

Financial Performance of Everest Bank Limited

A Thesis

Submitted

By

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Declaration

I hereby declare that the work reported in this thesis entitled “Financial Performance of Everest Bank Ltd.” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of Prof. Dr. Sanjay Kumar Shrestha of Central Department of Management Campus, T.U. Kirtipur.

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Recommendation

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Financial performance of Everest Bank Ltd.

has been prepared as approved by this Department in the prescribed format of the
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Acknowledgements

This thesis has been prepared to fulfill the partial requirement for the degree of Master of business studies (MBB) in the second-year course schedule. This thesis has been prepared to fulfill the financial performance evaluation of Bank. It is in this context; facilitate on understanding of various aspects to financial analysis of Everest Bank Limited. Every chapter is presented in descriptive and analytical way. Data available is through analyzed. One important feature of this report consists of interaction with logical representation regarding the effect of financial performances. Sincere effort has been made to present the subject matter in simple and descriptive manner with appropriate data.

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Finally, it is quite probable there might some gaps and lapses that have escaped from my notice despite my efforts to that be comprehensive according to objectives of the study. I bear the total responsibilities for any errors discrepancies that might have occurred in this thesis.

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Abbreviations

A/C	Account
ADBL	Agriculture Development Bank Limited
DPR	Dividend Payout Ratio
DPS	Dividend per share
EBIT	Earning Before Interest and Tax
EBL	Everest bank Limited
EPS	Earning per share
FY	Fiscal Year
i.e	That is
Ltd.	Limited
MVPS	Market value per share
NRB	Nepal Ratra Bank
P/E	Price Earning
PF	Provident Fund
PNB	Panjab National Bank
RBB	Rastiya Banijya Bank
Rs.	Rupees
T.U.	Tribhuvan University

Chapter - 1

Introduction

1.1 Background of the study

Financial performance is the important statement of an organization. It is a decision-making process to incur strengths or weaknesses of the organization and knowledge of its revenue generation status. It is a mirror to look into development activities to be undertaken by the organization or companies. It should also measure or evaluate internal and external information of past activities, current position and future prospects of organization or venture. Financial performance evaluation looks into the management team of organization, its performance in future, efficiency of resource utilization and overall position of the organization.

The initiation of formal banking system in Nepal commenced with the establishment of Nepal Bank Limited (NBL) in 1937(1994 BS), as the first Nepalese commercial bank. The country's central bank, Nepal Rastra Bank (NRB) was established in B.S. 2013 by Act of B.S. 2012, after nearly two decades of NBL having been in existence. A decade after the establishment of NRB, Rastriya Banijya Bank (RBB) in B.S. 2022, a commercial bank under the ownership of His Majesty's Government of Nepal (HMG/N) was established, which provides economic and financial intermediation in the economy.

In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. HMG/N emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management. These policies opened the doors for foreigners to enter into banking sector under joint venture. Consequently, the third commercial bank in Nepal, or the first foreign joint venture bank, was set up as Nepal Arab Bank Ltd (now called as NABIL Bank Ltd) in 1984. Thereafter, two foreign joint venture banks, Nepal Indosuez Bank Ltd. (now called as Nepal Investment Bank) and Nepal Grindlays Bank Ltd (now called as Standard Chartered Bank Nepal Ltd.) was established in 1986 and 1987 respectively (<http://anju.page.tl/Commercial-Bankingtm>). History has

proven that though the extent may vary from country to country requirement of economic development of any country heavily relies on its banking system.

Banking institutions are important for resource mobilization and all-round development of the country. It provides resources for economic development, maintains economic situations of various segments and extends credit to the people. Banks are those institutions which raise funds from depositors and then lend those funds to needy individuals and /or institutions. They offer the widest range of financial services especially credit, savings, and payment services and perform the widest range of financial functions of any business firm in the economy.

Like other countries, goldsmiths, merchants and moneylenders were the ancient bankers of Nepal. Tejarath Adda established during the tenure of then Prime Minister Ranodip Singh (1993 B.S.) was the first step towards the institutional development banking in Nepal. Tejarath Adda did not collect deposits from the public but provide loans to employees and public against the bullion. (Dahal & Dahal, 2056: p10)

1.2 Statement of the problem

The adaptation of open and free market economic and financial policies has encouraged establishment of number of banks, financial companies and co-operatives. The competition in the banking sector is going to be higher than ever before. Banks are prone to both external and internal threats. To exist in the competitive market, banks are trying to introduce different schemes and advantage to the customer to hold the greater share. These banks have contributed towards introducing new technology, new banking systems, and deficient service delivery in the country. They have done so in line with the trust of economic liberalization and financial sector reform i.e. making the financial system more competitive, efficient, and profitable. In the present scenario, the worst economic and social condition of our country largely affects the banks' performance in all the operational, productivity and profitability sectors, which causes the large decline in the profit of all types of banks. In this perspective, analysis of the Joint Venture bank's performance and to disseminate quality information becomes more essential.

The problem of the study lies on analyzing the financial strengths and weaknesses of Everest Bank Limited. It also aims in answering the following questions:

1. What is the liquidity position of the bank?
2. What is the leverage positions of the bank?
3. How effectively EBL uses its operating assets?
4. What is the level of profitability of the bank?

This study attempts to evaluate the financial performance of the bank with the help of various financial and statistical tools. This study also attempts to recommend some suggestions for improvement in financial performance aspect.

1.3 Objectives of the study

The main objective of the study is to evaluate the financial performance of Everest Bank Limited with the help of ratio analysis and other portfolios. Besides, the specific objectives of this research are as follows:

1. To find out the liquidity positions of the EBL.
2. To find out the leverage positions of the EBL.
3. To identify how effectively EBL uses its operating assets.
4. To find out the level of profitability of EBL.

1.4 Significance of the study

The study identifies significance of various groups.

- a. This research helps to find liquidity position to the persons and parties such as general readers, decision makers, brokers, traders, shareholders, financial agencies, businessman and general public (depositors, prospective customers, investors etc.).
- b. This study finds leverage position which is used as pilot work for future research.
- c. To identify how effectively operating assets utilize by the EBL.
- d. To identify financial position of Bank in term of profitability.

1.5 Limitation of the study

This study attempts to evaluate the financial performance of the EBL. The following are the limitations of the study:

1. This study relies on the published financial documents such as balance sheets, profit and loss accounts, related journals, magazines, and books. It mainly focuses on financial performance and does not cover other aspects.
2. Only selected financial and statistical tools are used.
3. This study is based on the secondary data only.
4. This study covers out for the period of fiscal year 2013/14 to 2017/18.

1.6 Scheme of the study

This study is divided into five chapters:

Chapter 1: Introduction: This chapter explains background of the study, statement of the problem, objectives of the study, and limitation of the study.

Chapter 2: Review of literature: This chapter consists of conceptual review and review of related studies.

Chapter 3: Research methodology: This chapter includes research design, population and sample, sources and types of data, data gathering procedure and analytical tools such as financial and statistical.

Chapter 4: Data presentation and analysis: This chapter is the main body of the research which includes financial ratios analysis, income and expenses analysis, trend analysis and major finding of the study.

Chapter 5: Summary, conclusions and recommendations: This chapter consists of summary of the study, conclusion of the major findings and recommendations for further improvement.

Chapter - 2

Review of literature

This chapter mainly reviews the available literature in the field of financial performance of joint venture bank. Pilot studies have helped the researcher choose such area of research where there are no chance of duplication. In addition, the chapter deals with conceptual aspects of textual facts relating to the various areas of the research to be conducted.

Therefore, review of literature has been categorized into three groups:

- Conceptual Review
- Review of Related Studies

2.1 Conceptual review

As this research is related to financial performance analysis of EBL, following aspects of analysis are reviewed in sequential manner.

- Concept of financial analysis
- Importance of financial performance analysis
- Objectives of financial analysis
- Limitation of financial analysis
- Source for judging financial performance
- Methods of analyzing and evaluation financial performance

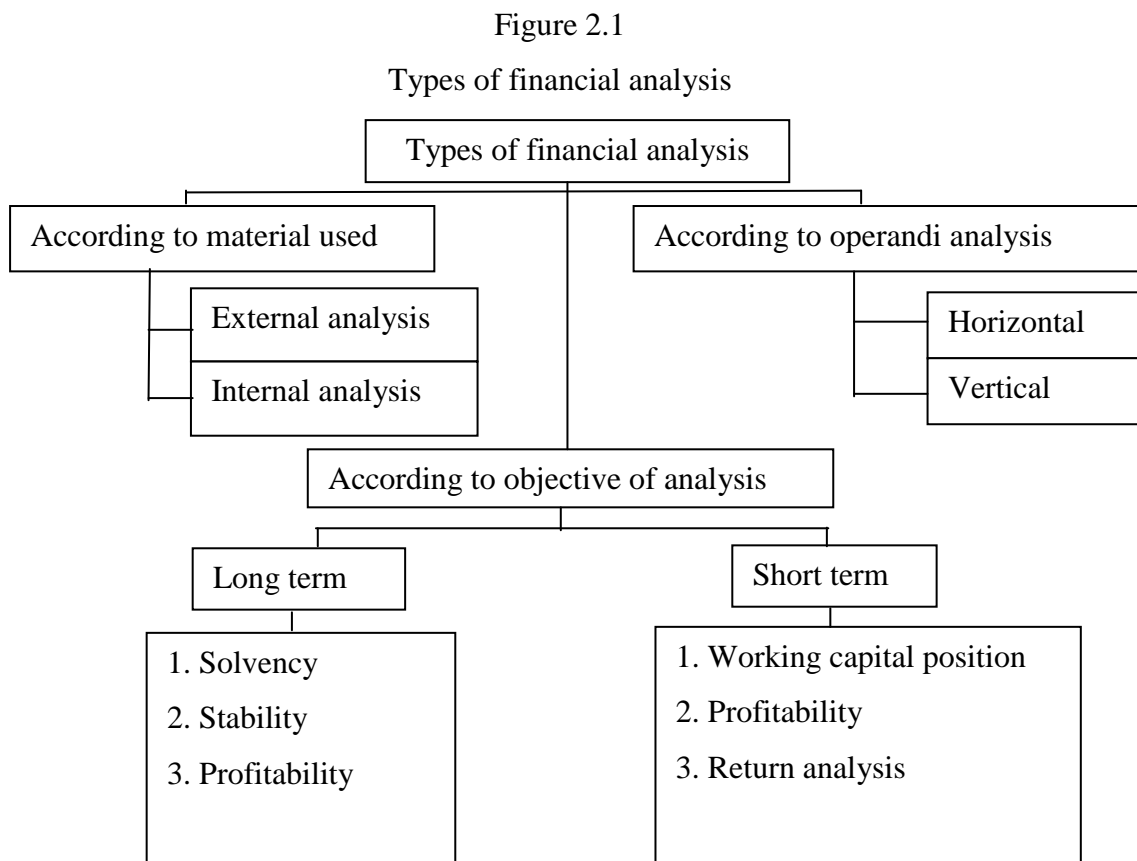
2.1.1 Concept of financial analysis

Financial analysis is one of the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the components of balance sheet and profit and loss account and other operating data. (Pandey, 1992: 109.)

Moreover, financial analysis is both analytical and judgmental process that helps answer the questions that have been proposed posed. Therefore, it is a means to an end. One can stress enough that financial analysis is an aid that follows those who are responsible for results to sound decision. (Erich, 1997: 2)

- The first step involves the re-organization of rearrangement of entire financial data as constrained in the financial statements.
- The next step is the establishment of significant relationship between the individual components of balance sheet and profit and loss A/C.

- Finally, significant of results obtained by means financial tools is evaluated. This requires establishment of standards against which actual are evaluated with respect to the type of financial analysis distinction can be made either on the basis of material used or by using modus operandi of analysis or on the object of analysis. The following chart gives a snapshot view of it. (Kumar, 1994: 48)



2.1.2 Importance of financial performance analysis

The analysis and interpretation of financial statement is an important accounting activity. There are different parties interested in it. The aims and objectives of analysis also differ significantly. The following are the uses of financial statement analysis to different parties.

- Financial executives
- Top management
- Creditors
- Investors and Other

a) Financial executives

The first party interested in the financial statement analysis is the finance department. Such analysis provides a deep insight into the financial condition of the enterprises, and a view of the past performance, which helps in future decision making to the financial manager. The analysis not only gives vital information concerning the position of the enterprises but also reflects the results of the operations (Pandey, 1992: 17).

b) Top management

The top management is also interested in the analysis of statement because it helps them in reaching conclusions regarding.

- Performance appraisal of overall business activities
- Inquiry about the current financial position
- Questions concerning the relationship of earning to trend in sales etc and
- Questions concerning the relationship of earnings to investment

c) Creditors

The financial analysis is also very useful to creditors. They are interested to know over all financial positions of the firm before giving loan. Moreover, they get all information from the analysis of balance sheet and income statement of the company. The financial performance indicates the financial position and it helps to judge the soundness and credit worthiness of the firms (Pandey, 1992: 17).

d) Investors and others

Investors are also interested in the measurement of earning capacity of the securities. They are concerned with cash generations capacity of an enterprise. For this purpose, cash flow analysis and funds flow analysis have proved to be very useful. Besides, the above-mentioned parties, the information provided by the analysis and interpretation of various financial statements are important and useful to these groups who are interested in the working of the business due to one and the other motive. They are employees, unions, government, consumers and general public of the business. (Rana, 2056: 11)

2.1.3 Sources of judging financial performance

The firm communicates financial indication to users through financial statements and reports. They are the means to present financial situation or position to owners, creditors and the general public. (Pandey, 1992: 17). As these statements are used by investors and financial analysis to examine the firms' performance resource allocation decision. Moreover, the analysis and interpretation of financial statements depend on the nature and type of information available therein.

Basically, there are two financial statements prepared for the purpose of external reporting to owners, investors and creditors, which are main source for judging financial position. They are:

- a) Balance Sheet
- b) Income Sheet

a) Balance sheet

The balance sheet is a document that reports the financial position of a company as of specific point of time. It is one of the most significant financial statements for analysis of financial performance.

In the language of accounting, the balance sheet communicates information about assets, liabilities and owner's equity for a business firm as on a specific date. It provides a snapshot of financial position of the firm at the close of the firm's accounting period. (Rana, 2056: 11)

Balance sheet is a screen picture of financial position of a going business at certain moment. It is also known a statement of financial condition, position statement or statement of resources and liabilities or statement of worth etc.

In this way, it can be said that balance sheet is a summary statement and comparative record of the progress as downfall of the business. It shows the clear picture of the financial position of business as well as the assets liabilities of business, the relative proportion of borrowed and ownership capital, etc which are necessary to analyzed and evaluated their financial position of particular period. Hence, this is one of the important resources to examine financial weakness or strengths using different tools of any business firm especially the banks.

b) Income statement

The second major statement for sources of financial information is income statement. It is also known as profit and loss account. It may be defined as any systematic array

of revenues, expenses and other deductions, and net income of a business for a stated period. Furthermore, income statement is an abstract portrayal of the life of the business presenting a longitudinal picture of the gains and losses of the business, its fortunes and misfortunes. (Kumar, 1994: 15)

In conclusion, these two financial statements, i.e. balance sheet and income statement or profit and loss account of business firm contain useful information, so they are very helpful to know the financial strengths and weaknesses by analyzing those statements comparatively. They are not separate and independent statements, but are related to each other. Thus, both have vital role in the field of financial performance analysis.

2.1.4 Methods of analyzing and evaluating financial performance

In this analysis, various methods are used by the financial analyst. Most of the tools depend on the nature and characteristics of related statements and available data and information. Generally, there are financial and statistical methods to evaluate and to analyze, which are started together.

- Funds-flow analysis
- Cash-flow analysis
- Trend analysis
- Ratio analysis

a) Funds-flow analysis

This statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transaction during the period as well as those changes occurred due to change in owner's equity. It is also aimed to depict the way in which the firm used its financial sources during the period.

In other side, fund flow statement is one of the flow valuable techniques to evaluate financial pattern. Mostly, this statement is prepared to achieve following objectives:

- To provide information on all financing and investing activities of a business.
- To show the use or application of financial resources.
- To show the uses financial resources provided from operation and other sources, and
- To disclose the amount and cause of all other changes in financial position.

b) Cash flow analysis

The main objective of cash flow analysis is to show the cause of change in cash balances. It provides information about cash and availability of cash to management when it is interested to know. Cash flow analysis is not only concerned with the good or bad management of cash, it is deeply concerned with the liquidity position of the firm. Since cash flow statement is made to show the impact of financial policies and financial procedures on the cash position of the firm. In short, cash flow analysis is importance in short ranges planning and it always helps the management in short term financial decisions relating to liquidity (Kumar, 1994: 15)

c) Trend analysis

It is an important and useful technique to analyze and interpret the financial statement. Under this technique of financial analysis, the ratios of different items for various periods are calculated and then a comparison is made. This method is basically helpful in making comparative study of financial management. Generally, a period of five years is considered satisfactory. This method of analysis involves the computation of percentage relationship that each statement item bears same to the same items in the base of year. Trend analysis shows the direction progress upward or downward. It is an important form of horizontal analysis of financial statements often called as 'Pyramid Method' of ratio analysis.

Moreover, in this method, a statement is used to analyze the base of another reference statement. Other method of analysis is the calculation of trend ratio and showing trend value on graph paper. On the other hand, trend analysis is not out of limitations. Price level changes may affect it and the selection of base year may create variation. Besides, it is important for its utilities which are:

- It is a simple technique. It does not involve tedious calculations and requires trained experts.
- It is a brief method to indicate the future trends.
- It reduces the changes of errors as it provides the opportunity to compare the percentages with absolute figure.
- A financial analyst is able to judge the present position of the company and to compare it with the overall trend in industry.

d) Ratio analysis

Ratio analysis is used for judgment financial performance of business concern over the period of time. It helps to find out the financial positions of the firm and also supports to provide necessary suggestion package for the betterment. Thus, economic financial position/ performance of a firm can be fully x-rayed through ratio analysis.

In this way, the ratio analysis is widely used techniques to evaluate the financial position and performance of a business. But there are certain problems in using ratios. The analyst should be aware from those problems. The limitations of ratio analysis basically are:

- Ratios do not indicate immediately the point where the mistakes or errors lies.
- The price level changes make the interpretation of ratios invalid.
- The ratios are means not needs of financial analysis. They can be affected with the personal ability of analysis.
- Conclusions drawn with the help of ratios should be verified with other techniques otherwise result may not perfect.
- It is generally calculated from past financial statements and thus are no indicators of future.
- The number of various ratios is so large that it is very difficult task to select same appropriate ratios for the various business units.

2.2 Review of previous studies

For the preparation of this thesis some books, report, publication, theses and articles will be reviewed. Various master level theses conducted in different aspects of commercial bank such as lending policy, liquidity position, interest rate structure, capital structure, investment policy etc. are reviewed and findings of some relevant theses have been mentioned hereunder.

2.2.1 Review of journal articles

After liberalization and globalization of the world economy the economic transactions such as trading and commerce, industrial and banking activities have grown up tremendously. Likewise, an international trade of the development countries has also boosted up. But on the other hand, the increasing competitiveness has also increased various types of risks in every business, including banking sectors, especially in

foreign exchange transactions. To cope with their risks, the banks in favour of their clients have adopted strategies relating to treasury management. (Shrestha, 2055: 20)

"Commercial bank is a dealer in money and substitutes for money, such as cheque or bill of exchange. It also provides a variety of financial services." (The New Encyclopedia Britannica, 1985: 600)

"A Bank is a business organization that receives and hold deposits of funds from others make loans or extend credits and transfer funds by written order of deposits'. (The New Encyclopedia Americana, 1984: 75)

The article of Mr. Sunil Chopra concluded that Joint venture banks are already playing an increasing dynamic and vital role in the economic development of the country. This will undoubtedly increase with time. (Chopra, 2046: 45)

Likewise, another article of Mr. Gilles Serra concluded that the five commercial banks were improving their services, due to the pressure of competition for the public benefit.

2.2.2 Review of theses

Various master level theses conducted in different aspects of commercial bank such as lending policy, liquidity position, interest rate structure, capital structure, working capital management, investment policy etc. are reviewed and findings of some relevant theses have been mentioned hereunder.

Aryal, O. P. (2008) through the thesis, 'Financial Performance of Everest Bank Limited' he describes the future in banking sector that will be more competitive with quality and speedy service. Banks have to provide quality service and they need to attain objectives along with maintaining good financial position to sustain in market.

Bajarcharya, P. D. (2009) had conducted a research on a topic "Performance Evaluation of Nepal Bank Ltd." The basic objectives of her study/research were to highlight the financial performance and role of banks in the liberalized Nepalese Economy. Her attempts of analyzing financial performance were concentrated in ratio analysis and she derived the strength and weakness of banks as stated by calculating ratios.

Bhandari, Mukunda (2010) through his thesis 'A Comparative Financial Performance Analysis of Himalayan Bank Ltd. and Everest Bank Ltd.' He conclude that,

Establishment of commercial banks especially joint venture banks have continued in response to the economic liberalization policies of the government. So, now in Nepal there are twenty six (research period) commercial banks competing with each other in their business. These joint venture banks are mainly concentrated themselves on financing foreign trade, commerce and industry. This study has been mentioned already that the research concentrates.

Shrestha, Leshkumar (2010) had conducted a research on a topic ‘A study on financial performance of agriculture development bank limited (ADBL)’. The summary of his study/research were to 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 and deficit in the economy. Investment operation of commercial banks is a very risky one. For this, financial performance of commercial banks have to pay due consideration while Investment, mobilization of fund and use of resources. A healthy development of any Commercial bank depends upon its financial performance. A good financial performance of a bank attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

Zaman, Afroja (2018) had conducted his research on ‘Financial Performance Analysis Of Jamuna Bank LTD.’ This thesis conclude that Jamuna Bank Ltd. started with a vision to be the most efficient financial intermediary in the country and it believes that the day is not far off when it will reach its desired goal. JBL looks forward to a new horizon with a distinctive mission to become a highly competitive modern and transparent institution comparable to any of its kind at home and abroad. Jamuna Bank Limited has been working with great confidence and competing tremendously with Government oriented bank, local commercial banks along with the multinational banks also. Jamuna Bank Limited always tried its level best to perform financially well.

2.3 Research gap

Many research studies have been conducted by the different students, experts and researchers about financial performance of banks. There are numerous research studies on financial companies and public enterprises regarding financial performance. Some studies are related to case study of a single company and some

others are comparative in nature. This thesis is concerned with joint-venture bank. This study covers the period of fiscal year 2013/14 to 2017/18. The financial and statistical tools used by most of the researchers are ratio analysis, test of hypothesis and regression analysis. This research includes different tools like ratio analysis, correlation analysis and trend analysis as specific tools and analyze profitability, utilization of assets in generating interest earning, liquidity position and deposit sources and its contribution on profit.

This research study on “Financial Performance of EBL” is an effort to analyze in detail the financial performance of banks as a study at present with the help of various financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people.

Chapter - 3

Research methodology

Brief description of commercial banks has been done in earlier chapter. Objective behind this study is to evaluate the financial performance of Everest Bank Limited. This chapter includes methods and techniques used for evaluating the financial performance of EBL.

3.1 Research design

The objective of this research study is to examine and evaluate the financial performance of joint venture bank especially that of EBL in order to achieve the objective: liquidity positions of the EBL, leverage positions of the EBL, how effectively EBL uses its operating assets and level of profitability of EBL. Both descriptive research design has been followed. This research work followed, liquidity ratios, leverage ratios, activity ratios and profitability ratios of the bank to find out the financial positions of the bank. The study focuses on the examination of relationship between those variables that influence financial decisions of the sampled, it is an ex-post factor research. From concerned bank different information and necessary data were collected through annual reports and financial statement published by related bank. The data are collected from the year 2013/14 to 2017/18.

3.2 Population and sample

Population

There are twenty-eight commercial banks operating in Nepal (Key Financial Indicators of Commercial Banks (Provisional) as on Chaitra end, 2075 (Mid-Apr 2019).

The population for this study comprises the joint venture banks. The sample consists of one randomly selected among joint venture banks.

Sample of this study

Everest Bank Limited is selected as sample in this study.

3.3 Source of data

This study is based on secondary data. The sources of data collection are financial statement annual reports provided by bank, articles and other related materials

published in newspaper, newsletters of the bank, web sites (<http://www.everestbankltd.com>) and other related books.

3.4 Data collection techniques

The study has been conducted to examine and evaluate the financial performance of EBL. For this purpose, various data are required. The researcher made visit of web sites of EBL for collecting data from the provided annual report of last five years. Confusions regarding the financials were solved by the account department of EBL. The researcher obtained annual and periodic report and banking directives from Nepal Rastra Bank, Baluwatar. Various websites were surfed to gather relevant information. Reference materials were collected from libraries of Central Department of Management and T. U. Central Library Kirtipur, which helped a lot in conducting the study. The data, information, facts, and figures have been edited tabulated and calculated before analysis. Then results were concluded and interpretations were made.

3.5 Data processing

According to the nature of data they have been inserted into meaningful related tables. Homogeneous data have been sorted in the table in well understandable manner. Using financial and statistical tools data have been analyzed and interpreted.

3.6 Data analysis tools

This study is basically based on secondary data, which were firstly collected, scanned, and tabulated under various heads. The calculated results were then compared and interpreted. Suitable tools and proper analysis make data effective. The data collected and processed have been analyzed using financial and statistical tools. The financial ratio is widely used tool for the analysis and interpretation of the performance of the data selected sample. Simple statistical analysis is used where necessary.

3.6.1 Financial tools

Financial tools are used to get the precise knowledge of a business which in turn is fruitful in exploring the strengths and weakness of the financial policies and strategies. These tools are used for the analysis and interpretation of financial data.

3.6.1.1 Liquidity ratios

A liquid asset is one that can be easily converted to cash without significant loss of its original value. Therefore, a firm's "liquidity position" deals with the question of how well the firm is able to meet its current obligations. Liquidity ratio is the ratio that shows the relationship of a firm's cash and other current assets to its current liabilities. Liquidity ratios measures the short-term solvency position of the firm. These ratios are calculated to find the ability of banks to meet their short-term obligations which are likely to mature in the short period of time. Depending upon special nature of assets and service sale made by the bank following ratios are tested. (Weston, Besley and Brigham, 1996, P-94).

The liquidity ratios are calculated on: current ratio, cash and bank balance to current and saving deposit ratio, cash and bank balance to total deposit ratio, NRB balance to current and saving deposit ratio, NRB balance to fixed deposit ratio and fixed deposit to total deposit ratio.

3.6.1.2 Leverage ratio

Leverage ratios are judging the long-term financial position of the firm. It evaluates the financial risk of long-term creditors. Greater the proportion of the owner's capital in the capital structure lesser will be the financial risk borne by has legal obligation to pay interest to debt holders irrespective of the profit or loss incurred by the firm.

The extent, to which a firm uses debt financing or financial leverage, has three important implications:

1. By raising funds through debt, stockholder ownership is not diluted.
2. Creditors loud to equity, or owner supplied funds, to provide a margin of safety, if the stockholders have provided only a small proportion of total financing the risks of the enterprises are borne mainly by creditors.
3. If the firm earns more on investments financed with borrowed funds than it pays in interest, the return on the owner's capital is magnified, or "leveraged".

(Weston, Besley and Brigham , (1996), P-990)

The firm should maintain optimal mix of investor's and outsider's fund for the benefit of owners and its stability. Following ratios are used to test the optimally of capital structure of EBL.

The leverage ratios are calculated on: debt asset ratio, debt equity ratio and interest coverage ratio.

3.6.1.3 Activity ratio

This ratio measures the efficiency of the firms. Activity ratio is set of ratios that measure how effectively a firm is managing its assets. Activity ratio is also known as utilization ratios or turnover ratios or asset management ratios or effectively ratios. They measure how effectively the firm uses investment and economic resources at its command. High ratio depicts the managerial efficiency in utilizing the resources. They show the sound profitability position of the bank. Low ratio is the result of insufficient utilization of the resources.

To find the activity ratios of EBL are: loans and advances to total deposit ratio, loans and advances to fixed deposit ratio, loans and advances to saving deposit ratio, investment to total deposit ratio, performing assets to total assets ratio and performing assets to total debt ratio.

3.6.1.4 Profitability ratio

Profit is essential for the survival of the business, so it is regarded as the engine that drives the business and indicates economic progress. Profitability is an indicator of efficiency of the business organization. Profitability is the net result of a number of policies and decisions. Profitability ratio measures the managements overall efficiency as shown by the return generated from sales and investment. A company should earn profits to survive and grow over a long period of time. It is a fact that sufficient profit must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and growth, and to contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to measure the operation efficiency of the business. Management of the business, creditors and owners are interested in the profitability of the firm. Profitability ratios are designed to highlight the end-result of business activities which in the imperfect world of ours, is the sole creation of overall efficiency of business unit.

Profitability ratios of EBL are computed as: return on total asset, return on total deposit, total interest expenses to total interest income ratio, interest earned to total asset ratio, office operation expenses to total income ratio and staff expenses to total income ratio

3.6.1.5 Other ratios

3.6.1.5.1 Earning performance ratio

The price to earnings ratio indicates the expected price of a share based on its earnings. As a company's earnings per share being to rise, so does their market value per share. A company with a high P/E ratio usually indicated positive future performance and investors are willing to pay more for this company's shares.

To find the earning performance ratios of EBL are: earnings per share (EPS), dividend payout ratio (DPR) and price earnings ratio (P/E Ratio).

3.6.1.5.2 Income and expenditure analysis

Using income and expenditure analysis major sources of income and expenses are evaluated. This helps the analyst to conclude the areas to be focused for investment and the possibilities for effective control over expenses.

3.6.2 Statistical tools

3.6.2.1 Karl Person's coefficient of correlation (r)

Correlation analysis is a statistical tool can use to describe the degree to which one variable is linearly related to another. (Levin 76 Rubin, 1999, p 1140. The coefficient of correlation measures the degree of relationship between two sets of figures. In its study simple coefficient of correlation is used to determine the relationship of different variables and dividend. The data related to dividend over different periods are tabulated and their relationship with each other is drawn out. The value of correlation can range from 1 to t. This tool is used for measuring the intensity or the magnitude of linear relationship between two series. It measures correlation coefficient between two variables. This tool is used for measuring the intensity or the magnitude of linear relationship between two series. It measures correlation coefficient between two variables X and y is usually denoted by 'r' and can be obtained as:

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

n = number of observations in series X and Y

$\sum X$ = sum of observation in series X

$\sum Y$ = sum of observation in series Y

$\sum X^2$ = sum of squared observation in series X

$\sum Y^2$ = sum of squared observation n series y

$\sum XY$ = sum of the product of observations in series X and Y

Value of r lies between -1 and +1

r = 1 implies that there is a perfect negative correlation between the variables

r = 0 means that the variables are uncorrelated

3.6.2.2 Probable Error of Correlation Coefficients ®

Probable error of correlation coefficient tests the reliability of n observed value of correlation coefficient. It shows the extent to which correlation coefficient is dependable as it depends upon the condition of random sampling.

Probable error of correlation coefficient is denoted by P.E (r) and obtained as:

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

The probable error is used to test whether the calculated value of sample correlation coefficient is significant or not. (Shara 7 Chaudary, 2058 b.S., p-411)

A few rules for the interpretation of the significance for correlation coefficient are as follows;

- I. if $< P.E. ®$, then the value of r is not significant (i.e.) insignificant
- II. If $> P.E. ®$, then r is definitely significant
- III. In other situations, nothing can be calculated with certainty

3.6.2.3 Least Square linear Trend

Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term on the basis of the tendencies in the dependent variable in the past period. Straight line trend implies that irrespective of the seasonal, cyclic and irregular fluctuation the trend value increases or decreases by absolute amount per unit of time. The linear trend values form a series in arithmetic progression.

Mathematically

$$Y = a + bx$$

Where Y = value of dependent variable

a = Y- intercept

b = slope of the trend line

X = value of the independent variable i.e. time

Normal equations fitting above are

$$\sum Y = Na + b \sum X$$

$$\sum XY = a \sum X + b \sum X^2$$

Since $\sum X = 0$

$$a = \sum Y/N$$

$$b = \sum XY / \sum X^2$$

Chapter - 4

Data presentation, analysis and interpretation

This chapter deals with the analysis and interpretation of data according to the research methodology to attain the objectives of this study. During analysis data gathered from various sources have been inserted in tabular form. Using financial and statistical tools the data have been analyzed.

4.1 Ratio analysis

The technique of ratio analysis has considerable significance in studying the financial stability, liquidity, profitability of the firm. It has been used to evaluate the financial health, operating result and growth of the EBL.

4.1.1 Liquidity analysis

a. Current ratio

This ratio is called working capital ratio. It is calculated by dividing current assets by current liabilities and 2:1 is regarded as standard. Current assets are those assets which are convertible in cash within a year or so.

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

Table 4.1
Current Ratio

Amount in million Rs.

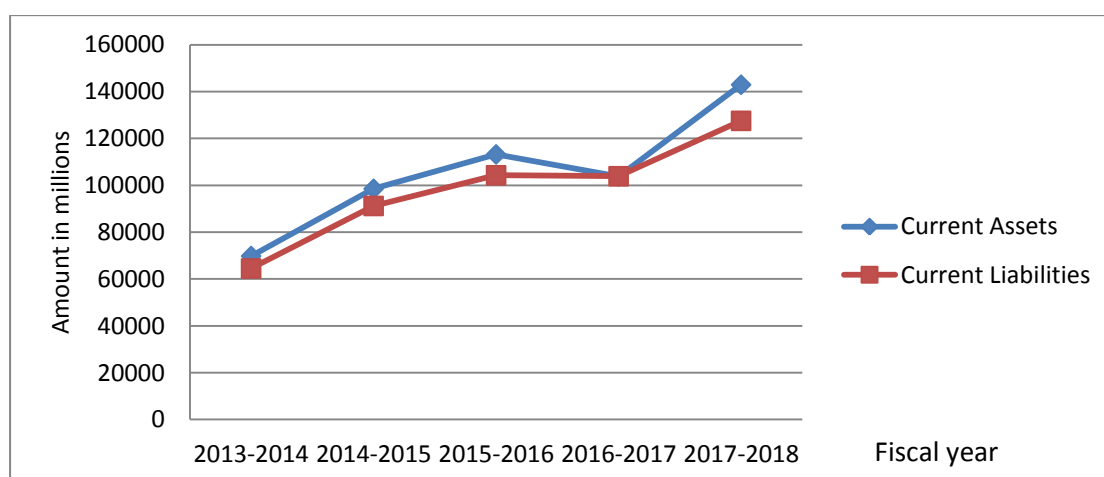
FY	Current Assets	Current Liabilities	Current Ratio
2013-2014	69,818.09	64,519.09	1.08:1
2014-2015	98,522.41	91,193.58	1.08:1
2015-2016	113,206.06	104,299.61	1.09:1
2016-2017	103,818.07	103,882.26	1.00:1
2017-2018	142,935.99	127,530.54	1.12:1

Source: Everest Bank, annual report

The analysis covers the year from 2013-2014 till 2017-2018. Current asset consists cash balance, money at call, loan and advances and bills purchased, other assets and investment in Nepal Government securities. Current liabilities include deposit liabilities, bills payable, proposed cash dividend and other liabilities. The ratio is in

increasing trend; except in the year 2013/14 where it is 1.08 times. The current ratio is below the conventional standard 2:1 however looking at the nature of assets and liabilities of the commercial banks the ratio bellows the standard may be accepted as satisfactory. The bank may face the problem of working capital if they need to pay the current liabilities at demand. Banks may lose their goodwill in case of delay in the payment liabilities. Bank will have the problem in winning the confidence of current depositors and short-term lenders. But in year 2017/18 it was closer to conventional standard and current ratio seems to be satisfactory.

Figure - 4.1
Current Ratio



The figure 4.1 shows the trend behaviors of current assets with current liabilities of EBL along with a trend line. According the figure current assets with current liabilities parallel increased both. In other words, current assets with current liabilities will increase with higher the rate for coming five years if the past trend continues.

b. Cash and bank balance to current and saving deposit analysis

It measures the ability of bank to meet its immediate obligations. The bank should maintain adequate cash and bank balance to meet the unexpected and heavy withdrawal of deposits.

Cash & Bank Balance to Current & Saving Deposit Ratio: =

$$\frac{\text{Cash \& Bank Balance}}{\text{Current \& Saving Deposit}}$$

Table 4.2
Cash and Bank Balance to Current and Saving Deposit Ratio

Amount in million Rs.

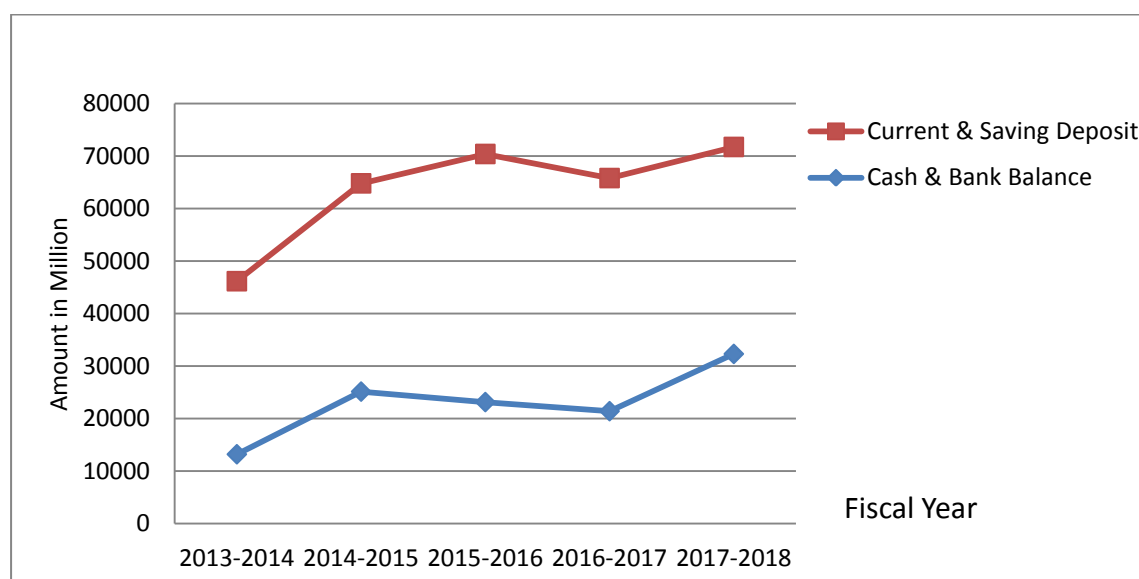
FY	Cash & Bank Balance	Current & Saving Deposit	Ratio
2013-2014	13,172.78	32,979.57	39.94%
2014-2015	25,116.48	39,685.55	63.29%
2015-2016	23,117.39	47,279.51	48.90%
2016-2017	21,383.49	44,423.59	48.14%
2017-2018	32,295.17	39,442.42	81.88%

Source: Everest Bank, annual report

Table 4.2 depicts that first two years the ratio was in increasing trend then it increased to 63.29% in year 2014/15, again it falls to 48.90% in FY 2015/16. The ratio constant to 48.14% in year 2016/17 then after in the year 2016/17 it decreased to 48.15% and again it slightly increased to 81.88% in the year 2017/18 as cash and bank balance increases from Rs. 21,383.49 to Rs. 32,295.17. From table 4.2 it can be observed that EBL may not be able to meet its immediate obligation as the bank balance is significantly lower than the current and saving deposit.

Figure: 4.2

Cash and Bank Balance with Current and Saving Deposit



The figure 4.2 shows the trend behaviors of cash and bank balance with current and saving deposit of EBL along with a trend line. According to the figure cash and bank

balance with current and saving deposit parallel increased both. In other words, cash and bank balance with current and saving deposit will increase with higher the rate for coming five years if the past trend continues.

c. Cash and bank balance to total deposit analysis

It indicates the proportion of total deposit held as most liquid assets. Optimum ratio shows the strong liquidity position of the bank. High ratio is not favorable as it affects profitability due to idleness of high-interest bearing fund.

Cash and Bank Balance to Total Deposit Ratio=

$$\frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

Table 4.3

Cash and Bank Balance to Total Deposit Ratio

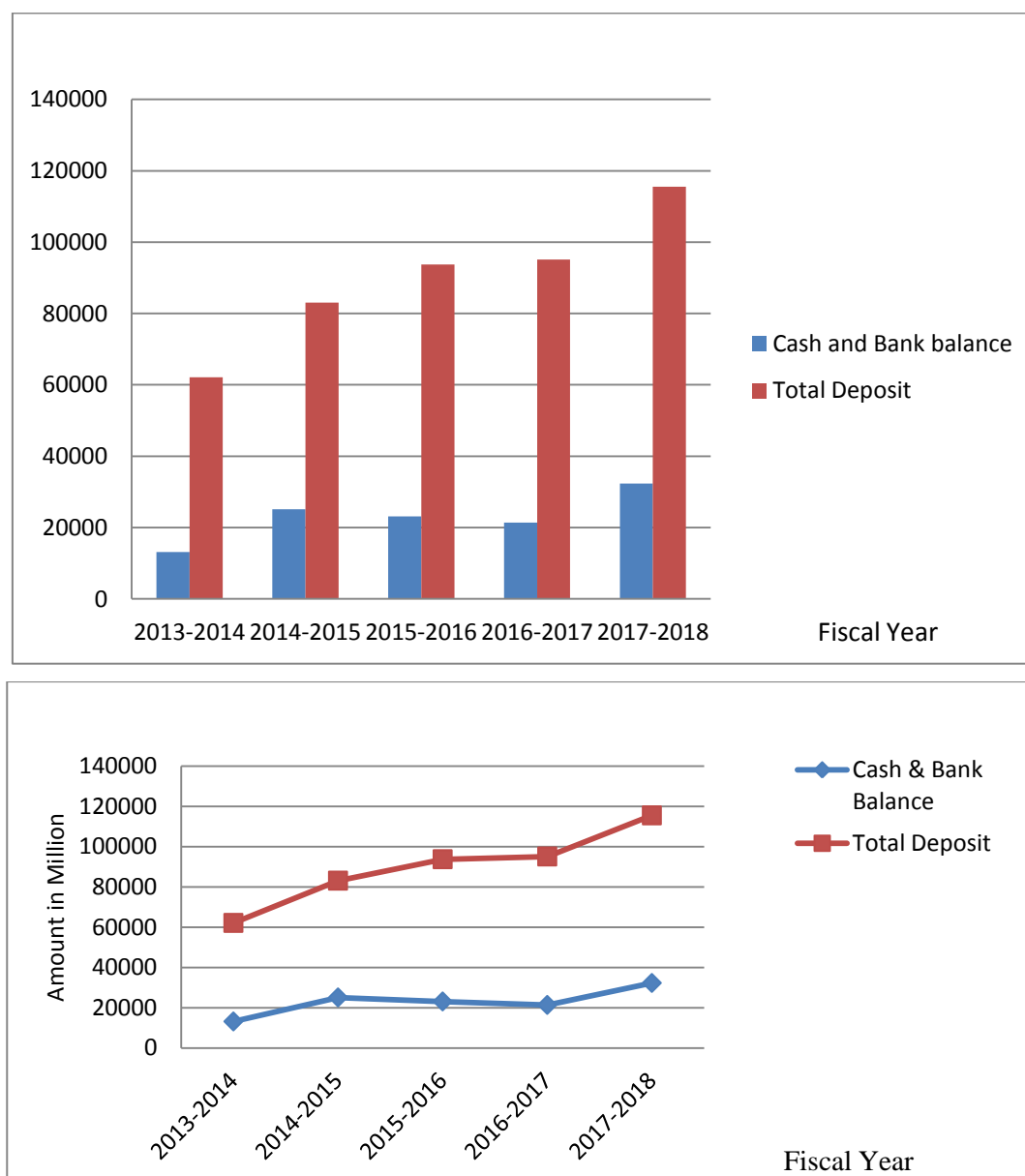
Amount in million Rs.

FY	Cash & Bank Balance	Total Deposits	Ratio
2013-2014	13,172.78	62,108.14	21.21%
2014-2015	25,116.48	83,093.79	30.23%
2015-2016	23,117.39	93,735.48	24.66%
2016-2017	21,383.49	95,094.46	22.49%
2017-2018	32,295.17	115,511.71	27.96%

Source: Everest Bank, annual report

Total deposit includes current deposit, saving deposit, fixed deposit, call deposit and other deposit. Analyzing the ratios, trend of the ratios appeared to be fluctuating. In year 2014/15 it was in the peak and in year 2013/14 it is in its lowest point. In year 2013/14, though the total deposit has been increased to Rs. 62108.14 and cash and bank balance to Rs. 13,172.78, it is still unsatisfactory. Highest ratio i.e. 30.23% shows that the strong liquidity position of the bank in year 2014/15. Though high ratio indicates its high liquidity position but it also affects profitability due to idleness of high interest-bearing fund.

Figure: 4.3
Cash and Bank Balance with Total Deposit



The figure 4.3 shows the trend behaviors of cash and bank balance with total deposit of EBL along with a trend line. According to the figure, cash and bank balance and total deposit both increased. In other words, cash and bank balance and total deposit will increase at a higher rate for the coming five years if the past trend continues.

d. NRB balance to current and saving deposit analysis

This ratio measures whether the bank is following the direction of NRB or not. Commercial banks are required to hold a certain portion of current and saving deposits

in NRB's account. It is to ensure the smooth function and sound liquidity position of the bank.

NRB balance to current & saving deposit ratio=

$$\frac{\text{NRB Balance}}{\text{Current \& Saving Deposit}}$$

Table 4.4

NRB balance to current and saving deposit ratio

Amount in million Rs.

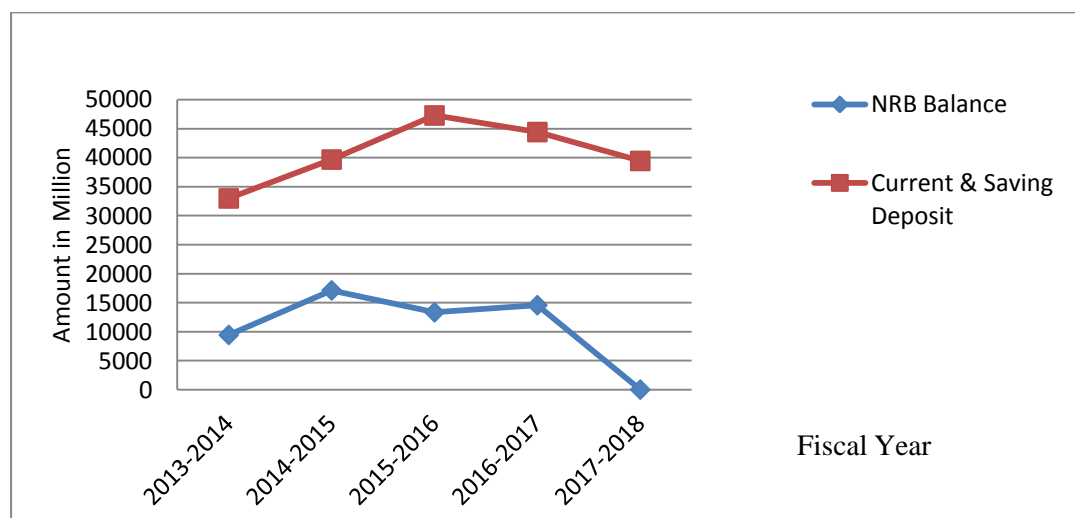
FY	NRB Balance	Current & Saving Deposit	Ratio
2013-2014	9,446.92	32,979.57	28.64%
2014-2015	17,126.16	39,685.55	43.15%
2015-2016	13,356.02	47,279.51	28.25%
2016-2017	14,577.08	44,423.59	32.81%
2017-2018	26.71	39,442.42	0.07%

Source: Everest Bank, annual report

The ratio is calculated by dividing NRB deposit by current and saving deposit. The ratio showed fluctuating trend in the period of the study. It ranged from the minimum of 0.07% in the year 2017/18 to maximum of 43.15% in the year 2014/15. Though the bank followed the directive of NRB, in all the years it remained higher than 8%, the minimum standard set by NRB. In year 2014/15 the ratio was in the highest position which reveals idle cash. Idle cash affect the profitability as it earns nothing.

Figure: 4.4

NRB balance to current and saving deposit ratio



The figure 4.4 shows the trend behaviors of NRB balance with current and saving deposit of EBL along with a trend line. According the figure NRB balance with current and saving deposit downward at the end of study period both. In other words, NRB balance with current and saving deposit will decrease with higher the rate for coming five years if the past trend continues.

e. NRB balance to fixed deposit ratio analysis

This ratio shows the percentage of amount deposited by the bank in NRB as compared to the fixed deposits. As per directive 2072 of NRB, this ratio should be 6%.

This ratio is computed by dividing the balance held with NRB by Fixed deposit as follows

NRB balance to fixed deposit ratio =

$$\frac{\text{NRB Balance}}{\text{Fixed Deposit}}$$

Table 4.5

NRB balance to fixed deposit ratio

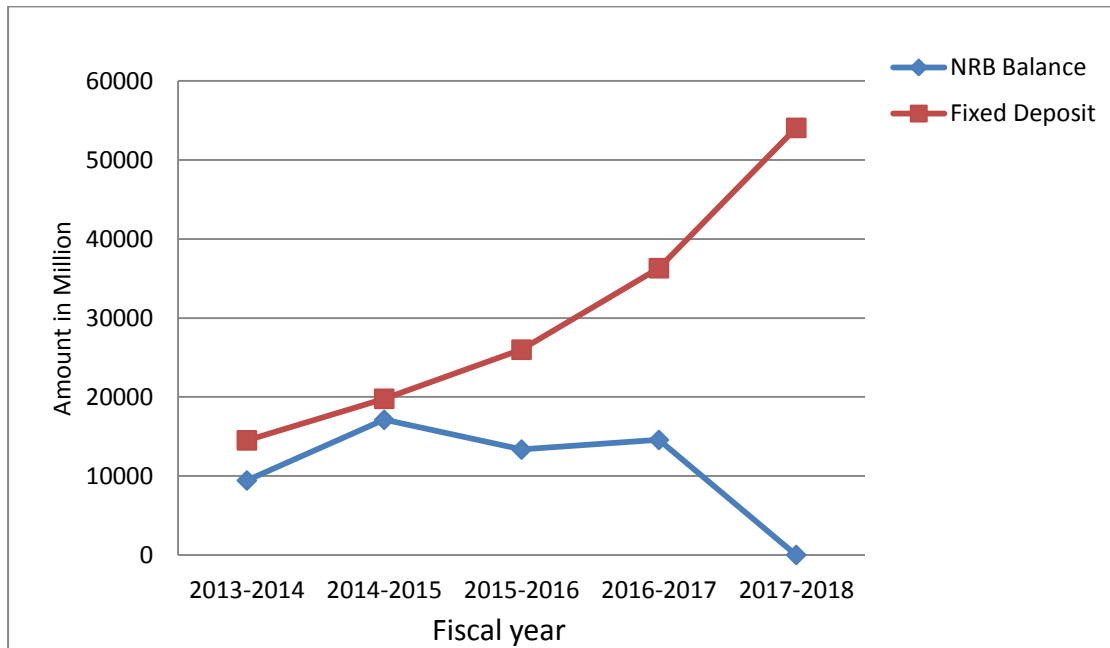
Amount in million Rs.

FY	NRB Balance	Fixed Deposit	Ratio
2013-2014	9,446.92	14,528.86	65.02%
2014-2015	17,126.16	19,784.89	86.56%
2015-2016	13,356.02	25,999.04	51.37%
2016-2017	14,577.08	36,311.50	40.14%
2017-2018	26.71	54,063.68	0.05%

Source: Everest Bank, annual report

Table no 4.5 shows the ratio didn't show any particular direction of change. In year 2014/15 it was in peak with 86.56% and in year 2017/18 it was least with 0.05%. The ratios never dropped below 6%, the standard to be maintained as prescribed by NRB. From year 2013/14 to 2016/17 the ratio is much higher than the requirement of NRB.

Figure: 4.5
NRB balance to fixed deposit ratio



The figure 4.5 shows the trend behaviors of NRB balance to fixed deposit of EBL along with a trend line. According the figure NRB balance decreased with to fixed deposit increased to FY 2015/16 and thereafter it followed previous trend both.

f. Fixed deposit to total deposit ratio

This ratio indicates that what percentage of total deposit has been collected in form of fixed deposit. High ratio indicates better opportunity available to the bank to invest in sufficient profit generating long term loans.

This ratio is computed by dividing fixed deposit by total deposit as follows;

Fixed deposit to total deposit =

$$\frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

Table 4.6
Fixed deposit to total deposit ratio

Amount in million Rs.

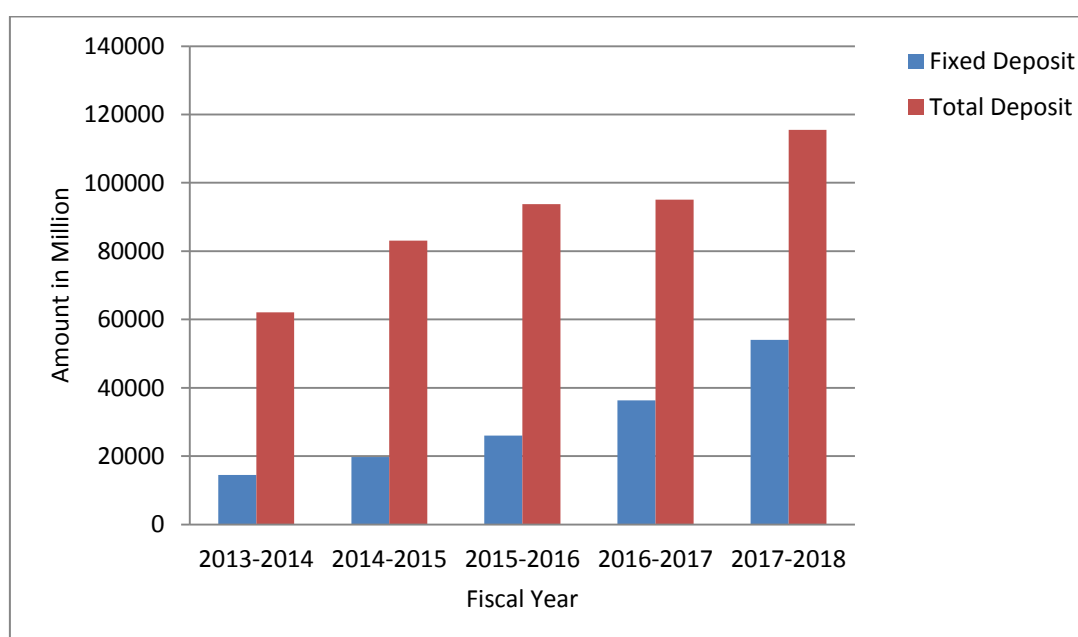
FY	Fixed Deposit	Total Deposit	Ratio
2013-2014	14,528.86	62108.14	23.39%
2014-2015	19,784.89	83,093.79	23.81%
2015-2016	25,999.04	93,735.48	27.74%
2016-2017	36,311.50	95,094.46	38.18%
2017-2018	54,063.68	115,511.71	46.80%

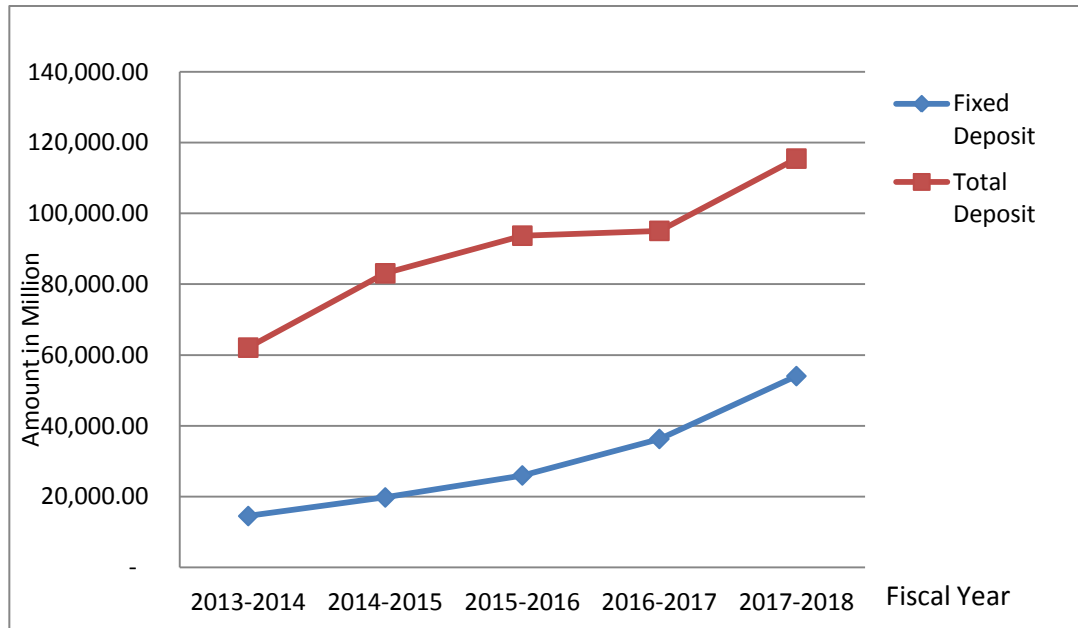
Source: Everest Bank, annual report

The table no 4.6 shows that fixed deposit and Total deposit is increasing trend, ratio has increased throughout the study period. Greater the ratio higher the position of fixed deposit account in the total deposit. Fixed deposits are high cost bearing deposits. However, high ratio indicates better opportunity available to the bank to invest in long term loans. Low ratio means the bank should invest in short term loans. But seeing the trend of ratio, it indicates the EBL has opportunity to invest low cost bearing short term loans.

Figure-4.6

Fixed deposit with total deposit





The figure 4.6 shows the trend behaviors of fixed deposit with total deposit of EBL along with a trend line. According to the figure, fixed deposit with total deposit increased both. In other words, fixed deposit with total deposit will increase with higher the rate for coming five years if the past trend continues.

4.1.2 Leverage ratio

Leverage ratios are used to judge the long-term financial position of the firm. It evaluates the financial risk of long-term creditors. Greater the proportion of the owner's capital in the capital structure, lesser will be the financial risk borne by those who have a legal obligation to pay interest to debt holders irrespective of the profit or loss incurred by the firm. Following ratios are used to test the optimality of capital structure of EBL.

a. Debt equity ratio

It is a test of long-term solvency of the bank. Debt equity ratio measures the relative claims of creditors and owners against the assets of the bank. This ratio indicates the relationship between debt and equity, i.e., outsiders' funds and shareholders' funds, which are sometimes called as external and internal equities. It is calculated to measure the extent of debt financing used in the business.

This ratio is computed by dividing total debt by shareholder's equity as follows:

Debt equity ratio =

$$\frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

Table 4.7
Debt equity ratio

Amount in million Rs.

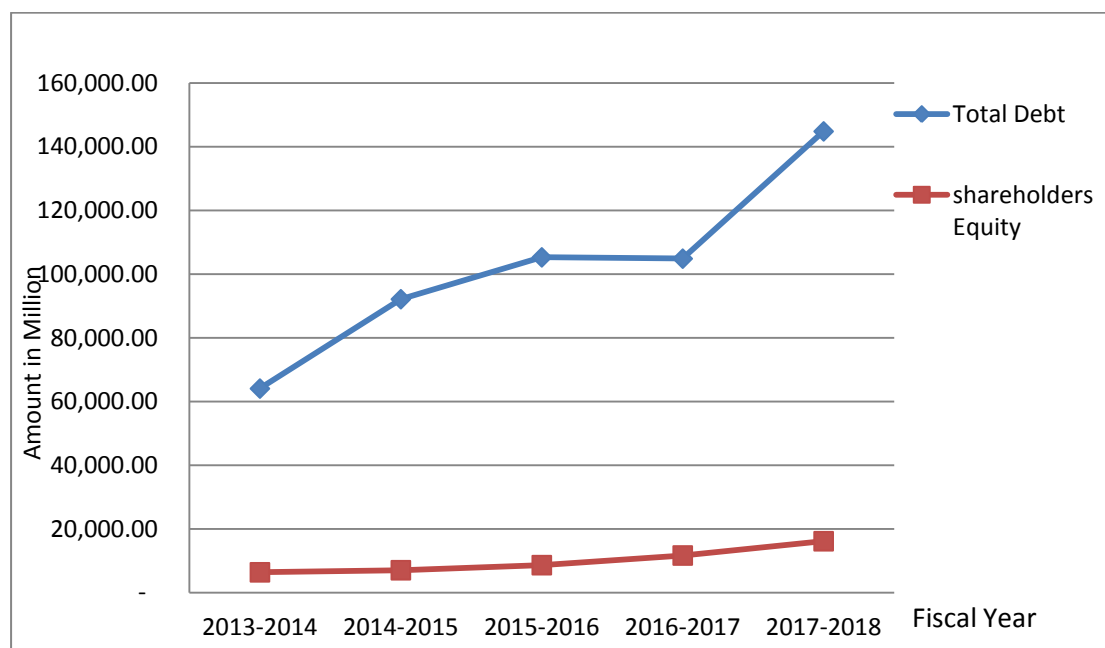
FY	Total Debt	Equity	Ratio
2013-2014	64,067.54	6,377.54	10.05
2014-2015	92,121.31	7,031.50	13.10
2015-2016	105,264.46	8,620.58	12.21
2016-2017	104,855.44	11,655.00	9.00
2017-2018	144,811.15	16,134.51	8.98

Source: Everest Bank, annual report

Total debt includes all interest-bearing long term and short-term debts. It includes loans and advances taken from other financial institutions and deposits carrying interest i.e. saving deposit, fixed deposit and call deposits. Shareholder's equity includes paid up capital, reserves and surplus and undistributed profit.

Debt equity ratio shows the mix of debt and equity in capital. Higher ratio shows that the creditor's claims are greater than those of owners. In year 2014/15 the ratio was maximum i.e. 13.10%. EBL has more debt portion than equity in the total capital.

Figure-4.7
Debt equity ratio



The figure 4.7 shows the trend behaviors of total debt with total equity of EBL along with a trend line. According the figure total debt with total equity increased both. In other words, total debt with total equity will increase with higher the rate for coming five years if the past trend continues.

b. Debt to asset analysis

This ratio measures the percentage of the firm's assets financed by creditors. Total debt includes both current liabilities and long-term debt. Creditors prefer low debt ratio because the lower the ratio, the greater the cushion against creditors' losses in the event of liquidation.

The ratio is computed by dividing total debt by total assets as follows:

Debt Asset Ratio =

$$\frac{\text{Total Debt}}{\text{Total Asset}}$$

Table 4.8
Debt Asset Ratio

FY	Total Debt	Total Asset	Ratio
2013-2014	64,067.54	70,445.08	90.95%
2014-2015	92,121.31	99,152.81	92.91%
2015-2016	105,264.46	113,885.05	92.43%
2016-2017	104,855.44	116,510.45	90.00%
2017-2018	144,811.15	144,811.15	100.00%

Source: Everest Bank, Annual Report

Total debt includes loans and advances taken from other financial institution and deposit carrying interest i.e. saving deposit, fixed deposit account and call deposit. Total assets consist of cash in hand, bank balance, money at call and short notice, investments, loans, advances, bills purchase, fixed assets and other assets. The table 4.8 depicts the ratios from year 2013/14 to year 2015/16 the ratio is in increasing, in year 2015/16 i.e. 92.43%. The larger portion of the bank asset has been financed through outsider's fund. All the ratios are more than 50% which shows that more than 50% of the total asset has been financed by the outsider's fund.

Figure-4.8
Debt Asset Ratio



The figure 4.8 shows the trend behaviors of total debt with total assets of EBL along with a trend line. According the figure total debt with total assets increased both. In other words, total debt with total assets will increase with higher the rate for coming five years if the past trend continues.

c. Interest coverage ratio

This ratio emphasizes the ability of the firm to generate enough income to cover interest expenses. The ratio is obtained by dividing net profit before deduction on interest and tax by interest charges as follows:

Interest Coverage Ratio=

$$\frac{\text{Net Profit before Interest and Tax}}{\text{Interest}}$$

Table 4.9

Interest Coverage Ratio

Amount in million Rs.

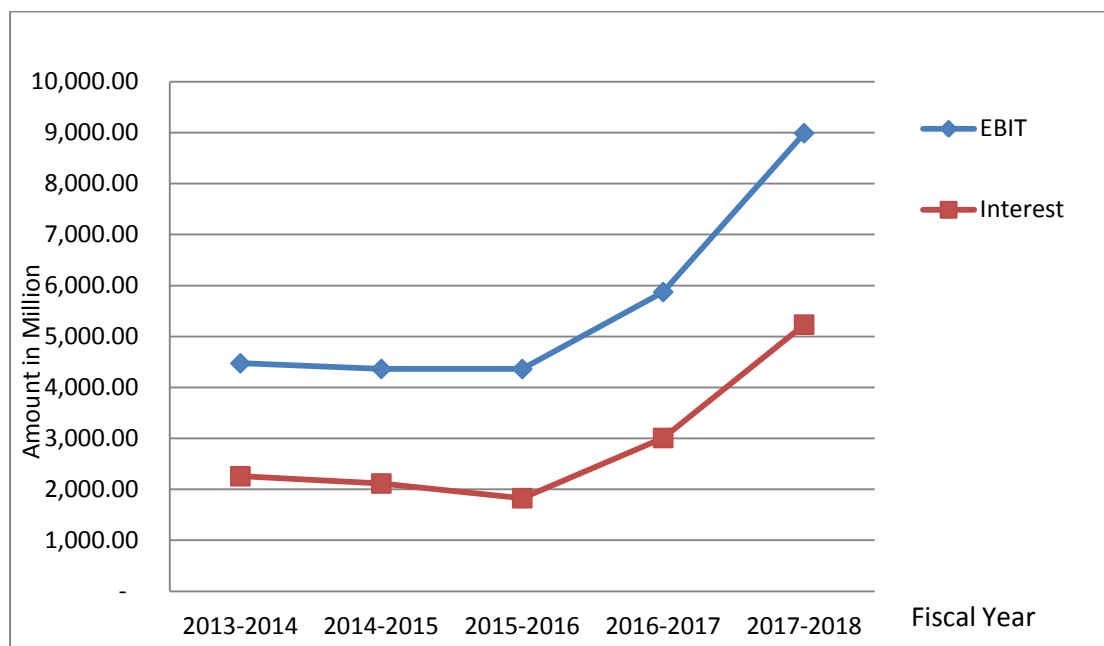
FY	EBIT	Interest	Ratio
2013-2014	4,474.83	2,258.74	1.98
2014-2015	4,364.49	2,116.99	2.06
2015-2016	4,362.90	1,828.49	2.39
2016-2017	5,873.21	3,009.79	1.95
2017-2018	8,990.08	5,233.69	1.72

Source: Everest Bank, Annual Report

Earnings before interest and tax is being calculated by adding interest expenses, provision for income tax and net profit from the profit and loss account for the respective year of study period. Interest consists of interest paid on various deposits and loans taken from NRB and other banks.

The ratio is fluctuating thorough out the years. It was almost static for two years 2014/15 to 2015/16 but it decreased in year 2016/17. Lower ratio indicates more use of debt for which interest is to be paid or insufficient operation. The ratio has increased in year 2015/16. But reviewing the trend of ratio, it is low.

Figure-4.9
Interest Coverage Ratio



The figure 4.9 shows the trend behaviors of EBIT with interest of EBL along with a trend line. According the figure EBIT and interest increased both. In other words, EBIT with interest will increase with higher the rate for coming five years if the past trend continues.

4.1.3 Activity ratio

This ratio measures the efficiency of the firms. Activity ratio is set of ratios that measure how effectively a firm is managing its assets. High ratio depicts the managerial efficiency in utilizing the resources. They show the sound profitability position of the bank. Low ratio is the result of insufficient utilization of the resources.

Following ratios are developed and calculated to find the activity ratios of EBL.

a. Loans and advances to total deposit ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances. Loan and advances consist of loans, advances, cash credit, over drafts and foreign bills purchased and discounted. The ratio indicates the proportion of total deposits invested in loans and advances.

This ratio is obtained by dividing total loans and advances by total deposits as follows:

Loan and advance to total deposit=

Loans and Advances
Total Deposit

Table 4.10

Loans and advances to total deposit ratio

Amount in million Rs.

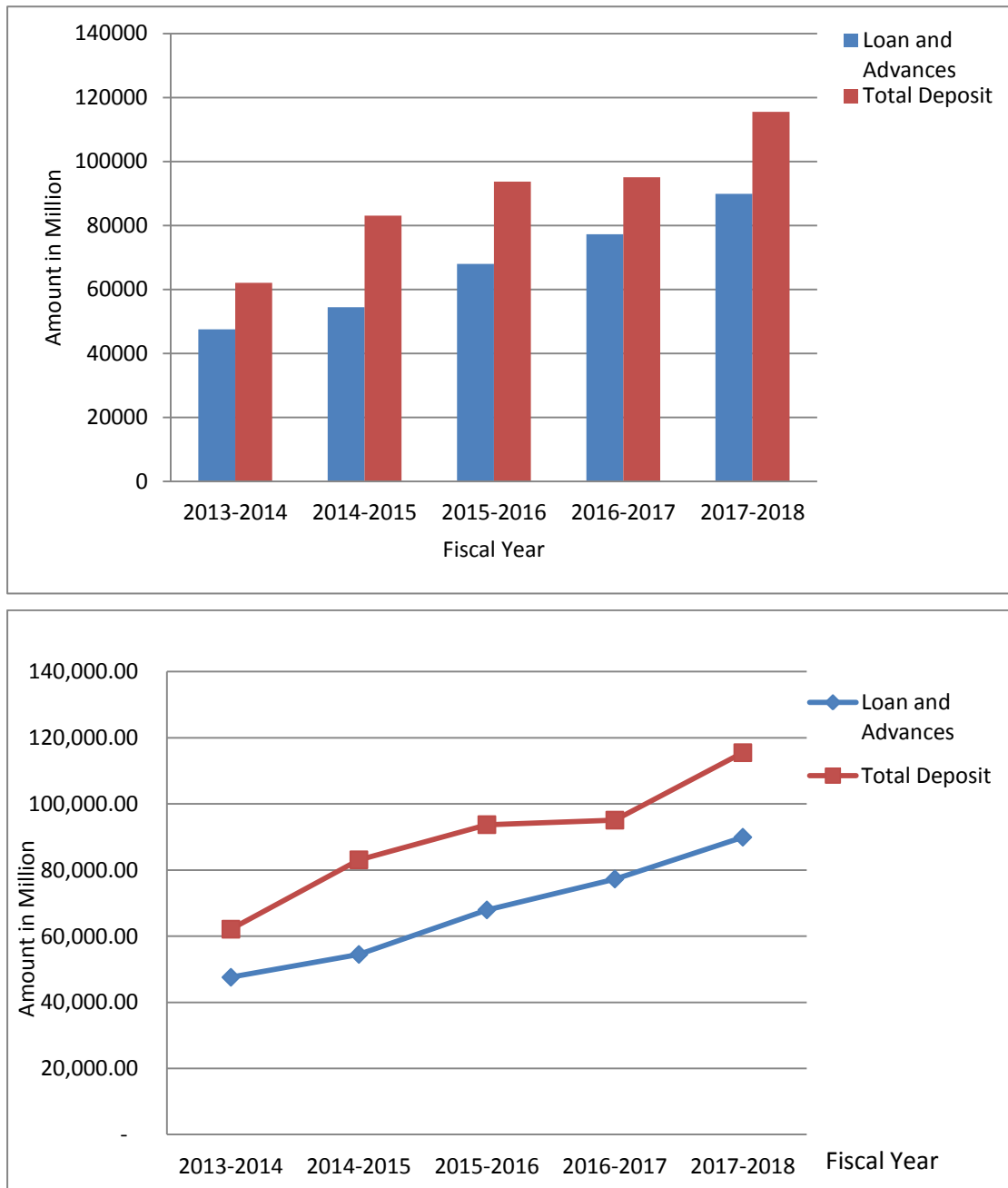
FY	Loan and Advances	Total Deposit	Ratio
2013-2014	47,572.02	62,108.14	76.60
2014-2015	54,482.47	83,093.79	65.57
2015-2016	67,955.11	93,735.48	72.50
2016-2017	77,287.76	95,094.46	81.27
2017-2018	89,927.57	115,511.71	77.85

Source: Everest Bank, annual report

Loan and Advances consists of loans, advances, bills purchased and bills discounted. The ratio fluctuated throughout the study period. The ratio indicated the proportion of total deposits invested in loans and advances. In year 2016/17, 81.27% of the total deposit was invested in loans and advances. In year 2014/15, 65.57% of the total deposit was invested in loans and advances. This may have affected the liquidity position of EBL. During the year 2013/14, 2016/17 and 2017/18 the ratios were satisfactory. Too low ratio gives a picture of the ideal cash in the bank. As per banking practice, banks maintain the ratio around 70-75%. In the year 2016/17, the bank has the good ratio of 81.27% which shows that the bank is successful in utilizing its deposits on loans and advances.

Figure-4.10

Loans and advances to total deposit ratio



The figure 4.10 shows the trend behaviors of loans and advances to total deposit ratio of EBL along with a trend line. According the figure loans and advances to total deposit ratio increased both. In other words, loans and advances to total deposit ratio will increase with higher the rate for coming five years if the past trend continues.

b. Loans and advances to fixed deposit ratio

This ratio indicates what proportion of fixed deposit has been used for loans and advances. As fixed deposit carry high rate of interest fund so collected need to be in such sectors which yield at least sufficient return to meet the obligation.

This ratio is computed by dividing loans and advances by fixed deposit liabilities as follows:

Loan and advance to fixed deposit =

$$\frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

Table 4.11

Loans and advanced to fixed deposit ratio

Amount in million Rs.

FY	Loan and Advances	Fixed Deposit	Ratio
2013-2014	47,572.02	14,528.86	327.43%
2014-2015	54,482.47	19,784.89	275.37%
2015-2016	67,955.11	25,999.04	261.38%
2016-2017	77,287.76	36,311.50	212.85%
2017-2018	89,927.57	54,063.68	166.34%

Source: Everest Bank, Annual Report

The ratio revealed a decreasing trend. It ranged from 327.43% in year 2013/14 to 166.34% in year 2017/18. With respect to the above ratio EBL has shown not good performance. EBL has not utilized efficiently, the high interest-bearing fixed deposit in the loans and advances and sector yielding satisfactory return.

Figure-4.11
Loans and advanced to fixed deposit ratio



The figure 4.11 shows the trend behaviors of loans and advanced to fixed deposit ratio of EBL along with a trend line. According the figure loans and advanced to fixed deposit ratio increased both. In other words, loans and advanced to fixed deposit ratio will increase with higher the rate for coming five years if the past trend continues.

c. Loans and advances to saving deposit ratio

Loans and advances to saving deposit ratio measures what extent of saving deposit has been turned over to loans and advances.

This ratio is calculated by dividing loans and advances by saving deposit as follows:

Loan and advance to saving deposit=

$$\frac{\text{Loans and Advances}}{\text{Saving Deposit}}$$

Table 4.12

Loans and advances to saving deposit ratio

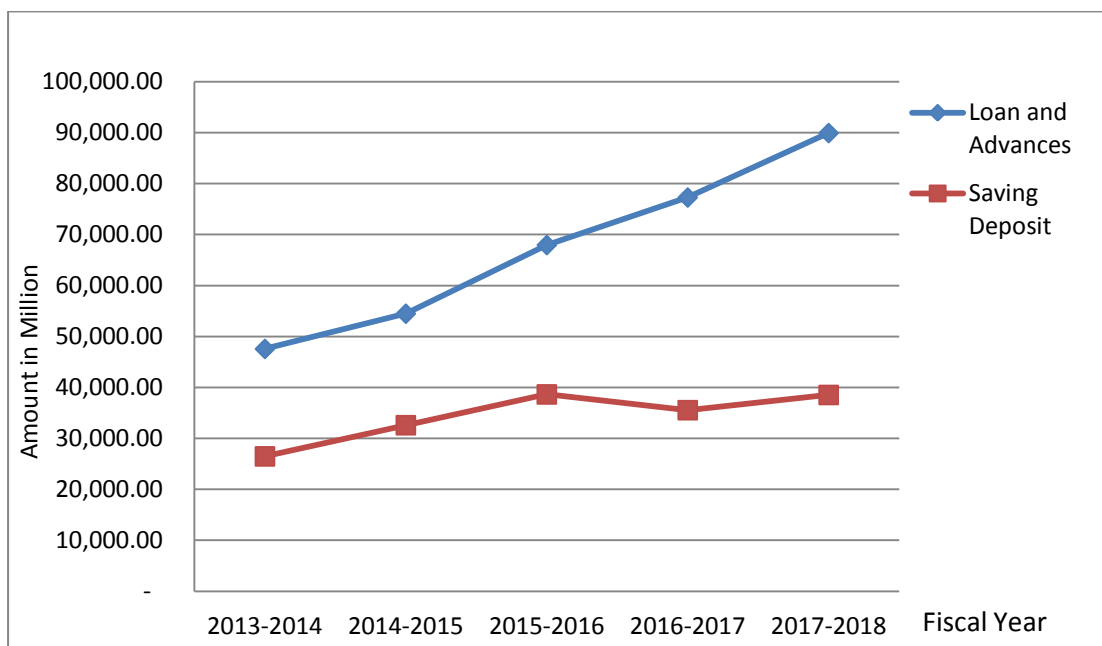
Amount in million Rs.

FY	Loan and Advances	Saving Deposit	Ratio
2013-2014	47,572.02	26,489.44	179.59%
2014-2015	54,482.47	32,604.29	167.10%
2015-2016	67,955.11	38,649.61	175.82%
2016-2017	77,287.76	35,555.93	217.37%
2017-2018	89,927.57	38,539.47	233.34%

Source: Everest Bank, annual report

The ratio showed a decreasing to increasing trend through the study period. The ratio slightly rises to 175.82%. It was 233.34% in year 2017/18 that came down to 175.82% in year 2015/16. It indicates insufficient utilization of saving deposit in form of loans and advances.

Figure-4.12
Loans and advances to saving deposit ratio



The figure 4.12 shows the trend behaviors of loans and advances to saving deposit ratio of EBL along with a trend line. According the figure loans and advances with saving deposit increased both. In other words, loans and advances to saving deposit will increase with higher the rate for coming five years if the past trend continues.

d. Investment to total deposit ratio

Investment to total deposit ratio shows how efficiently the major resources of the bank have been mobilized. Investment consists of investment of Nepal Gov. Treasury bills, development bonds, company shares and other type of investment.

This ratio is calculated by dividing investment by total deposits collected in the bank as follows:

Investment to total deposit ratio=

$$\frac{\text{Investment}}{\text{Total Deposit}}$$

Table 4.13
Investment to total deposit ratio

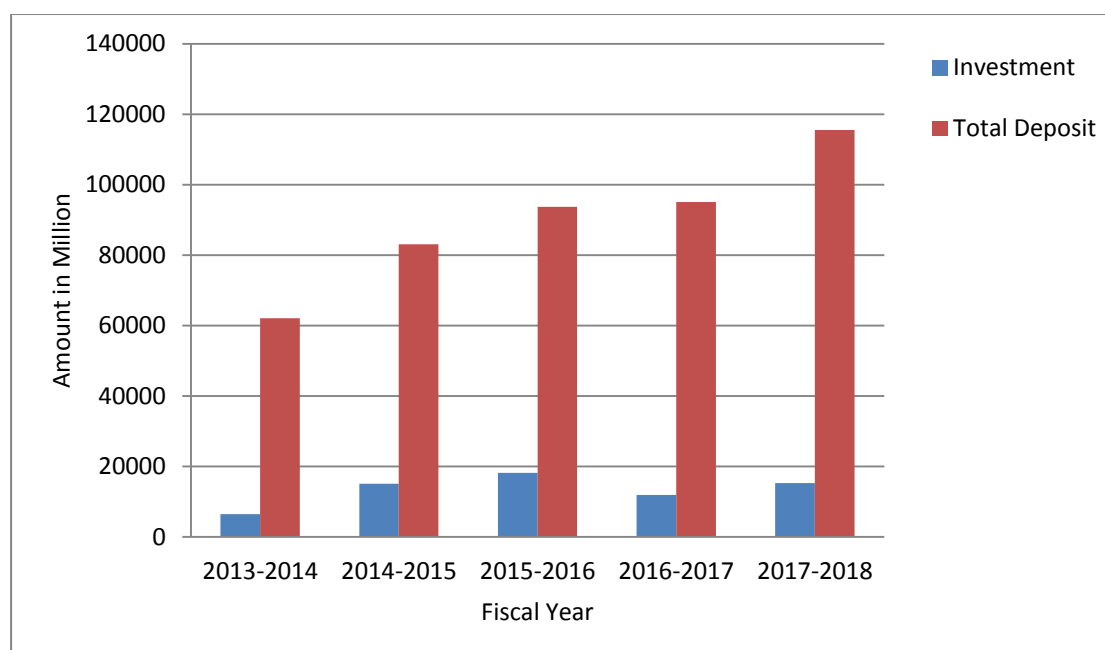
Amount in million Rs.

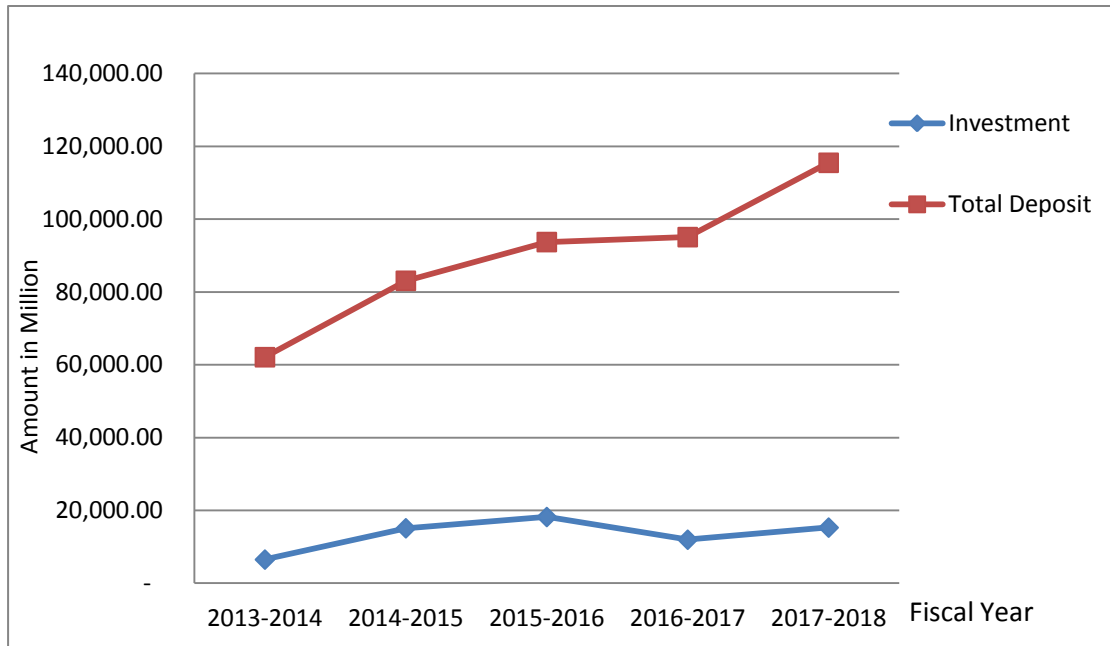
FY	Investment	Total Deposit	Ratio
2013-2014	6,504.19	62,108.14	10.47%
2014-2015	15,102.67	83,093.79	18.18%
2015-2016	18,198.74	93,735.48	19.41%
2016-2017	11,964.56	95,094.46	12.58%
2017-2018	15,292.31	115,511.71	13.24%

Source: Everest Bank, annual report

Here, investment consists of investment in Nepal Government treasury bills, development bonds, company shares etc. The ratio showed irregular pattern during the study period. In year 2013/14 only 10.47% of the total deposit was invested in Nepal Government treasury bills, development was invested but in year 2015/16 the total investment is reduced to 19.41% of the total deposit.

Figure-4.13
Investment to total deposit ratio





The figure 4.13 shows the trend behaviors of Investment to total deposit ratio of EBL along with a trend line. According to the figure, the total deposit ratio has increased but investment has fluctuated. In other words, the investment to total deposit ratio will increase at a higher rate for the coming five years if the past trend continues.

e. Performing assets to total assets ratio

This ratio measures what portions of assets have been funded for income generation. Performing assets include loans and advances; bills purchased and discounted; investments and money at call or short notice.

This ratio is calculated by dividing performing assets by total assets as follows:

Performing assets to total assets ratio =

$$\frac{\text{Performing Assets}}{\text{Total Assets}}$$

Table 4.14
Performing assets to total assets ratio

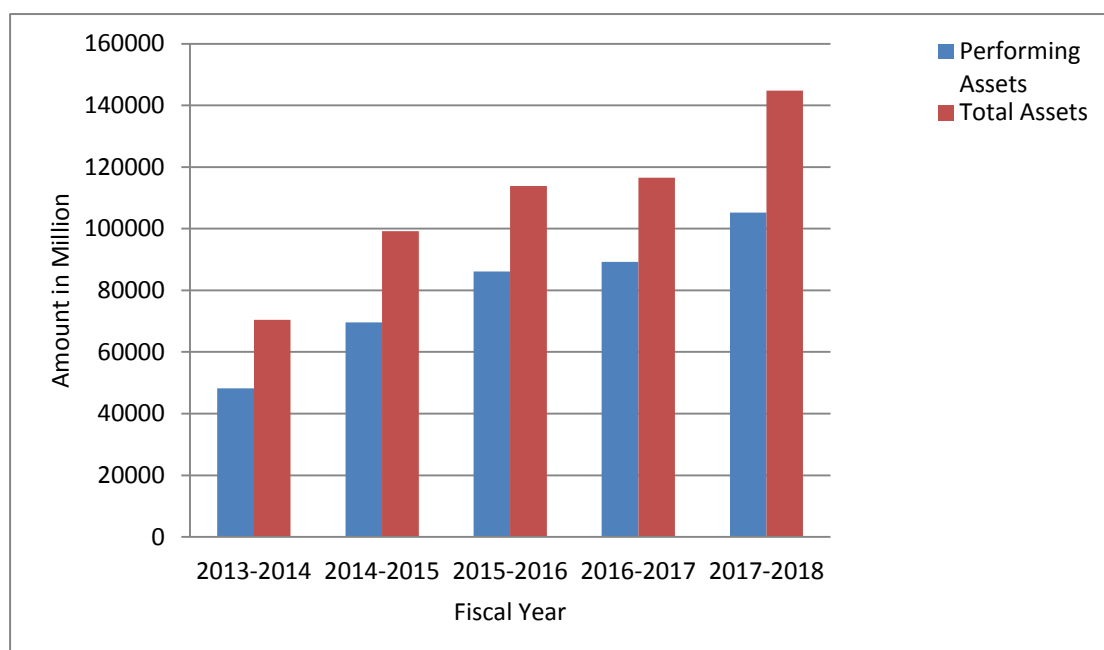
Amount in million Rs.

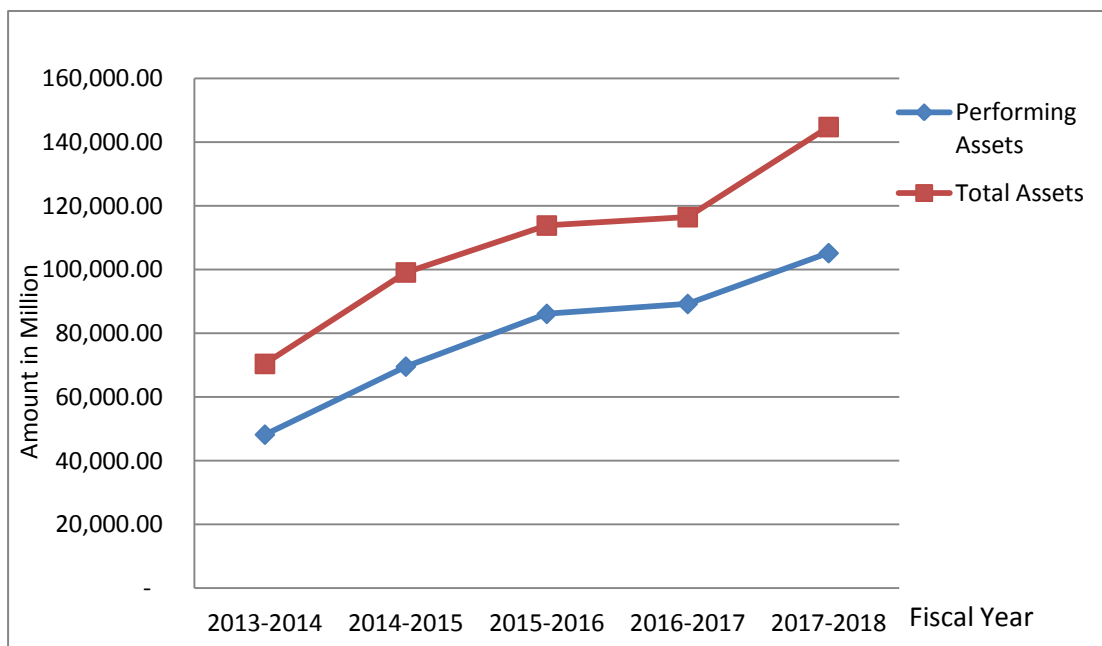
FY	Performing Assets	Total Assets	Ratio
2013-2014	48,226.21	70,445.08	68.46%
2014-2015	69,585.14	99,152.81	70.18%
2015-2016	86,153.85	113,885.05	75.65%
2016-2017	89,252.33	116,510.45	76.60%
2017-2018	105,219.88	144,811.15	72.66%

Source: Everest Bank, Annual Report

Performing assets are investment, loan and advances, bills purchased and discounted and money at call and short notice. EBL had maintained high ratio throughout the period of study. In year 2016/17, 76.60% of the total asset has been funded for income generation. High ratios in the table indicate greater utilization of assets that leads to sound profitability position of the bank.

Figure-4.14
Performing assets to total assets ratio





The figure 4.14 shows the trend behaviors of performing assets to total assets ratio of EBL along with a trend line. According to the figure, performing assets to total assets ratio increased both. In other words, performing assets to total assets ratio will increase with a higher rate for coming five years if the past trend continues.

f. Performing assets to total debt ratio

This ratio shows the pattern of use of the fund collected from the outsider. High ratio shows the success of bank in utilization of creditors' fund in productive areas. Low ratio shows idleness of the cost-bearing resources.

This ratio is calculated by dividing performing assets by total debt as follows:

Performing assets to total debt ratio =

$$\frac{\text{Performing Assets}}{\text{Total debt}}$$

Table 4.15
Performing assets to total debt ratio

Amount in million Rs.

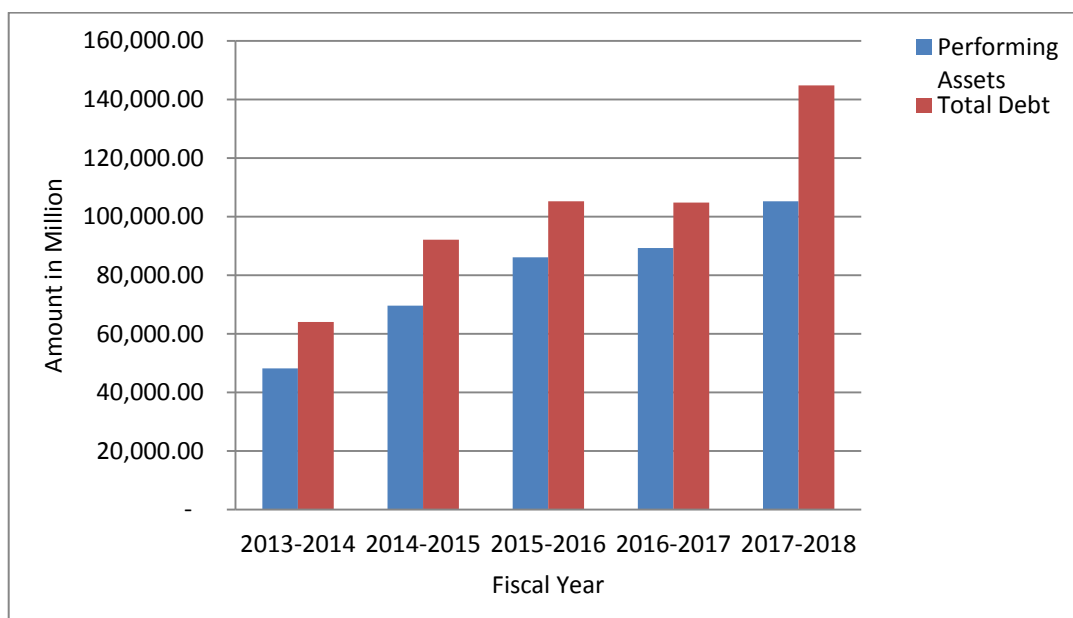
FY	Performing Assets	Total Debt	Ratio
2013-2014	48,226.21	64,067.54	75.27%
2014-2015	69,585.14	92,121.31	75.54%
2015-2016	86,153.85	105,264.46	81.85%
2016-2017	89,252.33	104,855.44	85.12%
2017-2018	105,219.88	144,811.15	72.66%

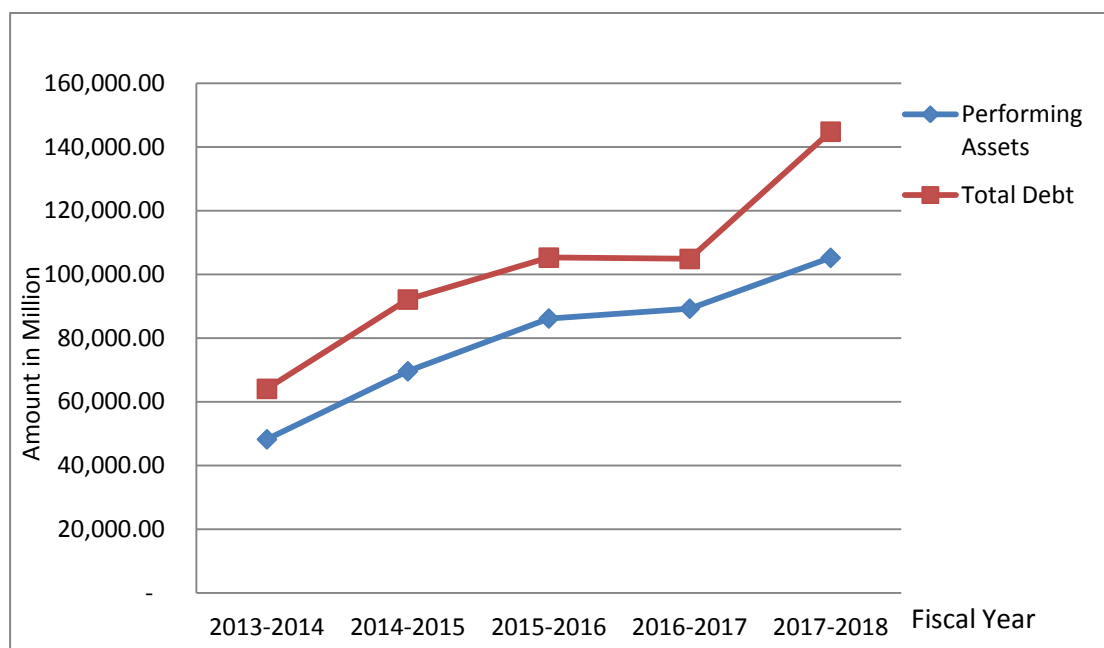
Source: Everest Bank, annual report

The ratio showed fluctuating trend throughout the study period. It was maximum in year 2016/17 with 85.12% and minimum in year 2017/18 with 72.66%. High ratio represents the success of EBL in utilizing the creditor's fund, like in year, 2015/16 and 2016/17. In Years 2013/14, 2014/15 and 2017/18 the ratio is low but it can be rated satisfactory.

Figure-4.15

Performing assets to total debt ratio





The figure 4.15 shows the trend behaviors of performing assets to total debt ratio of EBL along with a trend line. According the figure performing assets to total debt ratio increased both. In other words, performing assets to total debt ratio will increase with higher the rate for coming five years if the past trend continues.

4.1.4 Profitability ratio

Profitability ratio measures the managements overall efficiency as shown by the return generated from sales and investment. A company should earn profits to survive and grow over a long period of time. Profitability ratios are designed to highlight the end-result of business activities which in the imperfect world of ours, is the sole creation of overall efficiency of business unit.

Following ratios are computed to find the probability ratios of EBL.

a. Return on asset

This ratio measures the productivity of the assets. It shows the relationships of net profit and total assets and determines how efficiently the total assets have been used by the management. Higher ratio shows the higher return on the assets used in the business thereby indicating effective use of the resources available and vice versa.

Return on total asset=

$$\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

Table 4.16
Return on asset

Amount in million Rs.

FY	Net Profit After Tax	Total Assets	Ratio
2013-2014	1,549.70	70,445.08	2.20%
2014-2015	1,574.35	99,152.81	1.59%
2015-2016	1,730.21	113,885.05	1.52%
2016-2017	2,006.25	116,510.45	1.72%
2017-2018	2,581.68	144,811.15	1.78%

Source: Everest Bank, annual report

The ratio is calculated by dividing net profit after tax by total assets. Profit shows the performance of any company; however, the level of profit needs to be seen in consideration of total balance sheet size of the company. Higher ratio indicates the success of management in overall operation. In year 2013/14, the ratio was in highest position.

b. Return on total deposit

Return on total deposit ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio indicates strong probability position and vice versa. This ratio is calculated by dividing net profit after tax by total deposit as follows:

Return on total deposit=

$$\frac{\text{Net Profit After Tax}}{\text{Total Deposit}}$$

Table 4.17
Return on total deposit

FY	Net Profit After Tax	Total Deposits	Ratio
2013-2014	1,549.70	62,108.14	2.50%
2014-2015	1,574.35	83,093.79	1.89%
2015-2016	1,730.21	93,735.48	1.85%
2016-2017	2,006.25	95,094.46	2.11%
2017-2018	2,581.68	115,511.71	2.23%

Source: Everest Bank, annual report

Return on total deposit is calculated by dividing net profit after tax by total deposit. In the table no 4.21 It was in decreasing trend from year 2013/14 to 2015/16 then in year 2016/17 and 2017/18 it increased. It recovered from year 2016/17 with 2.11% in subsequent year 2014/15 but again in year 2015/16 it decreased to 1.85%.

c. Total Interest expenses

Total interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total interest includes interest income received from loans, advances, cash credit, overdrafts, and government securities, interbank and other investments, lower ratio is favorable from profitability point of view.

This ratio is calculated by dividing total expenses by total interest income as follows:

Total interest expenses to total income ratio =

$$\frac{\text{Total Int. Expenses}}{\text{Total Int. Income}}$$

Table 4.18

Total interest expenses to total interest income ratio

Amount in million Rs.

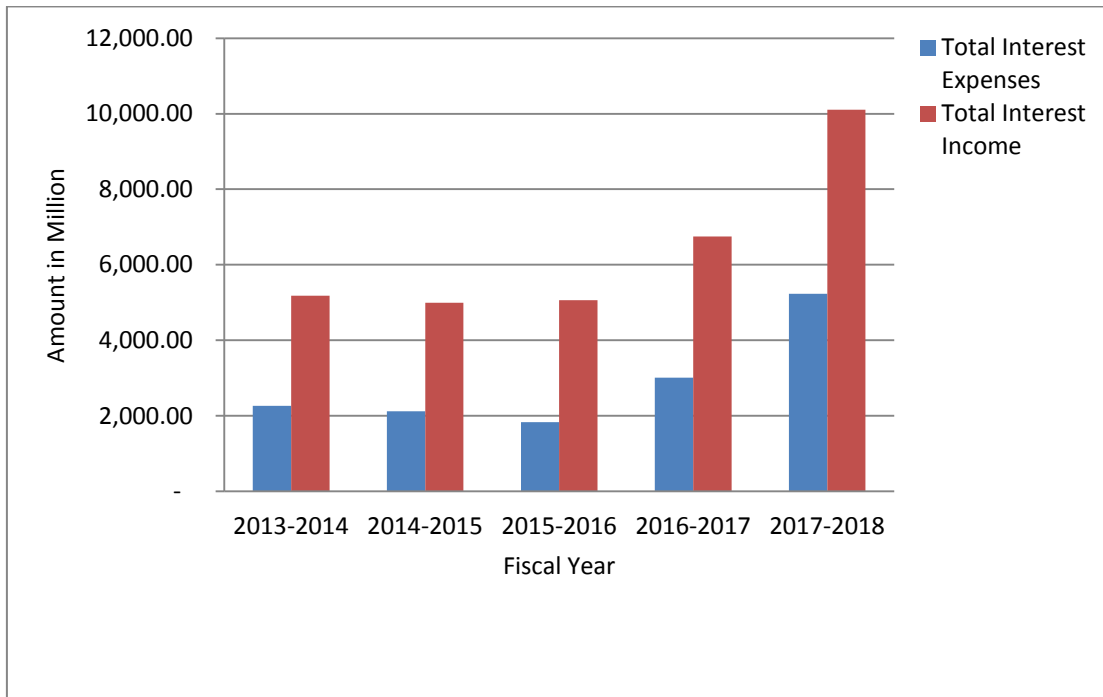
FY	Total Interest Expenses	Total Interest Income	Ratio
2013-2014	2,258.74	5,177.55	43.63%
2014-2015	2,116.99	4,996.43	42.37%
2015-2016	1,828.49	5,057.08	36.16%
2016-2017	3,009.79	6,747.15	44.61%
2017-2018	5,233.69	10,103.45	51.80%

Sources: Everest Bank, annual report

The total interest expenses and total interest income has increased throughout the study period but, the ratio has decreasing to increasing trend of study period. Lower ratio is favorable. EBL is more successful in 2015/16 in allocating interest debt in profitable sectors.

Figure-4.16

Total interest expenses to total interest income ratio



The figure 4.16 shows that the more portion of total interest income than total interest expenses. This show that higher amount of interest income has collected.

d. Interest earned to total asset ratio

Interest earned to total assets ratio shows percentage of interest income as compared to the assets of the bank. This ratio is calculated by dividing interest income by total assets as follows:

Interest earned to total asset ratio=

$$\frac{\text{Total Int. Income}}{\text{Total Assets}}$$

Table 4.19
Interest earned to total asset ratio

Amount in million Rs.

FY	Total Interest Income	Total Assets	Ratio
2013-2014	5,177.55	70,445.08	7.35%
2014-2015	4,996.43	99,152.81	5.04%
2015-2016	5,057.08	113,885.05	4.44%
2016-2017	6,747.15	116,510.45	5.79%
2017-2018	10,103.45	144,811.15	6.98%

Source: Everest Bank, annual report

Ratios of EBL, it has highest ratio in year 2013/14 and lowest ratio in year 2015/16. High ratio in year 2013/14 to 2017/18 indicates the proper utilization of bank's asset for income generating purpose than other years.

e. Staff expense to total income ratio

Staff expenses include the salary and allowances, contribution to the provident fund and gratuity fund, staff training expenses and other allowances and expenses made to staff. It measures the proportion of income spent for the staff whose contribution is of great significance in the success of the bank.

This ratio is calculated by dividing staff expenses by total income as follows:

Staff expenses to total income ratio =

$$\frac{\text{Staff Expenses}}{\text{Total Income}}$$

Table 4.20
Staff expense to total income ratio

Amount in million Rs.

FY	Staff Expense	Total Income	Ratio
2013-2014	511.86	5,826.20	8.79%
2014-2015	687.51	5,834.70	11.78%
2015-2016	699.88	6,087.50	11.50%
2016-2017	882.33	7,812.60	11.29%
2017-2018	1,492.67	11,337.40	13.17%

Source: Everest Bank, annual report

Staff expenses of EBL includes salary, allowances, PF contributions, training, uniform, medical, insurance, gratuity, Dashain expenses, leave encashment and other staff expenses. Ratios of EBL has highest in year 2017/18 and lowest in year 2013/14. The ratio measures the proportion of income spent for the staff whose contribution results success of the bank. Lower ratio may have adverse effect in staff's morale which in turn decreases profit and high ratio directly affects the profitability of bank.

f. Office operation expenses to total income ratio

Office operation expenses consists expenses incurred in house rent, water, electricity, repairs, maintenance, legal expenses, audit expenses and other miscellaneous expenses made in course of operation.

The ratio is calculated by dividing office operation expense by total income as follows:

Office operation expenses to total income ratio =

$$\frac{\text{Office Operation Expenses}}{\text{Total Income}}$$

Table 4.21
Office operation expenses to total income ratio

Amount in million Rs.

FY	Office Operation Expenses	Total Income	Ratio
2013-2014	544.30	5,826.20	9.34%
2014-2015	555.22	5,834.70	9.52%
2015-2016	603.18	6,087.50	9.91%
2016-2017	681.02	7,812.60	8.72%
2017-2018	584.53	11,337.40	5.16%

Source: Everest Bank, annual report

Office operation expenses include expenses like rent, water and electricity, repair and maintenance etc. Ratios of EBL has highest ratio in year 2015/16 is 9.91% and lowest ratio in year 2017/18. Higher ratios in year 2015/16 and 2017/18 might have adverse effect in the profitability of the bank.

4.2 Other indicators

a. Earnings per share (EPS)

It measures the profit available to the equity shareholders on per share basis, i.e. the amount that they can get on each share held. In other words, this ratio measures the earnings available to an equity shareholder on a per share basis. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. This ratio enables us to compare whether the earning based on per share basis has changed over past period or not. Investors favor higher EPS.

This ratio is calculated by dividing total earnings available to the common share's holders by number of equities share outstanding as follows:

EPS=

$$\frac{\text{Earning Available to Common Shareholders}}{\text{No. of Equity Shares Outstanding}}$$

Table 4.22
Earnings per share

Amount in million Rs.

FY	Earnings available to shareholder	No. of ordinary share	EPS
2013-2014	1,549.70	18.01	86.04
2014-2015	1,574.35	20.17	78.04
2015-2016	1,730.21	26.23	65.97
2016-2017	2,006.25	45.26	44.32
2017-2018	2,581.68	80.27	32.16

Source: Everest Bank, annual report

Earnings per share is calculated by dividing earning available to common shareholders by numbers of equity shares outstanding. Earnings per share refers to the income available to the common shareholders. EPS in year 2017/18 remain lowest and in year 2013/14 remained highest. High EPS reflects sound profitability position of the bank, in this case year 2015/16 remain most favorable to the investors.

b. Dividend per share (DPS)

It gives financial soundness of the company. Only financially strong companies can distribute dividend. Higher DPS shows the efficiency of management and vice versa. So, the shareholders prefer high dividend. It may sometime be wise to distribute less amount of profit if investment opportunities are available.

This ratio is calculated by dividing earnings paid to the shareholders by number of equity share outstanding as follows:

DPS=

$$\frac{\text{Earning Paid to Shareholders}}{\text{No. of Equity Shares Outstanding}}$$

Table 4.23
Dividend per Share

Amount in million Rs.

FY	Earnings available to shareholder	No. of ordinary share	DPS
2013-2014	911.97	18.01	50.63
2014-2015	132.74	20.17	6.58
2015-2016	96.51	26.23	3.68
2016-2017	78.76	45.26	1.74
2017-2018	1,605.37	80.27	20.00

Source: Everest Bank, Annual Report

In the study period, the highest dividend is Rs. 50, and Rs. 1.74 is lowest respectively. Comparatively the trend is decreasing over the study period but at the FY 2017/18 it has increased to Rs. 20. As dividend is the direct return received the shareholder, they evaluate the organization performance.

d. Dividend payout ratio

This ratio measures the relationship between the earning related to equity shareholders and dividend paid to them. It shows the percentage of earning distributed to the shareholders. High ratio indicates less retention of earning in the bank Low ratio means higher portion of income is held in the bank to grasp the profitable opportunities. The shareholder prefers higher DPS.

This ratio is calculated by dividing dividend per share by earning per share as follows;
DPR=

$$\frac{\text{Dividend Per Share (DPS)}}{\text{Earning Per Share (EPS)}}$$

Table 4.24
Dividend payout ratio

Amount in million Rs.

FY	DPS	EPS	DPR
2013-2014	50.63	86.04	0.59
2014-2015	6.58	78.04	0.08
2015-2016	3.68	65.97	0.06
2016-2017	1.74	44.32	0.04
2017-2018	20.00	32.16	0.62

Source: Everest Bank, annual report

In term of DPR the ratio has decreased to FY 2016/17 and then the DPR has increasing up to 0.62% throughout the study period.

e. Price earnings ratio (P/E Ratio)

It represents the investors' expectation about growth in the bank's earning. in another words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates higher expectation of the market towards the achievement of the firm. This ratio is calculated by dividing the market value per share by earning per share as follows:

P/E Ratio=

$$\frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

Table 4.25
Price earnings ratio

Amount in million Rs.

FY	MVPS	EPS	Ratio
2013-2014	2631	86.04	30.58
2014-2015	2120	78.04	27.17
2015-2016	3385	65.97	51.31
2016-2017	1353	44.32	30.53
2017-2018	663	32.16	20.61

Source: Everest Bank, annual report

The P/E ratio of EBL in year 2017/18 it was 20.61% and in year in 2015/16 it remained highest with 51.31%. Although there was increase in EPS in later years, MVPS decreased. Though MVPS has decreased from year 2015/16 to 2017/18 but started to recover from 2013/14. It may be due to changing scenario of banking sector which in turn decreased P/E ratio.

4.3 Income and expenditure analysis

Using income and expenditure analysis major sources of income and expenses are evaluated. This helps the analyst to conclude the areas to be focused for investment and the possibilities for effective control over expenses.

4.3.1 Income analysis

Table 4.26
Income analysis

Amount in million Rs.

Year Income		2013/14	2014/15	2015/16	2016/17	2017/18
Interest income	(Rs.)	5,177.55	4,996.43	5,057.08	6,747.15	10,103.45
	%	88.87%	85.63%	83.07%	86.36%	89.12%
Commission & Discount Income	(Rs.)	254.88	303.62	285.94	346.17	945.38
	%	4.37%	5.20%	4.70%	4.43%	8.34%
Foreign Income	(Rs.)	67.03	87.27	112.98	94.03	195.90
	%	1.15%	1.50%	1.86%	1.20%	1.73%
Other Income	(Rs.)	309.48	389.01	509.80	565.45	92.64
	%	5.31%	6.67%	8.37%	7.24%	0.82%
Total Income		5,826.20	5,834.70	6,087.50	7,812.60	11,337.40

Sources: Everest Bank, annual report

a. Interest Income

Interest income is the main source of income of the commercial banks. These banks charge interest on loans and advances provided by them. Interest income also includes interest earned from investment in government securities, interest on balance with other banks, money at call and inter-banking lending.

The above table shows the interest income of EBL that remained 88.87%, 85.63%, 83.07%, 86.36%, and 89.12% in the respective year of the study period. Interest income occupies the large portion in the total income of the bank. It seems to cover four fifth of the total income all the time.

b. Commission and discount

Banks provide remittance facility, purchase and discount of bill of exchange, letter of credit, guarantees, standing instructions and agency functions for which, they charge in form of commission and discount. The table no. 4.30 shows that the commission and discount earned by EBL in the respective year of study remained 4.37%, 5.20%, 4.70%, 4.43% and 8.34% respectively. Commission and discount in amount is in increasing trend. But the percentage it occupies in the total income is somewhat fluctuating. In year 2017/18 it was in highest point occupying 8.34% and it was lowest in the year 2013/14 with 4.37%.

c. Foreign exchange fluctuation income

Transaction of foreign currency is one of the major functions of commercial banks. JVBs can purchase and sell foreign currencies under the NRB direction. It includes trading gain due to fluctuation in the exchange rate.

The income from fluctuation of foreign currency exchange rate is Rs. 67.03, 87.27, 112.98, 94.03 and 195.90 million that constitutes 1.15%, 1.50%, 1.86%, 1.20% and 1.73% respectively of total income earned by EBL in respective study period.

d. Other Income

Income other than above comes under other income. Other income of EBL includes safe deposit vault rental income, telex/T.T. charges and other services charges. Other income of EBL appeared to be 5.31%, 6.67%, 8.37%, 7.24% and 0.82% in the respective study periods. It rose in the year 2015/16 and fluctuated in the latter years.

4.3.2 Expenditure analysis

Table 4.27
Expenditure analysis

Amount in million Rs.

Year Income		2013/14	2014/15	2015/16	2016/17	2017/18
Interest expenses	(Rs.)	2,258.74	2,116.99	1,828.49	3,009.79	5,233.69
	%	63.87%	59.06%	54.02%	61.94%	67.79%
Staff expenses	(Rs.)	511.86	687.51	699.88	882.33	1,492.67
	%	14.47%	19.18%	20.68%	18.16%	19.34%
Operating Expenses	(Rs.)	544.30	555.22	603.18	681.02	584.53
	%	15.39%	15.49%	17.82%	14.01%	7.57%
Bonus	(Rs.)	221.61	224.75	253.44	286.34	409.12
	%	6.27%	6.27%	7.49%	5.89%	5.30%
Total Expenses		3,536.51	3,584.47	3,384.99	4,859.48	7,720.01

Sources: Everest Bank, annual report

Various expenses are borne by bank in course of granting services to its customer. Banks need to pay interest for the deposits and borrowings. It has to pay salaries and provide other facilities to its staffs. It also has to spend significant amount for day to day operation.

a. Interest expenses

Commercial banks pay interest on various types of deposits and loan taken from other banks and financial institution. It is the major part of the banks' expenses.

As observed the interest expenses out of total expenses of EBL recorded 63.87%, 59.06%, 54.02%, 61.94% and 67.79% in respective study period. The highest percentage is 67.49% in year 2017/18 and lowest is 54.02% in year 2015/16.

b. Staff expenses

In return of the services provided by the staff they need to be paid remuneration. Staff expenses include salary, allowances, PF contributions, training expenses, uniform, medical allowances, insurance, gratuity, Dashain allowances and leave encashment.

It is seen that the staff expenses in EBL were 14.47%, 19.18%, 20.68%, 18.16% and 19.34% of total expenses in the respective study period.

c. Operating expenses

Considerable amount is spent in routine work of bank. Operating expenses includes expenses such as rent, water and electricity, repair and maintenance, insurance premium, postage, telephone, telex, office equipment, travelling expenses, printing and stationery, newspaper, advertisement, meeting expenses, depreciation, amortization, security expenses etc.

Operating expenses covers 15.39%, 15.49%, 17.82%, 14.01% and 7.57% of total expenses incurred in respective study period. In year 2015/16 it is maximum occupying 17.82% of total expenses and in year 2017/18 it is minimum occupying 7.57% of total expenses.

d. Bonus facility

Banks pay a portion of profit to the staff as bonus which is reward for their services. It motivates the staff but it also increases the expenses of the bank.

It depicts that expenses for bonus in EBL remained 6.27%, 6.27%, 7.49%, 5.89% and 5.30% in respective year of the study period.

4.4 Correlation analysis

a. Correlation analysis between total deposit and net profit

Table 4.28

Correlation analysis between total deposit and net profit

Amount in million Rs.

Year	Deposit (x)	Net profit (y)
2013-2014	62,108.14	1,549.70
2014-2015	83,093.79	1,574.35
2015-2016	93,735.48	1,730.21
2016-2017	95,094.46	2,006.25
2017-2018	115,511.71	2,581.68

Calculation: Annex-I

$$r = 0.88$$

$$P. Er = 0.0306$$

Table no. 4.32 shows the coefficient of correlation and probable error of correlation coefficient between deposit and net profit in EBL remained 0.88 and 0.0306

respectively. It shows higher positive correlation between two variables, deposit and net profit. P.Er is less than r which means that the relationship between deposit and net profit is significant. Further $r > 6 \text{ P.E.}$ i.e. $0.88 > 0.1836$. This shows that net profit of EBL increases almost to the same degree with increase in the amount of deposit.

b. Correlation analysis between performing assets and net profit

Table 4.29

Correlation analysis between performing assets and net profit

Amount in million Rs.

Year	Performing Assets (x)	Net profit (y)
2013-2014	48,226.21	1,549.70
2014-2015	69,585.14	1,574.35
2015-2016	86,153.85	1,730.21
2016-2017	89,252.33	2,006.25
2017-2018	105,219.88	2,581.68

Calculation: Annex-II

$$r = 0.85$$

$$\text{P. Er} = 0.0368$$

Above table shows the coefficient of correlation and probable error of correlation coefficient between performing assets and net profit in EBL remained 0.85 and 0.0368 respectively in the study period. Correlation coefficient appeared greater than six times the probable error i.e. $0.85 > 0.2208$ which indicates that the net profit and performing assets of the bank are highly and positively related. Therefore, EBL can raise its net profit by increasing the performing assets.

c. Correlation analysis between total deposit and loans and advances

Table 4.30

Correlation analysis between total deposit and loans and advances

Amount in million Rs.

Year	Deposit (x)	Loans and Advances (y)
2013-2014	62,108.14	47,572.02
2014-2015	83,093.79	54,482.47
2015-2016	93,735.48	67,955.11
2016-2017	95,094.46	77,287.76
2017-2018	115,511.71	89,927.57

Calculation: Annex-III

$$r = 0.95$$

$$P. Er = 0.0119$$

Above table shows coefficient of correlation between deposit and loan and advances is 0.95 which shows higher positive correlation between these two variables. P.Er is 0.0119 which means relationship between two variables is significant. Similarly considering the value of r i.e. 0.95 and comparing it with $6 * P. Er$ i.e. 0.0714 we can say that the value of r is more than 6 P.Er. That reveals that there is significant relationship between deposit and loans and advances. Therefore, the bank may raise the volume of loan and advances with rise in the volume of total deposit. It also shows that EBL is successful to mobilize its fund in proper way in loan and advances.

d. Correlation analysis between total deposit and investment

Table 4.31

Correlation Analysis between Total Deposit and Investment

Amount in million Rs.

Year	Deposit (x)	Investment (y)
2013-2014	62,108.14	6,504.19
2014-2015	83,093.79	15,102.67
2015-2016	93,735.48	18,198.74
2016-2017	95,094.46	11,964.56
2017-2018	115,511.71	15,292.31

(Calculation: Annex-IV)

$$r = 0.942$$

$$P.Er. = 0.042$$

Table no 4.35 shows the coefficient of correlation between deposit and total investment is 0.942. It shows higher positive relationship between two variables. Correlation coefficient appeared greater than six times the probable error i.e. $0.942 > 6 * 0.042$. It implies that the correlation between total deposit and investment of the bank are correlated at significant level. Increase in the amount of deposit, investment of the bank seems to increase.

e. Correlation between EPS and MVPS

Table 4.32
Correlation between EPS and MVPS

Amount in million Rs.

Year	EPS (x)	MVPS (y)
2013-2014	86.04	2,631.00
2014-2015	78.04	2,120.00
2015-2016	65.97	3,385.00
2016-2017	44.32	1,353.00
2017-2018	32.16	663.00

Calculation: Annex-V

$$r=0.77$$

$$P.Er= 0.0554$$

Table no 4.36 highlights the correlation coefficient and probable error of coefficient between EPS and MVPS which were 0.77 and 0.0554 respectively. The correlation coefficient lies between -1 and +1 which implies that there is perfect positive correlation between the variables. Correlation coefficient appeared slightly greater than six times the probable error i.e. $0.77 > 0.3324$. So, we can strongly say that there is significant relation between the variables.

f. Correlation between DPS and MVPS

Table 4.33
Correlation between DPS and MVPS

Amount in million Rs.

Year	DPS (x)	MVPS (y)
2013-2014	50.63	2,631.00
2014-2015	6.58	2,120.00
2015-2016	3.68	3,385.00
2016-2017	1.74	1,353.00
2017-2018	20.00	663.00

Calculation: Annex-VI

$r = 0.09$

P. Er = 0.1339

Table no 4.37 shows the coefficient of correlation and probable error of correlation coefficient between DPS and MVPS in EBL remained 0.09 and 0.1339 respectively in the study period, but correlation coefficient appeared to be less than six times the probable error i.e. $0.09 < 6 * 0.1339$ which means the value of r is insignificant.

4.5 Trend analysis

Table 4.34
Trend analysis of total deposit

Amount in million Rs.

Year (x)	Deposit (y)	Year (x)-5	X ²	Xy
2013-2014	62,108.14	1	1	62,108.14
2014-2015	83,093.79	2	4	166,187.58
2015-2016	93,735.48	3	9	281,206.44
2016-2017	95,094.46	4	16	380,377.84
2017-2018	115,511.71	5	25	577,558.53
Total	449,543.57		55	1,467,438.53

Sources: Everest Bank, annual report

Table 4.35
Trend Forecast for Next Five Years

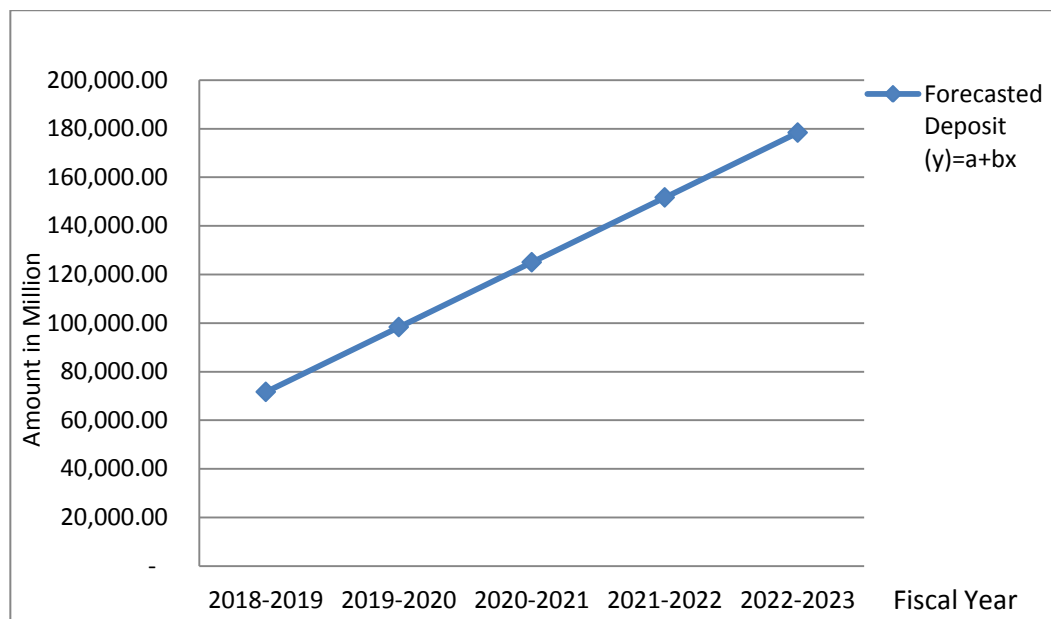
Year	Forecast deposit (yc=a+bx)
2018-2019	71,635.06
2019-2020	98,315.76
2020-2021	124,996.46
2021-2022	151,677.16
2022-2023	178,357.86

$$\text{Where, } a = \frac{\Sigma y}{n} = \frac{449543.57}{10} = 44954.36$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{178224.951467438.53}{55} = 26680.70$$

Figure-4.17

Deposit trend forecast for next five years (yc=a+bx)



The total deposit for next five years of EBL is increasing trend. Therefore, total deposit of EBL will increase in higher speed for coming year of trend of past trend continues.

Table 4.36
Trend analysis of net profit

Year (x)	Net Profit (y)	X = Year (x)-y	X ²	Xy
2013-2014	1,549.70	1	1	1,549.70
2014-2015	1,574.35	2	4	3,148.70
2015-2016	1,730.21	3	9	5,190.62
2016-2017	2,006.25	4	16	8,024.99
2017-2018	2,581.68	5	25	12,908.41
Total	9,442.19		55	30,822.42

Table 4.37
Net profit trend forecast for next five years

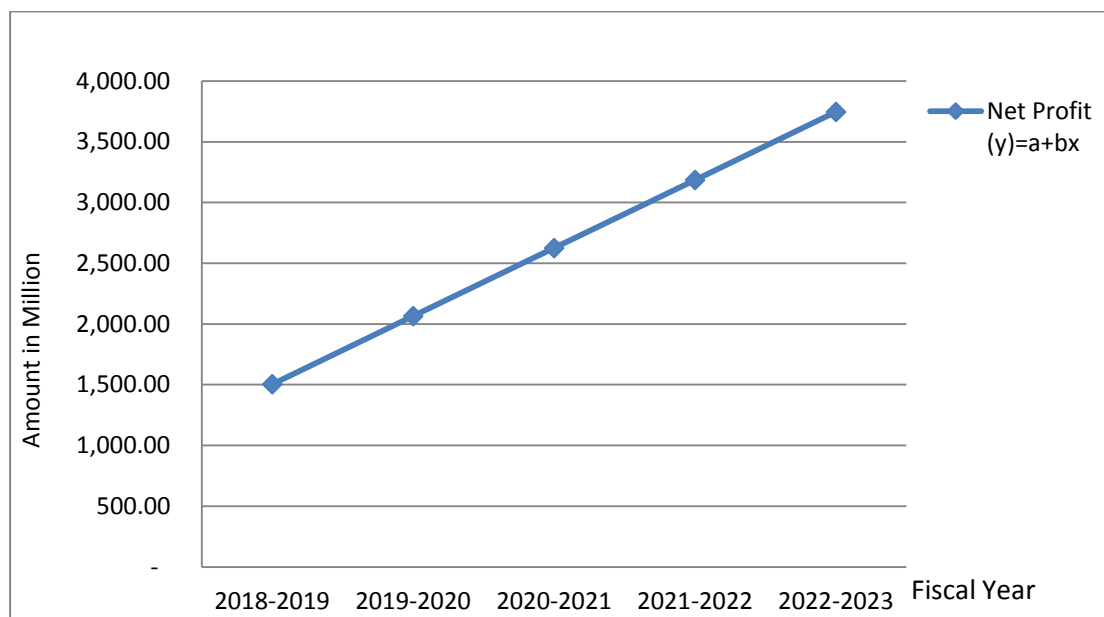
Year	Net Profit (yc=a+bx)
2018-2019	1,504.63
2019-2020	2,065.03
2020-2021	2,625.44
2021-2022	3,185.85
2022-2023	3,746.26

$$\text{Where, } a = \frac{\sum y}{n} = \frac{9442.19}{10} = 944.22$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{30822.42}{55} = 560.41$$

$$\begin{aligned} yc &= a + bx \text{ (2018/19)} \\ &= 944.22 + 560.41 \times 1 \\ &= 1504.63 \end{aligned}$$

Figure-4.18
Net profit trend forecast for next five years



The figure 4.18 shows the trend behaviors of Net profit of EBL, Net profit is increasing trend. Therefore, Net profit of EBL will be increasing in coming five years if past trend continues.

4.6 Major findings of the study

The following findings have been derived from the analysis and interpretation of the data.

1. Although EBL could not maintain conventional standard of 2:1, current ratio seems to be satisfactory. In the final years of the study period it was closer to the conventional standard.
2. EBL has made enough investment in Nepal Government securities like Treasury bond, development bond and shares and debentures in the final years of the study period.
3. Cash and bank balance to the current and saving deposit ratio seems to be consistent. In the year 2017/18 the ratio was 81.88%. This exhibit that EBL able to meet its immediate obligation as the bank balance is enough to the current and saving deposit.
4. EBL is operating at high risk. In other hand in 2017/18 the ratio was 81.88%. It shows that in the year 2017/18 EBL seemed unsuccessful to utilize the

raised fund from the current and saving deposit that may have affected the profitability adversely.

5. In the comparison of the study period 21.21% of total deposit was held as cash and bank balance in the year 2013/14 by EBL which shows low liquidity position. But in the year 2014/15 EBL had 30.23% of the total deposit as cash and bank balance.
6. EBL is very inconsistent in maintaining its liquidity position.
7. NRB balance by total deposit never dropped below 8% except the year of 2017/18, the percentage to be maintained as directed by NRB. It was higher than the prescribed percentage. EBL has maintained NRB balance to fixed deposit ratio above the standard prescribed by NRB.
8. Nearly 30% of the total deposit is occupied by fixed deposit. In later years 2013/14 to 2015/16 the ratio fixed deposit to total deposit is less than the remaining period. EBL has more debt than equity in the total capital as revealed by debt equity ratio. Debt asset ratio showed that more than 90% of the total asset had been financed by the outsider's fund.
9. Interest coverage ratio of EBL seems to be lower in all the period. This indicates that there is excessive use of debt for which interest are to be paid.
10. EBL has been successful in utilizing its deposit on loan and advances which is depicted by loan and advances to total deposit ratio.
11. EBL has efficiently utilized the high interest-bearing fixed deposit.
12. Loan and advances to total deposit ratio fixed deposit was inconsistent during the study period. Overall rate can be satisfactory.
13. The investment to total deposit ratio deposit ratio showed irregular pattern during the study period. It was high in position in year 2014/15 with 18.18% and 19.41% in 2015/16.
14. Performing assets to total asset ratio showed that EBL has funded total assets for income generation. EBL has utilized assets effectively.
15. Performing assets to total debt ratio was on higher side, which depicts EBL is efficiently utilizing the creditor's fund.
16. Return on asset ratio showed that profitability with respect to financial resources investment of the bank assets is unsatisfactory but changes in stable manner.

17. Interest expenses to interest income ratio is in the higher side. On average it is more than 40% that shows that EBL gap between interest earned and interest paid is quite low but in later years EBL is successful in allocating interest bearing debt in profitable sectors.
18. Total interest expenses to total asset ratio was very low throughout the study period which shows EBL has not utilized its assets effectively for generating income.
19. Staff expenses to total income ratio remained lower than it indicates EBL. It indicates that EBL carried out its operation efficiently with lesser staff expenses which is the highest in 2017/18.
20. Office operation expenses to total income ratio remained moderate in nature.
21. EBL's EPS remained decreasing trend throughout the study period. In the final year of study period i.e. 2017/18 it was lowest position.
22. Income analysis showed that interest income remained dominant in EBL. More than three fourth of the income was occupied by interest income throughout the study period.
23. Expenditure analysis showed that interest expenses occupied major portion in expenses of EBL.
24. Deposit and net profit, performing asset and net profit, total deposit and loan and advances, total deposit and investment is found to be positively correlated at significant level.
25. EPS and MVPS were found to be positively correlated and correlation coefficient appeared to be less than 6 times the probable error.
26. Coefficient between DPS and MVPS in EBL remained 0.09 and 0.1339 respectively in the study period, but correlation coefficient appeared to be less than six times the probable error i.e. $0.09 < 6 * 0.1339$ which means the value of r is insignificant.
27. The trend analysis of total deposit, loan and advances and net profit shows the increasing trend.

Chapter - 5

Summary, conclusion and recommendations

This chapter is dedicated to provide conclusions after analyzing the financial performance of joint venture banks named Everest Bank Limited. It also tries to provide some suggestions and recommendations to the bank from the conclusion derived from the study.

5.1 Summary

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. Ratio analysis is one of the tools used by financial analysis for making decisions regarding credit and investments. This method utilizes the data found in financial statements to determine a bank's standing. It will compare the bank's ratios to its past performance as well as to bank statistics to determine risks, trends, and to identify any peculiarities. To conduct the research work, the researcher consulted mainly the secondary sources such as documents published by concerned banks and also consulted the personalities of the related bank as primary sources where as necessary. Before presenting and analyzing the data, there was also need to review related books, prior research on the topic. Obviously, it helped the researcher to construct conceptual framework and to analyze and interpret the secondary data according to objective set forth previously. Then the research work was analyzed and interpreted by financial tools such as liquidity ratio, activity turnover ratio, leverage ratio, earning per share, profitability ratio and dividend per share as well as statistical tools such as mean, standard deviation, CV, Probable Error and Trend analysis.

5.2 Conclusion

Establishment of commercial banks especially joint venture banks have continued in response to the economic liberalization policies of the government. So, now in Nepal there are twenty-eight (research period) commercial banks competing with each other in their business. EBL, which is working as Joint Venture Bank in Nepal by providing the quality and banking services. The various financial indicators were used for analysis of financial data of the sampled bank. The analysis is done on the basis of financial statement from 2013/14 to 2017/18. This study is mainly based on the

secondary data. The researcher has analyzed the data by using financial tools like ratio analysis as well as statistical tools like mean, S.D. and hypothesis etc.

- The liquidity positions of all the banks were strong and enough to meet their immediate needs of cash and short-term obligations. The current ratio of EBL is in fluctuating trend. The average mean ratio is 1.08:1, 1.08:1, 1.09:1, 1.00:1 and 1.12:1 times in the study period. These all ratio shows that the bank has maintained the acceptable liquidity position of the bank.
- The liquidity position of the bank is satisfactory because the current ratios of the different years are about to meet to the standard. Higher current ratio means the better liquidity position. 2:1 is considered to be an adequate ratio. Current assets and current liabilities manage the current ratio. The cash and bank balance to current asset of EBL fluctuated over the study period.
- Interest income is the main source of income and over the years it has become more dominant as 83.07% of total income contributed by it. The bank's liquidity position is satisfactory. The liquid assets have increased substantially in the review periods.
- Leverage ratios are judging the long-term financial position of the firm. EBL maintain the debt equity ratio, total debt and total assets, net profit before interest and tax with interest has managed. EBL managed greater proportion of the owner's capital in the capital structure lesser will be the financial risk borne by has legal obligation to pay interest to debt holders irrespective of the profit or loss incurred by the firm.
- Cash and bank balance to the current and saving deposit ratio seems to be consistent. This exhibit that EBL able to meet its immediate obligation as the bank balance is enough to the current and saving deposit.
- Loan and advances to total deposit ratio fixed deposit was inconsistent during the study period. Overall rate can be satisfactory.
- EBL has made enough investment in Nepal Government securities like Treasury bond, development bond and shares and debentures in the final years of the study period.

- EBL is operating at high risk. Data shows EBL seemed unsuccessful to utilize the raised fund from the current and saving deposit that may have affected the profitability adversely.
- NRB balance by total deposit maintained as directed by NRB. It was higher than the prescribed percentage. EBL has maintained NRB balance to fixed deposit ratio above the standard prescribed by NRB.
- Profitability ratio is measurement of efficiency. It provides the degree of success in achieving desired profit. Profitability in terms of net profit to total assets the highest ratio in 2013/14 is 2.20 ratio, net profit to total deposit ratio, return to net worth (shareholders equity), return on net worth ratio and net profit margin ratio, EBL average ratio is always higher. Thus, it can be concluded that EBL is getting good return from its investment.
- EBL earned a net profit of Rs.1,549.70 million for the fiscal year 2013/14 and this comes to be Rs. 2,581.68 million more as compared to the same period in the previous fiscal year 2017/18. The bank's financial performance in the last five years shows a continuous increase in its net profit.
- The major expenses, for the banks EBL, are interest expenses, staff expenses, office expenses and provision for bonus.
- Return on asset ratio showed that profitability with respect to financial resources investment of the bank assets is unsatisfactory but changes in stable manner.
- Performing assets to total asset ratio showed that EBL has funded total assets for income generation. EBL has utilized assets effectively.
- Expenditure analysis showed that interest expenses occupied major portion in expenses of EBL.
- The EPS of EBL is decreasing trend, in 2013/14 EPS is Rs. 86.04 and in 2017/18 EPS reach to Rs. 32.16 within the study period. This shows that, EBL is found decreasing its performance in term of EPS.
- The trend analysis of total deposit, loan and advances and net profit shows the increasing trend.

5.3 Recommendations

Based on the analysis of this study, the below given are the recommendations to be implemented for the further growth of bank. These suggestions will be proved to be milestone in order to correct the existing situation.

- ❖ It is suggestive to hold the fund in form of cash or cash equivalent items to the extent of requirement. Estimation can be done on the basis of past trend and experience, nature of depositors, and constantly analyzing the external environment.
- ❖ EBL, most of the time, maintained NRB balance to total deposit ratio and NRB balance to fixed deposit higher than the standard prescribed by NRB. The idle fund doesn't yield and return. It is suggested to lower the ratio and invest the surplus in other current assets.
- ❖ EBL in the later years has given more priority to invest its fund in government securities. Though the government securities are free of risk they yield lower interest rate. It is recommended not to give all attention to government securities and diversify investment policy. So, EBL is recommended to invest in loan and advances
- ❖ Banking has become more and more competitive in the present days. EBL needs to find sources of income apart from the traditional interest income to stay competitive providing many other services to its customer.
- ❖ EBL has greater portion of debt in capital. Bank should be aware of the possible risk that may arise due to slackness in the business activities.
- ❖ Staff expenses to total income ratio remained lower. Lower ratio may affect staff's morale which in turn decreases the profit. Though training, seminars, conferences and other programmes efficiency of the staff can be improved. The human resources need to be continuously developed through training and workshops otherwise it may hamper the productivity and efficiency of the employees besides the motivation factor. The PNB allows free training packages in exchange of the annual TSA for the employees of the bank but the bank has not been able to use the facility. It is also suggested to minimize the office operation expenses.
- ❖ The major part of total expenses is operating expenses. The analyzed data proved that the EBL is comparatively, more efficient to reduce in operating as

well as other expenses too. EBL should minimize their expenses as far as possible to enhance the volume of profit.

- ❖ For the nation development banks should contribute from their side, development of infrastructure and hydropower sector are not invested by commercial banks. Banks are not interested in agricultural sector. They should lend in these sectors.
- ❖ The bank may face the problem of working capital if they need to pay the current liabilities at demand. Banks may lose their goodwill in case of delay in the payment liabilities. So bank should have address the problem in winning the confidence of current depositors and short-term lenders.
- ❖ The bank has the good ratio of 81.27% which shows that the bank is successful in utilizing its deposits on loans and advances so banks should always trying to maintaining these patterns.

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Annex-I

Calculation of Correlation Analysis between Total Deposit and Net Profit

Year	Deposit (x)	Net profit (y)	X ²	Y ²	Σxy
2013-2014	62,108.14	1,549.70	3,857,420,526.84	2,401,565.63	96248888.54
2014-2015	83,093.79	1,574.35	6,904,577,929.42	2,478,585.61	130818911.2
2015-2016	93,735.48	1,730.21	8,786,340,343.56	2,993,616.35	162181787.2
2016-2017	95,094.46	2,006.25	9,042,956,518.59	4,025,030.15	190783051.3
2017-2018	115,511.71	2,581.68	13,342,954,205.01	6,665,080.80	298214466.3
Total	449,543.57	9,442.19	41,934,249,523.41	18,563,878.55	878247104.6

Pearson correlation coefficient, r

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

$$r = 0.88$$

$$\text{Probable Error } P(E) = 0.6745 \frac{1 - r^2}{N}$$

$$P(E) = 0.0306$$

Annex-II

Calculation of Correlation Analysis between Performing Assets and Net Profit

Year	Performing Assets (x)	Net profit (y)	X ²	Y ²	Σxy
2013-2014	48,226.21	1,549.70	2,325,767,328.65	2,401,565.63	74736088.15
2014-2015	69,585.14	1,574.35	4,842,091,628.38	2,478,585.61	109551534.2
2015-2016	86,153.85	1,730.21	7,422,485,346.87	2,993,616.35	149063991.2
2016-2017	89,252.33	2,006.25	7,965,977,605.19	4,025,030.15	179062279.9
2017-2018	105,219.88	2,581.68	11,071,223,946.68	6,665,080.80	271644256.7
Total	398,437.41	9,442.19	33,627,545,855.77	18,563,878.55	784058150.2

Pearson correlation coefficient, r

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

$$r = 0.85$$

$$\text{Probable Error } P(E) = 0.6745 \frac{1 - r^2}{N}$$

$$P(E) = 0.0368$$

Annex-III

Correlation Analysis between Total Deposit and Loans and Advances

Year	Deposit (x)	Loans and Advances (y)	X ²	Y ²	Σxy
2013-2014	62,108.14	47,572.02	3,857,420,526.84	2,263,097,487.15	2,954,609,737.54
2014-2015	83,093.79	54,482.47	6,904,577,929.42	2,968,339,016.99	4,527,154,521.75
2015-2016	93,735.48	67,955.11	8,786,340,343.56	4,617,896,570.24	6,369,804,623.18
2016-2017	95,094.46	77,287.76	9,042,956,518.59	5,973,398,486.07	7,349,638,275.30
2017-2018	115,511.71	89,927.57	13,342,954,205.01	8,086,967,768.59	10,387,686,970.33
Total	449,543.57	337,224.93	41,934,249,523.41	23,909,699,329.04	31,588,894,128.10

Pearson correlation coefficient, r

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

$$r = 0.95$$

$$\text{Probable Error } P(E) = 0.6745 \frac{1 - r^2}{N}$$

$$P(E) = 0.0119$$

Annex-IV

Correlation Analysis between Total Deposit and Investment

Year	Deposit (x)	Investment (y)	X ²	Y ²	Σxy
2013-2014	62,108.14	6,504.19	3,857,420,526.84	42,304,432.52	403,962,852.71
2014-2015	83,093.79	15,102.67	6,904,577,929.42	228,090,767.90	1,254,938,437.51
2015-2016	93,735.48	18,198.74	8,786,340,343.56	331,194,135.55	1,705,867,636.93
2016-2017	95,094.46	11,964.56	9,042,956,518.59	143,150,728.23	1,137,763,512.75
2017-2018	115,511.71	15,292.31	13,342,954,205.01	233,854,874.51	1,766,441,304.20
Total	449,543.57	67,062.48	41,934,249,523.41	978,594,938.70	6,268,973,744.11

Pearson correlation coefficient, r

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

$$r = 0.69$$

$$\text{Probable Error } P(E) = 0.6745 \frac{1 - r^2}{N}$$

$$P(E) = 0.0704$$

Annex-V

Calculation of Correlation between EPS and MVPS

Year	EPS (x)	MVPS (y)	X ²	Y ²	XY
2013-2014	86.04	2,631.00	7,402.05	6,922,161.00	226,358.45
2014-2015	78.04	2,120.00	6,090.11	4,494,400.00	165,443.01
2015-2016	65.97	3,385.00	4,352.42	11,458,225.00	223,318.14
2016-2017	44.32	1,353.00	1,964.53	1,830,609.00	59,969.01
2017-2018	32.16	663.00	1,034.46	439,569.00	21,324.08
Total	306.53	10,152.00	20,843.56	25,144,964.00	696,412.70

Pearson correlation coefficient, r

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

$$r = 0.77$$

$$\text{Probable Error } P(E) = 0.6745 \frac{1 - r^2}{N}$$

$$P(E) = 0.0554$$

Annex-VI

Calculation of Correlation between DPS and MVPS

Year	DPS (x)	MVPS (y)	X ²	Y ²	XY
2013-2014	50.63	2,631.00	2,563.40	6,922,161.00	133,207.53
2014-2015	6.58	2,120.00	43.30	4,494,400.00	13,949.60
2015-2016	3.68	3,385.00	13.54	11,458,225.00	12,456.80
2016-2017	1.74	1,353.00	3.03	1,830,609.00	2,354.22
2017-2018	20.00	663.00	400.00	439,569.00	13,260.00
Total	82.63	10,152.00	3,023.26	25,144,964.00	175,228.15

Pearson correlation coefficient, r

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

$$r = 0.09$$

$$\text{Probable Error } P(E) = 0.6745 \frac{1 - r^2}{N}$$

$$P(E) = 0.1339$$

Annex-VII

Balance Sheet of EBL of FY 2014/15

Balance Sheet

As on 31 Ashadh 2072 (16th July, 2015)

<i>S.No.</i>	<i>Capital and Liabilities</i>	<i>Schedule</i>	<i>This Year Rs.</i>	<i>Previous Year Rs.</i>
1	Share Capital	4.1	2,742,604,058	2,137,387,737
2	Reserve and Surplus	4.2	4,147,772,967	3,319,759,723
3	Debenture and Bonds	4.3	1,068,845,000	468,845,000
4	Loans and Borrowings	4.4	-	-
5	Deposit Liabilities	4.5	83,093,789,957	62,108,135,754
6	Bills Payable	4.6	349,529,622	370,578,160
7	Proposed Cash Dividend		141,122,877	920,395,772
8	Income Tax Liabilities		-	-
9	Other Liabilities	4.7	7,609,141,535	1,119,980,699
	Total Capital and Liabilities		99,152,806,017	70,445,082,845

<i>S.No.</i>	<i>Assets</i>	<i>Schedule</i>	<i>This Year Rs.</i>	<i>Previous Year Rs.</i>
1	Cash in Hand	4.8	2,065,607,611	2,050,029,487
2	Balance with Nepal Rastra Bank	4.9	17,126,155,823	9,446,921,621
3	Balance with other Banks & Financial Institutions	4.10	5,924,718,626	1,675,831,759
4	Money at Call and Short Notice	4.11	-	-
5	Investments	4.12	15,102,674,197	6,504,185,769
6	Loan, Advances and Bills Purchased	4.13	54,482,465,225	47,572,024,207
7	Fixed Assets	4.14	630,397,372	605,800,446
8	Non-Banking Assets	4.15	-	-
9	Other Assets	4.16	3,820,787,163	2,590,289,556
	Total Assets		99,152,806,017	70,445,082,845

Annex-VIII

Balance Sheet of EBL of FY 2016/17

Balance Sheet

As on 31 Ashadh 2074 (15th July, 2017)

<i>S.No.</i>	<i>Capital and Liabilities</i>	<i>Schedule</i>	<i>This Year Rs.</i>	<i>Previous Year Rs.</i>
1	Share Capital	4.1	7,732,723,147	4,606,426,899
2	Reserve and Surplus	4.2	3,811,858,733	3,907,661,213
3	Debenture and Bonds	4.3	1,068,845,000	1,068,845,000
4	Loans and Borrowings	4.4	14,761,650	2,500,000
5	Deposit Liabilities	4.5	95,094,461,030	93,735,480,708
6	Bills Payable	4.6	471,729,717	1,365,317,237
7	Proposed Dividend		110,422,513	106,495,939
8	Income Tax Liabilities		-	-
9	Other Liabilities	4.7	8,205,643,786	9,092,319,407
	Total Capital and Liabilities		116,510,445,575	113,885,046,402

<i>S.No.</i>	<i>Assets</i>	<i>Schedule</i>	<i>This Year Rs.</i>	<i>Previous Year Rs.</i>
1	Cash in Hand	4.8	3,060,845,724	2,514,947,575
2	Balance with Nepal Rastra Bank	4.9	14,577,083,955	13,356,018,269
3	Balance with Other Banks & Financial Institutions	4.10	3,745,560,351	7,246,428,654
4	Money at Call and Short Notice	4.11	-	-
5	Investments	4.12	11,964,561,347	18,198,739,944
6	Loan, Advances and Bills Purchased	4.13	77,287,764,142	67,955,107,021
7	Fixed Assets	4.14	728,387,934	678,987,899
8	Non-Banking Assets	4.15	-	-
9	Other Assets	4.16	5,146,242,122	3,934,817,040
	Total Assets		116,510,445,575	113,885,046,402

Annex-IX

Balance Sheet of EBL of FY 2017/18

STATEMENT OF FINANCIAL POSITION		<i>(FIG IN NPR.)</i>		
<i>As on 32nd Ashad 2075</i>				
ASSETS	NOTE	32ND ASHAD 2075	RESTATED 31ST ASHAD 2074	RESTATED 1ST SHRAWAN 2073
Cash and cash equivalent	4.1	10,065,422,666	8,667,840,097	11,666,003,361
Due from Nepal Rastra Bank	4.2	18,938,747,835	14,577,083,955	13,356,018,269
Placement with Bank and Financial Institutions	4.3	3,291,000,000	3,350,750,000	7,761,125,000
Derivative financial instruments	4.4	-	-	-
Other trading assets	4.5	-	-	-
Loans and advances to B/FIs	4.6	4,254,678,027	3,291,101,916	2,754,232,481
Loans and advances to customers	4.7	89,927,569,569	75,695,621,515	66,768,580,503
Investment securities	4.8	15,292,314,230	7,652,704,965	9,085,179,017
Current tax assets	4.9	10,915,449	17,594,825	29,563,942
Investment in subsidiaries	4.10	-	-	-
Investment in associates	4.11	259,668,425	199,945,750	122,708,341
Investment property	4.12	2,202,745	7,343,441	-
Property Plant and Equipment	4.13	1,862,232,350	1,663,292,059	1,615,534,177
Goodwill and Intangible assets	4.14	12,931,944	7,172,273	9,549,780
Deferred tax assets	4.15	-	-	-
Other assets	4.16	893,468,203	1,815,829,593	850,426,921
TOTAL ASSETS		144,811,151,443	116,946,280,388	114,018,921,791
LIABILITIES	NOTE	32ND ASHAD 2075	RESTATED 31ST ASHAD 2074	RESTATED 1ST SHRAWAN 2073
Due to Bank and Financial Institutions	4.17	916,078,304	1,074,610,787	2,163,974,979
Due to Nepal Rastra Bank	4.18	26,712,725	14,761,650	2,500,000
Derivative financial instruments	4.19	20,192	-	-
Deposits from customers	4.20	115,511,705,922	94,091,892,005	91,638,884,356
Borrowing	4.21	-	-	-
Current Tax Liabilities	4.9	-	-	-
Provisions	4.22	-	-	-
Deferred tax liabilities	4.15	77,263,839	181,650,729	38,193,344
Other liabilities	4.23	11,076,018,046	7,307,006,105	9,260,956,641
Debt securities issued	4.24	1,068,845,000	1,068,845,000	1,068,845,000
Subordinated Liabilities	4.25	-	-	-
TOTAL LIABILITIES		128,676,644,028	103,738,766,277	104,173,354,319
EQUITY				
Share capital	4.26	8,106,863,347	5,741,095,399	2,742,604,058
Share premium		238,469,884	-	18,555,127
Retained earnings		1,739,036,261	2,497,053,940	2,013,117,920
Reserves	4.27	6,050,137,923	4,969,364,772	5,071,290,367
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		16,134,507,415	13,207,514,111	9,845,567,472
NON-CONTROLLING INTEREST		-	-	-
TOTAL EQUITY		16,134,507,415	13,207,514,111	9,845,567,472
TOTAL LIABILITIES AND EQUITY		144,811,151,443	116,946,280,388	114,018,921,791
Contingent liabilities and commitment	4.28	30,610,092,491	26,237,137,682	24,643,035,209
Net assets value per share		201.01	291.79	375.41

Financial Performance of Everest Bank Limited

Proposal for Thesis

Submitted By:

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Exam Roll No. 280242

Campus Roll. No. 29/2068/70

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Central Department of Management

In partial fulfillment of the requirement for the degree of Master of
Business Studies (MBS)

Submitted to:

Central Department of Management

Tribhuvan University

Kirtipur, Kathamndu

2019

Introduction:

Background of the study

The financial performance is the important statement of an organization. It is a decision-making process to incur strengths or weaknesses of the organization and knowing about how much revenue generated or not by an organization. It is a mirror to look into development activities to be undertaken by the organization or companies. Financial performance should measure or evaluate internal and external information of past activities, current position and future prospects of organization or Venture. To go through financial performance evaluation, we come to know about management team of organization, utilization of resources and how much their performance in future and also about overall profit of the organization because profit is the only one primary measure for the success of a business organization.

The initiation of formal banking system in Nepal commenced with the establishment of Nepal Bank Limited (NBL) in 1937, as the first Nepalese commercial bank. The country's central bank, Nepal Rastra Bank (NRB) was established in 1956 by Act of 1955, after nearly two decades of NBL having been in existence. A decade after the establishment of NRB, Rastriya Banijya Bank (RBB), a commercial bank under the ownership of His Majesty's Government of Nepal (HMG/N) was established, which provides economic and financial inter mediation in the economy.

In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. HMG/N emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management. These policies opened the doors for foreigners to enter into banking sector under joint venture. Consequently, the third commercial bank in Nepal, or the first foreign joint venture bank, was set up as Nepal Arab Bank Ltd (now called as NABIL Bank Ltd) in 1984. Thereafter, two foreign joint venture

banks, Nepal Indosuez Bank Ltd. (now called as Nepal Investment Bank) and Nepal Grindlays Bank Ltd (now called as Standard Chartered Bank Nepal Ltd.) was established in 1986 and 1987 respectively (<http://anju.page.tl/Commercial-Banking.htm>). History has proven that though the extent may vary from country to country requirement of economic development of any country heavily relies on its banking system.

Banking institutions are important for resource mobilization and all round development of the country. It provides resources for economic development, maintains economic situations of various segments and extends credit to the people. Banks are those institutions, by raising funds from depositors then loaning those funds to needy individuals and /or institutions.

Banks are the financial institutions that offer the widest range of financial services especially credit, savings, and payment services and perform the widest range of financial functions of any business firm in the economy.

Like other countries, goldsmiths, merchants and moneylenders were the ancient bankers of Nepal. Tejarath Adda established during the tenure of then Prime Minister Ranodip Singh (1993 B.S.) was the first step towards the institutional development banking in Nepal. Tejarath Adda did not collect deposits from the public but provide loans to employees and public against the bullion. (Dahal & Dahal, 2056: p10)

Statement of the problem

The adaptation of open and free market economic and financial policies has encouraged establishment of number of banks, financial companies and co-operatives. The competition in the banking sector is going to be higher than ever before. Banks are prone to both external and internal threats. To exist in the competitive market, banks are trying to introduce different schemes and advantage to the customer to hold the greater share. These banks have contributed towards introducing new technology, new banking systems, and deficient service delivery in the country. They have done so in line with the trust of economic liberalization and financial sector reform i.e. making the financial system more competitive, efficient, and profitable. In the present scenario, the worst economic and social condition of

our country largely affects the banks' performance in all the operational, productivity and profitability sectors, which causes the large decline in the profit of all types of banks. In this perspective, analysis of the Joint Venture bank's performance and to disseminate quality information becomes more essential.

The problem of the study lies on analyzing the financial strengths and weaknesses of Everest Bank Limited. It also aims in answering the following questions:

1. What is the liquidity position of the bank?
2. What is the leverage positions of the bank?
3. How effectively EBL uses its operating assets?
4. What is the level of profitability of the bank?

This study attempts to evaluate the financial performance of the bank with the help of various financial and statistical tools. This study also attempts to recommend some suggestions for improvement in financial performance aspect.

Objectives of the study

The main objective of the study is to evaluate the financial performance of Everest Bank Limited with the help of ratio analysis and other portfolios. Besides, the specific objectives of this research are as follows:

1. To find out the liquidity positions of the EBL.
2. To find out the leverage positions of the EBL.
3. To identify how effectively EBL uses its operating assets.
4. To find out the level of profitability of EBL.

Significance of the Study

The study identifies significance of various groups.

- a. This research helps to find liquidity position to the persons and parties such as general readers, decision makers, brokers, traders, shareholders, financial agencies, businessman and general public (depositors, prospective customers, investors etc.).
- b. This study finds leverage position which is used as pilot work for future research.
- c. To identify how effectively operating assets utilize by the EBL.
- d. To identify financial position of Bank in term of profitability.

Limitations of the study

This study attempts to evaluate the financial performance of the EBL. The following are the limitations of the study:

1. This study relies on the published financial documents such as balance sheets, profit and loss accounts, related journals, magazines, and books. It mainly focuses on financial performance and does not cover other aspects.
2. Only selected financial and statistical tools are used.
3. This study is based on the secondary data only.
4. This study covers out for the period of fiscal year 2013/14 to 2017/18.

Organization of the study

The study will be divided into five chapters:

Chapter 1: Introduction: This chapter explains background of the study, statement of the problem, objectives of the study, and limitation of the study.

Chapter 2: Review of literature: This chapter consists of conceptual review and review of related studies.

Chapter 3: Research methodology: This chapter includes research design, population and sample, sources and types of data, data gathering procedure and analytical tools such as financial and statistical.

Chapter 4: Data presentation and analysis: This chapter is the main body of the research which includes financial ratios analysis, income and expenses analysis, trend analysis and major finding of the study.

Chapter 5: Summary, conclusions and recommendations: This chapter consists of summary of the study, conclusion of the major findings and recommendations for further improvement.

Literature Review:

For the preparation of this proposal I consider some books, report, publication, thesis and articles will be reviewed. Various master level theses conducted in different aspects of commercial bank such as lending policy, liquidity position, interest rate structure, capital structure, investment policy etc. Are reviewed and findings of some relevant thesis have been mentioned hereunder.

Books:

This analysis evaluated involves the use of various financial statements the first is the balance sheet, which represents a snapshot of the firm's financial position at the moment and next is the income statement, that depicts a summary of the firm's profitability over the time. (Vanharne and Wachhowicz, 1997: 120).

Thesis:

Bajarcharya, P. D. (2009) had conducted a research on a topic "Performance Evaluation of Nepal Bank Ltd." The basic objectives of her study/research were to highlight the financial performance and role of banks in the liberalized Nepalese Economy. Her attempts of analyzing financial performance were concentrated in ratio analysis and she derived the strength and weakness of banks as stated by calculating ratios.

Aryal, O. P. (2008) through the thesis, 'Financial Performance of Everest Bank Limited' he describes about the future in banking sector will be more competitive with quality and speedy service. Banks will have to provide quality service and is to attain objectives along with maintaining good financial position to sustain in market.

Other:

Financial analysis (also referred to as financial statement analysis or accounting analysis or Analysis of finance) refers to an assessment of the viability, stability and profitability of a business. It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to

top management as one of their bases in making business decisions.
(http://en.wikipedia.org/wiki/Financial_analysis)

Research Methodology:

Introduction

In this section methodology used by the researcher in this study is presented. This section also incorporates definitions of some of the major terms used in the study

Research Design:

To achieve the stated objectives of the study, research design keeping in mind on the objective of the study. In fact, the research design is the conceptual structure within which the research is conducted. General objective; of this research study is to examine and evaluate the financial performance of joint venture bank especially that of EBL in order to achieve the objective, both descriptive and analytical research design has been followed. The study focuses on the examination of relationship between those variables that influence financial decisions of the sampled, it is an ex-post factor research. From concerned bank different information and necessary data were collected through annual reports and financial statement published by related bank. The data are collected from the year 2013/14 to 2017/18.

Sources of data:

This study will be based on secondary data. The sources of data collection will be:

- Financial statement annual reports provided by bank
- Articles and other related materials published in newspaper
- Newsletters of the bank
- Relate Web sites (<http://www.everestbankltd.com>)
- Other related books

Population and sample:

There are thirty commercial banks operating in Nepal (NRB-banking and financial statistics 2071 Magh). The population for this study comprises the joint venture banks. Everest Bank Limited is selected as sample in this study.

The population for this study comprises the joint venture banks. The sample consists of one judgmentally selected bank. Everest Bank Limited is selected as sample in this study.

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