CHAPTER – I
INTRODUCTION

1.1   Background of the Study

The banking sector needs to play a vital role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Commercial banks should be careful while performing the credit function. Investment policy should ensure minimum risk and maximum profit from investment. The role of commercial bank in economy is obviously prime requisite in the formulation of bank policy. A key factor in the development in the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective, commercial banks formulate sound investment policies, which eventually contribute to the economic growth of the country. The sound policies help commercial banks maximize quality and quantity of investment and there by achieve the own objective of the profit maximization and social welfare.

Investment policy is the proper management of any fund or wealth to maximize value or to obtain the high or favorable returns with low risk considering the protection of the investment from the inflation and other possible harms. Investment policy is an important ingredient of overall national economic development because it ensures efficient also allocation of fund to achieve the materials and economic well being of the society as a whole.

In general sense, investment means to payout money to get more. But in the broadest sense, investment means the sacrifice of current dollars or Rs for future Dollars or Rs. The sacrifice takes place in the present and in certain. The reward comes later, if at all and magnitude is generally uncertain. Thus, Investment policies are the strategies, which find the answer of questions like

whom to invest? How much to invest? When to invest and why to invest? Investment promotes economic growth and contributes to nation's wealth.

In the study, the word investment conceptualized the investment of income, savings or other collected fund. The term investment is only possible where there adequate savings. If all the incomes and savings are consumed to solve the problem of hand to mouth and to the other basic needs, then there is no existence of investment. Therefore, both saving and investment are interrelated.

Commercial banks play an important part for economic development of a country as they provide capital for the development of industry, trade and business by investing the saving collected as deposits from public. They render various services to their customers facilitating their economic and their social life. They are the most important ingredients for integrated and speedy development of a country.

The primary objective of this commercial bank is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry etc. Nowadays there is very much competition in banking market but less opportunity to make investment. In this situation joint venture banks can take initiation in search of new opportunities so that they can survive in the competitive industry and earn profit. But Investment is a very risky job. For a purposeful, safe, and profitable investment bank must follow sound investment policy. The fundamental principals of investment must be followed thoroughly for profitable investment. Investment policy should ensure minimum risk and maximum profit.

Good investment policy ensure maximum amount of investment to all sectors with proper utilization. There is high liquidity in the market but there seems no profitable place to invest. At the same time, the banks and financial institution

are required to explore new opportunities to make investment if they want to survive in the competitive market.

The mobilization of domestic resources is one of the key factors in the economic development of a county. Commercial banks must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted into cash whenever it needed.

Obviously a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investments operation efficiently ensuring the maximum return with minimum exposures to risks, which ultimately leads the bank to the path of success.

1.1.1. Origin of Banking in Nepal

However, the development of banking in Nepal is relatively recent. Like other countries, landlords, moneylenders, merchant, goldsmith etc are the ancient bankers of Nepal. Though establishment of banking industry was very recent, some crude banking operations were in practice even in the ancient time. In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadhar, a sundra merchant of Kantipur in 1880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. The establishment of "Tejarath Adda" during the year 1877 A.D. was the first step in institutional development of banking sectors in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of billions. Consequently, the major parts of the country remain untouched from these limited banking activities. The development of trade with India and other countries increase the

necessity of the institutional banker, which can act more widely to enhance the trade and commerce and to touch the remote non-banking sector in the economy. Reviewing this situation, the "Udyog Parishad" was constituted in 1936. A.D. One year after its formulation, it formulated the "company Act" and "Nepal Bank Act" in 1937 A.D. Nepal bank limited was established under Nepal Bank Act in 1937 A.D. as a first commercial bank of bank of Nepal with 10 million authorized capital.

Modern banking practices emerged with the establishment of Nepal Bank Limited in 1934 A.D. However the stand of Nepal Bank Limited alone in total monetary and financial sector was sufficient and satisfactory. Thus Nepal Rastra Bank was set up on 1956 A.D. (2013.01.14) as a central bank under Nepal Rastra Bank Act 1956 A.D. (2012 B.S.) Similarly on 1966 (2022.10.10) Rastriya Banijya Bank was established as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of Quality/competitive service because of excessive political and bureaucratic Interference. For industrial development, Industrial Development Centre was set up in 1956 A.D. (2013 B.S.) which was converted to Nepal Industrial Development corporation (NIDC) in 1959 A.D. (2016.10.07) with an objective to provide agricultural products so that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

In 1990 A.D. after the restoration of democracy in Nepal, the government took the liberal policy in banking sector. As an open policy of the HMG's to get permission to invest in banking sector from private and foreign investor under Commercial bank Act 1975 A.D. (2013 B.S.), different private banks are getting permission to establish with the joint venture of other countries. Nowadays, there are 31 commercial banks operating in Nepalese financial market.

1.1.2 Commercial Bank

Commercial bank deals with other people's money. They have to find ways of keeping their assets liquid so that they could meet the demand of their customers. In their anxiety to make profit, the banks can't afford to lock up their funds in assets, which are not easily realizable. The depositor's confidence could be secured only if the bank is able to meet the demand for cash promptly and fully.

Commercial Bank Act 1975 A.D. (2031 B.S.) defined, "A commercial bank is one which exchange money, deposits money, accepts deposits, grant loans and performs. Commercial banking functions which are not a bank meant for co-operative, agriculture. Industries or for such specific purpose." (Commercial Bank Act 2013 B.S.)

The main function of commercial bank is the accumulation to the temporarily idle money of general public for trade and commerce. Its main function are accepts deposits and grants loan, exchange, and purchase and discount bill for promissory notes, exchange foreign currency, to provide loan, agency function, over seas trading services, information and other services. Commercial banks earn profit by proper mobilization of their resources. Many commercial banks have been established to provide a suitable service, according to their customers. The list of licensed commercial banks is as follows.

1.1.3. List of Commercial Banks of Nepal

1. Nepal Bank Limited
2. Restriya Banijya Bank
3. NABIL Bank
4. Nepal Investment Bank Limited
5. Standard Chartered Bank
6. Himalayan Bank Limited
7. Nepal SBI Bank Limited
8. Nepal Bangladedh Bank Limited
9. Everest Bank Limited
10. Bank of Kathmandu Limited
11. NCC Bank Limited
12. Lumbini Bank Limited
13. NCI Bank Limited
14. Machhapuchhre Bank Limited
15. Kumari Bank Limited
16. Laxmi Bank Limited
17. Siddhartha Bank Limited
18. Agriculture Development Bank Limited
19. Global Bank Limited
20. Citizens Bank International
21. Prime Commercial Bank Limited
22. Bank of Asia Nepal Limited
23. Sunrise Bank Limited
24. Development Credit Bank
25. NMB Bank Limited
26. Kist Bank Limited
27. Janata Bank Nepal Limited
28. Mega Bank Nepal Limited
29. Commerz and Trust Bank Nepal Limited
30. Civil Bank Limited
31. Century Commercial Bank Limited

1.1.4   Introduction of Sample Bank

A.   Machhapuchhre Bank Limited (MBL)

Machhapuchhre Bank Limited started its operation in December 10, 2000 as the 14th commercial bank and the first commercial bank in the western part of Nepal. The head office of Machhapuchhre is located in Pokhara and the corporate office is Kathmandu. The bank has 39 branches located all over the major parts of the country. The bank also established its branch in Jomson, Mustang district. The bank aims to serve the people of both urban and rural areas. It has the plan to extend its branches in more rural as well as urban areas in the near future. The bank has the issued and paid up capital of Rs. 1.47 billion. The bank has the deposit and loan and advances of Rs. 3693.23 crore and Rs. 16.64 billion respectively in fiscal year 2009/10.

The bank has adopted computerized system in banking. The bank has the Any Branch Banking System (ABBS). The bank also provides different services such as ATM and electronic banking etc. The bank has been providing loans and advances in various sectors such as agriculture, manufacturing, deprived sector, industry and consumer financing etc.

Risk Management has been identified as the key function of the bank in all levels of management. The Loan Committee, Internal Audit & Compliance Department are the key departments that are concerned with the management, compliance and evaluation of the risk management procedure.

B.   Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operations in 1994 as the 9th commercial bank with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. The bank has 43 branches located all over the major parts of the country. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. The bank has 43 branches located all over the major parts of the country. The bank has the issued and paid up capital of Rs. 1.47 billion. The bank has the deposit and loan and advances of Rs. 18.44 billion and Rs. 17.5 billion respectively in fiscal year 2009/10.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and UK. Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Punjab National Bank (PNB), joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

Risk Management has been identified as the key function of the bank in all levels of management. The Loan Committee, Internal Audit & Compliance Department are the key departments that are concerned with the management, compliance and evaluation of the risk management procedure.

1.2   Statement of the Problem

The establishment of commercial banks enforcement of priority sector and productive sectors lending policies of NRB to financial institutions does not seem to have an appreciate impact. The commercial banks has played a catalytic role in the economic growth.

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

Thus, the present study will make a modest attempt to analyses investment policy of EBL and MBL the problems specially related to investment function of the joint venture banks and commercial banks of Nepal have been presented briefly as under.

-) What is the purpose of liquidity, asset management, profitability ratio of EBL and MBL?
-) What are the relationship between deposit and total investment, deposit and loans and advances and net profit?
-) What projection of the trends of deposit utilization towards total investment, loan and advances for F/Y 2062/063 to 2066/067.

1.3. Objectives of the Study

The basic objectives of the study will be to examine and evaluate the investment policy and strategies of EBL and MBL of Nepal. The Specific objective of the study will be as follows:

) To analyse of liquidity, asset management, profitability ratio of EBL and MBL.

) To find out the relationship between deposit and total investment, deposit and loans and advances and net profit.

) To analyze the trends of deposit utilization towards total investment and loan and advances and is projection for five year.

1.4   Significance of the Study

Nepal is a least developed country and rapid economic development is basic need of country. It is a poor country containing more than 90% of its population in the rural area 38% of its total population lies under the line of poverty. Poverty alleviation is major step to be taken to develop Nepalese overall economy. The basic foundation of development of Nepalese economy condition starts from such poorest sector.

The commercial bank is vital and powerful in situation serving as the back bone of the economy. It is very important to know how they are functioning in the development of trade, commerce, industry and poverty alleviation programs of the country. Especially this study is concern investment policy of such commercial bank. Thus, this study is owing a deep interest on the various aspect of the poverty focused investment policy programs to know how well the bank is utilizing its fund in the nation and their impact on Nepalese economy that will benefit the planers, policy makers, bankers, international donor agencies, economists who have been endeavoring day and night for the alleviation of poverty in Nepal Besides, this study can be important for the

investors, customers (depositors, loan takers) and other public to know the performance of the bank as well as for the personal of the other bank to take various decisions regarding investment strategy. Due to all these, investment policy of EBL and MBL limited can be considered to be much significant.

1.5   Focus of the Study

The main focus of the study is to highlight the investment policies of commercial banks especially EBL and MBL expecting that the study can be bridge the gap between deposits and investment policies. On the other hand, the study would provide information to management of the bank that would help them to take collective action. It's also helpful the investor as well as stakeholder.

1.6   Limitations of the Study

The main limitations of this study are as follow
- This is a case study of EBL and MBL and findings of the study can not be generalized to all commercial banking sector.
- The study is limited to five years period from 2005/06 to 2009/10 (2062/63 to 2066/67).
- The study is based on secondary data collected from the bank, which may not be far from limitation due to inherent characters.
- Out of numerous affecting factors only those factors related which investment policy are considered.

1.7   Organization of the Study

The study will be organized in five different chapters. The chapter from one to five will consist of:

Chapter 1: Introduction

It includes general introduction of commercial bank, statement of the problems, research objectives, significant of study and limitation of study.

Chapter 2: Review of Literature

It includes about previous research study of accounting practices of private trade banking. It also focuses different books for literal study due to sufficient materials related concepts, rules, principles and practice of private trade banks of Trading Public Enterprises.

Chapter 3: Research Methodology

This chapter deals with the research methodology to be adopted for the study consisting research design, sources of data, data gathering procedure, population and sample, research variable and data processing procedure.

Chapter 4: Presentation and Analysis of Data

It deals with presentation, analysis and interpretation of data. It consists of testing of hypothesis, analysis of questionnaires and analysis of open and opinions and major findings of the research.

Chapter 5: Summary, Conclusion and Recommendations

The last chapter covers summary, conclusion and recommendations about the entire research.

CHAPTER - II
LITERATURE REVIEW

Review of literature means reviewing research studies if other relevant preposition in the related area of the study so that all past studies, their conclusions and deficiencies may be known and further research can be concluded. This chapter highlights upon the existing literature and research related to the present study with a view to finding out what had already been explained and how the present research adds to this definition. This chapter, the review of literature, provides the bases and inputs for the purposive study.

2. Conceptual Review

2.1. Financial Analysis

A financial analysis is identifying the major strength and weakness of business enterprises. Profit if one of the indicators of sound financial performance. It is usually the result of sound business management. (Cost control, credit risk management, and general efficiency of operation). Profit is essential for enterprises for its survival and growth and to maintain capital adequacy through profit retention. Therefore profit is important for any business concern including joint venture banks.

A bank must maintain adequate liquidity to meet a wide range of contingencies. If bank fails to maintain adequate liquidity, it faces many difficulties. On the other hand, excess liquidity is the loss. A bank must maintain adequate cash and bank balance to meet day to day operation as well as for remote contingencies. It measures the extent to which it can oblige its short term obligations.

Investors more concerned with firm's long term financial strength or solvency. Commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits and the extent of loans and advances of these banks are also expending. It seems that the bank loans are the sufficient to meet the demand of various emerging industries and banks are found to have been directed to them resources event towards not traditional sectors. However, the joint venture banks are efficient enough to generate large amount of profit and have been distributing significant amount of bonus and dividend. Overdue and defaulting loans have been minimized which helps to indicate high margin between interest income and interest expenses.

2.1.1. Concept of Financial Statement Analysis

In the beginning of civilization, the number of business transaction had taken a very small place. Each businessman was able to record and check the business transaction himself. The investment of business transaction that need for a summary of the accounts of a business form was appreciated the modern accounting system.

Unlike other non bank financial companies, commercial bank does not produce any physical goods. They produce loan and financial innovations to facilitate trade transaction. Because of special role they play in the economy, they are heavily regulated by the concerned authorities. Analysis of banks financial analysis is different from that of other companies due to the special nature of assets and liabilities structure of the banking industries.

Financial statement refers that statement which systematically contains summarized information of the firm's financial affairs. These statements provide reliable financial information of business firm. "Financial statement contains summarized information of firms financial affairs organized and systematically. They are means to represent the firm financial situation of

user". The financial statements refers to the two summarized financial reports which the account prepares usually at the end of the fiscal year of firm, they are the balance sheet or statement of financial position and the income statement or profit and loss accounts.

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and the profit and loss account.

Financial strength, weakness and position are reflected by financial analysis. So, financial analysis is a relevant literature for this research. The analysis of financial statement is necessary, the reason is that balance sheet, profit and loss account and funds flow statement even are successful to fulfill their targets but they cannot meet the requirement of different interests. To obtain the meaningful information according to own need they should be analyzed. Ratio analysis, in this context is widely used.

There are so many parties concerned with the bank. (i.e. short term and long term creditors, share holders, potential investors, management government, general public and inter alias) and analysis depends upon the specific interest of the party.

Short term creditors are interested primary in the liquidity of the bank, their claims are short term and the ability of bank to pay the claims it its liquidity.

The claims of bond holder on the other hand are long term; they are interested in the cash flow ability and profitability over time. So, they evaluate this ability of bank by analyzing the capital stricture.

Share holders are concerned principally with the present and expected further earnings. So they focus their analysis on the profitability of the bank. They

would be concerned with its financial condition as it affects the ability of firm to pay dividend and to avoid bankruptcy. Management if concerned with overall position of the bank i.e. liquidity, profitability, solvency, growth, good will and so on. It should analyze all type of financial indicators which may assist in internal contest as well as external bargaining.

Government regulatory agencies are concerned with the rate of return a company earns its assets as well as with the proportion on non equity fund employed in the business. In other words government regulatory agencies are concerned with the efficiency of assets management. General publics are interested towards the bank for general knowledge or for any other matters.

Financial statement analysis reflects all type of financial performance as well as future growth and solvency. The most widely used technique of financial statement analysis, as pointed earlier is ratio analysis, sp various ratios in this regard will be calculated in succeeding chapter.

2.2. Investment Policy

2.2.1. Concept of Investment Policy

From the point of view of development it becomes necessary to see that all the allocation of financial resources becomes a very important aspect of the study in view of the fact that on efficient allocation of resources will be one of the determining factors in the growth of the economy. Therefore JV banks have to insure, before and after the grant of financial assistance, that certain precautions are taken, requirements, satisfied and stipulation made do that the assistance provided by them not only remains safe but also maximum return to the economy. Investment should be productive otherwise it will lose its purpose and be vain. Broadly, defined; investment may be taken as employment of

capital with the aim of production a gain in the shape if income and appreciation in value of both.

The income and profit of the bank depends upon its investment policy, lending policy and investment of it's founds in different securities. The greater the created by the bank, the higher will be the change of earning profit. A sound lending and investment policy is not only the prerequisite for bank's profitability, but also crucially significant for the promotion of commercial saving of a financially backward country like Nepal.

The bank are such types of institution, which deal in money and substitute for money. They also deal with credit and credit instruments. Good circulation of credit is essential for the existence of the bank. Steady and unevenly flow of credit always harms the banks and lastly to the economy as a whole. Hence to collects funds and mobilize (utilize) them in good investment is not a joke for such an institution. An investment of fund may be the question of life and death of the bank. Thus the banker must think seriously before making an investment decision.

The investment policy of a bank consists of earning high returns on its un-loaned resources. But it has to keep in view the safety and liquidity of resources so as to meet the objectives of profitability conflicts with those of safety and liquidity the wise investment policy it's to strike a judicious balance among them. Therefore a bank should lay down its investment polity in such a manner so as to ensure the safety and liquidity of its funds and at the same time maximum its profit.

William J. Sharpa and Alexander J. Gorden defined investment in this way, "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 magnitude is generally uncertain. In some cases the element of time predominated (for example: government bond), in other cases risk is the dominant attribute (for example: call option on common stock) in yet both time and risk are important".

Cherey and Moses defined, "The investment objective is to increase systematically the individual wealth, defined as asset minus liabilities. The higher the level if designed wealth the higher it will be received. An investor seeking higher return must be willing to face higher level of risk".

2.2.2. Features/Characteristics of sound investment policy.

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

Liquidity

Liquidity is an important characteristic of bank landing. Banks land for should periods because they lend public money which can be withdraw at any time by depositors. They therefore, advance loans on the security of such assets which are easily marketable and convertible into cash are a short notice.

A bank chooses such securities in its investment portfolio which possess sufficient liquidity. It is essential because if the bank needs cash to meet the urgent requirements of its customers, it should be a position to sell some of the securities at a very short notice without disturbing their market price much. So,

the bank should investments in government securities and shares and debentures of reputed industrials houses.

Safety and security

The bank ought to invest its funds in those securities, which are subject to too much depreciation and fluctuation because little difference may cause a great loss. It must not invest its funds into speculative businessman who may not bankrupt at once and who may earn million in a minute also. The bank should accept the type of securities, which are commercial, durable and marketability and have high market price. In this case, "MAST" should be applied for the investment where,
M= Marketability
A=Ascertainability
S=Stability
T=Transferability

Purpose of loan

The loan should be utilized in purposed plan everything related with the customer should be explained before landing. It borrower misuses the loan granted by the bank, they can never repay and bank will possess heavy bad debts. Detailed information about the scheme of the project activities should be examined before lending.

Profitability

Profitability is the cardinal characteristic for making investment by bank. Commercial banks maximize its volume of wealth through maximization of return of their investment and lending. So they must invest in such securities which assure a fain and stable return on the found invested. The earning

capacity of securities and shares depends upon the interest rate and the dividend rate and tax benefits they carry. Commercial Banks (CBS) should invest more in such securities rather than in the shares of new companies which also carry tax exemption.

Legality

Illegal securities will bring many problems for the investors. CBS must follow a rule and regulation as well as different direction issued by NRB, Ministry of Financial and other while mobilization its fund to different sector.

Diversity

In choosing its investment portfolio, a commercial bank should follow the principle of diversity. The bank should be careful that while granting loan, it should not be always in one sector. Diversification aims at minimizing risks of the investment portfolio of bank. A bank should follow the maximum. "Do not keep all eggs in one basket. "It should spread it risks by giving loans to various trades and industries in different parts of the country

2.3. Relate Literature Review

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

Bajracharya (1990 A.D.) in the article, "Monetary policy and deposit mobilization in Nepal" has concluded that mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal. Commercial Banks and financial intermediary for a accepting deposit of private sector and providing credit to the investor in different sectors of the economy. The writer

added that the public deposit is the major resources of credit and investment of the commercial banks in Nepal.

Similarly, Bista (1990 AD), in the research paper, "Nepalma Adhunik Banking Byabastha" made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of joint venture banks in the field of commercial banks. At the end of paper the researcher has concluded that the establishment of joint venture banks a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation consortium investment in loan and modern fee based activities into the economy. These are indeed significant milestone in the financial development process to the economy.

Similarly, Shrestha (1998 AD), in the article, "Lending operation of commercial banks of Nepal and its impact on GDI" presented with the objectives to make an analysis of contribution of commercial bank's lending to the gross domestic product (GDP) of Nepal. The researcher set hypothesis that there has been positive impact of lending of commercial banks to GDP. In research methodology, the researcher considered GDP as the dependent variable and various sectors of lending like agriculture, industrial, commercial, service and social sectors as independent variables. A multiple regression technique had been applied to analyze the contribution.

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

Shrestha (1998 AD), has given a short glimpse on the "portfolio management in commercial Bank, theory and practice," The portfolio management becomes very important for both individual as well as institutional investors would like to select best mix of investment assets subject to following aspects.

1. Higher return which is comparable with alternative opportunities available according to the risk class of investors.
2. Good liquidity with adequate safety of investment.
3. Certain capital gains.
4. Maximum tax concession.
5. Flexible investment.
6. Economic, efficient and effective investment mix.

From the anayasis of above aspects about minimum of investment the following.

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

The writer presented two types of investment analysis technique i.e. fundamental analysis and technical analysis to consider any securities such as equity, debentures or bonds and other money and capital market instrument. The writer suggested that backs having international network can also offer access to global financial markets. The write pointed out the requirements of skilled manpower, research and analysis team and proper management

information system (MIS) in any commercial bank to get success in any portfolio management and customer confidence.

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

1. Unawareness the clients about the service available.
2. Hesitation of taking risk by the clients to use such fatalities.
3. Lack of proper technique to run such activities in the nest and successful manner.
4. Less developed capital market and availability of few financial instruments in the financial market.

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

1. Should have skilled personnel.
2. Should do strong and deep research and analysis.
3. Should have proper management information system.
4. Should make portfolio investment for their excess, funds or deposit collection or surplus money.

Pyakuryal (1987), in the article "Workshop on Banking and National Development" states that, "The present changing contact of the economy calls for a substantial revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize of resources is as much crucial as the mobilization. The under utilization of

resources not only results in loss of income but also goes further to discourage the collection of deposits."

Thus in his paper, he has emphasize on proper utilization of mobilization resources and profitability increment. The researcher further indicates that under mobilization of resources in an opportunity loss of the banks and commercial bank will not be motivated to collect public deposit.

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

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

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

Out of all commercial banks, Nepal Bank limited and Rastriya Banijya Bank are operating with nominal profit or loss, the later turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expenses is declining. Because of these

two local banks, in traditional off-balance sheet operation, these banks have not able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overhead. Similarly, due to accumulated overdue and defaulting loans profit positions of these banks have been seriously affected. On the other hand, the foreign venture banks have been functioning in all efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

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

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

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

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

1. Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Limited and Rastrya Banijya Bank Ltd. are running in these sectors.
2. Commercial banks are charging higher interest credit lending.
3. They have maximum tax concession.
4. They do not properly analyze the credit the credit system.

According to the writer, due to the lack of investment avenues, banks are tempted to invest with out proper credit appraisal and on personal guarantee, whose negative side effect would show colors only after four of five years. He has further included that private commercial banks have mushroomed only in urban areas where large value of banking transaction and activities are possible.

Ms. Shrestha (2002), in her thesis entitled, "A Comparative Study on Investment Policy of Joint Venture Banks", has studied primarily of four commercial bands i.e. Himalayan Bank Ltd., Nepal SBI Bank Ltd., and EBL Bank Ltd. And Bank of Kathmandu Ltd. Her main objectives are to compare, analyze and evaluate the investment policy of these for commercial banks as well as to evaluate liquidity, activity and profitability ratios. Her main objective is to find out the deposit collection and the effectiveness of fund mobilization of these firms and found the HBL is more successful in mobilizing the fund in proper way in comparison to other three commercial banks. She has recommended all those banks to increase the deposit collection, investing in securities and shares and debentures and also providing their facilities in rural areas as well as take effective marketing strategy for their promotion.

Ms. Shrestha has further stated that the new technologies have to be introduced so as to develop new banking system. Her research failed to compare the investment policy with finance companies and unable to examine the risk

factors. The study is limited on four commercial banks and the study period is up to FY 2002/03 and cannot define the investment policy of other commercial banks and for the succeeding years.

Mr. Tuladhar (2003), in his theses entitled, "A study in the Investment Policy of Nepal Grindlays Bank Ltd (NABIL) in comparison to other Joint Venture Banks of Nepal", has highlighted the following objectives in the study,

⟩ To study the fund mobilization and investment policy.
⟩ To evaluate the liquidity, efficiency of asset management and profitability position, growth ratios.

He has concluded the following from his findings as,

⟩ Mean current ratio of NGBL is lightly higher than that of other banks i.e. NABIL and HBL. Liquidity position of NGBL is less than other two banks.
⟩ Mean of cash and bank balance to current ratio of NGBL is less than that of NABIL and HBL.
⟩ Means of loan and advance of the total deposit ratio of NGBL is less than of NABIL and HBL.
⟩ Mean of investment of government securities to working fund ratio of NGBL is better than of two banks.
⟩ NGBL has largest profit margin in comparison with other two banks.
⟩ Growth ratio of NGBL and NABIL is negative but HBL has increasing growth ratio.

He has presented the following suggestions,

⟩ These banks are recommended to provide information about their services and facilities.

- They should extend their service to rural areas area priority sectors of the facilities.
- They should extend their service to rural areas and priority sectors of the kingdom.
- They should increase cash and bank balance to meet the need of investment and demand of loan and advances.
- They should follow the liberal lending policy.

He has recommended investing their funds in the purchase of shares and debentures of other financial, non- financial compares, hotels and government companies. His period is up to 1999/2000 and cannot represent the investment policy of succeeding fiscal year.

Mr. Bohara (2003), in his thesis entitled "A Comparative study of financial performance of Nepal Arab Bank Ltd and Nepal Indosuez Bank Ltd (NIBL)", has had made endeavor to examine the comparative financial performance of only two commercial banks in terms of liquidity, activity and profitability. He has summarized and concluded that the increasing trend of NIBL's earning per share, cash dividend per share, tax per share, net profit, total deposits, total loans and advances and market value per share in the last three years of study period had shown improvement than that of NABIL.

Although he has tried to analyze and explain the liquidity, activity and profitability position of two commercial banks, he has not explained the investment policy and various types of risks and cannot also show the performance of the selected firms for the succeeding years because of time limitation only up to 1990/91.

Mr. Gatam (2005), in his thesis entitled, "Investment analysis of the Finance Companies in context of Nepal", has tried to examine the deposits, loan and advances repayments of the loans with the main objective to overcome the

existing problem of finance companies which are analysis of transaction of the government securities, analysis of the capital range of the financial companies and analysis of the loan and advance of financial companies.

He has found the following points from his study as,

⟩ Investment of government securities of financial companies was increasing rapidly from the period of 1995 to 1998. However, it has been decreased in the year 1999 due to low return on government securities.

⟩ Capital range of financial companies is not greater. Their capital range lies between 100-500 lakhs only.

⟩ The major source of finance companies is utilized in loan and advances.

⟩ They grant their fund of hire purchase loan, lease loan, term loan but hire purchase is decreasing rapidly.

In the thesis paper of Mr Mandala (2006) entitled, "A comparative Financial Performance Appraisal of Joint Venture Banks", in which three joint venture banks, NABIL, NGBL and Nepal Indosuez Bank Ltd., are studies. His main objective is to find out the fund mobilization in different sectors and found the both NABIL and NGBL have mobilized the debt funds in proper way for generation more return but Nepal Indosuez Banks should provide their facilities in rural areas and encourages the small entrepreneur's development program, play merchant banking role, mobilize the deposit funds in productive sectors and grant priority to the local manpower.

In the thesis of Mr. Bohara (2007), "A comparative Study on Investment Policy of Joint Venture Banks and Financial Companies of Nepal", has studied the three joint venture banks, NABIL, SCBNL and BOKL and three finance companies, Universal Finance and Capital Markets and Lalitpur Financial Company. His main objective is to compare, analyze and evaluate the

investment policy of these six financial institutions as well as finding out the prospective way of fund mobilizing taking different steps and managing the deposit collection.

He has recommended all those financial institution to decrease the loan loss provision adopt the strategy to calculate their industry average and also providing their facilities in rural areas as well as take effective marketing strategy for their promotion. He has not analyzed their policies of investment and failed to examine the risk factors. The study is limited to six sample firms only and cannot define the investment policy of other financial institution and for the succeeding years.

Mr. Shahi (2008), in his thesis entitled, "Investment Policy of Commercial Bank in Nepal", had recommended some ideas for better investment policy of commercial banks. As per his opining the industrialization and commercialization plays vital role in the economic and financial development of a country. Commercial banks must mobilize their funds in the sectors yielding optimal returns such as purchasing of shares and debentures of financial and not-financial institutions. The commercial banks venture in new sectors of investment with low level of risks. The loan default in commercial banks is result of various factors i.e. lack of necessary skills of project appraisal, improper collateral evaluation, irregular supervision and lack of entrepreneurial attitude. He has suggested for the enactment of strong loan recovery act and its proper implementation of the recovery of loans.

The study basically focuses the investment policy of commercial banks of Nepal but failed to compare the investment policy with finance companies. It is unable to examine the risk factor and the time is limited up to FY 1998/99 and it cannot define the investment policy of commercial banks in the succeeding FY years.

Mr. Dhital (2008), in his thesis entitled " Comparative Study of Investment Policy of Standard Chartered Bank Nepal Ltd. (SCBNL) and Bank of Kathmandu Ltd (BOKL)" tried to evaluate the liquidity, asset management, profitability and risk portion of standard Chartered Bank and Bank of Kathmandu as well as analyzing the deposit utilization trend.

The findings of his study are,

⟩ The liquidity position of BOKL is far better than SCBNL although they both are doing quite satisfactorily.

⟩ Most of the portion of deposit of SCBNL is in investment where as BOKL has in loan and advances.

⟩ BOKL has high degree of liquidity and credit risk than SCBNL.

⟩ Profitability position of SCBNL is better than BOKL.

He has presented the following suggestions,

⟩ The banks should increase cash and bank balance to meet the need of demand of loan and advance and investment.

⟩ They should follow the liberal lending policy.

⟩ They extend their branches in the rural areas and priority sectors.

⟩ Adopt project oriented approach.

His study period is limited to 2006/07 and cannot represent the investment policy of succeeding years. He has not analyzed the risk factors and his study focuses on two banks only and cannot analyze the investment policy of commercial banks and finance companies.

Ms. Jayanti Joshi (2009), in this thesis entitled "Investment Policy of NABIL and Machhapuchre Bank Limited" has highlighted the following objectives in the study.

⟩ To study the fund mobilization and investment policy.

⟩ To evaluate the liquidity, Assets management, Profitability and risk ratios.

She has concluded the following from her funding as,

⟩ The liquidity position of MBL is comparatively better than NABIL although they both are doing quite satisfactorily.

⟩ An asset management aspect of NABIL is better than MBL.

⟩ Profitability position of NABIL is higher than MBL.

⟩ EPS, DPS and MPS of NABIL is higher than MBL.

She has presented the following suggestions.

⟩ The banks should adopt to maintain sound liquidity position.

⟩ They invest more funds in government securities instead of keeping them idle.

⟩ The banks should increase cash and bank loan and advance and investment.

⟩ The banks should consider rural areas in making investment policy.

⟩ Adopt project oriented approach.

Her study period is limited to 2007/08 and cannot represent the investment policy of succeeding years. She has not analyzed the suitable risk factors and her study focuses as two banks only and cannot analyze the investment policy of commercial banks and finance companies.

2.4. Research Gap

After the detail study of previous thesis, the researcher has reached into the conclusion that study on investment policy of EBL and MBL is very limited which can be counted in fingers. In this thesis researcher has tried to show the investment policy of commercial banks and has also analyzed the relationship between different variable. There is more use of secondary data. The risk

factors of both types of institution have been analyzed. Also there is comparatively analysis of deposit collection position of firms and positions of fund mobilization. Comparative growth ratios have been calculated and analyzed in this study. These researches are related only with trend lending. So, this study can make further research as lending practices and their policy. Hence, the researcher has attempt to fill this research gap by taking reference EBL and MBL.

This thesis work has covered the period of study till 2009/10 A.D. whereas the previous thesis work covered only up to 2007/08. This thesis work has cornered that EBL and MBL are focusing a differed schemes to collect deposits from general public by the means of new technology whereas the pervious thesis work lacks this concept of deposit collection. Because deposit collecting schemes are new concepts to attract consumers in competitive banking sector now a days.

Therefore the entire research study will cover such gap for ensample timing gap and procedural gap of deposit collection and its investment.

CHAPTER III
RESEARCH METHODOLOGY

3.1. Research Methodology

"Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view." (C.R.Kothari1989). In other words, researcher methodology descries the method useful to carry out the study to fulfill the predetermined objectives.

The basic objective of this study is the evaluate the investment policy of EBL and MBL. So the study will seek the conclusion that what position the EBL and MBL has achieved among the whole commercial bonks of Nepal. The study will also recommend the useful and meaningful points so that all the concerned can achieve some things from this study. To accomplish this, the study follows the research methodology described below.

3.1.1. Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner than aims to contribute relevance to the research purpose with economy in procedure (C.R. Kothari, 1989).

Research design is the plan structure and strategy of investigation conceived so as to obtain answers to research question and to control variance. It is the arrangement of conditions for collection and analysis of data. To achieve the objective of this study descriptive and analytical and cash study research design has been used.

Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adapted to evaluated investment of EBL and

MBL. For this study the researcher used both the analytical and description for the purpose of investment policy descriptive design used for the conceptual development and scientific and systematic frame work of the research and analytical design used for the systematic interpretation of the numerical data used in this study. Since data all are taken from two unit i.e. two organizations therefore it might be case study research also.

3.1.2. Sources of Data

There are two sources of data collection primary and secondary. The research is based on secondary source of data. All the adequate data are collected from secondary sources.

This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major courses of secondary data are as follows.

⟩ Annual Report of concern Bank
⟩ Internet and E-mails.
⟩ NRB directives.
⟩ Economy survey of government of Nepal and Ministry of finance.
⟩ Newspaper, journals, articles and various magazines.
⟩ Dissertation of Central Library of T.U. and Library of Shanker Dev Campus.

3.1.3 Population and Sample

There are altogether 31 commercial banks (domestic commercial banks and joint venture banks) functioning till to date and most of their traded actively in the stock market. Here for the study or for sample Everest Bank Limited and Machhapuchre Bank Limited are taken into the study. Since till no one has

done the research study on the investment policy of the concern commercial banks and the following commercial banks are selected for the study on the basis of convenience and judgmental sampling technique.

Sample Bank

1. Everest Bank Limited
2. Machhapuchre Bank Ltd

3.1.4. Processing and Analysis of Data

All the data collected from secondary sources may not be appropriate to analyze without processed. So data collected are separated as relevant and irrelevant then all requited data are compiled processed and tabulated in time series as per held and objectives. To achieve the objective of this study some statistical and financial tools have been used.

The data extracted from various sources are processed and tabulated in various tables and charts under different heading according to their nature. These data are then used for required calculation like ration analysis growth ratio and analytical tools are used to examine the financial strength and weakness of the bank. Similarly, some statistical tools like graph percentage coefficient of correlation regression analysis and method of last linear trend are also used in this study. Statistical results help to achieve to the objective the study. The various tools applied in this study are presented as follows.

1. Financial Method
2. Statistical Method

3.2. Financial Tools

i. Liquidity Ratios:

This ratio measures the liquidity position of a fire. It measures the firm's ability to meet its short-term obligations. As a financial analytical tool, following liquidity ratios will be used.

a. Current Ratio

This ratio shows the bank's short term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities which can be presented as:

$$\text{Current ratio} \quad X\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

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

b. Cash and Bank Balance to Total Deposit Ratio

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

$$\text{Cash and bank balance to total deposit ratio} \; X\frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total

deposit includes deposits made by customers thought different accounts like current (Demand deposit), saving fixed deposit, call deposit and other deposit accounts.

C.   Cash and bank balance to current assets ratio:

This ration measures the proportion of most liquid assets viz. cash and bank balance among the total current assets of the bank. Higher ratio shows the banks ability to meet its demand for cash. The ratio of the bank. Higher ratio shows the banks ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets, presented as under.

$$\text{Cash and bank balance to current assets ration X} \frac{\text{Cash and Bank Balance}}{\text{Current assets}}$$

D.   Investment of government securities to total current assets ratio:

This ratio is calculated to find out the percentage of current assets invested on government securities viz. treasure bills and development bonds. The ratio is stated as under;

$$\text{Investment on Govt. securities to total current assets ratio X} \frac{\text{Investment on Govt. Securities}}{\text{Current assets}}$$

II. Assets Management Ratios

Assets management ratio s measures the proportion of various assets and liabilities on balance sheet. The proper management of assets and liability ensures it's effective utilization. The banking business convents the liability into assets by the way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

a. Loan and Advances to total Deposit Ratio :

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

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

b. Total Investment to total Deposit Ratio

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

$$\text{Total Investment to total Deposit Ratio } X \frac{\text{Total Investment}}{\text{Total deposits}}$$

Total investment include government treasury bills, saving bonds and other securities, 'NRB bonds', 'foreign securities', 'investment in foreign banks, corporate shares, bonds and debentures and other investments.

Higher the ratio the better the utilization of total deposits.

c. Loan and Advances to Working Fund Ratio

 Loan and advances is the Major component in the total working fund (total assets), which indicates the ability of bank to utilize its deposits in the form of

loan and advances to earn high return. The ratio is computed by dividing loan and advances by total working fund, which is stated as under;

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

Where total working fund includes all assets of balance sheet items i.e. current assets net fixed assets and other miscellaneous assets.

d. Investment on Government Securities to Total Asset Ratio:

This ratio shows that bank's investment on government securities in comparison to the total working fund. The ratio can be computed by dividing investment on government securities by total working fund, which can be presented as;

$$\text{Investment of Government Securities to Total Asset Ratio } X \frac{\text{Inv. on Gov. Securities}}{\text{Total working fund}}$$

e. Total outside Assets to Total Deposits Ratio:

Loans and advances and investment comprise the total outside assets of a bank. This ratio measures how well the deposits liabilities have been mobilized by the bank in income generation. This ratio is computed by dividing total loan and advances and investment by total deposits, which can be stated as under.

$$\text{Total outside Assets to Total Deposits Ratio } X \frac{\text{Total outside assets}}{\text{Total deposits}}$$

f. Loan and advances to total outside assets ratio:

This ratio measures the proportion of loans and advances of total outside assets. The proportion between investment and loans and advances measures the management attribute towards more risky assets and lower risky assets. This ratio is computed by dividing loan and advances by total outside assets as under:

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

g. Investment on Government securities to Total outside Assets Ratio :

This ratio measures the proportion of the bank's investment in risky and risk free areas. The ratio is computed by dividing investment on government securities by total outside assets as under.

$$\text{Investment of Government securities to Total outside Assets Ratio} \ X \ \frac{\text{Inv. on gov. securities}}{\text{Total outside assets}}$$

h. Total outside Assets to total Assets Ratio

Loan & advances and investment are total outside assets of commercial banks. This ratio is calculated by dividing total outside assets, which can be presented as under this is the proportion of assets employed by the bank for the purpose of income generation. This ratio shows the ability of the bank to utilize the funds into income generation assets.

$$\text{Total outside Assets to total Assets Ratio} \ X \ \frac{\text{Total outside assets}}{\text{Total assets}}$$

iii. Profitability ratios:

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this the following profitability ratio will be computed.

a. Interest Income to Total Income Ratio

This ratio measures the volume of interest income in total income of the bank. The high ratio indicates the high contribution made by the lending and investing and vice-versa. This ratio can be completed by dividing interesting income by total income presented as under

$$\text{Interest income to total income Ratio} \quad X \frac{\text{Interest income}}{\text{Total income}}$$

b. Total interest earned to total outside assets ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by dividing total interest earned by total outside assets and can be mentioned as under;

$$\text{Total Interest Earned to Total outside Assets Ratio} \quad X \frac{\text{Total interest earned}}{\text{Total outside assets}}$$

The numerator includes total interest income from loans and advances and investment where as the denominator comprises loan and advances, bills purchased and discounted and all type investment.

c. Interest expenses to total expenses ratio:

This ratio measures the portion of total interest expended in the volume of total expended. The high ratio indicates the low operation efficiency and vice-versa. This ratio is calculated by dividing interest expenses by total expended which can be presented as under;

$$\text{Interest expended to total expended ratio} \quad X \frac{\text{Interest Expenses}}{\text{Total Expenses}}$$

d. Total interest earned to total working fund ratio:

This ratio id computed to find out percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. This fund id computed by dividing total interest earned by total working fund can be presented as;

$$\text{Total Interest Earned to Total Working Fund Ratio} \quad X \frac{\text{Total Interest paid}}{\text{Total working fund}}$$

e. Total interest paid to total working fund ratio

This ratio depicts the percentage of interest paid on liabilities with respect to total working fund which can be presented as;

$$\text{Total interest paid to total working fund ratio} \quad X \frac{\text{Total Interest paid}}{\text{Total working fund}}$$

f. Total income to total expenses ratio

The comparison between total income and expended measures the productivity of expenses in generation income. The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is the indication of higher productivity of expenses and vice-

versa. This ratio is computed by dividing total income by total expenses presented as;

$$\text{Total Income to Total Expenses Ratio } X \frac{\text{Total income}}{\text{Total expenses}}$$

g. Total income to total working fund ratio

This ratio measures how efficiently the assets of a business are utilized to generate income. It also measures the quality of assets in income generation. This ratio is calculated by dividing total income by total income by total assets as stated here under;

$$\text{Total income to total working fund ratio } X \frac{\text{Total income}}{\text{Total work fund}}$$

h. Return on loan and advances ratio:

This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as;

$$\text{Return on loan and advances ratio } X \frac{\text{Net profit (loss)}}{\text{Loans and advances}}$$

i. Return on total working fund ratio (ROA):

This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as

$$\text{Return on total working fund ratio (ROA) : } X \frac{\text{Net profit (loss)}}{\text{Total working fund}}$$

The numerator indicates the portion of income left to the internal equities after deduction all costs, charges and expenses.

j. Return on equity (ROE):

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth). This can be calculated as;

$$\text{Return on equity (ROE)} :: X \frac{\text{Net profit (loss)}}{\text{Total equity capital}}$$

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

k. Loan loss provision to total loans and advances ratio.

This ratio describes the quality of assets that a bank is holding. Nepal Rastriya Bank has directed the commercial banks to classify its loans and advances into the category of pass, sub-standard, doubtful on the basis of the maturity of principal to make the provision of 1, 25, 50 and 100 percentages respectively. The provision for loan loss reflects the increasing probability of non performing loans in the value of total loans and advances. This ratio is calculated by dividing the loan loss provision by total loans and advances as presented here under;

$$\text{Loan loss provision to Total Loans and advances Ratio} :: X \frac{\text{Total loan loss provision}}{\text{Loans and advances}}$$

i. Non performing loans to total loans and advances ratio:

This ratio measures the proportion of non-perforating loans on the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and advances and bad recovery rate and vice-versa. This ratio is computed by dividing the non-performing loans by total loans and advances as under;

$$\text{Non - performing loans to total loans and advances ratio} \ X \frac{\text{Non performing loans}}{\text{Loans and advances}}$$

iv. Other Ratio

a. Earning per Share (EPS):

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

$$\text{Earning per Share (EPS)} : X \frac{\text{Net profit (loss)}}{\text{Total number of shares outstanding}}$$

b. Dividend per share:

Shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, and dividend so; each firm

must announce the total dividend and dividend per share which shows the position of the firm.

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

c. Market Price per share

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

d. Price Earning Ratio

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

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

3.3. Statistical Tools

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation and diagrammatic cum pictorial tools have been used under it.

i. Arithmetic Means (average)

Arithmetic means also called 'the mean' or 'average' as most popular and widely used measure of central tendency. Arithmetic mean is statistical constants which enables us to comprehend in a single effort of the whole. Arithmetic mean represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of a widely numerical data. It is calculated as:

$$\overline{X} \mathrm{X} \frac{1}{n} \sum_{i\mathrm{X}1}^{n} x_1$$

Where:

$\overline{X}$ = mean value or arithmetic mean

$\sum_{i\mathrm{X}1}^{n} x_1$ = sum of the observation

N= number of observation

ii. Correlation Coefficient (r):

Coefficient may be defined as the degree of linear relationship existing between two or more variables. There variables are said to be correlated when

the change in the value of one results change in another variable. Correlation is categorized three types. They are simple, partial and multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non-linear. Here, we study simple correlation only. In simple correlation, the effect of others is not included rather these are taken as constant considering them to have no serious effect of the dependent.

Formula

$$r_{x_1 x_2} \; X \; \frac{N\phi X_1 X_2 \; Z(\phi X_1)(\phi X_2)}{\sqrt{N\phi X^2 \; Z(\phi X_1)^2} \sqrt{N\phi X_2 \; Z(\phi X_2)^2}}$$

Where as,

$r_{x_1 x_2}$ X Correlation between x_1 and x_2

$N\phi X_1 X_2 =$ No. of product observation and Sum of product X_1 and X_2

$\phi X_1 \phi X_2 =$ Sum of product X_1 and sum of product X_2

iii. Coefficient of variation (c.v.):

The coefficient of variation is measures the relative measures of dispersion, hence capable to compare two variables independently in term of variability.

$$\text{C.V.} = \frac{\dagger}{\overline{X}} \mid 100$$

$\overline{X}$ = mean of the observation

iv. Probable error

The probable error of the coefficient of correlation helps in interpreting its value. With the help of problem error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows.

$$\text{P.E.} = 0.6745 \; \frac{1 Z r^2}{\sqrt{N}}$$

Here, r=Correlation coefficient

N = Number of pairs of observations

If the value of 'r' is less than the probable error, there is no evidence of correlation, i.e., the value of 'r' is not at all significant. Then, if the value of 'r' is more than six times of the probable error the coefficient of correlation is practically certain, i.e., the value of 'r' is significant.

3.4. Time series Analysis

This series is used to measure the change of financial economical as well as commercial data. The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight-line trend of a series of data is represented by the following formula.

$Y = a + bx$

Where,

      Y=Dependent variable

      X=Independent variable

      a=Y-intercept

      b=slope of the trend line

Y is the dependent variable, a is y intercept of value of y when x = 0, b is the slop of the trend line.

CHAPTER-IV
PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of date are secondary data. In this chapter, researcher has analyzed and diagnosed investment practices of EBL and MBL limited different tables and diagrams are shown to make the analysis simple and understandable.

4.1. Financial Analysis

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

Various financials ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks i.e. EBL and MBL. Some important financial ratio s are only calculated in the point of view if fund mobilization and investment patterns, the ratios are designed and calculated to highlights the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

4.1.1. Ratio Analysis

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

concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to investment policy of banks.

I. Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity positidu to satisfy the credit needs of community, to meet demands for deposit withdrawals, pay maturity obligation in time and convert non cash assets into cash. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

A. Current ratio

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

Table No 4.1. Current assets to current liability (in times)

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/0	2006/07	2007/08	2008/09	2009/10			
EBL	1.06	1.03	1.05	1.06	1.13	1.07	0.038	0.035
MBL	1.43	1.59	2.80	1.07	1.05	1.59	0.64	0.40

Sources: Appendix 1 (Table No. 1)

Figure No. 4.1. Current assets to current liability

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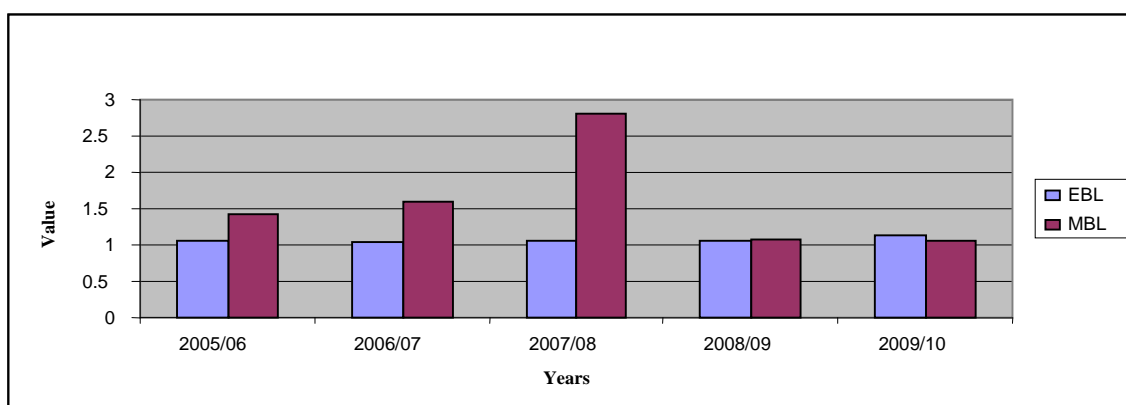
Above table show the current ratio of selected commercial banks during the study period. The current ratio of EBL and MBL both bank is fluctuating trend. In general, it can be said that all the banks have sound ability to meet their short-term obligations. In the case of MBL C.R. has high ratio. In each year except in 2009/10. In an average liquidity position of MBL is greater than EBL i.e. 1.59>1.07 due to high mean ratio. So MBL is shall in meeting short-term obligation than EBL. Likewise, S.D. and C.V. of EBL is less than MBL i.e. 0.38<0.64 and 0.35<0.40. It can be said that C.R. of MBL is more consistent than EBL.

Lastly from the above analysis it is know that EBL has low liquidity position because they should not maintain standard ratio. So both bank should maintain liquidity position.

B. Cash and bank balance to total deposit ratio

Cash and bank balance to total deposit ratio indicated the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of EBL and MBL during the study period.

Table No 4.2. Cash and Bank Balance to Total Deposit Ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	11.13	13.15	11.13	18.49	21.17	15.01	4.10	0.27
MBL	10.31	13.55	14.31	17.74	13.27	13.84	13.54	0.98

Sources: Appendix 1 (Table No. 2)

Figure No. 4.2. Cash and Bank Balance to Total Deposit Ratio
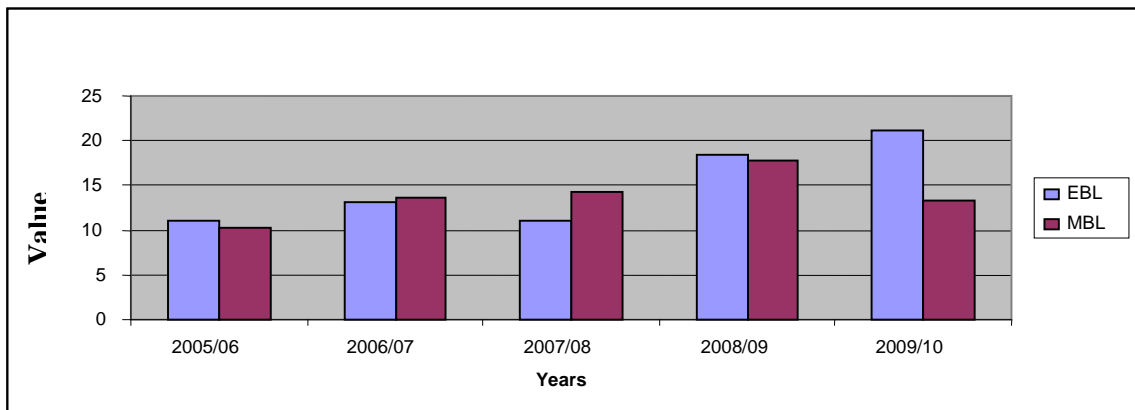
The above table revels that the cash and bank balance to total deposit ratio of EBL and MBL are in fluctuating trend. The higher ratio of EBL of 21.17% in FY 2009/10 and lowest is 11.13% in FY 2007/08. Similarly, the highest ratio of MBL is 17.74 in FY 2008/09 and lowers in 10.31 in 2005/06.

The mean ratio of EBL and MBL are 15.01% and 13.84% respectively. EBL has higher ratio than the MBL, which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of EBL is 0.27 times and MBL is 0.98 times. S.D. of MBL is lower than EBL.

The above analysis has to conclude that the cash and bank balance position of EBL with respect to MBL is better in order to serve its customer's deposits. It implies the better liquidity position of EBL from the view point of depositor demand. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its fund income generating assets. Thus EBL should invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

C. Cash and Bank Balance to Current Assets Ratio

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

Following the state the cash and bank balance to current assets EBL and MBL during the study period.

Table No 4.3. Cash and Bank Balance to Current Assets Ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	13.35	15.78	12.71	16.89	19.11	15.57	2.33	0.15
MBL	14.98	15.78	17.21	16.44	12.33	15.35	1.66	0.11

Sources: Appendix 1 (Table No. 3)

Figure No. 4.3. Cash and Bank Balance to Current Assets Ratio
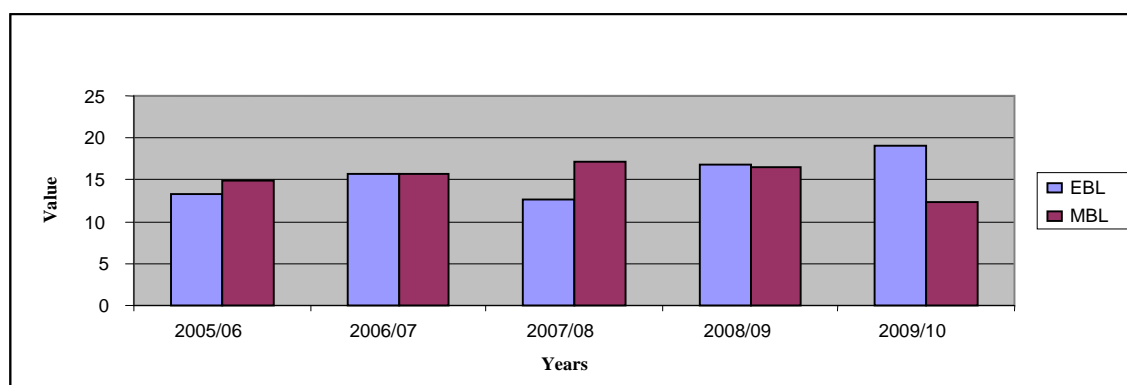
The above table reveals that cash and bank balance to current assets ratio of EBL is increasing trend except FY 2007/08 and MBL is in fluctuating trend.

The mean ratio of EBL and MBL is 15.57% and 15.35% respectively. The higher mean ratio shows EBL's liquidity position is better than that of MBL. Moreover the S.D. and C.V. of EBL are higher than MBL. The higher C.V. of EBL indicates that is has more inconsistency in the ratios in comparison to MBL.

Regarding the above analysis, it can be concluded that EBL has a better ability to meet daily cash requirements of their customers but it should be noted that MBL has excess cash due to the low investment opportunities.

D. Investment on Government Securities to Current Assets Ratio

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

Table No 4.4. Investment on Government Securities to Current Assets Ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	16.65	11.69	8.96	2.84	9.51	9.93	4.345	0.44
MBL	18.06	21.92	17.23	11.93	12.58	16.34	3.72	0.23

Sources: Appendix 1 (Table No. 4)

Figure No. 4.4. Investment on Government Securities to Current Assets Ratio
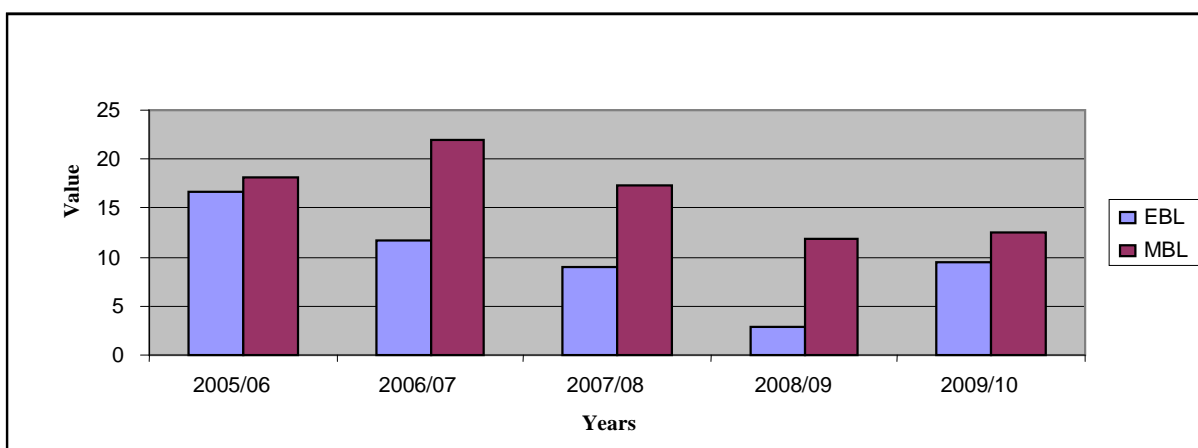
Above table shows investment on government securities to current assets ratio of EBL and MBL. Both banks have fluctuating type ratios. The table shows the highest ratio of MBL is 21.92% in FY 2006/07 and lowest is 11.93% in FY 2008/09 in the same way, the highest ratio of EBL, is 16.65% in 2005/06 and lowest is 2.84 % in FY 2008/09.

The mean ratio of EBL is 16.34 %, which is lowest than the mean ratio of MBL 8.93%. It means EBL has invested more money in risk free assets than that of MBL. In another words MBL has emphases on more loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk. MBL should divert its investment in govt. securities. Similarly, S.D. is 3.72 and 4.345 and C.V. is 0.23 and 0.44 of EBL and MBL respectively. The higher C.V. of MBL shows the more inconsistency in the ratios with compare to EBL.

II. Assets Management Ratio

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

A. Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan and advance for the purpose of profit generation. A higher ratio of loan and advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan and advances to total deposit ratio of related banks.

Table No 4.5 : Loan and Advance to Total Deposit Ratio

Name of	Fiscal Year					Mean	S.D.	C.V.
Banks	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	71.01	75.14	76.49	71.68	75.86	74.00	2.11	0.28
MBL	77.87	75.25	77.84	80.25	77.1	77.66	1.7	0.022

Sources: Appendix 1 (Table No. 5)

Figure No. 4.5. Loan and Advance to Total Deposit Ratio
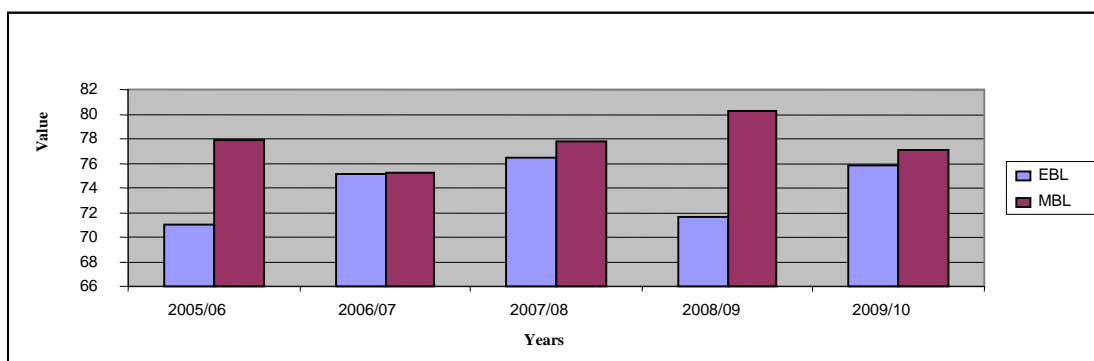
Source: Table no 4.5

The above table shows that the loan and advances to total deposit ratio of EBL and MBL is fluctuating trends. MBL has higher ratio than that of EBL in each year and mean too. It indicated the better mobilization of deposit by MBL. The mean of EBL and MBL are 74.00% and 77.66% respectively. So MBL has higher ratio than that of EBL. It reveals that the deposit of MBL is quickly

converted in to loan and advances to earn income. The bank will be able to better mobilization of collected deposit if there is above 70% to 90% of loan and advances to total deposit according to NRB. So in all of the year the MBL has met the NRB requirement or it has utilized its deposit to provide loan. But EBL has not met the NRB requirement or it has not utilized its deposit to provide loan properly. The S.D. and C.V of EBL is 2.11, 0.28 similarly MBL has 1.7, 0.022.

B. Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non financial companies. This ratio measure how successful and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of EBL and MBL are calculated and presentation below.

Table No 4.6. Total Investment to Total Deposit Ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	30.43	27.40	21.10	17.85	13.56	22.07	6.15	0.28
MBL	15.09	13.49	13.00	7.98	11.31	12.17	2.44	0.20

Sources: Appendix 1 (Table No. 6)

Figure No. 4.6. Total Investment to Total Deposit Ratio
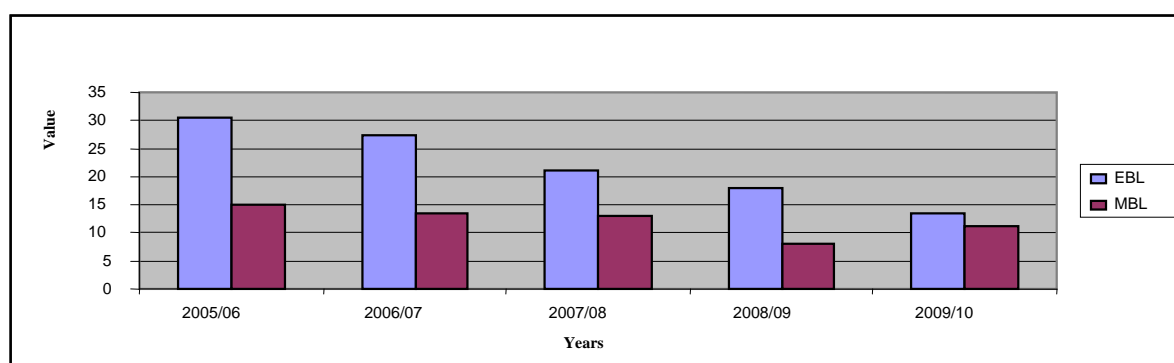
The above table shows that total investment to total depots ratio of EBL and MBL. Both banks have fluctuation trend total investment to total deposit ratio. Higher ratio of EBL is 30.43% in FY 2005/06 and lowest ratio is 13.56% in FY 2009/10 in the same way the highest ratio of MBL 15.09% percent in FY 2005/06 and lowest ratio id 7.98% in FY 2008/09. Investment volume of MBL is lower than that of EBL because more funds if MBL were used in profitable loans to achieve optimum mix of interest earning assets.

The mean of the ratio of EBL and MBL are 22.07 and 12.17% respectively so EBL has highest ratio. It signifies EBL has successfully allocated its deposit in investment portfolio to get higher investment return. It also implies that MBL has lower investment opportunities. The S.D. and C.V. of EBL is 6.15 and 0.28 and MBL has 2.44 and 0.20 respectively.

C. Loan and advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of fund as loan and advance and vice-versa. The following table shows loan and advances to total assets of EBL and MBL as follows.

Table No 4.7. Loan and advances to Total Assets Ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	61.41	63.75	67.55	64.70	66.31	64.74	2.24	0.035
MBL	67.78	65.97	69.15	71.56	69.71	68.71	1.99	0.029

Sources: Appendix 1 (Table No. 7)

Figure No. 4.7. Loan and advances to Total Assets Ratio
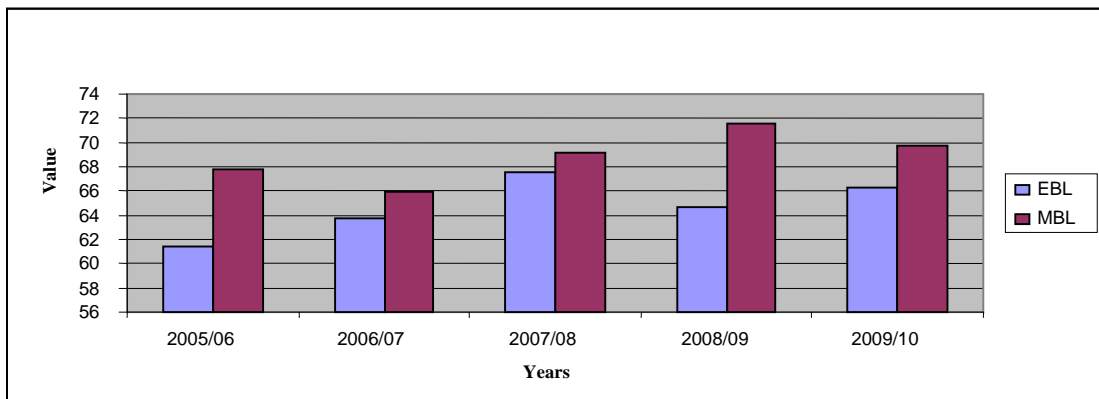
The above table shows the loan and advances to total assets ratio of EBL and MBL are fluctuating trend during the study period. While observing their ratios; MBL is better mobilizing of fund as loan and advance and it seems quite successful in generating higher ratio in each year in comparison of EBL.

The mean of EBL and MBL are 64.74% and 68.71% respectively. So MBL has higher ratio than that of EBL. It reveals that in total assets, MBL has high proportion of loan and advances. MBL has utilized its total assets more efficiently in the form of loan and advance. The higher C.V. of EBL states that it has less uniformity in these ratio throughout the study period than that of MBL. S.D. and C.V. of EBL and MBL have 2.24, 0.035 and 1.99 and 0.029 respectively.

D. Investment of Government Securities to Total Assets Ratio

It is not possible to apply all collection, deposit and other resources in to loan and advance of the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment of government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have applied their total assets o various forms of government securities in profit maximization and risk

minimization point of view. The higher ratio represents the better position of fund mobilization into investment on government securities and vice-versa.

Table No 4.8. Investment of Government Securities to Total Assets Ratio

Name of	Fiscal Year					Mean	S.D.	C.V.
Banks	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	13.16	15.50	13.31	11.80	13.19	13.39	1.21	0.09
MBL	9.97	8.8	6.62	2.73	9.17	7.46	2.61	0.35

Sources: Appendix 1 (Table No. 8)

Figure No. 4.8. Investment of Government Securities to Total Assets Ratio
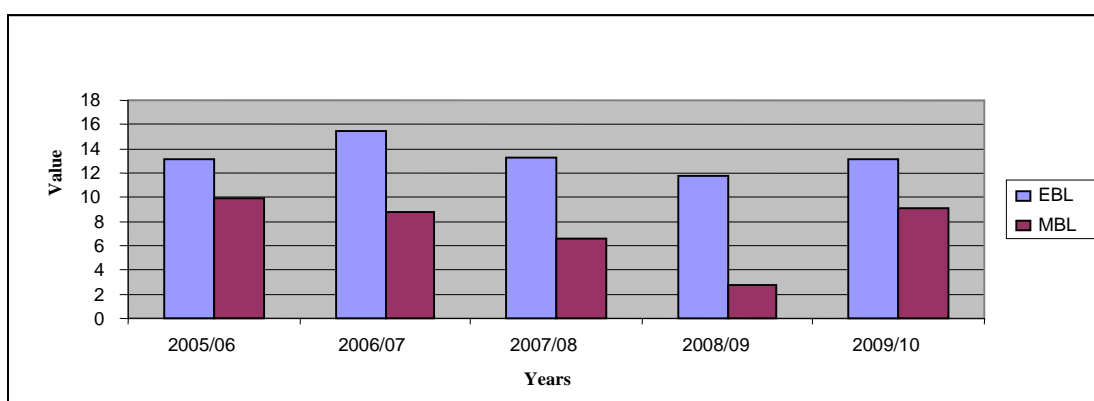
Above table shows that the investment n government treasury bills to total assets of EBL and MBL are fluctuating trend. The highest ratio of EBL is 15.50% in 2006/07 and MBL is 9.97% in 2005/06. and the lowest ratio of EBL and MBL are 11.80% in 2008/09 and 2.73% in 2008/09 respectively.

From the table we notice that mean ratio of EBL and MBL are 13.39% and 7.46% respectively. EBL has higher ratio in every year and mean too. It means EBL has invested more money in risk free assets than that of MBL. In another works MBL has emphases on more loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk, MBL should divert its investment in govt. securities.

III. Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is the make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc.

Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of EBL and MBL.

A. Return on Loan and Advances

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

Table No 4.9. Return on Loan and Advances

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	2.42	2.17	2.46	2.67	3.21	2.59	0.32	0.12
MBL	2.18	1.08	0.98	0.98	0.51	1.15	0.54	0.47

Sources: Appendix 1 (Table No. 9)

Figure No. 4.9. Return on Loan and Advances
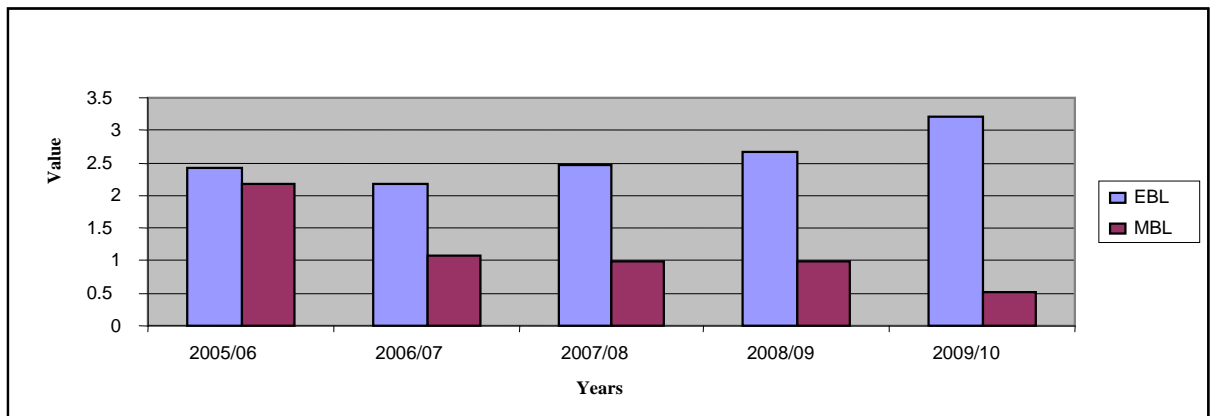
The table shows that return on loan and advances ratio of EBL is in fluctuating trend and MBL is decreasing tread except in 2007/08. The highest ratio of EBL is 3.21% in the year 2009/10 and lowest ratio 2.17% in year 2006/07. The mean ratio of EBL is 2.59%. Whereas highest ratio of MBL is 2.18% in year 2005/06 and lowest ratio is 0.51% is 2009/10. The mean ratio is 1.15% EBL bank shows the good earning capacity in loan and advances whereas MBL show poor earning capacity in from of loan and advances.

From the table we notice that EBL has higher ratios in all year and mean too. It can be concluded that EBL bank has utilized the loan and advance for the profit generation purpose in proper way.

B. Return on total Assets ratio.

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

Table No 4.10. Return on total Assets ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	1.48	1.38	1.66	1.73	2.13	1.68	0.28	0.17
MBL	1.48	0.71	0.68	0.70	0.35	0.78	0.38	0.49

Sources: Appendix 1 (Table No. 10)

Figure No. 4.10. Return on total Assets
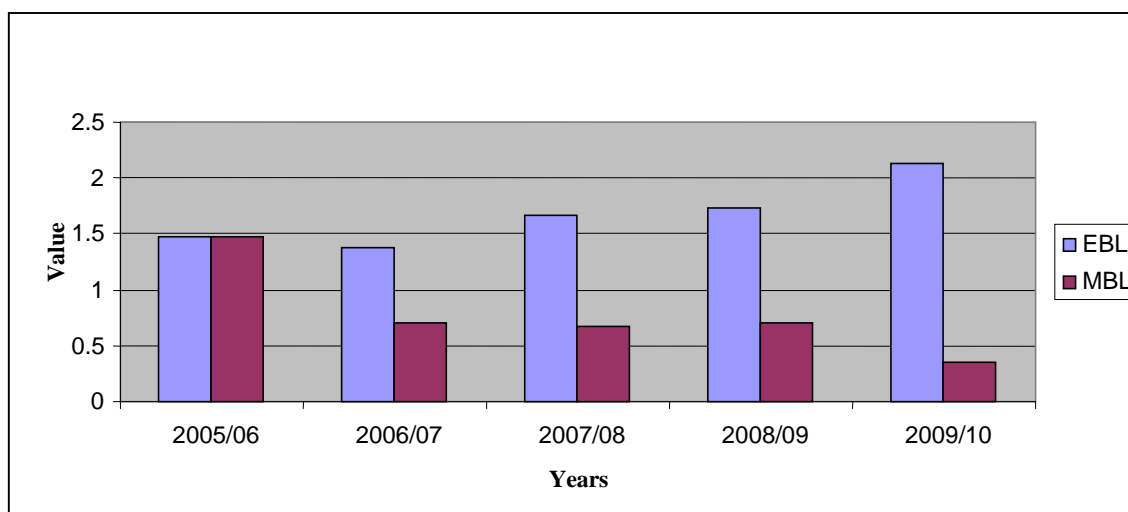
Above table shows the return on total assets of EBL is increasing trend except in 2006/07 and MBL is decreasing trade except in 2008/09. However, EBL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 1.68% of total assets in an average which is higher than hat of MBL (i.e. 1.68%>0.78%). EBL has also higher ratio in each year.

Where as S.D. and C.V. of EBL and MBL are 0.28, 0.17, 0.38 and 0.49 respectively. Higher C.V. of MBL shows that it has relatively high incontinence in the ratios.

C. Return of Equity Ratio

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

Table No 4.11. Return of Equity Ratio

Name of	Fiscal Year					Mean	S.D.	C.V.
Banks	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	24.65	24.67	23.49	28.99	7.38	21.84	7.46	0.34
MBL	14.39	7.68	7.31	11.84	11.25	10.49	2.68	0.26

Sources: Appendix 1 (Table No. 11)

Figure No. 4.11. Return of Equity Ratio
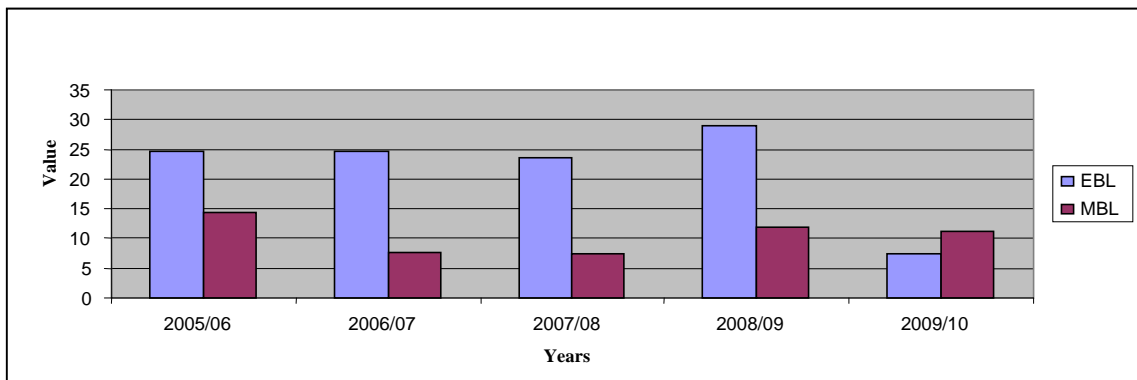
The above listed table shows return of equity ratio of EBL and MBL. Above calculated statistic indicate that EBL has fluctuating trend and MBL has decreasing return on equity ratio except 2008/09. EBL has higher ratios in each year except 2009/10 year. It has also higher mean ratio (i.e. 21.84%>10.49%).

Despite competition and an adverse macro economic environment, EBL is currently generating higher ROE in comparison with MBL. In brief, it signifies that the shareholders of EBL are getting higher return but in case of MBL, they are getting lesser. It can be concluded that EBL has better utilized the equity for the profit generation. It proves to be a good strength of EBL in attracting future investment also while MBL shows its weakness regarding efficient utilization of its owner's equity in comparison with EBL. EBL has homogeneous return in each year. It is the strength point of EBL.

Where as S.D. and C.V. of EBL and MBL are 7.46, 0.34 and 2.68, 0.26 respectively. But EBL has relatively more inconsistency through out the study period.

D. Total Interest Earned to Total Assets Ratio

Total interest earned to total assets ratio evaluated how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of EBL and MBL.

Table No 4.12. Total Interest Earned to Total Assets Ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	5.66	5.34	5.70	5.92	7.95	6.11	0.94	0.15
MBL	6.21	6.43	6.34	5.95	8.16	6.62	0.82	0.12

Sources: Appendix 1 (Table No. 12)

Figure No. 4.12. Total Interest Earned to Total Assets Ratio
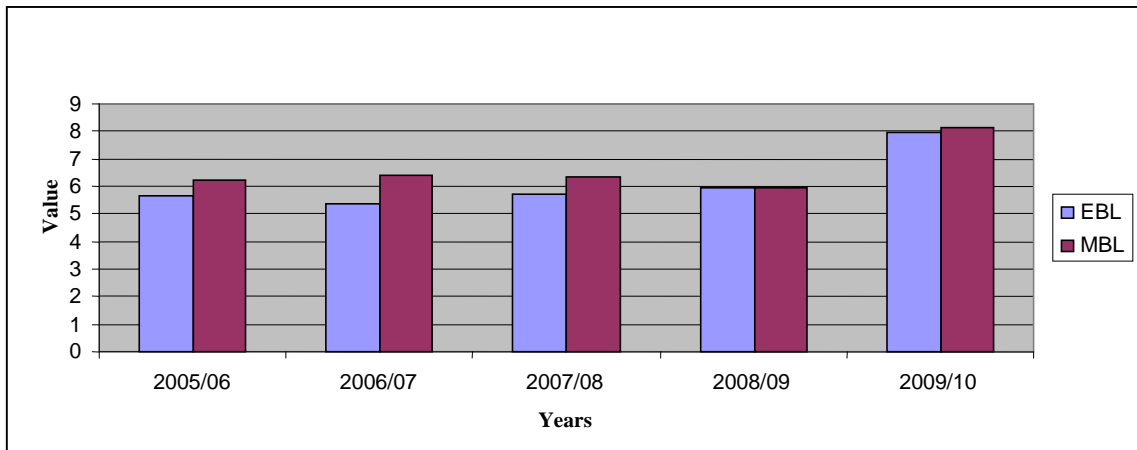
Above table shows the total interest earned to total assets ratio of EBL has increasing trend except in year 2006/07 and MBL has fluctuating trend. Despite the higher total assets and interest earned in MBL. It seems less conscious about managing its assets in order to earn more interest ratio, average ratio is of EBL 6.11% where as MBL shows it has maintained average ratio 6.62%. MBL has higher ratio in each year. The mean ratio of MBL is more than that of EBL. In comparison, MBL seems effective in earning interest to some extent than that of EBL.

Moreover, EBL also has higher inconstancies in the ratios during the study period because it's S.D and C.V. is higher. It can be concluded that MBL has successfully mobilized their fund in interest generating assets.

E. Total Interest Earned to Total outside Assets Ratio

The main assets of commercial banks are it's outside assets, which includes loan and advances, investment on government securities, investment on share and debentures and other all types of investment. This, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A high ratio indicates high earning on such total assets and vice-versa. The following Table No 4.12 exhibits the ratio of total interest earned to total outside assets of EBL and MBL during the study period.

Table No 4.13. Total Interest Earned to Total outside Assets Ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	6.45	6.14	6.62	7.33	10.04	7.32	1.40	0.19
MBL	7.68	8.26	7.90	7.57	10.30	8.34	1.02	0.12

Sources: Appendix 1 (Table No. 13)

Figure No. 4.13. Total Interest Earned to Total outside Assets Ratio
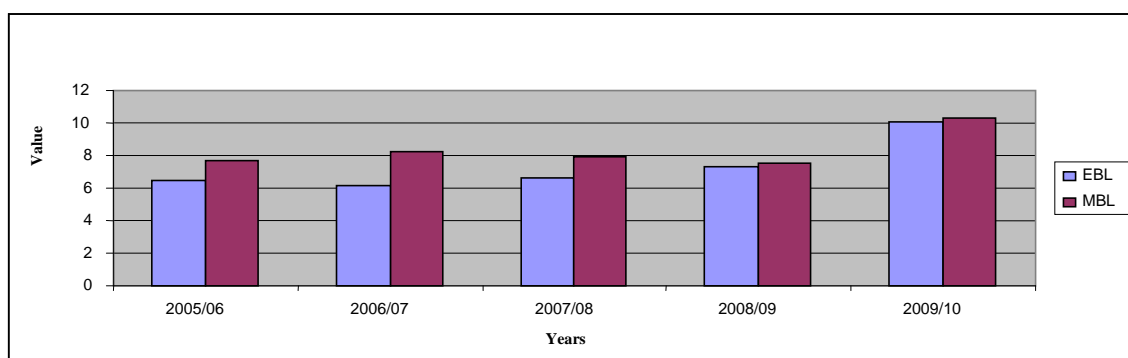
Above table shows interest earned to operating income ratio of EBL and MBL. EBL has increasing trend except in year 2006/07 and MBL has fluctuation ratio during study period. MBL has greater share of total interest earn in its total operating income in each year and mean too. The mean ratio of EBL and MBL are 142.86% and 179.62% respectively. MBL has higher ratio, it indicates the high contribution in opening income made by lending and investing activities (Core banking activity). EBL has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity). High contributing in operating income made by lending and investing activities (core banking activity) is not good for loan run but in short run it is not so bad. Thus, from short-term view, MBL is in good condition but from long term view, EBL is in good condition. In overall, EBL has managed should interest earned to operating income ratio.

The S.D. and C.V. of EBL is 9.31, 0.065 similarly MBL has 31.68, 0.18. It indicates MBL has relatively inconsistent in interest earned to total operation income as it has higher C.V. than that of EBL.

F. Total Interest Earned to Total Operating Income Ratio

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generation sectors considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2005/06 to 2009/10 are presented to analyze in the following table. The major sources of income for the bank are interest income. So the banks should mobilize their funds in more interest generating sectors considering the risk and return.

Table No 4.14. Total Interest Earned to Total Operating Income Ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	136.44	136.02	139.40	141.54	160.92	142.86	9.31	0.065
MBL	157.83	169.74	159.30	168.96	242.26	179.62	31.68	0.18

Sources: Appendix 1 (Table No. 14)

Figure No. 4.14. Total Interest Earned to Total Operating Income Ratio
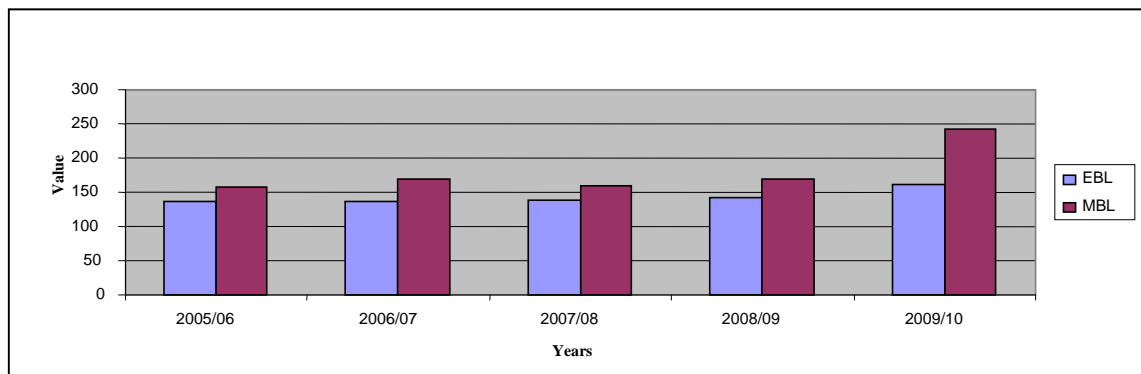
Above table shows the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of bank EBL is in increasing trend except in year 2006/07. Whereas ratios of MBL is in fluctuating trend. The highest ratio of EBL is 10.04% in 2009/10 and lowest ratio is 6.14 in 2006/07 and similarly the highest ratio of MBL is 10.30% in 2009/10 and lowest ratio 7.57% is in 2008/09. The mean ratio of EBL and MBL are 7.32% and 8.34% respectively. Here MBL seems to have more efficiency in generating total interest through well utilizations of outside assets than that of EBL. EBL has relatively inconsistent in results as it has higher C.V. than that of MBL (i.e. 0.19>0.12).

G. Total Interest Paid to total Assets Ratio

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

Table No 4.15. Total Interest Paid to total Assets Ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	2.52	2.40	2.33	2.74	4.03	2.81	0.61	0.22
MBL	3.18	3.68	3.26	3.32	5.54	3.80	0.87	0.23

Sources: Appendix 1 (Table No. 15)

Figure No. 4.15. Total Interest Paid to total Assets Ratio
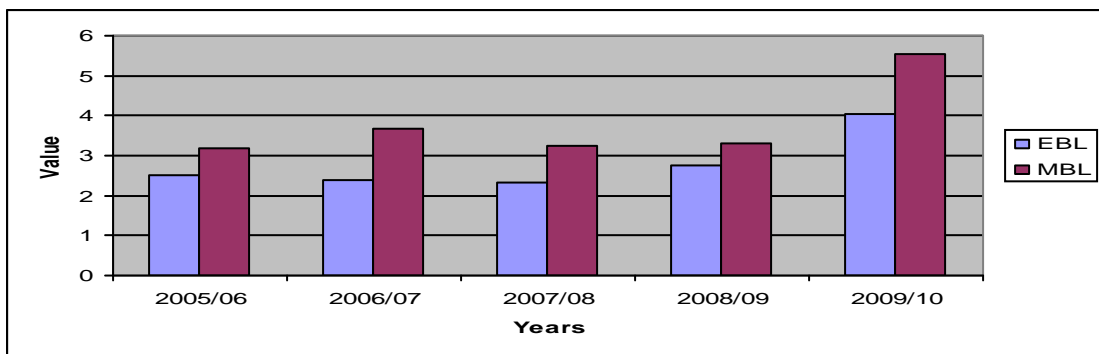
Above table shows total interest paid to total assets ratio. Due to the higher ratio in each year of MBL, it seems less conscious about borrowing cheaper fund. Both blanks show fluctuating trend. EBL has average ratio of 2.81% whereas MBL has maintained average ratio 3.80%. The mean ratio of MBL is more than that of EBL and MBL has also higher ratio in each year. In comparison, MBL seems ineffective in getting cheaper fund. The C.V of MBL is greater than the EBL it indicate high risk and insignificant of MBL rather than EBL.

IV. Other Ratios

A. Earning Per Share

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

Table No 4.16. Earning Per Share

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	45.81	57.22	54.27	76.15	20.94	50.88	17.95	0.35
MBL	18.74	9.02	10.35	8.33	4.96	10.28	4.59	0.45

Sources: Appendix 1 (Table No. 16)

Figure No. 4.19. Earning Per Share
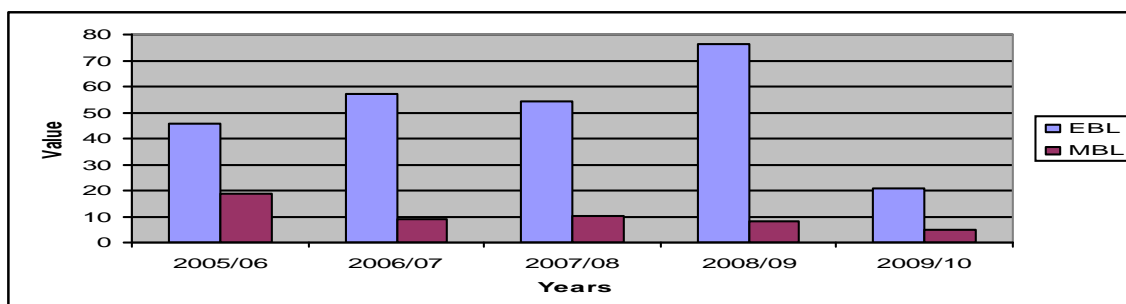
Above table shows that earning price per share of EBL and MBL. EBL and MBL have fluctuating trend of EPS. The ratio of EBL>MBL (i.e. 50.88>10.28) while observing their ratios in overall; EBL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS., and in average too. It is quite satisfying to state that EBL has been able to maximizing shareholder wealth from the view pointy of EPS. The C.V. of MBL is higher than EBL; (i.e. 0.45>0.35),   it indicates that there is inconsistent in earning per share of MBL than that of EBL.

B. Dividend per Share

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

A firm wants to distribute dividend to its shareholder if a firm suppose the insufficient investment opportunities and sector. Sometimes, it does not

distribute dividend and some time issues bones shares. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities earning, divisible profit of proposed dividend or declared dividend. So each firm must announce the total dividend and dividend per share which show the position of the firm.

Table No 4.17. Dividend per Share

Name of	Fiscal Year					Mean	S.D.	C.V.
Banks	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	25	40	50	60	0	35	20.98	0.60
MBL	15.79	0	21.05	0	10.0	9.37	8.41	0.90

Sources: Appendix 1 (Table No. 17)

Figure No. 4.20. Dividend per Share
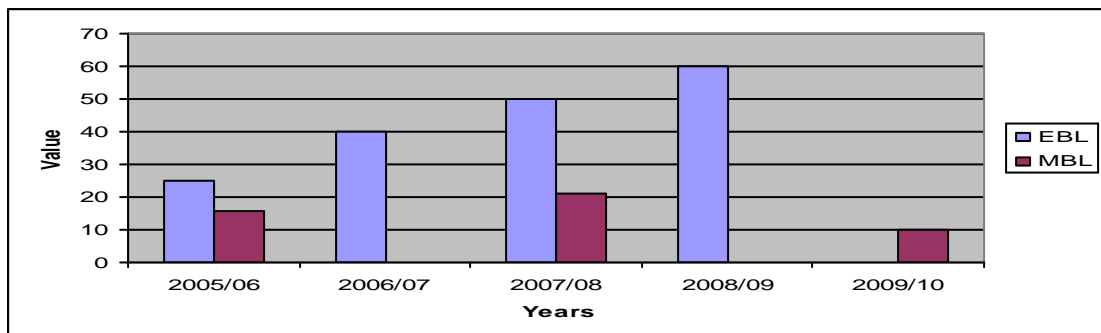
The above statistics shows the dividend per share of EBL is higher than that of MBL in each year and EBL has also higher mean (i.e 35>9.37), it has less variability in dividends during the study period.

It can be concluded EBL has adopted the policy of paying high amount in the form of cash dividends where as MBL is typing to capitalize its earning by keeping it is the form of retained earnings. It is noted that MBL provided dividend for tax adjustment of bonus share.

C. Market Price per Share

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

Table No 4.18. Market Price per Share

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	1379	2430	3132	2455	2390	2357.2	560.92	0.24
MBL	320	620	1285	420	252	585.4	368.91	0.63

Sources: Appendix 1 (Table No. 18)

Figure No. 4.21. Market Price per Share
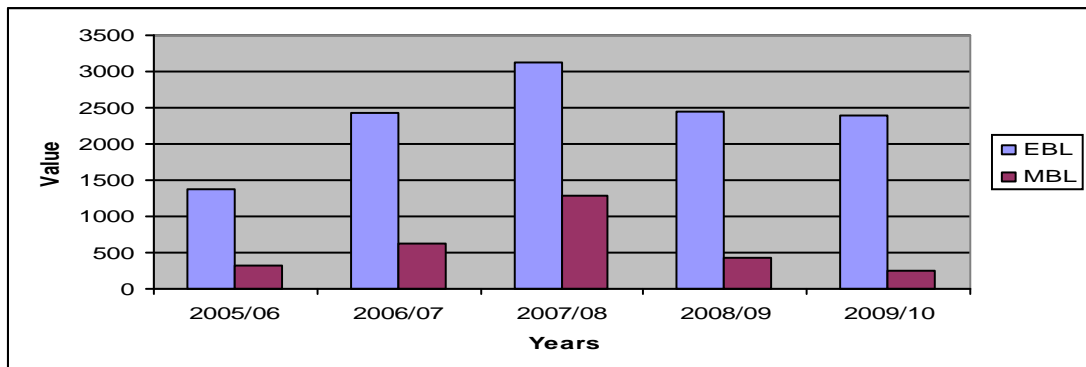
This table shows market price of the share of EBL and MBL. Both banks have fluctuating trend of Market price. Average mean price of EBL is greater than that of MBL (i.e.2357.2>585.4). It indicates that shareholder of EBL are getting higher price. The C.V. of MBL is high it indicates that MBL has inconsistent in its market price.

D. Price Earning Ratio

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

Table No 4.19. Price Earning Ratio

Name of Banks	Fiscal Year					Mean	S.D.	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	30.1	42.47	57.71	32.24	114.14	55.33	30.99	0.56
MBL	17.08	68.74	124.16	50.42	56.90	63.46	34.86	0.55

Sources: Appendix 1 (Table No. 19)

Figure No. 4.22. Price Earning Ratio
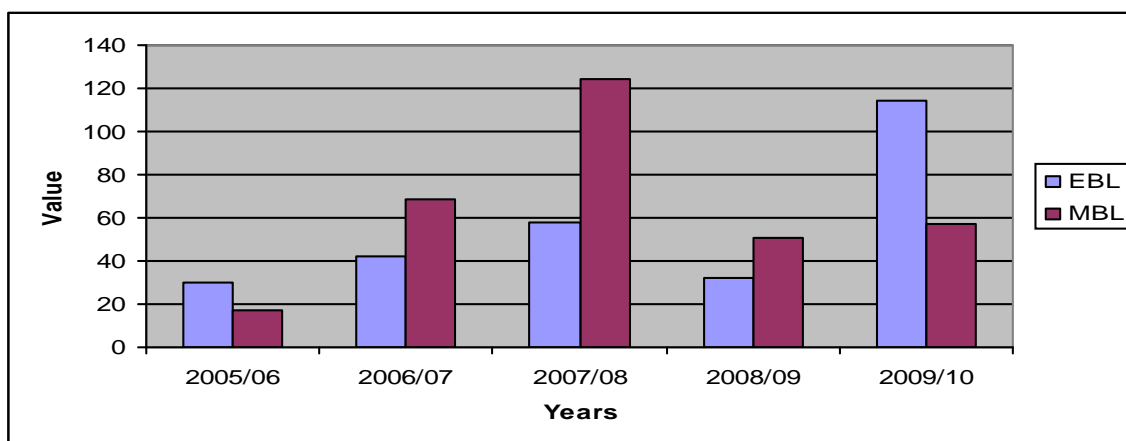
Above table shows that price earning ratio earning of EBL and MBL are in increasing trend. From the mean point of view, mean ratio of the EBL and MBL are 55.33 and 63.46 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 55.33 in EBL and Rs 63.46 in MBL. Looking

the mean ratio we conclude that in short run, investor of MBL are getting better profitability because they are selling their shares in high price although EPS of MBL is lower in comparison than that of EBL. But from the long term view and sustainable fair price, investor of EBL will get better profitability are they will be in safe side in comparison with MBL as low ratio is preferable for fair and sustainable market price.

The C.V. of EBL is little bit high it indicates that EBL has inconsistent in its risk to invest in EBL rather than in the MBL.

4.2. Statistical Analysis

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

4.2.1. Co-efficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan and advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan and advances and net profit EBL and MBL using Kark Persons coefficient of correlation, value of coefficient of determined (r2) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

A. Correlation Coefficient between Deposit and Loan and Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan and advances are very important to mobilize the collected deposits. Co-efficient of correlation between these two variables. In this analysis, deposit is independent variable (x) and loan and advances are dependent variable (Y). The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan and advance in proper way or not.

Table No. 4.20. Correlation between deposit and loan advance

Name of Bank	Evaluation Criterions			
	r	r^2	P.Er	6.P.Er
EBL	0.9958	0.9916	0.0025	0.0152
MBL	0.9979	0.9958	0.0013	0.0076

Source : Appendix 2 (Table No. 1)

From the above table, it is found that coefficient of correlation between deposits and loan and advances of EBL and MBL is 0.9958 and 0.9979. It is shows that both have the positive relationship between these two variables. It refers that deposit and loan and advances of EBL and MBL move together very closely. Moreover, the coefficient of determination of EBL is 0.9916. It means 99.16% of variation in loan and advances has been explained by deposit. Similarly, value of coefficient of determination of MBL is 0.9958. It refers that 99.58% variance in loan and advances are affected by total deposit. The correlation coefficient of both banks in significant because the correlation coefficient is greater than the relative value of 6 P.Er. In other words, there is significant relationship between deposits and loan & advances.

B. Coefficient of Correlation between Total Deposits and Total Investment

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

The following Table shows the coefficient correlation between deposits and total investments i.e.r, P.Er., 6 P.Er. and coefficient of determination (r^2) of EBL and MBL during the study period.

Table No. 4.21. Correlation between total Deposit and Total Investment

Name of Bank	Evaluation Criterions			
	r	r^2	P.Er	6.P.Er
EBL	0.7630	0.5822	0.1260	0.7562
MBL	0.7564	0.5721	0.1291	0.7744

Source : Appendix 2 (Table No. 2)

From the above table, the researcher found that the coefficient of correlation between total deposit and total investment of EBL in 0.7630. It shows the high degree positive correlation of determination EBL is 0.5822. It means only 58.22% of total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of EBL.

Similarly, there is high degree correlation positive coefficient between total deposit and total investment of MBL, which is indicator by correlation coefficient of 0.7564. The value of coefficient of determination is found 0.5721 this refers that 57.21% of the variation in total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation

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

From the above analysis, the conclusion can be drawn in the case of EBL and MBL are both have high degree positive correlation. It indicated that both are successful to mobilize its deposit to provide investment.

C. Co-efficient of Correlation between Loan and Advance and Net Profit

Co-efficient of correlation between loan and advance net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of EBL and MBL during the study period. Where Loan and advance is independent variable (x) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the carination of net profit to loan and advance through the coefficient of determination. The following table shows the 'r', r^2, P.Er. and 6 p.Er. between those variable of EBL and MBL for the study period.

Table No. 4.22. Correlation between loan and advance and Net profit

Name of Bank	Evaluation Criterions			
	r	r^2	P.Er	6.P.Er
EBL	0.9736	0.9479	0.0157	0.0943
MBL	-0.02584	0.0668	0.2815	1.6891

Source : Appendix 2 (Table No. 3)

Above table shows correlation coefficient between, loan and advance and net profit is of EBL os 0.9736. It refers that there is positive correlation between there two variables. Here, 94.79% of net profit is contribute by loan and advance as its coefficient of determination of 0.9479 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6

P.Er. Likewise MBL also low degree negative correlation i.e. -0.2584 between loan and advance and net profit. The coefficient of determination r^2 is 0.0668, which indicates that 6.68 percent variability in net profit is explained by loan and advance. Moreover, less correlation coefficient than 6.P.Er. Shows that the relationship between loan and advance and net profit is insignificant for MBL. In conclusion, EBL has more significant relationship between loan and advance and net profit than of EBL.

D. Coefficient of Correlation between Total Investment and Net profit

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following table shows the coefficient of correlation coefficient of determination, probable error and six times of P. Er. During the fiscal year 2005/06 to 2009/10.

Table No. 4.23.   Correlation between Table Investment and Net profit

Name of Bank	Evaluation Criterions			
	r	r^2	P.Er	6.P.Er
EBL	0.5688	0.3235	0.2041	1.2244
MBL	-0.6374	0.4063	0.1791	1.0746

Source : Appendix 2 (Table No. 4)

Above table shows correlation coefficient between total investment and net profit of EBL is 0.5688 which implies there is moderate positive correlation between total investment and net profit. In addition, coefficient of determination of EBL is 0.3235. It means only 32.35% of profit is contribute by total investment. Obviously, this correlation is in significant at all due to coefficient of correlation is less than 6.P.E. On the other hand MBL has negative correlation between total investment and net profit i.e. -0.6374. The coefficient of determination of MBL is 0.4063. It means 40.63% of profit is

contributed by total investment but this relationship is in significant as its correlation coefficient is lower than 6 P.Er. Both EBL and MBL have in significant relationship between total investment and net profit.

Thus it can be concluded that the degree of relationship between total investment and net profit of EBL and MBL are poor. This correlation coefficient indicates that the both EBL and MBL have poor performed in order to generate net profit through investment.

E. Coefficient of Correlation of Total Deposit between EBL and MBL

Coefficient of correlation of total deposit between EBL and MBL and shows their linear relationship.

Table No. 4.24 Coefficient of Correlation of Total Deposit between EBL and MBL

Evaluation Criterions			
r	r^2	P.Er	6.P.Er
0.9684	0.9378	0.0188	0.1126

Source : Appendix 3 (Table No. 1)

This table shows how the total deposit of EBL and MBL is related. 0.9684 of correlation coefficient shows that there is highly positive correlation between these two banks in this regard. But this correlation coefficient is also significant because the correlation coefficient is high than 6.P.Er. As the of coefficient of determination this shows the 93.78% of the degree of relationship. The degree of relationship between these two banks is also high.

F. Coefficient of Correlation of Total Investment between EBL and MBL.

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

Table No. 4.25. Coefficient of Correlation of Total Investment between EBL and MBL.

Evaluation Criterions			
r	r^2	P.Er	6.P.Er
0.0231	0.0005	0.3015	1.8090

Source : Appendix 3 (Table No. 2)

The above table reveals that there is low degree positive correlation between EBL and MBL in case of total investment. It implies that the total investment of EBL and MBL are not move in the same direction. Here r<6P.Er. Therefore, correlation coefficient is in significant. This can be said that both EBL and MBL increase its total investment as not same direction. The coefficient of determination is 0.0005, which shows the only 0.05% of the degree of relationship.

G. Coefficient of Correlation of Loan and Advances between EBL and MBL

The coefficient of correlation of loan and advances between EBL and MBL has been given below.

Table No. 4.26. Coefficient of Correlation of Loan and Advances between EBL and MBL

Evaluation Criterions			
r	r^2	P. Er	6.P.Er
0.9761	0.9528	0.0142	0.0855

Source : Appendix 3 (Table No. 3)

Above table shows that there is high degree positive correlation between the loan and advances of EBL and MBL. The correlation coefficient between two banks is 0.9761. It means loan and advances of these two banks moves in the

same direction in high proportion. This correlation coefficient is significant in order to show the relationship between loan and advances of these two banks because correlation coefficient is greater than 6.P.Er. The coefficient of determination is 0.9528 which shows the 95.28% of the degree of relationship.

H. Coefficient of Correlation of Net Profit between EBL and MBL

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

Table No. 4.27. Coefficient of Correlation of Net Profit between EBL and MBL

Evaluation Criterions			
r	r^2	P. Er	6.P.Er
-0.3320	0.1102	0.2684	1.6104

Source : Appendix 3 (Table No. 4)

Above statistics shows that there is high negative correlation between net profit of EBL and MBL, which is indicated by correlation coefficient of -0.3320. This relationship is insignificant because its correlation coefficient is less than 6.P.Er. The coefficient of determination is 0.1102 whish shows the 11.02% of the degree of relationship.

4.2.2. Trend Analysis

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

A. Trend Analysis to Total Deposit

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

Y= a+bx

Where,

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

X=deviation from some convenient time periods.

Let tread line be

Y=a+bx ……………………………. (1)

Where x =x –middle year

Here,

$$a = \frac{SY}{N} \qquad\qquad b = \frac{SXY}{SX^2}$$

EBL   MBL

a= 24680.92   a = 12520.74

b= 5576.52   b = 2740.65

YC = 24680.92+ 5576.52 X of EBL

YC = 12520 + 2740.65 X of MBL

Table No 4.28. Trend Analysis to Total Deposit

Trend Analysis to Total Deposit		
Year (x)	EBL	MBL
2005/06	13527.88	7039.44
2006/07	19104.4	9780.09
2007/08	24680.92	12520.74
2008/09	30257.44	15261.39
2009/10	35833.96	18002.04
2010/11	41410.48	20742.69
2011/12	46987.0	23483.34
2012/13	52563.52	26223.99
2013/14	58140.04	28964.64
2014/15	63716.56	31705.29
2015/16	69293.08	34445.94
2016/17	74869.6	37186.59
2017/18	80446.12	39927.24

Source: Annual Report of Concern Bank

Figure No. 4.31. Trend Analysis to Total Deposit
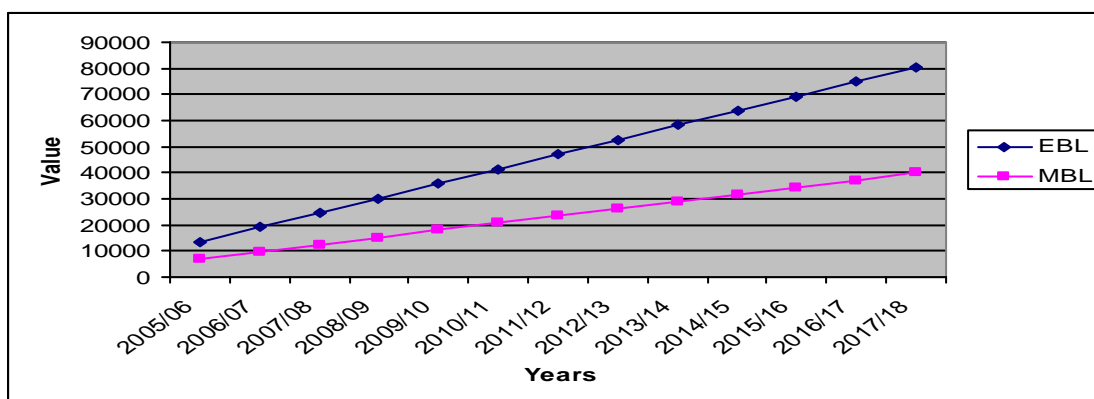
Appendix - 4

Above table and figure shows total deposit of EBL and MBL. Both banks are un increasing trend. The rate of increment of total deposit of EBL seems to be higher than that of MBL. The increasing trend of total deposit of EBL is more aggressive and high rather than MBL. It indicates EBL has more prospect of collecting total deposit. The trend analysis has projected deposit amount is FY 2010/11 to FY 2017/18 from the above trend analysis it is clear that EBL has higher position is collecting deposit than MBL.

B. Trend Analysis of Loan and Advances

Here, the trend values of loan and advances between EBL and MBL have been calculated for further eight year. The following table shows the actual and trend values of EBL and MBL.

Y= a+bx

Where,

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

X=deviation from some convenient time periods.

Let tread line be

Y=a+bx ……………………………. (1)

Where x =x –middle year

Here,

$$a = \frac{SY}{N} \qquad\qquad b = \frac{SXY}{SX^2}$$

EBL   MBL

a= 18314.06   a = 9744.92

b= 423802   b = 2167.25

YC = 18314.06 + 4238.02 X of EBL

YC = 9744.92 + 2167.25 X of MBL

Table No 4.29. Trend Analysis of Loan and Advances

Trend line of Total loan and advance of EBL and MBL		
Year (x)	EBL	MBL
2005/06	9838.02	5410.42
2006/07	14076.04	5777.67
2007/08	18314.06	9744.92
2008/09	22552.08	11912.17
2009/10	26790.1	14079.42
2010/11	31028.12	16246.67
2011/12	35266.14	18413.92
2012/13	39504.16	20581.17
2013/14	43742.18	22748.42
2014/15	47980.2	24915.67
2015/16	52218.22	27082.92
2016/17	56456.25	29250.17
2017/18	60694.26	31417.42

Source : Annual Report of Concern Bank

Figure No. 4.32. Trend Analysis of Loan and Advances
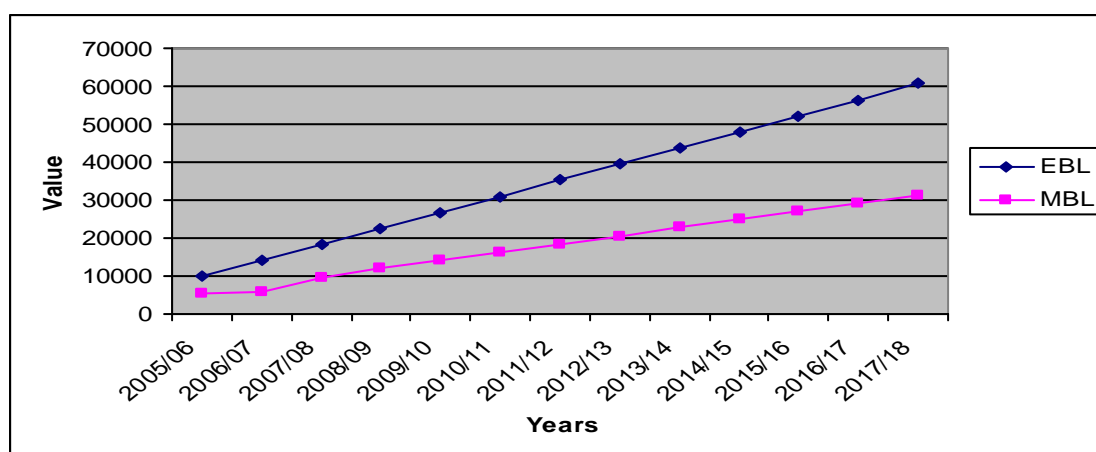
Appendix - 5

Above table depicts that loan and advances of EBL and MBL. Both banks have in increasing trend. The increment trend of EBL is higher than MBL. The actual value of loan and advance for MBL is quite fluctuation in relation to

EBL. The trend projected for further eight year is FY 2009/10 to FY 2017/18. From the above analysis, it is clear that both EBL and MBL is mobilizing its collected deposits and other funds in the form of loan and advances. Above table and figure shows the EBL has higher mobilizing loan and advances than MBL.

C. Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze trend analysis total investment of EBL and MBL for further eight years.

$Y = a + bx$

Where,

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

X=deviation from some convenient time periods.

Let tread line be

$Y = a + bx$ ……………………………. (I)

Where x = x – middle year

Here,

$$a = \frac{SY}{N} \qquad\qquad b = \frac{SXY}{SX^2}$$

EBL   MBL

a= 5040.24   a = 1451.16

b= 257.98   b = 177.96

YC = 5040.24 + 257.98   X of EBL

YC = 1451.16+ 177.96 X of MBL

Table No 4.30. Trend Analysis of Total Investment

Trend line of Total Investment between EBL and MBL		
Year (x)	EBL	MBL
2005/06	4524.28	1095.18
2006/07	4782.26	1273.16
2007/08	5040.24	1451.14
2008/09	5298.22	1629.12
2009/10	5556.2	1807.1
2010/11	5814.18	1985.08
2011/12	6072.16	2163.06
2012/13	6330.14	2341.04
2013/14	6588.12	2519.02
2014/15	6846.1	2697.0
2015/16	7104.08	2874.98
2016/17	7362.06	3052.96
2017/18	7620.04	3230.94

Source : Annual Report of Concern Bank

Figure No. 4.33. Trend Analysis of Total Investment
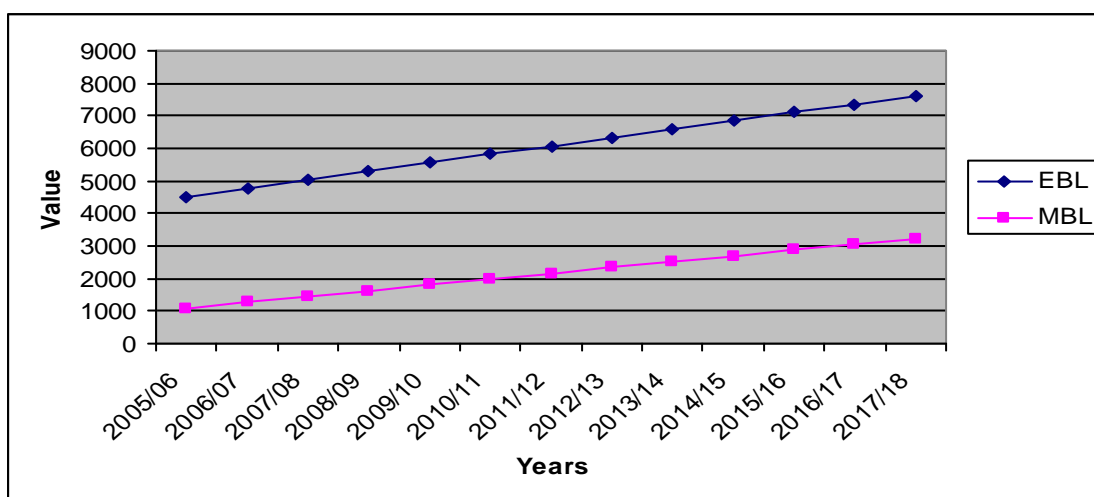
Appendix - 6

Above table shows the Trend of total investment between EBL and MBL. Both bank EBL and MBL have increasing tread in making investment. EBL has little high and upward trend of increasing, but MBL has moderately increasing trend of total investment. The trend of total investment projected to FY 2015/16. The forecasted trend projected that the EBL has greater interment rate in total investment than the increment rate of MBL. The figure indicates EBL has highly mobilized the total investment rather than MBL.

D. Trend Analysis of Net Profit

Here, the trend values of net profit of EBL and MBL have been calculated for five years FY 2005/06 to FY 2009/10 and forecasting for the next eight year till FY 2017/18.

$Y= a+bx$

Where,

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

X=deviation from some convenient time periods.

Let tread line be

$Y=a+bx$ ……………………………. (I)

Where x =x –middle year

Here,

$$a = \frac{SY}{N} \qquad\qquad b = \frac{SXY}{SX^2}$$

EBL	MBL
a= 491.09	a = 98.48
b= 153.13	b = -7.5

$YC = 491.09 + 153.13X$ of EBL

$YC = 98.48 + (-7.5) X$ of MBL

Table No 4.31. Trend Analysis of Net Profit

Trend Analysis of Net Profit between EBL and MBL		
Year (x)	EBL	MBL
2005/06	184.83	113.48
2006/07	337.96	105.98
2007/08	491.09	98.48
2008/09	644.22	90.98
2009/10	797.35	83.48
2010/11	950.48	75.98
2011/12	1103.61	68.00
2012/13	1256.74	60.98
2013/14	1409.87	53.48
2014/15	1563.00	45.98
2015/16	1716.13	38.48
2016/17	1869.26	30.98
2017/18	2022.39	23.48

Source : Annual Report of Concern Bank

Figure No. 4.34. Trend Analysis of Net Profit
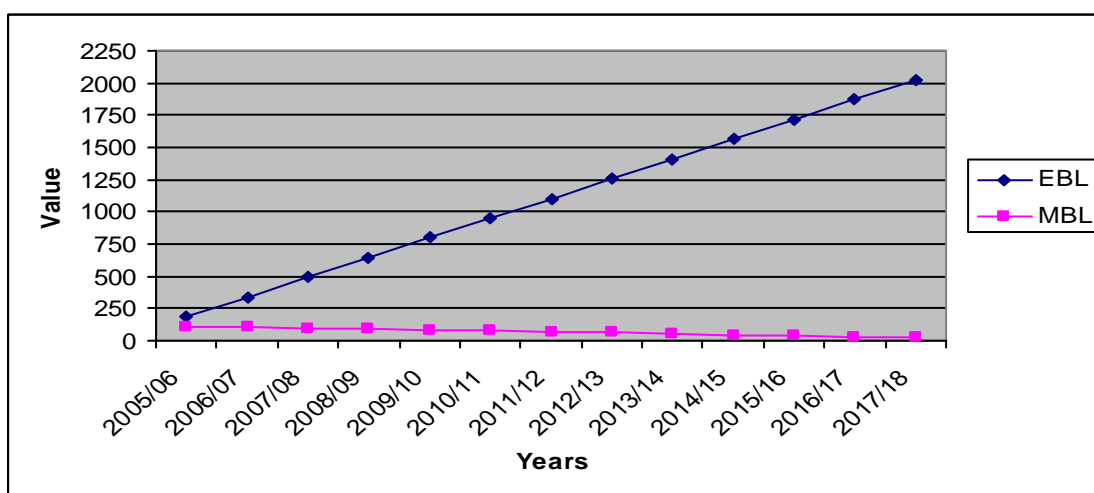
Appendix - 7

The above table reveals the trend of profit of EBL and MBL. Net profit of EBL forecasted in increasing trend and MBL is slightly decreasing trend. The trend of increasing value of net profit of EBL is higher and aggressive than MBL. The net profit of EBL and MBL has been increasing and decreasing every year by Rs. 153.13 million and Rs. -7.5 million respectively. The trend of net profit projected to FY 2017/18 i.e. further eight year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion EBL in doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity in EBL is high than the NBL.

4.3. Major Findings

4.3.1 Financial Analysis

Liquidity Ratio

From the above research study, following findings are drown on the liquidity position of the selected commercial banks.

) Generally banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 1:1. The mean current ratio of EBL is 1.07 and MBL is 1.59 the current ratio of MBL is little higher than MBL. It is indicate better liquidity position of MBL.

) Cash and bank balance to total deposit ratio of EBL has higher than MBL i.e. 15.01%>13.84% which indicates that the bank has higher liquidity of EBL as compare of MBL. A high ratio of cash and bank balance may be undesirable which indicates inability to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. But liquidity position is good.

) Cash and bank balance to current assets ratio of EBL is higher than MBL i.e. 15.57%>15.35%. Regarding the analysis, it can be said that EBL has a better ability to meet daily cash requirements of their customers but it should be noted the EBL has excess cash due to the low investment opportunities.

) Investment of government securities to current assets of EBL has higher than MBL i.e. 16.34% > 9.93%. It shows EBL has invested more fund in government securities. MBL has invested little portion in government securities. Its suggest MBL has investment in purchasing of government securities.

) Above findings shows that liquidity position of EBL is comparatively better than MBL. Lower liquidity position of MBL shows that the current assets have been utilized in some profit generating sectors, but EBL has over liquidly.

Asset Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit, so to satisfy its customers and for own existence. The assets management ratios of EBL and MBL show the following findings.

) The loan and advance to total deposit ratio of EBL is lower than MBL 74.04% < 77.66%. It indicates the better mobilization of deposit by MBL. So, MBL has more efficiently utilizing the outsider's funds in extending credit for profit generating sectors.

) The total investment to total deposit of EBL is mush higher than MBL i.e. 22.07%>12.17. It shows the EBL is mobilizing its funds on investment is various securities efficiently. It can be said that EBL is more successful in utilizing its total deposit by investing in marketable securities.

) The loan and advance to total assets of MBL is much higher than EBL i.e. 68.71%>64.74%. It refers MBL has utilized its total assets more efficiently

in the form of loan and advances with more risk because it has greater variability in the ratio.

) Investment of government securities to total assets ratio of EBL is higher than MBL i.e. 13.39%>7.46%. This indicates than EBL has invested more portions of total assets on government securities. It means EBL has invested more money in risk free assets than that of MBL.

Above findings reveals that the EBL has better utilization of assets in risk free asset i.e. government security and productive sector rather than MBL.

Profitability Ratio

The major performance indicator of any firm in profit. Following findings are drawn on the basic of profitability position of EBL and MBL.

) Return on loan and advances ratio of EBL is higher than that of MBL i.e. 2.59%>1.15%. It refers that EBL. It can be concluded that EBL bank has utilized the loan and advance for the profit generation purpose in proper way.

) Return on total assets ratio of EBL is slightly higher than MBL i.e. 1.68%>0.78%. However, EBL seems successful in managing and utilizing the available assets in order to generate revenue.

) Return on equity of EBL is higher than MBL i.e. 21.84%>10.49% which shows than EBL is more successful to earn high profit through the efficient utilization of its equity capital.

) Total interest earned to total assets ratio of EBL is relatively little lower than that of MBL i.e. 6.11% < 6.62% and also has lower variability in the ratio. It indicates than MBL has efficiently used its total assets to earn higher interest income in comparison to EBL. EBL seems less conscious about managing its assets in order to earn more interest ratio.

) Total interest earned to total outside assets ratio of MBL is higher than the EBL i.e. 8.34%>7.32%, MBL seems to have more efficiency in generating total interest through well utilizations of outside assets than that of EBL.

) Total interest earned to total operating income ratio of EBL is lower than MBL i.e. 142.86%<179.62%. It means the greater portion of total operating income is occupied by total interest for MBL. It reveals MBL has successful mobilizing their fund in interest generating assets.

) Total interest paid to total assets ratio of MBL is higher than EBL i.e. 3.80%>2.81%. it shows MBL has high interest expenditure to total assets. It supports MBL to increase to interest paid to operating income.

Overall finding of profitability ratios show that EBL has utilized its fund in risk free asset and MBL has earned profit by interest mobilization.

Other Ratios

From the above research study, following findings are drawn on the other ratios of the sample banks i.e. EBL and MBL.

) Average earning per share of EBL is much greater than that of MBL i.e. Rs. 50.88 > Rs 10.28. EBL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. The C.V. of MBL is higher than EBL, it indicates that there is inconsistent in earning per share.

) The dividend per share of EBL is high than MBL i.e. 35>9.37. It can be concluded EBL has adopted the policy of paying high amount in the form of cash dividends where as MBL is trying to capitalized its earnings by keeping it in the from of retained earnings. It is noted that MBL provided dividend for tax adjustment of bonus share.

) Average market price of the share of EBL is greater than that of MBL i.e. 2357.2>585.4. It indicates that shareholder of EBL are getting higher price it shows EBL has better financial performance than MBL in order to

increase market price per share. The C.V. of MBL is high it indicates that MBL has inconsistent in its market price.

) The mean price earning ratio of MBL is little higher than that of EBL i.e. 63.46 is greater than 55.33. It indicates that for getting Rs 1 as earning, one should invest Rs 55.33 in EBL and Rs 63.46 in MBL. Looking the mean ratio we conclude that in short run, investor of MBL are getting better profitability because they are selling their shares in high price although EPS of MBL is lower in comparison than that f EBL. It is suggests to shareholder to sell their stock to get high income.

Above analysis reveals that EBL banks has well in other ratios than MBL, EBL has seem better in every angle than MBL.

Statistical Analysis

4.3.2 Coefficient of Correlation

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

) Both EBL and MBL have high positive correlation between total deposit and loan and advances between EBL and MBL have 0.9958 and 0.9979 of co-relation coefficient between deposit and loan and advances. These relationships are significant. This can be regarded as good indication in financial performance of the banks. The correlation coefficient of both banks is significant.

) There is positive correlation between total deposit and total investment of EBL and MBL have 0.7630 and 0.7564 high degree positive correlation. Both banks correlation coefficient is significant because the correlation coefficient is more than 6 P.Er.

) There is positive correlation between Loan and advance and net profit. EBL is 0.9736 and MBL is -0.2584 negative correlation. The

relationship between loan and advance and net profit of EBL has significant and MBL has insignificant due to more and less than 6.Er.

⟩ The degree of relationship between total investment and net profit of MBL is poor than EBL i.e. correlation coefficient between total investment and net profit of EBL and MBL is 0.5688 and -0.6374 respectively. It refers that EBL is comparatively successful to generate net profit due to high positive correlation. The relationship between loan and advance and net profit EBL has significant and MBL has insignificant due to more and less than 6 P.Er.

⟩ Correlation coefficient of total deposit between EBL and MBL shows high positive correlation i.e. 0.9684. The correlation coefficient shows that it refers that total deposit of both banks move in the some direction in this regard. Correlation coefficient is also significant.

⟩ The correlation of total investment between EBL and MBL is little positive correlation i.e. 0.0231. It implies that the total investment of both banks isn't move in the same direction but less proportionately. Correlation coefficient of bank is insignificant.

⟩ The degree of relationship of loan and advances between the EBL and MBL is high because correlation coefficient between loan and advances of these two banks is 0.9761. It means loan and advances of these two banks moves in the same direction in high. Correlation coefficient is also significant due to more than 6 P.Er.

⟩ The correlation of net profit between EBL and MBL is negative i.e. -0.3320. It implies that the net profits of both banks aren't move in the same direction but less. The relationship between two banks is insignificant because its correlation coefficient is lower than 6 P.Er.

From the above analysis EBL bank has positively correlated but MBL bank has also negative correlated. In some cases high and some where low.

4.3.3. Time Series Analysis (Trend Analysis)

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

〕 EBL and MBL have increasing trend in collection deposit the ratio of increment of total deposit for EBL seems to be higher than that of MBL here EBL has better position in collecting deposit than MBL.

〕 The trend line of loan and advances for both banks in upward slopping. It refers that both the banks are increasing in disbursement of loan and advances. The trend line of loan and advance of EBL seems high growing than MBL. It refers that EBL is more aggressive in mobilizing its loan and advance.

〕 The total investment trend line of EBL and MBL is upward slopping where as EBL has aggressive upward slopping of total investment trend line. It refers that EBL has better increasing trend of total investment than MBL.

〕 The trend line of net profit for EBL is upward slopping but MBL is slightly downward slopping. EBL has aggressively than MBL. The position of EBL is better in order to generate profit than MBL.

Above analysis reveals that both the banks have well their ratio. Trend of both banks has increasing trend. In comparison to both bank every ratio of EBL is higher than the MBL. It indicates better performance of EBL rather than MBL.

CHAPTER-V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary

In the study, the researcher has identified that research problem and set objectives to solve research problems about investment policy of Everest Bank Limited and Machhapuchre Bank Limited. To make this study more effective. Related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely.

Research methodology has been described in third chapter. Which is a way to solve the research problems with help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come of the decisions. This chapter includes the research design, population and sample data collection procedure. Data period covered and methods of analysis. This study is mainly conducted on the basis of secondary data collected from annual reports of concern bank. Official report, economic journal, financial statement etc. and authorized website of Nepal Stock exchange and security board of Nepal.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methology as stated in chapter three. It includes the various financial and statistical toots. In case of financial tools ratio analysis is done which consists current ratios, liquidity ratio, assets management ratio, profitability ratio, and other ratios. Other ratio includes EPS,MPS and P.E. ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient correlation, regression analysis and trend analysis and trend analysis, have been applied to fulfill the objective of this study. The analysis has been done mainly through

secondary data. The major findings of the study are also included in the final section of the presentation and analysis chapter.

The basic test of financial institutions is it mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects to offer attractive and secured returns to different sectors of the economy according to the planned priorities of the country. On the other hand, this process of financial institutions gives rise to the money and other financial assets which therefore have a central place in the development process of the economy. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus (savers) units to the deficit units (investors) in the economy.

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

In most years, banks are leading buyers of bonds and notes issued by the government to finance public facilities, ranging from hospitals and football stadium to airport and highways. Moreover, bank reserves and principle channel for government economic policy to stabilize the economy. And banks are also the most important sources of short term working capital needed for the businesses. They have increasingly become active in recent years in making long-term business loans for new plant and equipment. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the bankers, to whom they turn

most frequently for advice and counsel when they need financial information and financial planning.

Investment positions are undertaken with the goal of earning some expected rate of return. Investors seek to minimize inefficient deviations from the expected rate of return. Diversifications essential of an efficient investment because it can reduce the variability of returns around the expected return.

5.2. Conclusion

The overall aspect of liquidity position of EBL is comparatively better than MBL. However, the current ratio of MBL is slightly higher than EBL. MBL has utilized its liquid assets in more profit generating sectors.

An assets management aspect of EBL is better than MBL that is justified by much higher than total investment to total deposit ratio, investment on government. securities to total assets ratio and little lower than loan and advance to total deposit ratio. Loan and advances to total assets ratio than MBL.

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

Earning per share, divided per share and market price per share of is higher for EBL in comparison to MBL. It gives good single of financial performance for the bank in the market. Price- earning of MBL is higher than EBL which considered better in security analyzing in order to make investment decision.

Commercial bank of EBL has positive correlation between deposit and loan and advance and net profit and total investment and net profit. Similarly MBL has positive correlation between deposit and loan and advance. Total deposit

and total investment except loan and advance and net profit, total investment and net profit. Comparatively EBL bank has strong relationship between these variables than MBL. It is also found that there is positive correlation between total deposit of EBL and MBL. Between loan and advances of both banks and between total investment of both banks.

Total deposit, total investment, loan and advances, of EBL and MBL are in an increasing trend. Net profit of EBL increasing trend but MBL has slightly decreasing tread. .

Both EBL and MBL have high positive correlation between total deposit and loan and advances, total deposit and total investment.

Correlation between total loan and advance and net profit, total investment and net profit shows EBL bank has positive relationship but MBL bank has negative correlation coefficient.

Correlation coefficient of total deposit, total investment, loan and advances between EBL and MBL shows positive correlation but net profit between EBL and MBL has negative correlation. It refers that all the variable of both bank moves in the same direction except net profit and some are less proportionately.

EBL and MBL have increasing trend in collecting deposit the rate of increment of total deposit for EBL seems to be higher than that of MBL. EBL has better position in collecting deposit than MBL.

The trend line of loan and advances and total investment trend line for both banks is upward slopping. It refers that the both banks are increasing in disbursement of loan and advances.

The trend line of Net profit for EBL is upward slopping and MBL is slightly down and slopping. The position of EBL is better in order to generate profit than MBL.

The trend analysis reveals that both the banks have well their ratio. Trend of both banks has increasisng trend except net profit. In comparison to both bank every ratio of EBL is higher than the MBL.

From the entire research study, overall all financial performance of EBL is better than MBL. But MBL is operating smoothly and success in becoming the profitable bank as well.

While concluding about the incestment policy of EBL and MBL, they are using some better investment practices. High positive correlation coefficient of both the bank the bank between, total deposit and loan and advance shows that company can paid it's interst on deposit through it's investment on loan. Because there is no any indication of negative correlation between such deposti and investment amount of EBL & MBL. It can be conclude that both the bank are capable for returning their deposit while demanded by customer.

Generally while making the decition about investment EPS, DPS & Price earning ratio should be considered from above analysis it can be conclude that EBL has a sound investment policy rather then MBL regarding such matter.

Regarding profitability ratio and trend line of net profit & loan & advances. It can be seen that EBL has upward slopping & MBL has slightly downward slopping. It may be the mirror of investment policy.

From the financial statement analysis of EBL & MBL it can be seen that their investment in governement securities as well as treasury bill is very minimum. It may be due to the intrest rate but accouding to risk point of view such

investments are less risky. Therefore rather than maintaining high liquidity company can invest in such securities because they are ready market where company can sell their securities while liquidity need.

The profile of financial executives and customers reveals that more Nepalese investors have not knowledge about investment practice adopted by commercial banks. Similarly, EBL and MBL are adopting investment practices. Commercial banks are not providing investment priority to the rural sectors but being a developing country it is very necessary to give investment priority to the rural area. Therefore, the banks should formulate sound investment policies. Good investment practices ensures maximum amount of investment to all sectors with proper utilization.

5.3. Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the investment policy of EBL and MBL effective and efficient but comparatively better EBL. This would help to draw some outline and make reforms in the respective banks.

⌡ Generally, banks have to maintained liquid assets. The current ratio of the two banks, EBL and MBL is considederable. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to EBL and MBL.

⌡ Government securities such as Treasury bills. Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study. It has found that both banks. EBL and MBL have made

some amount of fund in Government securities. But EBL and MBL are recommended to invest more funds in Government securities instead of keeping them idle.

) To get success in competitive banking environment deposit must be utilized as loan and advances. The largest item of bank assets side is loan and advances. It has been found that loan and advances to total deposit ratio of EBL is lower than that of MBL. EBL and MBL have a possible risk because there is large amount of doubtful loan and advances and risk investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

) EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the banks.

) Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan and advances that helps to meet required level of profitability as well as social responsibility. Banks should consider rural areas in making investment policy.

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

Keeping all these in consideration, the MBL has little less performance than that of EBL. Therefore, in the future ahead, the MBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector both bank EBL and MBL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new

strategies of serving customer's in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore new market areas. For this purpose, it is recommended to from a strong market department in its central level, which deals with the banking products, places price and promotion.

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Web Site:

<http:// www.mbl.gov.np>

<http:// www.ebl.gov.np>

<http:// www.google/population of rural area.

Appendix – 1

1. Current Ratio (in million)

Years	EBL			MBL		
	CA	CF	Ratio (%)	CA	CF	Ratio (%)
2005/06	11629.4	11022.51	1.06	54325.5	3802.2	1.43
2006/07	15155.29	14696.5	1.03	8137.5	5106.2	1.59
2007/08	20982.79	19931.1	1.05	9229.35	3290.45	2.80
2008/09	36489.69	34413.23	1.06	16826.16	15970.58	1.07
2009/10	40919.67	36349.23	1.13	19946.48	18905.28	1.05
Mean			1.07			1.59
S.D.			0.035			0.64
C.V.			0.021			0.40

2. Cash and bank balance to total deposit ratio (in million)

Years	EBL			MBL		
	Cash and bank balance	Total deposit	Ratio (%)	Cash and bank balance	Total deposit	Ratio (%)
2005/06	1552.97	13802.4	11.13	813.92	3893.3	10.31
2006/07	2391.42	18186.2	13.15	1284.1	9475.5	13.55
2007/08	2667.97	23976.3	11.13	1588.6	1110.2	14.31
2008/09	6164.37	33322.9	18.49	2766.6	15596.8	17.74
2009/10	7818.8	36932.2	21.17	2459.7	18535.9	13.27
Mean			15.01			13.84
S.D.			4.10			2.35
C.V.			0.27			0.17

3. Cash and bank balance to current assets (in million)

Years	EBL			MBL		
	Cash and bank balance	Total deposit	Ratio (%)	Cash and bank balance	Total deposit	Ratio (%)
2005/06	1552.97	11629.4	13.35	813.92	5432.5	14.98
2006/07	2391.42	15155.29	15.78	1284.1	8137.5	15.89
2007/08	2667.97	20982.79	12.71	1588.6	9229.35	17.21
2008/09	6164.37	36489.69	16.89	2766.6	16826.61	15.44
2009/10	7818.8	40919.67	19.11	2459.7	19946.48	12.33
Mean			15.57			15.35
S.D.			2.33			1.66
C.V.			0.15			0.11

4. Investment on Gov. Securities to current assets ratio (in million)

Years	EBL			MBL		
	Inv. on Gov. Securities	CA	Ratio (%)	Inv. on Gov. Securities	CA	Ratio (%)
2005/06	904.47	5432.5	16.65	2100.3	11629.4	18.06
2006/07	951.27	8137.5	11.69	3322.4	1533.29	21.92
2007/08	827.35	9229.35	8.96	3614.5	20982.79	17.23
2008/09	477.81	16826.61	2.84	4354.4	36489.69	11.93
2009/10	1896.48	19946.48	9.51	5146	40919.67	12.58
Mean			9.93			16.34
S.D.			4.345			3.72
C.V.			0.44			0.23

5. Loan and advance to total deposit ratio (in million)

Years	EBL			MBL		
	Loan & Advance	Total Deposit	Ratio (%)	Loan & Advance	Total Deposit	Ratio (%)
2005/06	9801.39	13802.4	71.01	6146.6	7893.3	77.87
2006/07	13664.08	18186.2	75.14	7129.9	9475.5	75.25
2007/08	18339.09	23976.3	76.49	8642.32	11102.2	77.84
2008/09	23884.67	33322.9	71.68	12516.01	15596.79	80.25
2009/10	25881.13	34116.68	75.86	14289.79	18535.92	77.1
Mean			74.04			77.66
S.D.			2.11			1.70
C.V.			0.28			0.022

6. Total Investment to total deposit ratio (in million)

Years	EBL			MBL		
	Loan & Advance	Total Deposit	Ratio (%)	Loan & Advance	Total Deposit	Ratio (%)
2005/06	4200.5	13802.4	30.43	1190.8	7893.3	15.09
2006/07	4984.3	18186.2	27.40	1278.5	9475.5	13.49
2007/08	50.59.6	23976.3	21.10	1443.55	11102.2	13.00
2008/09	5948.5	33322.9	17.85	1246.16	15596.79	7.98
2009/10	5008.3	36932.3	13.56	2096.79	18535.92	11.31
Mean						12.17
S.D.						2.44
C.V.						0.20

7. Loan and advance to total working fund (in million)

Years	EBL			MBL		
	Loan & Advance	Total Assets	Ratio (%)	Loan & Advance	Total Assets	Ratio (%)
2005/06	9801.39	15959.28	61.41	6146.6	9069.8	67.78
2006/07	13664.08	21432.57	63.75	7129.9	10808.0	65.97
2007/08	18339.09	27149.34	67.55	8642.32	12498.6	69.15
2008/09	23884.67	36916.85	64.70	12516.01	17490.78	71.56
2009/10	25881.13	39028.48	66.31	14289.79	28678.79	69.10
Mean			64.74			68.71
S.D.			2.24			1.99
C.V.			0.035			0.029

8. Investment to government securities to total working fund (in million)

Years	EBL			MBL		
	Loan & Advance	Total Assets	Ratio (%)	Loan & Advance	Total Assets	Ratio (%)
2005/06	2100.3	15959.28	13.61	904.47	9069.8	9.97
2006/07	3322.4	21432.57	15.50	951.27	10808.0	8.8
2007/08	3614.5	27149.34	13.31	824.35	12498.6	6.62
2008/09	4354.4	36916.85	11.80	477.81	17490.78	2.73
2009/10	5146.0	39028.48	13.19	1896.48	28678.79	9.17
Mean			13.39			7.46
S.D.			1.21			2.61
C.V.			0.09			0.35

9. Return on Loan and advance (in million)

Years	EBL			MBL		
	Net profit	Loan & Advance	Ratio (%)	Net profit	Loan & Advance	Ratio (%)
2005/06	237.2	9801.39	2.42	134.0	6146.6	2.18
2006/07	296.4	13664.08	2.17	76.8	7129.9	1.08
2007/08	451.2	18339.09	2.46	85.02	8642.32	0.98
2008/09	638.7	23884.67	2.67	123.25	12516.01	0.98
2009/10	831.8	25881.13	3.21	73.31	14289.79	0.51
Mean			2.59			1.15
S.D.			0.32			0.54
C.V.			0.12			0.47

10. Return on total assets ratio (in million)

Years	EBL			MBL		
	Net profit	Loan & Advance	Ratio (%)	Net profit	Loan & Advance	Ratio (%)
2005/06	237.2	15959.28	1.48	134.0	9069.8	1.48
2006/07	296.4	21432.57	1.38	76.8	10808.0	0.71
2007/08	451.2	27149.34	1.66	85.02	12498.6	0.68
2008/09	638.7	36916.85	1.73	123.25	17490.78	0.70
2009/10	831.8	39028.48	2.13	73.31	28678.79	0.35
Mean			1.68			0.78
S.D.			0.28			0.38
C.V.			0.16			0.49

11. Return on equity (in million)

Years	EBL			MBL		
	Net profit	Total equity	Ratio (%)	Net profit	Total equity	Ratio (%)
2005/06	237.2	962.27	24.65	134.0	931.09	14.39
2006/07	296.4	1201.46	24.67	76.8	1000.3	7.68
2007/08	451.2	1920.82	23.49	85.02	1163.35	7.31
2008/09	638.7	2203.17	28.99	123.25	1040.96	11.84
2009/10	831.8	11271.0	7.38	73.31	651.64	11.25
Mean			21.84		2.68	10.49
S.D.			7.46		0.26	2.68
C.V.			0.34			0.26

12. Total interest income to total assets ratio (in million)

Years	EBL			MBL		
	Interest income	Total Assets	Ratio (%)	Interest income	Total Assets	Ratio (%)
2005/06	903.41	15959.28	5.66	563.36	9069.8	6.21
2006/07	1144.41	21432.57	5.34	604.48	10808.0	6.43
2007/08	1548.66	27149.34	5.70	796.6	12498.6	6.37
2008/09	2186.81	36916.85	5.92	1041.47	17490.78	5.95
2009/10	3102.45	39028.48	7.92	1688.62	20678.79	8.16
Mean			6.11			6.62
S.D.			0.94			0.82
C.V.			0.15			0.12

13. Total interest earned to total outside assets ratio (in million)

Years	EBL			MBL		
	Interest earned	Total Outside assets	Ratio (%)	Interest earned	Total Outside assets	Ratio (%)
2005/06	903.41	14001.81	6.45	563.36	7337.46	7.68.
2006/07	1144.41	18648.38	6.14	604.48	8408.4	8.26
2007/08	1548.66	23398.69	6.62	796.6	10085.9	7.90
2008/09	2186.81	19833.17	7.33	1041.47	13762.17	7.57
2009/10	3102.45	30889.43	10.04	1688.62	16386.58	10.30
Mean			7.32			8.34
S.D.			1.40			1.02
C.V.			0.19			0.12

14. Total interest earned to total operating income ratio (in million)

Years	EBL			MBL		
	Interest earned	Total operating income	Ratio (%)	Interest earned	Total operating income	Ratio (%)
2005/06	903.41	662.15	136.44	563.36	356.95	157.83
2006/07	1144.41	841.33	136.02	604.48	409.14	169.74
2007/08	1548.66	1110.92	139.40	796.6	500.27	159.30
2008/09	2186.81	1544.96	141.54	1041.47	616.41	168.96
2009/10	3102.45	1927.98	160.92	1688.62	697.04	242.26
Mean			142.86			179.62
S.D.			9.31			31.68
C.V.			0.065			0.18

15. Total interest Paid and total assets ratio (in million)

Years	EBL			MBL		
	Interest Paid	Total Assets	Ratio (%)	Interest Paid	Total Assets	Ratio (%)
2005/06	401.4	15959.28	2.52	288.66	9069.8	3.18
2006/07	517.17	21432.57	2.41	397.72	10808.0	3.68
2007/08	632.61	27149.34	2.33	407.92	12498.6	3.26
2008/09	1012.87	36916.85	2.74	580.04	17490.78	3.32
2009/10	1572.79	39028.48	4.03	1144.80	20678.79	5.54
Mean			2.81			3.80
S.D.			0.61			0.87
C.V.			0.22			0.23

16. EPS (in million)

Years	EBL			MBL		
	Profit after tax	No of common shares	Ratio (%)	Profit after tax	No of common shares	Ratio (%)
2005/06	237.29	517.9873	45.81	134.0	715.0000	18.74
2006/07	296.41	517.9873	57.22	76.8	821.6513	9.02
2007/08	451.22	831.4354	54.27	85.02	821.6513	10.35
2008/09	638.73	838.1187	76.15	123.25	147.9592	8.33
2009/10	831.8	397.2302	20.94	73.31	147.9592	4.96
Mean			50.88			10.28
S.D.			17.95			4.59
C.V.			0.35			0.45

17. DPS

Years	EBL DPS %	MBL DPS %
2005/06	25	15.79
2006/07	40	0
2007/08	50	21.05
2008/09	60	0
2009/10	0	10.0
Mean	35	9.37
S.D.	20.98	8.41
C.V.	0.60	0.90

18. MPS

Years	EBL MPS (in Rs)	MBL MPS (in Rs)
2005/06	1379	320
2006/07	2430	620
2007/08	3132	1285
2008/09	2455	420
2009/10	2390	282
Mean	2357.0	585.4
S.D.	560.92	368.91
C.V.	0.24	0.63

19. Price earning ratio

Years	EBL			MBL		
	EPS (in Rs)	MPS (in Rs)	P. Eratip (in times)	EPS (in Rs)	MPS (in Rs)	P.Eratip (in times)
2005/06	45.81	1379	30.1	18.74	320	17.08
2006/07	57.22	2430	42.47	9.02	620	68.74
2007/08	54.27	3132	57.71	10.35	1285	124.16
2008/09	76.15	2455	32.24	8.33	420	50.42
2009/10	20.94	2390	114.14	4.96	282	56.90
Mean			55.33			63.46
S.D.			30.99			34.86
C.V.			0.56			0.55

$$Mean \; X \frac{\lor x}{n}$$

$$S.D.(6) \; X \sqrt{\frac{\lor x^2}{n} \; Z(\frac{\lor x}{n})^2}$$

Appendix-2

1. Calculation of Correlation coefficient between total deposit and loan and advance

Years	EBL		MBL	
	Total Deposit	Loan & Advance	Total Deposit	Loan & Advance
2005/06	13802.44	9801.31	7893.3	6146.6
2006/07	18186.25	13664.08	9475.5	7129.9
2007/08	23976.30	18339.09	11102.2	8642.32
2008/09	33322.95	23884.67	15596.79	12516.01
2009/10	34116.68	25881.13	18535.92	14289.79
r	0.9958		0.9979	
r^2	0.9916		0.9958	
PE	0.0025		0.0013	
6.PEr	0.0151		0.0076	

2. Calculation of Correlation coefficient between total deposit and total investment

Years	EBL		MBL	
	Total Deposit	Total Investment	Total Deposit	Total Investment
2005/06	13802.44	4200.5	7893.3	1190.8
2006/07	18186.25	4984.3	9475.5	1278.5
2007/08	23976.30	5059.6	11102.2	1443.55
2008/09	33322.95	5948.5	15596.79	1246.16
2009/10	34116.68	5008.3	18535.92	2096.79
r	0.7630		0.7564	
r^2	0.5822		0.5721	
PE	0.1260		0.1391	
6.PEr	0.5769		0.5258	

3. Calculation of Correlation coefficient between loan and advance and net profit

Years	EBL		MBL	
	Loan & Advance	Net Profit	Loan & Advance	Net Profit
2005/06	9801.31	237.29	6146.6	134.0
2006/07	13664.08	296.41	7129.9	76.8
2007/08	18339.09	451.22	8642.32	85.02
2008/09	23884.67	638.73	12516.01	123.25
2009/10	25881.13	831.8	14289.79	73.31
r	0.9736		-2584	
r^2	0.9479		0.0668	
PE	0.0157		0.2815	
6.PEr	0.0918		0.4365	

4. Calculation of Correlation coefficient between total investment and net profit

Years	EBL		MBL	
	Total Investment	Net Profit	Total Investment	Net Profit
2005/06	4200.5	237.29	1190.8	134.0
2006/07	4984.3	296.41	1278.5	76.8
2007/08	5059.6	451.22	1443.55	85.02
2008/09	5948.5	638.73	1246.16	123.25
2009/10	5008.3	831.8	2096.79	73.31
r	0.5688		-0.6374	
r^2	0.3235		0.4063	
PE	0.2041		0.1791	
6.PEr	0.6964		0.6849	

Appendix-3

1. Calculation of Correlation coefficient

Years	EBL Total Deposit	MBL Total Deposit
2005/06	13802.44	7893.3
2006/07	18186.25	9475.5
2007/08	23976.30	11102.2
2008/09	33322.95	15596.79
2009/10	34116.68	18535.92
r	0.9684	
r^2	0.9378	
PE	0.0188	
6.PEr	0.1090	

2. Calculation of Correlation coefficient

Years	EBL Total Investment	MBL Total Investment
2005/06	4200.5	1190.8
2006/07	4984.3	1278.5
2007/08	5059.6	1443.55
2008/09	5948.5	1246.16
2009/10	5008.3	2096.79
r	0.0231	
r^2	0.0005	
PE	0.3015	
6.PEr	0.0418	

3. Calculation of Correlation coefficient

Years	EBL Loan and Advance	MBL Loan and Advance
2005/06	9801.31	6146.6
2006/07	13664.08	7129.9
2007/08	18339.09	8642.32
2008/09	23884.67	12516.01
2009/10	25881.13	14289.79
r	0.9761	
r^2	0.9528	
PE	0.0142	
6.PEr	0.0835	

4. Calculation of Correlation coefficient

Years	EBL Net Profit	MBL Net Profit
2005/06	237.29	134.0
2006/07	296.41	76.8
2007/08	451.22	85.02
2008/09	638.73	123.25
2009/10	831.8	73.31
r	-0.3320	
r^2	0.1102	
PE	0.2684	
6.PEr	0.5346	

Appendix-4

Calculation of Regression of EBL

Years	Total Deposit (Y)	X (x-2007/08)	X^2	XY
2005/06	13802.44	-2	4	-27604.88
2006/07	18186.25	-1	1	-18186.25
2007/08	23976.3	0	0	0
2008/09	33322.92	1	1	33322.95
2009/10	34116.68	2	4	68233.36
Tot. n=5	Y=123404.62	X = 0	X^2=10	XY=55765.18

Y= a+bx

Where,

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

X=deviation from some convenient time periods.

Let tread line be

Y=a+bx ……………………………. (1)

Where x =x –middle year

Here,

$a= \dfrac{SY}{N}$ $b= \dfrac{SXY}{SX^2}$

EBL

a= 24680.92

b= 5576.52

YC = 24680.92+ 5576.52 X of EBL

Calculation of Regression of MBL

Years	Total Deposit (Y)	X (x-2007/08)	X^2	XY
2005/06	7893.3	-2	4	-15786.6
2006/07	9475.5	-1	1	-9475.5
2007/08	11102.2	0	0	0
2008/09	15596.79	1	1	15596.79
2009/10	18535.92	2	4	37071.84
Tot. n=5	Y=62603.71	X = 0	X^2=10	XY=27406.53

Y= a+bx

Where,

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

X=deviation from some convenient time periods.

Let tread line be

Y=a+bx ……………………………. (1)

Where x =x –middle year

Here,

$$a= \frac{SY}{N} \qquad\qquad b= \frac{SXY}{SX^2}$$

a= $\underline{62603.71}$ b = $\underline{27406.53}$

    5   10

=12520.74   = 2740.65

MBL

a=12520.74

b=2740.65

YC = 12520.74+2740.65

Appendix-5

Calculation of Regression of EBL

Years	Loan and Advance (Y)	X (x-2007/08)	X^2	XY
2005/06	9801.31	-2	4	-19602.62
2006/07	13664.08	-1	1	-13664.08
2007/08	18339.09	0	0	0
2008/09	23884.67	1	1	23884.67
2009/10	25881.13	2	4	51762.26
Tot. n=5	Y=91570.28	X = 0	X^2=10	XY=42380.23

Y= a+bx

Where,

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

X=deviation from some convenient time periods.

Let tread line be

Y=a+bx …………………………. (1)

Where x =x –middle year

Here,

$a= \dfrac{SY}{N}$ $\qquad\qquad$ $b= \dfrac{SXY}{SX^2}$

a= 91570.28 $\qquad\qquad$ b = 42380.23

$\quad$ 5 $\qquad\qquad\qquad\qquad\qquad$ 10

=18314.06 $\qquad\qquad$ = 4238.02

YC = 18314.06+4238.02 X of EBL

Calculation of Regression of MBL

Years	Loan and Advance (Y)	X (x-2007/08)	X²	XY
2005/06	6146.6	-2	4	-12293.2
2006/07	7129.9	-1	1	-7129.9
2007/08	8642.32	0	0	0
2008/09	12516.01	1	1	12516.01
2009/10	14289.79	2	4	28579.50
Tot. n=5	Y=48724.62	X = 0	X²=10	XY=21672.49

$Y = a + bx$

Where,

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

X=deviation from some convenient time periods.

Let tread line be

$Y = a + bx$ …………………………. (1)

Where x = x –middle year

Here,

$$a = \frac{SY}{N} \qquad\qquad b = \frac{SXY}{SX^2}$$

a= $\underline{48724.62}$ b = $\underline{21672.49}$

    5   10

=9744.92   = 2167.25

YC = 9744.92+2167.25 X of MBL

Appendix-6

Calculation of Regression of EBL

Years	Total Investment (Y)	X (x-2007/08)	X^2	XY
2005/06	42005	-2	4	-8401.0
2006/07	4984.3	-1	1	-4984.3
2007/08	5059.6	0	0	0
2008/09	5948.5	1	1	5948.5
2009/10	5008.3	2	4	10016.6
Tot. n=5	Y=25201.2	X = 0	X^2=10	XY=2579.8

Y= a+bx

Where,

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

X=deviation from some convenient time periods.

Let tread line be

Y=a+bx …………………………. (1)

Where x =x –middle year

Here,

$a= \dfrac{SY}{N}$ $b= \dfrac{SXY}{SX^2}$

$a= \dfrac{25201.2}{5}$ $b = \dfrac{2579.8}{10}$

=5040.24   = 257.98

YC = 5040.24 + 257.98 X of EBL

Calculation of Regression of MBL

Years	Total Investment (Y)	X (x-2007/08)	X^2	XY
2005/06	1190.8	-2	4	-2381.6
2006/07	1278.5	-1	1	-1278.5
2007/08	1443.55	0	0	0
2008/09	1246.16	1	1	1246.16
2009/10	2096.79	2	4	4193.58
Tot. n=5	Y=7255.8	X = 0	X^2=10	XY=1779.64

Y = a+bx

Where,

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

X = deviation from some convenient time periods.

Let tread line be

Y = a+bx ……………………………. (1)

Where x =x –middle year

Here,

$$a= \frac{SY}{N} \qquad\qquad b= \frac{SXY}{SX^2}$$

a= $\underline{7253.8}$ b = $\underline{1779.64}$

    5   10

=1451.16   = 177.96

YC = 1451.16 + 177.96 X of MBL

Appendix-7

Calculation of Regression of EBL

Years	Net Profit (Y)	X (x-2007/08)	X^2	XY
2005/06	237.29	-2	4	-474.58
2006/07	296.41	-1	1	-296.41
2007/08	451.22	0	0	0
2008/09	638.73	1	1	638.73
2009/10	831.8	2	4	1663.6
Tot. n=5	Y=2455.45	X = 0	X^2=10	XY=1531.34

Y= a+bx

Where,

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

X=deviation from some convenient time periods.

Let tread line be

Y=a+bx ……………………………. (1)

Where x =x –middle year

Here,

$$a= \frac{SY}{N} \qquad\qquad b= \frac{SXY}{SX^2}$$

a = 2455.45   b = 1531.34

     6   10

= 491.09   = 153.13

YC = 491.09 + 153.13 X of EBL

Calculation of Regression of MBL

Years	Net Profit (Y)	X (x-2007/08)	X^2	XY
2005/06	134	-2	4	-268
2006/07	76.8	-1	1	-76.8
2007/08	85.02	0	0	0
2008/09	123.25	1	1	123.25
2009/10	73.31	2	4	146.62
Tot. n=5	Y=492.38	X = 0	X^2=10	XY=-74.93

Y= a+bx

Where,

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

X=deviation from some convenient time periods.

Let tread line be

Y=a+bx …………………………. (1)

Where x =x –middle year

Here,

$$a= \frac{SY}{N}$$ $$b= \frac{SXY}{SX^2}$$

a= $\frac{492.38}{5}$ b = $\frac{74.93}{10}$

=98.48   = -7.49

YC = 491.09 + -153.13 X of MBL

Correlation efficient between and loan and advances

Deposit is independent variable (x) and Loan and advances are dependent variable (Y)

Years	Total Deposit	Loan & Advance	X.Y.	X^2	Y^2
2005/06	13802.44	9801.31	135281993.2	190507350	96065677.72
2006/07	18186.25	13664.08	248498374.9	330739689.1	186707082.2
2007/08	23976.30	18339.09	439703523.6	574862961.7	336322222
2008/09	33322.95	23884.67	795907664.2	1110418997	570477461
2009/10	34116.68	25881.13	882978230.2	1163947854	669832890.1
	Y=123404.62	Y=91570.28	2502369786	3370476852	1859405333

$$R = \frac{n \, xy \, Z \, x. \, y}{\sqrt{n \, x^2 \, Z(\, x)^2} . \sqrt{n \, y^2 \, Z(\, y)^2}}$$

$$= \frac{5x2502369786 \, Z1234.4.62x91570.28}{\sqrt{5x3370476852 \, Z1522870024} . \sqrt{5x1859405333 \, Z8385116179}}$$

$$= 0.9958$$