CHAPTER 1

INTRODUCTION

1.1 GENERAL BACKGROUND

Commercial banks are major financial institutions, which occupy quite an important place. Financial institutions collect scattered financial resources from the masses and invest them among those engaged in commercial and economic activities of the country. It also invests them into most desirable and high yielding sectors of the economy to fuel the process of economic development. In this way, the financial institutions provide savers highly liquid divisible assets at a lower risk while the investors receive a target pool of resources. It is true that the proper development and functioning of financial institutions and non-bank financial institutions have their profound effect on the economy. They also help the process of monetization in the country like ours by extending their branches and level of financial operation.

In general sense, investment means to pay money to get more. It is true that human nature doesn't satisfy for he/she has at present. He/she intends to sacrifice the current resources to get additional return. Thus, investment simply means the sacrificing the current funds for future returns. The sacrifice of current fund is certain but future returns are uncertain. On the other hand, when we talk about the return too must be considered because risk is involved in every type of return. Every investment entails some degree of risk. It requires at present certain sacrifice for future uncertain benefits. According to zinberg (1997) define a meaning of investment as the purchase by an individual or institutional investor of financial or real assets that produces a return proportional to the risk assumed over some future investment periods. Thus investment is the sacrifice of existing resources to generate return in future involving risk. It can be real as well as financial investment. Real investment involves kinds of tangible material

things such as building, land; machinery etc. whereas financial investment involves contracts written in a piece of paper such as common stock, bond, etc. Investment operation of commercial banks is very risk one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. The Board of directors formulates such a policy and it may differ from bank to bank in terms of complexity and comprehensives. A good investment policy attracts both borrowers and lenders, which helps to increase the volume and quality of deposits, loan and investments. Several principles have to be followed for providing loan in a commercial bank such as length of time, purpose of loan, profit margin, security etc. these fundamental principles of commercial bank's investment are fully considered while making investment policy.

Investment policy is an important ingredient of overall national economic development because it ensures efficient allocation of fund to achieve the material 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. Investment policy should ensure minimum risk and maximum profit from lending. There will no existence of investment policy if there is not profit. So there must be profit and adequate savings. Therefore, both saving and investment are interrelated.

Francis (1998) has clarified to distinguish investment and saving as**,** "A distinction is often made between investment and savings. Saving is defined as foregone consumption investment is restricted to 'real' investment of the sort that increases national output in the future."

For the poor and least developed countries like Nepal, having low per capita income and GDP face many economic problems such as inflation and deflation of monetary trade, trade defeat, budget deficit etc. Commercial banks play vital

role in removing such problems by capital formulation and utilizing their deposit. They also finance in small and cottage industries and agricultural sector under priority sector investment scheme to serve the marginal people.

American Institute of Banking has laid down the four major functions of commercial banks such as receiving and handling deposits, handling payments for its clients, making loans and investment and creating money by extension of credit. Nepal Commercial Bank Act 2031 B.S. has also emphasized on their functions. Majors of them are:

1. They accept custody of funds with or without interest and open fixed accounts, current accounts and saving accounts in the name of depositors.
2. They help to issue shares and debentures as a managing agent.
3. They supply loans.
4. They grant overdraft.
5. Conduct transaction in bonds, provisory notes, or bills of exchange, foreign exchange relating to commerce or corporation as are redeemable with in the kingdom.
6. They issue letter of credit, drafts and travelers checks.
7. They purchase, sell or accept the securities of His Majesty's Government (HMG).

Nepal Rastra Bank (NRB), the central bank of Nepal, which was established in 1956, controls and guides all the functions of commercial banks. Its primary functions are to formulate necessary monetary and foreign exchange policies, to develop a secure, healthy and efficient system of payments, to make appropriate supervision of the banking and financial system and to further enhance the public confidence in Nepal's entire banking and financial system.

Thus every commercial bank should consider the rules and regulation of central bank and government before preparing the investment policies. Nepalese

commercial banks however lag for behind fulfilling the responsibility to invest in the crucial sectors of the economy for the enliftment of the national economy. They are more insecure and don't want to take risk by investing in crucial sectors. But formulation of sound investment ensures maximum amount of investment to all sectors with proper utilization.

1.2 Profile of Sample Organization

1.2.1 kumari Bank Limited (KBL)

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1,603,800,000 of which 70% is contributed from promoters and remaining from public. Kumari Bank Ltd has been providing wide - range of modern banking services through 29 points of representations located in various urban and semi urban part of the country, 20 outside and 9 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS Banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, Utility Bill Payment Services, Inward and Outward Remittance services, Online remit Services and various other banking services.

Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 35 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customers. The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission. The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

Head Office is situated at Durbarmarg, Kathmandu. It has been providing service to its clients through 29 branches i.e. Durbarmarg, Putali sadak, New Road, Gongabu, Chabahil, Budhanilkantha, Kumaripati, Old baneshwor, Koteshwor, Pokhara, Damauli, Dhangadi, Sauraha, Tulsipur, Surkhet, Salyan, Kawashoti,Uralbari,Narayangadh,BBirtamod,Baglung,Butwal,Bhairahawa,Nepalgunj,Birjung,Biratnagar,Nationalmedical College,Dryport and Itahari.

To achieve the objectives, KBL performs following functional activities and services.

- Acceptance of deposits and advancing of loan as its primary function.
- Underwriting government and private securities, collecting customers' money, receipt and payment of dividend and interest, tax liability, proving security service and financial advisory service as its agency function.
- Collection and payment of cheque, bill, promissory notes, dealing in foreign exchange, collection of trade information and banking

statistics, keeping valuable things safe custody and remittance of money as its general utility function.

Table 1.1

Shareholding Pattern of Kumari Bank Ltd.

Shareholders	Percentage of Holding
Local Promoters	70%
General Public	30%

(Source: Annual Report of KBL, 2011)

As its special products and services, KBL is also providing retail lending such as Housing Loan, Vehicle Loan, Educational Loan, Professional Loan, Loan against future Lease and Rental and Loan against shares. Associated with the Smart Choice Technology (SCT), it facilitates wide sharing of ATMs under SCT network. KBL debit cards can be accessed at any of the 150 ATMs linked with SCT and any of the merchant establishments point of sales (POS) having SCT logo. KBL is also the first bank to place ATM outlet at the airport.

Table 1.2

Present Capital Structure of KBL

Share Capital	Rs. In millions
Authorized Capital	2000.00
Issued Capital	1603.80
Paid-up Capital	1603.80

(*Source: Annual Report of KBL, 2011****)***

1.2.2 Everest Bank Limited (EBL)

Everest Bank Ltd. (EBL) started its operation as a joint venture bank with Punjab National Bank (PNB), one of the largest commercial bank in India. It started its operation since 18th Oct. 1994 (1st Kartik 2051 B.S.). EBL has been established with the objectives of extending professionalized banking services and to contribute in the economical development of the country. In order to promote a joint venture commercial bank in Nepal a memorandum of understanding was signed between Nepalese promoters and PNB, India.

Head Office is situated at Lazimpat, Ktm. It has been providing service to its clients through 47 branches i.e. Bagbazar, Baglung, Balaju, Baneshwor, Besisahar, Bhairahawa, Bhaktapur, Biratnagar, Birgunj, Birtamod, Butwal, Chabahil, Chandranigahapur, Dhangadi, Duhabi, Golfutar, Gorkha, Gwarko, Hetauda, I C D (Dry port), Itahari, Janakpur, Kalimati, Kirtipur, Kirshnanagar, Kushma, Lagankhel, Lazimpat, Lekhnath, Lumbini, Maitidevi, Narayangadh, Nepalgunj, New Road, Pokhara, Pulchowk, Rajbiraj, Sandhikharka, Satungal, Simara, Surkhet, Syangya, Tatopani, Taulihawa, Teku, Thamel, and Tulsipur.

To achieve the objectives, EBL performs following functional activities and services.

- Acceptance of deposits and advancing of loan as its primary function.
- Underwriting government and private securities, collecting customers' money, receipt and payment of dividend and interest, tax liability, proving security service and financial advisory service as its agency function.
- Collection and payment of cheque, bill, promissory notes, dealing in foreign exchange, collection of trade information and banking statistics, keeping valuable things safe custody and remittance of money as its general utility function.

Table 1.3

Shareholding Pattern of Everest Bank Ltd.

Shareholders	Percentage of Holding
Punjab National Bank (PNB)	20%
Local Promoters	50%
General Public	30%

(Source: Annual Report of EBL, 2011)

As its special products and services, EBL is also providing retail lending such as Housing Loan, Vehicle Loan, Educational Loan, Professional Loan, Loan, against future Lease and Rental and Loan against shares. Associated with the Smart Choice Technology (SCT), it facilitates wide sharing of ATMs under SCT network. EBL debit cards can be accessed at any of the 150 ATMs linked with SCT and any of the merchant establishments point of sales (POS) having SCT logo. EBL is also the first bank to place ATM outlet at the airport.

Table 1.4

Present Capital Structure of EBL

Share Capital	Rs. In millions
Authorized Capital	1250.00
Issued Capital	1050.00
Paid-up Capital	1030.47

(*Source: Annual Report of EBL, 2011****)***

1.3 STATEMENT OF THE PROBLEM

Nepal being listed among least developed countries, the commercial banks have played catalytic role in economic growth. Its investment ranges from small scale cottage industries to large industries. Most of the commercial banks invested in loans and government securities among these things banks have analysis which investment is more valuable. The researchers Paul S. Anderson, William Silber,

Tim S. Campbell & many others have compared the contribution of loans & advances and the investment on securities on the national income. It can be therefore hypothesized that bank portfolio like loans, investments cash reserve deposit and borrowing affects the national income. And also how the government policy affects these variables, such as the effect on 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 portfolio terms.

Nepalese commercial banks have not formulated their investment pattern in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do have clear view towards investment practices. Furthermore, the implementation of policy is not practiced in an effective way.

Thus the present study will make a modest attempt to analyze investment policy of KBL comparing with EBL. The problems specially related to investment function of the joint venture banks and commercial banks of Nepal have been presented briefly as under:

1. Are they maintaining sufficient liquidity position?
2. Are both the banks' fund mobilization & investment policy more effective and efficient?
3. What is the relationship of investment & loan and advances with total deposits and total net profit?
4. Does the degree of success in investment strategy successful to utilize its available fund of KBL and EBL?

1.4 OBJECTIVE OF THE STUDY

The main purpose of the study is to analyze and examine the investment practices of commercial banks i.e. KBL and EBL. The main objectives of the study are as follows:

1. To observe of KBL and EBL on fund mobilization and investment policy, both of banks can maintain their liquidity position.
2. To analyze of KBL & EBL on deposit utilization and its protection, there is proper way to mobilize of fund & investment.
3. To examine the empirical relationship between investment & loan and advance with total deposit and total net profit of KBL & EBL.
4. To assess the way of implementation of strategies, KBL & EBL achieve a degree of success and utilization of available fund.

1.5 SIGNIFICANCE OF THE STUDY

In the context of Nepal, there is less availability of research work, journal and articles in investment policy of commercial banks as well as other financial institutions. The study mainly fills a research gap on the study of commercial banks of Nepal. The study will provide useful feedback to the policy makers of the bank & becomes a useful reference for other commercials banks of Nepal and central bank for the formulation of appropriate strategies. The effort is made to highlight investment policy of commercial banks expecting that the study can be bridge which fulfills the gap between deposit & investment. On the other hand, the study would provide information to management of the bank that would help them to make corrective action and last but not least the study evaluated the investment policy of commercial bank and finds loopholes and significantly contributes to make the policy sound.

1.6 LIMITATION OF THE STUDY

The study suffers from the following limitations.

1. Only two banks (KBL & EBL) are taken to compare the investment policy, so generalization of the conclusions is limited only to the banks under study.
2. There are many factors that affect investment decision, only certain factors are taken in consideration, which are related with investment.
3. It is very difficult to interprete to fix an adequate standard for compression purpose of investment practices on the study of only two banks.

1.7 ORGANIZATION OF THE STUDY

The study has been divided into 5 chapters. In first chapter, it include a part of introduction which contains general background, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study. Likewise in chapter second, it presents literature of review. In this chapter it deals with the review of available literature and concludes conceptual/theoretical review, review of books, articles & previous thesis etc. In chapter third, research methodology part has been cover on the study of organization. It deals with research design, sample, and sources of data and methods of analysis. In the same way chapter fourth implies of data presentation &analysis. In this chapter mainly concerns to analyze and evaluate data with the help of analytical tools procedures & interprets the result obtained. Lastly in chapter fifth concludes a summary, conclusion & recommendation. It sums up the results obtained through analysis and recommends some suggestions.

CHAPTER 2

REVIEW OF LITERATURE

2.1 INTRODUCTION

Review of literature comprises of previous research study articles concerned with the study and other studies with a view for supplement the present research and such review adds to the dimensions of the study. In this chapter the focus has been made on the review of literature relevant to the investment pattern of commercial banks. Every study is much based on past knowledge, which provides foundation to the present study. Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection center and concerned commercial banks. This chapter helps to take adequate feed back to broadest information based and inputs to my study; therefore this chapter has its importance in this study. Conceptual frameworks given by authors, research scholars, practitioners etc, in this chapter are reviewed from the books, research paper, annual reports, journals, articles etc.

2.2 CONCEPTUAL FRAMEWORK

The commercial banks are established under the commercial act. 2031. According to Commercial Bank Act, 2031 B. S., "Commercial Bank means a bank which operates currency exchange transactions, accept deposits, providing loan and performs dealing relating to commerce and other than those banks which have been specified for the co-operative, agriculture, industry of likely any other specific objective".

Banks plays an important role in the economic growth of a country. Banking, when properly organized, aids and facilities the growth of trade and industry and hence of national economy. In modern economy, banks are to be considered not only as dealers but as the leaders of development. Banks are not only the

storehouses of the country's wealth but also the reservoirs of resources necessary for economic development.

Radhaswami, (1979) explain his view on commercial bank as:

> Commercial banks deal with other people's money. They have to find ways of keeping their assets liquid so that they 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 to 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 fully. The banker has to keep adequate cash for this purpose. Cash is an idle asset and the bankers cannot 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 can have adequate profits without sacrificing liquidity.

The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. So, a commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn maximum profit as well as it could be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed about investment, safety and security, profitability, liquidity, purpose, etc. Investment policy provides the bank several inputs through which they can handle their

investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

2.3 REVIEW OF BOOKS

Banks are such types of institutions, which deals in money and substitute for money. So it may be said that a bank must strike a balance between liquidity, profitability and safety. The secret of successful banking is to distribute resources between the various forms of assets in such a way as to get a sound balance between liquidity and profitability so that there is cash (on hand quickly realizable) to meet every claim and at the same time, enough income for the bank to pay its way and earn profits for its' shareholders. some of review of books which is relevant for the study are shown as:

In the word of Bhalla, (1999) there are basically three concept of investment.

1. Economic investment - that is economist's definition of investment.
2. Investment in a more general or extended sense, which is used by "the man on the street"
3. The sense in which we are going to be very much interested namely financial investment.

Edward and Zeiped (1997) defined investment as:

Investment has many factors. It may involve putting money in to bond, treasury bills or notes or common stock, or paintings of real estate, or mortgages or oil ventures, or cattle or the theater. 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.

In the words of Gitman and Jochnk (1990) "Investment is a vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns".

Likewise, Alexander and Bailey (1999) have clarified the meaning of investment as," 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 place in the present and is certain. The reward comes later, if at all and the magnitude is generally uncertain. In some cases the element of time predominates (for example government bond). In other cases risk is the dominant attribute (for example call option on common stock). In both time and risk are important."

Jones (1998) has defined that, "Investment as the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth which is the sum of current income and present value of all income."

Bhalla (1999) has defined "Financial investment is a form of this general or extended sense of the term. It means an exchange of financial claims, stocks and bonds (collectively termed securities), real estate mortgages etc. Investors to differentiate between the pseudo- investment concept of the consumer and the real investment of the investment of the businessman often use the term "financial investment". Semantics aside, there is still a difference between 'investment' in a ticket on a horse and the construction of a new plant, between the pawning of watch and planting of a field of corn. The later are 'Real' investment. The former is 'Financial' investment. We now turn to a closer examination, of finance and investment decisions themselves".

Shrestha (1995) said about a commercial bank as, "The commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial banks is based on the profit maximizing of the institution as well as the economic enhancement of country".

2.4 REVIEW OF ARTICLES

In this section, effort has been made to examine and review of some related articles in different economic journals, magazines, newspapers and other related books. Some of article to be related for the study are presented below:

From an article of Shrestha(2005) said that, "Lending operation of commercial banks of Nepal and its impact on GDP, 2055" has presented with the objective to make an analysis of contribution of commercial banks lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. Agriculture industrial, commercial, service and general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

Moursis (1980) has concluded that most of the banks concentrated on compliance with central banks rules on reserve requirements, credit allocation and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been over looked. The huge losses now find in the bank's portfolio in many developing countries and testimony to the poor quality of this oversight investment function.

He further adds that management in financial institutions has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk

diversification of lending and investment, high risk concentration, connected and insider lending loan mismatching. This has led many banks of developing countries to the failure in 1180's.

The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion he has accepted the hypothesis i.e. there has been positive impact by lending of commercial banks in various sectors of economy, except service sector investment.

In the same way, Kishi (1996), in his article, "The changing face of the banking sector and the HMG/N recent budgetary policy" concludes that following an introduction of the reform in the banking sectors as an integrate 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. (NBL) and Rastriya Banijya Bank (RBB) have also shown an improvement of non-performing loans and social justice bringing a significant benefit to the poor are yet to be achieved as envisaged by the govt. of Nepal.

Likewise, Pyakuryal (1987) in his article" Workshop on Banking and National Development" writes, "The present changing context of the economy calls for a sustained revitalization the sources. 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 resources not only results in loss of income but also goes further to discourage the collection of deposits." Thus in his paper he has emphasized on proper utilization of mobilized resources and profitability increment.

Besides this, Bajracharya (2047) in his article, "Monetary policy and Deposit mobilization in Nepal" has concluded that 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.

2.5 REVIEW OF THESIS

Prior to this thesis, the students have conducted several thesis works. They have prepared various aspects of commercial banks such as financial performance, lending policy, investment policy, interest rate structure, resources mobilization and capital structure etc. Some of them as supposed to be relevant for the study are presented below:

Khadka (1998) "A study on Investment Policy of Nepal Bank Ltd. in comparison to other joint venture banks of Nepal" has recommended that the bank must utilize depositor's money as loans and advances to get success in competitive banking environment. The largest item of the bank in the assets side is Loan and Advance. Negligence in administrating this asset could be the main cause of liquidity crisis in the bank and one of the main reasons of bank failure.

Joshi (1989) in his thesis paper entitled, "A study on Financial Performance of Commercial Banks" concluded that the liquidity position of commercial bank is satisfactory. Local commercial banks have been found relatively highly leveraged compared to the joint venture banks. Loans & Advances have been their main form of the investments. Two third of assets has been used for earning purpose. Profitability position of NABIL is stronger than other.

Kishi **(**1990) "A comparative study on the Financial Performance of Nepal Indosuez Bank Ltd. (NIBL) and Nepal Grindlays Bank Ltd. (NGBL)" has mainly found that NGBL's loan and advances to total deposits ratios are significantly lower than that of NIBL. NGBL is recommended to follow liberal

lending policy to invest more proportion of deposits in loan and advances. He has further stated that both the bank should not highly prefer the government securities to invest their fund because of low interest rate on such securities but they are recommended to boost up their campaign of deposit mobilization and credit disbursement in rural areas preferring priority sector, too.

Thapa (2001) "A comparative study on Investment Policy of Nepal Bangladesh Bank Limited and other joint venture banks." evaluates the liquidity, assets management, efficiency, profitability and risk position of NB bank in comparison to NABIL and NGBL. To examine the fund mobilization and investment policy of NB bank through off balance sheet and on balance sheet activities in comparison to the other banks. She concluded that liquidity position of NB bank is comparatively better than that of NABIL and NGBL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. The NB bank is not in better position regarding its on balance as well as off balance activities in comparison to NABIL and NGBL. It does not seem to follow any definite policy regarding the management of its assets. The profitability position of NB bank in utilization of fund to earn profit is not better in comparison to NABIL and NGBL.

Shahi (1999) "Investment Policy of Commercial Bank in Nepal" concluded that commercial banks are the prime mover of the economic development of the nation. He has studied the investment policy of Nepal bank Limited in comparison to other Joint ventures Banks of Nepal. He recommend to the Nepal Bank Limited to have control over its cost of funding. NBL is weaker in collecting cheaper funds i.e. current and saving deposit and also pays higher interest on deposit than that of the Joint venture banks. Higher administrative expenses due to over staffing, loan loss provision, less productivity of the management and poor quality of loans led to the low profitability of the bank.

He further recommended to the NBL to study effective cost of funding for its credit and investment policies.

Joshi (2005) in his thesis paper outlined, "Investment policy of commercial banks in Nepal" has discussed fund mobilization and investment policy of EBL, NABIL and BOKL. The liquidity position of EBL is found to be the best and in the analysis of profitability, total interest earned to total outside assets of EBL is the lowest of all.EBL is recommended to mobilize its idle cash and bank balance in profitable sector as loan and advances, invest more of its fund in share and debenture, follow liberal lending policy and invest more percentage of total deposit in loan and advances and similarly, maintain more stability on the investment policy.

Another thesis performed by Singh (1997) "A comparative evaluation of Financial Performance of Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd." reveals that the liquidity position in terms of current ratio of both the banks is below the normal standards. The researcher's main objective was to analysis the income and expenditure of both banks. Its objective was also to analyze how these banks use their sources. According to the analysis of turnover or activity ratios, NABIL invests 57% of the deposits whereas NGBL invests 41% on the loans and advances. In this portfolio, NABIL is performing better and has better liquidity position. Profitability ratios of both the banks reveal positive reform during the study period but the progress is higher in NGBL whereas NABIL seems more efficient in utilizing its capital employed in generating interest income. As NABIL has acquired more funds, it has also raised more capital by issuing shares, bonus shares and retained earnings.

Bohara (1992) "A comparative study of the Financial Performance of Nepal Arab Bank Ltd. and Nepal Indosuez Bank Ltd." main objective was to highlight of the functions and policies of joint venture banks. The researcher had found the average current ratio: loan and advances to current ratio are higher than NABIL.

Although the current assets of these banks are adequate to discharge current liabilities, almost all profitability ratios of NABIL are better than NIBL. Thus, NIBL is adopting more aggressive lending, investment and borrowing policy to generate profit than NABIL. Higher EPS of NABIL than NIBL shows the effective use of NABIL's owners' equity than NIBL. However, the faster increasing EPS of NIBL indicates the bank's better performance in the following years. Dividends creates positive attitude of the shareholders towards the enterprise, which consequently helps to increase the market value of the shares and in thesis, cash dividend per share of NIBL is higher than NABIL.

Bhattarai (2001) in his thesis, "A study on Financial Analysis of Himalayan bank Ltd. and Nepal SBI Bank Ltd." has found that debt equity position of NSBL was less leveraged which implies that NSBL had lesser proportion of outsiders claim in the capital structure as suggested by the mean value and the significance test of difference in the average.

Ojha (1997) has drawn her conclusion in her thesis," A study on Priority Sector Investment in Commercial Bank (with special reference to Rastriya Banijya Bank)" that the bank was unable to meet the requirement of 12% lending in the priority sector as set under NRB directives. During her study period, she further found low interest rate in priority sector but increasing trend of overdue and its misutilization. She has recommended improving supervision, evaluating borrower's paying capacity and reducing the overdue through integrated program of priority sector loan.

In the same way, Karmacharya (1980) "A study on Deposit Mobilization by Nepal Bank Ltd." has concluded to the utilization side of Nepal Bank Ltd. is weak as compared to the collection of resources. He has mentioned that the bank has successfully maintained its liquid assets position but couldn't mobilize its resources efficiently. He has suggested to set up more banking branches to increase the deposit collection and long term as well as short-term credit. He has

recommended not to consider security factor only but to provide loan to genuine projects without security.

Lohani (2008) in his thesis, "Investment Policy of NABIL Bank Ltd." has concluded that liquidity position of NABIL bank have not found satisfactory. The bank is therefore suggested to improve cash & bank balance to meet current obligations. NABIL's Loan & Advance to Total Deposit Ratio is slightly lower than that of NIBL, it is therefore recommended to follow liberal lending policy for enhancement of fund mobilization. Although the profitability position of NABIL is found stronger than that of NIBL, it should maintain the same environment as well as shall find some more profitable sector to invest their fund. The lending and investment activities of Nabil have lower position whereas NIBL's position is also not satisfactory.

Ranjitkar (2006) in her thesis, "Investment Policy of Commercial Banks in Nepal." has concluded that the liquidity position of the banks are in satisfactory level. She has studied investment policies of NABIL bank, NIBL and NSBI. She has found that NIBL has maintained most of the activity ratio close to the industry average. Nabil and NIBL are seemed to be risk taker while NSBI follows the conservative police of banking. The banks are recommended to enhance off-balance sheet operation and take advantage of potential opportunities in the market. Similarly, the bank should grant more amount of loan & advances and reduce investment in the secondary source of income. She has also recommended NSBI to apply loan recovery act that would help to realize overdue loan in time and also to develop innovative approach to bank marketing for its well- being and sustainability in the market.

Shah (2006) "Investment Policy of HBL and NEPAL SBI Bank Ltd." has concluded that major portion of the utilization of the fund for both banks, HBL and NEPAL SBI Bank Ltd, is into investment and loan & advances and both of them are in increasing trend. Though the liquidity position of both banks is

found to be normal from the view point of current ratio, HBL is recommended to maintain its liquidity position further stronger because of low current ratio. Researcher has also found that both banks have not been able to formulate and adopt the appropriate policy to increase profitability although loan & advances has been increasing. Therefore the banks are recommended to maintain there net profit by adopting proper policies and considering all the factors which affect profitability of the bank.

2.6 REVIEW OF RESEARCH PAPER

There is not much research paper of articles published about investment management in Nepal. Shrestha (1993) expressed her view on research; "Investment Planning of Commercial Banks in Nepal" has made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study she concludes that the bank portfolio (Loan and Advances) of commercial banks has been influenced by the variable securities rates. Investment Planning of commercial banks in Nepal is directly traced to fiscal policy of government and heavy regulatory procedure of the central bank (NRB). So, the investments are not made in professional manners. Investment Planning and operation of Commercial banks in Nepal has not been found satisfactory in term of profitability. To overcome this problem, she has suggested, Commercial banks should take their investment function with proper business attitude and should perform lending and investment operation efficiently with the proper analyze of the projects.

Pradhan, (1992) on his research, "Financial Management and Practices in Nepal" has studied about the major features of financial management practices of Nepal. To address his issue, a survey of 78 enterprises was carried out by distributing a multipart questionnaire, which contained questions on various aspects of financial functions, sources and types of financing, financing decisions involving

debt, effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy.

The major findings of study connected with financial management are given as:

- Banks and retained earnings are the two most widely used financing sources.
- The enterprises have a definite performance for bank loans at a lower level of debt.
- Generally, there is no definite time to borrow the issues stocks, i.e. majority of respondents are unable to predict when the stock will go down or up.
- Most enterprises do not borrow from one bank only and they do switch between banks whichever offer interest rates.

Most enterprises find that banks are flexible in interest rates and convenience.

To sum up it can be said that out of numerous studies on the capital market of Nepal. This study is established itself as a milestone and an outstanding one.

Shrestha,(2005) Deputy chief officer of Nepal Rastra Bank, banking operation Department has given a short glimpse on the "Portfolio Management in Commercial Bank, theory and practice, 2055".

Shrestha has highlighted following issue in the article. The portfolio management is a most important thing for both individuals and as well as institutional investors. All the investors would like to select a best mix of investment assets subjected to following aspects.

1. Higher return than other alternative opportunities, which is available according to the same risk class to the investor.
2. High liquidity with adequate safety and profitability of investment.
3. Maximum concession of tax.

4. Certain capital gain.
5. Flexibility of investment.
6. Economic, efficient and effective investment mix etc.

According to above aspects, some following strategies are adopted:

1. Do not put all the eggs in the same basket i.e. to have a diversified investment.
2. Do not hold any single security i.e. try to have a portfolio of different securities.
3. Choose such a portfolio of securities, which ensures maximum return with minimum risk of lower of return with added objective of wealth maximization.

However Shrestha has also presented following approach to be adopted for designing a good portfolio and its management.

- To find out the assets to investment (generally known as securities) having scope for better returns depending upon individuals characteristics like age, health, need deposition, liquidity, tax liability etc.
- To develop alternative investment strategies for selecting a better portfolio, which will ensure a trade-off between risk a return so as to attach the primary objective of wealth maximization at lower risk.
- To find out the risk of the securities depending upon attitude of investor towards risk.
- To identify securities for investment to refuse volatility of return and risk**.**

Shrestha has also presented two types of investment analysis techniques i.e. fundamental analysis and technical analysis to consider any securities such as equity debenture and bonds and other money and capital market instruments. He has suggested that the banks having international network can also offer access

to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system in any commercial banks to get success in portfolio management and customer's confidence. At last, Shrestha has put out following concluding remarks:

1. The survival of every bank depends upon it own financial health and various activities.
2. In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio of a portfolio manager should reflect high standards and gives their clients the benefits of global strength, local insights and prudent philosophy.
3. With the disciplined and systematic approval to the selection of appropriate countries, financial assets and the management of various risk, the portfolio manager could enhance the opportunity for each investor (client) to earn superior returns overtime.
4. The Nepalese banks having greater network and access to national and international capital market have to go for portfolio management activities for the increment of their fee based income as well as to enrich the client based and to contribute in national economy.

Thapa (1994) has expressed his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credits particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. are operating with nominal profit, the later turning towards negative from time to time. Because of non-

recovery of occurred interest, the margin between interest income and interest expenses is declining. Because of these two local banks, in traditional off-balance sheet operations, these banks have not been able to increase the income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due accumulated overdue and defaulting loans, profit positions of these banks have been seriously affected.

On the other hand, the foreign joint venture banks have been functioning in an extremely efficiently way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margin between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet operations and efficient personnel management has added to the maximization of their profits.

At the end of his paper, he concludes that by its very nature of the public sector, the domestic banks couldn't compete with the private sector banks. So, only remedy to the problems of these banks, as the government decided, is to handover the ownership as well as the management of these banks to the private hand.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter presents the methods of research used to carry out the research, which include the research design, population and samples taken for the study, methods of data collection and procedures for using analytical methods and so on.

3.2 RESEARCH DESIGN

Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. A research design is the arrangement or conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate investment performance of KBL and compare it with EBL.

3.3 POPULATION AND SAMPLE

Due to lack of time and unavailability of the relevant data, it is not possible to study the investment policies of commercial banks. At present, Nepalese financial system comprises of 31 commercial banks, 87 development banks, 79 finance companies, 41 financial co-operatives, 47 non governmental organizations and 38 micro financial development banks.

Out of these banks only two banks KBL and EBL have been selected to study so that the researcher could provide a detail picture of investment policy position between the concerned banks.

3.4 SOURCES OF DATA

Data are collected from two sources. They are primary and secondary sources. The data presented here is secondary type. The data required for the analysis are directly obtained from the balance sheet and the P/L a/c of concerned bank's annual reports.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. In other to judge the reliability of data provided by the banks and other sources, they were compared with the annual reports of auditor. Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem.

Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.5 STATEMENT OF HYPOTHESIS

The following hypothesis have been formulated and tested for the purpose of the study.

1. H_{01}: There is no significant difference between average cash and bank balance to total deposit ratio of KBL and EBL.

H_1: There is significant difference between average cash and bank balance to total deposit ratio of KBL and EBL

.

2. H_{02}: There is no significant difference between average loan and advance to total deposit ratio of KBL and EBL

H_2: There is significant difference between average loan and advance to total deposit ratio of KBL and EBL.

3. H_{03}: There is no significant difference between average net profit to total deposit ratio of KBL and EBL.

H_3: There is significant difference between average net profit to total deposit ratio of KBL and EBL.

4. H_{04}: There is no significant difference between average return on net worth of KBL and EBL.
H_4: There is significant difference between average return on net worth of KBL and EBL.

5. H_{05}: There is no significant difference between average ratio of return on capital employed of KBL and EBL.
H_5: There is significant difference between average ratio of return on capital employed of KBL and EBL.

6. H_{06}: There is no significant difference between average ratio of return on investment of KBL and EBL.
H_6: There is significant difference between average ratio of return on investment of KBL and EBL.

3.6 TOOLS FOR ANALYSIS

To achieve the objectives of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data will be done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graph, percentage and the method of least square are adopted in this study. Similarly, some strong accounting tools such as ratio analysis and trend have also been used for financial analysis.

The various calculated results obtained through financial, accounting and statistic tools are tabulated under different headings. Then they are compared with each other to interpret the results. Here the tools applied in this study, have been briefly presented under.

3.6.1 Financial Tools

Financial tools are used to examine the financial strength and weakness of bank. In this study financial tools like ratio analysis and financial statement analysis have been used.

Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. "Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions". Thus, ratio analysis is used to compare a firm's financial performance and status to that of other firm's can be done with the help of ratio analysis.

Even though, there are many ratios, only those ratios have been covered in this study, which are related to the investment operation of the bank. This study contains following ratios.

Liquidity Ratios

Liquidity ratios are used to judge the ability of banks to meet its short-terms liabilities that are likely to mature in short period. From them, such insights can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. 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.

The following ratios are evaluated under liquidity ratio:

i) Current Ratio

Ability for payment of current debt from current assets is current ratio. This ratio shows the relationship between current assets and current liability. It is calculated by dividing current assets by current liabilities. The objective of this ratio is to measure the ability of the firm to meet its short-term obligation or it can also be taken as the measure of creditors versus current assets. It indicates

each rupee of current assets available for each rupee of current liability. The current assets of a firm represent those assets, which can be, in ordinary course of business, converted into cash within a short period of time, normally not exceeding one year. It is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

Current Ratio includes cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivables, overdrafts, bills purchased and discounted and miscellaneous current assets. Similarly, current liabilities include deposits and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and miscellaneous current liabilities. Current ratio is calculated as,

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

The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and nature of business.

Activity Turnover/Utilization Ratio

This ratio indicates how quickly certain current assets are converted into cash. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets. From these ratios, it is known that whether the funds employed have been used efficiency in the business activities or not. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into profit generating assets. Following ratios are used under activity ratio.

i) Cash and Bank balance to Total Deposit Ratio

Cash and Bank balances are the most liquid current assets. It includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposits encompass current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits.

Dividing cash and bank balance by total deposits, this ratio is obtained. This can be presented as follows:

$$Cash\ \&\ Bank\ Balance\ by\ Total\ Deposit = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposits} \times\ 100\%$$

This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the deposit.

ii) Loans and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the banks are utilizing their total deposits on loans and advances for generating purpose. Greater ratio implies the better utilization of total deposits. This ratio can be obtained by dividing loans and advances by total deposits, which can be stated as,

$$Loans\ \&\ Advances\ by\ Total\ Deposit = \frac{Loans\ \&\ Advances}{Total\ deposits} \times 100\%$$

Profitability Ratio

Profitability ratios are calculated to measure the efficiency of operation of a firm in term of profit. It is the indicator of the financial performance of any institutions. This implies that higher the profitability ratio, better the financial

performance of he bank and the vice versa. Profitability position can be evaluated through following different ways.

i) Net Profit to Total Assets Ratio

This ratio measures the bank's ability to earn a rate of return on total assets invested. It measures the return on assets. The ratio is calculated by dividing the net profit after tax by total assets, this ratio can be stated as,

$$Net\ Profit\ to\ Total\ Assets\ = \frac{Net\ Profit\ after\ tax}{Total\ Assets} \times 100\%$$

ii) Net profit to Total Deposit Ratio

It is used for measuring the internal rate of return from deposits. Here, net profit means profit after tax and deposits means total deposits including saving, current, fixed, call, margin and other deposits. This ratio can be stated as,

$$Net\ Profit\ to\ Total\ Deposit\ = \frac{Net\ Profit}{Total\ Deposit\ Ratio} \times 100\%$$

iii) Return on Shareholder's equity

It is the most vital tool to judge whether a concern has earned a satisfactory return to its owners or not. Here, return refers to net profit after tax. This ratio is expressed by dividing net profit after taxes to ordinary shareholder's equity. This ratio can be stated as,

$$Return\ on\ Shareholder's\ Equity\ = \frac{Net\ Profit\ after\ tax}{Shareholder's\ Equity} \times\ 100\%$$

iv) Return on Net Worth

Return on Net-worth ratio is also known as Total Equity Ratio. It shows the Degree of efficiency of the utilization of owners' funds by the firm or bank. This ratio indicates profit after taxes to net-worth. This ratio determines whether the investment in the bank/company is attractive or not. Higher ratio indicates the higher overall efficiency of the firm or vice versa. This ratio can be obtained by dividing Net profit after tax by net worth that is stated as,

$$Net\ Profit\ after\ tax\ by\ Net\ worth = \frac{Net\ Profit\ after\ tax}{Net\ Capital\ Employed} \times 100\%$$

v) Return on Capital Employed

This term capital employed refers to the long-term funds supplied by the creditors and owners of the firm, and return refers to net profit after tax. This ratio measures the over-all efficiency of the firm. Higher ratio indicates efficient use of the capital employed. It is calculated by dividing the net profit by capital employed. This ratio can be stated as,

$$Return\ on\ Capital\ Employed = \frac{Net\ Profit\ after\ tax}{Total\ Capital\ Employed} \times\ 100\%$$

Where,

Total capital Employed = Fixed Deposit + Net Worth

vi) Return on Investment (ROI)

Return on Investment measures the company's return form investment or the capacity of company to generate profit from its investments. It can be computed by dividing net profit after tax to total investment. This ratio can be stated as,

$$Return\ on\ Investmet = \frac{Net\ Profit\ after\ tax}{Total\ Investment} \times 100\%$$

vii) Earning per share (EPS)

Earning per share measures the profit available to the common shareholders as per share basis i.e. the amount they get from every share. A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically after the earnings per share. The earning per share is calculated by dividing the profit available after tax to the shareholders by the number of outstanding shares. This ratio can be stated as,

$$Earning\ per\ Share = \frac{Net\ Profit\ to\ the\ Equity\ Shareholders}{Number\ of\ Ordinary\ share\ Outstanding} \times 100\%$$

Leverage Ratio

Leverage ratio is also known as capital structure ratio or solvency ratio. It is calculated to measure the long-term financial position/solvency of a firm. Debt and equity are long-term obligation and remaining part in the liabilities side of balance sheet are known as short-term obligation. The short-term creditors, like bankers and suppliers of raw materials, are more concerned with the firm's current debt paying ability. On the other hand, long term creditors, like debenture holders, financial institutions etc are more concerned with the firm's long-term financial position. These ratios indicate the funds provide by owners and creditors. Leverage ratios measure the overall financial risk as well as the ability of the banks in using debt for benefit shareholders. Thus, there should be an appropriate mix of debt and owners equity in financing the firm's assets. To find out the long-term solvency of the banks, several ratios are calculated. These ratios help to find out the proportions of outsiders fund and owners fund.

i) Long-Term Debt to Shareholder's Fund Ratio

Long-term debt means total amount of fixed deposit and loans from banks and shareholders fund consists of general reserve, share premium, other reserves,

general loan loss provision, retained earning and proposed capitalization. The ratio shows the proportion of outside long term liabilities to shareholders total funds. The ratio can be calculated by using following formula as:

$$LongTerm\ Debt\ to\ Shareholder's\ Fund\ Ratio = \frac{Long\ Term\ Debt}{Shareholder's\ Fund} \times 100\%$$

3.6.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistically tools such as trend analysis of important variable as well as hypothesis test (t-statistical) have been used, which are as follows:

3.6.2.1 Trend Analysis

Trend analysis is an analysis of financial ratios over time, used to determine the improvement or deterioration of its financial situation. Trend analysis of ratios indicates the direction of change over a period of time. Trend analysis informs about expected future returns, future achievements of the bank, future credit worthiness of the bank, financial capability of the bank and many other information which would be helpful to concern parties of the bank such as shareholders, professional bankers, depositors and borrowers. Freehand or graphic method, moving average method and least squares method can be used for determining trend of performance of the concerned banks. In this study, "The method of least square" is selected as a statistical tool for trend analysis. The method of least square is as follows:

The formula of least square method for the straight line is represented by the equation:

$Y_c = a + bx$

Where,

Y_c = Trend Value

a = Y intercept or the computed trend figure of the Y variables when X = 0

b = Slope of the trend line of the amount of change Y variables that is associated with a change of one unit in X variables

X = Variables that represent time i.e. time variables

The value of the constant 'a' and 'b' can be determined by using following formula.

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

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

This topic analyzes the trend of loan and advances, investments and net profit of KBL and EBL. Under this topic following subtopics are included:

1. Trend analysis of Loan and Advances
2. Trend analysis of Total investments
3. Trend analysis of Earning per Share

3.6.2.2 Test of Hypothesis

A hypothesis is defined as a tentative theory of supposition provisionally adopted to explain certain facts and to guide in the investigation of others. Hypothesis means the presumption or quantitative statement of the population parameter which may be true or false. In order to make proper decision about the quantitative statement of the population, testing of hypothesis technique is used. The testing of hypothesis is carried out by using sample information. To test whether the assumption or hypothesis is right or not, a sample is selected from the population, sample statistic is obtained, observed the difference between sample and the population hypothesized value, and test, whether the difference is significant. Smaller the difference, the sample mean is close to hypothesized

value and larger the difference, the hypothesized value has low chance to be correct.

There are different tests to check the hypothesized value such as t-test, Z-test, F-test and X^2-test. The suitable test should be used according to nature of the data. In this study, according to the nature of data t-test is used.

T-test

T-test is based on the assumption that the sample size is small (generally less than 30). If sample size is less than 30, the parent population from which the sample drawn is normal, the population standard deviation (σ) is unknown and the samples are independent and are drawn by random sampling method, t-test is used.

In this study t-test for difference between two means is used to test whether two independent samples have been drawn from two normal populations having the same means and equal population variances or there is significant difference between population means from which the samples are drawn.

The various steps in test of statistical hypothesis can be summarized as follows:

Step 1: Setting of Hypothesis

Null hypothesis H_0: There is no significant difference between Two Sample means $\overline{X}$ and $\overline{Y}$

Alternative hypothesis H_1: There is significant difference between two Sample means $\overline{X}$ and $\overline{Y}$

Step 2: Test statistic

Under H_0, test statistic is,

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2\left[\frac{1}{n_1} + \frac{1}{n_2}\right]}}$$ with .....d.f.= n_1+n_2-2

Where, $\overline{X}$ = mean of first sample = $\frac{\sum X}{n_1}$

$\overline{Y}$ = mean of second sample = $\frac{\sum Y}{n_2}$

s^2 = an unbiased estimate of the common population variance σ^2

$$s^2 = \frac{1}{n_1 + n_2 - 2}\left[\left\{\sum d^2 - \frac{(\sum d)^2}{n_1}\right\} + \left\{\sum D^2 - \frac{(\sum D)^2}{n_2}\right\}\right]$$

where, d = X- A_1, D = Y- A_2

A_1 = assumed mean taken from X

A_2 = assumed mean taken from Y

Step 3: Level of Significance

Fix the level of significance α = 5%

Step 4: Critical Value

Tabulated or critical value of t at α % level of significance for (n_1+n_2-2) degree of freedom in two tailed test is obtained from t-tables.

Step 5: Decision

If calculated $|t|$ is less than or equal to tabulated value of t it falls in the acceptance region and null hypothesis is accepted and if calculated $|t|$ is greater than tabulated t, H_0 may be rejected at the adopted level of significance.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

The purpose of this study is to assess, evaluate and analyze those major financial performances, which are mainly related to the investment management and fund mobilization of KBL in comparison to EBL. This part contains financial analysis as well as statistical analysis. Financial analysis includes ratio analysis and statistical analysis includes trend analysis and test of hypothesis.

4.1 FINANCIAL ANALYSIS

In this section, different ratios are calculated. It is notable that all types of financial ratios are not studied under this chapter. Only those ratios are calculated and analyzed which are very relevant to evaluate the fund mobilization of a commercial bank.

4.1.1 Ratio Analysis

A commercial bank must maintain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposits- withdrawals, pay maturity obligations in time and convert non cash- assets into cash to satisfy immediate needs without loss to bank and consequent impact on long run profit.

4.1.1.1 Current Ratio

This ratio indicates the ability of the bank to meet its current obligation. This is the broad measure of liquidity position of the financial institution; dividing current assets by current liabilities derives current ratio. Here current assets include cash in hand, bank balance, money at call and short notice, investment in government securities, loan and advances, interest receivables and miscellaneous current assets. Current liabilities include deposits, short term loan, bills payable, tax liability, staff bonus, dividend payables and miscellaneous current liabilities. The current ratios of KBL and EBL are given in the Table 4.1& 4.2.

Table 4.1

Current Ratio of KBL

Rs. (in million)

Fiscal Year	Current Assets (Rs.)	Current Liabilities (Rs.)	Current Ratio (Times)
2004/05	6,124.38	4,484.45	1.36
2005/06	7,397.42	4,983.60	1.48
2006/07	9,734.55	8,116.20	1.20
2007/08	12,456.22	9,862.15	1.26
2008/09	16,571.56	12,386.56	1.34
2009/10	17,689.93	11,530.51	1.53
2010/11	16,094.59	11,623.50	1.38
Average	12,295.52	8,998.14	1.36

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

Table 4.1 shows the current ratio of KBL from F/Y 2004/05 to F/Y 2010/11. The ratio is in increasing trend up to F/Y 2005/06. The ratio is decreased in F/Y 2006/07 and is again increased, i.e. the ratio shows increasing trend from F/Y 2007/08 to 2009/10 and decreased up to 2010/11. The highest ratio of the KBL is 1.53 in the F/Y 2009/10 and the lowest ratio is 1.20 in F/Y 2006/07. The average current ratio over the seven years study period is found 1.36 times.

Table 4.2

Current Ratio of EBL

Rs. (in million)

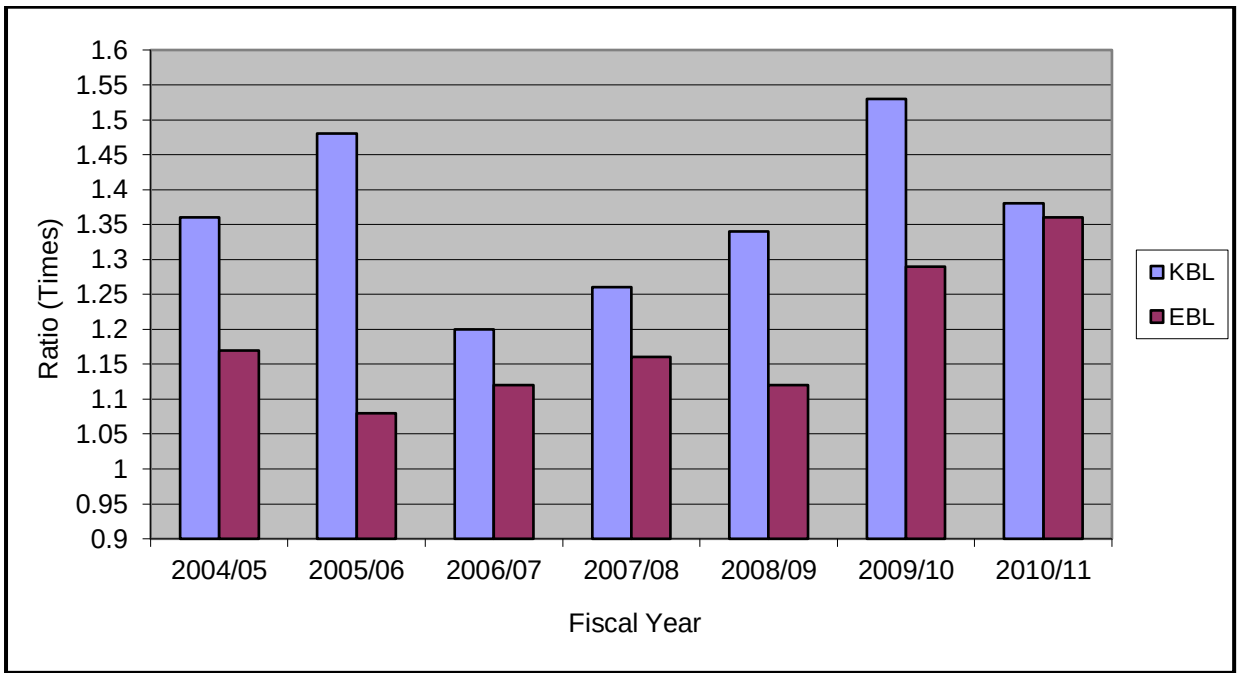
Fiscal Year	Current Assets (Rs.)	Current Liabilities (Rs.)	Current Ratio (Times)
2004/05	8,668.66	7,390.14	1.17
2005/06	11,354.28	10,518.95	1.08
2006/07	16,055.50	14,291.24	1.12
2007/08	21,504.37	18,590.46	1.16
2008/09	20,634.00	27,245.27	1.12
2009/10	35,975.22	27,773.38	1.29
2010/11	37,784.46	27,619.97	1.36
Average	23,239.50	19,061.34	1.18

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Table 4.2 presents the current ratio of EBL is shown. It is clear from the table that the ratio of the EBL is in fluctuation trend. The ratio is decreasing in F/Y 2005/06 and is increased in F/Y 2006/07 to 2007/08. Again the ratio is decreased in F/Y 2008/09. Lastly, the ratio is increasing in F/Y 2009/10 to F/Y 2010/11. The highest ratio is 1.36 in the F/Y 2010/11 and the lowest ratio is 1.12 in F/Y 2006/07 and F/Y 2008/09 .The average current ratio of EBL over the seven years study period is 1.18.

Figure 1

Current Ratio of KBL and EBL



(Source: Annual Reports of KBL and EBL from 2004/05to 2010/11)

The visual indication of trends of current ratio of KBL and EBL is presented in Figure 1. Here, X-axis is divided into seven equal parts which indicates the fiscal years of study period. Similarly, Y-axis with equal gaps of 0.05 units indicates the ratio in times. The ratio of KBL is presented by grey bar and that of EBL is by black bar. The figure shows that the ratio of KBL is decreased in F/Y 2006/07, and is increasing trend in F/Y 200/08 to 2009/10.The highest ratio is 1.53 in F/Y 2009/10 and the lowest ratio is 1.20 in F/Y 2006/07. Similarly, the highest ratio of EBL is1.36 in F/Y 2010/11 and the lowest ratio is 1.12 in F/Y 2006/07 and F/Y 2008/09.

4.1.2 Activity /Turnover/Utilization Ratio

Utilization Ratio measures how effectively the company employs its resources at its command. The following ratios are analyzed.

4.1.2.1 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are assets that constitute the banks first line of defense and consist of cash on hand, cheques & other cash items, balance with domestics' banks and balance held abroad.

This ratio measures the availability of a bank's highly liquid or immediate funds to meet its unanticipated calls on all types of deposits. Dividing cash and bank balance compute the ratio by total deposits. A high ratio indicates the greater ability to meet their deposits and vice versa. Moreover, too high ratio is unfit as capital will be tied up and opportunity cost will be higher.

Table 4.3 & 4.4shows the cash and bank balance to total deposit ratios of KBL and EBL.

Table 4.3

Cash and Bank Balance to Total Deposit Ratio of KBL

Rs. (in million)

Fiscal Year	Cash & Bank Balance (Rs.)	Total Deposit (Rs.)	Ratio (%)
2004/05	443.37	6,268.95	7.07
2005/06	389.63	7,768.96	5.02
2006/07	672.12	10,557.42	6.37
2007/08	933.84	12,774.28	7.31
2008/09	1,776.30	15,710.40	11.31
2009/10	2,723.83	17,432.25	15.63
2010/11	1,168.52	16,98.25	6.88
Average	1,158.23	12,499.89	8.51

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

From Table 4.3, it is clear that the cash and bank balance to total deposit ratio of KBL is in decreasing trend up to F/Y 2006/07 and it is increased in F/Y 2007/08, F/Y 2008/2009 and F/Y2009/10. Finally the ratio is decreased in F/Y 2010/11. The lowest ratio is 5.02% in F/Y 2005/2006 and highest ratio is 15.63% in F/Y 2009/10. The average ratio KBL for seven years study period is 8.51%.

Table 4.4

Cash and Bank Balance to Total Deposit Ratio of EBL

Rs. (in million)

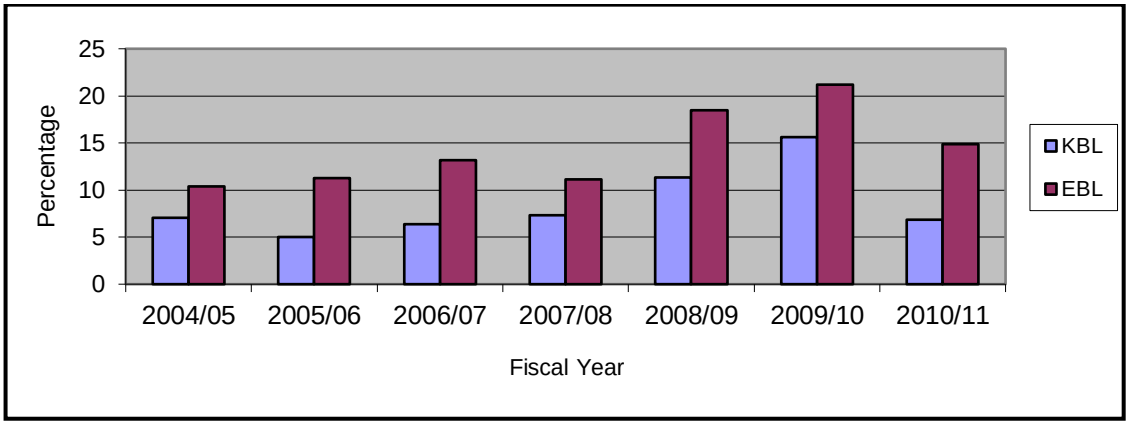
Fiscal Year	Cash & Bank Balance (Rs.)	Total Deposit (Rs.)	Ratio (%)
2004/05	1,049.99	10,097.69	10.40
2005/06	1,552.97	13,802.44	11.25
2006/07	2,391.42	18,186.25	13.15
2007/08	2,667.97	23,976.30	11.13
2008/09	6,164.40	33,322.91	18.20
2009/10	7,818.80	36,932.32	21.17
2010/11	6,122.80	41,127.90	14.89
Average	3,966.91	25,349.40	14.36

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Table 4.4 shows that the ratio of EBL is in increasing trend up to F/Y 2009/10 and it is decreased to 10.62% in F/Y 2010/11. F/Y 2009/10 shows the highest ratio of 21.17 and F/Y 2004/05 shows the lowest ratio 10.40%. The average ratio over the seven years study period is 14.36%.

Figure 2

Cash and Bank Balance to Total Deposit Ratio



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Figure 2 presents the cash and bank balance to total deposit ratio of KBL and EBL. X-axis indicates time in years and Y-axis indicates ratio in percentage. The grey bars represent the ratio of KBL and the black bars represent the ratio of EBL. It is clear from the diagram that the ratio of EBL is greater than that of KBL throughout the study period, except in the F/Y 2004/05. The ratio of EBL seems to be highest in F/Y 2009/10 and lowest in F/Y 2004/05. Similarly, the highest ratio of KBL is in F/Y 2009/10 and the lowest ratio is in F/Y 2005/06.

4.1.2.2 Loans and Advances to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposits on loans and advances for the purpose of profit generation. A high ratio of loans and advances indicates better mobilization of collected deposits and vice-versa. But it should be noted that to high ratio might not be better from its liquidity point of view. This ratio is calculated by dividing loans and advances by total deposits.

The following table shows the ratio of loans and advances to total deposits of KBL and EBL of the study period.

Table 4.5

Loans and Advances to Total Deposit Ratio of KBL

Rs. (in million)

Fiscal Year	Loans & Advances (Rs.)	Total Deposit (Rs.)	Ratio (%)
2004/05	5,681.01	6,268.95	90.62
2005/06	7,007.79	7,768.96	90.20
2006/07	9,062.43	10,557.42	85.84
2007/08	11,522.38	12,774.28	90.20
2008/09	14,795.26	15,710.40	94.17
2009/10	14,966.10	17,432.25	85.85
2010/11	14,926.00	16,987.00	87.87
Average	11,137.28	12,499.89	89.25

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

The loans and advances to total deposit ratio of KBL is presented in Table 4.5. The ratio is decreased to 85.84% in F/Y 2006/07, which is the lowest ratio over the period and it shows slightly increasing trend and decreasing trend from F/Y 2007/08 to 2008/09. The highest ratio is 94.17% in F/Y 2008/09. The average ratio for seven years study period is 89.25%.

Table 4.6

Loans and Advances to Total Deposit Ratio of EBL

Rs. (in million)

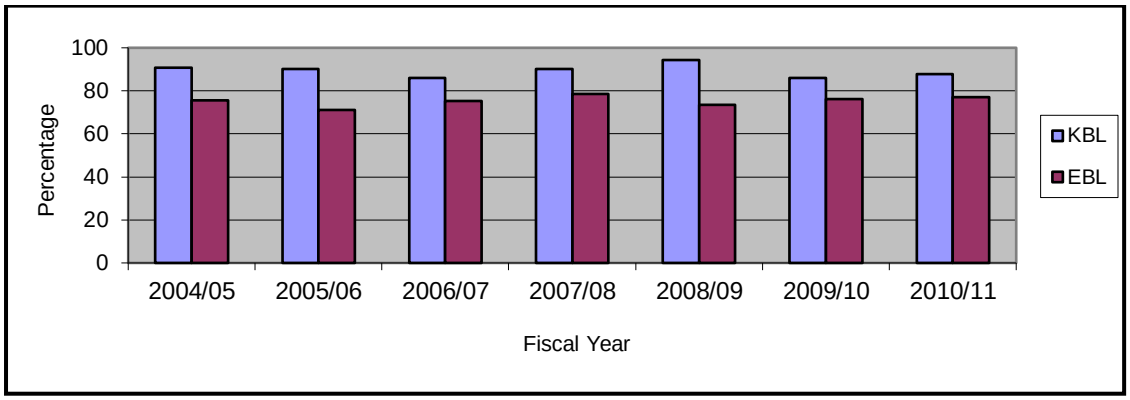
Fiscal Year	Loan & Advances (Rs.)	Total Deposit (Rs.)	Ratio (%)
2004/05	7,618.67	10,097.69	75.45
2005/06	9,801.31	13,802.44	71.01
2006/07	13,664.08	18,186.25	75.13
2007/08	18,836.40	23,976.30	78.56
2008/09	24,469.60	33,322.91	73.43
2009/10	28,156.42	36,932.32	76.24
2010/11	31,661.80	41,127.90	76.98
Average	19,172.61	25,349.40	75.26

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

The loans and advances to total deposit ratio of EBL is presented in Table 4.6. The ratio is decreased to 71.01% in F/Y 2005/06, which is the lowest ratio over the period and it shows slightly increasing trend and decreasing trend from F/Y 2006/07 to 2010/11. The highest ratio is 78.56 in F/Y 2007/08. The average ratio for seven years study period 75.26%.

Figure 3

Loans and Advances to Total Deposit Ratio



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Figure 3 implies the loans and advances to total deposit ratio of KBL is indicated by grey and that of EBL is indicated by black columns. Fiscal years and ratio in percentage are indicated by X-axis and Y-axis respectively. From the figure, the ratios of both banks are higher difference in seven years period. The ratio of KBL lies in between 85% to 95% throughout the study period and the ratio of EBL lies in between 70% to 80% throughout the period.

4.1.3 Profitability Ratio

Profitability ratio is the measurement of effectiveness of the banks under study in terms of their profit earning ability. So, with the help of these ratios, one decides whether to invest in a particular firm or not.

4.1.3.1 Net profit to Total Asset Ratio

The main objective of all commercial banks is to earn profit. So this ratio is very much crucial for measuring the profitability of funds invested in the firm's assets. Return on assets is the measuring rod of the profitability with respect to each financial resource investment of the bank assets. If the bank's total working fund is well managed and efficiently utilized, return on such assets will be higher and vice-versa.

Minimizing taxes within the legal options available will also improve the return. The ratio of return on total working fund is calculated by dividing net profit by total assets.

The following tables (Table 4.7 and 4.8) show the profitability position of KBL and EBL with respect to their total assets.

Table 4.7

Net Profit to Total Assets Ratio of KBL

Rs. (in million)

Fiscal Year	Net Profit after tax (Rs.)	Total assets (Rs.)	Ratio (%)
2004/05	84.20	7,428.30	1.33
2005/06	103.67	9,010.28	1.15
2006/07	170.26	11,918.31	1.43
2007/08	174.93	15,026.59	1.16
2008/09	258.35	18,538.56	1.39
2009/10	316.54	20,522.47	1.54
2010/11	251.00	20,492.00	1.22
Average	194.14	14,705.22	1.29

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

Table 4.7 shows the net profit to total assets ratio of KBL (Table 4.7) is found fluctuating during the period of study. The ratio is 1.15% decreasing in F/Y 2005/06 and the ratio is 1.43% in F/Y 2006/07.The highest ratio over the period is 1.54% in F/Y 2009/10 and the lowest ratio is 1.13% in F/Y 2004/05. The average ratio of KBL is 1.29%.

Table 4 .8

Net Profit to Total Assets Ratio of EBL

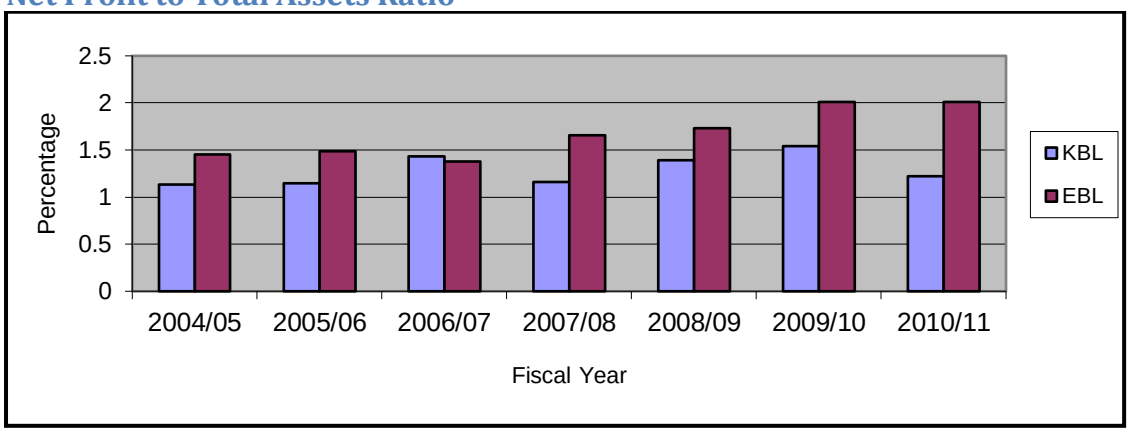
Rs. (in million)

Fiscal Year	Net Profit after tax (Rs.)	Total assets (Rs.)	Ratio (%)
2004/05	170.81	11,792.13	1.45
2005/06	237.29	15,959.28	1.49
2006/07	296.41	21,432.57	1.38
2007/08	451.22	27,149.34	1.66
2008/09	638.75	36,916.85	1.73
2009/10	831.82	41,382.76	2.01
2010/11	931.30	36,236.21	2.01
Average	508.23	28,695.59	1.68

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Table 4 .8 shows the net profit to total assets ratio (Table 4.8) is found fluctuating during the period of study. The highest ratio over the period is 2.01% in F/Y2009/2010 and F/Y 2010/11 and the lowest ratio is 1.38% in F/Y 2006/07. The average ratio of EBL is 1.68%. The average return on assets of EBL over the study period is calculated as 1.68% which is greater than that of KBL.

Figure 4



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Here, the fiscal years of study period and ratio in percentage are indicated by X-axis and Y-axis, and the ratios of KBL and EBL are represented by grey and black column respectively. The figure 4 shows that the ratio of KBL is lower than that of EBL in first two years. The highest ratio of KBL over the study period is in F/Y 2009/10, which lies in between 1.50% to 2.00% and lowest ratio is in F/Y 2004/05, which lies in between 1.00% to 1.50%. Similarly, the highest ratio of EBL is in F/Y 2009/10 and 2010/11, which lies in between 2.00% to 2.50%. The lowest ratio is in F/Y 2006/07.

4.1.3.2 Net Profit to Total Deposit Ratio

This ratio measures the ability of the bank to earn a return on deposits. Higher ratio is preferred. Table 4.9 shows a Net profit to total deposit ratio of KBL.

Table 4.9
Net Profit to Total Deposit Ratio of KBL

Rs. (in million)

Fiscal Year	Net Profit after tax (Rs.)	Total Deposit (Rs.)	Ratio (%)
2004/05	84.20	6,268.95	1.34
2005/06	103.67	7,768.96	1.33
2006/07	170.26	10,557.42	1.61
2007/08	174.93	12,774.28	1.37
2008/09	258.35	15,710.40	1.64
2009/10	316.54	17,432.25	1.82
2010/11	251.00	16,987.00	1.48
Average	194.14	12,499.89	1.51

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

Table 4.9 presents the net profit to total deposit ratio of KBL is in fluctuating trend under the study period. The highest ratio is 1.82% in F/Y 2009/10 and the lowest ratio is 1.33% in F/Y 2005/06. The table shows the average ratio of 1.51%.

Table 4.10

Net Profit to Total Deposit Ratio of EBL

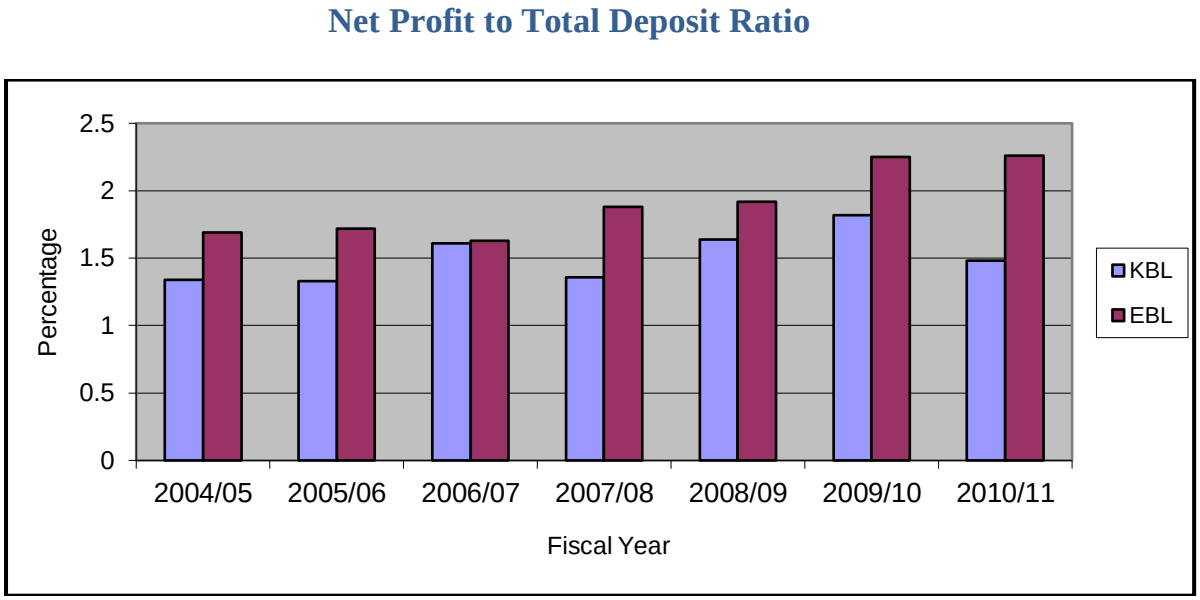
Rs. (in million)

Fiscal Year	Net Profit after tax (Rs.)	Total Deposit (Rs.)	Ratio (%)
2004/05	170.81	10,097.67	1.69
2005/06	237.29	13,802.44	1.72
2006/07	296.41	18,186.25	1.63
2007/08	451.22	23,976.30	1.88
2008/09	638.75	33,322.93	1.92
2009/10	831.82	36,932.30	2.25
2010/11	931.30	41,127.90	2.26
Average	508.23	25,349.40	1.91

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Table 4.10 presents the net profit to total deposit ratio of EBL is in fluctuating trend under the study period. The ratio is in increasing I F/Y 2005/06 and is decreased in 2006/07.Again the ratio is increasing in F/Y 2007/08 to 2010/11. The highest ratio is 2.26% in F/Y 2010/11 and the ratio lowest ratio is 1.63% in F/Y 2006/07. The table shows the average ratio of 1.91%.

Figure 5



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Figure 5 shows the trends of net profit to total deposit ratio of KBL and EBL are presented in the form of bar. Grey column indicates the ratio of KBL and black column indicates the ratio of EBL. Similarly, the fiscal years and the ratio in percentage are represented by X-axis and Y-axis respectively. The ratio is in increasing trend F/Y 2004/05 to F/Y 2010/11. The highest ratio of KBL over the study period is in F/Y 2010/11, which lies in between 1.50% to 2.50% and the lowest ratio is in F/Y 2006/07 1.50% to 2.00%. Similarly, the highest ratio is KBL is in F/Y 2009/10, which lies in between 1.50% to 2% and the lowest ratio is in F/Y 2005/06, which lies in between 1.00% to 1.50%.

4.1.3.3 Return on Shareholder's equity

This ratio shows if the firm has earned a satisfactory return to its shareholders or not. As of other ratios, the higher ratio is preferred.

Table 4.11

Return on Shareholder's Equity of KBL

Rs. (in million)

Fiscal Year	Net Profit after tax (Rs.)	Shareholder's Equity (Rs.)	Ratio (%)
2004/05	84.20	641.76	13.12
2005/06	103.67	863.85	12.00
2006/07	170.26	1,025.63	16.60
2007/08	174.93	1,364.88	12.82
2008/09	258.35	1,624.95	15.90
2009/10	316.54	1,785.76	17.73
2010/11	251.00	2,213.84	11.34
Average	194.14	1,360.10	14.22

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

The return on shareholder's equity of KBL is in fluctuating trend under the seven years study period. The ratio is decreasing in F/Y 2005/06 and is increased in F/Y 2006/07. The highest ratio is 17.73% in F/Y 2009/10 and the lowest ratio is 11.034% in F/Y 2010/11. The average return on shareholders equity is found to be 14.22%.

Table 4.12

Return on Shareholder's Equity of EBL

Rs. (in million)

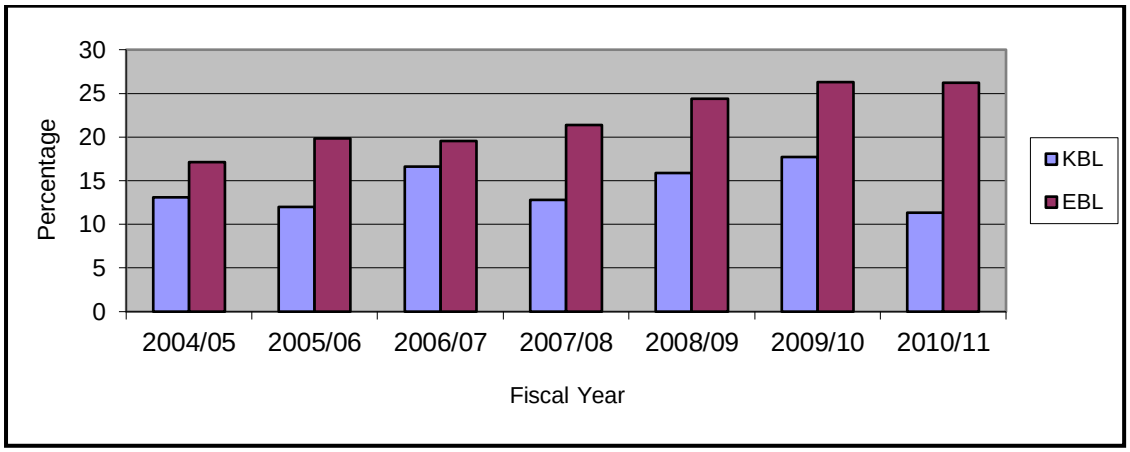
Fiscal Year	Net Profit after tax (Rs.)	Shareholder's Equity (Rs.)	Ratio (%)
2004/05	170.81	998.03	17.11
2005/06	237.29	1,197.97	19.81
2006/07	296.41	1514.67	19.57
2007/08	451.22	2,112.70	21.36
2008/09	638.75	2,621.60	24.36
2009/10	831.82	3,169.10	26.25
2010/11	931.30	3,554.30	26.20
Average	508.23	2,166.91	22.09

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Table 4.12 presents the ratio of return on equity of EBL is in increasing trend up to F/Y 2009/10 and is decreased in F/Y 2010/11. The ratio is highest F/Y 2009/10 and lowest in F/Y 2004/05. The highest ratio is 26.25% and lowest ratio is 17.11%. The average ratio for the seven years study period is calculated as 22.09 which is greater than the average return of KBL i.e. 14.22%. Higher the ratio, higher will be the investment, which the common shareholders will undertake. From Table 4.12, effectiveness on mobilization of owner's fund both banks, KBL and EBL has slightly difference.

Figure 6

Return on Shareholder's Equity



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Figure 6 presents the visual indication of trends of return on shareholder's equity of KBL and EBL of the seven years study period. Grey column indicates the ratio of KBL and black column indicates the ratio of EBL. The ratio of EBL is higher than that of KBL in years. Both the banks have highest ratio in F/Y 2009/10, the ratio of KBL & EBL lies in between 15% to 20% and 25% to 30%. The lowest ratio of KBL is in F/Y 2010/1 and EBL is in F/Y 2004/05.

4.1.3.4 Return on Net Worth

Return on Net Worth ratio is also known as Total Equity Ratio. It shows the degree of efficiency of the utilization of owner's funds by the firm or bank. This ratio indicates profit after taxes to net worth. This ratio determines whether the investment in the bank/company is attractive or not. Higher ratio indicates the higher overall efficiency of the firm or vice-versa.

The following tables (Table 4.13 & 4.14), shows the profitability position of KBL and EBL with respect to net worth.

Table 4.13

Return on Net Worth of KBL

Rs. (in million)

Fiscal Year	Net Profit after tax (Rs.)	Net Worth (Rs.)	Ratio (%)
2004/05	84.20	641.76	13.12
2005/06	103.67	863.85	12.00
2006/07	237.29	1,025.63	16.60
2007/08	174.93	1,364.88	12.82
2008/09	258.35	1,624.95	15.90
2009/10	316.54	1,785.76	17.73
2010/11	251.00	2,213.84	11.34
Average	194.14	1,360.10	14.22

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

In table 4.13, return on net worth of KBL shows fluctuating trend in seven years study period. The highest ratio of KBL is 17.73% in F/Y 2009/10 and the lowest ratio is 11.345 in F/Y 2010/11. The average ratio under the study period is 14.22%.

Table 4.14

Return on Net Worth of EBL

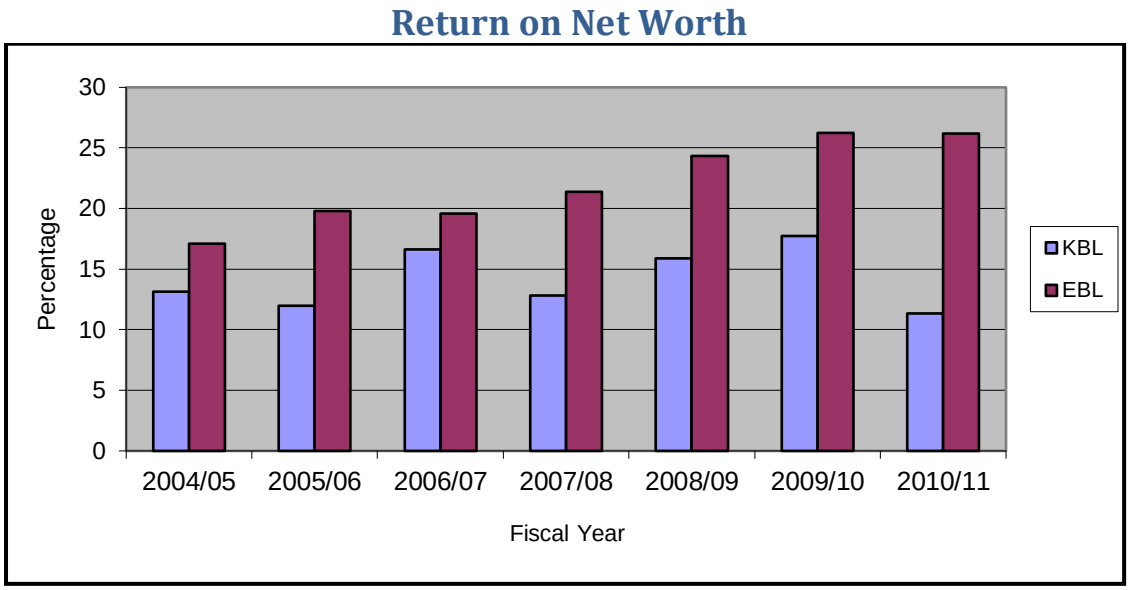
Rs. (in million)

Fiscal Year	Net Profit after tax (Rs.)	Net Worth (Rs.)	Ratio (%)
2004/05	170.81	998.03	17.11
2005/06	237.29	1,197.97	19.81
2006/07	296.41	1,514.67	19.57
2007/08	451.22	2,112.70	21.36
2008/09	638.75	2,621.60	24.36
2009/10	831.82	3,169.10	26.25
2010/11	931.30	3,554.30	26.20
Average	508.23	2,166.91	22.09

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

In table 4.14, the ratio of EBL shows increasing trend from F/Y 2004/05 to 2009/10and is decreased in F/Y 2010/11.In F/Y 2009/10 and F/Y 2010/11 is also in increasing trend. The highest ratio is 26.25% in F/Y 2009/10 and the lowest ratio is 17.11% in F/Y 2004/05. From increasing ratio up to F/Y 2010/11, we can say that the efficiency of the utilization of owner's fund is improving up to the year. The average ratio of EBL is slightly greater than that of KBL, i.e.22.09>14.22.

Figure 7



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Figure 7, shows the trends of return on net worth of KBL and EBL, which are represented by grey and black columns respectively. Fiscal years and ratios in percentage are represented by horizontal and vertical axes respectively. The figure shows KBL in fluctuating trend. Similarly EBL is in increasing trend from F/Y 2007/08 up to 2009/010 and again decreased in F/Y 2010/11. In figure, it is clear that the highest ratio of KBL is 17.73% in F/Y 2009/10 and lies in between 15% to 20%, and the lowest ratio is 11.34% in F/Y 2010/1. The highest ratio of EBL is in F/Y 2009/10 which exceeds 25% and the lowest ratio is in F/Y 2004/05 which lies in between 15% to 20%.

4.1.3.5 Return on Capital Employed

Capital employed refers to the use of long term funds supplied by creditors and owners of the firm, and return to net profit after tax. This ratio measures the over-all efficiency of the firm. Higher ratio indicates efficient use of the capital employed. Following table shows return on capital employed of both banks.

Table 4.15

Return on Capital Employed of KBL

Rs. (in million)

Fiscal Year	Net Profit after tax (Rs.)	Fixed Deposit (Rs.)	Net Worth (Rs.)	Ratio (%)
2004/05	84.20	2,032.09	641.76	3.50
2005/06	103.67	3,126.83	863.85	2.57
2006/07	170.26	2,776.48	1,025.63	4.48
2007/08	174.93	3,799.56	1,364.88	3.39
2008/09	258.35	4,527.05	1,624.95	4.20
2009/10	316.54	7,206.20	1,785.76	3.52
2010/11	251.00	6,654.66	2,213.84	2.83
Average	194.14	4,308.41	1,360.10	3.50

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

Table 4.15 clears that the ratio of return on capital employed of KBL is found fluctuating during the period of study. The ratio is decreasing in F/Y 2005/06 and is increased in F/Y 2006/07. The highest ratio over the period is 4.48% in F/Y 2006/07 and lowest ratio is 2.57% in F/Y 2005/06. The average ratio of KBL is 3.50%.

Table 4.16

Return on Capital Employed of EBL

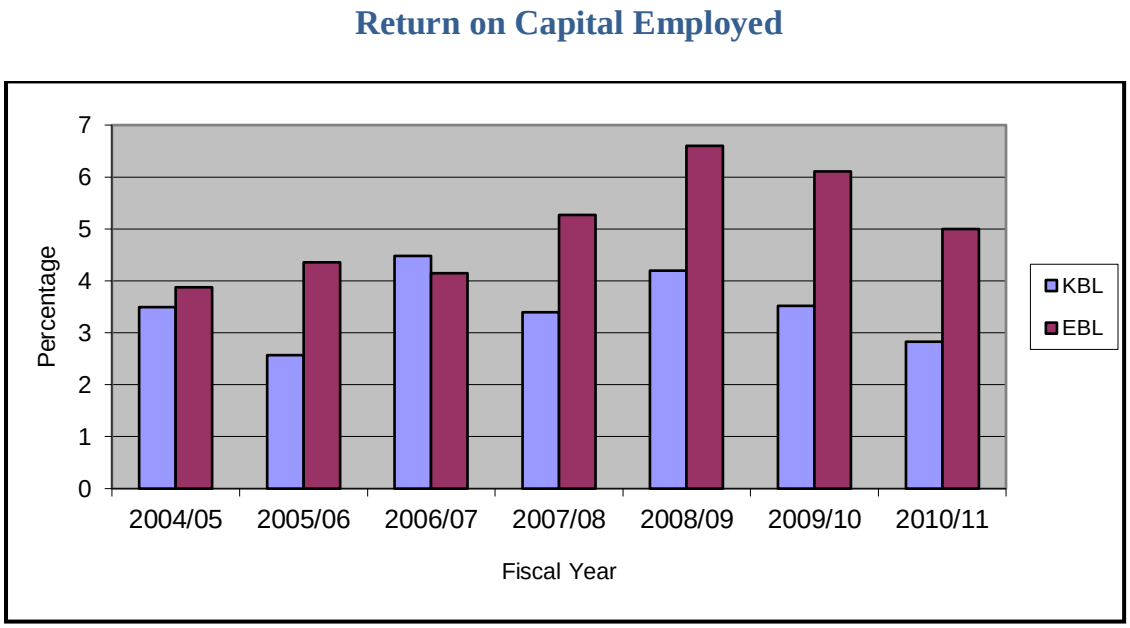
Rs. (in million)

Fiscal Year	Net Profit after Tax (Rs.)	Fixed Deposit (Rs.)	Net Worth (Rs.)	Ratio (%)
2004/05	170.81	3,403.96	998.03	3.88
2005/06	237.29	4,242.35	1,197.97	4.36
2006/07	296.41	5,626.66	1,514.67	4.15
2007/08	451.22	6,446.18	2,112.70	5.27
2008/09	638.75	7,049.98	2,621.60	6.60
2009/10	831.82	10,440.28	3,169.10	6.11
2010/11	931.30	15,061.94	3,554.30	5.00
Average	508.23	7,467.33	2,166.91	5.05

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Table 4.16 clears that the ratio of EBL from F/Y 2004/05 to F/Y 2010/11. F/Y 2007/08 and 2008/09 the ratio is in increasing trend and F/Y 2009/10 and 2010/11 the ratio is in decreased trend. The highest ratio is 6.60% in F/Y 2008/09 and lowest ratio is 3.88% in F/Y 2004/05. The average ratio is 5.05%. However, the average ratio of EBL is slightly greater than that KBL i.e. 5.05>3.50.

Figure 8



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Figure 8 shows that the ratio return on capital employed of KBL is decreasing trend up to F/Y 2005/06, which is presented by grey column in the figure. The ratio is increased in F/Y 2006/07. The ratio of the KBL is in fluctuation trend. Similarly the ratio of EBL shows increasing trend up to F/Y 2005/06 and is decreased in F/Y 2006/07. Again, the ratio is increasing in F/Y 2007/08 and 2008/09, which is represented by black columns in figure. The highest ratio of KBL is in F/Y 2006/07 and lies in between 4% to 5%, and lowest ratio is in F/Y 2010/11. The highest ratio of EBL is in F/Y 2008/09 and lies in between 6% to 7%, and lowest ratio is in F/Y 2004/05, which lies in between 3% to 4%.

4.1.3.6 Return on Investment (ROI)

Return on investment measures the company's return from investment or the capacity of company to generate profit from its investments. It can be computed by dividing net profit after tax by total investment.

Table 4.17

Return on Investment of KBL

Rs. (in million)

Fiscal Year	Net Profit after tax (Rs.)	Total Investment (Rs.)	Ratio (%)
2004/05	84.20	1,190.27	7.07
2005/06	103.67	1,394.95	7.43
2006/07	170.26	1,678.42	10.14
2007/08	174.93	2,194.16	7.97
2008/09	258.35	1,510.83	17.10
2009/10	316.54	2,296.87	13.78
2010/11	251.00	3,5333.62	7.10
Average	194.14	1,971.30	10.08

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

Here, the ratio of return on investment of KBL is shown in Table 4.17. Under the seven years study period, the ratio of KBL is in fluctuating trend. The highest ratio is 17.10% in F/Y 2008/09 and the lowest ratio is 7.07% in F/Y 2004/05. The average ratio under the study period is 10.08%.

Table 4.18

Return on Investment of EBL

Rs. (in million)

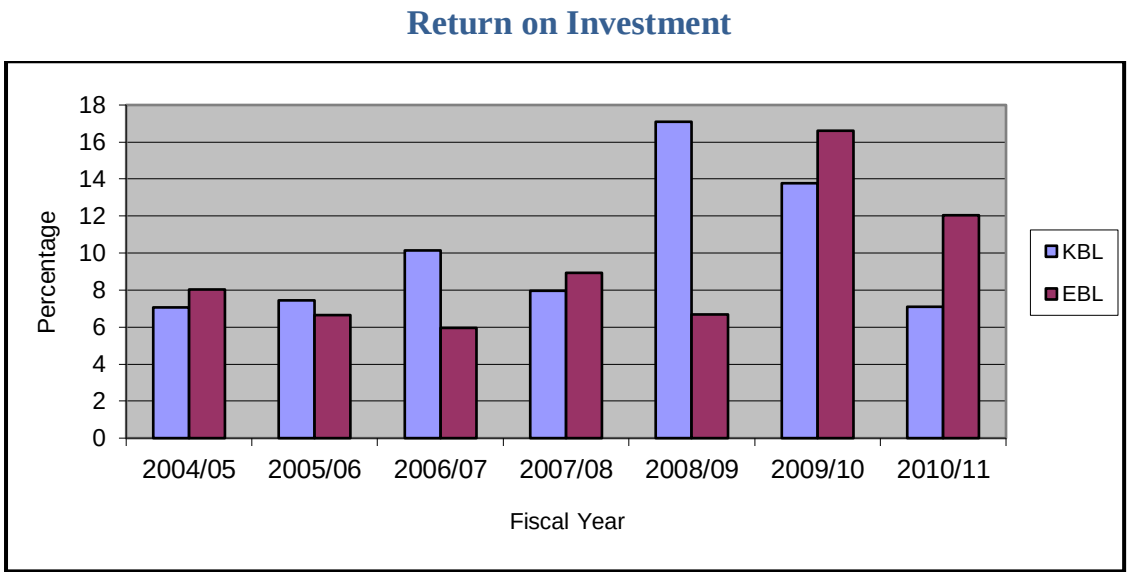
Fiscal Year	Net Profit after tax (Rs.)	Total Investment (Rs.)	Ratio (%)
2004/05	170.81	2,128.93	8.02
2005/06	237.29	4,200.51	6.65
2006/07	296.41	4,984.31	5.95
2007/08	451.22	5,059.56	8.92
2008/09	638.75	9,548.52	6.69

2009/10	831.82	5,008.35	16.61
2010/11	931.30	7,743.90	12.03
Average	508.23	5,524.87	9.27

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Table 4.18 clears that the ratio of return on investment of EBL is in fluctuating trend. The highest ratio is 16.61% in F/Y 2009/10 and the lowest ratio is 5.95% in F/Y 2006/07. The average ratio of is 9.27%. As the ratio of EBL is in decreasing trend and as its average ratio is also less than that of KBL, we can conclude that the capacity of KBL to generate profit from its investments is better than that of EBL.

Figure 9



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Return on investments of KBL and EBL is presented in figure 9. The ratios of KBL and EBL are represented by grey and black columns respectively. Similarly, the fiscal years and ratio in percentage are represented by horizontal and vertical axes. The figure clearly explains that the ratio of KBL is in increasing trend. Where as the ratio of EBL is in fluctuating trend. The ratio of KBL has highest ratio in F/Y 2008/09 and lowest ratio in F/Y 2004/05. Likewise the ratio of EBL has highest ratio in F/Y 2009/10 and lowest ratio in F/Y 2006/07.

4.1.3.7 Earning Per Share (EPS)

Earning per Share measures the profit available to the each equity holders. EPS does not indicate how many dividends are being paid on each share. It only measures the overall operational efficiency of the bank. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every share held has earned.

Table 4.19

Earning Per Share of KBL

Fiscal Year	Net Profit after tax (Rs. in million)	No. of Shares '0000'	EPS (Rs.)
2004/05	84.20	500.00	16.84
2005/06	103.67	625.00	16.59
2006/07	170.26	750.00	22.70
2007/08	174.93	1070.00	16.35
2008/09	258.35	1186.00	21.78
2009/10	316.54	1306.00	24.27
2010/11	251.00	1604.00	15.65
Average	194.14	1,005.86	19.17

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

EPS of KBL is shown in Table 4.19 as in decreasing & increasing trend. KBL has highest EPS of Rs.24.4 in F/Y 2009/10 and lowest EPS of Rs.15.65 in F/Y 2010/11. The average EPS under the study period is Rs.19.17.

Table 4.20

Earning Per Share of EBL

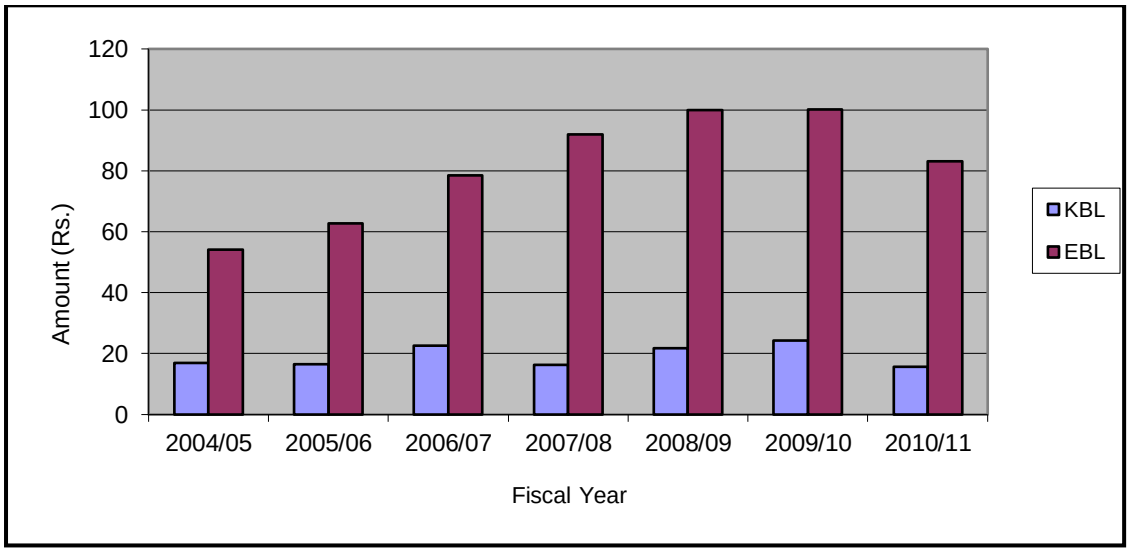
Fiscal Year	Net Profit after tax (Rs. in million)	No. of Shares '0000'	EPS (Rs.)
2004/05	170.81	315.00	54.23
2005/06	237.29	378.00	62.78
2006/07	296.41	378.00	78.42
2007/08	451.22	491.00	91.90

2008/09	638.75	639.00	99.96
2009/10	831.82	830.00	100.16
2010/11	931.30	1120.00	83.15
Average	508.23	593.00	81.51

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Table 4.20 shows that EPS of EBL is in increasing trend up to F/y 2005/06 to 200/10. Later the ratio again falls down to Rs. 83.15 in F/Y 2010/11. The highest value of EBL is Rs. 100.16 in the F/Y 2009/10 and lowest value is Rs. 54.23 in F/Y 2004/05. The average EPS of EBL Rs. 81.51, which is higher than that of KBL.

Figure 10



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Here, the visual presentation of trends of EPS of KBL and EBL is shown in the Figure 10. Horizontal axis indicates the fiscal years under study and vertical axis indicates amount in rupees. EPS of KBL is represented by grey columns and that of EBL is represented by black columns respectively. The figure shows, EPS of

EBL is increasing trend. Where as EPS of KBL is in fluctuating trend. Figure also shows high differences between EPS of KBL and EBL. EBL shows higher EPS in each fiscal year than that of KBL. So from above figure we can conclude that the overall operational efficiency of EBL is better than that of KBL.

4.1.4 Leverage Ratio

To judge the long-term financial position of the firm financial leverage, or capital structure ratios are calculated. These ratios indicate funds provided by owners and lenders. As a rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. The leverage ratios are calculated to measure the financial risk and the firm's ability of using debt for the benefit of shareholders.

4.1.4.1 Long-Term Debt to Shareholders Fund Ratio

This is one of the debt ratios used to analyze the long-term solvency of a firm. Long-term creditors, like debenture holders, financial institutions etc are more concerned with the firm's long-term financial position. As stated above, the ratio shows the proportion of outside long term liabilities to shareholders total funds (net worth). The table below shows the ratios calculated for both banks for last seven years.

Table 4.21

Long-term debt to Shareholder's ratio of KBL

Rs. (in million)

Fiscal Year	Long Term Debt (Rs.)	Shareholder's Fund (Rs.)	Ratio (Times)
2004/05	2,302.09	641.76	3.59
2005/06	3,126.83	863.85	3.66
2006/07	2,776.48	1,025.63	2.71
2007/08	3,799.56	1,364.88	2.78

2008/09	4,527.05	1,624.95	2.79
2009/10	7,206.20	1,785.76	4.04
2010/11	6,654.66	2,213.84	3.01
Average	4,308.41	1,360.10	3.23

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

Table 4.21 presents the long-term debt to shareholders fund ratio of KBL is in fluctuation trend. First two years it is showing increasing trend. The ratio is decreased in third year i.e. F/Y 2006/07. The ratio is again increasing to 2.78, 2.79 and 4.04 in F/Y 2007/08, F/Y 2008/09 and F/Y 2009/10. The highest ratio is 4.04 in F/Y 2009/10 and lowest ratio is 3.01 in F/Y 2010/11. Under the seven years study period, the average ratio is 3.23.

Table 4.22

Long-term Debt to Shareholder's Fund Ratio of EBL

Rs. (in million)

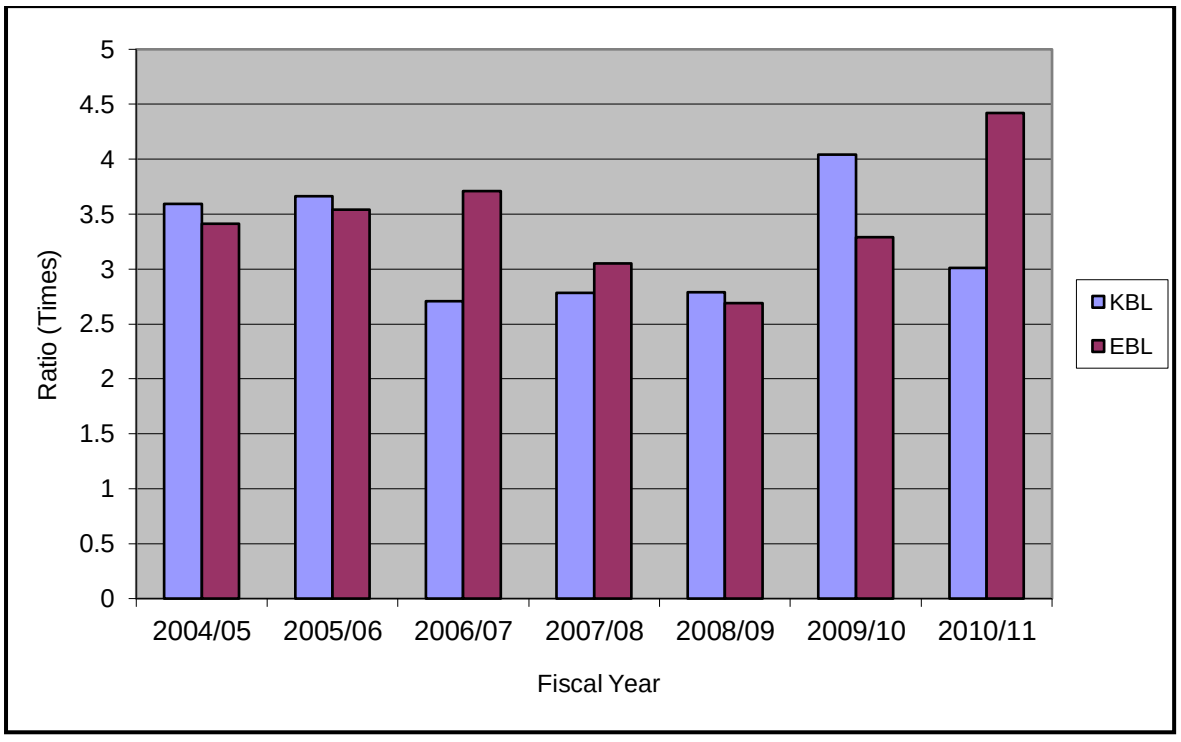
Fiscal Year	Long-term Debt (Rs.)	Shareholder's Fund (Rs.)	Ratio (Times)
2004/05	3,403.96	998.03	3.41
2005/06	4,242.35	1,197.97	3.54
2006/07	5,626.66	1,514.67	3.71
2007/08	6,446.18	2,112.70	3.05
2008/09	7,049.98	2,621.60	2.69
2009/10	10,440.28	3,169.10	3.29
2010/11	15,061.94	3,554.30	4.24
Average	7,467.33	2,166.91	3.42

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Table 4.22 shows, long-term debt to shareholders fund ratio of EBL is fluctuation trend. First three years it is showing increasing trend. 4th & 5th years it is showing decreasing trend. The ratio is again increased to 4.24 in F/Y

2010/11, which is the highest ratio under the study period. The lowest ratio is 20.69 in F/Y 2008/09 under the seven years study period, the average ratio is 3.42. Here, the average ratio of EBL is greater than that of KBL.i.e.3.42.>3.23. It shows that the proportion of outsiders claim in the total capitalization is higher in EBL. The larger amount of fixed deposit, which is the long-term liabilities, makes the ratios higher in case of EBL. Thus, EBL has comparatively more risky and aggressive capital structure than KBL.

Figure 11



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

In Figure 11, long-term debt to shareholder's fund ratio of KBL and EBL is presented in the form of multiple bar diagram. Horizontal and vertical axes are indicating fiscal years and ratio in times respectively. The ratios of KBL and EBL are represented by grey and black bars respectively. The figure shows that

KBL has highest ratio is 4.04 in F/Y 2009/10 and lowest ratio is 2.71 in F/Y 2006/07. Similarly, EBL has highest ratio is 4.24 in F/Y 2010/11 and lowest ratio is 2.69 in F/Y 2008/09. The figure shows high difference of ratios between two banks in fiscal years 2006/07 and 2010/11.

4.2 STATISTICAL ANALYSIS

In this section trend analysis and test of hypothesis are performed and analyzed

4.2.1 Trend Analysis

The meaning and method used for trend analysis has been presented in the previous chapter. In this topic trend values of recent seven years are calculated and values for next three years are forecasted. The values are represented by both table and graphically.

The projections are based on the following assumptions:

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

4.2.1.1 Trend Analysis of Loan & Advances of KBL and EBL

An effort has been made here to calculate the trend values of loan and advances of KBL and EBL for seven years from 2004/05 to 2010/11 and forecast for next three years till 2013/14.

The following table shows the trend values of 10 years from 2004/05 to 2013/14 of both banks. (Appendix–A)

Table 4.23

Trend values of Loans and Advances of KBL and EBL (2005-2014)

Rs. (In million)

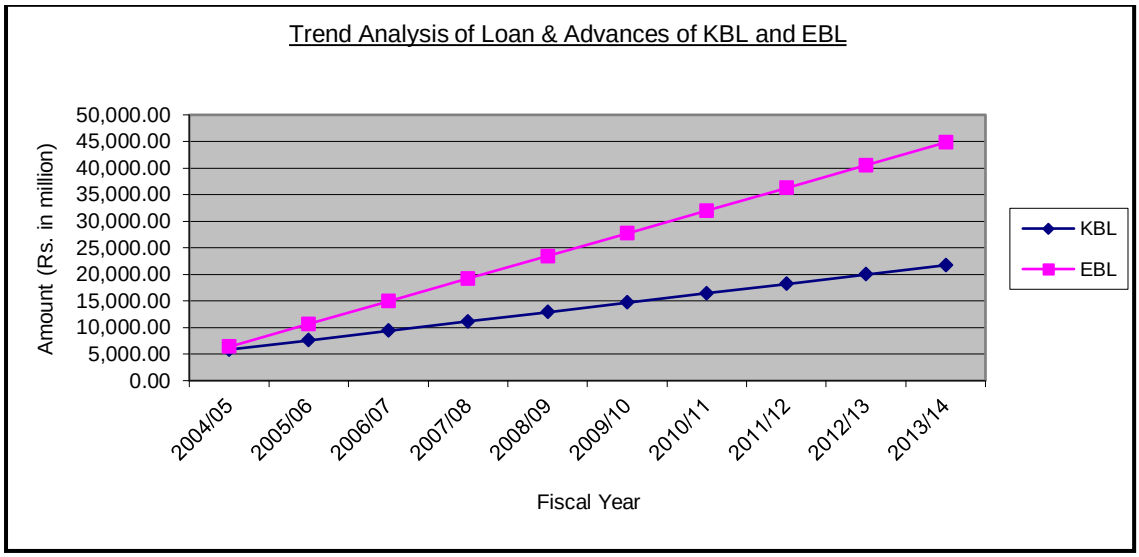
Fiscal Year	Trend Values KBL	Trend Values EBL
2004/05	5,846.09	6,353.49
2005/06	7,609.82	10,625.53
2006/07	9,373.55	14,899.57
2007/08	11,137.28	19,172.61
2008/09	12,901.01	23,445.65
2009/10	14,664.74	27,718.69
2010/11	16,428.47	31,991.73
2011/12	18,192.20	36,264.77
2012/13	19,955.93	40,537.81
2013/14	21,719.66	44,810.85

(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

From Table 4.23, it is clear that loans and advances of both KBL and EBL are in increasing trend. Other things remain same, the highest loans and advances of KBL is Rs. 21,719.66 million in the F/Y 2013/14. Similarly, the highest loans and advances of EBL is Rs. 44,810.85 million in the F/Y 2013/14.

From the above trend analysis, it is clear that KBL's utilization in terms of loans and advances position in relation to EBL is proportionately better. The above calculated trend values of loans and advances of KBL and EBL are fitted in the trend lines.

Figure 12



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Figure 12, presents a calculated trend values of loans and advances of KBL and EBL are fitted in the trend lines. Fiscal years are shown in horizontal axis and amount of loans and advances are shown in vertical axis. Line with square symbols indicates the trend line of EBL and the line with diamond symbols indicates the trend tine of KBL. Trends of both banks seem to start nearly from same point. Although both banks are showing increasing trend, EBL shows higher increment in trend values. So it is clear from above figure that EBL's utilization of fund in terms of loans and advances position in relation to KBL is proportionately better.

4.2.1.2 Trend analysis of Total Investment

In this section, an attempt has been made to analyze total investment of KBL and EBL for seven years from 2004/05 to 2010/11 and forecast for next three years till 2013/14.

The following Table 13 shows the trend values of total investment of KBL and EBL for 10 years. (Appendix–B)

Table 4.24

Trend values of Total Investment of KBL and EBL (2005-2014)

Rs. (in million)

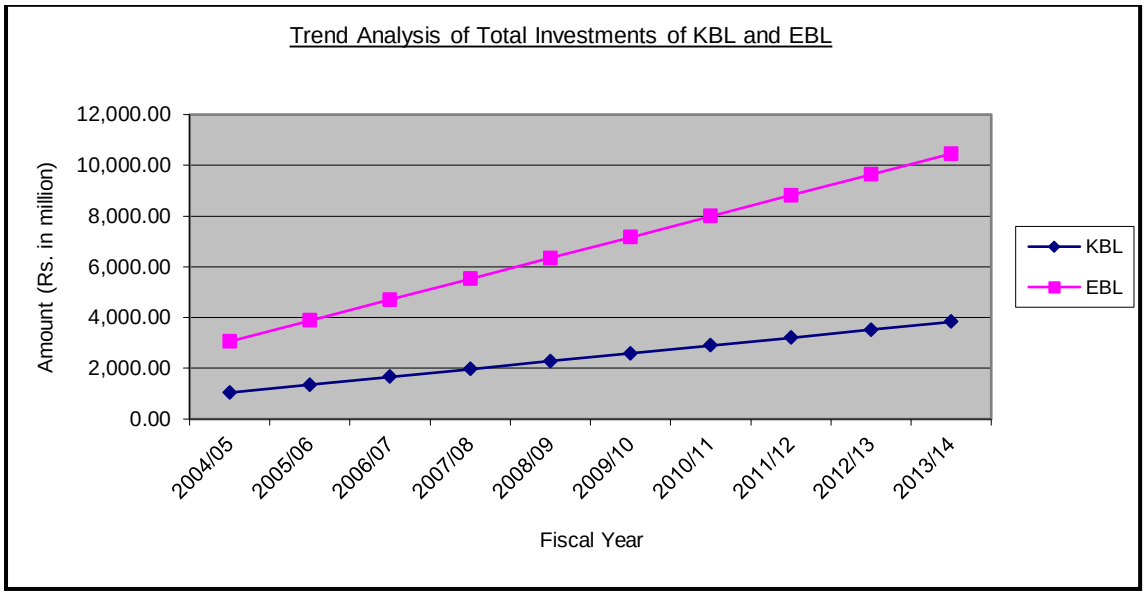
Fiscal Year	Trend Values KBL	Trend Values EBL
2004/05	1,042.77	3,057.94
2005/06	1,352.28	3,880.25
2006/07	1,661.79	4,702.56
2007/08	1,971.30	5,524.87
2008/09	2,280.81	6,347.18
2009/10	2,590.32	7,169.49
2010/11	2,899.83	7,991.80
2011/12	3,209.34	8,814.11
2012/13	3,518.85	9,636.42
2013/14	3,828.36	10,458.73

(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

From Table 4.24, it is clear that Total Investment of both KBL and EBL are in increasing trend. Other things remain same; Total Investment of KBL in F/Y 2013/14 will be Rs.3828.36 million, which is the highest under the study period. Similarly, the same of the EBL will be Rs. 10,458.73 million.

From the above trend analysis, it is clear that EBL's Total Investment position in relation to KBL is proportionately better. The above calculated trend values of Total investment of KBL and EBL are fitted in the trend lines.

Figure 13



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Figure 13 shows a calculated trend values of total investments of KBL and EBL are fitted in the trend lines. Fiscal years are shown in horizontal axis and amount of investments are shown in vertical axis with gaps of thousand millions. Line with square symbols indicates the trend line of EBL and the line with diamond symbols indicates the trend tine of KBL. Both banks are showing increasing trend. In the first year EBL has higher trend than that of KBL, and EBL also shows higher increment in trend values. KBL shows lower increment in trend values than EBL. From the above trend analysis, it is clear that EBL's Total Investment position in relation to KBL is proportionately better.

4.2.1.3 Trend analysis of Earning per Share

Here, an effort has been made to analyze the earning per share of KBL and EBL for seven year from 2004/05 to 2010/11 and forecast for next three years till 2013/14.

The following table shows the trend values of the earning per share of KBL and EBL for 10 years. (Appendix–C)

Table 4.25

Trend values of Earning per Share of KBL and EBL (2005-2014)

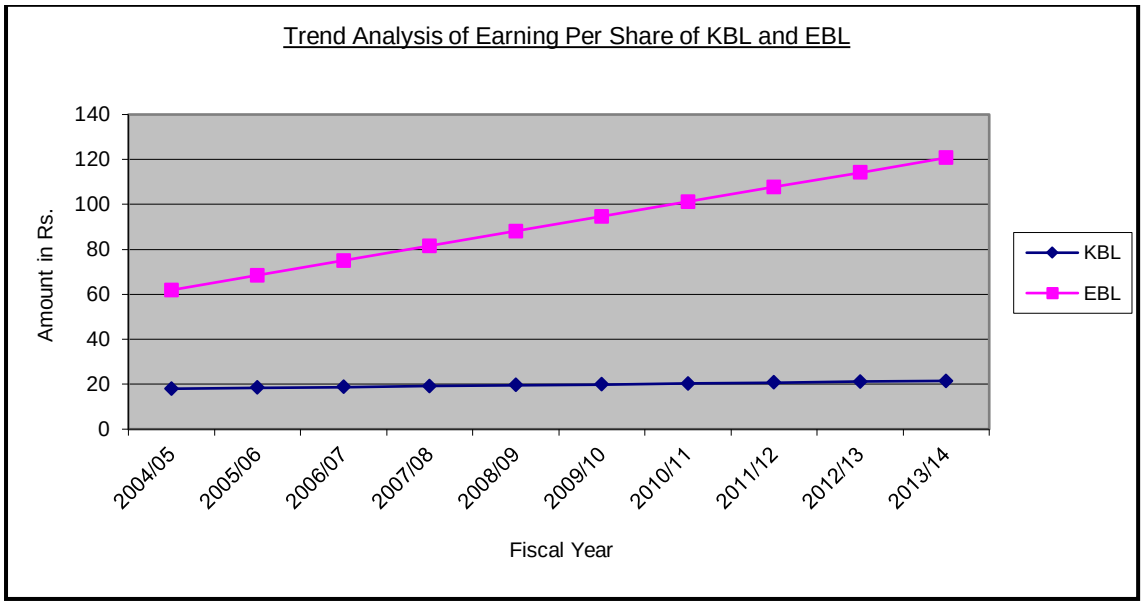
Amount in Rs.

Fiscal Year	Trend Values KBL	Trend Values EBL
2004/05	18.00	61.89
2005/06	18.39	68.43
2006/07	18.77	74.97
2007/08	19.16	81.51
2008/09	19.55	88.05
2009/10	19.93	94.59
2010/11	20.32	101.13
2011/12	20.70	107.67
2012/13	21.09	114.21
2013/14	21.48	120.75

(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

Table 4.25 implies trend values of Earning per Share, it has been found that expected amount of both KBL and EBL are in increasing trend. Other things remain the same; the highest Earning per Share of KBL under the study period is Rs.21.48. In case of EBL the highest earning per share is Rs.120.75 in 2013/14. Though trend values of both banks are in increasing trend, EBL has higher trend values in each year. So we can say that EBL's earning per share in relation to KBL it is proportionately better. The above calculated trend values of Earning per Share of KBL and EBL are fitted in the trend lines.

Figure 14



(Source: Annual Reports of KBL and EBL from 2004/05 to 2010/11)

The calculated trend values of earning per share of KBL and EBL are fitted in the trend lines and shown in figure 14. Fiscal years are shown in horizontal axis and amount of earning per share are shown in vertical axis. Line with square symbols indicates the trend line of EBL and the line with diamond symbols indicates the trend tine of KBL. It has been found that expected amount of earning per share of both KBL and EBL are in increasing trend. EBL seems to start from higher point than KBL. EBL also shows higher increment in trend values. It is also clear from the figure that EPS of EBL is better in comparison to KBL.

4.2.2 Test of Hypothesis

In this section, an effort has been made to test the significance regarding the parameter of the population on the basis of sample drawn from the population. The procedure and various steps used in test of statistical hypothesis have been stated in previous chapter.

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

i. Test of Hypothesis on Cash and Bank Balance to Total Deposit Ratio of KBL and EBL. (Appendix –D)

Null Hypothesis (H_{01}): $\mu x=\mu y$ i.e. there is no significant difference between mean ratios of cash and bank balance to total deposit ratio of KBL and EBL.

Alternative Hypothesis (H_1): $\mu x \neq \mu y$ (two tailed test) i.e. there is significant difference between mean ratios of cash and bank balance to total deposit ratio of KBK and EBL.

Under $H_{01,}$ test – statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2\left[\frac{1}{n_1} + \frac{1}{n_2}\right]}}$$ with .....d.f.= n_1+n_2-2

$$t = \frac{8.51 - 14.36}{\sqrt{14.763\left[\frac{1}{7} + \frac{1}{7}\right]}}$$

=2.854

Tabulated value of 't' (two tailed test) at 5% level for (n_1+n_2-2) d. f. i.e.12 d. f is 2.179.

Decision:

Since, the calculated value of t i.e. 2.854 is greater than tabulated value of t i.e. 2.179 H_{01} is rejected. In other words there is significant difference between mean ratios of Cash and Bank Balance to Total Deposit Ratio of KBL and EBL.

ii. Test of Hypothesis on Loans and Advances to Total Deposit Ratio of KBL and EBL. (Appendix –E)

Null Hypothesis (H_{02}): $\mu x = \mu y$ i.e. there is no significant difference between mean ratios of Loans and Advances into Total Deposit ratio of KBL and EBL.

Alternative Hypothesis (H_2): $\mu x \neq \mu y$ (two tailed test) i.e. there is significant difference between mean ratios of Loans and Advances to Total Deposit ratio of KBL and EBL.

Under $H_{02,}$ test – statistic is :

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2\left[\frac{1}{n_1} + \frac{1}{n_2}\right]}}$$ with .....d.f.= n_1+n_2-2

$$t = \frac{89.25 - 75.26}{\sqrt{7.44\left[\frac{1}{7} + \frac{1}{7}\right]}}$$

$= 9.595$

Since, calculated value t is $|t| = 9.595$

Tabulated value of 't' (two tailed test) at 5% level for (n_1+n_2-2) d. f. i.e.12 d. f is 2.179.

Decision:

Since, the calculated value of 't' i.e. 9.955 is higher than tabulated value of 't' i.e. 2.179. H_{02} is rejected. In other words there is significant difference between mean ratios of Loans and Advances to Total Deposit Ratio of KBL and EBL.

iii. Test of Hypothesis on Net Profit to Total Deposit Ratio of KBL and EBL. (Appendix –F)

Null Hypothesis (H_{03}): $\mu x = \mu y$ i.e. there is no significant difference between mean ratios of Net Profit to Total Assets Ratio of KBL and EBL.

Alternative Hypothesis (H_3): $\mu x \neq \mu y$ (two tailed test) i.e. there is significant difference between mean ratios of Net Profit to Total Assets Ratio of KBL and EBL.

Under $H_{03,}$ test – statistic is :

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2\left[\frac{1}{n_1} + \frac{1}{n_2}\right]}}$$ With .....d.f.= n_1+n_2-2

$$t = \frac{1.51 - 191}{\sqrt{0.0508\left[\frac{1}{7} + \frac{1}{7}\right]}}$$

= - 3.333

Since, calculated value t is in negative, $|t| = 3.333$

Tabulated value of 't' (two tailed test) at 5% level for (n_1+n_2-2) d.f. i.e.12 d.f is 2.179.

Decision:

Since, the calculated value of 't' i.e. 3.333 is higher than tabulated value of 't' i.e. 2.179. H_{03} is rejected. In other words there is significant difference between mean ratios of Net Profit to Total Deposit Ratio of KBL and EBL.

iv. Test of Hypothesis on Return on Net worth Ratio of KBL and EBL.
(Appendix –G)

Null Hypothesis (H_{04}): $\mu x=\mu y$ i.e. there is no significant difference between mean ratios of Return on Net Worth Ratio of KBL and EBL.

Alternative Hypothesis (H_4): $\mu x \neq \mu y$ (two tailed test) i.e. there is significant difference between mean ratios of Return on Net Worth Ratio of KBL and EBL.
Under $H_{04,}$ test – statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2\left[\frac{1}{n_1} + \frac{1}{n_2}\right]}}$$ with .....d.f.= n_1+n_2-2

$$t = \frac{14.22 - 22.09}{\sqrt{9.444\left[\frac{1}{7} + \frac{1}{7}\right]}}$$

= -4.799

Since, calculated value t is in negative, $|t|$ = 4.799

Tabulated value of't' (two tailed test) at 5% level for (n_1+n_2-2) d.f. i.e.12 d.f is 2.179.

Decision:

Since, the calculated value of 't' i.e. 4.799 is higher than tabulated value of 't' i.e. 2.179. H_{04} is rejected. In other words there is significant difference between mean ratios of Return on Net worth Ratio of KBL and EBL.

v. Test of Hypothesis on Return on Capital Employed Ratio of KBL and EBL. (Appendix –H)

Null Hypothesis (H_{05}): $\mu x=\mu y$ i.e. there is no significant difference between mean ratios of Return on Capital Employed of KBL and EBL.

Alternative Hypothesis (H_5): $\mu x \neq \mu y$ (two tailed test) i.e. there is significant difference between mean ratios of Return on Capital Employed Ratio of KBL and EBL.

Under $H_{05,}$ test – statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2\left[\frac{1}{n_1} + \frac{1}{n_2}\right]}}$$ with .....d.f.= n_1+n_2-2

$$t = \frac{3.50 - 5.05}{\sqrt{0.751\left[\frac{1}{7} + \frac{1}{7}\right]}}$$

= -3.369

Since, calculated value t is in negative, $|t|$ = 3.369

Tabulated value of 't' (two tailed test) at 5% level for (n_1+n_2-2) d.f. i.e.12 d.f is 2.179.

Decision:

Since, the calculated value of 't' i.e. 3.369 is higher than tabulated value of 't' i.e. 2.179. H_{05} is rejected. In other words there is significant difference between mean ratios of Return on Capital Employed Ratio of KBL and EBL.

vi. Test of Hypothesis on Return on Investment Ratio of KBL and the EBL (Appendix –I)

Null Hypothesis (H_{06}): $\mu x = \mu y$ i.e. there is no significant difference between mean ratios of Return on Investment Ratio of KBL and EBL.

Alternative Hypothesis (H_6): $\mu x \neq \mu y$ (two tailed test) i.e. there is significant difference between mean ratios of Return on Investment Ratio of KBL and EBL.

Under $H_{06,}$ test – statistic is :

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{s^2\left[\frac{1}{n_1} + \frac{1}{n_2}\right]}}$$ with .....d.f.= n_1+n_2-2

$$t = \frac{10.08 - 9.27}{\sqrt{15.009\left[\frac{1}{7} + \frac{1}{7}\right]}}$$

$= 0.391$

Since, calculated value t is in negative, $|t| = 0.391$

Tabulated value of 't' (two tailed test) at 5% level for (n_1+n_2-2) d.f. i.e.12 d.f is 2.179.

Decision:

Since, the calculated value of 't' i.e. 0.391 is less than tabulated value of 't' i.e. 2.179. H_{06} is accepted. In other words there is no significant difference between mean ratios of Return on Investment Ratio of KBL and EBL.

4.3 MAJOR FINDINGS OF THIS STUDY

Financial analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The following are the major findings from the financial ratios.

1. The current ratio measures only total rupees' worth of current assets and total rupee's worth of current liabilities, i.e. it indicates the availability of current assets in rupee for every one rupee of current liability. Though the optimal standard of current ratio is 2:1, but 1:1 is considered for banks. A ratio that is greater than one means that the firm has more current assets than current claims against them. The calculation found that the average current ratio of KBL and EBL are unequal (1.36>1.18).

   As current ratio of both KBL and EBL is greater than 1.00, the liquidity positions of both the banks are in normal standard.

2. Cash and Bank Balance to Total Deposit Ratio shows that the ratio of KBL is in decreased in F/Y 2005/06, again the ratio of KBL is in increasing trend up to F/Y 2009/10. Lastly the ratio is in decreased trend up to F/Y 2010/11. The ratio of EBL is in increasing trend up to F/Y 2009/10. The highest ratio of KBL is 15.63% in the F/Y 2009/10 and lowest ratio is 5.02% in the F/Y 2004/05. Similarly, the highest ratio of EBL is 21.17% in F/Y 2009/10 and lowest ratio is 10.40% in F/Y 2004/05. The average ratio of EBL is greater than the average ratio of KBL i.e. 14.36>8.51. So it can be concluded that EBL is more efficient than KBL in cash management.

3. The calculation of Loans and Advances shows that the ratio of KBL is in decreased 85.84% trend in F/Y 2006/07, which is the lowest ratio over the period and it shows slightly increasing trend up to F/Y 2007/08 and F/Y 2008/09. The highest ratio is 94.17% in F/Y 2008/09. The ratio of EBL is decreased to 71.01% in F/Y 2005/06, which is the lowest ratio over the period

and again, the ratio is increasing trend and decreasing trend from 2006/07 to F/Y 2010/11. The highest ratio is 78.56% in F/Y 2007/08. The average ratio of KBL is greater than EBL i.e.89.25>75.26, it means that KBL is mobilizing its collected resources in the form of deposits much more efficiently; which definitely lead to the increase in income and thus, making an increment profit for the organization.

4. The calculation of Net Profit to Total Assets shows that the ratio of KBL is in increasing trend. The highest ratio is 1.54% in F/Y 2009/10 and the lowest ratio is 1.13% in F/Y 2004/05. The ratio of EBL is in increasing trend up to F/Y 2010/11. The highest ratio is 2.01% in F/Y 2009/10 and the lowest ratio is 1.38% in F/Y 2006/07. The average return of EBL is greater than KBL i.e. 1.68>1.29. It can be said that EBL has managed to earn steady rate of return on its assets employed in each fiscal year.

5. The calculation of Net Profit to Total Deposit Ratio shows that the ratio of KBL is in fluctuating trend where as EBL is in increasing trend from F/Y 2007/07 to F/Y 2010/11. The highest ratio of KBL is 1.82% in F/Y 2009/10 and lowest ratio is 1.33% in F/Y 2005/06/. Similarly, the highest ratio of EBL is 2.26% in F/Y 2010/1 and the lowest ratio is 1.63% in F/Y 2006/07.

As the average ratio of EBL is greater than that of KBL i.e. 2.26>1.51, it can be said that EBL seems to be more successful in mobilizing its customer's saving in much more productive sectors than KBL.

6.The calculation of Return on Shareholder's equity shows that KBL is in fluctuating trend from F/Y 2004/05 to F/Y 2010/11. EBL is in increasing trend from F/Y 2004/05. The highest ratio of KBL is 17.73% in F/Y 2009/10 and the lowest ratio is 12% in F/Y 2005/06. Similarly, the highest ratio of EBL is 26.25% in F/Y2009/10 and the lowest ratio is 17.11% in F/Y 2004/05. However the average ratio of EBL is greater than the KBL i.e.22.09>14.22

Higher the ratio, higher will be the investment, which the common shareholders will undertake. Here, comparatively we can say that EBL seems to tackle their investors more effectively than KBL, the effectiveness on mobilization of owner's fund better in EBL.

7. Return on net worth of KBL is in decreasing and increasing trend. The ratio of EBL is in increasing trend from F/Y 2004/05. The highest ratio of KBL is 17.73% in f/y 2009/10 and the lowest ratio is 12% in f/y 2005/06. Similarly, the highest ratio of EBL is 26.25% in F/Y 2009/10 and the lowest ratio is 17.11% in F/Y 2004/05. The average ratio of EBL is slightly greater than of KBL i.e.22.09> 14.22.

It is known that this ratio is calculated to reveal the overall operating efficiency of a firm, which indicates the earning power of the firm. Above analysis helps to conclude that EBL's profitability in relation to return on net worth is better than that of KBL.

8. Return on Capital Employed shows that the ratio of KBL is found fluctuating during the period of study. The ratio of EBL is in decreasing trend up to F/Y 2006/07 and shows increasing trend in F/Y 2007/08 and 2008/09. The highest ratio of KBL is 4.48% in F/Y 2006/07 and the lowest ratio is 2.51% in the F/Y 2005/06. Similarly, the highest ratio of EBL is6.60% in F/Y 2008/09 and the lowest ratio is 3.88% in F/Y 2004/05. Comparatively, the average ratio of EBL is greater than that of KBL i.e. 5.05>3.50.

The ratio calculation of return on capital employed indicates that EBL is in better position to utilize its overall resources.

9. The Return on Investment shows that the ratio of both bank are in fluctuating trend. The highest ratio of KBL is 17.10% in F/Y 2008/09 and the lowest ratio is 7.07% in F/Y 2004/05. Similarly the highest ratio of EBL is 16.61% in F/Y 2009/10 and the lowest ratio is 5.95% in F/Y 2006/07. The average ratio of KBL

is greater than that of EBL i.e. 10.08>9.27, so we can conclude that the capacity of KBL to generate profit from its investments is better than that of EBL.

10. The EPS is the earning per share given to the shareholders. The table shows that the ratio of KBL is in fluctuating trend and the ratio of EBL is in increasing trend up to F/Y 2009/10.Lastly the ratio is decreased in F/Y 2010/11. The highest ratio of KBL is Rs.24.24 in the F/Y 2009/10 and the lowest ratio is Rs.15.65 in F/Y 2010/11. Similarly, the highest ratio of EBL is Rs.100.16 in the F/Y 2009/10 and the lowest ratio is Rs.54.23 in F/Y 2004/05. As EBL shows higher EPS in each fiscal years than that of KBL and as the average ratio of EBL is greater than that of KBL i.e. 81.51>19.16, we can conclude that the overall operational efficiency of EBL is better than that of KBL.

11. The calculation Long–term Debt to Shareholder's Fund ratio shows that the ratio of both KBL and EBL is in increasing and decreasing trend from F/Y 2004/05. The highest ratio of KBL is 4.04 in F/Y 2009/10 and the lowest ratio is 2.71 in F/Y 2006/07. Similarly, the highest ratio of EBL is 4.25 in F/Y 2010/10 and the lowest ratio is 2.69 in F/Y 2008/09. Since the average ratio of EBL is greater than that of KBL i.e. 3.42>3.23, it shows that the proportion of outsiders claim in the total capitalization is higher in EBL. The larger amount of fixed deposit, which is the long-term liabilities, makes the ratios higher in case of EBL. Thus, EBL has comparatively more risky and aggressive capital structure than KBL.

Trend Analysis of Loan and Advances, Total Investment, Earning Per share and projection for next 3 year of KBL and EBL reveals that:

12. Trend Values of Loan and Advances of KBL and EBL are found in increasing trend. Other things remain same; the highest trend value of KBL is Rs. 21,719.66 million in the F/Y 2013/14. Similarly, the highest trend value of

EBL is Rs. 44,810.85 million in the F/Y 2013/14. Comparing the trend values of KBL and EBL, EBL's utilization of funds in terms of Loan and advances is much better than that of KBL.

13. Trend Values of Total Investment of both are in increasing trend. Other things remain same; Total Investment of KBL in F/Y 2013/14 will be Rs. 3,828.36 million, which is the highest under the study period. Similarly, the same of the EBL will be Rs. 10,458.73 million.

14. Trend values of Earning per Share of both KBL and EBL have shown increasing trend. Other things remain same; the highest Earning per Share of KBL will be Rs. 21.48 in F/Y 2013/14. In case of EBL the highest earning per share will be Rs.120.75 in F/Y 2013/14.

Thus, it can be concluded that EBL has higher trend values of Loan and Advances, Total Investment and Earning Per share in comparison to KBL.

From the test of significance regarding the parameter of the population, it has been found that:

15. There is significant difference between mean ratios of Cash and Bank Balance to Total Deposit Ratio of KBL and EBL. Therefore, we can conclude that the samples of the both banks are drawn from two normal populations having the different means and unequal population variances.

16. There is significant difference between mean ratios of Loans and Advances to Total Deposit Ratio of KBL and EBL. Therefore, it can be conclude that there is difference between population means of KBL and EBL, from which there samples are drawn.

17. There is significant difference between mean ratios of Net Profit to Total Deposit Ratio of KBL and EBL. It means that the samples of KBL and EBL are drawn from the population having not same mean.

18. There is significant difference between mean ratios of Return on Net Worth Ratio of KBL and EBL. Therefore, we can conclude that the samples of the both banks are drawn from two normal populations having the different means and unequal population variances.

19. There is significant difference between mean ratios of Return on Capital Employed Ratio of KBL and EBL. Therefore, it can be concluded that there is difference between population means of KBL and EBL, from which there samples are drawn.

20. There is no significant difference between mean ratios of Return on Investment Ratio of KBL and EBL. It means that the samples of KBL and EBL are drawn from the population having same mean.

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CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter presents summary, conclusion and actionable plans. This chapter also highlighted some selected actionable conclusions and recommendation on the basis of the main findings, which are derived from the analysis of KBL and EBL. Summary covers the brief explanation to all the chapters of the study, and shows the actual facts that have been taken from the analytical section. And the analysis is performed with the help of financial tools and statistical tools. Conclusions are based on the principal findings of the study representing the

strengths and weakness of the performance of the commercial banks. Actionable plans are presented in the form of suggestions, which are prepared on the basis of findings, issues and gaps.

5.1 SUMMARY

Since, commercial banks are the major financial institutions; they occupy an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resources deficit sectors by investing the saving collected as deposit. It also renders the resources those who have investment opportunities. Thus, they have served as major institution of development by enhancing and promoting industrial and commercial activities in the country. To perform investment function smoothly, commercial banks formulate sound investment policy, which help them maximize quantity and quality of investment and achieve the objective of profit maximization and social welfare.

Investment is the most important factor from the point of view of shareholders and bank management as well as though several commercial banks have been established in Nepal within short span of time, sufficient return cannot have been earned and strong, stable and appropriate investment policy has not been followed by the commercial banks. They have not been able to utilize their funds most efficiently and productively. Thus, proper utilization of the mobilized resources has become relevant and current issue for the bank. None of commercial banks seems to have optimized their investment portfolio and employed their entire fund in more profitable sector. They deep collect high liquid position and flow lower funds to productive sectors. They maintain high interest margin thereby, discourage financial intermediation. They don't have proper matching of their deposit and loan maturity.

In order to carry out this study, data have been basically obtained from secondary sources such as annual reports and financial statements, official

records, periodicals, journals and bulletins of commercial banks, various published reports and relevant unpublished Masters thesis. Besides this, personal contacts with the bank personnel have also been made.

As it has already mentioned that the procedure has been divided into two chapters, i.e. financial analysis and statistical analysis. Both chapters have made comparative analysis and their interpretation. Under financial analysis, various financial ratios related to the investment function of CBs i.e. liquidity ratio, activity turnover/utilization ratio, profitability ratio and turnover ratio and leverage ratio has been analyzed and interpreted comparatively. Under statistical analysis, trend analysis and test of hypothesis have been used. This analysis gives clear picture of the comparative performance of commercial banks regard to the investment operation.

5.2 CONCLUSIONS

Based on the main findings, the following conclusions can be drawn:

5.2.1 Liquidity Position

The analysis of liquidity position of these commercial banks shows different positions. The current ratio measures only total rupees worth of current assets and total rupees of current liabilities, i.e., it indicates the availability of current assets in rupees for everyone rupee of current liability. A ratio greater than one means the firm has more current assets than current claims against them. Generally, the current ratio of 2:1 is referred but acceptability of the value depends upon the industry in which a firm operates. For the banks and the utility firms, a current ratio of 1:1 or above would be considered acceptable. Here, the average current ratio of KBL (i.e. 1.36) is equal to EBL (i.e. 1.18). Therefore, it can be concluded that the liquidity position of KBL is slightly greater than EBL.

5.2.2 Turnover

The turnover of the commercial banks is the main indication of income generating activity. These ratios are used to judge how efficiently the firm has been using its resources. Higher the ratio, greater will be the ability to meet sudden demands of deposit. From the analysis of turnover of these two banks, EBL has better turnover than KBL in terms of cash and bank balance to total deposit ratio. So it can be concluded that EBL is more efficient than KBL in cash management i.e. it is more able to keep more cash balance against its various deposits. But in term of loans and advances to total deposit ratio KBL shows better turnover than EBL. Thus KBL has better utilization of resources in income generating activities than EBL, which definitely lead the bank to increase income and thus, making an increment profit for the organization.

5.2.3 Profitability

- It can be seen from the calculation that EBL's net profits as well as total assets are greater than that of KBL’s. Higher ratio shows better utilization and management on total assets and extends profit level. Both KBL and EBL have managed to earn a steady rate of return on its assets employed in each fiscal year. However, the average rate of return on assets of EBL is higher than that of KBL, which reveals that EBL is able to earn a better return on its total assets.
- In case of net profit to total deposit ratio, it can be said that EBL seems to be more successful in mobilizing its customer's saving in much more productive sectors as it shows increasing trend whereas KBL shows fluctuating trend, and the average ratio is also greater in case of EBL.
- The average rate of return on shareholder's equity of KBL is 14.22% whereas that of EBL is 22.09%. Higher the ratio, higher will be the investment, which the common shareholders will undertake, or high ratio represents sound management and efficient mobilization of the owner's equity. From the calculation, EBL seems to tackle their investors more efficiently than KBL, as its average ratio is greater than that of KBL.
- Return on net worth ratio is calculated to reveal the overall operating efficiency of the firm, which indicates the earning power of the firm. The calculation helps to conclude that the overall efficiency of both KBL and EBL is satisfactory. However the average ratio of EBL is greater than that of KBL.
- The ratio calculation of return on capital employed indicates that EBL is in better position than KBL; to utilize its overall resources as the average ratio of EBL (5.05) is greater than that of KBL (3.50).

- The calculation of profitability namely the return on investment shows the satisfactory return in case of both banks, KBL and EBL. However both banks i.e. KBL& EBL shows fluctuating trend. The average ratio of KBL is slightly higher than EBL. So we can conclude that the capacity to generate profit from its investment is better in case of EBL.
- It can be concluded that earning per share of EBL is better than that of KBL as its EPS shows increasing trend throughout the study period whereas EPS of KBL is in fluctuating trend. The average ratio of EBL is greater than in case of KBL.

5.2.4 Leverage

Leverage ratio is calculated to measure the long-term financial position of a firm. In general, debt should be in between 50% to 80% of equity. It can be concluded that the average long term debt to shareholders fund ratio of EBL is slightly greater than that of KBL, which implies that the proportion of outsiders claim in the total capitalization is higher in EBL.

5.2.5 Conclusion from Trend Analysis

Trend analysis of Loan & Advances, Total Investment and Earning per Share of both KBL and EBL are in increasing trend. However, from analysis EBL shows better increment of trends in all cases. So it can be concluded that EBL's utilization in terms of loans and advances position, total investment position and earning per share in comparison to KBL is proportionately better.

5.2.6 Conclusion from Testing of Hypothesis

Test of Hypothesis conclude that there is significant difference between mean ratios of Cash and bank Balance to Total Deposit ratio. Test of Hypothesis also concludes that there is significance different between mean ratios of Loan and Advance to Total Deposit ratio, Net profit to Total Deposit ratio, Return on Net Worth ratio and Return on capital employed ratio. It means that there is no

difference between population means of KBL and EBL except its return on investment ratio from which there samples are drawn.

5.3 RECOMMENDATIONS

On the basis of major findings, some important recommendation and suggestions have been forwarded so that they will help the bank to strengthen weaker aspects of their activities.

- Liquidity Management

  The current ratio of KBL is slightly leading EBL as their in standard level. They are recommended to maintain same standard level in future.

  The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply and demand position of loans and advances as well as savings, investment situations, lending policies, capability of management, strategic planning and funds flow situations. As KBL has maintained the ratios of cash and bank balance to total deposit considerably less than that of EBL, KBL is recommended to increase the cash and bank balance to meet current obligations and loan demand.

- Liberal Lending Policy

  To get the success in competitive banking environment, depositors' money must be utilized as loan and advances. Loans and advances are the primary source of income and covers large part of revenue. This is the most profitable activity of a bank apart from public services. It has been found from the study that KBL has comparatively greater ratio than EBL, because its large portions of fund invested as loan and advances. So it is recommended to EBL to follow liberal lending policy as KBL.

- Maintaining Profitability

  As a private commercial bank, it cannot keep their eyes closed from profit motive. They should be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and its customers. From overall study, profitability of both banks is satisfactory. However, EBL's profitability seems much better than that of KBL. So, KBL is recommended to utilize its assets, deposits and shareholders' fund much more efficiently to gain higher profit margin.

- Finding New Investment Alternatives

  The study reveals that the investment strategy of both bank are satisfactory. KBL seems lightly efficient in dealing with their investors. However, the banks are suggested to find additional investment sectors in order to earn profit in this present context. It is because, the investment area in Nepal is very limited and most of them are already captured by most of the institutions. So, it is a need of today to find out the alternative course to invest the customers' capital not only for the benefit of the customer but also for maintenance of the reputation of bank itself.

- Innovative Approach to Bank Marketing

  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 bank should develop an "Innovative approach to Bank Marketing" and formulate new strategies of serving customers in a more convenient and satisfactory way.

- Diversification of Business

  The joint venture banks of Nepal in present are concentrating their business with big clients like in trade and industry, manufactures, exporters of garments and carpets, tourism, multinational companies operating in Nepal. These banks, therefore, need to come forward to

increase the number of clients, develop ownership entrepreneurship, diversify its business with the large number of small investors and also come forward to meet the national objectives of privatization by mobilization of more entrepreneurs.

- Better Public Services and Social Contribution

  It is suggested to both banks that they should use well-trained manpower. Well-trained manpower will provide better services to the bank and customer. They will try to increase the operating efficiency of the bank, so the banks have to conduct "Training School" for their personnel. They should establish contact with more institutions to extend their transactions. They should also sponsor social programs, contests etc for maintaining favorable public image.

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APPENDICES

APPENDIX-A

Trend Values of Loans and Advances of KBL (2004/05-2010/11)

Year (t)	Loans & adv. (y)	x (t-2008)	x^2	xy	$y_c=a+bx$ $y_c=11,137.28+1,763.73x$
2004/05	5,681.01	-3	9	-17,043.03	5,846.09
2005/06	7,007.79	-2	4	-14,015.58	7,609.82
2006/07	9,062.43	-1	1	-9,062.43	9,373.55
2007/08	11,522.38	0	0	0.00	11,137.28
2008/09	14,795.26	1	1	14,795.26	12,901.01
2009/10	14,966.10	2	4	29,932.20	14,664.74
2010/11	14,926.00	3	9	44,778.00	16,428.47
N=7	Σy=77,960.97	Σx=0	$\Sigma x^2=28$	Σxy=49,384.42	

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

Now,

$$a = \frac{\sum Y}{N} = \frac{77{,}960.97}{7} = 11{,}137.28$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{49{,}384.42}{28} = 1{,}763.73$$

Trend Values of Loans and Advances of KBL (2011/12-2013/14)

Year (t)	X=(t-2008)	Trend Values y_c=11,137.28+1,763.73x
2011/12	4	18,192.20
2012/13	5	19,955.93
2013/14	6	21,719.66

APPENDIX-A (2)

Trend Values of Loans and Advances of EBL (2004/05-2010/11)

Year (t)	Loans & adv. (y)	X (t-2008)	x^2	xy	$y_c=a+bx$ $y_c=19172.61+4273.04x$
2004/05	7,618.67	-3	9	-22,856.01	6,353.49
2005/06	9,801.31	-2	4	-19,602.62	10,625.53
2006/07	13,664.08	-1	1	-13,664.08	14,899.57
2007/08	18,836.40	0	0	0.00	19,172.61
2008/09	24,469.60	1	1	24,469.60	23,445.65
2009/10	28,156.42	2	4	56,312.84	27,718.69
2010/11	31,661.80	3	9	94,985.40	31,991.73
N=7	Σy=134,208.28	Σx=0	$\Sigma x^2=28$	Σxy=119,645.13	

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Now,

$$a = \frac{\sum Y}{N} = \frac{134{,}208.28}{7} = 19{,}172.61$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{119{,}645.13}{28} = 4{,}273.04$$

Trend Values of Loans and Advances of EBL (2011/12-2013/14)

Year (t)	X=(t-2008)	Trend Values $y_c=19{,}172.61+4{,}273.04x$
2011/12	4	36,264.77
2012/13	5	40,537.81
2013/14	6	44,810.85

APPENDIX-B

Trend Values of Total Investment of KBL (2004/5-2010/11)

Year (t)	Total Investment (y)	x (t-2008)	x^2	xy	$y_c=a+bx$ $y_c=1,971.30+309.51x$
2004/05	1,190.27	-3	9	-3,570.81	1,042.77
2005/06	1,394.95	-2	4	-2,789.90	1,352.28
2006/07	1,678.42	-1	1	-1,678.42	1,661.79
2007/08	2,194.16	0	0	0.00	1,971.30
2008/09	1,510.83	1	1	1,510.83	2,280.81
2009/10	2,296.87	2	4	4,593.74	2,590.32
2010/11	3,533.62	3	9	10,600.86	2,899.83
N=7	Σy=13,799.12	Σx=0	$\Sigma x^2=28$	Σxy=8,666.30	

(Source: Annual Reports of KBL during 2004/05 to 2010/11)

Now,

$$a = \frac{\sum Y}{N} = \frac{13{,}799.12}{7} = 1{,}971.30$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{8{,}666.30}{28} = 309.51$$

Trend Values of Total Investment of KBL (2011/12-2013/14)

Year (t)	X=(t-2008)	Trend Values y_c=1,971.30+309.51x
2011/12	4	3,209.34
2012/13	5	3,518.85
2013/14	6	3,828.36

APPENDIX-B (2)

Trend Values of Total Investment of EBL (2004/05-2010/11)

Year (t)	Total Investment (y)	x (t-2008)	x^2	xy	y_c=a+bx y_c=5524.87+822.31x
2004/05	2,128.93	-3	9	-6,386.79	3,057.94
2005/06	4,200.51	-2	4	-8,401.02	3,880.25
2006/07	4,984.31	-1	1	-4,984.31	4,702.56
2007/08	5,059.56	0	0	0.00	5,524.87
2008/0	9,548.52	1	1	9,548.52	6,347.18

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2009/10	5,008.35	2	4	10,016.70	7,169.49
2010/11	7,743.90	3	9	23,231.70	7,991.80
N=7	Σy=38,674.08	Σx=0	Σx^2=28	Σxy=23,024.80	

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Now,

$$a = \frac{\sum Y}{N} = \frac{38{,}674.08}{7} = 5{,}524.87$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{23{,}024.80}{28} = 822.31$$

Trend Values of Total Investment of EBL (2011/12-2013/14)

Year (t)	X=(t-2008)	Trend Values y_c=5,524.87+822.31x
2011/12	4	8,814.11
2012/13	5	9,636.42
2013/14	6	10,458.73

APPENDIX-C

Trend Values of Earning Per Share of KBL (2004/05-2010/11)

Year (t)	Earning Per Share (y)	x (t-2008)	x^2	xy	y_c=a+bx y_c=19.16+0.3861x
2004/05	16.84	-3	9	-50.52	18.00

2005/06	16.59	-2	4	-33.18	18.39
2006/07	22.70	-1	1	-22.70	18.77
2007/08	16.35	0	0	0.00	19.16
2008/09	21.78	1	1	21.78	19.55
2009/10	24.24	2	4	48.48	19.93
2010/11	15.65	3	9	46.95	20.32
N=7	Σy=134.15	Σx=0	$\Sigma x^2=28$	Σxy=10.81	

(Source: Annual Reports of KBL from 2004/05 to 2010/11)

Now,

$$a = \frac{Y}{N} = \frac{134.15}{7} = 19.16$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{10.81}{28} = 0.3861$$

Trend Values of Earning Per Share of KBL (2011/12-2013/14)

Year (t)	X=(t-2008)	Trend Values y_c=19.16+.03861x
2011/12	4	20.70
2012/13	5	21.09
2013/14	6	21.48

APPENDIX-C (2)

Trend Values of Earning Per Share of EBL (2004/05-2010/11)

Year (t)	Earning Per Share (y)	x (t-2008)	x^2	xy	$y_c=a+bx$ $y_c=81.51+6.54x$
2004/05	54.23	-3	9	-162.69	61.89
2005/06	62.78	-2	4	-125.56	68.43
2006/07	78.42	-1	1	-78.42	74.97
20067/08	91.90	0	0	0.00	81.51
2008/09	99.96	1	1	99.96	88.05
2009/10	100.16	2	4	200.32	94.59
2010/11	83.15	3	9	249.45	101.13
N=7	Σy=570.60	Σx=0	$\Sigma x^2=28$	Σxy=183.06	

(Source: Annual Reports of EBL from 2004/05 to 2010/11)

Now,

$$a = \frac{Y}{N} = \frac{570.60}{7} = 81.51$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{183.06}{28} = 6.54$$

Trend Values of Earning Per Share of EBL (2011/12-2013/14)

Year (t)	X=(t-2008)	Trend Values $y_c=81.51+6.54x$
2011/12	4	107.67
2012/13	5	114.21
2013/14	6	120.75

APPENDIX-D

Test of Hypothesis on Cash and Bank Balance to total Deposit Ratio of KBL and EBL.

Let,

Cash and Bank Balance to Total Deposit Ratio of KBL and EBL are x and y respectively.

KBL			EBL		
x	d=x-8.51	d^2	y	D=y-14.36	D^2
7.07	-1.44	2.0736	10.40	-3.96	15.6816
5.02	-3.49	12.1801	11.25	-3.11	9.6721
6.37	-2.14	4.5796	13.15	-1.21	1.4641
7.31	-1.20	1.44	11.13	-3.23	10.4329
11.31	2.80	7.84	18.50	4.14	17.1396
15.63	6.80	46.24	21.17	6.81	46.3761
6.88	-1.63	2.6569	14.89	0.53	0.2809
$\sum x=59.59$	$\sum d=-0.30$	$\sum d^2=77.01$	$\sum y=100.49$	$\sum D=-0.03$	$\sum D^2=101.05$

$$\bar{x} = \frac{\sum x}{n_1} = \frac{59.59}{7} = 8.51 \qquad \bar{y} = \frac{\sum y}{n_2} = \frac{100.49}{7} = 14.36$$

$$s^2 = \frac{1}{n_1 + n_2 - 2}\left[\left\{\sum d^2 - \frac{(\sum d)^2}{n_1}\right\} + \left\{\sum D^2 - \frac{(\sum D)^2}{n_2}\right\}\right]$$

$$= \frac{1}{7 + 7 - 2}\left[\left\{77.01 - \frac{(-0.30)^2}{7}\right\} + \left\{101.05 - \frac{(-0.03)^2}{7}\right\}\right]$$

$$= 14.763$$

APPENDIX-E

Test of Hypothesis on Loans and Advances to total Deposit Ratio of KBL and EBL.

Let,

Loans and Advances to Total Deposit Ratio of KBL and EBL are x and y respectively.

KBL			EBL		
x	d=x-89.25	d^2	y	D=y-75.26	D^2
90.62	1.37	1.88	75.45	0.19	0.04
90.20	0.95	0.90	71.01	-4.25	18.06
85.84	-3.41	11.63	75.13	-0.13	0.02
90.20	0.95	0.90	78.56	3.30	10.89
94.17	4.92	24.21	73.43	-1.83	3.35
85.85	-3.40	11.56	76.24	0.98	0.96
87.87	-1.38	1.90	76.98	1.72	2.96
$\sum x=624.75$	$\sum d=0$	$\sum d^2=52.98$	$\sum y=526.80$	$\sum D=-0.02$	$\sum D^2=36.28$

$$\bar{x} = \frac{\sum x}{n_1} = \frac{624.75}{7} = 89.25 \qquad \bar{y} = \frac{\sum y}{n_2} = \frac{526.80}{7} = 75.26$$

$$s^2 = \frac{1}{n_1 + n_2 - 2}\left[\left\{\sum d^2 - \frac{(\sum d)^2}{n_1}\right\} + \left\{\sum D^2 - \frac{(\sum D)^2}{n_2}\right\}\right]$$

$$= \frac{1}{7+7-2}\left[\left\{52.98 - \frac{(0.)^2}{7}\right\} + \left\{36.28 - \frac{(-0.02)^2}{7}\right\}\right]$$

$=7.44$

APPENDIX-F

Test of Hypothesis on Net Profit to total Deposit Ratio of KBL and EBL.

Let,

Net Profit to Total Deposit Ratio of KBL and the EBL are x and y respectively.

KBL			EBL		
X	d=x-1.51	d^2	y	D=y-1.91	D^2
1.34	-0.17	0.0289	1.69	-0.22	0.0484
1.33	-0.18	0.0324	1.72	-0.19	0.0361
1.61	0.10	0.010	1.63	-0.28	0.0784
1.36	-0.15	0.0225	1.88	-0.03	0.0009
1.64	0.13	0.0169	1.92	0.01	0.0001
1.82	0.31	0.0961	2.25	0.34	0.1156
2.48	-0.03	0.0009	2.26	0.35	0.1225
$\sum x=10.58$	$\sum d=0.01$	$\sum d^2=0.21$	$\sum y=13.35$	$\sum D=-0.02$	$\sum D^2=0.40$

$$\bar{x} = \frac{\sum x}{n_1} = \frac{10.58}{7} = 1.51 \qquad \bar{y} = \frac{\sum y}{n_2} = \frac{13.35}{7} = 1.91$$

$$s^2 = \frac{1}{n_1 + n_2 - 2}\left[\left\{\sum d^2 - \frac{(\sum d)^2}{n_1}\right\} + \left\{\sum D^2 - \frac{(\sum D)^2}{n_2}\right\}\right]$$

$$= \frac{1}{7+7-2}\left[\left\{0.21 - \frac{(0.01)^2}{7}\right\} + \left\{0.40 - \frac{(-0.02)^2}{7}\right\}\right]$$

$$= 0.0508$$

APPENDIX-G

Test of Hypothesis on Return on Net worth Ratio of KBL and EBL.

Let,

Return on Net worth Ratio of KBL and the EBL are x and y respectively.

KBL			EBL		
X	d=x-14.22	d^2	y	D=y-22.09	D^2
13.12	-1.1	1.21	17.11	-4.98	24.8004
12.00	-2.22	4.9284	19.81	-2.28	5.1984
16.60	2.38	5.6644	19.57	-2.52	6.3504
12.82	-1.40	1.96	21.36	-0.73	0.5329
15.90	1.68	2.8224	24.36	2.27	5.1529
17.73	3.51	12.3201	26.25	4.16	17.3056
11.34	-2.88	8.2944	26.20	4.11	16.8921
$\sum x=99.51$	$\sum d=-0.03$	$\sum d^2=37.20$	$\sum y=154.66$	$\sum D=0.03$	$\sum D^2=76.23$

$$\bar{x} = \frac{\sum x}{n_1} = \frac{99.51}{7} = 14.22 \qquad \bar{y} = \frac{\sum y}{n_2} = \frac{154.66}{7} = 22.09$$

$$s^2 = \frac{1}{n_1 + n_2 - 2}\left[\left\{\sum d^2 - \frac{(\sum d)^2}{n_1}\right\} + \left\{\sum D^2 - \frac{(\sum D)^2}{n_2}\right\}\right]$$

$$= \frac{1}{7+7-2}\left[\left\{37.20 - \frac{(-0.03)^2}{7}\right\} + \left\{76.23 - \frac{(0.03)^2}{7}\right\}\right]$$

$$= 9.444$$

APPENDIX-H

Test of Hypothesis on Return on Capital Employed Ratio of KBL and EBL

Let,

Return on Capital Employed Ratio of KBL and EBL are x and y respectively.

KBL			EBL		
x	d=x-5.03	d^2	y	D=y-5.05	D^2
3.50	0.00	0.00	3.88	-1.17	1.3689
2.57	-0.93	0.8649	4.36	-0.67	0.4761
4.48	0.98	0.9604	4.15	-0.90	0.81
3.39	-0.11	0.0121	5.27	0.22	0.0484
4.20	0.70	0.49	6.60	1.55	2.4025
3.52	0.02	0.0004	6.11	1.06	1.1236
2.83	-0.67	0.4489	5.00	-0.05	0.0025
$\sum x=24.49$	$\sum d=-0.01$	$\sum d^2=2.78$	$\sum y=35.37$	$\sum D=0.02$	$\sum D^2=6.23$

$$\bar{x} = \frac{\sum x}{n_1} = \frac{24.49}{7} = 3.50 \qquad \bar{y} = \frac{\sum y}{n_2} = \frac{35.37}{7} = 5.05$$

$$s^2 = \frac{1}{n_1 + n_2 - 2}\left[\left\{\sum d^2 - \frac{(\sum d)^2}{n_1}\right\} + \left\{\sum D^2 - \frac{(\sum D)^2}{n_2}\right\}\right]$$

$$= \frac{1}{7 + 7 - 2}\left[\left\{2.78 - \frac{(-0.01)^2}{7}\right\} + \left\{6.23 - \frac{(0.02)^2}{7}\right\}\right]$$

$$= 0.751$$

APPENDIX-I

Test of Hypothesis on Return on Investment Ratio of KBL and EBL

Let,

Return on Investment Ratio of KBL and EBL are x and y respectively.

KBL			EBL		
x	d=x-10.08	d^2	y	D=y-9.27	D^2
7.07	-3.01	9.0601	9.02	-1.25	1.5625
7.43	-2.65	7.0225	6.65	-2.62	6.8644
10.14	0.06	0.0036	5.95	-3.32	11.0224
7.97	-2.11	4.4521	8.92	-0.35	0.1225
17.10	7.02	49.2804	6.69	-2.58	6.6564
13.78	3.70	13.69	16.61	7.34	53.8756
7.10	-2.98	8.8804	12.03	2.76	7.6176
$\sum x=70.59$	$\sum d=0.03$	$\sum d^2=92.39$	$\sum y=64.87$	$\sum D=-0.02$	$\sum D^2=87.72$

$$\bar{x} = \frac{\sum x}{n_1} = \frac{70.59}{7} = 10.08 \qquad \bar{y} = \frac{\sum y}{n_2} = \frac{64.87}{7} = 9.27$$

$$s^2 = \frac{1}{n_1 + n_2 - 2}\left[\left\{\sum d^2 - \frac{(\sum d)^2}{n_1}\right\} + \left\{\sum D^2 - \frac{(\sum D)^2}{n_2}\right\}\right]$$

$$= \frac{1}{7+7-2}\left[\left\{92.39 - \frac{(0.03)^2}{7}\right\} + \left\{87.72 - \frac{(-002)^2}{7}\right\}\right]$$

= 15.009