CHAPTER-I

1. INTRODUCTION

1.1 Background of the Study

It has been for long that banking sector in the lifeline of a nation and its people. In regard of commercial Banks, they are an integral part of the economy in all countries outside the commercial banking realm. The place of commercial banks in financial system is more significant to play an increasingly dynamic and vital role in the economy of the least developed countries like ours, which provides economic and financial inter mediation in the economy.

Banking has crossed phases to come to the modern form. Some sorts of banking activities had been carried out since the time immoral. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. Merchants, goldsmith and money lenders are said to be the ancestors of modern banking (Dahal & Dahal, 2056: 8)

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

Banking institutions are indispensable for resource mobilization and all round development of the country. It provides resources for economic development, maintains economic confidence of various segments and extends credit to the people. (Ronald, 1993: 87)

The term, bank in modern times refers to an institution, which deals with money accepts deposits and advances loans. It also deals with credit and has the ability to create credit (i.e. the ability to expand its liabilities as a multiple of its reserves). It is a commercial constitution with the aim to earn profit. (Paul, 1996: 6b)

Banks are those institutions, which perform the indispensable task of intermediating between individuals and institutions by raising funds from depositors then loaning those funds to needy individuals and /or institutions.

Banks are the financial institutions that offer the widest range of financial services especially credit, savings, and payment services-and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank services and functions has led to banks being labeled financial supermarkets: and to familiar advertising slogans as "Your Bank-a Full Service Financial Institutions (Vaidya, 1999: p158)

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

Bank to be aware of the implications of the WTO membership on the financial sector which will help us to prepare ourselves to face the challenges and maximize the benefits arising from the membership (Pant, 2063: p23-24).

1.1.1 Legal Provisions Regarding the Foreign Banks

Nepal Rastra Bank Act, 2002

As the economic advisor of the government Nepal Rastra Bank regularly monitors the macroeconomic situation of Nepal and provides suggestions to the government on the matter. The Nepal Rastra Bank Act 2002 has stated the objectives of the bank as to formulate necessary monetary and foreign exchange policies in order to maintain the stability of price and balance of payments for sustainable development of economy and manage it, promote stability and liquidity required in banking and financial sector, develop a secure, a healthy and efficient system of payment, regulate, inspect, supervise and monitor the banking and financial system. This Act has given full authority to Nepal Rastra Bank regarding regulation, inspection and supervision of the banks and financial institutions. (Pant, 2063: p24-25)

Banks and Financial Institutions Ordinance, 2062

This ordinance governs all the functional aspects of banks and financial institutions. The Acts regarding Agricultural Development Bank Act 1967, Commercial Bank Act 1974, Finance Company Act 1986, Nepal Industrial Development Corporation Act, 1990 and the Development Bank Act, 1996 have been repealed with the promulgation of the ordinance. The article 34 of this ordinance has made special arrangements regarding the establishment of foreign banks and financial institutions. Foreign Banks of financial institutions desiring to open their office in Nepal must submit the application to Nepal Rastra Bank in the prescribed from along with the fees and particulars as prescribed by the bank. The bank may issue license to the foreign banks or financial institutions to open offices and conduct financial transactions looking the situation of competition existing in the banking sector and the contributions that the institutions may provide in the Nepalese banking sector and also look at the reputation of such financial institutions. While providing the license, NRB may also specify the necessary terms and conditions and the foreign banks and financial institutions should comply all the provisions mentioned in the ordinance regarding the financial transactions. But in the case of the transactions of the representative office or agency office of the foreign bank or financial institution will be as prescribed by NRB. The foreign banks or financial institutions can not open another bank or financial institution in joint venture, which has been issued license to operate financial transaction by opening its office in Nepal.

1.1.2 Commercial Banking Activities

1.1.2.1 Origin of Banks

In the Past Bank used just to accept deposit from the savers of money (surplus units of the society) and give loans to the users of money (deficit unit of the society) savers of money are those units whose earning exceeds expenditure on real assets (land, building, cloth, food etc.) and users of money are those units whose expenditure on real assets exceeds their earnings. In such

a situation, deficit units sell their securities/IOUs (I OWE YOU) to surplus units. These securities are financial assets. If entire income of a unit matches with investment on real on financial assets are created. (Dahal B, & Dahal, 2002: 1)

The evolution of Banking can be traced back to the era when the use of metallic coins as the media of exchange of goods and services began. Storage of metallic coins was a serious problem for the common people. Because of the danger of theft and robbery, people started leaving gold and silver and metallic coins in the custody of some reputed person a wealthy merchant or a money changer the custodian had a strong box and other means of safe keeping. He offered this service as a favors for his friends or made a charge for it. The depository had to go personally to custodian for his withdrawal of his money. But this practice was found to be inconvenient. How did the use of word Bancus become popular? The origin of Bank is traced to a Latin word "Bancus" which means a bench. European money-lender and moneychangers used to transact their business at benches or tables. They followed the practice of the receiving gold and other metals as deposit and issuing receipts. The dealing is money. The success or failure in trading was associated with his bench. When a Banker's failed his bench used to be destroyed by the people.

1.1.2.2 The Modern Phase of Banking Development

The process of the development of banking system in Nepal was not satisfied up to 2040 B.S. No bank was opened from during this period except expanding the branches and sub branches of the Banks, which were establishment in the earlier period. Nepal was observing the event that was taking places in the world also. Nepal was deeply studying and searching what sorts of programs, policies, law and regulation should be brought into the practice. The country can't change it status by using only its own capital in that country without importing the new technology from foreign country. According, law and policy have been enacted by the state to encourage the foreign investment on banking sector. As a result of it the Development of the

banking system started in Nepal. The competition began to grow. The Banks began to offer their valuable services to the people through new technology. This was the great significant event. Thus, some Banks were opened on the joint investment basis. Brief accounts of such banks are as follows.

- NABIL Bank Limited, 2041 (BS)
- Nepal Investment Bank Ltd. 2042 (BS)
- Standard Chartered Bank Ltd. 2044 (BS)
- Himalayan Bank Ltd 2049 (BS)
- Nepal SBI Bank Ltd. 2050 (BS)
- Nepal Bangladesh Bank Ltd. 2051 (BS)
- Everest Bank Ltd. 2051 (BS)
- Nepal Credit and Commerce Bank limited (Rename as NCC on 10th September 2002)

In additives to this there are also other commercial Banks opened in Nepal. Those Banks are as follows.

- Sunrise Bank
- Prime Bank
- Bank of Asia
- Development Credit Bank
- Citizen Bank
- Kumari Bank
- Laxmi Bank
- Lumbini Bank
- NMB Bank

Hence there are so many commercial Bank in operation in Nepal till date operating with their main objectives of carrying out activities under the commercial Bank Act 2-31 (BS), the Nepal Rastriya Bank Act 2058 (BS). The Company Act 2053 (BS) and Contract Act 2056.

1.1.2.3 Development of Commercial Bank in Nepal

Like other countries goldsmiths, merchants and money lender were the ancient Bankers of Nepal Teejarath Adda established during the tenure of the Prime Minister Ranodip Singh (BS 1993) was the first step towards the institutional Development of Banking in Nepal. Teejarath Adda did not collect deposit from the public but gave loans to employees and public against the bullion. Banking in the modern sense started with the inception of Nepal Bank Limited (NBL) on BS 1994. Nepal Bank Limited had a Herculean responsibility of attracting people toward banking sector from pre-dominant moneylenders net and of expanding Banking service. Being a commercial Bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban centre. Government however had onus of stretching Banking services to the nook and corners of the country and also managing financial system in a proper way. Thus Nepal Rastra Bank (NRB) was set up on BS 2013 as a central Bank under Nepal Rastra Bank ACT 2012 BS it has been functioning as the governments Bank and has contribution to the growth of financial sector. The major challenge before Nepal Rastra Bank today is to change them and has introduced a host of prudential measure to safeguard the interest to the public. NRB is yet to do a lot to prove them an efficient supervisor. NRB really requires strengthening their policymaking, supervision and inspection mechanism. Integrated and speedy development of the country is possible only when competitive banking services reaches nook and corners of the country keeping this in mind, government set up Rastriya Banijya Bank is BS 2022 as a fully government owned commercial Bank. As the name suggest, commercial Banks had to carry out the functions of all types of financial institution. Hence Industrial Development Centre (IDC) was set up in 2013 for industrial Development. In 2016 IDC was converted to Nepal Industrial Development Corporation (NIDC). Similarly, Agricultural Development Bank (ADB) was established in BS 2024 to provide finance for agricultural sectors for the introducing modern agricultural techniques could enhance agricultural productivity. Moreover, security exchange center was

established in 1976 to enhance agricultural productivity. Securities exchange center was renamed and its functioning was converted to an organized stock exchange. NSPSE opened its trading floor on 13 January 1994 with the establishment of RRB and ADB, Banking services spread to both the urban and rural areas. NRB also gave incentive to NBL to expand their branches to Rural areas this helped the common people reduce their burden of playing higher rate of interest to lenders. The inception of Nepal Arab Bank Limited (renamed as NABIL Bank limited since first January 2002) in BS 2041BS as a first joint venture bank proved to be a milestone in the history of Banking. NABIL launched its operation with a marketing concepts i.e. customer is king in the Market. NABIL started knocking the doors custom breaking than trends of knocking the door of a Bank by a customer. NABIL seems to have truly followed the definition of customer given by Mahatma Gandhi "A customers is the most important visitors on our premises. He does not depend on us. He is not outsider on our business. We are not doing him favours by serving him. He is doing us a favour by giving us an opportunity to do so". The very marketing concept of NABIL forced the Bank in operation to be more customers oriented and led the influx of commercial Banks. Having observed the success of NABIL based on marketing concept and also because of liberal economic policy adopted by the successive governments. (Dahal and Dahal, 2056: 6). Following commercial banks came into being. Which in Table 1.1

Table 1.1

List of Licensed Commercial Banks in Nepal

S.N.	Commercial Bank	OPT DATE	HEAD OFFICE
1.	Nepal Bank Ltd.	7/30/94	Kathmandu
2.	Rastriya Banijya Bank	10/10/22	Kathmandu
3.	Nepal Indosuez (Nepal Investment Bank)	10/16/41	Kathmandu
4.	Nepal Arab Bank	3/29/41	Kathmandu
5.	Nepal Grindlays Bank (Standard Chartered Bank)	10/16/43	Kathmandu
6.	Himalayan Bank Ltd.	10/15/49	Kathmandu

7.	Nepal SBI Bank Ltd.	3/23/50	Kathmandu
8.	Nepal Bangladesh Bank	2/3/50	Kathmandu
9.	Everest Bank Ltd.	7/1/51	Kathmandu
10.	Bank of Kathmandu Ltd.	11/28/51	Kathmandu
11.	Nepal Credit and Commerce Bank	6/28/51	Siddhartha Nagar
12.	Lumbini Bank Ltd.	4/1/55	Lumbini
13.	Nepal Industrial and Commercial Bank Ltd.	4/5/55	Biratnagar
14.	Kumari Bank Ltd.	2057/22/21	Kathmandu
15.	Machapuchhre Bank Ltd.	2056/06	Pokhara
16.	Laxmi Bank Ltd.	12/21/58	Birgunj
17.	Siddhartha Bank Ltd.	29/05/058	Kathmandu
18.	Bank of Asia		Kathmandu
19.	Sunrise Bank		Kathmandu
20.	Prime Bank	2064/06/07	Kathmandu
21.	Global Bank	2064/09/17	Birgunj
22.	Citizen Bank	2064/01/07	Kathmandu
23.	Development Credit Bank	2065/01/26	Kathmandu
24.	Nepal Merchant Bank Limited	2065/01/20	Kathmandu
25.			

1.1.2.4 Function of Commercial Banks

- The credit (loan) function
- The payments (transaction) function
- The insurance (risk management) function
- The security Banking (security underwriting) function
- The merchant banking (temporary stock in investment) function
- The thrift (saving functions).
- The investment/financial planning functions
- The real state and community Development function.
- The cash management functions.

1.2 Statement of the Problem

The adaptation of open and free market economic and financial policies has encouraged in establishment of number of banks, financial companies,

co-operatives which has emerged challenges to maintain its profitability and stability operatives which has emerged challenges to maintain its profitability and stability of earnings because of tough competition in this financial sector. So, the competition in the banking sector is going to be higher than ever before. Banks are prone to both external and internal threats. To exist in the competitive market, banks are trying to introduce different schemes and advantage to the customer so that to hold the greater share. These banks have contributed towards introducing new technology, new banking systems, and deficient service delivery in the country. These banks have been contributing in line with the trust of economic liberalization and financial sector reform i.e. making the financial system more competitive, efficient, and profitable. In the present scenario, the worst economic and social condition of our country largely affects the banks performance in all the financial, operational, productivity and profitability sectors, which causes the large decline in the profit of all types of banks. IN this prospective, analysis of the Joint Venture bank's performance and to disseminate quality information becomes more essential.

The problem of the study lies on analyzing the strength and weakness of Everest Bank Limited. It also aimed in answering the following questions:

1. What is the level of profitability of the bank
2. how effectively the bank has utilized its assets in generation interest earnings
3. What is the liquidity position of the bank
4. How sound is the operational result
5. Has the bank been using its capital efficiently
6. What are the financial strength and weakness of EBL

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

1.3 Objectives of the Study

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

1. To analyze the financial indicators of the bank such as liquidity ratio, leverage ratio, capital structure ratio, profitability ratio, leverage of EBL.
2. To examine the structure and trend of income and expenditure of EBL.
3. To find the future trend of total deposit, loan and advances, net profit.
4. To identify financial strength and weakness of EBL.
5. To provide suggestions and recommendations for the improvement of the banks on the basis of the findings.

1.4 Significance of the Study

The study will takes significance of various groups.

a. It may be helpful to EBL

b. It may be valuable property for the library use.

c. This research may helpful to the persons and parties such as general readers, decision makers, brokers, traders, stock holders, financial agencies, businessman and general public (depositors, prospective customers, investors etc.)

d. The study may be used as pilot work for future research.

1.5 Limitation of the Study

This study has attempted to evaluate the financial performance of the EBL. Every study has its own limitations. This study is also not an exception. The following are the limitations of the study:

1. This study has been carried out based on the published financial documents such as balance sheets, profit and loss accounts, related journals, magazines, and books. These published documents have their own limitations.

2. The study would mainly focus financial performance and doesn't cover other aspects.
3. Only selected financial and statistical tools will be used.
4. The study has been based on the secondary data only.
5. The study would be carried out for the period of fiscal year 2000/2001 to 2005/2006.
6. The research should be done in very short period.

1.6 Brief Profile of Everest Bank Limited

Everest Bank Limited (EBL) was established in 1994 and started its operations with a view and objective of extending professionalized and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Sector Bank of India having 109 years of ban king history with more than 4400 offices allover India and is known for its strong systems and procedures and a distinct work culture. Drawing its strength from its joint venture partner, EBL has been steadily growing in its size and operations ever since its inception and today it has established itself as a leading Private Sector Bank of the Nation, reckoned as one of the fastest growing Commercial Bank of the country.

Although the economy of the country has been facing ups and downs during last decade, EBL has been maintaining a steady growth rate over this period. It has been able to increase its customer base manifold and has also shown outstanding growth in all parameters of baking. Despite fragile law and order situation especially during last 2-3 years, the Bank has doubled its deposits, advances as well as profits during the period. Its operating profit have grown by 55% during the financial year 2060-61, the net profit has increased by 52%. The average credit growth has been over 26% reaching a figure of 609 million, deposits having reached a figure of 8064 million, A notable feature of the bank's achievement is its containment of NPAs with gross NPAs restricted to 1.72% of the total credit whereas net NPA being reduced to NIL.

A study conducted by Mr. Panta in his thesis "A study of commercial banks deposits and its Utilization by Nepalese Commercial Bands" of Mr. Om Krishna Singh (2037) that had cove red the period of seven years from mid-July 1972 to July 1978 concluded that the banks were inefficient in deposits utilization during the period under study.

Mr. Subedi (2002) in his thesis "A comparative study of financial performance between HBL and EBL" has concluded that the current ratio of EBL is greater than that of HBL. The variability of the ratios of HBL is more uniform than that of EBL. The liquidity of bank may be affected by external and internal factors such as interest rates, supply and demand position of loans and saving to investment situation. HBL has maintained the ration of cash and bank balance to total deposit considerably lower than that of EBl. Comparatively HBL's profitability position is better than that of EBL. Profitability ratios like return on total assets, returns on total deposits are not satisfactory in the both banks. HBL has lower capital adequacy ratio in comparison to directive issued by NRB. HBL's loan and advances to total deposit ratio are significantly lower than that of EBL.

Hardly few thesis on EBL could be found. No extensive and detail thesis on EBL's financial performance could be found. The review of above-mentioned thesis has enriched the researcher vision to conduct detailed analysis and to come to the meaningful conclusion and thereby come with suggestions. Nepal is going through political and economic crisis and there is existence of tough competition among commercial bank. IN this prospective, analysis of EBL's performance throughout years (FY 1997/1998 to 2004/2005) and to disseminate quality information becomes more essential.

1.7 Scheme of the Study

The study has been divided into five chapters:

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

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

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

Chapter 4: Data Presentation and Analysis: This chapter is the main body of the research which includes financial ratios Analysis, Income and Expenses Analysis, Trend Analysis and Major finding of the Study.

Chapter 5: Summary, Conclusions and Recommendations: This Chapter consists of Summary of the Study, Conclusion of the Major Findings and Recommendations for further improvement.

CHAPTER-II

REVIEW OF LITERATURE

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

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

- Conceptual Review
- Review of Related Studies

2.1 Conceptual Review

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

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

2.1.1 Concept of Financial Analysis

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

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

On the review of Metcalf and Tire, analyzing financial statement is a process of evaluating relationship among component parts of financial statements to obtain a better understanding of a firm's position and performance. (Metcalf and Tire, 1976: 175.) It is a largely study of a single set of statements and study of these factors as shown in a series of statement. (William and Donaldson, 1980: 131). It means analysis of financial statements may be useful for different purpose such as: knowing the positions and performance of the firm. In course of analysis different tools and techniques are used.

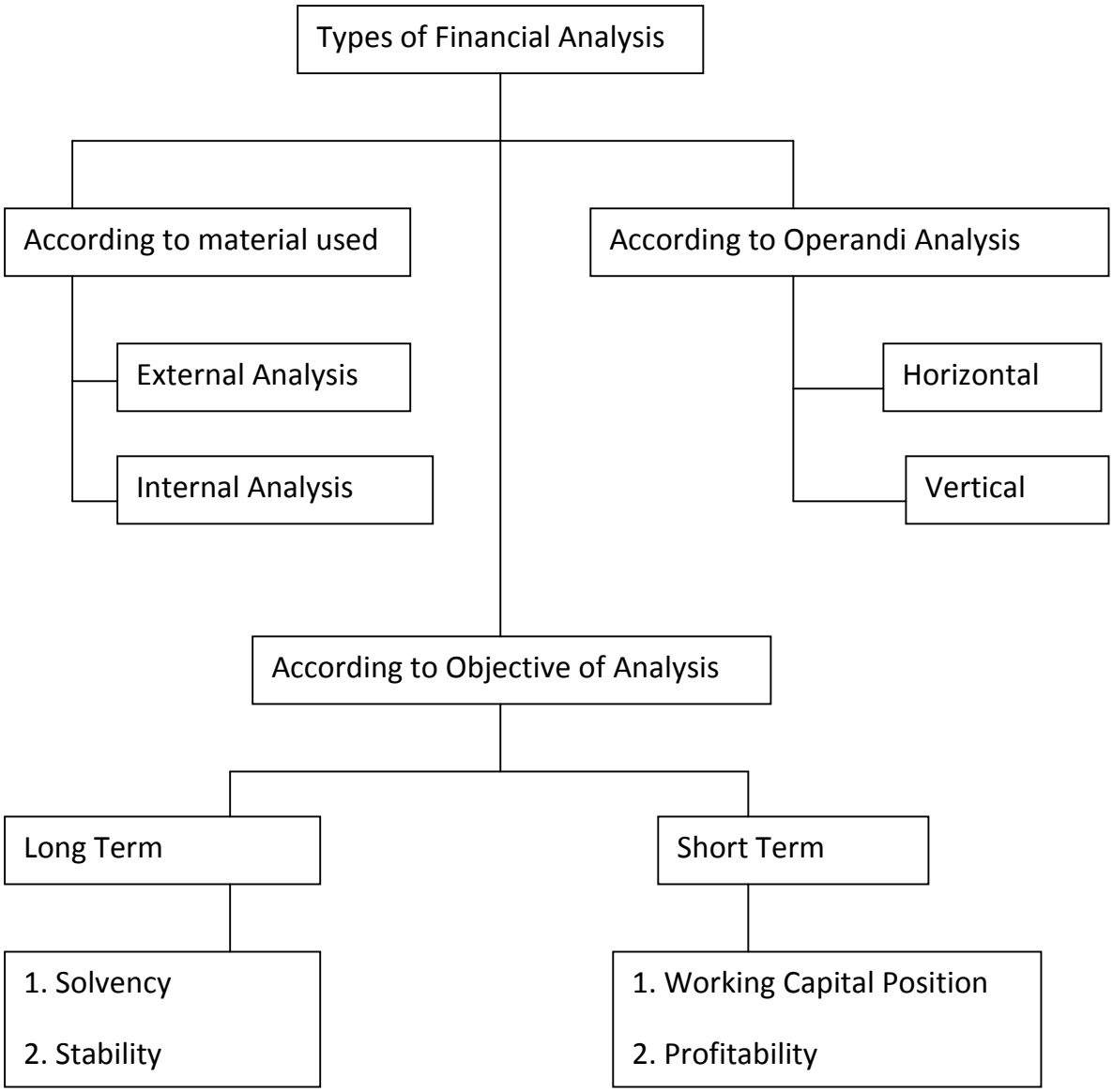
This analysis evaluated involves the use of various financial statements- the first is the balance sheet, which represents a snapshot of the firm's financial position at the moment and next is the income statement, that depicts a summary of the firm's profitability over the time. (Vanharne and Wachhowicz,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

In other hand, profit is one of the indicators of sound financial performance. It is usually the result of sound business management, cost control, credit-risk management and general efficiency of operation (American Institute of Banking, 1972: 149)

In this way, overall financial information can be obtained by analyzing balance sheet and income statement. However, there are three major steps for analyzing the financial statements. (Shreevastav, 1993: 56)

- The first step involves the re-organization of rearrangement of entire financial data as constrained in the financial statements.
- The next step is the establishment of significant relationship between the individual components of balance sheet and profit and loss A/C.
- Finally, significant of results obtained by means financial tools is evaluated. This requires establishment of standards against which actual are evaluated with respect to the type of financial analysis distinction can be made either on the basis of material used or by using modus operandi of analysis or on the object of analysis. The following chart gives a snapshot view of it. (Kumar, 1994: 48)

Figure 2.1: Types of Financial Analysis



2.1.2 Importance of Financial Performance Analysis

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

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

a) Financial Executives

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

b) Top Management

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

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

c) Creditors

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

d) Investors and Others

Investors are also interested in the measurement of earning capacity of the securities. They have been concerned with cash generations capacity of an enterprise. For this purpose, cash flow analysis and funds flow analysis have provide to be very useful.

Besides, the above mentioned parties, the information provided by the analysis and interpretation of various financial statements are important and useful to these groups who are interested in the working of the business due to one and the other motive. They are employees of the business and their unions, government, consumers and general public.

2.1.3 Objective of Financial Analysis

Basically there are three major objectives of financial analysis:

a) To select the pieces of financial information that is relevant to a particular problem.

b) To fit these into a coherent picture of the problem in relation to the firms aims and final resources.

c) To suggest alternative solution to the problem.

Besides, these, there are other objectives of financial analysis, which can be started as under:

- To estimate the earning capacity of the firm
- To guage the financial position and financial performance of the firm
- To determine the long term liquidity of funds as well as solvency
- To determine the debt capacity of the firm.
- To decide about the future prospects of the firm.

As a matter of facts the objectives of analysis depend the analyst as quality of the data available.

2.1.4 Limitation of Financial Analysis

Although financial performance analysis is highly significant for financial executives, top management, creditors, investors and others, there are certain limitation.

a) The analysis of financial statement is only a means to reach up to conclusions and is not conclusion itself. So it cannot work as a substitute for sound judgement. The judgement will depend upon the intelligence and skills of the analyst.

b) In case the figure of a year is taken for analysis, it will not provide true financial picture of the firm/organization.

c) The basic nature of financial statement is historic. Past can never reflect hundred percent impacts in the future.

d) The result of financial analysis cannot be as an indication of good or bad management because the ratios and other figure explain only probable state of events.

e) Financial statements fail to provide current information or exact value of assets because it records actual cost figures and do not records prices level changes.

f) The figure of current period may have fully comparable with that of other because there is difference in nature, accounting procedure and financing pattern, etc. But analyst generally ignores these facts and makes an objective comparison of two business firms and result may occur misleading.

g) The figures of one firm may not have fully comparable with that of other because there is difference in the nature, accounting procedure and financing pattern, etc. But, analyst generally ignores these facts and makes an objective comparison of two business firms and result may occur misleading.

h) There results may be meaningless if suitable tools will not be used for the analysis. These results may push the future of business toward the hell.

2.1.5 Sources of Judging Financial Performance

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

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

a) Balance Sheet

b) Income Sheet

a) Balance Sheet

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

More specifically, the balance sheet contains information about the resources and obligations of a business entity and about its owners' interest in the business at the particular point of time. (Wilcox and Migul, 1994: 18). Thus, it is used to prepare in the end of financial year and reveals the firm's financial position on specific data.

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

According to Mr. Khan and Jain, "The balance sheet provides information about the financial position of a firm at a particular point of time, say, as on Dec 31st. It can be visualized as a snapshot of the financial status of company. (Khan and Jain, 1993)

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

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

b) Income Statement

The second major statement for sources of financial information is income statement. It is also known as profit and loss account. It may be defined as any systematic array of revenues, expenses and other deductions, and net income of a business for a stated period. Furthermore, income statement is an abstract portrayal of the life of the business presenting a longitudinal picture of the gains and losses of the business, its fortunes and misfortunes. (Kumar, 1994: 15)

In the words of Khan and Jain "Income statement is of great importance and interest to end-users of financial statements because it enables them to ascertain whether the business operations have been profitable or not during the specific accounting period.

In addition, it shows whether enterprises have earned profit or losses within the particular period, so it is a statement of the profit earned or loss incurred. This statement is extremely useful to analyzer to evaluate financial position as well as profitability of the business operation.

Hence, an income statement is classified record of the grain and loss to the business for a period of time. It is prepared from the various balance of subsidiary nominal account given in the shape of trial balance. (Sharma, 1998: 34)

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

2.1.6 Methods of Analyzing and Evaluating Financial Performance

The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain better

understanding of the firm's position and performance. (Meigs 1978: 1049) In brief, financial analysis is the process of selection, relation and evaluation.

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

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

a) Funds-Flow Analysis

Traditionally, a statement of source and aplication of funds in a technical device design to analyze the change in the financial condition of a business enterprise between two dates balance sheet is known as funds flow statement. In addition, a statement of changes in financial position is often presented with the balance sheet and profit and loss account as an integral part of financial statement which is defined as funds - flow statement so, it describes the sources from which additional funds were derived and used. (Kumar, 1994: 86)

Thus, a funds flow statement is a valuable aid to financial manager or a creditor or other interested persons in evaluating uses of funds. In the nutshell, funds flow statement is very useful in long term financing and it is also important tool of working capital analysis.

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

Fund plays a vital role in the funds flow statement. The term fund has several meanings. So, there are three approaches: cash approach, working capital approach. Traditionally, funds mean cash only so; the statement under

cash approach is called cash flow statement. Such statement only shows the cash transaction. According to working capital approach, changes in the amount of net working capital (i.e., current assets and current liabilities) are useful for decision-making by shareholders, creditors, lenders and management. It is superior to the cash approach. Finally, financial resources approach is the best approach to disclose the change in the financial position of a firm. This approach presents the total assets and resources as fund. (Pandey, 1992: 21)

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

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

b) Cash Flow Analysis

The cash plays an important role in the business firm's economy. In any business there may be constant inflow and outflow of cash. What blood is to human body, cash is to business enterprises especially to the Banks. So a major responsibility of financial management of firm is to mention an adequate balance of cash.

Hence, cash flow statement is an important tool of cash planning and control. At the same time it serves as a valuable tool of financial analysis too.

Statement showing the resources and uses of cash prepared from historical data, i.e. income statement and position statement is called cash flow statement. (Korn and Boyd, 1992: 299). It implies reveals the inflow and outflow of cash during the previous period. Such a statement can be prepared for a year, half year, a month and a week or for any other duration its main

function is to explain the cause of changes in cash balance of the firm for two different dates.

Besides, cash flow statement is prepared to know clearly the various item of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the moment of cash rather than the inflow and outflow of working capital. More clearly, according to Korn and Boyd cash flow deals with the cash transaction only while funds flow is considered will all items constituting funds for the financing of assets acquisitions program. (Kumar, 1994: 80)

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

c) Trend Analysis

It is an important and useful technique to analyze and interpret the financial statement. Under this technique of financial analysis, the ratios of different items for various periods are calculated and then a comparison is made. This method is basically helpful in making comparative study of financial management. Generally a period of five years is considered satisfactory. This method of analysis involves the computation of percentage relationship that each statements item bears same to the same items in the base of year.

Trend analysis shows the direction progress upward or downward. It is an important form of horizontal analysis of financial statements often called as 'Pyramid Method' of ratio analysis.

Moreover, in this method, a statement used to analyze with the base of another reference statement. Other method of analyze is the calculations of trend ratio and showing trend value on graph paper. On the other hand, trend analysis is not out of limitations, it may effect by price level changes and the selection of bases year may an obstacle. It can show only the trend in operating result financial position of a concern cannot be discussed.

Besides these, it is great important for financial performance because of their utilities in business as well as in the banks. They are:

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

d) Ratio Analysis

Ratio analysis is a widely used tool for financial analysis it is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial conditions can be determined. The term ratio refers to the numerical or quantitative relationship between two items or variables. (Khan and Jain, 1993: 60)

Similarly, it is a powerful tool of financial analysis. A ratio is defined as "the relationship between two more things" (Kothari, 1978: 487) so, in financial analysis, ratio is used as yardstick for evaluating the financial position and performance of company.

Therefore, ratio analysis is used for judgement financial performance of business concern over the period of time. It helps to find out the financial positions of the firm and also supports to provide necessary suggestion package

for the betterment. Thus, economic financial position/ performance of a firm can be fully x-rayed through ratio analysis.

On the other hand, the uses of ratio analysis is not useful only to internal parties but to the creditors, suppliers, Banks, lending institution also. It is very helpful financing, forecasting, measuring the performance and cost control. Financial ratios are also useful to diagnosis of financial health of a firm.

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

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

2.2 Review of Related Studies

2.2.1 Review of Journals

"The number of commercial banks increased dramatically after the democratically elected government adopted the liberal and market oriented economic policy. (Thapa, 2051: 17)

In Nepal, according to Commercial Bank Act, 2-31, Commercial Bank is one, which exchanged money, deposits money, accepts deposits, grains loan and performs banking functions and which is not a bank meant for co-operation agriculture, industries or for special purpose (Commercial Bank Act, 2031: 42)

After liberalization and globalization of the world economy the economic transactions such as trading and commerce, industrial and banking activities have grown up tremendously. Likewise, an international trade of the development countries has also boosted up. But on the other hand, the increasing competitiveness has also increased various types of risks in every business, including banking sectors, especially in foreign exchange transactions. To cope with their risks, the banks in favour of their clients have adopted strategies relating to treasury management. (Shrestha, 2055: 20)

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

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

2.2.2 Review of Articles

Mr. Ramesh Lal Shrestha in his article "A study on Deposits and Credits of Commercial Banks in Nepal" concluded that the credit deposits ratio would be 51.3%, other things remaining the same in 04 A.D. which was the lowest under the period of review. So he had strongly recommended that the commercial should try to give more credit entering new field as far as possible otherwise they might not be able to absorb even its total expenses. (Shrestha, 2045: 10)

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

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

2.2.3 Review of Thesis

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

Bohara (1994) had conducted a research on a topic "Financial Performance of NABIL & NBL" The basic objectives of his study/research were to highlight the financial performance and role of joint venture books in the liberalized Nepalese Economy. His attempts of analyzing financial performance were concentrated in ratio analysis and he derived the strength and weakness of two banks as stated above by calculating following ratios:

1) Liquidity ratio
2) Turnover (activity) ratio
3) Solvency ratio.
    i. Coverage ratio
    ii. Leverage (capital-structure) ratio
    iii. Capital adequacy ratio
4) Profitability ratio
5) Other relevant ratio
    i. EPS
    ii. Cash dividend per share
    iii. Tax per share
    iv. DPS
    v. PE- ratio
    vi. MPS
    vii. Book value ratio

Some remarkable suggestions/findings of the research were:

- Banks need to balance between disturbing cash dividend and issuing of bonus share.
- They need to increase operational profit by concentrating in consistent earnings rather than fluctuating earnings.

- They need to maintain liquidity in the form of CRR as per regulation of NRB.

Besides these suggestions, he had emphasized in small entrepreneurs development programmers, branch expansion, and mobilization of deposits in the productive sectors.

Jha (1998) has conducted a research on a topic "Comparative Analysis of Financial Performance of the selected joint venture banks". Mr. Jha has mainly focused his research in examining different financial ratios of four commercial banks namely. NABIL, NIBL, NGBL & HBL.

Time period covered by the research was five years from fiscal year 1993/94 to 1996/97. Necessary data and other informational had been collected mainly from secondary sources of data. In this research, Mr. Jha had pointed out various findings some major findings of the research work.

- ROA of NIBL was highest as compared to other sample banks respectively. Return on total deposit was also highest in case of NBL. Interest earned on total assets was also highest in case of NIBL. However return on net worth or shareholders fund was highest in case of HBL. Ultimately profitability of NIBL had better results expect in case of return on net worth.
- Current, cash and bank balance to deposit ratio found that NIBL's current at the end of FY 1996/97 stood highest as compared to other banks.
- Among the analysis of leverage ratio (total debt to total asset ratio, long term debt to total asset ratio, total debt to net worth ratio & flung-term debt to net worth ratio and long-term debt to net worth ratio), the total debt to total assets ratio was above 85 percentage for all the selected banks during 1996-97, which signifies the excessive use of debts or outsider fund to finance total assets.

Shrestha (2003) had conducted a research on topic "A Comparative Analysis of Financial Performance of the selected joint venture Banks." She

had mainly focused her research on comparative examining the overall performance of NABIL, HBL and NB Bank through financial analysis.

Time period covered by the research was five years from 1997/98 to 2001/2002. Necessary data and other information had been collected mainly from the secondary sources of data. Mrs. Shrestha had pointed out various findings. Some remarkable findings of the research were:

- Liquidity analysis indicates better liquidity position of NB Bank. Although liquidity position of HBL and NABIL are lower, they were still able to meet their current obligations.
- Activity/Turnover analysis indicated that the loan and advance to total deposit and to saving deposit ratio of NB Bank was the highest with NABIL in the second place while that of HBL was the least. This implied NB bank was efficiently utilizing its deposit on loan and advances.
- Leverage/Capital structure analysis indicated the long term debt to net worth ratio of NB Bank was the highest and NABIL was the lowest. An unbalanced capital structure was the common situation in all the commercial banks. The banks were using excessive debt capital.
- Capital adequacy ratio calculated for these banks below the prescribed ratio by NRB.
- Profitability of these banks were reflected by the determination of return on investment, return on shareholders equity, interest earned to total assets ratio, interest income to interest expenses ratio.
- The market value of ratio such as price-earning ratio and dividend payout ratio of NABIL was the highest and HBL was the second highest.

Ghimire (2003) has conducted a research on a topic "Financial Performance of Commercial Banks: A comparative case study of NB Bank, HBL and EBL." He had mainly focused on his study in examining the financial performance of those three banks such as profitability, liquidity, activity and capital structure analysis.

Time period covered by the research was five years from 1996/97 to 2001/02. Necessary data and other information were primarily based on secondary data such as annual reports and other related journals and books etc. In this research, Mr. Ghimire had pointed out various findings.

- The liquidity position of banks was not satisfactory.
- The HBL was more efficient in utilizing the deposits in loans and advances or other more profit-generating sectors.
- The banks did not do a lot of exercises in more credit creation and reducing the interest rate for loan and advances for more competitiveness.
- The banks did not maintain the CRR as per NRB directives.
- The EPS of HBL had been rapidly decreasing over the period. However the EPS of another two banks were in increasing trend.

Awasthi (2003) had conducted a research on a topic "A comparative study on financial performance between HBL and Bank of Kathmandu Ltd." He had mainly focused on his study in examining financial performance of two banks i.e. HBL and Bank of Kathmandu.

The period covered by the research was five years from 1997/98 to 2001/02. The research was primarily based on the information provided by the banks. In this research, Mr. Awasthi had pointed out various findings.

- The bank had not pay attention towards the improvement in investment by total deposit ratio. They had not found out the new area of investment.
- Profitability ratio in both banks such as return on investment and return on total assets were not satisfactory.
- Both banks seemed highly leveraged.
- Both banks had been able to earning profit on shareholders equity but not satisfaction level. HBL was more success to generate more return on its shareholders fund than BOK.

- Profitability position: Return on investment comparatively decided that HBL may have die idle deposit due to the lower return as compared to BOK.
- Asset utilization: HBL has been efficient in utilizing most part of its total assets in profit generating purpose than BOK during this period.
- The liquidity position of the both banks was not satisfactory.

Acharya (2003) had conducted a research on a topic. "A Comparative Study on Financial Performance of Nepal SBI Banks and Everest Bank Ltd". He had mainly focused on his study in examining financial performance of those banks through profitability, liquidity and activity analysis.

Time period covered by the research was five years from fiscal year 052/053 to 056/057. Necessary data and other information were primarily based on secondary data. In this research Mr. Acharya had pointed out various findings.

- They had not given a special attention towards NPA.
- Both banks and higher operating expenses.
- Both banks had not found out the new productive sectors for their investment purpose.
- Both banks had not given attention towards attracting new deposits.

Gupta (2004) had conducted a research on a topic "Financial Performance Analysis of Everest Bank Ltd." He had mainly focused his research in examining the technique of financial analysis such as liquidity, activity, profitability ratios of EBL.

Time period covered by the research was five years from fiscal yers 1997/98 to 201/200. Necessary data and other information had been collected from the secondary and primary sources of data. In this research, Mr. Gupta had pointed out various findings. Some remarkable findings of the research were:

- The banks liquidity position is below the normal standard and also inconsistency in liquidity policy.

- The EBL should utilize its risky assets and shareholders fund to gain profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable.
- EBL should be encouraging the small depositors for promoting small investors.
- Return on equity is found satisfactory, as it has not efficiently utilized its equity capital.

Ghimire (2005) had conducted a research on a topic "Non performing assets of commercial banks: cause and effect". He had mainly focused his research in analyze and identify the impact, cause and consequences of NPA commercial banks namely NBBL, Nepal SBI Bank and BOK.

Time period covered by the research was five years from fiscal year 1997/98 to 2001/02. Necessary data and other information were collected from secondary sources of data. In this research Mr. Ghimire had pointed out various findings. Some major findings of the research were:

- There is positive growth of operating profit maintained by all the samples banks but the growth of net profit is negative due to increase in loan loss provisioning.
- It is found that theories some relationship between credit expansion and increment of NPA. NBA (Non-Banking Assets) is created due to having NPA. But it is not certain that always creates NBA.
- In regard to the certain of high level of NPA, it has been found that relationship of borrowers with top management is the major determining factor in lending. Commercial banks are giving least weight on personal integrity of the borrower. Follow up of overdue loan and advances in commercial banks starts one month later after the maturity of the loan. It proves the poor loan recovery system in those banks.
- Bad intention of borrower, weak monitoring and mismanagement are the most responsible factor of NPA growth. Similarly weak legal provision and credit concentration are found as the least preferred factor in turning good loan to bad loan. Lack of portfolio analysis, not being effective

credit policy and shortfall on security were also identified as factors affectively in NPA growth.

- Supervision and monitoring system have been identified as average factor. It is also identified that banks gives highest priority to trade found that the service sector is not given much priority.

Basnet (2005) had conducted on a research on a topic "A Comparative study on financial performance between the commercial banks." The study had covered only two banks i.e. NB Bank and Nepal SBI Bank. He had mainly on his study in examining the financial performance of these two banks.

Time period covered by the research was five years from fiscal year 1998/99 to 2002/03. Necessary data was primarily based on secondary sources of data. In this research, Mr. Basnet has pointed out some remarkable findings:

- Liquidity analysis indicated the banks did not maintain sufficient liquidity.
- The efficiency analysis showed that the ratio is in fluctuating trend of Nepal SBI Bank and decreasing trend of NB Bank.
- The profitability position of NB Bank was comparatively better than the same of Nepal SBI Bank.
- Capital structure ratio of both banks was highly levered.

Panta 92005) had conducted a research on a topic "A comparative study of Everest Bank Ltd. and Nepal Industrial and Commercial Bank Ltd." He had mainly focused on his study in comparing and analyzing liquidity, profitability, solvency and activity ratio analysis as well as so other major ratio such as weighted avg. interest rate spread Fx-fluctuation gain to total income ratio etc.

Time period covered by the research was six years data from 1998/99 to 2003/04. Necessary data and other information had been collected from the secondary sources of data. In this research, Mr. Pandit had pointed out various remarkable findings were:

- CRR of the banks were maintained as per the directive of NRB.
- Both banks had maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by the NRB.

- They should encourage to small, medium and large scale organizations to avail their services.
- Both banks were suggested to review their overall structure and investment portfolio to make better mix in capital structure as well as investment portfolio.
- Both banks were maintaining lower capital adequacy ratio. The net worth to total assets, net worth to total deposit and net worth to total credit ratio also seemed less satisfactory.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is composed of two words; "Research" and "Methodology". "Research" is a systematic and organized effort to investigate specific problem that needs a solution (Sekaran, 1992). This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem,. Thus the entire process by which we attempt to solve problems is called research. While 'Methodology" is the research method used to test the hypothesis. [Wolf & Pant, 1996: 196]

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

Research methodology refers to the various sequential steps adapted by a research in studying a problem with certain objectives in view. (Kothary C. R. (1990), Research methodology Methods 7 Techniques). in another words, research methodology describes methods and processes applied in the entire part of the study.

3.2 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to reason questions and to control variation. (Kerlinger, Fred N. (1994), P-1300. Research design helps the investigator obtain answers to the questions of research and also helps him to control the experimental, extraneous and error variance of the particular research problem under study (Kerlinger, Fred N. (1994), P-300.

The analysis of this study is based on certain research design keeping in mind on the objective of the study. From concerned bank different information

and necessary data were collected through annual reports and financial statement published by related bank. The data are collected from the year 1997/1998 to 2004/2005.

3.3 Sample and Population

Seventeen commercial banks are operating in Nepal out of which six are joint venture commercial banks. Nepal Rastra Bank being the central bank of Nepal recommends, directs, and controls the establishment, operations and dissolutions of all the commercial banks in Nepal. The population for this study comprises all the joint venture banks. All the joint venture banks perform the banking function of commercial banks under rules, regulating and directives of Nepal Rastra Bank. As it is not possible to analysis the performance of all the joint venture banks because of the limited time Everest Bank Limited is selected as sample in this study. Population and sample of this study are as follow:

Population

Nepal Bank limited
Rastriya Banijya Bank
Nepal Arab Bank Limited
Nepal investment Bank
Standard Chartered Bank Limited
Himalayan Bank Limited
Nepal SBI Bank Limited
Nepal Bangladesh Bank Limited
Everest Bank Limited
Nepal Credit and Commercial Bank Limited
Nepal Industrial and Commercial Bank Limited
Machhapuchhre Bank limited
Siddrartha Bank Limited
Laxmi Bank Limited

Kumari Bank Limited

Prime Bank of Asia

Sample of this Study

Everest Bank Limited

3.4 Source of Data

This study is based on primary as well as secondary data. The sources of data collection are:

1. Personal Visit (Interviews)
2. Financial statement annual reports provided by bank
3. Telephone inquiries
4. Articles and other related materials published in newspaper
5. Newsletters of the bank
6. Relate Web sites
7. Other related books

3.5 Data Collection Techniques

The study has been conducted to examine and evaluate the financial performance of EBL. For this purpose various data are required. The researcher made visit to EBL head office for collection of data. The share department provided the annual report of last seven years. Confusions regarding the financials were solved by the account department of EBL.

The researcher obtained annual and periodic report and banking directives from Nepal Rastra Bank, Baluwatar. Various websites were surfed to gather relevant information. Reference materials were collected from libraries of Shankar Dev Campus and central library T. U. that helped a lot in conducting the study.

Besides the above stated sources of data detailed reviews of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from central library of T.U. and library of Central development of Management. The data,

information, facts, and figures have been edited tabulated and calculated before analysis. Then results were concluded and interpretations were made.

3.6 Data Processing

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

3.7 Data Analysis Tools

This study is basically based on secondary data, which were firstly collected, scanned, and tabulated under various heads. The calculated results were then compared and interpreted. Suitable tools and proper analysis makes data effective.

The data collected and processed have been analyzed using financial and statistical tools. The financial ratio is widely used tool for the analysis and interpretation of the performance of the data selected sample. Simple statistical analysis is used where necessary.

3.7.1 Financial Tools

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

3.7.1.1Liquidity Ratios

A liquid asset is one that can be easily converted to cash without significant loss of its original value. Therefore, a firm's "liquidity position" deals with the question of how well the firm is able to meet its current obligations. Liquidity ratio is the ratio that shows the relationship of a firm's cash and other current assets to its current liabilies. 9Weston, Besley and

Brigham, 1996, P-94). Liquidity ratios measures the short term solvency position of the firm. These ratios are calculated to find the ability of banks to meet their short term obligations which are likely to mature in the short period of time. Depending upon special nature of assets and service sale made by the bank following ratios are tested.

a. Current Ratio

It is a test of liquidity. It measures short-run debt paying ability of the firm. In other words, it measures the availability of current assets for meeting current liabilities. This ratio is called working capital ratio. It is calculated by dividing current assets by current liabilities and 2:1 is regarded as standard.

Current assets are those assets which are convertible in cash within a year or so. They include cash and bank balance, investment in treasure bills, money at short call or placements, short term loans and advances, bills purchased and discounted, overdrafts, bills for collection, prepaid expenses, other receivable etc.

Current liabilities are those obligations maturing in the year. It includes current account deposits, saving account deposits, margin deposits, call deposits, intra-bank reconciliation account, bills, payable, bank overdrafts, provisions, accursed expenses, bills for collection, customers acceptance liabilities etc.

Current ratio is calculated by dividing current assets by current liabilities as follows:

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

Current ratio equal to 2:1, i.e., current assets double the current liabilities, is considered to be satisfactory one. Higher current ratio indicate that the firm is in liquid and has ability to pay its current obligations in time as and when they become due. And on the other hand, lower current ratio represents

that the liquidity position of the firm is not good and the firm will face difficult in payment of current obligations in time.

b. Cash and Bank Balance to Current and Saving Deposit Ratio

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

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

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

Cash & Bank Balance to Current & Saving Deposit ratio

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

This ratio shows the ability of banks immediate funds to cover to their current and saving deposits. Higher ratio shows higher liquidity position and ability to cove r the deposits as follows:

c. Cash and Bank Balance to Total Deposit Ratio

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

Total deposit consists of current deposit, saving deposit, fixed deposit, money call and short notice and other deposits.

This ratio is computed by dividing cash and bank balance by total deposits as follows:

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

d. NRB Balance to Current and Saving Deposit Ratio

This ratio measures whether the bank is following the direction of NRB or not. Commercial banks are required to old certain portion of current and saving deposits in NRB's account. it is to ensure the smooth function and sound liquidity position of the bank. As per NRB directives banks are required to maintain a ratio of 8% but from year 2002/03 the ratio was changed to 7%.

This ratio is computed by dividing the balance held with NRB by current and saving deposit as follows:

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

e. NRB Balance to Fixed Deposit Ratio

This ratio shows the percentage of amount deposited by the bank in NRB as compared to the fixed deposits. As per directive of NRB, this ratio should be 6%. From year 2002/03 NRB has changed the ratio to 4.5%.

f. Fixed Deposit to Total Deposit Ratio

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

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

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

3.7.1.1.2 Leverage Ratio

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

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

1. By raising funds through debt, stockholder ownership is not diluted.
2. Creditors loud to equity, or owner supplied funds, to provide a margin of safety, if the stockholders have provided only a small proportion of total financing the risks of the enterprises are borne mainly by creditors.
3. If the firm earns more on investments financed with borrowed funds than it pays in interest, the return on the owner's capital is magnified, or "leveraged". (Weston, Besley and Brigham , (1996), P-990

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

a. Debt Asset Ratio

This ratio measures the percentage of the firm's assets financed by creditors. Total debt includes both current liabilities and long term debt. Creditors prefer low debt ratio because the lower the ratio, the greater the cushion against creditors' losses in the event of liquidation. The owners, on the other hand, can benefit from leverage because it magnifies earnings, thus the return to stockholders. but too much debt often leads to financial difficulty, which eventually might cause bankruptcy. Weston, Besley and Brigham. P-1010

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

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

b. Debt Equity Ratio

It is as test of long-term solvency of the bank. Debt equity ratio measures the relative claims of creditors and owners against the assets of the bank. This ratios indicates the relationship between debt and equity i.e. outsiders funds and shareholders funds which are sometimes called as external

and internal equities. It is calculated to measure the extent of debt financing used in the business.

Total debt consists of all interest bearing long term and short term debts. These include loans and advances taken from other financial institutions, deposits surplus and undistributed profit.

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

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

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

c. Interest Coverage Ratio

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

The ratio is obtained by dividing net profit before deduction on interest and tax by interest charges as follows:

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

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

3.7.1.1.3 Activity Ratio

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

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

a. Loans and Advances to Total Deposit Ratio

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

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

$$\text{Loan and Advance to Total Deposit: } \frac{\text{Loans and Advances}}{\text{Total Deposit}}$$

b. Loans and Advances to Fixed Deposit Ratio

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

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

$$\text{Loan and Advance to Total Deposit: } \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

c. Loans and Advances to Saving Deposit Ratio

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

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

$$\text{Loan and Advance to Total Deposit: } \frac{\text{Loans and Advances}}{\text{Saving Deposit}}$$

d. Investment to Total Deposit Ratio

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

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

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

e. Performing Assets to Total Assets Ratio

This ratio measures what portions of assets have been funded for income generation. Performing asset includes loans and advance; bill purchased and discounted investment and money at call or short notice.

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

$$\text{Performing assets to Total Assets Ratio: } \frac{\text{Pefor min g Assets}}{\text{Total Assets}}$$

f. performing Assets to Total Debt Ratio

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

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

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

3.7.1.1.4 Asset Quality Ratio

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

a. Loan Loss Provision to Total Income Ratio

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

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

$$\text{Loan Loss Provision to Total Income Ratio: } \frac{\text{Loan Loss Provision}}{\text{Total Debt}}$$

b. Loan Loss Provision to Total Deposit Ratio

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

The ratio is calculated by dividing loss provision by total deposit as follows:

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

c. Loan Loss Coverage Ratio

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

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

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

d. Accrued Interest to Total Interest Income Ratio

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

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

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

3.7.1.1.5 Profitability Ratio

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

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

a Return on Total Asset

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

This ratio is calculated by dividing net profit after tax by total assets as follows:

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

b. Return on Total Deposit

Return on total deposit ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio indicates strong probability position and vice versa.

This ratio is calculated by dividing net profit after tax by total deposit as follows:

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

c. Total Interest Expenses to Total Interest Income Ratio

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

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

Total Interest Expenses to Total Interest Income Ratio

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

d. Interest Earned to Total Asset Ratio

Interest earned to total assets ratio shows percentage of interest income as compared to the assets of the bank.

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

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

e. Office Operation Expenses to Total Income Ratio

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

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

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

f. Staff Expenses to Total Income Ratio

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

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

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

3.7.1.1.6 Earning Performance Ratio

a. Earning Per Share (EPS)

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

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

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

b. Dividend per Share (DPS)

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

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

$$\text{DPS} = \frac{\text{Divided Per Share}}{\text{No. of Equity Shares outstanding}}$$

c. Dividend Payout Ratio (DPR)

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

This ratio is calculated byu divgi9ding dividend per share by earning per share as follows;

$$\text{DPR} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

d. Price Earning Ratio (P/E Ratio)

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

about growth in the bank's earning. in another words, it measure how the market is responding towards the earning performance of the concerned institution. High ratio indicates higher expectation of the market towards the achievement of the firm.

This ratio is calculated b dividing the market value per share by earning per share as follows:

3.7.1.2Income and Expenditure Analysis

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

3.7.2 Statistical Tools

3.7.2.1Karl Person's Coefficient of Correlation (r)

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

$$r=\frac{n \quad XY\,Z \quad X \quad Y}{\sqrt{n \quad X^{2}\,Zf \quad X\,\AA}\sqrt{n \quad Y^{2}\,Zf \quad Y\,\AA}}$$

n = number of observation in series X and Y

X = sum of observation in series X

Y = sum of observation in series Y

X^2 = sum of squared observation in series X

Y^2 = sum of squared observation n series y

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

Value of r lies between -1 and +1

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

r = 0 means that the variables are uncorrelated

3.7.2.2 Probable Error of Correlation Coefficients ®

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

Probable error of correlation coefficient is denoted by P.E 9r) and obtained as:

$$\text{P.E (r)} = 0.6745 \text{ x } \frac{1Zr2}{\sqrt{n}}$$

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

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

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

3.7.2.3 Least Square linear Trend

Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term on the basis of the tendencies in the dependent variable in the past period. Straight line trend implies that irrespective of the seasonal, cyclic and irregular fluctuation the trend value increases or decreases

by absolute amount per unit of time. The linear trend values form a series in arithmetic progression.

Mathematically

Y=a+bx

Where Y=value of dependent variable

a = Y- intercept

b = slope of the trend line

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

Normal equations fitting above are

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

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

Since $\sum X = 0$

a = Y/N

b = XY/ X^2

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Ratio Analysis

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

4.1.1 Liquidity Ratio

a. Current Ratio

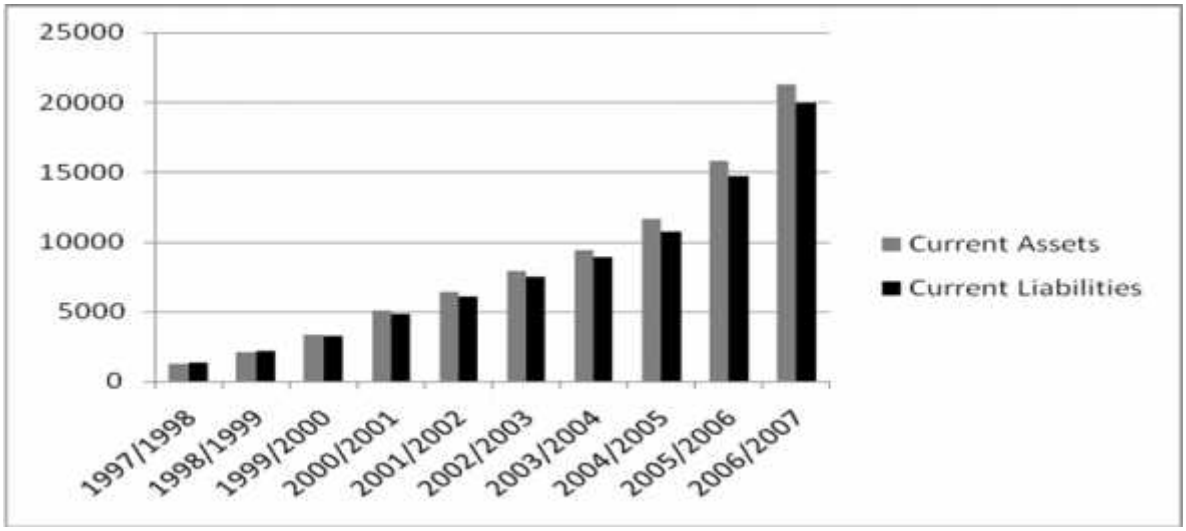
$$\textbf{Current Ratio} = \frac{Current\ Assets}{CurrentLiabilities}$$

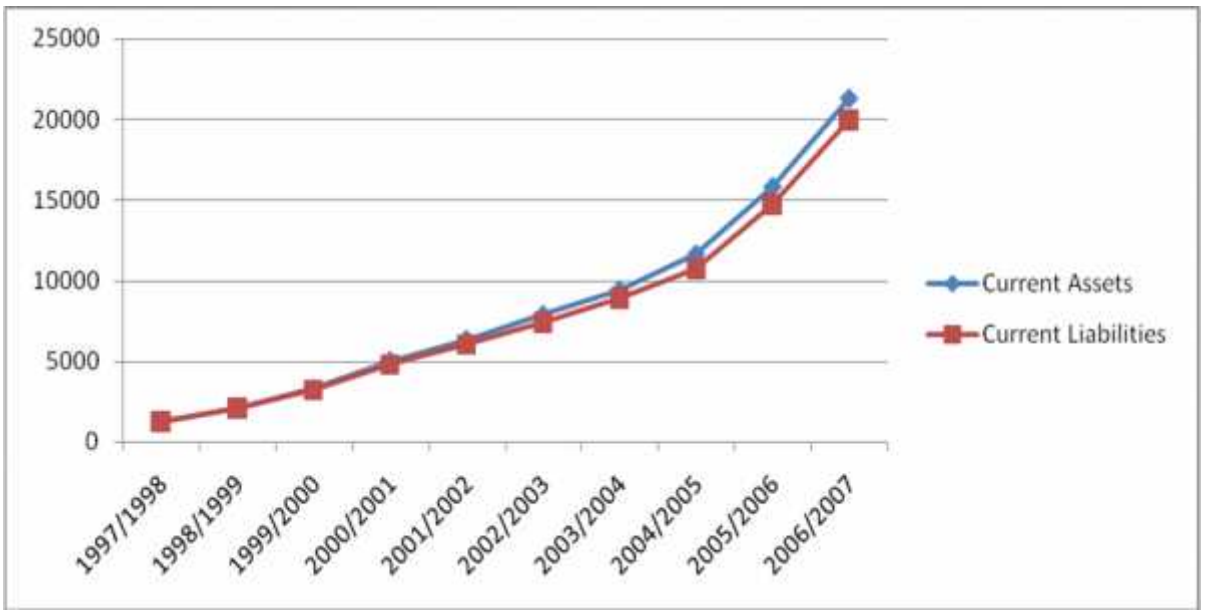
Table 4.1

Current Ratio

FY	Current Assets	Current Liabilities	Current Ratio
1997/1998	1282.00	1292.52	1:1
1998/1999	2077.32	2147.96	0.97:1
1999/2000	3334.59	3246.25	1.03:1
2000/2001	5049.85	4820.37	1.04:1
2001/2002	6359.66	6076.23	1.05:1
2002/2003	7887.99	7439.18	1.06:1
2003/2004	9420.97	8927.69	1.06:1
2004/2005	11629.42	10722.51	1.08:1
2005/2006	15807.19	14696.47	1.07:1
2006/2007	21262.47	19930.49	1.07:1

Source: Everest Bank, Annual Report





The analysis covers the year from 1997/98 till 2006/07. Current asset consist cash balance, money at call, loan and advances and bills purchased, other assets and investment in Nepal Government securities. Current liabilities include deposit liabilities, bills payable and other liabilities.

The liquidity ratio of EBL remained 1, 0.97, 1.03, 1.04, 1.05, 1.06, 1.06, 1.08, 1.07 and 1.07 respectively in this period. The ratio is in increasing trend; except in the year 1998/99 where it is 0.97 times. The current ratio is below the conventional standard 2:1 however looking at the nature of assets and liabilities of the commercial banks the ratio bellow the standard may be accepted as

satisfactory, but it signifies that the bank has poor liquidity position. The bank may face the problem of working capital if they need to pay the current liabilities at demand. Banks may lose their goodwill in case of delay in the payment liabilities. Bank will have the problem in winning the confidence of current depositors and short term lenders. But in year 2003/04 and 2004/05 it was more close to conventional standard and current ratio seems to be satisfactory.

b. Cash and Bank Balance to Current and Saving Deposit Ratio

Cash & Bank Balance to Current & Saving Deposit Ratio:

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

Table 4.2

Cash and Bank Balance to Current and Saving Deposit Ratio

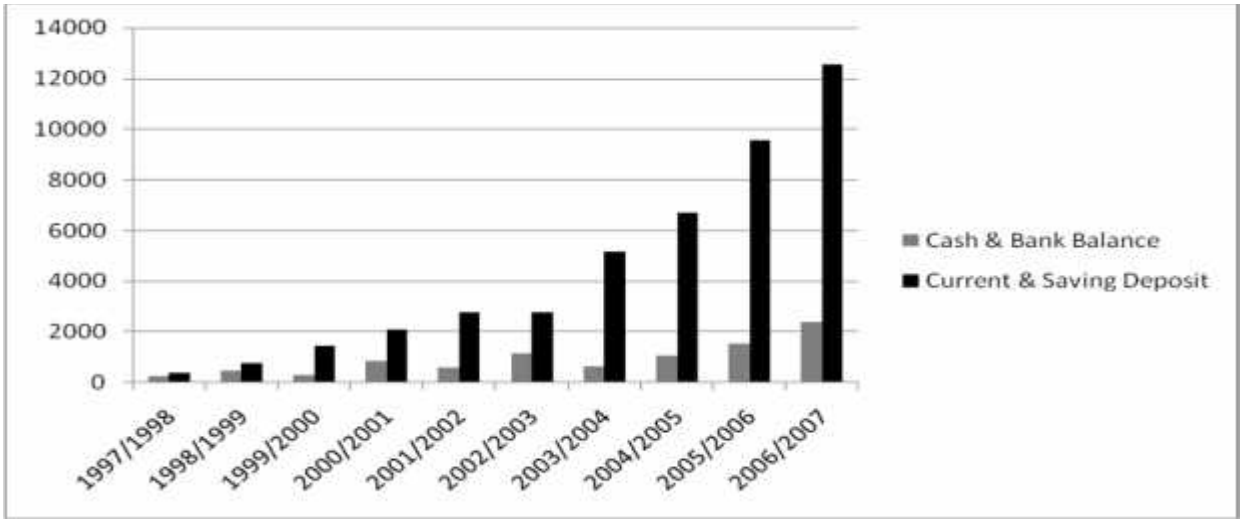
Amount in Million

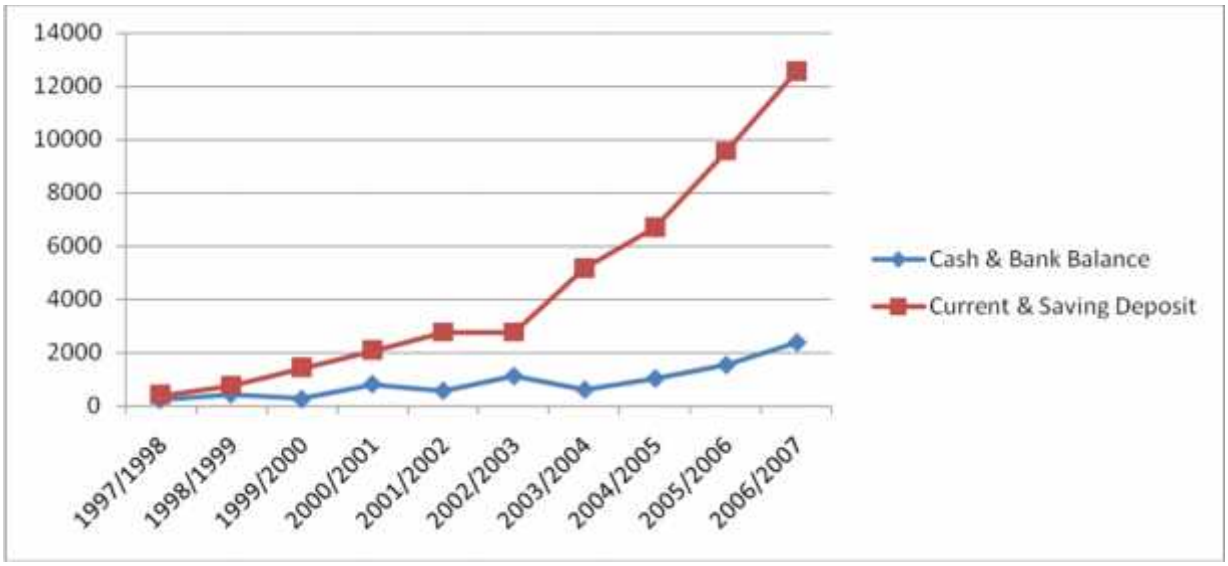
FY	Cash & Bank Balance	Current & Saving Deposit	Ratio
1997/1998	255.15	403.52	63.23%
1998/1999	460.72	767.52	56.40%
1999/2000	278.61	1437.26	17.65%
2000/2001	834.99	2079.78	40.15%
2001/2002	592.76	2755.02	21.52%
2002/2003	1139.51	2755.02	29.22%
2003/2004	631.80	5165.94	12.23%
2004/2005	1049.99	6693.73	15.68%
2005/2006	1552.97	9560.09	16.24%
2006/2007	2391.42	12559.66	19.04%

Source: Everest Bank, Annual Report

This table depicts that the ratio remained 62.23%, 56.40%, 17.65%, 40.15%, 21.52%, 29.22% and 12.23% in the respective years of the review

period. For first three years the ratio was in decreasing trend then it increased to 40.15% in year 2000/2001, again it falls to 21.52% in FY 2001/2002. The ratio ascended to 29.22% in year 2002/203 then after in the year 2003/2004 it decreased to 12.23% and again it slightly increased to 15.68% in the year 2004/05 as cash and bank balance increases from Rs. 631.80 to Rs. 1049.99. From above it can be observed than EBL may not be able to meet its immediate obligation as the bank balance is significantly lower than the current and saving deposit.





c. Cash and Bank Balance to Total Deposit Ratio

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

Table 4.3

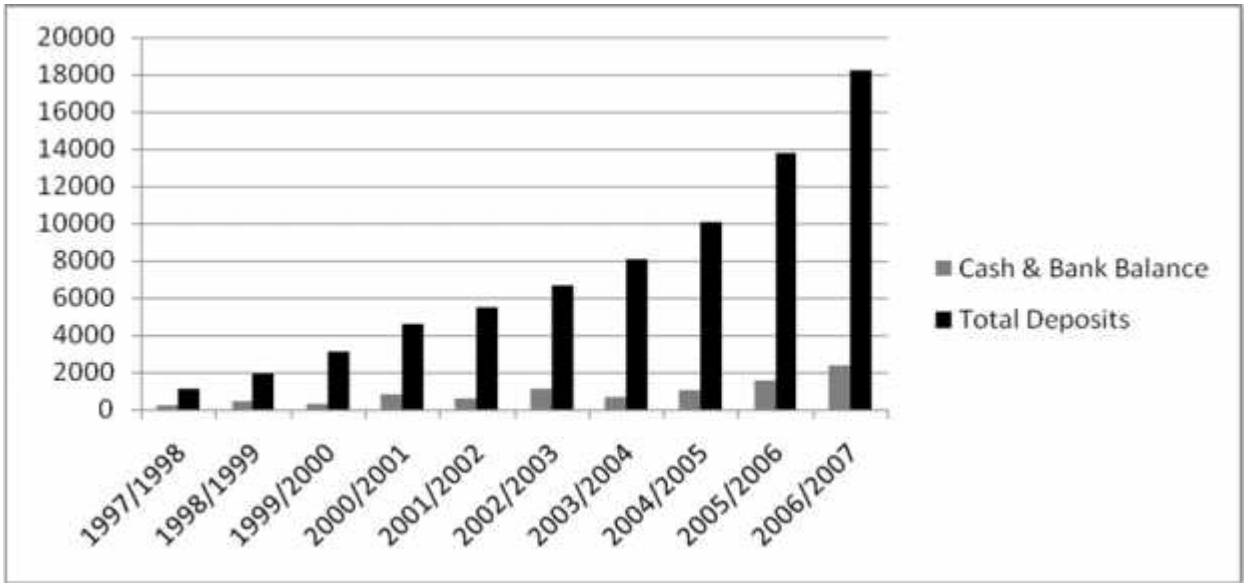
Cash and Bank Balance to Total Deposit Ratio

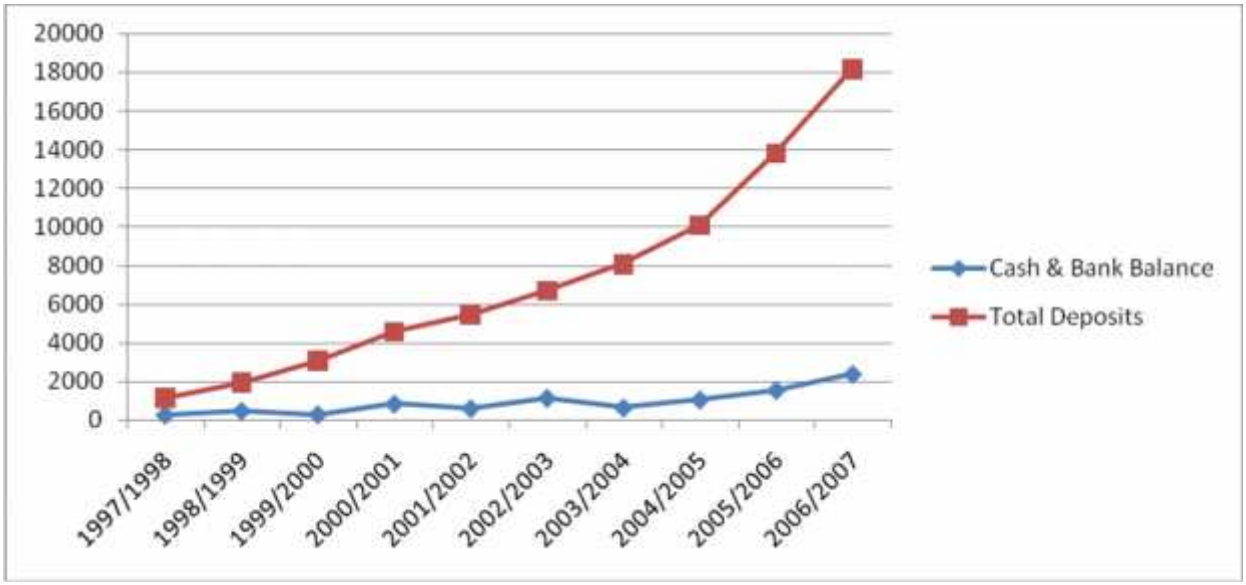
Amount in Million

FY	Cash & Bank Balance	Total Deposits	Ratio
1997/1998	255.15	1124.90	22.68%
1998/1999	460.72	1948.94	23.64%
1999/2000	278.61	3075.42	9.06%
2000/2001	834.99	4,574.51	18.25%
2001/2002	592.76	5466.61	10.84%
2002/2003	1139.51	6694.96	17.02%
2003/2004	631.80	8,063.90	7.83%
2004/2005	1049.99	10097.69	10.40%
2005/2006	1552.97	13802.44	11.25%
2006/2007	2391.42	18186.25	13.15%

Source: Everest Bank, Annual Report

Total deposit includes current deposit, saving deposit, fixed deposit, call deposit and other deposit. Analyzing the ratios, trend of the ratios appeared to be fluctuating. In year 1998/1999 it was in the peak and in year 2003/2004 it is in its lowest point. In year 2004/2005, though the total deposit has been increased to Rs. 10,097.69 and cash and bank balance to Rs. 1049.99, it is still unsatisfactory. Highest ratio i.e. 23.64% shows that the strong liquidity position of the bank in year 1998/1999. Though high ratio indicates its high liquidity position but it also affects profitability due to idleness of high interest bearing fund.





d. NRB Balance to Current and Saving Deposit Ratio

NRB Balance to Current & Saving Deposit Ratio

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

Table 4.4

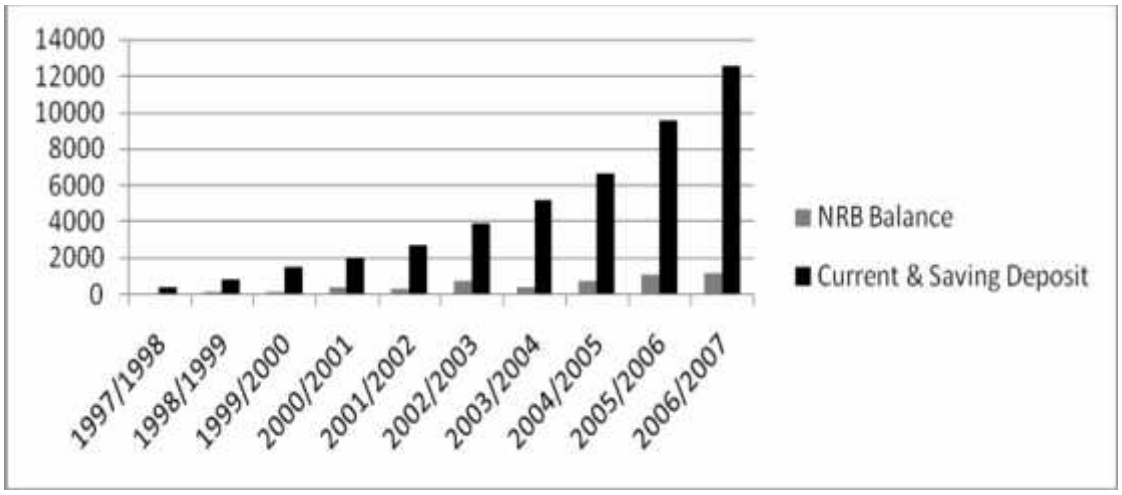
NRB Balance to Current and Saving Deposit Ratio

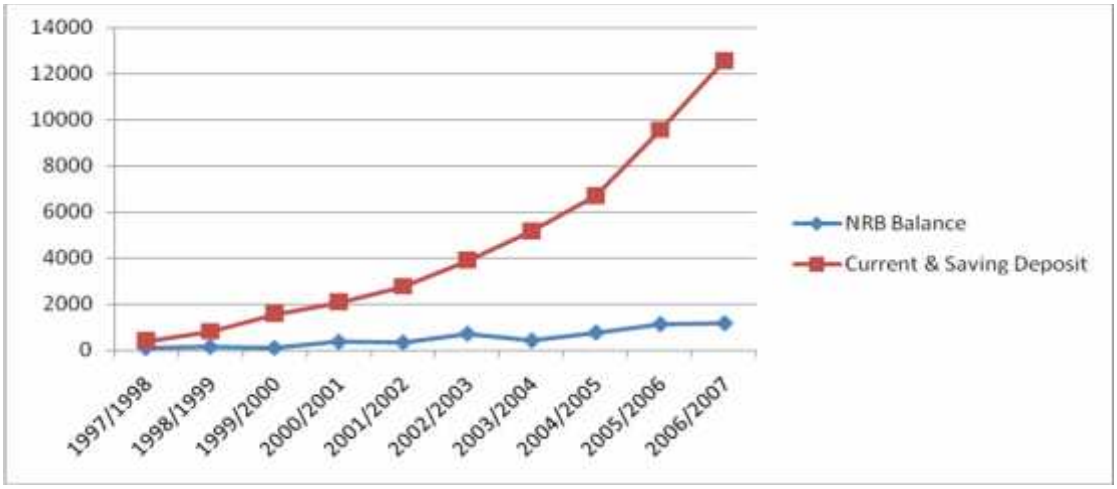
Amount in Million

FY	NRB Balance	Current & Saving Deposit	Ratio
1997/1998	121.47	403.52	30.10%
1998/1999	168.15	816.86	20.58%
1999/2000	130.52	1578.54	8.27%
2000/2001	385.65	2079.78	18.54%
2001/2002	357.70	2755.02	12.98%
2002/2003	730.33	3900.22	18.73%
2003/2004	442.24	5165.94	8.56%
2004/2005	779.67	6693.73	11.65%
2005/2006	1139.5	9560.09	11.92%
2006/2007	1178.2	12559.66	9.38%

Source: Everest Bank, Annual Report

The ratio is calculated by dividing NRB deposit by current and saving deposit. The ratio showed fluctuating trend in the period of the study. It ranged from the minimum of 8.27% in the year 1999/2000 to maximum of 30.10% in the year 1997/1998. Though the bank followed the directive of NRB, in all the years it remained higher than 8%, the minimum standard set by NRB. NRB has changed the minimum percentage requirement of current and saving deposit to 7% from year 2002/2003. In year 1997/98 the ratio was in the highest position which reveals idle cash. Idle cash affect the profitability as it earns nothing.





e. NRB Balance to Fixed Deposit Ratio

$$\text{NRB Balance to Fixed Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Fixed Deposit}}$$

Table 4.5

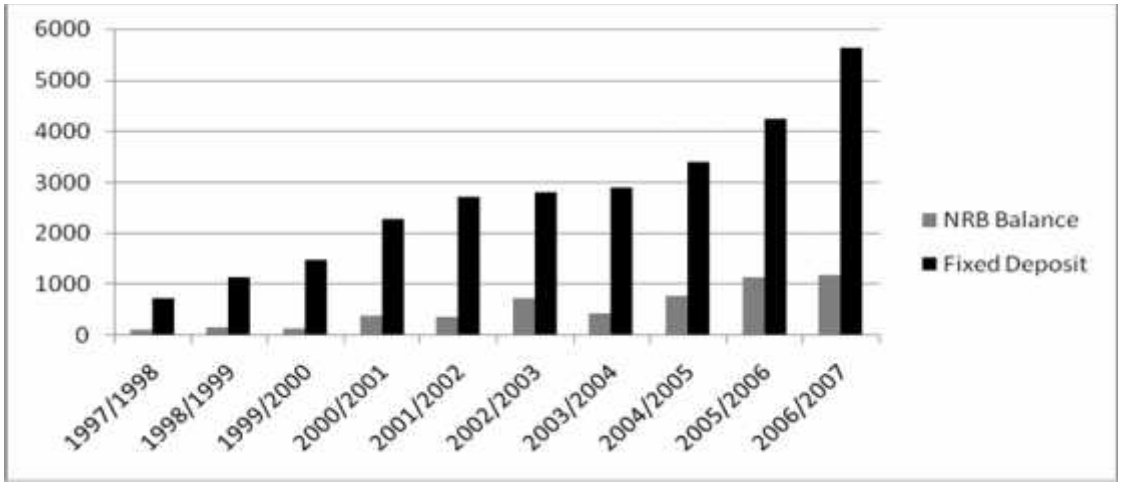
NRB Balance to Fixed Deposit Ratio

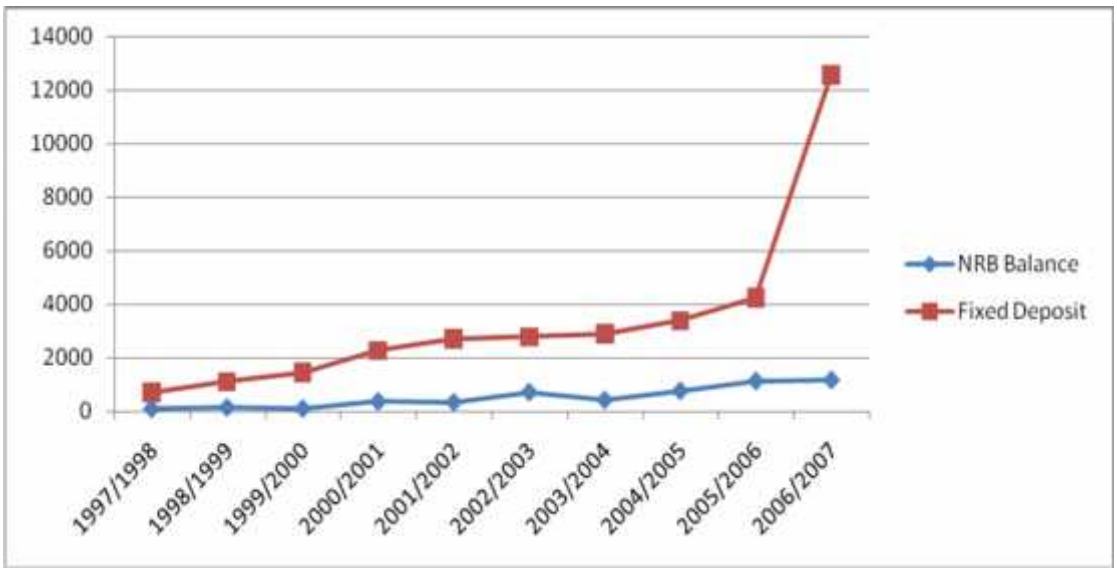
Amount in Million

FY	NRB Balance	Fixed Deposit	Ratio
1997/1998	121.47	721.37	16.84%
1998/1999	168.15	1132.08	14.85%
1999/2000	130.52	1478.88	8.83%
2000/2001	385.65	2284.63	16.88%
2001/2002	357.70	2711.58	13.19%
2002/2003	730.33	2794.74	26.13%
2003/2004	442.24	2897.96	15.26%
2004/2005	779.67	3403.96	22.90%
2005/2006	1139.5	4242.35	26.86%
2006/2007	1178.2	5626.67	20.94%

(Source: Everest Bank, Annual Report)

The above table shows the ratio remained 16.84%, 14.85%, 8.83%, 16.88%, 13.19%, 26.13%, 15.26% and 22.90% in the study period. The ratios didn't show any particular direction of change. In year 2002/03 it was in peak with 26.13% and in year 1999/2000 it was least with 8.83%. The ratios never dropped below 6%, the standard to be maintained as prescribed by NRB. From year 2002/2003 and 2004/2005 the ratio is much higher than the requirement of NRB.





f. Fixed Deposit to Total Deposit Ratio

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

Table 4.6

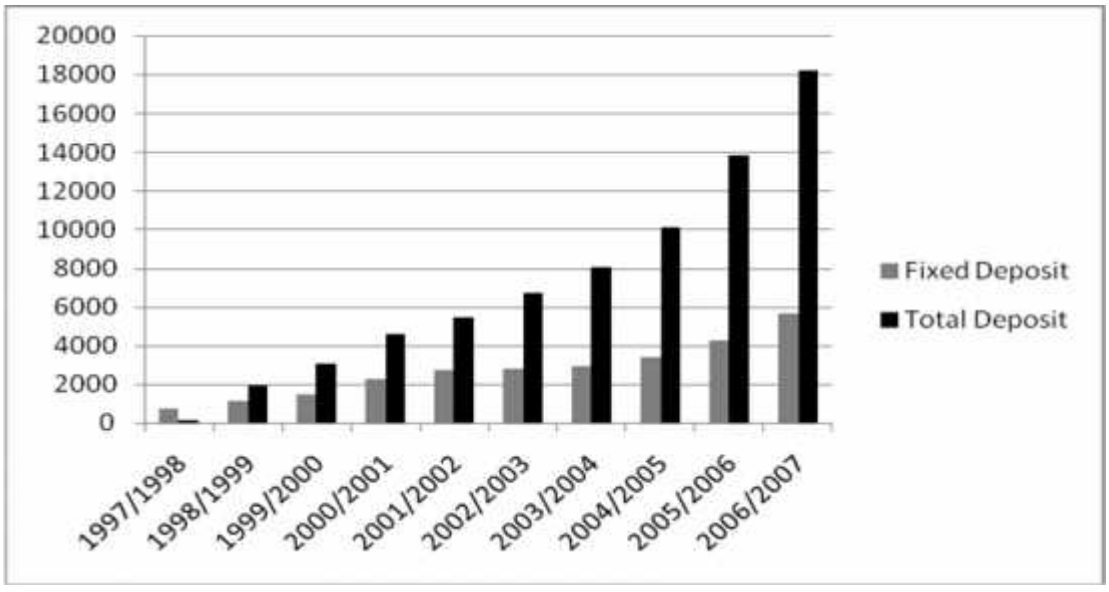
Fixed Deposit to Total Deposit Ratio

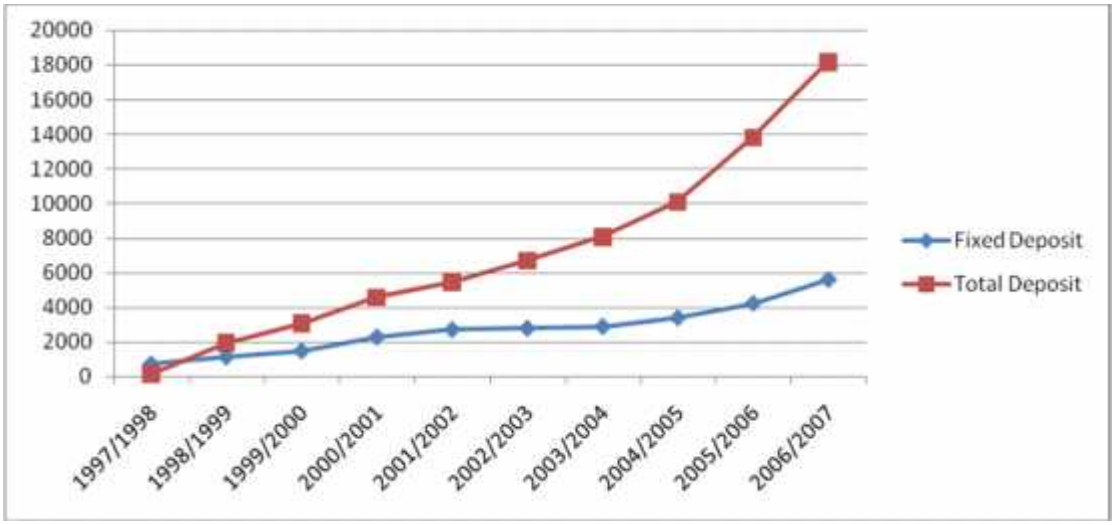
Amount in Million

FY	Fixed Deposit	Total Deposit	Ratio
1997/1998	721.37	124.90	64.13%
1998/1999	1132.08	1948.94	58.09%
1999/2000	1478.88	3075.42	48.09%
2000/2001	2284.63	4574.51	49.94%
2001/2002	2711.58	5466.61	49.60%
2002/2003	2794.74	6695.00	41.74%
2003/2004	2897.96	8063.90	35.94%
2004/2005	3403.96	10,097.69	33.71%
2005/2006	4242.35	13802.44	30.74%
2006/2007	5626.67	18186.25	30.93%

(Source: Everest Bank, Annual Report)

Greater the ratio high the position of fixed deposit account in the total deposit. Fixed deposits are high cost bearing deposits. However, high ratio indicates better opportunity available to the bank to invest in long term loans. Low ratio means the bank should invest in short term loans. But seeing the trend of ratio, it indicates the EBL has opportunity to invest low cost bearing short term loans.





4.1.2 Leverage Ratio

a. Debt Equity Ratio

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

Table 4.7

Debt Equity Ratio

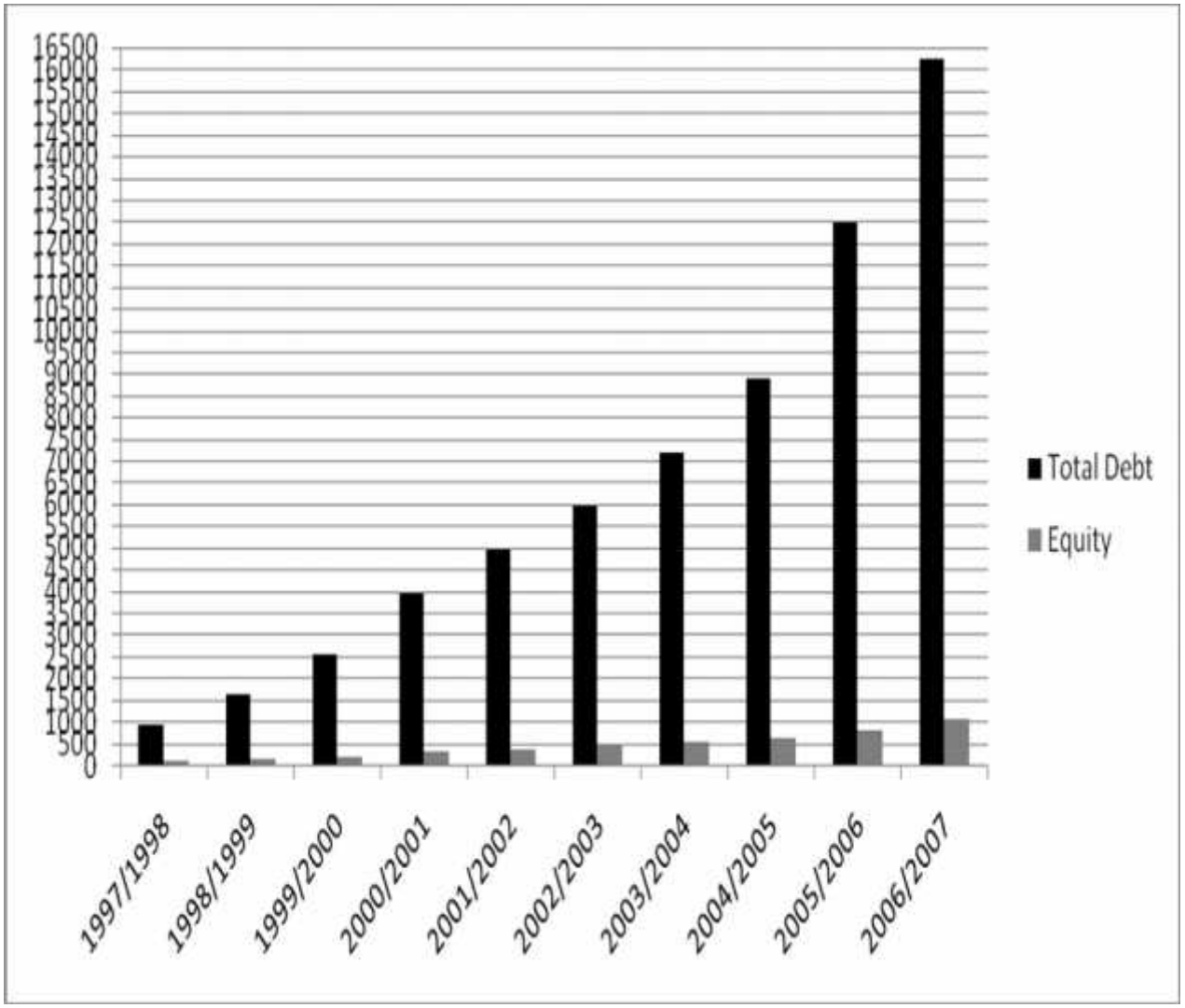
Amount in Million

FY	Total Debt	Equity	Ratio
1997/1998	956.50	127.43	7.51%
1998/1999	1628.03	145.16	11.22%
1999/2000	2556.00	202.85	12.60%
2000/2001	3974.34	319.40	12.44%
2001/2002	4974.27	390.91	12.72%
2002/2003	5980.78	472.82	12.65%
2003/2004	7194.00	540.31	13.31%
2004/2005	8915.15	629.62	14.16%
2005/2006	12464.87	822.8	15.15%
2006/2007	16229.4	1061.15	15.3%

(Source: Everest Bank, Annual Report)

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

The ratio of EBL remained 7.51, 11.22, 12.60, 12.44, 12.72, 12.65. 13.31 and 14.16 respectively in the study period. Debt equity ratio shows the mix of debt and equity in capital. Higher ratio shows that the creditor's claims are greater than those of owners. In year 2004/2005 the ratio was maximum i.e. 14.16%. EBL has more debt portion than equity in the total capital.



b. Debt Asset Ratio

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

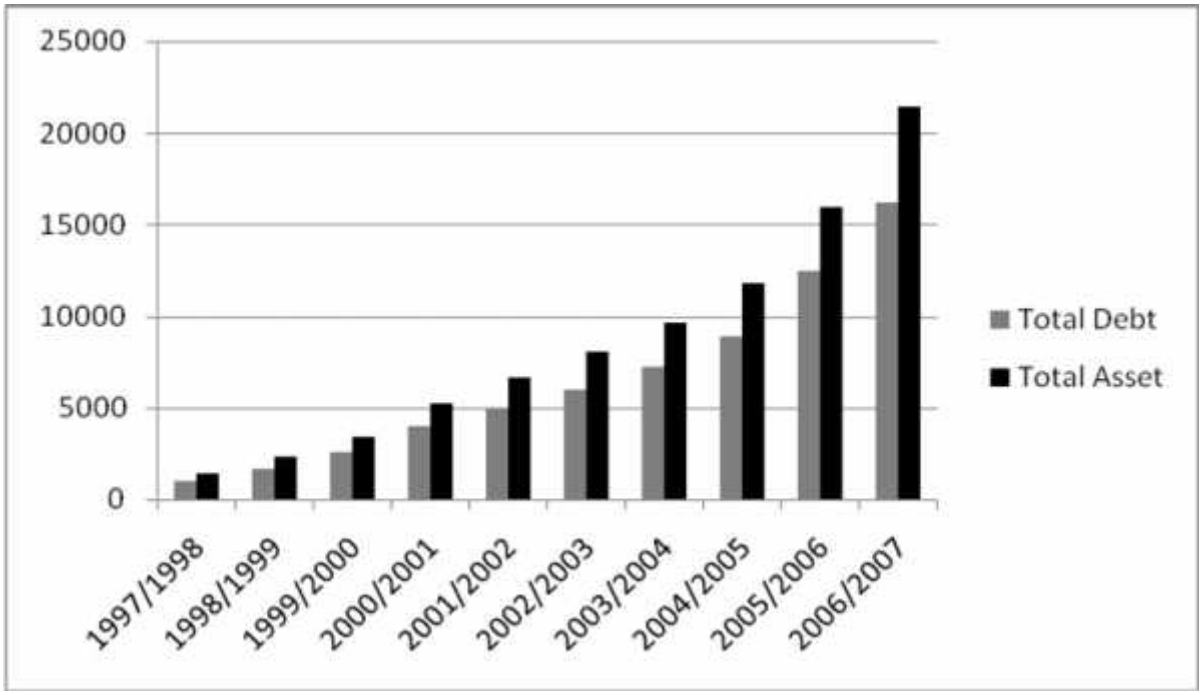
Table 4.8

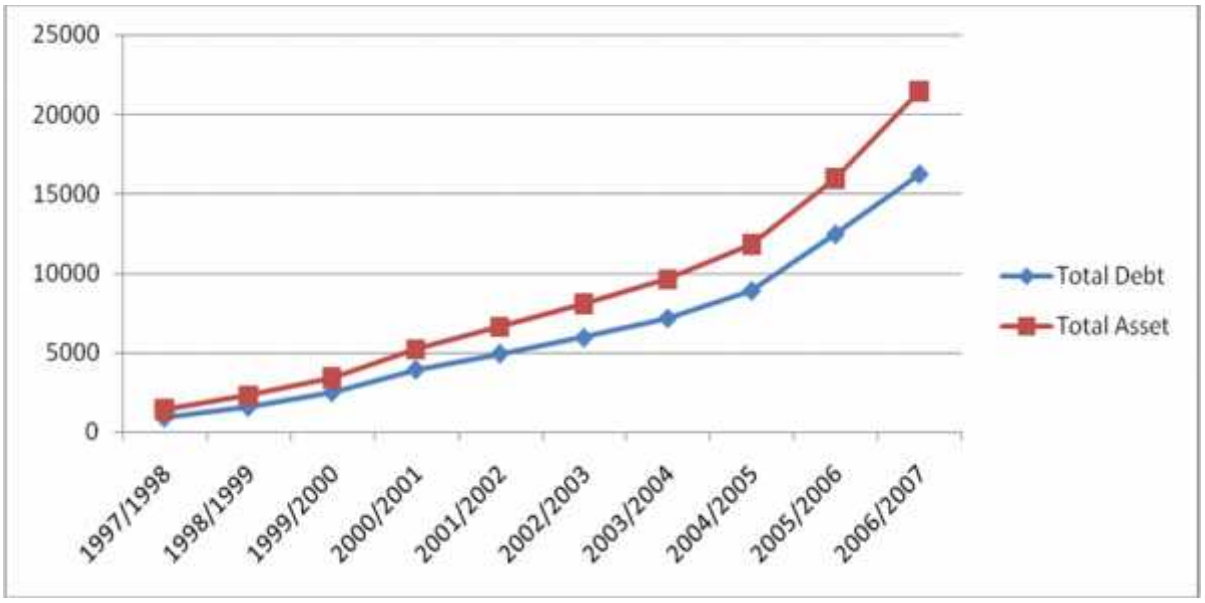
Debt Asset Ratio

FY	Total Debt	Total Asset	Ratio
1997/1998	956.50	1419.98	67.36%
1998/1999	1628.03	2293.13	71.00%
1999/2000	2556.00	3417.85	74.78%
2000/2001	3974.34	5218.68	76.16%
2001/2002	4974.27	6616.90	75.18%
2002/2003	5980.78	8052.21	74.28%
2003/2004	7194.15	9608.57	74.87%
2004/2005	8915.15	11,792.13	75.60%
2005/2006	12464.87	15959.3	78.1%
2006/2007	16229.4	21432.6	75.72%

(Source: Everest Bank, Annual Report)

Total debt include loans and advances taken from other financial institution and deposit carrying interest i.e. saving deposit, fixed deposit account and call deposit. Total assets consists of cash in hand, bank balance, money at call and short notice, investments, loans, advances, bills purchase, fixed assets and other assets. The above table depicts the ratios remained 67.36%, 71%, 74.78%. 76.16%, 75.18%, 74.28%, 75.60% respectively in the review period. From year 1997/1998 to year 2000/2001 the ratio is in increasing in year 2004/2005 i.e. 75.60%. Above table shows that the larger portion of the bank asset has been financed through outsider's fund. All the ratios are more than 50% which shows that more than 50% of the total asset has been financed by the outsider's fund.





c. Interest Coverage Ratio

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

Table 4.9
Interest Coverage Ratio

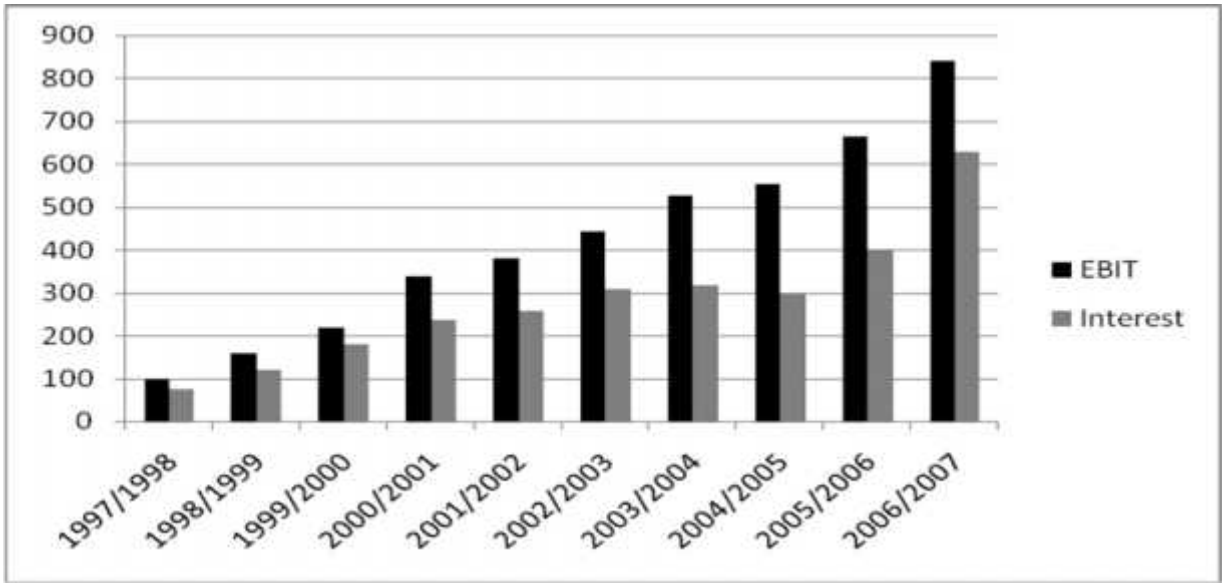
Amount in Million

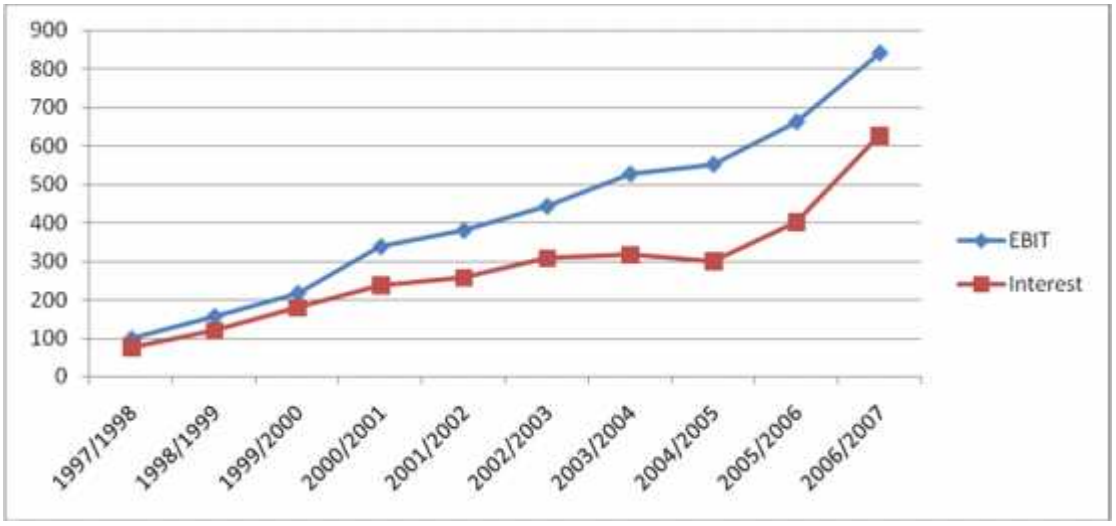
FY	EBIT	Interest	Ratio
1997/1998	99.93	74.72	1.36
1998/1999	157.39	118.70	1.28
1999/2000	217.39	178.37	1.22
2000/2001	338.75	236.70	1.43
2001/2002	380.82	257.05	1.43
2002/2003	443.52	307.63	1.44
2003/2004	527.47	316.36	1.67
2004/2005	552.29	299.57	1.84
2005/2006	662.81	401.37	1.65
2006/2007	841.39	627.24	1.34

(Source: Everest Bank, Annual Report)

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

The ratio is fluctuating thorough out the years. It was almost static for three years 2000 to 2003 but it rose in year 2003/2004. Lower ratio indicates more use of debt for which interest is to be paid or insufficient operation. Though the ratio has increased in year 2004/2005, reviewing the trend of ratio, it is low.





4.1.3 Activity Ratio

a. Loans and Advances to Total Deposit Ratio

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

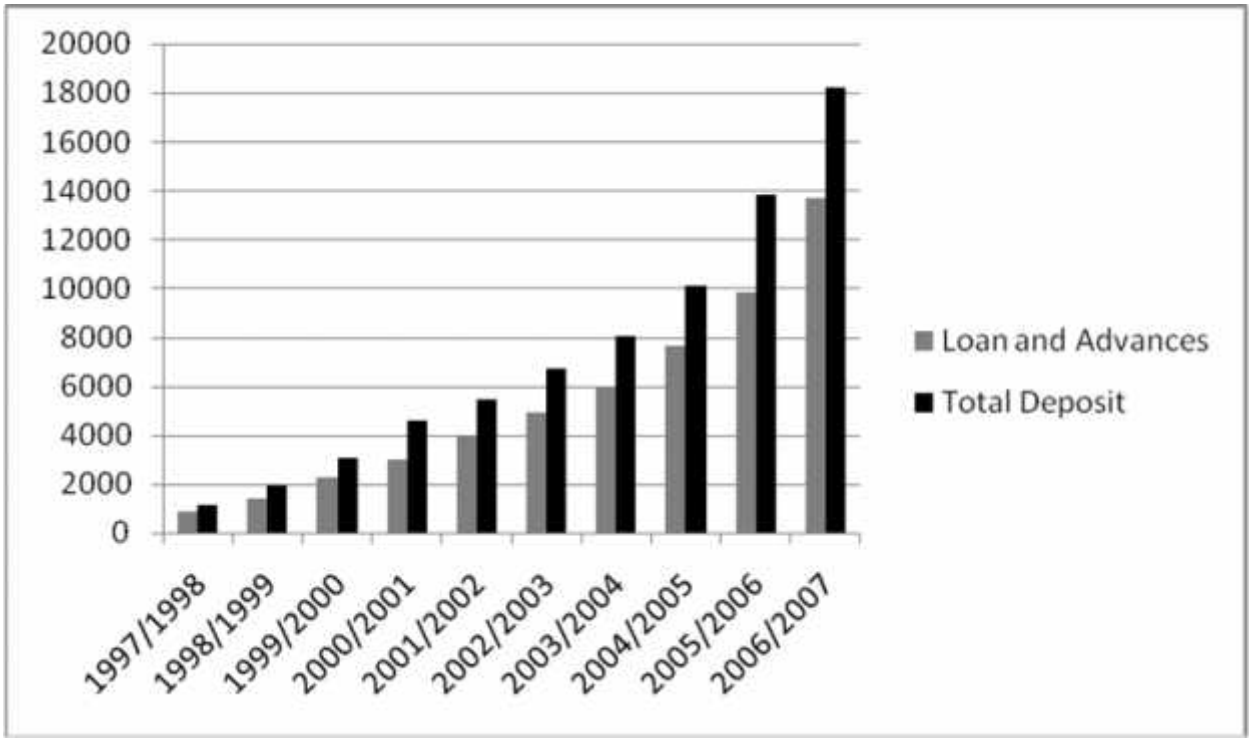
Table 4.10

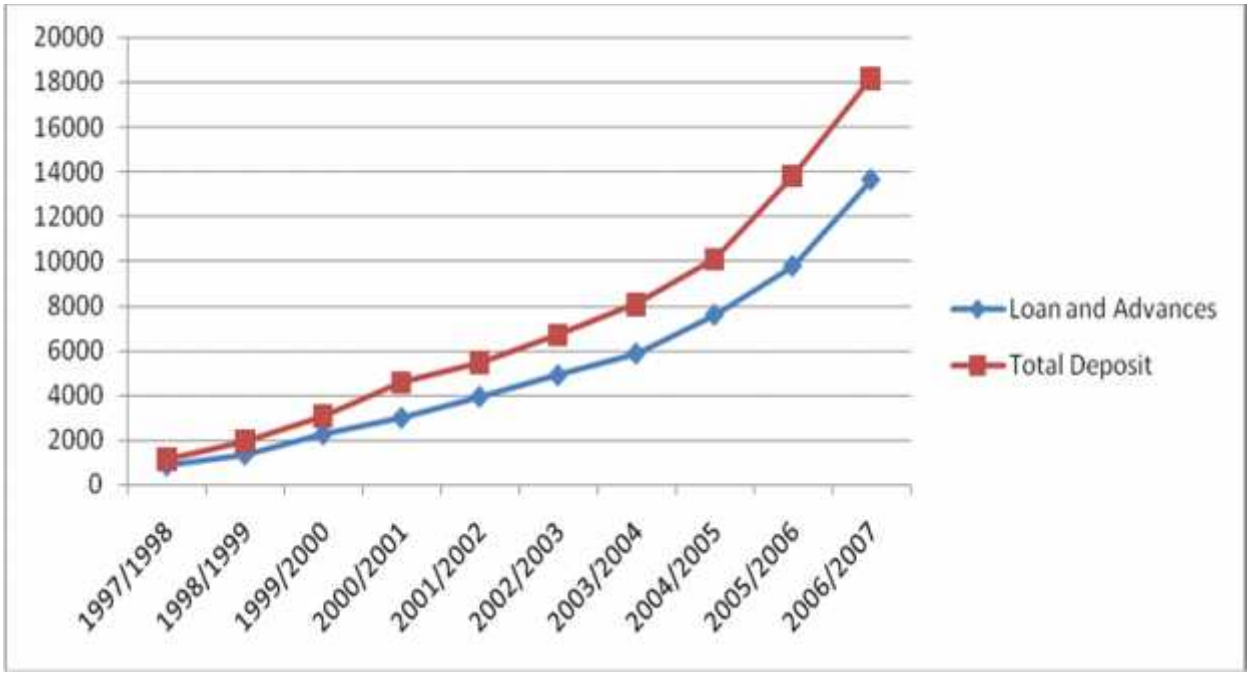
Loans and Advances to Total Deposit Ratio

FY	Loan and Advances	Total Deposit	Ratio
1997/1998	871.67	1124.90	77.49%
1998/1999	1364.88	1948.94	70.03%
1999/2000	2270.17	3075.42	73.82
2000/2001	3005.75	4574.51	65.71%
2001/2002	3948.47	5466.61	72.23%
2002/2003	4908.46	6695.00	73.32%
2003/2004	5884.12	8063.90	72.97%
2004/2005	7618.67	10097.69	75.45%
2005/2006	9801.32	13802.44	71.01%
2006/2007	13664.1	18186.25	75.13%

(Source: Everest Bank, Annual Report)

Loan and Advances consists of loans, advances, bills purchased and bills discounted. The ratio fluctuated throughout the study period. The ratio indicated the proportion of total deposits invested in loans and advances. In year 1997/1998, 77.49% of the total deposit was invested in loans and advances. In year 1997/1998, 77.49% of the total deposit was invested in loans and advances. This may have affected the liquidity position of EBL. During the year 1998/1999 and 1999/2000 the ratios were satisfactory. Too low ratio gives a picture of the ideal cash in the bank. As per banking practice, banks maintain the ratio around 70-75%. In the year 2004/2005, the bank has the good ratio of 75.45% which shows that the bank is successful in utilizing its deposits on loans and advances.





b. Loans and Advances to Fixed Deposit Ratio

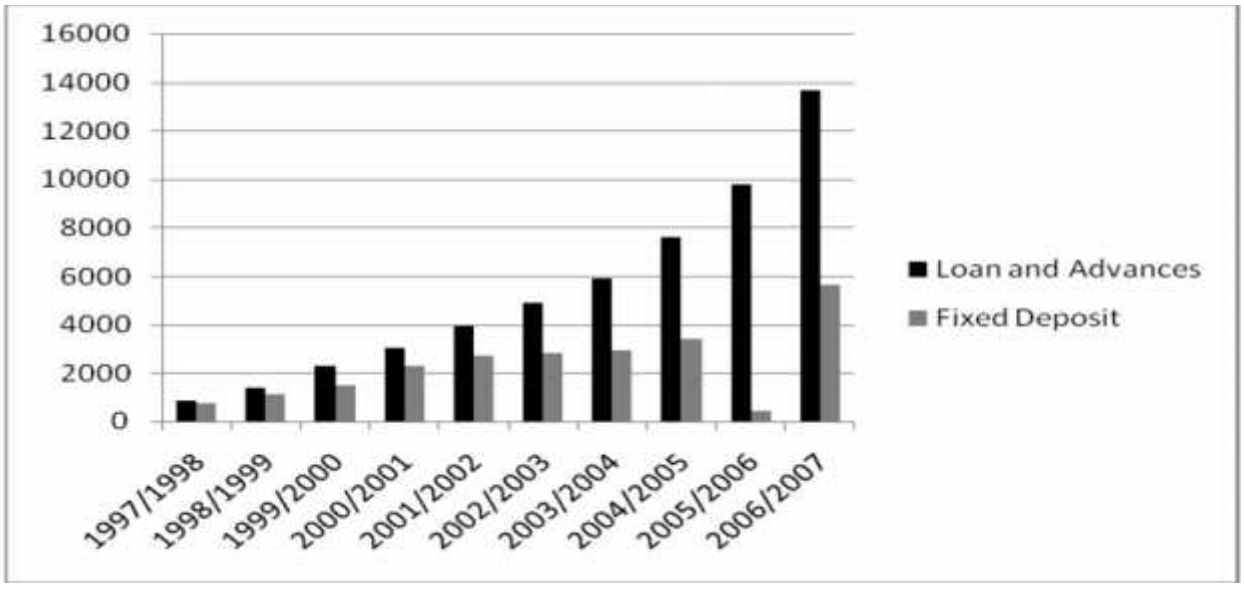
Loan and Advance to Fixed Deposit = $\frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$

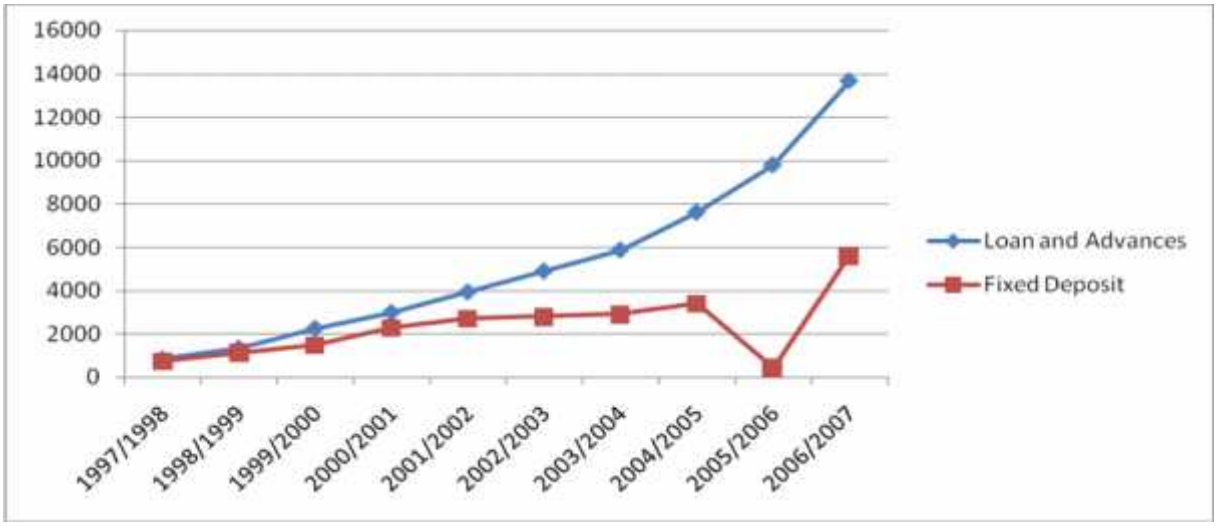
Table 4.11
Loans and Advanced to Fixed Deposit Ratio

FY	Loan and Advances	Fixed Deposit	Ratio
1997/1998	871.67	721.37	120.84%
1998/1999	1364.88	1132.08	120.56%
1999/2000	2270.17	1478.88	153.51%
2000/2001	3005.75	2284.63	131.56%
2001/2002	3948.47	2711.58	145.62%
2002/2003	4908.46	2,794.74	175.63%
2003/2004	5884.12	2897.96	203.04%
2004/2005	7618.67	3403.96	223.82%
2005/2006	9801.32	424.35	231.03%
2006/2007	13664.1	5626.67	242.87%

(Source: Everest Bank, Annual Report)

The ratio of EBL remained 120.84%, 120.56%, 153.51%, 131.56%, 145.62%, 175.63%, 203.04% and 223.82% in the respective years of review period. The ratio revealed an increasing trend. It ranged from 120.84% in year 1997/1998 to 223.82% in year 2004-2005. With respect to the above ratio EBL has shown good performance. EBL has efficiently utilized the high interest bearing fixed deposit in the loans and advances and sector yielding satisfactory return.





c. Loans and Advances to Saving Deposit Ratio

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

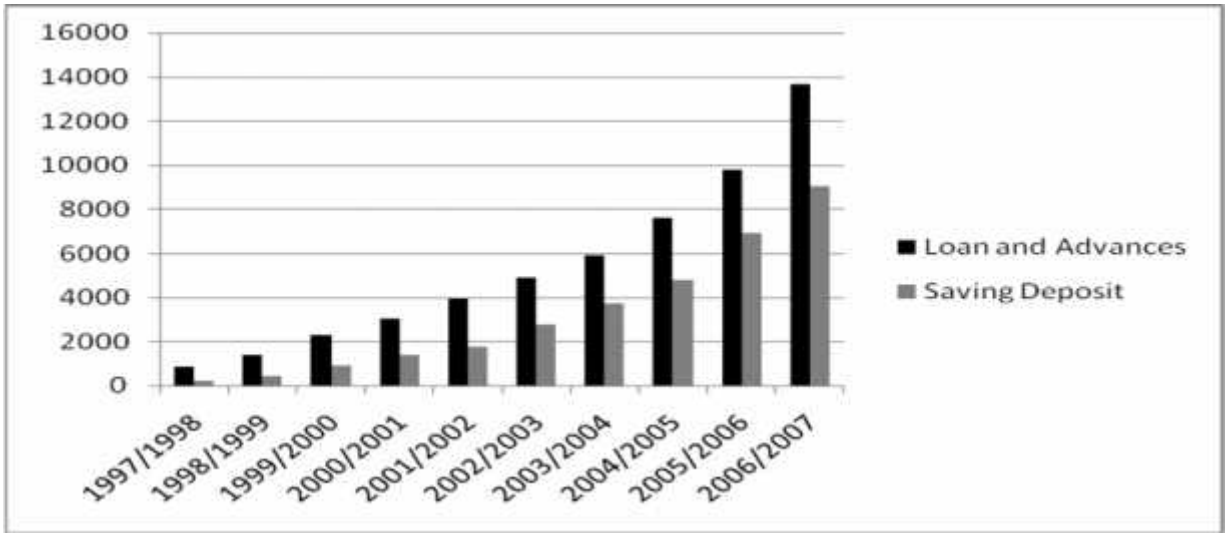
Table 4.12
Loans and Advances to Saving Deposit Ratio

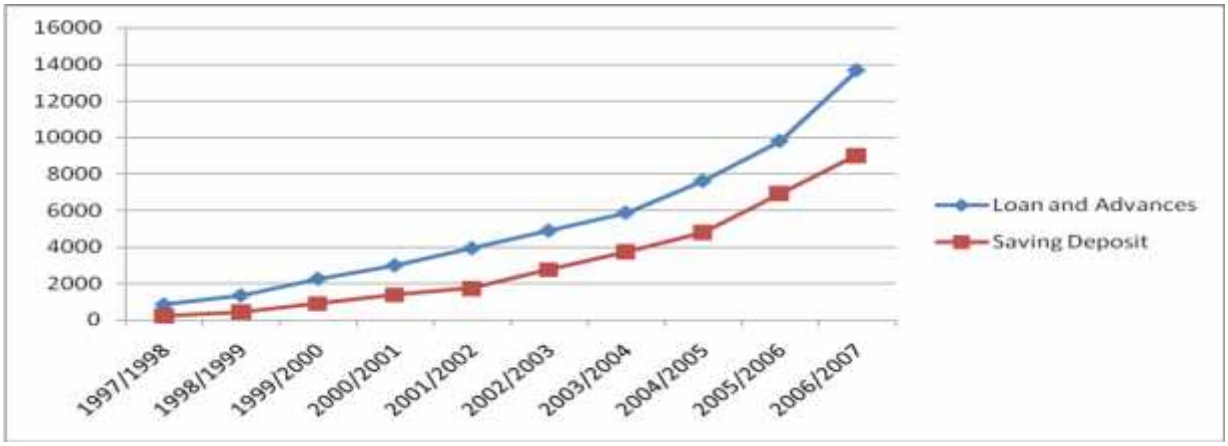
Amount in Million

FY	Loan and Advances	Saving Deposit	Ratio
1997/1998	871.67	217.84	400.14%
1998/1999	1364.88	448.00	304.66%
1999/2000	2270.17	891.74	254.58%
2000/2001	3005.75	1384.06	217.17%
2001/2002	3948.47	1735.37	227.53%
2002/2003	4908.46	2757.95	177.97%
2003/2004	5884.12	3730.61	157.73%
2004/2005	7618.67	4806.83	158.50%
2005/2006	9801.32	6929.22	141.14%
2006/2007	13664.1	9029.26	151.33%

(Source: Everest Bank, Annual Report)

The ratio showed a decreasing trend through the study period i.e. 400.14%, 304.66%, 254.58%, 217.17%, 227.53%, 177.97%, 157.73% and 158.50% but in year 2004/2005 the ratio slightly rises to 158.50%. It was 400.14% in year 1997/1998 that came down to 158.50% in year 2004/2005. It indicates insufficient utilization of saving deposit in form of loans and advances.





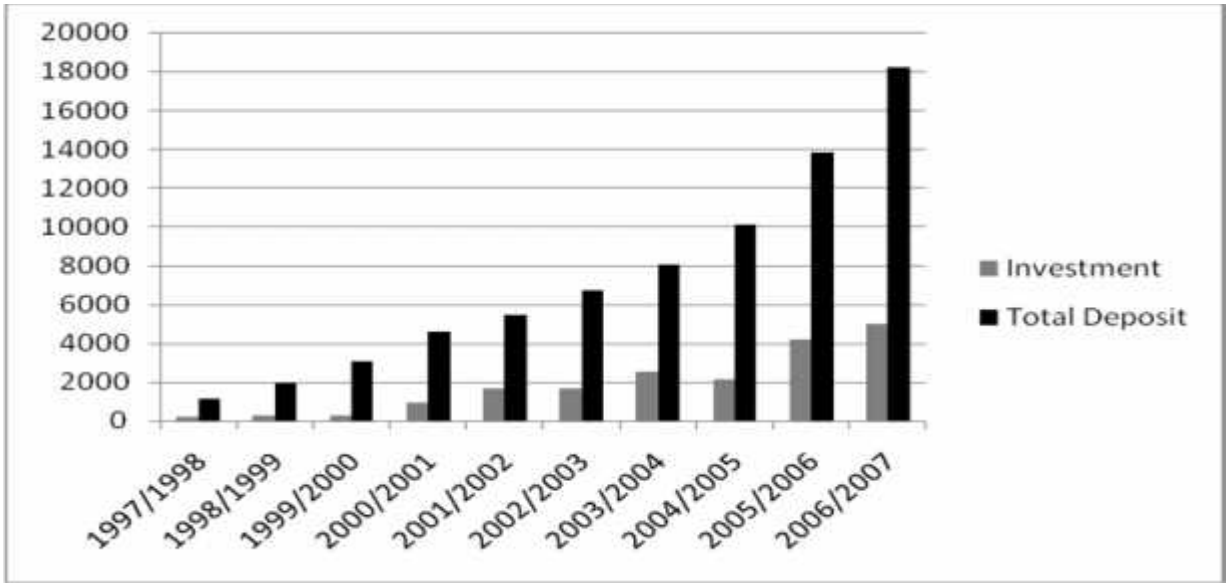
d. Investment to Total Deposit Ratio

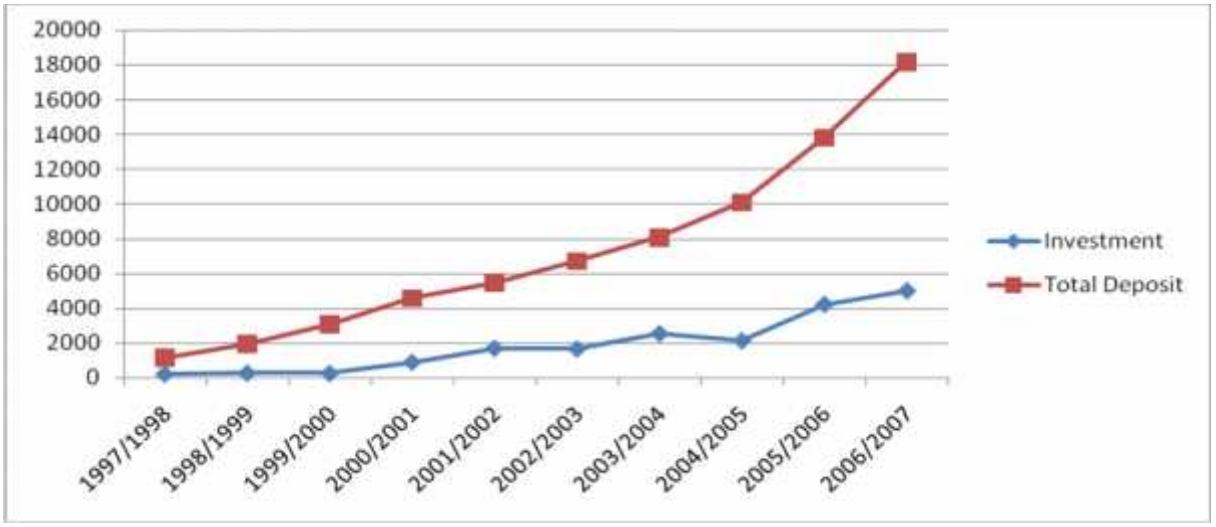
Investment to Total Deposit Ratio= $\frac{\text{Investment}}{\text{Total Deposit}}$

Table 4.13
Investment to Total Deposit Ratio

FY	Investment	Total Deposit	Ratio
1997/1998	217.95	1124.90	19.38%
1998/1999	283.07	1948.94	14.52%
1999/2000	260.11	3075.42	8.46%
2000/2001	901.72	4574.51	19.71%
2001/2002	1693.04	5466.61	30.97%
2002/2003	1653.97	6695.00	24.70%
2003/2004	2535.65	8063.90	31.44%
2004/2005	2128.93	10097.69	21.08%
2005/2006	4200.52	13802.44	30.43%
2006/2007	4984.31	18186.25	27.40%

Here, investment consists of investment in HMG treasury bills, development bonds, company shares etc. The ratio showed irregular pattern during the study period. In year 1999/2000 only 8.46% of the total deposit was invested in HMG treasury bills, development was invested but in year 2004/2005 the total investment is reduced to 21.08% of the total deposit.





e. Performing Assets to Total Assets Ratio

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

Table 4.14

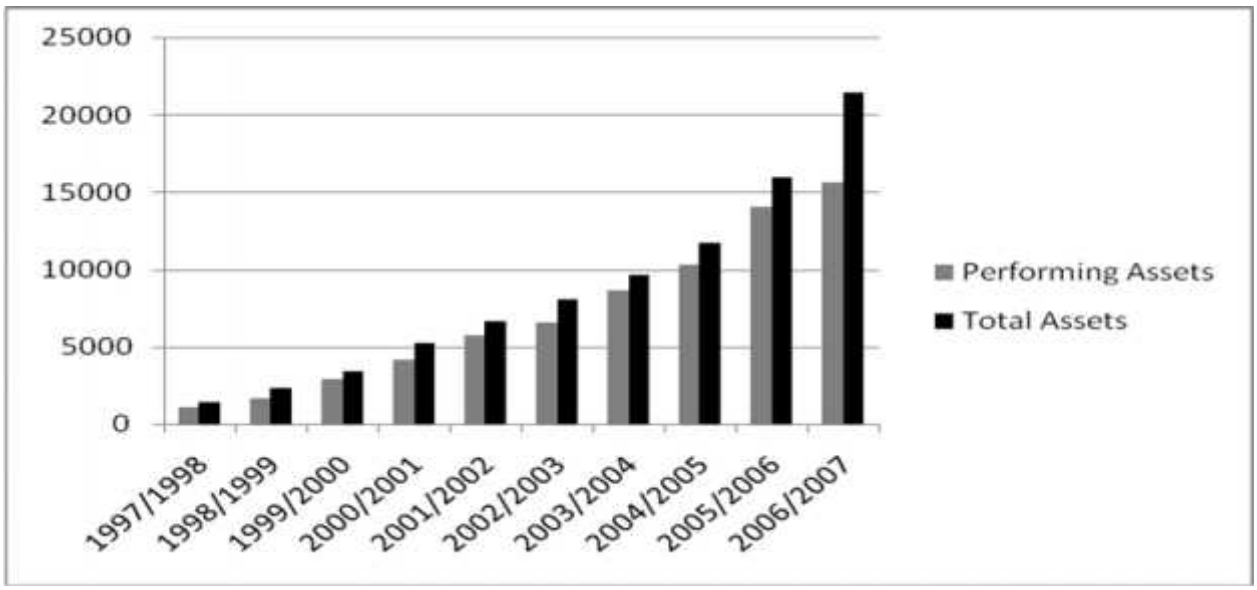
Performing Assets to Total Assets Ratio

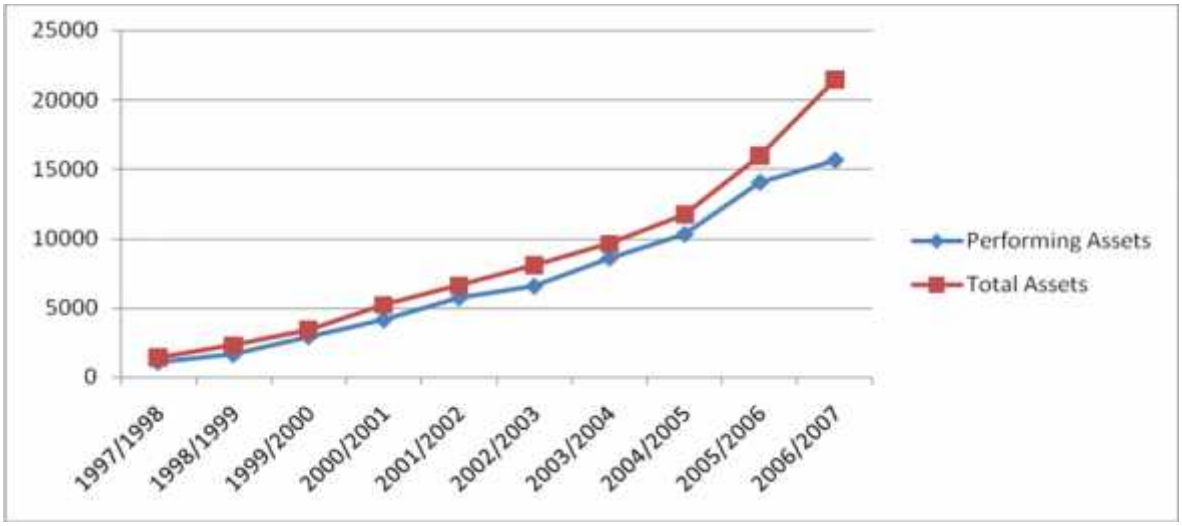
Amount in Million

FY	Performing Assets	Total Assets	Ratio
1997/1998	1089.63	1419.98	76.74%
1998/1999	1647.96	2293.13	71.87%
1999/2000	2940.63	3417.85	86.04%
2000/2001	4147.47	5218.68	79.47%
2001/2002	5,727.63	6616.90	86.56%
2002/2003	6562.63	8052.21	81.50%
2003/2004	8607.21	9608.57	89.58%
2004/2005	10317.61	11732.13	87.50%
2005/2006	14063.7	15959.28	88.15%
2006/2007	15648.6	21432.57	73.0%

(Source: Everest Bank, Annual Report)

Performing assets are investment, loan and advances, bills purchased and discounted and money at call and short notice. EBL had maintained high ratio throughout the period of study. In year 2004/2005, 87.50% of the total asset has been funded for income generation. High ratios in the table indicate greater utilization of assets that leads to sound profitability position of the bank.





f. Performing Assets to Total Debt Ratio

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

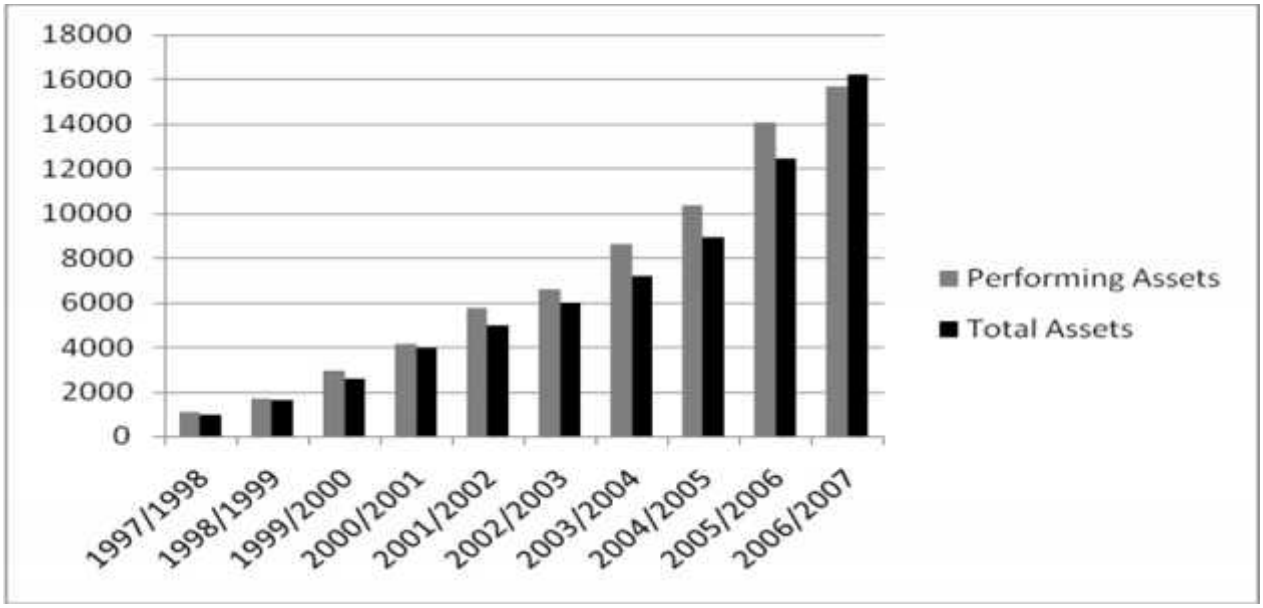
Table 4.15
Performing Assets to Total Debt Ratio

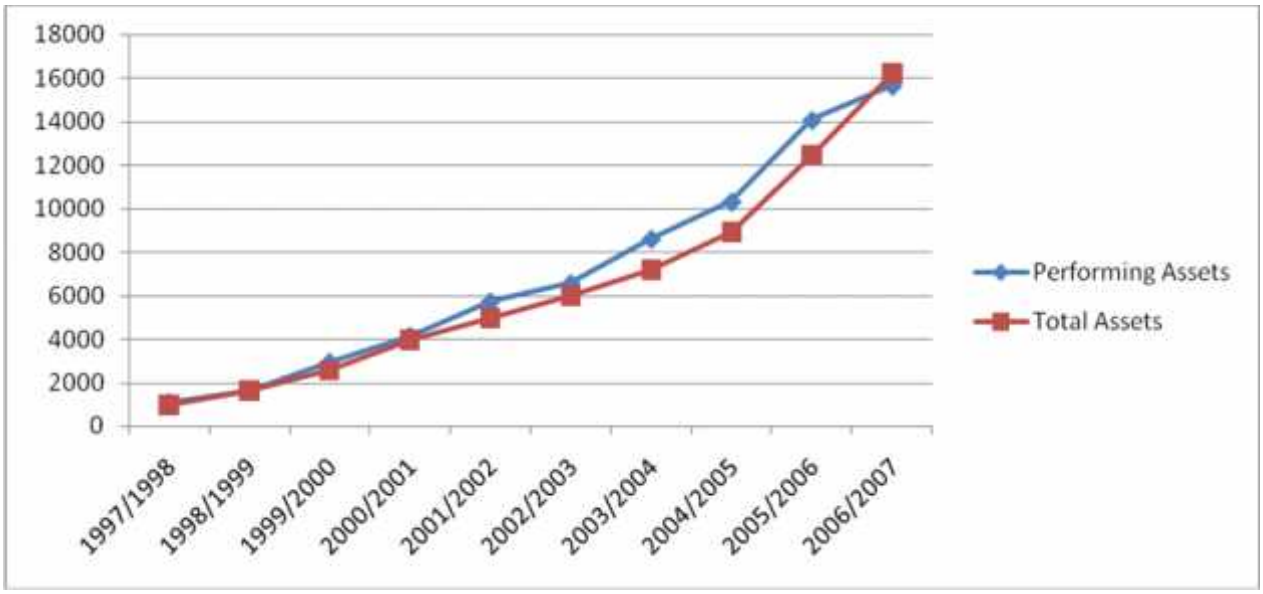
Amount in Million

FY	Performing Assets	Total Assets	Ratio
1997/1998	1089.63	956.50	113.92%
1998/1999	1647.96	1628.03	101.22%
1999/2000	2940.63	2556.00	115.05%
2000/2001	4147.47	3974.27	104.36%
2001/2002	5,727.63	4974.27	115.15%
2002/2003	6562.63	5980.78	109.73%
2003/2004	8607.21	7,194.00	119.64%
2004/2005	10317.61	8915.15	115.73%
2005/2006	14068.7	12464.86	112.87
2006/2007	15648.6	16229.4	96.64%

(Source: Everest Bank, Annual Report)

The ratio showed fluctuating trend throughout the study period. It was maximum in year 2003/2004 with 119.64% and minimum in year 2006/2007 with 96.64%. High ratio represents the success of EBL in utilizing the creditor's fund, like in year 2003/2004, 2001/2002, 1999/2000 and 1997/1998. In Years 1998/1999, 2000/2001 and 2002/2003 the ratio is low but it can be rated satisfactory.





4.1.4 Asset Quality Ratio

a. Loan Loss Coverage ratio

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

Table 4.16
Loan Loss Coverage Ratio

Amount in million

FY	Loan Loss Provision	Total Risk Asset	Ratio
1997/1998	5.73	871.67	0.67%
1998/1999	8.33	1364.88	0.46%
1999/2000	15.56	2270.17	0.69%
2000/2001	33.50	3005.75	1.11%
2001/2002	34.72	3948.47	0.88%
2002/2003	45.74	4908.46	0.93%
2003/2004	81.77	5884.12	1.39%
2004/2005	88.93	6718.67	1.17%
2005/2006	70.46	9801.3	0.72%
2006/2007	89.7	13664.081	0.66%

(Source: Everest Bank, Annual Report)

Loan loss coverage ratio is calculated by dividing loan loss provision by total risk assets. Risk assets constitute loan and advances, bills purchased and discounted. EBL's ratio loan loss coverage ratio can be ranked as satisfactory. In year 1997/1998, 1998/1999, 1999/2000, 2001/2002, 2002/2003, 2005/2006, 2006/2007 it was below 1%. It shows that the major portions of loans are not risky. In year 2000/2001, 2003/2004 and 2004/2005 the ratio is 1.11%, 1.39% and 1.17% which is acceptable as it is still lower. This shows that EBL has been successful to foresee the quality of loans lent.

b. Loan Loss Provision to Total Income Ratio

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

Table 4.17

Loan Loss Provision to Total Income Ratio

Amount in million

FY	Loan Loss Provision	Total Income	Ratio
1997/1998	5.73	139.24	4.11%
1998/1999	8.33	219.46	3.80%
1999/2000	15.56	327.30	4.75%
2000/2001	33.50	465.50	7.20%
2001/2002	34.72	540.90	6.42%
2002/2003	45.74	635.30	7.20%
2003/2004	81.77	785.10	10.42%
2004/2005	88.93	858.96	10.35%
2005/2006	70.46	1063.5	6.62%
2006/2007	89.7	1358.4	6.6%

(Source: Everest Bank, Annual Report)

Above table highlights the ratio for the respective year of the analysis period that remained 4.11%, 3.80%, 4.75%, 7.20%, 6.42%, 7.20%, 10.42%, and 10.35%, 6.62% and 6.6. There is not specific trend in the ratios. First it falls from 4.11% to 3.80% in year 1997/1999 then it rises from 4.75% to 7.20% in year 1999/2001. In year 2001/2002 it falls to 6.42%. In year 2003/2004 it rises from 7.20% to 10.42% and in year 2004/2005 it slightly increases to 10.35%. The ratio in year 2003/2004 has remained the highest. This shows the bank advanced loan in risky asset for which the provision of Rs. 81.77 million was made.

c. Loan Loss Provision to Total Deposit Ratio

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

Table 4.18

Loan Loss Provision to Total Deposit ratio

Amount in million

FY	Loan Loss Provision	Total Deposit	Ratio
1997/1998	5.73	1124.90	0.51%
1998/1999	8.33	1948.94	0.43%
1999/2000	15.56	3075.42	0.51%
2000/2001	33.50	4574.51	0.73%
2001/2002	34.72	5466.61	0.64%
2002/2003	45.74	6695.00	0.68%
2003/2004	81.77	8063.90	1.01%
2004/2005	88.93	10097.69	0.88%
2005/2006	70.46	13802.44	0.5%
2006/2007	85.7	18186.25	0.49%

(Source: Everest Bank, Annual Report)

The ratios from 1997/1998 to 2002/2003 and 2004/2005 were less that 1%. This shows that EBL has lent greater portion of loans in secured sector. Due to default in payment of loans by the borrowers the bank need to hold portion of its income in form of loan loss provision as directed by NRB. In year 2003/2004 the ratio is 1.01%. Higher loan loss provision shows the default in payment of the loan by the borrowers.

d. Accrued Interest to Total Interest Income Ratio

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

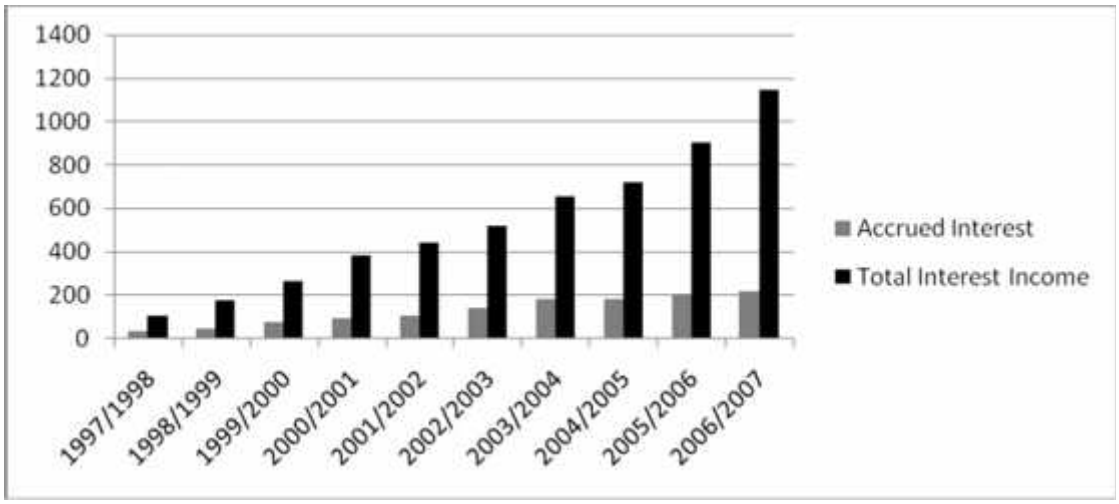
Table 4.19

Accrued Interest to Total Interest Income Ratio

Amount in million

FY	Accrued Interest	Total Interest Income	Ratio
1997/1998	32.66	104.20	31.34%
1998/1999	46.23	175.93	26.28%
1999/2000	76.15	267.44	28.47%
2000/2001	94.27	385.01	24.49%
2001/2002	105.28	443.82	23.72%
2002/2003	142.76	520.17	27.44%
2003/2004	181.08	657.24	27.55%
2004/2005	180.71	719.30	25.12
2005/2006	198.02	903.4	21.92%
2006/2007	216.6	1144.4	19.93%

(Source: Everest Bank, Annual Report)



Interest that is accrued but yet not collected is called accrued interest. It includes interest receivable on investments and interest receivable on loans and advances. Interest income includes interest from loans and advances, interests on government securities and interest on investment on debenture. The ratios were 31.34%, 26.28%, 28.47%, 24.29%, 23.72%, 27.44%, 27.55%, 25.12%, 21.92, and 19.93%. In year 1997/1998 more portion of total income in the bank

remained accrued. This show that higher amount of interest remained to be collected.

4.1.5 Profitability Ratio

a. Return on Asset

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

Table 4.20

Return on Asset

Amount in million

FY	Net Profit After Tax	Total Assets	Ratio
1997/1998	25.03	1419.98	1.76%
1998/1999	25.23	2293.13	1.10%
1999/2000	41.26	3417.85	1.21%
2000/2001	69.70	5218.68	1.34%
2001/2002	85.34	6616.90	1.29%
2002/2003	94.18	8052.21	1.17%
2003/2004	143.56	9608.57	1.49%
2004/2005	170.81	11792.13	1.45%
2005/2006	237.32	15959.3	1.48%
2006/2007	296.41	21432.6	1.38%

(Source: Everest Bank, Annual Report)

The ratio is calculated by dividing net profit after tax by total assets. The ratio remained 1.76%, 1.10%, 1.21%, 1.34%, 1.29%, 1.17%, 1.49%, 1.45%, 1.48% and 1.38% in the study period. Profit shows the performance of any company, however, the level of profit needs to be seen in consideration of total balance sheet size of the company. Higher ratio indicates the success of management in overall operation. In year 1997/1998, 2003/2004 and 2004/2005 the ratio was in highest position. EBL is more successful in getting return from asset in year 1997/1998.

b. Return on Total Deposit

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

Table 4.21

Return on Total Deposit

FY	Net Profit After Tax	Total Deposits	Ratio
1997/1998	25.03	1124.90	2.23%
1998/1999	25.23	1948.94	1.29%
1999/2000	41.26	3075.42	1.34%
2000/2001	69.70	4574.51	1.52%
2001/2002	85.34	5466.61	1.56%
2002/2003	94.18	6695.00	1.41%
2003/2004	143.56	8063.90	1.78%
2004/2005	170.81	1097.69	1.69%
2005/2006	237.32	13802.44	1.72%
2006/2007	296.41	18186.25	1.63%

(Source: Everest Bank, Annual Report)

Return on total deposit is calculated by dividing net profit after tax by total deposit. Above table highlights the ratio for the respective year of the analysis period that remained 2.23%, 1.29%, 1.34%, 1.52%, 1.56%, 1.41%, 1.78%, 1.69%, 1.72% and 1.63%. It was in increasing trend from year 1998/1999 to 2001/2002 then in year 2002/2003 and 2005/2006 it decreased, again in year 2003/2004 it increased. It recovered from year 2002/2003 with 1.78% in subsequent year 2003/2004 but again in year 2006/2007 it decreased to 1.63%.

c. Total Interest Expenses

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

Table 4.22

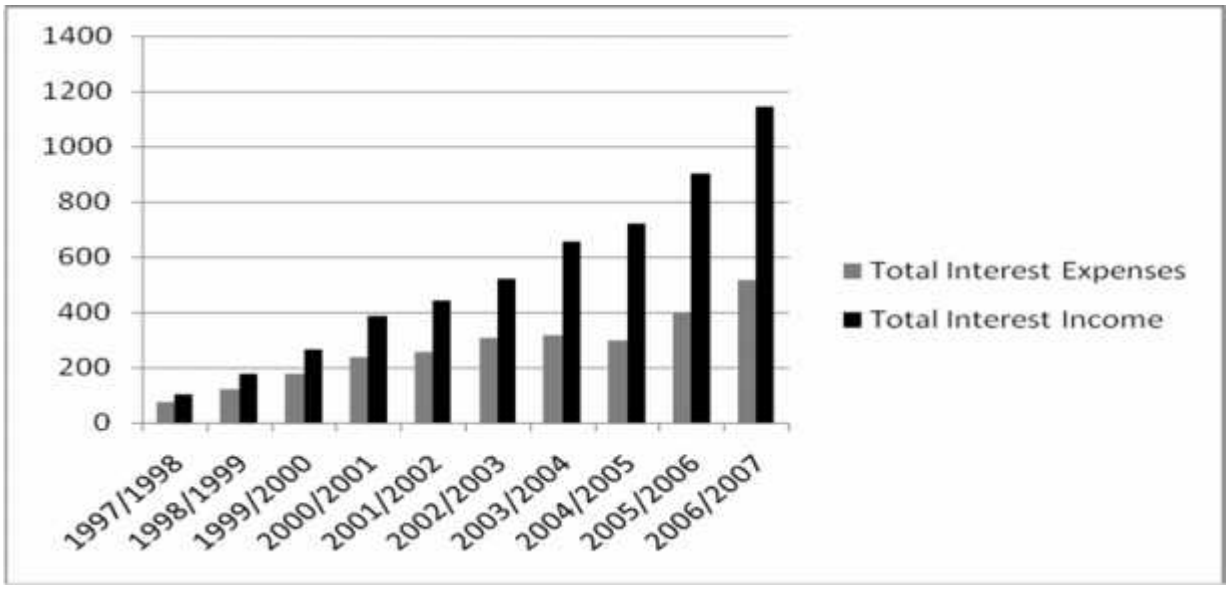
Total Interest Expenses to Total Interest Income Ratio

Amount in million

FY	Total Interest Expenses	Total Interest Income	Ratio
1997/1998	74.72	104.20	71.71%
1998/1999	118.70	175.93	67.47%
1999/2000	178.37	267.44	66.70%
2000/2001	236.70	385.01	61.48%
2001/2002	257.05	443.82	57.92%
2002/2003	307.63	520.17	59.14%
2003/2004	316.36	657.24	48.13%
2004/2005	299.57	719.30	41.65%
2005/2006	401.4	903.4	44.43%
2006/2007	517.17	1144.4	45.19%

(Sources: Everest Bank, Annual Report)

The ratio remained 71.71%, 67.47%, 66.70%, 61.48%, 57.92%, 59.14%, 48.13%, 41.65%, 44.43%, 45.19%, 44.43% and 45.19% in respective year of study period. Lower ratio is favourable. EBL is more successful in later years in allocating interest debt in profitable sectors.



d. Interest Earned to Total Asset Ratio

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

Table 4.23

Interest Earned to Total Asset Ratio

FY	Total Interest Expenses	Total Assets	Ratio
1997/1998	104.20	1419.98	7.34%
1998/1999	175.93	2293.13	7.67%
1999/2000	267.44	3417.85	7.82%
2000/2001	385.01	5218.68	7.38%
2001/2002	443.82	6616.90	6.71%
2002/2003	520.17	8052.21	6.46%
2003/2004	657.24	9608.57	6.84%
2004/2005	719.30	11792.13	6.09%
2005/2006	903.4	15959.3	5.67%
2006/2007	1144.4	21432.6	5.34

(Source: Everest Bank, Annual Report)

Ratios of EBL remained 7.34%, 7.67, 7.82%, 7.38%, 6.71%, 6.46%, 6.84% and 6.09% in the respective years of study period. It has highest ratio in year 1999/2000 and lowest ratio in year 2004/2005. High ratio in year 1997/1998 to 2000/2001 indicates the proper utilization of bank's asset for income generating purpose than other years.

e. Staff Expense to Total Income Ratio

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

Table 4.24

Staff Expense to Total Income Ratio

Amount in million

FY	Staff Expense	Total Income	Ratio
1997/1998	7.68	139.24	5.52%
1998/1999	13.38	219.46	6.10%
1999/2000	18.63	327.30	5.69%
2000/2001	25.99	465.50	5.58%
2001/2002	32.18	540.90	5.95%
2002/2003	37.36	635.30	5.88%
2003/2004	48.53	785.10	6.18%
2004/2005	60.59	858.96	7.05%
2005/2006	70.92	1063.5	6.67%
2006/2007	86.12	1358.4	6.34%

(Source: Everest Bank, Annual Report)

Staff expenses of EBL includes salary, allowances, PF contributions, training, uniform, medical, insurance, gratuity, Dashain expenses, leave encashment and other staff expenses. Ratios of EBL remained 5.52%, 6.10%, 5.69%, 5.58%, 5.95%, 5.88%, 6.18% and 7.05% in the respective years of study period. EBL has highest in year 2004/2005 and lowest in year 1997/1998. The ratio measures the proportion of income spent for the staff whose contribution results success of the bank. Lower ratio may have adverse effect in staff's morale which in turn decreases profit and high ratio directly affects the profitability of bank.

f. Office Operation Expenses to Total Income Ratio

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

Table 4.25

Office Operation Expenses to Total Income Ratio

Amount in million

FY	Total Interest Expenses	Total Interest Income	Ratio
1997/1998	17.48	139.24	12.55%
1998/1999	29.14	219.46	13.28%
1999/2000	42.09	327.30	12.86%
2000/2001	50.45	465.50	10.84%
2001/2002	79.02	540.90	14.61%
2002/2003	93.58	635.30	14.73%
2003/2004	103.80	785.10	13.22%
2004/2005	129.07	858.96	15.03%
2005/2006	143.53	1063.5	13.5%
2006/2007	177.54	1358.4	13.069%

(Source: Everest Bank, Annual Report)

Office operation expenses include expenses like rent, water and electricity, repair and maintenance etc. Ratios of EBL remained 12.55%, 13.28%, 12.86%, 10.84% 14.61%, 14.73% , 15.03, 13.5% and 13.069% in the respective years of study period. EBL has highest ratio in year 2004/2005 15.03% and lowest ratio in year 2000/2001. Higher ratios in year 2004/2005 and 2002/2003 might have adverse effect in the profitability of the bank.

4.2 Other Indicators

a. Earning per Share (EPS)

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

Table 4.26

Earning Per Share

Amount in million

FY	Earning available to shareholder	No. of ordinary share	EPS
1997/1998	25.03	1.20	20.86
1998/1999	25.23	1.20	21.03
1999/2000	41.26	1.20	34.38
2000/2001	69.70	2.20	31.68
2001/2002	85.34	2.60	32.82
2002/2003	94.18	3.15	29.90
2003/2004	143.56	3.16	45.57
2004/2005	170.81	3.15	54.22
2005/2006	237.33	3.78	62.69
2006/2007	296.41	378	78.41

(Source: Everest Bank, Annual Report)

Earning per share is calculated by dividing earning available to common shareholders by numbers of equity shares outstanding. Earning per share refers to the income available to the common shareholders. Ratios of EBL remained 20.86, 21.03, 34.83, 31.68, 32.82, 29.90, 45.43 and 54.22 in the respective years of study period. EPS in year 1997/1998 remain lowest and in year 2004/2005 remained highest. High EPS reflects sound profitability position of the bank, in this case year 2004/2005 remain most favourable to the investors.

b. Dividend per Share (DPS)

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

Table 4.27

Dividend per Share

Amount in million

FY	Earning available to shareholder	No. of ordinary share	DPS
1997/1998	-	1.20	-
1998/1999	17.76	1.20	15.00
1999/2000	-	1.20	-
2000/2001	-	2.20	-
2001/2002	-	2.60	-
2002/2003	63.00	3.15	20.00
2003/2004	63.00	3.15	20.00
2004/2005	66.00	3.15	20.00
2005/2006	34.5	3.78	25
2006/2007	37.8	3.78	10

(Source: Everest Bank, Annual Report)

EBL didn't pay dividend in year 1997/1998, 1999/2000, 2000/2001 and 2001/2002. It paid Rs. 15, Rs. 20 and Rs. 20 per share in year 1998/1999, 2002/2003, 2003/2004 and 2004/2005 respectively and then Rs. 25 and Rs. 10 in year 2005/2006 and 2006/2007. As dividend is the direct return received the shareholder they evaluate the organization performance.

c. Dividend Payout Ratio

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

Table 4.28
Dividend Payout Ratio

Amount in million

FY	DPS	EPS	DPR
1997/1998	-	20.86	-
1998/1999	15.00	21.03	0.71
1999/2000	-	34.38	-
2000/2001	-	31.68	-
2001/2002	-	32.82	-
2002/2003	20.00	29.90	0.67
2003/2004	20.00	25.57	0.78
2004/2005	20.00	54.22	0.37
2005/2006	25	62.69	0.4
2006/2007	10	78.41	0.13

(Source: Everest Bank, Annual Report)

EBL didn't pay dividend in year 1997/1998, 1999/2000, 2000/2001 and 2001/2002. In year 1998/1999 EBL paid 0.71% of earning to shareholders in year 1998/1999, 2002/2003, 2003/2004, 2004/2005, 2005/2006, 2006/2007 it paid 0.67%, 0.78%, 0.37%, 0.4% and 0.13 by his earning ratio respectively.

d. Price Earning Ratio (P/E Ratio)

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

Table 4.29
Price Earning Ratio

Amount in million

FY	MVPS	EPS	Ratio
1997/1998	184.00	20.86	8.82
1998/1999	407.00	21.30	15.00
1999/2000	995.00	34.84	28.56
2000/2001	650.00	31.56	20.60
2001/2002	405.00	32.91	12.31
2002/2003	445.00	25.89	17.19
2003/2004	680.00	45.57	14.92
2004/2005	870.00	54.00	16.04
2005/2006	1379.00	62.69	21.99
2006/2007	2430.00	78.41	30.99

(Source: Everest Bank, Annual Report)

The P/E ratio of EBL remained 8.82%, 15.00%, 28.56%, 20.60%, 12.31%, 17.19%, 14.92%, 16.04%, 21.99%, and 30.99% in respective year of study period. In year 1997/1998 it was 8.82% and in year in 2006/2007 it remained highest with 30.99%. Although there was increase in EPS in later years, MVPS decreased. Though MVPS has decreased from year 2001/2002 to 2002/2003 but started to recover from 2003/2004. It may be due to political instability in the country which in turn decreased P/E ratio.

4.3 Income and Expenditure Analysis

4.3.1 Income Analysis

Table 4.30

Income Analysis

Amount in million

Year / Income		1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Interest income	(Rs.)	1204.2	175.93	267.44	385.01	443.82	520.17	657.27	719.29	903.41	1144.4
	%	75.84%	80.17%	25.90%	82.71%	82.05%	21.88%	83.72%	83.74%	84.95%	84.24%
Commission & Discount Income	(Rs.)	14.73	23.56	25.90	30.56	30.77	61.50	74.33	78.13	96.84	117.7
	%	10.58%	10.74%	7.91%	6.56%	6.80%	9.68%	9.44%	9.09%	9.2%	8.67%
Foreign Income	(Rs.)	2.38	3.17	3.50	16.50	45.41	32.20	27.79	27.07	14.4	28.4
	%	1.71	1.44	1.07	3.54	8.39	5.07	3.54	3.47	1.35	2.1
Other Income	(Rs.)	17.92	16.78	30.39	33.43	14.92	21.43	25.68	31.77	48.9	67.9
	%	12.87	7.65	9.29	7.18	2.76	3.37	3.27	3.66	4.5	4.99
Total Income		139.23	219.44	327.23	265.50	540.92	635.30	785.04	858.95	1063.5	1358.4

(Sources: Everest Bank, Annual Report)

a. Interest Income

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

The above table shows the interest income of EBL that remained 74.84%, 80.17%, 81.73%, 82.71%, 82.05%, 81.88%, 83.72%, 83.74%, 84.95%, and 84.24% in the respective year of the study period. Interest income occupies the large portion in the total income of the bank. It seem to cover four fifth of the total income all the time.

b. Commission and Discount

Bank provide remittance facility, purchase and discount of bill of exchange, letter of credit, guarantees, standing instructions, agency functions for which they charge in form of commission and discount. The above table shows that the commission and discount earned by EBL in the respective year of study remained 10.58%, 10.74%, 7.91%, 6.56%, 7.80, 9.68%, 9.47%, 9.09%, 9.2% and 8.67 respectively. Commission and discount in amount in in increasing trend. But the percentage it occupies in the total income is somewhat fluctuating. In year 1997/1998 and 1998/1999 it was in highest point occupying 10.58% and 10.47% respectively. It was lowest in year 2000/2001 with 6.56%.

c. Foreign Exchange Fluctuation Income

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

The income from fluctuation of foreign currency exchange rate is Rs. 2.38%, 3.17%, 3.50%, 16.50%, 45.41%, 32.20%, 27.79 and 27.07 million that constitutes 1.71%, 1.44%, 1.07%, 3.54%, 8.39%, 5.07%, 3.54%, 3.15, 1.35% and 2.1% respectively of total income earned by EBL in respective study period.

d. Other Income

Income other than above comes under other income. Other income of EBL includes safe deposit vault rental income, telex/T.T. charges and other services charges. Other income of EBL appeared to be 12.87%, 7.65%, 9.29%, 7.18%, 2.76%, 3.37%, 3.27%, 3.66%, 4.5% and 4.99 in the respective study periods. It rose in year 1997/1998 and fluctuated in the latter years.

4.3.2 Expenditure Analysis

Table 4.31

Expenditure Analysis

Amount in million

Year / Income		1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Interest expenses	(Rs.)	74.72	118.70	178.37	236.70	257.05	307.63	316.36	239.56	401.37	517.16
	%	72.77	71.66	72.56	72.95	67.22	67.81	64.28	57.91	61.72	67.49
Staff expenses	(Rs.)	7.68	13.39	18.63	25.99	32.19	37.37	48.53	60.59	701.9	86.1
	%	7.48	8.08	7.58	8.01	8.42	8.24	9.86	11.71	10.9	11.23
Operating Expenses	(Rs.)	17.48	29.14	42.09	50.45	79.03	93.58	103.80	129.06	143.5	117.5
	%	17.02	17.59	17.12	15.55	20.67	20.63	21.09	24.95	22.1	15.33
Bonus	(Rs.)	2.80	4.41	6.75	11.34	14.15	15.09	23.45	28.08	38.56	45.47
	%	2.73	2.66	2.75	3.49	3.70	3.33	4.76	5.43	5.31	5.43
Total Income		102.68	165.64	245.84	324.48	382.42	453.64	492.14	517.31	650.33	766.23

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

a. Interest expenses

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

As observed the interest expenses out of total expenses of EBL recorded 72.77%, 71.66%, 72.56%, 72.95"%, 67.22%, 67.81, 67.81, 64.28%, 57.91%, 61.72 and 67.42% in respective study period. The highest percentage is 72.95% in year 2000/2001 and lowest is 57.91% in year 2004/2005.

b) Staff Expenses

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

It is seen that the staff expenses in EBL were 7.48%, 8.08%, 7.58%, 8.01, 8.42%, 8.24%, 9.86% 11.71%, 109 and 11.3% of total expenses in the respective study period.

c. Operating Expenses

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

Operating expenses covers 17.02%, 17.59%, 17.12%, 15.55%, 20.67%, 20.63%, 21.09%, 24.95%, 22.1% and 15.33% of total expenses incurred in respective study period. In year 2004/2005 it is maximum occupying 24.95% of total expenses and in year 2000/2001 it is minimum occupying 15.55% of total expenses.

d. Bonus Facility

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

It depicts that expenses for bonus in EBL remained 2.73%, 2.66%, 2.75%, 3.49%, 3.70%, 3.33%, 4.76%, 5.43%, 5.31% and 5.43% in respective year of the study period.

4.4 Correlation Analysis

a. Correlation Analysis between Total Deposit and Net Profit

Table 4.32

Correlation Analysis between Total Deposit and Net Profit

Amount in million

Year	Deposit (x)	Net profit (y)
1997/1998	1124.90	25.03
1998/1999	1948.94	25.23
1999/2000	3075.42	41.26
2000/2001	4574.51	69.70
2001/2002	5466.61	85.34
2002/2003	6695.00	94.18
2003/2004	8063.90	143.65
2004/2005	10.097.69	170.81
2005/2006	13802.4	237.33
2006/2007	18186	296.41

(Calculation: Appendix I)

r= 0.912

P.Er=0.008

Above table shows the coefficient of correlation and probable error of correlation coefficient between deposit and net profit in EBL remained 0.912 and 0.008 respectively. It shows higher positive correlation between two variables, deposit and net profit. P.Er is less than r which means that the relationship between deposit and net profit is significant. Further r>6 P.E. i.e. 0.912>0.048. This shows that net profit of EBL increases almost to the same degree with increase in the amount of deposit.

b. Correlation Analysis between Performing Assets and Net Profit

Table 4.33

Correlation Analysis between Performing Assets and Net Profit

Amount in million

Year	Deposit (x)	Net profit (y)
1997/1998	1089.63	25.03
1998/1999	1647.96	25.23
1999/2000	2940.63	41.26
2000/2001	4147.47	69.70
2001/2002	5725.63	85.34
2002/2003	6562.43	94.18
2003/2004	8607.21	143.65
2004/2005	10317.61	170.81
2005/2006	14068.7	237.33
2006/2007	18648.3	296.41

(Calculation : Appendix)

r= 0.992

P.Er= 0.0038

Above table shows the coefficient of correlation and probable error of correlation coefficient between performing assets and net profit in EBL remained 0.992 and 0.0038 respectively in the study period. Correlation coefficient appeared greater that six times the probable error i.e. 0.992>0.023 which indicates that the net profit and performing assets of the bank are highly and positively related. Therefore EBL can raise its net profit by increasing the performing assets.

c. Correlation Analysis between Total Deposit and Loans and Advances

Table 4.34

Correlation Analysis between Total Deposit and Loans and Advances

Amount in million

Year	Deposit (x)	Loans and Advances (y)
1997/1998	1124.90	871.67
1998/1999	1948.94	1364.88
1999/2000	3075.42	2270.17
2000/2001	4574.51	3005.75
2001/2002	5466.61	3948.47
2002/2003	6695.00	4908.46
2003/2004	8063.90	5884.12
2004/2005	10097.69	7618.67
2005/2006	13802.4	9801.3
2006/2007	18186.25	13664.081

(Calculation: Appendix)

r= 992

P. Er= 0.001

Above table shows coefficient of correlation between deposit and loan and advances is 0.992 which shows higher positive correlation between these two variables. P.Er is 0.001 which means relationship between two variables is significant. Similarly considering the value of r i.e. 0.99 and comparing it with 6*P. Er i.e. 0.006 we can say that the value of r is more than 6 P.Er. That reveals that there is significant relationship between deposit and loans and advances. Therefore the bank may raise the volume of loan and advances with rise in the volume of total deposit. It also shows that EBL is successful to mobilize its fund in proper way in loan and advances.

d. Correlation Analysis between Total Deposit and Investment

Table 4.35

Correlation Analysis between Total Deposit and Investment

Year	Deposit (x)	Investment (y)
1997/1998	1124.90	217.95
1998/1999	1948.94	283.07
1999/2000	3075.42	260.11
2000/2001	4574.51	901.72
2001/2002	5466.61	1693.04
2002/2003	6695.00	1653.97
2003/2004	8063.90	2535.65
2004/2005	10097.69	2128.93
2005/2006	13802.4	4200.51
2006/2007	18186.25	4984.3

(Calculation: Appendix)

r= 0.942

P.Er.= 0.042

Above table shows the coefficient of correlation between deposit and total investment is 0.929 it shows higher positive relationship between two variables. Correlation coefficient appeared greater than six times the probable error i.e. 0.929>6*0.0326. It implies that the correlation between total deposit and investment of the bank are correlated at significant level. Increase in the amount of deposit, investment of the bank seems to increase.

e. Correlation between EPS and MVPS

Table 4.36

Correlation between EPS and MVPS

Amount in million

Year	EPS (x)	MVPS (y)
1997/1998	20.86	184.00
1998/1999	21.30	407.00
1999/2000	34.84	995.00
2000/2001	31.56	650.00
2001/2002	32.91	405.00
2002/2003	25.89	445.00
2003/2004	45.57	680.00
2004/2005	54.22	870.00
2005/2006	62.69	1379.00
2006/2007	78.41	2430

(Calculation: Appendix)

r=0.825

P.Er= 0.102

Above table highlights the correlation coefficient and probable error of coefficient between EPS and MVPS which were 0.825 and 0.102 respectively. The correlation coefficient lies between -1 and +1 which implies that there is perfect positive correlation between the variables. Correlation coefficient appeared slightly greater that six times the probable error i.e. 0.825>0.102. So we can strongly say that there is significant relation between the variables.

f. Correlation between DPS and MVPS

Table 4.37

Correlation between DPS and MVPS

Amount in million

Year	DPS (x)	MVPS (y)
1997/1998	-	184.00
1998/1999	15.00	407.00
1999/2000	-	995.00
2000/2001	-	650.00
2001/2002	-	405.00
2002/2003	20.00	445.00
2003/2004	20.00	680.00
2004/2005	20.00	870.00
2005/2006	25.00	1379.00
2006/2007	10.00	2430

(Calculation: appendix)

r= 0.133

P.Er= 0.2343

Above table shows the coefficient of correlation and probable error of correlation coefficient between DPS and MVPS in EBL remained 0.133 and 0.2343 respectively in the study period. But correlation coefficient appeared to be less than six times the probable error i.e. 0.133<6*0.2343 which means the value of r is insignificant.

4.5 Trend Analysis

Table 4.38
Trend Analysis of Total Deposit

Amount in million

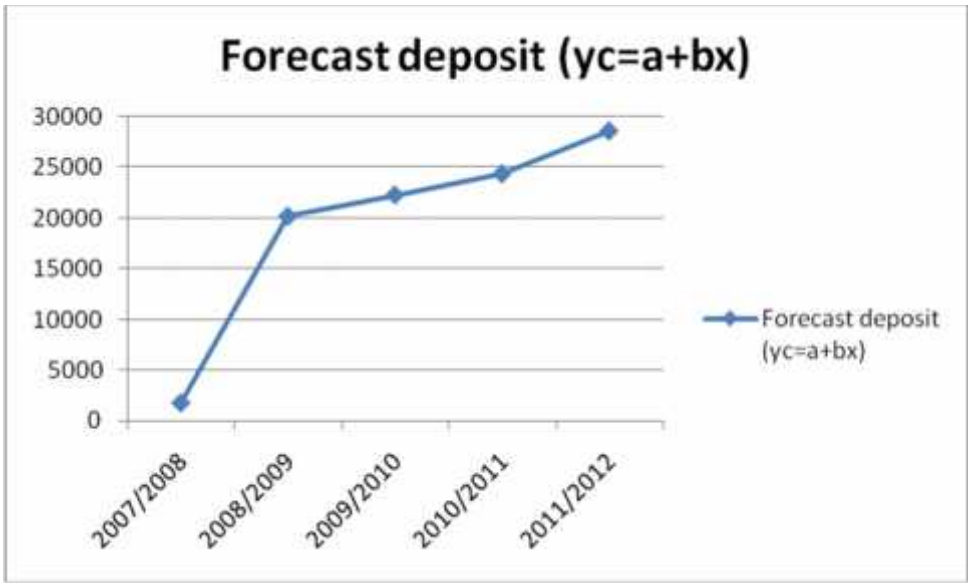
Year (x)	Deposit (y)	Year (x)-5	X^2	Xy
1997/1998	1124.90	-4	16	(4496.6)
1998/1999	1948.94	-3	9	(5846.82)
1999/2000	3075.42	-2	4	(6150.84)
2000/2001	4574.51	-1	1	(4574.51)
2001/2002	5466.61	0	0	0
2002/2003	6695.00	1	1	6695.0
2003/2004	8063.90	2	4	16167.8
2004/2005	10097.64	3	9	30293.07
2005/2006	13802.4	4	16	55204.6
2006/2007	18186.25	5	25	90931.25
Total	54869.37		85	178224.95

Trend Forecast for Next Five Years

Year	Forecast deposit (yc=a+bx)
2007/2008	1806.74
2008/2009	20163.5
2009/2010	22260.26
2010/2011	24357.2
2011/2012	28550.54

Where, $a = \frac{\Sigma y}{n} = \frac{54869.35}{10} = 5486.93$

$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{178224.95}{85} = 2096.76$



Trend Analysis of Net Profit

Year (x)	Net Profit (y)	X = Year (x)-y	X^2	Xy
1997/1998	25.03	-4	16	100.12
1998/1999	25.23	-3	9	-75.69
1999/2000	41.26	-2	4	-41.26
2000/2001	69.7	-1	1	-69.7
2001/2002	85.34	0	0	0
2002/2003	94.18	1	1	94.18
2003/2004	143.56	2	4	287.12
2004/2005	170.81	3	9	512.43
2005/2006	237.38	4	16	945.52
2006/2007	296.41	5	25	1482.05
Total	1189.9		85	3038.53

Trend Forecast for Next Five Years

c	Net Profit (yc=a+bx)
2007/2008	403.37
2008/2009	439.11
2009/2010	474.85
2010/2011	510.59
2011/2012	546.3

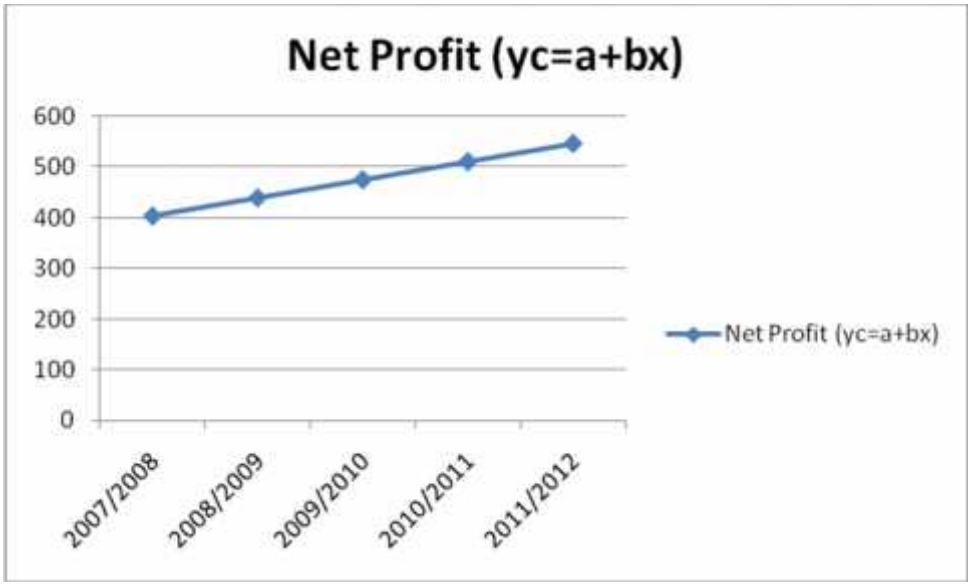
Where, $a = \frac{\Sigma y}{n} = \frac{1888.9}{10} = 188.89$

$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{3038.53}{85} = 35.74$

yc = a + bx (2007/08)

= 188.89 + 35.74 x 6

= 403.37



4.6 Major Findings of the Study

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

Although EBL could not maintain conventional standard of 2:1, current ratio seems to be satisfactory. In the final years of the study period it was more close to the conventional standard. EBL has made enough investment in Nepal Government securities like Treasury bond, development bond and shares and debentures in the final years of the study period.

Cash and bank balance to the current and saving deposit ratio seems to be inconsistent. In the year 2003/04 the ratio was 12.23%. This exhibit that EBL may not be able to meet its immediate obligation as the bank balance is much lower than the current and saving deposit. EBL is operating at high risk. In other hand in 1997/98 the ratio was 63.23%. It shows that in the year 1997/98 EBL seemed unsuccessful to utilize the raised fund from the current and saving deposit that may have affected the profitability adversely.

Only 7.83% of total deposit was held as cash and bank balance in the year 2003/04 by EBL which shows week liquidity position. But in the year 1998/99 EBL had 23.64% of the total deposit as cash and bank balance. EBL is very inconsistent in maintaining its liquidity position.

NRB balance by total deposit never dropped below 8%, the percentage to be maintained as directed by NRB. It was higher than the prescribed percentage. EBL has maintained NRB balance to fixed deposit ratio above the standard prescribed by NRB.

Nearly 50% of the total deposit is occupied by fixed deposit. In later years 2003/04 to 2006/07 the ratio fixed deposit to total deposit is less than the earlier period. EBL has more debt than equity in the total capital as revealed by debt equity ratio. Debt asset ratio showed that more than 50% of the total asset had been financed by the outsider's fund.

Interest coverage ratio of EBL seems to be lower in all the period. This indicates that there is excessive use of debt for which interest are to be paid.

EBL has been successful in utilizing its deposit on loan and advances which is depicted by loan and advances to total deposit ratio.

EBl has efficiently utilized the high interest bearing fixed deposit.

Loan and advances to total deposit ratio fixed deposit was inconsistent during the study period. Overall rate can be satisfactory.

The investment to total de[posit ratio deposit ratio showed irregular pattern during the study period. It was high in position in year 2003/04 with 31.44% and 30.43% in 2005/06.

Performing assets to total asset ratio showed that EBL has funded total assets for income generation. EBL has utilized assets effectively.

Performing assets to total debt ratio was on higher side, which depicts EBL is efficiently utilizing the creditor's fund.

Loan loss coverage ratio of EBL over the period remained lesser than 1% that indicates that assets financed by EBL are superior in quality. The figures show the low level of nonperforming assets.

Loan loss provision to total income ratio was quite minimal through out the study period that indicates EBL's awareness in advancing loans.

Almost all loan loss provision to total deposit ratio of the corresponding year of the study period were less than 1%. Therefore we can conclude that EBL has granted loan which are less risky.

Moderate amount of interest are still to be collected by EBL as shown by accrued interest to total interest income ratio.

Return on asset ratio showed that profitability with respect to financial resources investment of the bank assets is unsatisfactory as well as unstable.

Interest expenses to interest income ratio is in the higher side. On average it is more than 50% that shows that EBl gap between interest earned and interest paid is quite low but in later years EBl is successful in allocating interest bearing debt in profitable sectors.

Interest earned tot total asset ratio was very low throughout the study period which shows EBL has not utilized its assets effectively for generating income.

Staff expenses to total income ratio remained lower than it indicates EBL. It indicates that EBL carried out its operation efficiently with lesser staff expenses which is the highest in 2004/05.

Office operation expenses to total income ratio remained moderate in nature.

EBL's EPS remained inconsistent throughout the study period. In the final year of study period i.e. 2006/07 it was weak in position.

Income analysis showed that interest income remained dominant in EBL. More than three fourth of the income was occupied by interest income throughout the study period.

Expenditure analysis showed that interest expenses occupied major portion in expenses of EBL.

Deposit and net profit, performing asset and net profit, total deposit and loan and advances, total deposit and investment is found to be positively correlated at significant level.

EPS and MVPS were found to be positively correlated but correlation coefficient appeared to be less than 6 times the probable error.

Correlation coefficient between DPS and MVPS is 0.113. Coefficient of correlation is less than probable error that means the value of r is significant.

The trend analysis of total deposit, loan and advances and net profit shows the increasing trend.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Attempt of this chapter is to present summary, conclusion, and to give necessary suggestions and recommendations.

5.1 Summary

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and the profit and loss account. Ratio analysis is one of the tools used by financial analysis for making decisions regarding credit and investments. This method utilizes the data found in financial statements to determine a bank's standing. It will compare the bank's ratios to its past performance as well as to bank statistics to determine risks, trends, and to identify any peculiarities. This study was conducted to evaluate the financial performance to EBL, which is working as Joint Venture Bank in Nepal by providing the quality and banking services. The various financial indicators were used for analysis of financial data of the sampled bank. The analysis is done on the basis of financial statement from 1997/98 to 2006/07. This study is mainly based on the secondary data.

Banking system of Nepal has undergone significant change since liberalization of the financial sector in mid eighties. It has improved in quantitative as well as qualitative terms. Small and fast growing financial sector comprises of commercial banks and other financial institutions like development banks, finance companies, cooperatives etc. due to political and other reasons, Nepal's economy has been discouraged to establish new facilities due to Maoist threats and labour problems. This situation will definitely affect the banking sector as well. In situation where the volume of business is not increasing, but rather decreasing, and financial institutions are mushrooming, there will be a tremendous pressure on the financial institutions for survival. The intense competition and lack of sufficient investment opportunities have created threats to banks. Therefore future in the banking sector will be more

competitive with quality and speedy service. Banks will have to provide quality service and is to attain objectives along with maintaining social responsibility to sustain in market.

5.2 Conclusion

The gist of the study is the selected Everest Bank which is one of the growing bank in Nepal. EBL has been maintaining a steady growth rate over this period. It has been able to increase its customer base manifold and has also shown outstanding growth in all parameters of banking. A notable strength of the bank's achievement is its containment of NPA's with gross NPA's restricted to 1.72% of the total credit throughout the years. This shows that the EBL has been successful to foresee the the quality of loans lent. Interest income is the main source of income and over th years it has become more dominant as 84.24% of total income contributed by it. The bank's liquidity position is satisfactory. The liquid assets have increased substantially in the review periods.

EBL earned a net profit of Rs. 296.41 million for the fiscal year 2006/07 and this comes to be 24.89% more as compared to the same period in the previous fiscal year 2005/06. The bank's financial performance in the last five years shows a continuous increase in its net profit.

5.3 Recommendations

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

- It is suggestive to hold the fund in form of cash or cash equivalent items t o the extent of requirement. Estimation can be done on the basis of past trend and experience, nature of depositors, and constantly analyzing the external environment.

- EBL, most of the time, maintained NRB balance to total deposit ratio and NRB balance to fixed deposit higher than the standard prescribed by NRB. The idle fund doesn't yield and return. It is suggested to lower the ratio and invest the surplus in other current assets.
- EBl in the later years has given more priority to invest its fund in government securities. Though the government securities are free of risk they yield lower interest rate. It is recommended not to give all attention to government securities and diversify investment policy.
- Banking has become more and more competitive in the present days. EBL needs to find sources of income apart from the traditional interest income to stay competitive providing many other services to its customer.
- EBL has greater portion of debt in capital. Bank should be aware of the possible risk that may arise due to slackness in the business activities.
- Staff expenses to total income ratio remained lower. Lower ratio may affect staffs morale which in turn decreases the profit. Though training, seminars, conferences and other programmes efficiency of the staff can be improved. The human resources need to be continuously developed through training and workshops otherwise it may hamper the productivity and efficiency of the employees besides the motivation factor. The PNB allows free training packages in exchange of the annual TSA for the employees of the bank but the bank has not been able to use the facility. It is also suggested to minimize the office operation expenses.

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