CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is landlocked country with agro-based economy. Nepal is one of the least developed and poor county in the world where more than 90% of the people are still in rural areas and most of them are deprived minimum physical facilities which is necessary for human being. Agriculture is still the backbone of Nepalese economy and industrialization is the most essence for rapid economic development for developing country like Nepal.

For developing and upgrading Nepal's economic condition only development in agriculture sector alone is not sufficient. Industrial sector also should be promoted for this and for promotion of industrial sector financial sector plays vital role.

Finance, the art and science of managing money, affect the lives of every person and every organization. Previously finance was limited for pronouncement of long-term fund. The traditional concept of finance is changed due to industrialization, technological innovations and intense competition. Today funds are raised from external financial sources and allocated for different uses.

Financial analysis is the main quantitative judgment process of identifying the financial strengths and weakness of the firm by properly establishing the relationship between the items of balance sheet and profit and loss accounts. Financial analysis is an evaluation of both the firm's past financial performance and its prospects for the future.

Financial performance can be defined as the heart of financial decision. The achievement and development of a firm is fully affected by the financial status and performance. Balance sheets, profit and loss account and the accompanying notes are the most widely aspects of financial statement of the banks. The bank's balance sheet includes financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets appear in small portion out of the total assets. Financial innovation, which are generally contingent in nature are consider as off balance sheet items. Interest received on loans, advance and investment and paid in deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission and discounts, foreign exchange income, dividends on investment, other service charges etc.

To define and evaluate the performance of a firm analyst firstly need to understand the financial condition of that firm. And only good analysis and explanation of various ratios can give a clear picture of the firm's performance. So, financial ratio analysis can be that measure which helps an analyst to understand and evaluate the firm's performance.

A quantitative relation can be used to analyze weakness and strength of a firm's performance. It provides a framework for financial planning and control. After identifying so much scopes and importance of financial analysis, my research work also focus on the financial performance of commercial bank that is Financial Performance of Everest Bank Limited.

Financial Status refers to the financial position of bank. Simply, financial position means availability and using of its resources or strength of its resources. Financial analysis is an evaluation of both a firm's past financial performance and its prospectus for the future. Financial statement analysis involves the calculation of various ratios. In mathematics a ratio is the relationship between two quantitative figures. The ratio analysis is the financial tools by which the financial strength and weakness are measured by relating two accounting data. In financial analysis a ratio is used as an index or yardstick for evaluation the financial status and performance of a firm.

Financial performance can be defined as the heart of financial decision. The achievement and development of a firm is fully affected by the financial status and financial performance. Financial performance of enterprise is correct when the true figure and data are input. A quantitative judgment of the financial performance and financial position of the firm should be made from viewpoint of the firm's investment. Thus, financial analysis is the main qualitative judgment process of identifying the financial strengths and weakness of the firm by the properly established the relationship between the items of balance sheet and profit and loss accounts.

Traditionally, banks act as financial intermediaries to channel funds from surplus units to deficits units. Banks produce loans and financial innovations to facilitate trade transactions. Because of special role they play in the economy, concerned authorities heavily regulate them. Analysis of banks financial statement is different from threat of other companies due to the special nature of assets and liabilities.

Balance sheets, profit and loss account and the company notes are the most widely aspects of financial statements of the banks. The bank's balance sheet includes financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets appear in small portion out of the total assets. Financial innovation, which are generally contingent in nature are consider as off balance sheet items.

1.2 Introduction to Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 A.D. EBL joined with Punjab National Bank (PNB), an Indian commercial bank and became a joint venture bank in 1997 A.D. with an objective of extending professionalized and efficient banking services to various segments of the society. PNB which have 110 years of Indian banking history with 4500 offices all over India, EBL got good opportunity to expand itself. After joining with PNB, EBL has been steadily growing in its size and operation and established itself as a leading private sector bank. At present EBL is providing its services through a wide network of 48 branches across the country and over 250 correspondents across the world. All the major branches of the bank are connected with Anywhere Branch Banking

System (ABBS), a facility which enables a customer to do banking transactions from any of the branches irrespective of their having accounts in other branch.

In association with Smart Choice Technology (SCT), bank is providing ATM services for its customers from 62 ATM counters across the country and its ATM card is also accessible India.

This sustained growth of the Bank is attributable to its strong systems and procedures, professional approach, quality lending and highly motivated staff members. 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 savings economically through banking channels to Nepal. The bank has a Drafts Drawing Arrangement with 175 branches of PNB all over India.

To facilitate the tax payers of the country, on behalf of Government of Nepal EBL is collecting tax amount from its 12 tax payer counters which are available at "Tax Payers Service Offices" across the country. It is the first and only bank which provides this service.

Also, with an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K.

Everest Bank Limited has introduced various types of deposit schemes to its customers. Some of them are Current account, Saving account, Saving premium account, Fixed deposit, Unfixed fixed deposit, Cumulative deposit scheme, Sunaulo bhavishya yojana, Saral Samriddhi Bachat, EBL NRN deposit, Naari Bachat Khata, Supreme Deposit, Baal Bachat Khata, Saugat Bachat Khata, Foreign currency account, Call account. Like wise bank operates loan scheme like Home equity loan, Vehicle loan scheme, Education loan

scheme, Property plus loan scheme, Professional loan scheme and foreign service and trade fiancé services like letter of credit, telex transfer, bank guarantee, collection clearing, remittance facilities and foreign exchange.

1.3 Statement of the Problems

Commercial banks are found to be making loans on short term basis against movable merchandise. There is a hesitation to invest on long-term projects as they are much more safety minded. So they follow conservative loan policy, which is based on security. They do not consider the profit potential of the projects. There is raised criticism that commercial banks have served only richer community not the poorer. This has directly negative impact on economic growth. They are found to be more interested n investments in less risky and highly liquid sector. They keep high liquid position and flow funds to the productive sectors. This results in lower profitability to commercial banks and ignorance to the national economic growth process. This is the main reason of crisis in the commercial banks and in the whole national economy as well.

At present, as the outstanding loans is increasing; these institutions need to give special attention towards loan recovery. It is also necessary to put some regulatory and supervision system for timely recovery of outstanding loans.

As every business is established with a view to maximize profit. In the present competitive environment in banking sector it is very difficult to obtain expected profit. Every commercial bank has to follow by the regulation and provision made by Nepal Rastra Bank. They have to maintain specific capital structure, infrastructure, cash reservation, credit creation limitation, liquidity ration etc.

The major problems in Nepalese banking sectors are as follows:-

- What is the financial position of the firm in the market?
- At what extends the bank is able to raise and maintain profitability?
- How efficiently bank is managing its liquidity, assets, capital structure?
- How are the commercial banks managing their financial needs?

- What are the major factors effecting the financial performance of banks?

1.4 Objectives of the Study

Financial analysis is the tool for measuring the success of any business performance. Therefore main objective of this research is to analyze the financial performance through the use of appropriate financial tools.

- To evaluate the financial performance of Everest Bank Ltd in a terms different kind of ratio.
- To see the relationship between deposit and profit, investment and profit, deposit and investment of EBL.
- To examine income and expenditure of EBL.

1.5 Importance of the study

Bank helps to emerge new business by providing different facilities to businessman. It provides different facilities so that businessmen can run their business smoothly. The importance of this study can be listed as:

- This study helps shareholders to find out the financial status and performance of EBL.
- It helps the bank's management to understand what they have done in the past and guides them to make future plans and programs.
- Government is the macro level policy makers. This study will also benefits Nepal Rastra Bank regarding the formulation of future policies in regard to economic development through banking institutions.

1.6 Limitations of the Study

This study is simply for partial fulfillment of the requirement of Master Of Business Studies (MBS) and it is completely based on the data collected from the bank. The following are some limitations of the study.

- The study covers only ten fiscal year data of Everest Bank Limited.
- The study will be based on the secondary data.
- The balance sheet, profit and loss account and accompanying notes are considered be true.
- The study would only concern with fulfilling partial requirement in Master of Business Studies (MBS).
- Although there are many joint venture banks the study limits to only one, EBL.

1.7 Significance of the Study

As it has been stated earlier that development of a country cannot be imagined without economic activities and the development of the banking system is one of the grounds of economic development. In the other words, there is no possibility of economic development of a country without the development of a banking system. So the study of financial performance of a commercial bank is very useful to stakeholder as well the general public.

1.8 Organization of the Study

The research has been classified into five basic chapters as follows.

CHAPTER: I Introduction

The first chapter introduction provides the introduction of banking, background of the study, an introduction of Everest Bank Ltd, statement of problem, objectives of the study, importance of the study, limitation of the study and significance\ importance of the study of the study.

CHAPTER: II Review of Literature

The second chapter deals with the review of available literature. It includes review of books, journals and publications related to commercial banks, review of other relevant books, review of annual report published by the bank, review of related article and review of pervious thesis.

CHAPTER: III Research Methodology

The third chapter explains the research methodology used in the study, which includes research design, nature and sources of data, population and samples methods of data analysis.

CHAPTER: IV Data Presentation and Analysis

The fourth chapter Data Presentation and Analysis includes presentation and analysis of using financial tools such as ratio analysis and statistical tools.

CHAPTER: V Summary, Conclusion & Recommendations

The last and fifth chapter discusses summary, conclusion and recommendations and suggestions for future improvement.

Beside these, bibliography and appendices are also included.

CHAPTER II

REVIEW OF LITERATURE

This chapter highlights upon the existing literature and research related to the present study with a view of finding out what had already been explained and how the present study add to the dimension.

This chapter has been organized into the following three parts:

- Conceptual Framework
- Review of Journals and Articles
- Review of Thesis

2.1 Conceptual Framework

2.1.1 Meaning of Financial Performance Analysis

Financial performance analysis can be defined as the heart of financial decision. A firm's growth and achievement is fully affected by the financial performance. A firm's correct financial performance analysis can be done only when true data and correct figure are input.

Financial performance and financial position of the firm should be described and judged from viewpoint of its investment. And the best tool that can be used for this is financial performance analysis. Thus, financial performance analysis is the main qualitative judgment process for identifying the financial strengths and weakness of the firm by the properly establishing the relationship between the items of balance sheet and profit and loss accounts.

Financial performance analysis is the process of evaluating firms past financial performance as well as forecasting its future actions on the basis of financial data. Financial statement analysis involves the calculation of various ratios. In mathematical terms a ratio is the relationship between two quantitative figures. The ratio analysis is the financial tools by which the financial strength and weakness are measured by concerned two accounting data. In financial analysis a ratio is used as an index or yardstick for evaluating the financial status and performance of a firm.

The main function of financial performance analysis is to find out the strength and weakness of a business on the basis of mathematical figures presented in its financial statement, doing various comparisons and creating financial relationship between various components and by examining their contents. Financial managers can use this as the basis to plan future financial requirement by means of forecasting and budgeting procedures.

"Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet, which represents analysis snapshot of the firm's financial position analysis at analysis moment in time and next income statement that depots analysis summary of the firm's profitability overtime." *(Vanhorn and Watchowtch, 1997:120)*

"Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which is often identified by the firm's industry classification. In simply, the analysis is used to identify its current strength and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness." *(Weston, Basley and Brigham, 1996:98)*

"Financial analysis is the process of determining the significant operating 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. The analyst is attempting to measure the firm's liquidity, profitability and other indications that business is conducted in a rational

and orderly way. If a firm doesn't achieve financial norms for its industry or relationships among data that seen reasonable, the analysts note the deviations. The burden of explaining the apparent problems may then be placed upon management."(*Hampton ;2006 : 98).*

"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 strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account"(*Pandey ; 1999 : 108*).

"Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions and as the relationship between two or more things". In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm."*(Pandey ; 1999 : 109*).

"In most public corporations, top management's compensation is tied to the performance of the company's stock, this aligns their interests with shareholder; but compensation tied to stock return is not a complete solution. Stock return responds to events outside management's returns respond to events outside reflect investor's expectation of manager's future performance." (*Brealey and Myers ; 2003 : 820*).

"Ratio analysis is a widely used tool of financial analysis it is defined as systematic use of ratio interprets the financial statement so that the strengths and weakness of a firm as well as its historical performance and current condition can be determined." (*Khan and Jain; 1996: 60*).

Thus financial performance analysis stands as the process of determining and presenting the financial relationship between the items in the financial statement. It is a best way of evaluating the financial stability and strength of a firm.

2.1.2 Importance of Financial Analysis

Significance of analysis lies on the objectives of financial analysis of any firm. The importance of financial analysis is as follows;

A. Useful in financial position analysis

Ratio analysis is an important technique used for financial analysis. It also reveals the financial position of the concern firm. This helps the banks, insurance company and other financial institution in leading and making investment decision.

B. Useful in comparison of performance

Through accounting ratio comparison can be made between one departments of a firm with another of the same firm, in order to evaluate the performance of various departments in the firm. Manager is naturally interested in such comparison in order to known the proper and smooth functioning of such department. Ratio also helps to make any change in the organization structure.

C. Useful in forecasting purpose

If accounting ratio is calculated for a number of years then a trend is established. This trend helps in setting up at future plans and forecasting. The ratio calculation of past years works as a guideline for the future.

D. Useful in communication

Ratio analysis provides the information about strength and weakness of concern firm to the internal and external parties.

E. Useful for decision making in classification of ratio

1. Liquidity Ratio
2. Capital Structure Ratio
3. Activity Ratio
4. Profitability Ratio

The parties that are benefited by the results or conclusion draw from the analysis of financial performance can be shown as;

a. Top Management
b. Creditors
c. Shareholders
d. Economist
e. Labor Union

2.1.3 Financial Performance Analysis of Commercial Banks

Traditionally, banks act as financial intermediaries to channel funds from surplus units to deficits units. Banks produce loans and financial innovations to facilitate trade transactions. Because of special role they play in the economy, concerned authorities heavily regulate them. Analysis of banks financial statement is different from threat of other companies due to the special nature of assets and liabilities.

The most broadly used financial statements of the banks are Balance sheets, profit and loss account and their cash flow statement. The bank's balance sheet includes financial claims as liabilities in the form of deposit and assets in the form of loans. A fixed asset comes under small portion among the total assets. Financial innovation, which are generally contingent in nature are consider as off balance sheet items. Investment are done in the form of loan and advance, credit facilities etc. on which interest are received and similarly interest are paid on deposit liabilities which are major components of profit and loss account. The other sources of income are fee, commissions and discounts, foreign exchange income, dividends on investment, other service charges etc which are also main components of profit and loss account.

Following factors affects the evaluation of bank overall performance:

- Components of balance sheet and profit and loss account.
- Decisions taken by the management against lending policies, exchange rates, interest rate.
- Bank efficiency to update itself in terms of changing technology, government policies and competition etc.
- Internal Management system and operating efficiency.

Financial statements users of the bank need relevant, reliable and comparative information in order to analyze the financial performance and position and make economic decision regarding the banks. According to Commercial Bank Act 1974 the audited balance sheet and profit and loss account must be published in the leading national newspaper for the information of general public.

2.2 Review of Journals/Articles

Banks are those institutions deals in money and its substitute, credit and credit instruments. Various authors have expressed their views regarding the financial activities of commercial banks. The opinions or views expressed regarding commercial banks and their activities on journal, book and booklets, and magazines, etc. are shown as follows:

Pradhan (2006), published an article on *"Commercial Banks Performance Evaluation"*, where he concluded that commercial banks are new, operationally more efficient having superior performance comparison with old governmental and local financial institutions. They have shown the better performance using latest technology, modern banking method and skill. Their better performance is also due to the government's branching policy in rural areas and financing pees.

Shrestha (2007), published an article on *"Commercial Bank's Performance Evaluation"* focusing on commercial bank proper risk management with appropriate classification of loan under performing and non-performing categories. Researcher further focused that

the best way to minimize and get relief from sinking loan is by sufficient provisioning and after care consideration of portfolio risk. A clear standard is needed to treat interest suspense account and all interest unpaid for more than six month need to be treated as unearned income". Regarding the risk management of the bank Dr. Shrestha's other suggestions are as follows.

- Any provisions or reservation is required in restricting portfolio related to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorized as good substandard or doubtful loans.

Pokharel (2009), published an article on *"Commercial Banks Performance Evaluation"* concluded that all kind of financial institutions especially commercial banks have become lifeline for developing country like Nepal. Nepal has been achieving many commercial banks which have welcomed the multinational banking in order to attract more foreign investment and facilitate the industrial development. New commercial banks have come out with the concept of competitive strategy and customer satisfaction by using latest technologies which will have started a new banking era leaving the traditional thought behind.

Koirala (2009), published an article on *"Modern Banking Concept In Nepal"* focusing on some of the most important indicators which have contributed in increasing efficiency and performance of banks in the field of current banking system. Due to the competitive market, commercial banks have approached the customers with more commitment and improved service. Most of the banks have upgraded their technologies and focused on providing better customer service. They try to come out with new products in the market. The establishment commercial banks mark beginning of modern banking era in Nepal. He also concluded that Nepalese banking sector has made satisfactory growth in terms of deposit, advance and profit and also reduced non-performing assets. Also, different banks have already declared cash dividend, right/bonus share etc. to stake holders, which is a positive sign for those who have invested in banking industry.

Karki (2009), published an article on "*Challenges In Nepalese Banking Industry*" concluding that the Nepalese financial market was not opened up for private sector till mid 1980. When Nepalese government adopted economic liberation policy in mid 1980, private banks came in existence. In fact, it was only after 1990s that Nepal's financial sector has grown rapidly in terms of number and type of financial institutes adding business volume, size of assets and market. Banking business in modern day is nothing but risk management. One of the major challenges in Nepalese banking sector is dilution of capital base in some of problematic banks. It will have been diluted to such an extent that it is virtually impossible to take normal corrective action against them. Especially for developing counties like Nepal where capital market is less developed, a healthy banking sector is a must for avoiding financial crisis, attracting foreign investment and providing private sector with easy access to finance.

Mr. Karki focused on some areas where banks need to focus as below:

- The great challenge in Nepalese banking sector is lack of managerial experts particularly in risk management field.
- Technology is rapidly changing and becoming integral part of business.
- The ability to proper management of Non-Performing Assets is another challenge in Nepalese banking sector.
- Proper governances and healthy investment environment are important in achieving high growth rate for market like Nepal.
- The rapid growth in number of banks has increased competition and narrowed spreads impacting on profitability.

2.3. Review of Thesis

Before this, various students have conducted several thesis works regarding the financial performance of banks. Some of them are supposed to be relevant for the studies are presented below:

Darshandhari(2005), conducted a study on *"Financial Performance Analysis of Everest Bank limited"* had a major objectives to evaluate the earning generating capacity and analyze the liquidity, turnover and profitability of the EBL and conducted that current ratio of the bank over five year is 1.03 times on a average. The average of cash and bank balance to current assets ratio is 14.26 percent that indicates that the bank and cash balance proportion with respect to the current assets is sensible. It indicates that the customer's safety margin has not been maintained satisfactorily. The analysis indicates that the share of fixed deposit is high among the total deposit, which may be termed as favorable one from viewpoint of liquidity. The ratios for loan and advance to current assets have been lent to the customers as loan and advances. Cash and bank balance has been maintained properly against predictable calls of its depositors. Hence, in general the liquidity position of the bank is good enough to meet the short-term obligation.

The researcher found that the operating efficiency of the bank is in average position. Interest earned in comparison to total assets is not satisfactory; this could probably the reason for bank having average operating profit. Interest paid to total assets is comparatively low which is good from viewpoint of profitability. Net profit earned in comparison to total assets and total deposit is also comparatively low.

The Main Objectives Are:

- To evaluate the financial performance of Everest Bank Ltd by using different financial ratios.
- To find out the relationship between deposit and investment, investment and profit and deposit and profit of Everest Bank Limited.
- To study income and expenditure of EBL.

The Major Findings Are:

- Analysis between Income and expenditure showed that its main source of income is interest. Contribution of interest income in total income was more than 80%.
- Cash and bank balance to total deposit ratio of Everest Bank Limited shows that its liquidity position is not satisfactory.
- Overall loan and advance to saving deposit ratio was satisfactory.

- Correlation Coefficient of investment and profit, deposit and profit, deposit and investment and income and expenditure were highly positive correlated.

Maharjan (2006), conducted a study on *"A Comparative Study of Financial Performance of Commercial Bank (with reference to Himalayan Bank Limited, Nepal Investment Bank Limited and Everest Bank Limited)"* had main objectives to identify the relationship between net profit with respect to deposit, loan and advance and investment and to analyze financial performance of sample banks in terms of liquidity, profitability , growth, leverage and capital adequacy. The researcher concludes that the overall performance of sample banks found to be satisfactory. Among the sample banks some are strong and good in some performance and some in another performance. None of them are strong enough in all the performances. Some have strong performance from view point of liqiidity, EBL found to be comparatively better than sample banks because HBL and NIBL have aggressive working policy. All the sample banks are comparatively successful in assets and deposits in profitable sectors in form of loan and advance, investment in government securities and shares and debenture.

The Main Objectives Are:

- To analysis the comparative financial performance of Himalayan Bank Limited, Nepal Investment Bank Limited and Everest Bank Limited.
- To analysis the cash position of all selected banks.
- To analysis the profitability position of all selected banks.

The Major Findings Are:

- The liquidity position of EBL was satisfactory but the liquidity position of NIBL and HBL are unsatisfactory.
- EBL have utilized equity better.
- HBL have utilized assets better.
- All have low coverage ratio due to excessive use of debts.
- NIBL have utilized deposits better.

Khadka (2007), conducted a study on *"Financial Performance Analysis of Everest Bank Limited"*. The main objective of the study was to know the financial performance, financial condition and financial growth of EBL. The other specific objectives are:

- To evaluate the financial performance of Everest Bank Limited in terms of different kind of ratios.
- To see the relationship between deposit and investment, deposit and profit, investment and profit of EBL.
- To examine income and expenditure of EBL.

The Major Findings Are:

- Everest Bank Limited has done adequate investment in government securities.
- Ratio analysis between cash and bank balance to total deposit of EBL shows its liquidity position was not satisfactory.
- Ratio analysis between loan and advance to total deposit was consistent during the study period. Banking sector has practice of maintaining this ratio between 70-75% and EBL is successful in maintaining this ratio as standard. Thus, the ratio is satisfactory.
- 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 the year 2006 which is nearly highest 31.44% of 2004.
- Loan loss provision to total income ratio was highest in the year 2004 and 2005, were 10.42% and 10.35% respectively. But in the year 2006 EBL was able to reduce at 6.60%.
- Earnings per share increased over ten years of study period. Its highest EPS was in the year 2006, it was Rs. 62.78
- Income and expenditure analysis showed that its main source of income is interest; its contribution to total income was more than 80%. Its interest expenses dominated other expenses 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 0.9937, 0.9661, 0.9658 and 0.9861 respectively. Which indicated highly positive correlated.

Subedi (2008), conducted a study on *"A Comparative Study of Financial Performance between Himalayan Bank Limited and Everest Bank Limited"* with a objectives of comparing the financial performance of two joint ventures and has concluded that the current ratio of EBL is greater than that of HBL. The variability of the ratio of HBL is more identical than that of EBL. The liquidity of bank may be affected by external and 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 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 than that of EBL.

The Main Objectives Are:

- To compare the financial performance of HBL and EBL.
- To compare the liquidity position of HBL and EBL.
- To compare the profitability position of both the banks.

The Major Findings Are:

- Current ratio of Everest Bank is greater than Himalayan Bank.
- HBL has maintained ratio of cash and bank balance to total deposit lower than EBL.
- Profitability ratios of both the banks are not satisfactory.
- HBL loan and advance to total deposit ratio are significant than that of EBL.

Thapa (2008), conducted a study on *"A comparative Study of Financial Performance of NABIL Bank Ltd and Nepal Bangladesh Bank Ltd,"* with the main objective to know the financial condition, financial performance and financial growth of NABIL and NBBL.

The Main Objectives Are:

- To examine the DPS and EBP of NABIL and NBBL.
- To analyze the efficiency of NABIL and NBBL in utilizing the assets.
- To evaluate the trend of net profit of NABIL and NBBL.

The Major Findings Are:

- The overall liquidity position of NBBL was stronger than that of NABIL. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances whereas NABIL mobilized its deposits more prudently and efficiently in generating income.
- Capital adequacy position of NABIL was found to be better than that of NBBL. NBBL was found to have accepted high risk high return technique as suggested by its leverage i.e. debt dominated.
- NABIL was found to have sound profitability due to its higher ratio according to its profitability ratio analysis. EPS and DPS were higher in NABIL which creates positive attitude of shareholders to NABIL.
- NBBL was found weak in liquidity. It should keep the reasonable amount of liquidity and improve its capital adequacy by investing the assets and deposit in highly returnable sectors. NABIL should invest its deposits in profit generating sectors.

Banskota (2009), conducted a study on "*Financial Performance of Everest Bank Limited"* had main objective to examine the financial statement of the bank and analyze them to see the financial reliability of the bank. Researcher has the conclusion that the bank has utilized its resource in proper way in proper profit generating sectors. Therefore, there is no doubt that bank has smooth operation and will be success in becoming the idle bank for developing and upgrading the economic system of a country. Banks has direct contribution to the economic field which includes high amount of the corporate tax paid

by it, good dividend to the shareholder and employment to the qualified personals in order to make them equipped with all the technical knowledge of banking.

The Main Objectives Are:

- To find out the financial performance of EBL using various financial ratios.
- To find out the liquidity position of EBL.
- To evaluate the relationship between deposit and investment, deposit and profit, investment and profit of EBL.

Khatri (2009), conducted a study on *"A Study of Financial Performance of Selected Commercial Bank in Nepal (Himalayan Bank, NB Bank and Everest Bank)"* had a main objectives to evaluate the tendency and growth of loan, patterns of investment and total deposit, and he find out that sample banks have gain normal position of different financial ratio.

- Due to lower liquidity position (bellow than normal standard) and highly leveraged capital structure, though bank has more profitability their risk is at high level.
- All the sample banks are able to pay regular dividend to its shareholders and their earning per share are also above its value.
- In case of earning capital and utilization of profit researcher come with the conclusion banks has performed better in terms of net profit during the study period. All of the sampled banks are able to earn above 1% on total asset and to utilize deposit properly.
- All of the sample banks are found not been able to retain its EPS on its previous level.. The researcher concluded that during the study period trend line shows the decreasing pattern of net income after tax.

Joshi (2010), conducted a study on *"Financial Performance of Joint Venture Banks in Nepal with reference to Everest Bank Limited"* had objectives to evaluate liquidity, capital structure, turnover, profitability, cost effectiveness and growth position of EBL and she found that the liquidity position of EBL is significant. It showed that EBL cannot maintain the suitable standard of current ratio of 2:1.Beside it also concluded 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 follows 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 order to extend loan and advances to generate profit. But the profitability ratio of the bank is not favorable condition.

Dahal (2010), conducted a study on *"A Comparative Study of Financial Performance of HBL and EBL"*, with main objective to make comparative study of financial performance of Himalayan Bank Limited and Everest Bank Limited. He had an objective to advantage the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and statistical tools like coefficient of variation, standard deviation, Hypothesis test (F test) in his study. And he concluded that Everest Bank Limited maintain above the standard liquidity ratio. Himalayan Bank is more leveraged and riskier. EBL has been found better in mobilizing overall resources, where as net profit to total deposit ratio is higher with HBL. HBL is better at utilizing the equity. EBL has higher fluctuation at net profit margin so it has high risk of solvency, EBL is better at commission and discount where as HBL is better at interest income, operational cost of HBL is higher.

The Major Objectives Are:

- To make comparative study of financial performance of the above mentioned banks.
- To analysis the net profit margin of both selected banks.
- To analysis the leverage ratio of both commercial banks.

The Major Findings Are:

- EBL maintains above the standard liquidity ratio.
- EBL has higher variation at net profit margin so it has high risk of solvency.
- HBL is better at mobilizing the equity.
- EBL is better at mobilizing the deposits.

Thapa (2011), conducted a study *"A Comparative Study of Financial Performance of SCBNL, NABIL and HBL"*, with the main objective to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools excessively but did not use any statistical tools in his study. And he concludes that all the sampled banks are highly leveraged, all have low coverage ratio due to excessive use of debts and SCBNL is better at mobilizing assets all sampled banks have unsatisfactory liquidity position,. SCBNL is better at EPS suggesting effective utilizing of owners equity. DPR higher with SCBNL, HBL is better at lending and SCBNL better at service giving. SCBNL has higher expenditure at staff, HBL at interest payment, NABIL at general expenditure, all borrowed but SCBNL is continuously borrowing throughout the period, suggests to improve quality of current assets structure, to increase equity base and EBT.

The Major Objectives Are:

- To analysis the financial performance of selected banks.
- To analysis the cash position of both selected banks.
- To analysis the profitability position of both selected banks.

The Major Findings Are:

- The liquidity positions of both selected banks are unsatisfactory.
- All have low coverage ratio due to excessive use of debts.
- SCBNL is better at mobilizing assets.

Chaudhary (2012), conducted a study on *"Financial Performance Analysis Of Everest Bank Limited"* has major objectives to analyze the financial performance, financial condition and financial growth through the use of appropriate financial tools.

The Main Objectives Are:

- To examine income and expenditure of EBL.

- To evaluate the financial performance of Everest Bank Ltd by using financial ratios.
- To see the relationship between deposit and profit, investment and profit, deposit and investment of EBL

The Major Findings Are:

- Liquidity position of the EBL is efficient.
- EBL follows more profit more risk strategy.
- Analysis of Income and Expenditure shows that EBL major income source is interest income.
- Correlation coefficient of investment and profit, total deposit and profit, deposit and profit, income and expenditure are highly positive.

Ghimire (2012), conducted a study on *"Comparative Analysis Of Financial Status And Performance Evaluation Of Nabil Bank Ltd. And Nepal Investment Bank Ltd."* with main objectives to analyze, examine and interpret the financial position of Nabil Bank Limited and Nepal Investment Bank Limited.

The Major Objectives Are:

- To examine the liquidity, asset management, profitability, leverage and positions of sample banks.
- To examine the growth rate of bank in terms of deposit, loan and advances, investment and profitability of the banks.
- To examine the relationship between the two variables in terms of total deposit to total investment, total deposit to net profit of Nabil Bank and Nepal Investment Bank.
- To analyze the relationship between DPS and EPS of Nabil Bank and Nepal Investment Bank.

The Major Findings Are:

- Liquidity ratios of both banks are satisfactory but NIBL has higher ratio than Nabil.
- NIBL is successful to collect larger amount of deposit in comparison with Nabil.
- Nabil bank is more successful in earning higher interest as well as maintaining consistency in earning comparing with NIBL. Even though both banks successful to earn interest on total assets.
- The positive correlation between the deposit and investment of both bank shows that they have efficiently mobilized its deposits on investment.

Research Gap

Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore, it is the major concern of stakeholder, customers, depositors and debtors to know the financial situation of the bank. The review of above relevant literature has contributed to improve 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 firms 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 mislead the researcher. So, this is the exclusive study of Everest Bank Limited with ten years of study period. Hence, this study fulfills the prevailing research gap about the depth analysis of the financial performance which is the major concern of the shareholders and stakeholders.

CHAPTER - III
RESEARCH METHODOLOGY

Introduction

Research in general meaning refers to search for the knowledge. It can also be defined as a scientific and systematic search for related information on a specific topic. From research methodology a researcher can get appropriate knowledge and guideline about the various chronological steps for a systematic analysis on the basis of which a clear observation of certain object can be done.

"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*)

Without taking the help of proper research methodology explanation on present study cannot be obtained. The applied methodology is used for achieving the objective of study. The research methodology applied in the present study is briefly mentioned below.

3.1 Research Design

Research design was made with the objective for conducting research without any difficulties while selecting the study period and project, selecting of variables, collecting needed information to analyze data and to justify related research question. On other words it can be defined as research design was made to direct the research work in right way. Research design is the arrangement of conditions made for collection and analysis of data in a technique to combine relevance to the research purpose with economy in procedure. It is a strategy, plan and structure on investigation regarding obtaining of answers to research questions and to control variance to achieve the objective of this study.

"Research design is the plan, structure and strategy of investigation conceived so as to obtain 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 theirs and thus able to make more informed and consistent decisions." (*Maxwell ; 1996 : 34).*

Descriptive and analytical research design has been used taking in mind the objective of the study to understand performance of EBL. For the analytical part, statistical and financial tools have been used with the help of annual report and financial statement published by EBL.

3.2 Nature & Source of Data

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

All the secondary data are processed, compiled and tabulated in order accordingly as per the need and objective of the study. Annual report of concerned bank was compiled with the view to judge the reliability of data provided.

3.3 Population and Sample

There are all together 31 commercial banks in Nepal whose stocks are traded actively in the stock market. In this study, the focus will be given on the analytical and comparative study of financial performance of Everest Bank Limited with the same bank for different periods.

3.4 Method of Analysis

Various financial, statistical and accounting tools have been used in this study to achieve the objective of the 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

There are various financial tools to measure the performance of an organization. These tools are used for the analysis and interpretation of financial data. The following tools have been used for the analysis.

3.4.1.1 Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. “Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus ratio analysis is

used to compare a firm's financial status and performance to that of other firm's or to itself overtimes."

Ratio analysis is the first step of analyzing the firm's financial situation and performance. These ratios are designed to show financial relationship within and between firms.

There are various types of ratio that can be used to analyze the financial performance of the firm. In this research only the important and relevant ratios are used to find the financial strength of EBL.

3.4.1.1.1 Liquidity Ratio

The liquidity refers to the ratio between liquid assets and liabilities. This ratio is used to measure the ability of bank to meet its short term liabilities obligations which is known as liquidity. It reveals the short term financial strength of the business. In order to ensure short term solvency, the company must maintain sufficient liquidity. If the liquidity is high in the bank then it may negatively effect in the profitability and shortage of liquidity also can't meet its short term liabilities requirement. Thus the company should make an effort to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and avoiding risk. To analyze the ability of bank the following liquidity ratios are calculated.

A. Current Ratio

The current Ratio is the ratio of total current assets to total liabilities. It shows the bank short-term solvency. It is calculated by using the following basic formula:

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

Current Assets those assets which can be converted into cash within a short period of time and such assets includes bank balance, investing in treasury bills, loan and advances, bills purchased and discount inter branch account other short loans receivable and pre paid expenses.

Current liabilities refer to the short term maturing obligation. This includes all deposit liabilities, bills payable, tax provision, staff bonus dividend payable, bank overdraft, provision and accrued expenses.

B. Cash and Bank Balance to current and Saving Deposit Ratio

Cash and bank balance are the most liquid current assets. It measures the ability of the bank to meet its immediate liquid fund to make payment of depositors. The bank should maintain adequate cash and bank balance to meet the unexpected and heavy withdrawal of deposits.

Cash and bank balance consist of local and foreign cash in hand, cheques and other cash items, balance with domestic bank and balance held in foreign banks. Current and saving deposits consist of all types of deposit except fixed deposits.

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

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

A high ratio indicates the greater ability to meet their deposits liability and vice versa. A too high ratio is unsuitable as capital will be freeze and opportunity cost will be high.

C. Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance are the most liquid current assets, a financial analyst may examine the ratio of cash and bank balance to 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 daily 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 calculated by dividing Cash and Bank Balance by Total Deposit. .

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

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:

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

3.4.1.1.2 Assets Management Ratio/Activity Ratio

Assets management ratio measures the efficiency in assets management. This is also referred as efficiency ratio or turnover ratio or assets utilization ratio. It measures how effectively the company employs the resources at its command. Funds are creates 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 used to analyze the efficiency of a firm.

A. Loan and Advance to Total Deposit Ratio

Commercial banks can earn maximum profit by using the outsiders deposit fund in terms of loan and advances. This ratio measures that to which extent the bank management is successful to utilize the outsiders fund (Total Deposit) for the purpose of generating profit on the loan and advance. Generally, a high ratio reflects higher efficiency to the utilization of fund and vice versa. This ratio is computed by dividing the amount of loans and advances by the amount of total deposits, which is given as below.

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

Here Loan and Advances 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 shows how many times the amount is used in loans and advances in comparison fixed deposits. Fixed deposit are the main source of deposit of bank and are high interest bearing obligation whereas loans and advances 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 deposits that is given below.

$$\text{Loans \& Advance to Fixed Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

C. Loans and Advance to Saving Deposit

Loan and advances are the major components in the total saving deposit which indicates the bank efficiency in mobilizing their fund in generating income. Loans and Advances to saving deposit ratio measures to what extent saving deposit has been used in generating profit in by using it as loan and advances. This ratio is calculated by dividing loans and advance to saving deposit as follows:

$$\text{Loans and Advance to Saving Deposit} = \frac{\text{Loans and Advances}}{}$$

Saving Deposit

D. Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit used to generate income. This shows the firm's utilization of its deposit in government securities and share, development bonds, debenture of other companies and other types of investment. It measures to what extent bank is successful in mobilizing total investment on the total deposit. A high ratio indicates the bank efficiency in investing in more of its deposit and low ratio indicates the ability to put its deposit into the lending activities.

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

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

E. Performing Assets to Total Assets Ratio

Performing assets represents those total assets that are invested in the form of loan and advances like bills purchased and discount, money and investment on the short call. This ratio measures what portion of assets has been funded for income generation.

This ratio is calculated by dividing performing assets by total assets as follow s.

$$\text{Performing Assets to Total Assets ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}}$$

F. Performing Assets to Total Debt Ratio

This ratio shows the pattern used to collect fund from the outsiders. High ratio shows the bank success 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.

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

3.4.1.1.3 Profitability Ratio

Profit is the difference between total revenues and total expenses over a period of time. Profitability ratio is one of the main indicators to analyze the financial performance. Profit is the ultimate output of a commercial bank and it will have no future, if it fails to make sufficient profit. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns. Profit is essential to survive in any business field for its successful operation and further expansion. Higher the profitability ratios better the financial performance of the bank and vice versa. Profitability ratio can be calculated by following different ratio.

A. Return on Total Assets/ Net Profit to Total Assets

This ratio measures the productivity of the assets. Net profit refers the profit after interest and taxes. It shows the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management to generate more profit. This ratio measures how efficiently the firm's assets are utilized to generate more and more profit. Higher ratio shows the higher return on the assets used in the business thereby indicating effective use of the resources available and vice versa.
This ratio is calculated by dividing net profit after tax by total asset as follows.

$$\text{Return on Total Assets} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

B. Return on Total Deposit Ratio

Return on total deposit ratio shows the relation of net profit earned by the bank with the total deposit held and evaluates whether the management has been capable to mobilize and utilize the deposits. This ratio is important to identify whether the organization is

well efficient or not in mobilizing its total deposit. Higher ratio indicates strong profitability position and vice versa.

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

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

C. Total Interest Expenses to Total Interest Income Ratio

Total interest income includes interest income received from loans, advances, cash credit, overdraft and government securities, inter-bank and other investment. Total interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Interest is the main source of bank's income and this ratio indicated how much interest income generated mobilizing the assets. Higher ratio indicates higher efficiency in mobilizing of resources and ability in interest earning and vice- versa.

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

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

D. Interest Earned to Total Assets Ratio

This ratio shows the earning capacity of bank on its total assets. Interest is the main sources of income of banks. Interest is received from loan and advances, overdraft and investment in securities. This exhibits the extent on which banks 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 its total assets. Total interest earned is calculated by adding the total incomer from loans, advance cash, credit overdraft and government securities etc.

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

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

E. Office Operation Expenses to Total Income Ratio

Office operation expenses consists expenses incurred for daily office operation such as house rent, water supply, electricity, repair, maintenance, legal expenses audit expense and other miscellaneous expenses.

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

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

F. Staff Expenses to Total Income Ratio

Staffs are the most important part of bank operating system. The success of bank depends upon ability, working capacity and behavior of its staff. So they are needed to supply with the essential facilities to upgrade the banks performance. 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 incomer 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 or 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 status of firm as well financial contribution of owner and creditors comparatively. This ratio maybe calculated from the balance sheet items to determine the proportion of debt in total financing. This ratio reflects long term financial health, debt serving capacity and strength and weakness of the firms. There are different ratios which justify the long-term financial solvency of a firm.

A. Debt Asset Ratio

This ratio reflects the relationship between creditors fund and owner capital. This ratios show the proportion of outside fund used in financing total assets. It is also provides security \ financial safety to outsider i.e. potential shareholder, depositor or investors. Higher debt 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 finance company success in exploiting debt to more profitable areas.

This ratio is presented as follows

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

B. Debt Equity Ratio

This ratio reflects the relationship between borrowed fund and owner's capital. It is a test of long solvency of the bank. Debt equity ratio measures the relative claims of creditors and owners against the assets of the bank. This ratio indicates the relationship between debt and equity i.e. outsider's funds and shareholders funds which are sometime called as external and internal equities. It is calculated to measure the extent of debt financing used in the business.

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 the capital. It measure 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 obligations. 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 chare as follows.

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

This ratio indicates the ability of bank to pay interest out of its profits. It also indicates the extent 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 resource in terms of quality. Only the investment is not of great significance but the return from them with minimum default in payment by debtors is significant. A firm may be in state of enough profit but unable to meet liabilities. Asset quality ratios are intended to measure the quality of assets contained by the bank.

A. Loan Loss Provision to Total Income Ratio

This ratio shows what portion of total income has been reserved for safety against the possible bad loan or sinking funds. Higher ratio indicates that the greater portion of bank's loan advanced is at riskier position. Low ratio means that the bank has invested 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 that has been reserved 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 loss 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 loans and advances, bills purchase and discounted. NRB has directed commercial banks to maintain provision for loan loss on the 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

From the view point of the ordinary shareholders, earning per share reflects the profitability of a firm. 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, it simply shows the profitability of bank on per share basis. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis. This ratio enables us to compare whether the earning based on per share basis has changed over past period or not. 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:

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

B. Dividend per Share (DPS)

The term dividend refers to the distributed earning to the shareholders of a bank in return to their investment. Generally dividend is that portion of net profit, which is distributed to its share holders as their return in terms of cash or share. Net profit after preference dividend is earning available to equity shareholders but whole earning is not distributed as dividend to shareholders, so that earning per share and dividend per share are 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.

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

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

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 share by earning per share as follows.

$$\text{P\E Ratio} = \frac{\text{Market Value per Share}}{\text{Earning Per Share}}$$

3.4.1.2 Income and Expenditure Analysis

Major sources of income and expenses are calculated using income and expenditure analysis. This helps the analyst to find the proper area for investment and the possible areas of expenses where proper control is needed to be done.

3.4.2 Statistical Tools

In order to make the conclusion more reliable on the basis of available data various statistical tools related to this study has been taken for which 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 an their relationship with each other is drown out. Its value lies between 1 to -1, this tools is used for measuring the intensity or the magnitude of linear relationship between two series. It measures correlation coefficient between two variables. This tool is used for measuring the intensity or the magnitude of linear relationship between two variables X and Y is usually denoted by 'r' can be obtain as.

$$\mathbf{r} = \frac{N \Sigma XY - \Sigma X \Sigma Y}{\sqrt{N \Sigma X^2 - (\Sigma X)^2}\ \sqrt{N \Sigma Y^2 - (\Sigma Y)^2}}$$

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 X

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 (P.E.)

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;

$$P.E = 0.6745 \times \frac{1-r2}{\sqrt{n}}$$

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

$Y = a + bx$

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

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

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

Since $\Sigma X = 0$

$$a = \frac{\Sigma y}{\Sigma n}$$

$$b = \frac{\Sigma xy}{}$$

Σx^2

3.4.2.4 Arithmetic Mean

The average value is a single value within the range of the data that is used to represent all of the values in the series. Since an average is somewhere within the range of the data, it is also called a central value. Since average represents the entire data, its value lies somewhere in between the two average. Among them we use here the arithmetic mean, which is more popular to denote particular type of average. It is obtained by dividing sum of obtain observations by the number of items which is presented as below:

$$\overline{X} = \frac{\Sigma X}{N}$$

Where,

$\overline{X}$ = Arithmetic Mean

ΣX = Summation for total values of the variables/ observations

N = Number of items

3.4.2.5 Standard Deviation

The standard deviation is the most important and widely used measure of studying dispersion. It is also known as root mean square deviation for the reason that the square root of the mean of the standard deviation from the arithmetic mean. It is also denoted by the small Greek Letter σ (sigma). A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and vice versa.

Symbolically it is presented as follows:

$$\sigma = \sqrt{\frac{\Sigma (X - \overline{X})^2}{N - 1}}$$

Where,

σ = Standard deviation

$\Sigma (X - \overline{X})^2$ = Sum of square of the deviation measured from the arithmetic mean.

N-1 = Number of observation minus one

3.4.2.6 Coefficient Of Variation

Standard deviation is an absolute measure of variability. It is generally not suitable for comparing investments with different expected returns. In these cases the coefficient of variation provides a better measure of risk. The coefficient variation is the corresponding relative measure of dispersion, comparable across distribution, which is defines as the ratio of the standard deviation of the mean expressed in resulting percentage. It is used in such problems where we want to compare the variability of two or more than two series. Symbolically it is presented as below:

$$CV = \frac{\sigma}{\overline{X}} \times 100$$

Where,

CV = Coefficient of Variation

σ = Standard Deviation

$\overline{X}$ = Arithmentic Mean

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the data, fact and figures relating to different aspects of Everest Bank Limited. These available data are analyzed, translated and interpreted so that the financial forecast of bank can be done easily. Hence, the financial ratios have been taken for this according to the research methodology to attain the objective of this study. During analysis data gathered from various sources have been inserted in tabular form. Using financial and statistical tools the data have been analyzed.

4.1 Ratio Analysis

The term ratio refers to the numerical or quantities relationship between two variables. 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.

4.1.1 Liquidity Ratio

It is very important for a firm to be able to meet its obligations. Liquidity ratio measures the ability of firm to meet its maturing short term obligation and reflects the short term financial strength. Liquidity refers to the solvency of the firm's overall financial position. The following ratios are used to measure 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
2002/03	7887.99	7439.38	1.06:1
2003/04	9420.97	8928.25	1.06:1
2004/05	11629.42	10722.51	1.08:1
2005/06	15155.29	14696.48	1.03:1
2006/07	20982.79	19915.78	1.05:1
2007/08	26550.88	24886.96	1.07:1
2008/09	35687.25	34080.70	1.05:1
2009/10	40265.71	37920.15	1.06:1
2010/11	45177.04	42313.76	1.06:1
2011/12	53470.45	51626.52	1.03:1

Mean		1.05
S.D.		0.0166
C.V. (%)		1.58

Source: Appendix 7

This analysis covers ten years from 2002/03 to 2011/12. Current Assets consists cash balance, investment in Government securities, bank balance, money at call, loan and advance and bills purchased and other assets. Current Liabilities includes deposit liabilities, bills payable and other liabilities.

Current ratio of EBL is in fluctuating trend. In 2002/03 it was 1.06 and in the final year 2011/12 it is 1.03. It shows its fluctuation but current ratio of EBL is satisfactory. Average of current ratio 1.05% and S.D. 0.0166% represents there is less dispersion between data and mean value. C.V. of 1.58% represents consistency of current ratio.

B. Cash and Bank Balance to Current and Saving Deposit ratio

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

Table 4.2

Cash and Bank Balance to Current and Saving Deposit Ratio

Amount In Million

Year	Cash And Bank Balance	Current & Saving Dep.	Ratio %
2002/03	1139.57	3900.22	29.22
2003/04	631.80	5165.94	12.23
2004/05	1049.98	6693.73	15.69
2005/06	1552.97	9560.09	16.24
2006/07	2391.42	12559.59	19.04
2007/08	2667.97	17530.11	15.22

2008/09	6164.37	26272.97	23.46
2009/10	7818.81	26492.01	29.51
2010/11	6122.86	26065.98	23.49
2011/12	10363.31	36998.62	28.01
Mean			21.21
S.D.			6.377
C.V. (%)			30.06

Source: Appendix 7

Above calculated ratio shows Cash and Bank Balance to Current and saving Deposit ratio fluctuated over the ten years of study period. In a year 2003/04, ratio is 12.23% which is lowest of study period and in a year 2009/10; ratio is 29.51% which is highest of study period. Higher ratio shows high liquidity position and ability to cover the deposit. EBL has maintained average ratio of 21.21%. C.V. of 30.06% indicates that EBL has higher cash balance and lower consistency. Bank should maintain suitable cash and bank balance in current and saving deposit.

C. Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio = Cash & Bank Balance / Total Deposit

Table 4.3

Cash & Bank Balance to Total Deposit Ratio

Amount In Million

Year	Cash And Bank Balance	Total Deposit	Ratio %
2002/03	1139.57	6694.96	17.02
2003/04	631.80	8063.90	7.83
2004/05	1049.98	10097.69	10.40
2005/06	1552.97	13802.44	11.25
2006/07	2391.42	18186.25	13.15

2007/08	2667.97	23976.30	11.13
2008/09	6164.37	33322.94	18.50
2009/10	7818.81	36932.31	21.70
2010/11	6122.86	41127.91	14.89
2011/12	10363.31	50006.10	20.72
Mean			14.66
S.D.			4.688
C.V. (%)			31.98

Source: Appendix 7

Total deposit includes current deposit, saving deposit, fixed deposit, call deposit and other deposit. In a year 2009/10 the ratio is 21.70% which indicated good liquidity position and in a year 2003/04 ratio is 7.83% which is lowest of study period. Trend of the ratios appeared to be fluctuating in the study period. Though high ratios indicate its high liquidity position but it also affects profitability due to idleness of high interest bearing fund. Average ratio of 14.66% represents bank is able to meet its daily cash requirements. C.V. of 31.98% indicates that EBL has higher cash balance and lower consistency.

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 Govt. Securities	Total Deposit	Ratio %
2002/03	1599.35	6694.96	23.89
2003/04	2466.43	8063.90	3.59
2004/05	2100.29	10097.69	20.80
2005/06	3548.62	13802.44	28.71
2006/07	4704.63	18186.25	25.87
2007/08	4821.60	23976.30	20.11

2008/09	5146.04	33322.94	15.44
2009/10	4354.35	36932.31	11.79
2010/11	7145.02	41127.91	17.37
2011/12	6068.88	50006.10	12.14
Mean			17.97
S.D.			7.536
C.V. (%)			41.93

Source: Appendix 7

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

Governments securities are risk free investment but gives lower return to investor. Comparatively in the year 2002/03, 2004/05, 2005/06, 2006/07 and 2007/08, EBL invested high portion of total deposit in government securities. Average of 17.97% shows adequate investment in government securities. Bank should invest in other secured sector which gives higher return than government securities. Its S.D. is 7.536 and CV is 41.93.

4.1.2Activity Ratio / Assets Management Ratio

This ratio measures the efficiency of the firms. The following activity 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 %
2002/03	4908.46	6694.96	73.32
2003/04	5884.12	8063.90	72.97

2004/05	7618.67	10097.69	75.45
2005/06	9801.31	13802.44	71.45
2006/07	13364.08	18186.25	75.13
2007/08	18339.08	23976.30	76.49
2008/09	23884.67	33322.94	71.67
2009/10	27556.36	36932.31	74.61
2010/11	31057.69	41127.91	75.51
2011/12	35910.97	50006.10	71.81
Mean			73.84
S.D.			1.833
C.V. (%)			2.48

Source: Appendix 7

Loan & Advance consists of loans, advances, bills purchased and bills discounted. The ratio fluctuated throughout the study period. The average ratio of 73.84% represents that they are successful in mobilizing the loans and advances to profitable sectors with respect to total deposits. In a year 2005/06, 71.45% of total deposit was invested in loans and advances which is lowest of the period. In 2007/08, ratio was 76.49% which is highest of the study period. Too low ratio gives a picture of the idle cash in bank. Lower C.V of 2.48% also represents that is able to maintain consistency of loan and advance to total deposit.

B. Loan and Advance to Fixed Deposit Ratio

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

Table 4.6

Loan & Advance to Fixed Deposit Ratio

Amount In Million

Year	Loan & Advance	Fixed Deposit	Ratio %
2002/03	4908.46	2794.74	175.63
2003/04	5884.12	2897.96	203.04
2004/05	7618.67	3403.96	223.82

2005/06	9801.31	4242.35	231.03
2006/07	13364.08	5626.66	242.84
2007/08	18339.08	6446.18	284.49
2008/09	23884.67	7049.98	338.79
2009/10	27556.36	10440.28	263.94
2010/11	31057.69	15061.94	206.19
2011/12	35910.97	13007.48	276.08
Mean			244.59
S.D.			47.617
C.V. (%)			19.47

Source: Appendix 7

The ratio of EBL remained 175.63%, 203.04%, 223.82%, 231.03%, 242.84%, 284.49%, 338.79%, 263.94, 206.19 and 276.08 over the ten years of study period. Average ratio of 244.59% shows bank efficiency in utilizing its high interest bearing fixed deposit in the loan and advances. In terms of consistency, bank is successful in maintaining the stability in investing in loan and advances with respect to fixed deposit, which is indicated by lower C.V. i.e. 19.47%..

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 %
2002/03	4908.46	2757.95	177.98
2003/04	5884.12	3730.61	157.73
2004/05	7618.67	4806.83	158.50
2005/06	9801.31	6929.22	141.45

2006/07	13364.08	9029.25	151.33
2007/08	18339.08	11883.86	154.32
2008/09	23884.67	14782.33	161.57
2009/10	27556.36	13360.03	206.26
2010/11	31057.69	13039.11	238.19
2011/12	35910.97	17269.29	207.95
Mean			175.53
S.D.			31.493
C.V. (%)			17.94

Source: Appendix 7

The ratio of loan and advances to saving deposit remained 177.98%, 157.73%, 158.50%, 141.45%, 151.33%, 154.32%, 161.57%, 206.26%, 238.19% and 207.95% over the ten years of study period. The ratio revealed decreasing trend till 2008/09 but increased in the year 2009/10 and 2010/11. Again in 2011/12 it has decreased. It indicates insufficient utilization of saving deposit in a form of loans and advances. But from the year 2009/10 it has gradually increased its ratio which shows bank has changed its policy to increase the amount of loan and advance to saving deposit which generate the income and reduce the interest cost. Average of Loan and advances to saving deposit is 175.53, S.D. is 31.493 and C.V. is 17.94.

D. Investment 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 %
2002/03	1653.98	6694.96	24.71
2003/04	2535.66	8063.90	31.44
2004/05	2128.93	10097.69	21.08

2005/06	4200.52	13802.44	30.43
2006/07	4984.31	18186.25	27.41
2007/08	5059.55	23976.30	21.10
2008/09	5948.48	33322.94	17.85
2009/10	5008.31	36932.31	13.56
2010/11	7743.93	41127.91	18.83
2011/12	7863.63	50006.10	15.72
Mean			22.21
S.D.			6.110
C.V. (%)			27.50

Source: Appendix 7

The above table shows that ratio of Investment to Total Deposit ranged from 13.56% to 31.44% in the year 2002/03 to 2011/12 with mean ratio of 22.21%. The ratios remained 24.71%, 31.44%, 21.08%, 30.43%, 27.41%, 21.10%, 17.85%, 13.56%,18.83% and 15.72 over ten year of study period. The ratios shows irregular pattern during the study period. In a year 2009/10 the ratio was 13.56% which is lowest and in a year 2003/04, ratio was 31.44% which is highest of the study period. Coefficient of variation 27.50% shows EBL is successful in maintaining consistency of investment to total deposit.

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 Assets Ratio

Amount In Million

Year	Performing Asset	Total Asset	Ratio %
2002/03	6562.44	8052.21	81.50
2003/04	8607.23	9608.57	89.58
2004/05	10317.60	11792.13	87.50

2005/06	14068.78	15959.28	88.15
2006/07	18648.39	21432.57	87.01
2007/08	23744.64	27149.34	87.46
2008/09	29833.15	36916.85	80.81
2009/10	32564.65	41382.76	78.69
2010/11	38801.62	46236.21	83.92
2011/12	43774.61	55813.13	78.43
Mean			84.31
S.D.			4.168
C.V. (%)			4.94

Source: Appendix 7

Performing assets to total assets remained 81.50%, 89.58%, 87.50%, 88.15%, 87.01%, 87.46%, 80.81%, 78.69%, 83.92% and 78.43% respectively over the ten years of study period.

Performing Assets are investment, money at call and short notice, bills purchased and discounted and loan and advances. EBL had maintained high ratio throughout the period of study. Average ratio of 84.31% indicates higher investment in performing assets and greater utilization of assets that leads to sound profitability position of the bank.

F. Performing Asset to Total Debt Ratio

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

Table 4.10

Performing Asset to Total Debt Ratio

Amount In Million

Year	Performing Asset	Total Debt	Ratio %
2002/03	6562.44	5980.78	109.73
2003/04	8607.23	7194.15	119.64
2004/05	10317.60	8915.15	115.73
2005/06	14068.78	12464.87	112.87

2006/07	18648.39	16229.41	114.90
2007/08	23744.64	21110.68	112.47
2008/09	29833.15	28126.31	106.07
2009/10	32564.65	32213.11	101.09
2010/11	38801.62	35651.01	108.84
2011/12	43774.61	43228.93	101.26
Mean			110.26
S.D.			6.111
C.V. (%)			5.54

Source: Appendix 7

To generate income bank should use the outsider fund in proper way. Keeping money idle will not give any return. This ratio shows 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 Asset to Total Debt Ratio fluctuated over the ten years of study period. In a year 2003/04 and in a year 2009/10 were ratio 119.64% and 101.09% respectively which are the highest and lowest over the ten year of study period. High ratio represents the success in utilizing the fund. Its average, S.D. and C.V. are 110.26, 6.111 and 5.54 respectively.

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 assets and return on equity. Following profitability ratio 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 %
2002/03	94.18	8052.21	1.17
2003/04	143.57	9608.57	1.49
2004/05	170.81	11792.13	1.45
2005/06	237.29	15959.28	1.49
2006/07	296.41	21432.57	1.38
2007/08	451.22	27149.34	1.66
2008/09	638.73	36916.85	1.73
2009/10	831.77	41382.76	2.01
2010/11	931.30	46236.21	2.01
2011/12	1090.56	55813.13	1.95
Mean			1.63
S.D.			0.288
C.V. (%)			17.64

Source: Appendix 7

This ratio measures the productivity of assets. Net profit refers to the profit after deduction of interest and tax. Total assets appear in assets side of the balance sheet.

The ratios fluctuated over ten years of study period. In a year 2002/03, 1.17% was lowest ratio and in 2009/10 & 2010/11 were the higher ratio over study period. Higher the ratio indicates the success of management in overall operation. Mean, standard deviation and coefficient of variation are 1.63, 0.288 and 17.64 respectively. Coefficient of variation of 17.64% represents the ratio of consistency maintained by the bank.

B. Return on Total Deposit

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

Table 4.12

Return on Total Deposit

Amount In Million

Year	Net Profit After Tax	Total Deposit	Ratio %
2002/03	94.18	6694.96	1.41
2003/04	143.57	8063.90	1.78
2004/05	170.81	10097.69	1.69
2005/06	237.29	13802.44	1.72
2006/07	296.41	18186.25	1.63
2007/08	451.22	23976.30	1.88
2008/09	638.73	33322.94	1.92
2009/10	831.77	36932.31	2.25
2010/11	931.30	41127.91	2.26
2011/12	1090.56	50006.10	2.18
Mean			1.87
S.D.			0.284
C.V. (%)			15.19

Source: Appendix 7

Return on total deposit shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio indicates strong profitability position and vice versa. In a year 2010/11, 2.26% was highest of the ten years of study period.

Return on Total Deposit Ratio fluctuated over the ten years of study period. It measures the contribution of Net Profit After Tax to Total Deposit. Fluctuation in ratio shows that bank is unable to utilize its deposit in a constant manner. Its average is 1.87, standard deviation is 0.284 and coefficient of variation is 15.19.

C. Total Interest Expense to Total Interest Income Ratio

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

Table 4.13

Total Interest Expense to Total Interest Income Ratio

Amount In Million

Year	Total Interest Expenses	Total Interest Income	Ratio %
2002/03	307.64	520.17	59.14
2003/04	316.36	657.25	48.13
2004/05	299.57	719.30	41.65
2005/06	401.40	903.41	44.43
2006/07	517.16	1144.41	45.19
2007/08	632.61	1548.65	40.85
2008/09	1012.87	2186.81	46.32
2009/10	1572.79	3102.45	50.69
2010/11	2535.87	4331.03	58.55
2011/12	2873.33	4959.99	57.93
Mean			49.29
S.D.			6.989
C.V. (%)			14.18

Source: Appendix 7

Bank main source of income is interest income. Total Interest Expenses to Total Interest Income ratio of EBL remained in fluctuating trend over the ten years of study period. But from the year 2008/09 to 2010/11 it is in increasing trend and in 2011/12 it decreased. It indicates bank is able to earned more interest which is favorable for EBL. EBL is more successful in later year in allocating interest bearing debt in profitable sectors. Average of total interest expenses to total interest income is 49.29 which show bank is able to earn more interest. Its standard deviation is 6.989 and coefficient of variation is 14.18.

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 %
2002/03	520.17	8052.21	6.46
2003/04	657.25	9608.57	6.84
2004/05	719.30	11792.13	6.09
2005/06	903.41	15959.28	5.66
2006/07	1144.41	21432.57	5.34
2007/08	1548.65	27149.34	5.70
2008/09	2186.81	36916.85	5.92
2009/10	3102.45	41382.76	7.50
2010/11	4331.03	46236.21	9.37
2011/12	4959.99	55813.13	8.88
Mean			6.78
S.D.			1.393
C.V. (%)			20.55

Source: Appendix 7

Ratios of EBL remained 6.46% 6.84% 6.09%, 5.66%, 5.34%, 5.70%, 5.92%, 7.50%, 9.37% and 8.88% respectively during study period of ten years. Highest ratio and lowest ratio were 9.37% and 5.34% respectively in year 2010/11 and 2006/07. High ratio in a year 2010/11 indicates the proper utilization of bank's asset for income generating purpose. Its average, standard deviation and coefficient of variation are 6.78, 1.393 and 20.55 respectively.

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 %
2002/03	37.37	635.33	5.88
2003/04	48.53	785.06	6.18
2004/05	60.59	858.96	7.05
2005/06	70.92	1066.51	6.65
2006/07	86.12	1371.50	6.28
2007/08	157.96	1867.23	8.46
2008/09	186.92	2570.89	7.27
2009/10	226.36	3596.65	6.29
2010/11	293.13	4786.58	6.12
2011/12	352.05	5658.57	6.22
Mean			6.64
S.D.			0.772
C.V. (%)			11.63

Source: Appendix 7

Total income expended for staff remained 5.88%, 6.18%, 7.05%, 6.65%, 6.28%, 8.46%, 7.27%, 6.29%, 6.12% and 6.22% 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 2007/08 and lowest in 2002/03. Low ratio is good from the bank point of view but staff always expected different kind of facilities. So lower ratio may have negative effect in staff's morale which in turn profit will decrease and high ratio directly affects the profitability of bank. Average of income expenses to total income is 6.64, standard deviation is 0.772 and coefficient of variation is 11.63.

F. Office Operation Expenses to Total Income Ratio

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

Table 4.16

Office Operation Expenses to Total Income Ratio

Amount In Million

Year	Office Operation Expenses	Total Income	Ratio %
2002/03	93.58	635.33	14.73
2003/04	103.80	785.06	13.22
2004/05	129.07	858.96	15.03
2005/06	143.56	1066.51	13.46
2006/07	177.54	1371.50	12.94
2007/08	233.77	1867.23	12.52
2008/09	292.01	2570.89	11.36
2009/10	352.51	3596.65	9.80
2010/11	383.11	4786.58	8.01
2011/12	467.29	5658.57	8.26
Mean			11.93
S.D.			2.506
C.V. (%)			21.00

Source: Appendix 7

Office operation expense remained 14.73%, 13.22%, 15.03%, 13.46%, 12.94%, 12.52%, 11.36%, 9.80%, 8.01% and 8.2% to its Total Income over the ten years study period. Office operation expenses includes, rent, water, and electricity, repair and maintenance etc. EBL has highest and lowest ratio in 2004/05 and in 2010/11. Higher ratio in a year 2004/05 and lower ratio in year 2010/11 might have opposite (adverse) effect in the profitability of the bank. In average EBL spends 11.93% of its total income in its office operation, its S.D. and C.V. are 2.506 and 21.00 respectively.

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

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 Equity	Ratio (Times)
2002/03	5980.78	472.82	12.65
2003/04	7194.15	540.31	13.13
2004/05	8915.15	629.62	14.16
2005/06	12464.87	822.80	15.15
2006/07	16229.41	1061.51	15.29
2007/08	21110.68	1581.24	13.35
2008/09	28126.31	2003.62	14.04
2009/10	32213.11	2509.99	12.83
2010/11	35651.01	3001.58	11.88
2011/12	43228.93	3807.81	11.35

Mean		13.38
S.D.		1.295
C.V. (%)		9.68

Source: Appendix 7(Annual Report Of EBL)

Total Debt includes long term and short term interest bearing obligation which are loans and advances taken from other financial institution and deposits 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.

The above table shows that the ratio is in fluctuating trend. The highest and lowest ratios are 15.29% and 11.35% in the year 2006/07 and 2011/12 respectively. Average ratio of 13.38% represents EBL has high portion of debt in capital structure. C.V of 9.68% represents the consistency of debt equity ratio of EBL.

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 %
2002/03	5980.78	8052.21	74.28
2003/04	7194.15	9608.57	74.87
2004/05	8915.15	11792.13	75.60
2005/06	12464.87	15959.28	78.10
2006/07	16229.41	21432.57	75.72
2007/08	21110.68	27149.34	77.76

2008/09	28126.31	36916.85	76.19
2009/10	32213.11	41382.76	77.84
2010/11	35651.01	46236.21	77.11
2011/12	43228.93	55813.13	77.45
Mean			76.49
S.D.			1.346
C.V. (%)			1.76

Source: Appendix 7

Total Debt includes long term and short term interest bearing obligation which are loans and advances taken from other financial institution and deposits carrying interest i.e. saving deposit, fixed deposit and call deposit. Total asset includes current assets and fixed assets.

Debt Assets Ratio of EBL remained 74.28%, 74.87%, 75.60%, 78.10%, 75.72%, 77.76%, 76.19%, 77.84%, 77.11% and 77.45% over the ten years of study period. The above ratios and not much fluctuating and they represents larger portion of the bank's asset has been financed through outsider's fund. The aggregate 76.49% of asset was financed by outsider's fund. Lower C.V. of 1.76% represents EBL is able to maintain consistency on debt financing.

C. Interest Coverage Ratio

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

Table 4.19

Interest Coverage Ratio

Amount In Million

Year	EBIT	Interest Expenses	Ratio (Times)
2002/03	443.52	307.64	1.44
2003/04	527.48	316.36	1.68
2004/05	552.99	299.57	1.84

2005/06	747.00	401.40	1.86
2006/07	971.87	517.16	1.88
2007/08	1291.29	632.61	2.04
2008/09	1904.19	1012.87	1.88
2009/10	2760.78	1572.79	1.75
2010/11	3866.89	2535.87	1.52
2011/12	4431.37	2873.33	1.54
Mean			1.74
S.D.			0.193
C.V. (%)			11.08

Source: Appendix 7

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

Interest Coverage Ratio remained 1.44, 1.68, 1.84, 1.86, 1.88, 2.04, 1.88, 1.75, 1.52 and 1.54 times over the ten years of study period. Highest ratio was in 2007/08 of 2.04 times. A high ratio is a sign of low burden of borrowing of the bank and lower utilization of borrowing capacity. Lower ratio indicates more use of debt for which interest is to be paid or insufficient operation. Average, standard deviation and coefficient of variation of Interest coverage ratio remained 1.74, 0.193 and 11.08 respectively.

4.1.5 Asset Quality Ratio

A .Loan Loss Coverage Ratio

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

Table 4.20

Loan Loss Coverage Ratio

Amount In Million

Year	Loan Loss Provision	Total Risk Asset	Ratio %
2002/03	45.75	4908.46	0.93

2003/04	81.78	5884.12	1.39
2004/05	88.93	7618.67	1.17
2005/06	70.46	9801.31	0.72
2006/07	86.69	13664.08	0.63
2007/08	99.34	18339.08	0.54
2008/09	93.08	23884.67	0.39
2009/10	77.01	27556.35	0.28
2010/11	98.30	31057.69	0.32
2011/12	252.05	35910.97	0.71
Mean			0.71
S.D.			0.365
C.V. (%)			51.51

Source: Appendix 7

Risky asset includes loan and advances, bill purchased and discounted. Loan Loss Coverage Ratio remained 0.93%, 1.39%, 1.17%, 0.72%, 0.63%, 0.54%, 0.39%, 0.28%, 0.32% and 0.71% over the ten years of study period. All the ratios are below 1% except in the year 2003/04 and 2004/05 of 1.39% and 1.17% respectively. It means major portion of loan are risk less. These ratios shows EBL has been successful to fore see the quality of loans lent and its Loan Loss Coverage can be ranked as satisfactory. Average, standard deviation and coefficient of variation of Loan loss coverage ratio are 0.71, 0.365 and 51.51 respectively.

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 %
2002/03	45.75	635.33	7.20

2003/04	81.78	785.06	10.42
2004/05	88.93	858.96	10.35
2005/06	70.46	1066.51	6.60
2006/07	86.69	1371.50	6.32
2007/08	99.34	1867.23	5.32
2008/09	93.08	2570.89	3.62
2009/10	77.01	3596.65	2.14
2010/11	98.30	4786.58	2.05
2011/12	252.05	5658.57	4.45
Mean			5.85
S.D.			2.966
C.V. (%)			50.72

Source: Appendix 7

Loan Loss Provision to Total Income Ratio remained 7.20%, 10.42%, 10.35%, 6.60%, 6.32%, 5.32%, 3.62%, 2.14%, 2.05% and 4.45% over the ten 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 2003/04 the ratio was highest and in the year 2010/11 it is lowest. EBL's loan loss provision to total income in a year 2010/11 was 2.14 % and in a year 2010/11 was 2.05%. This shows that EBL was success to reduce loan loss provision in these two years but in the year 2011/12 it again increased to 4.45%. Its average, standard deviation and coefficient of variations are 5.85, 2.966 and 50.72 respectively.

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 Ratio

Amount In Million

Year	Loan Loss Provision	Total Deposit	Ratio %
2002/03	45.75	6694.96	0.68

2003/04	81.78	8063.90	1.01
2004/05	88.93	10097.69	0.88
2005/06	70.46	13802.44	0.51
2006/07	86.69	18186.25	0.48
2007/08	99.34	23976.30	0.41
2008/09	93.08	33322.94	0.28
2009/10	77.01	36932.31	0.21
2010/11	98.30	41127.91	0.24
2011/12	252.05	50006.10	0.50
Mean			0.52
S.D.			0.267
C.V. (%)			51.35

Source: Appendix 7

Loan Loss Provision to Total Deposit ratio remained 068%, 1.01%, 0.88%, 0.51%, 0.48%, 0.41%, 0.28%, 0.21%, 0.24% and 0.50% over the ten years of study period. It fluctuated over the study period. In a year 2009/10 bank was able to reduce the loan loss provision to total deposit ratio to 0.21%. Except in a year 2003/04, Loan Loss Provision to Total Deposit ratio was below 1%, so the EBL lent greater portion of loans in secured sectors. High Loan Loss Provision shows the default in payment of the loan by the borrowers. Average, standard deviation and coefficient of variation of Loan loss provision to total deposit ratio are 0.52, 0.267 and 51.35 respectively.

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

Earnings Per Share

Amount In Million

Year	Earnings Available To Shareholders	Number Of Common Share	Ratio %
2002/03	94.18	3.15	29.90
2003/04	143.57	3.15	45.58
2004/05	170.81	3.15	54.22
2005/06	237.29	3.78	62.78
2006/07	296.41	3.78	78.41
2007/08	451.22	4.91	91.90
2008/09	638.73	6.39	99.95
2009/10	831.76	8.30	100.21
2010/11	931.30	11.20	83.15
2011/12	1090.56	12.32	88.52
Mean			73.46
S.D.			24.179
C.V. (%)			32.91

Source: Appendix 7

Earnings per Share refer to the income available to the common stockholders. It is calculated by dividing earning available to equity shareholders by number of common share outstanding. Ratios remained 29.90%, 45.58%, 54.22%, 62.78%, 78.41%, 91.90%, 99.95%, 100.21%, 83.15% and 88.52% respectively over ten years of study period. Ratio fluctuated over ten years of study period and highest ratio was in a year 2009/10 and lowest in a year 2002/03. EPS reflects sound profitability position of the bank. Average earning per share of EBL is 73.46 and C.V. of 32.91 indicates EBL's consistency and its better signal from investor's point of view.

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 %
2002/03	63	3.15	20
2003/04	63	3.15	20
2004/05	63	3.15	20
2005/06	94.5	3.78	25
2006/07	113.40	3.78	30
2007/08	147.42	4.91	30
2008/09	191.70	6.39	30
2009/10	249.14	8.30	30
2010/11	111.96	11.20	10
2011/12	369.49	12.32	30
Mean			24.50
S.D.			6.852
C.V. (%)			27.97

Source: Appendix 7

EBL is paying dividend regularly to its common shareholders. In the year 2002/03 to 2004/05 it paid constant dividend of 20% of earning and in the year 2005/06 it paid 25%. EBL paid 30% of its dividend which is highest of the ten years of study period from 2006/07 to 2009/10 but in the year 2010/11 it has paid only 10% dividend to its common shareholders. And in the year 2012 it has again paid 30% dividend. Only financially strong companies can distribute dividend. High DPS shows the efficiency of management and vice versa. So, the Shareholder prefer high dividend. Average of dividend per share is 24.50, standard deviation is 6.852 and coefficient of variation is 27.97.

C. Price Earning Ratio (P/E Ratio)

P\E Ratio = $\frac{\text{Market Value per Share}}{\text{Earnings per Share}}$

Table 4.25

Price Earnings Ratio

Amount In Million

Year	MVPS	EPS	Ratio %
2002/03	445	29.90	14.88
2003/04	680	45.58	14.92
2004/05	870	54.22	16.04
2005/06	1379	62.78	21.97
2006/07	2430	78.41	30.99
2007/08	3132	91.90	34.08
2008/09	2455	99.95	24.56
2009/10	1630	100.21	16.26
2010/11	1094	83.15	13.16
2011/12	1033	88.52	11.67
Mean			19.85
S.D.			7.756
C.V. (%)			39.07

Source: Appendix 7

This Ratio measures investor's expectation and the market appraisal of the performance of firm. Price Earning Ratio (P\ E) fluctuated over ten years of study period. It remained- 14.88%, 14.92%, 16.04%, 21.97%, 30.99%, 34.08%, 24.56%, 16.26%, 13.16% and 11.67%. In the year 2011/12 ratio was 11.67% and in 2007/08 it was 34.08%, lowest and highest of the study period. High ratio indicates higher expectation of the market towards the achievement of firm. Its average, S.D. and C.V. are 19.85, 7.756 and 39.07 respectively.

4.2 Income and Expenditure Analysis

4.2.1 Income Analysis

A. Interest Income

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

Table 4.26

Interest Income

Amount In Million

Year	Interest Income	Total Income	Ratio %
2002/03	520.17	635.33	81.87
2003/04	657.25	785.06	83.72
2004/05	719.30	858.96	83.74
2005/06	903.41	1066.51	84.71
2006/07	1144.41	1371.50	83.44
2007/08	1548.65	1867.23	82.94
2008/09	2186.81	2570.89	85.06
2009/10	3102.45	3596.65	86.26
2010/11	4331.03	4786.58	90.48
2011/12	4959.99	5658.57	87.65
Mean			84.99
S.D.			2.548
C.V. (%)			3.00

Source: Appendix 7

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

Interest income over the study period remained 81.87%, 83.72%, 83.74%, 84.71%, 83.44%, 82.94%, 85.06%, 86.26%, 90.48% and 87.65%. An average 85% of total income is a contribution of interest income of EBL. C.V. of 3% represents EBL is successful in maintaining consistency in generating interest income.

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 %
2002/03	61.50	635.33	9.68
2003/04	74.33	785.06	9.47
2004/05	78.13	858.96	9.10
2005/06	96.84	1066.51	9.08
2006/07	124.15	1371.50	9.05
2007/08	170.52	1867.23	9.13
2008/09	215.85	2570.89	8.40
2009/10	208.09	3596.65	5.78
2010/11	221.06	4786.58	4.62
2011/12	243.04	5658.57	4.29
Mean			7.86
S.D.			2.103
C.V. (%)			26.76

Source: Appendix 7

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 9.68%, 9.47%, 9.10%, 9.08%, 9.05%, 9.13% , 8.40%, 5.78%, 4.62% and 4.29%. Interest income dominated the commission and discount income. Its average, S.D. and C.V. are 7.86, 2.103 and 26.76 respectively.

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 %
2002/03	32.20	635.33	5.07
2003/04	27.80	785.06	3.54
2004/05	27.08	858.96	3.15
2005/06	14.40	1066.51	1.35
2006/07	27.13	1371.50	1.98
2007/08	50.81	1867.23	2.72
2008/09	55.86	2570.89	2.17
2009/10	55.36	3596.65	1.54
2010/11	42.83	4786.58	0.89
2011/12	116.52	5658.57	2.06
Mean			2.45
S.D.			1.226
C.V. (%)			50.12

Source: Appendix 7

Commercial Bank can purchased and sell foreign currencies under the NRB direction. It is one major function of commercial bank.

The income from fluctuation of foreign currency exchange ratio remained 5.07%, 3.54%, 3.15%, 1.35%, 1.98%, 2.72%, 2.17%, 1.54%, 0.89% and 2.06% over the ten years of study period. In a year 2010/11 bank's income from foreign exchange fluctuation was lowest of the study period. Foreign exchange fluctuation income was dominated by interest income. It was highest in a year 2002/03, 5.07%. Average, standard deviation and coefficient of variation of Foreign exchange fluctuation income are 2.45, 1.226 and 50.12 respectively.

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 %
2002/03	21.43	635.33	3.37
2003/04	25.68	785.06	3.27
2004/05	34.45	858.96	4.00
2005/06	51.86	1066.51	4.86
2006/07	69.28	1371.50	5.05
2007/08	83.65	1867.23	4.48
2008/09	111.41	2570.89	4.33
2009/10	154.65	3596.65	4.30
2010/11	149.49	4786.58	3.12
2011/12	204.98	5658.57	3.62
Mean			4.04
S.D.			0.675
C.V. (%)			16.71

Source: Appendix 7

Other Income to Total Income remained 3.37%, 3.27%, 4.00%, 4.86%, 5.05, 4.48%, 4.33%, 4.30%, 3.12% and 3.62% over ten year of study period.

Interest income dominated other income. It was highest in a year 2006/07 and lowest in a year 2010/11. Above table shows that EBL earned small portion other income out of total income. In a final year of study period ratio was 3.62%. Average, standard deviation and coefficient of variation of other income are 4.04, 0.675 and 16.71 respectively.

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 %
2002/03	307.64	438.60	70.14
2003/04	316.36	468.40	67.50
2004/05	299.57	483.40	61.92
2005/06	401.40	613.40	65.44
2006/07	517.16	780.83	66.23
2007/08	632.61	1024.33	61.75
2008/09	1012.87	1491.80	67.89
2009/10	1572.79	2151.66	73.09
2010/11	2535.87	3212.11	78.95
2011/12	2873.33	3692.68	77.81
Mean			69.07
S.D.			5.973
C.V. (%)			8.65

Source: Appendix 7

Bank has to pay interest on various types of deposits and loan taken from the outsider parties, like other banks and financial institutions. Interest expenses remained 70.14%, 67.50%, 61.92%, 65.44%, 66.23%, 61.75%, 67.89%, 73.09%, 78.95% and 77.81% over its total expenses. Above calculated ratio shows aggregate 69.07% of total expense was spend in interest expenses. Its standard deviation is 5.973 and coefficient of variation is 8.65. Interest expenses dominated other expenses of EBL.

B. Staff Expenses

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

Table 4.31

Staff Expenses

Amount In Million

Year	Staff Expenses	Total Expenses	Ratio %
2002/03	37.37	438.60	8.52
2003/04	48.53	468.40	10.35
2004/05	60.59	483.40	12.52
2005/06	70.92	613.40	11.56
2006/07	86.12	780.83	11.03
2007/08	157.96	1024.33	15.42
2008/09	186.92	1491.80	12.53
2009/10	226.36	2151.66	10.52
2010/11	293.13	3212.11	9.12
2011/12	352.05	3692.68	9.53
Mean			11.11
S.D.			2.024
C.V. (%)			18.22

Source: Appendix 7

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

Staff expenses remained 8.52%, 10.35%, 12.52%, 11.56%, 11.03%, 15.42%, 12.53%, 10.52%, 9.12% and 9.53% of total expenses over the ten year of study period. Interest expenses dominated staff expenses. Comparatively ratio was high in the year 2004/05 to 2008/09 but fluctuated. Its average is 11.11, standard deviation is 2.024 and coefficient of variation is 18.22.

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 %
2002/03	93.59	438.60	21.34
2003/04	103.81	468.40	22.16
2004/05	129.06	483.40	26.67
2005/06	143.56	613.40	23.40
2006/07	177.54	780.83	22.74
2007/08	233.77	1024.33	22.82
2008/09	292.01	1491.80	19.57
2009/10	352.51	2151.66	16.38
2010/11	383.11	3212.11	11.93
2011/12	467.29	3692.68	12.65
Mean			19.97
S.D.			4.835
C.V. (%)			24.22

Source: Appendix 7

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 21.34%, 22.16%, 26.67%, 23.40%, 22.74%, 22.82%, 19.57%, 16.38%, 11.93% and 12.65% over the ten years of study period. In a year 2004/05, EBL has highest operating expenses i.e. 26.67% and lowest in a year 2010/11 was 11.93%. Average ratio of operating expenses is 19.97, standard deviation is 4.835 and coefficient of variation is 24.22.

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 %
2002/03	15.09	438.60	3.44
2003/04	23.46	468.40	5.00
2004/05	28.08	483.40	5.80
2005/06	34.56	613.40	5.63
2006/07	45.47	780.83	5.82
2007/08	65.87	1024.33	6.43
2008/09	89.13	1491.80	5.97
2009/10	118.80	2151.66	5.52
2010/11	133.10	3212.11	4.14
2011/12	155.80	3692.68	4.22
Mean			5.20
S.D.			0.964
C.V. (%)			18.54

Source: Appendix 7

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 3.44%, 5.00%, 5.80%, 5.63%, 5.82%, 6.43%, 5.97%, 5.52%, 4.14% and 4.22% respectively.

Bonus is motivational factor of any business firms. Comparatively in the year 2004/05 to 2009/10 bonus expense are over 5% of total expenses. Average of bonus distributed to staff is 5.20, standard deviation is 0.964 and coefficient of variation is 18.54.

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)
2002/03	6694.96	94.18
2003/04	8063.90	143.57
2004/05	10097.69	170.81
2005/06	13802.44	237.29
2006/07	18186.25	296.41
2007/08	23976.30	451.22
2008/09	33322.94	638.73
2009/10	36932.31	831.77
2010/11	41127.91	931.30
2011/12	50006.10	1090.56
Correlation Coefficient (r)		0.9923
Probable Error (P.E r)		0.003272

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 probable error remained 0.9923 and 0.003272 respectively. Correlation Coefficient between total deposit and Net Profit was 0.9923, means it is almost range of 1, so it is perfectly positive correlation. Correlation Coefficient appeared greater than six times of probable error i.e. 0.9802 > 0.019632 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.

B. Correlation Analysis between Investment and Profit

Table 4.35

Correlation Analysis between Investment and Profit

Amount In Million

Year	Investment (X)	Net Profit (Y)
2002/03	1653.97	94.18

2003/04	2535.65	143.57
2004/05	2128.98	170.81
2005/06	4200.52	237.29
2006/07	4984.31	296.41
2007/08	5059.55	451.22
2008/09	5948.48	638.73
2009/10	5008.31	831.77
2010/11	7743.93	931.30
2011/12	7863.63	1090.56
Correlation Coefficient (r)		0.9525
Probable Error (P.E r)		0.019782

Appendix 2

Calculation shows that Coefficient of Correlation between investment and net profit of EBL is positive. Its Correlation and Probable Error remained 0.9525 and 0.019782 respectively. Correlation Coefficient appeared greater than six times of probable error i.e. 0.9525 > 0.118692, 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 sectors.

C. Correlation Analysis between Deposit and Investment

Table 4.36

Correlation Analysis between Deposit and Investment

Amount In Million

Year	Total Deposit	Investment
2002/03	6694.96	1653.98
2003/04	8063.90	2535.66
2004/05	10097.69	2128.93
2005/06	13802.44	4200.52
2006/07	18186.25	4984.31
2007/08	23976.30	5059.55

2008/09	33322.94	5948.48
2009/10	36932.31	5008.31
2010/11	41127.91	7743.93
2011/12	50006.10	7863.63
Correlation Coefficient (r)		0.9753
Probable Error (P.E r)		0.010394

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 0.97533 and 0.010394 respectively. Correlation coefficient appeared greater then six times of probable error i.e. 0.9753 > 0.062364 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 (Y)
2002/03	635.33	438.60
2003/04	785.06	468.40
2004/05	858.96	483.40
2005/06	1066.51	613.40
2006/07	1371.50	780.83
2007/08	1867.23	1024.33
2008/09	2570.89	1491.80
2009/10	3596.65	2151.66

2010/11	4786.58	3212.11
2011/12	5658.57	3692.68
Correlation Coefficient (r)		0.9981
Probable Error (P.E r)		0.00081

Appendix 4

Calculation shows the coefficient of correlation between income and expenditure of EBL is highly positive. Its correlation coefficient and probable error remained 0.9981 and 0.00081 respectively. Correlation coefficient appeared greater than six times of probable error i.e. 0.9981 > 0.00486 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
2002/03	6694.96	2648.12
2003/04	8063.90	7442.11
2004/05	10097.69	12236.10
2005/06	13802.44	17030.09
2006/07	18186.25	21824.08
2007/08	23976.30	26618.07
2008/09	33322.94	31412.06

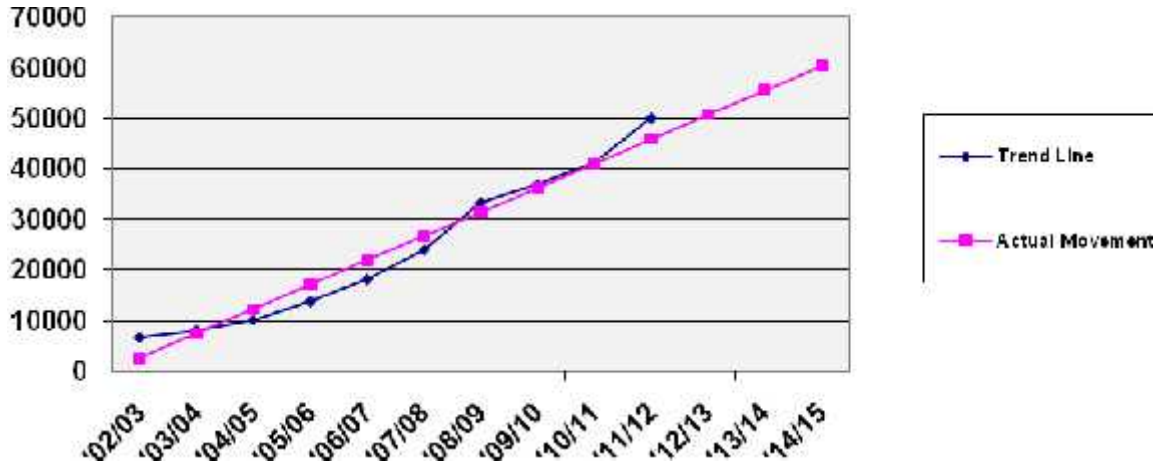
2009/10	36932.31	36206.05
2010/11	41127.91	41000.04
2011/12	50006.10	45794.03
2012/13		50588.05
2013/14		55382.01
2014/15		60176.01

Appendix 5

Figure 4.1

Trend Analysis of Total Deposit

Amount in Million



Year

Above table and figure shows the amount of deposit for ten years 2002/03 to 2011/12 and forecasted value for next three year (2012/13 to 2014/15). Y intercept (a) and slope of trend line (b) of the total deposit appeared to be 24221.08 and 4793.99x.

Comparing to actual deposit and trend value of deposit, actual deposit value was greater from year 2003/044 to 2010/11 which indicates bank was successful in collecting deposit but from 2011/12 trend value of deposit was greater than actual value, depreciation in actual deposit in 2011/12 indicates bank was unsuccessful in collecting deposit.

On the basis of the above trend equation forecasted total deposit for coming three years would be Rs. 50588.05, 55328.01 and 60176.01 million. Trend analysis shows that its deposit will increase in coming three year.

B. Trend Analysis of Profit

Table 4.39

Trend Analysis of Profit

Amount In Million

Year	Profit	Yc = a + bx
2002/03	94.18	-15.04
2003/04	143.57	96.88
2004/05	170.81	208.81
2005/06	237.29	320.74
2006/07	296.41	432.67
2007/08	451.22	544.60

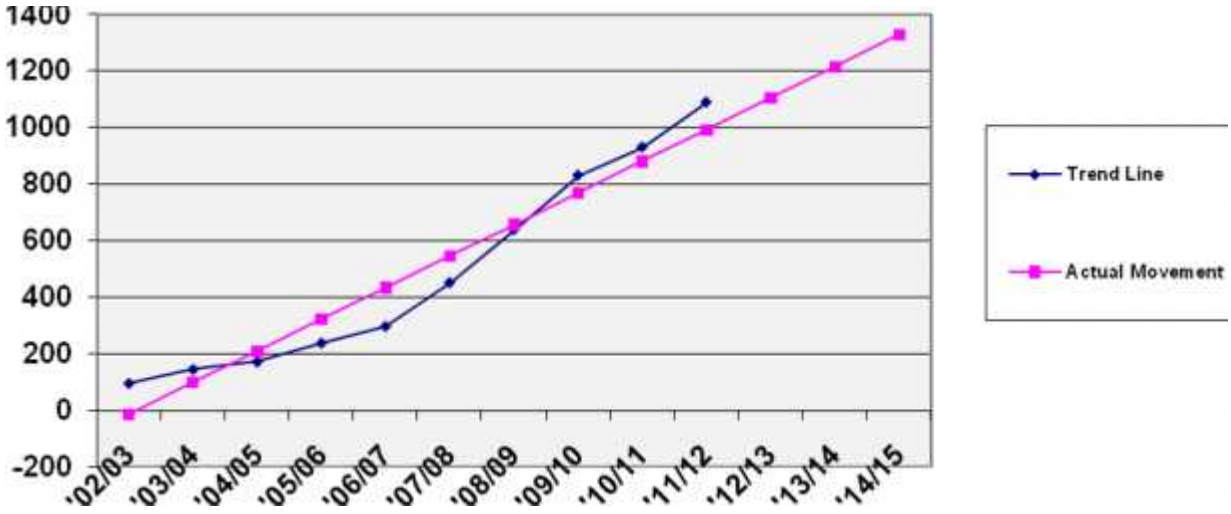
2008/09	638.73	656.53
2009/10	831.77	768.46
2010/11	931.30	880.39
2011/12	1090.56	992.32
2012/13		1104.25
2013/14		1216.18
2014/15		1328.11

Appendix 6

Figure 4.2

Trend Analysis of Profit

Amount in Million



Year

Above table and figure shows the amount of profit for ten years 2002/03 to 2011/12 and forecasted value for next three year (2012/13 to 2014/15). Y intercept (a) and slope of trend line (b) of the profit appeared to be 488.64 and 111.93x.

Comparing to actual profit and trend value of profit expect in the year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09, trend value of profit was higher than actual profit. This shows that bank was not more successful in earning profit.

On the basis of the above trend equation forecasted profit for coming three years would be Rs 1104.25, 1216.18 and 1328.11. Trend analysis shows that its profit will increase in coming three years.

4.4. Major Finding of the Study

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

- NRB recommended standard of current ratio for banks to be 1.07. Over the ten years of study period EBL is able to maintain its current ratio nearby 1.07 and average of current ratio is also 1.05 which is satisfactory. (Table 4.1)
- NRB recommended standard of Cash and bank balance to total deposit to be 10%. EBL has this ratio above 10% which means it is able to meet its daily cash requirement but average ratio of 14.66% also represents that it is unable to utilize all of its deposit in profitable sector and its deposits are idle. (Table 4.2)
- Cash and bank balance to current and saving deposit fluctuated over the study period. Final year of study period ratio was 20.72%, which indicates that bank may not able to meet its immediate obligation. (Table 4.3)
- EBL has made adequate amount of investment in government securities. Although government securities are risk free they yield less income which is not satisfactory from the view of income earning. (Table 4.4)
- Loan and advance to total deposit ratio was inconsistent during the study period. As per banking practice, banks should maintain the ratio between 70-75%. And EBL is able to maintain this standard so the ratio is satisfactory. (Table 4.5)
- Loan and advance to fixed deposit ratio increased continuously during the study period from 2002/03 to 2008/09. In the year 2009/10 and 2010/11 it decreased compared to year 2008/09 but in the year 2011/12 it again increased. This shows EBL is efficient in utilizing its high interest bearing fixed deposit as loan and advances. (Table 4.6)
- Loan and advance to saving deposit ratio was satisfactory over the study period. Though the ratio is in fluctuating trend EBL is efficient in utilizing its saving deposit inters of loan and advances. (Table 4.7)
- Investment to total deposit ratio fluctuated over the period. In an average EBL's investment to Total deposit is 22.21% which is less than 35% of NRB standard calculation. Hence, it is not satisfactory. (Table 4.8)
- EBL has maintained high ratio of performing assets to total asset ratio throughout the study period which shows good utilization of assets. (Table 4.9)
- Performing assets to total debt ratio was high over the study period which shows EBL able to utilize the outsider fund in income generation. (Table 4.10)

- Return on asset during the study period was less than 2.5%. This shows that profitability with respect to financial resources investment of bank asset was unsatisfactory. (Table 4.11)
- Return on deposit is fluctuating and unstable during the study period. (Table 4.12)
- Total interest expenses to total interest income ratio fluctuated over the ten years of study period. From 2002/03 to 2004/05 of study period it decreased from 59.14% to 48.13% and 41.65%. But on 20005/6 it increased to 44.43% and again increased to 45.19% in 20006/07. From 2007/08 to 201/12 also it is in increasing and decreasing trend. Still, EBL is more successful in later years in allocating interest bearing debt in profitable sectors. (Table 4.13)
- Interest earned to total assets was unstable and decreased during the study period from 2004/05 to 2007/8. This indicates that EBL has not utilized its assets in profitable sectors. (Table 4.14)
- Income of EBL increased over study period but in average their staff expense was 6.64%. This indicates a staff expense was moderate according to income. (Table 4.15)
- An office operation expense of EBL is decreasing in the ten years study period. (Table 4.16)
- Debt equity ratio of EBL showed that in its capital structure more than 80% of capital was funded by outsider's fund. (Table 4.17)
- Debt asset ratio of EBL showed that large portion of the bank's asset has been financed through outsider's fund. The aggregate 76.49% of asset was financed by outsider's fund. (Table 4.18)
- Interest coverage ratio of EBL was lower over the ten year of study period. This indicates there excessive use of debt for which interest to be paid. (Table 4.19)
- Loan loss coverage ratio of EBL was less than 1% in most of the study period except on 2003/04 and 2004/05 which is 1.39 and 1.17 respectively. This indicates EBL has been successful to anticipate the quality of loans lent and EBL loan loss coverage ratio can be ranked as satisfactory. (Table 4.20)
- Loan loss provision to total income ratio was highest in the year 2003/04 and 2004/05, were 10.42% and 10.35% respectively. But in a year 2010/11 EBL was

able to reduce at 2.05%. It shows EBL's loan investment on secured sector. (Table 4.21)

- Loan loss provision to total deposit ratio remained less than 1% in all the years except in the year 2003/04 which is 1.01%. This indicates EBL invested in less risky sectors. (Table 4.22)
- Earning per share increased over the ten years of study period from 2002/03 to 2009/10. But it decreased in last two final years. Its highest EPS was in a year 2009/10, it was Rs 100.21. Increasing EPS shows EBL is able to attract its shareholders by its sound financial position. (Table 4.23)
- EBL is distributing dividend to its shareholder in a regular basis. It has distributed higher dividend of 30% in the year 2006/07, 2007/08, 2008/09, 2009/10 and 2011/12. It shows EBL is able to distribute profit to its share holders which is satisfactory from view point of common share holders and investors. (Table 4.24)
- P\E ratio fluctuated over the study period. In the year 2006/07 and 2007/08, ratio was highest 30.99% and 34.08% respectively. (Table 4.25)
- Income and Expenditure analysis showed that its main source of income is interest. In an average its contribution in total income is 85%. (Table 4.26)
- Commission and Discount income, foreign exchange fluctuation income and other income also have big contribution on total income of EBL. (Table 4.27, 4.28 & 4.29)
- A major expense of EBL is interest expense. In an average 70% of total expense is covered by interest expense. (Table 4.30)
- Staff expenses covers 11.11% in average of total expenses. This shows EBL has made adequate expenses for their staffs. (Table 4.31)
- Operating expenses to total expenses showed that in an average 19.97% of total expenses is covered by operating expense. But EBL has been able to reduce it to 12.65% in final year. (Table 4.32)
- In an average 5.20% of total expenses is covered by bonus facility. In the year 2007/08 ratio was highest of 6.43%. Bonus facility motivates staff and help in increasing their performance and ultimately it increases bank's performance. (Table 4.33)

- There is perfect positive correlation between deposit and profit. It means EBL is able to generate profit from its deposit. (Table 4.34)
- There is positive correlation between investment and profit. It means EBL is successful in earning profit from its investment. (Table 4.35)
- The perfect positive correlation between deposit and investment shows EBL have effectively mobilized its deposit on investment. (Table 4.36)
- There is perfect correlation between income and expenditure which means it makes all expenses out of its income only. (Table 4.37)
- Trend analysis of deposit and profit was upward sloping which shows EBL is successful in collecting more deposit and generating more profit by mobilizing its deposit. (Table 4.38 & 4.39)

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The following chapter briefs and explores the matters and facts required for the various parts of the study. Analytical part which is the heart of the study makes analysis of various aspects of the financial status and performance of EBL using some important financial as well as statistical tools. The objectives of the research are not only to point out errors and mistakes but to correct them and give advices and direction for further growth and improvement.

5.1 Summary

Commercial banks in Nepal have come across a long way to reach at the present situation they hold in the national economy. Though the economic growth was in the speed of snail in earlier days, after restoration of democracy in the country it has caught its full running speed. After the establishment of Nepal Bank Limited (NBL) in 1937 A.D. to the present scenario with the emergence of new and growing banks have brought great changes in terms of services, capacity development and the way they serve customers. Today almost all the commercial banks in Nepal have introduced modern banking practices. Commercial banks that were initially involved simply in lending and deposit but they have now modified their traditional business concepts and introduced new services to Nepalese customer like, credit card, debit card, SMS banking, E-banking etc. After the adoption of liberal economic policy by the Government of Nepal, banking sectors has made significant improvement. Today banking industry is one of the fast growing industries in Nepal. Beside all these, Nepal has been facing several economic problems due to intense competition and lack of sufficient investment opportunities and unrest condition. Therefore future in the banking sector will be more competitive with quality and speedy service. Banks have to provide quality and speedy service and attain objectives along with maintaining social responsibility to sustain in market.

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. Ratio analysis is used by financial analysts for making decisions. It will compare the bank’s ratios to its past performance. At current period there are total thirty one commercial banks operating in Nepal among which Everest Bank Limited has

covered wide range of business due to access to most of the sectors of the country. So, Everest Bank Limited has been selected to study with their ten year data staring from 2002/03 till 2011/12.

Main objective of this study is to find out financial performance of EBL. Descriptive and analytical analyses have been done for this purpose by using various methodologies based on the secondary data.

Comparing first year (2002/03) and last year (2011/12) of study period, bank was in profit on 2002/03 by Rs. 94.18 million and in a year 2011/12 profit was Rs. 1090.56 million. Its deposit increased from Rs. 6694.96 to Rs. 50006.10 million. Investment increased from Rs. 1653.98 to Rs. 7863.63 million. Market value of share increased from Rs. 445 to Rs. 1033. EBL has paid regular dividend to shareholders. EBL established branch in different part of Nepal now it has all together 48 branches. Moreover in coordination with government of Nepal they are collecting revenue on behalf of government of Nepal from 12 revenue counters. They are also providing ATM facility to general customers with their 62 AMS counters.

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

5.2 Conclusion

The study has been conducted based on secondary data accumulated from annual report and website. Everest Bank limited is one of the growing banks of Nepal. It has been steadily growing in its size and operation ever since from its beginning and it has established itself as a leading private sector bank of nation considered as a one of the fastest growing commercial bank of country.

Liquidity position of the EBL is satisfactory. NRB calculation of current ratio for banks is 1.07 and EBL has an average of 1.05 which is satisfactory. A notable strength of the

bank's are, bank invested large portion in loan and advance of fixed deposit but EBL has its Net Non Performing Asset (NPA) least among of banking industry. This indicates EBL lent greater portion of loans in secured sectors.

EBL followed high risk high gain strategy. In its capital structure more than 50% capital was outsider's fund. Income and expenditure analysis shows fluctuated trend. Interest income is the main source of income its contribution 85% of total income. An interest expense is also higher, aggregate of 69% of total expenses spend in interest expenses. Interest income and expenses dominated other incomes and expenses of EBL.

EBL deposit remained Rs. 50006.10 million in a year 2011/12, which is 21.59% more than same period in the previous year 2010/11. EBL earned a net profit of Rs. 1090.56 million in a year 2011/12 and this comes to be 17.10% more as compared to the same period in the previous year 2010/11. Increment in profit, bank distribute 30% dividend to the equity shareholders.

There is a positive correlation between total deposit and profit, investment and profit, deposit and investment and income and expenditure, which shows EBL is successful in collecting deposits and investing them in productive sectors as loan and advances. Also, its increasing trend on collecting deposits and generating profit shows it has better financial performance and maintains good financial status in coming years.

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.

1. Investment in government securities was high during the study period. We know governments securities are risk free investment but we should not forget they gives lower interest rate. So, it is recommended to find other investment fields along with investment in government securities to increase profit ratio.

2. Interest income is the main source of EBL's income. At current competitive market scenario EBL needs to find other sources of income apart from the traditional interest income.
3. EBL was able to get increment in deposit and profit by 21.58% and 17.10% respectively. Although, it was found that EBL is unable to increase its investment. So it is recommended to give attention to increase in deposit and investment to success in competitive environment of banking industry.
4. EBL loan and advance to fixed deposit ratio decreased during the study period. It shows EBL inefficiency towards utilization of fixed deposit in a form of loans and advances. It is recommended to give attention to increase loan and advances to fixed deposit to generate income and reduce interest cost.
5. To general public bank's efficiency is judged by the percentage of dividend distributed. It is recommended that EBL should focus in increasing dividend per share which will flow positive message to its shareholders.
6. EBL has maintained liquidity ratio of 1.05 which is less than standard ratio 1.07. Although its liquidity position is at satisfactory level, EBL should focus in increasing its liquidity position.
7. EBL should also focus in increasing its earnings per share.
8. EBL loan loss provision to total income increased in the final year in respect to last three years. It is recommended that EBL should reduce its loan loss provision.
9. Out of total income, commission and discount income percentage is very less. As commission and discount income is also an important source of income EBL is recommended give focus towards increasing its commission and discount income.
10. Interest expenses cover aggregate of 70% of EBL's total expenses. As reduction in interest expenses increases EBL's profit, it is recommended to give focus on decreasing interest expenses in order to increase profit.

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Appendix-1

Correlation between Total Deposit and Profit

Amount In Million

Year	Deposit (X)	Net Profit (Y)	X^2	Y^2	XY
2002/03	6694.96	94.18	44822489.40	8869.87	634749.16
2003/04	8063.90	143.57	65026483.21	20612.34	1157734.12
2004/05	10097.69	170.81	101963343.30	29176.05	1724786.42
2005/06	13802.44	237.29	190507350.00	56306.54	3275180.99
2006/07	18186.25	296.41	330739683.10	87858.88	5390586.36
2007/08	23976.30	451.22	574862961.70	203599.48	10818586.09
2008/09	33322.94	638.73	1110418330.00	407976.01	21284361.47
2009/10	36932.31	831.77	1363995522.00	691841.33	30719187.49
2010/11	41127.91	931.30	1691501981.00	867319.69	38302422.58
2011/12	50006.10	1090.56	2500610037.00	1189321.11	54534652.42
	ΣX=242210.80	ΣY=4886.47	ΣX^2=7974448180.71	ΣY^2=3583612.75	ΣXY=167842247.13

Now,

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

$= \frac{10 \times 167842247.13 - (242210.80 \times 4886.47)}{\sqrt{10 \times 7974448180.71 - (242210.80)^2}\ \sqrt{10 \times 3583612.75 - (4886.47)^2}}$

$= \frac{15600668905.12}{15719710443.25}$

$= 0.9923$

Probable Error P.E = $0.6745 \times \frac{1-r2}{\sqrt{n}}$

$= 0.6745 \times \frac{1-(0.9923)^2}{\sqrt{10}} = 0.0032721155$

Appendix 2

Correlation between Investment and Profit

Amount In Million

Year	Investment (X)	Profit (Y)	X^2	Y^2	XY
2002/03	1653.97	94.18	2735616.76	8869.87	155770.89
2003/04	2535.65	143.57	6429520.92	20612.34	364043.27
2004/05	2128.98	170.81	4532342.90	29176.05	363642.53
2005/06	4200.52	237.29	17644368.27	56306.54	996741.39
2006/07	4984.31	296.41	24843346.18	87858.88	1477399.33
2007/08	5059.55	451.22	25599046.20	203599.48	2282970.15
2008/09	5948.48	638.73	35384414.31	407976.01	3799472.63
2009/10	5008.31	831.77	25083169.05	691841.33	4165762.01
2010/11	7743.93	931.30	59968451.84	867319.69	7211922.01
2011/12	7863.63	1090.56	61836676.78	1189321.11	8575760.33
	$\Sigma X=47127.28$	$\Sigma Y=4886.47$	$\Sigma X^2=264056953.21$	$\Sigma Y^2=3583612.75$	$\Sigma XY=29393484.54$

Now,

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

$= \frac{10 \times 29393484.54 - (47127.28 \times 4886.47)}{\sqrt{10 \times 264056953.21 - (47127.28)^2}\ \sqrt{10 \times 3583612.75 - (4886.47)^2}}$

$= \frac{2709062414.10}{2844185023.46}$

$= 0.9525$

Probable Error $P.E = 0.6745 \times \frac{1-r2}{\sqrt{n}}$

$= 0.6745 \times \frac{1-(0.9525)^2}{\sqrt{10}} = 0.019782$

Appendix 3

Correlation between Deposit and Investment

Amount In Million

Year	Deposit (X)	Investment (Y)	X^2	Y^2	XY
2002/03	6694.96	1653.97	44822489.40	2735616.79	11073262.99
2003/04	8063.90	2535.65	65026483.21	6429520.92	20447228.04
2004/05	10097.69	2128.98	101963343.30	4532342.90	21497275.17
2005/06	13802.44	4200.52	190507350.00	17644368.27	57977425.27
2006/07	18186.25	4984.31	330739683.10	24843346.18	90645907.74
2007/08	23976.30	5059.55	574862961.70	25599046.20	121309288.70
2008/09	33322.94	5948.48	1110418330.00	35384414.31	198220842.10
2009/10	36932.31	5008.31	1363995522.00	25083169.05	184968457.50
2010/11	41127.91	7743.93	1691501981.00	59968451.84	318491656.09
2011/12	50006.10	7863.63	2500610037.00	61836676.78	393229468.10
	ΣX=242210.80	ΣY=47127.28	ΣX^2=7974448180.71	ΣY^2=264056953.21	ΣXY=1417860811.70

Now,

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

$= \frac{10 \times 1417860811.70 - (242210.80 \times 47127.28)}{\sqrt{10 \times 7974448180.71 - (242210.80)^2}\ \sqrt{10 \times 264056953.21 - (47127.28)^2}}$

$= \frac{130371344979.37}{133668074386.52}$

$= 0.9753$

Probable Error $P.E = 0.6745 \times \frac{1-r2}{\sqrt{n}}$

$= 0.6745 \times \frac{1-(0.9753)^2}{\sqrt{10}} = 0.010394$

Appendix 4

Correlation between Income and expenditure

Amount In Million

Year	Income (X)	Expenditure (Y)	X^2	Y^2	XY
2002/03	635.33	438.60	403644.20	192369.96	278655.73
2003/04	785.06	468.40	616319.20	219679.69	367957.62
2004/05	858.96	483.40	737812.28	233675.56	415221.26
2005/06	1066.51	613.40	1137443.58	376259.56	654197.23
2006/07	1371.50	780.83	1881012.25	609695.49	1070908.34
2007/08	1867.23	1024.33	3486547.87	1049251.95	1912659.71
2008/09	2570.89	1491.80	6609475.33	2225467.24	3835253.70
2009/10	3596.65	2151.66	12935891.22	4629640.75	7738767.94
2010/11	4786.58	3212.11	22911348.09	10317650.65	15375021.48
2011/12	5658.57	3692.68	32019414.44	13635885.58	20895288.27
	ΣX=23197.28	ΣY=14357.51	ΣX^2=82738908.96	ΣY^2=33489576.43	ΣXY=52543931.28

Now,

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

$= \frac{10 \times 52543931.28 - (23197.28 \times 14357.51)}{\sqrt{10 \times 82738908.96 - (23197.28)^2}\ \sqrt{10 \times 33489576.43 - (14357.51)^2}}$

$= \frac{4921337948.43}{4930735637.09}$

= 0.9981

Probable Error P.E = $0.6745 \times \frac{1-r2}{\sqrt{n}}$

$= 0.6745 \times \frac{1-(0.9981)^2}{\sqrt{10}}$ = 0.00081

Appendix 5

Trend of Deposit

Amount In Million

Year	Deposit (y)	Year (x) = [2005.5]	x^2	xy	Yc= a+ bx
2002/03	6694.96	-4.5	20.25	-30127.32	2648.12
2003/04	8063.90	-3.5	12.25	-28223.65	7442.11
2004/05	10097.69	-2.5	6.25	-25244.22	12236.10
2005/06	13802.44	-1.5	2.25	-20703.66	17030.09
2006/07	18186.25	-0.5	0.25	-9093.12	21824.08
2007/08	23976.30	0.5	0.25	11988.15	26618.07
2008/09	33322.94	1.5	2.25	49984.41	31412.06
2009/10	36932.31	2.5	6.25	92330.77	36206.05
2010/11	41127.91	3.5	12.25	143947.68	41000.04
2011/12	50006.10	4.5	20.25	225027.45	45794.03
	Σy=242210.80	ΣX= 0	Σx^2= 85.50	Σxy=409886.49	
2012/13					50588.05
2013/14					55382.01
2014/15					60176.01

$$a = \frac{\Sigma y}{n} = \frac{242210.80}{10}$$

$$= 24221.08$$

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

$$= \frac{409886.49}{85.50}$$

$$= 4793.99$$

Appendix 6

Trend of Profit

Amount In Million

Year	Profit (y)	Year (x) = [2005.5]	x^2	xy	Yc= a+ bx
2002/03	94.81	-4.5	20.25	-426.64	-15.04
2003/04	143.57	-3.5	12.25	-502.49	96.88
2004/05	170.81	-2.5	6.25	-427.02	208.81
2005/06	237.29	-1.5	2.25	-355.93	320.74
2006/07	296.41	-0.5	0.25	-148.20	432.67
2007/08	451.22	0.5	0.25	225.61	544.60
2008/09	638.73	1.5	2.25	958.09	656.53
2009/10	831.77	2.5	6.25	2079.42	768.46
2010/11	931.70	3.5	12.25	3259.55	880.39
2011/12	1090.56	4.5	20.25	4907.52	992.32
	Σy=4886.47	ΣX= 0	Σx^2= 85.50	Σxy=9569.91	
2012/13					1104.25
2013/14					1216.18
2014/15					1328.11

$$a = \frac{\Sigma y}{n} = \frac{4886.47}{10}$$

$$= 488.64$$

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

$$= \frac{9569.91}{85.50}$$

$$= 111.93$$

Appendix 8

List of Commercial Bank in Nepal

Name	Operation Date	Head Office
Nepal Bank Limited (NBL)	1957	Kathmandu
Rastriya Banijya Bank (RBB)	1966	Kathmandu
NABIL Bank Limited (NABIL)	1984	Kathmandu
Nepal Investment Bank Limited (NIBL)	1986	Kathmandu
Standard Chartered Bank Nepal Ltd. (SCBN)	1987	Kathmandu
Himalayan Bank Limited (HBL)	1993	Kathmandu
Nepal SBI Bank Limited (NSBI)	1993	Kathmandu
Nepal Bangladesh Bank Limited (NBBL)	1993	Kathmandu
Everest Bank Limited (EBL)	1994	Kathmandu
Bank of Kathmandu Limited (BOK)	1995	Kathmandu
Nepal Credit and Commerce Bank Ltd	1996	Bhairawa
Lumbini Bank Limited (LBL)	1998	Narayangrah
Nepal Industrial & Commercial Bank Ltd. (NIC)	1998	Biratnagar
Machhapuchhre Bank Limited (MPBL)	2000	Pokhara
Kumari Bank Limited (KBL)	2001	Kathmandu
Laxmi Bank Limited (LXBL)	2002	Birgunj
Siddhartha Bank Limited (SBL)	2002	Kathmandu
Global Bank Limited	2007	Birgunj
Citizens Bank International Limited	2007	Kathmandu
Prime Commercial Bank Limited	2007	Kathmandu
Bank of Asia Nepal Limited	2007	Kathmandu
Grand Bank Nepal Limited	2008	Kathmandu
NMB Bank Limited	2009	Kathmandu
KIST Bank Limited	2009	Kathmandu
Mega Bank Limited	2009	Kathmandu
Sunrise Bank Limited	2009	Kathmandu
Janata Bank Limited	2009	Kathmandu
Commerz And Trust Bank Limited	2010	Kathmandu
Civil Bank Limited	2010	Kathmandu

Century Commercial Bank	2011	Kathmandu
Sanima Bank Limited	2011	Kathmandu

Source: www.nrb.org.np