

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal situated between the two enormous countries, India and China. Nepal is one of the landlocked countries, and with full of own natural beauty in Asia and world. Its half-century of experiments and efforts to raise the quality of life of its populace is defeated. Almost half of its population lies under absolute poverty line, especially living in the rural areas are deprived of even basic needs and facilitates like enough calories pure drinking water sanitation facilities, electricity, road facility etc . Some of the basic human indicators like life expectancy, literacy, nutrition level etc also show that Nepal occupies among the bottom range among the comity of the nations. Therefore, there is a great challenge to the nation to eliminate the massive poverty persisting in the country through gradual development of the total nation and by providing and availing basic needs to poor people. Actually slow pace of developing of Nepal is due to nothing but landlocked position, poor resources mobilization and its utilization, weak infrastructure development and more over unstable eco-political environment.

Banking is the business of providing financial services to consumers and business. The development of any country largely depends upon the financial infrastructure of that country. Therefore the primary goal of any nation including Nepal is rapid economic development to promote the welfare of the people and nation as well. For example development of any country, bank plays the key role .The basic services of a bank provides are checking accounts which can be used like money for to make payments and purchase goods and services .Saving accounts and time deposits that can be used to save money for future use .Loans that consumers and business can use to purchase goods and services and basic cash management services such check

services and foreign currency exchange. Four types of banks specialize in offering these basic banking services.

Commercial bank; saving and loan associations; savings banks and credits unions,. Commercial banks and other financial institutions collect immobilized money in the form of deposits from every corner and parts of the country .this will provide capital for the development of the industry, trade and business and other resources deficit sector. A sound banking system is a precondition for healthy economy and economic policy formulation. An efficient banking system becomes a top priority as country moves toward free market economy which allows private sectors saving to be retained in the country for the promotion of investment needed for the growth.

A well developed banking system is a necessary pre condition for economic development in a modern economy. Besides providing financial resources for the growth of industrialization, banks can also influence the direction in which these resources are to be utilized. In the underdeveloped an developing country, not only the banking facilities are limited to a few develops urban area but also the banking activities are limited to a trade and commerce, paying little attention to industry and agriculture. Structural as well as functional reforms in the banking system are needed to enable the banks perform development role in underdeveloped countries.

By accepting deposits, the bank promotes the habit of thrift and saving among the people. These savings of people later result in capital formation, which is the basis of economic progress in the country. Moreover, banks also encourage industrial innovations and business expansions through the funds provided by them to the entrepreneurs. Bank exercises considerable influences on the level of economic activity through their ability to create in the economy. Bank performs an indispensable task of intermediating between the deficit spending individuals or institutions and the surplus spending individuals or institutions in order to raise

funds and then loaning these funds to deficit spending individual or institution. In addition to them, another contribution of bank is their willingness to accept risky ventures such as loans from borrowers while issuing low risk securities to their depositors. The various utility functions performed by banks are of great economic significance which can influence the lens and direction of economic activity within the economy. They pool together the savings of the community and arrange for their productive use by providing short as well as long term loans in different forms of necessary for trade and commerce. They discharge various functions on behalf of their customers and in turn they are paid their services.

Economic development of a country needs development of financial sector. Financial sector development is a sign of economic prosperity. Economic prosperity generates wealth that flows to financial sector in the form of deposits. The deposits are converted into investments and investments again accumulate the wealth. This is a cycle and circulation of money. The better and faster circulations of money from one and to another are based on the productive use of money. In this regard, financial sector contributes as a catalyst for the economic prosperity of the country. Commercial banks are major financial institution which occupy quite an important place in the framework of economy because of the y provide capital for the development of industry, trade and business. So, to make the role of commercial banks effective and efficient, government and other respective organizations should come up with sound investment policy, which will lead quality and quantity of investments and eventually will contribute the economic growth of the country.

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 resource deficit sectors by investing the saving collected as deposit. Besides the, 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 became the heart of financial system.

The role of commercial banks in economy is obviously prime requisite in the formulation of bank's 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 future economic development. Formulation of sound investment policies and coordinated and planned effort forward the forces of economic development because it ensures 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 practices can be effective on for the economy to attain the economic objective directed towards the acceleration of the pace of development. A good investment practices attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. The load 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 responsibilities 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 ensures maximum amount of investment to all sectors with proper utilization. Formulation amount of investment policies and coordinate and planned efforts depends upon the growth of not only a particular bank but also of a society. Seen in this light, the study of investment practices of NIB and HBL assumes special importance. In today's completion market, it has become increasingly important for banks to know about investment practices to get success in competition.

1.2 Commercial Banks and Investment Plan

"Commercial banks are an entity, which accepts deposits and makes short-term loans enterprises, regardless of the scope of its other services" (*American Institution of Banking, 1972: 345-346*).

Commercial banks are major financial institutions, which occupy quite an important place in the frame work of every company. Commercial banks render numerous services to their customer in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus, commercial banks have become the heart of financial system.

Commercial bank deals with people's money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit the banks can't afford to lock up their funds in assets that are not early realizable. The depositor's confidence could be second only if the bank is

Asia to meet to meet the demand for cash promptly and fully. The banks have to keep adequate cash for this purpose. Cash is an idle asset and hence the banker can not afford to keep a large portion of his assets in the bank. Therefore the banker has to distribute his assets in such a way that the can have adequate profits without sacrificing liquidity.

Commercial banks must mobilize its deposits and marketable sector. Then only it can earn more profit as well as it should be second and be converted into cash when ever needed. But commercial banks have to pay due consideration while formulating investment plan regarding loan and investment. Investment plan is one facet of the over all spectrum of policies that guide banks investment operations. A healthy development of any bank depends heavily upon its investment plan. A sound and viable investment plan assets both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investment. Commercial bank should be careful while reforming the credit creation function. The banks should never invest its funds in those securities, which are subject to too much depreciation and fluctuation because a little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once and who many earn millions in a minute. Emphasizing upon this H.D. Cross stated, “The investment plan should be carefully analyzed,” so they must invest their funds where they gain maximum profit (*Crosse, 1996: 163*).

Commercial banks must follow the rules and regulations as well as different directions issued by the central bank, ministry of finance, ministry of low and other regulatory bodies while mobilizing its founds. So the bank should invest its funds in legal securities only. Investment policy should incorporate several elements such as regulatory environment, the availability of founds, the reflection of risk, loan portfolio balance and term structure of the liabilities. Thus, commercial banks should incorporate several elements while making investment plan. 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 fully considered while making investment decisions.

1.2.1 Profile of Sample Banks

Nepal Investment Bank Ltd. (NIBL)

Nepal Investment Bank Ltd. (NIBL), (previously known as Nepal Indosuez Bank Ltd.) was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary of one largest banking group in the world. With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure. Rastriya Banijya Bank holds 15%, Rastriya Beema Sansthan holds 15%, General Public holds 20%, and the Nepalese promoters hold 50%.

NIBL managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. Besides commercial banking services, the bank also offers industrial and merchant banking services. The bank has six branches in Kathmandu Valley. Bank will be aggressively opening new branches at different parts of the Kingdom to serve its customers better. Recently bank has opened its new branch outside the valley. Investment Bank Limited has always been committed to providing a quality service to its valued customers, being truly a Nepali Bank. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the

reliable and efficient services to its valued customers, Investment Bank Limited has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. The Bank already offers unique services such as the pre-paid mobile recharging system through its ATM, SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future.

Himalayan Bank Limited (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking.

Himalayan Bank has always been committed to providing a quality service to its valued customers with a personal touch. All customers are treated with utmost courtesy as valued clients. The bank wherever possible offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for further adaptation to new technology. The bank already offers unique services such as SMS banking and Internet banking to customers and will be introducing more services like these in the near future.

Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as

valued clients. The Bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements. To extend more efficient services to its customers, Himalayan Bank has been adopting innovative and latest banking technology.

1.3. Focus of the Study

The study of investment practices 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 banks 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 handled with sagacity or destroy them if mishandled.

1.4. Statement of the Problem

Nepal being a developing country is trying to embark upon the path of economic development by economic growth rate and development depends upon various factors. However economists are now convinced that capital formation and its proper utilization play a prominent role. However, the cause of decline of Nepal's economic crisis is not because of lack of resume but instead it is because of improper utilization of available resources the economic growth of under developed country is widely depends upon the utilization of available economic development and self economic reliance are the most in today's world .These can only be achieved through the accelerate of investment and capital formation in the country. Management liquidity and investment portfolio has become vital in a commercial banking business. Every commercial bank is therefore concentrating on investment management. The earning prices per share are same of the two commercial bank but

market price is different. Both banks have good reputation in market. They are searching areas that carry feature of investment and side by side can safeguard their research has done to find out what is the fact between these bank. Thus, the present study will make a modest attempt to analyze investment pattern of NIBL comparing with HBL.

The problems specially related to investment function of joint venture commercial banks of Nepal have been presented. The research questions of the research are as follows

-) Are they maintaining sufficient liquidity position?
-) Are they both bank's fund mobilization & investment pattern more effective and efficient?
-) What is the relationship between investment and loan, advances with total deposits and total net profit?
-) Does the degree of success in investment strategy successful to utilize its available fund of NIBL and HBL?
-) What is the comparative position of commercial banks on fund mobilization and investment policy?

1.5. Objectives of the Study

The purpose of the study is to analyze and examine the investment policy of commercial banks i.e. NIBL and HBL. The main objectives of the study are as follows:

-) To study on fund mobilization and investment practices of the selected banks.
-) To evaluate the liquidity, asset management, efficiency, profitability and risk portion of NIBL and HBL.
-) To measure the relationship trend analysis between deposit, loan and advance, investment and profit of sample commercial banks NIBL and HBL.

-) To provide appropriate suggestions and recommendations based on findings of this study.

1.6. Significant of the Study

This research study may provide important information for the policy makers. It carries a special significance to the credit managers or executives an organization to take better investment practices for the smooth operation. Specially, this study will be supportive to the respective companies' management to examine the condition of investment practices.

The main strategy of every commercial bank is to establish the better creditability position, which has directly impact the profitability position. Besides, it helps to build positive attitude and perception on customer that helps to make the organizational success in terms of better transaction, better turnover, and better profitability. Due to all these, investment practices in NIBL and HBL can be considered to be much significant.

1.7. Limitation of Study

This study is held within the following limitations & constraints. They are,

-) Among the several joint venture banks in Nepal, this study has chosen only two joint venture banks. The study deals merely with NIBL and HBL, the conclusion derived from the study may or may not be applicable to other commercial banks.
-) The study is based specially on secondary data like annual reports of the banks, review, journals, unpublished as well as published thesis works and other published articles and reports.

- J The balance sheet, profit and loss account and accompanying notes have been basically considered as the subjects matters of the study and they are assumed to be correct and true.
- J Whole study will be based on the data of five years period 2006/07 to 2010/11.

1.8. Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, focus of the study, problems of the study, objectives of the study and need or significance of the study and limitation of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Conceptual Framework and Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about

the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of Data

It is the major part of the whole study in which all collected relevant data are analyzed and interpreted the help of different financial tools and graphical presentation. In this chapter there is explanation of major findings of study. Data processing, data analysis and interpretation are given in this chapter.

Chapter-V: Summary, Conclusions and Recommendations

This chapter includes summary, conclusions and recommendations of the study and recommended further improvement.

Bibliography, appendix and other supporting documents have also been incorporated at the end of the study.

CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the investment policy of commercial banks i.e. Nepal Investment Bank Ltd. and Himalayan Bank Ltd. So, every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, magazines and concerned commercial banks. 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.

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 & review of related research work are included for the bases and to make the study more purposive.

-) Conceptual Review
-) Review of related studies

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 segments 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 banks and Development banks.

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 load 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 responsibilities 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 tank failure. Good investment policy ensures 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 of a society. Seen in this light, the study of investment policy of Nepal Investment Bank and Himalayan Bank Ltd. 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.

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 provide 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 exchanges money deposit, accepts deposit, grants loan and performs commercial banking functions.

Under the Nepal Commercial Bank Act (2031 BS) 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 bank is a corporation, which accepts demand deposits subject to cheques 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 cheques, 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 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. The investment is the key factor to achieve additional income for the growth of banks (Singh, 1992:184).

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

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, 1990:214).

From the above definitions, it is clean that an investment means to trade current funds for some expected stream of payment or benefits, which will exceed the

current outlay by an amount of return or interest that will compensate the investor. The return or interest is 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.

2.1.4 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 policy 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).

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 it 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. It is assumed the management should be responsible for the investment decision of banks (Baxley, 1987).

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, 1963:249).

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 provides 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.

2.1.5 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 a 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 when 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 at 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 minimize 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 of 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 borrower misuses the loan granted by the bank they can 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 from direct satisfaction of possession of property, many times intangible securities lost their value due to price level inflation. So commercial banks 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 minimize 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 Articles/ Journals

In this section, efforts 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 rates. 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 investments, high- risk concentration, related parties lending, etc are major cause of the investment and loan that has gone bad.

Sharma (2000) found same result that all the commercial bank are establishing and operating in urban areas. In this study, “*Banking the future of competition*”, the writer's achievements is:

-) 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.
-) Commercial banks are charging higher interest credit lending.
-) They have maximum tax concession.
-) They do not properly analyze the credit 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.

Pradhan (2003) in his research paper “*Role of Saving, Investment and Capital formation in Economic Development, A case of Nepal*” has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary

data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equations used in this study have been estimated at current prices as well as in real terms with the entire study period divided into different sub periods.

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to three important conclusions: First, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving and capital formation on economic development while weak role-played by investment.

Crosby, French and Oughton (2007) in their article “*Banking lending valuations on commercial property*” elaborates that the banking community are trying to identify the value on which they can apply a loan value ratio and thus protect their loan in the future should the borrower default. A simplistic understanding the value therefore suggest that figure provided should be the figure which has a life for the length of the loan. However the very concept is economically impossible in any market with volatility. Values can only be snapshots in time. They do not have a shelf life. It appears on the surface to be a solution to the banks’ requirement for the reduced risk property lending.

In reality, it may indeed transfer that risk by demanding a level of protection to the bank that the valuation cannot give. But if values agree to it, it could open the way

to successful negligence claims in the aftermath of poor lending decisions. This is because the concepts appears the determinants of the virtually certain level of value below which the value will not fall for an indeterminate time into the future. Values are vulnerable to claims that their valuation was too high, should values fall below that level at any time during the loan. Sustainable value is predicated on having a shelf life but the application believes this fundamental requirement. Values must have a time point. The concept is redundant, the target unidentifiable and the definition ambiguous. It is little wonder that the application appears mechanistic. Market value is an obtainable and useful piece of information to the lender. Worth in the market sets this in context and gives the lender a view of whether market prices are at current sustainable levels. In obtaining worth, the value is obliged to carry out both quantitative and qualitative investigation into the future and this generates other analyses at different time points during the course of the loan.

Mundul (2008), In his the article “*Understanding of credit derivative*” emphasizes Credit derivative enable financial institution and companies to transfer credit risk to a third party and thymus reduce their exposure to the risk of an obligor’s default. Credit enhancement technique, which helps reduce the credit risk of an obligation, play a key role in encouraging loans and investment in debts. In legal term credit derivative are privately negotiated bilateral contract to transfer credit risk from one party to another. Some credit enhancement methodologies have existed for the in debts. Some credit enhancement methodologies have existed for a longtime with the support of guarantee, letter of credit or insurance product. However such mechanism works best during economic upturns. As an alternative to commercial risk mechanism, various financial mechanisms have been developed over the past few decades. Such credit risks instruments are normally refer to as credit derivatives. Credit derivative helps to transfer credit risk away from the lender to some other party. Now credit derivative grew popular both as tools for hedging credit risk exposure as well as method of investing in certain types of credit risk.

Credit derivative not only helps corporation and financial institution to manage to their credit risk but also enabled a new set of individual retail client to invest in bonds and stocks previously unaffordable. Through credit derivative individual investor can invest indirectly in foreign bonds at a lower price. Credit derivative helps investor isolate credit, and transfer it to other investor who are better suited to managing it or who finds the investment opportunity more interesting. There are many credit instruments in the market they are

- Total return swap (TRS)
- Credit default swaps (CDS)
- Credit linked notes (CLN)
- Credit spread option (CSO)

According to the behavior of the asset or deal above credit instrument can be used and minimizing the risk. In this way credit derivative provide protection against credit peril and risk.

Mundal (2011) in his articles “*Lending Policy: Human and Organizational Aspects*” It’s an ongoing debate if human and organizational aspects play a role in the formulation of lending policies of banks and financial institution. It takes the human and organizational factor such as skill, attitudes, human equations and leadership. Policies are ever evolving and cannot be successfully implemented unless the issues in these areas are adequately taken care of and the right environment is set up. When change brings about development of new technical skills, there is ground for clash between experiences these skills. It is more so when both the aspects are equally important. While experience, authority and probably power are bound to go with one generation. The newer skill involves pencil work, enthusiasm for and the time available to use them would go with the other generation.

A combination of both developing own people and hiring professionals from relevant sector would be good to enhance the internal efficiency and competitiveness. In this regard there are three gaps that are evident even today.

Skill gaps

Organizational change

Generation gaps

It is important to ensure adequate leverage to the operating executives at the industry level the borrowing clientele including the prospective one. To much estimation the loan market should not become a buyer market pre dominantly, this is likely to cause distortion in the financial system, lending to unhealthy competition amongst lenders.

The country like Nepal needs sincere implementation of change particularly in financial sectors. To be more specific these are require in the process of credit evaluation, writing of credit policy and the bringing about new product. This will certainly assist the development and maturity of the financial market. This will also assists Nepal in the process of integration with global financial market and with the expanding market of the two large neighboring countries. We should take a pragmatic view of the fast developing world and adapt to the changes first for survival and then progress.

2.2.2 Review of Previous Research Works

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

Regmi (2004) conducted a thesis topic on “*A study on credit practices of joint venture commercial banks with reference to Nepal SBI Bank Ltd. and Nepal Bangladesh Bank Ltd.*” This study is mainly focused on the lending practices and the volume of credit in comparison to the deposits. Therefore, the major gap in this

research is study of the risk involved in the lending practices or the study of credit risk. Therefore, further study on the risk involved in creating credit can be made.

The main objectives of this thesis are:

-) To determine impact of deposit in liquidity and its effect on lending practices.
-) To know the volume of contribution made by both bank in lending.
-) To examine lending efficiency and its contribution in profit.
-) To analyze trend of deposit utilization towards loan and advances and net profit and their projection for next five years.

The major findings and recommendation of this study are:

In terms of liquidity ratio, current ratio of NSBL is higher than that of NBBL. The ratio of liquid fund to current liability of NSBL is higher than NBBL. This shows that NBBL has less consistency than NSBL. The ratio of cash and bank balance to deposit of NSBL is higher than that of NBBL. Cash and bank balance to interest-sensitive deposit measures the liquidity risk arising from fluctuation of interest rate in the market. The ratio of cash and bank balance to interest sensitive deposit of NSBL is higher than NSBL. NSBL has poor position due to high volume of interest sensitive liability in deposit mix.

The ratio of loans and advances to total assets of NBBL is higher than NSBL. Likewise mean ratio of loans and advances to total deposit of NBBL is higher than NSBL. The mean ratio of investment to loans and advances and investment of NSBL is higher than that of NBBL. Likewise the ratio of total investment to total deposit of NSBL is higher than that of NBBL.

The ratio of credit to government enterprises to total credit of NBBL is higher than that of NSBL. The mean ratio of credit tot bills paid and discount to total credit ratio o NBBL is higher than that of NSBL. NSBL has contributed 95.91% in private

sector loan, 2.51% in government sector loan and 1.56% in bills paid and discounts. Likewise NBBL has contributed 90.83% in private sector loan, 4.29% in government sector loan and 4.84% in bills paid and discounts.

Among the various measurement of profitability ratio return on equity (ROE) and earning per share (EPS) reflects the relative measure of profitability. The performance of NBBL is better than NSBL. Return on equity and earning per share of NBBL are higher than that of NSBL in all years.

The correlations between deposit and loans & advances of both banks have positive value. Also co-efficient of correlation between total income and loans & advances of both bank have positive relation. Coefficient of correlation between net profit and loans & advances of NSBL is negative as other variables like increase in interest suspense and loan loss provision affects net profit. Coefficient of correlation between net profit and loans & advances of NBBL is positive.

Joshi (2005) has conducted in her study entitled “*Investment Policy of Commercial Bank in Nepal (A comparative study of EBL with NABIL & BOK Ltd).*” In this research the researcher has focus on investment analysis of sample banks.

The main objectives of the study are as follows:

-) To discuss fund mobilization & investment policy of NABIL and BOK Ltd
-) To evaluate liquidity, efficiency and profitability, risk position, the growth ratios of loan and advance, total investment with other financial variables.
-) To offer suitable suggestions based on findings of this study.

Major finding and recommendations of the study are:

Through her research Ms. Joshi has found that the liquidity position of EBL is comparatively better than NABIL and BOK. EBL is comparatively average or in between successful in compared to NABIL and BOK. Total interest earned to total outside assets of EBL is lowest at all. But overall analysis of profitability ratios,

EBL is average profitable in comparison to other compared banks. She has recommended mobilizing its idle cash and bank balance in profitable sector as loan & advances. Banks should invest of its fund in share and debenture of different companies. She has strongly recommended following consistent liberal lending policy and investing more and more percentage of total deposit in loan and advance, minimum more stability on the investment policy. Bank should fix minimum level of bank balance. He has also suggested adopting innovative approach to marketing and formulating new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

She has just compared EBL with NABIL and BOK, based on only 5 years period which would not be reasonable to analyze investment policy of any bank as success or unsuccessful.

Subba (2006) has carried out in his research topic on “*Study to Credit Management of commercial banks (i.e. Machchhapuchhre Bank Ltd. and Kumari Bank Ltd.)*”. The objective to analyze how the selected commercial banks have managed different types of risk in this competitive Nepalese banking Industry.

The main objectives of the study are:

-) To analyze the risk of selected commercial banks in Nepal they are, Credit Risk, Market Risk and Operation Risk.
-) To examine credit management and its efficiency.
-) To offer suitable suggestions based on findings of this study.

Major finding and recommendations of the study are:

In commercial banks, minimizing the risk is the major challenge. For combating the risk, both the banks have taken several measures. One of the major measures is capital adequacy ratio. The capital adequacy ratio depicts that both KBL and MBL

has higher CAR than statutory requirement. He concludes that For credit risk management, both banks have Credit Policies Guidelines (CPG). Similarly, NPL is regularly monitored by both the banks on regular basis and provisioning is done on quarterly basis by categorizing the loan as per NRB guidelines. Similarly, sector wise and security wise lending is being analyzed by these banks on monthly basis. The top management analyzes the gap between asset and liabilities and makes decision to make adjustment for it. Further, the top management decides how much liquid asset is needed to be kept in the bank. Treasury and finance department of these banks continuously manage the CRR in NRB to ensure that statutory requirement is met. In regard to operational risk, the major steps banks are taking to reduce it are preparing and implementing the different operational guidelines and policies & frequently monitoring their compliance. Most of these polices are prepared as per NRB guidelines. Similarly, employees' training is also the major tools for minimizing the operation risk in these banks.

For minimizing the loss arising due to occurrence of the above risks, capital and reserve have been maintained by these banks within the standard prescribed by NRB. However, the trend of Capital Adequacy ratio of these banks suggests that both the banks need to increase their capital fund, which is possible mainly by issuing shares, debentures or preference share. The major gap in this study is the focus on the credit risk. This research has been made on the study on different types of risk including market risk and operational risk. However, the credit risk covers the major portion of the total risk i.e. almost 60% of the total risk. Therefore, additional research can be made for the detailed study of credit risk and the organizational structure of the commercial banks to manage the credit risk.

Pudasaini (2007) has conducted a research entitled "*An Investment Analysis of RBB in comparison with NBL*". The researcher had taken Rastra Banijya Bank and Nepal 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 main objectives of the study are:

-) To evaluate liquidity, activity and profitability ratios of RBB in comparison with NBL and industry average.
-) To analyze relationship of loan and advance and total investments with total deposit and net profit of RBB and to compare it with that of NBL and industry average.
-) To use trend analysis to compare loan and advance, total investment, total deposit and net profit of RBB and compare the same with other two.
-) To examine the loan loss provision of RBB and NBL.
-) To provide suggestion and recommendation on the basis of findings.

The major findings of the study are:

-) RBB has good deposit collection, enough loan and advance and investment in government securities. It has comparatively better liquidity position than NBL.
-) RBB is in comparatively better position regarding issue of loan and advance but it does not have good position regarding investment in shares and debentures of other companies, off balance sheet operation. Loan Loss ratio shows low quality of loan and advance.
-) The profitability position of RBB is worse. RBB needs to take immediate steps to increase its profitability.
-) There is significant relationship between deposit and loan and advance. There is insignificant relationship between deposit and investment, and outside assets and net profit.

Limbu (2008) has conducted thesis topic on “*Credit Management of NABIL Bank Limited*” highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. For achieving the goal researcher set various objectives.

The main objectives of the research are as follow:

-) To evaluate various financial ration of the Nabil Bank.
-) To analyze the portfolio of lending of selected sector of banks
-) To determine the impact of deposit in liquidity and its effect on lending practices.
-) To offer suitable suggestions based on findings of this study.

The major finding and recommendation of the research are:

In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses’ higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earning per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. Thus, credit management is in a good position.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this

period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

Shrestha (2009) has conducted research topic on “*Credit risk management of Nabil Bank Limited and Nepal Investment Bank Limited in Nepal*” The main objective of the study is to evaluate the credit risk management. In order to achieve this, the various objectives have been formulated.

The main objectives of the research are as follows:

-) To evaluate the status of the loan portfolio of the banks,
-) To evaluate problems and weakness in credit risk management.
-) To review the prevailing laws rules and regulation enforced by Nepal Rastra Bank and assess its impact on profitability and liquidity of bank.
-) To offer suitable suggestions based on findings of this study.

The major finding and recommendation of the research are:

The liquidity position of NIB is comparatively better than NABIL. Commercial banks have to maintain more liquid assets but the current ratios of some banks are below the standard of 1:1. The mean current ratio of NABIL is 1.89 and NIB is 1.99 the current ratio of NIB is little higher than NABIL. Cash and bank balance to total deposit ratio of NIB has higher than NABIL.

The loan & advances to total deposit ratio of NABIL is lower than NIB. The total investment to total deposit of NABIL is higher than NIB i.e. 34.40% > 27.45%. It shows the NABIL is mobilizing its funds on investment in various securities efficiently. The loan & advances to total assets ratio of NIB is greater than NABIL. Investment on government securities to total assets ratio of NABIL is higher than NIB. This indicates that NABIL has invested more portions of total assets on government securities. So an asset management aspect of NABIL is better than NIB. The profitability position of NABIL and NIB are Return on loan & advances ratio of

NABIL is higher than that of NIB. Return on total assets ratio of NABIL is slightly higher than NIB i.e. 2.61% > 1.79%. However, NABIL seems successful in managing and utilizing the available assets in order to generate revenue.

The credit risk ratio shows the proportion of no-performing loan in total Loan & Advances. Average credit risk ratio of NIB is higher than NABIL. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of NIB is greater than that of NABIL. The analysis shows that both banks have the Asset Risk Ratio in fluctuating trend.

Lumfungwa (2010) has conducted a thesis research on "*A comparative study on Investment policy of SCBNL and BOKL*" in this research the researcher has focus on investment pattern and its policy.

The main objectives of the research are:

-) To find out relationship between total investments, deposits, loan and advances, net profit and outside asset of SCBNL & BOKL.
-) To compare investment policies of concerned banks and discuss the fund mobilization of sample banks.
-) To analyze the deposit utilization trend and its projection for five years of SCBNL & BOKL.
-) To provide package of a workable suggestion & possible guidelines to improve investment policy base on finding of the study.

The major finding and recommendation of the study are:

SCBNL has better liquidity position than BOKL, but BOKL is in a better position to meet daily cash requirement. SCBNL has invested more in government securities than BOKL. SCBNL has utilized lesser portion of deposits and current assets as

loans & advances. SCBNL has invested a high portion of total working fund in government securities and shares & debentures of other companies. The profitability position of SCBNL is better than BOKL. SCBNL has lower liquidity risk, and credit risk than BOKL.

The growth rate of deposits and loans and advances of SCBNL is less than that of BOKL, but SCBNL has witnessed high growth in investment and net profit over the period of study in comparison to BOKL. There is a significant relationship between deposit and loan and advances, deposit and total investment, deposit and interest earned, total working fund and net profit for both the banks. There is also a significant relationship between outside asset and net profit deposit and net profit, total working fund and net profit for SCBNL, but the same are not significant in the case of BOKL. Its way to solve some problems and provide suggestion and recommendation on the basis of the study.

Silwal (2011) has conducted thesis on “*Investment Policy of Commercial Banks (With Reference To Standard Chartered Bank Nepal Ltd. & Nabil Bank Ltd.)*” Investment decision is one of the major decision functions of financial management. The main purpose of this study is to assess the investment policy and strategies followed by NABIL and SCBNL.

The main objectives of study are as follow:

-) To evaluate the liquidity, asset management, profitability, risk position and growth ratios of the banks under study.
-) To find out relationship between total deposits and investment, loans & advances, interest earned, and net profit, net profit to outsides assets and total working fund, loan and advances to interest paid & compare them.
-) To analyze the trend of deposits, investment, net profit and loan and advances, for next five years of SCBNL and NABIL.
-) To provide suggestions and recommendation on the basis of the study.

The major finding and recommendations of the study are:

The current ratio of both the banks should be considered satisfactory. The liquidity position of SCBNL is better than NABIL. The cash and bank balance of SCBNL deposits is greater than NABIL. This puts, SCBNL in a better position. The cash and bank balance of SCBNL is higher than NABIL. This shows greater capacity of SCBNL to meet its customer's cash requirement but that does not mean NABIL can not meet its daily customer cash requirement. SCBNL needs to invest its funds in more productive sectors. SCBNL has invested more portions of its current assets and total working fund in government securities than NABIL. NABIL has been more successful in mobilization of its total deposits and working fund as loan and advances and achieving higher profits in comparison to SCBNL. NABIL has invested more of its funds in purchasing shares and debentures of other companies than SCBNL.

From the point of view of profitability, SCBNL seems to be more successful than NABIL. The liquidity risk and credit risk of SCBNL is comparatively lower than NABIL. SCBNL has been successful in maintaining a growth rate on deposits and loan and advances year after year. The average growth rate of total investment and net profit of NABIL is higher than SCBNL. There exists a positive relationship between deposits and net profit in case of SCBNL and also between deposits and interest earned in case of NABIL. Both the banks show significant relationship between deposits and interest earned, loan and advances and interest paid total assets and net profit, outside assets and net profit. The trend value of deposits, loan and advances, investment and net profits of NABIL and SCBNL are in an increasing trend. The trend values of deposits and loan & advance of NABIL are proportionately higher than SCBNL in all the years. The trend value of investment and net profit of SCBNL is proportionately better than NABIL in all the years.

2.3 Research Gap

This research is about investment policy of listed commercial bank in Nepal in reference to NIBL and HBL is done by measuring various ratios analysis. The investment policy is analyzed by various financial tools as well as statistical tools and trend analysis. In this research various ratio are systematically analyzed and generalized. The ratios are categorized according to nature. Here in this research all ratios are categorized according to their area and nature of investment pattern. In this research data are used only five fiscal year but all the data are current and fact. This study tries to show financial analysis by applying and analyzing various financial tools like liquidity ratio, asset management ratio, profitability ratio and risk ratio and other variables as well as different statistical tools like average mean, standard deviation, coefficient of variation coefficient of correlation and trend analysis. Probably this will be the appropriate research in the area of investment policy of Bank and finance. So this research is helpful to every one who is concern about investment policy of banks as well as other stake holder.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 introductions

The topic of the study has been selected as “The investment policy of Nepal Investment Bank and Himalayan Bank Ltd.” In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter, which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.2 Research Design

A research design is an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data-collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically research design describes the general plan for collecting, analyzing and evaluating data after identifying.

A research design is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the process, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz. (i) selection of problem (ii) methodology (iii) data gathering (iv) Data analysis and (v) report writing. The

Present study follows the descriptive as well as exploratory design to meet the stated objectives of the study. The crux of the research is to analyze NIBL and HBL in relation to credit disbursement and recovery as well overall management.

3.3 Population and Sample

The objective of the research is to explore and describe the portfolio management in Nepal from the investor's point of view. However, with regard to the availability of the financial information, two samples were identified purposively from the banking sector.

Here, the total 32 commercial banks shall constitute the population of the data and single bank under the study constitute the sample under the study. So among the various commercial banks in the banking industry, Here Nepal Investment Bank and Ltd and Himalayan Bank Limited have been selected as sample for the present study. Likewise, financial statements of five years are selected as samples for the purpose of it.

3.4 Nature and Sources of Data

There are two sources of data collection. The research is based on secondary source of data. All the adequate data are collected from secondary sources. This refers to data that are already used and gathered by others. For the major sources of secondary data are Annual Report of concern Bank, Internet and E-mails, NRB directives and Economy survey of Government of Nepal and Ministry of finance

3.5 Data Collection Procedure

Different tools and techniques were adopted while collecting the data for this study. Collected secondary information was analyzed during the course of the deskwork. However, during the desk study, an information gap was found. This gap was

fulfilled by the discussion with the thesis advisor and finance experts of the security board and the NEPSE.

3.6 Data Analysis Tools

Presentation and analysis of data is one of the important part of the research work. The collected raw data will first be presented in systematic manner in tabular form and then will be analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these some graph charts and tables will be presented to analyze and interpret the findings of the study. The tools applied are as follows.

3.6.1 Financial Tools

i) Liquidity Ratios: This ratio measures the liquidity position of a firm. It measures the firm's ability to meet its short-term obligations. As a Financial Analytical tools, following liquidity ratios will be used.

a.) **Current Ratio:** This ratio shows the bank's short-term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities, which can be presented as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Higher ratio indicates the strong short-term solvency position and vice-versa.

b.) Cash and Bank Balance to Total Deposit Ratio: Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash \& bank balance}}{\text{Total deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes deposits made by customers through different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts.

c.) Cash and Bank Balance to Current Assets Ratio: This ratio measures the proportion of most liquid assets viz. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets, presented as under;

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash \& bank balance}}{\text{Current assets}}$$

d.) Investment on Government Securities to Total Current Assets Ratio: This ratio is calculated to find out the percentage of current assets invested on government securities viz. treasury bills and development bonds. The ratio is stated as under;

$$\begin{aligned} &\text{Investment on Govt. securities to total current assets ratio} \\ &= \frac{\text{Investment on Govt. Securities}}{\text{Current assets}} \end{aligned}$$

ii) Assets Management Ratios:

Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to

determine the efficiency of the subjected bank in managing its assets and in portfolio management.

a.) Loan and Advances to Total Deposit Ratio: This ratio is also called credit-deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under;

$$\text{Loan and Advances to total deposit ratio} = \frac{\text{Loan \& advances}}{\text{Total deposits}}$$

b.) Total Investment to Total Deposit Ratio: Investment is one of the major forms of credit creation to earn income. This implies the utilization of firm's deposit on investment on government securities, shares and debentures of other companies and banks. This ratio can be calculated by total investment divided by total deposit as:

$$\text{Total investment to total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposits}}$$

c.) Loan and Advances to Working Fund Ratio: Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to utilize its deposits in the form of loan and advances to earn high return. The ratio is computed by dividing loan and advances by total working fund, which is stated as under;

$$\text{Loan and advances to working fund ratio} = \frac{\text{Loans and advances}}{\text{Total working fund}}$$

d.) Investment on Government Securities to Total Asset Ratio: This ratio shows that bank's investment on government securities in comparison to the total working

fund. This ratio can be computed by dividing investment on government securities by total working fund, which can be presented as;

Investment on Govt. Securities to total working fund

$$= \frac{\text{Investment on Govt. Securities}}{\text{Total working fund}}$$

e.) Loan and Advances to Total outside Assets Ratio: This ratio measures the proportion of loans and advances of total outside assets. The proportion between investment and loans and advances measures the management attitude towards more risky assets and lower risky assets. This ratio is computed by dividing loan and advances by total outside assets as under:

$$\text{Loan and advances to total outside assets ratio} = \frac{\text{Loan and advances}}{\text{Total outside assets}}$$

f.) Investment on Government Securities to Total outside Assets Ratio: This ratio measures the proportion of the bank's investment in risky and risk free areas. This ratio is computed by dividing investment on government securities by total outside assets as under;

Investment on Govt. Securities to total outside assets ratio =

$$\frac{\text{Investment on Govt. Securities}}{\text{Total outside assets}} .$$

iii) Profitability Ratio:

This ratio is related to profit of the banks is essential for the survival of the bank, so it is regarded as the engine that drives the banks and indicates economics progress. It calculated to measure the overall efficiency of the banks.

A) Return on Loan and Advances Ratio: - Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed as,

$$\text{Return on Loan and Advances Ratio} \times \frac{\text{Net Profit / Loss}}{\text{Loan and Advances}}$$

B) Return on Total Working Fund Ratio: - Return on total working fund ratio measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank's working fund is well managed and efficiently utilized. Maximizing taxes, this in the legal options available will also improve the return. We have,

$$\text{Return on Total Working Fund Ratio} \times \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

C) Total Interest Earned to Total Working Fund Ratio: - This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

$$\text{Total Interest Earned to TWF Ratio} \times \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

D) Total Interest paid to Total working Fund Ratio: - This ratio measures the percentage of total interest expenses on total working fund and vice-versa. This ratio is calculated as,

$$\text{Total Interest paid to Total Working Fund Ratio} \times \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

iv. 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 desires. 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 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 NIBL and HBL.

A) Credit Risk Ratio: Credit risk ratio measures 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 involved in the project. The credit risk ratio shows the proportion of no-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.

(B) Liquidity Risk Ratio: - The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

(D) Asset Risk Ratio: - Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally Asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment } \Gamma \text{ Loan and Advances}}{\text{Total Assets}}$$

v. Other Ratios

A) Earning per Share (EPS): EPS refers to net profit divided by total numbers of share outstanding. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

$$\text{Earnings per Share (EPS)} = \frac{\text{Net profit (loss)}}{\text{Total number of shares outstanding}}$$

B) Market Price per Share

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.

C) Price Earning Ratio

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 investor's judgments or expectation about the firm's performance. This ratio widely used by the security

analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations 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.

$$\text{Price Earning ratio} = \frac{\text{Market price per Share}}{\text{Earning per Share}}$$

Here, total equity capital includes shareholders' reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

3.7 Statistical Tools

Some important statistical tools will be used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis will be used.

i) Mean:

A mean is the average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

$$\bar{X} = \frac{\sum X}{N}$$

Where, \bar{X} = Mean of the values

$\sum X$ = Summation of the values

N = No. of Observations

ii) Coefficient of variation:

The calculated standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation (C.V.) is given by the following formula in the percentage basis:

$$\text{Coefficient of variation (C.V.)} = \frac{\dagger}{\bar{X}} \times 100$$

iii) Measures of Correlation:

We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measure the performance of these banks. Correlation refers to the degree of relationship between two variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient describes the degree of relationship between two variables. It interprets whether variables are correlated positively or negatively. This tool analyses the relationship between those variables by which it is helpful to make appropriate investment policy for profit minimization. The Karl Pearson coefficient of correlation (r) is given by following formula:

$$\text{Coefficient of Correlation (r)} = \frac{xy}{N\dagger_1\dagger_2}$$

$$\text{Where, } x = \sum X \bar{X}$$

$$y = \sum Y \bar{Y}$$

$$\dagger_1 = \text{Standard series of X}$$

$$\dagger_2 = \text{Standard series of Y}$$

$$N = \text{Number of pairs of Observations}$$

The Karl Pearson coefficient of correlation always falls between -1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the

positive correlation. As the value of correlation reaches to the value of zero, it is said that there is no significant relationship between the variables.

iv) Trend Analysis:

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trends line following formula can be used:

$$y = a + bx$$

Where,

y = Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is the main body of the study. In this chapter data collected are analyzed and interpreted as per the stated methodology in the previous chapter. The main source of data is secondary data. Here researcher has analyzed and diagnosed investment policy of Nepal Investment Bank and Himalayan Bank Limited are shown in different tables and diagrams to make the analysis simple and understandable. All the financial positions of both the banks are analyzed by calculating following ratio.

4.1 Financial Analysis

Financials ratios are presented to evaluate and analyze the investment policy of NIBL and HBL. Some important financial ratios are calculated in the point of view of financial performance. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical procedure that shows the relationship where one item is divided by another.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time to satisfy immediate 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. Analysis of Current Ratio

This ratio measures the liquidity position of the commercial banks. It indicates the ability of Banks to meet the current liquidity.

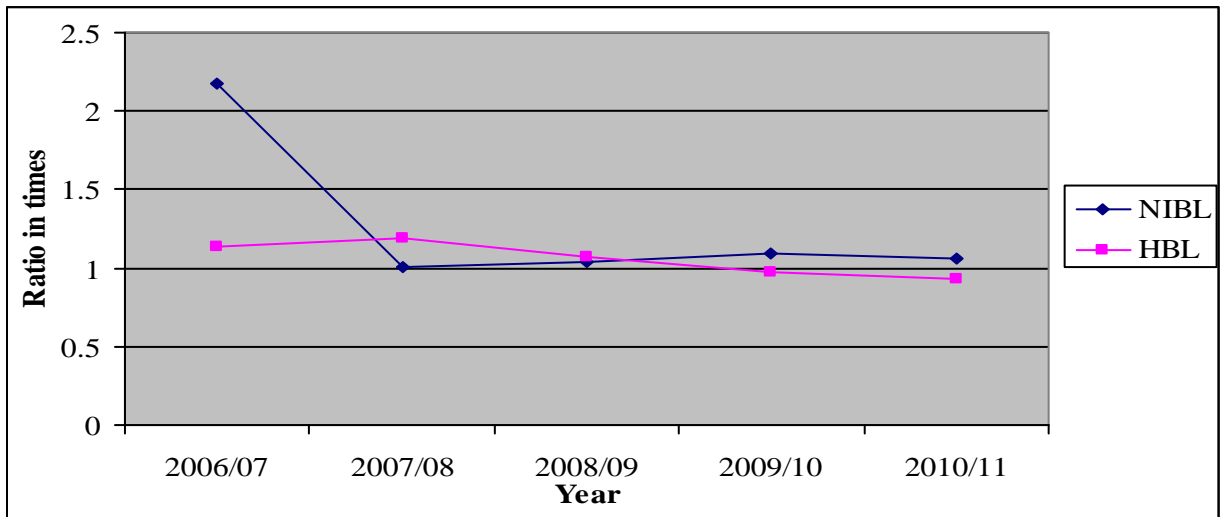
Table No. 4.1

Current assets to current liability (in times)

Fiscal Year	NIBL			HBL		
	Current Assets	Current Liabilities	Ratio in Times	Current Assets	Current Liabilities	Ratio in Times
2006/07	22929.1	10545.6	2.17	24812.27	21812.27	1.14
2007/08	31869.6	31430.7	1.01	29449.34	24696.45	1.19
2008/09	44095.57	42449.15	1.04	29813	27968	1.07
2009/10	46211.87	42053.17	1.09	29858	30797	0.97
2010/11	46260.2	43870.43	1.06	31590.73	33855.55	0.93
Mean			1.28			1.06
S.d.			0.503			0.11
C.V.			0.394			0.1038

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.1
Current Ratio



Above table and figure show the current ratio of NIBL and HBL banks during the study period. The current ratio of NIBL and HBL has a fluctuating trend. The highest current ratio of NIBL is 2.17 in F/Y 2006/07 and lower ratio is 1.01 times in F/Y 2007/08. Similarly highest current ratio of HBL is 1.19 in F/Y 2007/08 and lowest ratio is 0.93 in 2010/11. The average current ratio of NIBL and HBL are 1.28 and 1.06. The average ratio indicates liquidity position of NIBL is higher than HBL. So, NIBL is sound in meeting short-term obligation than NIBL. The S. D. and C.V. of HBL is less than NIBL so it can be said that current ratio of HBL is more consistent than that of NIBL. Lastly, from the above analysis it is known that these two banks moderate liquidity position because the ratio is more than 1:1. They have just managed to meet the standard ratio. 1:1.5 is called good current ratio. Generally, banks require more liquid assets as compared to current liabilities in order to provide better banking service but these two banks have lower liquidity ratio than standard ratio.

B) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank 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 NIBL and HBL during the study period.

Table No. 4.2

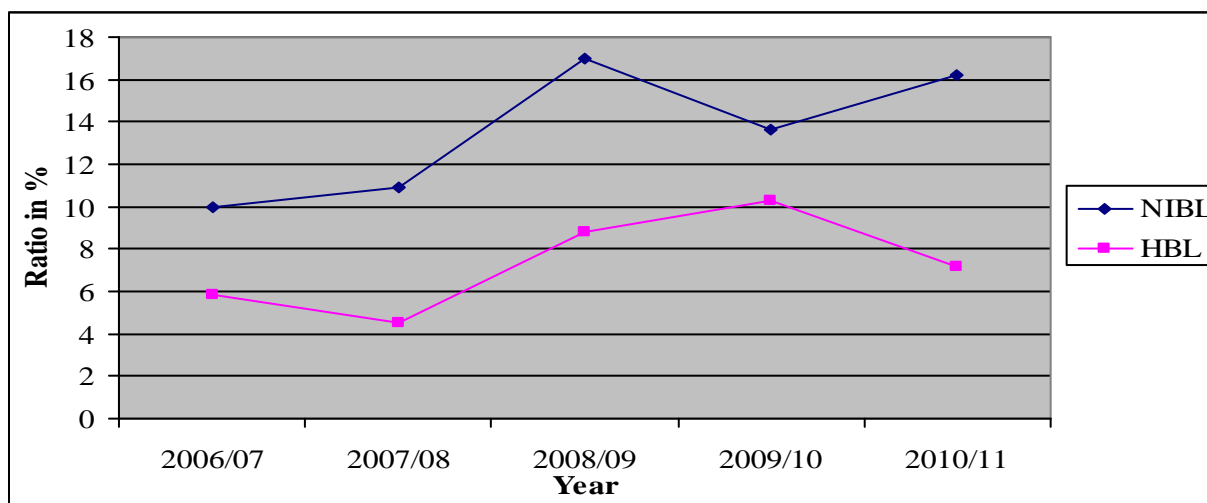
Cash and Bank Balance to Total Deposit Ratio

Fiscal Year	NIBL			HBL		
	Cash and Bank Balance	Total Deposit	Ratio in Percent	Cash and Bank Balance	Total Deposit	Ratio in Percent
2006/07	2441.51	24488.85	9.97	1757.34	30048.418	5.85
2007/08	3754.94	34452	10.9	1448.14	31842.79	4.55
2008/09	7918	46698	16.95	3048.53	34681.35	8.79
2009/10	6815.89	50094.73	13.61	3866.49	37611.2	10.28
2010/11	8140.37	50138.12	16.24	2946.65	40920.63	7.20
Mean			13.534			7.334
S.d.			3.108			2.278
C.V.			0.229			0.311

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.2

Cash and Bank Balance to Total Deposit Ratio



Above table and figure 4.2 reveal that the Cash and bank balance to total deposit ratio of NIBL and HBL are in fluctuating trend. The highest ratio of NIBL is 16.95 percent in FY 2008/09 and lowest is 9.97 percent in F/Y 2006/07. Similarly, the highest ratio of HBL is 10.28 percent in FY 2009/10 and lowest ratio is 4.55 percent in 2007/08. The average mean ratio of NIBL and HBL are 13.534 percent and 7.334 percent respectively. The average ratio of NIBL has higher ratio than the HBL, which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of NIBL is 0.229 times and HBL is 0.311 times. So C.V. of NIBL are lower than the HBL which indicate more consistency in its ratio.

The above analysis concludes that the cash and bank balance position of NIBL with respect to HBL is better in order to serve its customer's deposits. It implies better liquidity position of NIBL from the viewpoint of depositor demand. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds in income generating areas.

C) Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the banks as per cash and bank balance. Higher the ratios, better the ability of the banks to meet the daily cash requirement of their customers. Following table shows the cash and bank balance to current assets of NIBL and HBL.

Table No. 4.3

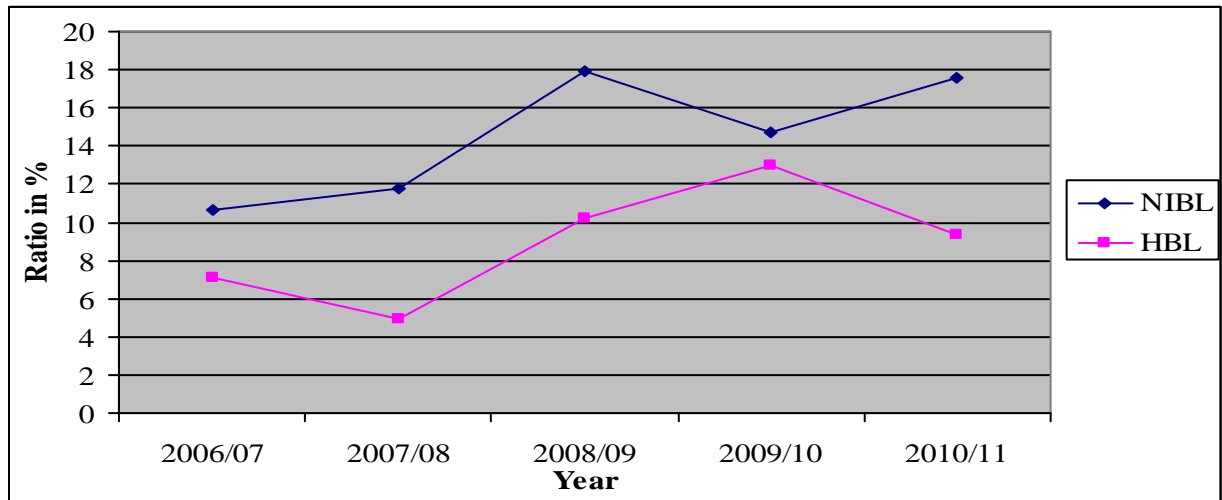
Cash and Bank Balance to Current Asset Ratio

Fiscal Year	NIBL			HBL		
	Cash and Bank Balance	Current Asset	Ratio	Cash and Bank Balance	Current Asset	Ratio
2006/07	2441.51	22929.1	10.65	1757.34	24812.27	7.08
2007/08	3754.94	31869.6	11.78	1448.14	29449.34	4.92
2008/09	7918	44095.57	17.95	3048.53	29813	10.23
2009/10	6816	46211.87	14.75	3866.49	29858	12.95
2010/11	8140.37	46260.2	17.59	2946.65	31590.73	9.33
Mean			14.544			8.902
S.d.			3.306			3.062
C.V.			0.2273			0.344

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.3

Cash and Bank Balance to Current Asset Ratio



Above table and figure 4.3 reveal that cash and bank balance to current assets ratio of NIBL is in fluctuating trend over the study period. The highest ratio of NIBL is 17.95 percent in F/Y 2008/09 and lowest ratio is 10.65 in F/Y 2006/07. Similarly the

highest ratio of HBL is 12.95 percent in F/Y 2009/10 and lowest ratio is 4.92% in F/Y 2007/08. The mean ratio of NIBL and HBL is 14.544 percent and 8.902 percent respectively. The higher mean ratio shows that NIBL's liquidity position is better than that of HBL. Moreover, the C.V. of NIBL is lower than HBL. The lower C.V. of NIBL indicates that it has more consistency in the ratios compared to HBL. Regarding the above analysis, it can be concluded that NIBL has a better ability to meet daily cash requirements of their customers but there is no fix policy to maintain the standard ratio of cash balance over the period.

D) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. Government securities are the more secured investment alternatives. The following table shows more precisely

Table No. 4.4

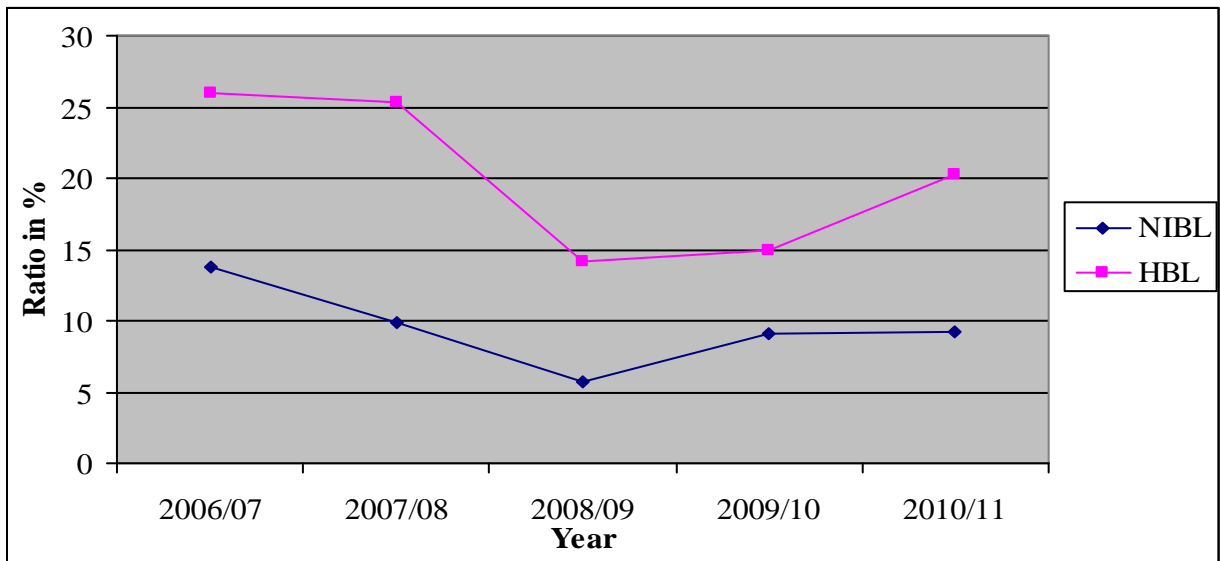
Investment on Government Securities to Current Assets Ratio

Fiscal Year	NIBL			HBL		
	Investment on Government Securities	Current Assets	Ratio	Investment on Government Securities	Current Assets	Ratio
2006/07	3155	22929.1	13.76	6454.86	24812.27	26.01
2007/08	3155	31869.6	9.89	7471.66	29449.34	25.37
2008/09	2531.3	44095.57	5.74	4212.3	29813	14.13
2009/10	4201.85	46211.87	9.09	4465.37	29858	14.96
2010/11	4294.6	46260.2	9.28	6407.36	31590.73	20.28
Mean			9.552			20.15
S.d.			2.856			5.585
C.V.			0.2990			0.2772

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.4

Investment on Government Securities to Current Assets Ratio



Above table and figure show investment on government securities to current assets ratio of NIBL and HBL. Both Banks have fluctuating ratios. The table show the highest ratio of NIBL is 13.76 percent in FY 2006/07 and lowest is 5.74 percent in FY 2008/09. In the same way, the highest ratio of HBL is 26.01 percent in FY 2006/07 and lowest is 14.13 percent in FY 2008/09.

The mean ratio of NIBL is 9.552 percent which is lower than the mean ratio of HBL 20.15 percent. It means HBL has invested more money in risk free assets than NIBL has. In another words HBL has emphasized more on loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, NIBL should divert its investment in govt. securities. Similarly, C.V. of NIBL is 0.299 and HBL has 0.2772 times respectively. The higher C.V. of NIBL shows the more inconsistency in the ratios with compare to HBL.

4.1.1.2 Assets Management Ratio

A commercial bank must be able to manage it's assets very well to earn higher profit, so to satisfy it's customers and also for its own existence. Assets management

ratio measures how efficiently the bank manages the resources at its command. Through following ratios, assets management ability of banks has been measured.

A) Loan and Advance to Total Deposit Ratio

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 shows the loan and advances to total deposit ratio of related banks.

Table No. 4.5

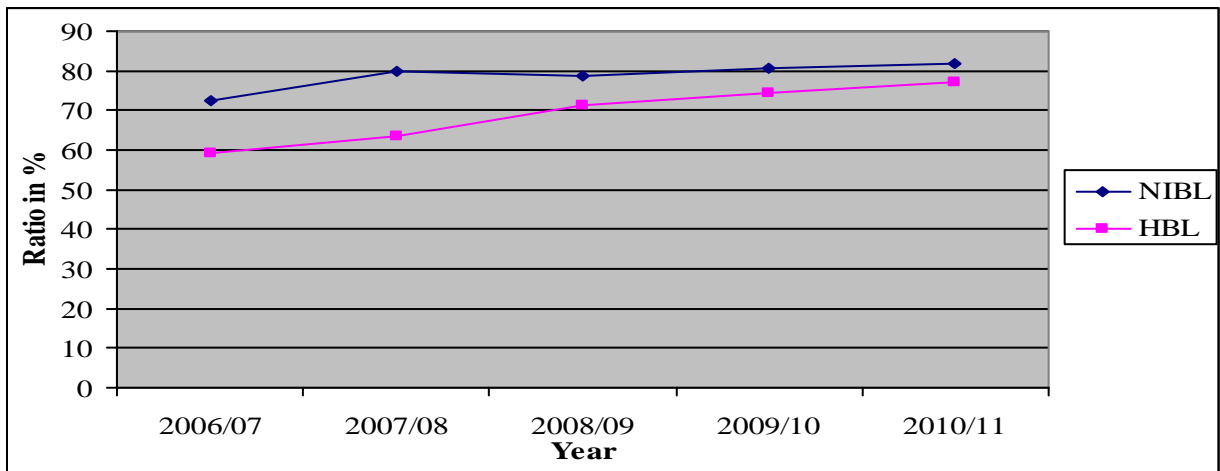
Loan and Advance to Total Deposit Ratio

Fiscal Year	NIBL			HBL		
	Loan and Advance	Total Deposit	Ratio in Percent	Loan and Advance	Total Deposit	Ratio in Percent
2006/07	17769.1	24488.85	72.56	17793.724	30048.418	59.22
2007/08	27529	34452	79.91	20179.61	31842.79	63.37
2008/09	36827.16	46698	78.86	24793.15	34681.35	71.49
2009/10	40318.31	50094.73	80.48	27980.63	37611.2	74.39
2010/11	41095.51	50138.12	81.96	31566.98	40920.63	77.14
Mean			78.754			69.122
S.d.			3.639			7.563
C.V.			0.0462			0.1094

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.5

Loan and Advance to Total Deposit Ratio



Above table and figure show that the loan and advances to total deposit ratio of NIBL and HBL. The ratio of NIBL and HBL has increasing trend. The highest ratio of NIBL is 81.96% in F/Y 2010/11 and lowest ratio is 72.56% in F/Y 2006/07. Similarly highest ratio of HBL is 77.14% in F/Y 2010/11 and lowest ratio is 59.22% in F/Y 2006/07. The mean ratio of NIBL and HBL are 78.754% and 69.122% respectively. Here NIBL has higher ratio than that of HBL. It indicates the better mobilization of deposit by NIBL as loan and advance. It reveals that the deposit of NIBL is quickly converted in to loan and advances to earn income. According to NRB directives less than 80% of loan and advances to total deposit ratio is required to enable better mobilization of collected deposit. But NIBL has more than that. The mean, S.D. and C.V of HBL of HBL has higher than NIBL which indicates more inconsistency in their ratios with compare to NIBL.

B) Total Investment to Total Deposit Ratio

This ratio measures how successfully and efficiently the banks are mobilizing their funds at investment in various securities. This ratio of NIBL and HBL are calculated and presentation below.

Table No. 4.6

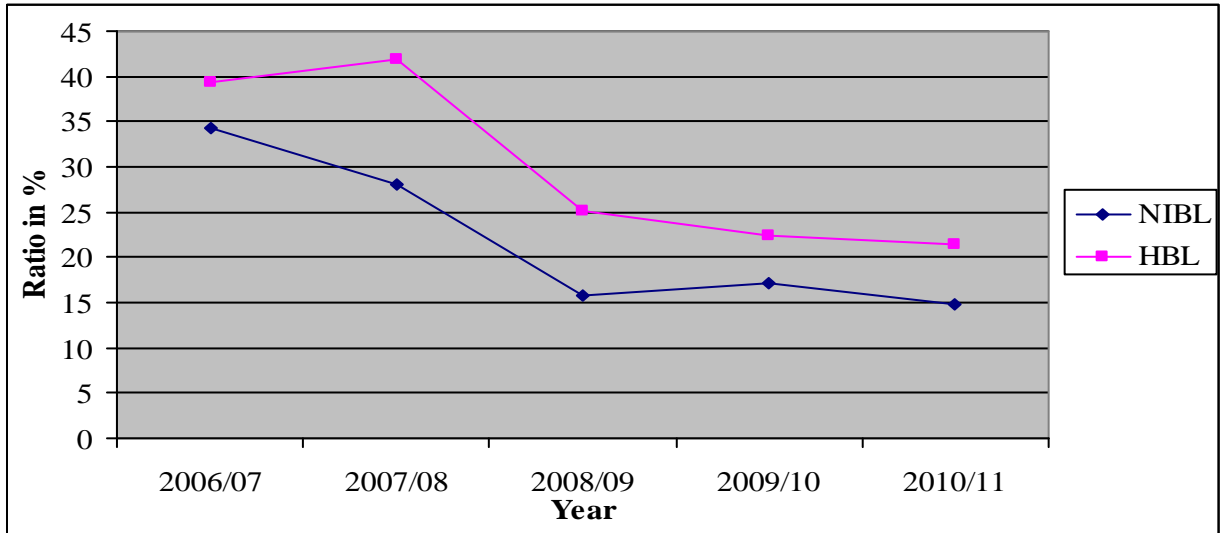
Total Investment to Total Deposit Ratio

Fiscal Year	NIBL			HBL		
	Total Investment	Total Deposit	Ratio	Total Investment	Total Deposit	Ratio
2006/07	6505.7	24488.85	34.37	11822.99	30048.418	39.35
2007/08	6874.02	34452	28.07	13340.18	31842.79	41.89
2008/09	8635.53	50094.73	15.85	8710.69	34681.35	25.12
2009/10	7423.11	50138.12	17.24	8444.91	37611.2	22.45
2010/11	7423.11	50138.12	14.81	8769.94	40920.63	21.43
Mean			22.068			30.048
S.d.			8.689			9.786
C.V.			0.3937			0.3257

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.6

Total Investment to Total Deposit Ratio



Above table and figure show that total investment to total deposit ratio of NIBL and HBL. Both the banks have fluctuating decreasing trend in total investment to total deposit ratio. The highest ratio of NIBL is 28.07 percent in FY 2006/07 and lowest

ratio is 14.81 percent in FY 2010/11 in the same way the highest ratio of HBL 41.89% percent in FY 2007/08 and lowest ratio is 21.43 percent in FY 2010/11. the ratio of both bank has decreasing form. The mean ratio of the NIBL and HBL are 22.068% and 30.048% respectively, which shows that HBL has a higher ratio. It signifies that HBL has successfully allocated its deposit in investment portfolio. The C.V. of NIBL has higher than HBL which indicate more inconsistent its ratio.

C) Loan and Advances to Total Assets Ratio

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 high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan & advances to total assets of NIBL and HBL as follows.

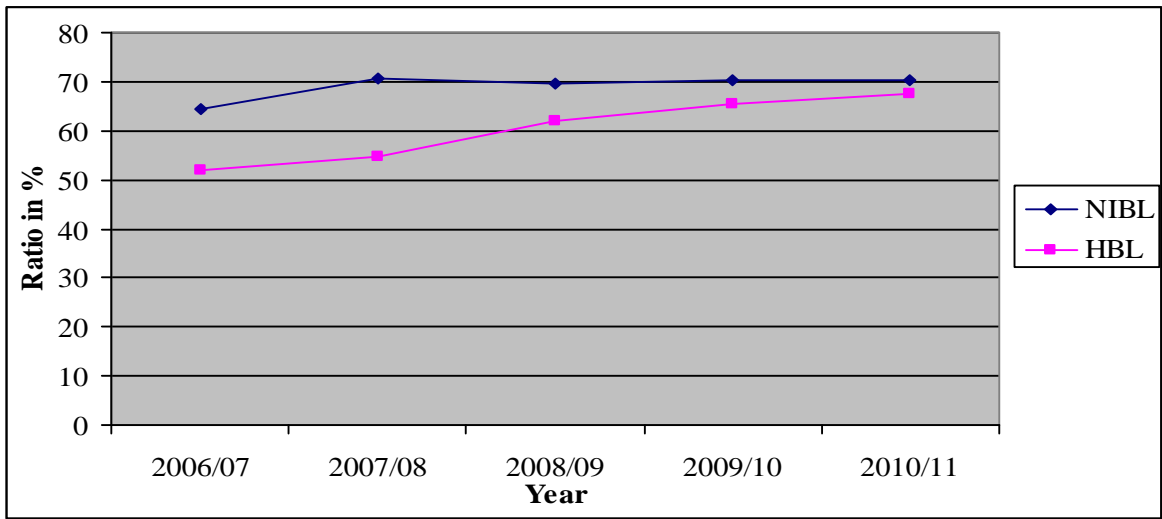
Table No. 4.7
Loan and Advances to Total Assets Ratio

Fiscal Year	NIBL			HBL		
	Loan and Advances	Total Assets	Ratio in Percent	Loan and Advances	Total Assets	Ratio in Percent
2006/07	17769.1	27590.84	64.4	17793.724	34314.87	51.85
2007/08	27529	38873	70.82	20179.61	36857.62	54.75
2008/09	36827.16	53010	69.47	24793.15	40046.69	61.91
2009/10	40318.31	57305.41	70.35	27980.63	42717.12	65.50
2010/11	41095.51	58356.83	70.42	31566.98	46736.2	67.54
Mean			69.09			60.31
S.d.			2.669			6.787
C.V.			0.0386			0.1125

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.7

Loan and Advances to Total Assets Ratio



Above table and figure show the loan and advances to total assets ratio of NIBL and HBL during the study period. Loan and advances to total assets of both NIBL and HBL has increasing trend. While observing their ratios NIBL has constant and HBL has fickle. The highest ratio of NIBL is 70.82% in F/Y 2007/08 and lowest is 64.4 in F/Y 2006/07. Similarly the highest ratio of HBL is 67.54% in F/Y 2010/11 and lowest is 51.84% in F/Y 2006/07. The mean ratio of NIBL and HBL are 69.09% and 60.31% respectively. Here NIBL has higher ratio than HBL. It reveals that in total assets of NIBL has high proportion as loan and advances. NIBL has utilized its total assets more efficiently in the form of loan and advances. The lower S.D and C.V. of NIBL than HBL states that it has more uniformity in these ratios throughout the study period than HBL. Both S.D. and C.V. of HBL have higher than the NIBL which indicate inconsistency in its ratio.

D) Investment on Government Securities to Total Assets ratio

investment on government securities is a less risky investment. Investment on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities for profit

maximization and risk minimization. Higher the ratio, the better the position of fund mobilization into investment on government securities and vice-versa.

Table No. 4.8

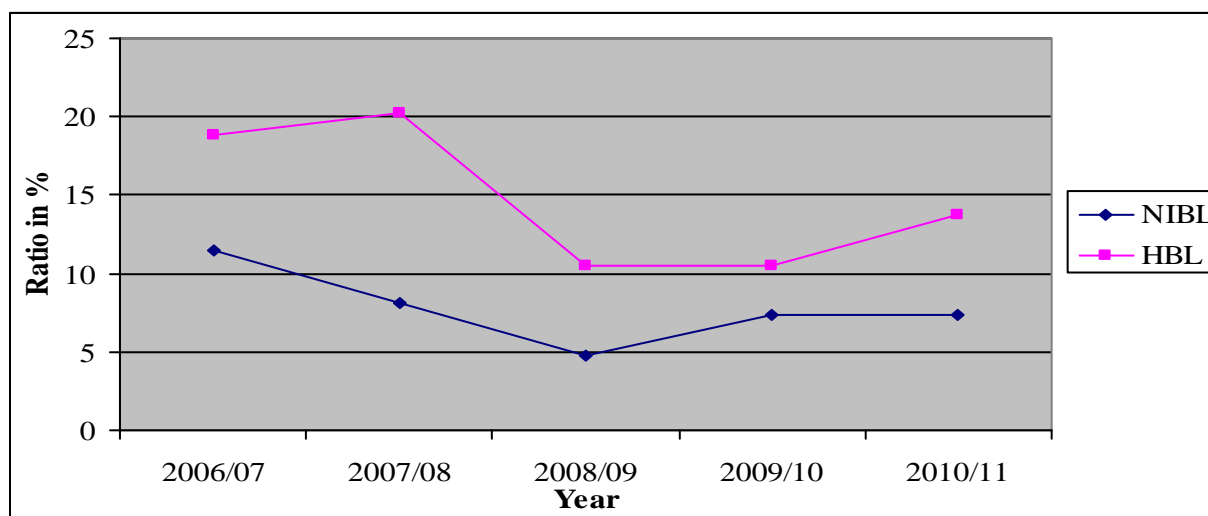
Investment on Government Securities to Total Assets ratio

Fiscal Year	NIBL			HBL		
	Investment on Government Securities	Total Assets	Ratio in Percent	Investment on Government Securities	Total Assets	Ratio in Percent
2006/07	3155	27590.84	11.43	6454.86	34314.87	18.81
2007/08	3155	38873	8.12	7471.66	36857.62	20.27
2008/09	2531.3	53010	4.77	4212.3	40046.69	10.52
2009/10	4201.85	57305.41	7.33	4465.37	42717.12	10.45
2010/11	4294.6	58356.83	7.36	6407.36	46736.2	13.71
Mean			7.802			14.752
S.d.			2.391			4.594
C.V.			0.3065			0.3114

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.8

Investment on Government Securities to Total Assets ratio



Above table and figure show that the investment on government treasury bills to Total assets of NIBL and HBL. The both banks have fluctuating trend. The highest ratio of NIBL is 11.43% in 2006/07 and HBL has 20.27% in 2007/08 and the lowest ratio of NIBL and HBL are 4.77% in 2008/09 and 10.45% in 2009/10 respectively. The mean ratio of NIBL and HBL are 7.802% and 14.752% respectively. The ratio of HBL has higher than NIBL. It means HBL has invested more assets in risk free assets than NIBL. In another words NIBL has emphasized more on loan and advances and other short-term investment than investment in govt. securities. There is more variability in the ratio of NIBL. It shows that there is more inconsistency in the ratio of HBL during the study period, which is indicated by higher C.V. of HBL which shows inconsistency in its investment in Govt securities.

4.1.1.3 Profitability Ratio

The major performance indicator of any firm is its profit. The objective of investment policy is to earn good return. Any organization has a desire to earn higher profit which would help the firm to survive and it also indicates the efficient operation of the firm. Profit is the essential part of business activities that helps 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 efficiently. Here, these ratios 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 NIBL and HBL.

A) Return on Loan and advances

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

Table No. 4.9

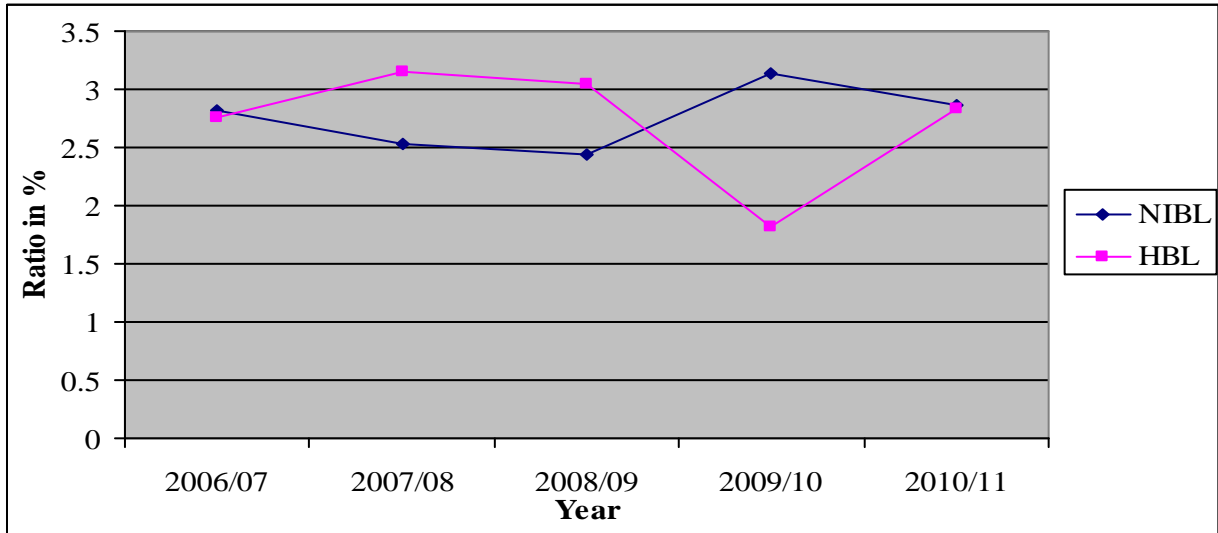
Return on Loan and advances

Fiscal Year	NIBL			HBL		
	Net Profit	Loan and Advances	Ratio	Net Profit	Loan and Advances	Ratio
2006/07	501.4	17769.1	2.82	491.824	17793.724	2.76
2007/08	697	27529	2.53	635.87	20179.61	3.15
2008/09	900.62	36827.16	2.44	752.83	24793.15	3.04
2009/10	1265.95	40318.31	3.14	508.8	27980.63	1.82
2010/11	1176.64	41095.51	2.86	893.12	31566.98	2.83
Mean			2.758			2.72
S.d.			0.279			0.527
C.V.			0.1015			0.1937

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.9

Return on Loan and advances



Above the table and figure 4.9 shows that return on loan and advances ratio of NIBL and HBL. The ratio of NIBL and HBL have fluctuating trend. The highest ratio of NIBL is 3.14% in the year 2009/10 and lowest ratio is 2.44% in year 2008/09. The

mean ratio is 2.758%.Whereas highest ratio of HBL is 3.15% in year 2007/08 and lowest ratio is 1.82% in 2009/10. The mean ratio of HBL is 2.72%. This both banks show the normal earning capacity in loan and advances and same earning capacity in form of loan and advances. The average ratio of NIBL is little higher than HBL. Which indicate that return from loan and advance of NIBL is higher than HBL. It can be concluded that NIBL has utilized the loan and advance for the profit generation in earning capacity. However both banks seem to have poor performance in order to have returns from loan and advances because return on loan and advances is less than five percent as five percent is benchmarking ratio in this case.

B) Return on Total Assets

This ratio measures the overall profitability of all working fund 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.

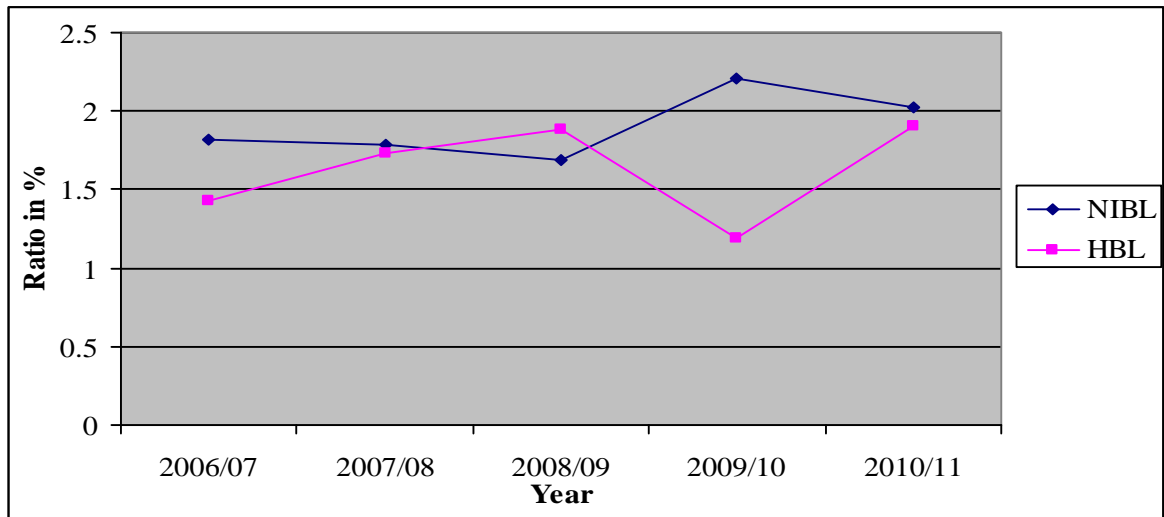
Table No. 4.10
Return on Total Assets Ratio

Fiscal Year	NIBL			HBL		
	Net Profit	Total Asset	Ratio	Net Profit	Total Asset	Ratio
2006/07	501.4	27590.84	1.82	491.824	34314.87	1.43
2007/08	697	38873	1.79	635.87	36857.62	1.73
2008/09	900.62	53010	1.69	752.83	40046.69	1.88
2009/10	1265.95	57305.41	2.21	508.8	42717.12	1.19
2010/11	1176.64	58356.83	2.02	893.12	46736.2	1.91
Mean			1.906			1.628
S.d.			0.208			0.310
C.V.			0.1091			0.1904

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.10

Return on Total Assets Ratio



Above table and figure show the return on total assets of NIBL and HBL. This table states the net profit to total assets of selected banks has fluctuating during the study period. NIBL seems successful in managing and utilizing the available assets in order to generate revenue since its average ROA is 1.906% of total assets in an average which is higher than that of HBL of 1.628 percent. The highest ratio of NIBL has 2.21 percent and lowest ratio is 1.67. Similarly highest ratio of HBL is 1.91 and lowest ratio is 1.19 percent. Where as S.D. and C.V. of HBL has relatively high it indicate less uniformity in the ratios. So return from total asset of NIBL is relatively better than HBL.

C) Return on Equity

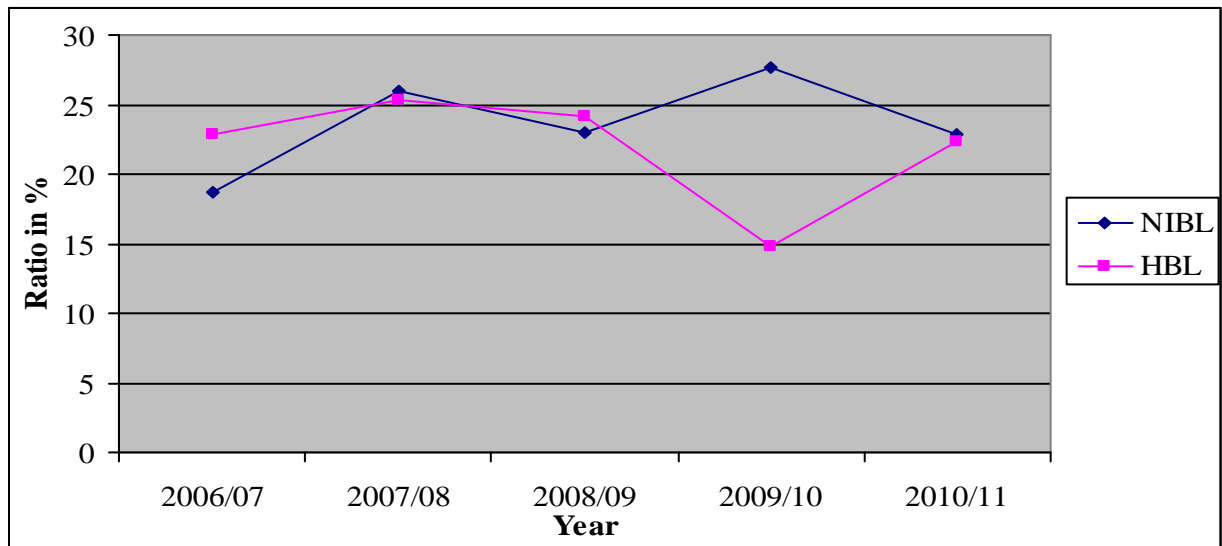
Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn higher profit and there by, maximizing return on its equity capital. Return on equity measures the profitability of a bank. It reflects the extend to which the bank has been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

Table No. 4.11
Return on Equity Ratio

Fiscal Year	NIBL			HBL		
	Net Profit	Total Equity	Ratio	Net Profit	Total Equity	Ratio
2006/07	501.4	2688.73	18.65	491.824	2146.5	22.91
2007/08	697	2686.78	25.94	635.87	2513	25.30
2008/09	900.62	3907.84	23.05	752.83	3119.88	24.13
2009/10	1265.95	4585.39	27.61	508.8	3439.2	14.79
2010/11	1176.64	5159.76	22.8	893.12	3995.48	22.35
Mean			23.61			21.896
S.d.			3.428			4.132
C.V.			0.1452			0.1887

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.11
Return on Equity Ratio



Above table and figure show return on equity ratio of NIBL and HBL. Above data indicates that NIBL and HBL have fluctuating trend of return on equity ratio. The highest ratio of NIBL is 27.61% in F/Y 2009/10 and lowest ratio is 18.65% in F/Y 2006/07.

2006/07. Similarly highest ratio of HBL is 25.30% in F/Y 2007/08 and lowest ratio is 114.79% in F/Y 2009/10. The average mean ratio of NIBL is 23.61 and HBL is 21.896 percent. The mean ratio NIBL is higher than HBL. It signifies that the shareholders of NIBL are getting higher return. INIBL has better utilized the equity for the profit generation. It proves to be strength for NIBL in attracting future investment also while HBL shows its weakness regarding efficient utilization of its owner's equity in comparison to NIBL. HBL is relatively more inconsistent throughout the study period due to being its higher C.V than NIBL.

D) Interest Earned to Total Assets Ratio

Interest earned to total assets ratio evaluates how successful the selected banks are at mobilizing their total assets to achieve higher amount of interest. Higher ratio indicates higher interest income of the banks.

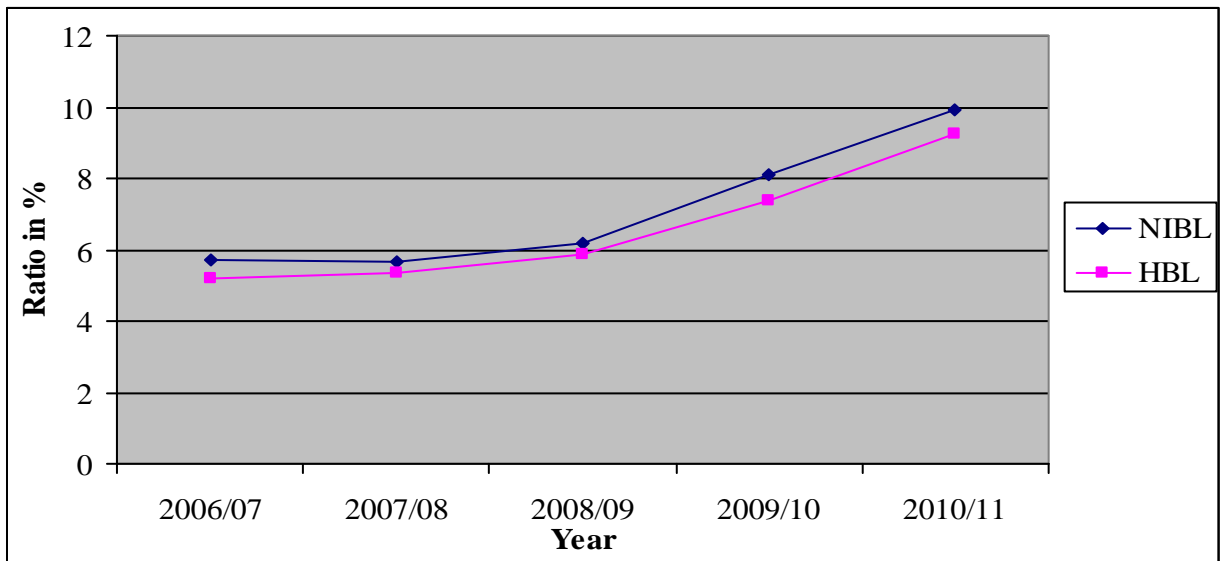
Table No. 4.12
Interest Earned to Total Assets Ratio

Fiscal Year	NIBL			HBL		
	Interest Earned	Total Assets	Ratio in Percent	Interest Earned	Total Assets	Ratio in Percent
2006/07	1584.99	27590.84	5.74	1775.583	34314.87	5.17
2007/08	2194.27	38873	5.64	1963.65	36857.62	5.33
2008/09	3267.94	53010	6.16	2342.2	40046.69	5.85
2009/10	4653.52	57305.41	8.12	3148.6	42717.12	7.37
2010/11	5803.44	58356.83	9.94	4326.14	46736.2	9.26
Mean			7.12			6.596
S.d.			1.869			1.724
C.V.			0.2625			0.2614

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.12

Interest Earned to Total Assets Ratio



Above table and figure show the increased total interest earned to total asset ratio of NIBL and HBL. Both the banks have increasing total interest earned to total asset ratio during studied period. Which indicate both banks doing well in interest earning. The highest ratio of NIBL is 9.94 percent and lowest ratio is 5.64 percent similarly highest ratio of HBL is 9.26 percent and lowest ratio is 5.17 percent. The average mean ratio of NIBL and HBL are 7.12 and 6.596 percent respectively. The mean ratio of NIBL is more than that of HBL. Despite the higher interest earned to total assets of NIBL has inconsistency in its ratio. In comparison, NIBL seems effective in interest earning ratio than HBL. Moreover, HBL has higher uniformity in the ratios during the study period due to having lower C.V. anyway It can be concluded that both NIBL and HBL has successfully mobilized their fund in interest generating assets.

E) Total Interest Earned To Total outside Assets Ratio

The main assets of commercial banks are its outside assets, which includes loan and advances 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 higher ratio indicates higher earning on such total assets and vice-versa. The following table exhibits the ratio of total interest earned to total outside assets of NIBL and HBL during the study period.

Table No. 4.13

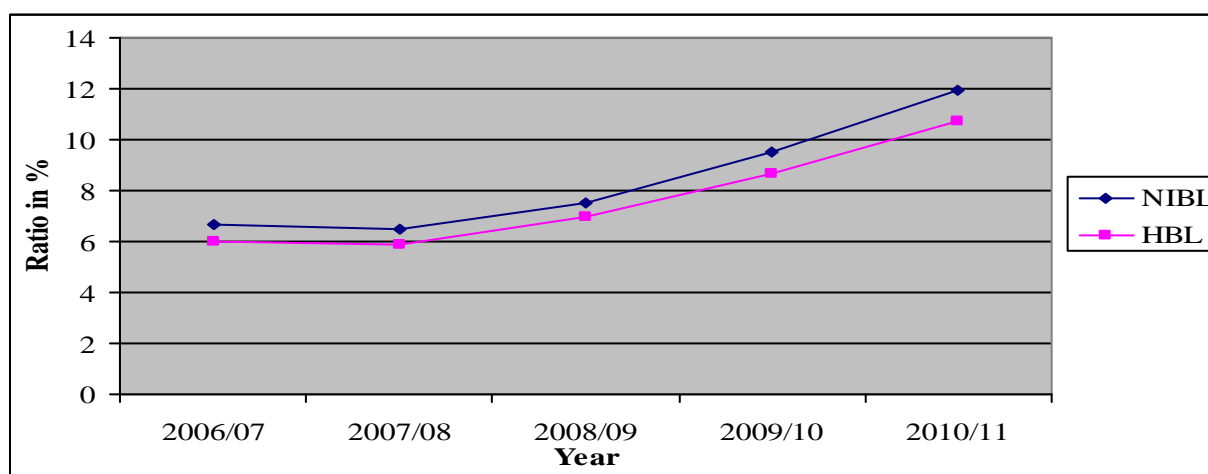
Total Interest Earned To Total outside Assets Ratio

Fiscal Year	NIBL			HBL		
	Interest Earned	Total outside Assets	Ratio in Percent	Interest Earned	Total outside Assets	Ratio in Percent
2006/07	1584.99	23792.11	6.66	1775.583	29616.71	6.00
2007/08	2194.27	33870.67	6.48	1963.65	33519.79	5.86
2008/09	3267.94	43641.02	7.49	2342.2	33503.85	6.99
2009/10	4653.52	48953.84	9.51	3148.6	36425.54	8.64
2010/11	5803.44	48518.62	11.96	4326.14	40336.92	10.73
Mean			8.42			7.644
S.d.			2.315			2.051
C.V.			0.275			0.2683

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.13

Total Interest Earned To Total outside Assets Ratio



Above table and figure show the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of both bank NIBL and HBL are in increasing during the study period. NIBL has highest ratio in the year 2010/11 with 11.96% and lowest in the years 2007/08 with 6.48%. Similarly, HBL has the highest ratio in the year 2010/11 with 10.73% and the lowest in the year 2007/08 with 5.86%. The mean ratio of NIBL and HBL are 8.42% and 7.644% respectively. Here NIBL seems to have more efficiency in generating total interest through well utilizations of outside assets. But it has relatively inconsistent returns. The C.V. of HBL is higher than NIBL so inconsistency in interest earned to total outside asset ratio.

F) Total interest earned to Total operating income Ratio

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the banks.

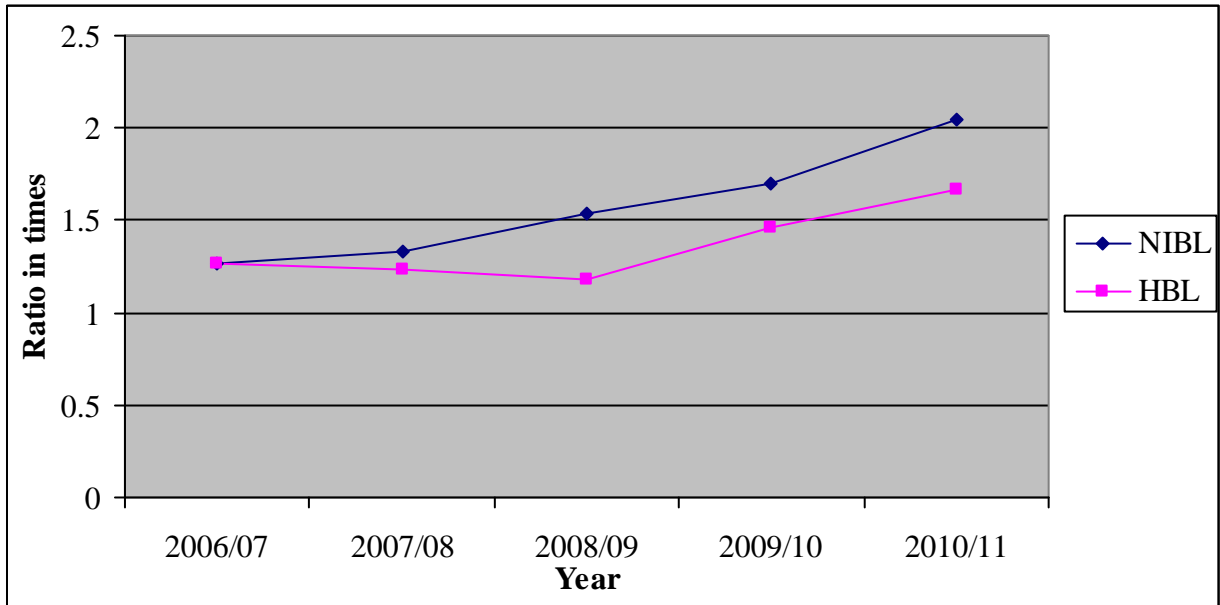
Table No. 4.14
Interest Earned to Operating Income Ratio

Fiscal Year	NIBL			HBL		
	Interest Earned	Operating Income	Ratio	Interest Earned	Operating Income	Ratio
2006/07	1584.99	1246.03	1.27	1775.583	1393.36	1.27
2007/08	2194.27	1649.62	1.33	1963.65	1597.5	1.23
2008/09	3267.94	2116.66	1.54	2342.2	1988.05	1.18
2009/10	4653.52	2734.93	1.70	3148.6	2157.96	1.46
2010/11	5803.44	2833.59	2.05	4326.14	2586.74	1.67
Mean			1.578			1.362
S.d.			0.314			0.202
C.V.			0.1993			0.1484

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.14

Interest Earned to Operating Income Ratio



Above table and figure show interest earned to operating income ratio of NIBL and HBL. Both banks have increasing its ratio during the study period. The NIBL has greater share of total interest earn in its total operating income in most of the years and mean too. The average mean ratio of NIBL and HBL are 1.578 times and 1.362 times respectively. The higher ratio of NIBL has indicates the high contribution in operating income made by lending and investing activities (core banking activity). HBL has lower ratio, it indicates that high contribution in operating income is not made by lending and investing activities (core banking activity). High contribution in operating income made by lending and investing activities (core banking activity) may not good in long run but in short run it is not so bad. Thus, from short term view, HBL is in good condition. In overall, both banks have managed sound interest earned to operating income ratio. The S.D. and C.V of NIBL is higher than HBL. So the ratio of NIBL is more inconsistency than HBL.

4.1.1.4 Risk Ratio

Risk and uncertainty is a part of business. All the business activities are influenced by risk, so business organizations cannot achieve a good return as per their desires. 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 have to accept the risk thoughtfully 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 NIBL and HBL.

A) Credit Risk Ratio

Credit risk ratio measures 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.

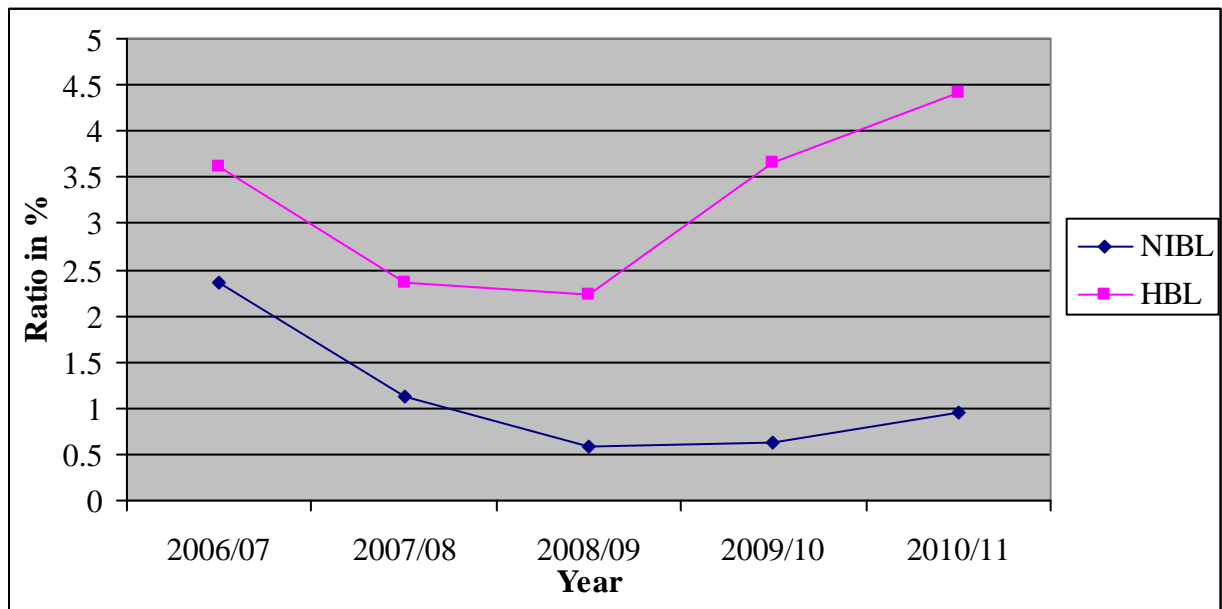
Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of non-performing assets in total Loan and Advances.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

Table No. 4.15
Credit Risk Ratio

Fiscal Year	NIBL			HBL		
	Non-Performing Loan	Total Loan	Ratio	Non-Performing Loan	Total Loan	Ratio
2006/07	421.97	17769.1	2.37	641.62	17793.724	3.61
2007/08	309.47	27529	1.12	477.23	20179.61	2.36
2008/09	213.91	36827.16	0.58	551.31	24793.15	2.22
2009/10	254.03	40318.31	0.63	1024.83	27980.63	3.66
2010/11	395.28	41095.51	0.96	1391.58	31566.98	4.41
Mean			1.132			3.252
S.d.			0.728			0.935
C.V.			0.6429			0.2875

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.15
Credit Risk Ratio



Above table and figure show that NPL to total loan and advances of NIBL and HBL are in decreasing and increasing at last. Decreasing trend is the good sign of efficient credit management. The mean non-performing loan to total loan and advances ratio of NIBL and HBL are 1.132% and 3.252% respectively during the study period. The ratio indicates that HBL has higher credit risk. These ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, in comparison, NIBL is more efficient at operating credit management than HBL. In another words, HBL is less efficient at operating credit management than NIBL. The NIBL bank has efficiently used the total loan and advances than that of HBL in credit risk aspect. Here NIBL is more successful in loan recovery because it has lower non performing loan in total loan and advances. The ratio of NIBL is inconsistency than HBL due to having higher C.V. so far.

(B) Liquidity Risk Ratio:

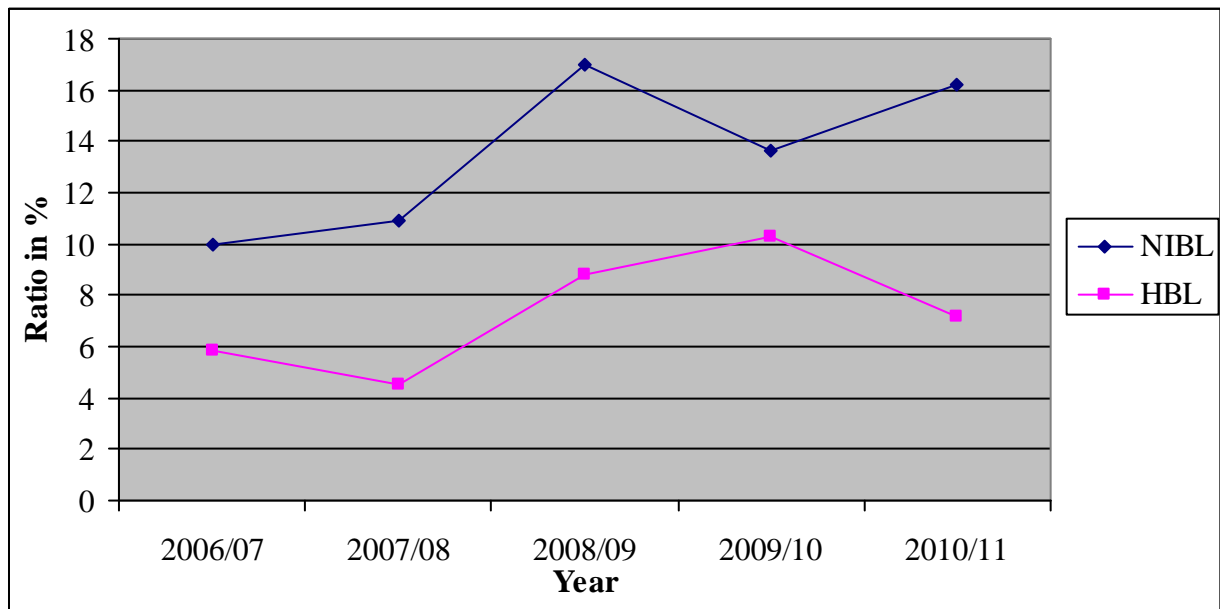
The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets, they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity in need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

Table No. 4.16
Liquidity Risk Ratio

Fiscal Year	NIBL			HBL		
	Cash and bank balance	Total Deposit	Ratio	Cash and bank balance	Total Deposit	Ratio
2006/07	2441.514	24488.85	9.97	1757.34	30048.418	5.85
2007/08	3754.94	34452	10.9	1448.14	31842.79	4.55
2008/09	7918	46698	16.95	3048.53	34681.35	8.79
2009/10	6815.89	50094.73	13.61	3866.49	37611.2	10.28
2010/11	8140.37	50138.12	16.24	2946.65	40920.63	7.20
Mean			13.534			7.334
S.d.			3.108			2.279
C.V.			0.2296			0.3107

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.16
Liquidity Risk Ratio



Above table and figure show cash and bank balance to total deposits ratio of the NIBL and HBL. The ratio of NIBL and HBL have fluctuating trend. The highest ratio of NIBL is 16.95% in F/Y 2008/09 and lowest ratio is 9.97% in F/Y 2006/07. Similarly highest ratio of HBL is 10.28% in F/Y 2009/10 and lowest ratio is 4.55% in F/Y 2007/08 respectively. The average mean ratio of NIBL is 13.543% which is higher than that of HBL of 7.334%. It signifies that NIBL has sound liquid fund to make immediate payment to the depositors. The lower C.V. of NIBL indicates more consistency in its ratio than HBL.

C.) Asset Risk Ratio:

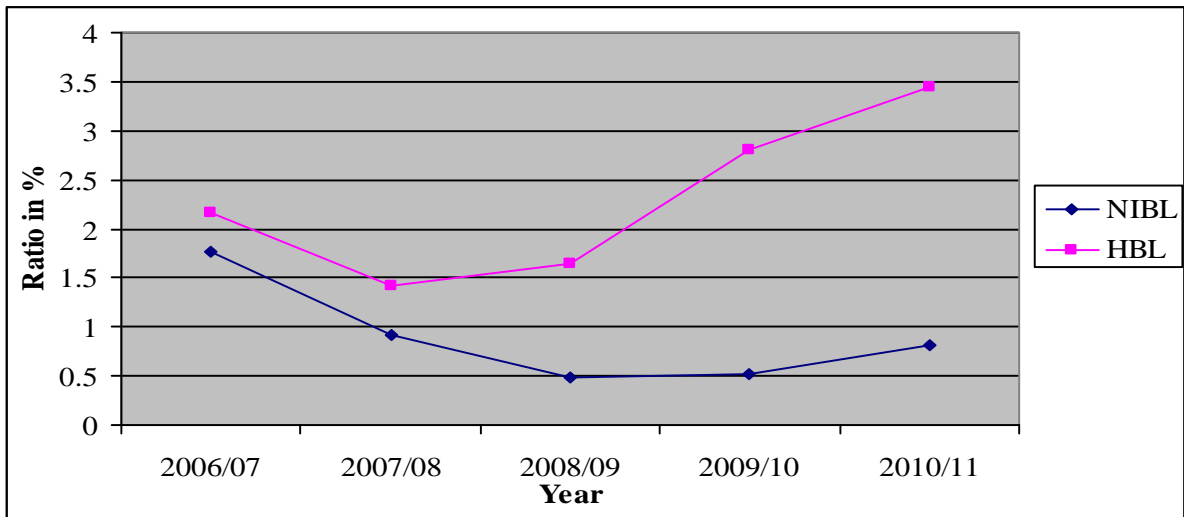
Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

Table No. 4.17
Asset Risk Ratio

Fiscal Year	NIBL			HBL		
	NPL	Outside Asset	Ratio	NPL	Outside Asset	Ratio
2006/07	421.97	23792.11	1.77	641.62	29616.71	2.17
2007/08	309.47	33870.67	0.91	477.23	33519.79	1.42
2008/09	213.91	43641.02	0.49	551.31	33503.85	1.65
2009/10	254.03	48953.84	0.52	1024.83	36425.54	2.81
2010/11	395.28	48518.62	0.81	1391.58	40336.92	3.45
Mean			0.90			2.30
S.d.			0.519			0.836
C.V.			0.5767			0.3635

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.17
Asset Risk Ratio



Above table and figure show that non-performing asset to total outside asset ratio of NIBL and HBL. Both banks have decreasing trend and increasing at last. Decreasing trend is the good sign of efficient asset management. The highest ratio of NIBL is 1.77% and lowest 0.49%. Similarly highest ratio of HBL is 3.45% and lowest is 1.45%. The average mean non-performing asset to total outside asset ratio of NIBL and HBL are 0.90% and 3.45% during the study period. The HBL has higher asset risk ratio than NIBL. These Ratios indicate the more efficient operating of asset management of both banks. However, in comparison, HBL is more efficient in asset management than NIBL. It is even less than 1 percent. In another words, NIBL is less efficient at asset management than HBL. The ratio of NIBL is less consistency than HBL due to having higher C.V.

4.1.1.5 Other Ratios

A) Earning Per Share

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures 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 has changed over that period or not but it doesn't reflect

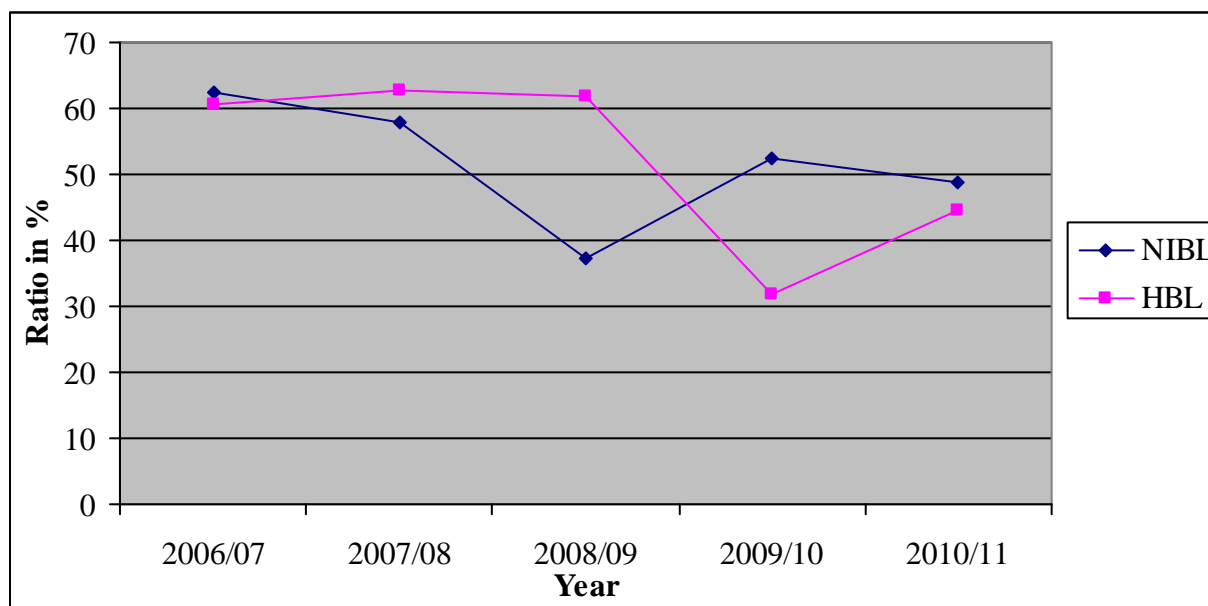
how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

Table No. 4.18
Earning Per Share

Fiscal Year	NIBL			HBL		
	Net profit	Total equity	Ratio	Net profit	Total equity	Ratio
2006/07	501.4	8013526	62.57	491.824	8108100	60.66
2007/08	697	12039154	57.89	635.87	10135125	62.74
2008/09	900.62	24070689	37.42	752.83	12162150	61.9
2009/10	1265.95	24090977	52.55	508.8	2000000	31.8
2010/11	1176.64	30113721.25	48.84	893.12	24000000	44.66
Mean			51.854			52.352
S.d.			9.607			13.689
C.V.			0.1853			0.2615

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.18
Earning Per Share



Above Table and Figure 4.18 show that earning price per share of NIBL and HBL. Both NIBL and HBL have fluctuating form of its EPS. The average EPS of HBL is little higher than NIBL. While observing their ratios NIBL is better mobilizing its resources to get more earning per share (EPS) although both banks have fluctuating its EPS. The highest EPS of NIBL is 62.57 and lowest is 37.42 percent. Similarly highest EPS of HBL is 62.74 and lowest is 31.8 percent. The average EPS of NIBL and HBL are 51.854 and 52.352. The higher mean indicate successful to generating higher EPS of HBL. The S.D and C.V. of HBL is higher than NIBL which indicate inconsistency in its EPS.

B) Market Price per Share

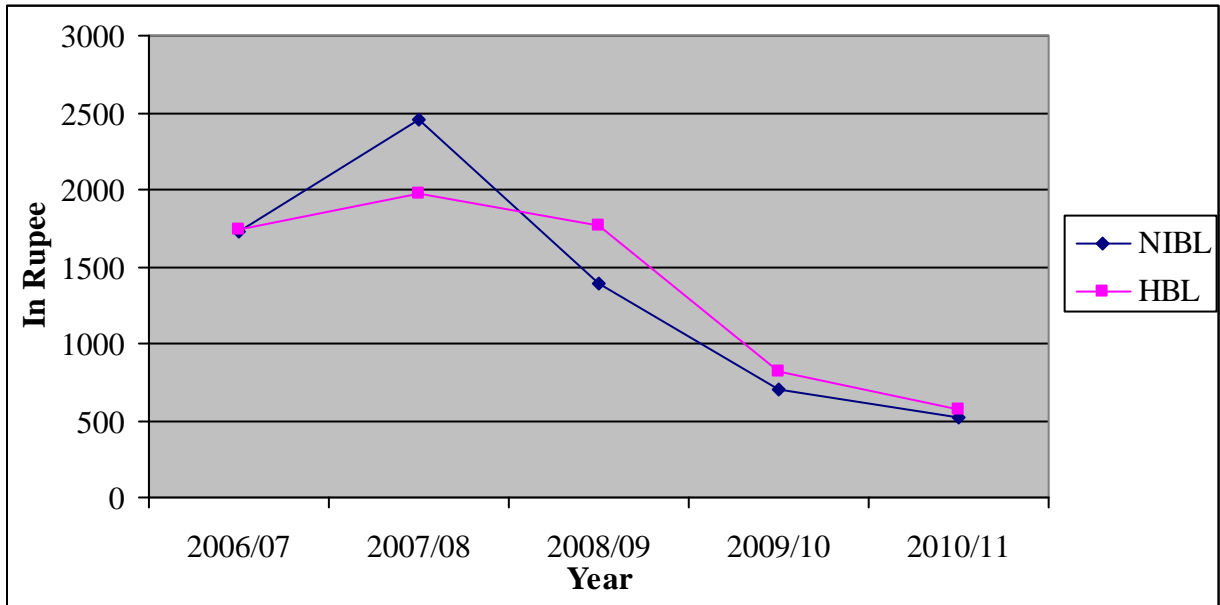
Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

Table No. 4.19
Market price per share (in Rs)

Fiscal Year	NIBL	HBL
	MPS	MPS
2006/07	1729	1740
2007/08	2450	1980
2008/09	1388	1760
2009/10	705	816
2010/11	515	575
Mean	1357.4	1374.2
S.d.	785.50	632.45
C.V.	0.5787	0.4602

Source: Annual Report of Banks (F/Y 2006/07 to 2010/11)

Figure No 4.19
Market price per share



Above table and figure show market price of the share of NIBL and HBL. Both bank NIBL and HBL has decreasing its share price from second fiscal year 2007/08 during the study period. It indicates that recession in share market start from F/Y 2007/08. This tends low performance of company and low expectation from company. The highest MPS of NIBL is Rs 2450 and lowest is 515 similarly highest MPS of HBL is 1980 and lowest is 575. Average mean price of HBL is higher than that of NIBL i.e. 1374 > 1357 Rupee. It indicates that shareholder of HBL are getting higher price. The S.D. and C.V. of NIBL have higher which indicate high fluctuation than HBL.

C) Price Earning Ratio

Price earning 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 investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price

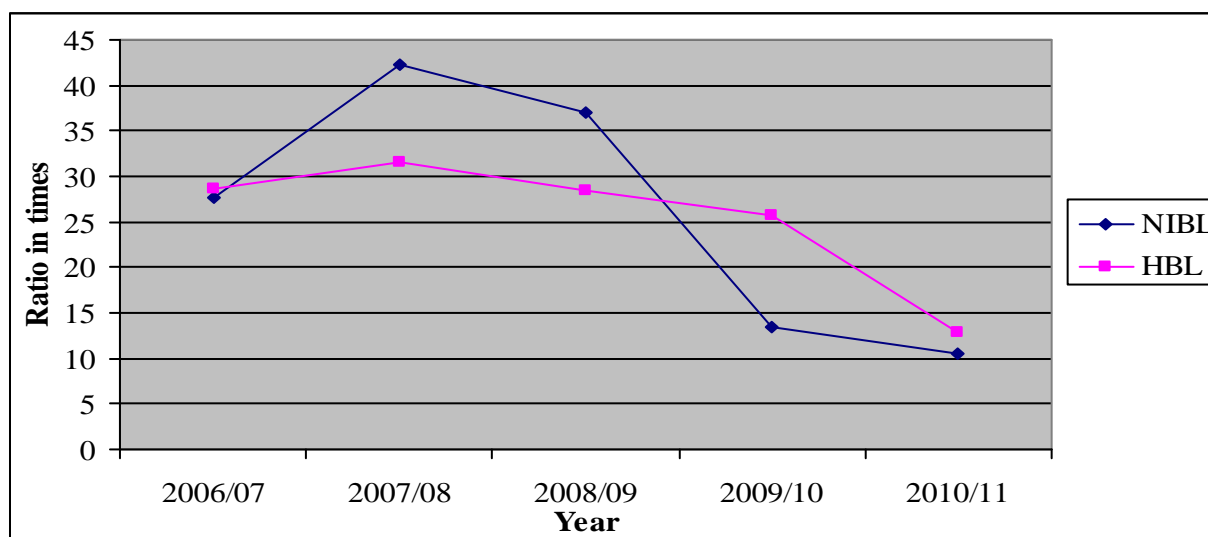
earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Table No. 4.20
Price Earning Ratio

Fiscal Year	NIBL			HBL		
	MPS(in Rs)	EPS (in Rs)	PE/Ratio	MPS(in Rs)	EPS (in Rs)	PE/Ratio
2006/07	1729	62.57	27.63	1740	60.66	28.68
2007/08	2450	57.89	42.33	1980	62.74	31.56
2008/09	1388	37.42	37.1	1760	61.9	28.43
2009/10	705	52.55	13.42	816	31.8	25.66
2010/11	515	48.84	10.55	575	44.66	12.88
Mean			26.21			25.44
S.d.			14.047			7.326
C.V.			0.536			0.288

Source: Annual Report of Concern Banks (F/Y 2006/07 to 2010/11)

Figure No 4.20
Price Earning Ratio



Above table and figure show that price earning ratio earning of NIBL and HBL. The PE ratio NIBL and HBL are decreasing from F/Y 2007/08. From the mean point of view, mean ratio of the NIBL and HBL are 26.21 and 25.44 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 26.21 in NIBL and Rs 25.44 in HBL. Looking the mean ratio we conclude that in short run, investor of NIBL are getting better profitability because they are selling their shares in high price. But from the long term view and sustainable fair price, investor of HBL will get better profitability and they will be in safe side a little bit in comparison with NIBL. The S.D and C.V of NIBL is also high than the HBL it indicate its contradiction to invest in NIBL rather than the HBL. Anyway both banks are measure as almost equally.

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, co-relation analysis, trend analysis, various types of tests etc. There is convenient statistical tools are used in this thesis study.

4.2.1 Coefficient of 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 NIBL and HBL using Karl Persons 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 vary important role in performance 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 and advances measures 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 objectives 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. 4.21

Correlation between Deposit and Loan and Advances

Name of Banks	Evaluation Criteria				Remarks
	r	r ²	P.Er.	6 P.Er.	
NIBL	0.998	0.996	0.0012	0.0072	Significant
HBL	0.996	0.992	0.0024	0.0145	Significant

Source: Through SPSS Data Editor

In above table 4.21, it is found that coefficient of correlation between deposits and loan and advances of NIBL and HBL are 0.998 and 0.996. It is shows that both have the positive relationship between these two variables. It refers that deposit and loan and advances of NIBL and HBL moves together very closely. Moreover, the coefficient of determination of NIBL is 0.996. It means 99.6 percent of variation in loan and advances has been explained by deposit. Similarly, value of coefficient of determination of HBL is 0.992. It refers that 99.2 percent variance in loan and advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P. Er. In other words, there is significant relationship between deposits and loan and advances of NIBL and HBL.

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 shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination (R²) of NIBL and HBL during the study period.

Table No. 4.22
Correlation between Deposit and Total Investment

Name of Banks	Evaluation Criteria				
	r	r ²	P.Er.	6 P. Er.	Remarks
NIBL	0.812	0.659	0.1028	0.6166	Significant
HBL	-0.784	0.615	0.1162	0.6974	Insignificant

Source: Through SPSS Data Editor

The Table 4.22 shows the coefficient of correlation between total deposit and total investment of NIBL and HBL. The correlation of NIBL is 0.812. It shows the normal degree of positive correlation. In addition, coefficient of determination of NIBL is 0.659, It means only 65.9 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 NIBL.

Similarly, correlation coefficient between total deposit and total investment of HBL is negative by -0.784, which refer negative relation between these two variables. The value of coefficient of determination is 0.615 this refers that only 61.5 percent of the variation in total investment is explained by total deposit least are determined by other factor. The correlation coefficient is insignificant because the correlation

coefficient is lower than 6 P. Er. It refers that there is insignificant relationship between total deposit and total investment of HBL.

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

C) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of NIBL and HBL during the study period. Where Loan and advance 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 significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the ‘r’, R², P.Er. and 6 P. Er. between those variables of NIBL and HBL for the study period.

Table No. 4.23
Correlation between Loan and advance and Net profit

Name of Banks	Evaluation Criteria				
	R	r ²	P.Er.	6 P.Er.	Remarks
NIBL	0.951	0.904	0.0288	0.1730	Significant
HBL	0.623	0.388	0.1846	1.1074	insignificant

Source: Through SPSS Data Editor

Above table shows correlation coefficient between loan & advance and net profit is 0.951 of NIBL. It refers that there is positive correlation between these two variables. Here, 90.4 percent of net profit is contributed by loan and advance as its

coefficient of determination is 0.904 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er.

Likewise HBL also has positive correlation between loan & advance and net profit by 0.623. The coefficient of determination R² is 0.388 which indicates that only 38.8 percent variability in net profit is explained by loan and advance. The correlation coefficient is less than 6 P.Er. so relationship between loan and advance and net profit is insignificant for HBL. It refers that there is insignificant relationship between total deposit and total investment of HBL. In calculation, NIBL has more significant relationship between loan and advance and net profit than that of HBL.

D) Coefficient of correlation between Total Deposit and Net Profit

Coefficient of correlation between total deposit and net profit measures the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and net profit is dependent variable(Y). The main objective of computing “r” between these two variables is to justify whether deposits are significantly used to get proper net profit or not. The table shows the value of r, r², probable Error (P.Err) and 6 P.Er. between total deposit and net profit of NIBL and HBL.

Table No. 4.24
Correlation between Total Deposit and Net Profit

Name of Banks	Evaluation Criterions				
	r	r ²	P.Err.	6 P.Er.	Remarks
NIBL	0.948	0.899	0.0305	0.1833	Significant
HBL	0.630	0.397	0.1819	1.0916	Insignificant

Source: Through SPSS Data Editor

The table shows the correlation coefficient between total deposit and net profit of NIBL and HBL. The correlation coefficient between total deposit and net profit of NIBL is 0.948, which implies there is positive correlation between total deposit and net profit. In addition, coefficient of determination of NIBL is 0.899. It means 89.9 percent of profit is contributed by total deposit. The correlation is significant at all due to coefficient of correlation is higher than 6 P Err. On the other hand HBL has low degree of positive correlation between total deposit and net profit i.e. 0.630. The coefficient of determination of HBL is 0.397 It means only 39.7 percent of profit is contribute by total deposit. This relationship is insignificant as its correlation coefficient is lower than 1.0916. The NIBL has significant relationship but HBL has insignificant relationship between total deposit and net profit. Thus it can be concluded that the degree of relationship between total deposit and net profit of HBL is poor than that of NIBL.

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 terms, 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 results of the banks.

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of NIBL and HBL for further five year.

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots \dots \dots (I)$$

Where $x = X - \text{Middle year}$

Where as

$$Y_c = 40486.32 + 6345 * X \text{ of NIBL}$$

$$Y_c = 35020.878 + 2751.28 * X \text{ of HBL}$$

Table No. 4.25

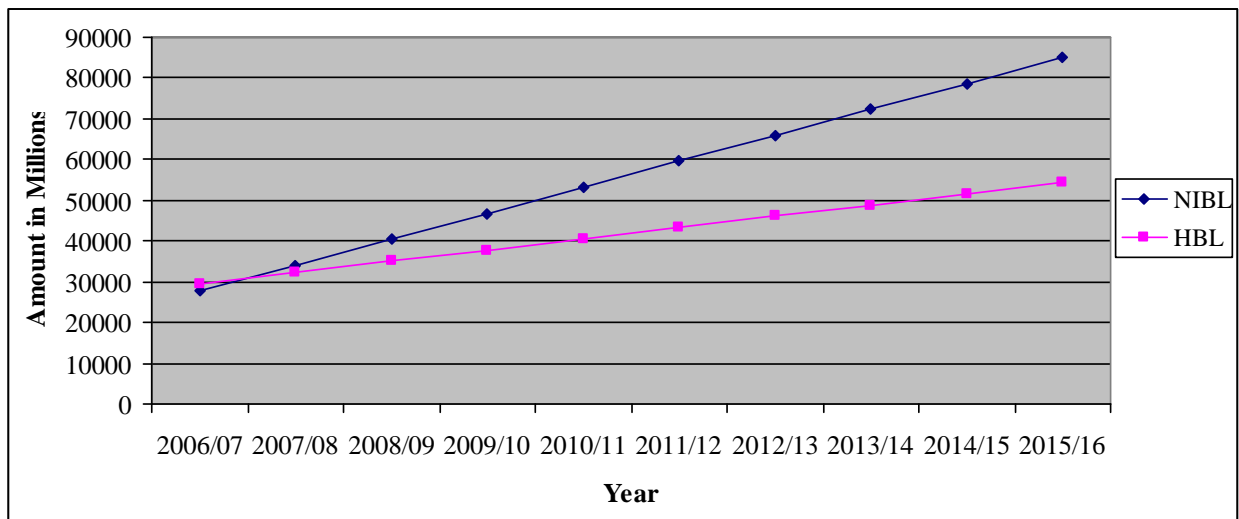
Trend analysis of Total Deposit of NIBL and HBL		
Year(x)	NIBL	HBL
2006/07	27794.8	29518.32
2007/08	34140.5	32269.6
2008/09	40486.3	35020.88
2009/10	46832.1	37772.16
2010/11	53177.9	40523.44
2011/12	59523.7	43274.72
2012/13	65869.4	46026
2013/14	72215.2	48777.28
2014/15	78561	51528.56
2015/16	84906.8	54279.84

Source: Trend value of Concern Bank

Appendix -1

Figure No 4.21

Trend Line of Total Deposit of NIBL and HBL



Above table and figure show that trend of total deposit of NIBL and HBL. Both Banks is in increasing trend. The rate of increment of total deposit for NIBL seems to be higher than that of HBL. The actual trend value of total deposit for NIBL is more than that of HBL. The trend analysis has projected deposit amount in fiscal year FY 2011/12 to FY 2015/16. From the above trend analysis it is clear that NIBL has higher position in collecting deposit than HBL.

B) Trend Analysis of Loan and advances

Here, the trend values of loan and advances Between NIBL and HBL have been calculated for further five year. The following Table shows the actual and trend values of NIBL and HBL.

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

$$Y_c = 32707.82 + 5944.213 * X \text{ of NIBL}$$

$$Y_c = 24462.82 + 3534.75 * X \text{ of HBL}$$

Table No. 4.26

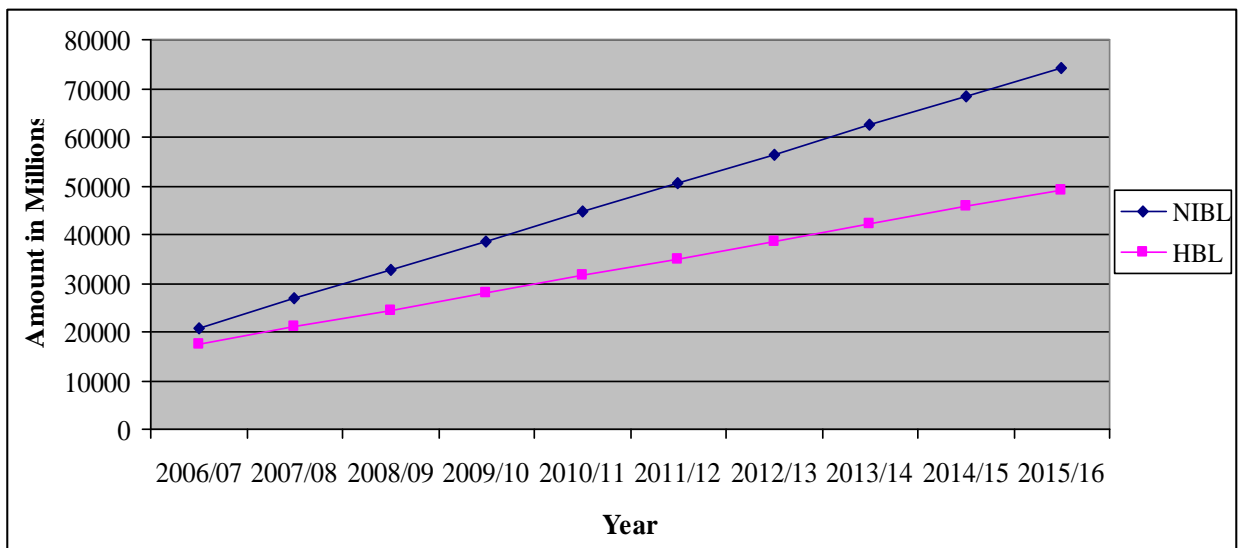
Trend analysis of Total Loan and Advance of NIBL and HBL		
Year(x)	NIBL	HBL
2006/07	20819.4	17393.32
2007/08	26763.6	20928.07
2008/09	32707.8	24462.82
2009/10	38652	27997.57
2010/11	44596.2	31532.32
2011/12	50540.5	35067.07
2012/13	56484.7	38601.82
2013/14	62428.9	42136.57
2014/15	68373.1	45671.32
2015/16	74317.3	49206.07

Source: Trend value of Concern Bank

Appendix - 2

Figure No 4.22

Trend line of Total Loan and Advance of NIBL and HBL



Above table and figure depict that trend of loan and advances of NIBL and HBL. Both Banks has in increasing trend. The increasing trend of NIBL is higher and aggressive than HBL. The value of loan and advances for HBL is quite fluctuating in relation to NIBL. The trend projected for father five year 2011/12 to FY 2015/16 From the above analysis, it is clear that both NIBL and HBL is mobilizing its collected deposits and other funds in the form of loan and advances. But above table and figure shows NIBL has highly mobilizing loan and advances than the HBL.

C) Trend Analysis of Total Investment

Under this topic has been made to analyze trend analysis total investment of NIBL and HBL. Where,

$$Y = a + bx$$

Where,

Y= dependent variable

a=Y-intercept

b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where $x = X - \text{Middle year}$

Where as

$$Y_c = 7362.97 + 478.545 * X \text{ of NIBL}$$

$$Y_c = 10217.74 - 1100.137 * X \text{ of HBL}$$

Table No. 4.27

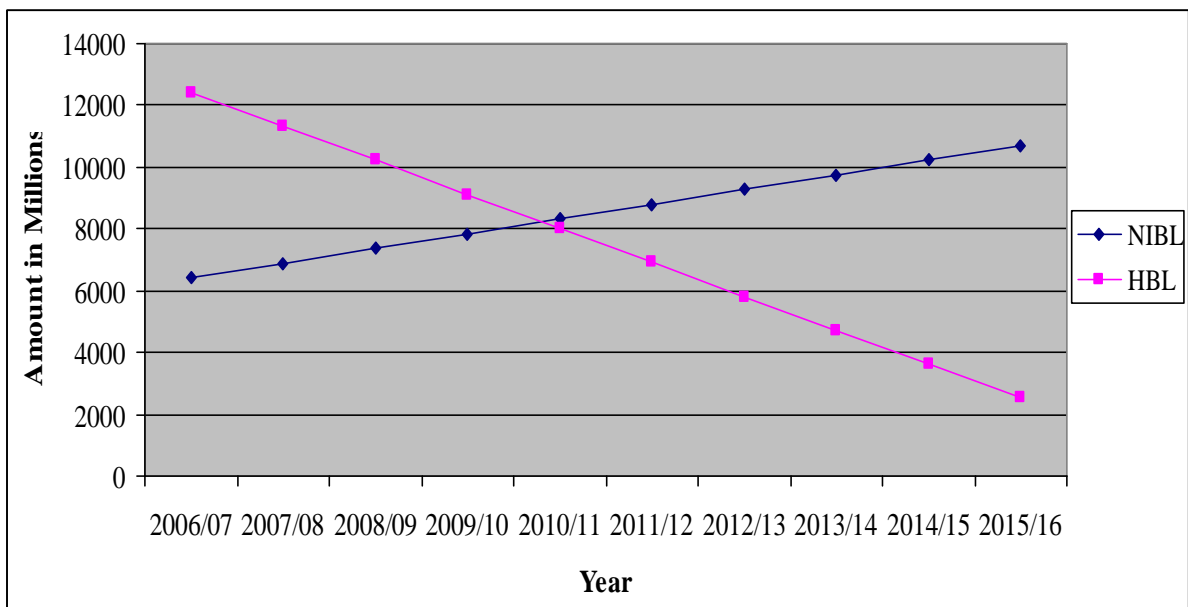
Trend analysis of Total Investment Between NIBL and HBL		
Year(x)	NIBL	HBL
2006/07	6405.88	12418.01
2007/08	6884.43	11317.88
2008/09	7362.97	10217.74
2009/10	7841.52	9117.603
2010/11	8320.06	8017.466
2011/12	8798.61	6917.329
2012/13	9277.15	5817.192
2013/14	9755.7	4717.055
2014/15	10234.2	3616.918
2015/16	10712.8	2516.781

Source: Trend value of Concern Bank

Appendix -3

Figure No 4.23

Trend Line of Total Investment between NIBL and HBL



Above table and figure show the trend of total investment between NIBL and HBL. The NIBL has increasing trend where as HBL has decreasing trend in making investment. The trend shows that NIBL has little increasing trend, but HBL has decreasing trend of total investment. The trend of total investment projected to further five year. The forecasted trend projected that the NIBL has positive increment rate in total investment and HBL has downward and decreasing rate of HBL. The figure indicates that NIBL has highly mobilized the total investment rather than HBL.

D) Trend Analysis of Net Profit

Net profit is the final income of bank after deducting all expenses. Here, the trend values of net profit of NIBL and HBL have been calculated for five years FY 206/07 to FY 2010/11 and forecasting further next five year till FY 2015/16.

$$Y = a + bx$$

Where,

Y= dependent variable

a=Y-intercept

b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where $x = X - \text{Middle year}$

$$Y_c = 908.32 + 191.943 * X \text{ of NIBL}$$

$$Y_c = 656.49 + 67.55 * X \text{ of HBL}$$

Table No. 4.28

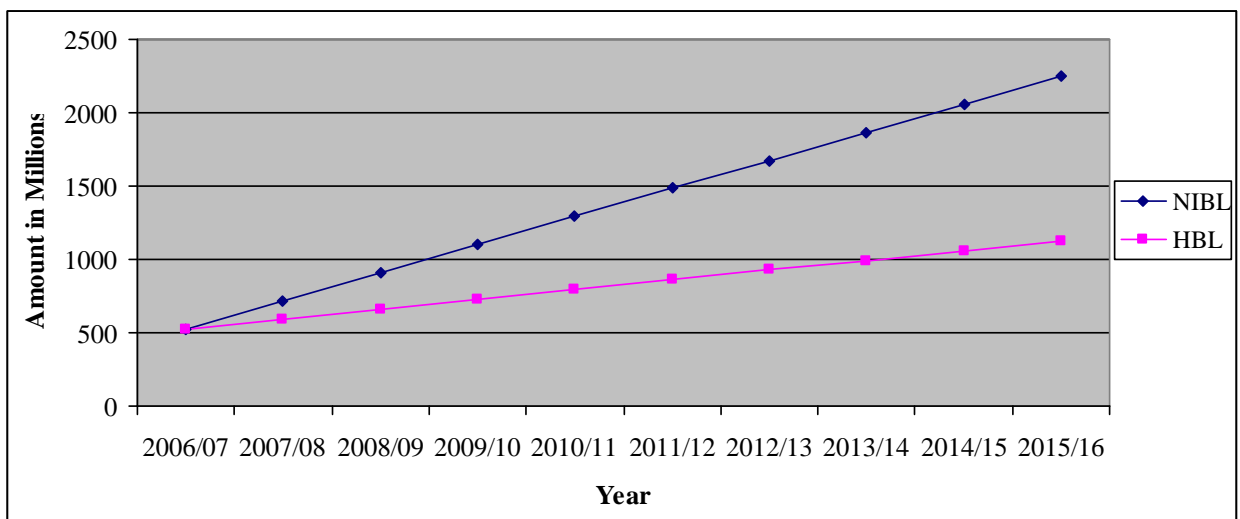
Trend Analysis of Net Profit Between NIBL and HBL		
Year(x)	NIBL	HBL
2006/07	524.434	521.39
2007/08	716.377	588.94
2008/09	908.32	656.49
2009/10	1100.26	724.04
2010/11	1292.21	791.59
2011/12	1484.15	859.14
2012/13	1676.09	926.69
2013/14	1868.04	994.24
2014/15	2059.98	1061.79
2015/16	2251.92	1129.34

Source: Trend value of Concern Bank

Appendix - 4

Figure No 4.24

Trend Line of Net Profit between NIBL and HBL



The above table and figure reveals the trend of Net profit of NIBL and HBL. Net profit of both banks NIBL and HBL forecasted in increasing trend. The trend of increasing value of net profit of NIBL is higher than HBL. The net profit of NIBL and HBL has been increasing every year by Rs. 191.943 million and Rs. 67.55 million respectively. The increment rate of net profit of NIBL is little higher than HBL. The trend of Net profit projected to FY 2015/16 i.e. further five year. In conclusion, NIBL is doing better in order to generate net profit during the projected study period although both NIBL and HBL have increasing trend.

4.3 Major Findings of the Study

From the above research, the researcher has enlisted the major findings in a summarized manner so that a complete picture of the data presentation and analysis can be presented following findings are drawn on the investment policy of the selected commercial banks.

-) Generally banks have to maintain standard current assets. The current ratio of NIBL and HBL has a fluctuating trend. The average current ratio of NIBL and HBL are 1.28 and 1.06. The liquidity position of NIBL is greater than HBL as it has a higher mean ratio. So, NIBL is sound in meeting short-term obligation than HBL. Both banks have moderate liquidity position because the ratio is more than 1:1 ratio.
-) The average cash and bank balance to total deposit ratio of NIBL and HBL are 13.534 and 7.334 percent. NIBL has higher ratio than the HBL, which shows its greater ability to pay depositors money. Liquidity position of NIBL is good.
-) The cash and bank balance to current assets ratio of NIBL and HBL are fluctuating. The mean ratio of NIBL is higher than HBL. The higher mean ratio shows that NIBL's liquidity position is better than that of HBL.

-) The investments on government securities to current assets ratio of NIBL and HBL have fluctuating. The mean ratio of NIBL is lower than HBL. It means HBL has invested more money in risk free assets than NIBL. For minimization of investment risk, NIBL should divert its investment in govt. securities.
-) The loan and advances to total deposit ratio of both bank NIBL and HBL has increasing form. NIBL has higher ratio than that of HBL. It indicates the better mobilization of deposit by NIBL as loan and advance. It reveals that the deposit of NIBL is quickly converted in to loan and advances to earn income.
-) The total investment to total deposit ratio NIBL and HBL both the banks have fluctuating decreasing form. Which indicate investment from deposit is decreasing. The mean ratio of the NIBL and HBL are 22.068% and 30.048% respectively, which shows that HBL has a higher ratio. It signifies that HBL has successfully allocated its deposit in investment portfolio.
-) The loan and advances to total assets ratio NIBL has constant and HBL has increasing. Average ratio of NIBL has higher ratio than HBL. It reveals that in total assets of NIBL has high proportion as loan and advances. NIBL has utilized its total assets more efficiently in the form of loan and advances. The lower C.V. of NIBL also states that it has more uniformity in ratios than HBL.
-) The investment on government treasury bills to total assets NIBL and HBL have fluctuating. The mean ratio of HBL has higher than NIBL. It means HBL has invested more assets in risk free assets than NIBL. In another words NIBL has emphasized more on lending and other short-term investment than investment in govt. securities.
-) The return on loan and advances ratio of NIBL and HBL has fluctuating form. This both banks show the normal earning capacity in loan and

advances and same earning capacity in form of loan and advances. The average ratio of NIBL is little higher than HBL. Which indicate that return from loan and advance of NIBL is higher than HBL. NIBL has utilized the loan and advance for the profit generation in earning capacity.

- J The NIBL and HBL both banks have fluctuating trend of return on its total assets. However, NIBL seems successful in managing and utilizing the available assets in order to generate revenue since its average ROA is higher than that of HBL.
- J Return on equity ratio of NIBL and HBL have fluctuating. The average mean ratio of NIBL has little higher mean ratio than that of HBL. So NIBL is generating higher ROE in comparison with HBL. The shareholders of NIBL are getting higher return than HBL.
- J Both NIBL and HBL banks have increasing total interest earned to total asset ratio, which indicate both banks doing well in interest earning. The mean ratio of NIBL is little more than that of HBL. NIBL seems effective in interest earning ratio despite having lower asset and interest earning. However both banks performing best in this regards.
- J The interest earned to total outside assets ratio of both bank NIBL and HBL are in increasing during the study period. The mean ratio of NIBL has little higher than HBL. Here NIBL seems to have more efficiency in generating total interest through well utilizations of outside assets. But it has relatively inconsistent returns.
- J Interest earned to operating income ratio of NIBL and HBL banks have increasing form. The NIBL has higher of total interest earn in its total operating income in most of the years and mean too. The higher ratio of NIBL indicates the high contribution in operating income made by lending and investing activities (core banking activity). But the ratio of NIBL is more inconsistency than HBL.

-) The NPL to total loan and advances of NIBL and HBL are in decreasing and increasing at last. Decreasing trend is the good sign of efficient credit management. The mean ratio of NIBL and HBL are 1.132% and 3.252%. These ratios indicate that ratio of HBL is higher. These ratios indicate more efficient operating of credit management of both banks according to NRB directives. However, NIBL is more efficient at operating credit management than HBL.
-) The liquidity risk ratio of the NIBL and HBL are in fluctuating. The average mean ratio of NIBL is greater than that of HBL. It signifies that NIBL has sound liquid fund to make immediate payment to the depositors.
-) The non-performing asset to total outside asset ratio of NIBL and HBL are decreasing at first and increasing at last. Decreasing trend is the good sign of efficient asset management. The average ratio of HBL is higher than NIBL. These ratios indicate that NIBL has more efficient in operating of asset management than HBL. In comparison, NIBL is more efficient in asset management than HBL.
-) The earning price per share of both NIBL and HBL has fluctuating form. HBL is better mobilizing its resources to get more earning per share (EPS). The average EPS of NIBL and HBL are 51.854 and 52.352. The EPS of HBL seems little higher than NIBL which indicates successful in generating higher EPS. Anyway both banks have performed well. HBL has more inconsistency in its EPS than NIBL.
-) Market price of the share of both banks NIBL and HBL has decreasing its share price from second fiscal year. This tends to low performance and expectation from company. The highest MPS of NIBL is 2450 and lowest is 515 similarly highest MPS of HBL is 1980 and lowest is 575. Average mean price of HBL is little higher than that of NIBL. It indicates that shareholders of HBL are getting higher price.

-) The price earning ratio of NIBL and HBL are fluctuating decreasing. The mean ratio of the NIBL and HBL are 26.21 and 25.44 times. It indicates that for getting Rs 1 as earning, it should invest Rs 26.21 in NIBL and Rs 25.44 in HBL. The NIBL are getting better profitability because they are selling their shares in high price. But from the long term view and sustainable fair price, both banks are equal.
-) The coefficient of correlation between deposits and loan and advances of NIBL and HBL are 0.998 and 0.996. It is shows that both banks have positive relationship between these two variables. The relationship between deposits and lending of NIBL and HBL are significant.
-) The correlation between total deposit and total investment of NIBL is 0.812 and HBL has negative by 0.784. The correlation of NIBL has normal and HBL has negative. This indicates that deposit and investment of HBL has inverse relationship. The relationship between total deposit and total investment of NIBL is significant whereas insignificant relationship of HBL.
-) The correlation between loan & advance and net profit of NIBL and HBL are 0.951 and 0.623. It is positive correlation between these two variables. The NIBL has significant relationship and HBL has insignificant relationship between loan and advance and net profit.
-) The correlation between total deposit and net profit of NIBL and HBL are 0.948 and 0.630. Both banks have positive correlation but HBL has lower. The NIBL has significant relationship but HBL has insignificant relationship. Thus it can be concluded that the degree of relationship between total deposit and net profit of HBL is poor than the HBL.
-) The trend of total deposit of NIBL and HBL banks is in increasing trend. The rate of increment of total deposit for NIBL seems to be higher than that of HBL. The actual trend value of total deposit for NIBL is more than that of HBL. NIBL has higher position in collecting deposit than HBL. Similarly the

trend of loan and advances between NIBL and HBL also increasing trend. The increasing trend of NIBL is higher and aggressive than HBL. It is clear that both NIBL and HBL is mobilizing its collected deposits and other funds in the form of loan and advances. The trend projected to further five year F/Y 2015/16.

J The trend of total investment of NIBL have increasing trend where as HBL has decreasing trend OK has little increasing but HBL has high increasing trend. The forecasted trend projected that the NIBL has increasing and HBL has decreasing trend. Similarly the trend of Net profit of NIBL and HBL are increasing trend. The trend of increasing value of net profit of NIBL is higher than HBL. The net profit of NIBL and HBL has been increasing every year by Rs. 191.943 million and Rs. 67.55 million respectively. The increment rate of net profit of NIBL is higher than HBL. NIBL is doing better in order to generate net profit during the projected study period although both NIBL and HBL have increasing trend.

CHAPTER – V

SUMMARY, CONCLUSIONS AND ECOMMENDATIONS

5.1 Summary

This research has been analyzed the investment policy of commercial banks. Here two banks NIBL and HBL have been selected as sample of the study and five year financial statements of respective banks have been used for the study. The study has been divided into five chapters which include introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendation. This study mainly based in secondary data, with include published annual report and other publication of banks. Other related information was collected from the concerned banks, NRB, NEPSE, Securities Board of Nepal and different websites. The data have been analyzed by using financial and statistical tools.

The research is about investment policy of NIBL and HBL banks. The researcher has identified that research problem and set objectives to solve research problems about financial analysis of selected commercial banks as described in introduction chapter. The main objective of the study is to make a comparative study on fund mobilization and investment practices of the selected banks To evaluate the liquidity, asset management, efficiency, profitability and risk portion of NIBL and HBL, to measure the relationship trend analysis between deposit, loan and advance, investment and profit of sample commercial banks NIBL and HBL and offer suitable suggestions and recommendations based on findings of this study. The research is based on secondary source of data. The researcher has identified that research problem and set objectives to solve research problems about investment Policy of Nepal Investment Bank Limited and Himalayan Bank limited. 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. There related literatures have been reviewed for more effective. This section includes conceptual review and review of related studies. In conceptual review includes concept of banking and commercial banks, concept of investment, meaning of investment policy, characteristic of sound investment policy. In the review of related studies includes review of books, journal and articles and review of previous thesis as well.

Research methodology has been described in third chapter, which is a way to solve the research problems with the 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. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange and security board of Nepal.

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 ratio analysis consists current ratio, liquidity ratio, assets management ratio, profitability ratio, risk ratio and other ratios. Other ratio includes EPS, MPS and P.E. ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, regression analysis and trend analysis, have been applied to fulfill the objective of this study. The analysis has been done mainly through secondary. The major findings of the study are also included in the final section of the presentation and analysis chapter.

Investment practice of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

Investment policy should incorporate several elements such as regulatory environment, the availability of funds, the reflection of risk, loan portfolio balance and term structure of the liabilities. Thus, commercial banks should incorporate several elements while making investment plan. The loan provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. Investment positions are undertaken with the goal of earning some expected rate of return. Investors seek to minimize inefficient deviations from the expected rate of return. Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return.

5.2 Conclusions

This research is done with the major objective of investment policy of NIBL and HBL. Here make analyze the financial analysis in terms of liquidity, asset management, profitability and lending efficiency and other various ratio of sample banks as well as relevant financial and statistical ratios. Following conclusion has been drawn from the study.

For the analysis of liquidity position of the banks the current ratio of NIBL and HBL has fluctuating. The liquidity position of NIBL is higher than HBL. The average cash and bank balance to total deposit ratio of NIBL has higher than the HBL. The cash and bank balance to current assets ratio of NIBL is higher than HBL. The investments on government securities to current assets ratio of NIBL and HBL have

fluctuating. The HBL has invested more in govt. securities than NIBL. The loan and advances to total deposit ratio of both bank NIBL and HBL has increasing form. NIBL has higher ratio which indicates the better mobilization of deposit. The total investment to total deposit ratio of HBL has a higher than NIBL. NIBL has utilized its total assets more efficiently in the form of loan and advances. The investment on government treasury bills to total assets NIBL and HBL have fluctuating. HBL has invested more assets in risk free assets than NIBL. The return on loan and advances ratio of NIBL and HBL has fluctuating form. The return from loan and advance of NIBL is higher than HBL. Return on equity ratio of NIBL has little higher mean ratio than that of HBL. So NIBL is generating higher ROE in comparison with HBL. Both NIBL and HBL banks have increasing total interest earned to total asset ratio, which indicate both banks doing well in interest earning. The interest earned to total outside assets ratio of both bank NIBL and HBL are in increasing. NIBL seems to have more efficiency in generating total interest through well utilizations of outside assets. Interest earned to operating income ratio of NIBL and HBL banks have increasing form. The NPL to total loan and advances of NIBL and HBL are in decreasing and increasing at last. Decreasing trend is the good sign of efficient credit management. The liquidity risk ratio of the NIBL and HBL are in fluctuating. The NIBL has sound liquid fund to make immediate payment to the depositors. The non-performing asset to total outside asset ratio of NIBL and HBL are decreasing at first and increasing at last. Decreasing trend is the good sign of efficient asset management. NIBL is more efficient in asset management than HBL due to having low ratio. The earning price per share of both has fluctuating form. HBL is better mobilizing it resources to get more earning per share (EPS. Anyway both banks have performing well. HBL has more inconsistency in its EPS than NIBL. Market price of the share of both banks has decreasing its share price from second fiscal year. Higher ratio indicates that shareholder of HBL are getting higher price. The price earning ratio of NIBL and HBL are fluctuating decreasing. For getting Rs 1 as

earning, it should invest Rs 26.21 in NIBL and Rs 25.44 in HBL. The NIBL are getting better profitability because they are selling their shares in high price.

The correlation between deposits and loan and advances of NIBL and HBL are 0.998 and 0.996. It is shows that both banks have positive relationship between these two variables. The relationship between deposits and lending of NIBL and HBL are significant. The correlation between total deposit and total investment of NIBL is positive and HBL has negative. This indicates that deposit and investment of HBL has inverse relationship. The relationship between total deposit and total investment of NIBL is significant whereas insignificant relationship of HBL. The correlation between loan & advance and net profit of NIBL and HBL are positive by 0.951 and 0.623. The NIBL has significant relationship and HBL has insignificant relationship. The correlation between total deposit and net profit of NIBL and HBL are positive but HBL has lower. The NIBL has significant relationship but HBL has insignificant relationship. The trend of total deposit of NIBL and HBL banks is increasing trend. The increment rate of NIBL seems to be higher than HBL. NIBL has higher position in collecting deposit than HBL. The trend of loan and advances of NIBL and HBL have also increasing trend. The increasing trend of NIBL is higher and aggressive than HBL. It is clear that both NIBL and HBL is mobilizing its collected deposits and other funds in the form of loan and advances. The trend of total investment of NIBL have increasing trend where as HBL has decreasing trend. The forecasted trend projected that the NIBL has increasing and HBL has decreasing. The trend of Net profit of NIBL and HBL are increasing trend. The trend of increasing value of net profit of NIBL is higher than HBL. The net profit of NIBL and HBL has been increasing every year by Rs. 191.943 million and Rs. 67.55 million respectively. The increment rate of net profit of NIBL is higher than HBL although both NIBL and HBL have increasing trend.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the financial analysis NIBL and HBL effective and efficient. This would help to draw some outline and make reform in the respective banks.

- J Generally, banks have to maintained liquid assets. The current ratio of the two banks, NIBL and HBL is considerable. This can be regarded as good liquidity position. Because both bank have more than 1:1 ratio. This can be regarded as good liquidity position. But HBL has little lower. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. So, it is recommended to maintain sound liquidity position to NIBL and HBL.
- J Considering the growth position of financial market, the lending policy management capabilities, strategic 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 NIBL and HBL.
- J 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 and can be easily sold in the market. In this research study, it has found that both banks NIBL and HBL have made some amount of fund in Government securities. But NIBL has found little lower. So it's recommended to NIBL invests more funds in Government securities instead risky lending.
- J To get success in competitive banking environment, deposit must be utilized as loan and advances. The largest item of bank assets side is loan and advances. It has been found that loan and advances to total deposit ratio of HBL is lower than that of NIBL. It means HBL has not properly used their

existing fund as loan and advances. So HBL is recommended to follow liberal lending policy and to invest more deposit in loan and advances.

- J The NPL of NIBL and HBL are in decreasing where as HBL is increasing at last. Decreasing trend is the good sign of efficient credit management. The mean ratio of NIBL and HBL are 11.132% and 3.252%. These ratios indicate that HBL has worse loan than NIBL. Both banks have under the credit risk according to NRB directives. However, both bank recommended reducing its nonperforming loan especially for HBL which has more ratio.
- J 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 indicate the banks' sound financial position that would help them satisfy their stakeholders. So both bank recommended to increase in this regards.
- J The trend of total investment of NIBL increasing where as HBL has decreasing form. It indicates HBL has squeeze in its investment. So it recommended to increase in its investment.
- J Interest earning is main source of bank. The interest earned to total outside assets ratio of both bank NIBL and HBL are in increasing. Its good sign. The mean ratio of NIBL has little higher than HBL. Here NIBL seems to have more efficiency in generating total interest through well utilizations of outside assets. So both banks recommended to follow the same way afterwards.
- J Both the banks are 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 consider rural areas in making investment policy.

- J Political instability directly affected the economic sector such as hotel and tourism, manufacturing and trading sector. Bank loan and advances are decreasing in this sector. So banks should give priority to these sectors as well as create new investing sector to mobilize deposit.
- J Banks should develop an innovative approach to marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. Banks are also required to explore new market areas. For this purpose, it is recommended to form a strong market department in central level, which deals with the banking products, places, price and promotion.
- J In conclusion, NIBL has better performance than HBL. But both banks are doing well. So both banks should keep up with its growth trend to give strong competition to other banks. In the light of growing competition in the banking sector, both bank NIBL and HBL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the purposive customers.

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Appendix - 1

A) Trend Analysis of Nepal Investment Bank Limited

Year(x)	Total Deposit(Y)	X = x-2008/09	X ²	XY
2006/07	24488.85	-2.00	4.00	-48977.70
2007/08	34452	-1.00	1.00	-34452.00
2008/09	46698	0.00	0.00	0.00
2009/10	46698	1.00	1.00	46698.00
2010/11	50094.73	2.00	4.00	100189.46
Tot n= 5	Y = 202431.58	X = 0	X ² =10	XY = 63457.76

Source: Annul Report of Nepal Investment Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

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

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

NIBL

$$a = 40486.32$$

$$b = 6345.78$$

Where as

$$Y_c = 40486.32 + 6345.78 * X \text{ of NIBL}$$

B) Trend Analysis of Himalayan Bank Limited

Year(x)	Total deposit(Y)	X = x-2008/09	X ²	XY
2006/07	30048.42	-2.00	4.00	-60096.84
2007/08	31842.79	-1.00	1.00	-31842.79
2008/09	34681.35	0.00	0.00	0.00
2009/10	37611.20	1.00	1.00	37611.20
2010/11	40920.63	2.00	4.00	81841.26
Tot n= 5	Y = 175104.39	X = 0	X ² =10	XY= 27512.83

Source: Annul Report of Himalayan Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

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

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

HBL

$$a = 35020.88$$

$$b = 2751.28$$

Where as

$$Y_c = 35020.878 + 2751.28 * X \text{ of HBL}$$

Appendix - 2

A) Trend Analysis of Nepal Investment Bank Limited

Year(x)	Loan and advances (Y)	X = x-2008/09	X ²	XY
2006/07	17769.1	-2.00	4.00	-35538.20
2007/08	27529	-1.00	1.00	-27529.00
2008/09	36827.16	0.00	0.00	0.00
2009/10	40318.31	1.00	1.00	40318.31
2010/11	41095.51	2.00	4.00	82191.02
Tot n= 5	Y = 163539.08	X = 0	X ² =10	XY = 59442.13

Source: Annul Report of Nepal Investment Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots \dots \dots (I)$$

Where x = X - Middle year

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

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

NIBL

$$a = 32707.82$$

$$b = 5944.21$$

Where as

$$Y_c = 32707.82 + 5944.213 * X \text{ of NIBL}$$

B) Trend Analysis of Himalayan Bank Limited

Year(x)	Loan and advances (Y)	X = x - 2008/09	X ²	XY
2006/07	17793.724	-2.00	4.00	-35587.45
2007/08	20179.61	-1.00	1.00	-20179.61
2008/09	24793.15	0.00	0.00	0.00
2009/10	27980.63	1.00	1.00	27980.63
2010/11	31566.98	2.00	4.00	63133.96
Tot n= 5	Y = 122314.09	X = 0	X ² =10	XY = 35347.53

Source: Source: Annul Report of Himalayan Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

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

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

HBL

$$a = 24462.82$$

$$b = 3534.75$$

Where as

$$Y_c = 24462.82 + 3534.75 * X \text{ of HBL}$$

Appendix -3

A. Trend Analysis of Nepal Investment Bank Limited

Year(x)	Total Investment(Y)	X = x-2008/09	X ²	XY
2006/07	6505.7	-2.00	4.00	-13011.40
2007/08	6874.02	-1.00	1.00	-6874.02
2008/09	7399.81	0.00	0.00	0.00
2009/10	7399.81	1.00	1.00	7399.81
2010/11	8635.53	2.00	4.00	17271.06
Tot n= 5	Y= 36814.87	X=0	X ² =10	xy = 4785.45

Source: Annul Report of Nepal Investment Bank Limited

$$Y = a + bx$$

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

Here,

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

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

NIBIL

$$a = 7362.97$$

$$b = 478.55$$

Where as

$$Y_c = 7362.97 + 478.545 * X \text{ of NIBIL}$$

B) Trend Analysis of Himalayan Bank Limited

Year(x)	Total Investment(Y)	X = x-2008/09	X ²	XY
2006/07	11822.99	-2.00	4.00	-23645.98
2007/08	13340.18	-1.00	1.00	-13340.18
2008/09	8710.69	0.00	0.00	0.00
2009/10	8444.91	1.00	1.00	8444.91
2010/11	8769.94	2.00	4.00	17539.88
Tot n= 5	Y= 51088.71	X=0	X ² =10	xy = -11001.37

Source: Annul Report of Himalayan Bank Limited

$$Y = a + bx$$

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

Here,

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

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

HBL

$$a = 10217.74$$

$$b = -1100.14$$

Where as

$$Y_c = 10217.74 - 1100.137 * X \text{ of HBL}$$

Appendix - 4

A) Trend Analysis of Nepal Investment Bank Limited

Year(x)	Net Profit (Y)	X = x-2008/09	X ²	XY
2006/07	501.4	-2.00	4.00	-1002.80
2007/08	697	-1.00	1.00	-697.00
2008/09	900.62	0.00	0.00	0.00
2009/10	1265.95	1.00	1.00	1265.95
2010/11	1176.64	2.00	4.00	2353.28
Tot n= 5	Y = 4541.61	X = 0	X ² = 10	XY = 1919.43

Source: Annul Report of Nepal Investment Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

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

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

NIBL

$$a = 908.32$$

$$b = 191.94$$

Where as

$$Y_c = 908.32 + 191.943 * X \text{ of NIBL}$$

B.) Trend Analysis of Himalayan Bank Limited

Year(x)	Net Profit (Y)	X = x-2008/09	X ²	XY
2006/07	491.824	-2.00	4.00	-983.65
2007/08	635.87	-1.00	1.00	-635.87
2008/09	752.83	0.00	0.00	0.00
2009/10	508.8	1.00	1.00	508.80
2010/11	893.12	2.00	4.00	1786.24
Tot n= 5	Y = 3282.44	X = 0	X ² =10	XY = 675.52

Source: Annul Report of Himalayan Bank Limited

Where,

Y= dependent variable

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

HBL

$$a = 656.49$$

$$b = 67.55$$

Where as

$$Y_c = 656.49 + 67.55 * X \text{ of HBL}$$