

**FINANCIAL PERFORMANCE ANALYSIS OF  
EVEREST BANK LIMITED**

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## **Background of the Study**

Nepal is the country as known to be the piece of the paradise due to its natural beauty, flora and fauna and greenery. But the country is lacking in the development in the area of economy and financial sectors. The adverse effect on financial management has been found in the economy. It has been known that there are more banks and financial companies than needed and it is been growing in the fastest rate. But the problems have been not solved. Bank and banking has played always significant role for the financial activities in the business. So bank is the major need for various developments. Bank collects fund as a saving from community and invest into most desirable and highly yielding sectors as a process of economic development. It develops saving habits of people. The importance of the banking as the nerve center of economic development cannot be over emphasis and it is said that bank which are the need of and great wealth of country have got to be kept very scared. Just as water for irrigation, good banks are for the country's industry and trade.

The main objective of the banks is to collect amount from public in a form of saving and providing short-term loan (for the development industry, trade and business) to the ones in

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Financial statements should be understandable, relevant, reliable and comparable. Reported assets, liabilities and equity are directly related to an organization's financial position. Reported income and expenses are directly related to an organization's financial performance.

“Financial statements are intended to be understandable by readers who have "a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently" (Lucia Jenkins, 2009).

) Owners and managers require financial statements to make important business decisions that affect its continued operations. Financial analysis are then performed on these statements to provide management with a more detailed

understanding of the figures. These statements are also used as part of management's annual report to the stockholders.

- ) Employees also need these reports in making collective bargaining agreements (CBA) with the management, in the case of labor unions or for individuals in discussing their compensation, promotion and rankings.

### **Objective of the Study**

The main objective of this research is to analyze the financial performance of EBL through the appropriate use of financial tools and statistical data. The objectives can be as:

- ) To evaluate the financial performance Of Everest Bank Limited in terms of different kinds of ratio
- ) To see the relationship between deposit and profit, investment and profit of EBL.
- ) To examine the profit and expenditure of EBL.

### **Research Methodology**

Research means search again from the old basic data as information to new and updated advance data on any particular subject. The advance learner's Dictionary of current English lays down the meaning of research as a careful investigation of inquiry especially through search for new facts in any branch of knowledge.

“Research Methodology is a way to systematically solve the research problem. It may understand as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by researcher problem along with logic behind them” (Kothari, 1990:10)

The justification on present study cannot be obtained without the help of proper research methodology. For the purpose of achieving the objective of study the applied methodology is used which can be described.

## **Methods of Analysis**

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

The various calculated result obtained through financial, accounting and statistical tools are tabulated under different heading. Then they compared with each other to interpret the result.

- ) **Financial Tools**
- ) **Ratio Analysis**

## **Major Finding of the Study**

- ) EBL didn't meet current ratio 2:1 over the twelve years of study period; it is a satisfactory comparing to a banking industry.
- ) EBL has made enough investment in government securities in a final year of study period.
- ) Cash and bank balance to current and saving deposit fluctuated over the study period. Final year of study period ratio was 34.33 %, which indicates that bank may able to meet its immediate obligation. Highest ratio in 2010/11, 44.59% indicates bank was unable to utilize the fund available at bank.
- ) Cash and bank balance to total deposit ratio of EBL shows its liquidity position was high over the twelve years of study period.
- ) Loan and advance to total deposit ratio was inconsistent during the study period. As per banking practice, banks, maintain the ratio 70-80%. So the ratio is satisfactory.
- ) Loan and advance to fixed deposit ratio increased during the study period. So the EBL has utilized the high bearing fixed deposit in the loan and advance.
- ) Overall loan and advance to saving deposit ratio was satisfactory over the study period.
- ) Investment to total deposit ratio fluctuated over the period. It was 31.44% in the year 2004/05 which is nearly highest over the study period, but it is less in 2010/11 at the value 12.17%.

- J Performing assets to total assets ratio, EBL maintain high ratio through out the study period.
- J Performing assets to total debt ratio was higher over the study period which shows EBL able to utilize the outsider fund in income generation.
- J Return on asset during the study period was less than 2%. This shows that profitability with respect to financial resources investment of bank asset was unsatisfactory.
- J Return on deposit unstable during the study.
- J Total interest expenses to total interest income ratio decreased over the period. From 2000/01 to 2011/12 of study period, EBL reduced its 66.70% to 58.51%. EBL is more successful in later years in allocating interest bearing debt in profitable sectors.
- J Interest earned to total assets was unstable and decreased during the study period, but in 2009/10 to 2011/12 the ratio has slowly increased. This indicates that EBL has utilized its assets in profitable sectors.
- J Income of EBL increased over study period but their staff expense was in a range of 8-12%. These indicates a staff expenses was moderate according to income.
- J Expect in a year 2000/01. An office operation expense was in moderate condition. It lays 15-20% over the twelve years of study period.
- J Debt equity ratio of EBL showed that in its capital structure more than 80% of capital was funded by outsider's fund.
- J Debt asset ratio EBL showed that large portion of the bank's asset has been financed through outsider's fund. The aggregate 79% of asset was financed by outsider's fund.
- J Interest coverage ratio of EBL was lower over the twelve year of study period. This indicates there excessive use debt for which interest to be paid.
- J Loan loss coverage ratio of EBL was less than 1% in most of the study period. This indicates EBL has been successful to foresee the quality of loans lent and EBL loss coverage ratio can ranked as satisfactory.
- J Loan loss provision to total income ratio was highest in the year 2004/05 and 2005/06, were 10.42% and 10.35% respectively. But in a year 2011/12 EBL was able to reduce at 2.07%.

## **Recommendations**

On the basis of major finding some important suggestions have been forwarded, so that they might help the EBL to strengthen weaker aspects of financial activities.

- J Investment in government securities was high during the study period. 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 in different field.
- J EBL was able to increment in deposit, investment and profit by 36.68%, 28.30% and 38.90% respectively in 2006/07, which was the highest of the study period. It is recommended to give attention to increment in deposit and investment to success in competitive environment of banking industry.
- J The liquidity position of a bank may affect by internal as well as external factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as saving, investment situations, central bank's directives, lending policies, capability of management, strategic planning and funds flow situations. The ratio of cash and bank balance to total deposit and current assets of EBL is higher in yr 2009/10 and 2010/11. Hence, EBL is recommended to mobilize its idle cash and bank balance in profitable sectors as loan and advance.
- J The main source of commercial banks is collecting deposit from public who does not need fund recently. So EBL is recommended to collect more amounts as deposit through large variety of deposit schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift cheque scheme, recurring deposit scheme (life Insurance), monthly interest scheme, etc.
- J NRB has directed to commercial banks to invest their certain percentage in deprived and priority sector and it is also responsibility of banks. So EBL is recommended to follow the directive issued by NRB and invest in priority and deprive sectors and also to invest on others small-scale industries like, public utilities, health, sanitation and drinking water, education and agricultural etc.
- J To get success in competitive market, commercial bank must utilize their deposit as loan and advances. Loan and advances are the main source of income and also means of resource of commercial banks. Negligence in administrating these assets could be the cause of liquidity crisis in bank and one of the main

reasons of bank failure. Collection of loan has been challenging task of commercial bank these day, increasing on non-performing assets disclose the failure of commercial banks in recovery of loan. Therefore, it is recommended to EBL to follow liberal lending policy when sensations loan and advances with sufficient guaranty and implement a sound collection policy including procedure which rapidly identification of bad debtor loan, immediate contact with borrower continual follow up and as well as legal procedure if required.

J) Economic development of the country depends upon the growth of commercial banks. If the service of commercial banks expands all over the nation, will help to collect idle money from all over the country and can be utilized for the income generation purpose. Government of Nepal has also encouraged the joint venture banks to expand banking service in rural areas and communities without making unfavorable impact in their profit. Therefore EBL is recommended to expand their branch and provide banking service and facilities to rural areas and communities to accelerate the economic development of the country.

Being a developing country, economic environment of our country is not in good condition. The strong economic structure is needed for rapid growth every sectors of the country. Commercial banks play vital role in the developing country like Nepal. Commercial banks are facing several problems related to fund mobilization. They have to rush with modern banking technology so that, they would be a professional institutions. If EBL follow above mentioned suggestion, bank would be successful in reaching to the modern innovative and competitive banking market.

