CHAPTER I

INTRODUCTION

1.1 Background of the Study

The mobilization of domestic resources, capital formation and its proper utilization plays an important role in the economic development of a country. Every financial institution, big or small, be it a commercial bank or a finance company or a cooperative bank, plays an important role in the development of a country. Commercial banks are major financial institutions, occupying an important place in the economy of a country because the deposits collected by them provide much needed capital for the development of industry, trade, and commerce and other sectors, thereby contributing to the economic growth.

Investment is the use of money to earn profit. It can be said that investment is the concerned with the proper management of the investor's wealth. Which is the sum is the sum of the current income and the present value of all future income. Fund to be invested come from assets already owned, borrowed money and saving or foregone consumption. By foregoing today and investing the saving, visitors expect to enhance their future consumption possibilities i.e. the fund is invested to increase wealth. Investors also seeks to manage wealth effectively obtaining the most from it, while protecting it from inflation, taxes and other possible harms. The policy of investment determines the investor's objective and the amount wealth. It is not appropriate foe a investors to say that the objective is to make a lot of money. What is appropriate for a investors in this situation is to state that objective to earn profit while recognizing that here exits some chances of incurring large losses. Investment objective should be stated in terms of both risk and return (Clarke, 1989).

The primary goal of nation is rapid economic development to promote the welfare of the people and the nation as well. Nepal being listed among the least developed countries, is trying to embark upon the path of economic development by achieving a higher economic growth rate and developing all sectors of economy. The proper mobilization and utilization of domestic resource is one the key factors in the economic development of a country. Similarly, integrated and speedy development of the country is possible only when the competitive and reliable banking services

reached and carried to every corner of the country. It has been well established that the economic activities of any country can hardly be carried forward without the assistance and proper support of financial institutions. Financial institutions have catalytic role in the process of economic development. Successful formulation and effective implementation of investment policy is prime requisite for the successful performance of banks and other financial institution. Proper investment policy has a positive impact on economic development of the country.

Investment is always related with risks and return making money alone cannot be an appropriate to state that objective is to make profit by recognizing the possible losses. Therefore, investment objective should be stated in terms of both risk and returns. Setting a clear investment policy also involves the identification of the potential categories of financial asset for consideration institution the ultimate portfolio. The identification of asset depends upon many things such as investment objectives, investable wealth, tax consideration etc. The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective of investment policy is to mitigate credit risk and interest rate risk.

The company minimizes the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Investing operating funds primarily in shorter-term securities.

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in bank deposits or repurchase agreements that offer same-day liquidity for short-term funds.

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with a security with declining credit may be sold early to minimize loss of principal. A security swap would improve the quality, yield, or target duration in the portfolio. Liquidity needs of the portfolio require that the security be sold (Jweifel, 2018).

Commercial Banks and Investment Policy

Commercial Bank are major financial institution, which occupy quite important place in the framework of every economy. Commercial banks lender numerous services to their customer with a 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 actives roles, have changed the economic structure of the world. Thus commercial banks have become the heart of financial system.

Commercial banks deal with other people's money. They have to find the ways of keeping their liquid so that they could meet the demand of their customer. In anxiety to make profit, banks can't afford to lock up their funds in institutions assets that are not easily realizable. The depositors confidence could be secured only if the bank able to meet the cash promptly and fully. The banker has to keep adequate cash for this purpose. Cash is an ideal asset and hence the banker can't afford to keep a long portion of his assets in the bank. Therefore the banker has to distribute his assets in such a way that he can have adequate profits without sacrificing liquidity (Radhaswamy & Vasudevan, 1999).

Commercial banks must mobilize its deposits and other fund to profitable, secured, stable and marketable sector. Then only it can earn more profit and it also be secured and can be converted into cash whenever needed. But, commercial bank have to pay due consideration while formulating investment policy regarding loan and investment. Investment policy is one fact of the overall spectrum of policies that guide banks investment operations. A healthy development of any bank depends heavily upon its investment policy. A sound and viable investment policy attracts both borrowers and

lender, which helps to increase the volume and quality of deposits, loan and investment. Commercial bank should be careful while performing the credit creation. The banks should never invest its fund in those securities, which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. It must not invest its funds into speculative businessmen who may become bankrupt at once and who may earn millions in a minute. Emphasizing upon this, H.D Crosse stated "The investment policy should be carefully analyzed." So they must invest their funds where they gain maximum profits with minimum risk.

Commercial banks must follow the rules and regulation as well as different directives issued by central bank. The bank should invest its funds in legal securities only. Diana McNaughton in her research paper "Banking institution in developing markets" state that, investment policy should incorporate several elements such as regulatory environment, the availability of the funds. The selection of risk, loan portfolio balance and term structure and liabilities (McNaught on, Diana, 1994). Thus, commercial bank should incorporate several elements while making investment policy. 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 bank's investment are fully considered while making investment.

Himalayan Bank Limited (HBL):

Himalayan Bank has been known throughout Nepal for its innovative approaches to sale/ merchandise products and customer services such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme, ATMs and Tele-banking. ATMs and Tele-banking were the first customer services products, which were first introduced by Himalayan Bank. All branches of HBL are integrated into Globus (developed and temenos), the single banking software where bank has made substantial investment. This has helped the Bank 'Any Branch Banking Facility' , Internet Banking and SMS Banking (Annual report of HBL, 2017/18).

HBL is providing loan/credit facilities such as overdraft loans, demand loans, time loans, trust, receipt loan, fixed term, project financing, revolving cash credit, packing credit, post shipment, personal loan, loan against fixed deposit, counter guarantee, letter of credit (sight/issuance), bid bond, performance bond, advance payment guarantee, hire purchase loan, housing loan, flexi (subidha loan). It receives deposits as current, normal savings, call, fixed term, accidental death insurance, and PSA scheme. Other facilities provided by HBL are funds transfer, HBL credit card facilities, letter of credit service, SMS banking, etc.

Nabil Bank Ltd.

Nabil Bank Ltd, the commercial bank was incorporated in 1984. Dubai Bank Ltd. was the initial joint venture partner with 50% equity investment. The shares owned by Dubai Bank Ltd. (DBL) were transferred to Emirates Bank International Ltd. (EBIL) Dubai. Later on EBIL sold its entire stock its entire stock to National Bank Ltd, Bangladesh (NBLB). The present configuration consists of 50% share capital by national Bank Ltd, Bangladesh. 10% NIDC, 9.66% Rastriya Bema Sansthan, 0.34% Nepal Stock Exchange and 30% Nepalese public. At present 40 branches of this bank are operating in different parts of country.

The main focus of the study is to make a comparative study of Himalayan Bank Ltd and NABIL Bank Ltd regarding financial performance in term of liquidity, asset management, profitability and risk. It also focuses on fund mobilization and investment policy.

1.2 Statement of the Problem

Commercial banks invest their funds in limited area to achieve highest amount of profit. They are found to be more interested to invest in less risky and highly liquid sector i.e. treasury bills, development bonds and other securities. There is hesitation to invest on long-term projects because commercial banks are much more safety minded. So, they seem to follow conservative and un- effective investment policy.

In Nepal, every commercial bank has invested in the similar sectors. These major sectors include tourism, garments, and trading as well. But given the current situation of the country, it is not up to them to decide in which sector they want invested. The main factor for success of any organization is secured situation. Once the economic and political situation is stabilized, then only commercial banks can consider rationally as to where they invest and grow. Till then it is a question of moving into sectors as and when thing develop. So, security problem is the big problem for every commercial bank to invest their fund.

There are various problems in resource mobilization by financial institution in Nepal. The most important problem is poor investment climate prevailing in Nepal due to heavy regulatory procedure, uncertain government policy, NRB's stringent directives, unsecured social environment etc. Lack of sound investment policy is another reason for a commercial bank not to properly utilizing its deposits that is making loan and advances or lending for a profitable project. This condition may lead the commercial bank to the position of liquidation.

Nepalese commercial banks do not seem to have formulated their investment policy in an organized manner. They mainly rely upon the instruction and guidelines of Nepal Rastra Bank. They do not have clear view toward investment policy. Furthermore, implementation of policy is not done in effective way. Lack of farsightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to commercial banks. To address these problems following research questions have been developed:

a. What is the investment policy of Nabil and HBL?
b. How effective are the investment policies of Nabil and HBL?
c. What is the status of liquidity, profitability and risk?
d. What is the relationship between investment and deposit?

1.3 Objectives of the Study

The main objective of the study is to analyze the investment of HBL and NABIL. Other specific objectives are as follows:

1. To identify the trend in utilization of fund of HBL and NABIL
2. To analyze the investment portfolio of HBL and NABIL.
3. To analyze the liquidity and profitability of HBL and NABIL.

1.4 Hypothesis

The test of hypothesis disclose the fact whether the difference between the computed statistic and hypothetical parameter is significant. Following hypothesis are formulated:

1. Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$, i.e. there is no significant difference between mean ratios of loan and advances to total deposit of Nabil and HBL bank.

   Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test), i.e. there is significant difference between the mean ratios of loan and advances to total deposit of Nabil and HBL bank.

2. Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$, i.e. there is no significant difference between mean ratios of total investment to total deposit of Nabil and HBL bank.

   Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test), i.e. there is significant difference between the mean ratios of total investment to total deposit of Nabil and

3. Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$, i.e. there is no significant difference between mean ratios of government securities to current assets of Nabil and HBL bank.

Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test), i.e. there is significant difference between the mean ratios of government securities to current assets of Nabil and HBL bank.

4. Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$, i.e. there is no significant difference between mean ratios of loan and advances to current assets of Nabil and HBL bank.

   Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test), i.e. there is significant difference between the mean ratios of loan and advance to current assets of Nabil and HBL bank.

5. Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$, i.e. there is no significant difference between mean ratios of return on loan and advances of Nabil and HBL bank.

   Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test), i.e. there is significant difference between the mean ratios of return on loan and advances of current assets of Nabil and HBL bank.

1.5 Significance of the Study

Every investor in the worlds invests their money in the hope of getting good return from their investment. Some of them succeed while other become failure in their goal. Due to many reasons they lose their hard earning just not by analyzing risk and return involved in the investment. Thus recoverable investment is must because investment policy is the proper management of wealth to generate income. Moreover, without sound investment policy no banks and institutions can run or exits in the long run. Thus the main focus of the study is to analyze the sound investment policy of HBL and NBL. With the help of financial and statistical analysis. Moreover the study is focused on evaluating the deposits utilization in terms of loans and advances and investment and its impact in the profitability of the banks and the study is the portfolio behavior of the banks.

This study will be summarizing, sensible and precious to the people having interest in the investment policy of HBL and NABIL bank. This will be beneficial for bank management, shareholders and customers. Furthermore, this will be useful for teacher and students related to the accountancy and finance. In conclusion, the importance of the study focuses at following points:

- It will be helpful for commercial banks and financial institutions.

- It will provide required information and data to required persons, readers, shareholders, decision makers, traders, investors, general public, etc.
- It will be valuable property for decision making.
- This study can also be used as reference for future research.

1.6 Limitations of the Study

The study has the following limitations:

- The study deals with only two commercial banks (HBL and NABIL) and data related to other commercial banks have not been accounted.
- The study has covered only 6 years data from year 2012/13 to 2017/18.
- This is mostly based on secondary data (published annual reports of commercial banks), journals, newspapers, magazines etc. and unpublished thesis.
- Out of the numerous affecting factors, this study concentrates only on those factors, which are related with investment policy, and available in the form required for analyzing the different issues.

1.7 Organization of the Study

This whole study has been divided into five chapters, which are as follows:

Chapter I: Introduction: This chapter includes background of the study, focus of the study, statement of problem, objective of the study, significance/ importance of the study and limitation of the study.

Chapter II: Review of Literature: This chapter deals with conceptual/ theoretical review and review of related studies.

Chapter III: Research Methodology: It includes research design, population and sample, sources of data, data collection techniques, data analysis tools, limitation of methodology and review of related studies.

Chapter IV: Data Presentation and Analysis: It tries to analyze and evaluate data through various tools and interprets major findings of the study.

Chapter V: Summary, Conclusion and Recommendations: This chapter is the concluding part of the study which summarizes the study, conclusion and recommendation.

CHAPTER II

REVIEW OF LITERATURE

Review of literature provides the foundation for developing a comprehensive theoretical framework and knowledge of the status relevant to the field of research in order to explore the relevant and true facts for the reporting purpose. Hence, in this chapter, the focus has been made on the review of literature relevant to the investment policy of commercial banks. For this study, different books, journals, articles, annual reports and some research paper related with this topic has been reviewed. Therefore, this chapter is arranged in the following order:

2.1 Conceptual Review

Review of supportive text provides the fundamental theoretical framework and foundation to the present study. For this, various books, research paper, article etc dealing with theoretical aspect of investment policy analysis are taken into consideration.

2.1.1 Definition of Investment

The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible when there is adequate saving. If all the income and saving are consumed to solve the problem of hand to mouth and to the other basic needs, then there is no existence of investment. Therefore both investment and saving are interrelated. Different author have tried to explain the meaning of investment in their own way. Some of them are explained below.

Investment is the allocation of capital to investment proposal whose benefit are to be received in the future. Because the future benefits are not known with certainty, investment proposal necessarily involve risk. Consequently, they should be evaluated in relation to their expected return and risk, for these are the factor that affect the firm's valuation in the marketplace. Moreover investment in capital projects should provide expected return in the excess of what financial market require (Van Horne, 2002).

Investment as the commitment of future one or more assets that will be held over some future time period. Investment is concerned with the management of an

investor's wealth. Which is the sum of current income and present value of all income (Charles 1991).

The investment objective are to increases systematically the individual wealth, defined as asset minus liabilities. Higher the level of desired wealth the higher must be received. An investor seeking higher return must be willing to face the higher level of risk (Cheney & Moses, 1998).

Investment are made in assets in all are two types, real assets (land, building, factories etc) and financial assets(stocks, bond, T-bill etc.). These two investment are not competitive but complementary. High developed institution for financial investment greatly facilitates real investment.

From these definitions, it is clear that investment is simply the conversion of money into claims on money and use of fund for productive and income earning assets. It is the employment of funds with the target of achieving additional income or value in the future. It involves saving of resources from current consumption in the hope that some benefits will accrue in the future.

2.1.2 Investment Policy

Investment policy can be defined as the action plan by which its funds are distribute on different type of assets with good profitability on the one hand and provide maximum safety and security on other hand. Investment policy is the cornerstone of the investment process. Without it, investors have no appropriate context in which to make decisions.

Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of those assets.

Commercial bank should consider the national interest followed by borrower's interest and the interest of the bank itself before investing to the borrowers. To further pursue his view, bank lending must be for such purposes of the borrowers that are in keeping with the national policy and bank's overall investment policy. A bank's overall investment should be basically of short term characters, well spread, repayable on demand profitable and well inadequate security.

2.1.3 Investment Environment

The investment environment refers to all internal and external forces, which have a bearing on the functioning of investment decisions. It encompasses the kinds of marketable securities that exist and where and how they are bought and sold through the broker's network and financial intermediaries. Thus, the investment environment is a combination of securities, markets and intermediaries. Any securities transaction conducted without using broker is directly illegal in accordance with rules and regulation.

Security is a piece of paper representing the investor's rights to certain prospects of property and the conditions under which he or she may exercise those rights. It serves as evidence of property rights. It may be transferred to another investor. The term "security" refers to a claim to receive prospective future benefits under certain conditions.

Security markets are mechanisms created to facilitate the exchange of financial assets. It brings the buyers and sellers together. On the basis of securities traded, security market can be classified into primary and secondary market. On the basis of life-span of securities, it can be divided into money market and capital market.

Financial intermediaries are organization that issue financial claims against themselves and use the proceeds to purchase primarily the financial assets of others. They actively participate as both suppliers and demanders of funs. They include savings and loan associations, savings banks, credit unions, life insurance companies, mutual funds, pension funds (Charles, 1990).

2.1.4 Loans and Advances Policy

This policy is also known as Credit Policy of the bank. Credit policy guides the bank's overall credit operation. The Credit policy is the primary means by which senior management and the board guide lending activities. Although the policy primarily imposes standards, it also is a statement of the bank's basic credit philosophy. It provides a framework for achieving asset quality and earnings objectives, sets risk tolerance levels, and guides the bank's lending activities in a manner consistent with the bank's strategic direction. Credit policy sets standards for

portfolio composition, individual credit decisions, fair lending, and compliance management *(Pandey, 1992).*

Credit policy should provide a realistic description of where the bank wants to position itself on the risk/reward spectrum. It needs to provide sufficient latitude for a bank to respond to good business opportunities while concurrently controlling credit risk. In normal circumstances, a bank should be able to achieve portfolio objectives and respond to changing market conditions without triggering a limit. Limits should not be so conservative that insignificant changes breach them, nor should they be so liberal that they have no practical effect. For the policy to be an effective risk management tool, it must clearly establish the responsibilities of those involved in the lending process.

Policies should be periodically reviewed and revised to accommodate changes in the bank's strategic direction, risk tolerance, or market conditions. Policy review should consider the organizational structure, breadth and complexity of lending activities, capabilities and skills of lending personnel, and strategic portfolio quality and earnings objectives. Changes in regulations and business conditions also need to be considered. In addition to providing an opportunity for change, the review should evaluate how well the policy has guided lending decisions. For example, a high volume of exceptions indicates that many loan decisions are being made outside the policy. This could mean that the bank is assuming more risk than is desirable or that the policy is too restrictive. If the bank's policy is too restrictive, easing it could increase business opportunities without unduly increasing risk. Conversely, the absence of exceptions may indicate that the policy is too vague, and a tightening of the policy could strengthen the controls on loan quality. All policy reviews should include the organizational unit responsible for assessing compliance with policy *(Pandey, 1992).*

Since the largest proportion of a bank's assets portfolio is taken by loans and advances, healthy development of any bank depends heavily upon its Credit Policy. A sound and viable Investment Policy can attract both borrowers and lenders, which helps to increase the volume and quality of deposits, loans and investments. 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 policy. Investment

through loans and advances to borrowers is risk inherent. For this, commercial banks have to pay due consideration for risk management while formulating Investment Policy. "The Investment Policy should be carefully analyzed". Commercial bank should be careful while performing the credit creation function. Investment policy should ensure minimum risk and maximum profit from lending. Modern portfolio management of bank assets has fundamentally changed the requirements for individuals using this technique: their backgrounds, their training, and their skills in using available resources. While traditional credit training, remains necessary, today's portfolio manager augments this background with knowledge of early-warning systems, alternative structures to better set risk/return parameters, and more *(Corrado and Jordan, 2002).*

Traditional training focused on the individual loan. Traditional credit training focused on the analysis of a firm's management, operations, and financial structure as the basis for determining a borrower's creditworthiness; now training programs incorporate not only these techniques, but also that elusive element called a bank's credit culture.

In essence, a bank's credit culture was a series of written and unwritten rules about which types of customers, industries and credit profiles were acceptable. This culture ultimately dictated the structure and composition of the bank's total portfolio.

Protection measures against portfolio losses focused on loan loss reserves based on moving-average formulas. Concentration risk was to be avoided, but there were always special customers for whom expectations could be made. If the formulas were correct, then overall expected losses in the portfolio would be covered by reserves. But those formulas and expectations were not always so accommodative. As a result, certain concentrations would invariably lead to extraordinary, or unexpected, losses that were charged to income in the year of their incurrence.

Portfolio management looks at the impact of loans individually, collectively and comparatively. Modern portfolio management techniques have supplemented those unwritten rules with portfolio analysis and policies that establish limits on exposure by country, by obligor, by industry and so on. These limits are derived from a specific focus on the technical aspect of these assets class—a segmentation of the credit product and an analysis of the effect of combining credits into portfolios. Credit portfolios can now be evaluated on the basis fundamental as well as quantities

portfolio analysis (This is now being further institutionalized in terms of required capital as defined in the updated Basel Capital Accords). A well designed Credit Policy should properly address the following six core principles *(Pandey, 1992):*

1) Principle of Liquidity

It is not enough that the loan will come back; it is also important that the advances granted to the customer must come on demand or in accordance with the agreed terms of repayment. The source of repayment must be definite

Liquidity is the ability of a firm to satisfy its short-term obligations when they become due for payment. It implies the ability to produce cash on demand. People deposit money at the bank in different account with confidence that the bank will repay their money when they need. Such deposits are repayable on demand or on the expiry of a specified period. In either case, the banker must be ready to meet these liabilities. Otherwise, he will suffer in his credit, which is the very foundation of his business.

Nevertheless, a bank utilizes its deposit liabilities for the purpose of granting loans and advances. To maintain depositors' confidence towards bank, the bank must grant such loans and advances which are as liquid as possible. That is why commercial bank should grant loans and advances of short-term nature. Discounting first class bill of exchange, financing customer's current assets through Overdrafts and Cash Credit facilities generally fulfils this liquidity principle. Investment on industrial fixed assets under term loans is illiquid in nature. Matching the maturity of loans and deposits will assist in managing the loan portfolio's liquidity position. So, a bank's Credit Policy should pay due attention towards the liquidity of loans and advances.

2) Principle of safety

"Safety First" is most important principle of good lending. The Credit Policy formulated by banks should be capable enough to secure its investment. The banker should ensure that the borrower has the ability and will try to repay the advances as per the agreement. When a bank lends, then the bank should confirm on their lending whether they are safe or not. The bank shall ensure that the advances when granted to the right customers and is utilized in such a way that the advances are safe for all time.

In this connection, before granting a secured advances, bank should ensure carefully consider the margin of safety offered by security concerned and possibilities of fluctuation in its value. Credit policy should be devised in such a way to keep the higher margin of safety for secured loans. The bank should never invest its funds in the collateral of those securities which are too volatile i.e., which are subject to too much depreciation and fluctuations because a little difference may cause a great loss. Security means adequate collateral having good value, which can be easily sold off if required at any point of time. The bank should accept such type of securities, which are commercial, durable and marketable having fair market value.

3) Principle of profitability:

The main goal of bank is to earn profit. For this, the bank is required to increase its investment without letting the fund remain idle. The bank should try to invest only on those projects from which it can ensure good and timely interest income. But bank never should forget its own liquidity condition while lending huge number of loans. Secured and long term loan can give good income.

To fulfill the stakeholders' expectations, it must meet sufficient profit. Main contributor towards a bank's profit is 'interest income' derived by granting loans and advances. Hence, the credit policy of a bank should be aimed at yielding higher interest income. However, such income should be reasonable. Interest rate levied on different loan headings is an indicator of the profitability level of loan portfolio.

Banks credit operation should be profitable to cover the full prudential provisioning, for allocation to capital and reserves, which is essential for any bank to maintain its competitive viability and expand its lending operations, to give reasonable dividends to shareholders and to give the depositors with reasonable return on their money, banks should earn profits.

All the above facts indicate that it is necessary for the banks to make sure that their lending operations are sufficiently profitable.

4. Principle of Diversification

The bank should not concentrate on only one sector while extending the loan. It should try to diversify its investment. It should mobilize its resources on various

collateral, various assets, different business and different individuals and organization. This will help to reduce the banks risk in greater extent.

Therefore, the principle of diversification is guided by the fact: “Do not put all eggs in a single basket”. The credit policy should avoid excessive concentration of loans and advances in single sector of economy, single geographical area and single borrower or group of borrowers. It should aim at spreading the advances as widely as possible over the different industries and different localities. This would enable banks to compensate any losses which might arise as a result of unanticipated factors adversely affecting particular industries and/or particular localities. In this respect, banks having wide branches network can well exercise the credit diversification. It is also advisable for a banker to advance moderate sums to large number of borrowers than advance large sums to a small number of borrowers.

Nepal Rastra Bank has also directed banks not to avail fund based credit facilities to a single borrower exceeding 25 percent of core capital and non-fund based credit facilities to a single borrower exceeding 50 percent of core capital. This limit is called single obligor limit (SOL) of a bank. The central bank has also circulated instruction to regulate concentration of credit to such borrowers who are operating in a single economic sector.

5. Principle of Purposive

Loans and advances policy of a bank should clearly cite the purposes for which it will advance credit facilities. From the viewpoint of security, a banker should always be known that why a customer needs loans. If a borrower misuses the loan granted by the bank, it can never repay and bank will possess heavy bad debts. Therefore, in order to avoid this situation each and every bank should demand and examine all the essential detailed information about the scheme of the project or activities, before lending. NRB directive no. 2 has required 100% provision for such loans which are diverted from the purposes other than that indicated by the borrower at the time of application. Hence, banks should develop post credit supervision practices to monitor the use of loans and advances.

6. Principle of National Interest

Even when an advance satisfies, all the above principles it might not be suitable if it does not take into account the national interest. Banks are required to grant advances

on those sectors, which are priorities by the government on time to time in meeting the national requirements. The bank should invest on such sectors as per the government or Nepal Rastra Bank.

Bank's credit policy should not contradict the national interest. In addition to its own profitability objective, the bank should also consider the national interest. Even though the bank cannot get maximum return from such investment, it should carry out its obligation towards the society and the country. The Bank is required to invest on such sectors as per the Government and Nepal Rastra Bank's instruction. Investment on government bonds, priority and deprived sector lending are the examples of such investments *(Pandey, 1992).*

7. Policy for Risk Management

Bank Credit Policy should also incorporate all the aspects of risk management. Risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for.

2.1.5 Commercial Banks and Their Investment Policy

A bank makes investments for the purpose of earning profits. First it keeps primary and secondary reserves to meet its liquidity requirements.

This is essential to satisfy the credit needs of the society by granting short-term loans to its customers. Whatever is left with the bank after making advances is invested for long period to improve its earning capacity.

Before discussing the investment policy of a commercial bank, it is instructive to distinguish between a loan and an investment because the usual practice is to regard the two as synonymous. The bank gives a loan to a customer for a short period on condition of repayment.

It is the customer who asks for the loan. By advancing a loan, the bank creates credit which is a temporary source of fund for the bank. An investment by the bank, on the other hand, is the outlay of its funds for a long period without creating any credit. A bank makes investments in government securities and in the stocks of large reputed industrial concerns, while in the case of a loan the bank advances money against recognised securities and bills. However, the goal of both is to increase its earnings.

The investment policy of a bank consists of earning high returns on its unloaned resources. But it has to keep in view the safety and liquidity of its resources so as to meet the potential demand of its customers.

Since the objective of profitability conflicts with those of safety and liquidity, the wise investment policy is to strike a judicious balance among them. Therefore, a bank should lay down its investment policy in such a manner so as to ensure the safety and liquidity of its funds and at the same time maximise its profits. This requires adherence to certain principles (Chand, 2013).

Every one of the nation's 14,600 banks should have a written investment policy. A written investment policy integrates the bank's investment activity with its other activities. Significant changes in cash position, borrowed funds, the quality and maturity of loans, the nature and stability of deposits, capital position or dividend payout will often require corresponding changes in investment strategy. If too vague or general, a policy will not serve the purposes of bank managements, boards of directors and regulatory authorities, who prefer specific statements they hope will preclude unpleasant surprises. Bank investment officers, on the other hand, usually advocate general guidelines that permit wide latitude in carrying out their duties. The author presents a model investment policy that can be adapted to the specific needs of individual banks. It fixes responsibility for managing the investment portfolio and the broad limits of its composition, lists acceptable securities and specifies their approximate quality, and suggests how the portfolio should evolve in successive phases of the interest rate cycle (Hoffland, 2009).

The investment policy of a bank should be reviewed occasionally and modified as economic conditions change. It should be reviewed when developments occurring within or outside the bank dictate.

2.2 Review of Legislative Provisions

Nepal Rastra Bank, as the central bank, has regulatory authority to monitor the credit policy and portfolio of commercial banks operating in Nepal. Nepal Rastra Bank Act, 2058 has empowered Nepal Rastra Bank to regulate, monitor and control the overall functions of banks and financial institutions of Nepal. Using this empowerment, NRB issues directives, circulars and instructions to the banks and financial institutions.

One of the major tools that influence the investment policy and portfolio of a bank is monetary policy which is announced every year. It influences the amount of fund available in bank for investment.

Nepal Rastra Bank introduced new consolidated directives in accordance with the BFI Act. The consolidated directives are guided under NRB Act 2058 and Basel II principles as well. The new Directives included regulatory measures of international standards and practices in the areas of: Capital adequacy; loan classification and provisioning; credit concentration and single obligor limits; accounting policies and formats of financial statements; management and minimization of risks; good corporate governance; policies relating to compliance with the directives issued after the inspection and supervision; investment policies; reporting requirements; provisions for the purchase and sale of promoter shares; regulation on consortium financing; regulations on credit information and blacklisting; provision for statutory reserve requirements; policies on branch expansion; policies on interest rates; and policies on financial resources generation. It is hoped that adherence to these directives would ensure financial stability and discipline thereby helping Nepalese banking industry to flourish in the country. Banks & financial institutions are responsible for comply these directives according to NRB Act 2058.

The following directives are related with investment policy and portfolio matters of commercial banks.

Directive No.	***Subject***
1.	Capital Adequacy Requirement
2.	Classification of loans and advances and provision for loan loss.
3.	Provision regarding single obligor limit and loans limit for single sector of economy.
4.	Investment
5.	Maintenance of Liquidity (Mandatory cash reserve)
6.	Provision relating to interest rate
7.	Provision for Deprived Sector Lending

The main extracts of the above directives are as discussed below:

2.2.1 Directive no. 1

Capital Adequacy

The NRB Directive no. 1 states about the Capital Adequacy Norms for financial institutions indicating the requirements of maintaining the Capital Fund to the prescribed ratios. The directives are said to be based on the internationally accepted norms of Basel committee which was established by the central bank governors of the group of ten countries in 1975.

The Basel committee on banking supervision is a committee of banking supervisory authorities.

The Capital Adequacy Ratio is derived on the basis of Total Risk Weighted Assets. The capital adequacy ratios to be maintained by commercial banks till FY 2066/67 were as follows:

Core Capital	:	6% of the Total Risk Weighted Assets
Total Capital Fund	:	10% of the Total Risk Weighted Assets

However, NRB has issued directive to implement the Capital Accord- Capital Adequacy Framework 2007 from FY 2065/66. All the banks have to calculate the capital requirement based on the Basel II approaches. Basel committee on banking supervision has developed a new capital accord, which is popularly known as Basel – II.

The new capital accord has been introduced basically for the protection of depositors by preserving the integrity of capital in banks.

The framework has developed the following three pillar approaches for maintaining capital adequacy of the banks.

- **Pillar I : Minimum capital requirement**
  - Credit risk
  - Operational risk
  - Market risk
- **Pillar II: Supervisory review process**
  - Bank's own assessment of capital adequacy
  - Capital above the regulatory limit
  - Supervisory review and intervention

- **Pillar III: Market discipline**
  - Disclosure requirements and recommendations

As per the above directives the Bank has to maintain the total capital fund of 10% of Total Risk Weighted Assets.

2.2.2 Directive no. 2:

Classification of loans and advances and provision for loan loss:

Classification of Loan and Advances shall be on the basis of aging of outstanding principal amount of loan and advances.

Pass (performing)

- All loans and Advances not over due and overdue up to 3 months.
- Provisioning requirement is 1%.

Sub-Standard

- Loans and Advances overdue from 3-6 months.
- Provisioning requirement is 25%.

Doubtful

- Loans and advances overdue from 6 months to 1 Year.
- Provisioning requirement is 50%.

Loss

- Loans and Advances overdue for more than 1 Year.
- Least probability of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future.
- Provisioning requirement is 100%
- Substandard, Doubtful and loss assets are to be classified as Non Performing Assets.
- Assets classification and Loan Loss Provision has to be done in each quarter and the report to be submitted to Nepal Rastra Bank with in one month of the quarter end.

Additional Provision for pass loan:

Loan and Advances against gold and silver, FD receipts, NG bonds be classified as pass loans. However, if FD and NSB bonds are used to secure loans for other purposes, classification as mentioned above is to be applied.

Additional Provision for Loss loan:

- Loans and Advances under following conditions have to be categorized under loss loan although they are not overdue.
- No security at all or securities is not in line in the agreement with the bank
- If the borrower has been declared bankrupt.
- If the borrower is absconding or can't be found.
- If the purchased or discounted bills not realized with in 90 days from date due.
- If the non funded facilities like letter of credit and guarantee converted into funded facilities.
- If the loans and Advances are not utilized from the borrowed purpose.
- If initiation as auctioning of the collateral has passed six months and if recovery process is under litigation.
- If the loans and Advances are granted to the blacklisted borrower.
- If project or business is not in condition to operate or not in operation.
- If credit card loan is not written off with in 90 days from due date.

Additional provision for term loan:

On the entire amount of outstanding loan on the basis of past due period of overdue installment i.e. if single installment is not paid with in stipulated time, all the remaining outstanding installments have to be considered for provisioning.

Provision for Off-Balance Sheet items:

If the Off- Balance Sheet items are converted into On- Balance sheet liability of the bank, then classification will have to done as per overdue period as mentioned above.

Provision for realization of Principal and interest:

- Not allowed by overdrawing current account or by extending the limit on an overdraft facilities.

- Where a system in a bank exists as to recovery of principal and interest by debiting the customers' account and recovery is made as such resulting in overdraft, which is not settled with in one month, such overdrawn principal amount shall also be liable to be included under the outstanding loan and such loan shall be down graded by one step from its current classification. Interest income should be recognized as per Directive no 4.

Additional Provision for loan granted against personal guarantee:

- For loan against personal guarantee, details of free assets (not mortgaged/hypothecated to other banks or financial institution) equal to amount of advances granted must be taken.
- If the said loan falls under category of standard, sub-standard and doubtful assets, then additional 20% of original provisioning is required. Similarly, classification of such loan and advances shall be prepared separately.

2.2.3 Directive no. 3: Provision regarding single obligor limits and loan limit for single sector of economy

Existing Provision and Time Frame to meet new Regulation

Time Frame	Fund Based	Non Fund Based
From Ashad 2060	25% of Core Capital	50% of Core Capital

Relaxation on Single Obligor Limit

- Loans and Advances granted against the security of FDR, other deposit, NSB Bonds and unconditional Guarantee provided by World Bank, ADB, International Finance Corporation including other multilateral organization and against unconditional guarantee issued by Internationally Rated Banks having rating of at least A+ by reputed rating agency or bank specified as first class bank by NRB.
- Loans and Advances granted by A class licensed institution to following public sector undertaking for import of following goods.
  i) Nepal Oil Corporation
  ii) Nepal Food Corporation

Definition of Group Related Borrowers

- Where a company holds 25% or more share in other company, then the both companies.
- A person, firm, directors of a company, shareholders of a private company, partners of partnership firm, proprietor and spouse , spouse daughter, adopted son and daughters, parents, step mother, brother and sister who have supported by such director, shareholders, partners, proprietor residing jointly in same house or separately.

- The company in which the person mentioned under above individually or jointly holds 25% or more shares.
- The director, shareholders or other relatives as mentioned above individually or jointly holds less than 25% share of other company but the management of the another company is controlled by such person in either of following ways:
  i) By being the chair person of BOD
  ii) By being the chief Executive of the company
  iii) By appointing more than 25% of the directors.
- Cross Guarantee provided by one customer/company to other customer/ company, then both the customer/company should be considered as one.
- Firms, companies stated to be associated as a group or members of such group.

Returns:

Half yearly returns of customers fall under one group to BFI Regulation Department and Bank Supervision Department of NRB.

Not considered as single group:

All companies fully owned by the government or in which the government has majority ownership (more than 50%) be treated as separate entity.

Single Sector

Means Sum total of loans and advance, guarantee and commitments and letter of credit granted to the customers of one sector of the economy.

If the loans and advances granted by banks are concentrated into single sector, then NRB can direct to provide/raise additional capital as above.

Provision for monitoring of credit concentration:

Bank has to monitor the loans and advances granted to single sector by segregating the following two categories:

Category 1:

For loans and advances aggregating to 50% to 100% of Core Capital granted to single sector, quarterly monitoring shall be done by bank itself.

Category 2:

Loans and advances granted to single sector exceeding 100% of core capital should be endorsed by BOD and the same decision of BOD shall be intimated to Bank and Financial Institution Regulation Department and Bank Supervision Department of NRB.

For the purpose of this directive, NRB has identified following; each as a sector of economy:

1. Agriculture
2. Mines
3. Production
4. Construction
5. Metallic production, machinery and electronic tools fabrication
6. Transportation equipment production
7. Transport, communication, and public utilities
8. Whole and retail trading
9. Finance insurance and real estate
10. Services: Tourism and Hotel
11. Other services
12. Consumer loans
13. Local government
14. Other

Thus, this directive has directed commercial banks to develop their own policies to diversify the loans and advances as far as possible. However, in case Nepal Rastra Bank directs, the banks shall provide cent percent additional loss provisioning to minimize the concentration risks. The directive has directed commercial banks to exercise principle of diversity while advancing loans.

2.2.4 Directive no. 8:

Investment policies

This directive is related to the investment of financial of financial institutions in shares, bonds and debentures. Following are them major provisions laid in this directive:

1. Banks may invest their resources on government bond, NRB bond, shares and debentures of organized companies only after approval of such investment policy from board of directors.
2. There is no restriction to invest on government bond and Nepal Rastra Bank bond.
3. Investment is allowed to be made on the shares and debentures of those companies whose shares are sold to public and listed in Nepal Stock Exchange.
4. Banks may invest in shares and securities of any organized institutions not exceeding 10% on own core capital and not exceeding 30% of core capital in the portfolio of shares and debenture investment. However the bank may invest upto 20% of its core capital in the company in which it has financial interest.
5. For banks, there is no ceiling to underwrite shares and debentures of organized institutions.
6. Banks shall arrange for half-yearly review of investment portfolio. With respect to such review, a statement from the internal auditor of the bank certifying that the investments are made as per the existing investment policy and as per this directive shall be obtained and shall be approved by BOD within one month. Banks may invest in shares and securities of any organized institutions not exceeding 10% on own core capital and not exceeding 30% of core capital in the portfolio of shares and debenture investment.
7. Valuation of shares and debentures: The shares and debentures should be valued at lower of the purchase price or market price. The valuation should be carried out on half yearly basis. Any short-fall in market value of the investment should be debited from profit loss account and transfer such amount to provision for anticipated loss in investment.
8. Banks are prohibited to invest in securities and hybrid capital instruments of other banks and financial institutions except in micro-finance companies.

The Bank has to formulate Investment Policy incorporating the above Directives of NRB to have better assets and liability management.

2.2.5 Directive no. 13:

Maintenance of Liquidity (Mandatory cash reserve)

Mandatory cash reserve determines the amount of investible fund that is available with a bank. This directive has directed commercial banks to reserve 5.5% of their total deposit liabilities excluding margin and foreign currency deposit on ordinary account maintained at NRB.

2.2.6 Directive no. 15:

Provision relating to interest rate

This directive is related with product pricing. Fixation of interest rate by central bank has been completely deregulated since 2046/05/12 (12/08/1989).

The major arrangement regarding the interest rate and interest income in this directive no. 15 as follows:

1. Banks are free to fix their interest rate to be paid on deposits and to be levied on loans and advances.
2. Any changes made on such interest rates should be made public through national daily newspaper.
3. The interest income should be recognized on the basis of cash receipt only. Interest earned but not collected in cash should be transferred into interest suspense account but not into interest income account. Such suspended interest should be recognized as income in the year when it is realized.

2.2.7 Directive no. 17:

Provision for Deprived Sector Lending

This directive is related with provision regarding lending to the Deprived Sector. Deprived Sector means low income and socially backward women, tribes, lower cast, blind, hearing impaired and physically handicapped persons, marginal and small farmers, craftsmen, labour and squatters family. All credits extended for the operation of self employment oriented micro enterprises for the upliftment of economic and social status of deprived sector upto the limit specified by NRB is termed as Deprived Sector Lending. The maximum mandatory limit for lending to Deprived Sector fixed by NRB is 3% of total Loans.

2.3 Review of Related Articles

In this section, attempt has been made to review some relevant articles in different economic/finance journals. The World Bank Bulletins, dissertation papers, magazines, newspapers and other related literature.

Mahat (2014), in his article *"Efficient banking"*, he had accomplished, efficiency of banks can be measured by using different parameters. The concept of productivity and profitability can be applied while evaluating efficiency of banks. The term productivity refers to the relationship between the quality of input employed and the quality of outputs produced. Interest expenses to interest income ratio shows the efficiency of banks in mobilizing resources at lower cost and investing in high yielding assets. In other word, it reflects the efficiency in use of funds.

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

Bhandari (2015), in his article *" Investment policy of joint venture bank of Nepa*l" in Business Age has stated that that the JVB of Nepal are more ethical than others in making and implementing the investment policies, they have also good investments, loans and advances with compare to total deposits and has good liquidity position too. Joint venture poses some advantages such as – provide company with the opportunity to gain new capacity and expertise, allow companies to enter related business or new geographic market or gain new technological knowledge, access to greater resources, including specialized staff and technology, sharing risk with venture partner. In the era of divestiture and consolidation, JV's offer a creative way for companies to exit from non-core business. However, JV may have some demerits like, it takes time and effort to build the right relationship and partnering with another business can be challenging .Problems are likely to arise if: The objectives of the joint venture are not 100 percent clear and communicated to everyone involved, there is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners.

Viswanathan (2016) in her article, *"Nepal: What is the Potential for Foreign Investment ?"* in Business Age has included that the investment potential in Nepal, Kathmandu has increasingly begun to project itself as a potential investment destination in Hydropower, tourism and infrastructure construction (cement), information and communication, agro-processing and health. This projection is well supported by Nepal's liberal investment policies, precisely the Foreign Investment and One Window Policy along with the fact of most of these investment sectors being less explored, and the availability of cheap labour force in Nepal. Since Nepal continues to be the 'yam between two boulders', investments or any form of monetary assistance to the country shall always have political footnotes. These underlying motivations of its neighbours coupled with the country's inability to sustain and increase the flow of investments will continue to impair such initiatives.

According to Vishwanathan, it is expected of Nepal to take two essential steps at this juncture. At the external level, it should not restrict its investment policies to China but approach other countries in the region and beyond, like Bangladesh, and South Korea as well. At the internal level, it should work towards improving the regulatory frameworks overlooking the investment plans. There exists a discrepancy in the existing mechanisms for attracting investment to the country. There is need, therefore, to iron out policies that may hinder investments to the country.

Shrestha (2017) expressed her view on research *"Investment planning of commercial banks of Nepal"* made remarkable efforts to examine the investment planning of commercial banks in Nepal on the basis of the study. She concludes that the bank's portfolio (loan and investment) of commercial banks has been influenced by the variable security rates. Investment planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central Bank so, the investment are not made in professional manners. Investment planning and operation of commercial bank of Nepal has not been found satisfactory in term of profitability. To overcome this problem, she suggested, "commercial bank should take their investment function with proper business attitude and should perform lending and investment operation efficiently with the proper analysis of the project."

Ghimire (2018), in his study *"Investment portfolio of insurance company"* aims to explore the real states of investment portfolio structure of both life and non life insurance company Nepal. Insurance board of Nepal issued modified directives for

the safe and secure investment of insurance fund. The paper examine the current investment practice adopted by the insurance companies and compare with the norms of directives most of the companies have invested more than required fund in secured sector giving property to solving over profitability. Among the 234 cases 37 cases are non compliances where197 cases are compliances. Out of 37 non compliance cases, 28 are more sensitive. Life insurance failed to comply the statuary provision in 5 cases and non life in 23 cases. However the voluntary category 1 and 8 cases are not complied by the life and non life insurer respectively. Overall scenario of investment portfolio is satisfactory ignoring few cases.

2.4 Review of Related Theses

Various students regarding the various aspects of commercial banks as financial performance, lending policy, investment policy, resources mobilization policy, resources mobilization and capital structure have concluded several thesis works. Some of them, as supposed to be relevant for the study as prescribed below:

Khadka (2012) in his thesis on "*A Study on Investment Policy of NABIL in Comparison to their Joint Venture Banks of Nepal*."

Following are the objectives of the study:

- To compare investment policy of NABIL with other joint ventures banks NGBL.
- To evaluate the liquidity, asset management, efficiency, profitability and risk position.

Major findings of the study are as follows:

- Liquidity position of NABIL is worse than that of NGBL and NIBL. NABIL has more portion current assets as loan and advances but less portion as investment on government securities.
- NABIL is less successful in on balance sheet operations as well as well as off-balance sheet operations that of NGBL and NIBL.
- NIBL is more successful in deposit mobilization but fails to maintain high growth rate of profit in compare to BGBL and NIBL.

- It is strongly recommended NABIL to utilize its risks assets and shareholders fund to gain highest profit margin and reduce its expenses and collect cheaper fund for more profitability.
- It is recommended investing its fund in different sectors of investment and administering various deposits schemes to collect fund such as cumulative deposit scheme, price bonds scheme, gift cheques scheme, etc. He has recommended adopting liberal lending policy however he has not explained his idea of liberal lending policy.

Joshi (2013) conducted a study on "*Investment Policy of Commercial Banks in Nepal: A Comparative Study of Everest Bank Limited with NABIL Bank Limited and Bank of Kathmandu*.

Following are the objectives of the study:

- To evaluate whether the liquidity management assets management, efficiency, profitability position, risk position and investment practices of Nabil and BOK.
- To find out the relationship between deposit and total investment, deposit and loan and advances and net profit and outside assets

Following are the major findings of the study:

- The liquidity position of the EBL was better than NABIL and BOK. EBL had the highest cash and bank balance to total deposits and cash and bank balance to current assets ratio.
- NABIL had the lowest liquidity position. EBL had good deposit collection and made enough investment on Government Securities, but it maintained a moderate investment policy on loans and advances.
- From the analysis of assets management or activity ratio, it was concluded that EBL was average, or in between NABIL and BOK.
- The total investment of EBL was in between the other two banks. In the study, loans and advances to total deposit was higher in BOK, but total investment to total deposit was higher in NABIL.
- Investment on shares and debentures to total working fund ratio was higher in BOK. However, the coefficient of variation was higher in EBL.
- In analysis of profitability, total interest earned to total outside assets of EBL

is lowest at all. However, overall analysis of profitability ratios showed that EBL was an average in comparison to other compared banks i.e., NABIL and BOK.From the viewpoint of risk ratio, EBL had higher capital risk ratio, but average of credit risk ratio of NABIL and BOK.

Sapkota (2014), in his thesis, "*A study of Investment Policy of Joint Venture Commercial bank.*" has compared investment policy of NABIL and SCNBL.

Following are the objectives of the study:

- To analyze the management assets management, efficiency, profitability position, risk position and investment practices of Nabil and SCBNL.
- To find out the relationship between deposit and total investment, deposit and loan and advances and net profit and outside assets

Following are the major findings of the study:

- Cash and bank balance of SCBBL with respect to current assets is higher than NABIL. He concludes that it shows greater capacity of SCBNL to meet its customer's requirement but that does not mean that NABIL cannot meet its daily requirements.
- SCBNL has invested more portions of its current assets and total working fund in govt. securities than NABIL, where as NABIL has invested more of its fund to other productive sectors.
- NABIL has been more successful in mobilizing its deposits and working fund as loan and advances and achieving higher profits in comparison to SCBNL. He adds that NABIL has invested more of its funds in purchasing shares and debentures of other companies than SCBNAL. He further adds that liquidity risk and credit risk of SCBNL is comparatively lower than NABIL. NABIL has more exposure to risk than SCBNL.

Pandit (2015) has conducted on *"Investment Policy Analysis of Joint Venture Banks with Special Reference to Nepal SBI Bank, Bank of Kathmandu and Everest Bank Limited."*

Following are the objectives of the study:

- To evaluate whether the liquidity management assets management, efficiency, profitability position, risk position and investment practices of Nepal SBI Bank, BOK and EBL

- To find out the relationship between deposit and total investment, deposit and loan and advances and net profit and outside assets

Following are the major findings of the study:

- Liquidity position of SBI Bank was slightly good as compared to BOK and EBL. However, the liquidity positions of the banks under study were not so satisfactory. Therefore, banks should improve their liquidity position to meet their current obligations.
- The study of assets management ratio showed that SBI Bank was not in a better position regarding its on balance sheet activities.
- The profitability position of SBI was not as good as of other banks. Risk ratio of BOK was the highest and the capital risk ratio of EBL was the highest of all. It indicated that BOK and EBL must be careful about risk.
- Growth ratio of SBI and BOK had not successful to increase their source of funds. EBL had succeeded to maintain its higher growth rate of total deposit.

Regmi *f*2016) conducted *"A Comparative Study on Investment Policy of Everest Bank and Himalayan Bank Limited."*

Following are the objectives of the study:

- To find out the relationship between total investments, deposits, loans and advances, net profit and assets and compare them.
- To evaluate the liquidity, asset management, efficiency, profitability and risk portion of EBL and HBL.
- To analyze the deposit utilization trend and its projection for five years of HBL and EBL

Following are the major findings of the study:

- The liquidity position of EBL was comparatively better than HBL. EBL had the highest cash and bank balance to total deposit ratio, cash and bank balance to current assets ratio than that of HBL.
- Both EBL and HBL had almost same pattern of investment on government securities, but fluctuating ratios showed the unstable policy of investment. EBL has higher loan and advances to current assets ratio and successful in deposit collection as well.

- In profitability analysis, HBL had maintained high profit margin regarding profitability position. HBL was more successful to generate income through loan and advances and operating income and it has earned more from total outside assets and total working fund.

Shrestha (2017) in his thesis entitled "*A Study on Investment Portfolio of Commercial Banks in Nepal*" has been done in 2016. The general objective of this research is to identify the current situation of investment portfolio of CBs in Nepal.

Following are the objectives of the study:

- To analyze the investment portfolio of Commercial Banks
- To analyze the risk and return of selected commercial banks on investment using Portfolio concept.
- To forecasting and examine the trend of investment and to provide complementary measures based on analysis.

Following are the major findings of the study:

- Proper investment on various securities i.e. balance allocation of funds on various government securities such as Treasury bills, National saving bonds, Development bonds etc. and fixed income percentage rate that help to reduce the variability of return. In the analysis of risk and return comparatively SCBNL have more return from investment on government securities like same NABIL has better position on investment on loan and advances.
- The return on share and debenture of commercial banks shows wide fluctuation. These fluctuations in returns are caused mainly by the volatility of the shares prices in market and by the changes in dividends in some extent. Comparatively to other assets, share and debenture has higher return and higher risk. Hence, it is cleared from analysis that investment on share and debenture is high risky assets.

Karki *f*2017) has conducted a study on *"An analysis of investment policy of commercial banks in Nepal."*

Following are the objectives of the study:

- To study the asset utilization system, profitability and risk position of commercial banks under study
- To assess the deposit utilization trends and its projection for the future

- To evaluate the growth ratios of loan and advance and total investment and respective growth rate of total deposit and net profit

Following are the major findings of the study:

- At the same time, liquidity position of NIBL was highly fluctuating, which showed that NIBL bore higher risk than other two banks.
- From the analysis of assets, management ratio of NIBL in comparison to NABIL and HBL was more successful regarding asset management and deposit mobilization.
- NIBL's investment on shares and debentures was high in comparison to the other two banks but its performance regarding total investment has been very poor.
- In the profitability analysis, none of the three banks' profitability position was clearly better. However, NABIL was slightly better profitability. Therefore, their profitability ratios were in moderate position.

Subedi (2018) has carried out a study on "*Investment Policy and Portfolio Management of Nepal Credit and Commerce Bank Limited."* The main objective of the study is to appraise the Investment Policy of NCC Bank and to evaluate its portfolio as well.

The major objectives of the study are as follows:

- To evaluate the Investment Policy of the bank for loans and advances and that for investment on securities.
- To analyze the investment portfolio of bank in ground of portfolio's liquidity, portfolio management, portfolio performance and portfolio's profitability.
- To analyze how efficiently the resources have been utilized.

Major findings of the study are as follows:

- It was found that bank has formulated a satisfactory loans and advances policy. Most of the credit related matters were found well incorporated in the policy documents. However, due to lack of written and clear-cut policy statement since the commencement of the bank, the investment portfolio deteriorated in terms of profitability.
- Though there was not investment policy for investment on shares, bonds and debentures till FY 2074/75, the existence of clear-cut policy for credit

operation has kept the overall investment operation as guided by acceptable policies.

- Thus, to sum up, the study on investment policy suggested that the bank is following a "Sound" investment policy to conduct its investment function as suggested by policy scores. The bank is also initiated female manager to empower their capacity.

2.5 Research Gap

Going through the review of various books, articles, publications and also the unpublished research works previously done in this field, it is understood that investment policy was evaluated on the basis of portfolio behavior and financial performance of the banks. None of the researchers have taken policy statements directly to study the investment policy and its impact on the bank's performance.
Predicting investment policy on the basis of financial statements may lead into false interpretation. Investment policy aims at creating high yielding portfolio structure. So, portfolio structure should be analyzed side-by-side to evaluate the policy's effectiveness. This type of study is not found in the past.

The purpose of the research work is quite different from the studies made by the above persons (related to Joint Venture Banks). The author focuses this study in effectiveness on investment policy analysis of NABIL Bank and Himalayan Bank in comprehensive manner considering the major items. The method of analysis is fully different. Financial tools and statistical tools are used in this study as ratio analysis, overall ratio, trend analysis, correlation matrix and hypothesis. So this study will be fruitful to those interested person, scholars, students, teachers, civil society, businessmen and government for academically as well as policy perspectives. There have been a number of valuable studies on investment policies, all of which present evidence on financial performance, utilization of resources. However, non of these studies provides a picture of the changes over the last five years. Therefore, to complete this research many books, journals, articles and various published and unpublished dissertation are followed as guideline to make research easier and smooth through reference material.

CHAPTER III

RESEARCH METHODOLOGY

This chapter contains the discussion about the methods and processes that has been used for the study and analysis of the investment strategy of NABIL and HBL. It includes general introduction, research design, and sources of data, population and sample and methods of data analysis.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data. Moreover the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for collection and analysis of data. This study follows descriptive and analytical research designs. Some financial and statistical tools have been applied to evaluate investment policy of HBL & NABIL.

3.2 Sources of Data

This study is conducted on the basis of secondary data. The data required for the analysis are directly obtained from the Balance Sheet, Profit and Loss account, and annual reports of concerned banks and publications of NRB. Supplementary data and information are collected from number of institutions like SEBON, NEPSE, ministry of finance, budget speech of different fiscal year, economic survey, etc. Likewise various data and information are collected from the economic journals, magazines and other published and unpublished dissertations.

3.3 Population and Sample

There are altogether 28 commercial banks functioning all over the country and most of their stocks are traded actively in the stock market. From these populations, NABIL Bank Ltd. and Himalayan Bank Ltd. are selected for the study using convenience sampling method.

3.4 Methods of Data Analysis

In this study, various financial and statistical tools have been used. The various tools are presented as follows:

3.5.1 Financial Tool

Financial tools are used to examine to examine the financial strength and weakness of bank. The analysis of the financial position of any firm to examine its performance is

known as financial analysis. It is the process of evaluating the position of a firm by establishing relationship with various components parts of the financial statements. Financial analysis is the process of identifying the financial strength and weakness of a firm by properly establishing the relationship between the items of balance sheet and profit and loss account *(Pandey, 1999)*.

1. Ratio Analysis

Ratio is the mathematical relationship between two accounting figures. Ratio analysis is the main tools of financial statement analysis. Ratio means the numerical or quantitative relationship between two items or variables. It can be expressed as percentage, fraction or a stated comparison between two numbers *(Pandey, 1999).* Hence, ratio analysis is the calculation and interpretation of financial ratios to assess the forms performance and status. Qualitative judgement can be done with the help of ratio analysis. In this study, some of the relevant financial ratios are used. They are presented into three broad groupings.

I. Financial Policy Measures

A. Liquidity ratios

II. Operating Efficiency Measures

A. Asset management ratios (Activity or performing ratios)

III. Performance Measures

A. Profitability ratios

B. Risk ratios

C. Growth ratios

D. Capital adequacy ratios

3.5.2 Statistical Tools

After the collection, organization and the presentation of data, the next step is to analyze the data. On this study, various statistical tools like trend analysis, standard deviation, coefficient of variance, coefficient of correlation analysis, etc. have been used to analyze this data. Statistical tool or appropriate technique of analysis depends upon the nature of the data and the purpose of the enquiry. The following tools are used in the analysis of the financial position of the bank:

1 Arithmetic Mean (Average

It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

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

Where: $\bar{x}$ = Arithmetic mean

N = Number of observations

$\sum X$ = Sum of observations

2. Standard Deviation (S.D.)

The measurement of the scatterness of the mass of figures in a series about an average is known as dispersion. The standard deviation measures the absolute dispersion. Standard deviation, usually denoted by the letter σ (sigma: the Greek alphabet) was firs suggested by Karl Pearson as a measure of dispersion. It is defined as the positive square root of the arithmetic mean of the squares of the deviations of the given observations from arithmetic mean as is given by:

$$\sigma = \sqrt{\frac{1}{x}\sum(x - \bar{x})^2}$$

Where,

$\bar{x} = \frac{1}{n}\sum x$ is the arithmetic mean of the given values.

3. Coefficient of Variance (CV)

Standard deviation is only an absolute measure of dispersion, depending upon the units of measurement. The relative measure of dispersion based on standard deviation is called the coefficient of standard *(Gupta, 1993).*

It is given by: $CV = \frac{\sigma}{\bar{x}} \times 100\%$

For comparing the variability of two distributions, CV is computed of each distribution. A distribution with smaller CV is said to be less variable or more consistent or more homogeneous or more uniform .

4 Trend Analysis (Least Square Method)

A widely and most commonly used method to describe the trend is the method of least square. Under this, a trend line is fitted to the data satisfying the conditions. It is used to describe the trend of any variable whether it increases or decreases with the passage of time.

$Y_c = a+bx$

Where,

$a = \frac{\sum y}{n}$ and $b = \frac{\sum xy}{\sum x^2}$

Here, yc is used to designate the trend value to distinguish the actual value. The x variable represents the time, 'a' refers to the y-intercept or value of y_c when x=o and 'b' is the slope of the trend line.

5 Karl Pearson's Coefficient of Correlation (r)

One of the widely used mathematical methods of calculating relationship between two variables is the Karl Pearson's correlation coefficient. It is denoted by 'r' and is defined by:

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\sqrt{\sum y^2}}$$

Where, $X = x - \bar{x}$ and $Y = y - \bar{y}$

The value of 'r' always lies between (-1) and (+1), and (r=+1) denotes the perfect positive correlation between the two variables and (r=-1) denotes the negative correlation between the two variables.

Probable Error (P.Er)

It is the measure of testing the reliability of the calculated value of **'r'.** If r be calculated value of r from a sample of n pair of observations, then PE is defined by,

$$P.Er = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

If the value of **'r'** is less than **6 PE (r<6P.Er),** it is insignificant; perhaps there is no evidence of correlation. If 'r' is greater than **6 PE (r>6P.Er),** then, it is significant. The probable error of correlation coefficient is used to determine the limits with in which the population correlation coefficient lies. Limits for population correlation coefficient are **r + PEr**.

Calculations of Correlation Coefficient are As Follows

a. Coefficient of correlation between deposit and loan & advances.
b. Coefficient of correlation between deposit and total investment

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter makes systematic presentation and analysis of data. Analysis is based on the data obtained from secondary sources. Appropriate statistical as well as financial tools as described in the research methodology chapter have been used to derive actual result from the analysis of data. The chapter has been divided into two main section. The first section of the chapter includes presentation and analysis of data while the second section includes major finding of the study.

4.1 Financial Analysis

Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet. Here relevant ratio is calculated and appropriate interpretations are made.

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet it current obligation. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community to meet demands for deposits, withdraws, pay maturity obligation in time and convert non-cash assets into cash to satisfy immediate need without loss to bank and consequent impact in long-run profit. In fact, it analyzes liquidity needs, which is helpful for preparation of cash budget and funds flow statement.

i. Current Ratio

Current ratio indicates the ability of bank to meet its current obligation. This is the broad measure of liquidity position of financial institution. The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of banking and seasonal business ratio such as 1:1 etc.

We have,

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

Where, current assets consist of cash and bank balance, money at call or short-term notice, loan advances investment in government securities, other interest receivable

and miscellaneous current assets whereas current liabilities consist of deposit, loan and advances, wills payable and miscellaneous current liabilities.

Table 4.1

Current Ratio (Times)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	0.87	1.02
2	2013/14	0.89	1.13
3	2014/15	0.89	1.08
4	2015/16	0.84	1.03
5	2016/17	0.98	1.04
6	2017/18	0.99	1.08
Total		5.46	6.38
Mean		0.91	1.06
S.D.		0.06	0.04
C.V.		6.70	3.89

Source: Appendix 1 'A'

Table 4.1 shows the current ratio of Nabil and HBL Bank. Total mean, standard deviation and coefficient of variation have also been calculated.

Although the current ratio of Nabil has been fluctuating it always less one current ratio of HBL, on the other has always more than 1. In fact, the ratio of both banks seems to be appropriate. But, the lower ratio of Nabil indicates that it may often not be in proper liquidity position. HBL liquidity position is better than that of Nabil's. The coefficient of variation between the current ratio of Nabil is 6.70% that is greater than that of HBL 3.89%. It shows that current ratio of HBL is fewer consistencies than that of Nabil bank.

ii. Cash and Bank Balance to Total Deposit Ratio (CRR Ratio)

Cash and bank balance are the most liquid assets. This ratio measures the ability of the bank to meet the unanticipated cash and all types of deposits.

We have,

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

Where,

Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic and abroad banks whereas the total deposits include current deposits, saving deposits, money of call and short-term notice and other deposits.

Table 4.2

Cash and Bank Balance to Total Deposit Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	3.25	11.03
2	2013/14	5.99	13.14
3	2014/15	8.37	11.13
4	2015/16	9.02	18.49
5	2016/17	3.02	21.17
6	2017/18	2.90	20.04
Total		32.55	95
Mean		5.425	15.83
S.D.		2.79	4.60
C.V.		51.35	29.04

Source: Appendix 1 'B'.

Table 4.2 shows total mean, standard deviation and coefficient of variation of cash and bank balance to total deposit ratio of these two banks.

Above table shows that CRR of the banks quite fluctuating, although HBL's CRR is quite high as compared to that of Nabil's. It indicates that Nabil bank is maintaining appropriate CRR ratio. If HBL bank can maintain consistent CRR, the remaining fund can be used for further investment.

Mean and standard deviation of Nabil bank is less than HBL bank. CV ratio of Nabil and HBL bank are 51.35 and 29.04. From this, we can conclude that HBL has better maintained its liquidity than Nabil bank.

iii. Cash and Bank Balance to Current Assets Ratio

This ratio shows the bank's liquidity capacity on the basis of cash and bank balance that is most liquid asset. So, this ratio shows higher liquidity position than current ratio. We have,

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

Where, cash and bank balance represent of local currency, foreign currency, cash in hand and various bank balances in local as well as foreign banks. Whereas current assets consist of cash and bank balance, money at call, short term notice loan and advances, investment in government securities and other interest receivable and other miscellaneous current assets.

Table 4.3

Cash and Bank Balance to Current Assets Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	3.58	10.17
2	2013/14	6.27	11.51
3	2014/15	8.72	10.91
4	2015/16	8.32	17.51
5	2016/17	3.55	19.68
6	2017/18	3.92	21.97
Total		34.36	91.75
Mean		5.73	15.29
S.D.		2.39	5.07
C.V.		41.76	33.15

Source: Appendix 1 'C'

The above table No. 4.3 shows the total mean, standard deviation and C.V. of cash and bank balance to current ratio of commercial banks.

The above table shows that the cash and bank balance to current assets ratio of Nabil bank is fluctuating trend. But, HBL bank has increasing trend. From above analysis we can conclude that liquidity position of Nabil bank is lesser than that of HBL bank.

Mean and standard deviation of Nabil bank is less than that of HBL bank. C.V. of Nabil and HBL bank are 41.76 percent and 33.15 percent respectively. It shows Nabil bank has lower consistency than HBL bank.

iv. Investment on Government Securities to Current Assets Ratio

The government securities are not so much liquid as cash and bank balance. But they can easily sold in the market or they can be converted into cash. Investment on government securities includes treasury bills and development bond etc.

Investment on government securities

investment on to current assets ratio = $\frac{Government\ securities}{Current\ assets}$

Table 4.4

Investment on Government Securities to Current Assets Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	19.61	15.37
2	2013/14	21.08	23.16
3	2014/15	15.74	17.75
4	2015/16	12.71	10.05
5	2016/17	11.04	19.98
6	2017/18	11.07	16.60
Total		91.25	102.91
Mean		15.21	17.15
S.D.		4.36	4.44
C.V.		28.64	25.86

Source: Appendix 1 'D'

The above table no. 4.4 shows the total mean, standard deviation and coefficient of variation of investment on government securities to current assets ratio of commercial bank. The table shows that investment on government securities to current asset ratio of Nabil bank has increasing trend in first 3 years but then after, it follows decreasing trend. But HBL bank has increasing trend, first 3 year and decreasing in 4^{th} year and again increasing in 5^{th} year then increased in 6^{th} year.

Mean and standard deviation of HBL bank is higher than that of Nabil bank. Coefficient of variation of HBL is higher than Nabil bank. It can be concluded that HBL bank has invested its current assets in government securities more than Nabil bank.

v. Loan and Advances to Current Assets Ratio

To make an appropriate profit a commercial bank should not keep it all collection funds as cash and bank balance but they should be invested as loan and advances to customer. Loan and advances represent local and foreign bill discounted and purchased, loans, cash credit and overdraft in local current as well as in convertible foreign currency.

We have,

Loan and Advances to Current Assets ratio = $\frac{Loan\ and\ advances}{Current\ assets}$

Table 4.5

Loan and Advances to Current Assets Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	73.46	65.47
2	2013/14	69.65	65.82
3	2014/15	69.74	70.06
4	2015/16	68.13	67.86
5	2016/17	81.78	69.35
6	2017/18	84.73	78.20
Total		447.49	416.76
Mean		74.58	69.46
S.D.		7.01	4.66
C.V.		9.39	6.71

Source: Appendix 1 'E'

Table no. 4.5, total mean standard deviation and coefficient of variation of loan and advances to current assets ratio of these two banks. The table shows Nabil bank loan and advances to current assets ratio are in fluctuating trend i.e. highest in Fy 2017/18 is 84.73% lowest in Fy 2015/16 i.e. 68.13. Similarly, the ratio of HBL bank are also in fluctuating trend i.e. highest in Fy 2017/18 (78.20%) and low in Fy 2012/13 (65.47%).

Mean, standard deviation and coefficient of variation of Nabil bank is greater than that of HBL bank. This analysis shows that Nabil bank provides more loan and advances than HBL bank.

Table 4.6

Calculation of Overall Liquidity Ratio of NABIL Bank and HBL Bank Ltd.

Fiscal year	Nabil		HBL	
	Ratio	Index	Ratio	Index
2012/13	20.154	100	20.612	100
2013/14	20.736	102.88	22.952	115.22
2014/15	20.692	102.66	22.186	101.35
2015/16	19.868	98.58	22.988	118.94
2016/17	20.074	99.60	26.241	135.78
2017/18	20.88	98.90	26.24	136.28
Total	122.404		141.219	
Mean	20.40		23.54	
S.D.	0.42		2.26	
C.V.	2.05		9.62	

The above table no. 4.6 shows the total means, standard deviation and C.V. of overall liquidity ratio of both banks.

The table shows that overall liquidity position of both banks has fluctuating trend. The mean and S.D. of HBL is greater than Nabil bank. This analysis shows overall liquidity position of HBL is better than Nabil. But C.V. of Nabil is less than HBL, which shows Nabil has consistent liquidity position than HBL.

4.1.2 Assets Management Ratios (Activity Ratio)

Assets management ratio measures the efficiency of the bank to manage its asset in profitable sector. This indicates the ability of the bank to utilize their available resources. Following ratios are discussed under this topic.

i. Loan and Advances to Total Deposit Ratio

It shows the relationship between loans and advances to total deposit. This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances.

We have,

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{Loan\ and\ advances}{Total\ deposit}$$

Where, loan and advances includes loans, advances, cash credit, local and foreign bill purchased and discount. Total deposit includes saving, fixed, current, short deposit and others.

Table 4.7

Loan and Advances to Total Deposit Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	66.79	71.10
2	2013/14	66.59	75.13
3	2014/15	66.94	76.48
4	2015/16	73.87	71.67
5	2016/17	69.63	74.61
6	2017/18	84.08	77.11
Total		427.9	446.1
Mean		71.32	74.35
S.D.		6.84	2.47
C.V.		9.60	3.33

Source: Appendix 2 'A'

The above table no. 4.7 shows ratio of Nabil bank fluctuating trend i.e. highest in Fy 2017/18 (84.08%) and lowest in Fy 2013/14 (66.59%). HBL bank ratio is increasing trend in first three years then after it decreased and again it increases. It has highest ratio in Fy 2017/18 i.e. 77.11 % and lowest in Fy 2012/13 i.e. 71.10%.

The mean value of Nabil bank is lower than that of HBL bank. Coefficient of variation of HBL is lower than that of Nabil bank. It shows HBL has strong position regarding the mobilization of total deposit on loan and advances and acquiring high profit.

ii. Total Investment to Total Deposit Ratio

Commercial bank mobilizes its deposit by investing its fund in different securities issued by government and other non-financial companies. This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities.

We have,

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

Whereas, total investment includes investment on government securities, investment on debenture and bonds, shares in subsidiary companies, shares in other companies and other investments.

Table 4.8

Total Investment to Total Deposit Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	31.93	30.43
2	2013/14	38.32	27.40
3	2014/15	31.14	21.10
4	2015/16	28.97	17.85
5	2016/17	29.34	13.56
6	2017/18	30.34	12.52
Total		190.04	122.86
Mean		31.67	20.48
S.D.		3.44	7.29
C.V.		10.85	35.58

Source: Appendix 2 'B'

Table no. 4.8 shows total mean, S.D. and C.V. of total investment to total deposit ratio of these banks.

The above table reveals that Nabil bank has fluctuating trend i.e. highest in Fy 2013/14 i.e. 38.32% and lowest in Fy 2015/16 (28.97%). But HBL ban has decreasing trend; it has ranged from 30.43% in Fy 2012/13 to 13.56% in Fy 2016/17.

The mean value of Nabil is higher than that of HBL bank i.e. 31.67 > 20.48. But C.V. of Nabil is less than that of HBL bank i.e. 10.85 < 35.58. Form the above analysis it is clear that Nabil is more successful to utilize it's deposit than HBL bank and also it has higher consistency to investment than HBL.

iii. Loan and Advances to Total Working Fund Ratio

A commercial bank must be very careful in mobilizing its total asset as loan and advance in appropriate level to generate profit. This ratio reflects the extent to which the commercial banks are success in mobilizing their assets on loan and advances for the purpose of income generating. A high ratio indicates better mobilization of funds as loan and advance and vice versa.

We have,

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

Where, total working fund consists current assets, net fixed assets, loan for development banks and other miscellaneous assets.

Table 4.9

Loan and Advance to Total Working Fund (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	57.87	61.41
2	2013/14	57.04	63.75
3	2014/15	57.53	67.54
4	2015/16	62.98	64.69
5	2016/17	61.96	66.58
6	2017/18	74.00	50.50
Total		371.38	374.47
Mean		61.90	62.41
S.D.		6.43	6.22
C.V.		10.38	9.97

Source: Appendix 2 'C'

Table No. 4.9 shows the total mean, S.D. and C.V. of loan and advances to total working fund ratio of banks.

The above table shows that the loan and advances to total working fund ratio of Nabil bank is fluctuating trend i.e. highest in Fy 2017/18 (74%) and lowest in Fy 2013/14 (57.04%). HBL bank has increasing trend in Fy 2012/13 (61.77%) and Fy 2014/15 (67.54%). But it has decreased in Fy 2015/16 (64.69%) and again it increases in Fy 2016/17 (66.58%) and then decreased in Fy 2017/18 (50.50%).

Mean value of Nabil is lower than that of HBL bank i.e. 61.90 < 62.41 but C.V. of HBL is lower than Nabil bank 10.38 > 9.97. From the above analysis, we conclude that HBL bank has done better utilization fund as loan and advances for the purpose of income generation. It has lower consistency than that of Nabil bank.

iv. Investment on Government Securities to Total Working Fund Ratio

To some extend commercial banks seem to utilize its fund by purchasing government securities. Government securities are a safe medium of investment though it is not liquid as cash and balance. This ratio is very important to the extent to which the banks are successful in mobilization their total fund on different type of government securities to maximizes their income.

We have,

Investment on government securities to

$$\text{total working fund ratio} = \frac{Investment\ on\ government\ \text{sec}urities}{Total\ working\ fund}$$

Table 4.10

Investment on Government Securities to Total Working Fund Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	15.44	14.42
2	2013/14	17.26	22.43
3	2014/15	12.98	17.11
4	2015/16	11.73	10.03
5	2016/17	8.39	19.19
6	2017/18	7.94	15.32
Total		73.74	98.5
Mean		12.29	16.42
S.D.		3.73	4.25
C.V.		30.35	25.89

Source: Appendix 2 'D'

Table no. 4.10 shows total mean, S.D. and C.V. of investment on government securities to total working fund ratio of these two banks. The table shows that investment on government securities to working fund ratio of Nabil has increasing in Fy 2013/14 then after it has in decreasing trend. It has decreased from 12.98 in Fy 2014/15 and 7.94 in Fy 2017/18. But, the HBL has fluctuating trend i.e. highest in Fy 2013/14 (22.43%) and lowest in Fy 2016/17 (19.19%).

Mean ratio of HBL is higher than that of Nabil bank. C.V. of Nabil is less than HBL 30.35 > 25.89. From this analysis, we can say that HBL bank is more successful in mobilizing its funds as investment on government securities. HBL's investment policy is consistence than Nabil bank.

v. Investment on Shares and Debenture to Total Working Fund Ratio

There are two types of investment i.e., investment on government securities and investment on shares and debenture. Investment on shares and debenture to total working fund ratio shows the extent to which the banks are successful to mobilize their total assets on purchase of shares and debenture of other companies to generate income and utilize their excess fund.

We have,

Investment on Shares and debentures to

total working fund ratio = $\frac{Investment\ on\ shares\ and\ debenture}{Total\ working\ fund}$

Where, investment on shares and debenture includes investment on debentures, bonds and share of other companies.

Table 4.11

Investment on Shares and Debentures to Total Working Fund Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	0.44	0.13
2	2013/14	1.05	0.093
3	2014/15	0.87	0.37
4	2015/16	0.81	0.27
5	2016/17	0.67	0.25
6	2017/18	0.58	0.20
Total		4.42	1.313
Mean		0.74	0.22
S.D.		0.22	0.10
C.V.		29.64	45.93

Source: Appendix 2 'E'

Table No. 4.11 shows the total mean, S.D. and C.V. of investment on shares and debentures to total working fund ratio of Nabil and HBL bank.

The above table shows the investment on shares and debenture to total working fund ratio of Nabil bank has fluctuating trend. It has highest in Fy 2013/14 (1.05) and lowest in Fy 2012/13 (0.44%). HBL bank has also in fluctuating trend i.e. highest in Fy 2014/15 (0.37) and lowest in Fy 2013/14 (6.09).

The mean value of Nabil is higher than HBL. The C.V. of Nabil is less than HBL. The above analysis shows that Nabil has invested its funds in shares and debenture more than HBL bank, we can say that Nabil's investment in shares and debentures is more consistence than HBL.

Table 4.12

Calculation of Overall Activity Ratio of Nabil Bank and HBL Bank Ltd.

Fiscal year	Nabil		HBL	
	Ratio	Index	Ratio	Index
2012/13	34.494	100	35.498	100
2013/14	36.052	104.52	37.760	106.37
2014/15	33.892	98.25	36.52	102.87
2015/16	35.672	103.42	32.902	92.68
2016/17	33.998	98.56	34.38	98.14
2017/18	39.388	114.19	31.13	87.70
Total	213.496		208.19	
Mean	35.58		34.70	
S.D.	2.06		2.42	
C.V.	5.80		6.99	

The above table no. 4.12 shows total mean, S.D. and C.V. of overall activity ratio of both banks.

The above table shows that overall activity ratio both bank has fluctuating trend as shown by index. Nabil has highest ratio in 2011/11 i.e. 114.19 and lowest in 2014/15 i.e. 98.25 HBL has highest ratio in 2013/14 i.e. 106.377 and lowest in 2017/18 i.e. 87.70.

Total mean value of HBL is higher than Nabil, which shows that HBL has utilize its assets in profitable sector than Nabil.

4.1.3 Profitability Ratios

Profitability ratios are very helpful to measure the overall efficiency of operation of financial institutions. Here, profitability ratios are calculated and evaluated in terms of

the relationship between net profit and assets. Higher ratio shows the higher efficiency of the bank.

The following profitability ratios are taken under this headings:

i. Return on Total Working Fund Ratio

This ratio measures the profit earning capacity of the bank by utilizing its available resources i.e. total asset. Return will be higher if the bank working fund is well managed and if efficiency is utilized.

We have,

$$\text{Return on total working fund ratio} = \frac{Net\ \ profit}{Total\ \ working\ \ fund}$$

Table 4.13

Return on Total Working Fund Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	2.73	1.48
2	2013/14	2.47	1.38
3	2014/15	2.01	1.59
4	2015/16	2.35	1.73
5	2016/17	2.18	2.00
6	2017/18	1.85	2.05
Total		13.59	10.23
Mean		2.27	1.71
S.D.		0.32	0.27
C.V.		14.10	16.09

Source: Appendix 3 'A'

Table no. 4.13 shows the total mean, S.D. and C.V. of return on total working fund ratio Nabil and HBL bank. IN the above table, return on total working fund ratio of Nabil has decreasing trend in Fy 2012/13 to 2014/15. Then after, it has increasing trend. The ratio of HBL bank has fluctuating trend. It has highest in Fy 2017/18 (2.05) and lowest in Fy 2013/14 (1.48).

Mean ratio of Nabil is higher than that of HBL i.e. 2.27 > 1.71. Whereas C.V. of Nabil is lower than that of HBL bank i.e. 10.14 < 16.09. From this analysis it found Nabil is successful to maintain the higher ratio in return on total working fund. It also shows than investment policy of Nabil is consistence.

ii. Return on Loan and Advance Ratio

It measures the earning capacity of a commercial bank on its deposits mobilized on loan and advances. Higher the ratio greater will be return and vice-versa. We have,

$$\text{Return on loan and advances ratio} = \frac{Net\ \ profit}{Loan\ \ and\ \ advances}$$

Table 4.14

Return on Loan and Advances Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	2.82	2.78
2	2013/14	4.33	2.17
3	2014/15	3.49	2.35
4	2015/16	3.74	2.67
5	2016/17	3.52	3.01
6	2017/18	3.14	3.48
Total		21.04	16.46
Mean		3.51	2.74
S.D.		0.52	0.47
C.V.		14.76	17.13

Source: Appendix 3 'B'

Table no. 4.14 shows the total mean, S.D. and C.V. of return on loans and advances ratio of Nabil and HBL.

In the above table, return on loans and advances ratio of Nabil bank has fluctuating trend. It has highest in Fy 2013/14 (4.33) and 10 west in Fy 2012/13 (2.82). The ratio of HBL bank has also in fluctuating trend. It has highest in Fy 2017/18 (3.48) and lowest in Fy 2013/14 (2.17). Mean ratio of Nabil is greater than HBL bank i.e. 3.51 > 2.74 whereas, C.V. of HBL is less than Nabil bank 14.76 < 17.13. From the above analysis, it is found that Nabil has maintained higher ratio than HBL bank, which indicates that it is successful to earn high return on its loan and advance. But C.V. of HBL is less than Nabil, which shows investment policy return of HBL bank is consistence than Nabil.

iii. Total Interest Earned on Total Working Fund Ratio

It reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. This ratio actually reveals the earning capacity of

commercial bank by mobilizing its working fund. A high ratio is the indicator of high earning power of the bank on its total working fund and vice versa.

We have,

Total interest earned to total working fund ratio = $\frac{Total\ \text{int}erest\ earned}{Total\ working\ fund}$

Table 4.15

Total Interest Earned to Total Working Fund Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	5.61	5.66
2	2013/14	5.83	5.33
3	2014/15	5.32	5.70
4	2015/16	6.38	5.92
5	2016/17	7.77	7.49
6	2017/18	9.60	7.71
Total		40.51	37.81
Mean		6.75	6.30
S.D.		1.64	1.03
C.V.		24.33	16.27

Source: Appendix 3 'C'

Table no. 4.15 shows the total mean, S.D. and C.V. of total interest earned to total working fund ratio of Nabil and HBL bank.

The above table shows that the ratio of interest earned to total working fund ratio of Nabil bank has increasing in Fy 2013/14 and it decreasing in Fy 2014/15 and then after it's increasing in Fy 2017/18 (9.60). HBL bank has fluctuating trend, it has highest in Fy 2017/18 (7.71) and lowest in Fy 2013/14 (5.33).

Mean ratio of Nabil bank is higher than HBL bank i.e. 6.75 > 6.30. C.V. of HBL is less than Nabil i.e. 16.27 < 24.33. From the above analysis, we can conclude that Nabil bank ratio is satisfactory than HBL. But mean ratio of HBL is consistence than Nabil bank.

iv. Total Interest Paid to Total Working Fund

This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicates the highest interest expenses on total working and vice-versa.

We have,

$$\text{Total interest paid to total working fund ratio} = \frac{Total\ \text{int}erest\ \ paid}{Total\ \ working\ \ \ fund}$$

where, total interest paid includes total expenses on deposit liabilities, loan and advance and other deposits.

Table 4.16

Total Interest Paid to Total Working Fund Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	1.53	2.42
2	2013/14	2.03	2.41
3	2014/15	2.04	2.33
4	2015/16	2.62	2.62
5	2016/17	3.76	3.76
6	2017/18	3.20	3.44
Total		15.18	16.98
Mean		2.53	2.83
S.D.		0.83	0.61
C.V.		32.88	21.64

Source: Appendix 3 'D'

Table no. 4.16 shows the total mean, S.D. and C.V. of total interest paid to total working fund ratio of Nabil and HBL bank.

The above table shows that the total interest paid to total working fund ratio of Nabil bank has increasing trend. It has increased from 1.53 in Fy 2012/13 to 3.76 in 2016/17. HBL bank decreased in Fy 2012/13 (2.52), to 2.33 in Fy 2.33. But it has increasing trend then after.

The mean ratio of Nabil is less than HBL i.e. 2.53 < 2.83. It means the Nabil has paid lower interest than HBL bank. But C.V. of Nabil is higher than that of HBL bank i.e. 32.88 > 21.64, which indicate that total working fund ratio is less consistence than HBL bank.

Table 4.17

Calculation of Overall Profitability Ratio of NABIL Bank and HBL Bank Ltd.

Fiscal year	Nabil		HBL	
	Ratio	Index	Ratio	Index
2012/13	3.172	100	3.085	100
2013/14	3.665	115.22	2.822	91.47
2014/15	3.215	101.35	2.992	96.98
2015/16	3.773	118.94	3.235	104.86
2016/17	4.307	135.78	4.065	131.76
2017/18	4.448	140.23	4.17	135.17
Total	22.58		20.369	
Mean	3.76		3.39	
S.D.	0.53		0.58	
C.V.	14.18		16.98	

Above table no. 4.17 shows total mean, S.D. and C.V. of overall profitability ratio of both banks.

The above table shows that overall profitability ratio of both banks has fluctuating trend. Nabil has highest in 2017/18 i.e. 140.23 and lowest in 2012/13 i.e. 100 HBL has highest in 2011/012 i.e. 135.17% and lowest in 2013/14 i.e. 91.47. The mean value of Nabil is higher than HBL, which shows that overall profitability of Nabil is better than HBL.

4.1.4 Risk Ratio

The possibility of risk makes bank's investment a challenging task. Bank has to take risk to get return on investment. It increases effectiveness and profitability of bank. If a bank expects high return on its investment, it has no accept the risk and manage it efficiently. Following ratio ahs been made to measure the level of risk.

i. Liquidity Risk Ratio

The liquidity risk ratio measure the level of risk associated with liquid assets i.e. cash, bank balance etc. that are kept in the bank for the purpose of satisfying the depositor's demand for cash. Higher the ratio, lower the liquidity risks.

We have,

$$\text{Liquidity risk ratio} = \frac{Total\ cash\ and\ bank\ balance}{Total\ deposit}$$

Table 4.18

Liquidity Risk Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	3.25	11.25
2	2013/14	5.99	13.15
3	2014/15	8.39	11.12
4	2015/16	9.02	18.49
5	2016/17	3.02	21.16
6	2017/18	3.40	17.97
Total		33.076	93.14
Mean		5.51	15.52
S.D.		2.71	4.24
C.V.		49.11	27.31

Source: Appendix 4 'A'

Table no. 4.18 shows the total mean, S.D. and C.V. of liquidity risk ratio of Nabil and HBL bank.

In the above table, liquidity risk ratio of Nabil bank is in increasing trend in Fy 2012/13 to 2015/16 then after it is decreasing. HBL bank has fluctuating trend it has highest in Fy 2016/17 and lowest in Fy 2014/15.

The mean ratio of Nabil is lower than that of HBL bank i.e. 5.51 < 15.52 which indicates that HBL bank's liquidity risk lower than of Nabil bank. C.V. of Nabil is also higher than HBL bank i.e. 49.11 > 27.31 which indicates HBL liquidity position is consistence than Nabil bank.

ii. Credit Risk Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate inequality or go into default with consequent loss to the bank. Actually, credit risk ratio shows the proportion of non-performing assets in total loan advance of the bank.

We have,

$$\text{Credit risk ratio} = \frac{Total\ loan\ and\ advance}{Total\ assets}$$

Table 4.19

Credit Risk Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	57.87	61.41
2	2013/14	57.04	63.75
3	2014/15	57.53	67.54
4	2015/16	62.98	64.69
5	2016/17	61.96	66.58
6	2017/18	66.05	55.85
Total		363.43	379.82
Mean		60.57	63.30
S.D.		3.65	4.24
C.V.		6.03	6.70

Source: Appendix 4 'B'

Table no. 4.19 shows total mean, S.D. and C.V. of credit risk ratio of Nabil and HBL bank. The above table shows that the credit risk of these two banks are fluctuating trend. Nabil bank mentioned highest ratio in Fy 2017/18 i.e. 66.05 and lowest in Fy 2013/14 i.e. 57.04. Similarly, HBL bank has maintained highest ratio in Fy 2014/15 i.e. 67.54 and lowest in Fy 2012/13 i.e. 61.41.

Mean ratio of Nabil bank is lower than that of HBL bank i.e. 60.57 < 63.30. It indicates that HBL bank has more credit risk than Nabil bank. C.V. of Nabil is more than HBL bank i.e. 6.03< 6.70, which shows NABIL risk ratio is consistence than that of Nabil bank.

iii. Capital Risk Ratio

Capital risk ratio measures banks' ability to attract deposits an inter bank funds. It also determine the level of profit, a bank can earn if chooses to take high capital risk. The capital risk is directly related to return on equity.

We have,

$$\text{Capital risk ratio} = \frac{Capital\,(Paid\,up\,\Gamma\,\text{Re}\,serve)}{Risk\ \ weighted\ \ assets}$$

Table 4.20

Capital Risk Ratio (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	11.04	8.26
2	2013/14	10.73	8.02
3	2014/15	9.03	9.13
4	2015/16	8.99	10.01
5	2016/17	7.78	9.12
6	2017/18	7.35	9.00
Total		54.92	53.54
Mean		9.15	8.92
S.D.		1.50	0.71
C.V.		16.37	7.96

Source: Appendix 4 'C

Table no. 4.20 shows the total mean, S.D. and C.V. of capital risk ratio of these banks.

In the above table, capital risk ratio of Nabil has decreasing trend i.e. it has 11.04 in Fy 2012/13 and 7.78 in Fy 2016/17. The ratio of HBL bank are in fluctuating trend i.e. highest in Fy 2015/16 (10.01) and lowest in Fy 2013/14 (8.02).

The mean ratio of Nabil is higher than that of HBL bank i.e. 9.15 > 8.92. But C.V. of Nabil is greater than HBL bank 16.37 > 7.96. It shows that Nabil bank high capital risk ratio.

Table 4.21

Calculation of Overall Risk Ratio of Nabil Bank and HBL Bank Ltd.

Fiscal year	Nabil		HBL	
	Ratio	Index	Ratio	Index
2012/13	24.05	100	26.97	100
2013/14	24.58	102.20	28.31	104.96
2014/15	24.98	103.87	29.26	108.49
2015/16	24.99	103.91	31.01	114.97
2016/17	24.25	100.83	32.28	119.68
2017/18	25.60	106.44	27.61	102.37
Total	148.45		175.44	
Mean	24.74		29.24	
S.D.	0.57		2.05	
C.V.	2.29		7.02	

The above table 4.21 shows overall risk position of both banks. Above table shows that overall risk ratio of Nabil is increasing trend except Fy 2016/17. But HBL has increasing trend. Total mean and S.D. of HBL is higher than Nabil bank. It shows that HBL has taken high risk than Nabil bank.

4.1.5 Growth Ratio

Growth ratios are directly related to the fund mobilization and investment management of the bank. It represent how well commercial banks are maintaining the economic and financial position. Higher ratio indicates, better performance of bank and vice-versa.

Under this, growth ratio of total deposit, loan and advances, total investment and net profit are calculated.

A. Growth Ratio of Total Deposit

Table 4.22

Growth Ratio of Total Deposit (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	19347.39	13802.44
2	2013/14	23342.28	18186.25
3	2014/15	31915.05	23976.29
4	2015/16	37348.26	33322.9
5	2016/17	46340.70	36932.31
6	2017/18	4950.20	3960.34
Growth ratio		19.09%	19.48%

Source: Appendix -5.

The above table no. 4.22 shows the growth ratio of Nabil bank is less than HBL bank i.e. 19.09 < 19.48. The above position of growth rate shows that HBL bank used to increase its deposit than Nabil bank.

ii. Growth Ratio of Loan and Advances

Table 4.23

Growth Ratio of Loan and Advances (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	12922.54	9801.30
2	2013/14	15545.78	13664.08
3	2014/15	21365.05	18399.08
4	2015/16	27589.93	23884.07
5	2016/17	32589.33	27556.35
6	2017/18	42268.87	32800.00
Growth ratio		20.32%	22.97%

Source: Appendix -6.

The above table no. 23 shows the growth ratio of loan and advances. The growth rate of Nabil is less than HBL i.e. 20.32 < 22.97. This position of growth ratio indicates that the performance of HBL bank to grant loan and advances is better than that of Nabil bank.

iii. Growth Ratio of Total Investment

Table 4.24

Growth Ratio of Total Investment (%)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	6178.53	4200.51
2	2013/14	8945.31	4984.31
3	2014/15	9939.71	5059.57
4	2015/16	10826.37	5948.48
5	2016/17	13600.91	5008.30
6	2017/18	15229.13	5028.20
Growth ratio		17.09%	19.23%

Source: Appendix -7.

The above table no. 24 shows the growth ratio of total investment of Nabil and HBL bank. The growth ratio of total investment of Nabil is greater than HBL bank i.e. 19.23% > 17.09%. Which indicates that Nabil bank's performance is better than that of HBL.

v. Growth Ratio of Net Profit

Table 4.25

Growth Ratio of Net Profit

S.N.	Fiscal year	Nabil	HBL
1	2012/13	635.26	273.29
2	2013/14	673.59	296.40
3	2014/15	746.46	431.21
4	2015/16	1031.46	638.73
5	2016/17	1138.50	831.76
6	2017/18	1205.85	1025.75
Growth ratio		12.38	24.93

Source: Appendix -8.

The above table 4.25 shows that growth ratio of net profit of Nabil and HBL bank. The growth ratio of Nabil is les than HBL bank i.e. 12.38% < 24.93%. The above position indicates that HBL bank has better position than Nabil bank.

4.2 Statistical Analysis

4.2.1 Trend Analysis

Under this topic an effort has been made to analyze and interpret trend of deposits, loan and advance, investment and net profit of Nabil and HBL to forecast them for next five years period.

i. Trend Analysis of Total Deposit

Under this topic an efforts has been made to calculated the trend values of deposits of Nabil and HBL for six years from 2012/13 to 2017/18 and forecasted for next five years from 2018/19 to 2022/23.

Table 4.26

Trend Value of Total Deposit of Nabil and HBL

S.N.	Fiscal year	Nabil	HBL
1	2012/13	18060.18	12964.77
2	2013/14	24859.46	19104.40
3	2014/15	31658.74	25244.03
4	2015/16	38458.02	31383.66
5	2016/17	45257.14	37523.29
6	2017/18	52056.58	43662.92
7	2018/19	58855.86	49802.55
8	2019/20	65655.14	55942.18
9	2020/21	72454.42	62081.81
10	2021/22	79253.70	68221.44
11	2022/23	86052.98	74361.07

Source: Appendix -9.

Trend analysis of loans and advances, total investment and net profit are calculated accordingly.

Figure 4.1

Trend Value of Total Deposit of Nabil and HBL Bank

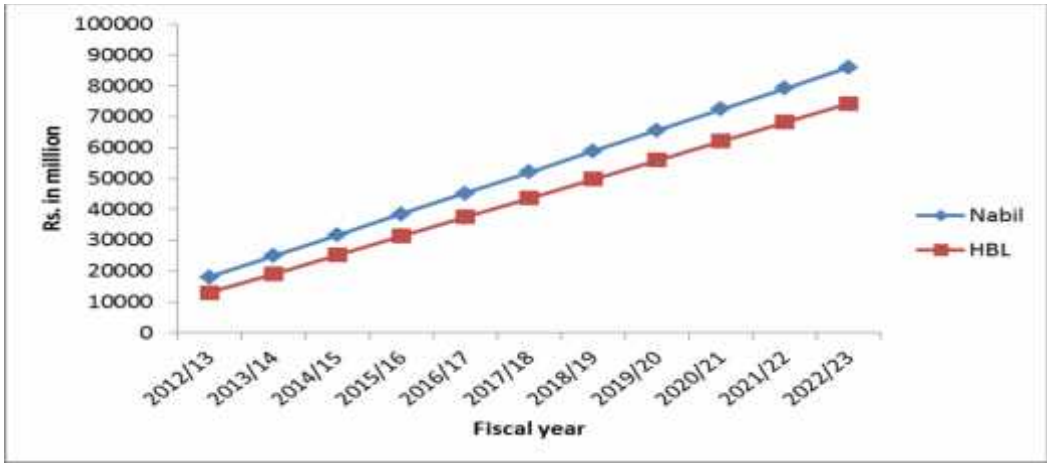

Table 4.27 and graph 4.1 shows the trend value of total deposit from 2012/13 to 2022/23 of two banks. Total deposits of Nabil and HBL have in the increasing trend. If all other things remain the same the total deposits of the Nabil will be highest deposit among the two banks under study period. Total deposit of HBL will be 74361.07 million. The total deposit Nabil will be 86052.98 million in 2023.

By analyzing above trend value it is found that the total deposit position collection of Nabil is better than HBL bank.

ii. Trend Analysis of Loan and Advances

Here, the trend values of loan and advances of Nabil and HBL has been calculated five years from 2012/13 to 2017/18 and forecast for next five years upto 2022/23.

Table 4.27

Trend Values of Loan and Advances of Nabil and HBL

S.N.	Fiscal year	Nabil	HBL
1	2012/13	11803.07	9502.94
2	2013/14	16864.75	14573.06
3	2014/15	21926.43	18649.09
4	2015/16	26987.43	23222.15
5	2016/17	32049.79	27795.21
6	2017/18	37111.47	32368.27
7	2018/19	42173.15	36941.33
8	2019/20	47234.83	41514.39
9	2020/21	52296.51	46087.45
10	2021/22	57358.19	50660.51
11	2022/23	62419.87	55233.57

Source: Appendix -10.

Figure No. 4.2

Trend Value of Loan and Advances of Nabil and HBL

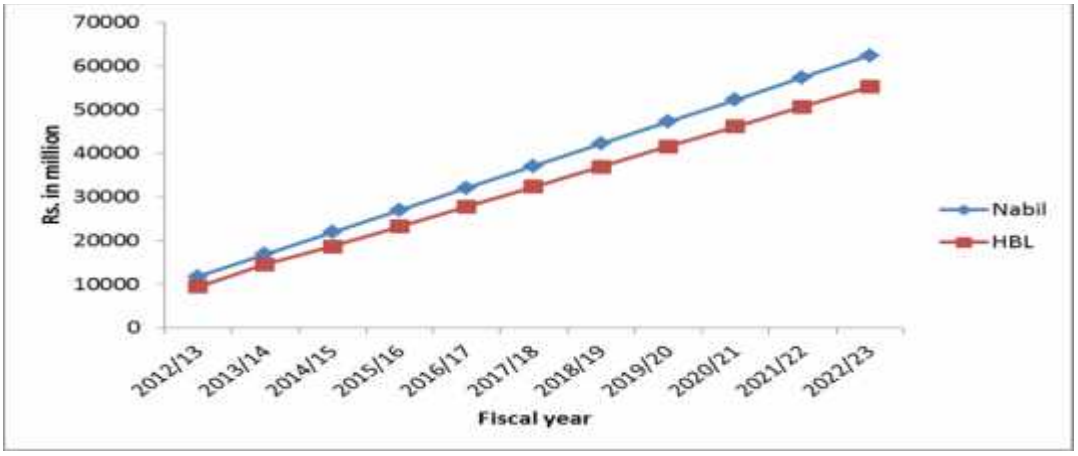

Table no. 4.28 and figure 4.2 shows trend value of loan and advances form 2012/13 to 2022/23 of two banks. Trend value of loan and advances of two banks have been in increasing trend. Total loan and advance of Nabil will 62419.87 and HBL will be 55233.57 million. Total loan and advance of Nabil is the highest among study period.

By analyzing above trend, Nabil provides more loan and advance than HBL bank and it indicates Nabil may use large portion of its deposit in providing loan.

iii. Trend Analysis of Total Investment

Under this, an effort has been made to calculate trend values of total investment form the 2012/13 to 2017/18 have been calculated and forecasted for next five years upto 2022.

Table 4.28

Trend Value of Total Investment of Nabil and HBL

(Rs. in million)

S.N.	Fiscal year	Nabil	HBL
1	2012/13	6553.00	4536.28
2	2013/14	8225.58	4788.25
3	2014/15	9898.16	5040.23
4	2015/16	11570.74	5292.21
5	2016/17	13243.92	5544.18
6	2017/18	14916.5	5796.15
7	2018/19	16589.08	6048.13
8	2019/20	18261.66	6300.10
9	2020/21	19934.24	6552.08
10	2021/22	21606.82	6804.06
11	2022/23	23279.40	7056.04

Figure No. 4.3

Trend Value of Total Investment of Nabil and HBL

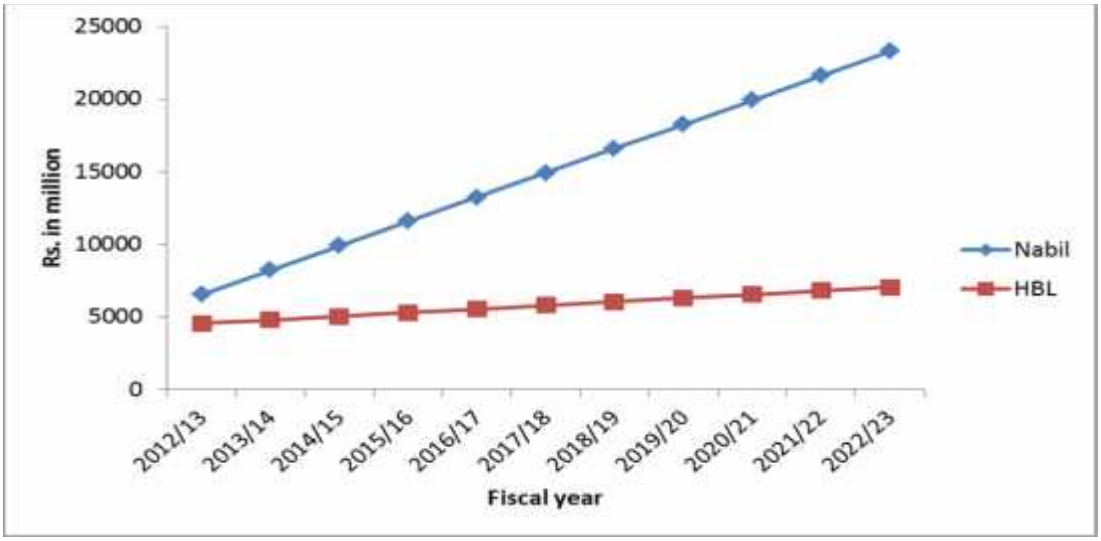

Table no. 4.29 and figure no. 4.3 shows trend value of total investment from 2012/13 to 2022/23 of two banks.

Total investment of Nabil and HBL have been in increasing trend. Total investment of the Nabil will be highest investment among the two banks under study period. Total investment of HBL will be 7056.04 and Nabil will be 23279.40 in 2023. The total investment trend of Nabil is satisfactory than HBL bank.

iv. Trend Analysis of Net Profit

Under this topic an effort has been made to analyze net profit of Nabil and HBL form 2012/13 to 2017/18 and forecasted for next five years 2018/19 to 2022/23.

Table 4.29

Trend Analysis of Net Profit of Nabil and HBL

S.N.	Fiscal year	Nabil	HBL
1	2012/13	572.03	180.83
2	2013/14	708.48	333.95
3	2014/15	844.92	487.07
4	2015/16	981.36	640.19
5	2016/17	1117.8	793.37
6	2017/18	1254.24	946.43
7	2018/19	1390.68	1099.55
8	2019/20	1527.12	1252.67
9	2020/21	1663.56	1405.79
10	2021/22	1800	1558.39
11	2022/23	1936.44	1711.00

Source: Appendix -11.

Figure No. 4.4

Trend Analysis of Net Profit of Nabil and HBL

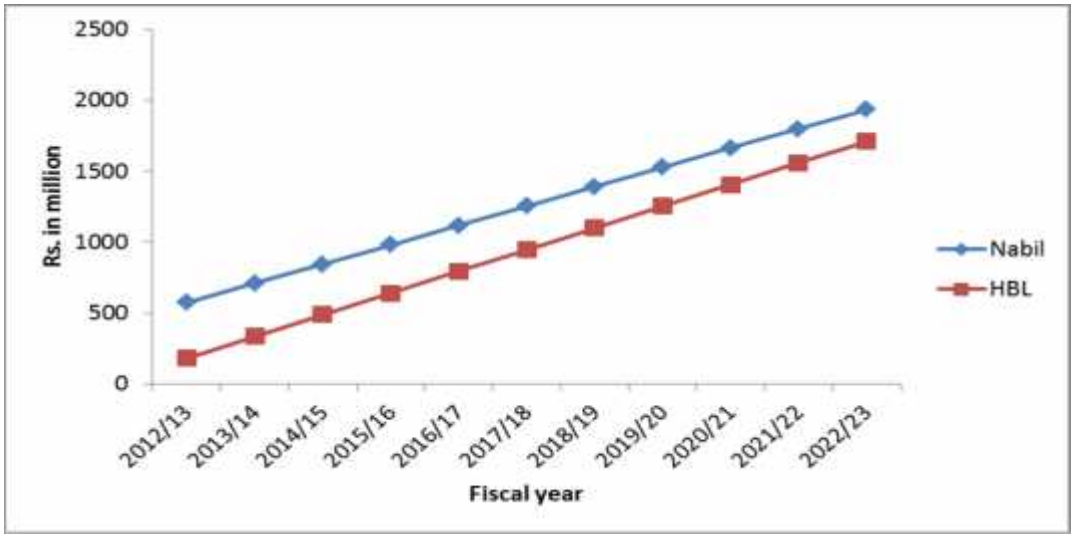

Table no. 4.30 and figure no. 4.4 shows the trend value of net profit from 2012/13 to 2017/18. Net profit of two banks have the increasing trend value. The net profit of Nabil will be 1936.44 million net profit of HBL will be 1711. Total net profit of Nabil is highest among the two banks during the study period.

4.2.2 Test of Hypothesis

The test of hypothesis disclose the fact whether the difference between the computed statistic and hypothetical parameter is significant.

Types of hypothesis:

i. Null hypothesis

ii. Alternative hypothesis

i. Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$

This hypothesis always rejects the difference and accepts of the assumption value and the actual value are same i.e. there is no significant difference between mean ratio of loan and advances to total deposit of Nabil and HBL bank limited.

ii. Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$

Complementary of null hypothesis is called alternative hypothesis i.e. there is significant difference between mean ratios of loan and advance to total deposit of Nabil and HBL bank.

Generally, following steps are taken for test of hypothesis:

1. Formulating hypothesis
    a. Null hypothesis
    b. Alternative hypothesis
2. Computing the test statistics
3. Fixing the level of significance
4. Finding critical region
5. Making decision

In this topic t-statistics is used to find out the test of significance regarding the parameter of population on the basis of sample drawn form the population.

t-test

If we draw a large number of small samples i.e. ($n < 30$) and compute the mean for each sample and then plot the frequency distribution of these mean, the resulting sampling distribution would be t-test. In this study, samples are taken only for five years i.e. ($6 < 30$).

Assumption made for using t-test in this case are:

a. The parent populations form which samples are drawn are normally distributed.
b. The two samples are random and independent of each other.

Based on above assumptions, following hypothesis are tested:

i. Test of hypothesis on loan and advance to total deposit ratio between Nabil and HBL bank

We take the mean ratio of loan and advance to total deposit of Nabil and HBL bank to carry out t-test.

Table 4.30

Test of Hypothesis on Loan and Advances to Total Deposit Ratio between Nabil and HBL Bank

S.N.	Nabil	HBL
1	$\|\phi X_1 = 343.82$	$\phi X_2 = 368.99$
2	$\overline{X}_1 = 68.76$	$\overline{X}_2 = 73.79$
3	$\|\phi X_1^2 = 38.77$	$\|\phi X_2^2 = 21.43$

Source: Appendix- 10.

Setting hypothesis,

Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$, i.e. there is no significant difference between mean ratios of loan and advances to total deposit of Nabil and HBL bank.

Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test), i.e. there is significant difference between the mean ratios of loan and advances to total deposit of Nabil and HBL bank.

The test statistics under H_0 is

$$t = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

Where, $S^2 = \frac{1}{n_1 + n_2 - 2}(\quad X_1^2 + \quad X_2^2 +$

$= \frac{1}{6 + 6 - 2}(38.77 + 21.43)$

$= 7.525$

Now, $t = \frac{68.76 - 73.79}{\sqrt{7.525 \left(\frac{1}{6} + \frac{1}{6}\right)}}$

$= -2.907$

Calculated value of $|t| = 2.907$

Tabulated value of 't' (two-tailed test) at 5% level of significance of (n_1+n_2-2) d.f. i.e. 10 d.f. is 2.306.

Decision: Since the calculated value of |t| i.e. 2.907 is greater than that of tabulated value i.e. 2.306 at 5% LOS for two tailed test. Null hypothesis rejected, i.e. there is significant difference between mean ratios of loan and advance to total deposit ratio of Nabil and HBL bank.

ii. Test of Hypothesis on Total Investment to Total Deposit Ratio between Nabil and HBL

We take the mean ratio of total investment to total deposits of Nabil and HBL bank are taken and carried out under t-test of significance difference.

Table 4.31

Test of Hypothesis on Total Investment to Total Deposit Ratio between Nabil and HBL Bank

S.N.	Nabil	HBL
1	$\|\phi X_1 = 159.7$	$\phi X_2 = 110.34$
2	$\overline{X}_1 = 31.94$	$\overline{X}_2 = 22.068$
3	$\|\phi X_1^2 = 56.92$	$\|\phi X_2^2 = 189.47$

Source: Appendix- 10.

Setting hypothesis,

Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$, i.e. there is no significant difference between mean ratios of total investment to total deposit of Nabil and HBL bank.

Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test), i.e. there is significant difference between the mean ratios of total investment to total deposit of Nabil and HBL bank.

The test statistics under H_0 is

$$t = \frac{\overline{X}_1 Z \overline{X}_2}{\sqrt{S^2 \frac{1}{n_1} \Gamma \frac{1}{n_2}}}$$

Where, $S^2 = \frac{1}{n_1 \Gamma n_2 Z 2}(X_1^2 \Gamma X_2^2)$

$= \frac{1}{6 \Gamma 6 Z 2}(56.92 \Gamma 189.47)$

$= 30.798$

Now, $t = \frac{31.94 Z 22.068}{\sqrt{30.798 \frac{1}{6} \Gamma \frac{1}{6}}}$

$= 2.812$

Calculated value of t = 2.812

Tabulated value of 't' (two-tailed test) at 5% level of significance of (n_1+n_2-2) d.f. i.e. 10 d.f. is 2.306.

Decision: Since the calculated value of t i.e. 2.812 is greater than that of tabulated value i.e. 2.306 at 5% LOS for two tailed test. Null hypothesis rejected, i.e. there is significant difference between mean ratios of total investment to total deposit ratio of Nabil and HBL bank.

iii. Test of hypothesis on Government Securities to Current Assets Ratio between Nabil and HBL Bank

Here, mean ratios of government securities to current assets of Nabil and HBL bank are taken and carried out under t-test of significance difference.

Table 4.32

Test of Hypothesis on Government Securities to Current Assets Ratio between Nabil and HBL Bank

S.N.	Nabil	HBL
1	$\|\phi X_1 = 80.18$	$\phi X_2 = 86.31$
2	$\overline{X}_1 = 16.04$	$\overline{X}_2 = 17.26$
3	$\|\phi X_1^2 = 74.32$	$\phi X_2^2 = 98.08$

Source: Appendix- 10.

Setting hypothesis,

Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$, i.e. there is no significant difference between mean ratios of government securities to current assets of Nabil and HBL bank.

Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test), i.e. there is significant difference between the mean ratios of government securities to current assets of Nabil and HBL bank.

The test statistics under H_0 is

$$t = \frac{\overline{X}_1 Z \overline{X}_2}{\sqrt{S^2 \frac{1}{n_1} \Gamma \frac{1}{n_2}}}$$

Where, $S^2 = \frac{1}{n_1 \Gamma n_2 Z 2}(\quad X_1^2 \Gamma \quad X_2^2)$

$= \frac{1}{6 \Gamma 6 Z 2}(74.32 \Gamma 98.08)$

$= 21.55$

Now, $t = \frac{16.04 Z 17.26}{\sqrt{21.55 \frac{1}{6} \Gamma \frac{1}{6}}}$

$= -0.414$

Calculated value of $|t| = 0.414$

Tabulated value of 't' (two-tailed test) at 5% level of significance of (n_1+n_2-2) d.f. i.e. 10 d.f. is 2.306.

Decision: Since the calculated value of t i.e. 0.414 is greater than that of tabulated value i.e. 2.306 at 5% LOS for two tailed test. Null hypothesis rejected, i.e. there is significant difference between mean ratios of government securities to current assets ratio of Nabil and HBL bank.

iv. Test of Hypothesis on Loan and Advance to Current Assets between Nabil and HBL Bank

Here, mean ratio of loan and advance to current assets of Nabil and SBI bank taken and carried out under t-test of significance difference.

Table 4.33

Test of Hypothesis on Loan and Advance to Current Assets Ratio between Nabil and HBL Bank

S.N.	Nabil	HBL
1	$\|\phi X_1 = 362.76$	$\phi X_2 = 338.56$
2	$\overline{X}_1 = 72.55$	$\overline{X}_2 = 67.71$
3	$\|\phi X_1^2 = 121.86$	$\phi X_2^2 = 16.82$

Source: Appendix- 10.

Setting hypothesis,

Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$, i.e. there is no significant difference between mean ratios of loan and advances to current assets of Nabil and HBL bank.

Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test), i.e. there is significant difference between the mean ratios of loan and advance to current assets of Nabil and HBL bank.

The test statistics under H_0 is

$$t = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

Where, $S^2 = \frac{1}{n_1 + n_2 - 2}\left(X_1^2 - X_2^2\right)$

$= \frac{1}{6 + 6 - 2}(121.86 - 16.82)$

$= 17.33$

Now, $t = \frac{72.55 - 67.71}{\sqrt{17.33\left(\frac{1}{6} + \frac{1}{6}\right)}}$

= 1.84

Calculated value of t = 1.84

Tabulated value of 't' (two-tailed test) at 5% level of significance of (n_1+n_2-2) d.f. i.e. 10 d.f. is 2.306.

Decision: Since the calculated value of t i.e. 1.84 is greater than that of tabulated value i.e. 2.306 at 5% LOS for two tailed test. Null hypothesis rejected, i.e. there is significant difference between mean ratios of loan and advances to current assets ratios of Nabil and HBL bank.

v. Test of Hypothesis on Return on Loan and Advance Ratio between Nabil and HBL Bank

Here, mean ratio on loan and advances to Nabil and HBL bank are taken and carried out under t-test of significant difference.

Table 4.34

Test of Hypothesis on Return on Loan and Advance Ratio between Nabil and HBL Bank

S.N.	Nabil	HBL
1	$\|\phi X_1$ = 17.9	ϕX_2 = 12.98
2	$\overline{X}_1$ = 3.58	$\overline{X}_2$ = 2.59
3	$\|\phi X_1^2$ = 1.1774	ϕX_2^2 = 0.4529

Source: Appendix- 10.

Setting hypothesis,

Null hypothesis (H_0): $\overline{X}_1 = \overline{X}_2$, i.e. there is no significant difference between mean ratios of return on loan and advances of Nabil and HBL bank.

Alternative hypothesis (H_1): $\overline{X}_1 \neq \overline{X}_2$ (two-tailed test), i.e. there is significant difference between the mean ratios of return on loan and advances of current assets of Nabil and HBL bank.

The test statistics under H_0 is

$$t = \frac{\overline{X}_1 \, Z \overline{X}_2}{\sqrt{S^2 \; \frac{1}{n_1} \Gamma \frac{1}{n_2}}}$$

Where, $S^2 = \frac{1}{n_1 \, \Gamma \, n_2 \; Z 2} (\quad X_1^{\,2} \; \Gamma \quad X_2^{\,2})$

$= \frac{1}{6 \Gamma 6 Z 2}(1.1774 \Gamma 0.4529)$

$= 0.203$

Now, $t = \frac{3.58 Z 2.59}{\sqrt{0.203 \frac{1}{6} \Gamma \frac{1}{6}}}$

$= -3.485$

Calculated value of t = 3.485

Tabulated value of 't' (two-tailed test) at 5% level of significance of (n_1+n_2-2) d.f. i.e. 10 d.f. is 2.306.

Decision: Since the calculated value of |t| i.e. 3.485 is greater than that of tabulated value i.e. 2.306 at 5% LOS for two tailed test. Null hypothesis rejected, i.e. there is significant difference between mean ratios of return on loan and advances of Nabil and HBL bank.

4.3 Major finding of the Study

The main finding of the study are derived with the help of analysis of financial and statistical tools of Nabil and HBL bank are as follows.

1. Liquidity ratio

The liquidity position of Nabil and HBL bank reveals that:

- The current ratio of Nabil bank is less than HBL bank. It state HBL bank has better liquidity position than Nabil bank.
- The mean ratio of cash and bank balance to total deposit of Nabil bank is less than that of HBL bank. It state that liquidity position of HBL bank is better than Nabil bank.
- The mean ratio of cash and bank balance to current assets ratio of Nabil is less than that of HBL bank. HBL bank has higher consistency than Nabil, which indicates that HBL bank has utilized its fund more efficiently.
- The mean ratio of investment on government securities to current assets of HBL is higher than Nabil bank. It indicates the HBL bank invest its current assets in government securities more than Nabil bank.
- The mean ratio of loan & advance to current asset of Nabil bank is higher than that of HBL bank. It revels that Nabil provides more loan & advance than HBL bank.

The above result shows that liquidity position of Nabil is comparatively lower than HBL bank. It has lower cash and bank balance to total deposit, cash and bank balance to current assets and investment on government securities to current assets. It has maintained highest ratio on loan & advance to current assets.

2. Asset Management Ratio

The asset management of Nabil and HBL bank shows that:

- The mean ratio of loan & advance to total deposit of Nabil is lower than HBL bank. It indicates HBL has utilizing its deposit in loan & advance better than Nabil bank.
- The mean ratio of total investment to total deposit of Nabil is higher than that of HBL bank, which indicates that Nabil is successful in utilizing its deposit in a better way.
- The mean ratio of loan& advance to total working fund ratio of Nabil is lower than HBL bank, which indicates that it is utilizing its fund lower than HBL bank.
- Investment on government securities to total working fund ratio of Nabil is lower than HBL bank. It indicates that the investment policy of HBL is better to utilize its working fund.
- The mean ratio of investment on shares and debenture to total working fund of Nabil is higher than HBL bank.

3. Profitability Ratio

The profitability ratio of Nabil and HBL bank shows that:

- The mean ratio of return on total working fund ratio of Nabil is higher than HBL bank. Nabil bank is successful to maintain higher ratio investment return on total working fund.
- The mean ratio of return on loan & advance of Nabil is higher than HBL bank. It indicates it is successful to maintain higher return on loan & advance.
- The mean ratio of return on total working fund ratio of Nabil bank is higher than HBL bank. Nabil bank is successful to maintain higher ratio of investment return on total working fund.
- The mean ratio of total interest paid to total working fund of Nabil is lower than HBL bank, which means Nabil has paid low interest than HBL bank.

4. Risk ratio

The risk ratio of Nabil and HBL bank shows that:

- The mean ratio of liquidity risk of Nabil is lower than that of HBL bank.
- The mean ratio of credit risk ratio of Nabil is lower than that of HBL bank.
- Nabil has maintained higher mean ratio of capital risk than HBL bank.

From the above finding we can conclude that Nabil has average risk ratio. The bank should maintain risk against credit fund to earn high profit.

5. Growth Ratio

The growth ratio of Nabil and HBL bank shows that;

- The growth ratio of total deposit of Nabil bank is lower than HBL bank, which indicates that the performance of HBL bank to collect deposit is better than Nabil bank.
- The growth ratio of loan &advance of Nabil lower than HBL bank, which indicates that the performance of HBL to grant loan& advance is better than Nabil bank.
- The growth ratio of total investment of Nabil is higher than HBL bank. It indicates investment policy of Nabil is better than HBL bank.
- The growth ratio of net profit of Nabil is lower than HBL bank, which indicates HBL is successful to earn more profit than Nabil.

From above finding, it can be conclude that HBL bank has maintained high growth ratio in total deposit, loan & advance, net profit. Nabil has higher position in investment.

6. Trend analysis

The trend analysis of Nabil and HBL bank shows that:

- The trend analysis of total deposit of Nabil and HBL bank has increasing trend. From trend analysis it is forecasted that the total deposit of Nabil will be 86052.98 million in 2023. Similarly the total deposit of HBL will be 74361.07 million in 2023. The deposit collection of Nabil is better than HBL bank.

- The trend analysis of loan & advance of both banks have increasing trend. The total loan & advance of Nabil will be 62419.87 million in 2023, which is highest amount than HBL bank i.e. 55233.57 million in 2023.
- Total investment of both banks has increasing trend. The total investment of Nabil will be 23279.40 million in 2023. Similarly total investment of HBL bank will be 7056.04 million in 2023. It shows total investment of Nabil is greater than HBL bank.
- The net profit of two banks has increasing trend. The net profit of Nabil is higher than HBL bank i.e. 1936.44 million and 1711 million respectively.

From the above finding, it can be conclude that, Nabil may use relatively large portion of their deposit to invest in potential sectors. If it able to do so, Nabil may have better position in banking sector.

7. Test Of Hypothesis

By analyzing the test of significant difference regarding parameter of population, it has been found that:

- There is significant different between mean ratio of loan & advance to total deposit ratio Nabil and HBL bank.
- There is significant different between mean ratio of total investment to total deposit of Nabil and HBL bank.
- There is no significant different between mean ratio of government securities to current assets of Nabil and HBL bank.
- There is no significant different between mean ratio of loan & advance to current assets ratio of Nabil and HBL bank.
- There is significant different between mean ratio of return on loan & advance ratio of Nabil and HBL bank.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

In this chapter we present the summary and conclusion drawn from the analysis of preceding chapter. Then based on the finding and conclusion we recommend certain measure for further improvement. With the help of some financial and statistical tools, the researcher has tried to analysis investment policy of concerned banks. This study may be helpful for management of the concerned bank to initiate the action to achieve the desired result.

5.1 Summary

Investment refers to the conversion of money into clams on money and use of fund for productive assets. It includes the savings of resources for future benefits. In terms of banking investment, it means purchasing stock, bonds, shares, treasury bills, etc. The features of investment decisions are profit, risk, speculation and wealth. Good investment policy ensures maximum amount of investment amount of investment to all sectors with proper utilization.

Investment management of a bank is guided by the investment policy adapted by the bank. The investment policy of bank helps the investment operation of the bank to be efficient and profitable by minimizing the risk. A healthy development of any bank depends upon its investment policy. A sound investment policy of a bank is such that its fund are distributed on different types of assets with good profitability on the one hand and provides maximum safety and security to the depositors and banks other the other hand. There are five principles of sound lending policy i.e., liquidity, profitability, safety and security, stability and diversification.

Investment policy provides guidelines to handle their investment operation smoothly ensuring maximum return with minimum exposure towards risk. Main investment of the bank is lending its collected fund in different sector of economy. Lending affects the bank's profitability and liquidity, so it is one of the crucial decisions for the commercial banks. The major source of income of a bank is interest income from loans and investments. Loan and advances provided by commercial banks are the major statements for Nepalese commercial banks. So, commercial banks have to follow their policies to utilize their funds.

In current scenario there is a very high competition in banking sector in Nepal but investment alternatives are decreasing due to political instability, insurgency, etc. so

banks have to face many problems to survive in this type of environment. Every bank is following sound investment policy for a purposeful, safe and profitable investment. Development of trade, industry and business is the main ground of banks to conduct its activities and fulfill its profit making objectives. The sound investment policy helps all the banks to make profitable investment which in turn also helps to develop the economic condition of the country.

The basic objective of this study id to evaluate the investment policy adopted by NABIL and HBL and to suggest measures to improve the investment policy of the banks. The study is mainly based on secondary data from F.Y.2012/13 to 2017/18. The data had been obtained from the annual reports and financial statements, various published reports and past period master's degree thesis related to this topic. Various financial and statistical tools are applied in this study to analyze and interpret the data and information. Under financial analysis, liquidity ratio, asset management ratio, profitability ratio, risk ratio, and growth rate have been used. Under statistical analysis, trend analysis and coefficient of correlation analysis have been used.

5.2 Conclusion

The trend of loans and advances, total investment and net profit are calculated accordingly. Total deposits of Nabil and HBL have in the increasing trend. If all other things remain the same the total deposits of the Nabil will be highest deposit among the two banks under study period. By analyzing above trend, Nabil provides more loan and advance than HBL bank and it indicates Nabil may use large portion of its deposit in providing loan. Total investment of Nabil and HBL have been in increasing trend. Total investment of the Nabil will be highest investment among the two banks under study period. The total investment trend of Nabil is satisfactory than HBL bank. The study concluded that investment portfolio is managed in government securities, share and debentures. HBL bank has done better utilization fund as loan and advances for the purpose of income generation. It has lower consistency than that of Nabil bank. From this analysis, we can say that HBL bank is more successful in mobilizing its funds as investment on government securities. HBL's investment policy is consistence than Nabil bank. The above analysis shows that Nabil has invested its funds in shares and debenture more than HBL bank, we can say that Nabil's investment in shares and debentures is more consistence than HBL. Total mean value

of HBL is higher than Nabil, which shows that HBL has utilize its assets in profitable sector than Nabil.

The liquidity position of Nabil is comparatively lower than HBL bank but it has highest loan & advance to current assets ratio. Analyzing the profitability ratio, we found that return on total working fund and return on loan & advance, total interest earned to total working fund ratio of Nabil is higher than HBL bank. Through the analysis and finding we can summarize that investment policy of Nabil is better in every sector and profitability ratio is also good. Similarly trend analysis shows that position of Nabil will be better in future. However liquidity position growth rate is not satisfactory and it has average risk ratio.

5.3 Recommendations

On the basis of above summary and conclusion, following recommendation are made:

- As Nabil bank has maintained lower ratio of cash and bank balance to total deposit. Nabil is recommended to increase cash and bank balance to meet the requirement of cash for various purposes. As Nabil bank has maintained lower ratio of cash and bank balance to total deposit and current assets. Nabil bank is recommended to increase growth ratio into deposit, loan & advance, net profit. Nabil's loan & advances to total deposit ratio and loan & advances to total working fund ratio is lower. To overcome this situation Nabil is strongly recommended to follow liberal lending policy and invest more and more percentage of total deposit and total working fund in loan & advances
- HBL bank is able to maintain higher liquidity ratio but it should be careful that it's not more than required level. HBL bank is able to maintain higher liquidity ratio but it should be careful that it's not more than required level. HBL bank is recommended to invest its fund purchase of shares and debenture of other finance companies. Government securities offer lower interest rate than others. HBL bank is recommended to increase its interest earning capacity by investing more funds on loan & advance.
- Nepal Rastra Bank has to play the role promoter, regulator and facilitator for Nepalese Banking Sector. But NRB has played only regulatory role for banking sector in Nepal. That's why, Nepalese banking sectors are in contraction of their financial activities. Hence, NRB should played as promotional and facilitator role than that of regulatory role.

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