broadest sense, means the sacrifice of certain present value for (Possible uncertain) future value (Sharp and Gordon, 1999). In the view of sharpe and Garden the investment is the venture that the return in uncertain. So, they have presented their view in the books that bank should look for the safe and less risky investment.

An investment is the current commitment of funds for a period of time to derive a further flow of funds that will compensate the investing unit for the time the funds are committed, for the expended rate of inflation and also for the uncertainty involved in the future flow of funds (Frank and Reilly, 1990)

From the above definition, it is clean that an investment means to trade current funds for some expected stream of payment or benefits, which will exceed the current outlays by an amount of return or interest that will compensate the investor. The return or interest us expected because of uncertainty involved in expected future cash flow. The investment (credit or other investment) is the most important function of commercial banks. It is long-term commitment of bank in the uncertain and risky environment .Investment is a very challenging task of commercial banks. So a bank has to be very careful while investing their funds in various sectors .The success of bank heavily depends upon the proper management of funds.

2.1.5 Meaning of Investment Policy

Investment management of a bank is guided by the investment policy adopted by the bank. Investment policies can be varied in bank to bank. Few banks accept higher risk on investment and other is more conservative for their investment decision .The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk.

Investment policies of banks are conditioned, to great extent by the national framework; every banker has to apply his own judgment for arriving at credit decision, Keeping of course, his banker's credit policy also in mind (Singh and Singh, 1983) .According to the above definition, government and central bank have to make a sound policy about the investment of commercial banks. They further state, the field of investment is more challenging as is offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But his higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit function has become more complex.

Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for invest and loan, and establishing responsibility for day to day management of these assets (Baxley, 1987). It is assumed the management should be responsible for the investment decision of banks.

Lending is the essence of commercial banking and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management .Well conceived lending policies are careful lending practice is essential in a bank to perform its credit creating function effectively and minimizing the risk inherent in any extension of credit (Crosse, 1963) .

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a generous profit as well as it should be secured and can be converted in to cash whenever needed. Obviously, a firm that is being considered for commercial loan must be analyzed to find out why the firm need money, how much money the firm need and when and how it will be able to repay the loan. Project or business proposal must be carefully scrutinized .Investment policy provide several inputs to the bank through which they can handle their investment operation efficiently ensuring the maximum exposure to risk, which ultimately leads the bank to provide secured loans and investment .

2.1.6 Characteristics of Sound Investment Policy

Income and profit of the bank depends upon its lending procedure and investment of funds on different securities. The greater the credit by a bank, the greater will be profitability. A sound lending policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Some main characteristics of sound lending and investment policies are given below.

a) Safety and security

The bank should invest its funds in those securities, which are subject to too much depreciation and fluctuation because little difference may cause great loss. It must not invest its funds into speculative businessman who may be bankrupt at once or who may earn million in a minute also. The bank should accept that type of securities, which are commercial, durable, and marketable and have high marketable price.

b) Liquidity

People deposit money at bank in different account with confidence that the bank will repay their money they are in need .To maintain such confidence of the depositors the bank must keep this point in mind while investing its excess funds in different securities or all the same time of lending .So that it can meet current short term obligation, when they become due for payment.

c) Profitability

Commercial banks can minimized its volume of wealth through maximization of return on their investment and lending. So, they must invest their funds where they gain maximum profit. The profit of commercial banks mainly depends on interest rate, volume loan, its time period and nature of investment in different securities.

d) Purpose of Loan

The loan should be utilized in purposed plan. Every thing related with the customer should be examined before lending. If borrowed misuses the loan granted by the bank they never repay and bank will poses heavy bad debts .Detailed information about the scheme of the project activities should be examined before lending.

e) Tangibility

Though it may be considered that tangible property does not yield income apart form direct satisfaction of possession of property, many times intangible securities lost their value due to price level inflation .So commercial bank should prefer tangible security to intangible one.

f) Legality

Every financial institution must follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of finance and other while issuing securities and mobilizing funds illegal securities will bring out many problems to the investors that may lose reputation and goodwill of the bank.

g) Diversification

The bank should be careful that while granting loan, it should not be always in one sector. To minimize risk and maximize profit, a bank must diversify its investment on different sectors or make portfolio investment. Diversification of loans helps to sustain loss as, if securities of some companies deprived then there may be appreciation in the securities of other companies.

2.2 Review of Related Studies

2.2.1 Review of Related Article/ Journals

In this section, effort have been made to examine and review of some related articles in different economics journals, World Bank discussion papers, magazines, newspapers and other related books .

Morris (1990) in the research paper on "Latin America's banking system in the 1980's concluded that most of the banks concentrated on compliance with central bank rules on reserve requirements, credit allocation (investment decision) and interest rules. While analyzing loan portfolio, quality, operating efficiency and soundness of banks investment management has largely been overlooked.

He further added that mismanagement in financial institutions has involved in adequate and overoptimistic loan appraisal, higher risk diversification of loan portfolio and investment, high -risk concentration, related parties lending, etc are major caused of the investment and loan that has gone bad.

Similarly, Bista (2048 BS) in the research paper, "Nepalma Adhunik Banking Byabasta " made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of joint venture banks in the field of commercial banks. At the end of the paper the researcher has concluded that the establishment of joint venture banks a decade age marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation consortium investment in loan and modern fee based activities into the economy. These are indeed significant milestone in the financial development process to the economy.

Similarly, Shrestha (2055 BS), in the article, "lending operation of commercial banks of Nepal and its impact on GDP. Thus, in conclusion the researcher accepted the hypothesis i.e. there had been positive impact by the lending of commercial banks in various sectors of economy except service sector investment.

Pyakuryal (1987), in the article, "Workshop on Banking and National Development " writes," the present changing context of the economy calls for a substantial revitalization of the resources .How much they have gained over the years depends chiefly on how far they have been able to utilize of resources is as much crucial as the mobilization .The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposits." thus in his paper , he has emphasize on proper utilization of mobilization resources and profitability increment . The researcher further indicates that under utilization of resources in an opportunity loss of the banks and commercial bank will not be motivated to collect public deposit.

Kishi (1996) in the article states, " The changing face of the banking sector and the HMG/N recent budgetary policy " concludes that following an introduction of the reform in the banking sectors as an integrate parts of the liberal economic policy, more banks and finance companies have come up as a welcome measure competition .

However, because of poor investment policies and lack of internal control the two governments controlled banks .Nepal Bank limited and Rastriya Banijya Bank's non -performing assets have increased substantially .Now, Nepal Rastra Bank has awarded the management contract to foreign companies to improve the condition of non performing assets. The policy of giving management to professional consultant is a part of the financial sector reform policy of NRB.

Bajracharya (2047 BS) in the article, “Monetary policy and deposit mobilization in Nepal" has concluded that mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal. Commercial Banks and financial intermediary for a accepting deposit of private sector and providing credit to the investor in different sectors of the economy .The writer added that the public deposit is the major resources of credit and investment of the commercial banks in Nepal.

Shrestha (2055 BS) has given a short glimpse on the "Portfolio Management in Commercial Bank, Theory and Practice," The portfolio management becomes very important for both individual as well as institutional investors .Investors would like to select best mix of investment assets subject to following aspects .

1) Higher return which is comparable with alternative opportunities available according to the risk class of investors.

2) Good liquidity with adequate safety of investment.

3) Certain capital gains.

4) Maximum tax concession.

5) Flexible investment.

6) Economic, efficient and effective investment mix.

In view of above aspects, following strategies should be adopted.

7) Do not hold single security i.e. try to have a portfolio of different securities.

8) Do not pull all the eggs in the one basket i.e. to have a diversify investment.

9) Choose such a portfolio of securities, which ensure maximum return with minimum risk or lower of return but with added objective of wealth maximization.

The writer presented two types of investment analysis technique i.e. fundamental analysis and technical analysis to consider any securities such as equity, debentures or bonds and other money and capital market instrument. The writer suggested that banks having international network can also offer access to global financial markets .The writer pointed out the requirement of skilled Manpower , research and analysis team and proper management information system (MIS) in any commercial bank to get success in any portfolio management and customer confidence .

According to the writer, the portfolio management activities of Nepalese commercial banks at preset art in growing stage. However, on the other hand, most of banks are not doing such activities so far because of following reasons.

1) Unawareness the clients about the service available.

2) Hesitation of taking risk by the client to use such fatalities.

3) Lack of proper technique to run such activities in the best and successful manner.

4) Less developed capital market and availability of few financial instruments in the financial market.

Regarding the joint venture commercial banks, they are very eager to provide such service but because of above -mentioned problems, very limited opportunities are available to the banks for exercising the portfolio management .Mr. Shrestha has also explained and recommends the banks the following order to get success in portfolio management and customer's confidence .

1) Should have skilled personnel

2) Should do strong and deep research and analysis.

3) Should have proper management information system.

4) Should make portfolio investment for their excess, funds or deposit collection or surplus money.

Similarly, Sharma (2000) found same result that all the commercial bank are established and operating in urban areas. In this study," Banking the future of competition ". The writers' achievement is:

1) Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas .Only the branch of Nepal Bank Limited and Rastrya Banijya Bank Ltd .are running in these sectors.

2) Commercial banks are charging higher interest credit lending.

3) They have maximum tax concession.

4) They do not properly analyze the credit system.

According to the writer , due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee , whose negative side effect would show colors only after four or five years . He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Thapa (1994) expresses his views in a research paper, " Financial system of Nepal " that the commercial banks including foreign joining venture banks seems to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing .But compared to the high credit needs particularly by the newly emerging industries, the banks still seems to lack adequate funds.

Out of all commercial banks (excluding newly opened commercial banks), Nepal Bank limited and Rastriya Banijya Bank are operating with nominal profit or loss, the later turning towards negative from time to time .Because of non accrued interest, the margin between interest income and interest expenses is declining . Because of these two local banks, in traditional off- balance sheet operation, these banks have not able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overhead. Similarly, due to accumulated overdue and defaulting loans Profit positions of these banks have been seriously affected. On the other hand, the foreign venture banks have been functioning in all efficient way .They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders .

At the end of his article, he concludes that by its very nature of public sector , the domestic banks couldn't compete with the private sector banks as the government decided to hand over the ownership as well as the management of these banks to private sector.

2.2.2 Review of Thesis

Under the topic of Investment Policy, students have conducted several thesis works. Some of them, which are relevant for this thesis, are presented below.

Shahi (1999) conducted a study entitled, " Investment Policy of commercial banks of Nepal." The researcher's main objective of the study was to study the fund mobilization and investment policy with respect to fee based off - balance sheet transaction and funds based on balance sheet transaction and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit. Through is research, the researcher found that the liquidity position of Nepal Bank ltd is comparatively high than the of joint venture banks. NBL is comparatively less successful in on balance sheet as well as off balance sheet operation than that of other joint venture banks. IT has not followed any definite policy with regard to the management of its assets .Similarly profitability position of NBL is comparatively not better than that of other joint venture banks .Growth ratio of NBL is also lower than other banks.

The study recommended that to get success itself and to encourage financial and economic development of the country through industrialization and commercialization. Commercial banks must mobilize its funds in different sectors such as purchasing of shares and debentures of other financial and non financial companies. The researcher recommended that banks should make continuous effort to explore new competitive and high yielding investment opportunities to optimize its investment portfolio. The study pointed out the loan default in commercial bank is result of the necessary skill of project appraisal, improper collateral evaluation, irregular supervision and lack of entrepreneurship attitude. The researcher also recommended to formulate a policy enhances its income from off balance sheet as well as on balance sheet operation .The researcher also suggested enacting loan recovery act to enhance the recovery loan.

This study is based on investment policy of Nepal Bank Limited with other joint venture banks (NABIL, NGBL and NIBL) .It would not be responsible to quote good or bad about investment policy of NRB only by comparing it with other three banks .Since NBL is a semi governmental bank with huge branches, this bank is obviously different form other joint venture banks as it is some how affected by government interference.

Thapa (1999) has conducted a study entitled " A comparative study on investment policy of Nepal Bangladesh Bank Ltd .and other joint venture banks (Nepal Arab Bank Ltd and Grindlays Bank Ltd) ". The researcher's main objective of study was to examine the fund mobilization and investment policy of NB Bank Ltd. through off balance sheet and on balance sheet activities in comparison to other two banks and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit .

Ms. Thapa has found that NBBL is not in better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and NGBL and its does not seem to follow any definite policy regarding the management high growth rates on comparison to other banks though it is not successful to make enough investment and NBBL is success in increasing its sources of funds and its mobilization.

The researcher has concluded that the position of NBBL in regards to utilization of the funds to earn profit is not better in comparison to NABIL and NGBL, NBBL has collected funds in comparatively higher cost and paying 6% to 7.75% interest rate in various deposits. Further NBBL does not seem to have adequate recovery rate.

The researcher has compared Nepal Bangladesh Bank Ltd, with other joint venture banks (NABIL & NGBL) .Her study is based on five years period from 1994/95 to 1998/99. It would not be responsible to analysed investment policy of any bank as success or unsuccessful by study of only five years data.

Tuladhar (1999) has conducted a study entitled “A study Investment Policy of Nepal Grindlays Bank Ltd. in comparison to other joint venture banks (NABIL and HBL)." The researcher's main objective of study was to evaluate liquidity , assets management , efficiency , profitability , and risk position of NGBL in comparision to NABIL and HBL an to examine the fund mobilization and investment policy of NGBL through off balance sheet and on balance sheet activities in comparison to the other two banks .

Through his research, Mr,Tuladhar found that NGBL had been successful to maintain in the best way both liquidity position and their consistency among three banks .NGBL had successful to maintain and manages assets towards different income generating activities .Income from loan and advance and total investment is the main income source of NGBL and it can affect the bank's net profit . Profitability position of NGBL is better than NABIL and HBL.

The researcher concluded that joint venture banks of Nepal are not effectively informative to their clients. These banks have given first priority on education sectors while making investment. The poverty stricken and deprived sectors are given second priority. The study found that the reason behind not providing banking facilities to the rural areas is that these banks are profit oriented only.

He has performed a comparison on investment policy of NGBL with NABIL and HBL. NABIL and HBL both are successfully operating from more then ten years. So it would not be reasonable to make decision about the condition of investment policy of NGBL only by comparing its with two successful banks.

Khadka (2000) conducted a study entitled " A study on Investment policy of NABIL in comparison to other joint venture banks of Nepal " The main objective of the study was to evaluate the liquidity, assets management, efficiency, profitability and risk position of NABIL in comparison to other JVBs and to study the fund mobilization and investment policy with respect to fee based off - balance sheet transaction and fund based on - balance sheet transaction.

The researcher found that liquidity position of NABIL is worse than that of Nepal Grindlays Bank Ltd .and Nepal Indosuez Bank Ltd .NABIL has more portions of current assets as loan and advances but less portion as investment on government securities. NABIL is comparatively less successful in on -balance sheet operation as well as off- balance sheet operation than that of Joint venture banks. NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit in compare to NBGL and NIBL.

The researcher has suggested the joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders , depositors and customers .The researcher has strongly recommended NABIL to utilize its risky assets and shareholders fund to gain highest profit margin and reduce its expense and collect cheaper fund for more profitability .The researcher has recommended investing its funds in different sectors of investment and administering various deposit scheme, price bond scheme, gift cheque scheme, house building deposit scheme etc. The researcher has recommended following liberal lending policy and investment more percentage of total deposit as loan and advances.

This study is based on five years period 1992 to 1996. He has taken only two banks to compare the investment policy of NABIL with NGBL and NIBL among thirteen commercial banks of Nepal. It would not be quote investment policy of NABIL as good as bad by only five years data.

Gautam (2001) conducted a study entitled “Investment analysis of the finance companies in context of Nepal." The researcher has found the investment in government securities of finance companies is decreasing .Major source of finance company is utilized as loan and advances .Use of fund towards the hire purchase loan is decreasing in finance companies and investment on housing loan is more .

The researcher has recommended that the overall policy of the finance companies should be concentrated on productive sector such as business and industry loan rather than consumer good such as hire purchase and housing plan. This would contribute on the capital formulation for overall national development. Further, she said that the credit monitoring wind should be strong enough to ensure timely cash inflow from credit generated.

Ms .Gautam has tried to analyze the investment policy of finance companies .Her study does not cover the investment analysis of commercial bank and other institution. Her studies also analyze the comparative study of the commercial banks and finance companies.

Ojha (1997) has given conclusion in the thesis, " A study on priority sector investment of commercial banks (with reference to Rastriya Banijya Bank)" that bank was unable to meet the 12% of required lending in the priority sector as set under NRB directives. During the five years study period, the researcher further found that low interest rate in priority sector but increasing trend of overdue and miss -utilization .The researcher recommended in improving supervision and evaluation of borrowers paying capacity and reducing the overdue through integrated program of priority sector loan .

The researcher studied about investment on priority sector of RBB and showed that the bank is unable to invest as NRB directive percentage on priority sector .But is should be kept in mind that commercial banks are profit oriented organization and they invest more on highly return sector to long life banking business and are responsible to develop economy. So they must invest on other sectors too.

Rana (2007) conducted a research entitled "A comparative Financial Performance Analysis of Nabil and Himalayan Bank Limited. The objective of the research study was to evaluate liquidity position activity and operating ratio and earning price per share, book value per share, dividend per share and to show relationship among these variables of Nabil Bank Limited and Himalayan Bank Limited.

The researcher concluded that the NABIL had better current ratio then HBL but the HBL had very much cash and bank balance to total deposit ratio and cash and bank balance to current assets ratio than that of HBL. So, HBL had found to have better liquidity position. The researcher further concluded that both the banks were utilizing most of their assets efficiently in order generate profit. But both the bank did not earn satisfactory profit during the research period. Through the net profit of these banks were not satisfactory they earned high return on shareholders equity because they had used more debt in the capital structure of other banks.

Gupta (2007) conducted a research study entitled "Comparative Analysis of Financial Performance of Commercial Banks in Nepal ". The researcher had taken Everest Bank Limited, Bank of Kathmandu and Nepal standard chartered Bank Limited as sample. The major objective of the study was to evaluate Liquidity Ratio, Activity Ratio, Profitability Ratio and other market related ratios of these sample banks .The researcher had used descriptive and analytical research design in writing the research study. The research had also used F-test in testing the hypothesis.

The researcher study concluded that among three sample banks BOK maintained the highest liquidity position during the research period in comparison to other two banks. The study further added that SCBNL had the excellent assets utilization in order achieve the goal of maximizing the shareholder's wealth. In the same way SCBNL generated the highest net profit and paid the highest dividend per share to shareholders. The study further stated that there is no significant difference among the commercial banks in terms of net profit of total assets ratio , and dividend payout ratio .The review of above relevant thesis has not doubt enhanced the fundamental understanding and foundation knowledge base , which is prerequisite to make this study meaningful and purposive .

CHAPTER THREE

RESEARCH METHODOLOGY

Previous chapters have provided the concepts, inputs and bases of this study. Research methodology describes the methods and process applied in the entire study. It is the set of various instrumental approaches used in achieving predetermined objectives. It counts on the resource and techniques available and to the extent of their reliability and validity in the research. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objectives of the research.

3.1 Research Design

Research design, is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives.

A research design, bearing the techniques and systematic steps of research that helps to collect information, required to researcher for thesis writing or any investigation. The lack of research design, the functional process on researches is never achieved. The research study examines the fact and postulates in certain frameworks or details and supplies the important information on subject matter. Major findings recommendations, conclusions etc are the most significant information among them. They are derived with the help of some financial and statistical tools, which help to evaluate comparatively the investment policy of NABIL and HBL .The present study deals with the performance and investment policy of commercial banks .SO descriptive research has been applied in some primary information and analytical research is applied for the analysis of financial information.

3.2 Population and Sample

There are altogether twenty six commercials banks functioning till mid july 2009 and most of their stocks are traded actively in the stock market .In this study, Investment policy of NABIL and HBL are compared with each other, which are selected form population. The brief introduction of related banks is as follows. Some commercial banks have significant influence on growth of Nepalese financial sector: Nabil Bank and Himalayan Bank are leading among them. These banks have great impact on the investment policy of other commercial banks. Judgmental sampling or purposive sampling method is being considered while selecting these two banks as sample for this research study.

3.3 Data Collection Procedure

The research study is mainly conducted on the basis of the secondary data .The data required for the analysis is directly obtained from the financial statement of concerned banks. Supplementary data and information are collected form literature publication of the concerned commercial banks and regulating authorities like Nepal Rastrya Bank, Security Exchange Board, Nepal Stock Exchange Ltd .Ministry of Finance, Economic survey and National planning commission and so on.

All the secondary data are complied, processed and tabulated in the times series as per the need and objective .Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem .Likewise, various data and information are collected form the economic journals, Periodicals, bulletins, magazines and other published and unpublished reports and documents from various sectors.

3.4 Method of Data Analysis

To achieve the objective of this study , various financial , accounting and statistical tools have been used .The analysis of data will be done according to the pattern of data available .Due to limited time and resources , simple analytical statistical tool such as percentage graph, Karl Pearson's coefficient of correlation regression , the method of least square for trend analysis and test of hypothesis are used in the study .Like wise, some financial tools such as ratio analysis have also been used for financial analysis.

3.4.1 Financial Tools

Financial tools basically help to analyze the strength and weakness of a firm in this study. Ratio analysis and financial statement analysis has been used as financial tools.

3.4.1.1 Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures .Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decision. Thus ratio analysis is used to compare a firm’s financial performance and status to that of other firms or to it overtime .The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis. Therefore, there are many ratios: only those ratios have been covered in this study, which are related to the investment operation of the bank. This study contains following ratios.

A) Liquidity Ratio

Liquidity ratios are used to judge the ability of banks to meet its short term liabilities that are likely to mature in the short period. It is measurement of speed with which banks assets can be converted into cash to meet deposit withdrawal and other current obligations.

1) Current Ratio

$$CurrentRatio = \frac{CurrentAssets}{CurrentLiabilities}$$

Where,

Current Assets = Inventories, sundry debtors, cash and bank balance, Receivable /Accrual incomes, Loan and advances, Disposable and Investment etc.

Current Liabilities = Creditors, short-term loan, Bank overdraft, cash credit, Outstanding expenses, provision for taxation, proposed dividend and unclaimed dividend etc .

II) Cash and Bank Balance to Total Deposit Ratio

$$Cash \,\&\, bankBalancetototalDepositRatio = \frac{Cash \,\&\, BankBalance}{TotalDeposit}$$

III) Cash and Bank Balance to Current Assets Ratio

$$Cash \,\&\, BankBalancetoCurrentAssetsRatio = \frac{Cash \,\&\, BankBalance}{CurrentAssets}$$

IV) Investment on Government Securities to Current Assets Ratio

$$Investment.on.Gov.Securities = \frac{Investment.on.Govt.Securities}{TotalCurrentAssets}$$

B) Assets Management Ratio

Assets Management ratio is her to indicate how efficiently the selected banks have arranged and invested their limited sources at its command. The following ratios are used under this assets management ratio.

I) Loan and Advance to Total Deposit Ratio

$$Loan\ \&\ Advance to Total Deposit Ratio = \frac{Loan\ \&\ Advance}{Total Deposit}$$

II) Total Investment to Total Deposit Ratio

$$Total Investment to Total Deposit Ratio = \frac{Total Investment}{Total Deposit}$$

III) Loan and Advances to Total Assets Ratio

$$Loan\ \&\ Advances to Total Assets Ratio = \frac{Loan\ \&\ Advances}{Total Assets}$$

IV) Investment on Government Securities to Total Assets Ratio

$$Investment.on.Govt.Securties to TA Ratio = \frac{Investment.on.Govt.Securuties}{Total Assets}$$

V) Investment on Shares and Debenture to Total Assets Ratio

$$Inct.on.share \,\&\, DebenturetoTA.Ratio = \frac{Investment.on.Shars \,\&\, Debentures}{TotalAssets}$$

VI) Loan Loss Ratio

$$LoanLossRatio = \frac{TotalLoss\,\mathrm{Pr}\,ovision}{TotalLoan \,\&\, advance}$$

C) Profitability Ratio

Profitability ratio are used to indicate and measure the efficiency of operation of a firm in term of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice -versa .Profitability position can be evaluated through following different way.

I) Return on Loan and Advances

$$\mathrm{Re}\,turn.on.LoanandAdvances = \frac{Net\,\mathrm{Pr}\,ofit(Loss)}{TotalLoan \,\&\, Advance}$$

II) Return on Total Assets (ROA)

$$\mathrm{Re}\,turn.on.TotalAssets = \frac{Net\,\mathrm{Pr}\,ofit(Loss)}{TotalAssets}$$

III) Return on Equity (ROE)

$$\mathrm{Re}\,turn.on.Equity = \frac{Net\,\mathrm{Pr}\,ofit}{TotalEquityCapital}$$

IV) Total Interest Earned to Total Assets Ratio

$$TotalInterstEarnedtoTotalAssersRatio = \frac{TotalInterestEarned}{TotalAssets}$$

V) Total Interest Earned to Total Outside Assets Ratio

$$TotalInterstEarnredtoTotalOutsideAssersRatio = \frac{TotalInterstEarned}{TotalOutsideAssets}$$

VI) Income Earned to Total Operating Income Ratio

$$IncomeEarnedtoTotalOperatingIncomeRatio = \frac{TotalInterestEarned}{TotalOpeningIncome}$$

VII) Total Interest Paid to Total assets Ratio

$$TotalInterstPaidtototalAssetsRatio = \frac{TotalInterstPaid}{TotalAssets}$$

D) Risk Ratio

Risk means uncertainty, which lies in the business transaction of investment management. When a firm bears risk and uncertainty, it decreases profitability and effectiveness of the firm's profitability and effectiveness may decreases. This ratio indicates the amount of risk associated with the various banking operations, which ultimately influences the banks investment policy .The following ratios are evaluated under this topic:

I) Non -Performing Loan to Total Loan Ratio (Credit Risk Ratio)

$$TotalInterestPaidtoTotalAssetsRatio = \frac{Non - Perfor\min gLoan}{Loan \,\&\, Advances}$$

II) Interest Rate Risk Ratio

$$InterestRateRiskRatio = \frac{InterestSensitiveAssets}{InterestSensitiveLiabilities}$$

E) Growth Rate

$$GrowthRate = \frac{EndingValue - BeginningValue}{BeginningValue} \times 100$$

The following growth rate of select banks calculated in this study.

I) Growth rate of Total Deposit.

II) Growth rate of Loan and Advances.

III) Growth rate of Total Investment.

IV) Growth rate of Net Profit.

V) Growth rate of Interest Income.

VI) Growth rate of Interest Expenses.

F) Other Ratios

I) Earning per Share

$$EarningPerShare = \frac{EearningAvailabletoCommonShareholders}{No.ofEquityShares}$$

II) Dividend per Share

$$DividendPerShare = \frac{TotalDividendPaid}{No.ofSharesOuts\tan ding}$$

III) Market Price Per Share

$$Market\Pr icePerShare = \frac{TotalMarketValueofSharesOuts\tan ding}{No.ofSharesOuts\tan ding}$$

IV) Price Earning Ratio

$$\Pr iceEaringRatio = \frac{MPS}{EPS}$$

3.4.2 Statistical Tools

The relationship between different variables related to the study would be drawn out using statistical tools .The tools to be used are as follows.

3.4.2.1 Mean (Average)

The average value is a single value with in the range of the data that is used to represent all of the values in the series .Since an average is somewhere with in the range of the data, it is also called a measure of central value, since an average represents the entire data, its value lies somewhere in between the two extremes i.e .the largest and the smallest items.

There are various types of average in statistics. Among them, the researcher takes arithmetic mean; it is as popular as mean or average. Its value is obtained by adding together all the items and by dividing this total by the number of items. The formula is given below.

$$\overline{X} = \frac{\sum x}{n}$$

Where,

$\overline{X}$ = Arithmetic Mean

$\sum x$ = Summation of all the items

n = Number of items

3.4.2.2 Standard Deviation

The standard deviation is the most important and widely used measure of studying dispersion. It is known as root mean square deviation for the reason that the square root of the mean of the squared deviation from the arithmetic mean. The lower standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite .Hence, standard deviation is extremely useful in judging the representatives of the mean.

$$\sigma = \frac{\sum d^2}{n}$$

Where,

σ	= Standard deviation
$\sum d^2$	= Sum of the square deviation
n	= number of items

3.4.2.3 Co- efficient of Variation

The co-efficient of variation is the corresponding relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard variation to the mean expressed in resulting percentage (Kothari, 1990) .It is used in such problems where we want to compare the variability of two or more than two series .That series for which the co-efficient of variation is greater is said to be more variable, less stable or less homogeneous. On the other hand , the series for which co-efficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous .

$$C.V = \frac{\pm}{\overline{X}}$$

Where,

C.V	= Co-efficient of variation
σ	= Standard Deviation
$\overline{X}$	= Mean

In this study, CV is calculated for liquidity, activity, profitability, and return to investor and growth ratio.

3.4.2.4 Coefficient of Correlation

Sunity (2057 BS) says in her Book, Statistical Method in Management, Correlation is defined as the relation ship between (among) the one dependent variable and one (or more than one) independent variable. In the other words, correlation is the relationship between (or among) two or more variables.

Karl Pearson's co-efficient of correlation is calculated to study the extent or degree of correlation between two variables .It can be either perfect positive or negative. The coefficient of correlation always varies between the two limits of -1 or + 1 .The formula for the calculation of co-efficient of correlation is given below.

$$r = \frac{N\sum xy - \left(\sum y\right).\left(\sum Y\right)}{\sqrt{N\sum x^2 - \left(\sum x\right)^2} \times \sqrt{N\sum y^2 - \left(\sum y\right)^2}}$$

Where,

r	= Coefficient of correlation
∑xy	= the total of the product of items in the two series
∑x and ∑y	= the total sum of x and y items
N	= Total number of times

In this research correlation between total deposit and loan and advances, deposit and total investment, total assets and net profit and total investment and net profit are studies. Similarly co - efficient of correlation of total deposit, total investment, loan and advances and net profit of NABIL and HBL are also done.

3.4.2.5 Co - efficient of Determination

The co-efficient of determination is a measure of the degree of linear association or correlation between two variables, one of which happens to be independent and other being dependent variable. In other words, co-efficient of determination measures the percentage of total vitiation in dependent variable explained by independent variables.

Symbolically;

$$R^2 = (r)^2$$

Where,

R^2 = coefficient of determination

r = coefficient of correlation

3.4.2.6 Probable Error

The probable error if the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient. The probable error (P.E) is defined by

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

Where,

r = Correlation of coefficient

N = Number of pairs of observation

$\frac{(1-r^2)}{N}$ = Standard error of correlation coefficient (S.E)

P.E = 0.6745 x S.E

Conclusion:

If r< P.E the value of r is not significant

If r> 6 P.E the value of r is significant.

3.4.2.7 Time Series / Trend Analysis

Trend analysis is also one of the most useful statistical tools. Trend analysis of different variables indicates the change over a period of time. Trend analysis informs about the expected future return, future achievement of the bank and future credit worthiness of the bank. Trend analysis is very effective, inform various personnel directly or indirectly related bank. Here the method of least square is selected as statistical tools for the analysis of banks.

Straight -line trend is given by the following formula.

Y = A + BX

WHERE,

Y = the estimated value of y for given value of x obtained form the line of regression of y on x .

a = "Y-intercept "/or mean of Y value.

b = "Slope "of trend line / or Rate of change

X = the variable in time series analysis represent time.

$$a = \frac{\sum Y}{N}$$

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

Where,

a = regression constant

b = regression coefficient / rate of change

$\sum x$ = the total value of dependent variable

$\sum xy$ = the total value of the product of items in the two series.

$\sum x^2$ = the total of the sum of items in x series

The equation is used to compute the overall performance of different selected commercial banks during the period plus projection for next five years. Under this topic following have been presented.

1. Trend analysis Total Deposit.
2. Trend analysis of Loan and Advances.
3. Trend analysis of Total Investment.
4. Trend analysis of Net Profit.
5. Trend analysis of Loan Loss Provision.

3.4.2.8 Test of Hypothesis

The test of hypothesis is a process of testing of signification regarding the parameter of the population on the basis of the sample drawn form the population. The compound value of the statistic may differ form the hypothetical value of the parameter due to sampling fluctuations. Hence, the difference is considered to be significant and the hypothesis is accepted.
If the difference is large, it has not risen due the hypothesis but is due to some other reasons. Hence, the difference is considered to be significant and the hypothesis is rejected .Thus, the rest of hypothesis disclose the fact weather the difference between computed static and hypothetical parameter is significant .

The test of hypothesis has different method for going to decision making. Here t- distribution is taken for this research purpose. The t -distribution states that if the sample size is less than or equal to 30 (i.e. n< 30), then the sampling distribution of the sample mean follows t -distribution .This t-distribution is also known as' student distribution' or 'Student's t- distribution '.

The statistical hypothesis may be divided may be divided into two types, null hypothesis and alternative hypothesis.

Null Hypothesis (H0)

A statistical hypothesis, which is stated for the purpose of possible acceptance, is called a null hypothesis and is denoted by H0, for the study purpose, there is no significant difference in variables of NABIL and HBL.

Alternative Hypothesis (H1)

Any hypothesis, which is complementary to the null hypothesis, is called an alternative hypothesis and is denoted by H1, for the study concerned, there is significantly difference in variable of NABIL and HBL.

Test of hypothesis has been conducted most of the variable which are already explained in the analysis.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

Previous chapter dealt on review of literature and research methodology that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed investment policy of Nabil Bank and Himalayan Bank Limited. Different tables and diagrams are shown to make the analysis simple and understandable.

4.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed.

Various financial ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial bank i.e. NABIL and HBL. Some important financial ratios are only calculated in the point of view of fund mobilization and investment policy. The ratios are designed and calculated to highlight the relationship between financial items and figures .It is a kind of mathematical relationship and procedure dividing one item by another.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures .It helps to analyze the financial strength and weakness of the banks .It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to investment policy of banks.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity posting to satisfy the credit needs of community, to meet demands for deposit - withdrawals, pay maturity obligation in time and

convert non-cash assets into cash to satisfy immediately needs without loss to bank and consequent impact on long -run profit .Liquidity ratio is mainly used to analyze the short -term strength of commercial banks .

A) Current Ratio

Current ratio is the relationship of current assets and current liabilities .Current assets are those assets , which can be converted into cash with in short period of time . Current liabilities are those items, which are paid with in one year .Current ratio measures paying ability of short term debt of the firm .Generally, 1:1 standard ratio for the commercial banks because all the current assets in the banks are in the form of cash or cash equivalent. But it is a conservative outlook about the coverage of current liabilities. Current ratio is calculated by dividing current assets by current liabilities.

Table No. 4.1

Current Ratio (Times)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	0.80	0.78	0.74	0.80	0.83	0.79	0.03	3.79
HBL	0.60	0.66	0.68	0.67	0.83	0.69	0.07	10.14

Source: Appendix -A (I)

The table No. 4.1 shows the current ratio of selected commercial banks during the study period. The current ratio of HBL is increasing more rapidly than that of NABI.L. Similarly the ratio of HBL and NABIL are same and on highest peak on FY 2008/09.On other hand the lowest ratio of NABIL is 0.74 on FY 2006/07 and that of HBL is 0.60 on FY 2004/05

After observing the mean ratio we found both NABIL and HBL have less than 1:1 mean current ratio. The mean ratio of NABIL is 0.79 where as HBL has 0.69 .Higher C.V of NABIL shows that it has more variability in current ratio throughout the study period. Lower C.V of HBL states that it has uniformity in current ratio during the study period.

Lastly from the above analysis it is known that all these two banks have not better liquidity position because the standard ratio is 1:1.They have not made this standard. Generally banks require more liquid assets with compare to current liabilities in order to provide better bank service but these two banks have less liquidity position.

B) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the banks ability to meet their daily requirement of depositors'. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of NABIL and HBL during the study period.

Hence, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash item, balance with domestic banks and balance held in foreign banks. The deposit encompasses current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits.

Table No. 4.2

Cash and Bank Balance to Total Deposit Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V %)
NABIL	3.68	2.87	5.92	8.36	9.02	5.97	2.44	40.87
HBL	8.11	6.48	5.84	4.54	8.79	6.75	0.91	13.48

Source: Appendix - A(II)

The above Table No.4.2 reveals that the Cash and Bank Balance to Total Deposit Ratio of NABIL and HBL are in fluctuating trend. The highest the ratio of NABIL is 9.02 percent in FY 2008/09 and lowest is 2.87 percent in FY 2005/06. Similarly the highest ratio of HBL is 8.79 percent in FY 2008/09.

The mean ratio of NABIL and HBL are 5.97 percent and 6.75 percent respectively. HBL has higher ratio, which shows its greater ability to pay depositors money as they want. Similarly the coefficient of variation of NABIL is 40.87 percent and HBL is 13.48 percent .As C.V shows NABIL's ratios are not more consistent than HBL .The lower C.V indicates its uniform ratio than NABIL .

The above analysis has to conclude that the cash and bank balance position of HBL with respect to NABIL is better in order to serve its customers deposits .It implies the better liquidity position of HBL .In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds income generating areas. Thus HBL may invest in more productive sectors like short -term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

C) Cash and Bank Balance to Current Assets Ratio

This ratio measure the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm .Higher ratio shows the higher capacity of firm to meet cash demand. This ratio is calculated by dividing cash and bank balance by total current assets.

Cash and Bank Balance are the most liquid or quick assets .Cash and bank balance to current assets ratio represent the liquidity capacity of the firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers .But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposit and may not have liquidity crisis. Following the states the cash and bank balance to current assets NABIL and HBL during the study period.

Hence, cash and bank balance include cash in hand, foreign cash in bank, cheques and other cash items and bank balance with domestic and foreign banks.

Table No. 4.3

Cash and Bank Balance to Current Assets Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	4.31	3.51	7.67	10.04	10.41	7.18	2.84	39.55
HBL	13.08	9.53	8.32	6.55	10.28	9.55	1.94	20.31

Source : Appendix - A (III)

The above table reveals that cash and bank balance to current assets ratio of NABIL and HBL is in fluctuating trend .The mean ratio of NABIL and HBL is 7.18 percent and 9.55 percent respectively. The higher mean ratio shows HBL's liquidity position is better than that of NABIL .More over the C.V of NABIL is higher than HBL. The higher C.V of NABIL indicates that it has more inconsistency in the ratio in comparison to HBL.

Regarding the above analysis, it can be concluded that HBL has better ability to meet daily cash requirements of their customers but there is not any fix policy to maintain the standard ratio of cash balance over the period.

D) Investment on Government Securities to Current Assets Ratio

This ratio is used to find the percentage of current assets invested on government securities i.e. treasury bills and development bonds. This ratio can be calculated by dividing investment on government securities by current assets.

This ratio examine that portion of a commercial banks current assets, which is invested on different government securities .More or less, each commercial banks is interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose . Although those securities can be sold easily in the financial market or they can be converted into cash, they are not very liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives .These securities are also called risk less investment but less return is generated than other risky assets. The following table shows the investment on government securities to current assets ratio of NABIL and HBL.

Here, investment on government securities includes treasury bills and development bonds etc. The numerator consists of loans, advances, cash, credit, local and foreign bills purchased and discounted.

Table No.4.4

Investment on Government Securities to Current Assets Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	19.46	14.53	26.68	17.47	11.44	17.91	5.15	28.75
HBL	35.52	28.56	30.57	33.81	14.21	28.53	7.56	26.49

Source: Appendix -A (IV)

The above table shows investment on government securities to current assets ratio of NABIL and HBL. NABIL and HBL both has fluctuating type ratio .The table shows the highest ratio of NABIL is 26.68 percent in FY 2006/07 and lowest is 11.44 percent in FY 2008/09 .In the same way , other highest ratio of HBL is 35.52 percent in FY 2004/05 and lowest is 14.21 percent in FY 2008/09
The mean ratio of HBL is 23.53 percent which is greater than the mean ratio of NABIL i.e.17.91 percent. The higher ratio of HBL indicates the better liquidity position than NABIL .The higher C.V of NABIL shows the more inconsistency in the ratio with compare to HBL.

From the above analysis it can be concluded that HBL has maintained analysis it can be concluded that HBL has maintained higher ratio of investment on government securities. Similarly the liquidity position of HBL is good and the lower C.V of HBL shows that it has less variance to maintain this ratio.

4.1.1.2 Assets Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit , so to satisfy it's customers and for own existence. Assets management ratio measures how efficiently the bank manages the resources at its commands. Through following ratios, assets management ability of banks has been measured .

A) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out, how successfully the banks are utilizing their deposit on Loan and Advances for profit generating propose. Greater ratio implies the better utilization of total deposits. This ratio can be obtained by dividing loan advances by total deposit.

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on Loan and Advances for the purpose of profit generation. A higher ratio of Loan and Advances indicates better mobilization of collection deposit and vice -versa. But it should be noted that too high ratio might not be better from its liquidity point of view .Following Table No. 4.5 shows the Loan and Advances to total deposit ratio of related banks.

Table No. 4.5

Loan and Advances to Total Deposit Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	75.04	68.63	68.12	68.18	74.96	70.98	3.28	4.62
HBL	54.21	59.50	59.21	63.37	73.58	61.97	5.19	8.37

Source : Appendix -B(I)

The above table shows that the loan and advances to total deposit ratio of NABIL bank is more fluctuating. NABIL bank has higher ratio than that of HBL which shown by higher mean ratio of NABIL .It indicates the better mobilization of deposit by NABIL bank and it has less variability in equalizing its deposits as the form of Loan and Advances which are explain by lower C.V .of NABIL .
By the analysis, NABIL has used the deposit in profit generating sector than that of HBL as indicator by higher mean ratio of 70.98 percent. But higher ratio indicates that there may be less liquid assets to meet the short term obligation.

B) Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on investment in government securities and shares and debentures of other companies and bank .This ratio can be calculated by dividing total investment by deposit.

Here, total investment consist of investment on government securities, investment on debenture and bonds, Share in subsidiary companies, shares in other companies and other investment.

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measure how successfully and efficiently the banks are mobilizing their funds on investment in various securities .This ratio of NABIL and HBL are calculated and presented below.

Table No. 4.6

Total Investment to Total Deposit Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	29.32	31.95	38.36	31.22	29.11	32.00	3.36	10.5
HBL	47.12	41.11	39.34	41.89	25.11	38.91	7.37	18.94

Source : Appendix -B(II)

The above table shows that total investment to total deposit ratio of NABIL and HBL is in fluctuating trend .Higher ratio of NABIL is 38.36 percent in FY 2006/07 and lowest ratio is 29.11 percent in FY 2008/09 in the same way the highest ratio of HBL 47.12 percent in FY 2004/05 and lowest ratio is 25.11 percent in FY 2008/09.

While examining mean ratio, the researcher found HBL has 38.91 percent as compare to 32 percent of NABIL .The higher mean ratio of HBL shows the bank is mobilizing its funds on investment in various securities more efficiently .But the higher C.V of HBL shows the bank has less uniform ratios than that of NABIL.

C) Loan and Advances to Total Assets Ratio

Loan and Advances is the major component in the total assets (total assets, which indicates the ability of bank to canalize it deposits in the form of Loan and Advances to earn high return .This ratio is computed, by dividing Loan and Advances by total assets.

Here, the denominator indicates all assets of on balances items .In other words, this includes current assets, loan for development banks and other miscellaneous assets but excludes off balance sheet items like letter of credit, letter of guarantee etc.

A commercial banks working fund plays 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 Loan and Advances for the purpose of income generation. A higher ratio indicates better mobilization of funds as loan and advance and vice versa. The following table shows Loan and Advances to asset of NABIL and HBL as follows.

Table No. 4.7

Loan and advances to Total Assets Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	64.14	59.46	58.35	58.60	63.91	60.90	2.58	4.23
HBL	49.06	53.50	53.08	55.78	64.90	55.26	5.28	9.55

Source : Appendix -B(III)

The above table shows the loan and Advance to total assets ratio of NABIL and HBL during the study period. Loan and Advances to total assets ratio of NABIL and HBL both follows the fluctuating trend ratio. The higher mean ratio of NABIL is 60.90 percent where as HBL has 55.26 percent. This ratio shows NABIL bank has utilized its total assets more efficiently in the form of Loan and Advances. The higher C.V of HBL states that it has less uniformity in these ratios throughout the study period than that of NABIL.

From the above description, it can be concluded that NABIL bank has maximum utilized its assets in the form of Loan and Advances with less risk. While HBL has a little efficiency in managing its total assets by granting Loan and Advances with high risk.

D) Investment on Government Securities to Total Assets ratio

This ratio shows that banks investment on government securities in comparison to the total assets. This ratio is calculated by dividing investment on government securities by total assets.

It is not possible to apply all collection, deposit, and other resources in to Loan and Advance for the banks .Therefore; they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one , which is very less risky .Invest on government securities to total assets ratio measure how successfully selected banks have applied their total assets on various forms of government securities in profit maximization and risk minimization point of view .The higher ratio represents the better position of fund mobilization into investment on government securities and vice -versa. The following table shows the ratio of investment on government securities to total assets of NABIL and HBL.

Table No. 4.8

Investment on Govt. securities to Total Assets Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	14.17	10.31	17.64	12.51	8.46	12.62	3.17	25.12
HBL	19.95	17.46	19.25	20.65	10.71	17.60	3.60	20.45

Source: Appendix -B(IV)

The above table reveals that the average of investment on government securities to total asset ratio of HBL is slightly higher than that of NABIL .The higher ratio of HBL reveals that HBL is strong enough to mobilize there total assets as investment in government securities. There is more variability in the ratio of NABIL as compare to HBL. It shows there is more inconsistent in the ratio of NABIL during the study period, which is indicated by higher C.V of NABIL .From the above analysis it can be concluded that HBL has invested it more portion of total assets. But there is inconsistent in its investment.

E) Investment on Share and Debenture to Total Assets Ratio

This ratio shows the banks investment in shares and debenture of the subsidiary and other companies'. This is calculated by dividing investment on share and debenture by total assets. The numerator include investment on debenture bonds and shares of other companies.

Investment on share and debenture to total assets ratio reflects the extent to which the banks are successful to mobilize their total assets on purchase of share and debenture of other companies to generate incomes and utilized their excess funds. A high ratio indicates more portion of investment on share and debentures out of total assets and vice -versa. The following table states the ratios of investment on shows and debentures to total assets of NABIL and HBL during the study period.

Table No .4.9

Investment on Share and Debenture to Total Assets Ratio (%)

Names	Fiscal Year

of Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	2.59	0.47	1.50	0.87	0.80	1.25	0.75	60.00
HBL	0.15	0.13	0.21	0.24	0.23	0.19	0.04	21.05

Source : Appendix-B(V)

The above table states that NABIL has invested comparatively high amount of its assets in purchasing of shares and debentures of other companies. There is large difference in the variability of the ratios of these two sample banks which is shown by C.V. The higher C.V of NABIL shows it has more variability in the ratios .From the above analysis it can be concluded that both banks have invested very small portion of total assets on purchase of shares and debentures of other companies.

F) Loan Loss (Loan Loss Provision to Loan & Advance Ratio)

This ratio shows the possibility of loan default of a bank .It indicates how efficiently it manages its Loan and Advances and make efforts for loan recovery. Higher ratio implies higher portion of non -performing loan in total Loan and Advances. Here, the numerator indicates the amount of provisions for possible loan loss .

The loan loss occurs when a borrower fails to repay their loan or due to careless of investment policy. So, the control of loan loss is and important fact of bank's operation and bank is greatly concerned to minimize it. A poorly administrated loan provision is required to incorporate in income statement if high loss is expected .It has negative effect on the profitability.

It indicates how efficiently the bank manages its Loan and Advances and make effort for timely recovery of loan .The following Table No. 4.10 shows the loan loss ratio of NABIL and HBL during the study period.

Table No .4.10

Loan Loss Provision to Loan and Advances Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	3.29	2.68	2.24	1.81	1.46	2.29	0.62	27.07
HBL	7.62	7.09	4.46	3.37	2.84	5.07	0.99	19.52

Source : Appendix - B(VI)

Above tables shows that loan loss provision to loan and advance of NABIL & HBL. Although both have decreasing trend ratio but the mean ratio of NABIL is lesser than HBL. This analysis states that the performance of NABIL in terms of recovery of loan is better than HBL because it has lower mean ratio. Even though HBL seems to have higher ratio, it has more uniformity in loan provision to Loan & Advances.

4.1.1.3. Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc. Profitability ratios are the best indicators of overall efficiency. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of NABIL and HBL.

A) Return on Loan & Advances

Return on loan & advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided Loan & Advances. This ratio is computed dividing net profit {loss} by the total amount of Loan & Advances.

Every financial institution tries to mobilize their deposits on Loan & Advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on Loan & Advances ratio of selected banks are presented as follows.

Table No. 4.11

Return on Loan & Advances{%}

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	4.75	4.92	4.23	3.42	3.68	4.20	0.58	13.81
HBL	2.29	2.90	2.76	3.14	2.95	2.81	0.28	9.96

Source: Appendix -C{I}

The above table reveals the return on Loan & Advances of NABIL and HBL. As the mean return ratio states that NABIL has greater return on Loan & Advances than that of HBL but the return is not consistent through out the study period. Thus it can be said that NABIL seems to be success to earn higher return on its Loan & Advances in comparison to HBL. Both banks have small mean returns on its Loan & Advances as its mean ratio shows. Both banks seem to have poor performance in order to have returns for Loan and Advances because of heavy less than five percents of return on Loan and Advances. Thus in conclusion it can be said that NABIL seems to be success to earn high return on its Loan and Advances with comparison to HBL .

B) Return on Total Assets

Return on total assets ratio measures the profitability position of the selected banks and finance companies in comparison with total assets of those selected items. It is calculated dividing return or net profit (Loss) by total assets.

This ratio measures the overall profitability of all working funds i.e. Total Assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table No.4.12

Return on Total Assets (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	3.05	2.85	2.47	2.01	2.35	2.55	0.37	14.51
HBL	1.23	1.55	1.46	1.75	1.91	1.58	0.23	14.55

Source: Appendix - C(II)

This table states the net profit to total assets of selected banks during the study period .NABIL bank has fluctuating return on its total assets but it has increasing trend of this ratio. It is observed that NABIL is success to have higher return on assets.

C) Return on Equity

Net worth refers to the owner's claim of a bank. Here net worth means equity .The excess amount of total asset over total liabilities is known as net worth. The ratio measures how efficiently the banks have used the funds of the owners. This ratio is calculated by dividing net profit by total equity capital (net worth). Total equity capital includes shareholders reserve including P/L a/c, share capital.

Equity capital of any bank is its owned capital .The prime objective of any bank is wealth maximization or in other words to earn high profit and there by, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflects, the extend to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice -versa. Following table shows the return on equity of NABIL and HBL during the study period.

Table No. 4.13

Return on Equity (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	31.38	34.84	32.71	30.62	32.94	32.50	1.45	4.46
HBL	21.94	25.90	22.88	25.28	24.11	24.02	1.47	6.12

Source: Appendix -C (III)

The above listed table shows that NABIL & HBL has fluctuating return on equity ratio as the standard deviation indicates. The return on equity of HBL has relatively more inconsistency through out the study period because its C.V is higher. Here, NABIL is providing more return to its shareholders funds with relatively low risk.

D) Total Interest Earned to Total Assets Ratio

Total interest earned to total assets ratio is calculated to find the percentage of interest earned to total assets. Higher ratio indicates the better performance of financial institutions in the form of interest earning on its working fund. This ratio is calculated dividing total interest earned form investment by total assets.

Total interest earned to total assets ratio evaluates how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of NABIL and HBL from FY 2001/2002 to 2005/2006 is calculated and shown in the following table.

Table No. 4.14

Total Interest Earned to Total Assets Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	6.25	5.86	5.82	5.32	6.39	5.93	0.37	6.23
HBL	5.28	5.52	5.30	5.42	5.95	5.50	0.24	4.36

Source : Appendix - C(IV)

The above statistics shows the NABIL has relatively higher power to earn interest on its total assets which is justified by higher mean ratio. However, HBL has higher uniformity in the ratios during the study period. It can be concluded that NABIL has successfully mobilized their fund in interest generating assets with slightly higher risk than HBL.

E) Total Interest Earned To Total Outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by dividing total interest earned by total outside assets.

The denominator includes Loan and Advance, Bills purchased and discounted and all types of investments. The numerator comprises total interest income form loans, advances, cash credit, and overdraft government securities, inter bank and other investment.

The main assets of commercial banks are its outside assets. Which includes Loan and Advances, investment on government securities, investment on shares and debentures and other all types of investment. Thus, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A high ratio indicates high earning on such total assets and vice-versa. The following Table No .4.15 exhibits the ratio of total interest earned to total outside assets of NABIL and HBL during the study period.

Table No. 4.15

Total Interest Earned to Total Outside Assets Ratio (%)

Names	Fiscal Year

of Banks	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	7.19	6.86	6.48	6.31	7.28	6.82	0.38	5.57
HBL	6.00	6.37	6.16	5.98	7.00	6.30	0.37	5.87

Source: Appendix -C(V)

Above table shows that the total interest earned to total outside assets ratio of NABIL & HBL are in fluctuating trend .but the mean ration of NABIL is slightly greater than HBL and.NABIL bank seems to have more efficiency in generating total interest through well utilizations of outside assets which is shown by its lower C.V.

F) Total interest Earned to Total Operating Income Ratio

Interest earned to total operating income ratio is calculated to find out the ratio of interest income with operating income of financial institutions. This ratio indicates how efficiently the selected banks have mobilized their resources to bear the interest on invested assets. This ratio is calculated during total interest earned by total operating income.

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms'. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2004/05 to 2008/09 are presented to analyze in the following table. The major source of income for the banks are interest income. So the banks should mobilize their funds in more interest generating sectors considering the risk and return.

Table No. 4.16

Total Interest Earned to Total Operating Income Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	89.44	96.36	107.27	118.44	126.04	107.51	13.36	12.43
HBL	120.95	116.72	127.42	122.91	117.80	121.16	3.83	3.16

Source: Appendix- C(VI)

Above table shows that HBL has greater share of total interest earn in its total operating income. But it has greater variability in the ratio of total interest earned to total operating income .NABIL has increasing trend of this ratio throughout the study period.

It can be concluded that HBL has successfully mobilized its funds in interest generating assets as compare to NABIL. NABIL is successfully in generating relatively consistent earning from interest. Above statistics shows that greater part of total operating income of both banks is covered by total interest.

G) Total Interest Paid to Total Assets Ratio

Total interest paid to total assets ratio help to find out and measure the percentage of interest paid by the firms in comparison with total assets. If interest paid to working fund ratio is higher, there will be higher interest expanses on total assets. This ratio is calculated by dividing total interest paid by total assets.

Total interest paid to total assets ratio help to show and measure the percentage of interest paid by the firm in comparison with total assets. If interest paid to total assets ratio is higher, there will be higher interest expenditure on total assets. The following table shows that total interest paid to total assets of NABIL and HBL.

Table No. 4.17

Total Interest Paid to Total Assets Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	1.42	1.60	2.03	2.04	2.63	1.94	0.42	21.65
HBL	2.05	2.20	2.29	2.27	2.38	2.24	0.11	4.91

Source: Appendix -C(VII)

Above table shows both banks have increasing trend of total interest expenses in relation to total assets. HBL has greater interest expenses in relation to total assets as it mean ratio shows. But it has relatively stable ratio with comparison to NABIL.

4.1.1.4 Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk. So business organization can not achieve a good return as per their desire. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk that one has to bear while investing its funds .Through following ratios, effort has been made to measure the level of risk inherent in the NABIL and HBL.

A) Credit Risk Ratio / Non-Performing Loan to Total Loan Ratio

Credit risk ratio measure the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non-performing loan to total loan and advances.

Bank utilizes its collected funds by providing credit to different sections .There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involves in the project. The credit risk ratio shows the proportion of non-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice - versa.

Table No. 4.18

Non-Performing Loan to Total Loan Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	1.32	1.38	1.12	0.74	0.80	1.07	0.27	25.23
HBL	7.44	6.60	3.61	2.36	2.16	4.43	2.18	49.21

Source: Appendix -D(I)

Above table shows the proportion of non-performing in total Loan and Advances of NABIL and HBL during the study period. NABIL seems to have very little proportion of non-performing loan as its mean ratio shows with consistent proportion. HBL has greater proportion of non performing loan with less uniformity in it.

It can be concluded that NABIL has better management of Loan and Advances than that of HBL .HBL is successful in making stable non performing loan through out the study period. The lower ratio of NABIL shows it has lower credit rates in comparison to HBL. Here NABIL is more successful in loan recovery because it has lower non performing loan in total Loan and Advances.

B) Interest Rate Risk Ratio

Interest rate risk ratio shows the decline in the net interest income due to the change in the interest rate charged by the banks on its deposit and Loan and Advances. Higher interest rates risk ratio suggests the banks to increase the interest rates on deposit and loan and advance, to increase net interest income and vice -versa. This ratio is calculated by dividing interest sensitive assets (i.e. Securities + variable rate Loan and Advances) by interest sensitive liabilities (i.e. borrowing + total deposit) excluding current deposits .

Here the numerator includes Treasury bill, development bonds, investment in debenture, mutual fund and other investment and denominators includes borrowing form NRB and other, total deposits excluding current deposits.

Interest rate charge by a bank is major source of income and expenditure. Depending on the interest rates the banks can make investment to maximize their income. Interest rate structure of a bank affects it assets and liability portfolio .Moreover, banks profitability largely depends upon the interest charged by a bank .There is higher degree of risk related with interest rate. The possibility of loss due to change in interest rate is known as interest rate risk .The assets returns and values versus the liability loss and value may change at different magnitude because of change in market interest rate .The following Table No.4.19 exhibits interest rate risk ratios of NABIL and HBL .

Table No.4.19

Interest Rate Risk Ratio (%)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	1.37	1.28	1.22	1.19	1.16	1.24	0.07	5.64
HBL	1.24	1.19	1.23	1.25	1.10	1.20	0.05	4.54

Source: Appendix -D(II)

This table shows the interest rate risk of NABIL and HBL during the study period. NABIL has greater interest rate risk which is indicated by higher mean ratio. It also has relatively decreasing trend of this ratio. HBL has less inconsistency in interest rate risk because it has lower standard deviation and coefficient of variation. Form the above analysis it can be concluded that both banks have high interest rate risk which is not desirable for any commercial bank.

4.1.1.5 Growth Position of the Banks

Growth position is calculated to know and find out the economic and financial position of the related banks. It represents how well the commercial banks are maintaining their economic and financial position.

A) Growth Rate of Total Deposit

To examine and analyze the expansion and growth of the business, growth rate are calculated in this study. The higher ratio represent the better performance of selected banks. Growth rate of total deposit measures how well and efficiently the selected firms are collecting the deposits from the customers and how efficiently they have to influence their clients to mobilize the fund.

Table No .4.20

Growth Rate of Total Deposit (%)

Names of Banks	Fiscal Year					
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	3.30	32.64	20.64	36.72	17.02	22.06
HBL	12.73	6.75	13.43	5.97	8.91	9.56

Above table shows that the growth rate of total deposit of NABIL and HBL both are in fluctuating trend. The growth rate of mean of HBL is 9.56 percent which is lower than NABIL i.e. 22.06 percent. Thus we can conclude that performance of NABIL to collect greater deposited in compare to HBL is better through out the study period.

B) Growth Rate of Loan and Advances.

Growth rate of Loan and Advances is used to evaluate how efficiently the firms are generating Loan and Advances to their deposit collection. This ratio indicates the efficiency of the firm to grant Loan and Advances. The higher growth rate indicates the efficiency and success in granting Loan and Advances.

Table No. 4.21

Growth Rate of Loan and Advances (%)

Names of Banks	Fiscal Year

	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	27.58	21.75	19.77	36.82	28.67	26.92
HBL	4.12	17.17	12.90	13.41	26.46	14.81

Above table shows that growth rate of Loan and advances for the both banks is in fluctuating trend during the study period. It indicates that both banks are inconsistent in granting Loan and Advance. But the mean growth rate of NABIL is a higher than that of HBL. It refers that in average NABIL is success to grant more Loan and Advances.

C) Growth Rate of Total Investment

Investment is an important and source of interest income. So it is prudent to invest more amount of surplus fund in secured sectors. So it is necessary to determining the growth rate of total investment. It measures how rapidly the firms are increasing their investment so that they can earn more amount of interest income.

Table No. 4.22

Growth Rate of Total Investment (%)

Names of Banks	Fiscal Year					
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	-26.71	44.49	44.92	11.27	9.11	16.62
HBL	10.32	6.23	8.58	12.84	-0.35	7.52

This table shows NABIL has negative growth rate of total investment in FY 2004/05 .But in 2005/06 it has remarkably high growth rate. On the other hand HBL has more fluctuating growth rate and has negative growth rate on FY 2008/09. In average NABIL has higher growth rate than that of HBL. It can be concluded that NABIL has greater growth rate than that of HBL.

D) Growth Rate of Net Profit

Every firm has desire to earn a good return from their activities .There should be certain growth rate to earn on net profit .It is calculated to determine future expected profit of the business .The following table shows the growth rate of net profit of NABIL and HBL.

Table No .4.23

Growth Rate of Net Profit (%)

Names of Banks	Fiscal Year					
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	14.28	25.58	3.06	10.85	38.20	18.39
HBL	28.51	35.20	7.44	29.33	18.42	23.78

Above table shows that average growth rate of net profit for HBL is higher than that of NABIL during the study period. The maximum growth rate of HBL is in FY 2005/06 whereas it has lower growth rate in FY 2006/07. At the same time, NABIL has the highest growth rate of profit in FY 2008/09 but it has low net profit in FY 2006/07. The mean growth rate of HBL is slightly higher than that of NABIL so it can be concluded that HBL has better performance in generating more profit during the study period.

E) Growth Rate of Interest Income

It shows the growth percentage of interest income .It helps to known which bank is success to capture more interest than other .The following table shows the growth rate of interest income of NABIL and HBL during the study period.

Table No. 4.24

Growth Rate of Interest Income (%)

Names of Banks	Fiscal Year					
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	6.70	22.65	21.14	24.63	41.45	23.31
HBL	16.14	12.44	9.16	10.60	19.30	13.59

Above table shows that NABIL has increasing growth rate trend but the growth rate of HBL is highly fluctuating. We can see from the above table that NABIL has highest growth rate in 2008/09 in FY 2008/09 as compare to any one year of HBL .NABIL has highest mean growth rate of interest income than that of HBL. So we can conclude that the growth rate of NABIL is much better than that of HBL.

F) Growth Rate of Interest Expenses

It shows that the growth percentage of interest expenses, which helps to know which bank, is paying more interest than others.

Table No. 4.25

Growth Rate of Interest Expenses(%)

Names of Banks	Fiscal Year					
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean
NABIL	13.92	46.91	55.46	36.57	52.11	40.99
HBL	14.33	15.46	18.36	7.30	13.48	13.78

Above table shows that HBL has lower growth rate of interest expenses than that of NABIL. In average HBL has lower interest expenses. On the other hand, NABIL has increasing growth rate of interest expenses in average. It refers that lower growth rate of interest expenses for HBL support to increase in net profit. Higher growth rate for NABIL may have negative impact on net profit.

4.1.1.6 Other Ratios

A) Earning Per Share

Earning per share indicates the profit available to the equity shareholders on a share. Earning per share is calculated by dividing the profit available after tax to shareholders to the number of outstanding.

EPS measure the efficiency of a firm in relative terms. It is widely used ratio, which measure the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the bank's earning power on per share basis had changed over that period or not but it doesn't reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

Table No. 4.26

Earning Per Share (RS)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2007/08	2008/09	2008/09	Mean	S.D	C.V(%)
NABIL	105.49	129.21	137.08	108.31	106.76	117.37	13.15	11.20
HBL	47.91	59.24	60.66	62.74	61.90	58.50	5.42	9.26

Source: Appendix -E(I)

Above table shows that NABIL has increasing trend of EPS but it has inconsistency through out the study period. On the other side, although HBL has low increasing rate in EPS it has uniformity among EPS. The average EPS is greater for NABIL with comparison to HBL. The higher EPS for

NABIL shows the higher capacity of earning .But at the same time it is also influence by number of shares outstanding.

B) Dividend per Share

Share holders want to receive dividend from their investment .They may have interest to know about the firm's activities, earning and dividend so each firm must announce the total dividend and dividend per share which shows the position of the firm.

A firm wants to distribute dividend to its shareholders if a firm suppose the insufficient investment opportunities and sector. Sometimes, it does not distribute and sometime issues bonus share. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, divisible profit or proposed dividend or declared dividend. So each firm must announce the total dividend and dividend per share which show the position of the firm.

Table No. 4.27

Dividend per Share (Rs)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	70	85	100	60	35	70	22.13	31.61
HBL	11.58	30	15	25	12	18.72	7.44	39.74

Source :Appendix -E(II)

The above statistics shows the dividend per share of NABIL is quite higher than that of HBL in each year through out the study period. The trend of growth rate in dividends is quite higher for NABIL. The average dividend per share of NABIL is higher than HBL In nutshell, it can be concluded NABIL has adopted the policy of paying high amount in the form of cash dividends where as HBL is trying capitalized its earning by keeping it in the form of retained earnings.

C) Market Price per Share

Market price per share is the price of the share that is traded in the stock market. Those shares are transacted in the secondary market, which are already issued to public. Generally, MPS is determined through supply and demand factors. A high MPS indicates better performance of the company and vice-versa.

Market price per share is the price at which shares are traded in the stock market .The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

Table No. 4.28

Market Price per Share (RS)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	1505	2240	5050	5275	4899	3793.8	1590.36	41.92
HBL	920	1100	1740	1980	1760	1500	412.79	27.52

Source : Appendix - E(III)

This table shows speedy increasing of market price share of NABIL with comparison to HBL. Since NABIL has greater increment rate in market price per share during the study, it has higher inconsistency in market price per share. HBL has comparatively consistent market price per share through out the study period .

D) Price Earning Ratio

Price earning ratio indicates investor's judgment or expectation about the firm's performance. This ratio is closely related with EPS and widely used by the security analysis to value the firms performance. Price earning Ratio reflects investor's expectation about the growth in the firms earning.

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS .Price earning ratio indicates investors judgments or expectations about the firms performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investors expectation about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Table No. 4.29

Price Earning Ratio (Times)

Names of Banks	Fiscal Year							
	2004/05	2005/06	2006/07	2007/08	2008/09	Mean	S.D	C.V(%)
NABIL	14.26	17.34	36.84	48.70	45.89	32.60	14.30	43.86
HBL	19.20	18.57	28.68	31.55	28.43	25.28	5.34	21.12

Source :Appendix -E(IV)

This table shows NABIL has the range of price earning ratio between 14.26 and 48.70 whereas HBL has the range between 18.57 and 31.55. So there is more inconsistency in price earning ratio for NABIL. The mean price earning ratio is greater for NABIL. This indicates that market has viewed more positively to HBL than NABIL

4.2 Statistical Analysis

Statistical tool is one of the important tools to analyze the data .There are various tools for the analysis of tabulated data such as mean, standard deviation, regression analysis, correlation analysis, trend analysis, various types of test etc. There is used following convenient statistical tools are used in this thesis study.

a) Coefficient of Correlation

b) Trend Analysis

c) Test of Hypothesis

4.2.1 Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's Co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and Loan and Advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, Loan and Advances and net profit of NABIL and HBL using Karl Pearson's Coefficient of correlation, value of coefficient of determination (R^2) probable error (P. Er) and (6 P. Er) are also calculated and value of them are analyzed.

A) Correlation Coefficient between Deposit and Loan and Advances

Deposit have played very important role in performing of a commercial banks and similarly Loan and Advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and Loan & Advances measure the degree of relationship between these two variables. In this analysis, deposit is independent variable(X) and Loan and Advances are dependent variable (Y)

.The main objective of computing 'r' between these two variables is to justify whether deposit are significantly used as Loan and Advances in proper way or not .

Table No. 4.30

Correlation between Deposit and Loan and Advances

Names of Banks	Evaluation Criterions			
	r	R^2	P.Er	6P.Er.
NABIL	0.9901	0.9803	0.0026	0.0159
HBL	0.9731	0.9469	0.0071	0.0429

Source: Appendix -H(I) & H(II)

From the above table, it is found that coefficient of correlation between deposit and Loan and Advances of NABIL is 0.9901. Is shows the high positive relationship between these two variables. It refers that deposit and Loan and Advances of NABIL move together very closely but not proportionately .Moreover, the coefficient of determination of NABIL is 0.9803 .It means 98.03 percent of variation in Loan and Advances has been explained by deposit .Similarly, the researcher has found the correlation coefficient is significant because the correlation coefficient is greater then the relative value of 6 P.Er in other words ,there is significant relationship between deposits and Loan and Advances.

Like wise, the correlation coefficient between deposit and Loan and Advances of HBL is 0.9731 which indicates that there is high positive correlation between these two variables. Similarly, value of coefficient of determination is calculated as 0.9469 .If refers that

94.69 percent variance in Loan and Advances are affected by total deposit. Since the correlation coefficient is greater than 6 P.Er the relationship between Loan and Advances and deposit of HBL is significant.

It can be concluded that both NABIL and HBL have positive relationship between deposit and Loan and Advances. The relationship is also significant in the case of both banks the value of coefficient of determination of both banks shows high percentage in dependent variable i.e. Loan and Advances has been explained by independent variable, deposit. This indicates that NABIL and HBL are successful to mobilize their deposit in proper way.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y).

The following Table No. 4.31 shows the coefficient between deposits and total investment i.e. r, P.Er., 6 P.Er .and coefficient of determination (R^2) of NABIL and HBL during the study period.

Table No. 4.31

Correlation between Deposit and Total Investment

Names of Banks	Evaluation Criterions			
	R	R^2	P.Er	6P.Er.
NABIL	0.9480	0.8987	0.0136	0.0819

HBL	-0.3315	0.1099	0.1208	0.7204

Source: Appendix -H(III) & H(IV)

From the above table, the researcher found that the coefficient of correlation between total deposit and total investment of NABIL is 0.9480. It shows the very high degree positive correlation. In addition, coefficient of determination of NABIL is 0.8987. It means 89.87 percent of total investment is explained by total deposit .The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of NABIL.

Similarly, there is negative coefficient between total deposit and total investment of HBL which is indicator by correlation coefficient of -0.33. The value of coefficient of determination is found 0.1099 this refers that 10.99 percent of the variation in total investment is explained by total deposit.

From the above analysis, the conclusion can be drawn in the case of NABIL and HBL that NABIL has high degree positive correlation where as HBL has negative correlation. This indicates that NABIL is successful to mobilize its deposit in proper way in comparison to HBL.

C) Co-efficient of Correlation between Total Assets and Net Profit

Co-efficient of correlation between total assets and net profit is use to measure the degree of relationship between two variable i.e. total assets and net of NABIL and HBL during the study Period. Where assets total is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significant correlated or not and the variable of net profit and total assets through the coefficient of determination. The following table shows the 'r', R^2 , P.Er. And 6 P.Er. between those variables of NABIL and HBL for the study period from FY 2004/05 to 2008/09.

Table No. 4.32

Correlation between Total Assets and Net Profit

Names of Banks	Evaluation Criterions			
	R	R^2	P.Er	6P.Er.
NABIL	0.9411	0.8858	0.0154	0.0924
HBL	0.9744	0.9496	0.0068	0.0408

Source: Appendix -H(V) & H(VI)

Above table shown correlation coefficient between, total assets and net profit of NABIL is 0.9411.It refers that there is positive correlation between these two variables and 88.58 percent of net profit is explained by total assets as its coefficient of determination of 0.8858 shows .Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise HBL has relatively high degree positive correlation between total assets and net profit .The coefficient of determination of 0.9744 indicates that 97.44 percent variability in net profit is explained by total assets. Moreover, greater correlation coefficient than 6 P.Er.shows that the relationship between total assets and net profit is significant for HBL .In calculation, both has significant relationship between total assets and net profit

D) Coefficient of Correlation between Total Investment and Net Profit.

Coefficient of correlation between total investment and net profit measures the degree of their relationship .In the correlation analysis, investment is independent variable and net profit is dependent variable. The following Table No. 4.33 shows the coefficient of correlation of determination, probable error and six times of P.Er. during the study period.

Table No .4.33

Correlation between Total Investment and Net Profit

Names of Banks	Evaluation Criterions			
	R	R^2	P.Er	6P.Er.
NABIL	0.8474	0.7182	0.0380	0.2280
HBL	-0.3900	0.1521	0.1143	0.6862

Source : Appendix -H(VII) & H(VIII)

Above table shows correlation coefficient between total investment and net profit of NABIL is 0.8474 which implies there is positive correlation between total investment and net profit. Since coefficient of correlation is greater than 6P.Er so there is significant relation between total investment and net profit. On the other hand HBL has negative correlation of -0.39 between total investment and net profit. Obviously this correlation is not significant at all.

Thus it can be concluded that the degree of relationship between total investment and net profit of HBL is very poor. This poor correlation coefficient indicates that the bank has poor performed in order to generate net profit. NABIL has better performance in this figure.

E) Coefficient of Correlation between Total Deposit of NABIL and HBL

Coefficient of correlation of total deposit between NABIL and HBL and shows their linear relationship.

Table No . 4.34

Correlation between Total Deposit of NABIL and HBL

Evaluation Criterions			
R	R^2	P.Er	6P.Er.
0.9813	0.9630	0.0049	0.0298

Appendix -H(IX)

This table shows how the total deposit of NABIL and HBL is related. Here correlation coefficient shows that there is positive correlation between these two banks .and this correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. As the 0.9630 of coefficient of determination shows, the degree of relationship between these banks is also high.

F) Coefficient of Correlation between Total Investment of NABIL and HBL

The coefficient of correlation of total investment between selected commercial banks is shown as follows:

Table No. 4.35

Correlation between Total Investment of NABIL and HBL

Evaluation Criterions			
r	R^2	P.Er	6P.Er.
-0.1959	0.0387	0.1297	0.7783

Source :Appendix -H(X)

The above table reveals that there is negative correlation between NABIL and HBL in case of total investment. It implies that the total investment of NABIL and HBL move in the opposite direction. So they are negatively correlated. This correlation coefficient is insignificant as its 6 P.Er. is greater than correlation coefficient. This can be said that when NABIL increases its total investment .HBL decreases its total investment and Vice- versa.

F) Coefficient of Correlation between Loan & Advances of NABIL and HBL

The coefficient of correlation of Loan and Advances between NABIL and HBL has been given below.

Table No. 4.36

Correlation between Loan and Advances of NABIL and HBL

Evaluation Criterions			
r	R^2	P.Er	6P.Er.
0.9908	0.9818	0.0024	0.0147

Source :Appendix - H(XI)

Above statistics show that there is high degree positive correlation between the Loan and Advances of NABIL and HBL. It means Loan and Advances of these two banks moves in the same direction in high proportion. This correlation coefficient is significant in order to show the relationship between Loan and Advances of these two banks because correlation coefficient is greater than 6 P.Er.

G) Co-efficient of Correlation between Net profit of NABIL and HBL

The coefficeitn of net profit between the selected commercial banks shows the relationship between the banks.

Table No. 4.37

Correlation between Net profit of NABIL and HBL

Evaluation Criterions			
r	R^2	P.Er	6P.Er.
0.9495	0.9016	0.0132	0.0796

Source:Appendix-H(XII)

Above statistics how that there is high degree for correlation profit of NABIL and HBL which is indicated by correlation of 0.9495. This relationship is significant because its correlation coefficient greater than 6 P.Er. The coefficient of determination is 0.9016 which shows the 90.16 percent of the degree of relationship.

4.2.2 Time Series Analysis (Trend Analysis)

Trend analysis plays an important role in the analysis and interpretation of financial statement .Trend in general term, signifies a tendency .It helps in forecasting and planning future operation .Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial result of the firms.

A) Trend Analysis of Total Deposit

Here the effort has been made to calculate the trend values of deposit of NABIL and HBL for five years from 2004/05 to 2008/09.

Table No . 4.38

Trend Value of Total Deposit

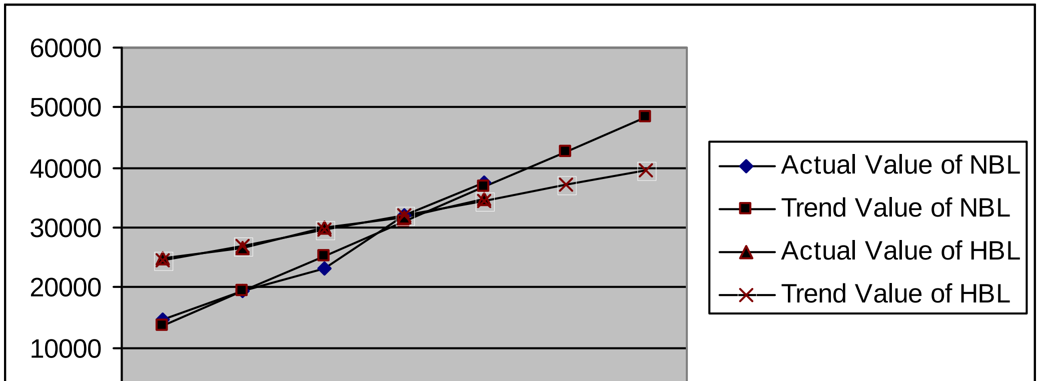
(Rs . In Million)

Fiscal Year	NABIL		HBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2004/05	14586.61	13689.73	24814.01	24558.78
2005/06	19347.40	19498.82	26490.85	27067.43
2006/07	23342.28	25307.91	30048.41	29576.08
2007/08	31915.04	31117.06	31842.78	32084.73
2008/09	37348.25	36926.09	34681.34	34593.38
2009/10		42735.18		37102.03
2010/011		48544.37		39610.68

Source :Appendix -F(I)

Figure No. 4.1

Trend Line of Total Deposit



Above table and figure shows that deposit of NABIL and HBL is in increasing trend. The rate of increment of total deposit for NABIL seems to be higher than of HBL. The largest deposit amount of NABIL is Rs .37348.25 in FY 2008/09. In contrast, it has lower deposit amount of Rs. 14586.61 in FY 2004/05. In the same way HBL has largest deposit amount of Rs . 34681.34 in FY 2008/09. In contrast, it has lowest deposit amount of Rs.26814.01 in FY 2004/05 .The projected deposit amount in FY 2009/10 and FY 2010/11 for NABIL will be Rs.42735.18 and Rs.48544.37 respectively. In the same way the projected deposit amount in FY 2009/10 and FY 2010/11 for HBL will be Rs. 37102.03 and Rs.39610.68 respectively. From the above trend analysis it is clear that NABIL has better position in collecting deposit than HBL.

B) Trend Analysis of Loan and Advances

Here, the trend values of Loan and Advances of NABIL and HBL have been calculated for five years from 2004/05 to 2008/09. The following Table No.4.39 shows the actual and trend values of NABIL and HBL.

Table No. 4.39

Trend Value of Loan and Advances

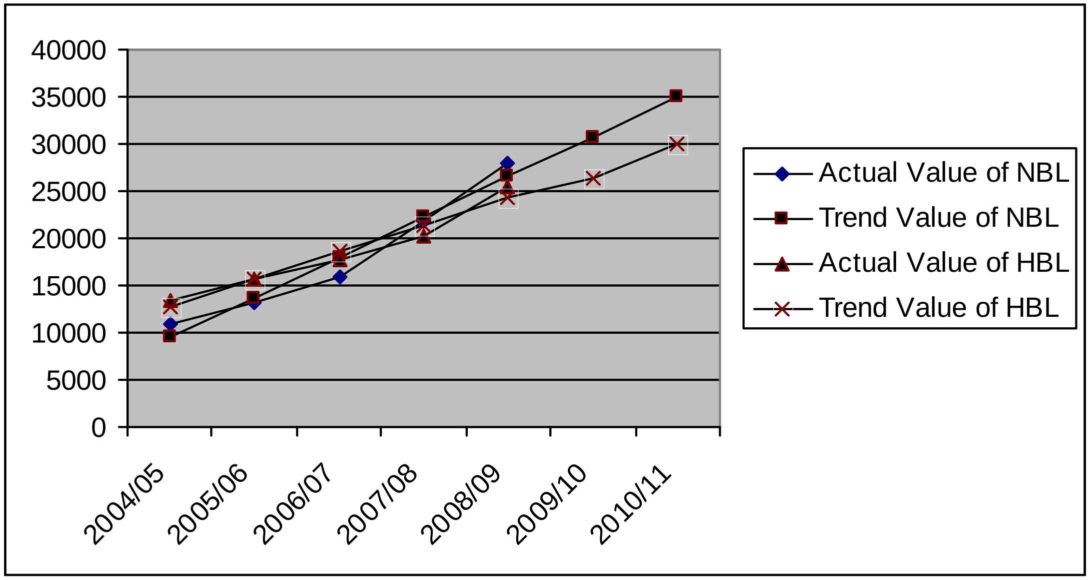
(Rs. In Million)

Fiscal Year	NABIL		HBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2004/05	10946.74	9460.36	13451.97	12830.82
2005/06	13278.78	13718.88	15761.98	15686.09
2006/07	15903.02	17977.40	17793.72	18541.36
2007/08	21759.46	22235.92	20179.61	21396.63
2008/09	27999.01	26494.44	25519.51	24251.90
2009/10		30752.96		26306.17
2010/011		35011.48		29962.4

Source :Appendix -F(II)

Figure No:4.2

Trend Line of Loan and Advance



The above table and figure show the Loan and advance of NABIL and HBL both are in increasing trend. The rate of increment of NABIL is more than that of HBL. The lowest deposit of NABIL and HBL is Rs.10946.74 and Rs.13451.97 respectively in fiscal year 2004/05. Where as the highest deposit of NABIL & HBL is Rs.27999.01 & Rs.25519.51 respectively in fiscal year 2008/09. The projected value for fiscal year 2009/10 & 2010/11 for NABIL is Rs.30752.96 and Rs.35011.48 respectively and that for HBL is Rs.26306.17 and Rs.29962.40. From the above trend analysis it is clear that NABIL has better position in granting Loan and Advance than HBL

C) Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze total investment of NABIL and HBL for five years from 2004/05 to 2008/09

Table No. 4.40

Trend Value of Total Investment

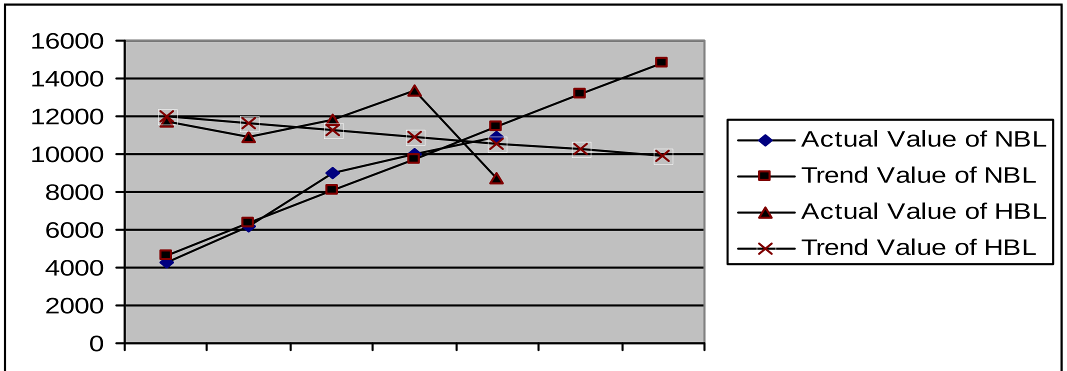
(Rs. In Million)

Fiscal Year	NABIL		HBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2004/05	4277.95	4655.2	11692.34	11994.01
2005/06	6180.66	6353.22	10890.37	11642.66
2006/07	8956.30	8051.24	11822.98	11291.31
2007/08	9966.52	9749.26	13340.17	10939.96
2008/09	10874.80	11447.28	8710.69	10588.61
2009/10		13145.3		10237.26
2010/011		14843.22		9885.91

Source: Appendix-F(III)

Figure No. 4.3

Trend Line of Total Investment



Above table shows that NABIL and HBL has opposite trend in making investment. NABIL has increasing trend but HBL has decreasing trend of total investment. The total investment of NABIL has raised to Rs 10874.80 in FY 2008/09 from Rs.4277.95 in FY 2004/05. In contrast, total investment of HBL has droped to Rs.8710.69 in FY 2008/09 from Rs.11692.34 in FY 2004/05. The expected total investment of NABIL in FY 2009/10 and FY 2010/11 will be Rs. 13145.3 and Rs.14843.22. It shows increasing trend. On the contrary, the expected total investment of HBL in FY 2009/10 and FY 2010/11 will be Rs.10237.26 and Rs.9885.91. It shows decreasing trend. In conclusion NABIL has greater increment rate in total investment than the decreasing rate of HBL.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of NABIL and HBL have been calculated for five years FY 2004/05 to FY 2008/09 and forecasting of the same for next two years till FY 2009/10 and FY 2010/11.

Table No. 4.41

Trend Value of Net profit

(Rs. In Million)

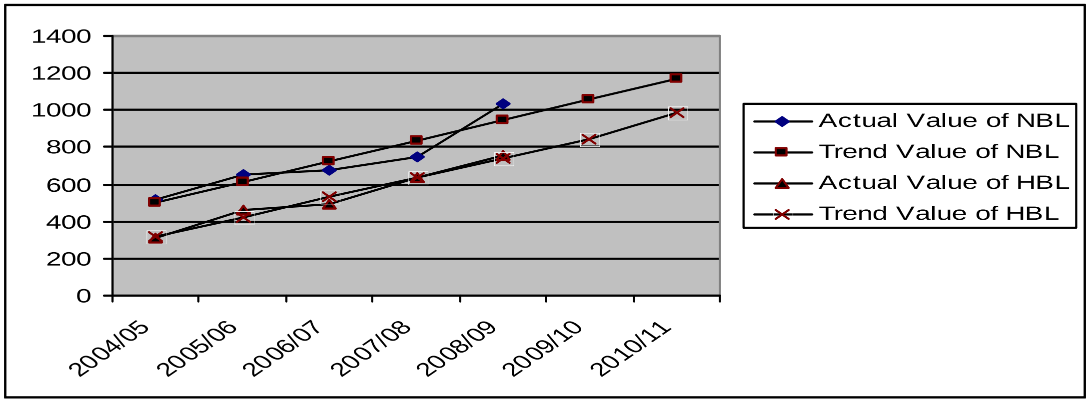
	NABIL	HBL

Fiscal Year	Actual Value	Trend Value	Actual Value	Trend Value
2004/05	520.11	501.97	308.28	315.75
2005/06	653.26	613.47	457.46	422.50
2006/07	673.96	724.97	491.82	529.25
2007/08	746.46	836.47	635.86	636.00
2008/09	1031.05	947.97	752.83	742.75
2009/10		1059.47		846.5
2010/011		1170.97		986.25

Source : Appendix -F(IV)

Figure No. 4.4

Trend Line of Net Profit



The above table reveals that the net profit of NABIL and HBL is in increasing trend. The actual value and trend value of net profit NABIL are higher than HBL. The net profit of NABIL and HBL has been increasing every year.The projected net profit of NABIL and HBL in FY 2009/10 will be Rs.1059.47 and Rs.846.50 respectively where as the projected net profit of NABIl and HBL for the year 2010/11 will be Rs.1170.97 and Rs.986.25 respectively. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, NABIL is doing better in order to generate net profit during the study period, though both NABIL and HBL have increasing trend.

E) Trend Analysis of Loan Loss Provision

Under this topic, effort has been made to analyze the loan loss provision of NABIL and HBL for five years from 2004/05 to 2008/09

Table No. 4.42

Trend Value of Loan Loss Provision

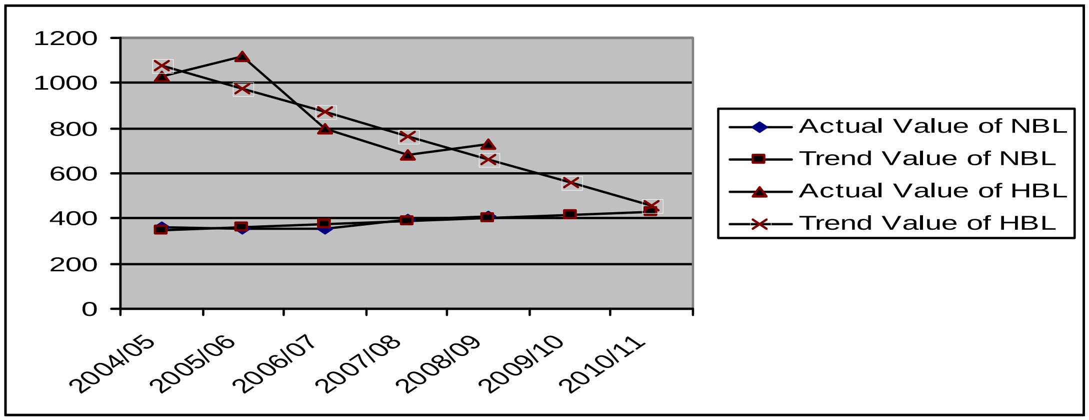
Fiscal Year	NABIL		HBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2004/05	360.56	348.48	1026.64	1077.60
2005/06	356.23	361.99	1119.41	973.82
2006/07	357.24	375.50	795.72	870.04
2007/08	394.40	389.40	682.09	766.26
2008/09	409.07	402.52	726.36	662.48

2009/10		416.03		558.70
2010/011		429.54		454.92

Appendix- F(V)

Figure No. 4.5

Trend Line of loan Loss Provision



Above table and figure show that the trend of loan loss provision for HBL is fluctuating whereas NABIL has slightly increasing trend. Loan loss provision of HBL has decreased to Rs.682.09 million in FY 2007/08 and slightly increased to Rs.726.36 million in FY 2008/09. The yearly increment rate of loan loss provision for HBL is Rs.-103.78 million whereas loan loss provision of NABIL has risen to Rs.409.07 in FY 2008/09 and has Rs.13.51 million growth rates. In nutshell, this increasing trend of loan loss provision for NABIL is not favor with the bank. HBL is trying to decrease its loan loss provision which is considered as significant endeavor of the bank.

4.2.3 Test of Hypothesis

The following table shows the F-ratio of calculated value and tabulated value of related banks at 5% level of significance during the study period 2004/05 to 2008/09.

Table No. 4.43

Test of Hypothesis of NABIL and HBL

Particulars	Calculated Value t_{cal} - distribution	Tabulated Value$t_{0.05,v=8}$	Remark
Loan and Advances to Total Deposit	2.93	2.306	Significant Difference
Total Investment to Total Deposit	1.707	2.306	No Significant Difference
Loan Loss Provision to Loan and Advances	4.77	2.306	Significant Difference
Return on Loan and Advances	4.309	2.306	Significant Difference

Source: Appendix -G

The above table shows the calculated and tabulated value of t-distribution of given variable of NABIL and HBL during the study period FY 2004/05 to 2008/09. The tabulated value is based on 5 percent level of significance. If tabulated value is greater than calculated value of t-distribution, null hypothesis is accepted which refers that there is no significant different between the variables of two banks.

The calculated value of t-distribution of Loan and Advances to total deposit is more than the respective tabulated value. It indicates that there is significant different between NABIL and HBL for this ratio. Similarly t- distributions of total investment to total deposit for NABIL and HBL is less than the tabulated value of t-distribution of respective ratio. It implies that there is no significant difference between these two banks for the ratio.

In the same way, t-distribution of loan loss provision to Loan and Advances ratio for NABIL and HBL is greater than the tabulated value of t-distribution of the ratio. It refers that there is significant difference between NABIL and HBL for this ratio. It shown that these two banks have not significant relationship with respect to this ratio. In addition, t-distribution of return on Loan and Advances ratio for NABIL and HBL is more than the tabulated value of t-distribution. It means there is significant difference between these two banks for this ratio.

This analysis shows that above these two banks have significant difference for Loan and Advances to Total Deposit ratio, Loan loss provision to Loan and Advance ratio and return on Loan and advance and there is no significant difference between these two banks for total investment to total deposit

4.2.4 Major Findings of the Study

The presentation and analysis of data provide the clear picture of the sample commercial banks, NABIL and HBL in terms of financial strength and weakness. The major findings of the banks are concluded with the help of analysis and interpretation, which are mentioned below.

Liquidity Ratio

Form the above research study; following findings are drawn on the liquidity position of the selected commercial banks

- Generally banks have to maintain more liquidity assets but the current ratio of both banks are below standard 1: 1. The current ratio of NABIL is 0.79 and HBL is 0.69.
- Cash and bank balance to total deposit ratio of HBL has higher than NABIL i.e.6.75%>5.97% which indicates that the bank has higher liquidity of HBL as compare to NABIL. A high ratio of cash and bank balance may be undesirable which indicates

HBL's inability to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

- Cash and bank balance to current assets ratio of HBL is higher than NABIL i.e.9.55% > 7.18%.
- Investment on government securities to current assets of HBL is higher than NABIL i.e.28.53% > 17.91%. It shows HBL has invested more fund in government securities. NABIL has invested small portion of their funds in purchasing of government securities.

Above findings shows that liquidity position of HBL is comparatively better than NABIL. Lower liquidity position of NABIL shows that the current assets have been utilized in some profit generating sectors, but at the same time the bank has weak short-term solvency position.

Assets Management Ratio

The assets management ratio of NABIL and HBL show the following findings .

- The loan and advances to total deposit ratio of NABIL is higher than HBL 70.98% > 61.97%. It indicates the better mobilization of deposit by NABIL. So, NABIL is more efficiently utilizing the outside funds in extending credit for profit generating sectors.
- The total investment to total deposit of HBL is higher than NABIL i.e.38.91%>32.00%. It shows the HBL is mobilizing its funds on investment in various securities efficiently. It can be said that HBL is more successful in utilizing its total deposit by investing in marketable securities.

- The Loan and Advances to total assets ratio of NABIL is greater than HBL i.e.60.90% > 55.26%.It refers NABIL has utilized its total assets more efficiently in the form of Loan and Advances with low risk in comparison to HBL because it has lower variability in the ratio. It means C.V. of NABIL, 4.23% is lower than C.V. of HBL, 9.55%.
- Investment on government securities to total assets ratio of HBL is higher than NABIL i.e.17.60% > 12.62 %. This indicate that HBL has invested more portion of total assets on government securities. The higher ratio of HBL shows that better fund mobilization.
- The investment on shares and debenture to total assets ratio of NABIL is higher than HBL.i.e. 1.25%>0.19%. NABIL has invested comparatively high amount of its total assets in purchasing of shares and debentures of other companies.
- The performance of NABIL in terms of recovery of loan is better than HBL because it has lower loan loss ratio i.e.2.29% < 5.07% .But HBL has maintained stability in making provision for loan loss through out the study period .

Above findings reveal that NABIL has better utilization of assets in productive sector. HBL has invested more funds in securities which are less productive.

Profitability Ratio

Following findings are drawn on the basis of profitability of NABIL and HBL.

- Return on Loan and Advances ratio of NABIL is higher than that of HBL i.e.4.20%> 2.81%. It refers that NABIL seems to be success to earn high profit on Loan and Advances. But the return is not consistent. Since both banks have small mean returns on its Loan and Advances.
- Return on total assets ratio of NABIL is slightly higher than HBL i.e.2.55%>1.58%. But it has greater variability in the ratio.

- Return on equity of NABIL is higher than HBL i.e. 32.50% > 24.02% which shows that NABIL is more successful to earn high profit through the efficient utilization of its equity capital.
- Total interest earned to total assets ratio of NABIL is slightly higher than that of HBL i.e.5.93% > 5.50% and also has lower variability in the ratio. It indicates that NABIL has efficient used its total assets to earn higher interest income in comparison to HBL and it is also stable in terms of interest earning .
- NABIL has higher total interest earned to total outside assets to earn higher interest income than that of HBL i.e.6.82% > 6.30%.
- Total interest earned to total operating income ratio of HBL is higher than NABIL i.e.107.51% > 121.16%. It means the greater portion of total operating income is occupied by total interest for HBL, it reveals HBL has successful mobilizing their fund in interest generating assets.
- Total interest paid to total assets ratio of HBL is higher than NABIL i.e.2.24%>1.94 %. It shows NABIL has less interest expenditure to total assets .It support NABIL to increase its operating income.

An overall finding of profitability ratios shows that NABIL has earned higher profit in relation to every aspects of the bank than HBL.

Risk Ratio

From the above research study, following findings are drawn on the risk position of the sample banks:

- The portion of non performing loan in total loan and Advances of NABIL and HBL seems to have very little. Non- performing loan to loan ratio of NABIL is lower than HBL i.e.1.07% < 4.43% that shows the credit risk for NABIL seems to be comparatively lower. It can be seen that NABIL has better management of Loan and Advances than HBL. But HBL is successful in making stable non performing Loan and Advances.

- Above analysis reveals that both the banks have high interest rate risk which is not desirable for any commercial bank. Here, HBL has higher interest rate than NABIL.

Growth Position

The growth rate of total deposit, Loan and Advances, total investment, net profit, interest income and interest expenditure reveal the following findings.

- The growth rate of total deposit, Loan and Advances, total investment, interest income and interest expenses of NABIL is 22.06 %, 26.92%,16.62%, 4.69%,23.31% and 40.99% respectively where as the growth rate of total deposit, Loan and Advances, total investment and interest income and interest expenses of HBL is 9.56%, 14.81%, 7.52%, 13.59% and 13.78% respectively. This growth rate show the NABIL's strength in above respective aspects of the bank.
- The growth rate of net profit of HBL is higher than NABIL .The mean growth rate of net profit HBL is 23.78% where as NABIL has 18.39% of net profit. It indicates the better performance of HBL in comparison to NABIL.

Other Ratios

Following findings are drawn on the basis of other ratios

- Average earning per share of NABIL is greater than that of HBL i.e.Rs.117.37 > Rs.58.50. But NABIL has more inconsistency in earning per share as its higher coefficient of variation shows. It shows the higher earning capacity of NABIL in comparison to HBL.

- Average dividend per share of NABIL is Rs.70 where as HBL has Rs.18.72 .It shows higher dividend per share of NABIL than that of HBL. It attracts investors to pay high price. For the NABIL's stock in inefficient capital market like Nepalese capital market. So, NABIL is satisfying stockholders by providing higher return.
- The average market price per share of NABIL is greater than the average market price per share of HBL i.e. Rs.3793.80 > Rs.1500. It shows NABIL has better financial performance than HBL in order to increase market price per share. But NABIL contains higher risk because it has greater variability in market price per share.
- The mean price earning ratio of NABIL is higher than that of HBL i.e. 32.60 is greater than 25.28. It shows NABIL is success to increase market price per share more times in relations to earning price per share than HBL. It gives the better indication in analyzing securities for the investors.

Coefficient of Correlation

Coefficient of correlation shows the following findings from the research study.

- Both NABIL and HBL have high positive correlation between total deposit and Loan and Advances because NABIL and HBL have 0.9901 and 0.9731 of correlation coefficient between deposit and Loan and Advances. These relationships are significant. This can be regarded as good indication in financial performance for the banks.
- There is high degree positive correlation between total deposit and total investment of NABIL where as HBL has negative co-relation i.e.0.9480 >-0.3315. This indicates that NABIL is successful to mobilize its deposit in order to make good investment in comparison to HBL.

- Correlation between total assets and net profit shows both the banks have positive relationship but HBL has greater correlation coefficient than NABIL in this regard i.e. .0.9744 > 0.9110. It shows HBL has more significant relationship between total assets and net profit than that of NABIL.
- The degree of relationship between total investment and net profit of HBL is extremely poor than NABIL i.e. correlation coefficient between total investment and net profit of NABIL and HBL is 0.8474 and -0.3900 respectively. It refers that NBL is comparatively successful to generate net profit through the total investment in relations to HBL .
- Correlation coefficient of total deposit between NABIL and HBL shows high positive correlation i.e.9630. It refers that total deposit of both banks move in the same direction but less proportionately.
- The correlation of total investment between NABIL and HBL is negative i.e. -0.1959. It implies that the total investment of NABIL and HBL moves in opposite direction.
- The degree of relationship of Loan and Advances between the NABIL and HBL is high because correlation coefficient between Loan and Advances of these two banks is 0.9819. The Loan and Advances of these two banks moves very closely with each other.
- The correlation of net profit between NABIL an HBL is positive i.e.0.9495. The net profit of these two banks also moves very closely in the same direction.

Time Series Analysis (Trend Analysis)

The research study has revealed following some major findings on the basis of time series analysis.

- NABIL and HBL have increasing trend in collecting deposit. The rate of increment of total deposit for NABIL seems to be higher than that of HBL .Here NABIL has better position in collecting deposit than HBL .

- The trend line of Loan and Advances for both banks is upward slopping .It refers that both the banks are increasing in disbursement of Loan and Advances. The trend line of Loan and Advances for NABIL seems steeper than HBL. It refers that NABIL is more aggressive in mobilizing its collected deposits.
- Total investment trend line of NABIL is upward slopping whereas HBL has downward slopping of total investment trend line. It refers that HBL has been decreasing total investment just opposite to NABIL .
- The trend line of net profit for NABIL and HBL is upward slopping. The position of NABIL is better in order to generate profit than HBL.
- The trend line of loan loss provision for HBL is fluctuating where as NABIL has slightly increasing trend. This increasing trend of loan loss provision for NABIL is not favor with the bank. HBL is trying to decrease its loan loss provision which is considered as significant endeavor of the bank.

Test of Hypothesis

In the research study test of significance of difference between two sample means of variable is being tested .In this hypothesis testing, t-test is used. The conclusions drawn form the test are given below :

- There is significant difference between the Loan and Advances to total deposit ratio of NABIL and HBL.
- There is no significance difference between the total investment to total deposit ratio of NABIL and HBL.
- There is significant difference between the loan loss provision to Loan and Advances ratio of NABIL and HBL.
- There is significant different between the net profit on loan and advance ratio of NABIL and HBL

CHPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about investment policy of selected commercial banks as described in introduction chapter. To make this study more effective ,related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely. This section also includes concept of banking, commercial banks, joint venture banks, investment and investment policy.

Research methodology has been described in third chapter, which is a way to solve the research problems with help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. This study is mainly conducted on the basis of secondary data collected from annual reports, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange, www.nepalstock.com. The five years financial statement has been examined for the purposed of the study.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists liquidity ratio, assets management ratio, profitability ratio, risk ratio, growth position and other ratios .Other ratio includes EPS, DPS and P.E ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, trend analysis, test of hypothesis (t-test) have been applied to fulfill the objective of this study .The major findings of the study are also included in the final section of the presentation and analysis chapter.

5.2 Conclusion

The overall aspect of liquidity position of HBL is comparatively better than NABIL. But the current ratio of NABIL are slightly higher than HBL .HBL has utilized its liquidity assets in more profit generating sectors.

Assets management aspect of NABIL is better than HBL which is justified by higher Loan and Advances to total deposit ratio, Loan and Advances to total assets ratio for NABIL .Moreover, the performance of NABIL in terms of recovery of loan is better than HBL because it has lower loan loss ratio. HBL has comparatively more investment in securities which is less productive.

Overall profitability ratios show that NABIL has earned higher profit in relation to every aspects of the bank than HBL.

NABIL has better management of Loan and Advances because of having lower non performing Loan and advances to total loan ratio whereas HBL is successful in making stable non-performing Loan and Advances .Interest rate risk of both banks is high which is not desirable by any bank .Comparatively NABIL has higher interest rate risk.

The growth rate of total deposit, Loan and Advances, total investment, interest income and interest expenses of NABIL is higher than of HBL. This growth rate show the NABIL's strength in above respective aspects of the bank. The growth rate of net profit of HBL is higher than NABIL. It indicates the better performance of HBL in comparison to NABIL.

Earning per share, dividend per share and market price per share of is higher for NABIL in comparison to HBL. It gives good signal of financial performance of the bank in the market. Price earning of NABIL is higher than HBL which is considered better in security analyzing in order to make investment decision.

Both commercial banks NABIL and HBL have positive correlation between deposit and Loan and Advances and total assets and net profit. But there is negative correlation between total deposit to total investment and total investment to net profit for HBL. Comparatively NABIL has strong relationship between these variables. It is also found that there is positive correlation between total deposit of NABIL and HBL, between Loan and Advances of both banks and between net profits of both banks. There is negative correlation between total investment of NABIL and HBL.

Total deposit, Loan and Advances, and net profit of NABIL and HBL are in increasing trend. But HBL has decreasing trend of total investment. NABIL has higher growth rate of these variables.

In testing of hypothesis, it is concluded that there is significance different between NABIL and HBL in case of Loan and Advances to total deposit ratio, Return on Loan & Advance and Loan loss provision to Loan and Advances ratio. But there is no significant difference between NABIL and HBL in case of total investment to total deposit ratio.

From the entire research study, overall all financial performance of NABIL is better than HBL. But HBL is operating smoothly and success in becoming the pillar of economic system of the country.

5.3 Recommendations

On the basis of entire research study, analysis and observation, the following recommendations are given to NABIL bank and HBL bank is presented below, which would help to draw some outline and make reforms in the respective banks.

Recommendations to NABIL Bank Ltd.

Generally banks have to maintained liquid assets. The current ratio of NABIL is less than one. This can be regarded as poor liquidity position. The liquidity position affects external and internal factors such as prevalent investment situation, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategies planning and fund flow situation, bank should maintain enough liquid assets to pay short term obligations. So, it is recommended to maintain sound liquidity position to NABIL.

Government securities such as treasury bills, Development bonds, saving certificates etc are risk less investment alternatives because they are free of default risk as well as liquidity risk ad can be easily sold in the market. In this research study, it has found that NABIL has not made significant amount of fund in Government securities .NABIL is recommended to invest more funds in Government securities instead of keeping them idle.

NABIL has a large possible risk because there is large amount of doubtful Loan and Advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

Non-performing assets are lower in NABIL. The recovery of Loan and Advances is most challenging job to the bank. It has shown that the bank has sound credit policy. The bank analyzes thoroughly the financial strength of their borrowers before granting Loan and Advances .NABIL is recommended not to increase this level of non-performing assets.

EPS and DPS play a vital role to determine the market price of the share and indicate the financial performance of banks. Higher EPS and DPS indicates the banks EPS and DPS of NABIL are satisfactory.

NABIL is recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and Loan and Advances that helps to meet required level for profitability as well as social responsibility. The bank should consider rural areas in making investment policy.

Last political instability directly affected the economic sector such as hotel and tourism, manufacturing and trading sector. Bank Loan and Advances is decreasing in this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.

Recommendations to Himalayan Bank Ltd.

Banks have to maintain liquidity assets. The current ratio of HBL is less than one .This can be regarded as poor liquidity position. HBL is recommended to increase this liquidity position.

In this research study, it has found that HBL have not made significant amount of fund in Government Securities. HBL is recommended to invest more funds in Government securities.

It has been found that HBL's Loan and Advances to total deposit ratio is lower. It means HBL has not properly used their existing fund as Loan and Advances. So HBL is recommended to follow liberal lending policy to invest more deposit in Loan and Advances.

HBL has a large possible risk because there is large amount of doubtful Loan and Advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

Non-performing assets are higher in HBL. The recovery of Loan and Advances is most challenging job to the bank. The bank should diagnosis the root cause of increasing non-performing assets. The bank should try to analyze thoroughly the financial strength of their borrowers before granting loan and advances.

EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicates the banks. EPS and DPS of HBL are not satisfactory. SO it is recommended to diagnosis the cause of lower EPS and DPS.

HBL bank is recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and Loan and Advances that helps to meet required level of profitability as well as social responsibility. The banks should considered rural areas in making investment policy.

HBL should give priority to badly affected economic sectors due to political instability as well as banks should create new investing sector to mobilize deposit.

BIBLIOGRAPHY

American Institute of Banking. (1972). Principles of Banking operation .U.S.A

Bajracharya, Bodhi B. (2047BS)Monetary Policy and Deposit Mobilization in Nepal. Rajat Jayanti Smarika RBB. Kathmandu.

Baxley, James B. (1987) .Banking Management. New Delhi: Sujeet Publication.

Bista ,Bhagat.(2048).Nepal Ma Adhunik Banking Byabastha, Kathmandu : Indu Chhapakhana .

Croose, H.D, (1963) Management Policies for Commercial Banks. Printice Hall of India, Englewood Cliffs.

Frank and Relly. (1990). Investment. The Dryden Press.Tokyo : CBS Publishing Japan Ltd .

Gautam, Lawrance J. and Joehank (1999). Fundamentals of Investing. London : Harper and Row Publishers.

Grolier Incorporate. (1984). Encyclopedia: The World Book .U.S.A.: Grolier Incorporate.

Gupta, D.P. (1994) .The Banking System: It's a Role in Export Development .The Financing of Export form Developing Countries. Geneva: International Trade Center, UNCTAD /GATT.

Gupta, Ruby (2007) .Comparative Analysis of Financial Performance of Commercial Bank in Nepal. An unpublished Master's Thesis. Butwal : Lumbini Banijya Campus.

His Majesty's Government, Ministry of Finance (2003). Economic Survey .Kathmandu: Ministry of Finance.

His Majesty's Government, Ministry of Law and Justice. Commercial Bank Act 2031 .Ministry of Law and Justice .

Khadka, Raja Ram (2000). A study on Investment Policy of NABIL in Comparison to Other Joint Venture Banks of Nepal. An Unpublished Master's Thesis. Kathmandu : Shankar Dev Campus .

Kishi, Dev L (1996). The Changing Fact to the Banking Sector and the HMG/N recent Budgetary Policy. Nepal Bank Limited Patrika, Nepal Bank Limited, Vol .25.

Kolb, Robert W. and Rodriguez, Ricardo J. (1996). Financial Institution and Markets. Massachusetts.:Blackwell Publishers Inc.

Kothari, C.R. (1990). Quantitative Techniques. New Delhi : Vikash Publishing House Pvt.Ltd

Morris , F.(1990) Latin America's Banking System in 1980. The world Bank : World Banks Disussion Paper 81 .

Ojha, Kamala, (1997). A study of Priority Sector Investment of Commercial Banks (With Special Refrence to Rastriya Banijya Bank). An Unpublished Master's Thesis .Kathmandu : Shankar Dev Campus.

Pyakurya, Bishwombhar. (1987). Workshop on Banking and National Development. Paper Presentation, Kathmandu : Nepal Bank Limited.

Rana, Surya. (2059B.S) Corporate Financial Management. Kathmandu :Ratna Pustak Bhandar.

Shahi, Prem Bahadur. (1999). Investment Policy of the Commercial Banks. An Unpublished Master's Thesis. Kathmandu : Shankar Dev Campus

Sharma, Bhaskar. (2000). Banking the future of competition. Kathmandu : New Business Age. October.

Sharpe, F. William and Gordon, J. Alexander. (1999). Investment : New Delhi : Printice Hall of India Pvt. Ltd.

Shrestha, Sunity.(2055B.S) Lending Operation of Commercial Banks of Nepal and its Impact on GDP. Tu . Kathmandu : the Business Voice of Nepal .

Sherestha, Sunity and Silwal, Dhraba Prasad. (2059B.S) Statistical Method in Management, Kathmandu : Taleju Prakashan.

Shrestha, Shiva Raj. (2055). Portfolio Management in Commercial Bank. Theory and Practice. Kathmandu : Nepal Bank Patrika. Baishak.

Singh, Preeti. (1992) .Investment Management. Bombay : Himalayan Publishing House.

Singh, S.P; and Singh, S,(1983). Financial Analyis for Credit Management in Banks. New Delhi: Vikash Publishing House Ltd.

Thapa, Govinda Bahadur. (1994). Financial system of Nepal. Development Vision. Lalitpur : Patan Muliple Campus.

Thapa, Shamiksha. (1999). A Comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and Joint Venture Banks (NABIL and HBL). An Unpublished Master's Thesis Kathmandu : Shankar Dev Campus.

Tuladhar, Upendra. (1999). A study on Investment Policy of Nepal Grindlays Bank Ltd, Incomparison to other Joint Venture Banks. Unpublished Master Thesis. Kathmandu: Shankar Dev Campus.

Wolf, Howard K.and Pant, Prem R(2002). A hand Book of Social Science Research and Thesis Writing. Kathmandu : Buddha Academy Publisher's and Distributors Pvt. Ltd.

Appendices

Appendix -A(I)
Current Ratio (Times)

(Rs.in million)

Fiscal Year	NABIL			HBL		
	C.A	C.L	Ratio	C.A	C.L	Ratio
2004/05	12427.31	15389.38	0.80	15398.06	25370.36	0.60
2005/06	15832.35	20281.77	0.78	18008.80	27189.59	0.66
2006/07	18021.18	24313.77	0.74	21109.33	30776.67	0.68
2007/08	26594.94	33095.56	0.80	22098.97	32719.36	0.67
2008/09	32380.02	38755.85	0.83	29634.74	35700.44	0.83

Appendix- A(II)
Cash and Bank Balance to Total Deposit Ratio

(Rs. in million)

Fiscal Year	NABIL			HBL		
	C.B	T.D	Ratio	C.B	T.D	Ratio(%)
2004/05	536.06	14586.61	3.68	2014.47	24814.01	8.11
2005/06	556.18	19347.40	2.87	1717.35	26490.85	6.48
2006/07	1383.82	23342.28	5.92	1757.34	30048.41 .	5.84
2007/08	2671.14	31915.04	8.36	1448.14	31842.78	4.54
2008/09	3372.51	37348.25	9.02	3048.52	34681.34	8.79

Appendices

Appendix -A(III)
Cash & Bank Balance to Current Assets Ratio(%)

(Rs.in million)

Fiscal Year	NABIL			HBL		
	C.B	C.A	Ratio(%)	C.B	C.A	Ratio(%)
2004/05	536.06	12427.31	4.31	2014.47	15398.06	13.08
2005/06	556.18	15832.35	3.51	1717.35	18008.80	9.53
2006/07	1383.82	18021.18	7.67	1757.34	21109.33	8.32
2007/08	2671.14	26594.94	10.04	1448.14	22098.97	6.55
2008/09	3372.51	32380.02	10.41	3048.52	29634.74	10.28

Appendix- A(IV)
Investment On Government Securities to Current Assets Ratio (%)

Fiscal Year	NABIL			HBL		
	Inv. on Govt. Secu.	C.A	Ratio(%)	Inv. on Govt. Secu	C.A	Ratio(%)
2004/05	2418.43	12427.31	19.46	5469.73	15398.06	35.52
2005/06	2301.46	15832.35	14.53	5144.31	18008.80	28.56
2006/07	4808.34	18021.18	26.68	6454.80	21109.33	30.57
2007/08	4646.87	26594.94	17.47	7471.66	22098.97	33.81
2008/09	3706.09	32380.02	11.44	4212.29	29634.74	14.21

Appendix - B(I)
Loan and Advances to Total Deposit Ratio (%)

(Rs.in million)

Fiscal Year	NABIL			HBL		
	L.A	T.D	Ratio(%)	L.A	T.D	Ratio(%)
2004/05	10946.74	14586.60	75.04	13451.97	24814.01	54.21
2005/06	13278.78	19347.40	68.63	15761.98	26490.85	59.50
2006/07	15903.02	23342.28	68.12	17793.72	30048.41	59.21
2007/08	21759.46	31915.04	68.18	20179.613	31842.78	63.37
2008/09	27999.01	37348.25	74.96	25519.51	34681.34	73.58

Appendix -B(II)
Total Investment to Total Deposit Ratio (%)

(Rs.in million)

Fiscal Year	NABIL			HBL		
	T.I	T.D	Ratio(%)	T.I	T.D	Ratio(%)
2004/05	4277.95	14586.60	29.32	11692.34	24814.01	47.12
2005/06	6180.66	19347.40	31.95	10890.37	26490.85	41.11
2006/07	8956.30	23342.28	38.36	11822.98	30048.41	39.34
2007/08	9966.52	31915.04	31.22	13340.17	31842.78	41.89
2008/09	10874.80	37348.25	29.11	8710.69	34681.34	25.11

Appendix -B(III)
Loan and Advances to Total Assets Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	L.A	T.A	Ratio(%)	L.A	T.A	Ratio(%)
2004/05	10946.74	17064.08	64.14	13451.97	27418.15	49.06
2005/06	13278.78	22329.97	59.46	15761.98	29460.39	53.50
2006/07	15903.02	27253.39	58.35	17793.72	33519.14	53.08
2007/08	21759.46	37132.76	58.60	20179.61	36175.53	55.78
2008/09	27999.01	43807.40	63.91	25519.51	39320.32	64.90

Appendix -B(IV)
Investment on Govt. Securities to Total Assets Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	Inv. on Govt. Secu.	T.A	Ratio(%)	Inv.on Govt. Secu.	T.A	Ratio(%)
2004/05	2418.43	17064.08	14.17	5469.73	27418.16	19.95
2005/06	2301.46	22329.97	10.31	5144.31	29460.39	17.46
2006/07	4808.34	27253.39	17.64	6454.80	33519.14	19.25
2007/08	4646.87	37132.76	12.51	7471.66	36175.53	20.65
2008/09	3706.09	43807.40	8.46	4212.29	39320.32	10.71

Appendix-B(V)
Investment on Share and Debenture to Total Assets Ratio (%)

(Rs.in million)

Fiscal Year	NABIL			HBL		
	Inv.On Share & Debenture	T.A	Ratio(%)	Inv.On Share & Debenture	T.A	Ratio(%)
2004/05	443.09	17064.08	2.59	39.91	27418.16	0.15
2005/06	104.19	22329.27	0.47	38.57	29460.39	0.13
2006/07	286.96	27253.39	1.50	73.42	33519.14	0.21
2007/08	323.23	37132.76	0.87	89.59	36175.53	0.24
2008/09	354.92	43807.40	0.80	93.88	39320.32	0.23

Appendix-B(VI)
Loan Loss Provision to Loan and Advances Ratio (%)

(Rs.in million)

Fiscal Year	NABIL			HBL		
	Loan Loss Provision	L.A	Ratio(%)	Loan Loss Provision	L.A	Ratio(%)
2004/05	360.56	10946.74	3.29	1026.64	13451.97	7.62
2005/06	356.23	13278.78	2.68	1119.41	15761.98	7.09
2006/07	357.24	15903.02	2.24	795.72	17793.72	4.46
2007/08	394.40	21759.46	1.81	682.09	20179.61	3.37
2008/09	409.07	27999.01	1.46	726.36	25519.51	2.84

Appendix -C(I)
Return On Loan and Advances Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	Net Profit	L.A	Ratio(%)	Net Profit	L.A	Ratio(%)
2004/05	520.11	10946.74	4.75	338.28	13451.97	2.29
2005/06	653.26	13278.78	4.92	457.46	15761.98	2.90
2006/07	673.96	15903.02	4.23	491.82	17793.72	2.76
2007/08	746.46	21759.46	3.42	635.86	20179.61	3.14
2008/09	1031.05	27999.01	3.68	752.83	25519.51	2.95

Appendix -C(II)
Return on Total Assets Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	Net Profit	T.A	Ratio(%)	Net Profit	T.A	Ratio(%)
2004/05	520.11	17064.08	3.05	338.28	27418.16	1.23
2005/06	635.26	22329.97	2.85	457.46	29460.39	1.55
2006/07	673.96	27253.39	2.47	491.82	33519.14	1.46
2007/08	746.46	37132.76	2.01	635.86	36175.53	1.75
2008/09	1031.05	43807.40	2.35	752.83	39320.32	1.91

Appendix -C(III)
Return on Equity (%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	Net Profit	Equity Capital	Ratio(%)	Net Profit	Equity Capital	Ratio(%)
2004/05	520.11	1657.64	31.38	338.28	1541.75	21.94
2005/06	653.26	1874.99	34.84	457.46	1766.18	25.90
2006/07	673.96	2057.05	32.71	491.82	2146.50	22.88
2007/08	746.46	2436.98	30.62	635.86	2512.99	25.28
2008/09	1031.05	3130.24	32.94	752.83	3119.87	24.11

Appendix -C(IV)
Total Interest Earned to Total Assets Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	Total Interest Earned	T.A	Ratio(%)	Total Interest Earned	T.A	Ratio(%)
2004/05	1068.73	17064.08	6.25	1446.47	27418.16	5.28
2005/06	1310.00	22329.97	5.86	1626.47	29460.39	5.52
2006/07	1587.76	27253.39	5.82	1775.58	33519.14	5.30
2007/08	1978.70	37132.76	5.32	1963.64	36175.53	5.42
2008/09	2798.48	43807.40	6.39	2342.10	39320.32	5.95

Appendix -C(V)
Total Interest Earned to Total Outside Assets Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	Total Interest Earned	T.O.A	Ratio(%)	Total Interest Earned	T.O.A	Ratio(%)
2004/05	1068.73	14861.70	7.19	1446.47	24116.86	6.00
2005/06	1310.00	19101.07	6.86	1626.47	25531.59	6.37
2006/07	1587.76	24491.09	6.48	1775.58	28820.97	6.16
2007/08	1978.70	31304.82	6.31	1963.64	32837.69	5.98
2008/09	2798.48	38416.31	7.28	2342.10	33503.84	7.00

Appendix -C(VI)
Total Interest Earned to Total Operating Income Ratio(%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	Total Interest Earned	T.O.I	Ratio(%)	Total Interest Earned	T.O.I	Ratio(%)
2004/05	1068.73	1194.90	89.44	1446.47	1195.92	120.95
2005/06	1310.00	1359.51	96.36	1626.47	1393.53	116.72
2006/07	1587.76	1480.16	107.27	1775.58	1393.36	127.42
2007/08	1978.70	1670.42	118.44	1963.64	1597.49	122.91
2008/09	2798.48	2220.98	126.04	2342.10	1988.04	117.80

Appendix -C(VII)
Total Interest Paid to Total Assets Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	Total Interest Paid	T.A	Ratio(%)	Total Interest Paid	T.A	Ratio(%)
2004/05	243.55	17064.08	1.42	561.96	27418.16	2.05
2005/06	357.16	22329.97	1.60	648.84	29460.39	2.20
2006/07	555.71	27253.39	2.03	767.41	33519.14	2.29
2007/08	758.43	37132.76	2.04	823.74	36175.53	2.27
2008/09	1153.280	43807.40	2.63	934.77	39320.32	2.38

Appendix -D(I)
Non Performing Loan to Total Loan Ratio (%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	Non Performing Loan	Total Loan	Ratio(%)	Non Performing Loan	Total Loan	Ratio(%)
2004/05	144.51	10946.75	1.32	1001.35	13451.17	7.44
2005/06	182.62	13278.78	1.38	1040.76	15761.98	6.60
2006/07	178.11	15903.02	1.12	1174.38	17793.72	3.61
2007/08	161.02	21759.46	0.74	476.23	20179.61	2.36
2008/09	223.99	27999.01	0.80	551.22	25519.51	2.16

Appendix -D(II)
Interest Rate Risk Ratio(%)

(Rs. in million)

Fiscal Year	NABIL			HBL		
	I.S.A	I.S.L	Ratio(%)	I.S.A	I.S.L	Ratio(%)
2004/05	15730.11	11463.25	1.37	24557.94	19688.84	1.24
2005/06	20835.43	16244.21	1.28	25632.10	21479.28	1.19
2006/07	25054.61	20466.74	1.22	30531.00	24679.77	1.23
2007/08	33257.18	27787.49	1.19	33356.21	26582.55	1.25
2008/09	38969.18	33350.68	1.16	34674.63	31297.94	1.10

Appendix -E(I)
Earning Per Share (Rs.)

(Rs. in million)

Name of Banks	Fiscal Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
NABIL	105.49	129.21	137.08	108.31	106.76
HBL	47.91	59.24	60.66	62.74	61.90

Appendix -E(II)
Dividend On Share Capital (%)

(Rs. in million)

Name of Banks	Fiscal Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
NABIL	70	85	100	60	35
HBL	11.58	30	15	25	12

Appendix -E(III)
Market Price Per Share (Rs.)

(Rs. in million)

Name of Banks	Fiscal Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
NABIL	1505	2240	5050	5275	4899
HBL	920	1100	1740	1980	1760

Appendix -E(IV)
Price Earning Ratio (Times)

(Rs. in million)

Name of Banks	Fiscal Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
NABIL	14.26	17.34	36.84	48.70	45.89
HBL	19.20	18.57	28.68	31.55	28.43