FINANCIAL PERFORMANCE ANALYSIS OF EVEREST BANK LIMITED

A Thesis Submitted to:

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RECOMMENDATION

This is to certify that the thesis

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

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for

Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

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Member (Central Department of Management)   --------------------------

Date: ………………

DECLARATION

I hereby declare that the work reported in this thesis entitled **"Financial Performance Analysis of Everest Bank Limited"** submitted to the Central Department of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of Prof. Dr. Bal Krishna Shrestha, Central Department of Management.

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ABBREVIATIONS

AR	Activity Ratio
ATM	Automatic Teller Machine
C.D.	Coefficient of Determination
CC	Coefficient of Correlation
CDM	Central Department of Management
CR	Credit Ratio
CV	Coefficient of Variation
DPS	Dividend Per Share
EBL	Everest Bank Limited
EPS	Earning Per Share
HBL	Himalayan Bank Limited
i.e.	That is
JVB	Joint Venture Bank
Ltd.	Limited
MPS	Market Price Per Share
NEPSE	Nepal Stock Exchange
NRB	Nepal Rastra bank
PE	Probable Error
SD	Standard Deviation

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is an underdeveloped country per capita income of US $ 470 and most of the people are under poverty line. Many features are there for slow pace of the development such as land locked position, lack of vagaries and misuse of resources, poor economy policy and institutional weakness (Economic survey, 2010).

Capital accumulation plays an important role in accelerating the economic growth of a nation, which in terms is basically determined, among others, by saving and investment propensities. However, the capacity to save in the developing countries is quite low with a relatively higher marginal propensity of consumption. As a result, such countries are badly entrapped in to the circle of poverty. So, the basic problem for the developing countries is raising the level of saving and thus investments.

The basis for the financial planning, analysis and decision-making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is required to aid in economic decision-making. The financial information of an enterprise is contained in the financial statement or accounting reports.

Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimates and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision (*Bernsten, Leopard. A, wild john J.1998)*

Financial Statement analysis reduces over reliance on hunches, guesses, and intuition and in turn, it diminishes our uncertainty in decision-making. It does not lesson the need for expert judgment but rather establishes an effective and systematic basis for making business decisions.

Financial statements of a firm mainly include income statement and the balance sheet. They are important source of financial information regarding the firm's operations and its financial position. To analyze the financial performance, strength, and weakness of the firm, many types of tools and techniques are used.

Ratio analysis is one of the very popular and widely used tools of financial analysis. Ratio analysis is done with different ratios which are calculated from the accounting data contained in the financial statement. It is the primary tool for examining the firm's financial position and performance. Ratios are used as yardstick for evaluating the financial condition and performance of the firm.

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy.

The financial system in Nepal has from a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. Indicators of the last decade show that the sector has growth both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has become more competitive, dynamic and also compels. This constitutionals network and the

volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

In financial analysis, a ratio is used as an index for evaluating the financial position and performance of a firm. Analysis and interpretation of various ratios should give an experience and skilled analyst a better understanding of financial condition and performance of a firm. Then he/she would obtain from analysis depends to a very large extent on the use of ratio through other equally important tools of such analysis.

Traditional financial ratio analysis has focused on the numbers. The value of this approach is that quantitative relation can be used to diagnose strength and weakness in the firm's performance. It provides a framework for financial planning and control. After identifying so much scopes and importance of financial analysis, this study also focus on financial performance of Everest bank limited.

The development of any country cannot be imagined without economic activities. The development of the banking system is one of the grounds of economic development. So, to solve problems relating to economic development, development of banking system is necessary.

1.1.1 Introduction to Banking

Bank is a financial institution, and the backbone of a country for the economic development. Banking concept existed even in the ancient period when the goldsmiths and the rich people used to issue the common people against provides of safe keeping of their valuable items on the presentation of the receipt. The depositors would get bank their gold and valuables of the paying a small amount for safe-keeping and saving.

A bank is an institution which deals with money and credit. It accepts deposit from the public and mobilizes the fund to productive sectors. It is also provides remittance facility to transfer money from one place to another. Generally,

Bank accepts deposit from business institutions and individuals, which is mobilized into productive sectors mainly business and consumers lending. Therefore, bank is known as an institution accepting deposits and disbursing loan. In addition to this a bank may be engaged in different types of function such as remittance, exchange currency, joint venture, underwriting, bank guarantee, discounting bills etc. Bank refers to an institution having the following features. According to a French writer Revil pout, Bank notes were in practice in Babylonia around 600 B.C. This could be considered as the first ever step to the inception of banking system. It has been assumed that the practice of modern banking functions such as exchange of money, transfer of funds, note issue accepting deposits, lending money etc. Already began in Rome around the late 14th century. However, the banking development collapsed with the Roman civilization.

The banking business revived in the 12th century as Jews conducted functions such as safe keeping of valuables, lending money at interest and similar other functions. As a result bank of Venice, the first bank in the world come into existence in 1157 A.D.

Prior to the development of modern banking system, the role of merchant, money lenders and gold smith was dominant in the society Therefore, they can consider as the three ancestors of modern banking. Gradually the function of accepting deposits and granting loans were handed over from individual to the joint stock company.

Subsequently 'Bank of Barcelona' Spain was established as the first modern bank in 1401 A.D. The modern banks undertook the function of issuing notes, credit creations, accepting deposits, lending money, transfer of fund, accepting bills of exchange, promissory notes etc. later only the central bank were authorized to issue the notes.

The European Industrial revolution of the 17th century brought about drastic increase in production, thereby lending to rise in marine transportation and

overseas trade. Most of the European countries rushed for seeking new colonies.

In the ground of the favorable economic environment, 'Bank of England' came into begins in 1694 A.D. The bank of England gave scientific shape to Modern banking. After the formulation of the act regarding 'Bank of England' in 1833 A.D., the prominence of Joint stock bank was further enhanced. From 1844 A.D., Bank of England was allowed to function as the central bank.

Around 1850, the 'Credit Mobilizes' was established in Paris as the first venture bank. The existence of many ventures banks facilitated industrialization in Europe. In the 19th century, commercial banks were opened in almost all countries in the world. Thus, development of the modern banking system gains full momentum and various monitory problems. Now banks have been the vital part of economic and business life of each economy. The three ancestors of bank i.e. merchants, Money lenders and Gold Smith were performing the work i.e. accepting deposits, keeps valuable things in the custody and granting loans those who needed. This was all their individual effort.

Banks are principle source of credit for millions of individuals and families and for money unit of government .They are among the most important financial institution in the economy. Moreover, for small local business ranking from grocery store to automobiles dealers, banks are often the major source of credit to stock the shelves with merchandise. Bank grants more installment loan to consumers than any other financial institution.

In most recent years, they are among the lending buyers of bonds and notes issued by government to finance public facilities. Moreover bank reserve the principal channel for government economic policy to stabilize the economy.

Bank are among the most important source of short term working capital for business .They have becomes increasingly active in recent years in making long-term business loans for few new plant and equipment .When business and consumers must make payments for purchase of goods and services, more often

they use bank provides cheque, Creditors debit cards or electronic account connected to a computer network. It is the banker to whom they turn most frequently for advice and counsel, when they need financial information and financial planning.

1.1.2 Function of commercial bank

Regarding the function of commercial banks, a commercial bank Act state that commercial bank is one that exchanges money, accept deposit, grants loan performs commercial banking functions. The functions and services of modern commercial banks classified under the following heading.

1. Accepting deposit
2. Granting loan and deposits.
3. Agency services.
4. Guarantee on behalf of customers
5. Issuance of traveler's cheque.
6. Opening letter of credit.
7. Remittance function.
8. Others services.

Bank is the necessary of every country as it plays crucial role in enriching economic and social life of country. Banks are the backbone of the country. It is the financial institution, which provides wide range of banking services such as the financial supermarket providing all kinds of monitory service, which is necessary for the industrialization and economic development of the country.

1.1.3. Commercial Banking in Nepal

Until mid -1940s only metallic coins were used as medium of exchange. So the H.M.G felt the need of separate institution or body to issue national currencies and promote financial organization in the country. Hence the Nepal Rastra

Bank Act 1955 was formulated which was approved by H.M.G. accordingly, the Nepal Rastra Bank was established in 1956 A.D. as a central bank.

In 1957 A.D Industrial Development Bank was established to promote the industrialization in Nepal was converted into Nepal Industrial Development Corporation (NIDC) in 1959 A.D. Rastrya Banijya Bank was established in 1965 A.D. as the second commercial bank of Nepal. As the agriculture is the basic occupation of major Nepalese. The development of this sector plays the prime role in economy, so separate Agriculture Development Bank was established in 1968.A.D. This is first institution in agricultural financing. For more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, H.M.G encouraged the foreign banks for joint venture in Nepal. As a result, Nepal Arab Bank ltd (NABIL) was established in 1984 A.D. This is the first modern bank with latest banking technology. Then a lot of commercial banks have been opened in the country. Nepal Indosuez Bank limited was established in 1986 A.D.as private joint venture bank. Nepal Grindlays Bank was established in 1987 A.D. Himalayan Bank limited is a joint venture with Habib Bank of Pakistan. It started to operation in 1993 A.D with paid –up capital of 60 Millions. Nepal SBI Bank limited is a joint venture between employee's provident fund and State Bank of India, where Indian bank holds 50 percent of equity. The initial paid-up capital was Rs.119.95 Million in 1993A.D. Nepal Bangladesh Bank was established in 1993 A.D. in technical collaboration with IFIC Bank Ltd of Bangladesh. Everest Bank limited started its operation in 1994 A.D. It entered into joint venture with Punjab National Bank of India (PNB). PNB holds 20 percent equity in this bank.

Similarly, Bank of Kathmandu was established in 1995 A.D. Nepal Bank of Ceylon (Nepal Credit and commerce Bank) was established in 1998 A.D. Nepal Industrial and commercial Bank was established in 1998 A.D. It doesn't have any joint venture yet but it has employed senior manager from India to handle its operations. Machhapuchhare Bank started its operation from 2000

A.D. Its head office is established in Pokhara. Kumari Bank was established in 2001 A.D. The bank has introduced internet banking which is Hi-Tech banking system of the world. Laxmi Bank established in 2002 A.D. Siddhartha Bank was established was in 2002 A.D. Development Credit Bank Limited and Nepal Merchant Bank limited upgraded as commercial bank from 2009 A.D. respectively. Likewise Global Bank Limited, Citizens Bank International Limited, Prime Commercial Bank, Bank of Asia Limited, Sunrise Bank Limited, Mega Bank Limited, Civil Bank Limited, Century Commercial bank, Commerz and Trust Bank and Sanima Bank are newly established banks. There are 32 commercial bank provides services till date.

1.1.4 Introduction to Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

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. 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, and Malaysia.Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Punjab National Bank (PNB), joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all

the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian large, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

Awards

) The bank has been conferred with "Bank of the Year 2007, Nepal" by the banker, a publication of financial times, London.

) The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector

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

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

) EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society.

) EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

Corporate vision

) To evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial and related services.

) To integrate the frontiers of technology & serving the various segments of society.

) To be committed to excellence in corporate values.

Corporate Mission

- To provide excellent professional services & improve its position as a leader in the field of financial related services.
- To build & maintain a team of motivated and committed workforce with high work ethos.
- To use the latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments.

This sustained growth of the bank is attributable to its strong systems and procedures, professional approach, quality lending and highly motivated staff members.

The bank is providing its services through a wide network of 44 branches across the nation and over 200 correspondents across the globe. All the major branches of the bank are connected through 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.

The bank in association with smart choice technology (SCT) is providing ATM services for its customers. EBL Debit card can be accessed at more than 60 ATMs and over 200 point of sales across the nation. The bank is also managing the SCT ATM at Tribhuwan International Airport for the convenience of the customers and the travelers, the first and the only in Nepal to place ATM outlet at the Airport.

EBL is plying a vital role in facilitating remittance to and from across globe. Being the first Nepalese bank to open representative offices 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 Draft Drawing Arrangement with 175 branches of PNB all over India.

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

The bank recognizes the value of offering a complete range of services. Bank have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL flexi Loan, EBL property plus (future lease Rentals) , Home Equity Loan, Car loan , Loan Against shares, Loan Against life insurance policies and Loan for professionals.

Pioneering achievements

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

EBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society. EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

The study of financial performance is basic process which provides information about profitability, liquidity position earning capacity, efficiency in operation, credit worthiness, source and use of capital, financial achievement and status of bank. The information obtained can be used to measure the efficiency and effectiveness of the bank in respect of deploying financial resources in the profitable manner.

The main objective of this study is to analyze the financial performance through the use of appropriate financial tools. Study is based on the certain financial tools .e. Ratio analysis and necessary tools.

1.2 Statement of the problem

Everest Bank Ltd has been improving its performance from the beginning since its establishment. EBL has achieved its remarkable success in banking sector and provided its high status in the eye of the public.

EBL basic objectives are to uplift the economic activities and strength welfare of the general public facilitate loan in different sector and provide the banking services to its country and people. Therefore this study concentrates on it to meet its objective.

The study financial performance is basic process, which provides information about the profitability, liquidity position, earning capacity, efficiency in operation, credit worthiness, source and uses of capital, financial achievement and status of the bank. The information obtained can be used to measure the efficiency and effectiveness of the bank respect of deploying financial resource in the profitable manner.

1.3 Objective of the study

The main objective of this research is to analyze the financial performance through the appropriate financial tools i.e. Ratio analysis and necessary statistical tools.

1) To evaluate the financial performance of EBL.
2) To analyze the financial performance of EBL through the use of trend analysis of deposit and profit.
3) To evaluate the financial performance through Du-Pont analysis.

1.4 Limitation of the study

There some limitations while undergoing this study. The main limitations of the study are as follows:

1) The study was based on secondary data.
2) The balance sheet, profit and loss account and accompanying note are considered be true.
3) Although there are many joint venture banks the study limits to only one EBL.
4) The study has covered only the latest five fiscal year from 2007 to 2011.
5) Only limited variables are considered for this study.

1.5 Organization of the study

The rationale behind this kind of organization is to follow a simple research methodology approach. The contents of each of the parts of this study are briefly mentioned here.

Chapter I: Introduction introduces the subject; present the research problem, reason for studying, objective of the study, along with limitation.

Chapter II: Review of Literature concerned with the study of financial performance and return to investor have been reviews & presented.

Chapter III: Research Methodology, used in the study. It comprises research design, nature & source of data, data gathering method and analytical tools used.

Chapter IV: Presentation & Analysis of data & scoring the empirical finding out the study through definite course of research methodology.

Chapter V: Summary of the study, which is followed by the basic conclusion of the study based in the fourth chapter on the basic of these conclusion and recommendation has also been presented for consideration.

CHAPTER - II

REVIEW OF LITERATURE

Review of the literature is focused and directed towards specific purposes. It is a selective subject. A researcher has to select the kind of literature to be reviewed and determine the purpose. It starts with the selections of a problem for research, continues through the various stages of the research process and end with report writing.

Reviewing different available literature from various sources is the major objective of this chapter. The prime focus for collecting external literacy information through various textbooks, research journals and research thesis. Various articles relating to different aspects of commercial bank will help to conduct the study smoothly. Review of literature is divided into two categories.

2.1 Conceptual Frame Work/Theoretical Review

Financial decisions are very sensitive and important and cannot be taken blindly or in a vacuum. Financial decisions must be based on proper financial analysis by using, financial tools-such as financial ratios are used to measure the financial performance of the company. "Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firm, to identify problems, if any, in the past or present and /or likely to be in the future, and to provide recommendation to solve the problems *(Pradhan, 2000).*

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

Similarly, Hampton has stated that It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the efficiency and performance of the firm's management, as reflected in the financial records and reports *(Hampton, 1998).*

In financial analysis, certain guideline or criteria are included:

a. Historical evidence of performance as a base of financial performance analysis.

b. Economic consideration such as trend and averages of price level, business profit interest rates, dividend policy, security price movements.

Financial statement gives insight knowledge on the firm's financial position at a point of time and on its operations over some past companies regarding what they have performed financially. Financial report is reporting about what the company has done in terms of assets, liability, income and expenses. On the other hand financial statement also highlights other aspects of company such as liquidity, activity, capital structure and market.

Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify the current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness *(Westorn, Besley & Brigham, 1996).*

The following are the some important financial ratios to analysis the financial performance of selected banks:

(i) Liquidity Ratio

A liquidity ratio measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity need the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship

between cash and other current assets to current obligations, provide a quick measure of liquidity a firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The failure of company to meet its obligation due to lack of sufficient liquidity, will result in poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

(ii) Leverage Ratio

The short-term creditors, like bankers and suppliers of raw materials, are more concern with the firm's debt-paying ability. On the other hand, long-term creditors, like debenture holders, financial institutions etc., are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long-term financial position. To judge the long-term financial position of the firm, financial leverage, or capital structure ratios are calculated. These ratios indicate mix of debt and owners' equity in financing the firm's assets. The process of magnifying the shareholders' return through the use of debt is called financial leverage or financial gearing or trading on equity.

(iii) Activity Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratios are employed to evaluate the efficiency with the bank manages and utilizes funds. These ratios are also called turnover ratios because they indicate the speed with which the assets are being converted or turned over into sales.

(iv) Profitability Ratio

A company should earn profits to survive and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of the company, and it will have no future if it fails

to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of the profits. The profitability ratios are calculated to measure the operating efficiency of company. Besides management of the company, creditors and owners are also interested in the probability of the firm. Creditors want to get interest and repayment of principal regularly only when the company earns enough profits.

(v) Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments.

Financial statement published by the listed company in the stock exchange are collected and analyzed by Nepal Stock Exchange for the calculation of the financial performance of the concerned company. In fact, financial statement comprises of:

Balance sheet: It is very important means of analysis of financial performance of any company. It companies assets, liabilities and shareholder's equity.

Statement of profit and loss account: It also very important means of financial performance of any company. It comprises of income and expensed over the period of time.

Statement of Retained Earning: This statement explains about the Company's position of earnings to be paid as dividend and the portion of profit to be retained for future uses. It also explains how profit, dividend and other transaction affect the retained earnings and share-holders' equity.

Financial analysis is done on the basis of financial statement of the concerned company. The objective of financial analysis can be described as:

) To get the entire information that can be used at the time of decision making.

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⟩ To judge overall performance and management effectiveness.

⟩ To identify the deficiencies and weaknesses.

⟩ To take corrective action in time to check such deficiencies and improve the performance.

⟩ To evaluate the possible implications of alternative course of actions.

⟩ To get in dept information of possibilities of brining changes worthwhile.

2.2 Review of Books, Journals and Thesis

Under this, various books, articles and dissertations have been reviewed for the purpose of clarification of financial statement and performance of the company under consideration.

2.2.1 Review of Related Books

Western & Copeland (1991) Short Term Financial Management, the author has highlighted the types of short-term financing and its related issues. Following are the objectives of this chapter.

a.   Discuss the nature and type of short-term financing.

b.   Evaluate the significance of working capital management of the firm.

c.   Explain the relationship between sales growth and the need to finance in current assets.

Short-term financing is defined as debt scheduled for repayment within one year. A large number of short-term credits are available and the financial manager must know the advantages and disadvantages of each. The main types of short-term financing are:

A. Trade Credit

Trade credit is a customary part of doing business in most industries. It is convenient and informal. Whether trade credit costs more or less than other forms of financing is a moot question because in such cases the buyer has no

option but to buy the goods from the creditors. The trade credit is not applicable to the commercial banks.

B. Loans from Commercial Banks

Loan from the commercial banks is very important source of financing. Commercial banks take into consideration of following factors while providing loan to its customer.

- ⌡ Forms of loan
- ⌡ Size of Customers
- ⌡ Maturity
- ⌡ Security
- ⌡ Compensation Balance
- ⌡ Repayment of Bank loan

C. Commercial Paper

In recent years, the issuance of commercial paper has become an increasingly important source of short term financing for many types of corporations, including utilities, finance companies, insurance companies, and bank holding companies and manufacturing companies. Commercial paper consists of unsecured promissory notes issued by the firms to finance short-term credit lines.

In conclusion, the author has quoted that trade credit is the largest single category of short-term financing. It is especially important for smaller firm. Bank credit occupies a pivotal position in the short-tem money market. Banks provide the marginal credit that allows the firms to expand more rapidly that in possible through retained earnings and trade credits. Commercial paper is physically similar to a bank loan. It is sold in broad and impersonal market. The highest rated firms are the main users of the commercial paper. Working capital management encompasses all aspects of administration of current assets and current liabilities. Short-term financial management is widely used in

place of working capital management and it covers all decisions of an organization involving cash flows in short term.

Van Horne (2000) Liquidity, Cash and Marketable Securities the author has focused on the current assets and short-term financing. According to the author, Liquidity and liquid assets like cash and cashable assets are more important for the company to discharge the current liabilities. The objectives of the chapter can be explained as follows:

) Discuss the term liquidity and its role.
) Explain the various aspects of cash management and collections.
) Explain the various aspects of investment in marketable securities.
) Also to focus on the aspect of portfolio Management.

The, term liquid assets refer to money and assets that are readily convertible into cash. Cash is said to be more liquid asset in comparison to other assets because other assets have varying degree of liquidity depending on the way of conversion into cash. For the other assets, liquidity has two dimensions (i) the time necessary to convert the assets into money (ii) the degree of certainty, associated with conversion ratio. Since, assessment of financial performance also depends on the degree of liquidity of the company, so the company under consideration should be enough liquid to discharge it current liability in time. Other aspects of liability involve cash management and collections. Cash management refers to managing monies of the firm in order to maximize cash availability and interest income on any idle funds. The financial manager has to tackle the cash management and collection of fund seriously. Cash management and collection comprises various aspects like.

) Transferring funds.
) Concentration Banking.
) Lockbox System.
) Control of disbursements.
) Mobilizing funds and slowing disbursement.

- ⟩ Payroll and dividend disbursements.
- ⟩ Zero Balance Account.
- ⟩ Electronic funds Transfers.

The author has also highlighted on investment in marketable securities to properly maintain the liquidity in the firm. According to author a good financial manager should always try to invest the portion of a excess liquid assets. The yields on these sorts of marketable securities may vary due to default risk, coupon rate and other factors involved. The financial manager should consider following aspects while taking decision regarding the investment in marketable securities:

- ⟩ Default risk.
- ⟩ Marketability.
- ⟩ Maturity Period.
- ⟩ Coupon Rate.
- ⟩ Taxability.

Types of marketable Security

- ⟩ Treasure Security.
- ⟩ Repurchase Agreement -Agency Security.
- ⟩ Banker's Acceptance.
- ⟩ Commercial Paper.
- ⟩ Negotiable Certificates of Deposits.
- ⟩ Euro Donors.
- ⟩ Short-Term Municipal Bonds.

Regarding the portfolio management, the author has emphasized that the financial manager should the investment portfolio in accordance with the need of fund. The term 'portfolio' means collection of investments in different securities. In portfolio analysis, financial manager should analyze future risk and return of securities. The objective of portfolio management is to help developing a portfolio that has the maximum return at chosen level of risk

efficient portfolio provides the highest possible return for any specified rate of return. In portfolio analysis, the financial manage should estimate the expected return and the risk of holding securities in a portfolio. In portfolio management, expected return and portfolio risk calculated as follows.

Portfolio Returns

The portfolio returns is calculated by using following formula

$r_p = W_1 r_1 + + \ldots\ldots\ldots + W_n r_n$

Where,

r_p	Expected portfolio return
r_1	Expected return for stock 1
r_2	Expected return for stock 2
W_1	Weight for stock 1
W_2	Weight for stock 2

Portfolio Risk

Portfolio risk is measured by the variance or standard deviation of the return of the portfolio. The variance of returns from a portfolio made up of two assets is defined by following equation:

$$\sigma^2 p = w_1^2 \sigma^2_1 + w_2 \sigma^2_2 + w_1 w_2 cov(r_1 r_2)$$

Where,

$\sigma^2 p$ = variance of the portfolio's rates of return

W_1 = weight for asset 1

σ^2_1 = variance for assets 1

W^2 = weight for asset 2

σ^2_2 = variance for asset 2

Cov $(r_1 r_2)$ = Covariance of returns between asset 1 and asset 2

Instead of Variance, standard deviation (σ_p) can be used to measure the risk of the portfolio. Standard deviation is equally valid as the variance but is easier to

interpret. The following equation is used for the calculation of standard deviation of a two asset portfolio.

In conclusion, for the cash management the company should attempt to accelerate cash collections and handle disbursement so that maximum liquidity is maintained in the company. On the other hand, the financial manager should try to use the excess cash in a number of securities. The financial manager should select the best possible portfolio considering the cash flow pattern and other things of the company.

Pandey 2001 financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm or by parties outside the firm, viz owners, creditors, investors, and other

In this book, the author has pointed out of the following objectives in 2nd chapter "Statement of Financial Information".

a.   Discuss the nature, content, form and utility of two financial statements, viz. Balance sheet and profit and loss account.
b.   Show relationship between Balance sheet and profit and loss statements.
c.   Distinguish between accounting profit and economic profit.

Any firm communicates financial information to the users through financial statements and reports. Thus, financial statements contain summarized information of the firm's financial affairs. These statements are the means to present the firm's financial situations to the users. Preparation of these statements is the responsibility of top management. As the investors, and financial analysis to examine the firm's performance in order to make investment decision use this statement, they should be prepared very carefully and contain as much information as possible. There are two basic financial statements prepared for the analysis of financial performance of any Company,

(i) Balance sheet or statement of final position and profit and loss account or Income statement.

Balance Sheet:

Balance sheet is the most significant financial statement. It indicates the financial condition or the state of affairs of a business at a particular moment of time. Balance sheet is the base for the analysis of financial performance of any company. Balance sheet contains information about resources and obligations of a firm entity and about its owners' equity. Balance sheet provides a snapshot of the financial position of the firm at the closed of fiscal year.

As we know, Balance sheet is very important tools for the analysis of financial performance. The functions severed by Balance sheet can be pointed out as follows:

-) It gives concise summary of the firm's resource obligations.
-) It is a measure of the firm's liquidity.
-) It is a measure of the firm's solvency.

Profit and Loss Account

Balance sheet plays very significant role for the banker and other creditors because it indicates the firm's financial Solvency and liquidity, where as profit and loss account reflect the earning capacity and potentiality of the firm. The profit and loss account is a scoreboard of the firm's performance during a period. Since the profit and loss account reflects the results of operations for a period, it is a flow statement. In contrast, balance sheet is a stock or status statement as it shows assets, liability and owners' equity at a point of time.

Profit and Loss account presents the summary of revenues and expenses and net income of a firm. It serves as a measure of the firm's profitability. The functions of profit and loss account can be described as follows:

   a. It gives a concise summary of the firm's revenue and expenses during a period.

b. It measures the firm's profitability.

c. It communicates information regarding the results of the firm's activities to owners and other.

In conclusion, financial information is required for a financial planning, analysis and decision-making. The user of financial information includes owner's managers, employees, customers, suppliers and society.

The financial statements like Balance Sheet and P/L account are the basic instruments for the analysis of financial performance.

Sharma (2058) in the 6th chapter called "Financial Structure", the author has explained about the financial structure of firm. According to the author, the term financial structure is wider than the capital structure. It refers to the structure of total finance of the company. It consists of both short-term financing and long-term financing. The objectives of this chapter can be explained as follows:

⟩ Discuss and explain the term financial structure

⟩ Explain about various financial leverages.

⟩ Also explain about financial leverage and risk associated.

⟩ Explain the various factors affecting financial structure.

The financial decision of the firm is one of the important decisions for the achievement of the maximization of the shareholder' wealth. For this, a financial manager should select a sound financial mix (financial structure), which help to achieve the objective of the firm. The term financial structure refers to the proportion of each type of capital, such as debt, preferred stock, and common equity issued by the firm.

The financial leverage is concerned with the relationship between the firm's earnings before interest taxes and the earning available for common stock holder. Financial leverage measures financial risk, and financial performance of the firm. It shows how much debt the firm employees in its capital structure.

Financial Leverage and Degree of Financial Leverage can be measured by using following equations:

$$FL \text{ X} \frac{EBIT}{EBT}$$

Here,

FL= Financial leverage

EBIT =Earning before interest and tax

EBT = Earning before tax

The effect of financial leverage is such that an increase in the firm's EBIT results in a more than proportional increase in the fir's earning per share. Where as a decrease in the firm's EBIT results in a more than proportional decrease in EPS.

Measuring the Degree of Financial Leverage (DFL)

The degree of the financial leverage (DFL) is the numerical measure of the firm's financial leverage. The following equation is used to, calculate DFL.

$$DFL \text{ X} \frac{\% \, change \, in \, EPS}{\% \, change \, in \, EBIT} \Psi 1$$

Here,

  DFL = Degree of financial leverage

  EPS = Earning per share

  EBIT = Earning before interest and tax

The degree of financial leverage is defined as the percentage change in EPS due to a given percentage change in EBIT.

In this chapter, the author has pointed out following factors that affects the financial structure of the company. Following are the main factors that affect the financial structure:

  a. Growth rate of sales

  b. Sales stability

c.   Assets structure

d.   Management attitude.

e.   Lender attitude

f.   Competitive structure

A company's financial-structure is affected by above factors. Therefore, in choosing an appropriate capital structure, the financial manager should consider above mentioned factors.

2.2.2 Review of Related Articles

Bhatta (47th anniversary), In this article *"Financial policies to Prevent Financial Crisis"*, Nepal Rastra Bank Samachar, the author has suggested that the financial markets have become an exciting, challenging and ever changing sector in the recent years. The emergence of global financial institutions as a result of increased economic liberalization has raised a host of questions for financial planners and policy makers. The growth of financial markets has caused complexities in the management and if they are not managed and addressed properly with appropriate policies, then the result is the financial crisis. The financial crisis, which took place in Chile in 1992, Mexico in 1994, South Asian countries 1997, Russian Federation in 1998, Ecuador and Brazil in 1999 and Argentina in the late 2001 were the result of an abrupt growth in the size of financial markets posing serious challenges to their management.

According to the author of the article, the financial crisis in most of the markets, particularly in emerging market, undergo several stages. The, initial stage is deterioration' in financial and non-balance sheets and which promotes the second stage that is currency crisis. The third stage is a further determination of financial and non- financial balance sheets as a result of the currency crisis. This stage is the one that caused the economy to full- fledged financial crisis with its devastating consequences.

Policies to prevent Financial Crisis

The author has suggested following policies to be adopted for preventing financial crisis:

1. Prudential Supervision:

Banking sector problems promote most of the financial crisis. The experience of crisis hit countries show that the deterioration in banks balance sheet increase financial crisis. Further, foreign exchange crisis also lead to a full-blown financial crisis. The supervisory system must give special emphasis on following to prevent financial crisis:

     i)   Stop undesirable activities of financial institutions.

     ii)   Adequate resources and statuary authority for prudential supervisors.

     iii)   Accountability of supervisors.

     iv)   Restrictions on connected lending.

     v)   Limiting too-big to fail (too-bit- to fail is a policy in which all depositors at a big bank are fully protected if the bank fails)

2. Accounting standards and disclosure requirements:

It is true that both markets and supervisors need enough information so as to effectively monitor financial institutions to stop excessive risk taking. There is a practice of making bad loan good by providing additional loan to the troubled borrowers. As a result, it become harder for the markets or supervisors to decide when the banks are insolvent and need to be closed down. In this respect, implementation of proper accounting standards and disclosure requirements helps to established healthy financial institutions.

3. Legal and Judiciary system:

The efficient functioning of the financial system requires an efficient legal and Judiciary framework in many developing countries, the legal system may not well be defined about the use of certain assets as collateral or makes attaching

collateral a costly and time consuming process. Thus, an effective legal and judiciary system is required to secure the investment of the lender and other similar cases by decreasing information problem.

4. Monetary policy and price stability: Monetary policy and price stability can also help to prevent financial crisis. When the countries have in past high inflation, foreign debt contracts make the financial system more fragile and thus trigger a financial crisis. Achieving price stability is a necessary condition for having sound currency and with sound currency it is easy to banks and non-financial firms and system government to raise debt in local currency.

5. Exchange rate regimes and foreign exchange reserves:

Exchange rate regime and foreign exchange reserves can also create financial instability. The experiences of crisis - hit countries have also shown that economies with low amount of foreign currency reserve seemed to be more vulnerable to crisis though, pegged/ fixed exchange rate regime is an efficient mechanism for inflation control, but the same can create server problem if the economy is dominated by substantial amount of foreign debt. Thus, some researchers have advocated that increased holding of foreign currency reserves is required to insulate countries from financial crisis.

6. Encouraging market based discipline:

Market based discipline is very much essential for a sound financial system. This can be maintained by:

- Disclosure requirement, which provides information to the markets that, assist them to' monitor financial institutions and keep them away from taking oil too much risk.
- Having credit ratings to financial institutions requiring them to issues subordinated debt.

7. Entry of Foreign Bank:

A liberalized economy with sound supervisory/ regulatory infrastructure can permit foreign banks to enter in financial system. The adverse shocks in economy will not affect the functioning of these banks since their risk is adversities and theirs enter can encourage the adaptation of best practices in the banking industry. It is believed that these banks come with better risk management techniques and more efficient banking system.

8. Limitation of too- big to fails hi the corporate sector:

When some corporate houses considered to be too- big -to fail (or politically influential) by the government, these corporations enjoy in excessive risk taking. If such is the case, lenders do not hesitate to supply additional fund to the troubled corporations and which violates the market discipline. Therefore, too- big to fails as ' in the banking sector should be eliminated.

In conclusion, the author has remarked that there is no doubt is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experiences of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation in the global market place until a sound domestic infrastructure can be put into place.

Shrestha (54th Anniversary), In this article *"Supervisory Challenges in the Nepalese Banking Sector",* Nepal Rastra Bank Samachar, the author has suggested that the Current global crises is among the greatest challenges to the world economy. Unlike past financial crises, which were confined to particular regions, the current financial continent is quickly spreading across continents. Many countries around the world have experienced impact of global financial crises. The global financial crisis has led policy makers to focus increased attention on the crucial role of banking supervision. Ongoing changes in the structure and nature of banking as well as banking crises, across the globe have

focused the attention of policy makers on the appropriate structure, scope and degree of independence of banking supervision. Independence for banks and financial institutions (BFI) supervisory authorities enhances their ability to enforce actions. The issue regarding the independence of supervisory authorities is the degree to which BFI supervisors should be subject to political and economic policy pressure and influence. How these issues are addressed is important because policies that fail to provide for an appropriate BFI supervisory framework may undermine BFI performance and even lead to full-scale BFI crises.

What Nepal Rastra Bank (NRB) is doing?

BFI supervision is concentrated mainly on lowering the probability of a situation where a BFI becomes insolvent, whereby it pursues the objective of preventing a disruption to the stability of the financial system as a whole. The NRB is responsible foe two other important assignments besides monetary policy. The first is to ensure that those who are placing their resources in BFIs are protected. The NRB is required to ensure that BFIs are completely managed completely transparent. The second responsibility of the NRB is to ensure that BFIs act as efficient financial intermediaries utilizing the domestic savings effectively to create jobs and improve national welfare.

The NRB has worked vigorously to enhance enforcement of the Banking and Financial Institution Act, 2063 (BAFIA) and the various regulations that govern implementation of this statute. The NRB had also revised prudential regulations based on global experience. During the past few years, the NRB supervision has identified several infringements to the banking laws and regulations. One major problem area was the categorization of loans (Housing, Margin Lending, Personal Loan etc.) where several BFI has failed to conform to prudential regulations by categorizing loans to have been of better quality than was warranted following a close examination of the collateral offered. Failure to categorize loans properly led to under provisioning making some BFIs appear healthier by declaring higher dividends than were actually

justified. Recategorization required by the NRB supervision process led to the need foe additional provisioning to meet statutory requirements and increased transparency and accountability for the benefit of both the customer and the financial sector.

The NRB supervisors have thoroughly scrutinized the margin lending activities of the BFIs and provided proper regulations on this matter. The NRB has implemented BASEL II framework for the commercial banks for better capitalizations of the banks. However, the effective implementation of BASEL II is demanding and requires on the part of banks and supervisors considerable efforts and significant resources.

The NRB has also continuously analyzing the connected lending activities of the BFIs for the better implementations of the corporate governance practices. The NRB's efforts on having more transparency on the BFIs activities also bought good results in the performance of banking and financial sector. However, lot many things have to be done further for the development of effective supervision to ensure resilient banking and financial system in Nepal.

Why has the performance of BFIs been Disappointing?

The financial services industry continues to become more global in its reach. This demands the development of innovative supervisory and cooperative arrangements. Supervision and regulation of BFIs contributes to ensuring stability in the financial sector. Although the manner of NRB supervision over the banking sector depends on the political, economic and cultural conditions, the trend appear to be being built consolidated supervision is a reflection of developments in financial markets through the influence of market integration, financial innovations and technological progress.

The banking sector data analysis revealed that the performance of large government owned banks is very much disappointing as their presence are associated with slower financial and economic development. However, the performance of some private sector BFI is also disappointing and need more

corrective actions immediately. They have weak incentives for sound lending and recovery, credit misallocation etc. The borrowers of these BFIs also have culture of non-payment of loan. Generally, Nepalese BFIs are facing the problem of poor governance and bad management, which is frequently evidenced by political intervention, poor lending practices, bad concentrations of credit, connected lending, poor internal control, less transparency, insider abuse and fraudulent activities.

Challenges in the NRB Supervision

The three main pillars constitute the vision for banking sector in Nepal. First is the achievement of sound legal framework for the banking sector. Second is the achievement of an efficient and stable financial sector. Third is increased access to financial service. However, the shortcomings in legal framework should be reviewed for addressing the gaps, inconsistencies and deficiencies in the prevailing legislation. With regard to efficiency, the NRB aim to achieve a more competitive financial sector.

The NRB supervision resolve to eradicate instances of noncompliance brought to light a number of challenges. These problems of an inadequate legal framework for enforcing remedial action and gaps in supervisory capacity to perform critical transaction and to form an independent opinion on the value of securities that collateralize non-performing loan. The second challenges were to comprehensively review the unified directives issued in 2062 and to align them to international best practice. The unified guidelines focused in improving asset quality and ensuring higher standards of corporate governance should be improved further according to global best practice.

An important challenge faced by the BFIs has been the disposal of collateral used to secure non-performing loans. This problem should be addressed immediately by the NRB for gradual elimination of over-reliance on collateral based lending and implementation of a prompt write-off policy for non-performing assets. These changes have the benefit of improving credit

allocation in favor of creditworthy borrowers, maintaining financial discipline among borrowers and early recognition of bad debts. In order to deal with problems associated with non-performing loans, the NRB supervisory approach should be changed by placing a greater emphasis on the specific risks that individual BFIs face. In this regard, the adoption of pro-active risk based supervisory methods is highly suggested. The traditional approach is largely reactive and often attempted to address weakness that had occurred.

A risk based supervision approach demands fundamental changes in the manner which BFIs approach their business. All business decisions must henceforth be subjected to a rigorous risk based assessment and all potential risks associated with these decisions will be identified, measured, monitored and controlled. The main challenge to risk based supervision approach is the need to enhance the supervisory skills of the NRB staffs so as to ensure that the BFIs risk management frameworks are properly monitored and evaluated for adequacy. The risk management guidelines should be elaborated further, in order to assist BFIs in overcoming this challenge, which spell out minimum requirements for risk management systems and frameworks.

The publication of interest rates bank charges and fees should be in favor of bank customers to make informed choices on which BFIs they bank with. The NRB believes that continued publication of charges and fees would enhance competition in the provision of products and services.

The level of quality of banking supervision depends on its institutional structure, which influences, to a large extent, the stability and efficiency of the banking sector and thereby the whole economy. Thus, strengthening of regulation and supervision capacity of NRB to the best international practices is very much urgent. The prime focus should be given on prevailing regulations on loan loss provisioning, credit exposure, connected lending, corporate governance, transparency and prompt corrective action.

Another issue, which is most, discussed in the banking arena that the undercapitalized BFIs should or should not be allowed to operate? This issue is particularly important for private BFIs without a reputation to protect. Last but not the least, the prevailing licensing policies for BFIs should be revised according to the actual banking need of the country and the process of 'fit and proper test' should be conducted in such a way that ensures presence of good governance and transparency from the very beginning.

Keeping views on ever increasing number of BFIs, the NRB supervision jobs is being very challenging in the sense of coverage, problem identification, resolutions and prompt corrective actions.

Concluding Remarks

The global financial crises have revealed that weak financial systems and their supervision are the most important factors contributing to macro instability. Financial markets are different form product markets and therefore, greater liberalization goes along with deeper supervision and higher degree of regulation. Any destabilization in financial markets affects even those who are not in financial markets. On the other hand, financial markets can drive the real economy. Therefore, transparency disclosures, prudential norms and capitalization are the main fundamentals in the banking and financial sector. This is essential because depositors have no other security except that BFIs are well regulated. For the depositors' protection and ease the supervision job, the NRB should revisit the present licensing policy to ensure well-diversified ownership and control, 'fit and proper' status of important shareholders, Directors and CEO, minimum capital/net worth for optimal operations and systemic stability and transparency and fairness of policy and process of the BFIs. As the financial system is changing, its supervision must change as well. Last but not the least, to drive the change and meet the challenges we need bankers with not only requisite leadership and technical skills but also ethical standards of the highest order.

2.2.3 Review of Related Thesis

Joshi (2003), in her thesis entitled *Financial performance of Nepal Investment Bank Limited* has tried to summarize the financial performance of NIBL. And she has pointed out the following objectives:

i)   To evaluate liquidity position of NIBL.

ii)   To analyze the financial performance of this bank.

iii)   To offer a package of suggestion to improve the financial performance

iv)   To identity the relationship between interests earned and operating profit.

Major Findings of the study are as follows:

i)   The result of the analysis indicates that the bank had the high debt equity ratio which again exhibits that the creditors have invested more in the bank than the owners.

ii)   The result of the analysis indicates that the bank has better mobilization of saving deposits in loans and advances for income generating purpose.

Pradhan (2004), in his thesis entitled *A comparative study on financial performance of HBL and SCBNL* has pointed out following objectives.

i)   To analyze comparative financial performance of both banks.

ii)   To evaluate liquidity position of both banks.

iii)   To identity the relationship between interests earned and operating profit.

iv)   To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

i)   Current ratio of both the banks are below the standard, this might effect the liquidity position of these banks.

ii)   SCBNL's loan and advances to total deposits ratio are significantly lower than that of HBL.

iii)   SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.

iv)   HBL is strongly recommended to increases it's earning per share and dividend per share to keep investors within the bank.

Upreti (2008), in his thesis entitled *A comparative study of financial performance of NIBL, HBL, SCBNL and EBL*, has pointed out following objectives.

i)   To study the present of the four joint venture banks

ii)   To do the comparative study about the financial performance of these banks with regard to-their profitable liquidity, efficiency and capital structure.

iii)   To provide recommendation and suggestion on the findings to improve financial performance of these banks.

Major Findings of the study are as follows:

i)   Among all the sample banks, HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects.

ii)   SCBNL has been successful in earning more net profit by the proper use of its available assets.

iii)   EBL with the highest ratio has been successful in generating more interest by the proper use of its available assets.

iv)   EBL and HBL seem to have held more cash and bank balance rather than other commercial banks.

Sadula (2008), in his thesis entitled *Financial performance of commercial banks and returns to investors: With special reference to BOK, EBL, SCBNL, NIBL, NABIL* has pointed out following objectives:

i)   To evaluate Liquidity position of these Banks.

ii)   To analyze comparative financial performance of these banks.

iii)   To study comparative position of selected banks.

iv)   To offer a package of suggestion to improve the financial performance.

Major Findings of this study are as follows:

i)   Commercial Bank except SCBNL and NABIL are not maintaining constant DP Ratio, It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders.

ii)   Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Bhattarai (2009) in his thesis titled *Comparative analysis of financial performance of NABIL, NIBL and HBL* has pointed out following objective.

i)   To evaluate the liquidity position to measure the strength of financial performance of selected Banks.

ii)   To evaluate the activity and operation with reference to mobilization of the collect fund.

iii)   To analysis price earning Market value to book value per share and dividend payout.

iv)   To evaluate the earning and profitability position of selected Bank.

v)   To identity the relationship between interests earned and operating Profit.

vi)   To evaluate the relationship between total investment.

Major Findings are of this study are as fallows:

)   Among the Banks NABIL Bank has highest current ratio, it means Nabil bank's solvency position is better than NIBL and SCBNL.

)   Among all sample banks, NIBL has lowest ratio of net profit to total assets. It means NIBL not mobilized its assets into profit generating projects.

⟩ EPS and DPS of SCBNL have the highest than other selected Banks. From income evaluation view, NIBL has highest net interest income as well as interest expense than other Banks.

⟩ From trend analysis, loan and advance of each bank have increases trend but average growth of Nabil bank is higher than other selected joint venture Banks.

Rajbhandari (2009), has conducted a study on *"A Comparative Study on Financial Performance of Nabil Bank Limited and Standard Chartered Bank Nepal Limited."* The main objective of the study was to analyze, examine and interpret the financial position of SCBNL and NABIL with the help of ratio analysis and other financial tools.

The specific objectives are as follows:

i.   To examine the strength and weaknesses through ratio analysis.
ii. To examine the financial performance of Nabil Bank Limited.
iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

⟩ In the study she had chosen only two commercial banks as sample i.e. SCBNL and NABIL.

⟩ The main findings in her study were that the liquidity positions of these banks were not satisfactory.

⟩ The current ratio should be in the normal standard of 2:1 but both banks are below the normal standard 2:1, which indicates the both banks i.e. NABIL bank and SCBNL were not adopting constant policy regarding liquidity ratio.

⟩ The cash and bank balance to total deposit ratio, cash and bank balance to current assets and cash and bank balance to saving deposit ratio of SCBNL is higher than that of NABIL bank as per mean ratio.

- It signified SCBNL is more successful in utilizing its amounts of total deposits, current assets and saving deposits in cash and bank balance.
- Cash and bank balance to saving deposit ratio, fixed deposit to total deposit ratio and performing assets to total assets ratio of NABIL bank is higher than that of SCBNL as per mean ratio.
- The leverage or capital structure ratio reveals that the capital structure of NABIL bank was more leverage than that of SCBNL. This implies that NABIL bank is utilizing more outside funds for the benefit of its shareholder than SCBNL.
- The total assets to net worth ratio of NABIL bank are lesser than that of SCBNL as per mean ratio. This shows investment of owner's equity in total assets is minimum than SCBNL. Analysis of activity ratio signifies that both the banks are successful in utilizing or managing the resources or assets satisfactorily.
- Comparatively, loans and advances to total deposits ratio and loans and advances to saving deposits ratio of NABIL bank is more efficiently utilizing the outside funds in extending credit for profit generation.

Sharma (2010) conducted a study on *A financial performance of capital structure of Everest Bank Limited."* The main objective of the study was to the analyze and evaluate the financial performance of capital structure of Everest Bank Limited. The specific objectives are as follows:

i) To examine the existing financial position regarding the capital structure.

ii) To analyze the composition of Everest bank limited of the mixture of debt and equity capital.

iii) To examine the different profitability ratios of Everest Bank Ltd.

Major findings of the study are as follows:

- From the analysis the position of investment, income, deposits are incresing trend of Everest Bank Ltd.

) The relationship between net profit and capital employed is shown in the capital employed ratio analysis. The ratio has a fluctuating trend. The average ratio is 4.61%. Under net operating approach it is daid that the total valuation of the firm is unaffected by the capital structure.

) The rate of equity capitalization of EBL is in decreasing trend. The cost of equity is continuously decreasing, decrease th equity capitalization rate implies good sign foe increase in shareholders equity. The average cost of equity is 4.72% and the whole changes rates for all the fiscal yeaar is negative.

) The liabilities and capital for all fiscal year are continuously increasing, it shows that overall situation of bank is growing up the change rates is however, fluctuating liabilities are increasing more than the share capital. And also found debt capacity of EBL is more fluctuating but it shows the changing rate are all positive in all fiscal year and the market value, PE ratio is very good all indicators shows financial activity of Everest Bank Limited are very good.

Pandey (2011), has conducted a study on *"An Analysis of Key Financial Ratio of Commercial Banks in Nepal: A Special Reference with Himalayan Bank Limited and Everest Bank Limited."* The main objective of his study was to find out exact financial ratio of these two commercial banks over the periods of time. He had taken Everest Bank Limited and Himalayan Bank Limited as sample. Mainly he had conducted this research based on secondary data available in both banks' annual reports and manuals. He had presented data using both financial and statistical tools in his study.

The specific objectives are as follows:

i. To examine the overall financial ratio of the selected commercial bank.
ii. To examine the financial performance.
iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

⟩ Current ratio of both of the banks showed consistent trend. Both the banks could not maintain the conventional standard of 2:1.

⟩ EBL has higher average ratio which implies that EBL is more capable to meet short term obligation in comparison to HBL.

⟩ Normally, the ratio remained consistent in HBL but the ratio of EBL is fluctuated more which is reflected by higher standard deviation.

⟩ Both the selected banks were successful to mobilize their fund as loan and advance with respect to total assets. However, EBL has higher mean ratio than HBL over the study period which implies that EBL can be taken as better investor than HBL as concerned to consistency, both the sample banks able to maintain consistency.

⟩ According to the analysis of assets management ratio, both the banks were successful in on-balance sheet utilization. Out of these two banks, EBL is found to be best in mobilizing the assets to the profitable sector.

⟩ By analyzing the valuation ratio of selected bank, market value of EBL was higher position than HBL. Total deposits and loan and advances of both the bank were almost positively perfect correlated. Correlation coefficient between total deposit and total investment of both the banks were more than 0.5 with positive sign, which means investment will increase proportionally with the increment in total deposit.

⟩ The trend analysis of EBL was better than that of HBL in all the cases. The growth rate of total deposit, total loan and advance, total investment and total net profit of EBL is higher than that of HBL.

2.3 Research Gap

Large numbers of research are available bearing the same topic, "Financial Performance of Everest Bank Limited." However, the researcher will sustain gap by covering the relevant data and information from the year 2005/06 to 2010/11. Moreover, the researcher has selected only one commercial bank of Nepal as sample banks i.e. Everest Bank Ltd. That itself demonstrates the gap

of this research from the previous one because the researcher has not found any research done in the bank in collective form. Under this topics many researcher have been done but none of the researcher undertaken regarding the case study of financial performance of Everest Bank Ltd. The bank is a leading commercial bank as compared to other commercial banks by which we can find for the perfect comparison between highly growing commercial bank rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore it is the major concern of stakeholders to know the financial situation of the bank. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial bank.

CHAPTER - III

RESEARCH METHODOLOGY

Introduction:

Research is common parlance refers to a search for knowledge. The Webster International Dictionary gives a very inclusive definition of research as "A careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something." Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them.

3.1 Research Design

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

3.2 Nature and source of data

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

According to the need and objectives, all the secondary data are complied, processed and tabulated in time series. In order to judge the reliability of data provided by the banks and other sources, they were complied with the annual report of auditor.

The study is based on the wide range of variables and factors influencing financial decision of the listed banks. Comparative data are presented in such a way so as to make the research informative to the readers. Financial as well as statistical tools have been used to analyze and interpret the balance sheet, income statement and other accounting information.

3.3 Population and sample

A population is most studies usually consists of large group because of its large size it is fairly difficult to collect detailed information from each member of population, rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample allows the researcher more choosing this subgroup is done by sampling. The sampling allows the researcher more time to make an intensive study of a research problem. At present, there are 31 commercial banks operating in Nepal. All the commercial bank that is operating in Nepal is considered as the population.

Due to limited time period and resource factors, it is not possible to study all the data related with all the JVBs of them regarding the study topic. From all the commercial bank of Nepal, One of them joint venture Banks is selected as sample i.e. Everest Bank Limited for the present study from the whole population. The present study is undertaken for a period of past 5 years from the year 2005/06 to 2010/11.

3.4 Method of Analysis

To achieve the objective of the study, various financial, statistical and accounting tools have been used in 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

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

3.4.1.1 Ratio Analysis

The relation between two accounting figures expressed mathematically is known as a financial ratio. An analysis of the firm's ratios generally is the first step in financial analysis. The ratios are designed to show relationship between firms. Translating accounting number into relative value or ratio, allow us to compare the financial position of the firm to another, even if their sizes are significantly different.

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. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's to it overtime. Thus ratio analysis provides a strong foundation for qualitative judgment regarding financial performance of a firm. There are different financial ratios which can be described as follows.

3.4.1.1. A. Liquidity Ratio

The liquidity ratio of banking industry depends upon the banking habit of people. Where the banking practice is more prevalent, the low current ratio does not necessarily increase its liquidity risk. Therefore, it is necessary to have a proper balance between high liquidity and lack of liquidity. The ratios used in short term liquidity analysis evaluate the adequacy of the firm's cash resources relative to cash obligations.

As financial tools following ratios have been used to find out the liquidity position of EBL.

i. Current Asset to Current Liabilities ratio (Current Ratio)

ii. Cash and Bank Balance to Current Assets Ratio

iii. Loan and Advance to Current Assets Ratio

iv. Investment on Government Securities to Current Asset Ratio

v. Cash & Bank Balance to Total Deposit Ratio

Current Assets to Current liabilities Ratio

The current ratio is the ratio of total current assets and current liabilities which shows the relationship between current assets and current liabilities. Mathematically:

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

Total Current assets include cash and bank balance, loans and advances, money at call or short-term notice, investment in government securities and other interest receivable and miscellaneous current assets where as current liabilities include loans and advances ,deposits and other accounts of short-term loan, dividend payable , tax provision, staff bonus and miscellaneous current liabilities. The widely accepted standard of current ratio is 2:1 but accurate standard depends on business nature just like seasonal business.

Cash and Bank Balance to Current Assets Ratio

This is the ratio of most liquid asset, cash and bank balance with the current assets. Higher the ratio means the firm has good capacity of fulfilling the cash demand.

$$\text{Cash \& Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

Where, cash and banks balance includes cash in hand, foreign cash and cash in foreign banks.

Loan and Advances to Current Assets Ratio

Loans are also considered as current assets as most of them are maturing within a period of one year. This ratio shows how much amount of current asset is allocated in loan and advances which is calculated by dividing the loan and advance by current asset. A Bank should maintain the appropriate ratio according to market.

$$\text{Loan \& Advances to Current Assets Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Current Assets}}$$

Investment on Government Securities to Current Asset Ratio

This ratio shows the percentage of current assets invested on government securities. This is calculated dividing the amount of investment on government securities by the total amount of current assets.

$$\text{Investment of Government Securities to Current Asset Ratio} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets of a firm. Any financial institution should maintain the sufficient amount of cash and bank balance to meet the cash demand of the clients. Maintaining so many amounts of cash is also not good because money is stored which can be mobilized to earn profit. This ratio is calculated by dividing the amount of cash and bank balance by the total deposits. This measure how much most liquid asset required to pay depositors immediately. It can be presented as,

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

Where, total deposits consist of deposits on current account; saving account; fixed account, money at call and other deposits.

3.4.1.1. B. Turnover Ratios /Activity Ratios / Efficiency Ratios

Turnover ratio measures the performance efficiency of an organization that whether it is using its resources properly or not. To carry out operations, a firms needs to invest in both short term and long term. Turnover ratios describe the relationship between the firm's level of operations and the assets needed to sustain the activity. Activity ratio can also be used to forecast a firm's capital requirement. Activity ratios enable to analyst to forecast these requirements and to access the firm's ability to acquire the assets needed to sustain the forecasted growth. The activity ratios analyzed in the study are:

i.   Loan and Advance to Total Deposit Ratio.

ii.   Total Investment to Total Deposit Ratio.

iii. Investment on Government Securities to Total Working Fund Ratio

iv.   Performing Assets to Total Assets Ratio.

Loan and Advances to Total Deposit Ratio

This ratio indicates how efficiently the selected banks and finance companies are utilizing their total collections/deposits on loan and advances for optimization of profit.

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Total Loan and Advances}}{\text{Total Deposit}}$$

Total Investment to Total Deposit Ratio

This ratio indicates how properly firms' deposits have been invested on government securities and shares and debentures of other companies and it is calculated by diving total amount of investment by total amount deposit .Mathematically,

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

Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio indicates how much amount of total investment is on government securities. Mathematically;

$$\text{Investment on Government Securities} = \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

Performing Assets to Total Assets Ratio

The ratio measure what portion of assets has been funded for income generation. Performing assets includes loan and advances, bills purchased and discounted investment and money at call or short notice. The ratio is calculated by dividing performing assets as follows:

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

3.4.1.1. C. Profitability Ratio

Any business organization is run primarily for profit. Profitability ratios give some yardsticks to measure profit in relative terms, either with reference to sales or assets or capital employed. Profitability is the difference between the revenues and the expenditure over a period. Profitability ratios measure the efficiency of business enterprise. Profit is the main element that makes an organization to survive for long term. There are two areas when judging profitability, one is relationship between on the income statement that indicate a company's ability to recover the costs and expenses and other is relationship of income of various balance sheet measure that indicate the company's relative ability to earn incomes on assets employed. Following ratio is analyzed:

1. Return on total assets (ROA)
2. Total Interest Earned to Total Working Fund Ratio.
3. Return on common equity (ROE)
4. Return on Loan and Advances Ratio.

Return on Total Assets (ROA)

This is the ratio of net profit with total assets and calculated by dividing return on net profit/loss by total working fund and mathematically written as;

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

Total Interest Earned to Total Working Fund Ratio

Higher this ratio indicates the better performance of financial institutions in the form of interest earning on the better working fund. This ratio is calculated dividing total interest earned from investment by total working fund. Mathematically;

$$\text{Total Interest Earned to Total Working Fund Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

Return on Equity Ratio (ROE)

The ratio measures how efficiently the banks have used the funds of the owners. The ratio is calculated by dividing net profit by total equity capital (net worth). This can be started as,

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

Return on Loan and Advances Ratio

This ratio shows how efficiently bank used his resource to get return from provided loan and advances. This is calculated by dividing net profit/loss by the total amount of loan and advances. Mathematically;

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net Profit or Loss}}{\text{Total Loan \& Advances}}$$

3.4.1.1. D. Leverage Ratios /Solvency Ratios /Capital Structure Ratio

The leverage ratios are calculated to judge the long term financial position of a bank. These ratios measure the enterprise's ability to pay the interest regularly and to repay the principal on maturity. The following ratios are included in leverage ratios.

    i. Total Debt to Shareholder's Equity Ratio

    ii.Total Debt to Total Assets Ratio

    iii. Interest coverage Ratio.

    iv. Fixed coverage Ratio.

Debt –Equity Ratio

The relationship between long term debts and owner's equity is known as Debt-Equity Ratio. It is a poplar measure of the long term financial solvency of a firm. It is calculated as follows:

$$\text{Debt-Equity Ratio} = \frac{\text{Long－term debt}}{\text{Shareholder's equity}}$$

A high ratio shows the large share of financing by the creditors as compared to that of owners. It indicates the margin of safety to the owners. The creditors prefer low debt-equity ratio. A low debt-equity ratio implies larger safety margin for creditors.

Debt to Total Assets Ratio

This ratio shows the relationship between the long term debt and total capital. Total capital includes the shareholder's equity as well as long term debt. This ratio is the debt to total assets ratio gives the similar indications as the debt-equity ratio.

The ratio is calculated as: debt to total assets Ratio$= \dfrac{\text{Total debt}}{\text{Total assets}}$

Interest coverage Ratio

This ratio indicates the ability of a firm to pay interest charges on its borrowed capital. It is also called "Debt Service Ratio" or "Time Interest Earned Ratio". It is calculated by dividing net profit before interest and taxes (NPBIAT) by the amount of fired interest charges.

Its formula: interest coverage ratio $= \dfrac{\text{Net profit before interest and taxes}}{\text{Interest}}$

A high ratio is a sign of low burden of borrowing of the business and lower utilization of borrowing capacity. Form the point of view of creditors, debenture holder, and loan creditors, the higher the coverage, the greater the ability of the firm to make the payment of interest.

Fixed Coverage Ratio

This is the ratio of net profit before interest and tax of fixed charges. It indicates the number of times the fixed charge covered by NBIAT. The fixed charge includes interest, preference dividend and debt payment.

Its formula:

Fixed Coverage Ratio $= \dfrac{\text{Net profit before interest and taxes}}{\text{Fixed charges}}$

Fixed charge = Interest + Preference Dividend + Debt Payment.

3.4.2 Statistical Tools

The main statistical tools used in analyzing the data obtained are:-Measures of central tendency like mean, measures of dispersion like standard deviation, Karl Pearson's coefficient of correlation between different variables, and straight line trend analysis of important variables.

3.4.2.1 Standard Deviation

It is quantitative measure of the total risk of assets. It provides more information about the risk of the asset. It is a measure of the total risk of the asset. It measures the dispersion of returns around the mean. Its advantage is that the uncertainty of returns can be summarized into a single easily calculated number.

The standard deviation of a distribution is the square root of the variance of returns around the mean. The following formula is applied to calculate the standard deviation, using historical returns:

$$u_j = N \sqrt{\frac{d(\mathbf{HPR} > \overline{\mathbf{HPR}})^2}{n}}$$, *where:* HPR = holding period rate of return; Ω_j = standard deviation of stock 'j'. $\overline{\mathrm{HPR}}$ = average holding period rate of return; n = no. of observations;

3.4.2.2 Karl Pearson's Coefficient of Correlation

It is a statistical tool for measuring the intensity or magnitude of linear relationship between the two variables series. Karl Pearson's measure, known as Person Ian correlation coefficient between two variables (series) X and Y, usually denoted by 'r(X,Y)' or 'r$_{xy}$' or simply 'r' can be obtained as :-

$$r_X = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left[\sum X^2 Z(X)^2\right] \times \left[\sum Y^2 Z(Y)^2\right]}}$$

If r =1, there is perfect positive relationship. If r = -1, there is perfect negative relationship. If r = 0, there is no correlation at all. *(Gupta, 1999:519-521)*

The closer the value of 'r' is 1 or -1, the closer the relationship between the variables and the closer 'r' is to 0, the less close relationship.

3.5 Method of Data Presentation

The researcher has accumulated all the necessary data and financial information. Collected data for five year period (i.e. from the Year 2004/05 A.D-2010/11 A.D) (B.S 2061/62 to FY B.S 2066/67) are presented in tabular form. Tables are prepared to show various financial ratios of the same period. In appendix also the ratio analysis are stated. The appendix also included the computation table of master list of specific value for coefficient of correlation, averages and standard deviation. All the financial and statistical values are computed manually.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This chapter includes the analysis and result of gathered data in order to evaluate financial performance of the bank for the period of five years. The strength and weakness of those banks, to some extent, is evaluated and the significance of the different financial variables is also analyzed. In this chapter, the data are presented, calculated and analyzed. The five years secondary data (2007 to 2011) of the bank is taken for the analysis. Each detail of calculation is tabulated in the respective appendix.

4.1 Financial Position Analysis

It is the process of identifying the financial strength and weakness of a firm by properly establishing the relationship between the items of balance sheet and income statement. For this purpose, analysis and interpretation are categorized into three headings.

1) Financial analysis
2) Statistical analysis
3) Major finding of the study

4.1.1 Financial Analysis

Financial analysis typically involves the use of ratios, comparison with prior periods and with the budget and other heading. Financial ratios are evaluated, analyzed and then interpreted. It is note able that all types of financial ratios are not studied here. Only those ratios are calculated and analyzed which are very much important in the view of performance evaluation of a commercial bank.

Various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluate and analyze the performance of EBL. The ratios are designed and calculated to highlight the relationship between financial items and figures. Those ratios are as follows.

a) Liquidity Ratio

b) Activity ratios/Turnover ratios/Efficiency ratios

c) Profitability ratio

d) Leverage ratio/Solvency ratio/Capital structure ratio

4.1.1. A. Liquidity ratio

Liquidity is a pre-requisite for the very survival of a firm. It is very important for a firm to be able to meet its obligations as they become due. A firm should ensure that it does not suffer from the liquidity crunch, and also that it is not too much highly liquid. The failure of a company to meet its obligation due to lack of sufficient liquidity will result in bad credit image and loss of creditor's confidence. A very high degree of liquidity is also bad, idle or non-performing assets earn nothing. The firm's funds will unnecessarily tied up in the current assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity. Adequate liquidity is a must in the banking sector also, in order to protect its solvency and to honor its short-term obligations or liabilities. Failing to do so, banks might have to go for liquidation, and hence to protect the creditor's interest. NRB has directed all the banks to maintain adequate Cash Reserve Ratio (CRR). 5.5% of total deposit. A bank must ensure that it has a sound liquidity position to face the instant claims by its creditors.

Liquidity ratio measures the ability to meet the short-term obligations and reflects the short-term financial strength and solvency of any bank. Since, the depositors of the banks are interested in the short-term solvency or liquidity of the firm. It is regarded as one of the most important ratios. To measure the solvency position of Everest Bank Limited, there have been calculated some liquidity ratios which have been thought to be important. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the public .The following ratios are calculated and interpreted under liquidity ratios.

I.   Current Ratio.

II.   Cash and bank balance to current Assets ratio

III. Loan and Advances to Current Assets Ratio

IV.   Investment on government Securities to Current Asset Ratio

V.   Cash and Bank Balance to Total Deposit Ratio

Current Ratio

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

Table No. 1

Current Ratio

*in million

F/Y	Current Assets	Current Liabilities	Ratio (Times)	Index (%)
2007	15147.85999	14696.47639	1.03 : 1	-
2008	20982.79469	19940.05903	1.33 :1	129.13
2009	26550.8776	24928.1053	0.841 :1	81.65
2010	35687.2567	34101.2236	1.046 :1	101.55
2011	40265.71182	37921.29577	1.061 :1	103
Average (X)			1.0614: 1	
Standard Deviation ( )			0.1564	

Source: Annual Report EBL from FY 2007-2011 and Appendix-1

This ratio shows the relation between current assets and current liabilities. The current ratio is calculated by dividing current assets by current liabilities. The objectives of this ratio is to measure the ability of the firm to meet its short term obligation. This analysis covers five years from 2007 to 2011. current assets consists cash balance, investment in government securities, bank balance, balance with other financial institutions, money at call, loan and advances, bills purchase and other assets. From the point of index of current ratio, it is highly fluctuated, shows higher the risk.

Current liabilities include deposit liabilities, bills payable and other liabilities. Above calculated ratio of EBL shows current ratio is below the standard 2:1, however looking at the nature of assets and liabilities of the commercial banks the ratio below the standard may be accepted as satisfactory. But it signifies bank have poor liquidity position. The bank may face the problem of working

capital if they need to pay the current liabilities at demand. Bank may lose their goodwill in case of delay in the payment of liabilities. Bank will have the problem in winning the confidence of current depositors and short term lenders. The average (X) ratio is 1.0641 times which seems quite satisfactory and the standard deviation is 0.1564 for the period. The standard ratio is 2:1 times.

Cash and bank balance to current Assets ratio

It is the ratio of total cash and bank balance to total current assets. Cash and bank balance are two major components of current assets. These are ready cash, which can be used anywhere according to the need of a bank. By nature, almost all the current assets of a firm remain idle or earn very little. So, there is no chance of earning from cash balance held in the business and bank balance refers to that balance which can be converted into cash at any needed time and it also generally remains idle. Hence, the cash and bank balance to current assets ratio shows what portion of total of current assets represents cash or how much from total current assets can be used as ready cash to discharge short term obligations of the bank.

$$\text{Cash \& Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

<div align="center">

Table No. 2

Cash and Bank Balance to Current Assets Ratio

</div>

*in million

F/Y	Cash and bank balance	Current assets	Ratio (%)	Index (%)
2007	1552.967494	15147.85999	10.25205867	-
2008	2477.262839	20982.79469	11.8061625	115.22
2009	2582.129585	26550.8776	9.725213697	94.86
2010	6164.371163	35687.2567	17.27331191	168.52
2011	7818.815003	40265.71182	19.41804739	189.5
Average (X)			13.69	
Standard Deviation ( )			3.91	

Source: Annual Report EBL from FY 2007-2011 and Appendix-2

The table shows that the cash and bank balance and current assets ratio shows how much of current assets of the bank represent cash and bank balance. In year 2007 10.25 percentages of total assets represent cash. In year 2008 the percentage increases to 11.80 from 10.25. In year 2009 decrease to 9.72 from

11.80.similary in the year 2010 increase to 17.27 from 9.72 and this year (2011) it again increases 19.41 percentages. The ratio are in fluctuating trend and become highest in year 2011, which means the percent of the current assets are cash bank balance. The average (X) ratio is 13.69 and the standard deviation is 3.91 percentages for the period. Cash in bank balance to current ratio index is in increasing trend except FY 2009.

Loan and Advances to Current Assets Ratio:

Loans are also considered as current assets as most of them are maturing within period of one year. The main business of a bank is mobilization of resources. The resources/fund collected from different sources is mobilized in terms of loan and advances and by investing on various types of securities and projects. The major part of the collected fund is invested in the form of loan and advances, i.e. loan is granted to needy persons or needy sectors of the economy which is also a main business of any commercial bank.

Loans and advances cannot be converted into cash on the desires of the investors. Loans and advances pay interest at a certain rate. But, it's not always sure that the principal and interest of the loan and advances will be recovered in the stated time. Hence, this ratio indicates the percentage of total current asset which have been lent to the customers with a promise to be paid interest at a certain rate.

$$\text{Loan and advances to current assets ratio (\%)} = \frac{\text{Loan \& Advances}}{\text{Current Assets}}$$

Table No. 3

Loan and Advances to Current Assets Ratio

*in million

F/Y	Loan and advances	Current assets	Ratio (%)	Index (%)
2007	9801.307676	15147.85999	64.70423996	-
2008	13664.08166	20982.79469	65.12040872	100.64
2009	18339.08556	26550.8776	69.07148546	106.75
2010	23884.67362	35687.2567	66.92773787	103.45
2011	27556.35603	40265.71182	68.43628185	105.78
Average (X)			66.85	
Standard Deviation ( )			1.736	

Source: Annual Report EBL from FY 2007-2011 and Appendix-3

The table shows the loan and advances to current assets ratio. In the year 2007 64.70 percentages of current assets have lent as loan advances. In the year 2008 the ratio increase little bit to 65.12 percentages. In the year 2009 the ratios also increase to 69.07 percentages and then decrease in year 2010 and 2011. Index of loan and advances to current assets ratio is in slightly fluctuating trend.

As already stated, loan and advances earn returns at a certain rate and to invest more amounts of resources in the portfolio yielding return at a fixed rate is always a positive aspect from view point of maximizing profit if there is no risk of recovering principal and interest from them. But, the recent trends of recovering loan have shown that a very large amount of loan has been facing difficulties to be recovered. Failure in recovering the loan has been the main reason for slow trend of profitability for the bank. From the table it is also clear that the EBL is investing higher amount in loan and advance from the funds collected in other sectors as well as. The average (X) ratio is 66.85 and the standard deviation is 1.736 percentages for the period.

Investment on government Securities to Current Asset Ratio

This ratio shows the percentage of current assets invested on government securities by the total amount of current assets.

$$= \frac{\text{Investment Govt. Securities}}{\text{Current Assets}}$$

Table No. 4
Investment on government securities to current assets ratio

*in million

F/Y	Investment on govt. securities	Total current assets	Ratio (%)	Index (%)
2007	3548.616968	15147.85999	23.42652342	-
2008	4704.632426	20982.79469	22.4213814	95.69
2009	4821.604744	26550.8776	18.15986958	77.54
2010	5146.045773	35687.2567	14.41984128	61.55
2011	4354.353089	40265.71182	10.81404722	46.18
Average (X)			17.84	
Standard Deviation ( )			4.76	

Source: Annual Report EBL from FY 2007-2011 and Appendix-4

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The above table shows that the ratio of EBL is in decreasing trend from by 2007 to 2011. In overall, investment on government securities to current ratio is lower. It means EBL had invested its lower portions of current assets on government securities. The average (X) ratio is 17.84 percentages and standard deviation is 4.76 percentages for the period. Index of investment on government securities to total current assets is in decreasing trend in every fiscal year.

Cash and Bank Balance to Total Deposit Ratio

This ratio shows the percentage of total deposit which can be immediately discharged by the bank from its ready cash. Total of the deposits is the most important source of a bank's fund. This fund should be utilized into various sectors in a profitable manner and cash and bank balances is that part of bank's fund which has not been invested anywhere with a view to generating income. Excess cash and bank balance, from viewpoint of liquidity, shows a firm's strong position and it is always harmful from viewpoint of profitability to maintain excess cash and bank balance. Following table shows the cash and bank balance to total deposit ratio of the bank for the period of study. This measure how much most liquid asset required to pay depositors immediately. It can be presented as,

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

Table No. 5
Cash and Bank Balance to Total Deposit Ratio

*in million

F/Y	Cash and bank balance	Total deposit	Ratio (%)	Index (%)
2007	1552.967494	13802.44499	11.25139419	-
2008	2391.420594	18186.25354	13.14960549	116.89
2009	2667.97183	23976.29854	11.12753842	98.91
2010	6164.371163	33322.94625	18.49887797	164.44
2011	7818.815003	36932.31001	21.17066331	188.19
Average (X)			15.034	
Standard Deviation ( )			4.09	

Source: Annual Report EBL from FY 2007-2011 and Appendix-5

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The total deposit includes current deposit, saving deposit, fixed deposit and call deposit and other deposit. In a year 2011 the ratio is 21.17 percentages, which indicated strong liquidity position and in a year 2009 ratio is 11.12 percentages, which is lowest ratio 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. The average (X) ratio is 15.034 percentages and standard deviation is 4.09 percentages for the period. Index of cash and bank balance to total deposit is in highly fluctuating trend.

4.1.1. B. Profitability Ratio

Profit is the main element for financial institution to survive and grow over the long run. But only earning profit is not the ultimate aim of the institution and it should never be earned at the cost of employees, customers and society. However, profitability is a measure of efficiency and search for it provides an incentive to outside efficiency. This ratio indicates the degree of success in achieving desired profit levels of the working funds. These ratios are of two types: those showing profitability in relation to sales and those showing profitability in relation to investment. A firm should earn profits to survive and grow over a long period of time. Profits are indispensable but it would be wrong to assume that every action initiated by management of a firm should be aimed at maximizing profits, irrespective of social magnitude and responsibilities. Even then, profit plays a fundamental role to make a firm stand strong to meet its social responsibilities. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of a firm, and it will have no future if it fails to make sufficient profit. The profitability ratios are calculated to measure the operating efficiency of the firm. The profitability ratio measures the profit of a company makes in relation to assets.

To measure the profitability of the EBL, a number of ratios have been calculated.

I)   Return on total assets (ROA).

II)   Total interest earned to total working fund ratio.

III)   Return on common equity (ROE)

IV)   Return on loan and advances ratio.

Return on total assets (ROA):

This ratio measures how far the management has utilized all the assets of a firm for profit generating activities. This ratio provides the foundation necessary for a company to deliver a good return on equity. Higher ROA ratio indicates higher efficiency in the utilization of total assets and vice-versa. ROA is calculated by dividing Net Income after Tax by Total Assets.Net profit is the after tax profit of a firm, which can be utilized by the firm for its own purpose or for the benefit of owners. Total assets also termed, as working fund is the total utilization of a firm's fund. Net profit stated other way, is the reward to a firm for efficient utilization of its various assets. Following table shows the net profit to total assets ratio of the bank for the period of study.

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

Table No. 6

Return on total assets (ROA)

*in million

F/Y	Net profit after tax	Total assets	Ratio (%)	Index (%)
2007	237.290936	15959.28469	1.486851953	-
2008	296.409281	21432.5743	1.382984969	92.61
2009	451.218613	27149.34288	1.661987235	111.41
2010	638.732757	36916.84865	1.73019307	116.11
2011	831.756632	41382.76071	2.009910933	134.90
Average (X)			1.6512	
Standard Deviation ( )			0.2388	

Source: Annual Report EBL from FY 2007-2011 and Appendix-6

The ratio measure the productivity of assets net profit refers to the profit after deduction of interest and tax .total assets appear in assets side of balance sheet. Bank is able to earned profit so its ratio was in positive form. Its ratio

fluctuated over five periods. In a year 2008 shows 1.38 percentages was lowest ratio and in year. 2011 shows 2.00 percentages was highest ratio over study period. Highest ratio indicates the success of management in overall operation. The ratio measures the profitability of financial resources invested in the firm's assets. Hence, the higher the ratio implies that the available source and tools are employed efficiency. The average (X) ratio is 1.6512 percentages and standard deviation is 0.2388 percentages for the period. Index of net profit after tax to total assets ratio is in increasing trend in every fiscal years.

Total interest earned to total working fund ratio

The ratio measurer the percentage of total interest paid against the total working fund. A higher ratio indicates the higher interest expenses to total working fund and vice-versa.

$$\text{Total Interest Earned to Total Working Fund Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

Table No. 7

Total interest earned to total working fund ratio

*in million

F/Y	Total interest paid	Working fund	Ratio (%)	Index (%)
2007	401.397351	15959.28469	2.515133722	-
2008	517.166241	21432.5743	2.41299171	95.95
2009	632.609264	27149.34288	2.330108934	92.65
2010	1012.874353	36916.84865	2.74366418	109.11
2011	1572.790306	41382.76071	3.800592998	151.11
Average (X)			2.758	
Standard Deviation ( )			0.53	

Source: Annual Report EBL from FY 2007-2011 and Appendix-7

The above table shows that total interest paid to total working capital ratio of EBL. The ratio is decreasing trend at first three years. Its ratio fluctuated over five year of the study period. In a year 2011 shows 3.80 percentages was highest and in year 2009 shows 2.33 percentages lowest ratio over study period. In conclusion we can say that EBL successful to collect its working capital fund for less expensive sources. The average (X) ratio is 2.758

percentages and standard deviation is 0.53 percentages for the period. Index of total interest paid to working fund ratio is increasing trend except fiscal year 2009.

Return on common equity (ROE)

The ratio of net income to common equity measures the rate of return on common stockholders' investment. This is the king among the ratio. This ratio measures the profit earned by the EBL by utilizing owner's equity there by generating return to satisfy the owners. Higher the ratio indicates sound management and efficiency and wealth maximization of the banks, which in turn is the wealth maximization of the banks. ROE is calculated by dividing Net Income after-Tax (NIAT) by Common Equity.

Here, NIAT refers to net profit after tax from profit and loss a/c and shareholder equity refers to paid up capital, reserve and surplus and undistributed profits.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

Table No. 8

Return on common equity (ROE)

*in million

F/Y	Net profit after tax	Total Equity capital	Ratio (%)	Index (%)
2007	237.290936	822.808301	28.83915193	-
2008	296.409281	1579.5	18.76601969	65.07
2009	451.218613	2412.6	18.70258696	64.87
2010	638.732757	2842.421	22.47143393	77.92
2011	831.756632	3589.5673	23.17150126	80.34
Average (X)			22.388	
Standard Deviation ( )			3.71	

Source: Annual Report EBL from FY 2007-2011 and Appendix-8

 In above table the ROE of the bank for the 5 years. It also reveals that net income is highest in year 2011. The ROE ratios have increasing trend. This

ratio indicates how well the firm has used the resources contributed by owners. It is good for the firm to be the return of investment high. Higher ratio shows the more efficient management and utilization of shareholder's fund. The average (X) ratio is 22.388 percentages and standard deviation is 3.71 percentages for the period. Index of net profit after tax to total equity capital ratio is in fluctuating trend which is less than 100% in every fiscal year.

Return on loan and advances ratio:

This ratio shows how efficiently bank used his resource to get return from provided loan and advances. This is calculated by dividing net profit/loss by the total amount of loan and advances. Mathematically;

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net Profit or Loss}}{\text{Total Loan \& Advances}}$$

Table No. 9

Return on loan and advances ratio

*in million

F/Y	Net profit after tax	Total loan and advances	Ratio (%)	Index (%)
2007	237.290936	9801.307676	2.421013031	-
2008	296.409281	13664.08166	2.169258705	89.67
2009	451.218613	18339.08556	2.460420458	101.65
2010	638.732757	23884.67362	2.674236907	110.5
2011	831.756632	27556.35603	3.018383966	124.71
Average (X)			2.54	
Standard Deviation ( )			0.286	

Source: Annual Report EBL from FY 2007-2011 and Appendix-9

The table indicates Net Income to Total loan and advances ratio for 5 years. Ratio of EBL remained 2.42, 2.16, 2.46, 2.67 and 3.08 respective year of the study period of five years. Highest ratio and lowest ratio were 3.01 percentages and 2.17 percentages respectively in year 2011 and 2008. Return and loan advances ratio measures the earning capacity of commercial bank on its mobilized fund based loan and advances. A high ratio indicates a greater success to mobilize fund and vice-versa. This ratio shows how efficiently bank

used his resource to get return from provided loan and advances. The average (X) ratio is 2.54 percentages and standard deviation is 0.286 percentages for the period. Index to net profit after tax to total loan and advances ratio is in increasing trend in every fiscal year.

4.1.1. C. Leverage Ratios/Solvency Ratios/Capital Structure Ratio

It is also called Debt management Ratio. Debt management ratios measures the extent to which firms is using debt financing or financial leverage and the degree of safety afforded to creditors. A solvency ratio is measures the relationship between debts and owners equity and examine the proportion of debt the company is using. This ratio is calculated to judge the long-term financial position of the firm. This ratio indicates mixture of funds provided by the owners and lenders, as per the general rule. Debt is more risky from firm's point of view. The firm has a legal obligation to pay interest to debt holders, irrespective of the profit or loss incurred by the firm. This ratio of institution highlights the long term financial position, debt servicing capacity and strength and weaknesses of the firm. As institution should have short term liquidity as well as long term solvency as short term creditors are interested to know about the liquidity position and long term creditors are interested to know the term financial position of the firm to determine to whether the firm can pay regular interest or not. The following ratios are examined under these heading.

I)   Total Debt to Shareholder's Equity Ratio
II) Total Debt to Total Assets Ratio
III) Interest coverage Ratio.
IV) Fixed coverage Ratio.

Total Debt to Shareholder's Equity Ratio

This ratio is calculated by dividing total debt by total equity. This ratio measures the proportion of external liability in the total capital of the firm. This ratio indicates how well creditors are protected in case of the company's insolvency. It is calculated to measure the firm's obligation to creditors in relation to the funds invested by the owners. In this study, total debt refers to

all depositors, bills payable, borrowing made from other banks and other liabilities. Similarly, total equity refers to paid up capital, reserve and surplus and undistributed profit. Generally, very high debt to equity ratio is unfavorable to the business firm because debt gives third parties legal claims over the company. Which can be for regular payment of interest plus repayment of principal within the agreed time?

On the other hand, a very low debt to equity ratio is also unfavorable from the shareholder's point of view. They want this ratio to be high so that they can have better return with smaller capital. Investment of debt in the business is considered beneficial when the interest rate is less than the return as increase shareholders wealth. This process is known as trading on equity. Therefore an appropriated mixture of debt and equity capital should be maintained by the firm for maximization of owner's wealth.

$$\text{Debt-Equity Ratio} = \frac{\text{Long } Z \text{ term debt}}{\text{Shareholder's equity}}$$

Table No. 10

Total Debt to Shareholder's Equity Ratio

*in million

F/Y	Total debt	Total Equity	Ratio (times)	Index (%)
2007	12464.86602	822.808301	15.14917388	-
2008	16229.41352	1579.5	10.2750323	67.83
2009	21110.68624	2412.6	8.750180818	57.76
2010	28126.31512	2842.421	9.895196779	65.32
2011	32213.11884	3589.5673	8.974095246	59.24
Average (X)			10.6	
Standard Deviation ( )			2.336	

Source: Annual Report EBL from FY 2007-2011 and Appendix-10

The total debt to equity ratio of EBL remains 15.14, 10.27, 8.75, 9.89 and 8.97 times over the five year study period. The ratios shows EBL has high portion of debt in capital structure from the year 2007 to 2009 debt equity ratio decreased. Regular decrease in debt equity ratio shows it might decrease in coming year also. The average (X) ratio is 10.6 percentages and standard deviation is 2.336

percentages for the period. Index of total debt to total equity ratio is in fluctuating trend in every fiscal year.

Total Debt to Total Assets Ratio

This ratio measures the relationship between financial contribution of outsiders and owners on total assets of the firm or it measures the proportion of debt out of total assets of the firm. It also provides security to outsider to pay their regular interest, dividend and principal within prescribed time. Generally creditor prefers the components to use low debts and owners, on the contrary prefer high debt ratio to earn more return. This ratio is similar as debt to equity ratio. Higher debt ratio indicates higher financial risk as well as increasing claims of outsiders over the total assets and lower ratio indicates lower financial risk as well as decreasing claim of outsiders over the total assets of the firm. Here, total debt refers to short-term loan; long term loans and all kinds of deposits and other liabilities and total assets include all the assets that are in the assets side of balance sheet of the firm.

Debt to total assets ratio= $\dfrac{\text{Total debt}}{\text{Total assets}}$

Table No. 11

Debt to total assets ratio

*in million

F/Y	Total debt	Total assets	Ratio (%)	Index (%)
2007	12464.86602	15959.28469	78.10416486	-
2008	16229.41352	21432.5743	75.72311797	96.95
2009	21110.68624	27149.34288	77.75763241	99.56
2010	28126.31512	36916.84865	76.18828841	97.55
2011	32213.11884	41382.76071	77.84187978	99.67
Average (X)			77.11	
Standard Deviation ( )			0.967	

Source: Annual Report EBL from FY 2007-2011 and Appendix-11

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

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include current assets and fixed assets. Debt assets ratio of EBL remained 78.104, 75.723, 77.757, 76.188 and 77.8418 percentage over the study period. Above calculated ratios shows larger portion of the bank's assets has been financed through outsider's fund. This ratio shows that bank is following high profit high risk strategy. The average (X) ratio is 77.11 percentages and standard deviation is 0.967 percentages for the period. Index of total debt to total assets ratio seems somehow stable.

Interest Coverage Ratio

This ratio indicates the ability of a firm to interest charges on its borrowed capital. It is also called "debt service ratio" or "time interest earned ratio".

The ratio of Earnings before Interest and Taxes (EBIT) to interest charges is measures the ability of the firm to meet its annual interest payment. The times interest earned (TIE) ratio is determined by dividing earnings before interest and taxes by interest charge.

TIE ratio measures the extent to which operating income can decline before the firm is unable to meet its annual interest costs.

Earnings before interest and tax includes interest expenses, net profit and provision for taxation .Interest includes all the interest expenses paid to outsiders parties.

$$\text{Interest coverage ratio} = \frac{\text{Net profit before interest and taxes}}{\text{Interest}}$$

Table No. 12
Interest coverage ratio

*in million

F/Y	NPBIT	Interest expenses	Ratio (Times)	Index (%)
2007	746.997679	401.397351	1.860993046	-
2008	971.874698	517.166241	1.87923074	101.07
2009	1300.741179	632.609264	2.056152594	110.54
2010	1928.471411	1012.874353	1.903959169	102.15
2011	2761.576068	1572.790306	1.755845047	94.41
Average (X)			1.88	
Standard Deviation ( )			0.098	

Source: Annual Report EBL from FY 2007-2011 and Appendix-12

A high ratio is a sign of low burden of borrowing of the business and lower utilization of borrowing capacity. From the point of view of creditors, debenture holder, and loan creditors, the higher coverage is the greater ability of the firm to make the payment of interest. Interest coverage ratio remained 1.86, 1.87, 2.05, 1.90 and 1.75 times over the five years of study period. Highest ratio was in 2009 of 2.05 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 paid or insufficient operation. The average (X) ratio is 1.88 percentages and standard deviation is 0.098 percentages for the period. Index of NPBIT to interest expenses ratio is in fluctuating trend.

Fixed coverage ratio

This is the ratio of net profit before interest and tax of fixed charges. It indicates the number of times the fixed charge covered by NBIAT. The fixed charge includes interest, preference dividend and debt payment.

$$\text{Fixed Coverage Ratio} = \frac{\text{Net profit before interest and taxes}}{\text{Fixed charges}}$$

Table No. 13

Fixed coverage ratio

*in million

F/Y	Net profit interest and taxes	Fixed charges	Ratio (times)	Index (%)
2007	746.997679	413.997351	1.804353765	-
2008	971.874698	529.766241	1.834534976	101.95
2009	1300.741179	656.332552	1.981832495	110
2010	1928.471411	1029.22175	1.873718089	104.11
2011	2761.576068	1574.190306	1.754283493	97.44
Average (X)			1.84	
Standard Deviation ( )			0.077	

Source: Annual Report EBL from FY 2007-2011 and Appendix-13

It shows the ability of the firm to make the payment of fixed charges. Hence, the higher coverage ratio is preferable for the company. Higher the coverage,

the higher profitability will be. Fixed coverage ratio remained 1.80, 1.83, 1.98, 1.87 and 1.75 times over the five years of study period. Highest ratio was in 2009 of 1.98 times. A high ratio is a sign of strong capacity of the bank. The average (X) ratio is 1.84 percentages and standard deviation is 0.077 percentages for the period. Index of net profit after interest and taxes to fixed charges ratio is in fluctuating trend.

4.1.1. D. Turnover Ratios /Activity Ratios / Efficiency Ratios

Turnover ratio measures the performance efficiency of an organization that whether it is using its resources properly or not. To carry out operations, a firms needs to invest in both short term and long term. Turnover ratios describe the relationship between the firm's level of operations and the assets needed to sustain the activity. Activity ratio can also be used to forecast a firm's capital requirement. Activity ratios enable to analyst to forecast these requirements and to access the firm's ability to acquire the assets needed to sustain the forecasted growth. The activity ratios analyzed in the study are:

 i.   Loan and Advance to Total Deposit
 ii. Total Investment to Total Deposit
 iii. Investment on government securities to working fund
 iv. Total performing assets to total debt ratio

Loan and Advance to Total Deposit

Loan and advances is the main item of utilization of a bank's collected fund. Accepting deposits and granting of loans are the main business of any commercial and other type of bank. This ratio shows the percentage of total deposit that has been utilized on loan and advances. The collected fund must be mobilized somewhere else in the form of loans and advances or investment or in any other forms to generate income. The utilization of fund in the form of loan and advances generates income in terms of interest at a fixed rate.

Mobilization of fund in the sector with a fixed rate of interest is always a positive aspect from viewpoint of profitability if there is no risk while recovering them. The Loan & Advances to total deposit ratio can be further explain by the help of the following table.

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Total Loan and Advances}}{\text{Total Deposit}}$$

Table No. 14

Loan and Advance to Total Deposit

*in million

F/Y	Loan and advances	Total deposit	Ratio (%)	Index (%)
2007	9801.307676	13802.44499	71.01138736	-
2008	13664.08166	18186.25354	75.13412058	105.81
2009	18339.08556	23976.29854	76.48839347	107.72
2010	23884.67362	33322.94625	71.67635611	100.94
2011	27556.35603	36932.31001	74.61313962	105.1
Average (X)			73.78	
Standard Deviation ( )			2.093	

Source: Annual Report EBL from FY 2007-2011 and Appendix-14

Loan and advances consists of loan, advances, bills discounted. The ratio fluctuated throughout the study period. The ratio indicated the proportion of total deposit invested in loans and advances. In a year 2007, 71.01 percentages of total deposit was invested in loans and advances which is lowest of the period in 2009, ratio was 76.48 percentages which is highest of study period. Too low ratio gives a picture of the idle cash in bank. As per banking practice, banks maintain the ratio around 70.75 percentages. It shows bank is successful in utilizing its deposits on loans and advances. The average (X) ratio is 73.78 percentages and standard deviation is 2.093 percentages for the period. Index of loan and advances to total deposit ratio seems some how stable.

Total Investment to Total Deposit

As stated earlier total deposit is the main source of a bank's fund which is the amount accepted by the bank from its customers under various accounts. The fund so collected should be utilized properly into different sectors of the

economy with a view to achieve the objectives of the bank. A wise utilization of such fund results in maximization of profit. By nature, major part of the total deposit of bank's fund, which is invested on the securities, issued by governmental and non-governmental organization and on other various projects. Utilization of fund on investment has possibility of capital gain along with regular risk of not recovering investment from these sectors.

Following table shows the Total Investment to Total Deposit ratio of the bank for five years of study:

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

Table No. 15

Total Investment to Total Deposit

*in million

F/Y	Total investment	Total deposit	Ratio (%)	Index (%)
2007	4200.51522	13802.44499	30.43312416	-
2008	4984.314586	18186.25354	27.40704442	90.06
2009	5059.557544	23976.29854	21.10232961	69.34
2010	5948.480273	33322.94625	17.85100342	58.65
2011	5008.307589	36932.31001	13.56077534	44.56
Average (X)			22.068	
Standard Deviation ( )			6.080	

Source: Annual Report EBL from FY 2007-2011 and Appendix-15

The ratio shows decrease pattern during the study period. In a year 2011 was 13.56 percentages which is lowest and in a year 2007 ratios was 30.433 percentages which is highest of the study period. Bank should invest certain percentages of deposit in different sector. If the bank is unable to invest in proper way it increases interest expenses, idle fund do not give any return to bank. The average (X) ratio is 22.068 percentages and standard deviation is 6.080 percentages for the period. Index of total investment to total deposit ratio is in decreasing trend.

Investment on government securities to working fund

Investment on government securities to working fund ratio indicates how much amount of total investment on government securities mathematically:

$$\text{Investment on Government Securities} = \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

Table No. 16

Investment on government securities to working fund

*in million

F/Y	Total govt. securities	Total working fund	Ratio (%)	Index (%)
2007	3548.616968	15959.28469	22.23543873	-
2008	4704.632426	21432.5743	21.95085089	98.72
2009	4821.604744	27149.34288	17.75956333	79.87
2010	5146.045773	36916.84865	13.93955866	62.69
2011	4354.353089	41382.76071	10.52214259	47.32
Average (X)			17.276	
Standard Deviation ( )			4.548	

Source: Annual Report EBL from FY 2007-2011 and Appendix-16

From the above table it shows that the ratio of EBL is in fluctuating trend. Investment on government securities to total working fund ratio over 5 year of study period. In a year 2007 and year 2011 were ratio 22.23 percentages and 10.25percentages respectively which are the highest and lowest over five year of study period. High ratio represents the success in utilizing the fund. The average (X) ratio is 17.276 percentages and standard deviation is 4.548 percentages for the period. Index of total government securities to total working fund ratio is in decreasing trend.

Total performing assets to total debt ratio

The ratio measure what portion of assets has been funded for income generation. Performing assets includes loan and advances, bills purchased and discounted investment and money at call or short notice. The ratio is calculated by dividing performing assets as follows:

Performing Assets to total debt ratio= $\dfrac{\text{Total performingassets}}{\text{Total debt}}$

Table No. 17

Total performing assets to total debt ratio

*in million

F/Y	Total performing assets	Total debt	Ratio (%)	Index (%)
2007	14068.7829	12464.86602	112.8675019	-
2008	18648.39625	16229.41352	114.90493	101.807
2009	23744.64311	21110.68624	112.4768889	99.65
2010	23884.67362	28126.31512	84.91931315	75.23
2011	27556.35603	32213.11884	85.54389337	75.78
Average (X)			102.13	
Standard Deviation ( )			13.82	

Source: Annual Report EBL from FY 2007-2011 and Appendix-17

Performing assets to total debt ratio fluctuated over the five years of the study period. In a year 2008 and in a year 2010 were ratio 114.90 percentages and 84.91percentages respectively which are the highest and lowest ratio over the five years study period. High ratio represents the success in utilizing the fund, like in 2007, 2008 and 2009 were satisfactory because ratio were more than 100 percentages. The average (X) ratio is 102.13 percentages and standard deviation is 13.82percentages for the period. Index of total performing assets to total debt is in decreasing trend.

4.2 Statistical Tools

In this section some statistical tools such as co-efficient of correlation analysis between different variables, trend analysis of deposits, loan and advances, investment and net profit and EPS are used to achieve the objective of the study.

4.2.1 Coefficient of correlation Analysis

Correlation analysis is the statistical tools generally used to describe the degree to which one variable is related to another. In other words correlation is defined as the relationship between the one dependent variable and one or more independent variables. But it does not tell anything about cause and effect relationship it only shows the relationship between two variables is may be positive or negative. If variable increase and decrease the same direction, than

the two variables is positive correlated otherwise negative. Under this chapter Karl Pearson's Coefficient of Correlation is used to find out the relationship between

   I.   Deposits and profit of EBL

  II.   Investment and profit of EBL

 III.   Total deposit and Investment EBL

 IV.   Determination of coefficient which is square of correlation coefficient. Similarly, probability error of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient, 'r'. The probability error (P.E.) is defined by,

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

Where, r^2 = determination of coefficient, n = Number of observation

4.2.1.1. A Coefficient of correlation between total deposit and total profit

Coefficient of correlation 'r' between Total deposit and total profit measure the degree of relation between these two variables. Total deposit is independent variable (X) and Total profit is dependent variable (Y). The purpose of computing co-efficient of correlations between total deposit and total profit to find whether deposit is significant used as the profit or not.

Table No. 18

Coefficient of correlation between total deposit and total profit

* In million

Year	Total deposit (X)	Total profit (Y)
2007	13802.44499	237.290936
2008	18186.25354	296.409281
2009	23976.29854	451.218613
2010	33322.94625	638.732757
2011	36932.31001	831.756632
Correlation coefficient (r)	0.9860	
Probable error	0.008386	
6.P.E	0.050316	

(Calculation: appendix 18)

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 0.986 and 0.008386 respectively. Correlation coefficient between total deposit and net profit was 0.9860, it means almost range of one, and so it is perfectly positive correlation. Coefficient appeared grater then six times of probable error i.e. 0.9860>0.050316 which means that relationship between total deposit and net profit is significant. This shows the net profit of EBL increase almost to the same degree with in the amount of deposit.

4.2.1.1. B Correlation analysis between investment and profit

Coefficient of correlation 'r' between Total investment and total profit measure the degree of relation between these two variables. Total investment is independent variable (X) and Total profit is dependent variable (Y). The purpose of computing co-efficient of correlations between total investment and total profit to find whether investment is significant achieve as the profit or not.

Table No. 19

Correlation analysis between investment and profit

*in million

F/Y	Total investment (X)	Total profit (Y)
2007	4200.51522	237.290936
2008	4984.314586	296.409281
2009	5059.557544	451.218613
2010	5948.480273	638.732757
2011	5008.307589	831.756632
Correlation coefficient (r)	0.57	
Probable error	0.2036	
6 .P.E	1.22	

(Calculation: appendix 19)

Calculation shows that coefficient of correlation between investment and net profit of EBL is positive. Its correlation and probable error remained 0.57and 0.2036 respectively. Correlation coefficient appears less than probable error .i.e. 0.57<1.22, which indicates that the investment and net profit are not highly

positive correlated. The ratio shows that EBL is not able to invest its deposit in profitable sectors.

4.2.1.1. C Correlation analysis between Total deposit and Investment EBL

Coefficient of correlation 'r' between Total deposit and total investment measure the degree of relation between these two variables. Total deposit is independent variable (X) and Total investment is dependent variable (Y). The purpose of computing co-efficient of correlations between total deposit and total investment to find whether deposit is significant used as the investment or not.

Table No. 20

Correlation analysis between deposit and investment

*in million

F/Y	Total deposit (x)	Total investment (Y)
2007	13802.44499	4200.51522
2008	18186.25354	4984.314586
2009	23976.29854	5059.557544
2010	33322.94625	5948.480273
2011	36932.31001	5008.307589
Correlation coefficient (r)	0.69	
Probable error	0.1580	
6 .P.E	0.9481	

(Calculation: appendix 20)

The calculation shows that coefficient of correlation between deposit and total investment of EBL is positive. Its correlation coefficient and probable error remained 0.69 and 0.1580 respectively. Correlation coefficient appeared less than six times of probable error i.e. 0.69<0.9481 which indicates the deposit and investment are not correlated. The ratio shows that EBL is not able to invest its deposit in profitable sectors.

4.4 Major Findings

Based on the data analysis based the researcher found that the main findings areas of EBL are as follows:

) Cash and bank balance to current and saving deposit fluctuated over the study period. Final year of study period ratio was 19.41 percentages, which indicates that bank may not able to meet its immediate obligation.

) EBL didn't meet current ratio 2:1 over the five year of the study. It is a satisfactory comparing to a banking industry.

) Loan and advances to current assets ratio was increasing trend during the study period. As per banking practice, bank maintains the ratio 66 percentages. So the ratio is satisfactory.

) Investment to government securities to total assets ratio decreasing rate over the study period. It means bank reduce the investment on government securities.

) Cash and bank balance to total deposit ratio of EBL shows its liquidity position was weak over the five year of study period.

) The ROA (Return on Assets) is in increasing trend, which shows the bank's efficiency in utilizing its assets to able to earn satisfactory income. It is found that the bank is successful running. Return on assets during the study period was less than 2 percentages. This shows that profitability with respect to financial resource investment of bank assets was unsatisfactory.

) Total interest earned to total working fund ratio is decreasing trend expect in year 2011. EBL is not more successful in later years in allocating interest bearing working fund in profitable sectors.

) ROE (Return on Equity) is fluctuated over the five year study period. It is found that the operating efficiency of the bank. Somehow it has increased from 2010 and 2011.

) Return on loan and advances ratio fluctuating over the five years study period. It means bank loan amount is fluctuating in every year.

) Debt to equity ratio is relatively low which means liabilities are high, as various researches has agreed the companies relying on their own equity are doing pretty well and established. The total debt to equity

ratio of EBL remains 15.14, 10.27, 8.75, 9.89 and 8.97 times over the five year study period.

⟩ Debt assets ratio of EBL remained 78.104, 75.723, 77.757, 76.188 and 77.8418 percentage over the study period. This ratio shows that bank is following high profit high risk strategy.

⟩ Interest coverage ratio remained 1.86, 1.87, 2.05, 1.90 and 1.75 times over the five years of study period. Highest ratio was in 2009 of 2.05 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 paid or insufficient operation.

⟩ Fixed coverage ratio remained 1.80, 1.83, 1.98, 1.87 and 1.75 times over the five years of study period. Highest ratio was in 2009 of 1.98 times. A high ratio is a sign of strong capacity of the bank.

⟩ Loan and Advance to Total Deposit ratio was inconsistent during the study period. As per banking practice, bank maintains the ratio 70-75 percentages. So the ratio is satisfactory.

⟩ Total Investment to Total Deposit decreasing trend over the study period. It was 30.43 percentages in year 2007 which is highest in study period. If the bank is unable to invest in proper way it increases interest expenses, idle fund do not give any return to bank.

⟩ Investment on government securities to working fund ratios over 5 year of study period in a year 2007 and year 2011 were ratio 22.23 percentages and 10.25percentages respectively which are the highest and lowest over five year of study period. High ratio represents the success in utilizing the fund.

⟩ Total performing assets to total debt ratio was high over the study period which shows EBL able to utilize the outsider fund income generation.

⟩ Correlation coefficient of deposit and profit, investment and profit, deposit and investment remained 0.9860, 0.57 and 0.69 respectively. Which indicates highly positive correlated.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Everest Bank limited (EBL) was incorporated in 1994 by the distinguished business personalities of Nepal. Punjab Bank Limited, one of the largest commercial banks of India. Besides commercials activities, the bank also offers industries and merchant banking.

The primary objective of this study is to make analysis of the financial performance of Joint ventures bank i.e. EBL and recommend suggestion for the improvement of state of affairs. To achieve the basic objectives some specific objectives have been set. To examine and analyze the financial performance, financial strength and weakness, to study the comparative financial position, to provide a package of suggestions and possible guidelines to improve the banking business are the main objective of the study.

The study suffers different limitations. It covers the financial data of a period 2007 to 2011. Basically, the data are of secondary nature. Time and resource are other constrains of the study. Therefore, the study may not be generalized in all cases.

In the past financial performance of the bank is remarkably good but in present due to various reasons and factors affecting the bank so it is not able to utilize and mobilize its funds properly. The thesis covers the financial performance analysis of EBL and is prepared with the objective of finding out whether EBL is able to maintain its liquidity position and profitability or not. To fulfill the objective of the research basically secondary data are used in which includes annual report, balance sheet, income statement, NRB report, and articles etc, in the primary data personal meeting with the staff of the EBL has been conducted. To have the study regarding EBL, data have been basically obtained from secondary sources. The main sources are annual report, articles, newspapers, and so on. Only limited primary data were used.

For the procedure of analysis ratio, average and standard deviation of the ratios for the five years period is used in tables used to obtain a clear performance of the bank, the ratios are expressed in percentage and summary are given below.

The average current Ratio of EBL is below the standard. The average CR is 1.06 times which shows that the bank has current assets of Rs. 106 to discharge the current liabilities of Rs.100 for the study period. The standard of CR is 2:1, current assets to current liabilities. The Current ratio of 1.03, 1.33, 0.84, 1.046 and 1.061 seems quite satisfactory.

Cash and Bank balance to Current Asset Ratio has fluctuated over the study period. The highest ratio of all during the study period is 19.41 % in the Year 2011 and lowest is 9.725 in year 2009. The average of the ratio is 13.69%. It can be said that at an average of 13.69 % bank is holding cash and bank balance. To keep more than 13.69% as cash is a positive aspect from view point of liquidity but negative aspects from view point of profitability.

Loans and Advance to Current Assets ratio has a bit fluctuation. The average of the ratio is 66.85 %and the highest ratio is 68.43% in FY 2011. It shows that 68.43% of current assets are given loans and advances.

Investment to government securities to total current assets ratio is in decreasing trend. The highest of all is 23.43 % of total current assets Rs.15147.8599 million in the Year 2007 and the lowest of all is 10.814 % in the Year 2011. The average ratio for the period is 17.84%.It shows that government securities are increasing which shows satisfactory.

The average of Cash and Bank Balance to Total Deposit is 15.034% and the standard deviation is 4.09% which is considered as satisfactory level for liquidity position of bank.

The return on assets increased to 2.00% from 1.486% in the year 2007/2011 which is a good trend. The average 1.65% is considered as satisfactory it should not be zero or negative.

The average total interest paid to total working fund ratio is 2.758% and the standard deviation is 0.53 % for the period of five years.

Return on Equity for the Year 2007 is 28.839% in the year 2008 it decreases to 18.76% .Onwards the year 2008 there is increment in the preceding years 2009, 2010 and 2011 as 18.70%, 22.471% and 23.17% respectively. The average is 22.388% is satisfactory for the shareholders.

As Loan and advances to the customers. The ratio has fluctuated in the year 2007 to 2011 the ratios are 2.42%, 2.16, 2.46%, 2.76% and 3.018% respectively. The average is 2.54% is satisfactory for the shareholders.

Total Debt to Shareholders Equity is not considered as satisfactory because EBL is largely financed by Debt capital. Total debt to Equity ratio is in decreasing trend. The average is 10.6% and the standard deviation is 2.336%. The average shows that only 10.06% is the equity out of 100% debt capital.

The total debt to total assets debt ratio is high in the year 2007 is 78.10% and low in the year is 2008 is 75.72%. The debt ratio is high in the EBL though the ratio has been decreasing to the base year i.e. 2007. The average of the ratio is 77.11% and the standard deviation is 0.967%.

EBL's interest is covered 2.056% in the year 2009 which is also the highest in the study period of five years. The lowest of the ratio is 1.75% in the year 2011. The average ratio of EBL 1.88 times and the standard deviation is 0.098%. The bank is able to service interest on its debts properly and considered as satisfactory.

Loans and advances to deposit ratio has fluctuated every year comparing to the base year i.e. year 2007(71.011%) the highest ratio in the period of five years is 76.48% which is in the year 2009. the average of the ratio and the standard deviation for the period of five years is 73.78% and 2.093% .

The investment to total deposit for the year 2007, 2008, 2009, 2010 and 2011 is 30.43%, 27.40%, 21.10%, 17.85%, and 13.56% respectively. The ratio for the

five year is in decreasing trend. The lowest ratio is in the year 2011 is 13.56% and highest is in the year 2007 is 30.43%.So it is considered as satisfactory.

5.2 Conclusions

The CR of the bank over the five years is 1.0614 times on an average. It indicates that the margin for safety for customers has not been maintained properly. But the average ratio is reached nearly at the standard, so it is in satisfactory position.

The average of the cash and bank balance to current assets ratio is 13.69% which indicates that the cash and bank balance proportion with respect to the current assets is moderate position. It indicates that the bank is holding 13.69% cash and bank balance to idle.

The average ratio for loan & advance to current assets ratio revealed that 66.85% of current assets have been lent to the customers as loan & advances. It indicates that the bank's fund mobilization position is very satisfactory. The result of the analysis indicates that the share of fixed deposit is high in the total deposit which may be termed as favorable one from viewpoint of liquidity.

The average ratio for investment on government securities to working fund ratio revealed that 17.276% of total current assets are government securities .investment on government securities is increased which indicates the satisfactory.

The average ratio of cash and bank balance to total deposit is 15.034%, which indicates that cash and bank balance has been maintaining properly against anticipated calls of its depositors. Hence in general the liquidity position of the bank is good enough to meet the short term obligations.

ROA ratio have fluctuated leading to the standard deviation is 0.2388% an average of 1.65%.Any organization should try to have positive return on assets which indicates the satisfactory.

ROE ratio have fluctuated dramatically leading to the standard deviation is 3.71%. An average of 22.388%.Any institution should try to have positive return on equity. It analyzed that the bank has not been able to mobilize the deposit to its fullest or generate income from mobilized fund satisfactory.

Total Debt to Shareholders Equity is not considered as satisfactory because EBL is relying mainly on borrowed fund. The average is 10.6% and the standard deviation is 2.366%. The average shows that only 10.06% is the equity out of 100%. The debt ratio is high in EBL and it is difficult to borrow additional funds without raising more equity capital. From the view of various researchers the companies relying on their own equity capital are doing pretty well and established a strong legacy.

The total debt to total assets debt ratio is high in the year 2007 is 78.104% and low in the year is 2008 is 75.72%. The debt ratio is high in the EBL though the ratio has been decreasing to the base year i.e. 2007. The average of the ratio is 77.11% and the standard deviation is 0.967%.The assets of EBL are mostly financed by debt capital and share of equity capital in assets is low so we can say that company is highly levered by debt.

Large amount of average 73.78% loans and advances are given to customers out of total deposits. The ratio has increased in the year 2009 and 2009 to 75.13% and 76.48% respectively. In the year 2011 it decreased more to 74.61%. The average of 73.78% of the total deposit has been mobilized as loans and advances which indicates that to maintain satisfactory level.

The bank is covering its interest changes by a relatively low margin of safety. The bank would face more difficulties; it attempts to borrow additional funds, the TIE ratio of EBL is 1.84 times and standard deviation is 0.077%.

Index of different ratios like liquidity, profitability, leverage and turnover are found fluctuating. None of the ratios could not found stable or satisfactory. Which shows the riskiness position of the Everest Bank Limited.

At Last from the analysis of the financial position of the EBL from the fiscal year 2007 to the fiscal year 2011 the collection of deposits and profit are

increasing satisfactorily and there are also slightly improvement in the operating profit.

5.3 Recommendations

Every organization needs profit to survive for long period which is the fact. So EBL is also one of them, it also needs profit for different purposes which is only possible when there is effective and efficient management as well as the total team commitment, it would be better for the bank if there is excellent management and the excellent services, cooperation with all the customers of the bank and excellent team work within the organization which is the key elements for the survival of the bank and as well as for its own goodwill. Besides these there are various factors which EBL needs to be improved. They are mentioned below:

1. The services provided by EBL are similar to those provided by other Commercial Banks. Therefore, it is recommended to EBL to formulate new schemes and techniques in order to attract more and more people towards the bank. The bank needs to provide more facilities like, easy to withdraw, easy to deposit, fast services, cooperation, friendly towards customers.

2. The credit worthiness of debtors must be extensively evaluated before granting them loans.

3. The Bank should diversify the sectors of deposit mobilization because it is not satisfactory in that sector.

4. The Bank should try to collect more non-interest bearing deposits.

5. EBL has invested a maximum amount of its funds on risky assets i.e. loan, thus, the bank is always threatened by the fear of default. It will be better if the bank diverts some amount of its funds from lending and invest it in less Risky investment alternatives which help the bank diversify the risk. EBL should provide the facility

6. To interest rate to borrower who repays the loan before stipulated time; this may help to increase the number of early payers that will reduce default risk.

7. Loan and Advance is the main source of investment of total deposit from which more profit can be earned and it is also risky to cover in time. So, while granting loan and advance to the customers bank must do detail study of purposes of taking loans, sources of payments of loan and fixing the duration of paying loan etc. Before granting loan bank also needs to take sufficient collateral so that there will be no problem of collecting loan. To take benefit from the interest earned from loan and advance bank should take care of above points and many more to survive in the competitive market for long time.

8. Return on Assets and Return on Equity is relatively low, therefore it is recommended that the bank should increases these ratio as to achieve its targets.

9. There is decreasing trend in EPS, so the bank should use its new strategies to make it increase towards boom. The bank has to try its best to build its good image in its customers. Professionalism and market oriented services should be enhanced in future

10. Expansion of more branches is necessary to collect more deposit. If the services are expanded in most part of the nation, it can collect deposits from different area and can invest the funds in productive sector for generating income. So EBL should also expand its branches in rural and urban areas as it is doing so that it can provide its services to the people of the different part of the country as well as it is benefit for the bank also.

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APPENDICES

Appendix-I

Calculation of Mean and Standard Deviation of CA and CL Ratios

FY	Ratio in times (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	1.03	-0.0314	0.00098596
2008	1.33	0.268	0.0721
2009	0.84	-0.22	0.049
2010	1.046	-0.0154	0.000237
2011	1.061	-0.00014	0.00000016

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{5.307}{5}$ = 1.0614 times

Hence, Average current assets to current liabilities ratio = 1.0614 times

Where,

x = Current assets to current liabilities

N = Numbers of Years

x = $\dfrac{Current\ assets\ in\ a\ years}{Current\ liabilities\ in\ a\ year}$

Standard deviation $(\exists)$ = $\sqrt{\dfrac{(x\,Z\bar{x})^2}{n}}$

$$= \sqrt{\frac{0.12213}{5}}$$

= 0.1564

= 15.64%

Hence, standard deviation (∃) = 15.64%

Appendix-II

Calculation of Mean and Standard Deviation of Cash and Bank Balance to Current Assets Ratio

FY	Ratio in % (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	10.25	-3.44	11.8336
2008	11.80	-1.89	3.5721
2009	9.725	-3.965	15.7212
2010	17.27	3.58	12.8164
2011	19.41	5.72	32.718

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{62.455}{5}$ = 13.69 %

Hence, Average cash and bank balance to current assets ratio = 13.69%

Where,

x = Cash and bank balance to current assets ratio

N = Numbers of years

x = $\dfrac{Cash\ and\ bank\ balance}{Total\ current\ assets}$

Standard deviation $(\exists)$ = $\sqrt{\dfrac{(x\,Z\,\bar{x})^2}{n}}$

= $\sqrt{\dfrac{76.66}{5}}$

= 3.91%

Hence, standard deviation (∃) = 3.91%

Calculation of Mean and Standard Deviation of Loan and Advances and Current Assets Ratio

FY	Ratio in % (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	64.70	-2.15	4.6225
2008	65.12	-1.73	2.9929
2009	69.07	2.22	4.9284
2010	66.93	0.08	0.0064
2011	68.43	1.58	2.4964

We know that,

Mean $(\bar{X}) = \dfrac{X}{N} = \dfrac{334.25}{5} = 66.85\%$

Hence, Average loan and advances to total current assets ratio = 66.85%

Where,

x = Loan and advances to total current assets

N = Numbers of years

x = $\dfrac{Loan\ and\ advances}{Total\ current\ assets}$

Standard deviation (∃) = $\sqrt{\dfrac{(x\ Ζ\bar{x})^2}{n}}$

= $\sqrt{\dfrac{15.0462}{5}}$

= 1.736%

Hence, standard deviation (∃) = 1.736%

Appendix-IV

Calculation of Mean and Standard Deviation of Investment on Government Securities to Current Assets Ratio

FY	Ratio in % (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	23.43	5.582	31.158
2008	22.42	4.572	20.90
2009	18.16	0.312	0.0937
2010	14.42	-3.428	11.751
2011	10.814	-7.034	49.472

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{89.244}{5}$ = 17.8488%

Hence, Average investment on government securities and total current assets ratio (x) = 17.848%

Where,

x = Investment to government securities

N = Numbers of years

x = $\dfrac{Investment\ on\ government\ \sec urities}{Number\ of\ years}$

Standard deviation ($\exists$) = $\sqrt{\dfrac{(x\,Z\,\bar{x})^2}{n}}$

$$= \sqrt{\frac{113.37}{5}}$$

= 4.76%

Hence, standard deviation (∃) = 7.76%

Calculation of Mean and Standard Deviation of Cash and Bank Balance to

Total Deposit Ratio

FY	Ratio in % (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	11.25	-3.784	14.31865
2008	13.14	-2.2	4.84
2009	11.12	-3.914	15.319
2010	18.49	3.456	11.943
2011	21.17	6.107	37.283

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{75.17}{5}$ = 15.034%

Hence, Average cash and bank balance to total deposit ratio is 15.034%

Where,

x = Cash and bank balance to total deposit ratio

N = Numbers of years

x = $\dfrac{Cash\ and\ bank\ balance}{Total\ deposit}$

Standard deviation $(\exists)$ = $\sqrt{\dfrac{(x Z \bar{x})^2}{n}}$

= $\sqrt{\dfrac{83.70}{5}}$

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= 4.09%

Hence, standard deviation (∃) = 4.09%

Calculation of Mean and Standard Deviation of Return on Assets Ratio

FY	Ratio in % (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	1.486	-0.165	0.02725
2008	1.38	-0.27	0.0729
2009	1.66	0.0088	0.000077
2010	1.73	0.08	0.0064
2011	2.00	0.349	0.121

We know that,

Mean $(\bar{X}) = \dfrac{X}{N} = \dfrac{8.256}{5} = 1.6512\%$

Hence, Average return on assets ratio = 1.6512%

Where,

x = Return on assets

N = Numbers of years

$x = \dfrac{Total\ net\ profit\ after\ tax}{Total\ assets}$

Standard deviation $(\exists) = \sqrt{\dfrac{(x \mathbb{Z}\bar{x})^2}{n}}$

$= \sqrt{\dfrac{0.28527}{5}}$

= 0.2388%

Hence, standard deviation ($\exists$) = 0.2388%

Appendix-VII

Calculation of Mean and Standard Deviation of Total Working Fund Ratio

FY	Ratio in % (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	2.51	-0.248	0.0615
2008	2.41	-0.348	0.121
2009	2.33	-0.428	0.183
2010	2.74	-0.018	0.0000324
2011	3.8	1.042	1.085

We know that,

$$\text{Mean } (\bar{X}) = \frac{X}{N} = \frac{13.79}{5} = 2.758\%$$

Hence, Average total interest paid to total working fund ratio is 2.758%

Where,

x = Total interest paid to total working fund

N = Numbers of years

$$x = \frac{Total \; int\,erest \; paid}{Total \; working \; fund}$$

$$\text{Standard deviation } (\exists) = \sqrt{\frac{(x\,Z\bar{x})^2}{n}}$$

$$= \sqrt{\frac{1.45}{5}}$$

= 0.53%

Hence, standard deviation ($\exists$) = 0.53%

Calculation of Mean and Standard Deviation of Net Profit After Tax and Total Equity Capital

FY	Ratio in % (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	28.839	6.451	41.6154
2008	18.76	3.628	13.162
2009	18.70	-3.688	13.601
2010	22.471	0.083	0.006889
2011	23.17	0.0783	0.611524

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{111.94}{5}$ = 22.388%

Hence, Average total net profit after tax and to total equity capital is 22.388%

Where,

x = Net profit after tax to total equity capital ratio

N = Numbers of years

x = $\dfrac{Net\ profit\ after\ tax}{Total\ equity\ capital}$

Standard deviation ($\exists$) = $\sqrt{\dfrac{(x\ Z\bar{x})^2}{n}}$

= $\sqrt{\dfrac{68.99}{5}}$

= 3.7146

Hence, standard deviation (∃) = 3.7146%

Calculation of Mean and Standard Deviation of Net Profit After Tax and Total

Loan and Advances

FY	Ratio in % (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	2.42	-0.12	0.0144
2008	2.16	-0.38	0.1444
2009	2.46	-0.08	0.0064
2010	2.67	0.13	0.0169
2011	3.018	0.478	0.2284

We know that,

Mean $(\bar{X}) = \dfrac{X}{N} = \dfrac{12.728}{5} = 2.54\%$

Hence, Average loan and advances ratio = 2.54%

Where,

x = Loan and advances to net profit ratio

N = Numbers of years

$x = \dfrac{Net\ profit}{Loan\ and\ advances}$

Standard deviation $(\exists) = \sqrt{\dfrac{(x\ \mathrm{Z}\bar{x})^2}{n}}$

$= \sqrt{\dfrac{0.4105}{5}}$

= 0.286 %

Hence, standard deviation (∃) = 0.286%

Appendix-X

Calculation of Mean and Standard Deviation of Debt to Total Equity Ratio

FY	Ratio in % (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	15.14	4.54	20.61
2008	10.27	-0.33	0.1089
2009	8.75	-1.85	3.422
2010	9.89	-0.71	0.5041
2011	8.974	-1.626	2.6438

We know that,

Mean $(\bar{X}) = \dfrac{X}{N} = \dfrac{53.03}{5} = 10.6\%$

Hence, Average debt to total equity ratio is 10.6%

Where,

x = Debt equity ratio

N = Numbers of years

$x = \dfrac{Total\ debt}{Total\ equity}$

Standard deviation $(\exists) = \sqrt{\dfrac{(x\,Z\bar{x})^2}{n}}$

$= \sqrt{\dfrac{27.2893}{5}}$

= 2.336 %

Hence, standard deviation (∃) = 2.336%

Appendix-XI

Calculation of Mean and Standard Deviation of Total Debt to Total Assets Ratio

FY	Ratio in % (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	78.1041	0.9941	0.988
2008	75.723	-1.387	1.923
2009	77.75	0.613	0.375
2010	76.18	-0.93	0.86
2011	77.84	0.73	0.5329

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{385.59}{5}$ = 77.11%

Hence, Average debt to total assets ratio is 77.11%

Where,

x = Debt to total assets ratio

N = Numbers of years

x = $\dfrac{Total\ debt}{Total\ assets}$

Standard deviation $(\exists)$ = $\sqrt{\dfrac{(x\, Z\bar{x})^2}{n}}$

= $\sqrt{\dfrac{4.6789}{5}}$

= 0.967%

Hence, standard deviation (∃) = 0.967%

Appendix-XII

Calculation of Mean and Standard Deviation of Net Profit Before Tax and Interest Expenses Ratio

FY	Ratio (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	1.86	-0.02	0.004
2008	1.87	-0.01	0.001
2009	2.056	0.176	0.03097
2010	1.9	0.02	0.0004
2011	1.75	-0.13	0.0169

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{9.436}{5}$ = 1.88%

Hence, Interest coverage ratio is 1.88%

Where,

x = Interest coverage ratio

N = Numbers of years

x = $\dfrac{Net\ profit\ before\ interest\ and\ taxes}{Interest}$

Standard deviation ($\exists$) = $\sqrt{\dfrac{(x\ Z\bar{x})^2}{n}}$

= $\sqrt{\dfrac{0.04877}{5}}$

= 0.098%

Hence, standard deviation (∃) = 0.098%

Appendix-XIII

Calculation of Mean and Standard Deviation of Net Profit Before Interest and Taxes and Fixed Charges

FY	Ratio (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	1.80	-0.04	0.0016
2008	1.83	-0.01	0.0001
2009	1.98	0.14	0.0196
2010	1.87	0.03	0.0009
2011	1.75	-0.09	0.0081

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{9.234}{5}$ = 1.84%

Hence, Fixed charges coverage ratio is 1.84%

Where,

x = Fixed coverage ratio

N = Numbers of years

x = $\dfrac{Net\ profit\ before\ interest\ and\ taxes}{Fixed\ charges}$

Standard deviation ($\exists$) = $\sqrt{\dfrac{(x\ Z\bar{x})^2}{n}}$

= $\sqrt{\dfrac{0.0303}{5}}$

= 0.077%

Hence, standard deviation (∃) = 0.077%

Appendix-XIV

Calculation of Mean and Standard Deviation of Total Loan and Advances to Total Deposit Ratio

FY	Ratio (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	71.011	-2.769	7.66
2008	75.13	1.35	1.8225
2009	76.48	2.7	7.29
2010	71.67	-2.11	4.4521
2011	74.61	0.83	0.6889

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{368.904}{5}$ = 73.78%

Hence, Loan and advances to total deposit ratio is 73.78%

Where,

x = Loan and advances to total deposit ratio

N = Numbers of years

x = $\dfrac{Loan\ and\ advances}{Total\ deposit}$

Standard deviation (∃) = $\sqrt{\dfrac{(x\ \text{Z}\ \bar{x})^2}{n}}$

= $\sqrt{\dfrac{21.9035}{5}}$

= 2.093%

Hence, standard deviation (∃) = 2.093%

Appendix-XV

Calculation of Mean and Standard Deviation of Total Investment to Total Deposit Ratio

FY	Ratio (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	30.43	8.362	69.92
2008	27.40	4.72	22.27
2009	21.10	-1.58	2.4964
2010	17.85	-4.218	17.79
2011	13.56	-8.508	72.38

We know that,

Mean ($\bar{X}$) = $\dfrac{X}{N}$ = $\dfrac{110.34}{5}$ = 22.068%

Hence, Average investment to total deposit ratio is 22.068%

Where,

x = Investment to total deposit ratio

N = Numbers of years

x = $\dfrac{Total\ investment}{Total\ deposit\ liabilities}$

Standard deviation ($\exists$) = $\sqrt{\dfrac{(x\ Z\bar{x})^2}{n}}$

= $\sqrt{\dfrac{184.85}{5}}$

= 6.080%

Hence, standard deviation (∃) = 6.080%

Appendix-XVI

Calculation of Mean and Standard Deviation of Total Investment on Government Securities to Working Fund Ratio

FY	Ratio (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	22.23	4.954	24.54
2008	21.95	4.674	21.84
2009	17.75	0.48	0.2304
2010	13.93	-3.346	11.195
2011	10.52	-6.756	45.64

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{86.38}{5}$ = 17.276%

Hence, Average total investment on government securities to working fund ratio is 17.276%

Where,

x = Investment to government securities to working fund

N = Numbers of years

x = $\dfrac{Investment\ on\ government\ securities}{Total\ working\ fund}$

Standard deviation ($\exists$) = $\sqrt{\dfrac{(x Z \bar{x})^2}{n}}$

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$$= \sqrt{\frac{103.44}{5}}$$

= 4.548%

Hence, standard deviation (∃) = 4.548%

Appendix-XVII

Calculation of Mean and Standard Deviation of Total Performing Assets to Total Debt Ratio

FY	Ratio (x)	$(x-\bar{x})$	$(x-\bar{x})^2$
2007	112.86	10.73	115.1329
2008	114.90	12.77	163.072
2009	112.46	10.33	106.708
2010	84.919	-17.211	296.218
2011	85.543	-16.587	275.128

We know that,

Mean $(\bar{X})$ = $\dfrac{X}{N}$ = $\dfrac{510.69}{5}$ = 102.13%

Hence, Average total performing assets to total debt ratio is 102.13%

Where,

x = Total performing assets to total debt ratio

N = Numbers of years

x = $\dfrac{Total\ performing\ assets}{Total\ debt}$

Standard deviation $(\exists)$ = $\sqrt{\dfrac{(x\,Z\,\bar{x})^2}{n}}$

= $\sqrt{\dfrac{956.25}{5}}$

= 13.82%

Hence, standard deviation (∃) = 13.82%

Appendix-XVIII

Correlation between Total Deposit and Net Profit

Year	Deposit (x)	Profit (y)	x^2	y^2	xy
2007	13802.44	237.29	190507350	56306.544	3275180.1
2008	18186.25	296.40	330739689	87852.96	5390404.5
2009	23976.29	451.22	574862482.2	203599.49	10818581.57
2010	33322.94	638.73	1110418330	407976.02	21284361.47
2011	36932.31	831.76	1363995522	691824.70	30718818.17

$\phi x = 126220.23$

$\phi y = 2455.4$

$\phi x^2 = 3570523373$

$\phi y^2 = 1447559.7$

$\phi xy = 71487347$

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

$$= \frac{5\mid 71487347\ Z126220.23\mid 2455.4}{\sqrt{5\mid 3570523373\ Z(126220.23)^2}\ \sqrt{5\mid 1447559\ Z(2455.4)^2}}$$

$$= \frac{47515582.26}{43830.017\mid 1099.45}$$

$= 0.9860$

Where,

x = total deposit y = Net profit

N = Number of year PE = Probable error

Hence, the calculation of coefficient to total deposit and net profit (r) = 0.9860, r $\geq$ 0, i.e. 0.9860 $\geq$ 0. The relationship between two variable total deposit and net profit are positive correlated.

Calculation of probable error

P.E. = 0.6745 x SE (r)

$$= 0.6745 \text{ x } \frac{1 Z(0.9860)^2}{\sqrt{5}}$$

= 0.008386

Appendix-XIX

Correlation between Investment and Profit

Year	Deposit (x)	Profit (y)	x^2	y^2	xy
2007	4200.515	237.29	17644328.11	56306.544	996744.182
2008	4984.315	296.40	24843391.98	87852.96	1477397.103
2009	5059.558	451.22	25599122.54	203599.49	22828966.537
2010	5948.48	638.73	35384412.56	407976.02	3799489.205
2011	5008.308	831.76	25083144.9	691824.70	12722290.90

$\phi x = 25201.17$

$\phi y = 2455.40812$

$\phi x^2 = 128554405$

$\phi y^2 = 1447562.137$

$\phi xy = 12722290.09$

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

$$= \frac{5 \mid 12722290.09 \, Z \, 25201.17 \mid 2455.4}{\sqrt{5 \mid 128554405 \, Z(25201.17)^2} \, \sqrt{5 \mid 1447562.137 \, Z(2455.40)^2}}$$

$$= \frac{1732249.67}{2770.30 \mid 1099.45}$$

Hence, r = 0.568

$r^2 = 0.322$

Where,

x = Total investment   y = Total profit

N = Number of year   PE = Probable error

Hence, the calculation of coefficient to total investment and net profit (r) = 0.57, r $\geq$ 0, i.e. 0.57 $\geq$ 0. The relationship between two variable total investment and net profit are positively correlated.

Calculation of probable error

P.E. = 0.6745 x SE (r)

$$= 0.6745 \text{ x } \frac{1 Z (0.3224)^2}{\sqrt{5}}$$

PE = 0.203

6 PE = 1.221

Appendix-XIX

Correlation between Deposit and Investment

Year	Deposit (x)	Investment (y)	x^2	y^2	xy
2007	4200.515	4200.51	190507487.7	17644328.11	57977380.25
2008	4984.315	4984.31	330739817.8	24843391.89	90646008.76
2009	5059.558	5059.5575	574862892	25599122.54	121309462.2
2010	5948.48	5948.48	1110418747	35384417.56	198220888.4
2011	5008.308	5008.3075	1363995523	128554405	184968368.5

$\phi x = 126220.253$

$\phi y = 25201.1752$

$\phi x^2 = 3570524467$

$\phi y^2 = 128554405$

$\phi xy = 653122108.1$

$$r = \frac{N \ xy \ \mathrm{Z} \ x. \ y}{\sqrt{N \ x^2 \ \mathrm{Z}(\ x)^2} \ \sqrt{N \ y^2 \ \mathrm{Z}(\ y)^2}}$$

$$= \frac{5 \mid 653122108.1 \ \mathrm{Z} 126220.253 \mid 25201.175}{\sqrt{5 \mid 3570524467 \ \mathrm{Z} (126220.25)^2} \ \sqrt{5 \mid 128554405 \ \mathrm{Z} (25201.17)^2}}$$

$$= \frac{84711856.1}{43830.021 \mid 2769.98}$$

Hence, r = 0.6977

$r^2 = 0.4867$

Where,

x = Total deposit   y = Total investment

N = Number of year   PE = Probable error

Hence, the calculation of coefficient to Total deposit and total investment (r) = 0.67, r $\geq$ 0, i.e. 0.67 $\geq$ 0. The relationship between two variable total deposit and total investment are positively correlated.

Calculation of probable error

P.E. = 0.6745 x SE (r)

$$= 0.6745 \text{ x } \frac{1 - (0.69)^2}{\sqrt{5}}$$

PE = 0.1580

6 PE = 0.9481