FINANCIAL PERFORMANCE ANALYSIS OF EVEREST BANK LTD

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RECOMMENDATION

This is to certify that the thesis

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FINANCIAL PERFORMANCE ANALYSIS OF EVEREST BANK LIMITED

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S.)

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DECLARATION

I here by declare that the work reported in this thesis entitled "Financial Performance Analysis of Everest Bank Limited" submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial Fulfillment of the requirement for the Master's Degree in Business Studies (M.B.S) under the supervision of Dr, Kamal Das Manandhar Lecturer of Shanker Dev Campus.

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I have tried to cover all the possible data and information that I felt important to sum up the "Financial Performance Analysis of Everest Bank Limited". I am hopeful that his task will be helpful to the students of business studies and to those who want to make further researchers under this topic

Sundar Manandhar

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ABBREVIATIONS

NG	:	Nepal Government
NRB	:	Nepal Rastra Bank
NIDC	:	Nepal Industrial Development Corporation
NABIL	:	Nepal Arab Bank Limited
PNB	:	Punjab National Bank
NCC	:	Nepal Credit and Commerce Bank
NIC	:	Nepal Industrial and Commercial Bank
NBL	:	Nepal Bank Limited
RBB	:	Rastriya Banijya Bank
NIBL	:	Nepal Investment Bank Limited
SCBNL	:	Standard Chartered Bank Limited
HBL	:	Himalayan Bank Limited
NBBL	:	Nepal Bangladesh Bank
EBL	:	Everest Bank Limited
BOK	:	Bank of Kathmandu Limited
LBL	:	Lumbini Bank Limited
MPBL	:	Machhapuchhre Bank Limited
KBL	:	Kumari Bank Limited
LXBL	:	Laxmi Bank Limited
SBL	:	Siddhartha Bank Limited
ATM	:	Automatic Teller Machine
ABBS	:	Any Where Branch Banking System

SCT	**:**	**Smart Choice Technology**
UK	**:**	**United Kingdom**
TT	**:**	**Telex Transfer**
AIB	**:**	**American Institution of Banking**
EPS	**:**	**Earning Per Share**
DPS	**:**	**Dividend per Share**
P/E	**:**	**Price Earning Ratio**
P.E	**:**	**Probable Error**
ROE	**:**	**Return on Equity**
A.D	**:**	**Anno Domini**
JVB	**:**	**Joint Venture Bank**
WTO	**:**	**World Trade Organization**
BHL.s	**:**	**Bank Holding Companies**
MVPS	**:**	**Market Value per Share**
MPS	**:**	**Market Price per Share**
NSBIBl	**:**	**Nepal SBI Bank Limited**

CHAPTER I

INTRODUCTION

1.1 Preview of the background

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 company than needed and it is been growing in the fastest rate. But the problems have been not solved. Yet the project which is going to be present here is the attempt to show the financial analysis on Everest Bank and its comparative study with other organization as well

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."

- 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.
-

1.2 Introduction of Banking

Origin of Bank

Origin of the word

The name *bank* derives from the Italian word *banco* "desk/bench", used during the Renaissance by Florentine bankers, who used to make their transactions above a desk covered by a green tablecloth However, there are traces of banking activity even in ancient times.

In fact, the word traces its origins back to the Ancient Roman Empire, where moneylenders would set up their stalls in the middle of enclosed courtyards called *macella* on a long bench called a *bancu*, from which the words *banco* and *bank* are derived. As a moneychanger, the merchant at the *bancu* did not so much invest money as merely convert the foreign currency into the only legal tender in Rome- that of the Imperial Mint.

There is not unanimity among the econimists about the origin of banking. The word bank was derieved from the Latin word bancus, which means bench on which the banker would keep its money and his records. Some persons trace its origin from French word ‘Banquee’ and the Italian word ‘Banca’ which means a bench for keeping, lending and exchanging of money or coins in the market place by money lenders and money changers. Modern Banking was origanated in medieval Italy. The first bank called the "Bank of Venice" was established in Venice , Italy in 1157 to finace the monarch in his wars. Follwing its establishment ,the banks established were the Bank of Barcelona and the Bank of Genoa in 1401 andd 1407 respectively.

Meaning of Bank

Chamber's Twentieth Century Dictionary defines a bank as "an institution for keeping, lending and exchanging, etc of money."

According to Kent, " A bank is an organization whose principal operations are concered with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure."

Therefore, summarizing the above, banks are those financial institutions that offer the widest range of financial services especially credit, savings and payments services and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank services and functions had led to banks being labelled " financial supermarkets" and such familiar advertising slogans as your Bank – Full Service Financial Institution.

Functions of a bank

a) The trust function

b) The credit function

c) The Insurance

d) The investment and planning function

e) The brokerage function

f) The payment functiion

g) The investment banking and underwriting function

h) The cash management function

i) The thrift and saving function.

Commericial Banks

The commercial banks are those banks who pull together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposit from the public on the various means. They accepts deposits from the public on the condition that they are repayable on demand or on short notice. Commercial banks are restricted to invest their funds in corporate securities. They grand loans in the form of cash credits and overdrafts. Apart from financing they also render services like collection of bills and cheques, safe keeping of valuables, financial advising etc. to the customers.

Functions of commercial banks

1) Accepting deposits:

Commercial Banks accepts deposits in three forms namely – saving, current, and fixed deposits which are payable on demand. The depositors other than current account are paid interest.

2) Advancing loans:

The second major function of a commercial bank is to provide loans and advances from the money which it receives by the way of deposits. Direct loans and advances are given to all types of persons against the personal security of the borrowers of against the security of movable and immovable properities. Loans are granted by bank in four forms which are as like overdrafts, cash credit, direct loans, and discounting Bills of exchange etc

3) Agency service:

A bank also performs number of services on behalf of its customers. A commercial banks undertakes the payment of subscription, insurance premium, rent etc, and collection of cheques, bills, salaries, pensions, dividents, interest etc on behalf of the customers.The bank charges a small amount of commission for these services.In addition, it undertakes to buy and sell securities on behalf of customers.

4) Credit creation:

Credit creation is one of the most important functions of the commercial banks. In order to earn profits, they accept deposits and advance loans by keeping small cash in reserve for day to day transaction. When a bank advances a loan, it opens an account to draw money by cheque according to his needs. By granting a loan, the bank creates credit or deposit.

5) Issuance of Traveler’s cheque:

The people traveling outside the country want to reduce the fear of getting money stolen during the travel. Bank sells the traveler’s cheque. The unique feature of traveler cheque that unless the buyer of traveler cheque signs for encashment, it can not be cashed.

6) Open letter of credit:

The letter of credit has been very popular in the present day world business.The letter of credit is established and opened on the request of the customers.

7) Safeguarding of valuables:

The bank keeps the valuable diamond, jewellery and important documents in its safe deposit vault. These goods can be taken to home in case of need by informing the bank,

8) Trustee and Attorney:

The bank works as the administrator, trustee, executor and attorney in settlement of will and accounts of the customers.

9) Economic Information and Statistics:

A separate department research and statistics can be found in every bank. This department makes available the local and foreign information to the businessmen. The bank publishes monthly and annual bulletins giving information about the situation of trade, industry, rate of interest etc.

10) Other functions:

a) Assist in foreign trade   b) Making venture capital loans

c) Financial advising   d) Offers security brokerage services

e) Offers Investment banking and merchant banking services   f) Lesson of moral virtue

1.3 Commercial bank in Nepal:

Nepal Bank Ltd. is the first commercial bank of Nepal which was established in 1994 BS. It is a semi-government bank. The second commercial bank of Nepal is Rastriya Banija Bank. It was established in 2022B.S as a fully government owned bank. After restoration of multiparty democracy in the country several joint venture banks were established.

The role of commercial banks

Commercial banks engaged in the following activities:

- processing of payments by way of telegraphic transfer, EFTPOS, internet banking or other means
- issuing bank drafts and bank cheques
- accepting money on term deposit

- lending money by way of overdraft, installment loan or otherwise
- providing documentary and standby letter of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures
- safekeeping of documents and other items in safe deposit boxes
- currency exchange
- sale, distribution or brokerage, with or without advice, of insurance, unit trusts and similar financial products as a "financial supermarket"

Table 1.1

List of Commercial Bank of Nepal

Name	Operation Date	Head Office
Nepal Bank Limited (NBL)	1937/11/15	Kathmandu
Rastriya Banijya Bank (RBB)	1966/01/23	Kathmandu
Nabil Bank Limited (NBL)	1984/07/16	Kathmandu
Nepal Investment Bank Limited(NIBL)	1986/02/27	Kathmandu
Standard Chartered Bank Nepal (SCBN)	1987/01/30	Kathmandu
Himalayan Bank Limited (HBL)	1993/01/18	Kathmandu
Nepal SBI Bank Limited (NSBL)	1993/07/12	Kathmandu
Nepal Bangladesh Bank Limited (NBBL)	1993/06/05	Kathmandu
Everest Bank Limited (EBL)	1994/10/18	Kathmandu
Bank of Kathmandu Limited (BOK)	1994/03/12	Kathmandu
Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar
Lumbini Bank Limited (LBL)	1998/07/17	Narayangadh
Nepal Industrial and Commercial Bank Limited (NIC)	1998/07/21	Biratnagar
Machhapuchhre Bank Limited (MPBL)	2000/10/03	Pokhara
Kumari Bank Limited (KBL)	2001/04/03	Kathmandu
Laxmi Bank Limited (LXBL)	2002/04/03	Birgunj

Siddhartha Bank Limited (SBL)	2002/12/24	Kathmandu
Global Bank Limited	2006/12/22	Birgunj
Citizen Bank International Limited	2007/04/20	Kathmandu
Prime Commercial Bank Limited	2007/09/28	Kathmandu
Bank of Asia Nepal Limited	2007/10/12	Kathmandu
Sunrise Bank Limited	2007/10/12	Kathmandu

1.4 Introduction to Everest bank Limited

1.4.1 Inception

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through a network of 27 branches across the nation.

1.4.2 Joint Venture Partner

Punjab National Bank (PNB), joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India having 113 years of banking history. PNB is a technology driven bank serving over 35 billion customers through a network of over 4500 branches spread all over the country with a total business of around INR 2178.74 billion.

1.4.3 Awards

The bank has been conferred with "Bank of the Year 2006, Nepal" by the banker, a publication of financial times, London. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector.

1.4.4 Unique Selling Proposition

- Largest Network (27 branches as on Bhadra 65) among private sector banks spread across Nepal and all connected with ABBS
- Strong Joint Venture Partner providing Technical Support
- Representative office in India to facilitate remittance from India
- Direct Drawing arrangement with PNB and HDFC bank India where by instant payment is done on presentation of the instrument.
- Direct account credit in PNB branches connected with Central Banking System and RTGS member banks via speed remittance.

More than170 remittance payout location in Nepal

1.4.5 Pioneering achievements

Recognizing the value of offerings a complete range of services, EBL have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals.

EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal.

EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind

1.4.6 Growth

The banks performance under all parameters has been outstanding during the fiscal year 2064-65 after providing for income tax and statutory provisions there was a disposal net profit of Rs. 45.01 corer compared to Rs. 29.64 corer last year- an increase of 51.86%. The bank was able to increase its operating profit by 42%, deposit by more than 31% and advances by 33% during the year compared to the corresponding period last year.

During the last financial year, the Bank opened four branches namely Gwarko, Lekhnath, Narayangarh and Bhaktapur. At Present, EBL has Twenty-Six Branches that spread out the nation. Everest Bank is first private commercial bank having largest network.

1.4.7 Quality

Assets quality has improved by reduction of Non Performing Asset (NPA) to 0.64% from 0.91% in the previous year. This is one of the lowest NPA among the commercial banks in Nepal. The capital adequacy ratio of EBL is 12.04% which is above the requirement of 11.33% set by the central bank.

The local Nepalese Promoters hold 50% stake in the Banks equity, while 20% of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the public.

1.4.8 Debit Card/ATM (Debit card and ATM machine)

EBL in association with Smart Choice Technology (SCT) is providing ATM service to its customers through more than 74 ATMs and over 850 Point of Sales across the country. ATM sharing arrangement with Punjab National Bank has facilitated usage of EBL Debit Card at more than 1000 PNB ATM outlets across the India at a nominal rate. Similarly, Indian tourists and businessmen having PNB cards will be able to use EBL ATM, while in Nepal

1.4.9 Remittance

EBL is playing a pivotal role in facilitating remittance to and from across globe. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National Bank and remit their saving economically through banking channel of Nepal. The Bank is also offering Cash Management System through HDFC Bank., India for managing the funds of corporate exporting to India by collecting their fund from about 183 locations in India

1.4.10 Corporate Vision

Evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial and related services; Integrating frontiers of technology & servicing various segments of society; Committed to excellence in serving the public & also excelling in corporate values.

1.4.11 Corporate Mission

Provide excellent professional services & improve its position as a leader in the field of financial related services; Build & maintain a team motivated & committed workforce with high work ethos; Use latest technology aided at customer satisfaction & act as an effective catalyst for socio-economic developments

1.4.12Services provided by Everest Bank limited

a) Deposit Schemes

Current Account
Saving Account
Saving Premium Account
Fixed Deposit
Cumulative Deposit Scheme
Sunaulo Bhavishya Yojana
Saral Samriddhi Bachat
Unfixed Fixed Deposit Scheme
USD Account

b) Loans and advances

EBL Provides

- Home Loan
- Home Equity Loan
- Vehicle Loan
- Education Loan
- EBL Property Plus
- Professional Loan Scheme
- Loan Against Mortgage
- Loan Against Shares

c) Foreign currency deposits and lending

d) Trade finance activities

e) Remittance facilities

1.5 Focus of the study

Most of the commercial banks in Nepal are opened in the joint venture. The main motive of the commercial bank is to make the profit by providing the quality service to the customers. Although there are many joint ventures commercial banks in the economy, there is cut throat competition among the banks. Among them Everest bank limited is also breathing in the same competition air.

This research is base on the EBL. The main objective of this research is to analyze the financial performance through the financial and of statistical tools like ration analysis, chart diagram etc.

1.6 Statement of problem

Everest Bank Limited has been a successive trend since its establishment and providing the quality services to the customers

The main objective of the bank is to uplift the economic activities and strengthen welfare of the general public to facilitate loan in different sectors and provide the banking services to its country and people. Thus this study concentrates on it to meet its objectives.

The study of the financial performance is a main motive to provide the information regarding profitability, liquidity position, earning capacity, efficiency in operation, credit worthiness, source and use of capital, financial achievement and status of the bank. The information obtained can be used to measure the efficiency and effectiveness of the bank respect of deploying financial resources in the profitable manner.

The main aim of the study is to find out the answers of the following questions.

1) Does the overall financial statement analysis and financial position indicate any specific strength and weakness?

2) What are the measures factors effecting the financial position of EBL?

3) What is the financial position of EBL in the economy?

1.7 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:

a) To evaluate the financial performance Of Everest Bank Limited in terms of different kinds of ratio

b) To see the relationship between deposit and profit, investment and profit, deposit and profit of EBL.

c) To examine the profit and expenditure of EBL.

1.8 Limitations of the study

There are some limitations during the study which can be traced as:

a) The study will be based on secondary data

b) The balance sheet, profit and loss account, and accompanying notes are considered true.

c) Although there are many joint ventures banks the study is focused on only EBL.

1.9 Significance of the study

The development of economy is not possible without the development of the banking sectors of any country. In other word the boon of the economic development is directly proportional to the banking development so, the study of financial performance is very useful to stakeholders, bankers as well as general public.

1.10 Organization of the study:

The research has been classified into five basic chapters.

CHAPTER 1: The first chapter introduction provides the introduction of banking, background of study, an introduction of Everest Bank Ltd, statement of problem, objective of study, limitation of study and significance, importance of study.

CHAPTER 2: The second chapter includes the basic framework for the present study on "Financial performance analysis of Everest Bank Limited" This has been drawn from the past study, books, articles, journals etc. In this chapter the attempts have been made to review the literature pertinent to study. It includes the theoretical and research review of related study by different researcher.

CHAPTER 3: The third chapter is based on secondary data. For the purpose of the study, financial statement, balance sheet, profit and loss a/c, annual report of bank, brochure, and document related to journal and publication are the basic data source. Thus collected and processed will be analyzed by using relevant tools and techniques i.e. necessary financial and statistical tools

CHAPTER 4: The fourth chapter includes the data presentation and analysis by using financial tools such as ratio analysis and statistical tools.

CHAPTER 5: The last and the fifth chapter include the suggestions, summary of findings and recommendations for the further improvement of the study

CHAPTER II

Review of the literature

Introduction

The scientific research must be based on the past data and knowledge which helps to do the further new progressive research. The purpose of literature review is thus to find out what research studies have been conducted in one's chosen field of study and what remain to be done. (Wolff and Pant)

Review of literature means reviewing research studies in the related areas of prepositions so that the past studies can give a good contribution for further improvement in to new studies. This chapter highlights available literature related to this research which makes base of study for the study. Review of literature is stock taking of available literature in one's field of research. It comprises conceptual review of related studies.

2.1 Conceptual framework

Financial analysis refers to an assessment of the viability, stability and profitability of a business, sub-business or project.

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. Based on these reports, management may:

- Continue or discontinue its main operation or part of its business;
- Make or purchase certain materials in the manufacture of its product;
- Acquire or rent/lease certain machineries and equipments in the production of its goods;
- Issue stocks or negotiate for a bank loan to increase its working capital.
- Make decisions regarding investing or lending capital

2.2 Role or importance of financial analysis

Financial analysis is very important to any finanacial institution, bank or business house to predict out its financial performance in the market. It helps the organization to make decision regading future planning, demand analysis, investment decisions, product development and others.Since it reflects the real position of the organization in the market it helps the ousiders to know about the efficiency of the company. The objective of financial analysis is to capsulate how efficiently a company employs its assets and how it has chosen to finance the acquisition and carrying cost of those assets. This is accomplished by analyzing the relationship between an enterprise's operating result (income statement) and its financial structure (balance sheet)

Some core definations of financial analysis:

"Financial statement analysis includes the study of relationship within a set of financial statement at a point in time and with trends in these relationships over the time." (Foster; 2002: 58)

"Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account."(Pandey 1999:108)

"Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. A ratio is a statistical yardstick that provides a measure of relationship between two variables and figures. The relationship can be expressed as a percent (cost of goods sold as a percent of sales) or as a quotient (current assets as a certain number of times the current liabilities.)"(Kuchhal; 1976:21)

Financial ratio can be divided into four types: Liquidity, debt, profitability and coverage. Each of these types has a special use for the financial analyst .These ratios are also helpful for managerial control and for providing a better understanding of what outside suppliers expect in the way of financial condition and performance. The usefulness of ratio depends upon the ingenuity and experience of financial analyst who employs them. By themselves financial ratios are fairly meaningless they must be analyzed on a comparative basis.

Ratios are relationship expressed in mathematical terms between figures which have a cause and effect relationship or which are connected with each other in some other manner. But similar to the characteristic of a good financial statement ratio analysis helps interested partial to serve their respective purposes.

"Ratio analysis is one of the most commonly used technique in the analysis of the financial statement and evaluation of managerial performance. The analysis points out the problems if there are any area of business operation and provide a basis to recommend corrective actions. There are many parties who often refer to financial ratio in order to keep track of their investment performance or for some other reasons of their interest"(Pradhan ;1992:35)

"Financial analysis involves the various financial statement .The first is the balance sheet, which represents the snapshot of the firms financial position at a moment in time and next is the income statement that deficits a summary of firm's profitability overtime."(Van Horne and Wachowiez; 1997:120)

2.3 Review of Journal and article

The opinions and views which have been expressed regarding commercial banks and their activities on journal, book and booklet, a magazines etc are as follows.

Dambolena and Khoury (1980), in "*Ratio Stability and Corporate failure* "analyzed that as about the stability of all financial ratios overtime, as well as the level of there ratios as explanatory variables in the derivations of a discriminate function. The data were collected from 68 firms half of them failed and half of them didn't failed. By using the profitability ratio activity and turnover ratio, liquidity ratio and indebtedness ratio he found that the standard deviation of ratio overtimes appeared to be the strongest measure of ratio stability and the ratio of net profit to sales, net profit to total assets, funded debt to net working capital, total debt to net working capital, and fixed assets to net worth have shown to be relevant in predicating corporate failure.

Patton (1982),in "*Ratio analysis and efficient markets Introductory financial Accounting*" concluded that ratio analysis covers the three areas, analysis of business transaction in markets that may not be efficient , contractual limits based accounting ratio and performance prediction and risk evaluation in a efficient market.

Sharma(1988),in" *Joint venture Banks in Nepal Co-existing or crowding-out*" explained that it would be definitely un wishful for Nepal not to let JVBs to operate in the country and not to take advantage of additional means of resource mobilization as well as harbinger of new era in banking . But it will be certainly be unfortunate for the country to let the development of the JVCs at the cost of domestic banks. So far, one should frankly, no differential treatment has been made to the domestic and joint venture banks at least from the latter are bargaining.

If the JVBs show strength and briskness to come forward to share the trail and tribulation of this poor country, both types of bank will collapse and co-exit complementing each other, contributing to nation's accelerated development on the contrary if the joint venture banks use their strength against treading to the cumbersome path of development along with the domestic banks government they will eventually throw out the domestic banks from the more profitable and lucrative urban sectors unless reincarnated by the determination of the government.

Mr. Sharma has made a comparative study of two different natures of the banks, especially on nature of transaction and expertise in banking network JVCs basically were oriented in urban areas the local banks are set up and conducted their transactions both in urban and rural areas.

Barjracharya(1990),in*" Monetary Policy and Deposit Mobilization in Nepal"* States that the mobilization of the domestic saving is one of prime objective of the monetary policy in Nepal and commercial banks are the most active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy.

Hodlock and James(2002), in *"Do Banks Provide Financial stock?"* states that the banks have ability to accurately price financial claim, thus including a preference for undervalued firms to chose bank debt as their managerial financial source. They refer to this motivation for using bank debt as the information benefit will be weighted against a variety of contracting cost in a firm's ultimate financing choice.

Krishnan, Ritchken and Thomson(2005),in *"Monitoring and Controlling Bank Risk:Does Risky Debt Help"* concluded that whether risky debt issued by bank and bank holding companies (BHCs) enhances risk monitoring and helps control risk taking. In theory if investors accurately promptly into the prices of risky debt issued by affirm, then changes in credit spreads should provides useful information on how firm-specific risks have changed. In this way, risky debt may be less likely to adopt risk strategies in first place, because it they take excessive risks, debt prices may reflect taken by the firm and make borrowing costlier for the firm. This is the preventative influences benefit of risk debt that serves to control risk taking.

Boyd and Nicole(2005),in *" The Theory of Bank Risk Taking and Competition Revisited"* explained that when confronted with increasing competition moral hazard in exacerbated and bank intentionally take on more risk, shown that a positive relationship between the number of bank competitors and risk seeking in fragile. In particular it makes an enormous difference when one allows for the existence of loan markets and requires that there be the same number of banks competing for both deposits and for loan. They assumed that borrowers entirely determine project risk conditional on the loan rate set by banks. In effects bank raised portfolio problem and transform it into a contracting problem with moral hazard. Without structure, banks use increasing market power to raised loan rates and when confronted with increased funding cost, borrowers optimally choose higher risk projects.

Pradhan(2006), in *"Opportunities and Challenges on WTO Accession in Insurance and Banking and Financial Services in Nepal"* explained that Nepal is scheduled to open its banking sectors to foreign competition by 2010AD. Banking community needs to accepts the challenges and be prepared to enter into global market with proper strategic plan.

In order to grab the opportunities, banking sector need to explore geographical comparative advantage for providing financial services globally. International financial center would be established and explored. Similarly, in order to strengthen them domestic financial institution and to expand the business, merger, acquisition, management contracts, technical service and management agreement can explored Regional, Bilateral and multilateral integration have already created foundation for global integration which needs to be continuously strengthened in the future too.

The key of integration today is to accept for competition and achieve development benefit. Therefore, the banking industry should be prepared to accept the challenges concerned and explore the opportunities contained there in by enhancing capita

Norris (2007), *in "Be cautions While licensing a New Foreign Bank"* studied about the possible impact of foreign banks setting up their branches here said if proper regulations are not made by Nepal Rastra Bank , then the Nepali banks stand to lose a lot. Banks have been assuming that when foreign banks come in, they will only be interests in wholesale lending. But if the right rules are not set in place, nothing will stop foreign bank, going into the retail sector. They might do bank going into the retail sector. They might do it just to kill off competition and monopolies' the Nepali retail sectors which is profitable given the number of bank making profit in retail business currently. The solution suggested is to adopted policies to prohibit foreign banks from entering the retail sector.

2.4 Review of Thesis

Jyoti Thapa(2002), conducted her master's thesis on *"Investment Policy of Commercial Bank of Nepal. A Comparative Study of Everest with NABIL and BOK"* with the main objective of examining and evaluating the investment policy of EBL and compare the same with NABIL and BOK. The major finding of her research was EBL, had not adopted any cost management strategy to have control over its cost of funding. EBL is moderately successful in mobilization of fund and earn return from such mobilized fund. EBL is not comparatively enough to collect cheaper fund. From the analysis of current ratio it is found that the mean ratio of EBL is slightly higher than BOK and lower than NABIL. The current ratio of EBL is more variable than that of NABIL and BOK. It indicates the unstable liquidity policy. EBL has maintained high growth rate in total deposits, loans and advance but is has moderate position in investment. Growth in net profits is worse in comparison with BOK and NABIL.

Narayan Prasad Subedi(2002), conducted his master's thesis on *"A Comparative Study of Financial Performance between Himalayan Bank Limited and Everest Bank Limited"* with a objective of examining and comparing the financial performance of two joint ventures and has concluded that the current ratio of EBL is greater than of HBL. The variability of the ratio of HBL is more uniform than that of EBL. The liquidity of bank may be affected by external internal factor such as interest rate supply and demand position of loan and saving to investment situation. HBL has maintained the ratio of cash and bank balance to total deposit considerably lower than that of EBL. Comparatively HBL's profitability ratios like return on total than of EBL. Comparatively HBL's profitably ratios like return on total assets, return on total deposit is not satisfactory in the both banks. HBL has lower capital adequacy ratio in comparison to directive issued by NRB. HBL's loan and advances to total deposit ratio are significant to lower than that of EBL.

Subi Joshi (2003) conducted her master's thesis on *"A study of financial Analysis of Nepal Investment Bank Limited"* had a main objective to evaluated the overall financial position, Examine liquidity .Profitability and ownership ratio and to study the income and expenditure statement of the bank.

On the basis of various analyses, the research came out with the following conclusion. The current ratio of the bank over the study period is 1.09 times on average. Therefore the liquidity position NIBL is in normal standard. The cash and bank balance proportion with respected to the current asset is moderate since the average ratio is 10.17%.The result of the analysis indicates that the share of fixed deposit is high in the total deposit. Saving deposits stands midway between current and fixed deposits. The analysis indicates that the cash reserve as bank is more than required. Hence,, in general this liquidity position of the bank is good enough to meet the short-term obligation. The debt equity ratio of bank is high, which means the creditor have invested more in the bank than the owners.

Interest earned in comparison to the assets is inadequate. Net profit earned in comparison to the total deposit is relatively low. The result of the analysis indicates that the net profit earned in comparison to total assets is fluctuating. Profit earning and the shareholder's equity of NIBL is better. In general the profitability ratios of the bank indicate that the overall performance of the bank is effective in maximizing the wealth. The activity ratio of bank indicates that it had utilized its resources in the best possible way to maximize its wealth. Because the bank has succeed to utilize total deposit in profits in profit generating purpose and the bank had mobilized its total deposit in loans and advance satisfactory.

The EPS of the bank is quite good because through the EPS had fluctuate its average stands 54.16% during the study period. The proportion of earning distributed to the shareholder per share is very low and they are being compensated very slowly. DPR of the bank is decreasing and very low.

Nabin Kishor Luintel (2003) conducted his master's thesis on *"A financial Performance of Nepal Bank Limited"* with main objective to evaluate the bank's efficiency to face the challenges and measure the comparative financial strength and weakness and analyze the banks performance under priority sectors of government. And concluded that the Nepal Bank Limited had not maintained a balanced ratio among its deposit liabilities during the last five year period. The bank is seemed to be unable to utilize its high cost resources in high yielding investment portfolio. Operating profit for some years had gone negative. The study period at an average showed negative net profit. The only positive aspect is if risk can be managed, percentage of loan and advance on total deposit had increased. But due to the bank's failure in collecting earned interest and matured loan, it has suffered continuous loss. The net worth for some year is negative due to the heavy loss during the year=term debts, total debts deposit ratios have gradually decreased. It indicates that bank has not followed any experienced negative EPS and P/E ratio has heavily fluctuated during the study period. Thus, it can be said the financial position of the NBL is worse due to its failure to utilize its resources efficiently and due to worse management.

Gopal Prasad Ghimire (2003) conducted his master's thesis on *"Financial Performance of Commercial and comparative Case study of Nepal Bangladesh Bank Ltd. Himalayan Bank Ltd and Everest bank Ltd"* ,had main objectives of comparative analysis of the liquidity position, profitability status, leverage standing and activities of these banks and evaluate the trend and growth of loan. Investment and total deposit patterns of these bank and reached to conclusion that current ratio of all the bank is always below the normal standard 2 percent which generally indicates unsatisfactory liquidity position but liquidity of Everest Bank is comparatively better. Nepal Bangladesh Bank comparatively utilizes their resource much satisfactory. Capital adequacy ratio of all the banks unsatisfactory expect that of Everest Ltd Himalayan. Bank's return on net worth is higher than other two banks. Interest earned on total assets ratio of both Himalayan Bank Ltd and Nepal Bangladesh bank Ltd has recorded a failing. In case of return on total, the banks have earned about 1% or so. Howe ever the performance of Nepal Bangladesh Bank Ltd is relatively higher.

Yadab Prasad Pokharel (2004), conducted his master's thesis on "*Financial Assessment of Joint venture bank in Nepal*" had main objectives to analyze the liquidity, examine the profitability position and find out the market price position of the joint venture banks, and conducted that current ratio of NSCB is more significant to meet the short-term obligation than other joint venture bank. Cash and bank balance to deposits and bank balance to deposit (excluding fixed deposits) ratio of NSBI has very sound position for ready to serve against its customer deposit than others TVC. It indicates that NSBI has followed conservative working capital policy and selective lending policy whereas other JVC have followed aggressive working capital policy and they have invested more assets for income generating purpose.

Similarly NSCB has high net profit to total assets ratio, net profit to total deposits ratio, return on net worth ratio, return on loan and advance ratio, earning per share.

Kumar Bhattarai (2005), conducted his master thesis on "*A comparative Study of Financial performance of Nepal SBI Bank limited and Everest Bank limited*" had a objectives to examine and evaluate the performance of two joint venture bank reached to the conclusion that total investment, loan and advance are net worth have been growing in faster pace in NSBIBL. But the growth rate of net profit seems faster in EBL which will made the net profit of EBL exceed than of NSBIBL after three year if past trend continue. The high growth rate of EPS and MVPS will make MVPS of EBL exceed that of NSBIBL after three-year.

Suchita joshi (2006), conducted her master's thesis on "*Financial Performance of Joint Venture bank in Nepal with reference to Everest bank limited*" had objectives to evaluate liquidity, profitability, capital structure, turnover, cost effectiveness and growth position of EBL and she found that the liquidity position of EBL is efficiency. It showed that EBL cannot maintain the convenient standard of current ratio of2:1. Beside it can also conclude that saving deposit of bank increasing trend as compared to fixed deposit. In addition, EBL has used higher proportion of debt in their capital structure financing assets from capital structure of EBL appears to be levered EBL follow more risk more profit strategy. Bank is not able to maintain the capital Adequacy ratio as directed by NRB. EBL is maintaining its interest coverage ratio. Beside, bank is utilizing more outsiders' funds in order in to extend loan and advance to generate profit. But the profitability ratio of the bank is not favorable conduction.

Arun Pratap Khadka((2007) ,conducted his master's thesis on *"An Analysis of financial position of Everest Bank Performance"* shows that EBL didn't meet current ratio 2:1 over then years of period , it is 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 ratio was 16.24%, which indicates that bank may not able to meet its immediate obligation. Highest ratio in 1998, 63.23% indicates bank was unable to utilize the fund available at bank. The thesis shows that loan and advance to total deposit was inconsistent during the study period. As per banking practice, banks maintain the ratio 70-75% so the ratio is satisfactory. Overall loan and advance to saving deposit ratio was satisfactory over the study period.

Research group: The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make the study meaningful and purposive. There are various researches conducted on financial performance analysis of commercial banks. Most of the thesis studies are of comparative type and cover only five years of study period. Comparing of the firm from the same industry makes the sense. But at the same time the individual firm may have its own strategy for business. In such a case comparative study may misled the researcher. So, this is the exclusive study of Everest Bank Limited with ten years of study period.

CHAPTER –III

RESEARCH METHODOLOGY

Introduction

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 below

3.1 Research Design

"Research design is the plan, structure and strategy of investigation conceived so as to obtained answer to research question and control variance" (Kerlinger; 1986:275)

"Research design is like a philosophy of life no one is without one, but some people are more aware of their and thus able to make more informed and consistent decisions" (Maxwell;1996:34)

Considering the objective of the study descriptive and analytical research design has been made used. Descriptive techniques have adopted to interpret performance of EBL. For the analytical part, statistical and financial tools have been used with the help of annual reports and financial statement published by EBL.

3.2 Nature and source of data

This is conducted on the basis of secondary data. The data relating to investment deposit. Loan and advances and profit are directly obtained from balance sheet and profit and loss account of concerned Bank's (EBL) annual reports published on web site of concern bank. Supplementary data and information are collected from number of institution and regulating authorities like www.nrb.org, www.nepalstockexchange.com.np.

Similarly, various data and information are collected from the periodicals, economics journal, managerial magazines and other published reports and documents from various source and websites.

3.3 Comparative study of EBL with other bank

It is not possible to study all the data related with all banks of Nepal. There are altogether 23 commercial Banks in the country and three stocks traded actively in the stock market. So, the financial analysis of EBL is being compared with the performance of same bank for different periods.

3.4 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.

3.4.1 Financial tools

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

3.4.1 .1) Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement through mathematical expression.

In finance, a **financial ratio** or **accounting ratio** is a ratio of two selected numerical values taken from an enterprise's financial statements. There are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios may be used by managers within a firm, by current and potential shareholders (owners) of a firm, and by a firm's creditors. Security analysts use financial ratios to compare the strengths and weaknesses in various companies.[1] If shares in a company are traded in a financial market, the market price of the shares is used in certain financial ratios.

Ratios may be expressed as a decimal value, such as 0.10, or the multiplied by 100 to give its equivalent percent value, such as 10%. Some ratios are usually quoted as percentages, especially ratios that are usually or always less than 1, such as earning yield while others are usually quoted as decimal numbers, especially ratios that are usually more than 1, such as P/E ratio ; these latter are also called **multiples.** Given any ratio, one can take its reciprocal; if the ratio was above 1, the reciprocal will be below 1, and conversely. The reciprocal expresses the same information, but may be more understandable: for instance, the earning yield can be compared with bond yields, while theP/E ratio cannot be: for example, a P/E ratio of 20 corresponds to an earnings yield of 5%.

Sources of data for financial ratios

Values used in calculating financial ratios are taken from the balance sheet, income statement, statement of cash flows or (sometimes) the statement of retained earnings. These comprise the firm's "accounting statements" or financial statements. The statements' data is based on the accounting method and accounting standards used by the organization.

Types of ratios

Financial ratios quantify many aspects of a business and are an integral part of financial statement analysis. Financial ratios are categorized according to the financial aspect of the business which the ratio measures. **Liquidity ratios** measure the availability of cash to pay debt.[2] **Activity ratios** measure how quickly a firm converts non-cash assets to cash assets.[3] **Debt ratios** measure the firm's ability to repay long-term debt.[4] **Profitability ratios** measure the firm's use of its assets and control of its expenses to generate an acceptable rate of return.[5] **Market ratios** measure investor response to owning a company's stock and also the cost of issuing stock.[6]

Financial ratios allow for comparisons

- between companies
- between industries
- between different time periods for one company
- between a single company and its industry average

Ratios generally hold no meaning unless they are against benchmarked something else, like past performance or another company. Thus, the ratios of firms in different industries, which face different risks, capital requirements, and competition, are usually hard to compare.

The ratios used for financial analysis of business can be classified into four calories. They are:

Liquidity Ratios

Leverage Ratios

Activity Ratios

Profitability Ratios

3.4.1.1.1) Liquidity Ratio

The ability of a firm to meet its short term obligation is known as Liquidity. It reflects the short term financial strength of the business. These ratios are used to know the capacity of the concern to repay its short term liability. Usually the following two ratios are calculated for this purpose

a) Current Ratio

b) Quick Ratio

A) Current Ratio:

This ratio shows the relation between current assets and current liabilities. The current ratio is calculated by dividing current assets by current liabilities. The objective if this ratio is to measure the ability of the firm to meet its short term obligation. The following formula can be used to ascertain this ratio:

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

Current assets are those assets which can be converted into cash within a short period of time, normally not exceeding one year. The current assets includes cash in hand, cash at bank, bills receivables, sundry debtors less reserve, marketable securities, work in progress, prepaid expenses, loan and advance, accrued income.

Current liabilities mean the obligation which are payable within a short period. Those liabilities which are expected to be matured within a year are termed as current liabilities. It includes bills payable, outstanding expenses, income tax payable, short-term loan, Provision for tax, accrued interest on loan and debentures, sundry creditors, cash credit, bank overdraft unclaimed dividend, Income received in advance.

Interpretation

Higher the current ratio, better the liquidity position is. For many types of business 2:1 is considered to be an adequate ratio. Of the current ratio of a firm are less than 2:1, it means the firm has difficulty in meeting its current obligation. If the current ratio is more than 2:1, the company may have excessive investment in current assets that do not produce satisfied return.

B. Cash and Bank Balance to Current and saving Deposit Ratio

It measures the ability of the 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 and bank balance comprises cash in hand, foreign cash in hand cheques and other cash items, balance with domestic bank and balance held in foreign bank. Current and saving deposits consists of all deposit excluding fixed deposits

The ratio is calculated by dividing cash and bank balance by current and saving deposits as follows.

$$\text{Cash and bank Balance to current and saving Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current saving deposit}}$$

The ratio shows the ability of banks immediate funds it cover their current and saving deposits. Higher ratio shows higher liquidity position and ability to cover the deposit and vice versa.

C. Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors.

A high ratio indicates the sound ability to meet their cash requirement of their customer deposit and vice versa. Bother higher and lower ratio is not desirable. The reason is that if bank maintain higher ratio of cash it has to pay interest on deposit but couldn't invest its cash or current assets in a profitable areas. So it may lose opportunity to earn something. In the opposites, if a bank maintain low ratio of cash, it may fail to make the payment for presented checks by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

This ratio is computed by dividing Cash and Bank Balance by Total Deposit. This can be presented as follows.

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

D. Investment in Government Securities to Total Deposit

Investment in Government Securities to Total Deposit Ratio is used to measure the percentage of total deposit invested to Government Securities like treasury bills and development bonds. This ratio can be expressed as

$$\text{Investment in Government Securities to Total Deposit} = \frac{\text{Investment}}{\text{Total Deposit}}$$

3.4.1.1.2) Activity/Assets Management Ratio

Activity ratio evaluates the efficiency with which the firm manages and utilizes its assets. This ratio is also known as turn over ratio. It measures how effectively the company employs the resources at its command. Funds are created by the collection of shares as well as debt from the owner, creditor and outside parties. Those funds are invested in procuring various kinds of assets to generate profits or income. Activity ratios are the indicators of a concern with regard to its efficiency in assets management hence they are often referred to as efficiency ratio and are completed to assess finance companies efficiency in utilizing available resources.

A. Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to utilize the outsiders fund (Total Deposit) for the profit generating purpose on the loan and advance. Generally, a high ratio reflects higher efficiency to the utilization of fund and vice versa.

It can be calculated by dividing the amount of loans and advances by the amount of total deposit, which is given as below.

$$\text{Loan \& Advance to total Deposit} = \frac{\text{Loan \& Advance}}{\text{Total Deposit}}$$

Here Loan and Advance refers to total of loan, advance and overdraft and deposit refer to total of all kinds of deposits.

B. Loan & Advance to Fixed Deposit Ratio

This ratio indicates how many times the amount is used in loans and advances in comparison to fixed deposit. Fixed deposit are the main source of deposit of bank and are high interest bearing obligation whereas loans and advance are major sources of investment to generate income for the commercial banks. This ratio is calculated by dividing the amount of loans and advances by fixed deposit that is given below.

$$\text{. Loan and Advance to Fixes Deposit Ratio} = \frac{\text{Loans and Advance}}{\text{Fixed Deposit Ratio}}$$

C. Loans and Advance to Saving Deposit

Loans and Advance to saving deposit ratio measures what extent saving deposit has been turned over to loan and advances.

This ratio is calculated by dividing loans and advances to saving as follows.

$$\text{Loan \& Advance to saving Deposit Ratio} = \frac{\text{Loan \& Advance}}{\text{Saving Deposit}}$$

D. Total 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 in Government Treasury bills, development bonds, company shares and other types of investment.

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

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

E. Performing Assets to Total Assets Ratio

This ratio measures what portion of assets has been funded for income generation. Performing assets includes loans and advances; bills purchased and discounted investment and money or call or short notice.

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

$$\text{Performing Asset to Total Assets Ratio} = \frac{\text{Performing Asset}}{\text{Total Assets}}$$

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 the 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 to total debt as follows.

$$\text{Performing Assets to Total Debt Ratio} = \frac{\text{Performing Asset}}{\text{Total Debt}}$$

3.4.1.1.3 Profitability Ratio

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future, if it fails to make sufficient profit.. Profitability shows the overall efficiency of the business concerns. The relation of the return of the firm to either its sales or equity of its assets is known as profitability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the return generated on sales and investment. Higher the profitability ratios better the financial performance of the bank and vice versa. Profitability ratio can be calculated by following different ratios.

A. Return on Total Assets

This ratio measures the productivity of assets. It shows the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio evaluates the overall return in investment earned by the firm. Net profit refers to the profit after deduction of interest and tax. Total assets mean the assets that appear in asset side of the balance sheet. It measures the efficiency of bank in utilization of the overall operation. Higher ratio shows the higher return on the assets used in the business thereby indicating effective use of the resources available and vice versa..

$$\text{Return on Total Asset} = \frac{\text{Net profit After Tax}}{\text{Total Asset}}$$

B. Return on Total Deposit Ratio

Return o n total deposit ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ration indicates strong profitability position and vice versa.

The ratio is calculated by dividing net profit after tax by total deposit as follows.

$$\text{Return on Total Deposit} = \frac{\text{Net Profits after Tax}}{\text{Total Deposit}}$$

C. Total Interest Expenses to Total Interest Income Ratio

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

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

$$\text{Total Interest Expense to Total Interest Income Ratio} = \frac{\text{Total Interest Expense}}{\text{Total Interest Income}}$$

D. Interest Earned to Total Assets Ratio

This ratio shows the earning capacity of bank on its total assets (Working Fund). This exhibits the extent on which are successful in mobilizing their working funds to generate income as much as possible. The higher ratio will indicate the high earning power of the banks on total assets. Total interest earned is calculated by adding the total income from loans, advance cash, credit overdraft and government securities etc.

This ratios is calculated by dividing interest income by total assets as follows

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Total Interest Income}}{\text{Total Asset}}$$

E. Office Operation Expenses to Total Income Ratio

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

This ratio is calculated by dividing office operation expenses by total income as follows

$$\text{Office Operation Expenses to Total Income Ratio} = \frac{\text{Office Operating Expense}}{\text{Total Income}}$$

F. Staff Expenses to Total Income Ratio

Staff expenses include the salary and allowances contribution to 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 great significance in the success of the bank.

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

$$\text{Staff Expenses to Total Income Ratio} = \frac{\text{Staff Expenses}}{\text{Total Income}}$$

3.4.1.1.4 Leverage Ratio

This ratio is also called solvency ratio of capital structure ratio. A firm should have strong short term as well as long term financial position. To judge the long term financial position of the firm, these ratios, help to measure the financial contribution of owner and creditors comparatively. These ratios indicates the situation of the capital structure, which is calculated to measure the company's ability of using debt for benefit of shareholders long term creditors like debenture holder, financial institution etc. are interested to the firm's long term financial health, debt serving capacity and strength and weakness of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total in total financing .In summary debt ratio tell us the relatives proportions of capital contribution by creditor and owners.

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

A. Debt Asset Ratio

This ratio exhibits the relationship between creditors fund and owner capital. This ratio shows the proportion of outside fund used in financing total assets. It also provides security /finance safety to outsider i.e. potential shareholders, depositor or investors. Higher debit ratio indicates higher financial risk as well as decreasing claims of outsider over the total assets of the firm. Generally 1:2 ratios are considered good but however no hard and fast rule is prescribed. This ratio implies a financial company success in exploiting debit to more profitable areas.

This ratios is presented as follows

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

B. Debit Equity Ratio

It is a test of long solvency of the bank. Debt equity ratio measures the relative claims of creditors and owners against i.e. outsider’s funds and share holder’s funds which are sometimes called as external and internal equities. It is calculated to measure the extent of debt financing used in the business.

Total debt consists of all interest bearing long term and short term debts. These include loans and advances taken from other from other finance institutions, deposits carrying interest, etc.

Shareholder’s equity includes paid-up capital, reserves and surplus and undistributed profit.

The ratio is computed by dividing total debt by shareholder equity as follows.

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

The ratio shows the mix of debt and equity in capital. It measures creditor's claims against owners. High ratio shows that the creditor's claims are greater than those of owners. This brings inflexibility in the firm's operation due to increasing interference and pressures from the creditors. Low ratio implies a greater claim of owners than creditors. The ratio should be neither too high nor too low.

C. Interest Coverage Ratio

This ratio measures how much net income before interest and taxes could decline and still provide coverage of total interest expenses. It is sometimes called as debt service ratio. This ratio is developed with the expectation that annual operating earning can be considered a basic source of funds for debt service. The prospective debt holder often requires convenience in the loan arrangement spelling out the number of times the business is expected to cover its debt service obligation. This ratio emphasizes the ability of the firm to generate enough income to cover interest expenses. This ratio is directly connected to the ability of the firm to pay interest (Munankarmi; 2002:470)

This ratio is obtained by dividing net profit before deduction on interest and tax by interest charge as follows.

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Interest Expense}}$$

This ratio indicates the ability of bank to pay interest out of its profits .It also indicates the extend to which the profits of the company may decrease without in any way affecting its ability to meet its interest obligations. Higher ratio is desirable but too high ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation.

3.4.1.1.5 Asset Quality Ratio

Asset quality ratio measures the turnover of economic resources in terms of quality. Only the investment is not of great significance but the return from them with minimum default in payment by debtors in significant. A firm may be in state of enough profit but unable to meet liabilities. Assets quality ratios are intended to measure the quality of assets contained by the bank.

A. Loan Loss Provision to Total Income Ratio

This ratio show what portion of total income has been held as safety cushion against the possible bad loan. Higher ratio indicates that the greater portion of loan advance by the bank is inferior in quality. Low ratio means that the bank has provided most of its loan and advances in secured sector.

This ratio is calculated by dividing loan loss provision by total income as follows

$$\text{Loan Loss Provision to Total income Ratio} = \frac{\text{Loan Loss provision}}{\text{Total Income}}$$

B. Loan Loss Provision to total Deposit Ratio

This ratio shows the proportion of banks income held as loan loss provision in relation to the total deposit collected. Higher the ratio means quality of assets contained by the bank in form of loan is not much satisfactory low ratio is the index of utilization of resources in healthy sector.

This ratio is calculated by dividing loan provision by total deposit as follows:

$$\text{Loan Loss Provision to Total Deposit Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Deposit}}$$

C. Loan loss coverage ratio

Loan loss coverage ratio is calculated by dividing provision for loan loss by total risk assets as follows:

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Risk Assets}}$$

Risk assets consists loan and advances, bills purchase and discounted. NRB has directed commercial banks to maintain provision for loan loss on basis of category of loans and risk grade. Therefore the ratio measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. High ratio indicates that the major portion of loan is risky.

D. Accrued Interest to total Interest Income Ratio

Accrued interest refers to the interest that is accrued but not cancelled. Total interest income includes the interest received from the investment in various sectors. High ratio indicates the larger portion interest remained be collected. Lower ratio reflects the better quality of assets in the bank.

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

$$\text{Accrued Interest to Total Interest Income Ratio} = \frac{\text{Accrued Interest}}{\text{Total Interest Income}}$$

3.4.1.1.6 Market Value/ Growth Ratio

A. Earning per Share

Apart from the rate of return, the profitability of a firm from the view of the ordinary shareholders is the earning 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 earning available to equity shareholders 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 has changed over past period or not. Investor favors higher EPS.

This ratio is calculated by dividing total earning available to the common shares holders by number of equity share outstanding as follows:

$$\text{EPS} = \frac{\text{Earning Available to Common Shareholders}}{\text{No. of common share Outstanding}}$$

B. Dividend per share (DPS)

Net profit after preference dividend is earning available to equality shareholders but whole earning is not disturbed as dividend to shareholders, so that earning per share and dividend per share is not equal. The amount of earning distributed and paid as cash dividend is considered as dividend per share. It gives financial soundness of the company. Only financial strong companies can distribute dividend .Higher DPS shows the efficiency of management and vice versa. So, the shareholders prefer high dividend. It may sometimes to wise to distribute less amount of profit if investment opportunities are available.

This ratio is calculated by dividing earning paid to the shareholders by number of equality share outstanding as follows.

$$\text{DPS} = \frac{\text{Earning paid to shareholders}}{\text{No. of Common Share Outstanding}}$$

C. Price Earning Ratio (P/E Ratio)

This ratio measures investor's expectation and the market appraisal of the performance of a firm. P/E ratio is widely used to assess the bank's performance as expected by investors. It represents the investor's expectations 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 value per share by earning per share as follows.

$$\text{P/E} = \frac{\text{Market Value per share}}{\text{Earning per Share}}$$

3.4.1.2 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.

3.4.2 Statistical Tools

Various statistical tools related to this study will be drawn out to make the conclusion more reliable according to the available financial data. For this following statistical tools are used.

3.4.2.1 Karl Pearson'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. 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 variable. The data related to profit investment and deposit over the different periods are tabulated and their relationship with each other is drown out. Its value lies between 1 to -1, these tools are used for measuring the intensity or the magnitude of linear relationship between two series. It measures correlation coefficient between two variables. The tool is used for measuring the intensity of the magnitude of linear relationship between two va

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

N= No. of observation in series X and Y

Σx = Sum of observation in series X

Σy = Sum of observation in series Y

Σx^{2}= Sum of squared observation in Series Y

Σy^{2}= Sum of squared observation in Series Y

Σxy = Sum of the product of observation in series X and Y value of r lies between -1 to +1

r= 1 perfectly positive correlated

r= -1 perfectly negative correlated

3.4.2.2 Probable error of Correlation Coefficient

Probable error of correlation coefficient denoted by P.E is the measure of testing the reliability of the calculated value of 'r'. If r be the calculated value of 'r' from a sample of 'n' pair of observations, then P.E is defined by;

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

It is used in interpretation whether calculated value of 'r' is significant or not.

1. If r < P.E, it is insignificant, so, perhaps there is no evidence of correlation.
2. If r > P.E, it is significant.
3. In other cases, nothing can be concluded.

3.4.2.3 Trend Analysis

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. Straight- line trend implies that irrespective of 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

$Y= a+ b\, x$

Where, Y= value of dependent variable

a = Y- Intercept

b= slope of trend line

X= value of the dependent variable i.e. Time

Normal equations fitting above are

$\sum Y = Na + \sum X$

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

Since $\sum X = 0$

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

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

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Ratio Analysis

Ratio analysis is the process of determining the significant operation and financial characteristics of a firm from accounting data and financial statement. The goal of such analysis is to determine the efficiency and performance of the firm's management as

reflected in the financial records and reports. It gives the analyst a way making meaningful comparisons of a firm's financial data at different points in the time and with other firm.

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, operation, result and growth of the sample bank.

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of firm to meet its maturing short term obligation and reflects the shorts term financial strength. Liquidity refers to the solvency of the firm's overall financial position. The following ratios are used the liquidity position of the firm.

A. Current ratio

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

Table 4.1

Current Ratio Amount in million

year	Current Assets	Current Liabilities	Current Ratio	Mean Current Ratio
1997	538.34	511.38	1.05:1	1.03:1
1998	1282.26	1292.52	1:1	
1999	2077.32	2147.96	0.97:1	
2000	3334.59	3246.25	1.03:1	
2001	5049.85	4820.38	1.05:1	
2002	6359.66	6076.23	1.05:1	
2003	7887.99	7439.38	1.06:1	
2004	9420.97	8928.25	1.06:1	
2005	11629.42	10722.51	1.08:1	
2006	15155.29	14696.48	1.03:1	
2007	16278.16	15869.05	1.02:1	
2008	17661.67	16564.98	1.06:1	

Source: Annual Report of Everest Bank

This analysis covers twelve years from 1997 to 2008. Current Assets consists cash balance, investment in government securities bank, bank balance, money at call, loan and advance and bills purchased and other assets. Current liabilities include deposited liabilities, bills payable and other liabilities.

Above calculated ratios of EBL shows current ratio is below standard of industry average1.05:1 and also with average ratio 2:1. However looking at the nature of assets and liabilities of the commercial banks the ratio, below the standard may be accepts as satisfactory. But it signifies bank have poor liquidity position. The bank may face the problem of working capital if they need to pay the current liabilities at demand. Bank may have the problem in winning the confidence depositor and short term lenders. Since the mean value is 1.03:1, it means the firm has difficulty in meeting its current obligation.

B. Cash and Bank Balance to current and saving Deposited ratio

Cash and bank Balance to current and saving Deposit Ratio= $\dfrac{\text{Cash and Bank Balance}}{\text{Current Saving Deposit}}$

Table 4.2

Cash and Bank Balance to current and Saving Deposit Ratio

Amount in Million

Year	Cash and bank balance	Current and saving deposited	Ratio %	Mean Ratio%
1997	87.33	140.60	62.11	31.01
1998	255.15	403.52	63.23	
1999	460.72	767.52	60.00	
2000	278.61	1437.26	19.38	
2001	834.99	2079.78	40.15	
2002	592.76	2755.02	21.52	
2003	1139.57	3900.22	29.22	
2004	631.80	5165.94	12.23	
2005	1049.98	6693.73	15.69	
2006	1552.97	9560.09	16.24	

2007	1920.84	11781.98	16.30	
2008	1735.44	10809.14	16.06	

Source: Annual Report of Everest Bank

Cash and bank balance to current and saving deposited ratio remained 62.11%, 63.23%, 60.00%, 19.38%, 40.15%, 21.52%, 21.52%, 29.22%, 12.23%, 15.69% and 16.24% ,16.30, 16.06 respectively over the twelve year of study period.

Above calculated into ratio shows and bank balance to current and saving deposit ratio fluctuated over the twelve years of study period. It was in decreasing trend. Comparatively for the first three years of study period ratio was higher.

In a year 2004, ratio was 12.23% which was lowest of period. Comparing the mean ratio with current data there is a vast change in value. Present data shows the value of 16.06% where as the average data gives 31.06% It may because although cash and Bank Balance increase over time, Current and saving deposited too increase s rapidly.

C. Cash and Bank Balance to Total Deposit Ratio

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

Table 4.3

Cash & Bank Balance to total Deposit Ratio

Amount in million

year	Cash & Bank Balance	Total Deposit	Ratio %	Mean Ratio%
1997	87.33	471.66	18.52	15.33
1998	255.15	1124.90	22.68	
1999	460.72	1948.94	23.64	

2000	278.61	3057.42	9.11	
2001	834.99	4574.51	18.25	
2002	592.76	5466.61	10.84	
2003	1139.57	6694.96.	17.02	
2004	631.80	8063.90	7.83	
2005	1049.98	10097.69	10.40	
2006	1552.97	13802.44	11.25	
2007	2391.3	12570.171	19.02	
2008	2667.9	17281.094	15.43	

Source: Annual Report of Everest Bank

Total deposit includes current deposit, saving deposit, fixed deposit, call deposit and other deposit. In a year 1999 the ratio 23.646% which indicated strong liquidity position and in a year 2004 ratio 7.82% which is lowest of study period. Trend of the ratios appeared to be fluctuating in the study period. There is no such great difference between current and average value which are just in 15.43% and 15.33% respectively. Though high ratios indicate its high liquidity position but it also affects profitability due to idleness of high interest bearing fund.

D. Investment in Government Securities to Total Deposit

$$\text{Investment in Government Securities to Total Deposit} = \frac{\text{Investment}}{\text{Total}}$$

Deposit

Table 4.4

Investment in Government Securities to Total Deposit

Amount in million

Year	Investment in Government	Total Deposit	Ratio %	Mean Ratio

	Securities			
1997	132.28	471.66	28.05	21.07
1998	111.05	1124.90	9.87	
1999	184.91	1948.94	9.32	
2000	257.61	3057.42	8.43	
2001	822.99	4574.51	18	
2002	1538.90	5466.61	28.15	
2003	1599.35	6694.96.	23.89	
2004	2466.43	8063.90	30.59	
2005	2100.29	10097.64	20.80	
2006	3548.62	13802.44	28.71	
2007	3614.45	12570.171	28.75	
2008	3237.97	17281.094	18.37	

Source: Annual Report of Everest Bank

Investment in government securities to Total is used to measure the percentage of total deposit invested in government securities. Above calculated ratio shows invested in government securities fluctuated over the twelve year of study period.

Governments securities are risk free investment but gives lower return to investor. Comparatively in the year 1997, 2002, and 2004 and in a year 2006, EBL invested high portion of total deposit in government securities. The present ratio 18.37% is less than the average ratio which is 21.07% however 18.37% is less than previous years. It means the bank may be using its investment other sectors .Bank should invest in other secured sector which gives return than government securities.

4.1.2 Activities Ratio / Assets Management Ratio

This ratio measures the efficiency of the firm. The following activities ratios are used to measure the firm's efficiency.

A. Loan and Advance to Total Deposit Ratio

$$\text{Loan \& Advance to total Deposit} = \frac{\text{Loan \& Advance}}{\text{Total Deposit}}$$

Table 4.5

Loan & Advance to Total Deposit Ratio

Amount in million

year	Loan & Advance	Total Deposit	Ratio%	Mean Ratio
1997	302.18	471.66	63.93	72.43
1998	871.68	1124.90	77.49	
1999	1364.88	1948.94	70.05	
2000	2270.18	3057.42	74.25	
2001	3005.76	4574.51	65.71	
2002	3948.48	5466.61	72.23	
2003	4908.46	669496.	73.32	
2004	5884.12	8063.90	72.97	
2005	7618.67	10097.69	75.45	
2006	9801.31	13802.44	71.01	
2007	9840.81	12570.171	78.28	
2008	12946.089	17281.094	74.49	

Source: Annual Report to Everest Bank

Loan & Advance consists of loan, advances, bills purchased and bills discounted. The ratio fluctuated throughout the study period. The ratio indicates the proportion of total deposit invested in loans and advances. In a year 1997, 63.93% of total deposit was invested in loans and advances which is lowest of the period. In 1998, ratio was 77.49% which is highest of the study period. Too low ratio gives a picture of the idle cash in bank. As per banking practice, bank maintains the ratio around 70-75%. The average ratio shows the values 72.43% which is more or less equal to the present ratio 74.49% above table shows is successful in utilizing its deposits on loans and advances.

B. Loan and Advance to fixed Deposit Ratio

$$\text{Loan and Advance to Fixes Deposit Ratio} = \frac{\text{Loans and Advance}}{\text{Fixed Deposit Ratio}}$$

Table 4.6

Loan & Advance to Fixed Deposit Ratio

Amount in million

year	Loan & Advance	Fixed Deposit	Ratio%	Mean Ratio%
1997	302,18	331.10	91.27	176.98%
1998	871.68	721.38	120.84	
1999	1364.88	1132.08	120.56	
2000	2270.18	1478.88	153.50	
2001	3005.78	2284.64	131.56	
2002	3948.48	2711.58	145.61	
2003	4908.46	2794.74	175.63	
2004	5884.12	2897.96	203.04	
2005	7618.67	3403.96	223.82	
2006	9801.31	4242.35	231.03	
2007	9840.81	5626.66	242.43	
2008	12946.089	6446.18	284.49	

Source: Annual Report of Everest Bank

The ratio of EBL remained 91.27%, 120.84%, 153.59%, 131.56%, 145.61%, 175.63%, 203.04%, 223.82%, 231.3% .242.43%,284.49% over the twelve years of study period. The ratio revealed an increasing trend. The present value is much more (284%) than the mean ratio (176.98%) Above calculated ratios that EBL has good performance and efficiently utilized the high interest bearing fixed deposit in the loan and performance and efficiently utilized the high interest bearing fixed deposit in the loan advance.

Fixed deposit are main source of deposit of the bank and high interest bearing obligation whereas loan and advance are major sources of investment to generate income for the commercial banks.

C. Loan & Advance to saving Deposit Ratio

$$\text{Loan \& Advance to saving Deposit Ratio} = \frac{\text{Loan \& Advance}}{\text{Saving Deposit}}$$

Table 4.7

Loan & advance to saving Deposit Ratio

Amount in million

year	Loan &Advance	Saving Deposit	Ratio%	Mean Ratio %
1997	302.18	79.03	382.36	219.97
1998	871.68	217.84	400.00	
1999	1364,88	448.00	304.66	
2000	2270.18	891.75	254.58	
2001	3005.76	1384.06	217.17	
2002	3948.48	17356.37	227.53	
2003	4908.46	2757.95	177.78	
2004	5884.12	3730.61	157.73	
2005	7618.67	4806.83	158.50	
2006	9801.31	6929.22	141.45	
2007	9840.81	9029.25	108.98	
2008	12946.089	11883.85	108.93	

Source: Annual Report of Everest Bank

The ratio of EBL remained 382.36%, 400%, 304.66%. 254.58%. 217.17%, 227.53%, 177.98%, 157.73%, 158.50%, 141.45%, 108.98%, 108.93% over the twelve years. The ratio revealed decreasing trend. In 1997 the ratio was 382.36% and in 2009 come down to 108.93%. It indicates insufficient utilization of saving deposit in a form of loans and advance. The present ratio is 108.93% where as the mean ratio is 219.97%. So bank should follows different policy to increase the amount of loan and advance to saving deposit which generate the income and reduce the interest cost.

D Investments to Total Deposit Ratio

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

Table 4.8

Investment to Total Deposit Ratio

Amount in million

Year	Investment	Total Deposit	Ratio%	Mean Ratio %
1997	132.29	471.66	28.05	21.88
1998	217.95	1124.90	19.38	
1999	283.08	1948.94	14.52	
2000	260.11	3057.42	8.51	
2001	901.72	4574.51	19.71	
2002	1693.04	5466.61	30.97	
2003	1653.98	669496.	24.71	
2004	2535.66	8063.90	31.44	
2005	2128.93	10097.69	21.08	
2006	4200.52	13802.44	30.43	
2007	2648.69	18186.2	14.56	
2008	4612.68	23976.2	19.23	

Source: Annual Report of Everest Bank

The ratio of investment to total Deposit Remained 28.05%, 19.38%, 8.52%, 19.71%, 30.97%, 24.71%, 32.44%, 21.08%, 30.43 ,14.56% and 19.23% over twelve year of study period. The ratios shows irregular during the study period. In a year 2002 the ratio was 8.516% which is lowest and in a year 2004, ratio was 31.44% which is highest of the study period. In a year 2008, 19.23% represented out of total deposit 30.43% is invested which is medium of the study period of twelve years. The present value of 19.23% and mean value ratio of 21.88% are of not so difference. The bank is recommended to invest in outdoor securities.

Bank should invest certain percentage of deposit in different sector. If bank is unable to invest in proper way it increases interest expenses, idle fund do not gives any return to bank.

E. Performing Asset to Total Assets Ratio

$$\text{Performing Asset to Total Assets Ratio} = \frac{\text{Performing Asset}}{\text{Total Assets}}$$

Table 4.9

Performing Asset to Total Ratio

Amount in million

Year	Performing asset	Total Asset	Ratio%	Mean Ratio%
1997	454.48	594.31	76.47	83.70
1998	1089.63	1419.98	76.74	
1999	1647.96	2293.14	71.86	
2000	2940.64	3417.85	86.04	
2001	4147.47	5218.68	79.47	
2002	5727.64	6607.17	86.69	
2003	6562.44	8052.21	81.50	
2004	8607.23	9608.57	89.58	
2005	10317.60	11792.13	87.50	
2006	14068.78	15959.28	88.15	

2007	15753.03	15416.83	102.18	
2008	17589.80	22455.19	78.33	

Source: Annual Report of Everest Bank

Performing assets to total assets remained 76.47%, 76.74%, 71.86%, 86.04%, 79.47%, 86.69%, 86.50%, 89,58%, 87.50%, and 88.15%, 102.18 and 78.33% respectively over the twelve years of study period.

Performing Assets are investment, money at call and notice, bills purchased and discount and loan advances EBL, had maintained high ratio through out the period of study. Most of the bank's total assets have been funded for income generation. The average value is 83.70% which is higher than present ratio 78.33%. Higher ratios indicate greater utilization of assets that leads to sound profitability position of the bank. Hence in the year 2008 its planning of performing assets is not so sound.

F. Performing Assets to Total Debt Ratio

$$\text{Performing Assets to Total Debt Ratio} = \frac{\text{Performing Asset}}{\text{Total Debt}}$$

Table 4.10

Performing Asset to Total Debt Ratio

Amount in million

Year	Performing Asset	Total Debt	Ratio%	Mean Ratio%
1997	454.48	438.55	103.63%	105.96
1998	1089.63	956.50	113.92	
1999	1647.96	1628.03	101.22	
2000	2940.64	2556.03	115.01	
2001	4147.47	3974.34	104.36	
2002	5727.64	4974.34	115.15	
2003	6562.44	5980.78	109.73	

2004	8607.23	7194.15	119.64	
2005	10317.60	8915.15	115.73	
2006	14068.79	12464.87	112.87	
2007	15753.03	18186.2	86.92	
2008	17589.80	23976.2	73.36	

Source: Annual Report of Everest Bank

To generate income bank should use the outsider fund in proper way. Keeping money idle will not give any return. This ratio shoes the bank efficiency of utilization of outsider's fund. Performing assets are investment, money at call and short notice, bills purchased and discounted, loan and advances.

Performing Assets to Total Debt Ratio fluctuated over the ten years of study period. In a year 2004 and in a year 2008 were ratio 199.64% and 73.36 % respectively which are the highest and lowest over twelve year of study period. The present value is 73.36% where as the mean value is 105.96% .High ratio represents the success in utilization the fund, like in 1998, 2002, 2004 and remained year were satisfactory because ratio were more 100%.

4.1.3 Profitability Ratio

Profitability ratios are measures of performance showing how much the bank is earning compared to its asset or equity. This ratio includes operating profit margin, net profit, return on asset and return on equity. Following profitability are used to measure the performance of EBL.

A. Return on Asset (ROA)

$$\text{Return on Total Asset} = \frac{\text{Net profit After Tax}}{\text{Total Asset}}$$

Table 4.11

Return on Total Asset

Amount in million

Year	Net Profit After Tax	Total Asset	Ratio%	Mean Ratio%
1997	-11.05	594.31	-1.59	1.18
1998	25.03	1419.98	1.76	
1999	25.23	2293.14	1.10	
2000	41.27	3417.85	1.21	
2001	69.71	5218.68	1.34	
2002	85.34	6607.17	1.29	
2003	94.18	8052.21	1.17	
2004	143.57	9608.57	1.49	
2005	170.81	11792.12	1.45	
2006	237.29	15959.28	1.49	
2007	296.4	18186.2	1.62	
2008	451.2	23976.2	1.88	

Source: Annual Report of Everest Bank

The ratio on total Asset ratio remained negative in a year 1997 but after 1887 bank is able to earned profit so its were in positive form. Its ratio fluctuated over twelve years of study period. In a year 1999, 1.10% was lowest ratio and in 1998, 2004, 2005, 2006, 2007, 2008 were the higher ratio over study period. The present profitability is higher (1.88%) than that of a mean ratio (1.18%).Higher the ratio indicates the success of management in overall operation.

B. Return on Total Deposit

$$\text{Return on Total Deposit} = \frac{\text{Not Profits After Tax}}{\text{Total Deposit}}$$

Table 4.12

Return on Total Deposit

Amount in million

Year	Net Profit After Tax	Total Deposit	Ratio%	Mean Ratio%
1997	-11.05	471.66	-2.34	1.31
1998	25.03	1124.90	2.23	
1999	25.23	1948.94	1.29	
2000	41.27	33057.42	1.35	
2001	69.71	4574.51	1.52	
2002	85.34	5466.61	1.56	
2003	94.18	6694.96	1.41	
2004	143.57	8063.90	1.78	
2005	170.81	10097.69	1.69	
2006	237.29	13802.44	1.72	
2007	296.4	18186.2	1.63	
2008	451.2	23976.2	1.88	

Source: Annual Report of Everest Bank.

Return on total deposit shoes the relations of net profit earned by the bank with the total deposit accumulated. Higher ratio indicates strong profitability position and vice versa. In a year 1999, 2.23% was higher of twelve years of study period.

Return on Total Deposit fluctuated over the twelve years of study period. It measures the contribution of Net Profit After to Total Deposit. From a year 1999 to 2002 the ratio trend was increasing position. It decreased in 2003 again increased in 2004 and decreased in 2005. In 2008, ratio was has been increased to 1.88%. The value is more than mean ratio of 1.31% and hence concluded that the ratio is sound and good.

C. Total Interest Expense to Total Income Ratio

$$\text{Total Interest Expense to Total Interest Income Ratio} = \frac{\text{Total Interest Expense}}{}$$

Total Interest

Income

Table 4.13

Total Interest Expenses to Total Interest Income Ratio

Amount in Million

Year	Total Interest Expenses	Total Interest Income	Ratio%	Mean Ratio%
1997	21.88	28.24	77.48	57.36
1998	74.72	104.20	71.71	
1999	118.70	175.93	67.47	
2000	178.37	267.44	66.70	
2001	236.70	385.02	61.48	
2002	257.05	443.82	57.92	
2003	307.64	520.17	59.14	
2004	316.36	627.25	48.13	
2005	299.57	719.30	41.65	
2006	401.40	903.41	44.43	
2007	289.35	636.35	45.47	
2008	377.03	805.32	46.81	

Source: Annual Report of Everest Bank

Bank main source of income in interest income. Total Interest Expenses to total Interest Income ratio of EBL remained in decreasing trend over the twelve year of study period. It indicates bank able to earned more interest which is favorable for EBL. EBL is more successful in later in allocating interest bearing debt profitable sectors. Also the ratio in 2008 shows 46.81% than that of mean ratio of value 57.36%.

D. Interest Earned to Total Assets Ratio

$$\text{.Interest Earned to Total Assets Ratio} = \frac{\text{Total Interest Income}}{\text{Total Asset}}$$

Table 4.14

Interest Earned to Total Assets Ratio

Amount in million

Year	Total Interest Income	Total Asset	Ratio%	Mean Ratio%
1997	28.24	594.31	4.75	6.11
1998	104.20	1419.98	7.34	
1999	175.93	2293.14	7.67	
2000	267.44	3417.85	7.67	
2001	385.02	5218.68	7.38	
2002	443.82	6607.17	6.71	
2003	520.17	8052.21	6.46	
2004	657.25	9608.57	6.84	
2005	719.30	11792.12	6.09	
2006	903.41	15959.28	5.66	
2007	636.35	18186.2	3.5	
2008	805.32	23976.2	3.35	

Source: Annual Report of Everest Bank

Ratio of EBL remained 4.175% 7.34%, 7.67%, 7.82%, 7.38%, 6.17%, 6.46%, 6.84%, 6.09% ,5.66% ,3.5 and 3.35 respectively year of study period of twelve years. Highest ratio and lowest ratio were 7.82% and 3.35% respectively in a year 1997 and 2008. High ratio in a year 2000 indicates the proper utilization of bank's asset for income generating purpose.

In a year 2008 cooperatively bank was unsuccessful in mobilizing their working fund to generate income but it was not a big change, bank can recover. So it is satisfactory. But looking at the mean ratio of value 6.11% the present value is not sound. Bank should be serious to generate interest income in the future.

E. Staff Expenses to Total Income Ratio

$$\text{Staff Expenses to Total Income Ratio} = \frac{\text{Staff Expenses}}{\text{Total Income}}$$

Table 4.15

Staff Expenses to Total Income Ratio

Amount in million

Year	Staff Expenses	Total Income	Ratio%	Mean Ratio%
1997	4.32	32.94	13.11	6.14%
1998	7.68	139.24	5.52	
1999	13.38	219.46	6.10	
2000	18.63	327.30	5.69	
2001	25.99	465.51	5.58	
2002	32.37	540.93	5.95	
2003	37.37	635.33	5.88	
2004	48.53	785.06	6.18	
2005	60.59	858.96	7.05	
2006	70.92	1066.51	6.65	
2007	52.51	1653.18	3.17	
2008	56.63	1972.71	2.87	

Source: Annual Report of Everest Bank

Total income expended for staff remained 13.11%, 5.52%, 6.10%, 5.69%, 5.58% 5.95%, 5.88%, 6.18%, 7.05% ,6.65% 3.17% and2.87%over ten years of study period. Staff expenses of EBL include salary, allowances PF contribution, training, uniform, medical insurance, gratuity and other staff expenses. EBL has highest ratio in a year 1997 and lowest in 2008. Low ratio is good for the bank point of view but always expected difference kind of facilities.. The mean value is 6.14% is really more to the present ratio 2.87%. So lower ratio may negative effect in staff's morale which in turn profit will decrease and high ratio directly affects the profitability of bank

F. Office Operation Expenses to Total Income Ratio

$$\text{Office Operation Expenses to Total Income Ratio} = \frac{\text{Office Operating Expense}}{\text{Total Income}}$$

Table 4.16

Office Operating Expenses to Income Ratio

Amount In million

Year	Office Operation Expenses	Total Income	Ratio %	Mean Ratio%
1997	12.06	32.94	36.61	14.97
1998	17.48	139.24	12.55	
1999	29.14	219.46	13.27	
2000	42.09	327.30	12.86	
2001	50.45	465.51	10.84	
2002	79.02	540.93	14.61	
2003	93.58	635.33	14.73	
2004	103.80	785.06	13.22	
2005	129.07	858.96	15.03	
2006	143.56	1066.51	13.46	
2007	177.54	1653.18	10.73	
2008	233.76	1972.71	11.84	

Source: Annual Report of Everest Bank

Office operation expense remained 36.61%, 12.55%, 13.27%, 12.37%, 12.86%, 10.84%, 14.61%, 14.73%, 13.22%, 15.03% , 13.46% , 10.73% and 11.84% to its Total Income over the twelve years study period. Office operation expenses includes, rent includes, rent, water and electricity, repair and maintained etc. EBL has highest and lowest in 1997 in 2001. Higher ratio in a year 1997 and lower ratio in year 2001 might have opposite (adverse) effect in the profitability of the bank. The ratio 11.87% is some how less than mean ratio 14.97% and it sounds quite good.

4.1.4 Leverage Ratio

Leverage ratio highlights the long term financial health debt servicing, capacity, strength and weakness of the firm. Various capital structure ratios are used in this study, which are follows.

A. Debt Equity Ratio

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

Table 4.17

Debt Equity Ratio

Amount in Million

Year	Total Debt	Shareholder's	Ratio (Times)	Mean Ratio(Times)
1997	438.55	38.31	11.44	11.75
1998	956.50	127.43	7.51	
1999	1628.03	145.16	11.22	
2000	2556.00	202.85	12.60	
2001	3974.34	319.40	12.44	
2002	4974.27	390.91	12.72	
2003	5980.78	472.82	12.65	
2004	7194.15	540.31	13.33	
2005	8015.15	629.62	14.16	
2006	12464.87	822.80	15.15	

2007	13802.44	1514.67	9.2	
2008	18186.25	2112.6	8.6	

Source: Annual Report of Everest Bank

Total Debit includes long term and short term interest bearing obligation which are loans and advances taken from other financial institution and deposit carrying interest i.e. saving deposit, fixed deposit and call deposit. Equity is combination of paid of capital and reserve and surplus. Debt Equity Ratio shows the mix of debt and equity in capital structure.

Total Debt to Equity Ratio of EBL remained 11.44, 7.51. 11.22, 12.60, 12.44, 12.72, 12.65, 13.13, 14.16, 15.15, 9.2 and 8.6 times over the study period. This ratio show EBL has high portion of debt in capital structure. From year 2002 to 2006 debt ration increase and decrease thereafter. The mean ratio is 11.75% and the in the year it is 8.6%, it means high portion of the debt is some how decrease in the later years in its capital structure.

B. Debt Asset Ratio

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

Table 4.18

Debt Asset Ratio Amount in Million

Year	Total Debt	Total Asset	Ratio%	Mean Ratio%
1997	438.55	594.31	73.79	74.41
1998	956.50	1419.98	67.36	
1999	1628.03	2293.14	71	
2000	2556.0	3417.85	74.78	
2001	3974.34	5218.68	76.15	
2002	4974.27	6607.17	75.29	

2003	5980.78	8052.21	74.28	
2004	7194.15	9608.57	74.87	
2005	8915.15	11792.12	75.60	
2006	12464.87	15959.28	78.10	
2007	13802.44	18186.2	75.89	
2008	18186.25	23976.2	75.85	

Debit Assets Ratio of EBL remained 73.79% 67.366% , 71% 74.78% 76.15% 75.29% 74.28% 74.87% 75.60% 78.10% 75.89% and 75.85 % over the twelve years of study period. Above calculated ratios shows larger portion of the bank's assets has been financed through outsider's fund. The aggregate 74% of assets was financed by outsider's fund. The current ratio 75.85% which is very nearer to mean ratio 74.41% .This ratios shows that bank is following high profit high risk strategy.

C. Interest Coverage Ratio

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Interest Expense}}$$

Table 4.19

Interest Coverage Ratio

Amount in Million

Year	EBIT	Interest Expenses	Ratio (Times)	Mean Ratio(Times)
1997	(21.87)	21.88	-	1.50
1998	99.93	74.72	1.34	
1999	157.93	118.70	1.33	
2000	217.39	178.37	1.22	
2001	338.75	236.70	1.43	

2002	380.82	257.05	1.48	
2003	443.52	307.64	1.44	
2004	527.48	316.36	1.68	
2005	552.99	299.57	1.84	
2006	747.00	401.40	1.86	
2007	1115.1	517.16	2.15	
2008	1486.3	632.60	2.34	

Source: Annual Report of Everest Bank

Earning before Interest and Tax includes interest expense, net profit and provision for taxation. Interest includes all the interest expenses paid to outsider parties.

Interest Coverage Ratio remanded 1.31, 1.33, 1.22, 1.43, 1.48, 1.44, 1.68, 1.84, 1.86, 2.15 and 2.34 times over the twelve years of study period. Highest ratio was in 2007 of 2.15 times. The mean ratio is 1.50 which is less than of the year 2008 of value 2.34 a high ratio indicates more use of debt for which is to paid or insufficient operation.

4.1.5 Assets Quality Ratio

A. Loan Loss Coverage Ratio

$$\text{Loan Loss Coverage Ratio} = \frac{\text{loan Loss Provision}}{\text{Total Risk Assets}}$$

Table 4.20

Loan loss Coverage Ratio

Amount in Million

Year	Loan Loss Provision	Total Risk Assets	Ratio	Mean Ratio
1997	1.75	302.18	0.58	.87
1998	5.73	871.68	0.66	
1999	8.33	1364.88	0.61	

2000	15.56	2270.18	0.69	
2001	33.50	3005.75	1.11	
2002	34.73	3948.48	0.88	
2003	45.75	4908.46	0.93	
2004	81.78	5884.12	1.39	
2005	88.93	7618.67	1.17	
2006	70.46	9801.31	0.72	
2007	84.45	11001.08	0.76	
2008	87.74	9221.60	0.95	

Source: Annual Report of Everest Bank

Risky assets includes loan and advances, bill purchased and discounted. Loan Loss Coverage Ratio remained 0.58%, 0.66%, 0.61%, 1.11%, 0.88%, 0.93%, 1.39%, 1.17%, ,0.72%,.76% and 95% over the twelve years of study period. Most of the ratio was below the 1%. It means portion of loan were risky less but compare to mean value of .87% it is little risky in the year 2008. These shows EBL has been successful to fore see the quality of loans lent its loan loss coverage can be ranked as satisfactory.

B. Loan Loss Provision to Total Income Ratio

$$\text{Loan Loss Provision to Total income Ratio} = \frac{\text{Loan Loss provision}}{\text{Total Income}}$$

Table 4.21

Loan Loss Provision to Total Income Ratio

Amount in million

Year	Loan loss Provision	Total Income	Ratio%	Mean Ratio%
1997	1.75	32.94	5.31	6.31
1998	5.73	139.24	4.11	
1999	8.33	219.46	3.80	
2000	15.56	327.30	4.75	
2001	33.50	465.51	7.20	
2002	34.73	540.93	6.42	

2003	45.75	635.33	7.20	
2004	81.78	785.06	10.42	
2005	88.93	858.96	10.35	
2006	70.46	1066.51	6.60	
2007	84.45	1653.18	5.10	
2008	87.74	1972.71	4.5	

Source: Annual Report of Everest Bank

Loan Loss Provision to Total Income Ratio remained 5.31%, 4.11%, 3.80%, 4.75%, 7.20%, 6.42%, 720%, 10.42%, 10.35% ,6.60%, 5.10% and 4.5% over the twelve years of study period. Ratio was fluctuating trend over the period. Higher the ratio indicates the bank advanced loan in risky assets. In a year 2004 the ratio was highest, the bank advanced loan in risky asset for which the provision of RS 81.77 million was made. EBL'S loan loss provision to total income in a year 2008 was 4.5% in same period of 2007 was 5.10 %. It's mean ratio is 6.31% This shows that EBL was success to reduce loan provision in a final year of study period.

C. Loan Loss Provision to Total Deposit Ratio.

$$\text{Loan Loss Provision to Total Deposit Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Deposit}}$$

Table 4.22

Loan Loss Provision to Total Deposit in Ratio

Amount in million

Year	Loan Loss Provision	Total Debt	Ratio%	Mean Ratio%
1997	1.75	471.66	0.37	.61
1998	5.73	1124.90	0.51	
1999	8.33	1948.94	0.43	
2000	15.56	3057.42	0.51	

2001	33.50	4574.51	0.73	
2002	34.73	5466.61	0.64	
2003	45.75	6694.96.	0.68	
2004	81.78	8063.90	1.01	
2005	88.93	10097.69	0.88	
2006	70.46	13802.4	0.51	
2007	84.45	13802.44	0.61	
2008	87.74	18186.25	0.48	

Source: Annual Report of Everest Bank

Loan Loss Provision to Total Deposit ratio remained 0.37%, 051%, .0.43%, 0.51%, 0.73%, 0.64%, 068%, 1.01%, 0.88% 0.51%, 0.61% and 0.48% over the twelve year of study period. It fluctuated over the study period. In a year 2008 bank was able to reduce the loan loss provision to total deposit ratio to 0.48. Expect in a year 2004, Loan Loss Provision to Total Deposit Ratio was below 1%, so the EBL lent greater portion of loans in secured sector. Mean ratio is .61% compare to 2008 of value .48% High Loan Loss Provision shows the default in payment of loan by the borrowers.

4.1.6 Market Value / Growth Ratio

A. Earning Per Share (EPS)

$$EPS = \frac{\text{Earning Available to Common Shareholders}}{\text{No. of common share Outstanding}}$$

Table 4.23

Earning Per Share

Amount in million

year	Earning Available shareholder	No. of common share	Ratio %	Mean Ratio%
1997	-11.05	1.18	-9.36	41.29

1998	25.03	1.18	21.21	
1999	25.23	1.18	21.38	
2000	41.27	1.18	34.97	
2001	69.70	2.20	31.68	
2002	85.35	2.60	32.83	
2003	84.18	3.15	29.90	
2004	143.57	3.15	45.58	
2005	170.81	3.15	54.22	
2006	237.29	3.78	62.78	
2007	296.4	3.78	78.41	
2008	451.2	4.91	91.89	

Source: Annual Report of Everest Bank

Earning per Share refers to the income available to the common stockholders. It is calculate by dividing earning available to equity shareholders by number of common share outstanding. Ratio remained-9.36, 21.21, 21.38, 32.83, 29.90, 45.58, 54.22 62.78, 78.41 and 91.89 respectively over twelve years of study period. Ratio fluctuated, highest ratio was in a year 2008 and in 1997 it was negative because of loss.. Mean ratio is 41.29 and in the year 2008 it is 91.89. EPS reflectors sound profitability position of the bank

B. Dividend per Share (DPS)

$$DPS = \frac{\text{Earning paid to shareholders}}{\text{No. of Common Share Outstanding}}$$

Table 4.24

Dividend per share

Amount in million

Year	Earning Paid to Shareholders	No. of common Shares	Ratio %	Mean Ratio%
1997	-	1.18	-	10.87
1998	-	1.18	-	
1999	18	1.18	15	
2000	-	1.18	-	
2001	-	2.20	-	
2002	-	2.60	-	
2003	63	3.15	20	
2004	63	3.15	20	
2005	63	3.15	20	
2006	94.5	3.78	25	
2007	78.4	3.78	20.74	
2008	91.82	9.41	9.75	

Source: Annual Report of Everest Bank

EBL didn't pay a regular dividend for the common shareholders. It didn't pay dividend in the year 1997, 1998, 2001, and in 2002, then after paid regular dividend to common shareholders. In the years 2003 to 2005 it paid constant dividend of 20% of earning. EBL paid 25% of its earning as a dividend which is highest of the twelve years of study period. Comparatively from the year 2003 bank was more successful in income generating its net profit was 237.29 million a year 2006. Only financial strong companies can distribute dividend. Comparing to mean value of 10.87% the present value is little less which is of 9.75%. High DPS shows the efficiency of management and vice versa. So, the Shareholders prefer high dividend.

C. Price Earning Ratio (P / E Ratio)

$$P/E = \frac{\text{Market Value per share}}{\text{Earning per Share}}$$

Table 4.25

Price Earning Ratio

Amount in million

Year	MVPS	EPS	Ratio %	Mean Ratio%
1997	127.00	-9.36	-13.57	17.36
1998	184.00	21.21	8.68	
1999	407.00	21.38	19.00	
2000	995.00	34.97	28.48	
2001	650.00	31.68	20.52	
2002	405.00	32.83	12.33	
2003	445.00	29.90	14.88	
2004	680.00	45.58	14.92	
2005	870.00	54.22	16.04	
2006	1379.00	62.78	21.97	
2007	2430	78.41	30.99	
2008	3132	91.89	34.08	

Source: Annual Report of Everest Bank

This Ratio measures investor's expectation and the market appraisal of the performance of firm. Price Earning Ratio (P/ E) fluctuated over twelve years of study period. It remained -13.57%, 8.68%, 19.00%, 28.45%, 20.52%, 14.88%, 14.92%, 16.04%, 21.97%, 30.99% and 34.08%.. In a year 1997 EBL was in loss, so its ratio was in negative. In the year 1998 ratio was 8.68% and in 2007 it was 30.99 %, lowest and highest of study period. Market value of share comparatively high in a year 2008, it recovered from 2004. The mean value is 17.36% is less compared to 34.08%. High ratio indicates higher expectation of the market towards the achievement of firm.

4.2 Income and Expenditure Analysis

4.2.1 Income Analysis

A. Interest Income

$$\text{Interest Income} = \frac{\text{Interest Income}}{\text{Total Income}}$$

Table 4.26

Interest Income

Amount in million

Year	Interest Income	Total Income	Ratio %	Mean Ratio%
1997	28.24	32.94	85.73	80.74
1998	104.20	139.24	74.83	
1999	175.93	219.24	80.17	
2000	267.44	327.30	81.71	
2001	385.02	465.51	82.72	
2002	443.82	540.93	82.05	
2003	520.17	635.33	81.87	
2004	657.25	785.06	83.72	
2005	719.30	858.96	83.74	
2006	903.41	1066.51	84.71	
2007	1144.44	1653.18	69.22	
2008	1548.86	1972.71	78.51	

Source: Annual Report of Everest Bank

Interest income is main source of income of commercial banks. It includes income from investment in Government securities, interest in balance with other banks, money at call and inters bank lending.

Interest income over the study period remained 85.73%, 74.83%, 80.17%, 81.71%, 82.72, 82.05%, 81.87%, 83.72%, 83.74% , 84.71%.,69.22% , and 78.51% .Up to 80% of total income is a contribution of interest of EBL. Interest dominates other income of the bank. Compare to mean ratio of 80.74% the present ratio is little less 78.51%.

B. Commission and Discount Income

$$\text{Commission and Discount Income} = \frac{\text{Commission and Discount}}{\text{Total Income}}$$

Table 4.27

Commission and Discount Income

Amount in million

year	Commission and Discount	Total Income	Ratio %	Mean Ratio%
1997	1.77	32.94	5.37	8.33
1998	14.73	139.24	10.58	
1999	23.56	219.14	10.75	
2000	25.90	327.30	7.91	
2001	30.56	465.51	6.56	
2002	36.77	540.93	6.80	
2003	61.50	635.33	9.68	
2005	74.33	785.06	9.47	
2005	78.13	858.96	9.10	
2006	96.84	1066.51	9.08	
2007	117.71	1653.18	7.12	
2008	150.26	1972.71	7.61	

Source: Annual Report of Everest bank

Bank provides different services to their customer needs such as remittance facility, purchase and discount of bills of exchange, letter of credit, guarantees standing instructions, agency function for their services bank charge commission and discount to their clients.

Commission and Discount earned by the EBL remained 5.37%, 10.58%, 10.75%, 7.91%, 6.56%. 6.80%, 9.68, 9.68%, 9.47%, 9.08%. 7.12% and 7.61% Interest income dominated commission and discount income. There is not so vas difference between present ratio of 7.61% with that of average ratio of value 8.33%.

C. Foreign Exchange Fluctuation Income

$$\text{Foreign Exchange Fluctuation Income} = \frac{\text{Foreign Exchange Fluctuation Income}}{\text{Total Income}}$$

Table 4.28

Foreign Exchange Fluctuation Income

Amount in Million

Year	Foreign Exchange Fluctuation Income	Total Income	Ratio%	Mean Ratio%
1997	0.59	32.94	1.79	2.91
1998	2.38	139.24	1.71	
1999	3.18	219.14	1.45	
2000	3.50	327.30	1.07	
2001	16.50	465.51	3.54	
2002	45.41	540.93	8.39	
2003	32.20	635.33	5.07	
2004	27.80	785.06	3.54	
2005	27.08	858.96	3.15	
2006	14.40	1066.51	1.35	
2007	36.72	1653.18	2.22	
2008	34.45	1972.71	1.74	

Sources: Annual Report of Everest Bank

Commercial Bank can purchased and sell foreign currency exchange ratio remained 1.79%, 1.71%, 1.45%, 1.07%, 3.54%, 8.39%, 5.07%, 3.54%, 3,15%, 1.35% 2.22% and 1.74% over the twelve years of study period. In a year 2008 bank's income from foreign exchange fluctuation was little lower of the study period which is up to 1.74% but compare to mean ratio 2.91% there is no big change. Foreign exchange fluctuation income was dominated by interest income. It was highest in a year 2002, 8.39%.

D. Other Income

$$\text{Other Income} = \frac{\text{Other Income}}{\text{Total Income}}$$

Table 4.29

Other Income

Amount in Million

Year	Other Income	Total Income	Ratio%	Mean Ratio%
1997	2.35	32.94	7.13	5.87
1998	17.92	139.24	12.87	
1999	16.78	219.14	7.66	
2000	30.39	327.30	9.28	
2001	33.43	465.51	7.18	
2002	14.92	540.93	2.76	
2003	21.43	635.33	3.37	
2004	25.68	785.33	3.27	
2005	34.45	858.96	4.00	
2006	51.86	1066.51	4.86	
2007	67.96	1653.18	4.11	
2008	79.13	1972.71	4.01	

Sources: Annual Report of Everest Bank

Other Income to Total Income remained 7.13%, 12.87%, 7.66%, 9.287%, 7.18%, 2.76%, 3.37%, 3.27, 4.00%,4.11 and 4.01 over twelve year of study period.

Interest income dominated other income. It was highest in a year 1998 and lowest in a year 2002. Above table shows that EBL earned small portion other income out of total income. In a final year of study period ratio was 4.01%.. Compare to mean ratio of 5.87% it is low in 2008 which is 4.01%.

4.2.2 Expenditure Analysis

A. Interest Expenses

$$\text{Interest Expenses} = \frac{\text{Interest Expenses}}{\text{Total Expenses}}$$

Table 4.30

Interest Expenses

Amount in Million

Year	Interest Expenses	Total Expenses	Ratio%	Mean Ratio%
1997	21.88	43.99	49.74	64.70
1998	74.72	114.20	65.42	
1999	118.37	194.20	61.12	
2000	178.37	286.00	62.37	
2001	236.70	318.60	74.29	
2002	257.05	364.60	70.50	
2003	307.64	438.60	70.14	
2004	316.36	468.40	67.50	
2005	299.57	483.40	61.92	
2006	401.40	613.40	65.44	
2007	517.16	802.8	64.41	
2008	632.60	994.4	63.61	

Sources: Annual Report of Everest Bank

Bank has to pay interest on various types of deposit and loan taken from the outsider parties, like other banks and financial institution. Interest expenses remained 49.7%, 64.42%, 61.12%, 74.29%, 70.50%, 70.14%, 67.50%, 61.92%, 65% 64.41% and 63.61% over its expenses. Above calculated ratio shows aggregate 64% of total expense was spend in interest expenses. Interest expenses dominated other expenses of EBL. The comparative value of 2008 which is 63.61% is not so difference with mean ratio of value 64.70%.

B. Staff Expenses

$$\text{Staff Expense} = \frac{\text{Staff Expenses}}{\text{Total Expenses}}$$

Table 4.31

Staff Expenses

Amount in Million

Year	Staff Expense	Total Expense	Ratio%	Mean Ratio%
1997	4.32	43.99	9.82	9.7
1998	7.68	114.20	6.73	
1999	13.39	194.20	6.87	
2000	18.63	286.60	6.51	
2001	25.99	318.60	8.16	
2002	32.19	364.60	8.83	
2003	37.37	438.60	8.52	
2004	48.53	468.40	10.35	
2005	60.60	483.40	12.52	
2006	70.92	613.40	11.56	
2007	86.11	802.8	10.72	
2008	157.95	994.4	15.88	

Sources: Annual Report of Everest Bank

Staffs are the wealth of an organization. They provides service to the customer in a return bank have to pay remuneration. Staff expenses include salary, allowances, P.F. contribution, training expenses, uniform, medical allowance, insurance, gratuity, festival allowances, etc.

Staff expenses remained 9.82%, 6.73%, 6.89%, 6.51%, 8,16%, 8.83%, 8.52%, 10.35%, 12.52% ,11.56% ,10.72%and 15.88% of total expenses over twelve year of study period. Interest expenses dominated staff expenses In 2008 the ratio is 15.88% which is more than mean ratio 9.7%.. Comparatively ratio was high 2004 to 2008 but fluctuated.

C. Operating Expenses

$$\text{Operating Expenses} = \frac{\text{Operating Expenses}}{\text{Total expenses}}$$

Table 4.32

Operating Expenses

Amount in million

Year	Operating Expenses	Total Expenses	Ratio %	Mean Ratio%
1997	12.06	43.99	27.41	20.75
1998	17.48	114.20	15.30	
1999	29.14	194.20	15.00	

2000	42.08	286.00	14.72	
2001	50.45	318.60	15.83	
2002	79.03	364.60	21.68	
2003	93.59	438.60	21.34	
2004	103.81	468.40	22.15	
2005	129.06	483.40	26.67	
2006	143.56	613.40	23.40	
2007	177.54	802.8	22.11	
2008	233.76	994.4	23.50	

Source: Annual Report of Everest bank

Operating Expenses includes rent, water supply and electricity, repair and maintenance, insurance premium, postage, telephone, telex, office equipment, traveling expenses printing and stationary, newspaper, advertisement, meeting expenses and depreciation etc.

Operating expenses remained 27.41%, 15.30%, 15.00%, 14.72%, 15.83%, 21.68%, 21.34%, 22.15%, 26.67%, 23.40% 22.11% and 23.50% over the twelve years of study period. In a year 1997, EBL has highest operating expenses i.e. 27.44% and lowest in a year 2000 was 14.72. In a year 2008 bank was able to reduce operating expenses to 23.50 but still little more than mean ratio of 20.75%

D. Bonus Facility

$$\text{Bonus Facility} = \frac{\text{Bonus Facility}}{\text{Total Expenses}}$$

Table 4.33

Bonus facility

Amount in million

Year	Bonus facility	Total Expenses	Ratio %	Mean Ratio%

1997	-	43.99	-	3.82
1998	2.80	114.20	2.45	
1999	4.41	194.20	2.27	
2000	6.75	286.00	2.36	
2001	11.34	318.60	3.56	
2002	14.15	364.60	3.88	
2003	15.09	438.60	3.44	
2004	23.46	468.40	5.00	
2005	28.08	483.40	5.00	
2006	34.56	613.40	5.63	
2007	45.47	802.8	5.66	
2008	65.86	994.4	6.62	

Sources: Annual Report of Everest Bank

To increase staffs performance organization should provide incentive to their staff. So the organization distributes certain portion of profit as bonus. To motivate staff organization provides bonus.

Bonus distributed to staff of EBL remained 2.45%, 2.27%, 2.36%, 356%, 3.56%, 3.88%, 3.44%, 5.00%, 5.80% , 5.63%,5.66% and 6.62% respectively. In a year 1997, bank was in loss there was no bonus for the first year of study period.

Bonus is motivational factor of any business firms. Comparatively in the year 2004, 2005 and in 2006 ,2007 and 2008 out of total expenses bonus expenses remained high, in these year bank earned more profit. The comparative value of mean 3.82% and in 2008 of 6.62% reflects the same.

4.3 Statistical tools

4.3.1 Correlation Analysis

A. Correlation Analysis between Total Deposit and Profit

Table 4.34

Correlation between Total Deposit and Profit

Amount in million

Year	Total Deposit (X)	Net Profit(Y)
1997	471.66	-11.05
1998	1124.90	25.23
1999	1948.94	25.23
2000	3057.42	41.27
2001	4574.51	69.71
2002	5466.61	85.34
2003	6694.96	94.18
2004	8063.90	143.57
2005	10097.69	170.81
2006	138002.44	237.29
2007	13802.44	296.4
2008	18186.25	451.2
Correlation Coefficient (R)	0.9337	
Probable Error (P.E.R)	0.002678	

(Calculation: Appendix 1)

Calculation shows that the coefficient of the correlation between total deposit and net profit of EBL is highly positive. Its correlation coefficient and probably error remained 0.9337 and 0.0026 respectively. Correlation Coefficient appeared greater then six times of i.e. 0.9337 > 0.0160 which means that relationship between total deposit and Net Profit is significant. This shows the net profit of EBL increases almost to the same degree with increase in the amount of deposit.

C. Correlation Analysis between investment and Profit

Table 4.35 Correlation Analysis between Investment and profit

Amount in Million

Year	Investment (X)	Net Profit (Y)
1997	132.29	-11.05
1998	217.95	25.03
1999	285.07	25.23
2000	260.11	41,27
2001	901.72	69.71
2002	1693.04	85.34
2003	1653.97	94.18
2004	2535.65	143.57
2005	2128.93	170.81
2006	4201.32	237.29
2007	2648.69	296.4
2008	4612.68	451.2
Correlation Coefficient (r)	.9554	
Probable Error (P.E)	.01417	

(Calculation: Appendix 2)

Calculation shows that Coefficient of Correlation between investment and net profit of EBL is highly positive. It correlation and probable Error remained 0.9554 and 0.01417 respectively. Correlation coefficient appeared greater then six times of probable error i.e. 09554 > 0.01417, which indicates that the investment and net profit are highly positive correlated. The ratio shows that EBL is able to invest, its deposit in the profitable sector.

C. Correlation Analysis between Deposit and Investment

Table 4.36

Correlation Analysis between Deposit and investment

Amount in Million

Year	Total Deposit	Investment
1997	471.66	132.29
1998	1124.90	217.95
1999	1948.94	285.07
2000	3057.42	260.11
2001	4574.51	901/71
2002	5466.61	1693.04
2003	6694.96	1653.97
2004	8063.90	2535.65
2005	10097.69	2128.93
2006	13802.44	4201.32
2007	13802.44	2648.69
2008	18186.25	4612.68
Correlation Coefficient (r)	0.9654	
Probable Error (P.E)	0.01422	

(Calculation: Appendix 3)

Calculation shows that Coefficient of Correlation between total deposit and investment of EBL is highly positive. Its correlation coefficient and probable error remained 0.9654 and 0.0143 respectively. Correlation coefficient appeared grater then six of probable error i.e.0.9654 > 0.01422 which indicates the deposit and investment are highly positive correlated. The ratio shows that EBL is able to invest it's almost of Deposit.

D. Correlation Analysis between Income and Expenditure

Table 4.37

Correlation Analysis between income and Expenditure

Amount in Million

Year	Income (x)	Expenditure
1997	32.90	43.95
1998	139.24	114
1999	219.14	194.20
2000	327.30	286.0
2001	465.51	318.60
2002	540.93	364.60
2003	635.33	438.60
2004	785.06	468.70
2005	858.96	483.40
2006	1006.15	613.40
2007	1370.7	772.8
2008	1848.2	1024.3
Correlation Coefficient (r)	0.9733	
Probable Error (P.E)	.0051	

(Calculation: Appendix 4)

Calculation shows the coefficient of correlation between income and expenditure of EBL is highly positive. Its correlation coefficient and probable error remained 0.9733 and 0.0051 respectively. Correlation coefficient appeared greater than six times of probable error i.e. 0.9861 > 0.051, which indicates the income and expenditure are highly positive correlated.

4.3.2 Trend Analysis

A. Trend Analysis of Total Deposit

Table 4.38

Trend Analysis of Total Deposit

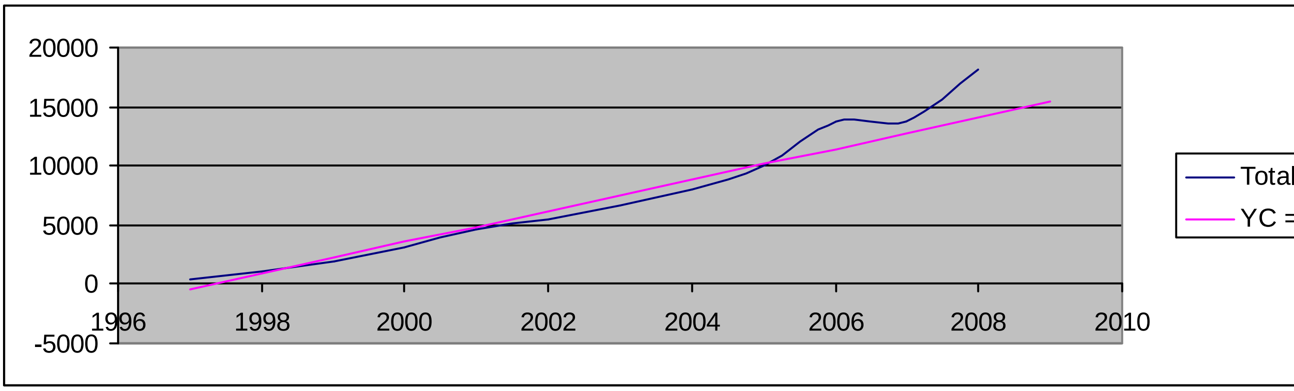
Amount in Million

Year	Total Deposit	YC = a+bx
1997	471.66	-395.09
1998	1124.19	921.67
1999	1948.94	2238.43
2000	3057.51	3555.19
2001	4574.51	4871.95
2002	5466.61	6188.71
2003	6694.96	7505.47
2004	8063.90	8822.23
2005	10097.69	10128.99
2006	13802.44	11455.67
2007	13802.44	12772.52
2008	18186.25	14089.27
2009		15406.03

(Calculation: Appendix 5)

Figure 4.1 Trend Analysis of Total Deposit

Amount in million



Above table and figure shows the amount of deposit for twelve years 1997 to 2008 and forecasted value for next year (2009) Y intercept (a) and slope of trend line (b) of the deposit appeared to be 5530.33 and 1316.76x.

Comparing to actual deposit and trend value of deposit, trend value of deposit was greater than actual value expect on a year 2008, appreciation in actual deposit in final year of study indicates bank was successful in collection deposit.

On the basis of the above trend equation forecasted total deposit for coming year would be Rs 15406.03 million. Trend analysis shows that its deposit will increase in coming years.

B. Trend Analysis of Profit

Table 4.39

Trend Analysis of Profit

Amount in million

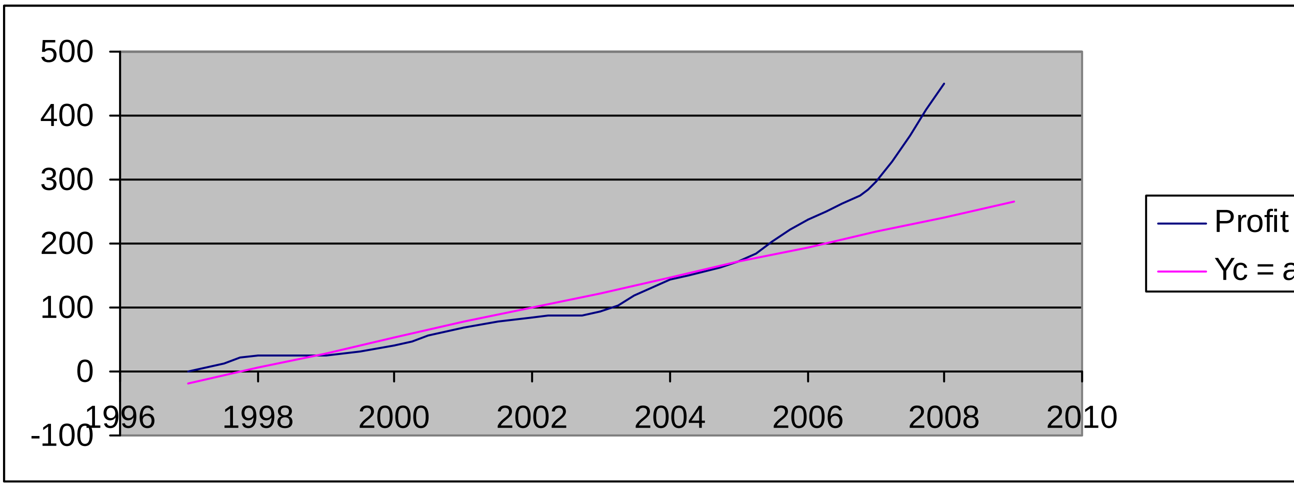
Year	Profit	Yc = a+bx
1997	-1.05	-17.70
1998	25.03	5.82
1999	25.23	29.34
2000	41.27	52.86
2001	69.71	76.93
2002	85.34	99.90
2003	94.18	123.42
2004	143.57	146.94
2005	170.81	170.46
2006	237.29	193.98
2007	296.4	217.50
2008	451.2	241.02
2009		264.54

(Calculation: Appendix 6)

Figure 4.2

Trend Analysis of profit

Amount in million



Above table and figure shows the amount of profit for twelve years 1997 to 2008 and Forecasts value for next year (2009). Y intercept (a) and slope of trend line (b) of the profit appeared to be 5530.33 and 1316.76x.

Comparing to actual profit and trend value of profit expect in the year 1998, 2005 and 2006 2007 and 2008, trend value of profit was higher actual profit. Actual of 2007 and 2008 shows that bank was more successful in earning profit.

On the basis of the above trend equation forecasted profit for coming year would be Rs 264.54. Trend analysis shows that its profit will increase in coming years.

4.4 Major Finding of the Study

Major finding of ten years of study period are as follows:

- 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 16.06 %, whish indicates that bank may not able to meet its immediate obligation. Highest ratio in 1998, 22.68% 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 weak 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 70-75%. 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 30.43 in a year 2006 which is nearly highest 31.44% of 2004. But it is less in 2008 at the value 19.23%.
- Performing assets to total assets ratio, EBL maintain high ratio through out the study period.
- Performing assets to total debt ratio was higher over the study period which shoes EBL able to utilize the outsider fund in income generation.
- 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.
- Return on deposit unstable during the study.
- Total interest expenses to total interest income ratio decreased over the period. From 1997 to 2008of study period, EBL reduced its 77.48% to 46.81% EBL is more successful in later years in allocating interest bearing debt in profitable sectors.
- Interest earned to total assets was unstable and decreased during the study period. This indicates that EBL has not utilized its assets in profitable sectors.

- Income of EBL increased over study period but their staff expense was in a range of 5-6%. These indicates a staff expenses was moderate according to income.
- Expect in a year 1997. An office operation expense was in moderate condition. It lays 12-15% over the twelve years of study period.
- Debt equity ratio of EBL showed that in its capital structure more than 80% of capital was funded by outsider's fund.
- Debt asset ratio EBL showed that large portion of the bank's asset has been financed through outsider's fund. The aggregate 74% of asset was financed by outsider's fund.
- 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.
- Loan loss coverage ratio of EBL was less than1% 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.
- Loan loss provision to total income ratio was highest in the year 2004 and 2005, were 10.42% and 10.35% respectively. But in a year 2008 EBL was able to reduce at 4.5%.
- Loan loss provision to total deposit ratio less than 1% in most of the year. This indicates EBL invested in fewer sectors.
- In a year 2008, EBL invested huge amount in the government secutities, so bank was able to reduce it accrues interest.
- Earning per share increased over the twelve years of the study period. It highest EPS was in a year 2008, it was Rs 91.89.
- P/E ratio fluctuated over the study period. In the year 2007and 2008, ratio was highest 30.99% and 34.08% respectively.
- In a year 2006, EBL distributed 25% of dividend to equity share holders which is highest of twelve year study period.
- Income and expenditure analysis showed that its main source of income is interest; its contribution in total income was more than 80%. Its interest expenses dominant other expense aggregate 67% of total expenses was interest expenses.

- Correlation coefficient of deposit and profit, investment and profit, deposit and investment and income and expenditure remained 0.9337, .9554, .9654 and .9733 respectively. This indicates highly positives correlated.
- Trend analysis of deposit and profit shows the increasing trend.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Commercial banks in Nepal have been moved a long way to become the present shape in the economy. The intial stage of the establishment of Nepal Bank limited (NBL) in 1937 AD to the present new energence banks have bought a great changes in terms of services, quailty, and scientific development to provide the best output. Almost all commercial banks have practiced a modern way of banking system. Traditioinal banking system was only based in lending and deposit servives but the modern concept introduced credit card, debit card, SMS banking , E- banking etc. After the adopttion of lideral economic policy the banking system developed in fast track. Therefore the development of the banking system in the future might be a competitiion creating both quality and threat in the market.

Financial analysis refers to an assessment of the viability, stability and profitability of a business, sub-business or project.

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. In British English, including United Kingdom company law, financial statements are often referred to as **accounts**, although the term financial statements are also used, particularly by accountants. Financial statements provide an overview of a business' financial condition in both short and long term. All the relevant financial information of a business enterprise, presented in a structured manner and in a form easy understands are called the financial statements. There are four basic financial statements:[1]

1. **Balance sheet**: also referred to as statement of financial position or condition, reports on a company's assets, liabilities, and net equity as of a given point in time.
2. **Income statement**: also referred to as Profit and Loss statement (or a "P&L"), reports on a company's income, expenses, and profits over a period of time.Profit & Loss account provide information on the operation of the enterprise. These include sale and the various expenses incurred during the processing state.
3. **Statement of retained earnings**: explains the changes in a company's retained earnings over the reporting period.
4. **Statement of cash flows**: reports on a company's cash flow activities, particularly its operating, investing and financing activities.

For large corporations, these statements are often complex and may include an extensive set of notes to the financial statements and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements.

Amoung 23 commercial bank of Nepal, Everest Bank Limited has been selected with their twelve years data starting from 1996/1997 till 2007/2008 for the study.

The main propose of this study is to find out the financial performance of EBL. Descriptive and analytical analysis have been done for the purpose by using carious methodologies and based in the secondary data.

Comparing This remarkable progress of the EBL can be attributed to its culture of corporate Governance on which the bank lays almost emphasis. Thus the bolstering growth, outstanding performance and commitments to customer satisfaction over the dacades have earned EBL. The reputation in the market

5.2 Conclusion

A) Ratio Analysis

1) Liquidity Ratio

a. Current ratio

Calculated ratios of EBL shows current ratio is below standard 2:1. Bank may have the problem in winning the confidence depositor and short term lenders. Since the mean value is 1.03:1, it means the firm has difficulty in meeting its current obligation.

b. Cash and Bank Balance to current and saving Deposited ratio

Present data shows the value of 16.06% where as the average data gives 31.06% hence Bank should maintain suitable cash and bank balance in current and saving deposit.

c. Cash and Bank Balance to Total Deposit Ratio

There is no such great difference between current and average value which are just in 15.43% and 15.33% respectively. Though high ratios indicate its high liquidity position but it also affects profitability due to idleness of high interest bearing fund.

d. Investment in Government Securities to Total Deposit

The present ratio 18.37% is less than the average ratio which is 21.07% however 18.37% is less than previous years. It means the bank may be using its investment other sectors. Bank should invest in other secured sector which gives return than government securities.

2. Activities Ratio

a. Loan & Advance to Total Deposit Ratio

The average ratio shows the values 72.43% which is more or less equal to the present ratio 74.49% above table shows is successful in utilizing its deposits on loans and advances.

b. Loan & Advance to Fixed Deposit Ratio

The present value is much more (284%) than the mean ratio (176.98%) Above calculated ratios that EBL has good performance and efficiently utilized the high interest bearing fixed deposit in the loan and performance and efficiently utilized the high interest bearing fixed deposit in the loan advance.

c. Loan & advance to saving Deposit Ratio

It indicates insufficient utilization of saving deposit in a form of loans and advance. The present ratio is 108.93% where as the mean ratio is 219.97%. So bank should follows different policy to increase the amount of loan and advance to saving deposit which generate the income and reduce the interest cost.

d. Performing Asset to Total Ratio

The average value is 83.70% which is higher than present ratio 78.33%. Higher ratios indicate greater utilization of assets that leads to sound profitability position of the bank. Hence in the year 2008 it's planning of performing assets is not so sound.

3.Profitability Ratio

The present profitability is higher (1.88%) than that of a mean ratio (1.18%).Higher the ratio indicates the success of management in overall operation.

Return on Asset (ROA)

Its ratio fluctuated over twelve years of study period. In a year 1999, 1.10% was lowest ratio and in 1998, 2004, 2005, 2006, 2007, 2008 were the higher ratio over study period. The present profitability is higher (1.88%) than that of a mean ratio (1.18%) .Higher the ratio indicates the success of management in overall operation.

b.. Return on Total Deposit

It decreased in 2003 again increased in 2004 and decreased in 2005. In 2008, ratio was has been increased to 1.88%. The value is more than mean ratio of 1.31% and hence concluded that the ratio is sound and good

c. Total Interest Expense to Total Income Ratio

It indicates bank able to earned more interest which is favorable for EBL. EBL is more successful in later in allocating interest bearing debt profitable sectors. Also the ratio in 2008 shows 46.81% than that of mean ratio of value 57.36%.

d. Interest Earned to Total Assets Ratio

it is satisfactory. But looking at the mean ratio of value 6.11% the present value is not sound. Bank should be serious to generate interest income in the future.

e. Staff Expenses to Total Income Ratio

The mean value is 6.14% is really more to the present ratio 2.87%. So lower ratio may negative effect in staff's morale which in turn profit will decrease and high ratio directly affects the profitability of bank

f. Office Operation Expenses to Total Income Ratio

EBL has highest and lowest in 1997 in 2001. Higher ratio in a year 1997 and lower ratio in year 2001 might have opposite (adverse) effect in the profitability of the bank. The ratio 11.87% is some how less than mean ratio 14.97% and it sounds quite good.

4. Leverage Ratio

Debt Equity Ratio

This ratio show EBL has high portion of debt in capital structure. From year 2002 to 2006 debt ration increase and decrease thereafter. The mean ratio is 11.75% and the in the year it is 8.6%, it means high portion of the debt is some how decrease in the later years in its capital structure.

b. Debt Asset Ratio

The aggregate 74% of assets was financed by outsider's fund. The current ratio 75.85% which is very nearer to mean ratio 74.41% .This ratios shows that bank is following high profit high risk strategy.

c. Interest Coverage Ratio

The mean ratio is 1.50 which is less than of the year 2008 of value 2.34 A high ratio indicates more use of debt for which is to paid or insufficient operation.

B. Assets Quality Ratio

1. Loan Loss Coverage Ratio

Most of the ratio was below the 1%. It means portion of loan were risky less but compare to mean value of .87% it is little risky in the year 2008. These shows EBL has been successful to fore see the quality of loans lent its loan loss coverage can be ranked as satisfactory.

2. Loan Loss Provision to Total Income Ratio

In a year 2008 bank was able to reduce the loan loss provision to total deposit ratio to 0.48. Expect in a year 2004, Loan Loss Provision to Total Deposit Ratio was below 1%, so the EBL lent greater portion of loans in secured sector. Mean ratio is .61%

compare to 2008 of value .48% High Loan Loss Provision shows the default in payment of loan by the borrowers.

C. Market Value / Growth Ratio

1. Earning Per Share (EPS)

Mean ratio is 41.29 and in the year 2008 it is 91.89. EPS reflectors sound profitability position of the bank

2. Dividend per Share (DPS)

Only financial strong companies can distribute dividend. Comparing to mean value of 10.87% the present value is little less which is of 9.75%. High DPS shows the efficiency of management and vice versa. So, the Shareholders prefer high dividend.

3. Price Earning Ratio (P / E Ratio)

Market value of share comparatively high in a year 2008, it recovered from 2004. The mean value is 17.36% is less compared to 34.08%. High ratio indicates higher expectation of the market towards the achievement of firm.

D. Income and Expenditure Analysis

1 Income Analysis

a. Interest Income

Interest dominates other income of the bank. Compare to mean ratio of 80.74% the present ratio is little less 78.51%.

b. Commission and Discount Income

Interest income dominated commission and discount income. There is not so vas difference between present ratios of 7.61% with that of average ratio of value 8.33%.

c. Foreign Exchange Fluctuation Income

Foreign exchange fluctuation income was dominated by interest income. It was highest in a year 2002, 8.39%.

d.. Other Income

Interest income dominated other income. It was highest in a year 1998 and lowest in a year 2002. Above table shows that EBL earned small portion other income out of total income. In a final year of study period ratio was 4.01%.. Compare to mean ratio of 5.87% it is low in 2008 which is 4.01%.

E. Expenditure Analysis

1. Interest Expenses

Above calculated ratio shows aggregate 64% of total expense was spend in interest expenses. Interest expenses dominated other expenses of EBL. The comparative value of 2008 which is 63.61% is not so difference with mean ratio of value 64.70%.

2. Staff Expenses

Interest expenses dominated staff expenses In 2008 the ratio is 15.88% which is more than mean ratio 9.7%.. Comparatively ratio was high 2004 to 2008 but fluctuated.

3. Operating Expenses

In a year 2008 bank was able to reduce operating expenses to 23.50 but still little more than mean ratio of 20.75%

F. Bonus Facility

Comparatively in the year 2004, 2005 and in 2006 ,2007 and 2008 out of total expenses bonus expenses remained high, in these year bank earned more profit. The comparative value of mean 3.82% and in 2008 of 6.62% reflects the same.

5.3 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.

Investment in government securities was high during the study period. Thought 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.

EBL main source of income is interest income. In present competition market EBL need to find sources of income apart from the traditional income.

EBL was able to increment in deposit, investment and profit by 36.68%, 28.30% and 38.90% respectively in 2006, 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.

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