

**INVESTMENT POLICY ANALYSIS OF JOINT VENTURE
BANKS (A COMPARATIVE STUDY OF NEPAL SBI BANK
EVEREST BANK LIMITED)**

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Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this project work entitled **“INVESTMENT POLICY ANALYSIS OF JOINT VENTURE BANKS (A COMPARATIVE STUDY OF NEPAL SBI BANK EVEREST BANK LIMITED)”** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Dr. K.D. Manandhar and Dhurba Subedi** of Shanker Dev Campus.

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CHAPTER - I

INTRODUCTION

1.1 Background of the Study

A financial institution is the lifeblood of economic development of the country. Financial institution acts as catalyst for economic growth of the country. A bank is a financial institution, which can play a significant role in the upliftment of the economic situation of the developing country like Nepal. Bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They pursue economic growth rapidly, developing the banking habit among the people by collecting the small-scattered resources in one bulk, using them in the further productive purposes, and rendering other valuable service to the country. Thus, this gives the individual an opportunity to borrow funds against future income, which may improve the economic well being of the borrower. Bank deals with the offer of collected deposits and provides the loan for commercial purpose.

In other words, bank facilities act as right hand for the growth of trade and industry for national economy of developing country like Nepal. The above fact shows that a bank plays vital role for the economic development of the country.

Talking about the history of bank, an institutional banking system came into existence in Nepal only in the 19th century. Nepal Bank Limited was the first financial institutional of Nepal established on the 30th of Kartik 1994. Being a commercial bank, it focuses on income generating and profit maximization. As it was only one commercial bank, it has to look the economic condition of country. Only one Nepal Bank Limited was not sufficient to look all the sector of country. So in 2013 B.S. another bank named “Nepal Rastra Bank” was established as the central bank. Similarly the 2nd commercial bank Rastriya Banijya Bank was established as the second commercial bank of Nepal in Magh 10, 2022 B.S., under Rastriya Banijya Bank Act 2021. This act is now revised as Commercial Bank Act 2031. B.S. “Accepting deposits, granting loan

and performing commercial banking functions are the main motto of commercial bank” (Commercial Bank Act, 2031). For the development of industry, commerce and trade, Nepal Industrial Development Corporation was established under Industrial Development Corporation Act 2016. For the development of agricultural section, Agricultural Development Bank was established on Magh 7th 2024 B.S., under the Agricultural Bank Act 2024 B.S. The government of Nepal observed the necessities of rapid development of the country for which it has adopted “liberalized economic policy, laissez fair economy and encouraged foreign investment”. “The government formed Foreign Investment & Technology Act 1981 A.D. which was later revised as Act 1992 A.D. by new elected democratic government”(Foreign Investment and Technology Act, 1992). The joint venture bank was introduced in Nepal in 2041 B.S. with the establishment of “Nepal Arab Bank Limited”. It was established with joint venture of U.A.E bank, financial institution of Nepal.

The second joint venture bank, Nepal Indosuez Bank Limited was established in 6th Magh 2042 B.S. Similarly, others joint venture banks like, Nepal Grindlays Bank Limited on 16th Marg 2043, Himalayan Bank Limited on 2049 B.S., Nepal State Bank of India Limited on 2050 B.S., Nepal Bangladesh Bank Limited on 2051 B.S., Everest Bank Limited on 2051 B.S., Bank of Kathmandu on 2052 B.S. and Nepal Bank of Celon Limited on 2052 B.S. have been established. Till now other commercial banks have been also established. Among them majority of banks are established in joint venture banks. “A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation industrial or commercial investment, production or trade” (Gupta, 1984: 15).

Joint venture banks play an important role for economic development of nation. They have been adopted new banking technique, management like, hypothecation, syndication lending polices, tale banking credit card, master card from international banking technique. They render various services to their customers in order to facilitate their economic and social life. Joint

venture banks are operating in Nepal in an act as commercial banks are operating and performing their work under the direction of Nepal Rastra Bank. Nowadays, there are many joint venture banks and other financial institutions, but there are little opportunities to make fair investment. Meanwhile, the banks and financial institutions are offering very low deposit and credit interest rate. So to survive in the competitive banking market, one should follow the fundamental principles of sound investment policy with minimum risk and maximum profit.

At present, about a dozen of the joint venture banks are operating in Nepal and are playing important role in the economic development of the country.

Investment policy is an important ingredient of overall national economic development because it ensures efficient allocation of fund to achieve the materials and economic well being of the society as a whole. In this regard, joint venture bank investment policy push drives to achieve priority of commercial sectors in the context of Nepal's economic development. National development of any country depends upon the economic development of that country and economic development is supported by financial infrastructure of that country. Banks constitute an important segment of financial infrastructure of any country. Banking when properly organized it aids and facilities the growth of trade and industry and hence of national economy. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development.

Banking plays a significant role in the development of nations. Bank is a financial institution which primary classes in borrowing and lending. Modern bank prefers varieties of functions. Therefore it is difficult to decide the function of a modern bank because of their complexity and versatility in operation. Various authors have defined the word 'Bank' in different ways. "A commercial bank is dealer in money and it substitutes for money such as

cheque or bills of exchange, it also provides a variety of financial service” (Britannica, 1985:600).

Commercial banks are major financial institution, which occupy quite important place in the framework in every economy because they provide capital for the development of industry. Commercial banks formulate sound investment policies to make it more effective, which eventually contribute to the economic growth of country. The bound policies help commercial banks maximizing quality and quantity of investment and hereby achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and co-ordinate and planned efforts pushed forward the forces of economic growth.

“A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation industrial or commercial investment, production or trade” (Gupta, 1984: 15).

In the study the word investment conceptualized the investment of income, savings or other collected fund. The term investment covers a wide range of activities. It is commonly known fact that an investment is only possible where there is adequate saving. If all the incomes and savings 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 saving and investment are interrelated. Investment policy is an important ingredient of overall national economy development because it ensures efficient allocation of fund to achieve the materials and economic well being of the society as a whole. In this regards, joint venture bank investment policy push drives to achieve priority of commercial sectors in the context of Nepal’s economic development. The following table below shows in a chronological order a list of the licensed commercial banks and their branches operating in Nepal.

Table 1.1**List of Licensed Commercial Banks**

S.N.	Commercial Banks	Established Date	Head Office
1.	Nepal Bank Ltd.	1937/11/15	Kathmandu
2.	Rastriya Banijya Bank	1966/01/23	Kathmandu
3.	Nabil Bank	1984/07/16	Kathmandu
4.	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
5.	Standard Chartered Bank	1987/01/30	Kathmandu
6.	Himalayan Bank Ltd.	1993/01/18	Kathmandu
7.	Nepal Bangladesh Bank	1993/06/05	Kathmandu
8.	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
9.	Everest Bank Ltd.	1994/10/18	Kathmandu
10.	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
11.	Nepal Credit and Commercial Bank	1996/10/14	Siddhartha Nagar
12.	Lumbini Bank Ltd.	1998/07/17	Naryanghat
13.	Nepal Industrial and Commercial Bank Ltd.	1998/07/2	Biratnagar
14.	Macchapuchhre Bank Ltd.	2000/10/03	Kathmandu
15.	Kumari Bank Ltd	2001/04/03	Pokhara
16.	Laxmi Bank Ltd.	2002/04/03	Kathmandu
17.	Siddhartha Bank Ltd	2002/12/24	Kathmandu
18.	Agricultural Development Bank Ltd.	1968/01/02	Kathmandu
19.	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20.	Citizen Bank Ltd.	2007/06/21	Kathmandu
21.	Prime Bank Ltd.	2007/09/24	Kathmandu
22.	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23.	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24.	NMB Bank Ltd.	2008/05/02	Kathmandu
25.	Development Credit Bank Ltd.	2008/05/25	Kathmandu

Source: <http://brf.nrb.org.np>

In the study of this thesis, three banks are selected and explained in detail of them in below:

1.2 Statement of the Problem

In developing countries, the contribution on industrial sector is also very low in the output and the employment. In Nepal the commercial bank has played a

catalytic role in the economic growth. Its investment range from small-scale cottage industries to large industries making investment in loans and government securities one may always wonder which investment is better. It can be hypothesized that bank portfolio variables like loans, investment, cash reserve, deposit and borrowing affects the national income and also how the government policy affects these variables, such as the effect of an interest rate on the bank portfolio variables is of great concern, therefore when monitoring money and credit conditions, the central bank has to keep an eye on the bank portfolio behavior. Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have clear view towards investment policy. Furthermore the implementation of policy is not in an effective way.

Thus the present study will make a modest attempt to analyze investment policy of Nepal SBI Bank and Everest Bank Ltd. In this study, Nepal SBI bank investment policy is analyzed comparing it with Everest bank. Following are the major problems that have been identified for the purpose of this study.

- Do the Everest bank and SBI utilize their available fund?
- Whether these commercial banks are able to meet obligations?
- Is Everest bank fund mobilization and investment policy more effective and efficient than SBI bank?
- Are they maintaining sufficient liquidity position?

1.3 Objective of the Study

Main objective of this study is to examine investment policy of Everest bank and Nepal SBI bank. The specific objectives of the study are as follows:

1. To evaluate the liquidity, efficiency and profitability and risk position.

2. To evaluate the growth ratios of loan and advances, total investment with other financial variables.
3. To examine fund mobilization and investment policy of Everest bank and Nepal SBI bank.
4. To analyze the trends of deposits utilization towards total investment and loans and advances.

1.4 Significance of the Study

This study is to find out the existing situation as well as future prospectus of marketing and financial returns. The collected fund is utilized in a good manner as investment then only good return and sustainability or possible. Return on investment first sustains the institution and provides handful income to the investors. The better the investment policy, the more valuable the company, the higher return to share holders etc and vice versa. Since the different parties, shareholders, general public and government are directly affected by the investment policy of the financial institutions. The researcher feels the needs to study this policy effects on following stated parties.

-) Management of banks
-) Financial institution
-) Share holder
-) General public (customer, depositors and creditors)
-) Related parties

Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly depend upon the instructions and guidelines of NRB. They do not have clear view towards investment policy. Further more, the implementation of policy is not in an effective way. Thus the present study will make a modest attempt to analyze investment policy of Nepal SBI Bank and Everest Bank Ltd. This study will provide a useful feedback for academic institution, bank employees, trainees, investors, for financial person, policy making bodies and other concerned people with bank.

1.5 Limitation of the Study

The followings are limitation of the study:

1. Most of the data used in the research are of secondary-nature; therefore there might be reporting errors.
2. This study covers only a five year period i.e. from 2000/20001 to 2004/2005.
3. Data which are related to find mobilization as loan & advance investment on government securities and other financial institutions are considered.
4. This study is based on secondary data from the banks' annual report, different publication, website and journals.
5. Only two banks Nepal SBI and Everest Bank are taken as joint venture banks for this study.

1.6 Plan of the Study

The study will be divided into five chapters:

- | | |
|----------------|---|
| Chapter - I: | Introduction |
| Chapter - II: | Review of literature |
| Chapter - III: | Research Methodology |
| Chapter - IV: | Data Presentation and Analysis |
| Chapter - V: | Summary, Conclusion and Recommendations |

CHAPTER - II

REVIEW OF LITERATURE

This chapter highlights the literature that is available in concerned subject. This deals with conceptual frame work, review of reports related to concerned banks, review of research works, review of books, review of articles and relevant study on this topic and review of thesis works performed previously. This chapter helps to take adequate feed back to broaden the information based and inputs to the study.

2.1 Conceptual Frame Work

Investment promotes economic growth and contributes to a nation's wealth. When people deposit money in a saving account in a bank, the bank may invest by lending the funds to various business companies. These firms in turn may invest the money in new factories and equipment to increase their production. In addition to borrowing from banks most companies issue stocks and bonds that they sell to investors to raise capital needed for business expansion. Government also issue bonds to obtain funds to invest in different projects like the construction of dams, roads and schools. All such investments involve a present sacrifice of income to get an expected future benefit. As a result, investments raise a nation's standard of living.

Investment usually involves putting money into an asset which is not necessarily marketable in order to enjoy a series of return that investment is expected to yield. One the other hand, speculation is usually a short-runer phenomenon. Speculators tend to buy assets with the expecting of a profit that can be earned from a subsequent price change and sale. Investments are usually made expecting a certain stream of income, which has existed, will not change in the future.

According to Shakespeare Baidhya on sound investment policy: “A sound investment policy of a bank is such that its funds are distributed in different types of assets with good profitability on the one hand and provide maximum safety and security to the depositors and banks on the other hand; moreover, risk in banking sectors tends to be concentrated in the loan portfolio. When a bank gets a serious financial trouble its problem usually spring from significant amounts of loan that have become uncollectible due to mismanagement, illegal, manipulation of loan, misguided leading policy or unexpected economic downturn. Therefore the bank investment policy must be such that it ensures that it is sound and prudent in order to protect public funds” (Baidhya, 1997: 46-47).

V.K. Bhalla says, “Banks are those institutions which accepts deposits from the public and in turn provide credit to trade, business and industry that directly makes a remarkable impact on the economic development of a country. To collect the fund as a good investment is a very risky job. Ad-hoc investment decision leads the bank out of the business thereby drawn the economic growth of a country. Hence sound investment policy is another secret of a successful bank” (Bhalla, 1983:2).

Jerome B. Chone Edward, D. Zinbarg an Arthur Zeiped, define that, “Investment has factors. It may involve putting money into bond, treasury bills, or notes or common stock, or painting of real estate, or mortgages or oil ventures, or cattle or the theater. It may involve specially in bull markets or selling short in bear markets. It may involve options, straddles, tights, warrants, convertibles, margin, gold-silver, mutual funds, money market funds, index funds and result in accumulation of wealth or dissipation of resources diversity and challenge characterize the field. For the able or lucky, the rewards may be substantial, for the uniformed results can be disastrous” (Edward, 1997:1).

Mrs. Sunity Shrestha has expressed similar view on investment. She stresses on the fulfillment of credit needs of various sectors, which ensures investments. She expressed in her books 'portfolio Behaviors of commercial banks in Nepal's.' "The commercial banks fulfill the credit needs of various economic sectors including policy of commercial banks is based on the profit maximization of the institute as well as the economic enhancement of the country"(Shrestha, 1995:51-52).

Frank K. Reilly defines investment in this words, "An investment may be defined the current commitment of funds for a period of time to derive a further flow of funds that will compensate the investing unit for the time. The funds are committed for the expected rate of inflation and also for the uncertainty involved in the future flow of the funds" (Reilly, 1986:92).

According William F. Sharpe, Gordon J. Alexander and Jeffery V. Baily "Investment in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes places in the present and its magnitude as generally uncertain" (Sharpe, Alexander and Baily, 1995: 1).

In the study of the financial institutions the investment and investment problem will revolve around the concept of managing the surplus financial assets in such a way, which will lead to the wealth maximization and providing a significant further source of income. Thus the investment for insures purpose will be the management of the surplus recourses in such a way as to make it work for providing benefits to the supplier of the funds by letting third party to use such resources. However the investments need to be a procedural task. It must follow a definite investment process, which definitely being from the formulation of proper investment policy.

Cheney and Moses said, "The investment objective is to increase systematically the individuals' wealth, defined as asset minus liabilities. The higher the level of desired wealth the higher must be received. As investor seeking higher return must be willing to take higher level of risk" (Cheney and Moses, 1992:13).

J.K. Francis said, "An investment is a commitment of money that is accepted to generate additional money. Every investment entails some degree of risk, it requires a present certain sacrifice for a future uncertain benefit" (Francis, 1994:1).

According to I.M. Pandey, in investment decision, expenditures and benefits should be measured in cash. In investment analysis, cash flow is more important than accounting profit. It may also be pointed out that investment decision affects the firm's value. The firm's value will increase if investments are profitable and add to the shareholder's wealth. Thus, investments should be evaluated on the basis of a criterion which is compatible with the objective of the shareholder's fund maximization. An investment will add to the shareholder's wealth if it yields benefit in excess of the minimum benefits as per the opportunity cost of capital" (Pandey, 1999: 407).

Commercial banks deal with other people's money. They have to find ways of keeping their assets liquid so that could meet the demands of their customers. In this anxiety to make profit, the bank cannot afford to lock up their funds in assets, which are not easily releasable. The depositors must be made understand that the bank is fully solvent. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and full. The banker has to keep adequate cash for this purpose. Cash is an idle asset and bankers can't afford to keep a large possession of his assets in the form of cash. Cash brings in no income to the bank. Therefore the bankers have to distribute

his assets in such a way that he has adequate profits without sacrificing liquidity (Radhaswamy, 1979:27).

"Commercial Bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services" (Banking, USA-1972: 345).

Commercial Bank Act 1975 A.D (2031 BS) of Nepal has defined that "A commercial banks one which exchange money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries for such specific purpose".

In conclusion that investment means use of rupee of amount today by expecting more income in future. It is clear that investment is the mobilization of funds today with expected additional return in future but the return sometimes may be negative also.

2.2 Features of a Sound Lending Policy

The greater the credit created by the bank the higher will be the profitability. Income and profit of the financial institutions like commercial banks and finance companies depend upon its lending policy, investment policy of collected fund in different securities. A sound lending and investment policy is not only prerequisite for bank's profitability, but also crucially significant for the promotion of commercial saving of a backward country like Nepal.

A. Safety and Security

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those companies whose securities are too much depreciated and fluctuated because of risk of loss factors. It must not invest its fund into speculative businessman, who may

be bankrupt at once and who may earn millions in a minute also. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable.

B. Liquidity

It is the position of the firm to meet current or short-term obligations. General public or customers deposit their saving at the banks in different accounts having full confidence of repayment by the banks whenever they require. To show a good current position and maintain the confidence of the customers, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

C. Purpose of Loan

This is very important question for any banker is that, is a customer need of loan? If borrower misuses the loan granted by the bank, there will be heavy bad debts. Detailed information about the scheme of the project or activities would be examined before lending.

D. Profitability

To maximize the return on investment and lending position, financial institutions must invest their collection in proper sectors. Finally they can maximize their volume of wealth. Their return depends upon the interest rate, volume of loan its time period and nature of investment on different securities and sectors.

E. Diversification

Diversification of loan helps to sustain loss according to the law of average; if a security of a company is divided, there may be an appreciation in the securities of other companies. A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. In this way, the loss can be recovered.

F. Legality

A commercial bank must follow the rules and regulations as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of Law and other while mobilizing its funds. Illegal securities will bring out any problems to the investors.

2.3 Review of Related Studies

2.3.1 Review of Articles

It review some of the related articles published in different economic journals, bulletin of World Bank, dissertation papers, magazines, newspapers and other related books.

Bishowambhar Pyakuryal (1987) in his article writes, “The present changing context of the economy calls for a sustained revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize their resources in an efficient manner. Therefore, the task of utilization of resources is as much crucial as the mobilization. The under utilization of resource not only results in loss of income but also goes further to discourage the collection of deposits”.

Dev Lal Kishi (1996) in his article, concludes that “following an introduction of the reform in the banking sectors as an integrate part of the liberal economic policy more banks and finance companies have come up as a welcome measure of competition. Slowly and steadily, the two governments controlled banks, Nepal Bank Ltd. and Rastriya Banijya Bank has also shown an improvement of non-performing loans and is taking steps to adopt improved technology. However, higher economic growth with social justice bringing a significant benefit to the poor is yet to the activated as envisaged by the NG”.

Bodhi B. Bajracharya (2047) in his article has concluded “Mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal

and commercial banks and the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy”.

Shekhar Bahadur Pradhan (2053), in his article “Deposit mobilization, its problem and prospects” has presented that deposit is the life-blood of every financial institutions, commercial banks, financial company, and co-operative or non government organization. He further adds in consideration of most of banks and finance company, the latest figure does produce a strong feeling that a serious review must be made of problem and prospects of deposit sectors. Leaving few joint venture banks, other organization relies heavily on the business deposit and credit disbursement.

2.3.2 Review of Thesis

Some students regarding the accepts of commercial banks such as lending policy, interest rate structure, capital structure and investment policy have been conducted, which are relevant for this study.

Upendra Tuladhar (2000) in his studies “A study on the Investment policy on Nepal Grindlays Bank Ltd. in comparison to other Joint Venture Banks of Nepal.” On the basis of primary data concludes that we know fact that most of part of nation is surrounded by the rears areas; it is quite hard to think about the development of the country without speeding, banking facilities among these areas. Further, on the basis of secondary data, the liquidity ratio of NGBL has maintained successful in its balance sheet operation. NGBL has successfully maintained and managed its assets towards different income generating activities he further explain, in the case of profitability ratio NGBL is higher profitability position than NABIL and HBL as well as it use to provide interest to the customers for different activities is highly consistent whether may be the volume. Tuladhar further found that in the case of significant difference on loan and advances, cash and bank balance to current ratio and to total deposit

ratio, mean of total off balance sheet operation to loan and advance ratio, mean of investment on govt. securities to current ratio in between NGBL with NABIL and HBL respectively. But there is no significant of correlation, there is negative correlation between NGBL and NABIL, but positive correlation between NGBL and HBL in respect to deposit and total investment. In the case of loan advances to total deposit ratios increasing trends are found for NGBL and NABIL. But in the case of HBL it is in decreasing trend and in the case of total investment to total deposit ratio both NGBL and NABIL total investment as trended seemed to be decreasing. To perform an empirical study of the customer's view and ideas regarding the existing services and adopted investment policy of the joint venture banks.

Shiba Raj Laudari (2001) in his thesis study entitled, "A study on investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd." That interest earned ratio to total working fund of NIBL can not be considered satisfactory. So, it has to manage just required working fund so as it is completely in effect. This helps the bank to manage the best possible working fund. The NIBL bank is not in better position regarding its on balance as well as off balance activities in compare to SBI. It does not deem to follow any definite policy regarding the management of its assets. He further found that the profitability position of NIBL bank is comparatively worse than that of SBI. The bank must maintain its high profit margin for the well being in future. NIBL bank has maintained high growth rate in comparison to SBI bank though it is not successful to make enough investment. And can say that the bank is successful in increasing its sources of found and its mobilization. Finally he concluded that there is significant different between return on loan and advance ratio of NIBL and SBI. But there is no significant relationship between return on loan and advance ratio. The calculated value is less than tabulated value. The position of NIBL bank in regard to utilization of the fund to earn profit is not better in compare to SBI. Commercial banks should be able to generate

capital. Otherwise lower capital formation hampers economic development of the people.

Rabindra Joshi (2003) in his thesis study entitled, “A comparative study on investment policy of Standard Chartered Bank Nepal Ltd. and Everest Bank Ltd.” That both banks have non-satisfactory current ratio in this study period. The SCBNL is not in a better position to maintain its cash and bank balance in comparison to EBL but it doesn't mean it can't meet its daily requirement to make the payment on customer's deposits. He has recommended that to collect more amounts as deposit through large variety of deposit schemes like cumulative deposit scheme, prize bond scheme, gift cheques scheme, interest scheme etc. investment means use of their resource in different income sector. The banks should come forward with national priority tasks i.e. deposit collection, resource mobilization. The tasks are possible when they expand branches, more employment opportunities, service to more customers, developing skills and expertise in local staffs, satisfactions on profit earning and exchange of autonomy provided by them. A policy should be formulated to enhance its income and should control its administrative expenses, try to collect cheaper fund being more profitable. So they increase net profit earning in future.

Dipak Pandit (2004) in his thesis work entitled, “Investment policy analysis of Joint Venture Bank” has made an attempt to examine and interpret the investment policies adopted of Joint Venture Banks of Nepal. He has mainly found out the liquidity position of BOK and EBL have not satisfactory. SBI's loan and advance to total deposit ratio is lower at all. The profitability position of all banks is not satisfactory. In case of growth ratio SBI has failure to maintain its positive growth ratio of total investment and net profit. There is significant relationship between deposits and total investment of BOK and EBL. But there is no significant relationship between deposits and total investment of SBI only.

He has recommended that SBI, BOK and EBL have to improve present fund mobilization and investment. They have to increased cash and bank balance to meet current obligations and loan demand. They have to follow the liberal lending policy. They have to try for the collection of the fund at cheaper rate.

2.4 Research Gap

From the above all studies conducted by various researcher, it seems that Nepal SBI bank and Everest bank is still in developing stage and it is facing various challenges. Further more it also shows that there are very few research works conducted about the investment policy.

Tuladhar (2000) has concluded on ‘Investment Policy on Nepal Grindlays Bank Ltd. in comparison to other Joint Venture Banks of Nepal’ in the case of significant difference on loan and advances, cash and bank balance to current ratio and to total deposit ratio, mean of total off balance sheet operation to loan and advance ratio, mean of investment on government securities to current ratio in between NGBL with NABIL and HBL respectively. But there is no significant of correlation, there is negative correlation between NGBL and NABIL, but positive correlation between NGBL and HBL in respect to deposit and total investment.

Shiba Raj Laudari (2001) has concluded on study entitled, ‘Investment policy of Nepal Indosuez Bank Ltd. in comparison to Nepal SBI Bank Ltd.’ He concluded that there is significant different between return on loan and advance ratio of NIBL and SBI. But there is no significant relationship between return on loan and advance ratio. The calculated value is less than tabulated value. The position of NIBL bank in regard to utilization of the fund to earn profit is not better in compare to SBI.

Rabindra Joshi (2003) has concluded in his topic, ‘Investment policy of Standard Chartered Bank Nepal Ltd. and Everest Bank Ltd.’ His study

concluded that SCBNL is not in a better position to maintain its cash and bank balance in comparison to EBL but it doesn't mean it can't meet its daily requirement to make the payment on customer's deposits. He has recommended that to collect more amounts as deposit through large variety of deposit schemes like cumulative deposit scheme, prize bond scheme, gift cheques scheme, interest scheme etc. investment means use of their resource in different income sector.

Dipak Pandit (2004) in his research on the topic 'Investment policy analysis of Joint Venture Banks', in case of growth ratio SBI has failure to maintain its positive growth ratio of total investment and net profit. There is significant relationship between deposits and total investment of BOK and EBL. But there is no significant relationship between deposits and total investment of SBI only.

CHAPTER - III

REASERCH METHODOLOGY

Research Methodology, describes the methods and process applied in the entire aspects of study. Every research should be outlined in a systematic manner and for that reason Research Methodology is one of the most important parts of every research. In fact, Research Methodology is a way to systematically solve the research problems.

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the method and proves applied in the entire aspect of the study. This study helps to conclude the real position of Nepal SBI Bank and Everest Bank Ltd. The study will seek the conclusion to the point that what position SBI and has got in whole commercial banks of Nepal and recommend the useful and meaningful points so that all concerned can achieve something from this study. To accomplish the global, the study follows the research methodology described in this chapter.

3.1 Research Design

This study mainly has been based on secondary data of Nepal SBI Bank and Everest Bank Ltd. The data relating to the investment, deposit, loan and advance and profit directly obtained from the balance sheet and profit and loss account. The main source of data assessed under the study includes, concerned banks i.e. SBI and Everest bank. Supplementary data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, ministry of finance, Central library, and department library. Various data and information are collected from the economic, journals, periodicals, magazines and publications etc.

3.2 Sources of Data

Research Design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions (Kerlinger, 1978). The research design basically followed the comparative evaluation of investment policy in the sample firms. Analytical and descriptive approaches are used to evaluate the investment policy' of the sample firms. In this study, descriptive and analytical research designs have been followed in order to make the study more authentic and reliable, financial as well as statistical tools are used for comparison SBI with Everest bank separately.

Some financial and statistical tools have been applied to examine facts and descriptive, techniques have been adopted to evaluated investment of Nepal SBI Bank and Everest Bank Ltd.

3.3 Population and Sample

There are 17 commercial banks listed in Nepal Stock Exchange. Whose shares are traded actively in stock market, hence it is not possible to study all of them because the research is going to be conduct in a limited period of time as well as resources play a vital role. Population is the number of joint venture banks of Nepal. In this study, two joint venture banks SBI and Everest Bank have been taken into account for research purposes as samples to compare their investment policy. The population is as follows:

- a) Nepal Bank Limited
- b) Rastriya Banijya Bank
- c) Nabil Bank Ltd.
- d) Nepal Investment Bank
- e) Standard Chartered Bank Ltd.
- f) Himalayan Bank Ltd.
- g) Nepal SBI Bank Ltd.
- h) Nepal Bangladesh Bank Ltd.
- i) Everest Bank Ltd.

- j) Bank of Kathmandu.
- k) Nepal Credit & Commercial Bank Ltd.
- l) Lumbini Bank Ltd.
- m) Nepal Industrial and Commercial Bank Ltd.
- n) Machhapuchhre Bank Limited
- o) Kumari Bank Limited
- p) Laxmi Bank Limited
- q) Siddhartha Bank Limited

Among them, only two banks (SBI and Everest) have been taken into account for research purpose because these are joint venture bank of India and Nepali promoters. Nepal SBI has been selected and its data related to Investment performance are comparatively studies with the Everest Bank Ltd.

3.4 Analysis and Presentation of Data

The analysis of data will be done according to the pattern of data available. To achieve the objective of the study various financing, accounting and statistical tools have been used to achieve the objective of study. This studies some financial and statistical tools to accomplish the objectives of this study.

3.4.1 Financial Tools

Financial tools help to show the mathematical relationship between two accounting items or figure. Ratio analysis is the only tools that can collect the financial performance and status of a firm with the other firms. Ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Only ratio has been covered in this study, which is related to investment policy of banks. This study contains following ratios;

A. Liquidity Ratio

Liquidity ratios are used to judge the ability of banks to meet its short terms liabilities that are likely to mature in the short period. Such insights can be

obtained into present cash solvency of the bank and its ability to remain solvent in the event of advertise it is the measurement of speed with which a bank's assets can be converted into cash to meet deposit with drawl and other current obligations. Under liquidity ratio are evaluated as below;

I. Current Ratio

Ability for payment of current debt from current assets is current ratio. It refers to the relationship between current assets and a current liability of a firm that also measures the short-term solvency of the firm. Current assets involve cash and bank balance, money at call or short notice, loans and advance, overdraft bill purchased and discounted, investment on govt. securities and other interest receivables and misc. current assets. Similarly, current liabilities involve deposit and other short term loans, tax provision, dividend payable, bills payable, staffs bonus and sundry liabilities. Current ratio is calculated by diving current assets by current liabilities. It can measured as,

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

2:1 standard of Current Ratio is acceptable.

II. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors. The total deposit consists of current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits. This ratio is computed by diving cash and bank balance by total deposit. It can be presented as:

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposits}}$$

III. Cash and Bank Balance to Current Asset Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Cash and banks balance includes cash in

hand, foreign cash and banks. This ratio computed by dividing cash and bank balance by total deposit. This can be presented as:

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and bank balance}}{\text{Current Assets}}$$

Higher ratio shows the higher capacity of firms to meet the cash demand.

IV. Investment on Govt. Securities to Current Assets Ratio

Investment on government securities includes treasury bills, development bonds; saving bonds etc. This ratio is used to find the percentage of current assets invested on govt. securities, treasury bills and development bonds. This ratio can be computed by dividing investment on govt. securities by current assets. This can be stated as:

$$\text{Investment on Govt. Securities to Current Assets} = \frac{\text{Investment on govt. securities}}{\text{Total Current Assets}}$$

V. Loan and Advance to Current Assets Ratio

Loan and advance includes loans, advances, cash credit, loan and foreign bills purchase and discounted. This ratio can be computed by dividing loan and advances by current assets. This can be stated as:

$$\text{Loan and Advance to Current Assets Ratio} = \frac{\text{Loan and advance}}{\text{Current assets}}$$

B. Assets Management Ratio

Asset management ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following ratios are used under this assets management ratio.

I. Loan and Advance to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total deposit on loans and advances for profit generating purpose of earning profit. This can be stated as:

$$\text{Loan and Advances to Deposit Ratio} = \frac{\text{Loan and advance}}{\text{Total Deposits}}$$

Where, greater ratio shows the better utilization of total deposits.

II. Loan and Advances to Total Working Fund Ratio

This ratio indicates the ability of selected banks and finance companies in terms of earning high profit from loan and advances. Total working fund includes total amount of assets given in balance sheet which refers to current assets, net assets, total loans for development banks and other sundry assets expect off balance sheet items i.e. letter of credit, letter of guarantee etc. This ratio can be stated as;

$$\text{Loan and Advances to Working Fund Ratio} = \frac{\text{Loan and advance}}{\text{Total working fund}}$$

III. Total Investment to Total Deposit Ratio

Investment is one of the major credits created to earn income. This implies the utilization of firm's deposit on investment in govt. securities and share debentures of other companies and banks. This ratio can be obtained by diving total investment by total deposit. This can be mentioned as;

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total investment}}{\text{Total deposit}}$$

IV. Investment on Government Securities to Total Working Funds Ratio

This ratio shows that banks' investment on government securities in comparison to total working funds. This ratio is calculated by dividing investment on govt. securities by total working fund. This is presented as;

$$\begin{aligned} &\text{Investment on Govt. Securities to Total Working Fund Ratio} \\ &= \frac{\text{Total investment}}{\text{Total working fund}} \end{aligned}$$

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

Investment on share and debentures to total working fund ratio shows the investment of banks and finance companies on the shares and debentures of other companies in terms of total working fund. Where, total investment includes investment on govt. securities, investment on debenture and bonds, shares of other companies. That can be calculated as:

Investment on Shares and Debenture to Total Working Fund Ratio

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

C. Profitability Ratio

Profitability ratios are very helpful to measure the measure the overall efficiency of operations of a firm. It is a true indicator of the financial performance of any institution. For better financial performance, profitability ratios of firms should be higher. It position of the firms can be presented through the following different ways:

I. Interest Earned to Total Operating Income Ratio

It is calculated to find out the ratio of interest income with operating income of financial institutions. This ratio indicates how efficiently the selected banks and finance companies have mobilized their resources to bear the interest on total operating, income and it can be stated as:

$$\text{Interest Earned to Total Operating Income Ratio} = \frac{\text{Total interest earned}}{\text{Operating income}}$$

II. Return on Total Assets

Return on assets ratio measures the profitability position of the selected banks and finance companies in comparison with total assets of those selected firms. This ratio is calculated by dividing net profit by total assets (working fund). This can be stated as:

$$\text{Return on Total Assets (Working Fund)} = \frac{\text{Net profit}}{\text{Total working fund}}$$

This numerator indicates the portion of income, which is left to the internal equities after deducting all costs, charges and expenses.

III. Return on Loan and Advance Ratio

Return on loan and advances ratio shows how efficiently the banks and the finance companies have utilized their resources to earn good return from provided loan and advances. This can be mentioned as:

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net profit}}{\text{Total loan and advance}}$$

IV. Total Interest Earned to Total Working Fund Ratio

This ratio find out the percentage of interest earned to total assets. Higher ratio indicates the better performance on financial institutions in the firm of interest earning on its working fund. This is mentioned as:

$$\text{Total Interest Earned to Total Working Fund Ratio} = \frac{\text{Total interest earned}}{\text{Total assets}}$$

V. Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and others deposits. This ratio can be calculated by dividing total interest paid by total working fund. This can be stated as:

$$\text{Total Interest Paid to Total Working Fund Ratio} = \frac{\text{Total interest paid}}{\text{Total working funds}}$$

D. Risk Ratio

Risk taking is the prime business of bank's investment management. When a firms bear risk and uncertainty, profitability and effectiveness of the firm

increases. These ratios indicate the amount of risk associated with the various banking operation, which ultimately influences the bank investment policy. In this study, following risk ratios are used to analyze and interpret the financial data and investment policy.

I. Credit Risk Ratio

Credit risk ratio helps to check the profitability of loan non-repayment or the possibility of loan to go into default. It risk ratio is expressed as the percentage on non-performing loan to total loan and advances. Here, dividing total loan and advances by total assets derives this ratio. This can be stated as:

$$\text{Credit Risk Ratio} = \frac{\text{Total loan and advances}}{\text{Total assets}}$$

II. Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. The ratio of cash and bank balance to total deposit is the indicator of bank liquidity needed. The risk is low if funds are kept idle as cash and bank balance. But this reduces profitability. When bank flow loan, it is profitability increases and also the risk. Thus higher liquidity ratio indicates less risk and less profitable bank. This can be stated as:

$$\text{Liquidity Risk Ratio} = \frac{\text{cash and bank balance}}{\text{Total deposit}}$$

E. Growth Ratio

A growth ratio helps to calculate the commercial bank's economic and financial condition. It is related to the fund mobilization and investment management of the bank. The higher ratios represent the better performance of the selected firms to evaluate, check and analyze the expansion and growth of the selected banks the following growth ratio are calculated.

(a) Growth Ratio of Total Deposits

- (b) Growth Ratio of Total Investment
- (c) Growth Ratio of Loan and advances and
- (d) Growth Ratio on Net Profit

3.4.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study.

The basic analysis tools are follows.

-) Coefficient of correlation between different variances.
-) Trend analysis of important variables.
-) Test of hypothesis of important variables

A. Coefficient of Correlation Analysis

The coefficient of correlation measures the degree of relationship of between two sets of figures. This tool analyzes the relationship between those variables and helps the selected banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advances or investment on other companies. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied. The result of the correlation coefficient is always lies between +1 and -1. When $r = +1$, it means, there is perfect positive relationship between two variables.

B. Trend Analysis

This type of statistical analyzes the trend of deposits, loan and advances, investment and net profit of SBI and EBL. From 2000/01 to 2004/2005 and makes the forecast for the next five years. The following trend value analysis has been used in this study.

- a. Trend analysis of total deposits.
- b. Trend analysis of loan and advances
- c. Trend analysis of total investment
- d. Trend analysis of net profit.

C. Test of Hypothesis

This test is to test the significance regarding the parameters of the population on the basis of sample drawn from the population. This test has been conducted on the various ratios related to the banking business. Test of hypothesis on loan and advances to total deposit ratio of SBI and EBL, Test of hypothesis on total investment to total deposit ratio of sample banks.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

In this chapter secondary data are collected, analyzed and evaluated those major financial items, which are mainly related to the comparison of investment management and fund mobilization of SBI and EBL. The calculated ratios are statistically analyzed.

4.1 Financial Tools

Financial analysis is the process of identifying strength and weakness of the organization presenting the relationship between the items of balance sheet. Financial ratio related to the investment management and the fund mobilization are presented and discusses to evaluate analyze the performance of two commercial banks; SBI and EBL. All these calculations are based on financial statements of concerned banks. The important financial ratios, which are to be calculated for the purpose of this study, are mentioned below.

- a) Liquidity ratio
- b) Asset Management ratio
- c) Profitability ratio
- d) Risk ratio
- e) Growth ratio

4.1.1 Liquidity Ratio

This ratio measures the firm's ability to meet its maturing short term obligations. Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Commercial banks collect the fund from community of commitment of return their money when demand it. So, they must maintain its sufficient liquidity position to fulfill that commitment of return depositor's deposit, withdraw and convert non cash-assets to cash to satisfy immediate needs without any loss to bank and consequent impact on

long-run profit. The following ratios are evaluated and interpreted under liquidity ratio. Liquidity position of SBI and EBL are comparatively studies through following ratios.

4.1.1.1 Current Ratio

This ratio is computed dividing current assets by current liabilities; indicates the extent to which the claims of short-term creditors are covered by asset expected to cover for cash in the near future. This ratio shows the relationship between cash and other current assets to its current liabilities. The current ratio's standard deviation and coefficient of variation of SBI and EBL are given in the following tables.

Table 4.1
Current Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	1.04	1.02
2001/02	1.04	1.02
2002/03	1.05	1.05
2003/04	1.05	1.06
2004/05	1.04	1.07
Total	5.22	5.22
Mean	1.04	1.04
S.D	0.01	0.02
C.V	0.52	2.21

Source: Nepal Stock Exchange, 2005

From the table 4.1 it is clear that the current assets of SBI and EBL are some time more and some time less than current liabilities. It indicates that both banks have sound ability to meet their payable in short-term obligations due to more assets. The table shows that in F/Y 2002/03 and 2003/04, the Everest bank has more current liabilities than current asset.

In average, both SBI and EBL have same current ratio i.e. $1.04 = 1.04$. It shows that the liquidity position of EBL and SBI are same. The co-efficient of

variation of variation of SBI is greater than EBL i.e. $2.21 > 0.52$. It can be said that current ratio of EBL is more consistent than of SBI. From the point of view of working capital policy, SBI has followed the aggressive working capital policy by attracting more current liabilities i.e. current and saving deposits and deploying them into liquid sectors. From above analysis it can be concluded that the current ratio is less than adequate i.e. 2:1. It means the firm has difficulty in meeting its current obligation. The main reason behind lower ratio and fluctuating trend is that commercial banks that had made direct lending in the past had a good number of branches of network. They had branches in the urban as well as rural areas. But due to security problem arising out of the Maoist insurgency, most of the rural branches of commercial banks have now been shifted to district headquarters. With the shrinkage in rural branches of commercial banks that had made significant amount of loans through direct lending have at present experienced difficulty in doing so. Furthermore, the credit risk is very high in areas that are under Maoists control. Several bank branches in the rural and suburban areas have been attacked and looted by the Maoists in recent years. The sampled banks are also suffered from this incident. That is why nonperformance assets are increasing trends. Ultimately current assets are lower than current liabilities.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance consist of cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic banks. These ratio measures the availability of bank's highly liquid or immediate funds to meet it unanticipated calls on all types of deposits. High ratio indicates the greater ability to meet their deposit. The following table shows the cash and bank balance to total deposit ratio of SBI and EBL.

Table 4.2
Cash and Bank Balance to Total Deposit Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	9.11	19.62
2001/02	18.25	29.42
2002/03	10.84	29.07
2003/04	17.02	20.44
2004/05	7.83	12.01
Total	63.05	110.56
Mean	12.61	22.11
S.D	4.73	7.30
C.V	37.51	32.99

Source: Nepal Stock Exchange, 2005

The table 4.2 shows that comparative cash and bank balance to total deposit ratio, which is in fluctuating trend for both SBI and EBL. SBI has higher ratio (29.42%) in F/Y 2001/02 and lower (12.01%) in F/Y 2004/05. Similarly, in case of EBL, higher ratio is 18.25% in F/Y 2001/02 and lower ratio is 7.83% in F/Y 2004/05. The mean ratio of EBL is lower than that of SBI i.e. 22.11% and 12.61% respectively. On the basis of co-efficient of variation it can be concluded that SBI has more consistent ratios than that of EBL i.e. 32.99% < 37.51%.

EBL has maintained low ratios, it shows that the same difficulties to meet the demand of its customers on their deposit to pay at any difficulties but it may earn more due to invested cash to different sectors. All deposit amounts mostly to invest other sectors due to investing opportunity occurs and gain more. Likewise, short-term marketable securities and treasury bills ensuring enough liquidity, which will help the bank to improve its profitability. The above table shows that SBI has better cash and bank balance to total deposit ratio than EBL, where in other hands, SBI holding idle cash. Which is unproductive but at the same time it is making immediate payment to its current holders. So

EBL bank should maintain required and sufficient cash and bank balance. However holding higher amount of idle cash cannot be regarded favorable for joint venture banks. Holding less cash and bank balance can have negative impact on the goodwill and reputation of the bank to fulfill the demand. So EBL should maintain required and sufficient cash and bank balance.

4.1.1.3 Cash and Bank Balance to Current Assets Ratio

This ratio examines the banks liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the bank to make the quick payment of its customer's deposits. A high ratio indicates the sound ability to meet their daily cash requirement of their customer's deposit. But high ratio is not preferred, as the bank has to pay more interest on deposit and will increase the cost of fund. Bank should be maintained sufficient and appropriate cash reserve properly for the customers demand against deposit when required and less interest is required to be paid against the cash deposit.

Table 4.3
Cash and Bank Balance to Current Assets Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	8.36	17.83
2001/02	16.53	27.14
2002/03	9.32	23.87
2003/04	14.66	18.01
2004/05	6.77	10.38
Total	55.64	97.23
Mean	11.13	19.45
S.D	4.23	6.43
C.V	38.01	33.09

Source: Nepal Stock Exchange, 2005

The table 4.3 shows banks ratios are fluctuating trend. SBI has maximum ratio (27.14%) in F/Y 2001/02 and minimum (10.38%) in F/Y 2004/05. EBL has also maximum (16.53%) ratio in F/Y 2001/02 and minimum (6.77%) in F/Y

2004/05. Observing the same ratio, they were also not maintain the same level through the study period. The comparative tables listed above shows that the mean ratio of EBL is lower than that of SBI i.e. $11.13\% < 19.45\%$. It supports the conclusion that EBL has been not successful to maintain its higher cash and bank balance to current assets ratio in comparison to SBI. However co-efficient of variation of EBL is 38.01% which is comparatively higher than SBI bank i.e. $38.01\% > 33.09\%$. Thus it can be conclude that SBI is high capable for maintained cash and bank balance in comparison to EBL.

4.1.1.4 Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of commercial banks current banks current assets, which invested on different government securities. More or less, each commercial bank is interested to invest their collected fund on different types of securities issued by govt. in different times to utilize their excess funds and have for other purpose. Though govt. securities are not as liquid as cash balance of a commercial bank, they can be easily sold in the market or they can be converted into cash in other ways.

Table 4.4

Investment on Government Securities to Current Assets Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	7.73	3.86
2001/02	16.3	5.09
2002/03	24.2	7.41
2003/04	19.77	16.06
2004/05	25.65	22.47
Total	93.65	54.89
Mean	18.73	10.98
S.D	7.17	8.00
C.V	38.30	72.87

Source: Nepal Stock Exchange, 2005

From the table 4.4 shows the ratios of banks are fluctuating trend. SBI has made more investment on government securities in F/Y 2004/05 and minimum in F/Y 2000/01 and EBL has made more investment on government securities in F/Y 2004/05 and minimum in F/Y 2000/01. It shows that mean of government securities ratio of EBL is higher than the SBI i.e. 18.73% > 10.98%. It means EBL has invested more portion of current assets than SBI bank. On the other hand, co-efficient of variation of EBL is less than SBI i.e. 38.30% < 72.87%. Which means that the variability of ratios of EBL is more consistent and homogenous than of SBI.

4.1.1.5 Loan and Advances to Current Assets Ratio

A commercial bank should be invested as loan and advance to the customers to make more profit by mobilizing its fund in the best way. It should pay interest on those unutilized deposit funds and may lose some earning if a bank cannot be granted sufficient loan and advances. Loan and advances are also included in the current assets of a commercial bank because generally it provides short-term loan, advance, overdrafts and cash credit. The table below shows that ratio of loan and advance to current assets ratio of SBI and EBL.

Table 4.5
Loan and Advances to Current Assets Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	68.08	71.29
2001/02	59.62	58.45
2002/03	62.09	63.34
2003/04	63.13	60.35
2004/05	63.1	61.77
Total	316.02	315.20
Mean	63.20	63.04
S.D	3.08	4.95
C.V	4.87	7.85

Source: Nepal Stock Exchange, 2005

From table 4.5 listed above shows that SBI and EBL have fluctuating trend on their loan and advance to current assets ratio. In case of SBI it has recorded highest ratios in F/Y 2000/01 i.e. 71.29% and lowest in F/Y 2001/02 i.e. 58.45% similarly, EBL maintained highest ratio in F/Y 2000/01 i.e.68.08% and lowest in F/Y 2001/02 i.e. 59.62%.

While examining the mean ratio, SBI has maintained i.e. 63.040% which is less than EBL i.e. 63.0408% < 63.20% and co-efficient of variation ratio is greater than EBL i.e. 7.85% > 4.87%. In this case, SBI is poor its fund as loan and advances with respect to current assets in comparison to EBL. The mean reveals that SBI loan advances to current are satisfactory level but overall liquidity position of SBI is not satisfactory than of EBL. Thus above table clearly indicate that loan and advance to current assets ratios are being efficiently and properly utilized by EBL than SBI bank.

4.1.2 Asset Management Ratio

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

The following ratios measured the assets management ability of the SBI and EBL in comparison.

4.1.2.1 Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan advances. The table below shows the ratio of loan and advances to total deposit ratio of SBI and EBL.

Table 4.6

Loan and Advance to Total Deposit Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	74.25	78.47
2001/02	65.71	63.34
2002/03	72.23	77.15
2003/04	73.23	68.51
2004/05	72.97	71.46
Total	358.39	358.93
Mean	71.68	71.79
S.D	3.41	6.24
C.V	4.76	8.69

Source: Nepal Stock Exchange, 2005

From table 4.6 listed above shows that SBI and EBL have maintained fluctuated trend on their loan and advance to total deposit ratio. In case of SBI it has recorded highest ratios in F/Y 2000/01 i.e. 78.47% and lowest in F/Y 2001/02 i.e. 63.34%. Similarly EBL maintained highest ratio in F/Y 2000/01 i.e.74.25% and lowest in F/Y 2001/02 i.e. 65.71%.

In average, the mean ratio of SBI has maintained i.e. 71.79% which is higher than EBL i.e. 71.68% < 71.79% and co-efficient of variation ratio is greater than EBL i.e. 8.69% > 4.76%. It indicates that SBI maintained fewer consistencies than EBL.

4.1.2.2 Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investing its fund in different securities issued by government and other financial or non financial companies. Now an effort has been made to measure the extent to which the bank are successful in mobilizing the total deposit on investment. Total investment includes government securities, share, debenture and other. Below table exhibits this ratio of the SBI and EBL.

Table 4.7**Total Investment to Total Deposit Ratio**

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	8.51	4.45
2001/02	19.71	5.65
2002/03	30.33	10.75
2003/04	24.7	18.51
2004/05	31.44	26.5
Total	114.69	65.86
Mean	22.94	13.17
S.D	9.34	9.28
C.V	40.70	70.47

Source: Nepal Stock Exchange, 2005

From table 4.7 EBL has fluctuating trend regarding the ratios. During the study period EBL has highest ratio in F/Y 2004/05 i.e. 31.44% and lowest ratio in F/Y 2000/01 i.e. 8.51%. SBI has highest ratio in F/Y 2004/05 i.e. 26.50% and lowest ratio in F/Y 2000/01 i.e. 4.45%.

The mean value of EBL is greater than SBI i.e. 22.94% > 13.17% and coefficient of variation less than SBI i.e. 40.70% < 70.47%. The analysis shows that the average investment policy of SBI is greater than EBL. The analysis shows that the average investment policy of EBL is better than SBI, which means EBL bank is more successful in utilizing the outsider's fund in the investment than SBI bank.

4.1.2.3 Loan and Advance to Total Working Fund Ratio

This ratio reflects the extent to which the commercial banks are success in mobilizing their assets loan and advances for the purpose of income generation. A high ratio indicates better in mobilization of funds as loan and advances. Total working fund includes current assets, fixed assets and other assets which are a must to run an organization successfully. The table 4.8 exhibits this ratio of the SBI and EBL.

Table 4.8**Loan and Advance to Total Working Fund Ratio**

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	66.54	69.7
2001/02	57.77	57.5
2002/03	59.76	61.23
2003/04	60.96	59.06
2004/05	61.24	60.94
Total	306.27	308.43
Mean	61.25	61.69
S.D	3.26	4.73
C.V	5.32	7.66

Source: Nepal Stock Exchange, 2005

The table 4.8 shows that ratio of SBI is slightly decreasing trend except for the last of the review period. It has maintained highest (69.70%) ratio in F/Y 2000/01 and lowest (57.50%) ratio in F/Y 2001/02. Whereas, EBL has this ratio in fluctuating trend, the highest ratio is 66.54% in F/Y 2000/01 and lowest ratio is 57.77% in F/Y 2001/02.

On the basis of mean ratio SBI is greater than EBL i.e. 61.69% > 61.25% from this it can say that SBI is strong condition to mobilize its total working fund as loan and advance than EBL. Co-efficient of variation of SBI is greater than EBL i.e. 7.66% > 5.32% from this it can say that SBI is less consists than EBL.

4.1.2.4 Investment on Government Securities to Total Working Fund

Government securities are not risky therefore any investor gives first priority to invest in this secured sector and so does a bank. This ratio reveals that the banks are successful in mobilizing their total working fund on different types of govt. securities to maximize the income. The bank should not utilize its all deposits in loan and advances and other from of credit, from securities and

liquidity point of view. Therefore commercial banks seem to be interested to utilize their deposit by purchasing government securities. A high ratio indicates better mobilization of fund as investment on government securities. The table below shows the ratio of investment on govt. securities to total working fund of SBI and EBL.

Table 4.9

Investment on Government Securities to Total Working Fund

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	7.55	3.78
2001/02	15.82	5.01
2002/03	23.29	7.17
2003/04	19.09	15.72
2004/05	24.9	22.17
Total	90.65	53.85
Mean	18.13	10.77
S.D	6.90	7.90
C.V	38.08	73.33

Source: Nepal Stock Exchange, 2005

From the table 4.9 it is clearly seen that investment on government securities to working fund ratio of SBI and EBL has in fluctuating trend. SBI has highest (22.17%) ratio in F/Y 2004/05 and lowest (3.78%) ratio in F/Y 2000/01. EBL has highest (24.90%) ratio in F/Y 2004/05 and lowest (7.55%) ratio in F/Y 2000/01.

Comparing the mean ratio of investment on government securities to total working fund SBI seems too weak to mobilize its working fund as investment in government securities than EBL i.e. 10.77% < 18.13%. Co-efficient of variation of SBI during study is higher than EBL i.e. 73.33% > 38.08% that means SBI is less consistence than EBL. So from this analysis, it can be conclude that the SBI has invested less portion of working fund on government securities than EBL and also SBI is less homogeneous than EBL.

4.1.2.5 Investment on Share and Debenture to Total Working Fund Ratio

Investment on share means to purchase shares of other companies and firms that are issued to operate business. And the shareholder may hold either voting right or be a member of board of directors. And the investment on debentures means being a debt holder with fixed interest income but do not hold the voting right generally. Investment on shares and debentures to total working fund ratio reflects the extent to which the banks are successful to mobilize their total working fund on purchase of share and debentures of other companies to generate income and utilize excess fund. A high ratio indicates more portion of investment on share and debenture out to total working fund.

Table 4.10

Investment on Share and Debenture to Total Working Fund Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	0.07	0.18
2001/02	0.07	0.12
2002/03	0.26	0.25
2003/04	0.21	0.24
2004/05	0.18	0.21
Total	0.79	1.00
Mean	0.16	0.20
S.D	0.09	0.05
C.V	53.96	26.22

Source: Nepal Stock Exchange, 2005

Table 4.10 shows that both bank have invested nominal percentage of total working fund into shares and debentures on other companies, in all case as the ratio percentage is less than 1%. However in comparing, SBI has invested slightly higher amount on share and debentures on other companies in the study period. Whereas, SBI has made too low investment which is 0.12% in F/Y 2001/02 and highest ratio is 0.25% in F/Y 2002/03. EBL has highest ratio i.e. 0.26% in F/Y 2002/03 and lowest ratio i.e. 0.07% in F/Y 2000/01 and 2001/02. On the basis of mean ratio, it can be stated that SBI has invested higher amount in share and debentures in comparison to EBL i.e. 0.20% > 0.16%. Moreover

co-efficient of variation of SBI ratio is lower than that of EBL i.e. 26.22% < 53.96%. It means investment ratio of SBI is more consistent than that of EBL. From the above analysis, it is clear that has invested higher percentage of its total assets on shares and debentures of other companies in comparison to EBL.

4.1.3 Profitability Ratios

The main objective of a commercial bank is to earn profit by providing different types of banking services to its customers. To meet various objective like, maintains good liquidity position, meet fixed internal obligations, overcome the future contingencies, and grab hidden investment opportunities, expand banking transaction in different places, finance govt. in need of development funds etc, a commercial bank have to earn sufficient profit. Here, mainly those major ratios are presented and analyzed through with the effort has been made to measure the profit earning capacity of SBI and EBL comparatively.

4.1.3.1 Return on Total Working Fund / Return on Total Assets Ratio

Return on working fund ratio measures the profitability with respect to each financial resources investment of the bank assets if the bank's working fund is well managed and efficiency utilized, return on such assets will be higher. Minimizing taxes within the legal options available will also improved the return. The following table shows that profitability position with respect to total assets.

Table 4.11
Return on Total Assets Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	1.21	0.98
2001/02	1.34	0.17
2002/03	1.29	0.58
2003/04	1.17	0.64
2004/05	1.49	0.72
Total	6.50	3.09
Mean	1.30	0.62
S.D	0.13	0.29
C.V	9.64	47.46

Source: Nepal Stock Exchange, 2005

From the table 4.11 it shows that profitability of banks is fluctuating trend. SBI has highest (0.98%) ratio in F/Y 2000/01 and lowest (0.17%) ratio in F/Y 2001/02. EBL has highest (1.49%) ratio in F/Y 2004/05 and lowest (1.17%) ratio in F/Y 2003/04. When the mean ratios are observed, it shows that SBI has low return than EBL i.e. 0.62% < 1.301%. So EBL is highly efficiency to earn net profit and return as well. On the other hand co-efficient of SBI is highest than EBL i.e. 47.46% > 9.64%. From the above analysis it can be said that EBL is strong position in the earning capacity by utilizing available resources than SBI. Although EBL utilized its assets more efficiently than SBI but both of banks don't seem to be utilizing their assets more efficiently. So the both banks are required to increase the rate of return on total assets by making investment in higher return sectors.

4.1.3.2 Total Interest Earned to Total Outside Assets Ratio

It reflects that the extent to which the bank is successful to earn interest as major income on all the outside assets. Higher the ratio higher will be the earning power of total outside assets. This is very important ratio as the main asset is the outside asset of a commercial bank. Total outside assets includes

loan and advance for commercial banks govt. securities, share, debenture and other. The table below shows total interest earned to total outside assets ratio of SBI and EBL.

Table 4.12

Total Interest Earned to Total Outside Assets Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	10.57	11.63
2001/02	9.85	9.74
2002/03	7.92	8.16
2003/04	7.93	8.28
2004/05	7.81	7.00
Total	44.08	44.81
Mean	8.82	8.96
S.D	1.30	1.78
C.V	14.73	19.87

Source: Nepal Stock Exchange, 2005.

From the table 4.12 it shows that ratio of banks is fluctuating trend. SBI has highest (11.63%) ratio in F/Y 2000/01 and lowest (7.00%) ratio in F/Y 2004/05. EBL has highest ratio (10.57%) in F/Y 2000/01 and lowest (7.81%) ratio in F/Y 2004/05. On the basis of mean ratio, SBI is greater than EBL i.e. 8.96% > 8.82%. Co-efficient of variation of SBI is greater than EBL i.e. 19.87% > 14.73%. From the above analysis it can be concluded that SBI had been succeed in comparison to EBL in the view point of mean ratio. SBI is less consistent than EBL in the view point of C.V. After the analysis, it can be concluded that SBI bank is able to utilize its assets sufficiently to earn more interest than EBL. However, the ratio of both banks is not satisfactory. It indicates that both banks failed to earn consistent income in relation to their total assets due to security and peace problems arising from Maoist insurgency in the country.

4.1.3.3 Return on Loan and Advance Ratio

This ratio measures the earning capacity of commercial bank through its mobilized fund as loan and advances. A high ratio indicates greater success to mobilized fund as loan and advances. Loan and advances include loan, cash, credit, overdraft bills purchases and discounted. The following table shows that return on loan and advances ratio of SBI and EBL of this period.

Table 4.13

Return on Loan and Advance Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	1.82	1.41
2001/02	2.32	0.3
2002/03	2.16	0.95
2003/04	1.92	1.09
2004/05	2.44	1.18
Total	10.66	4.93
Mean	2.13	0.99
S.D	0.26	0.42
C.V	12.26	42.43

Source: Nepal Stock Exchange, 2005

Table 4.13 shows that all bank ratios in the study period have in fluctuating trend. SBI has highest (1.41%) ratio in F/Y 2000/01 and lowest (0.30%) ratio in F/Y 2001/02. EBL has highest (2.44%) ratio in F/Y 2004/05 and lowest (1.82%) ratio in 2000/01. In mean of the banks, SBI is less than EBL i.e. 0.99% < 2.13%. So we can say EBL is strong to mobilize the fund based on loan and advances to return than SBI. On the other hand, co-efficient of variation of SBI is greater than EBL i.e. 42.43% > 12.26%. Thus we can be concluded that EBL is less consistent than SBI. It can be concluded that mean ratio of EBL is higher than SBI. That means the greater success to mobilize fund as loan and advances as compare to SBI.

4.1.3.4 Total Interest Earned to Total Working Fund Ratio

Total interest earned to total working fund ratio reflects the extent to which the banks are successful in mobilizing their total assets to acquire income as interest. This ratio actually reveals the earning capacity of a commercial bank by mobilizing its working fund. Higher the ratio higher will be the income as interest. The following table shows total interest earned to total working fund ratio of SBI and EBL through out the reviewing period.

Table 4.14

Total Interest Earned to Total Working Fund Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	7.84	8.56
2001/02	7.4	6.1
2002/03	6.72	5.69
2003/04	6.46	6.21
2004/05	6.84	5.85
Total	35.26	32.41
Mean	7.05	6.48
S.D	0.56	1.18
C.V	7.92	18.20

Source: Nepal Stock Exchange, 2005.

The table 4.14 shows that SBI interest earning ratio is in decreasing trend. SBI has highest (8.56%) ratio in F/Y 2000/01 and lowest (5.69%) ratio in 2002/03. EBL has highest (7.84%) ratio in F/Y 2000/01 and lowest ratio is 6.46% in 2003/04. On the other hand, mean ratio of SBI is lowest than EBL i.e. 6.48% < 7.05%. It indicates that SBI is lower to generate interest income from the total working fund than EBL. Similarly, co-efficient of variation between ratios of different five years under the study period, in case SBI is found to be 18.20% whereas EBL has 7.92% only. Its earning ratio with respect to total working fund of SBI is less stable than that of EBL. Thus it can be concluded that EBL is able to earn high interest return from the total working fund comparison with SBI because high ratio is an indicator high earning power of the bank of its total earning fund.

4.1.3.5 Total Interest Paid to Total Working Fund Ratio

Total interest paid is that amount which is paid to the lenders as well as bondholders. This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund. The following table shows the total interest paid to total working fund ratio of SBI and EBL.

Table 4.15

Total Interest Paid to Total Working Fund Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	5.21	5.52
2001/02	4.54	3.73
2002/03	3.89	4.11
2003/04	3.82	3.86
2004/05	3.29	3.03
Total	20.75	20.25
Mean	4.15	4.05
S.D	0.74	0.91
C.V	17.84	22.57

Source: Nepal Stock Exchange, 2005.

From the table 4.15 it shows that ratio of SBI bank is fluctuating trend. SBI has highest (5.526%) ratio in F/Y 2000/01 and lowest (3.03%) ratio in F/Y 2004/05. EBL has highest (5.21%) ratio in F/Y 2000/01 and lowest (3.29%) ratio in F/Y 2004/05. Both banks have decreasing trend in the study period. On the basis of mean ratio SBI is lower than EBL i.e. 4.05% < 4.15%. It means EBL is more interest paid on the respect of total working fund than SBI. Similarly, co-efficient of variation of SBI is greater than EBL i.e. 22.57% > 17.84%. So it concludes SBI is less consistent than EBL.

4.1.4 Risk Ratio

Bank had to take risk to get return on its investment. The risk taken is satisfied by the increase in profit. So, the banks operating for high profit have to accept

the risk and manage it efficiently. A bank has to have the idea of the level of risk that one had needed to bear while investing its funds.

4.1.4.1 Credit Risk Ratio

Bank makes investment by utilizing its collected fund. The credit risk ratio measures the risk behind making investment or granting loan. Actually, the proportion of non-performing assets shows credit risk ratio in total loan and advances of a bank. But unavailability of related data the ratio is calculated with the help of loan and total assets. The following table presents the credit risk ratio of SBI and EBL.

Table 4.16
Credit Risk Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	66.54	69.7
2001/02	57.77	57.5
2002/03	59.76	61.23
2003/04	60.96	59.06
2004/05	61.24	60.94
Total	306.27	308.43
Mean	61.25	61.69
S.D	3.26	4.73
C.V	5.32	7.66

Source: Nepal Stock Exchange, 2005

From the table 4.16 it shows that credit risk ratio of SBI is fluctuating trend. SBI has highest (69.70%) ratio in F/Y 2000/01 and lowest (57.50%) ratio in F/Y 2001/02. EBL has also fluctuating trend in the study period. EBL has highest (66.54%) ratio in F/Y 2000/01 and lowest (57.77%) ratio in F/Y 2001/02.

When mean ratios are taken it is found that SBI is greater than EBL i.e. 61.69% > 61.25%. It means SBI has higher credit in compare to EBL. In the case of co-efficient of variation SBI is greater than EBL i.e. 7.66% > 5.32%. It means SBI

credit policy is less consistent than that of EBL. From the above analysis, it can be concluded that the credit risk of SBI is higher in compare to EBL.

4.1.4.2 Capital Risk Ratio

The capital risk of a bank indicates that how much assets values may decline before the deposition and other creditors in jeopardized. Therefore a bank must maintain adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate responsibilities. Capital risk measures banks ability to attract deposits and inter bank fund. It also determines the level of profit a bank can earn. If a bank chooses to make high capital risk, its ROE will be higher. The following table exhibits the capital risk ratio of SBI and EBL during the study period.

Table 4.17
Capital Risk Ratio

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	5.22	3.37
2001/02	7.35	3.44
2002/03	6.57	9.88
2003/04	6.42	9.51
2004/05	5.35	8.30
Total	30.91	34.50
Mean	6.18	6.90
S.D	0.89	3.24
C.V	14.44	47.01

Source: Nepal Stock Exchange, 2005

Table 4.17 presents the capital risk ratios of banks, which are fluctuating trend. SBI has highest (9.88%) ratio in F/Y 2002/03 and lowest (3.37%) ratio in F/Y 2000/01. EBL has highest (7.35%) ratio in F/Y 2001/02 and lowest (5.22%) ratio in F/Y 2000/01. On the basis of mean ratio SBI is highest that EBL i.e. 6.90% > 6.18%. On the other hand co-efficient of variation of SBI is greater than EBL i.e. 47.01% > 14.44%. It indicates that the capital risk of SBI is less consistent than EBL. From the above analysis, it can be concluded that the degree of capital risk in EBL is greater than SBI.

4.1.5 Growth Ratios

Growth ratios are analyzed and interpret which are directly related to the fund mobilization and investment of a commercial bank. Growth ratios represent how well the commercial banks are maintaining their economic and financial position.

Higher the ratios better the performance of a bank. Following four topics i.e. growth ratio of total deposit, loan & advances, total investment and net profit, the ratios can be calculating to the compound interest tables.

Table 4.18

Growth Ratio of Deposits

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	3057.42	4535.73
2001/02	4574.51	6612.29
2002/03	5466.61	5572.47
2003/04	6694.96	6522.82
2004/05	8063.9	7198.32
Growth Rate %	27.43	12.23

Source: Nepal Stock Exchange, 2005.

The table 4.18 shows that the growth ratio of SBI is lower than EBL i.e. $12.23\% < 27.43\%$. It means that the performance of SBI to collect lower deposit compared to EBL.

Table 4.19

Growth Ratios of Loan and Advances

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	2270.18	3559.41
2001/02	3005.76	4188.41
2002/03	3948.48	4299.25
2003/04	4908.46	4468.72
2004/05	5884.12	5143.66
Growth Rate %	26.88	9.64

Source: Nepal Stock Exchange, 2005

The table 4.19 shows that the growth ratio of SBI is lower than EBL i.e. 9.64% < 26.88%. It means that the performance of SBI to collect grant loan and advances in compared to EBL is lower position year by year.

Table 4.20
Growth Ratio of Total Investment

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	260.11	201.79
2001/02	901.72	373.63
2002/03	1657.87	599.06
2003/04	1653.98	1207.28
2004/05	2535.66	1907.52
Growth Rate %	76.69	75.34

Source: Nepal Stock Exchange, 2005

The table 4.20 shows that the growth ratio of SBI is lower than EBL i.e. 75.34% < 76.69%. It means that the performance of EBL to invest in compared to SBI is higher position.

Table 4.21
Growth Ratio of Net Profit

Year	Everest Bank Limited	Nepal SBI Bank Limited
2000/01	41.27	50.07
2001/02	69.7	12.51
2002/03	85.33	40.85
2003/04	94.18	48.75
2004/05	143.57	60.85
Growth Rate %	36.56	4.99

Source: Nepal Stock Exchange, 2005

The table 4.21 shows that the growth ratio of SBI is lower than EBL i.e. 4.99% < 36.56%. It means that the performance of SBI to net profit in compared to EBL is lower position.

4.2 Statistical Analysis

Under this chapter, some statistical tools such as co-efficient of correlation analysis between different variables, trend analysis of deposit, loan and

advances, Investment and net profit are used to achieve the objective of the study.

4.2.1 Coefficient of Correlation Analysis

To find out the relationship between deposit and total investment, deposit and loan and advances and newt profit and total outside assets have been used of Karl Pearson’s coefficient of correlation.

4.2.1.1 Coefficient of Correlation between Deposits and Investment

The Coefficient of correlation between deposit and investment is to measure the degree of relationship between two variables. In correlation analysis, deposit is independent variables (X) and total investment is dependent variables (Y). The purpose of computing coefficient correlation is to justify whether the deposits are significantly used in proper way or not.

The following table 4.22 shows the coefficient of correlation between deposits and total investment i.e. r , r^2 , P.Er. and 6P.Er. of SBI and EBL during the study period.

Table 4.22
Correlation between Deposits and Total Investment

Bank	Evaluation criteria			
	r	r^2	P.Er.	6P.Er.
SBI	0.758	0.575	0.418	2.508
EBL	0.973	0.947	0.252	1.511

Source: Appendix: C

From the above table 4.22 is found that the Coefficient of correlation between deposit and investment value ‘ r ’ is 0.758 in case of SBI. It shows positive relationship between these two variables. Similarly, the coefficient of determination in the dependent variables ‘ r^2 ’ is 0.575it means 57.50% of the variation in the dependent variables (total investment) has been explained by the independent variable (deposit). Moreover, considering the probable error,

since the value of 'r' is less than 6P.Er. i.e. $0.758 < 2.508$. We can say that there is insignificant. It can be concluded that there is insignificant relationship between deposit and total investment of the SBI. The bank has investing their deposit by using unsound investment policy.

In the case of EBL also, that the Coefficient of correlation between total deposits and total investment is 0.973. It shows the positive relationship between these variables. But considering the value of r^2 is 0.947. It means 94.70% in the dependent variable (investment) has been explained by the independent variable (deposit). Moreover, on the basis of value of P.Er. i.e. 0.252, we can further conclude that the relationship between deposit and investment is insignificant because 'r' is less than 6 times of P.Er. i.e. $0.973 < 1.511$.

4.2.1.2 Coefficient of Correlation between Deposit and Loan and Advance

Coefficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In the this analysis, deposit is independent variable (X) and loan and advance are dependent variable (Y) the main objective of computing 'r' between these two variables is to justify whether deposits are significantly uses as loan and advances proper way or not. The table 4.23 shows the value of r, r^2 P.Er. and 6P.Er. between deposits and loan and advances of SBI and EBL for the study period.

Table 4.23

Correlation between Deposit and Loan and Advance

Bank	Evaluation criterions			
	R	r^2	P.Er.	6P.Er.
SBI	0.883	0.780	0.326	1.959
EBL	0.995	0.990	0.233	1.395

Source: Appendix: C

From the above table 4.23, it is found that the coefficient of correlation between deposits and loan and advances of SBI is 0.883. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination r^2 is 0.780 and it means 78.00% of the variation in the dependent variable (deposit). Further, value of P.Er. is 0.326 and 6P.Er. is 1.959, it shows that the value of coefficient of correlation 'r' is lesser than the value of 6 P.Er, which reveals that the value of 'r' is significant. In other words, there is significant relationship between deposits and loan and advances in case of SBI.

Likewise, in case of EBL the coefficient of correlation between deposits and loan and advances of EBL is 0.995. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination r^2 is 0.990 and it means 99.0% of the variation in the dependent variable (deposit). Further, value of P.Er. is 0.233 and 6P.Er. is 1.395, it shows that the value of coefficient of correlation 'r' is lesser than the value of 6 P.Er, which reveals that the value of 'r' is significant. In other words, there is significant relationship between deposits and loan and advances in case of EBL.

4.2.1.3 Coefficient of Correlation between Outside Assets and Net Profit

To measure and evaluate the coefficient of correlation between these two variables i.e. total outside assets and net profit, Karl Person's Coefficient of correlation has been calculated under this topic. In this analysis, total outside assets is independent variable (X) and net profit is dependent variable (Y). The purpose of computing correlation of Coefficient is to justify whether the net profit is significantly correlated with respective total assets or not. The table no. 4.2.1.3 shows the value of 'r' ' r^2 ' P.Er and 6 P.Er between outside assets and net profit of SBI and EBL.

Table 4.24

Correlation between Outside Assets and Net Profit

Bank	Evaluation criterions			
	r	r ²	P.Er.	6P.Er.
SBI	0.501	0.251	0.562	3.375
EBL	0.976	0.953	0.249	1.495

Source: Appendix: C

From the above table 4.24, it is found that the coefficient of correlation between outside asset and net profit of SBI is 0.501. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination r^2 is 0.251 and it means 25.10% of the variation in the dependent variable. Further, value of P.Er. is 0.562 and 6P.Er. is 3.375, it shows that the value of coefficient of correlation 'r' is lower than the value of 6 P.Er, which reveals that the value of 'r' is significant. In other words, there is significant relationship between outside and net profit in case of SBI.

Likewise, in case of EBL the coefficient of correlation between outside asset and net profit of EBL is 0.976. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination r^2 is 0.953 and it means 95.30% of the variation in the dependent variable. Further, value of P.Er. is 0.249 and 6P.Er. is 1.495, it shows that the value of coefficient of correlation 'r' is lesser than the value of 6 P.Er, which reveals that the value of 'r' is significant. In other words, there is significant relationship between outside and net profit in case of EBL.

4.2.1.4 Coefficient of Correlation between Loan and Advance and Net Profit

To measure and evaluate the coefficient of correlation between these two variables i.e. total loan and advance and net profit, Karl Person's Coefficient of correlation has been calculated under this topic. In this analysis, total loan and advance is independent variable (X) and net profit is dependent variable (Y).

The purpose of computing correlation of Coefficient is to justify whether the net profit is significantly correlated with respective total assets or not. The table 4.25 shows the value of 'r' 'r²' P.Er and 6 P.Er between loan and advance and net profit of SBI and EBL.

Table 4.25
Correlation between Loan and Advance and Net Profit

Bank	Evaluation criteria			
	r	r ²	P.Er.	6P.Er.
SBI	0.343	0.118	0.622	3.732
EBL	0.964	0.929	0.260	1.558

Source: Appendix: C

From the above table 4.25, it is found that the coefficient of correlation between total loan and advance and net profit of SBI is 0.343. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination r² is 0.118 and it means 11.80% of the variation in the dependent variable. Further, value of P.Er. is 0.622 and 6P.Er. is 3.732, it shows that the value of coefficient of correlation 'r' is lower than the value of 6 P.Er, which reveals that the value of 'r' is significant. In other words, there is significant relationship between outside and net profit in case of SBI.

Likewise, in case of EBL the coefficient of correlation between total loan and advance and net profit of EBL is 0.964. It shows positive relationship between these two variables. Moreover, when we consider the value of coefficient of determination r² is 0.929 and it means 92.90% of the variation in the dependent variable. Further, value of P.Er. is 0.260 and 6P.Er. is 1.558, it shows that the value of coefficient of correlation 'r' is lesser than the value of 6 P.Er, which reveals that the value of 'r' is significant. In other words, there is significant relationship between total loan and advance and net profit in case of EBL.

4.2.2 Trend Analysis and Projection of Next Five Years

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

Trend analysis informs to various persons who are directly or indirectly related to joint venture banks. To shareholders of the banks, it informs about the expected future return, which helps them to decide whether to stick in the present investment or to search for the alternative investment opportunities. Depositors can save the degree of safety in the form of worthiness of financial credit of the banks in future. For the borrowers, it assures about the financial capability of the banks to furnish their loans and advances in future and also helps to continue the present trend.

Various methods are used for trend analysis, out of which least square method is one of the popular method is used in the study. In the present study, the tendency of total deposit, loan and advances, total investment and net profit are forecasted for next five years on the basis of the past performance and records.

The projections are based on the following assumption.

1. The main assumption is that other things will remain unchanged.
2. The bank will run in this present position.
3. The economy will remain in the present stage.
4. The forecast will be true only when the limitation of least square method is carried out.
5. Nepal Rastra Bank will not change its guidelines to commercial banks.

4.2.2.1 Trend Analysis of Total Deposits

Under this topic, an effort has been made to calculate the trend values of deposit of SBI and EBL for five years from 2000/01 to 2004/05 and forecast next five years till 2009/10. This following table shows the trend value of 10 years from 2000/01 to 2009/10.

Table 4.26
Trend Value of Total Deposit of SBI and EBL

(Rs. in Million)

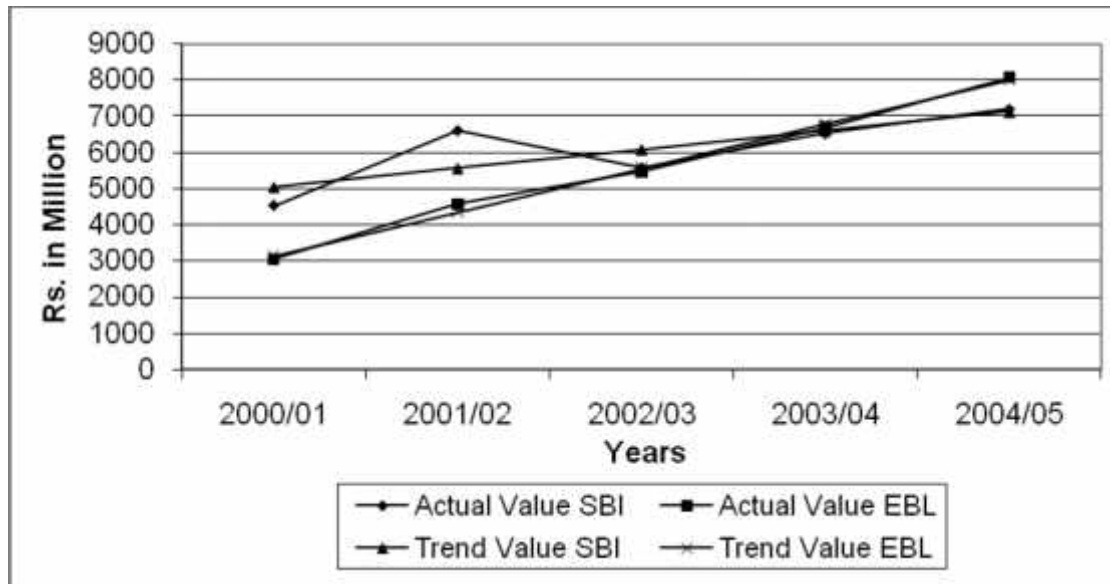
Year	Actual Value		Trend Value	
	SBI	EBL	SBI	EBL
2000/01	4535.73	3057.43	5041.184	3144.804
2001/02	6612.29	4574.51	5564.755	4358.143
2002/03	5572.47	5466.61	6088.326	5571.482
2003/04	6522.82	6694.96	6611.897	6784.821
2004/05	7198.32	8063.9	7135.468	7998.16
2005/06			7659.039	9211.499
2006/07			8182.61	10424.84
2007/08			8706.181	11638.18
2008/09			9229.752	12851.52
2009/10			9753.323	14064.86

(Source: Appendix -D)

From above table, SBI bank expected total deposit in 2008/2009 and 2009/2010 are expected to be Rs.9229.752 and Rs.9753.323 million. Similarly, EBL bank expected total deposit in 2008/2009 and 2009/2010 is expected to be Rs. 12851.52 and Rs. 14064.86 million respectively.

The growth rate of EBL bank in total deposit per year is more than SBI bank. The change in total deposit per year is net price Rs. 1213.339 of EBL bank, which is higher than SBI bank (Rs. 523.571).

Figure 4.1
Trend Value of Total Deposit



From the table 4.26, it is clear that total deposit of both the banks SBI and EBL are in increasing trend. Other things remaining the same or constant total deposit of SBI in 2009/10 is predicted by 9753.323 million and the same of EBL is 14064.90 million, which is the highest under the study period. From the above trend analysis, it is quite obvious that SBI deposit collection position in relation to EBL is proportionally better in all ten years.

4.2.2.2 Trend Analysis of Total Investment

Under this topic, an effort has been made to calculate the trend values of investment of SBI and EBL for five years from 2000/01 to 2004/05 and forecast next five years till 2009/10. This following table shows the trend value of 10 years from 2000/01 to 2009/10.

Table 4.27**Trend Value of Total Investment of SBI and EBL**

(Rs. in Million)

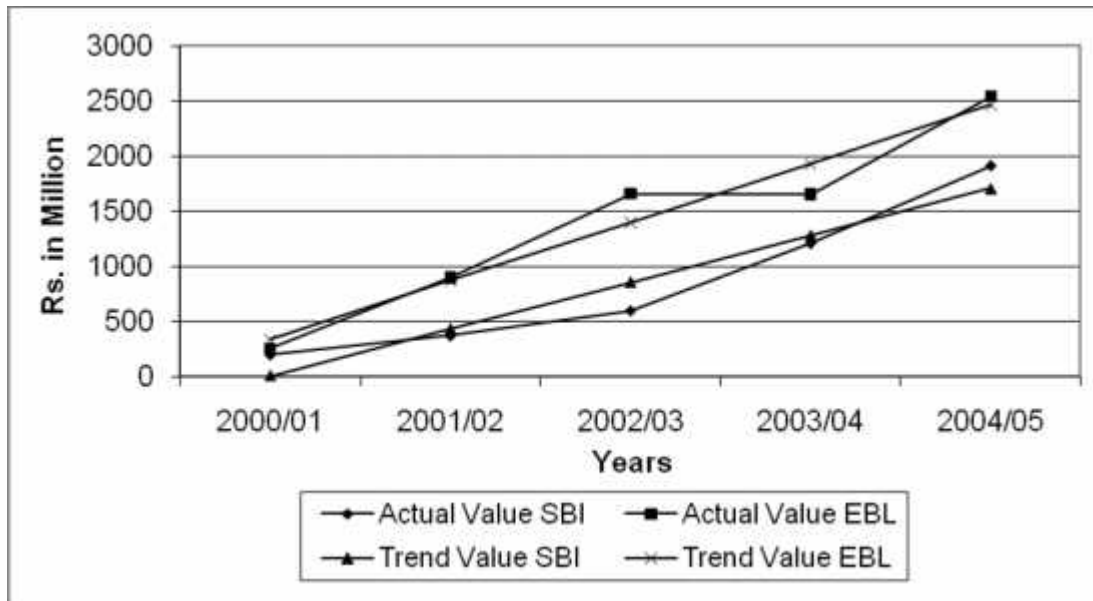
Year	Actual Value		Trend Value	
	SBI	EBL	SBI	EBL
2000/01	201.79	260.11	8.834	341.196
2001/02	373.63	901.72	433.345	871.532
2002/03	599.06	1657.87	857.856	1401.868
2003/04	1207.28	1653.98	1282.367	1932.204
2004/05	1907.52	2535.66	1706.878	2462.54
2005/06			2131.389	2992.876
2006/07			2555.9	3523.212
2007/08			2980.411	4053.548
2008/09			3404.922	4583.884
2009/10			3829.433	5114.22

(Source: Appendix -D)

From above table, SBI bank expected total investment in 2008/2009 and 2009/2010 are expected to be Rs.3404.922 and Rs.3829.433 million. Similarly, EBL bank expected total investment in 2008/2009 and 2009/2010 is expected to be Rs. 4583.884 and Rs. 5114.22 million respectively.

The growth rate of EBL bank in total investment per year is more than SBI bank. The change in total investment per year is net price Rs. 530.336 of EBL bank, which is higher than SBI bank (Rs. 424.511).

Figure 4.2
Trend Value of Total Investment



(Source: Table 4.27)

From the table 4.27, it is clear that total investment of both the banks SBI and EBL are in increasing trend. Other things remaining the same or constant total investment SBI in 2009/10 is predicted by 3829.433 million and the same of EBL be 5114.22 million, which is the highest under the study period. From the above trend analysis, it is quite obvious that SBI total investment position in relation to EBL is proportionally better in all ten years.

4.2.2.3 Trend Analysis of Loan and Advance

Under this topic, an effort has been made to calculate the trend values of loan and advance of SBI and EBL for five years from 2000/01 to 2004/05 and forecast next five years till 2009/10. This following table shows the trend value of 10 years from 2000/01 to 2009/10.

Table 4.28**Trend Value of Loan and Advance of SBI and EBL**

(Rs. in Million)

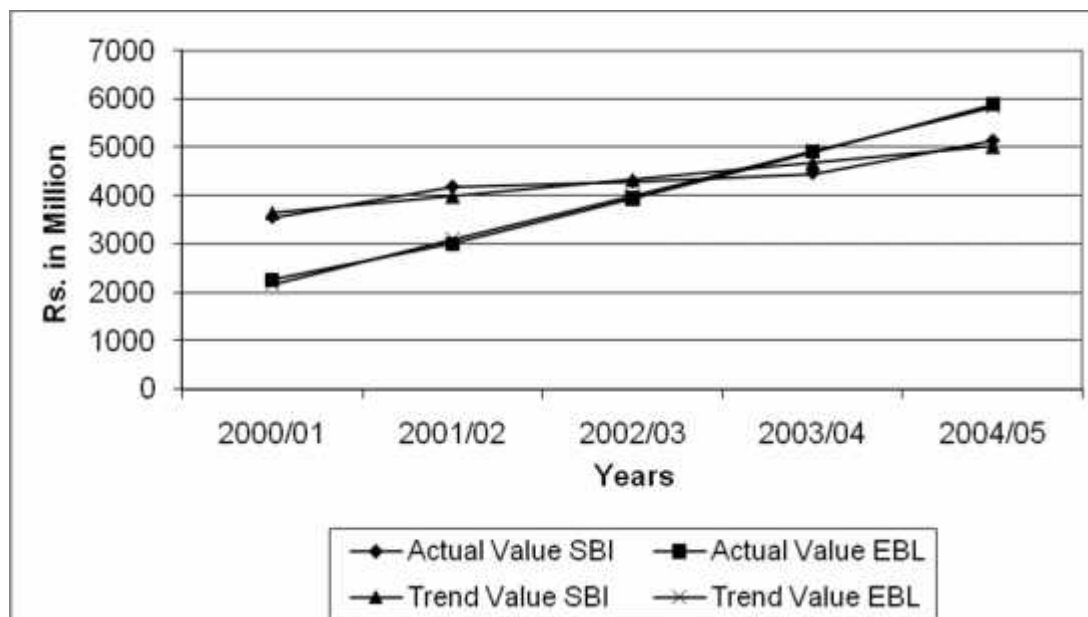
Year	Actual Value		Trend Value	
	SBI	EBL	SBI	EBL
2000/01	3559.41	2270.18	3642.128	2177.284
2001/02	4188.41	3005.76	3987.009	3090.342
2002/03	4299.25	3948.48	4331.89	4003.4
2003/04	4468.72	4908.46	4676.771	4916.458
2004/05	5143.66	5884.12	5021.652	5829.516
2005/06			5366.533	6742.574
2006/07			5711.414	7655.632
2007/08			6056.295	8568.69
2008/09			6401.176	9481.748
2009/10			6746.057	10394.81

(Source: Appendix -D)

From above table, SBI bank expected loan and advance in 2008/2009 and 2009/2010 are expected to be Rs.6401.176 and Rs.6746.057 million. Similarly, EBL bank expected loan and advance in 2008/2009 and 2009/2010 is expected to be Rs. 9481.748 and Rs. 10394.81 million respectively.

The growth rate of EBL bank in loan and advance per year is more than SBI bank. The change in loan and advance per year is net price Rs. 913.058 of EBL bank, which is higher than SBI bank (Rs. 344.881).

Figure 4.3
Trend Value of Loan and Advance



From the above table.4.28, it is clear that loan and advance of both the banks SBI and EBL are in increasing trend. Other things remaining the same or constant loan and advance SBI in 2009/10 is predicted by 6746.057 million and the same of EBL be 10394.81 million, which is the highest under the study period. From the above trend analysis, it is quite obvious that SBI loan and advance position in relation to EBL is proportionally better in all ten years.

4.2.2.4 Trend Analysis of Net Profit

Under this topic, an effort has been made to calculate the trend values of net profit of SBI and EBL for five years from 2000/01 to 2004/05 and forecast next five years till 2009/10. This following table shows the trend value of 10 years from 2000/01 to 2009/10.

Table 4.29
Trend Value of Net Profit of SBI and EBL

(Rs. in Million)

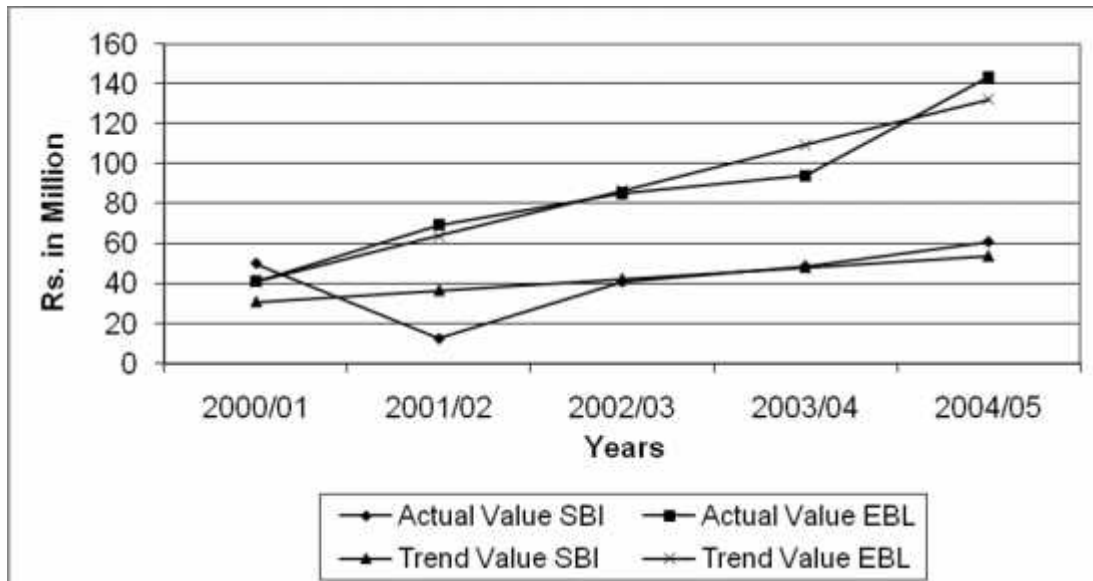
Year	Actual Value		Trend Value	
	SBI	EBL	SBI	EBL
2000/01	50.07	41.27	31.046	40.994
2001/02	12.51	69.7	36.826	63.902
2002/03	40.85	85.33	42.606	86.81
2003/04	48.75	94.18	48.386	109.718
2004/05	60.85	143.57	54.166	132.626
2005/06			59.946	155.534
2006/07			65.726	178.442
2007/08			71.506	201.35
2008/09			77.286	224.258
2009/10			83.066	247.166

(Source: Appendix -D)

From above table, SBI bank expected net profit in 2008/2009 and 2009/2010 are expected to be Rs.77.286 and Rs.83.066 million. Similarly, EBL bank expected net profit in 2008/2009 and 2009/2010 is expected to be Rs. 224.258 and Rs. 247.166 million respectively.

The growth rate of EBL bank in net profit per year is more than SBI bank. The change in net profit per year is net price Rs. 22.908 of EBL bank, which is higher than SBI bank (Rs. 5.78).

Figure 4.4
Trend Value of Net Profit



From the above table 4.29, it is clear that net profit of both the banks SBI and EBL are in increasing trend. Other things remaining the same or constant net profit SBI in 2009/10 is predicted by 83.066 million and the same of EBL be 247.166 million, which is the highest under the study period. From the above trend analysis, it is quite obvious that SBI net profit position in relation to EBL is proportionally better in all ten years.

4.2.3 Test of Hypothesis

Under this analysis the effort has been made to test the significance level regarding the parameter of the population of the basis of sample drawn from the population. The following steps have been followed for the test of hypothesis.

1. Formulating hypothesis (Null hypothesis and Alternative hypothesis)
2. Computing the test statistic
3. Fixing the level of significance
4. Making decision

In the following lines some of the main hypothesis tests are calculated decisions are made.

4.2.3.1 Test of Hypothesis on Loan and Advances to Total Deposit Ratio of SBI and EBL

Loan and advances to total deposit of SBI and EBL are X and Y respectively.

$$S^2 = 25.31$$

Where,

Null hypothesis (H_0) : $\mu_x = \mu_y$ i.e. there is no significance difference between mean ratio of loan and advances to total deposit of SBI and EBL. Alternative hypothesis (H_1) : $\mu_x \neq \mu_y$ i.e. there is significance difference between mean ratio of loan and advances to total deposit of SBI and EBL.

Under the test-statistic is,

$$T = \frac{X - Y}{\sqrt{S^2} \frac{1}{n_2} \Gamma \frac{1}{n_2}}$$

$$T = \frac{71.786 - 71.696}{\sqrt{25.31} \frac{1}{5} \Gamma \frac{1}{5}}$$

$$= \frac{0.09}{3.182}$$

$$= 0.028$$

$$/t/ = 0.028$$

Tabulated value of 't' at 5% level for $(n_1 + n_2 - 2)$ i.e.8 d.f. is 2.306

Decision:

Since the calculated value of /t/ is 0.028 and which is less than tabulated value of 't' i.e. 2.306, H_0 is accepted. In other words, there is no significant different between mean ratios of loan and advances to total deposit of SBI and EBL.

4.2.3.2 Test of Hypothesis on Total Investment to Total Deposit Ratio of SBI and EBL.

Total investment to total deposit of SBI and EBL are X and Y respectively.

$$S^2 = 86.658$$

Where,

Null hypothesis (H_0) : $\mu_x = \mu_y$ i.e. there is no significance difference between mean ratio of total investment to total deposit of SBI and EBL. Alternative hypothesis (H_1) : $\mu_x \neq \mu_y$ i.e. there is significance difference between mean ratio of total investment to total deposit of SBI and EBL.

Under the test-statistic is,

$$T = \frac{X - Y}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$T = \frac{13.172 - 22.938}{\sqrt{86.658 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= \frac{-9.766}{5.887}$$

$$= -1.66$$

$$|t| = 1.66$$

Tabulated value of 't' at 5% level for $(n_1 + n_2 - 2)$ i.e. 8 d.f. is 2.306

Decision:

Since the calculated value of $|t|$ is 1.66 and which is lower than tabulated value of 't' i.e. 2.306, H_0 is accepted. In other words, there is no significant difference between mean ratios of total investment to total deposit of SBI and EBL.

4.3 Major Finding of the Study

The main findings of the study are derived on the analysis of financial data of SBI and EBL, which are given below.

Liquidity Ratio

- i. The mean current ratio of SBI is lower than that EBL and the variability of ratio of EBL is more consistence than SBI in comparison.
- ii. The mean ratio of cash and bank balance to total deposit of SBI is higher than that of EBL ,SBI cash and bank balance to total deposit ratio is high consistent than that of EBL. It states that the liquidity position of SBI is better than EBL.
- iii. The mean cash and bank balance to current assets ratio of SBI is higher than EBL. It exhibits the liquidity position of SBI is better in this regard.
- iv. The cash and bank balance to current assets ratios of SBI is more stable and consistent than that of EBL.
- v. The mean ratio of investment on government securities to current assets of SBI has maintained lower than EBL. Moreover, SBI seems to have more variable or less consistent than that of EBL.
- vi. The mean ratio of loan and advance to current assets ratio of SBI is lower than that of the loan and advance to current assets ratio of SBI is less consistent than that of EBL.

Asset Management Ratio

- i. The main ratio of loan and advance to total deposit of SBI is higher than that of EBL. The variability of the loan and advance to total deposit ratio of EBL seems to be less stable and consistent than that of SBI.
- ii. The mean ratio of total investment to total deposit of SBI is lower than that of EBL. The variability of the total investment to total deposit ratio of SBI is less consistent than that of EBL.

- iii. The mean ratio of total investment on government securities to total working fund of SBI is lower than that of EBL. The variability of the total investment on government securities to total working fund ratio of SBI is less consistent than that of EBL.
- iv. The mean ratio of loan and advance to working fund of SBI is greater than that of EBL. The variability of loan and advance to working fund ratio of SBI is less consistent than that of EBL.
- v. The mean ratio of investment on share and debenture to total working fund of SBI is greater than that of EBL. The variability of the investment on share and debenture to total working fund ratio of SBI is more consistent than that of EBL.

Profitability Ratios

- i. The mean ratio of return on total working fund of SBI is lower than that of EBL. The return on total working fund ratio of SBI is less consistent than that of EBL.
- ii. The mean ratio of total interest earned to total outside assets of SBI is greater than that of EBL. The total interest earned to total outside assets ratio of SBI is less consistent than that of EBL.
- iii. The mean ratio of return on loan and advance of SBI is less than that of EBL. The return on loan and advance ratio of SBI is less consistent than that of EBL.
- iv. The mean ratio of total interest earned to total working fund of SBI is lower than that of EBL. The total interest earned to total working fund ratio of SBI is less consistent than that of EBL.
- v. The mean ratio of total interest paid to total working fund of SBI is lower than that of EBL. The total interest paid to total working fund ratio of EBL is less consistent than that of SBI.

From the above findings, it can be conclude that the profitability position of SBI is not satisfactory. Whereas in some ratios i.e. return on total working

fund, return on loan and advances of SBI is maintained lower than that of EBL. But in cases those ratios of total interest paid to total working fund, total interest earned to total outside assets, SBI has maintained higher mean ratios than EBL. So those banks have invested their fund on profitable sectors for maintain their higher profit margin in future.

Risk Ratio

This risk ratio of SBI and EBL shows that:

- i. The mean credit risk ratio of SBI is greater than that of EBL. The credit risk ratio of SBI is less consistent than that of EBL.
- ii. SBI has maintained the mean ratio of capital risk ratio is higher than that of EBL. The capital risk ratio of EBL is less consistent than that of SBI.

From the above result it can be concluded that the credit risk ratio of SBI is highest and the capital risk ratio of SBI is highest of indicate that EBL.

Growth Ratio

- i. Growth ratio of deposit of SBI is lower i.e. 12.23% in comparison to EBL. i.e. 27.43%.
- ii. Likewise, growth ratio of total loan and advance of SBI is significantly lower than EBL i.e. 9.64% < 26.88%.
- iii. Beside these, growth ratio of total investment of SBI is lower than EBL i.e. 75.34% < 76.69%.
- iv. The growth ratio of net profit in case SBI has been found 4.99% whereas; the same of the EBL has 36.56% during the study period.

From the analysis of above mentioned growth ratios it can be conclude that SBI has not been more successful to increase in source of funds i.e. deposit and mobilization of i.e. loan and advances. It seems SBI has not made any effective strategy to win the confidence of shareholders, depositors and its all customs.

Co-efficient of correlation analysis

Coefficient of correlation analysis between different variables of SBI and EBL reveals that:

- i. Co-efficient of correlation analysis between deposit and loan and advances of the both banks has significantly positive value.
- ii. Similarly, the relationship between deposit and total investment of SBI and EBL has significantly positive.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter first concludes the fact-findings base on analytical chapter four where data have been analyzed and interpreted applying different accounting and statistical tools. Under financial analysis, various financial ratios related to the investment function of commercial banks, they are liquidity ratio, profitability ratio, asset management ratio, risk ratio and growth ratio, some relevant statistical are used. They are coefficient of correlation, trend analysis and test of hypothesis.

5.1 Summary

In this study, the financial tools ratio analysis viz. liquidity ratio, asset management ratio, profitability ratios, risk ratios, growth ratios and statistical tolls like percentage, mean, standard deviation, coefficient of variation, correlation and trend analysis have been used for the analysis and interpretation of the data. The data which were employed in this research are secondary in nature. They are obtained from annual reports of the concerned banks, likewise, the financial statement of five year from 2000/01 to 2004/05 were selected for the purpose evaluation.

EBL has invested its more portions of current assets in government securities than SBI. EBL has made higher amount of investment on govt. securities this is due to unavailable of other secured and profitable investment sector. Whereas the lower amount of SBI is invested in government. security. It may be the reason of more investment on other productive sector. The liquidity position of SBI and EBL have not found satisfactory. It is therefore, suggested them to improve cash and bank balance to meet current obligations. SBI's loan and advance to current assets ratio is lower than that EBL, it is recommended to follow liberal lending policy for enhancement of fund mobilization. The

profitability position of those banks is not satisfactory. So those banks have to invest their fund in profitable sectors. From this study it can conclude that SBI is in better position from interest expenses point of view than EBL. EBL seems that it had collected its working funds from more expensive sources in comparison to SBI.

The risk ratio of SBI and EBL have higher, it is suggested that they must be careful about risk either risk or capital risk. The growth ratios are analyzed and interpreted which are directly related to the fund mobilization and investment of commercial banks. Growth ratio represents how well the commercial banks are maintaining their economic and financial position. Growth ratio SBI has lower to maintain deposit, loan and advance and net profit and higher of total investment than that of EBL. Therefore in total amount factor EBL improve in three growth ratios than SBI but in terms of percentage SBI improve in three growth rates than EBL.

5.2 Conclusion

From the analysis of coefficient of correlation analysis we can conclude that both SBI and EBL have significant positive relationship between deposit and loan advance, deposit and total investment and outside assets and net profit. The trend value of deposits loan and advance, investment net profit shows that continuously increasing trend. We can say that both SBI and EBL have followed the policy of maximizing the investment.

Investment policy plays a key role on the development of countries utmost investment. The political instability, government rules, tax policy treaty with neighbor country, social and economic condition of the country affect investment policy of bank. To keep up the stability with the foreign policy results the improvement of investment policy.

Designing good investment policy helps to the improvement of investment policy in the country. As political influence, intervention economic scenario and social, economic scenario of the country is dramatically problem for the detection of designing investment policy of bank.

Government policy affects the investment policy of the company, bank and institution. Government intervention in investment policy is custom tariff initiated by the government policy, VAT refund policy and tax holding policy including duty taxes i.e. export and import directly influences investment policy.

Analysis of investment to avoid the risk, risk related investment influence the financial and economic condition of investment. Technical and marketing analyses too reflect the risk measurement.

As the investor, the adequate knowledge of investment policy is required. Major problem for applying the investment policies are integrator of the consumer, changing policy of the country, industrial policy and neighbor country's policy.

5.3 Recommendations

Suggestion helps to take corrective action in their activities in future. On the basis of above analysis and findings of the study, following suggestions can be advances to overcome weakness, inefficiency and satisfactory improvement of the present fund mobilization and investment policy of SBI as well as EBL.

1. The liquidity position of a SBI has maintained the ratios of cash and bank balance to total deposit and current assets considerably higher than that of EBL and recommended to increased cash and bank balance to meet current obligations and loan demand.
2. SBI has made lower investment amount on government securities. Investment on those securities issued by government i.e. Treasury bills,

Development bonds, saving certificates are free of risk and highly liquid in nature and such securities yield the low interest rates of particular maturity due to lowest risk in future, it is more better in regard to safety that other means of investment. So, SBI is strongly recommended to give more importance to invest more funds government securities instead of keeping them idle with this proverb “something is better than nothing.”

3. SBI's profitability position is low than that of EBL. So SBI is strongly recommended to utilize risky assets and shareholder's fund to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheap fund being more profitable. Out of working fund, EBL has not invested its more fund as total investment in comparison to the other two banks. Though the percentage of invested by those banks have nominal. So, it is recommended to those banks to invest their more funds in different types of companies in different areas.
4. Portfolio conditions of EBL as well SBI should be examining carefully from time to time and alternation should be made to maintain equilibrium in the portfolio condition as far as possible. So it can be said that all eggs should not be kept in the basket. The banks should make continuous yielding investment portfolio.
5. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool of attracting and retaining customers. For this purpose, the banks should develop an “Innovative approach to bank marketing” and formulate new strategic of serving customers in a more convenient and satisfactory way.
6. SBI is operating with limited branch while EBL has greater network of branches all over country. Therefore SBI recommended to expand its hands provide banking service and facilities to the rural areas and communities to accelerate the rural areas economic development, through opening new branches in particular areas after making feasibility study and study well about saving and business potentiality of those areas, it is very helpful to bank in tapping the resources of different areas.

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- Website: WWW.nepalstock.com

APPENDIX - III

EVEREST BANK LIMITED

A) Calculation of Mean, C.V , Correlation Coefficient of Total Deposit and Total Investment

Year	Deposit X	Investment Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	6694.96	1653.98	-4674.088	-1446.70	21847098.6	2092940.89	6762003.11
2003/04	8063.90	2535.66	-3305.148	-565.02	10924003.3	319247.60	1867474.72
2004/05	10097.69	2128.93	-1271.358	-971.75	1616351.16	944298.06	1235442.137
2005/06	13802.44	4200.52	2433.392	1099.84	5921396.63	1209648.03	2676341.857
2006/07	18186.25	4984.31	6817.202	1883.63	46474243.1	3548061.98	12841086.2
Total	56845.24	15503			86783092.8	8114196.56	25382348.03

i) Calculation of Mean

$$\begin{array}{l} \text{For Deposit} \\ \text{Mean } \bar{X} = X/5 = 11369.05 \end{array} \qquad \begin{array}{l} \text{For Investment} \\ \bar{Y} = Y/5 = 3100.68 \end{array}$$

ii) Calculation of Correlation Coefficient between Deposit and Investment

$$r = \frac{xy}{x^2 y^2} = \frac{25382348.03}{26536297.27} = 0.9565$$

iii) Calculation of Standard Deviation ()

$$\begin{array}{l} \text{For Deposit} \\ x = \sqrt{\frac{(x-\bar{x})^2}{N}} = \sqrt{\frac{86783092.83}{5}} \\ = 4166.13 \end{array} \qquad \begin{array}{l} \text{For Investment} \\ y = \sqrt{\frac{(y-\bar{y})^2}{N}} = \sqrt{\frac{8114196.6}{5}} \\ = 1273.91 \end{array}$$

iv) Calculation of Coefficient of Variance (C.V.)

$$\begin{array}{l} \text{For Deposit} \\ \text{C.V.} = \frac{x \times 100}{\bar{X}} = \frac{4166.13}{11369.05} \\ = 36.64 \end{array} \qquad \begin{array}{l} \text{For Investment} \\ \text{C.V.} = \frac{y \times 100}{\bar{Y}} = \frac{1273.91}{3100.68} \\ = 41.08 \end{array}$$

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{(n-2)} = \frac{0.9565 \times \sqrt{5-2}}{\sqrt{1-0.9149}} = \frac{1.6567}{0.2917} = 5.68$$

SBI BANK LIMITED

B) Calculation of Mean, C.V , Correlation Coefficient of Total Deposit and Total Investment

Year	Deposit X	Investment Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	6991.27	1785.21	-2067.07	-758.56	4272778.38	575410.24	1567992.49
2003/04	7198.33	1907.52	-1860.01	-636.25	3459637.2	404811.52	1183427.64
2004/05	8654.77	2607.68	-403.57	63.91	162868.745	4084.74	-25792.96584
2005/06	11002.04	3758.98	1943.7	1215.21	3777969.69	1476740.20	2362007.564
2006/07	11445.29	2659.45	2386.95	115.68	5697530.3	13382.33	276127.1499
Total	45291.7	12719			17370784.3	2474429.03	5363761.876

i) Calculation of Mean

For Deposit Mean $\bar{X} = X/5 = 9058.34$	For Investment $\bar{Y} = Y/5 = 2543.77$
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ii) Calculation of Correlation Coefficient between Deposit and Investment

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{5363761.876}{\sqrt{6556124.85}} = 0.8181$$

iii) Calculation of Standard Deviation ()

For Deposit $s_x = \sqrt{\frac{\sum (x-\bar{x})^2}{N}} = \sqrt{\frac{17370784.32}{5}} = 1863.91$	For Investment $s_y = \sqrt{\frac{\sum (y-\bar{y})^2}{N}} = \sqrt{\frac{2474429.0}{5}} = 703.48$
---	---

iv) Calculation of Coefficient of Variance (C.V.)

For Deposit $C.V. = \frac{s_x \times 100}{\bar{X}} = \frac{1863.91}{9058.34} = 20.58$	For Investment $C.V. = \frac{s_y \times 100}{\bar{Y}} = \frac{703.48}{2543.77} = 27.66$
--	--

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{(n-2)} = \frac{0.8181 \times \sqrt{5-2}}{\sqrt{1-0.6693}} = \frac{1.4170}{0.5750} = 2.46$$

EVEREST BANK LIMITED

C) Calculation of Mean, C.V , Correlation Coefficient of Total Deposit and Loan & Advances

Year	Deposit X	Loan Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	6694.96	4908.46	-4674.088	-3466.87	21847098.6	12019173.73	16204446.12
2003/04	8063.9	5884.12	-3305.148	-2491.21	10924003.3	6206117.30	8233811.14
2004/05	10097.69	7618.67	-1271.358	-756.66	1616351.16	572531.33	961983.2016
2005/06	13802.44	9801.31	2433.392	1425.98	5921396.63	2033424.66	3469973.191
2006/07	18186.25	13664.08	6817.202	5288.75	46474243.1	27970897.72	36054490.71
Total	56845.24	41877			86783092.8	48802144.74	64924704.36

i) Calculation of Mean

For Deposit Mean $\bar{X} = X/5 = 11369.05$	For Loan & Advances $\bar{Y} = Y/5 = 8375.33$
--	--

ii) Calculation of Correlation Coefficient between Deposit and Loan & Advances

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{64924704.36}{\sqrt{86783092.8 \times 48802144.74}} = 0.9976$$

iii) Calculation of Standard Deviation ()

For Deposit $s_x = \sqrt{\frac{\sum (x-\bar{x})^2}{N}} = \sqrt{\frac{86783092.83}{5}} = 4166.13$	For Loan & Advances $s_y = \sqrt{\frac{\sum (y-\bar{y})^2}{N}} = \sqrt{\frac{48802144.7}{5}} = 3124.17$
---	--

iv) Calculation of Coefficient of Variance (C.V.)

For Deposit $C.V. = \frac{s_x \times 100}{\bar{X}} = \frac{4166.13}{11369.05} = 36.64$	For Loan & Advances $C.V. = \frac{s_y \times 100}{\bar{Y}} = \frac{3124.17}{8375.33} = 37.30$
---	--

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{(n-2)} = \frac{0.9976 \times \sqrt{5-2}}{\sqrt{1-0.9953}} = \frac{1.7280}{0.0687} = 25.16$$

SBI BANK LIMITED

D) Calculation of Mean, C.V, Correlation Coefficient of Total Deposit and Loan & Advances

Year	Deposit X	Loan Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	6991.27	4833.43	-2067.07	-1822.20	4272778.38	3320420.13	3766619.09
2003/04	7198.33	5143.66	-1860.01	-1511.97	3459637.2	2286059.33	2812283.04
2004/05	8654.77	6213.88	-403.57	-441.75	162868.745	195144.83	178277.8546
2005/06	11002.04	7626.74	1943.7	971.11	3777969.69	943050.75	1887542.62
2006/07	11445.29	9460.45	2386.95	2804.82	5697530.3	7867004.01	6694960.325
Total	45291.7	33278			17370784.3	14611679.05	15339682.93

i) Calculation of Mean

For Deposit Mean $\bar{X} = X/5 = 9058.34$	For Loan & Advances $\bar{Y} = Y/5 = 6655.63$
---	--

ii) Calculation of Correlation Coefficient between Deposit and Loan & Advances

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{15339682.93}{\sqrt{17370784.3 \times 14611679.05}} = 0.9628$$

iii) Calculation of Standard Deviation ()

For Deposit $s_x = \sqrt{\frac{\sum (x - \bar{x})^2}{N}} = \sqrt{\frac{17370784.32}{5}} = 1863.91$	For Loan & Advances $s_y = \sqrt{\frac{\sum (y - \bar{y})^2}{N}} = \sqrt{\frac{14611679.0}{5}} = 1709.48$
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iv) Calculation of Coefficient of Variance (C.V.)

For Deposit $C.V. = \frac{s_x \times 100}{\bar{X}} = \frac{1863.91}{9058.34} = 20.58$	For Loan & Advances $C.V. = \frac{s_y \times 100}{\bar{Y}} = \frac{1709.48}{6655.63} = 25.68$
--	--

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{(n-2)} = \frac{0.9628 \times \sqrt{5-2}}{\sqrt{1-0.9271}} = \frac{1.6677}{0.2701} = 6.18$$

EVEREST BANK LIMITED

E) Calculation of Mean, C.V , Correlation Coefficient of Outside Asset and Net Profit

Year	Out. Asset X	Net Profit Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	6562.44	94.18	-4913.568	-93.75	24143150.5	8789.44	460656.83
2003/04	8419.78	143.57	-3056.228	-44.36	9340529.59	1967.99	135580.39
2004/05	9747.6	168.21	-1728.408	-19.72	2987394.21	388.96	34087.66258
2005/06	14001.83	237.29	2525.822	49.36	6379776.78	2436.21	124669.5223
2006/07	18648.39	296.41	7172.382	108.48	51443063.6	11767.48	778045.6546
Total	57380.04	939.66			94293914.6	25350.07	1533040.053

i) Calculation of Mean

$$\begin{array}{l} \text{For Outside Assets} \\ \text{Mean } \bar{X} = \frac{X}{5} = 11476.01 \end{array} \qquad \begin{array}{l} \text{For Net Profit} \\ \bar{Y} = \frac{Y}{5} = 187.93 \end{array}$$

ii) Calculation of Correlation Coefficient between Deposit and Investment

$$r = \frac{xy}{x^2 y^2} = \frac{1533040.053}{1546078.06} = 0.9916$$

iii) Calculation of Standard Deviation ()

$$\begin{array}{l} \text{For Out. Asset} \\ x = \sqrt{\frac{(x-\bar{x})^2}{N}} = \sqrt{\frac{94293914.62}{5}} \\ = 4342.67 \end{array}$$

$$\begin{array}{l} \text{For Net Profit} \\ y = \sqrt{\frac{(y-\bar{y})^2}{N}} = \sqrt{\frac{25350.1}{5}} \\ = 71.20 \end{array}$$

iv) Calculation of Coefficient of Variance (C.V.)

For Outside Asset

$$\begin{array}{l} \text{C.V.} = \frac{x \times 100}{\bar{X}} = \frac{4342.67}{11476.01} \\ = 37.84 \end{array}$$

For Net Profit

$$\begin{array}{l} \text{C.V.} = \frac{y \times 100}{\bar{Y}} = \frac{71.20}{187.93} \\ = 37.89 \end{array}$$

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{(n-2)} = \frac{0.9916 \times \sqrt{5-2}}{\sqrt{1-0.9832}} = \frac{1.7174}{0.1296} = 13.25$$

SBI BANK LIMITED

F) Calculation of Mean, C.V, Correlation Coefficient of Outside Asset and Net Profit

Year	Out. Asset X	Net Profit Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	6618.64	56.72	-2580.76	-52.65	6660322.18	2772.44	135887.34
2003/04	7051.18	60.85	-2148.22	-48.52	4614849.17	2354.58	104240.23
2004/05	8821.56	57.39	-377.84	-51.98	142763.066	2702.34	19641.63456
2005/06	11385.72	117.00	2186.32	7.63	4779995.14	58.16	16672.87632
2006/07	12119.90	254.91	2920.5	145.54	8529320.25	21180.73	425037.888
Total	45997	546.87			24727249.8	29068.24	701479.9632

i) Calculation of Mean

$$\begin{array}{l} \text{For Outside Assets} \\ \text{Mean } \bar{X} = \frac{X}{5} = 9199.40 \end{array} \qquad \begin{array}{l} \text{For Net Profit} \\ \bar{Y} = \frac{Y}{5} = 109.37 \end{array}$$

ii) Calculation of Correlation Coefficient between Deposit and Investment

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{701479.9632}{\sqrt{847807.57}} = 0.8274$$

iii) Calculation of Standard Deviation ()

$$\begin{array}{l} \text{For Out. Asset} \\ x = \sqrt{\frac{\sum (x-\bar{x})^2}{N}} = \sqrt{\frac{24727249.8}{5}} \\ = 2223.84 \end{array}$$

$$\begin{array}{l} \text{For Net Profit} \\ y = \sqrt{\frac{\sum (y-\bar{y})^2}{N}} = \sqrt{\frac{29068.2}{5}} \\ = 76.25 \end{array}$$

iv) Calculation of Coefficient of Variance (C.V.)

For Outside Asset

$$\begin{array}{l} \text{C.V.} = \frac{x \times 100}{\bar{X}} = \frac{2223.84}{9199.40} \\ = 24.17 \end{array}$$

For Net Profit

$$\begin{array}{l} \text{C.V.} = \frac{y \times 100}{\bar{Y}} = \frac{76.25}{109.37} \\ = 69.71 \end{array}$$

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{(n-2)} = \frac{0.8274 \times \sqrt{5-2}}{\sqrt{1-0.6846}} = \frac{1.4331}{0.5616} = 2.55$$

EVEREST BANK LIMITED

G) Calculation of Mean, C.V , Correlation Coefficient of Loan & Adv. and Net Profit

Year	Loan X	Net Profit Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	4908.46	94.18	-3466.868	-93.75	12019173.7	8789.44	325025.81
2003/04	5884.12	143.57	-2491.208	-44.36	6206117.3	1967.99	110514.97
2004/05	7618.67	168.21	-756.658	-19.72	572531.329	388.96	14922.80908
2005/06	9801.31	237.29	1425.982	49.36	2033424.66	2436.21	70383.61956
2006/07	13664.08	296.41	5288.752	108.48	27970897.7	11767.48	573713.2395
Total	41876.64	939.66			48802144.7	25350.07	1094560.446

i) Calculation of Mean

For Loan & Advances Mean $\bar{X} = X/5 = 8375.33$	For Net Profit $\bar{Y} = Y/5 = 187.93$
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ii) Calculation of Correlation Coefficient between Deposit and Investment

$$r = \frac{xy}{x^2 y^2} = \frac{1094560.446}{1112266.97} = 0.9841$$

iii) Calculation of Standard Deviation ()

For Loan & Adv.

$$x = \sqrt{\frac{(x-\bar{x})^2}{N}} = \sqrt{\frac{48802144.74}{5}} = 3124.17$$

For Net Profit

$$y = \sqrt{\frac{(y-\bar{y})^2}{N}} = \sqrt{\frac{25350.1}{5}} = 71.20$$

iv) Calculation of Coefficient of Variance (C.V.)

For Loan & Adv.

$$\text{C.V.} = \frac{x \times 100}{\bar{X}} = \frac{3124.17}{8375.33} = 37.30$$

For Net Profit

$$\text{C.V.} = \frac{y \times 100}{\bar{Y}} = \frac{71.20}{187.93} = 37.89$$

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{(n-2)} = \frac{0.9841 \times \sqrt{5-2}}{\sqrt{1-0.9684}} = \frac{1.7045}{0.1777} = 9.59$$

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H) Calculation of Mean, C.V, Correlation Coefficient of Loan & Adv. and Net Profit

Year	Loan X	Net Profit Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	4833.43	56.72	-1822.202	-52.65	3320420.13	2772.44	95946.22
2003/04	5143.66	60.85	-1511.972	-48.52	2286059.33	2354.58	73366.93
2004/05	6213.88	57.39	-441.752	-51.98	195144.83	2702.34	22964.03597
2005/06	7626.74	117.00	971.108	7.63	943050.748	58.16	7405.669608
2006/07	9460.45	254.91	2804.818	145.54	7867004.01	21180.73	408201.9924
Total	33278.16	546.87			14611679	29068.24	607884.8515

i) Calculation of Mean

$$\begin{array}{l} \text{For Loan \& Advances} \\ \text{Mean } \bar{X} = \frac{X}{5} = 6655.63 \end{array} \qquad \begin{array}{l} \text{For Net Profit} \\ \bar{Y} = \frac{Y}{5} = 109.37 \end{array}$$

ii) Calculation of Correlation Coefficient between Deposit and Investment

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{607884.8515}{\sqrt{14611679 \times 29068.24}} = 0.9327$$

iii) Calculation of Standard Deviation ()

$$\begin{array}{l} \text{For Loan \& Adv.} \\ x = \sqrt{\frac{\sum (x-\bar{x})^2}{N}} = \sqrt{\frac{14611679.05}{5}} \\ = 1709.48 \end{array}$$

$$\begin{array}{l} \text{For Net Profit} \\ y = \sqrt{\frac{\sum (y-\bar{y})^2}{N}} = \sqrt{\frac{29068.24}{5}} \\ = 76.25 \end{array}$$

iv) Calculation of Coefficient of Variance (C.V.)

For Loan & Adv.

$$\begin{array}{l} \text{C.V.} = \frac{x \times 100}{\bar{X}} = \frac{1709.48}{6655.63} \\ = 25.68 \end{array}$$

For Net Profit

$$\begin{array}{l} \text{C.V.} = \frac{y \times 100}{\bar{Y}} = \frac{76.25}{109.37} \\ = 69.71 \end{array}$$

vi) Calculation of t-value

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{(n-2)} = \frac{0.9327 \times \sqrt{5-2}}{\sqrt{1-0.8700}} = \frac{1.6156}{0.3605} = 4.48$$

APPENDIX - IV

EVEREST BANK LIMITED

A) Calculation of Regression Equation of Total Deposit on Year

Let Year 1 denotes fiscal year 2002/03, 2 denotes 2003/04, 3 denotes 2004/05 and so on.

Fiscal Year	Year X	Deposit Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	1	6694.96	-2	-4674.09	4	21847098.63	9348.18
2003/04	2	8063.90	-1	-3305.15	1	10924003.30	3305.15
2004/05	3	10097.69	0	-1271.36	0	1616351.16	0
2005/06	4	13802.44	1	2433.39	1	5921396.63	2433.392
2006/07	5	18186.25	2	6817.20	4	46474243.11	13634.404
Total	15	56845.24			10	86783092.83	28721.12

i) Calculation of Mean

$$\begin{array}{l} \text{For Year} \\ \text{Mean } \bar{X} = X/5 = 3 \end{array} \qquad \begin{array}{l} \text{For Deposit} \\ \bar{Y} = Y/5 = 11369.05 \end{array}$$

ii) Calculation of Correlation Coefficient between Year and Total Deposit

$$r = \frac{xy}{x^2 y^2} = \frac{28721.12}{29458.97} = 0.9750$$

iii) Calculation of Standard Deviation ()

For Year

$$x = \sqrt{\frac{(x-\bar{x})^2}{N}} = \sqrt{\frac{10}{5}} = 1.41$$

For Deposit

$$y = \sqrt{\frac{(y-\bar{y})^2}{N}} = \sqrt{\frac{86783092.8}{5}} = 4166.13$$

iv) Now the regression line of Total Deposit Y on Time X is given by;

$$\begin{aligned} Y - \bar{Y} &= \frac{r \times y (X - \bar{X})}{x} \\ \text{or, } Y - 11369.05 &= \frac{0.9750 \times 4166.13 (X - 3)}{1.41} \\ \text{or, } Y - 11369.05 &= 2872.11 X - 8616.34 \\ \text{or, } Y &= 2752.71 + 2872.11 X \end{aligned}$$

v) Calculation of Trend Value of Total Deposit

Fiscal Year	Year (X)	a	b	Trend Value
2002/03	1	2752.71	2872.11	5624.82
2003/04	2	2752.71	2872.11	8496.93
2004/05	3	2752.71	2872.11	11369.04
2005/06	4	2752.71	2872.11	14241.15
2006/07	5	2752.71	2872.11	17113.26
2007/08	6	2752.71	2872.11	19985.37
2008/09	7	2752.71	2872.11	22857.48

	11369.05
2872.112	8616.336
	2752.71

SBI BANK LIMITED

B) Calculation of Trend Value of Total Deposit on Year

Let Year 1 denotes fiscal year 2002/03, 2 denotes 2003/04, 3 denotes 2004/05 and so on.

Fiscal Year	Year X	Deposit Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	1	6991.27	-2	-2067.07	4	4272778.38	4134.14
2003/04	2	7198.33	-1	-1860.01	1	3459637.20	1860.01
2004/05	3	8654.77	0	-403.57	0	162868.74	0
2005/06	4	11002.04	1	1943.70	1	3777969.69	1943.7
2006/07	5	11445.29	2	2386.95	4	5697530.30	4773.9
Total	15	45291.7			10	17370784.32	12711.75

i) Calculation of Mean

$$\begin{array}{l} \text{For Year} \\ \text{Mean } \bar{X} = X/5 = 3 \end{array} \qquad \begin{array}{l} \text{For Deposit} \\ \bar{Y} = Y/5 = 9058.34 \end{array}$$

ii) Calculation of Correlation Coefficient between Year and Total Deposit

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{12711.75}{\sqrt{10 \times 17370784.32}} = 0.9645$$

iii) Calculation of Standard Deviation ()

For Year

$$\begin{aligned} \sigma_x &= \sqrt{\frac{\sum (x-\bar{x})^2}{N}} = \sqrt{\frac{10}{5}} \\ &= 1.41 \end{aligned}$$

For Deposit

$$\begin{aligned} \sigma_y &= \sqrt{\frac{\sum (y-\bar{y})^2}{N}} = \sqrt{\frac{17370784.32}{5}} \\ &= 1863.91 \end{aligned}$$

iv) Now the regression line of Total Deposit Y on Time X is given by;

$$\begin{aligned} Y - \bar{Y} &= r \times \frac{y}{\sigma_x} (X - \bar{X}) \\ \text{or, } Y - 9058.34 &= \frac{0.9645 \times 1863.91}{1.41} (X - 3) \\ \text{or, } Y - 9058.34 &= 1271.17 X - 3813.53 \\ \text{or, } Y &= 5244.82 + 1271.17 X \end{aligned}$$

v) Calculation of Trend Value of Total Deposit

Fiscal Year	Year (X)	a	b	Trend Value
2002/03	1	1271.17	5244.82	6515.99
2003/04	2	1271.17	5244.82	11760.81
2004/05	3	1271.17	5244.82	17005.63
2005/06	4	1271.17	5244.82	22250.45
2006/07	5	1271.17	5244.82	27495.27
2007/08	6	1271.17	5244.82	32740.09
2008/09	7	1271.17	5244.82	37984.91

	9058.34
1271.175	3813.525
	5244.82

EVEREST BANK LIMITED

C) Calculation of Trend Value of Total Investment on Year

Let Year 1 denotes fiscal year 2002/03, 2 denotes 2003/04, 3 denotes 2004/05 and so on.

Fiscal Year	Year X	Investment Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	1	1653.98	-2	-1446.70	4	2092940.89	2893.40
2003/04	2	2535.66	-1	-565.02	1	319247.60	565.02
2004/05	3	2128.93	0	-971.75	0	944298.06	0
2005/06	4	4200.52	1	1099.84	1	1209648.03	1099.84
2006/07	5	4984.31	2	1883.63	4	3548061.98	3767.26
Total	15	15503.40			10	8114196.56	8325.52

i) Calculation of Mean

For Year Mean $\bar{X} = X/5 = 3$	For Investment $\bar{Y} = Y/5 = 3100.68$
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ii) Calculation of Correlation Coefficient between Year and Total Investment

$$r = \frac{xy}{x^2 y^2} = \frac{8325.52}{9007.88} = 0.9242$$

iii) Calculation of Standard Deviation ()

For Year

$$x = \sqrt{\frac{(x-\bar{x})^2}{N}} = \sqrt{\frac{10}{5}} = 1.41$$

For Investment

$$y = \sqrt{\frac{(y-\bar{y})^2}{N}} = \sqrt{\frac{8114196.6}{5}} = 1273.91$$

iv) Now the regression line of Total Investment Y on Time X is given by;

$$Y - \bar{Y} = \frac{r \times y (X - \bar{X})}{x}$$

or, $Y - 3100.68 = \frac{0.9242 \times 1273.91 (X - 3)}{1.41}$

or, $Y - 3100.68 = 832.55 X - 2497.66$

or, $Y = 603.02 + 832.55 X$

v) Calculation of Trend Value of Total Investment

Fiscal Year	Year (X)	a	b	Trend Value
2002/03	1	603.02	832.55	1435.57
2003/04	2	603.02	832.55	2268.12
2004/05	3	603.02	832.55	3100.67
2005/06	4	603.02	832.55	3933.22
2006/07	5	603.02	832.55	4765.77
2007/08	6	603.02	832.55	5598.32
2008/09	7	603.02	832.55	6430.87

832.552

3100.68

2497.656

603.02

SBI BANK LIMITED

D) Calculation of Trend Value of Total Investment on Year

Let Year 1 denotes fiscal year 2002/03, 2 denotes 2003/04, 3 denotes 2004/05 and so on.

Fiscal Year	Year X	Investment Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	1	1785.21	-2	-758.56	4	575410.24	1517.12
2003/04	2	1907.52	-1	-636.25	1	404811.52	636.25
2004/05	3	2607.68	0	63.91	0	4084.74	0
2005/06	4	3758.98	1	1215.21	1	1476740.20	1215.21
2006/07	5	2659.45	2	115.68	4	13382.33	231.364
Total	15	12718.84			10	2474429.03	3599.94

i) Calculation of Mean

$$\begin{array}{l} \text{For Year} \\ \text{Mean } \bar{X} = X/5 = 3 \end{array} \qquad \begin{array}{l} \text{For Investment} \\ \bar{Y} = Y/5 = 2543.77 \end{array}$$

ii) Calculation of Correlation Coefficient between Year and Total Investment

$$r = \frac{xy}{x^2 y^2} = \frac{3599.94}{4974.36} = 0.7237$$

iii) Calculation of Standard Deviation ()

For Year

$$\begin{aligned} x &= \sqrt{\frac{(x-\bar{x})^2}{N}} = \sqrt{\frac{10}{5}} \\ &= 1.41 \end{aligned}$$

For Investment

$$\begin{aligned} y &= \sqrt{\frac{(y-\bar{y})^2}{N}} = \sqrt{\frac{2474429.0}{5}} \\ &= 703.48 \end{aligned}$$

iv) Now the regression line of Total Investment Y on Time X is given by;

$$\begin{aligned} Y - \bar{Y} &= \frac{r \times y (X - \bar{X})}{x} \\ \text{or, } Y - 2543.77 &= \frac{0.7237 \times 703.48 (X - 3)}{1.41} \\ \text{or, } Y - 2543.77 &= 359.99 X - 1079.98 \\ \text{or, } Y &= 1463.79 + 359.99 X \end{aligned}$$

v) Calculation of Trend Value of Total Investment

Fiscal Year	Year (X)	a	b	Trend Value
2002/03	1	1463.79	359.99	1823.78
2003/04	2	1463.79	359.99	2183.77
2004/05	3	1463.79	359.99	2543.76
2005/06	4	1463.79	359.99	2903.75
2006/07	5	1463.79	359.99	3263.74
2007/08	6	1463.79	359.99	3623.73
2008/09	7	1463.79	359.99	3983.72

359.994

2543.77

1079.982

1463.79

EVEREST BANK LIMITED

E) Calculation of Trend Value of Loan and Advances on Year

Let Year 1 denotes fiscal year 2002/03, 2 denotes 2003/04, 3 denotes 2004/05 and so on.

Fiscal Year	Year X	Loan Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	1	4908.46	-2	-3466.87	4	12019201.46	6933.74
2003/04	2	5884.12	-1	-2491.21	1	6206137.23	2491.21
2004/05	3	7618.67	0	-756.66	0	572537.38	0
2005/06	4	9801.31	1	1425.98	1	2033413.26	1425.98
2006/07	5	13664.1	2	5288.77	4	27971066.96	10577.536
Total	15	41876.66			10	48802356.29	21428.47

i) Calculation of Mean

For Year Mean $\bar{X} = X/5 = 3$	For Loan and Advance $\bar{Y} = Y/5 = 8375.33$
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ii) Calculation of Correlation Coefficient between Year and Total Loan and Advance

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{21428.47}{\sqrt{10 \times 48802356.29}} = 0.9700$$

iii) Calculation of Standard Deviation ()

For Year

$$s_x = \sqrt{\frac{\sum (x-\bar{x})^2}{N}} = \sqrt{\frac{10}{5}} = 1.41$$

For Loan and Advance

$$s_y = \sqrt{\frac{\sum (y-\bar{y})^2}{N}} = \sqrt{\frac{48802356.3}{5}} = 3124.18$$

iv) Now the regression line of Total Loan and Advance Y on Time X is given by;

$$Y - \bar{Y} = r \frac{s_y}{s_x} (X - \bar{X})$$

or, $Y - 8375.33 = \frac{0.97 \times 3124.18}{1.41} (X - 3)$

or, $Y - 8375.33 = 2142.85 X - 6428.54$

or, $Y = 1946.79 + 2142.85 X$

v) Calculation of Trend Value of Total Loan and Advance

Fiscal Year	Year (X)	a	b	Trend Value
2002/03	1	1946.79	2142.85	4089.64
2003/04	2	1946.79	2142.85	6232.49
2004/05	3	1946.79	2142.85	8375.34
2005/06	4	1946.79	2142.85	10518.19
2006/07	5	1946.79	2142.85	12661.04
2007/08	6	1946.79	2142.85	14803.89
2008/09	7	1946.79	2142.85	16946.74

2142.847

8375.33

6428.541

1946.79

SBI BANK LIMITED

F) Calculation of Trend Value of Loan and Advances on Year

Let Year 1 denotes fiscal year 2002/03, 2 denotes 2003/04, 3 denotes 2004/05 and so on.

Fiscal Year	Year X	Loan Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	1	4833.43	-2	-1822.20	4	3320420.13	3644.40
2003/04	2	5143.66	-1	-1511.97	1	2286059.33	1511.97
2004/05	3	6213.88	0	-441.75	0	195144.83	0
2005/06	4	7626.74	1	971.11	1	943050.75	971.108
2006/07	5	9460.45	2	2804.82	4	7867004.01	5609.636
Total	15	33278.16			10	14611679.05	11737.12

i) Calculation of Mean

For Year Mean $\bar{X} = X/5 = 3$	For Loan and Advance $\bar{Y} = Y/5 = 6655.63$
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ii) Calculation of Correlation Coefficient between Year and Total Loan and Advance

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{11737.12}{\sqrt{10 \times 14611679.05}} = 0.9710$$

iii) Calculation of Standard Deviation ()

For Year

$$x = \sqrt{\frac{\sum (x-\bar{x})^2}{N}} = \sqrt{\frac{10}{5}} = 1.41$$

For Loan and Advance

$$y = \sqrt{\frac{\sum (y-\bar{y})^2}{N}} = \sqrt{\frac{14611679.0}{5}} = 1709.48$$

iv) Now the regression line of Total Loan and Advance Y on Time X is given by;

$$Y - \bar{Y} = r \frac{\sum y (X - \bar{X})}{\sum x}$$

or, $Y - 6655.63 = \frac{0.9710 \times 1709.48 (X - 3)}{1.41}$

or, $Y - 6655.63 = 1173.71 X - 3521.14$

or, $Y = 3134.50 + 1173.71 X$

v) Calculation of Trend Value of Total Loan and Advance

Fiscal Year	Year (X)	a	b	Trend Value
2002/03	1	3134.50	1173.71	4308.21
2003/04	2	3134.50	1173.71	5481.92
2004/05	3	3134.50	1173.71	6655.63
2005/06	4	3134.50	1173.71	7829.34
2006/07	5	3134.50	1173.71	9003.05
2007/08	6	3134.50	1173.71	10176.76
2008/09	7	3134.50	1173.71	11350.47

	6655.63
1173.712	3521.136
	3134.50

EVEREST BANK LIMITED

G) Calculation of Trend Value of Net Profits on Year

Let Year 1 denotes fiscal year 2002/03, 2 denotes 2003/04, 3 denotes 2004/05 and so on.

Fiscal Year	Year X	Net Profit Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	1	94.18	-2	-93.75	4	8789.44	187.50
2003/04	2	143.57	-1	-44.36	1	1967.99	44.36
2004/05	3	168.21	0	-19.72	0	388.96	0
2005/06	4	237.29	1	49.36	1	2436.21	49.358
2006/07	5	296.41	2	108.48	4	11767.48	216.956
Total	15	939.66			10	25350.07	498.18

i) Calculation of Mean

$$\begin{array}{l} \text{For Year} \\ \text{Mean } \bar{X} = X/5 = 3 \end{array} \qquad \begin{array}{l} \text{For Net Profit} \\ \bar{Y} = Y/5 = 187.93 \end{array}$$

ii) Calculation of Correlation Coefficient between Year and Total Net Profit

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{498.18}{\sqrt{10 \times 25350.07}} = 0.9895$$

iii) Calculation of Standard Deviation ()

For Year

$$\begin{aligned} \sigma_x &= \sqrt{\frac{\sum (x-\bar{x})^2}{N}} = \sqrt{\frac{10}{5}} \\ &= 1.41 \end{aligned}$$

For Net Profit

$$\begin{aligned} \sigma_y &= \sqrt{\frac{\sum (y-\bar{y})^2}{N}} = \sqrt{\frac{25350.1}{5}} \\ &= 71.20 \end{aligned}$$

iv) Now the regression line of Total Net Profit Y on Time X is given by;

$$\begin{aligned} Y - \bar{Y} &= \frac{r \times \sigma_y}{\sigma_x} (X - \bar{X}) \\ \text{or, } Y - 187.93 &= \frac{0.9895 \times 71.20}{1.41} (X - 3) \\ \text{or, } Y - 187.93 &= 49.82 X - 149.45 \\ \text{or, } Y &= 38.48 + 49.82 X \end{aligned}$$

v) Calculation of Trend Value of Total Net Profit

Fiscal Year	Year (X)	a	b	Trend Value
2002/03	1	38.48	49.82	88.30
2003/04	2	38.48	49.82	138.12
2004/05	3	38.48	49.82	187.94
2005/06	4	38.48	49.82	237.76
2006/07	5	38.48	49.82	287.58
2007/08	6	38.48	49.82	337.40
2008/09	7	38.48	49.82	387.22

49.818

187.93

149.454

38.48

SBI BANK LIMITED

H) Calculation of Trend Value of Net Profits on Year

Let Year 1 denotes fiscal year 2002/03, 2 denotes 2003/04, 3 denotes 2004/05 and so on.

Fiscal Year	Year X	Net Profit Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002/03	1	56.72	-2	-52.65	4	2772.44	105.31
2003/04	2	60.85	-1	-48.52	1	2354.58	48.52
2004/05	3	57.39	0	-51.98	0	2702.34	0
2005/06	4	117.00	1	7.63	1	58.16	7.626
2006/07	5	254.91	2	145.54	4	21180.73	291.072
Total	15	546.87			10	29068.24	452.53

i) Calculation of Mean

$$\begin{array}{l} \text{For Year} \\ \text{Mean } \bar{X} = X/5 = 3 \end{array} \qquad \begin{array}{l} \text{For Net Profit} \\ \bar{Y} = Y/5 = 109.37 \end{array}$$

ii) Calculation of Correlation Coefficient between Year and Total Net Profit

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{452.53}{\sqrt{10 \times 29068.24}} = 0.8393$$

iii) Calculation of Standard Deviation ()

For Year

$$\begin{aligned} \sigma_x &= \sqrt{\frac{\sum (x-\bar{x})^2}{N}} = \sqrt{\frac{10}{5}} \\ &= 1.41 \end{aligned}$$

For Net Profit

$$\begin{aligned} \sigma_y &= \sqrt{\frac{\sum (y-\bar{y})^2}{N}} = \sqrt{\frac{29068.2}{5}} \\ &= 76.25 \end{aligned}$$

iv) Now the regression line of Total Net Profit Y on Time X is given by;

$$\begin{aligned} Y - \bar{Y} &= \frac{r \times y (X - \bar{X})}{\sigma_x} \\ \text{or, } Y - 109.37 &= \frac{0.8393 \times 76.25 (X - 3)}{1.41} \\ \text{or, } Y - 109.37 &= 45.25 X - 135.76 \\ \text{or, } Y &= -38.48 + 45.25 X \end{aligned}$$

v) Calculation of Trend Value of Total Net Profit

Fiscal Year	Year (X)	a	b	Trend Value
2002/03	1	38.48	45.25	83.73
2003/04	2	38.48	45.25	128.98
2004/05	3	38.48	45.25	174.23
2005/06	4	38.48	45.25	219.48
2006/07	5	38.48	45.25	264.73
2007/08	6	38.48	45.25	309.98
2008/09	7	38.48	45.25	355.23

	109.37
45.253	135.759
	-26.39

APPENDIX - V

TEST OF HYPOTHESIS

A) Loans and Advances to Total Deposit Ratio

Calculation of T-Value and S²

Fiscal Year	EBL X	HBL Y	X ²	Y ²
2002/03	73.32	69.14	5375.8224	4780.34
2003/04	72.97	71.46	5324.6209	5106.53
2004/05	75.45	71.8	5692.7025	5155.24
2005/06	71.01	69.32	5042.4201	4805.26
2006/07	75.13	82.66	5644.5169	6832.68
Total	367.88	364.38	27080.08	26680.05

Now, Mean

$$\text{Mean For EBL } \bar{X} = \frac{X}{5} = 73.58 \qquad \text{For SBI } \bar{Y} = \frac{Y}{5} = 72.88$$

$$\begin{aligned} S^2 &= \frac{1}{n_1 + n_2 - 2} \left[X^2 - \frac{(X)^2}{n_1} + Y^2 - \frac{(Y)^2}{n_2} \right] \\ &= \frac{1}{5 + 5 - 2} \left[27080.08 - \frac{(367.88)^2}{5} + 26680.05 - \frac{(364.38)^2}{5} \right] \\ &= 0.125 + 138.44 \\ &= 138.56 \end{aligned}$$

Test- Statistics

$$\begin{aligned} T &= \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 (1/n_1 + 1/n_2)}} = \frac{73.58 - 72.88}{\sqrt{138.56 (1/5 + 1/5)}} \\ &= \frac{0.70}{7.4448} = 0.0940 \end{aligned}$$

B) Total Investment to Total Deposit Ratio

Calculation of T-Value and S²

Fiscal Year	EBL X	SBI Y	X ²	Y ²
2002/03	24.70	25.53	610.09	651.78
2003/04	31.44	26.50	988.4736	702.25
2004/05	21.08	30.13	444.3664	907.82
2005/06	30.43	34.17	925.9849	1167.59
2006/07	27.41	23.24	751.3081	540.10
Total	135.06	139.57	3720.22	3969.53

Now, Mean

$$\text{Mean For EBL } \bar{X} = \frac{X}{5} = 27.01 \qquad \text{For SBI } \bar{Y} = \frac{Y}{5} = 27.91$$

$$- \overline{n_1 + n_2 - 2} \quad [\quad \overline{n_1} \quad \overline{n_2} \quad]$$

$$\begin{aligned}
&= \frac{1}{5+5-2} \left[3720.22 - \frac{(135.06)^2}{5} + 3969.53 - \frac{(139.57)^2}{5} \right] \\
&= 0.125 + 145.56 \\
&= 145.68
\end{aligned}$$

Test- Statistics

$$\begin{aligned}
T &= \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 (1/n_1 + 1/n_2)}} = \frac{27.01 - 27.91}{\sqrt{145.68 (1/5 + 1/5)}} \\
&= \frac{-0.90}{7.6337} = -0.1182
\end{aligned}$$