CHAPTER - I
INTRODUCTION

1.1 Background of the Study

The study of performance of listed commercial banks and returns to investors occupies an important role in the development of capital market. Development and expansion of capital market are essential for the rapid economic growth of the country. Capital market helps economic development by mobilizing long term capital needed for productive sector. It is vital to long term growth and prosperity of the economy since it provide the channel through which needed funds can be raised.

Bank is a financial institution, which plays significant role in the development of the country. It helps the growth of agriculture trade, commerce and industry of the national economy. The banking sector is largely responsible for collecting household saving it items of different types of deposits and regulating them in the society by lending them in different sector of the economy. The banking sector has now reached even to the most remote areas of the country and has contributed a good deal to the growth of the economy. By lending their resources in small scale industries under intensive banking programmed the banks has contributed to the economic growth of the economy.

Banking institution are inevitable for the resources mobilization and the all round development of the country. They have resources for economic development and they maintain economic confidence of various segments and extend credit to people.

Banking concept existed even in the ancient period, when the gold smiths and reach people used to issue receipt to the common on people against the promise to safe keeping of their valuable items on the presentation of the receipt, the depositors would get back their gold and valuable after paying a small amount for safe keeping and saving.

This is the main reason for accepting banks since ancient time in some form. Previously gold smiths performed this task but now various types of banks have taken over this task.

Banks refers to any firms that are basically concerned with the transaction of money, however today banks are established for specific purpose. Different types of banks are

focusing different types of services to their customers. Although the basic principle is the same today different types of the financial institution have been established with different purpose. Such as Merchant bank, overseas bank, clearing bank, the discount house, Trustee saving bank, Mobil serving bank etc.

These banks give different types of services to people. Basically banks performs various types of services like collection of deposits from the public , granting loans to the investors in different sector, overdraft , guarantee against payment , letter of credit discounting bills promissory, selling of shares agency function etc.

When the opinion Finance Company Act 1985 and democratic movement 1989, His majesty's government has formally adopted the economic liberalization policy. This policy has been more emphasis to the private sector and international investors to invest in Nepal, as encouraging factor of sustainable economic growth. The new policy has already resulted that the establishment of finance companies is an encouraging trend. The main objectives of the commercial banks is to collect deposits and to provide loan and also mobilizing scattered saving through various schemes and deploy them in different sector of the economy for the economic development of the country, the aim of the Finance Company Act 1985 is to guide the economic in right direction as giving services where Commercial Banks and other financial institution mentioned where are but available.

The history of the development of financial institutions in Nepal was very long. The first commercial bank is Nepal bank Ltd, established in 1994 B.S. is none government sector.

Then the Nepal Rastra Bank (Central Bank of Nepal) in 2013 B.S. was a significant dimension in the development of banking sector. The second commercial bank is Rastriya Banijaya Bank Ltd., which has established in 2021 B.S., a fully wondered of government bank. Then after other banks were established gradually.

According to Nepal Commerce Bank Ltd. 2031 B.S., a commercial bank is the one which exchanges money, deposits money, accepts deposit grants loan and performs commercial banking function and which is not a bank meant for co-operative agriculture, industries as for such specific purposes.

When the government adopted liberal and market oriented economic policy since mid-1995, Nepal allowed foreign banks on joint the approval from Nepal Rastra bank. These foreign joint venture banks are allowed 50% foreign equity participation. As result first only three JV bank's namely Nepal Arab bank Ltd., Nepal Indo-sues bank Ltd., and Nepal Griendlays Bank Ltd. were established in 2041, 2042 and 2043 B.S. respectively.

Nepal Industrial and Commercial Bank Ltd.(NIC) was established on July, 1998 under Commercial Banking Act 2031 with 65% equity held by Nepalese Promoter and 35% by general public with capitalized Rs 500 millions. It's headquarter is at Biaratnagar .Within 14 years of commencing business ,the bank has grown rapidly with 36 branches throughout the country while several branches are planned to be opened this year. The Bank is the first commercial bank in Nepal to have received ISO 9001:2000 certification for quality management system and recently has been certified under upgraded ISO 9001:2008 standard for the bank's quality system on commercial bank activities for the first time in Nepal. The Bank has also been awarded the"Bank of the Year 2007" by the world- renowned financial publication of the financial times, U.K . The Banker.NIC is the most widely held banking companies in Nepal with close to 35000 share holders.

Everest Bank Limited (EBL) is a joint venture commercial bank with Punjab National bank (PNB). It started its operation in 1994 under Commercial Banking Act 2031 with 20% equity participation by PNB, 50% by Nepalese promoters and 30% by general public. The bank is managed by PNB, India in accordance with joint venture and technical services agreement between it and Nepali promoter. EBL's headquarter is at Lazimpat, Kathamandu.The bank has been conferred with "Bank of the Year 2006, Nepal" by the banker, a publication of financial times. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector. The bank is providing customer services through a network of 48 branches,23 collection and 63 ATMS across the nation.

1.2 Focus of the Study

Commercial banks play a tremendous role in a development of developing nations, also helps in the economic sector of the country. Typically, commercial bank's main motive is to make profit by providing quality services to the customers in Nepal. There are 32 commercial banks operating in Nepal. Banks' performance is dependent on elements like capital, earning capability of their resources, returns to their shareholders and liquidity situation, etc. NRB has become so critical on requirements to maintenance of capital adequacy ratios, liquidity

ratios in the banks' deposit collection and lending activities. As long as the banks are able to maintain the requirements on these aspects they are allowed to carry out their full fledged banking activities. Similarly, the banks' profitability, efficiency have impacts on the investors. Therefore, the focus has been put on assessing the capital adequacy, earning capability and efficiency and liquidity of the sample commercial banks.

The main objectives of this research is to analyze the financial performance through the use of appropriate financial tools, so this research focused mainly to highlight and examine the profit ability position of the selected banks ignoring other aspects of banks transactions.

To highlight the financial portion of the banks, the research is based on the certain financial tools in the CAMEL framework.

1.3 Statement of the Problem

A financial institution's soundness is judged on the basis of capital adequacy, asset quality, management, earning, and liquidity (CAMEL). Some financial institution have very low capital adequacy ratio while some have piled of non-performing assets. Similarly, it appears that financial institutions do not have proper system managing the correctness of credit classification and provision of some commercial banks. The profitability position of a firm is generally known through financial statements but a major question emerges whether there are adequate to reflect the overall performance of company. The fundamentals problem of this study is to check up the financial health of Nepal Industrial and Commercial Bank Ltd.and Everest bank Ltd. in the framework of CAMEL. Based on this general problem the following specific problems are set in this study.

1. What are the causes of financial inefficiency of Nepal industrial &commercial bank and Everest bank limited?
2. To what extent have Nepal industrial &commercial bank and Everest bank limited been able to maintain the optimal financial structure?
3. To what extent of Nepal industrial &commercial bank and Everest bank limited have been able to raise their profitability?
4. What are the probabilities of maintaining a sound and efficient optimal financial structure of Nepal industrial & commercial bank and Everest bank limited?

1.4 Objectives of the Study

The general objective of this study is to make comparative analysis of the financial performance of the two commercial banks, NIC and Everest Bank Ltd. and to recommend, suggestion for the improvement of state of affair. The specific objectives of the study are given below.

- õ To measure the capital adequacy of Nepal industrial &commercial bank and Everest bank limited.
- õ .To evaluates the asset quality of Nepal industrial & commercial bank and Everest bank limited.
- õ To find out the management efficiency of Nepal industrial & commercial bank and Everest bank limited.
- õ To measure the earning capacity of Nepal industrial & commercial bank and Everest bank limited.
- õ To measure the liquidity position of Nepal industrial & commercial bank and Everest bank limited.

1.5 Significance of the Study

Research itself has own importance because it aims to gain knowledge and to add the new literature to the existing field. The significance of this study lies mainly in filling a research gap on the study of comparative financial performance analysis of with respect to NIC and EBL. This study will contribute significantly to solve the problem existing in the financial institution and to formulate the policy and strategies to maintain activities effectively. The study is important for commercial banks, researchers, scholars, investors, students, government and many other parties. So, this study will be helpful to those who want to study in further detail and widely in this field. At last, it is expected that the study will add a drop of literature to the field of commercial banks and their comparative financial performance analysis.

1.6 Limitations of the Study

As every study is conducted within certain limitations the present study is not an exceptional. The study is based on a case study of NIC and EBL, which may not represent the overall scenario of all commercial banks. Basically, the study is limited within the following factors.

- Out of various commercials banks, the study is conducted on only two banks: NIC and Everest Bank Ltd.
- Most of the data ore of secondary nature and the calculations, conclusions of the study will fully depended on the accuracy of the data provided by the respective organization.
- The study covers the financial performance of the NIC and EBL for the period of only five fiscal years (F/Y 2006/07 to 2010/11).
- The study is simply a partial fulfillment of MBS degree and prepared with in time constraint.

1.7 Organization of the Study

The study will divide into five chapters.

Chapter I: Introduction

This chapter explains background of the study, Focus of the study, Statement of the problem, Objectives of the study, significant of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature

This chapter is included Conceptual review and Review of related studies. Past studies conducted by foreign and Nepalese scholars in the performance of financial institution have also been presented.

Chapter III: Research Methodology

This chapter includes research design, population and sample, Nature and Source of Data, Data Collection Procedures, Data Processing Data and Analysis Tools

Chapter IV: Data Presentation and Analysis

Fourth chapter is Data presentation and analysis. This chapter is included Data presentation, Data analysis and Major finding of the study

Chapter V: Summary, Conclusion and Recommendations

This chapter consists of summary of the study, conclusion of the major findings and recommendations for further improvement.

CHAPTER - II

LITERATURE REVIEW

Conceptual review is important for every study that provides clear concept on subject matter for the study. This chapter confines to conceptual review, review of research and work papers and review of thesis. The last part of this chapter brief explanation of major findings of previous study is undertaken. This chapter is divided into two parts: conceptual review and review of related studies.

2.1 Conceptual Review

This sub-chapter presents the theoretical aspect of the study. It includes the concept of financial performance analysis and concept of CAMEL rating system.

2.1.1 Financial Performance Analysis

Financial performance analysis is a process of identifying the financial strength and weakness of the firm by properly establishing the relationship between item of balance sheet and the profit and loss account. It is undertaken to assess the financial strength and weakness of the firm. The analysis is usually based on financial statement prepared by the firm. Financial analysis serves as the basis for decision making. Moreover this analysis is also made to find out whether to use debt or equity funds to finance planned plant expansion. Financial analysis uses data contented in the firm's financial statement supplemented by the statement of cash flows. Furthermore, it summarized the large quantity of financial data and makes qualitative judgment about the firm's financial performance. The primary tools of financial analysis are financial ratios. Financial ratios provide a good technique for assessing financial performance.

"Financial statements contain a wealth of information, which if properly analyzed and interpreted, can provide valuable insights into firm's performance and position" *(Chandra; 1992:6).* "Analysis of financial statements is of interest to lenders, investors, security analysis, managers and others. It generally begins with the calculations of set of financial ratios designed to reveal the relative strength and weaknesses of a company as compares to other companies in the same industry, and to show whether the firm's position has been improving or deteriorating over time" *(Western and Copeland; 1991:59).* "Financial analysis is a process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the item of balance sheet and the profit and loss account" (*Pandey; 1999:26*).

2.1.2 Concept of "CAMEL" Rating System

Federal Reserve Bank of New York (1997) has defined the component of CAMEL as rating system which produces a composite rating of an institution's overall condition and performance by assessing five components: Capital Adequacy, Asset Quality, Management Administration, Earning and Liquidity.

CAMEL was originally developed by the FDIC for the purpose of determining when to schedule an on-site examination of bank. (*Thomson 1991; Whalen and Thomson, 1988)* The FFIEC is revised in January 1997, the UFIRS, which is commonly referred to as the CAMEL rating system. This system was designed by regulatory authorities to quantify the performance and the financial condition of the Banks which it regulates.

The CAMEL rating system is subjective. Benchmarks for each component are provided, but they are guidelines only, and present essential foundations upon which the composite rating is based. They do not eliminate consideration of other pertinent factors by the examiner. The uniform rating system provides the groundwork for necessary supervisors to be reasonably compared and helps institutions supervised by all three US supervisors to be reasonably compared and evaluated. Ratings are assigned for each component in addition to the overall rating of a financial institution's financial condition. The ratings are assigned on a scale from 1 to5. The CAMEL ratings are commonly viewed as summary measures of the private supervisory information gathered by examiners regarding financial institutions' overall financial conditions, although they also reflect available public information.

The most important criteria for determining the appropriateness of FIs to act as financial intermediary are its solvency, profitability and liquidity. In this respect, the BCBS of the bank of international settlements (BIS), since 1988, has recommended using capital adequacy, assets quality, management quality, earnings and liquidity (CAMEL) as criteria for assessing FI.

During an on-site bank exam, supervisors gather private information, such as details on problem loans with which to evaluate a bank's financial condition and to monitor its compliance with laws and regulatory policies. A key product of such an exam is a supervisory rating of the bank's overall condition, commonly referred to as a CAMEL rating. CAMEL rating system is used by the three federal banking supervisors [the Federal Reserve,

the FDIC, and the office of the comptroller of the currency (OCC)] and other financial supervisory agencies to provide a convenient summary of bank conditions at the time of an exam. In Nepal, the NRB plays the supervisory role for evaluating financial institution's financial condition through rating the financial institution's in accordance to CAMEL is still in its initial phase.

Composite Rating

The FFIEC press release, USA (1996) describes the composite rating and defines the six components rating. According to the press release, composite ratings are based on a careful evaluation of an institution's managerial, operational, financial and compliance performance. The six key components used to assess an institution's financial condition and operations are: capital adequacy, asset quality, management capability, earnings quality, the adequacy of liquidity and sensitivity to market risk. The rating scale range from 1 to 5, with a rating of 1 indicating: the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile and the level of performance inadequate risk management practices relative to the institution's size, complexity, risk profile and the greatest supervisory concern. The composite ratings are defined in the FFIEC press releases (1996) are as follows.

Composite 1: FIs in this group are in every respect and generally have components rated 1 or 2. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. These FIs are the most capable of withstanding the vagaries of business condition and are resistant to outside influences such as economic instability in their trade area. These FIs are in substantial compliance and risk management practices relative to the institution's size, complexity and profile and give no cause for supervisory concern.

Composite 2: FIs in this group are fundamentally sound. For a FI to receive this rating, generally no component rating should be more severe than 3. Only moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct. These FIs are in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity and risk profile.

Composite 3: FIs in this group exhibit some degree of supervisory concern in one or more of the component areas. These FIs exhibit a combination of weaknesses that may range from moderate to sever: however, the magnitude of the deficiencies generally will not cause a component to be rated more severely than 4. FIs in this group generally are more vulnerable to outside influences than those institutions rated a composite 1 or 2. Additionally, these FIs may be in significant noncompliance with laws and regulations.

Composite 4: FIs in this group generally exhibit unsafe and unsound practices or conditions. There are serious financial or managerial deficiencies that result in unsatisfactory performance. The problems range from severe to critically deficient. The weaknesses and problems are not being satisfactorily addressed or resolved by the board of directors and management. FIs in this group generally are not capable of withstanding business fluctuations. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the institution's size, complexity and risk profile. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems. Institution in this group poses a risk to the deposit insurance fund. Failure is a distinct possibility if the problems and weaknesses are not satisfactorily addressed and resolved.

Composite 5: FIs in this group exhibit extremely unsafe and unsound practices or conditions exhibit a critically deficient performance, often contain inadequate risk management practices relative to the institution's size, complexity and risk profile are of the greatest supervisory concern. The volume and severity of problems are beyond management's ability or willingness to control or correct. Immediate outside financial or other assistance is needed in order for the FIs to be viable. Ongoing supervisory attention is necessary. Institutions in this group pose a significant risk to the deposit insurance fund and failure is highly probable.

2.1.3 CAMEL Components

Each of the components rating description in the FFIEC press release (1996) is divided into three sections: an introductory paragraph a list of the principal evaluation factors that relate to that component and a brief description of each numerical rating for that component. Some of the evaluation factors are reiterated under one or more of the other components to reinforce the interrelation between components. The listing of evaluation factors for each component

rating is in no particular order of importance. The description of the CAMEL components are made as under based on the FFIEC press release (1996).

2.1.3.1 Capital Adequacy

Bank capital performs several important functions. Most importantly they are:

Absorbs Losses: Capital allows institution to continue operating as going concern during periods when operating losses or other adverse financial results are experienced.

a) Promotes Public Confidence

Capital provides a measure of assurance to the public that an institution will continue to provide financial services even when losses have been incurred, thereby helping to maintain confidence in the banking system and minimize liquidity concerns.

Restricts Excessive Asset Growth: Capital along with minimum capital ratio standard, restrains unjustified asset expansion by requiring that asset growth be funded by a commensurate amount of additional capital.

b)Provides Protection to Depositors

Placing owners at significant risk of loss, should the institution fail, helps to minimize the potential “moral hazard” and promotes safe and sound banking practices.

Capital is necessary for the bank to operate. While many areas of a bank are important and subject to scrutiny, capital adequacy is the area that triggers the most regulatory of capital adequacy, which are:

- The Tier 1 Risk-Based capital ratio.
- The total risk-based capital ratio.
- The tier 1 leverage ratio.

The capital adequacy of an institution is rated based upon, but not limited to, an assessment of the following evaluation factors:

- Size of the bank.
- Volume of inferior quality assets.
- Bank’s growth experience, plans and prospects.
- Access to capital markets.

- Non-ledger assets and sound values not shown on books (real property) at nominal values, charge-offs with firm recovery values, tax adjustments).

The FDIC improvement Act of 1991, which created a link between enforcement actions and the level of capital, held by a bank. This supervisory link is commonly known as prompt Corrective Action (PCA) and aims to resolve banking problems early and at the least cost to the bank insurance fund. PCA has classified the banks as:

Well-Capitalized

To be considered well-capitalized, a bank will meet the following conditions:

- Total risk-based capital is 10 percent or more.
- Tier 1 risk-based capital ratio is 6 percent or more.
- Tier 1 leverage ratio is 5 percent or more.

In addition to these ratio guidelines, to be well capitalized bank can not be subject to an order, a written agreement, a capital directive or a PCA directive.

Adequately Capitalized: to be considered well capitalized, bank will meet the following conditions:

- Total risk-based capital ratio is at least NRB minimum capital adequacy ratio requirement.
- Tier 1 risk-based capital ratio is at least NRB minimum tier 1 capital ratio requirement.
- Tier 1 leverage ratio is at least 4 percent.

Undercapitalized

To be considered undercapitalized, a bank will meet the following conditions:

- Total risk based capital ratio is less than 8 percent.
- Tier 1 risk based capital ratio is less than 4 percent or tier 1 leverage ratio is less than 4 percent.

Significantly Undercapitalized: To be considered significantly undercapitalized a bank will meet the following conditions:

- Total risk based capital ratio is less than 6 percent.
- Tier 1 risk based capital ratio is less than 3 percent
- Tier 1 leverage ratio is less than 3 percent.

2.1.3.2 Assets Quality

"Asset quality is one of the most critical areas in determining the overall condition of the commercial bank. The primary factor effecting overall asset quality is the quality of the loan portfolio and the credit administration program. Loans are usually the largest of the asset items and can also carry the greatest amount of potential risk to the company's capital account. Security can often be a large portion of the assets and also have identifiable risks. Other items which impact a comprehensive review of asset quality are other real estate, other assets, off-balance sheet items and, to a lesser extent, cash and due from accounts and premises and fixed assets" (*Koch and Macdonald; 2004:165*).

Management often expends significant time, energy and resources on their asset portfolio, particularly the loan portfolio. Problems within this portfolio can detract from their ability to successfully and profitably manage other areas of the institution. Examiners need be diligent and focused in their review of the various asset quality areas, as they have an important impact on all other facets of commercial banks operations.

Evaluation of Asset Quality

The evaluation of asset should consider the adequacy of the allowance for loan and lease losses (ALLL) and weigh the exposure-party, issuer or borrower default under actual or implied contractual agreements. All other risks that may affect the value or marketability of an institution's assets, including but not limited to, operating, market, reputation, strategic, or compliance risks, should also be considered. Prior to assigning an asset quality rating, several factors should be considered. The factors should be reviewed within the context of any systematic weaknesses, as opposed to isolated problems, should be given appropriate consideration. The following is not a complete list of all possible factors that may influence an examiner's assessment; however, all assessment should consider the following:

- The adequacy of underwriting standards, soundness of credit administration practices, and appropriateness of risk identification practices.
- The level, distribution, severity, trend of problems, classified, on accrual, restructured, l delinquent and non-performing assets for both on-and off –balance sheet transactions.
- The adequacy of the allowance for loan and lease losses and other asset valuation reserves.

- The credit risk arising from or reduced by off-balance sheet transactions, such as un-funded commitments, credit derivatives, commercial and standby letters of credit and lines of credit.
- The diversification and quality of loan and investment portfolios.
- The extent of securities underwriting activities and exposure to counter-parties in trading activities.
- The existence of asset concentrations.
- The adequacy of loan and investment policies, procedures and practices
- The ability of management to properly administer its assets, including the timely identification and collection of problem assets.
- The adequacy of internal controls and management information systems.
- The volume and nature of credit documentation exceptions.

  As with the evaluation of other component ratings, the above factors, among others, should be evaluated not only according to the current level but also considering any ongoing trends. The same level might be looked on more or less favorably depending on any improving or deteriorating trends is one or more factors.

Rating the Asset Quality Factor

The asset quality rating definitions are applied following a through evaluation of existing and potential risks and the mitigation of those risks. The definitions of each rating are as follows:

1. Rating of 1 indicates strong asset quality and credit administration practices. Identified weaknesses are minor in nature and risk exposure is modest in relation to capital protection and management's abilities. Asset quality in such institutions is of minimal supervisory concern.
2. A rating of 2 indicates satisfactory asset quality and credit administration practices. The level and severity of classifications and other weaknesses warrant a limited level of supervisory attention. Risk exposure is commensurate with capital protection and management's abilities.
3. A rating of 3 is assigned when asset quality or credit administration practices are less than satisfactory. Trends may be stable or indicate deterioration in asset quality. The level and severity of classified assets, other weaknesses, and risks require an elevated level of supervisory concern.

4. A rating 4 is assigned to FIs with deficient asset quality or credit administration practices. The levels of risk and problem assets are significant, inadequately controlled, and subject the FI to potential losses that, if left unchecked, may threaten its viability.
5. A rating of 5 represents critically deficient asset quality or credit administration practices that present an imminent threat to the institution's viability

Non-performing Assets (NPAs)

Loans and advances of FIs need to be serviced by either the principal or the interest of the amount borrowed in stipulated time as agreed by the parties at the time of loan settlement. NRB unified directives E.para.Ni 20/061/62 (*Ashar, 2062 BS*) for banks and non-bank FIs, defines non performing loans as loan classified as substandard, doubtful and loss or loans which are past due by principal for more than 3 month. Subedi (2006) in his column states that the details and classification of standards of Non-performing loans may from country to country depend upon their own banking system requirement norms. He further states that unlike Nepal, countries like Korea, Indonesia, Phillipines, India have classified the loan into five categories on which normal and special categories are classified as performing loans whereas sub standard, doubtful and estimated loss categories are considered as non performing loans. The study conducted by World Bank highlights that all commercial banks of south asian countries except Nepal and Sri lanka classify loans as non-performing only after it has been in arrear for at least six months (Pernia, 2004). NRB unified directives for banks and non-bank FIs through directive number E.para.Ni.No 02/061/62 (ashar 2062 BS) classifies NPL, according to international practice, into three categories depending on the temporal position of loan default, Substandard, Doubtful and loss Assets are the categories on the basis of the time barred to repay either interest or the principal. "The degree of NPA assets depend solely on the length of time the asset has been in the form of non-obliged by the loaner. The more time it has elapsed the worse condition pf assets is being perceived and such assets are treated accordingly. However, the treatment of NPAs depends according to countries. No uniform rule seems to apply" (*Koch and Macdonald;2004:161*).

Factors Causing NPAs

Subedi (2006) in his column broadly categorized in to internal and external factors for high level of NPA in Nepalese banking system.

The following factors can also be the reason for causing NPA:

1. NPAs may arise due to failure of business for which loan was used. Whatever may be the reasons for failure of business, it obstructs the carrying out timely payments of financial obligations.
2. On the other part of appraising institutions, the defect in appraising projects breed mismatch not only in investment planning but also in receivables due to defective projection of returns. Large positions of NPAs in developing countries arise due to defective and standard credit appraisal system.
3. Monitoring of projects in time provide insurance against of enterprises through rectification of minor flaws that ape ear during the course of operation. Inability of sound monitoring system can also lead to failure of the project.
4. The resources of FIs collected through deposits from people may be misutilised. Recklessness or negligence on the part of the officials while approving the loan will turn in to default.
5. Attitude of the officials that does not amount to sincere corporate culture also leads to breed drawbacks in the payment of dues to FIs.
6. The credit programmers sponsored by the government are regarded as the source of NPAs. For political benefits government, without assessing the financial feasibility of the credit programmer, announces and compels the credits agencies to go along with the declared policies.
7. Moreover, dishonest politicians often want free ride of on the amounts of loan delivered by credit agencies under government designed programmers. Such loans are hardly recoverable. The fact is evidence from the experience in Nepal and India by the manifestation of higher percentage of NPAs found in priority sector loans.
8. Quite often the definition of the NPAs and accounting norms adopted by concerned agencies also amount to higher or lower magnitude of such assets. Each institution may have different norms to declare the assets whether it is not-performing. The income cycle of the project and amount of loan involved, set the installments of loan repayment. The nature of project also determines the level of NAPs.

9. Slow down in economy, global as well as domestic particularly in industrial sector. Contribution to adversely affect the bottom-line of borrower units and their capacity to service the debt (Taore-1999). Recession debars the economic activities to run smoothly which affect the performance of FIs.

Implication of NPAs

Financial crisis emerged from Thailand in south east Asian countries largely is considered to be due to higher level of NPAs existed with the FIs. The situation was grave when the asset stopped to repay loans to credit agencies which was borrowed from overseas was matured. Investment in domestic market did not provide returns, hence the amount involved turned into non-performing while repayment on due time was the principal reason to result in financial crisis that terminated into economic crisis in south East Asian countries. Financial crisis occurred in Asia had the higher proportion of NPAs emanate from loans which constituted highest share in the total assets of FIs. Countries with higher proportion of loan in the total assets of banks and finance companies became vulnerable while institutions with lower share of loans in the total assets were affected less.

Empirically, it has been seen that Nepal and having lower proportion of loan in respect of total assets provided cushion to make ample provision and therefore were least affected by the financial crisis. On the other hand the south East Asian with relatively higher proportion of loans in the total assets of the FIs fell victim of the shock of regional crisis.

The credit institutions are repelled from further investment after the interest accrual or due principal repayment has stopped. Interest incomes from such assets are reduced to the extent of declared amount as NPAs. As the assets declared NPA emanate from the deposits, it puts the depositors fund at risk. The credit agencies are put to an extra amount of liability by regulatory authorities in the form of provision. The amount required for provision depends on the level of NPAs and their quality. Rising level of NPAs create a psyche of worse environment especially in the financial sector. Depositors are not interested to save. Rather the hard earned savings are diverted to consumptions. Consequently the savings pattern hence investment is affected thereby creating unhealthy atmosphere in the financial sector.

2.1.3.3 Management Quality

The capability of the board of directors and management, in their respective roles, to identify, measure, monitors and controls the risks of an institution's activities and to ensure a FI's safe, sound and efficient operation in compliance with applicable laws and regulation is reflected in this rating. Depending on the nature scope of an institution's activities, management practices may need to address some or all of the following risks: credit, market, operating or transaction, reputation, strategic, compliance, legal, liquidity and other risks. Sound management practices are demonstrated by: active oversight by the board of directors and management; competent personnel; adequate policies processes, and controls taking into consideration the size and sophistication of the institution; maintenance of an appropriate audit program and internal control environment: and effective risk monitoring and management information systems. This rating should reflect the boards and management's ability as it applies to all aspects of banking operations as well as other financial service activities in which the institution is involved *(Mishkin and Eakins; 2006).* The capability and performance of management and the board of directors is rated based upon, but not limited to, an assessment of the following evaluation factors:

- The level and quality of oversight and support of all institution activities by the board of directors and management.
- The ability of the board of directors and management, in their respective roles to plan for, and respond to, risks that may arise from changing business condition or the initiation of new activities or products.
- The adequacy of and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities.
- The accuracy, timelines and effectiveness of management information and risk monitoring systems appropriate for the institution's size, complexity and risk profile.
- The adequacy of audits and internal controls to: promote effective operations and reliable financial and regulatory reporting; safeguard assets; and ensure compliance with laws, regulations and internal policies.
- Compliance with and regulations.
- Responsiveness to recommendations from auditors and supervisory authorities.
- Management depth and succession.
- The extent that the board of directors and management is affected by, or susceptible to, dominant influence or concentration of authority.

- Reasonableness of compensation policies and avoidance of self-dealing.
- Demonstrated willingness to serve the legitimate banking needs of the community.
- The overall performance of the institution and its risk profile.

Rating the Management Factors

1. A rating of 1 indicates strong performance by management and board of directors and strong risk management practices relative to the institution's size, complexity and risk profile. All significant risks are consistently and effectively identified, measured, monitored and controlled. Management and the board have demonstrated the ability to promptly and successfully address existing and potential problems and risks.
2. A rating of 2 indicates satisfactory management and board performance and risk management practices relative to the institution's size, complexity and risk profile. Minor weakness may exist, but are not material to the safety and soundness of the institution and are being addressed. In general, significant risks and problems are effectively identified, measured and controlled.
3. A rating of 3 indicates management and board performance that need improvement or risk management practices that are less than satisfactory given the nature of the institution's activities. The capabilities of management or the board of directors may be insufficient for the type, size or condition of the institution. Problems and significant risks may be inadequately identified, measured, monitored or controlled.
4. A rating of 4 indicates deficient management and board performance or risk management practices that are inadequate considering the nature of an institution's activities. The level of problems and risk exposure is excessive. Problems and significant risks are inadequately identified, measured, monitored or controlled and require immediate action by the board and management to preserve the soundness of the institution. Replacing or strengthening management or the board may be necessary.
5. A rating of 5 indicates critically deficient management and board performance or risk management practices. Management and the board of directors have not demonstrated the ability to correct problems and implement appropriate risk management practices. Problems and significant risks are inadequately identified, measured, monitored or controlled and now threaten the continued viability of the institution. Replacing or strengthening management or the board of directors is necessary.

Researchers construct various financial ratios to capture management quality. Meyer and Pifer (1970) state that "Managerial ability is like Lord Action's elephant difficult to define easy to identify. Over a period of time differences between good and poor management will be systematically reflected by the balance sheet and income data and analysis of such data should enable prediction of failures". Graham and Homer (1988) evaluate the factors that contributed to the failures of 16 national banks in USA and conclude that more than 60 percent of failed banks experienced poor management, measured by such variables as poorly followed loan policies, inadequate problem loan identification systems and non-existent or poorly followed asset/liability management.

Barr and Siems (1993) provide the only direct measurement of management quality, using data evolvement analysis (DEM) to quantity of management. They concluded that the predictive performance of their failure-prediction model improves markedly with the inclusion of the DEA efficiency variable.

Sinkey (1975) purported that a specific ratio representative of management is difficult to identify, but his view was that many ratios are proxies. Often, researchers (*Tam and Kiang, 1992; Espahbodi, 1991; West, 1985*) have not attempted to include a variable to represent management quality. Thomson (1991) and Whalen (1991) employed the ratio of overhead expense to total assets as representative of management operating efficiency. As none of the ratios from previous research exhibited significance.

2.1.3.4 Earning Quality

Under the UFIRS, in evaluating the adequacy of FIs earning performance, consideration should be given to:

- The level of earning, including trends and stability.
- The ability and provide for adequate capital through retained earnings.
- The quality and sources of earnings
- The level of expenses in relation to operations.
- The adequacy of the budgeting systems, forecasting processes and management information systems in general.
- The adequacy of provisions to maintain the ALLL and other valuation allowance accounts.
- The earnings exposure to market risk as interest rate, foreign exchange, price risks.

From a bank regulator's standpoint, the essential purpose of bank earnings, both current and accumulated, is to absorb losses and augment capital. Earnings are the initial safeguard against the risks of engaging in the banking business and represent the first line of defense against capital depletion resulting from shrinkage in asset value *(Squnders and Cornett; 2004).* Earnings performance should also allow the bank to remain competitive by providing the resources required to implement management's strategic initiatives.

Evaluation of Earnings Performance

An analysis of earnings comprise of examiner reviewing each component of the Earnings Analysis Trail and Ratio Analysis. Generally, the analysis of earnings begins with examiner reviewing each component of the earnings analysis trail. The earnings analysis trail provides a means of isolating each major component of the income statement for individual analysis. The earnings analysis trail consists of the following income statement components: net interest income, non-interest income, non-interest expenses, provision for loan and lease losses and income taxes. Each component of the earnings analysis trail is initially reviewed in isolation. Typically, ratios are examined to determine a board level view of the component's performance. The level of progression along the analysis trail will depend on a variety of factors including the level and trend of the ratios, change since the previous examination and the institution's risk profile

Earning Ratio Analysis

Several key ratios used in the earnings analysis are used as shown below:

- Net income to average assets ratio [return on assets (ROA) ratio]
- Net interest income to average assets ratio.
- Net interest income to average earnings assets ratio.
- Non-interest income to average assets ratio.
- Non-interest expenses to average assets ratio.
- Provision for loan and lease losses (PLLL) to average assets ratio.
- Realized gains/losses on securities to average assets ratios.

Earning quality is the ability of a bank to continue to realize strong earnings performance. It is quite for a bank to register impressive profitability ratios and high volumes of income by

assuming an unacceptable degree of risk. An inordinately high ROA is often an indicator that the bank is engaged in higher risk activities. For example, bank management may have taken on loans or other investments that provide the highest return possible, but are not of a quality to assure either continued debt servicing or principal repayment. Seeking higher rates for earning assets with higher credit risk will boost short-term earnings. Eventually, however, earnings may suffer if losses in these higher-risk assets are recognized.

In addition, certain of the bank's adversely classified and non-performing assets, especially those upon which future interest payments are not anticipated, may need to be reflected on a non-accrual basis for income statement purposes. If such assets are not places on a non-accrual status, earnings will be overstated. Similarly, material amounts of troubled debt restructured assets may have an adverse impact on earnings.

An institution's assets quality has a close relationship to the analysis of earnings quality. Poor asset quality may necessitate increasing the PLLL to bring the ALLL to an appropriate level and must be reviewed for impact on earnings quality.

Rating the Earnings Factor

1. Earning rated 1 is strong. Earnings are more than sufficient to support operations and maintain adequate capital and allowance levels after are given to asset quality, growth and other factors affecting the quality, quantity and trend of earnings.
2. Earnings rated 2 would be satisfactory and sufficient support operations and maintain adequate capital and allowances levels after consideration is given to asset quality, growth and other factors affecting the quality, quantity and trend of earnings. Earnings that are relatively static or even experiencing a slight decline, may receive a 2 rating provide the institution's level of e3arnings is adequate in view of the assessment factors listed above.
3. Earnings rated 3 may need to improve. Earnings may not fully support operations and provide for the accretion of capital and allowance levels in relation to the institution's overall condition, growth and other factors affecting the quality, quantity and trend of earnings.
4. A rating of 4 indicates earnings that are deficient. Earnings are insufficient to support operations and maintain appropriate capital and allowances levels. Erratic fluctuations in net income or net interest margin, the development of significant negative trends,

nominal or unsustainable earnings, intermittent losses, or a substantive drop in earnings from the previous years may characterize institutions so rated.

5. A rating of 5 indicates earnings that are critically deficient. A FI with earnings rated 5 is experiencing losses that represent a distinct threat to its viability through the erosion of capital.

2.1.3.5 Liquidity

In evaluating the adequacy of a FI's liquidity position, consideration should be given the level and prospective sources of liquidity compared to funding needs, as well as to the adequacy of funds management practices relative to the institution's size, complexity and risk profile. In general, funds management practices should ensure that an institution is able to maintain a level of liquidity sufficient to meet its financial obligation in a timely manner and to fulfill the legitimate banking needs of its community. Practices should reflect the ability of the institution to manage unplanned change in funding sources, as well as react to change in market conditions that affect the ability to quickly liquidate assets with minimal loss. In addition, funds management practices should ensure that liquidity is not maintained at a high cost or through undue reliance on funding sources that may not be available in times of financial stress or adverse changes in market conditions. Liquidity is rated based upon, but not limited to, an assessment of the following evaluation factors:

1. The adequacy of liquidity sources compared to present and future needs and the ability of the institution to meet liquidity needs without adversely affecting its operations or condition.
2. The availability of assets readily convertible to cash without undue loss.
3. Access to money markets and other sources of funding.
4. The level of diversification of funding sources, both on and off balance sheet.
5. The degree of reliance on short-term, volatile sources of funds, including borrowings and brokered deposits to fund longer-term assets.
6. The trend and stability of deposits.
7. The ability to securities and sell certain pools of assets.
8. the capability of management to properly identify, measure, monitor and control the institution's liquidity position, management information systems, and contingency funding plans.

Rating the Liquidity Factors

1. A rating of 1 indicates strong liquidity levels and well-developed funds management practices. The institution has reliable access to sufficient sources of funds on favorable terms to meet present and anticipated liquidity needs.
2. A rating of 2 indicates satisfactory liquidity levels and finds management practices. The institution has access to sufficient sources of funds on acceptable terms to meet present and anticipated liquidity needs. Modest weaknesses may be evident in funds management practice.
3. A rating of 3 indicates liquidity levels or funds management practices in need of improvement. Institutions rated 3 may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices
4. A rating of 4 indicates deficient liquidity levels or inadequate funds management practices. Institutions rated 4 may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet needs.
5. A rating of 5 indicates liquidity levels or funds management practices so critically deficient that the continued viability of the institution is threatened. Institutions rated 5 require immediate external financial assistance to meet maturing obligations or other liquidity needs.

Liquidity Management Concepts

There are several principles which the economists have propounded to resolve the conflicts between objectives of liquidity, safety and profitability. These concepts are discussed as under:

The Real Bills Doctrine

The real bills doctrine states that FIs should extend only short-term self-liquidating productive loans to business firms. Self liquidating loans are those meant to finance the production, storage, transportation and distribution. When such goods are ultimately sold, the loans are considered to liquidate themselves automatically. The short-term self liquidating productive loan has three advantages. Firstly, they possess liquidity due to which, they liquidate themselves automatically. Secondly, there is no risk of running into bad debts since earn income for the banks as they are productive.

The Shiftaility Theory

H.G. Moulton propounded the shiftability theory of bank liquidity. According to view, an asset to be perfectly shiftability must be immediately transferable without capital loss when the need for liquidity arises. But in a general crisis requires that all banks should possess such assets which can be shifted on to the central bank which is the lender of the last resort. This theory has certain elements of truth.

The Anticipated Income Theory

The Anticipated Income Theory was developed by H.V. porch in 1944 based on term loan practices by USA commercial banks. According to this theory; the bank plans for liquidation of long term loans from the anticipated income of the borrower regardless of the nature and character of a borrower's business. The bank puts restrictions on the financial activities of the borrower while granting this loan. Consequently, the bank takes into consideration not only the security but with major consideration the anticipated earnings of the borrower. This is superior to the bills doctrine and the shiftability theory because it fulfills the three objectives of liquidity, safety and profitability.

The Liabilities Management Theory

This theory was developed in the 1960s. According to this theory, there is no need for banks grant self-liquidating loans and keep liquid assets because they can borrow reserve money in the money market in case of need. A bank can acquire reserves by crating additional liabilities against it self, from different sources. These sources includes the issuing of time certificates of deposit, borrowing from the other commercial banks, borrowing from the central bank, raising of capital funds by issuing shares, and by plowing back of profits.

Liquidity Management Techniques

Techniques for liquidity assessment have evolved over the years with the significant changes in the monetary policy operating procedures. Despite the uncertainty in predicting liquidity conditions, econometric models could be used to provide first indicative forecasts, given the estimated structure of inter-relationships based on past information. The treasury or fund manager of any banks and FIs should adopt following techniques for effective liquidity management.

Liquidity Planning

The liquidity planning entails the accurate estimation of liquidity needs and the structuring of the portfolio to meet the expected liquidity needs. To ensure that funds are available to meet the liquidity needs at the lower cost, the treasury manager of the banks and FIs must manage its money position to comply with reserve requirements as well as managing its liquid sources.

Managing the Cash Position

A cash position refers to the amount in the process of collection and currency and demand balances due from other banks and the central bank. Numerous transactions that cause an inflow or outflow of cash during a day continually change the cash position of the banks and FIs. Because cash yields no income, cash holdings must be limited to a minimum. The treasury/ fund manager may invest any excess cash or may acquire additional cash sources from inter bank loans or from discount window at the central bank.

Managing the Liquidity Position

Once the liquidity needs of the banks and FIs have been estimated, the treasury manager must decide how these needs are to be funded. The banks and FIs must choose between two general liquidity management strategies, namely, asset management and liquidity needs. In the liability management, money is borrowed to meet liquidity needs. A combination of these strategies is normally employed. The following guidelines must be kept in mind by the treasury manager when managing the liquidity position of the banks and FIs:

- The treasury managers should know the timing of large withdrawals from big credit clients or depositors in order to plan.
- The priorities and objectives of liquidity management should be clear and properly communicated.
- The needs and decisions must be evaluated on a continuous basis to invest access liquidity and avoid liquidity shortages.

Controlling Liquidity Risk

To asses how well the banks and FIs are managing its liquidity position, the management should be cautious on the following signals from the marketplace that indicate pending liquidity problems:

- Public confidence in terms of withdrawal of deposits from the banks and FIs.
- Share price behavior, falling share prices indicates perceived liquidity problems.

- Risk premiums on money market borrowings.
- Losses because of the hasty sale of assets for liquidity purposes.
- Inability to meet the demands of new credits customers.
- More frequent and larger borrowings from the central bank.

Considering the aforementioned technique, the treasury manager must also consider the purpose of the liquidity need, the length of time for which funds are needed, the access to liability markets, the costs and characteristics of various liquidity sources and interest rate forecast. It is received that the large banks have better access to liability liquidity sources due to the better quality assets and a broader capital base. The small banks are to rely more on assets for liquidity. Thus, an effective liquidity management is essential to reduce costs.

A liquidity ratio measures an entity's ability to pay its short-term obligations out of liquid assets. Liquidity was generally represented in previous studies with a ratio of cash (with some adjustment for short-term liquid securities) to total assets *(Tam and Kiang, 1992; Espahbodi, 1991; Lane et. al., 1986; Martin, 1977; Sinkey, 1975).*

2.1.4 BASEL Capital Accord

The BASEL committee on banking supervision (BCBS) is a committee of banking supervisory authorities that was established by central bank governors of the group of ten countries in 1975. it consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the bank for international Settlements (BIS) in BASEL, where it's permanent is located (*BIS; 11-2005:45*).

Starting with its publication of "International Convergence of Capital Measurement and Capital Standards" in July 1988, popularly known as BASEL I "Capital Accord, BCBS set out a minimum capital requirement of 8 percent for banks. Prior to that, the committee introduced 25 core principles on effective banking supervision. In 1996, the committee incorporated market risk in the 1988 capital accord. With a major revision of the 1988 accord, there followed by the revised publication of the committee's first round of proposals for revising the capital adequacy framework in June 1999 popularly known as BASEL II

capital Accord. Since then, it is revised in January 2001, April 2003 and released its final revised framework updated in November 2005. In this accord, the concept and rationale of the three pillars (minimum capital requirements, supervisory review and market discipline) approach was introduced, on which the revised framework is based. In the revised framework, BCBS retains key elements of the 1988 capital adequacy framework, including the general requirement for banks to hold total capital equivalent to at least 8 percent of their risk-weighted assets; the basic structure of the 1996 market risk amendment regarding the treatment of market risk; and definition of eligible capital" (*BIS; 11-2005:45*).

The new BASEL capital accord (BASEL II), shall be applicable to internally active banks all over the world with effect from end of 2006. Implementing the new accord in Nepal has been a challenging task for the supervisors as well as FIs. Hence, certain preparatory homework is needed to Nepalese financial system to implement BASEL II. NRB and FIs need to have coordinated effort efficiency in Nepalese banks and FIs to establish certain baseline for the effective implementation of BASEL II. In this regard, second interaction program was held in Nepal with the banks executive to make them aware of the new development. The commercial banks so far has shown positive attitude towards the implementation of BASEL II. "New capital accord implementation preparatory core committee" was drafted "NRB's concept paper on new capital accord". According to the program of new capital accord implementation, concept paper was forwarded to all the commercial banks for comments and recommendations. A form was also developed so that commercial banks classify their exposures as per the new approach, which was reviewed by the "BASEL- II implementation working group". NRB has adopted Basel core principles for effective supervision as guideline for supervision of commercial banks. Core principle methodology adopted by BCBS provides a uniform template for both self-assessment and independent assessment. It involves four part qualitative assessment system: compliant, largely compliant, materially non-compliant and non-compliant. For each principle essential and additional criteria are defined. To achieve a "compliant" assessment with a principle, all essential and additional criteria must be met without any significant deficiencies. A "largely compliant" assessment is given if only minor shortcomings are observed, and these are not seen as sufficient to raise serious doubts about the authority's ability to achieve the objective of that principle. A materially non-compliant assessment is given when the shortcoming is sufficient to raise doubts about the authority's ability to achieve compliance, but substantial progress towards compliance has been achieved.

There is no doubt that the new accord though complex carries a lot of virtues and will be a milestone in improving banks internal mechanism and supervisory process and beneficial to the commercials banks.

2.2 Review of NRB Directives

2.2.1 Capital Adequacy Norms by NRB

NRB has form time to time stipulated minimum capital fund to be maintained by the banks on the basis of risk weighted assets. The total capital fund is sum of core capital and supplementary capital. According to the NRB unified directives for Banks and non-banks FIs issue number E. para.Ni.no 01/061/062 (Ashar 2062 BS), the capital funds of a bank comprise the following:(nrb.org.np).

Core Capital: Core capital of a bank includes paid up equity, share premium, non-redeemable preference shares, general reserve and accumulated profit and loss. However, where the amount of goodwill exists, the same shall be deducted for the purpose of calculation of the core capital.

Supplementary Capital: Supplementary capital includes general loan loss provision, exchange fluctuation reserve, assets revaluation reserve, hybrid capital instruments, unsecured subordinated term debt and other free reserves not allocated for specific purpose.

Banking and Financial institution Ordinance *(BAFIO, 2061*) also assimilates the same things, which were included and explained in NRB Act 2058, in regard of bank capital. NRB Act is effective from 1st Shrawan 2058(July 16th 2001). According to the NRB directive, minimum paid-up capital requirement for establishment commercial bank is under:

i. Rs. 250 million to operate all over Nepal except Kathmandu Valley.
ii. Rs. 1000 million to operate all over Nepal.
iii. All existing commercial banks are required to raise capital base to Rs. 1000 million by mid July, 2009 through minimum 10 percent paid- up capital increment every year.

2.2.2 NRB Directives Related to Assets Quality

NRB unified directive for banks & non-bank FIs (*Ashar 2062 BS*) through directive number E. para.Ni.No 02/061/62, requires the banks to classify outstanding loans and advances on the basis of aging of principal amount. As per the directive the loans and advances should be classified into the following four categories:

Pass: loans and advances whose principal amount is not past due over for 3 months included in this category. These are classified and defined as performing loans.

Substandard: All loan and advances that are past due for a period of 3 months to 6 months included in this category.

Doubtful: All loans and advances, which are past due for a period of 6 months to 1 year, included in this category.

Loss: All loans and advances which are past due for more than 1 year and have least or thin possibility of recovery or considered unrecoverable shall included in this category. Besides this, any loan whether past due or not, in situations of inadequate security, borrower declared insolvent, no whereabouts of the borrower or misuse of borrowed fund, are to be classified as loss category.

The directive further requires banks to provision for loan loss, on the basis of the outstanding loans and advances and bills purchased classified as above. Loan loss provision set aside for performing loans is defined as General Loan provision and that set aside for non-performing loan as specific loan loss provision.

Loan Class	**Loan Loss Provision**
Pass	1%
Substandard	25%
Doubtful	50%
Less	100%

With the objectives of lowering the concentration risk of bank loans to a few big borrowers and to increase the access of small and middle size borrowers to the bank loans, NRB through directive number E. para.Ni.No 30/061/62 limits commercial banks to extend credit to a single borrower or group related borrowers up to 25% of core capital for fund based credit facilities and not more than 50% of its core capital for non fund based credit facilities like letters of credit, guarantees, acceptances, commitments.

The facilities extended against bank's own fixed time deposit, government securities, NRB bonds, counter guarantees of world Bank/Agriculture Development Bank/international A + rated banks (as per list of top 1000 world international banks published by the London based magazine, "The Banker" are excluded from the restriction. likewise advances and facilities to be used for the purpose of importing specified merchandise by the following public corporation are also excluded:

Name of Corporation	Merchandise
Nepal oil corporation	Petrol, Diesel, Kerosene, L.P.G.
Nepal Food Corporation	Cereals

2.2.3 NRB Directives Related to Liquidity

NRB had given the institution to the commercials banks since 2023 B.S. to deposit the amount the amount ratio of 8 percent from their deposit liability. In the beginning of 2047 B.S. the increase in the quantity of internal credit was high and began to show negative effect on economy. The deflation grew up to 21 percent. So, high liquidity appeared in economy, hence, control of negative effect that may fall on economy to improve the growth of price rate and improvement of the position of loss of running account and control the capacity of flowing the loan of the commercial banks, was necessary and the NRB bonds. With some signs of improvement of economy, the investment ratio was revised accordingly, since Poush 2049 B.S. since the beginning of 2050 B.S., the economy showed improvement and the rate of deflation fell down to 8.8 percent. With this, the provision of investing in the government securities was removed.

With effective from, 2054, Chaitra 31st, commercial banks were required to maintain liquidity of 8 percent of the total current and saving deposits and 6 percent of the fixed deposits, in addition to 3 percent of total deposit in cash at vault. Since then the NRB reserve requirements have been put into force by NRB effective from 22 July 002 (2059/04/06).

Prevailing Directives as to Cash Reserve Ratio Requirement

a)	Balance to NRB	1) 7 % of current & savings deposit liabilities. 2) 4.5% of fixed deposit liabilities
b)	Cash to vault	2% Total deposit liabilities.

The compliance of liquidity maintenance, the NRB applies following procedures:

a. The CRR maintained by the banks will be examined on the basis of average weekly balance of deposit liabilities immediately preceding 4th week. A week shall comprise from each Sunday through Saturday.
b. CRR will not be calculated for the week which is fully off.
c. Weekly statement of deposit balances to be submitted to NRB inspection and supervision department within 15 days from the date of end of the week.
d. Weekly average of Monday to Friday of total deposit, cash in vault and NRB balance is calculated by dividing by 5.

Penalty will be levied for failing to maintain the adequate liquidity as above under any of the following conditions.

a. In the case of shortfall in maintenance of NRB balance but cash at vault is exactly 2%.
b. In case of shortfall in NRB balance but cash at vault is more than 2% then up to 1% excess cash of total deposit is added in the balance with NRB then on such shortfall account (after adding up to 1% excess)
c. In case of shortfall in cash in vault as well as shortfall in NRB balance then on total shortfall amount.

The applicable rate of penalty is as follows:
First time shortfall = Equivalent to bank rate/highest refinance rate.

Second time shortfall = Equivalent to 2 times of bank rate

Third time shortfall and all subsequent shortfalls= Equivalent to 3 times of bank rate.

2.3 Review of Related Studies

The research studies and work papers carried out by different scholars within various geographical region including dissertations conducted by Nepalese scholars are reviewed in this section, which are related with financial performance analysis of commercial bank, Finance company and the other area of the study.

2.3.1 Review of Journals and Articles

Hirtle and Lopez (1999), examine the usefulness of past CAMEL ratings in assessing banks' current conditions. They find that, conditional on current public information, the private supervisory information contained in past CAMEL ratings provides further insight in to bank current conditions, as summarized by current CAMEL ratings. The authors find that, over the period from 1989 to 1995, the private supervisory information gathered during the last on-site exam remains useful with respect to the current condition of a bank for up to 6 to 12 quarters (or 1.5 to 3 years). The overall conclusion drawn from academic is that private supervisory information, as summarized by CAMELS ratings, is clearly useful in the supervisory monitoring of bank conditions.

Kolari et al., (2000), developed models and predicted bank failure, where the models initially included three measures of loan default disclosure along with 25 other financial measures. The loan default measures included allowances for loan losses to total assets, net loan charge-offs to total assets and provision for loan losses to total assets. In the final analysis, the allowances for loan losses to total assets were significant in row of the six predictions. As with many other studies, there was a lack of theory for the choice of variables, as stepwise legit was utilized for the decision of inclusion or elimination.

Dziobek, Hobbs and Marston (2000), analyze the determinants of bank liquidity defined as the degree to which a FI is able to meet its obligations under normal business conditions. Volatility in the depositors (and creditor) base depends on the type of depositors, insurance coverage and maturity; banks that rely on a narrow or highly volatile funding base are more prone to liquidity squeezes. Household deposits are typically more stable than, for instance, the deposits of institutional investors or corporate entities. Deposit concentration (i.e. fewer, larger-size deposits) can also be indicative of volatility. Deposit insurance increase the stability of the deposits it covers, with the important caveat front, foreign financing for instance through commercial credit lines and deposits of nonresidents (either in foreign or domestic currency) can become highly volatile in situations of distress and make the financial system vulnerable to external shocks or adverse developments in the domestic economy. As regards instrument maturity, the longer the time before the liability matures (in terms of remaining maturity), the more stable is the funding; however, in countries where banks are required to meet early withdrawal requests with only minor penalties, maturity may be less relevant to determining funding stability.

Sahajwala and Van den Bergh (2000), based their work paper of Basel committee on banking supervision on a study of a number of new bank monitoring systems currently in use or under development in various G10 countries. Such systems are collectively termed "supervisory risk assessment and early warning systems". The objective of the paper was to provide an overview of the different approaches taken by bank supervisors and to make a preliminary general assessment of the methods that are being used or developed. The study reveals that supervisory authorities are now clearly moving towards putting in place more formal, structured and risk focused procedures for ongoing banking supervision. Individual approaches and system have been developed and adopted, typically in the 1990s, with a greater focus on risk profiles and risk management capabilities of individual banking institution and on the generation of timely warning of potential changes to a bank's financial position. These new and modified systems have contributed positively to the supervisory process, and supervisors are working towards refining the systems further in order to improve the systems' accuracy and predictive power.

Gytan and Johnson (2001), have presented their work paper on a "*Review of Alternative Methodologies for Early Detection of Banking Distress"*. The various methodologies proposed by different researchers, in the paper are aimed to the early identification of financial distress for countries without an important recent history of bank failure, but facing an unstable international environment. They evaluate several indicators, the signal extraction approach, limited dependent estimation and finally duration models. In the Early Warning System (EWS) of systematic banking crises section they reviewed the literature aimed to predict crises of the complete banking system of a country. They also include some methodologies approaches that have been used as early warning systems for currency crises, but have a potential application methods requires a sample in which the events have appeared repeatedly. Since there has not been so may repeated episodes in any given country, the estimation must rely on a sample of different countries that have suffered banking problems. According to them, the literature on indicators and EWS of systems crises can be classified by their methodological approach: 1) Qualitative indicators, 2) Signal Extraction, 3) Limited Dependent Regression, 4) Other models.

Derviz and Podpiera (2004), based their assessment of commercial banking performance on bank ratings and studied with respect to detecting situations with the potential for adverse development towards failure and owing to the costly nature of frequent supervisory

examinations. In this paper they studied models of rating downgrades and consider a specific set of indicators that are suitable as determinants of a bank's rating. The conclusions about the predictors obtained from the analysis of downgrades are applicable in relatively stable banking sector situations. Banks experiencing minor liquidity trouble might raise their interest rates on deposits, but a regulator would have a hard time distinguishing which bank has increased its deposit rate because of liquidity problems and which has done so owing to an increase in its cost of funds caused by some other factor. Therefore, in their approach the cost of funds one of the plausible downgrade indicators was used in the form of the banks "credit spread". In addition to credit spread, they tested the inclusion of the Value at Risk (VaR) indicator in the form of total asset VaR, as they believed that this type of indicator might play an important role in determining the level of the rating due to its easy computability and data availability to the public. They focused on the capital, assets, management, earning, liquidity, market risk based composite (CAMELS) rating and the Standard and Poors (S&P) ratings. The choice of their sample was determined by the fact that cross section data is probably less appropriate given the specific character of the relatively small banking market in the Czech Republic. The three chosen banks, i.e. Ceska Sporirelna (CS), Komercni Banka (KB) and Ceskoslovenska Obchodni Banka (CSOB), cover a dominant portion of the market, the rest being occupied by small narrowly specialized banks or foreign bank branches. Therefore, they used panel data with three banks and their financial indicators to analyze the change in the CAMES and S&P ratings. They found that the reliable predictors of a bank's S&P rating are credit spread, capital adequacy, and the total loans to total assets ratio. In the case of the CAMELS rating does not yield itself easily to predictions within any horizon with the studies technique. On the contrary, the S&P rating can be relatively precisely predicted one month in advance.

Baral (2005) has conducted a research and published his paper in the journal of Nepalese business studies. "*On Health Check-up*" published his paper abstract in the Journal of Nepalese Business Studies (Volume II No.1, December 2005) of commercial bank in the framework off CAMEL, a case study of joint venture Banks in Nepal. The paper examined the financial health of joint venture Banks in the CAMEL framework for a period ranging from fiscal year 2001 to 2004. Three joint venture Commercial Banks of Nepal were randomly selected for the study. The study was based on historical data disclosed by annual reports of Commercial Banks. It has covered four fiscal years' data for the purpose of study. The study was based totally on the CAMEL framework.

Cole and Gunther (2008), in their article, *"A CAMEL rating's Shelf Life"*, have stated that under more stable financial conditions, CAMEL ratings typically remain accurate for relatively long periods. Also, off-site monitoring systems depend on the integrity of accounting data, which can be enhanced through regular periodic exams. Moreover, the examination process and the CAMEL ratings it generates have numerous important uses, many of which are quite distinct from the relatively narrow application of off-site monitoring systems for the identification of bank failures. The CAMEL ratings can change only when financial conditions change appreciably, as was the case during the particularly volatile time period.

Generally speaking, CAMEL ratings are designed to reflect a bank's financial condition, its compliance with laws and regulatory policies, and the quality of its management and systems of internal control. Only through comprehensive, on site exams can regulators determine whether a bank's management is operating the institution in accordance with the laws and regulations designed to promote safety and soundness. Moreover, the complex financial reviews that accompany an exam, together with the associated dialog between examiners and bank management, are necessary to assess accurately a bank's credit quality and overall financial posture. Given the multiple dimensions and uses of CAMEL ratings, it would be exceedingly difficult to construct a single comprehensive metric of their information content.

Atikogulları (2009), in his article, *"An Analysis of the Northern Cyprus Banking Sector in the Post – 2001 Period Through the CAMELS Approach"*, has analyzed the TRNC banking sector in the post-2001 period to assess the performance of the sector after the TRNC Banking Crisis of 2000-2001 through the CAMELS approach. According to this approach, the balance sheets of the top five banks with the largest asset sizes have been analyzed in terms of capital adequacy, asset and management quality, earnings ability, liquidity and asset size. As a result of this analysis, a number of conclusions have been obtained.

First of all, in terms of capital adequacy, results showed that the TRNC banking sector is in a less adequate position as of 2007, compared to the time when the crisis took place in 2001. This result is due to the deterioration in the balance sheets of the sector during the period between 2001 and 2006, which was followed by an improvement between 2006 and 2007. Overall, K.T. Kooperatif Merkez Bankası Ltd. seems to be the least adequate bank in terms

of capital structure, especially from the viewpoint of resistance to loan losses, during the sample period.

Secondly, it can be concluded that the asset quality of the banks in the sector, to some extent, has diminished relatively to the years immediately following the TRN C banking crisis of 2000-2001. According to the results, K.T. Kooperatif Merkez Bankası Ltd. stands as the bank with the lowest quality of assets during the period under investigation.

Thirdly, the overall continuous increase in cost management and stable operating efficiency of the local banks reveals an improving management quality in the TRNC banking sector, indicating good signs regarding the future of the banking sector.

Fourthly, in terms of profitability, trends of the banks have shown lots of fluctuations during the period investigated. However, in general, the profitability of the banks is noticeably higher in 2007 than in 2001, which indicates an overall increase in the profitability of the sector since the time when crisis took place. Finally, in general, liquidity level of the banks in the TRNC banking sector is deteriorating since 2002-2003, after a sharp and immediate increase following the banking crisis of 2000-2001. In 2007, the liquidity level of the banks decreased to a level near to that at the time of the crisis in 2001, indicating an increased possibility of a distress period stemming from a liquidity shortage.

2.3.2 Review of Thesis

Prior to this, several thesis works have been conducted by various researchers regarding different aspects of commercial banks like financial performance, capital structure, investment policy, interest rate structure and resources mobilization. Some of research works are relevant for these studies are reviewed over here.

Adhikari (1993), conducted a study evaluating the *"Financial performance of Nepal Bank Ltd"*. The study has concluded that investment portfolio of the bank has not managed so efficient to maximize the return. Operational efficiency of the bank is indicated by the operational loss has been found unsatisfactory.

So the bank has been suggested to manage its investment portfolio efficiently. It is recommended that the bank should try to mobilize its resources efficiently by creating new business and service ideas which will certainly help for the better utilization of ideal resources and for the economic development of the country. It has focused on utilization and mobilization of funds and resources of Nepal Bank Ltd. This study especially concentrated on the deposit collection of the bank and disbursement of fund as loan and advances. Therefore, its main study areas are uses and sources of funds and income and expenses trends of the bank.

Poudel (2002), in the thesis entitled "*Financial Performance Analysis of EBL*" has focused on the objectives as to examine the financial statement of the bank and analyze them to see the financial soundness of the bank to observe the return over the equity to highlight the relationship between different variables.The research provides suggestions and recommendation for the improvement of the future performance of EBL based on the findings of the analysis.

The study is found that the liquidity position of the bank to meet the daily cash requirement is sound. There is strong position regarding the mobilization of total deposit on loan and advances, normal position and decreasing trend of regarding the mobilization of total deposit as investment and bank has average position towards the utilization of working fund. Analysis of EPS reveals that the bank has very good increasing trend regarding EPS even though first two years shows the negative figure. The trend analysis of deposit, net profit, loan and advances and EPS shows the increasing trend even though the value shows in the beginning of studying period.

Ghimire (2003), conducted research work on "*A Comparative Case Study of the Financial Performance of Commercial Banks between NBBL, HBL and EBL*". To observe the ability to mobilize the resources into investment, ability to maintain and manage liquidity, assets, capital structure, efficiency, productive and financial risk.

The research objectives were to highlight financial performance to analyze and evaluate liquidity, profitability, leverage, activity, trend and growth of loans, investment and total deposit pattern of these banks and finally recommend suggestions for improvement. The research design was descriptive and analytical where both financial and statistical tools we

used to analyze the data. The study was from 1996/97 to 200/01. It concludes that current ratio of all the banks was below the normal standard even comparatively better in EBL.

Maharjan (2006), a thesis entitled "*A Comparative Study of Financial Performance of HBL, NIBL and EBL*" shows that EBL found to be comparatively better than sample bank because HBL and NIBL have aggressive working policy from the liquidity point of view. All sample banks are comparatively successful in assets management.

Among sample banks, EBL found to be comparatively best in mobilizing its assets and deposits in profitable sectors in form of loan and advances, investment in government securities and shares & debentures. From the profitability point of view, NIBL found to be better among the sample banks because it pay lower interest rate for debt fund and earn higher interest by mobilizing it deposits and assets to different productive and profitable sectors. NIBL is also found to be best on the basis of leverage ratio because HBL and EBL use a high debt fund rather than equity fund and assets. The capital base of bank is strong in NIBL, since it has higher capital adequacy ratio. NIBL also has more assets from its shareholder's fund which shows they are strong from point of view of shareholder's fund.

EBL has highest positive growth rate of net profit among sample banks. The growth rate of earning per share is negative in HBL and positive in NIBL and EBL. Among them, EBL has highest positive growth in EPS since it has highest growth of net profit. EBL and NIBL have perfect positive correlation between the investment and net profit than HBL. EBL and NIBL are able to earn a net profit from investment and loan & advances. NIBL has highest deposit among sample banks in past. Since HBL, NIBL and EBL have less mobilization of deposits, it is recommended that HBL, NIBL and EBL to increase loan and advances to different productive or profitable sectors.

Rijal (2007), in his thesis, *"Financial Performance Analysis of Nepal SBI Bank Ltd. in the Framework of CAMEL"*, has the basic objective of analyzing the financial performance of Nepal SBI Bank Ltd. (NSBL) in the CAMEL framework. The specific objectives of the study are to analyze the capital strength and the ability of Nepal SBI Bank, to defend the risk, to examine the capacity of the bank in meeting the liabilities by analyzing liquidity position, to

measure the risk on the total assets of the bank by measuring assets quality and to measure the performance of the bank in managing the resources and earning the profit.

The major findings of the study are NSBL was well capitalized and complying with the directives of NRB the bank has maintained satisfactory level of past due loan on total loan except in 2001, earning per employees of the bank was found quite high and NIM of the bank was found satisfactory. Furthermore, the liquidity
position of the bank was found sound.

Ghale (2008), in her thesis, "*Financial Performance Analysis of Annapurna Finance Company Limited in the Framework of CAMEL*", has the main Objectives of analyzing the financial performance of Annapurna Finance Company Limited (AFCL) in the framework of CAMEL from the F.Y. 059/60 to the F.Y. 063/64. The other specific objectives are to analyze the capital fund of AFCL and compare it with the NRB requirement, examine the assets quality by analyzing the situation of Non Performing loan, measure the profitability and liquidity of AFCL.

The major findings of the study are: the capital fund of AFCL is sound and sufficient to meet the financial operation as per the NRB standard, non-performing loan ratios are below the international standard and in fluctuating trend, The loan loss ratios are also fluctuating but in increasing trend during the study period, the management proxy ratio total expense to total income ratios are also in fluctuating trend due to changes in taxation rate and increase in provision for possible losses. Another management proxy ratio earning per employee is in increasing trend, the earning quality ratios are generally in fluctuating and decreasing trend except the net interest margin which is in increasing trend. The overall liquidity position of AFCL is in good condition.

2.4 Research Gap

Various studies have been conducted on financial analysis of commercial banks. The previous studies mainly emphasized on liquidity, profitability and leverage of the commercial banks. In the context of Nepalese banking environment, there are academic researchers found conducted in the frame work of CAMEL and few researches are found in the comparative analysis on the commercial banks. So, this research is conducted to know actual comparative financial performance of Nepal Industrial and Commercial (NIC) and Everest Bank Limited (EBL) in the frame work of CAMEL from the year 2006/07 to 2010/11. Therefore, the comparative study of financial performance of commercial banks add new dimension toward banking function of commercial banks.

CHAPTER-III
RESEARCH METHODOLOGY

This chapter provides the overall framework or plan for the collection, analysis and presentation of data required to fulfill the objective of the study. The main objective of the study is to analyze and evaluate comparative financial performance of Nepal Industrial and Commercial Bank and Everest Bank Limited. To meet the objective, following methodology is applied in the study, which is described as below.

3.1 Research Design

By research design we mean an overall framework or plan for the activities to be undertaken during the course of a research study. The plan is the overall scheme or program of the research *(Wolff and Pant; 1975:92).*Therefore, to achieve the desired end of this study descriptive and analytical research design is applied. Descriptive research design seeks to find out the fact by help of sufficient data and information and analytical research design follow to analyze the relationship between selected variable.

3.2 Population and Sample

A population is most studies usually consists of large group because of its large size it is fairly difficult to collect detailed information from each member of population. Rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample and the method of choosing this subgroup is done by sampling. The sampling allows the researcher more time to make an intensive study of a research problem.

At present, there are 32 commercial banks are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. All the commercial banks that are operating in Nepal are considered as the population. From the commercial banks of Nepal two of the banks are taken as sample i.e. NIC and EBL.

3.3 Nature and Source of Data

The study is based on secondary data. For the purpose of the study, the annual reports of the NIC and EBL are used as the major sources of data. Besides the annual reports of those banks required data and information is collected from the following sources.

- NRB reports and bulletins and its website.
- Various publications dealing in the subject matters of study.
- Various articles published in journals, etc.
- Various research report and Dissertations.
- Nepal Stock Exchange report.

Formal and informal talks with the senior staff of the company were also helpful to obtain the information of the related problem.

3.4 Data Collection Procedures

As stated earlier, the study is mainly based on secondary data. The annual reports and other information of have been obtained from sample banks. NRB directives, banking and financial statistics and other publications are collected from the web site of NRB. Some supplementary data and information, literature review are collected from the Shanker Dev Library, Katmandu Western Regional Library, Pokhara, Central Library, T.U. NRB publication , different journals magazines and other published and unpublished reports documented by the concern authorities.

3.5 Data Processing

First of all, necessary data are collected from the published documents and then audited financial statements recorded in master sheet manually. Then, data are entered in to table to work out CAMEL financial ratio and prepare the necessary figures. Finally, different financial tools under CAMEL are worked out with the help of computer programmers.

3.6 Data Analysis Tools

Various financial and statistical tools have been used to measure the comparative financial analysis and to draw inferences on the study area. Graphs, charts and tables as appropriate have also been used to analyze the data. The collected data have been organized, tabulated, processed and analyzed using various statistical and financial tools as described in the following sections.

3.6.1 Financial Tools

This study is based on following financial tools and techniques.

The tools are based in the framework of CAMEL.

Capital Adequacy

a) Core Capital Adequacy Ratio

Core capital adequacy ratio shows the relationship between the total core capital or internal sources and total risk adjusted assets. It is used to measure the adequacy of core capital and financial soundness from very close angle. It is calculated by using following model.

$$CCAR = \frac{\text{Core Capital}}{\text{Total Risk Adjusted Assets}} \times 100$$

Where,

CCAR=Core Capital Adequacy Ratio

Core Capital = paid-up capital + share premium + non-redeemable Preference share + general reserve + cumulative profit –goodwill if any

b) Supplementary Capital Adequacy Ratio

Supplementary capital adequacy ratio is the expression of numerical relationship between supplementary capital and total risk adjusted assets. It measures the proportion of supplementary capital in total risk adjusted assets. Further more, it shows the absolute contribution of supplementary capital in capital adequacy. The ratio is used to analyze the supplementary capital adequacy and determined by using the following model

$$SCAR = \frac{\text{Supplementary Capital}}{\text{Risk Weighted Assets}} \times 100$$

Where,

SCAR= Supplementary Capital Adequacy Ratio

Supplementary Capital=Loan loss provision + exchange equalization reserve + assets revaluation reserve + hybrid capital instrument + Unsecured subordinate term debt + interest rate fluctuation fund + Other free reserves

c) Total Capital Adequacy Ratio

Capital adequacy ratio is the numerical relationship between total fund and risk adjusted assets. It measures the adequacy of capital and financial soundness of finance company.

Capital adequacy ratio is used to measure of capital in the finance company. It is worked by using the following model.

$$CAR = \frac{\text{Total Capital Fund}}{\text{Total Risk Adjusted Assets}} \times 100$$

Where,

CAR= Capital Adequacy Ratio

Total capital fund= Core capital + Supplementary capital

Total Risk Adjusted Assets= On-balance sheet risk adjusted assets + off

Balance sheet risk adjusted assets

Assets Quality

a) Non-performing Loan Ratio

The non-performing loan ratio indicates the relationship between non-performing loan and total loan. It measures the proportion of non-performing loan in total loan and advances. The ratio is used to analyze the asset quality and determined by using the given model.

$$\text{Non-performing Loan Ratio} = \frac{\text{Non Performing Assets}}{\text{TOtal Loan and Advance}} \times 100$$

Where,

Non-performing loan= loan not recovered with in the given the time

Frame either in the form of interest servicing or principal repayment.

b) Loan Loss Ratio

The loan loss ratio is the expression of numerical relationship between loan loss provision and loan and advances. It is used to appraise quality of asset. It measures the proportion of loan loss provision in total and advances. This ratio shows the possibility of loan default. Higher ratio implies higher portion of non-performing loan portfolio.

For the purpose of study following is used to determine the loan loss ratio.

$$\text{Loan Loss Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Loan and Advances}} \times 100$$

Management Quality

a) Total Expenses to Total Incomes Ratio

The total expenses to total income ratio is the expression of numerical relationship between total expenses and total incomes of the company. It measures the proportion of total expenses

in total revenues. A high or increasing ratio of expenses to total revenues can indicate that financial institutions may not be operating efficiently. This can be, but is not necessarily due to management deficiencies. In any case, it is likely to negatively affect profitability (IMF, 2000). Following is the expression of total expenses to total revenues ratio.

$$\text{Total Expenses to Total Income Ratio} = \frac{\text{Total Expenses}}{\text{Total Income}} \times 100$$

Where, Total income=interest income+ non interest income

Total expenses=interest expenses +non interest expenses

b) Earning Per Employee

Earning per employee is the numerical relationship between net profits after tax to total number of employee. Low or decreasing earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability (IMF, 2000). It is calculated by using the following model.

$$\text{Earning Per Employee} = \frac{\text{Net Profit After Tax}}{\text{Number of Employee}} \times 100$$

Earning Quality

a) Return on Assets (ROA)

Return on assets is the numerical relationship between net incomes after taxes to total assets of a company. It is primarily an indicator of managerial efficiency; it indicates how capably the management of the company has been converting the institution's assets into net earning (Rose, 1999). It is calculated by using the following model.

$$\text{Return on Assets} = \frac{\text{Net Income After Tax}}{\text{Total Assets}} \times 100$$

b) Earnings Per Share (EPS)

Earnings per share provides a direct measure of the returns flowing to the company's owners-its stockholders- measured relative to the members of shares to the public(Rose, 1999). It gives the strength of the share in the market. Following is the expression of earning per share.

$$\text{Earnings per Share} = \frac{\text{Net Income to Shareholder}}{\text{Number of Share}}$$

Liquidity Position

a) Total Liquid Fund to Total Deposits Ratio

A total liquid fund to total deposits is the expression of numerical relationship between total liquid funds and total deposits of the company. It measures the proportion of total liquid funds in total deposits. Furthermore, it shows the overall short-term liquidity position. The higher ratio implies the better liquidity position and lower ratio shows the inefficient liquidity position of the company. It is calculated by using the following model.

$$\text{Total Liquid Fund to Total Deposits Ratio} = \frac{\text{Total Liquid Fund}}{\text{Total Deposit}} \times 100$$

Where,

Total Liquid Fund= cash in hand + foreign currency in hand + Balance with NRB + balance with domestic bank + balance Held abroad + calls deposits

b) NRB Balance to Total Deposit Ratio

NRB balance to total deposits ratio is the expression of numerical relationship between NRB balance and total deposits of a bank. It measures the proportion of NRB balance in total deposits. It shows whether bank is holding the balance as required by NRB. For the purpose of this study following model is used to determine the NRB balance to total deposits.

$$\text{NRB Balance to Total Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Total Deposit}} \times 100$$

c) Cash in Vault to Total Deposit Ratio

Cash in vault to total deposits ratio indicates the relationship between cash in vault to total deposits. It shows the percentage of total deposit maintained as vault. It is worked out by using the following model.

$$\text{Vault to Total Deposits Ratio} = \frac{\text{Cash in Vault}}{\text{Total Deposit}} \times 100$$

Where,

Cash in Vault = Local currency in Hand + Foreign Currency in Hand

3.6.2 Statistical Tools

Avarage

A simple arithmetic average is used to summarize the data as a representation of mean data.

A simple arithmetic average is a value obtained by dividing the sum of the values by their numbers (Kothari, 1989). Thus, the average is expressed as:

$$(\overline{X}) = \frac{X}{N}$$

Where,

$\overline{X}$ = Mean of the values

N= Number of pairs of observation

During the analysis of data, mean is calculated by using the statistical formulas average on excel data sheet on computer.

Standard Deviation

Standard deviation is the absolute measure of dispersion of the values and shows the deviation or dispersion in absolute term (Kothari, 1989). It is said that higher the value of standard deviation the higher the variability and vice versa. Karl person introduced the concept of standard deviation in 1983. Here, the standard deviation is used to find out the deviation in absolute term. Standard deviation is determined in following way.

$$\text{S.D. } \sigma = \sqrt{\frac{x^2}{n} Z \frac{x}{n}}^2$$

Here,

n= no. of observation, x=individual value

During the analysis of data, standard deviation is calculated by using the statistical formula on SPSS program on computer.

Coefficient of Variation

Coefficient of variation is the relative measure of dispersion based on the standard deviation (Kothari, 1989). It is most commonly used to measure the variation of data and more useful for the comparative study of variability in two or more series or graph or distribution. Symbolically, the coefficient of variation is calculated as:

$$CV = \frac{\pm}{\overline{X}}$$

Where,

$\pm$ =standard deviation

$\overline{X}$ = mean

CV= Coefficient of variation

Least Square Trend Analysis

Least square trend has been used to find out the trend of ratio (Kothari, 1989). The general equation used for trend is given below:

$$Y = a + bx$$

Where,

Y=Dependent variable

t=coded time in year

x= deviation of coded time and its mean (independent variable)

a= Y-intercept

b= Slope of the trend line

In the above model, $b = \frac{N.\ XY\ Z\ X.\ Y}{N.\ X^2\ Z(\ X)^2}$, $a = \frac{Y\ Zb.\ X}{N}$

CHAPTER - IV

DATA ANALYSIS AND PRESENTATION

This chapter deals with presentation and analysis of data collected from annual reports of the bank. The raw data collected has been organized and processed using various tools discussed in the previous chapter-"Research Methodology". In this chapter data and information are presented and analyzed using different financial tools in order to achieve the objectives of the study. In data presentation and analysis, the study is focused on CAMELS components.

4.1 Capital Adequacy

Capital adequacy determines how well banks can manage with stocks to their balance sheets. For the purpose of capital adequacy measurement, bank capital is divided into Tier I (core/primary) capital and Tier II (supplementary) capital. Risk based capital ratio, core capital adequacy ratio, supplementary capital ratio, past due loans/total loans, total loans to a single Borrower/ total loans, total loans to a single Borrower/ core capital & actual provisioning to required provisioning are the ratios used to analyze the capital adequacy ratio. Commercial bank should have adequate capital to support its risks assets in accordance with the risk-weighted capital ratio framework. It has become recognized that capital adequacy more appropriately relates to assets structure than to the volume of liabilities. Adequacy and inadequacy of bank capital directly affects the banking transaction. The adequacy of bank capital is the most important aspect of a bank. If there is inadequacy of capital, the bank should take step for the adequacy of capital as per legal requirement because its financial health cannot be regarded capable and healthy without having sound adequate capital.

4.1.1 Core Capital Adequacy Ratio

Table 4.1

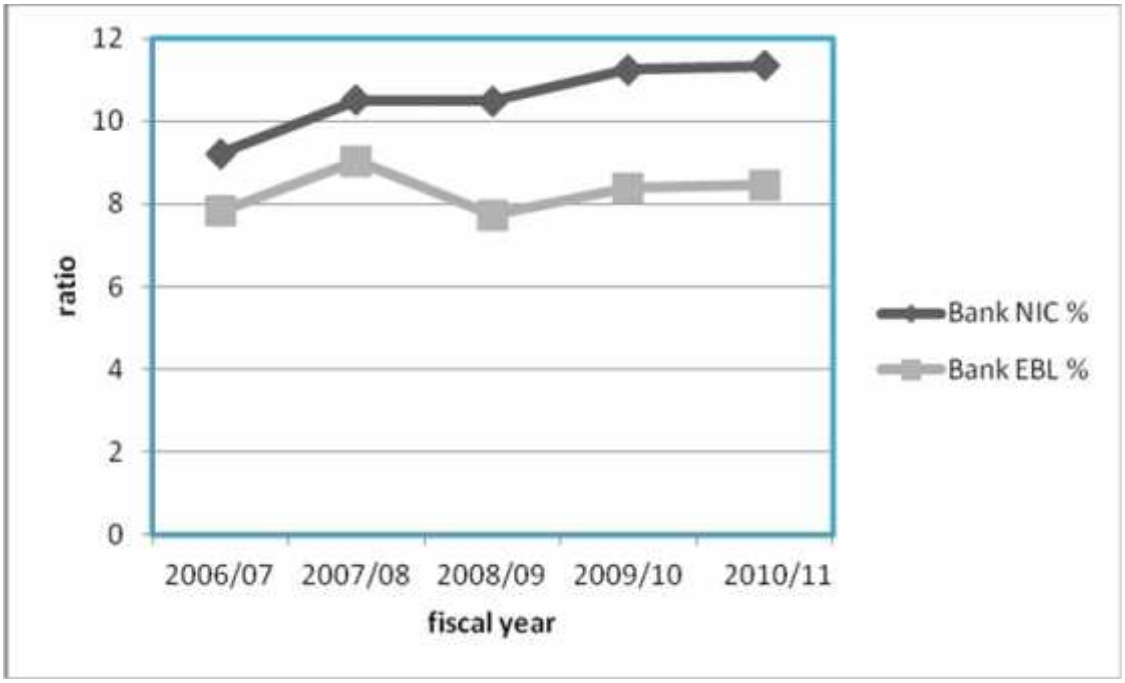
Core Capital Adequacy Ratio

Year	Bank		
	NIC %	**EBL %**	**NRB Std (%)**
2006/07	9.21	7.82	5.5
2007/08	10.50	9.03	6.0
2008/09	10.48	7.73	5.5
2009/10	11.25	8.39	6.0
2010/11	11.34	8.46	6.0
Mean	**10.56**	**8.29**	
SD.	**0.71**	**0.40**	

Source: Appendix II

Figure 4.1

Core Capital Adequacy Ratio



The table and figure 4.1 shows CCAR of NIC and EBL for the study period as 9.21,10.50,10.48,11.25 and 11.34 likewise 7.82,9.03,7.73,8.39and8.46 respectively. Similarly, the table also shows the NRB standards required to be maintained by the commercial banks as 5.5 in 2006/07 and 2008/09 ,6.00 in 2007/08, 2009/10 and 2010/11 . From the table it can be seen that the CCAR maintained by both the commercial banks is more than the standards set by the NRB for the study period. The table reveals an average CCAR of NIC and EBL is 10.56 and 8.29 respectively. Based on this, we can say that NIC's capital base is stronger than EBL. The table also gives standard deviation of the sample commercial banks on core capital adequacy ratio. The standard deviation for the banks is 0.71 and 0.40 respectively. As the standard deviation of NIC is more than that of EBL there is a more variability in the capital base of this bank than EBL.

4.1.2 Supplementary Capital Adequacy Ratio

Supplementary capital is the amount of capital that is transferred in reserve and collected using the hybrid capital instruments. It includes loan loss provision, exchange equalization reserve, assets revaluation reserve, hybrid capital instruments, unsecured sub-ordinate term debt, interest rate fluctuation fund and other free reserves. NRB has set a standard of supplementary capital to be maintained by the commercial banks as not more than the core capital of the bank.

Table 4.2

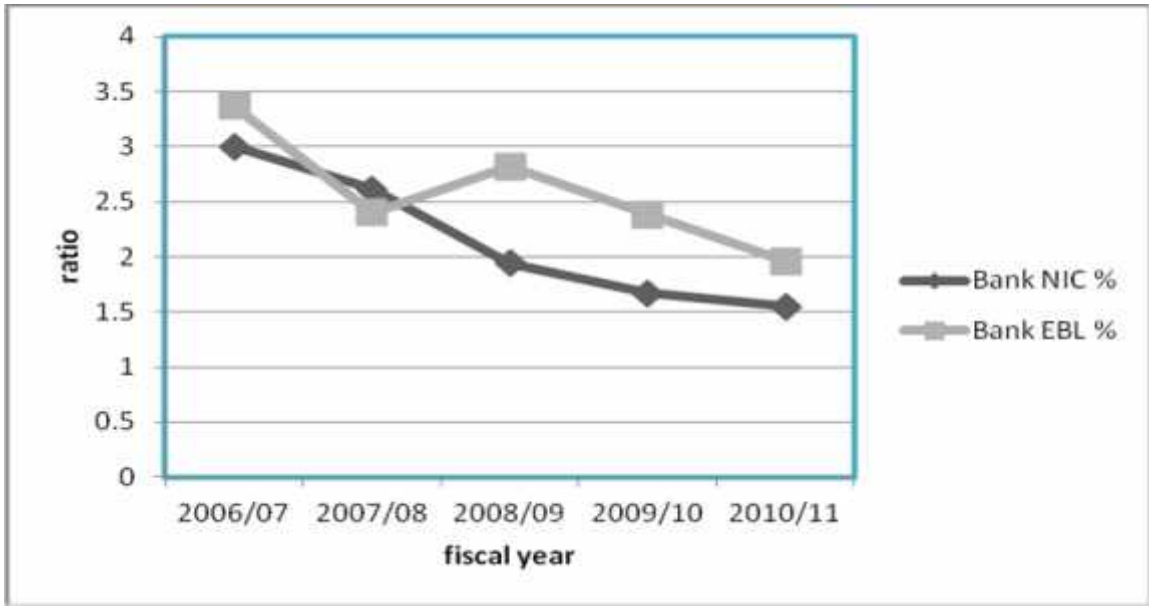
Supplementary Capital Adequacy Ratio

Year	Bank	
	NIC %	**EBL %**
2006/07	3.0	3.37
2007/08	2.61	2.40
2008/09	1.94	2.82
2009/10	1.67	2.38
2010/11	1.55	1.96
Mean	**2.15**	**2.59**
SD	**0.58**	**0.45**

Source: Appendix III

Figure 4.2

Supplementary Capital Adequacy Ratio



The table and figure 4.2 shows the SCAR of NIC and EBL for the study period as 3.0,2.61,1.94,1.67 and 1.55 likewise 3.37,2.40,2.82,2.38 and 1.96 respectively. According to NRB directives, up to 100 percent of the SCAR maintained by the concerned banks for a particular year is the standard SCAR Similarly, it discloses the standard deviation of both the banks as 0.58 and 0.45 respectively. Based the average SCAR, EBL's capital base is stronger than that of NIC. Since standard deviation of SCAR of NIC is higher than that of EBL, the variability in its SCAR is higher than that of NIC meaning that more risky in terms of SCAR. NRB standard is not more than 100% of Core Capital.

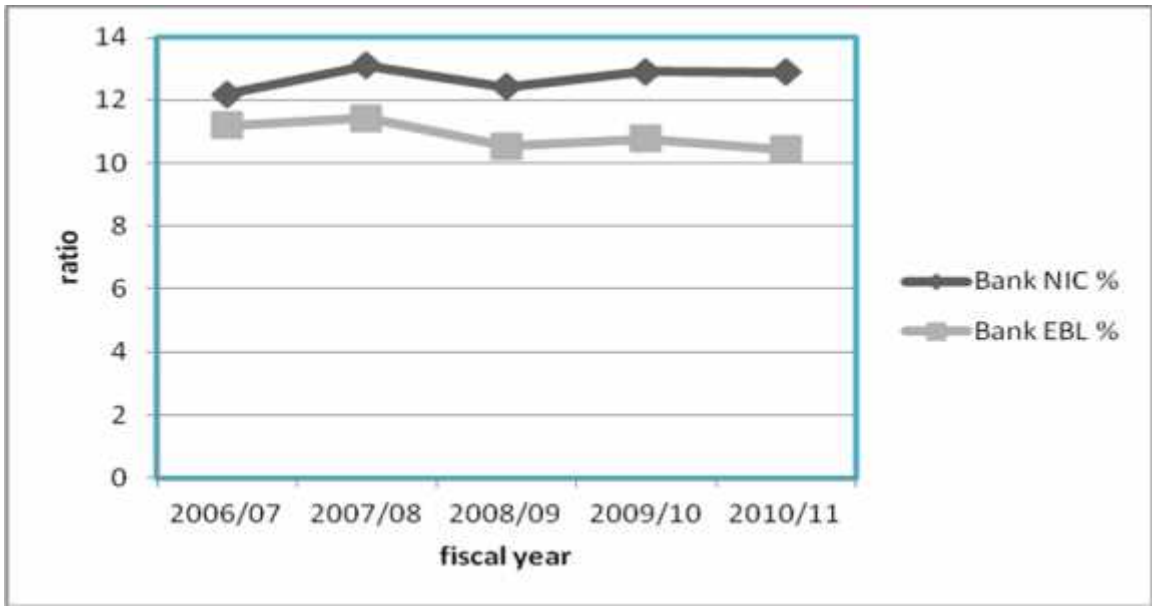
4.1.3 Total Capital Adequacy Ratio

Table 4.3
Capital Adequacy Ratio

Year	Bank		NRB Std (%)
	NIC %	EBL %	
2006/07	12.20	11.19	11
2007/08	13.11	11.44	11
2008/09	12.42	10.55	11
2009/10	12.92	10.77	11
2010/11	12.89	10.43	11
Mean	**12.71**	**10.88**	
S. D.	**0.26**	**0.24**	

Source: Appendix IV

Figure 4.3
Capital Adequacy Ratio



The table and figure 4.3 shows Total Capital Adequacy Ratio of NIC, EBL for the study period. The ratio of NIC and EBL is 12.20,13.11,12.42,12.92 and 12.09 likewise 11.19,11.44, 10.55,10.77 and 10.43 respectively. The NRB standard on the Total Capital Adequacy for the commercial banks is 11 for the said period. The data reveals that the ratio maintained by the NIC bank is greater than the standard maintained by NRB for five years period and ratio maintained by EBL is more for first two periods2006/07 and2007/08 and less in the next

three years than NRB standard. The table also discloses mean CAR of NIC and EBL as 12.71 and 10.88 respectively. It also discloses S.D. of both the banks as 0.26 and 0.24 respectively. Based on mean CAR, we can say that the capital base of NIC is stronger than EBL. The value on S.D. concludes that there is a greater variability in CAR of NIC than that of EBL. The line representing CAR for NIC is above the same line for EBL .If the standard deviation is not consider then we can say that the capital base of NIC is stronger than the EBL .

4.2 Asset Quality

Loans and advances normally dominate the asset side of the balance sheet of the banks. Similarly earning from such loans and advances occupy a major space in income statement of the bank. Hence Asset is the critical factor in determining the strength of any bank. Primary factors that can be considered are the quality of loan portfolio, mix of risk assets and credit administration system. The quality of assets are measured in terms of ratio of past due loans to total loans and loan classified as substandard/doubtful/loss to total loans. Provisions made for NPAs and loan provided to single Borrower are also the measuring rods used to analyze the assets quality of the bank.

4.2.1 Non-Performing Loan to Total Loan and Advances

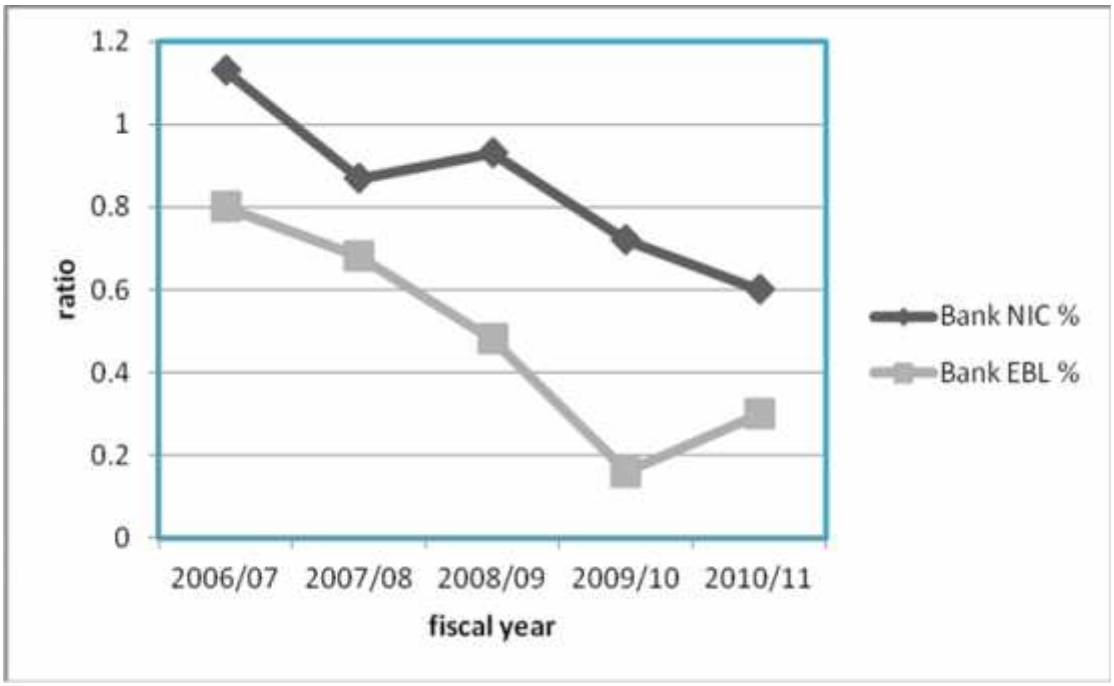
Table 4.4
Non-performing Loan Ratio

	Bank	
Year	**NIC %**	**EBL %**
2006/07	1.13	0.80
2007/08	0.87	0.68
2008/09	0.93	0.48
2009/10	0.72	0.16
2010/11	0.60	0.30
Mean	**0.85**	**0.48**
C.V.	**21.18**	**50.72**

Source: Appendix V

Figure 4.4

Non-performing Loan Ratio



The table and figure 4.4 shows that NPL ratios of NIC for the study period are1.13,0.87,0.93,0.72 and0.60. Similarly, same ratio of EBL for the study period is 0.80,0.68,0.48,0.16 and 0.30. The NPL ratio of NIC is in decreasing trend and of EBL is increasing trend. The table also reveals mean NPL of NIC and EBL as 0.85 and 0.48 respectively. The table also reveals CV of both the banks as 21.18% and 50.72% respectively. Form the mean NPL; we can say that the asset quality of EBL is sound. Similarly, from the CV of NPL, we can say that the loan and advances of EBL is risky than NIC. Therefore, we can conclude that the loan and advances of EBL is sound compare to NIC. If we consider CV then, EBL is in risky movement for loan and advance in future period that can be shown from the above chart.

4.2.2 Loan Loss Provision to Total Loan and Advances

The non performing loan to total loan measures the risk on the total loan and thus represents the quality of the assets the bank is carrying on. Higher the ratio indicates higher risk on the assets and vice-versa. The ratio of the selected banks for the five year periods are presented in the table

Table 4.5

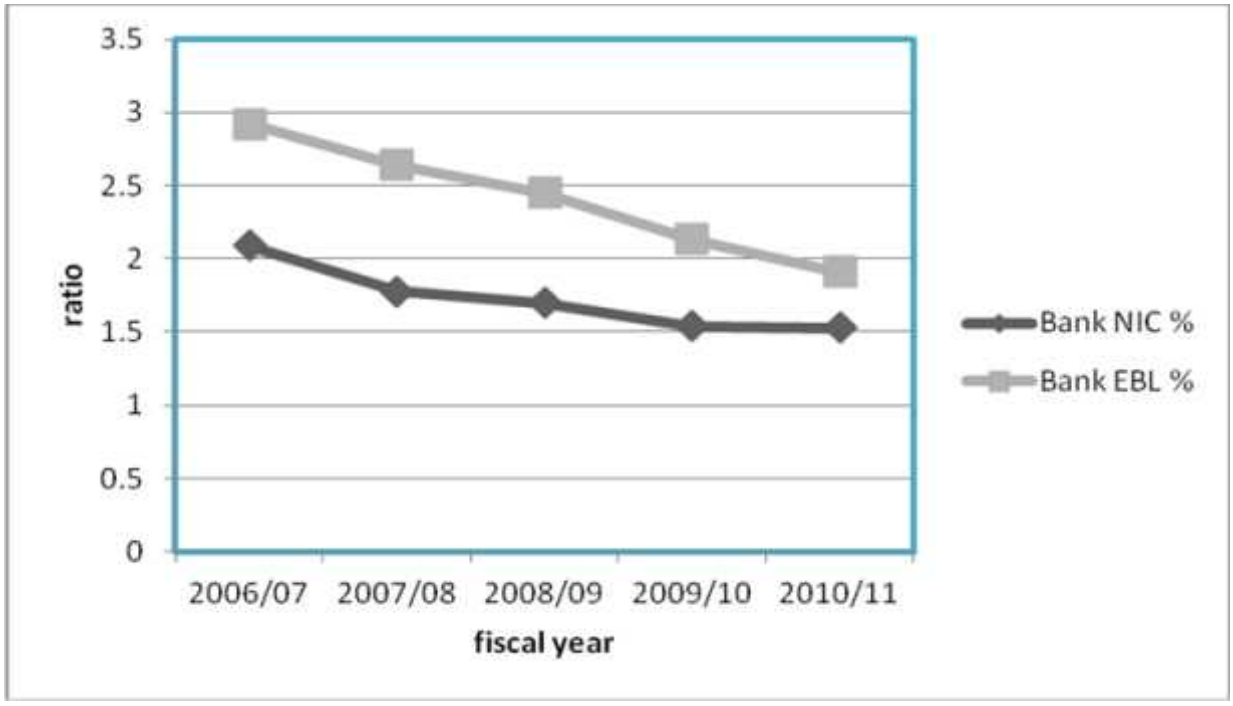
Loan Loss Ratio

Year	Bank	
	NIC %	**EBL %**
2006/07	2.09	2.92
2007/08	1.78	2.64
2008/09	1.70	2.45
2009/10	1.54	2.13
2010/11	1.53	1.91
Mean	**1.73**	**2.41**
CV	**10.98**	**14.88**

Source: Appendix VI

Figure 4.5

Loan Loss Ratio



The table and figure 4.5 exhibits that the loan loss ratio of NIC for the study period is2.09, 1.78, 1.70, 1.54 and 1.53. Similarly, the same ratio of EBL for the study period is 2.92, 2.64, 2.45, 2.13 and 1.91. The ratio for NIC is decreasing because of reduced amount of loan loss provision required for the amount of loan investment by the banks in the study period. The ratio of EBL, too, is decreasing trend. The table shows mean LLR of NIC and EBL as 1.73 and 2.41 respectively. The table also shows CV of NIC and EBL as 10.98% and 14.88% respectively. The value on mean LLR reveals that the quality of loans issued by the EBL not

is good compare to NIC. As the CV of NIC is less than that of EBL, we can conclude that the loans of NIC are less risky than that of EBL.

4.3 Management Efficiency

While the other factors can be quantified fairly easily from current financial statements, management quality being subjective is difficult to quantify. There is one measure that is relevant to management is the ratio of total expenses to total revenue. Another measure that is also relevant to management is the ratio of earnings per employee is used as a proxy of management quality

4.3.1 Total Expenses to Total Revenue Ratio

The ratio of total expenses to total revenue is used as a proxy measure of the management quality. This ratio is calculated by dividing the total expenses by total revenues. Commercial bank‘s earnings originate from interest on Loans & Advances, Investments, Commissions & Discounts, Foreign Exchange Rate Gains and other miscellaneous income. Conversely, it expends on, Depositors‘ Interest, Staff Salary, Provident Fund , allowances and other operating expenses like rent, water & electricity, fuel expenses, audit fee expenses, management expenses, depreciation, miscellaneous expenses, and all other expenses directly related to the operation of bank. Expenses such as loss on sale of assets, write off expenses, losses shortage, written off, provision for income tax are non operating expenses.

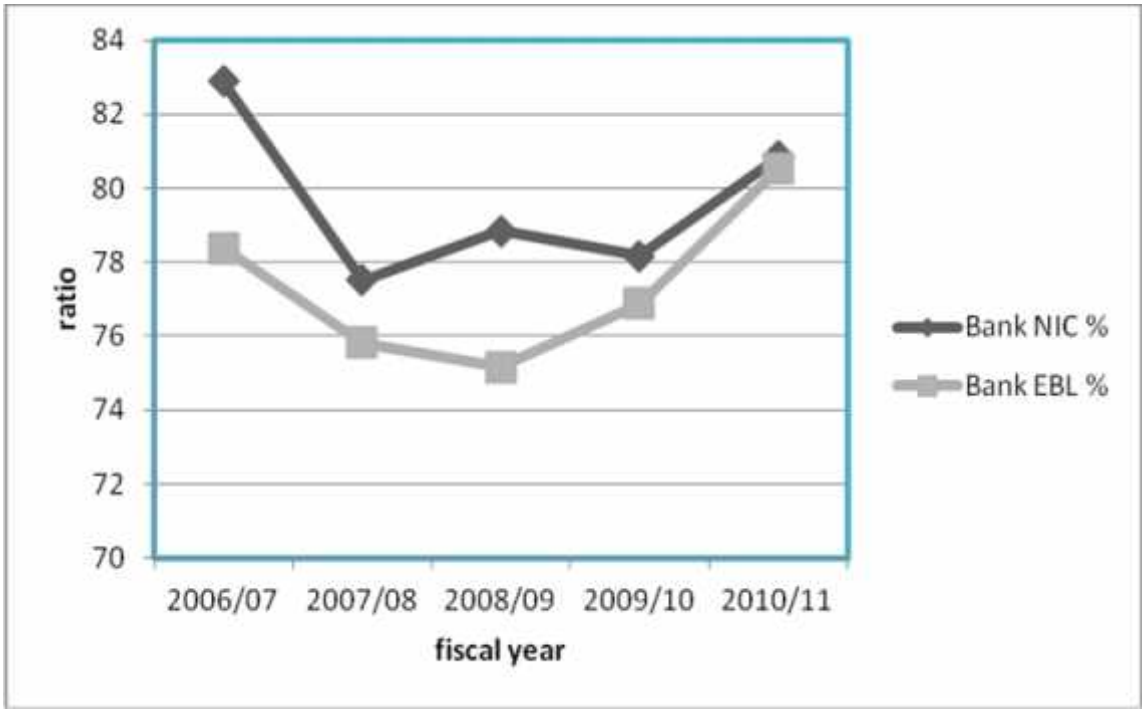
Table 4.6
Total Expenses to Total Revenue Ratio

	Bank	
Year	**NIC %**	**EBL %**
2006/07	82.90	78.38
2007/08	77.52	75.83
2008/09	78.84	75.16
2009/10	78.18	76.87
2010/11	80.85	80.54
Mean	**79.66**	**77.36**
CV	**2.36%**	**2.27%**

Source: Appendix VII

Figure 4.6

Total Expenses to Total Revenue Ratio



The table and figure 4.6 shows ratio on total expenses to total revenue of NIC and EBL as 82.90,77.52,78.84,78.18 and 80.85 likewise 78.38,75.83,75.16,76.87 and 80.54 respectively for the study period. The data reveals that TETR ratio of NIC is decreasing 2006/07 then increasing 2007/08 and again decreased in the year 2008/09 and increase at the end of 2009/10. In another hand EBL's total expenses to total revenue is declining trend from 2006/07 to 2008/09 and again rapid increasing from the 2008/09 to the study period. Table reveals mean expense to revenue ratio of NIC and EBL as 79.66 and 77.36 respectively. The table also shows CV of both the banks as 2.36% and 2.27% respectively. Mean ratio on expense to revenue of NIC is greater than that of EBL which indicates larger portion of the income is expensed. Similarly, the CV of NIC is greater than EBL meaning that greater variability in its ratio. It means the management of NIC seems less efficient than EBL.

4.3.2 Earning Per Employee

Lower earnings per employee can reflect inefficiencies as a result of over staffing, with similar repercussions in terms of profitability. Earning per employee is calculated by dividing net profit after taxes by number of employees.

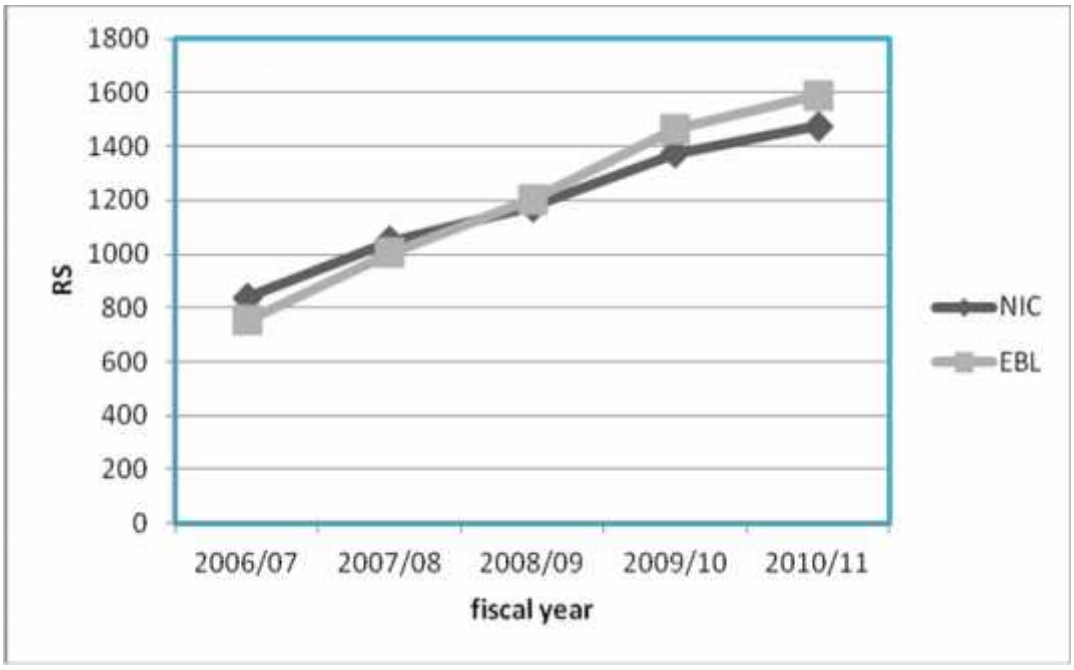
Table 4.7

Earning per Employee (Rs)

Year	Bank	
	NIC	EBL
2006/07	838.49	754.22
2007/08	1047.66	1004.94
2008/09	1175.68	1202.89
2009/10	1375.67	1464.38
2010/11	1475.31	1589.26
Mean	**1182.56**	**1203.14**
S.D.	**227.88**	**302.70**

Source: Appendix VIII

Figure 4.7
Earning per Employee (Rs)



The table and figure 4.7 shows the mean earning per employee of NIC and EBL as 1182.56 and 1203.14 respectively. The table also shows the S.D. of both the banks as 227.88 and 302.70 respectively. The value on mean earning per employee of EBL is greater than NIC which indicates better management performance of the bank compare to its competitor. Since the S.D. of earning per employee of EBL is greater than that of NIC, there is more risk in per employee earning of the EBL compare to NIC.

4.4 Earning Performance

The main objectives of banks are to earn profit and their level of profitability is Measured by profitability ratios. Earning performance allows the banks to remain competitive by providing the resources. Profitability ratios measures the Efficiencies of the banks, higher profit ratio indicates higher efficiency and vice-versa.

4.4.1 Return on Assets (ROA)

Return on assets explains the contribution of assets to generating net profit. Return on total assets is calculated by dividing net profit after tax by total assets of the company. Higher return on total assets indicates the higher efficiency in the utilization of total assets and vice-versa.

Table 4.8

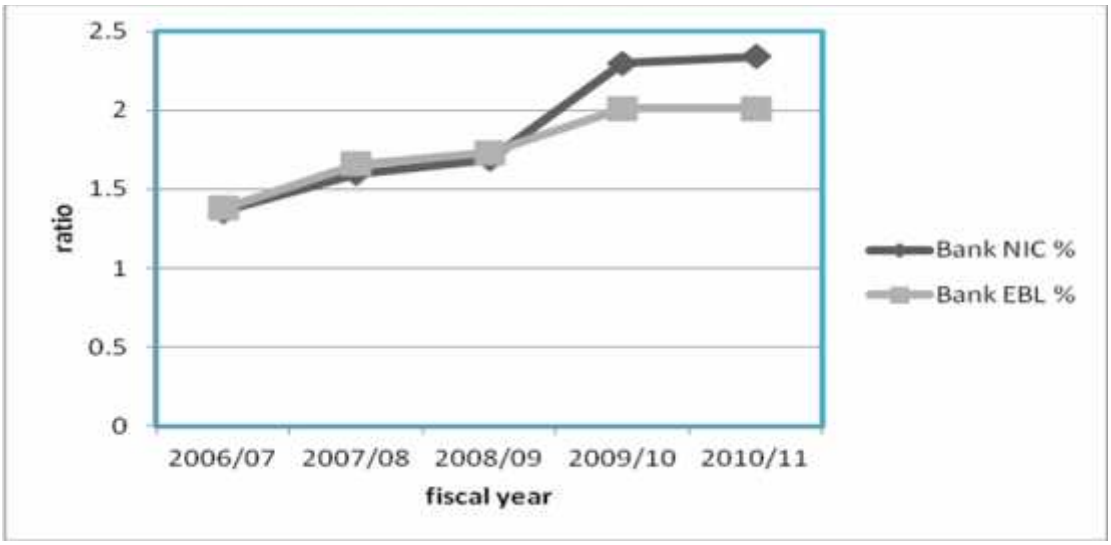
Return on Assets Ratio

Year	Bank	
	NIC %	**EBL %**
2006/07	1.36	1.38
2007/08	1.60	1.66
2008/09	1.69	1.73
2009/10	2.30	2.01
2010/11	2.34	2.01
Mean	**1.86**	**1.76**
S.D.	**0.38**	**0.22**
C.V.	**20.59**	**12.58**

Source: Appendix IX

Figure 4.8

Return on Assets Ratio



The table and figure 4.8 shows mean ROA ratio of NIC and EBL is 1.86 and 1.76 respectively. The table also shows CV of ROA ratio of NIC and EBL is 20.59% and 12.58% respectively. The mean value of ROA ratio reveals that the return on assets of NIC is better than that of EBL. Similarly, the value on CV reveals that less variability in the return on assets of EBL compare to NIC. Therefore, EBL seems to be less risky than NIC.

4.4.2 Earning Per Share (EPS)

The earnings per share show the profitability of the bank on per share basis. It shows the earning available to each shareholder out of the total earning. The earnings per share is calculated by dividing the profit after tax by total number of common share outstanding.

Table 4.9

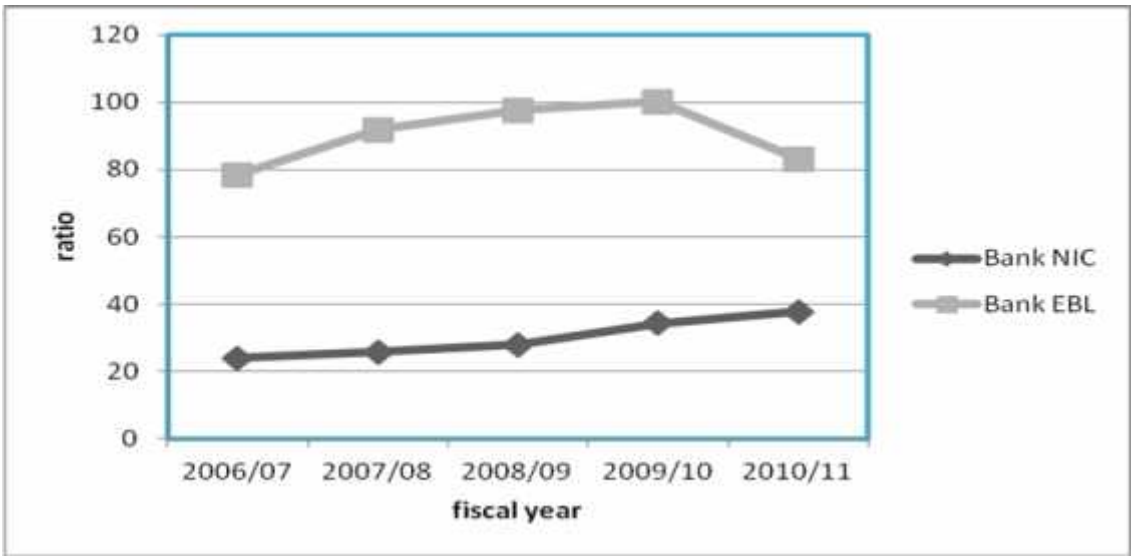
Earnings per Share (Rs.)

Year	Bank	
	NIC	EBL
2006/07	24.01	78.42
2007/08	25.75	91.82
2008/09	27.83	97.69
2009/10	34.30	100.16
2010/11	37.80	83.18
Mean	**29.94**	**90.25**
S.D.	**5.24**	**8.36**
C.V.	**17.50**	**9.26**

Source: Appendix X

Figure 4.9

Earning per share



The table and figure 4.9 shows EPS of NIC for the study period 24.01,25.75,27.83,34.30 and 37.80. Similarly, the same of EBL for the study period is 78.42,91.82,97.69,100.16 and 83.18. The EPS of NIC is increasing year by year over the study period. The table shows that the EPS of EBL is increasing year by year over the study period except 2010/11 despite the increase in the number of shareholders. This increase in EPS is due to the increase in the bank's net profit over the study period.

Further, the table shows mean EPS of NIC and EBL as 29.94 and 90.25 respectively. It also shows the CV of the banks as 17.50% and 9.26% respectively. EBL's higher mean value on EPS compare to NIC indicates that it's earning performance is better than NIC. The CV of EBL indicates less variability in its EPS than NIC's. With this we can say that there is less risk in EBL than in NIC .

4.5 Liquidity Position

The level of liquidity influences the ability of a banking system to withstand shocks. Liquidity risk arises when CBs liability holder like depositor demand immediate cash for the financial claim they hold with financial institutions. Thus, bank should have sound liquidity position to meet the daily requirement.

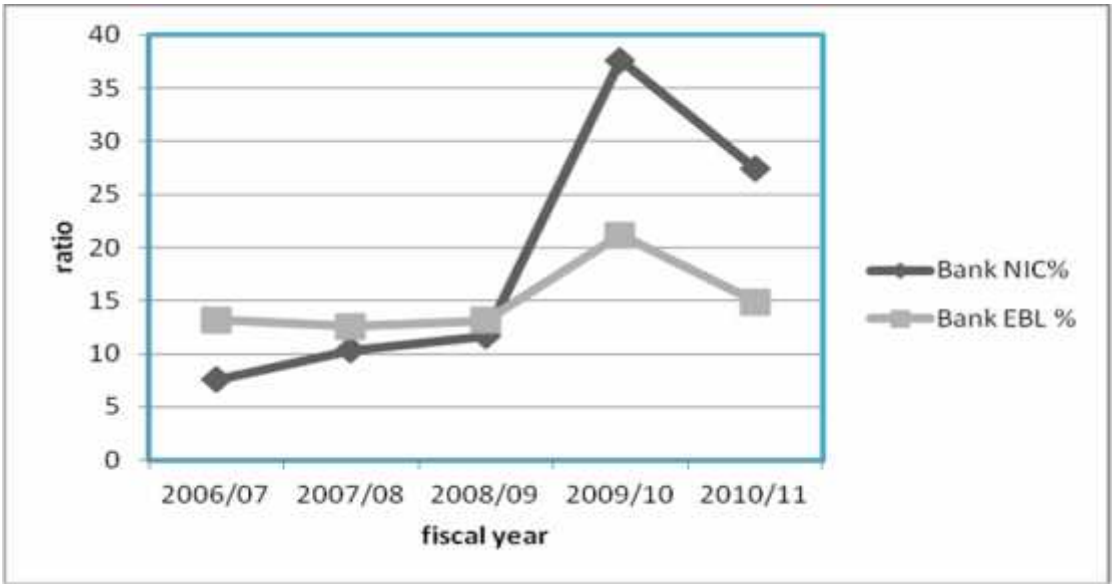
4.5.1 Liquid Assets to Total Deposit Ratio

Table 4.10
Liquid Assets to Total Deposit Ratio

Year	Bank	
	NIC%	EBL %
2006/07	7.58	13.15
2007/08	10.34	12.57
2008/09	11.69	13.12
2009/10	37.61	21.17
2010/11	27.40	14.89
Mean	**18.92**	**14.98**
S.D.	**11.63**	**3.19**
C.V.	**61.48**	**21.31**

Source: Appendix XI

Figure 4.10
Liquid Assets to Total Deposit Ratio



The table and figure 4.10 shows liquid assets to total deposit of sample banks for FY 2006/07 to 2010/11 .As shown by the table the LATD of NIC was 7.58,10.34,11.69,37.61 and 27.40 over the study period . As depicted in the table ratio of EBL is 13.15,12,57,13.12,21.17 and 14.89.Mean and CV of NIC on liquid asset to total deposits appeared as 18.92 and 61.48% respectively. The mean and CV of EBL on liquid asset to total deposits appeared as 14.98 and 21.31%respectively .The mean of NIC i.e.18.92 is higher than EBL i.e. 14.98 which indicates that NIC is more competent in paying deposits and it can keep more liquidity to serve the depositors than EBL. According to C.V. analysis, it can be determined that the ratio

of NIC also varied than that of EBL. Therefore, liquidity power of NIC is strong than EBL, but NIC is risky too.

4.5.2 NRB Balance to Total Deposit Ratio

This ratio shows whether bank is holding the balance as required to NRB. To ensure adequate liquidity in the commercial banks, to meet the depositors' demand for cash at any time, to inject the confidence in depositors regarding the safety of their deposited funds NRB has put the directives to maintain certain percent of total deposit in NRB by the commercial Banks. Total Deposit means Current, Savings and Fixed Deposit Account as well as Call Account deposit and certificates of deposits. For the purpose, deposits held in convertible foreign currency, employees guarantee amount and margin account will not be included. The following table shows the NRB Balance to Total Deposit Ratio.

Table 4.11

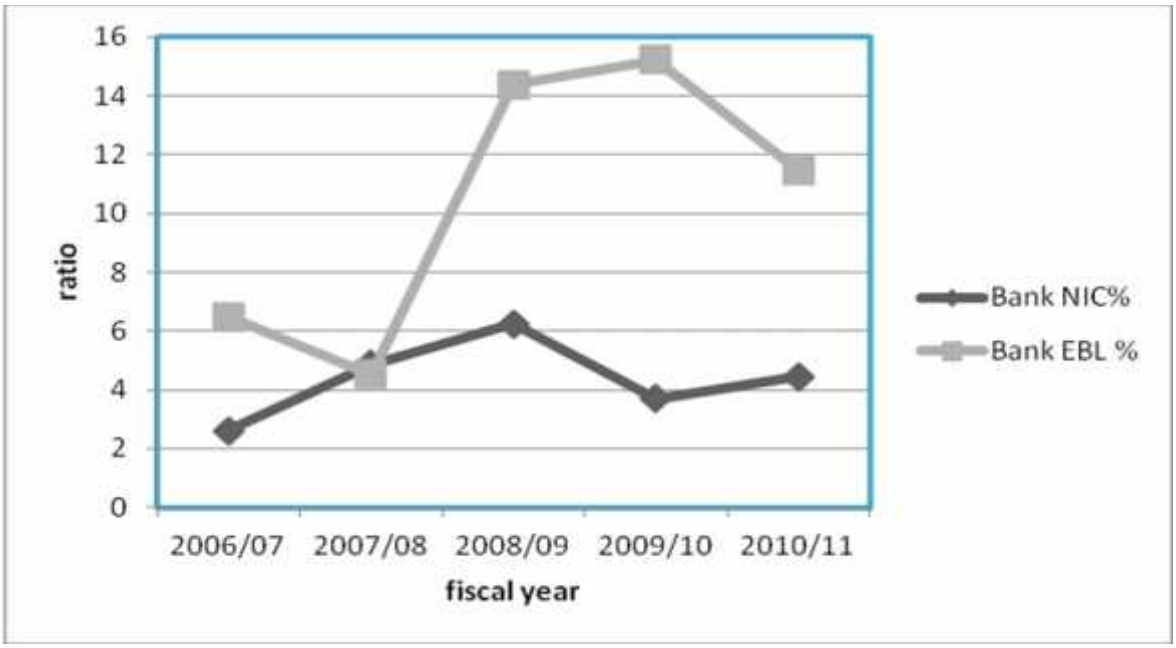
NRB Balance to Total Deposit Ratio

Year	Bank		NRB standard (%) *
	NIC%	EBL %	
2006/07	2.61	6.48	5
2007/08	4.85	4.51	5
2008/09	6.23	14.37	5
2009/10	3.69	15.23	5.5
2010/11	4.45	11.44	5.5
Mean	**4.37**	**10.41**	
SD	**1.19**	**4.24**	
CV	**27.23**	**40.71**	

Source: Appendix XII

Figure 4.11

NRB Balance to Total Deposit Ratio



The table and figure 4.11 shows NRB balance to total deposits Ratio of NIC as 2.61,4.85,6.23,3.69 and 4.45respectively. The table shows the ratio of EBL 6.48,4.51,14.37,15.23 and 11.44 over the study period. NRB standard on balance to total deposits in year 2006/07, 2007/08 and 2008/09 was 5 % and 5.5% each on the year 2009/10 and 2010//11. From this it can be conclude that has been maintaining NRB standard by NIC bank only in the year 2009/10 and EBL has maintained NRB standard except in the year 2007/08. Where NRB balance of EBL is higher than NIC.

4.5.3 Cash in Vault to Total Deposit Ratio

This ratio shows the percentage of total deposits held as cash in hand at vault. This ratio is computed by dividing cash at vault by total deposits. Local currencies in hand and foreign currencies in hand are included as cash in vault. Total deposits means current, savings and fixed deposits accounts as well as call account deposits and certificate of deposits.

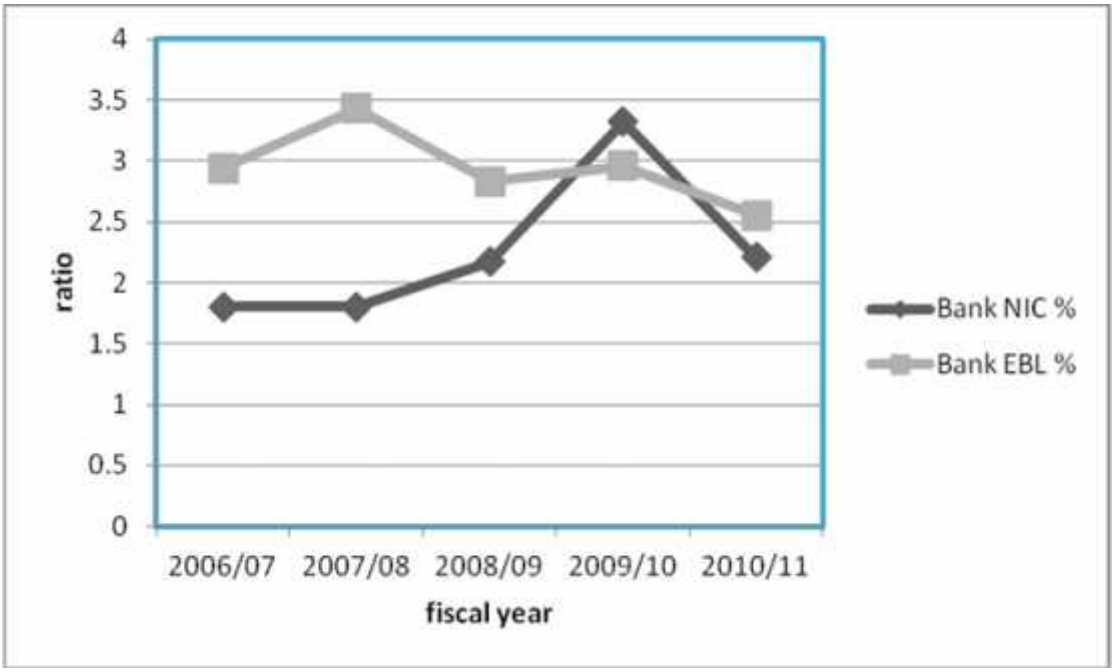
Table 4.12
Cash in Vault to Total Deposit Ratio

Year	Bank	
	NIC %	EBL %
2006/07	1.80	2.94
2007/08	1.80	3.43
2008/09	2.17	2.83
2009/10	3.32	2.96
2010/11	2.21	2.55
Mean	**2.26**	**2.94**
S.D.	**0.56**	**0.30**
C.V.	**24.78%**	**10.20%**

Source: Appendix XIII

Figure 4.12

Cash in Vault to Total Deposit Ratio



The table and figure 4.12 exposed that the ratios of NIC as 1.80,1.80,2.17,3.32and 2.21 corresponding year of the study period. Mean and C.V. appeared 2.26 and 24.78% respectively. In EBL, the ratios remained 2.94,3.43,2.83,2.96 and 2.55 in the corresponding year's Mean and CV ratios seems 2.94 and 10.20% respectively.

The greater average in EBL indicates that EBL is in stronger liquidity position than NIC. According to CV it can be determined that the ratio of EBL also less than that of NIC. It indicates that the liquidity position of NIC is very week and risky position. And the liquidity need can be fulfill easily and fast by EBL

Trend Analysis and Projection for Next Five Years

The measurement used in financial management analysis may be classified into two groups those who measure in the relation among the items. Insight set of statements, and those who measure the analysis in these items in successive statement. The first is a static analysis measuring position at a point of time for a period and the second is a dynamic analysis, measuring changes of position. Both types of analysis are necessary for a comprehensive interpretation, since it is important to know not only the proportion as one certain date but also the trends on the enterprise.

Trend analysis is a set of observations taken at specified times usually at equal intervals. Some of the utilities are as follows:

- It helps in understanding the past behavior of the variable (or data). By observing past behavior data, one can easily observe in his sales or prices what changes had taken place in the past and what were their causes.
- It helps to predict or estimate (or forecast) the behavior of the data in future which is very essential for business planning.
- It helps to compare changes in the values of different phenomenon at different times or places etc.
- It helps to compare the actual current performance of accomplishment with expected ones (on the basis of the past performances) and analysis the causes of such variations.

The segregation and study of various components is of paramount importance to a businessman in the planning of future operation and in the formation of executive and policy decisions.

Here, in this study the trend analysis of the financial condition are presented which is objected to provide the insight of the bank position.

In this study, the method of lease square is used for the analysis of the NIC & EBL total deposit trend, net profit trend and loan & advances trend.

- The projections are based on the following assumptions:
- The main assumption is that other things being will remain constant.
- The bank will run in the present position.
- The economy will remain in the present stage.

- The forecast will be true only when the limitation of least square method is carried out.
- NRB will not change its guidelines to commercial banks.

I.Trend Analysis of Total Deposit

Table 4.13

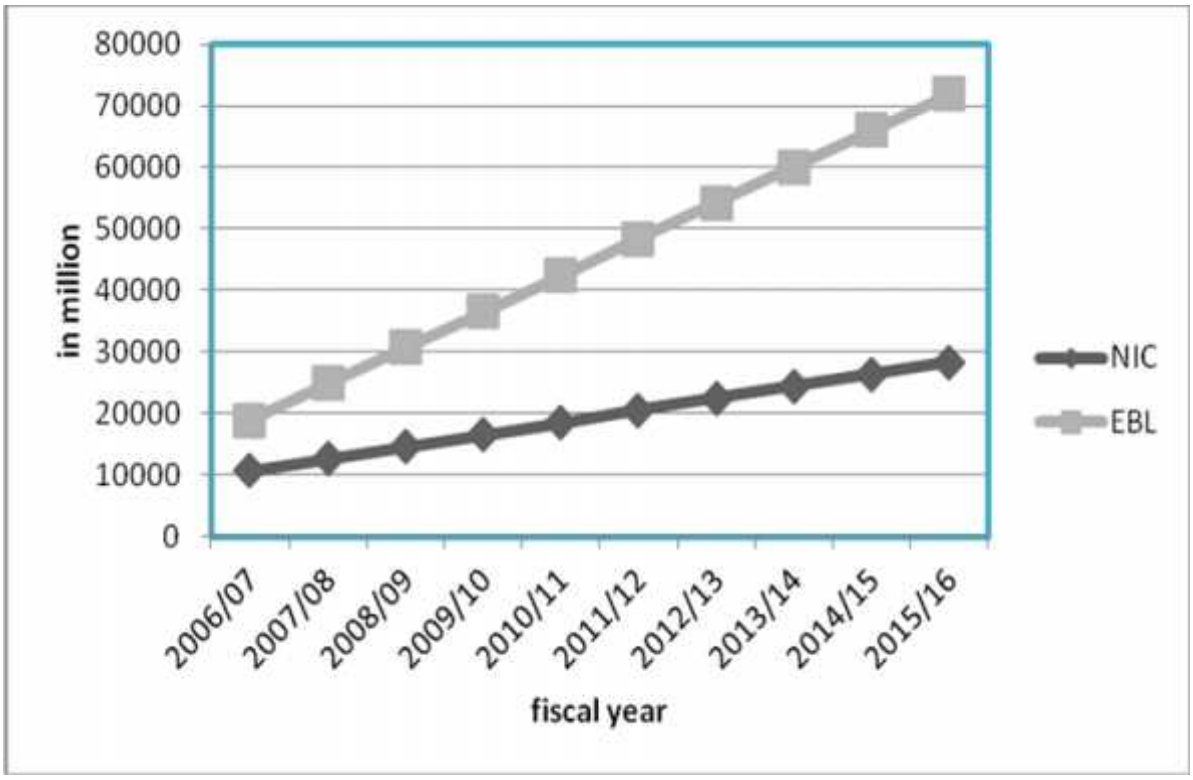
Trend Value of Total Deposit

F.Y	NIC		EBL	
	Trend Value	Actual Value	Trend Value	Actual Value
2006/07	10712	10068	18923	18186
2007/08	12665	13084	24807	23976
2008/09	14619	15580	30691	33322
2009/10	16573	15969	36575	36932
2010/11	18526	18395	42459	41128
2011/12	20480		48343	
2012/13	22434		54227	
2013/14	24387		60111	
2014/15	26341		65995	
2015/16	28295		71879	

Source: Appendix XIV&XV

Figure 4.13

Trend Value of Total Deposit



(A.V. = Actual Value, T.V= Trend Value)

From the table and figure we can calculate that the total deposit of EBL has been increasing by 5884 million per year and NIC bank has increasing by 1954 million every year . According to the above trend analysis the growth rate of EBL is higher than NIC. Hence both banks have maintained good increasing rate in deposits in recent years in spite of growing competition and liquidity crunch situation in current market.

II. Trend analysis of Net Profit

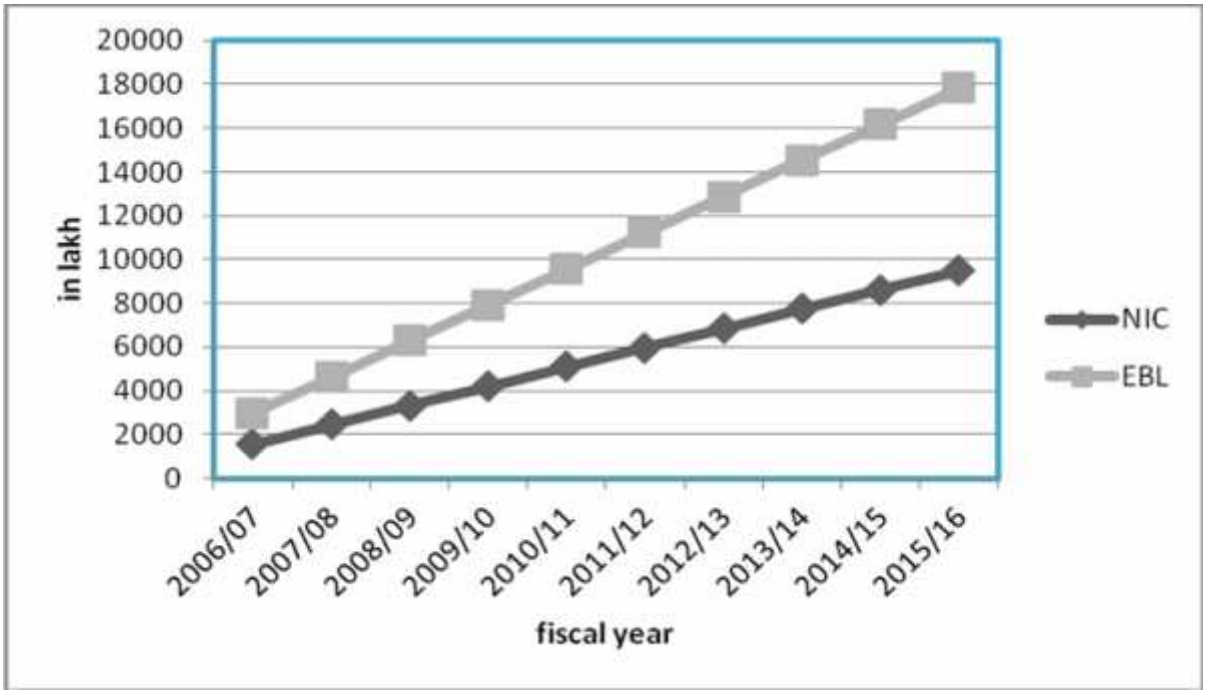
Under this topic the trend values of net profit has been calculated for five years from F.Y. 2006/07 to 2010/11 and the forecast for next five years up to 2011/12 to 2015/2016.

Table 4.14
Trend Value of Net Profit

F.Y	NIC		EBL	
	Trend Value	**Actual Value**	**Trend Value**	**Actual Value**
2006/07	1566	1584	2969	2964
2007/08	2447	2430	4619	4512
2008/09	3329	3174	6269	6240
2009/10	4210	4495	7919	8317
2010/11	5091	4957	9570	9313
2011/12	5973		11220	
2012/13	6854		12870	
2013/14	7736		14521	
2014/15	8617		16171	
2015/16	9498		17821	

Source: Appendix XVI&XVII

Figure 4.14



From the table and figure 4.14we can calculate that the Net Profit of EBL has been increased per year by 1650.3 lakh i.e.166 million and NIC bank has increased its profit by 881.4 lakh i.e. 89 million per year. Both of banks has maintained nice rate of increasing rate in profit in previous year and they can perform nicely in coming years too. We can say it by their performance at last five years and trend for next five years.

III. Trend Analysis of Loan & Advance

Under this topic the trend values of loan and advances have been calculated for five years from F.Y. 2006/07 to 2010/11 and forecast for next five years up to2011/12 to 2015/2016.

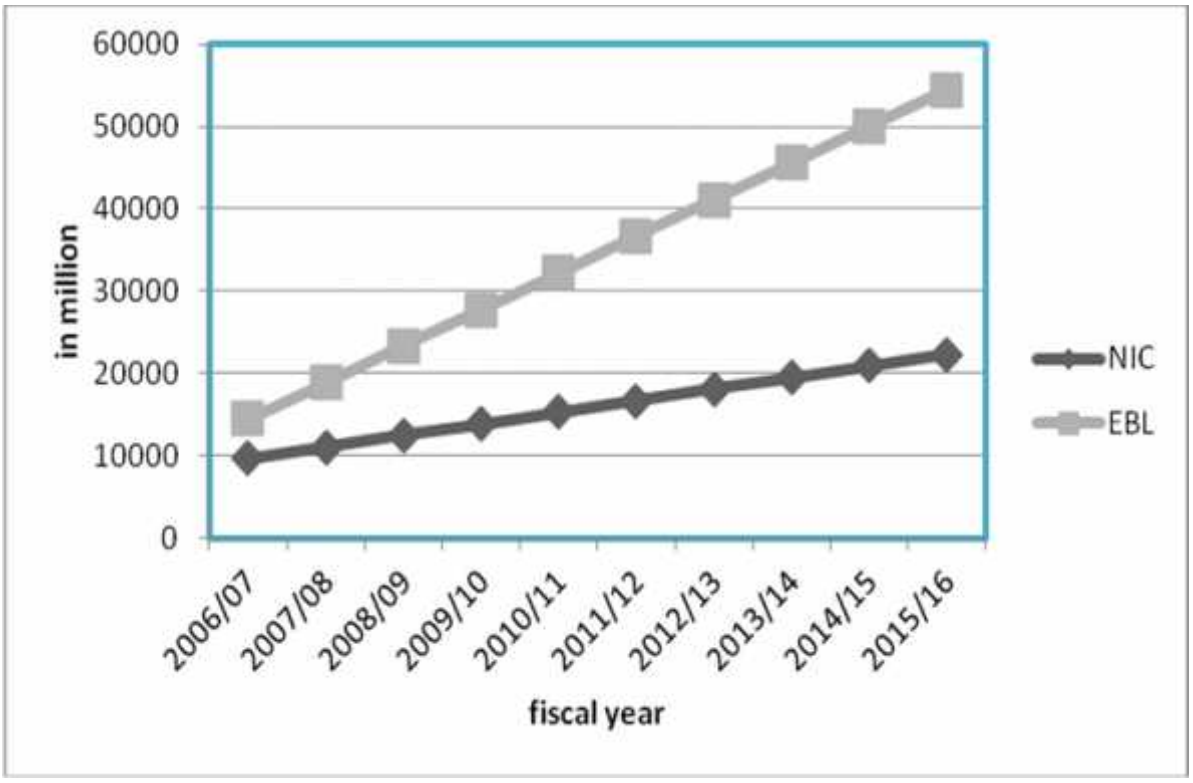
Table 4.15

Trend Value of Loan & Advance

F.Y	NIC		EBL	
	Trend Value	Actual Value	Trend Value	Actual Value
2006/07	9620	8941	14428	14082
2007/08	11031	11264	18876	18836
2008/09	12443	13915	23324	23884
2009/10	13854	12930	27772	28156
2010/11	15265	15166	32219	31662
2011/12	16677		36667	
2012/13	18088		41115	
2013/14	19499		45563	
2014/15	20911		50011	
2015/16	22322		54458	

Source: Appendix XVIII&XIX

Figure 4.15
Trend Value of Loan & advance



From table and figure 4.15 we can calculate that the loan and advance of EBL has been increasing 4447.8 million per year and NIC bank's has increasing by 1411.3 million per year. In comparing of disbursing loan volume of EBL is higher than NIC. It also influences the total income as well as net profit of bank. Which are already shown by study in total profit increasing range of both banks. From trend analysis of both banks resulting much satisfactory positions maintained by them.

4.6 Major Findings of the Study

This section lists major findings obtained from the analysis of the data presented for the study purpose.

- Performance of the sample commercial banks is intended to measure with tools: CCAR, SCAR and TCAR suggested under CAMEL model. The mean CCAR of NIC is found 10.56 whereas the same for EBL is 8.29. Standard deviation of CCAR of NIC and EBL is found 0.71 and 0.40 respectively. The mean SCAR of NIC is found to be 2.15 whereas the same found to 2.59 for EBL. The standard deviation of SCAR of NIC and EBL found to be 0.58 and 0.45 respectively. The mean TCAR of NIC is

found 12.71 whereas the same found 10.88 for EBL. The standard deviation of TCAR of NIC and EBL found to be 0.26 and 0.24 respectively.

- Performance of sample commercial banks is intended to measure on the basis of NPL ratio and Loan Loss ratio which are the proxy to the quality of assets. Mean NPL of NIC and EBL is found 0.85 and 0.48 respectively. Coefficient of variation of NPL of NIC and EBL is found 21.18% and 50.72% respectively. The mean Loan Loss ratio of 1.73 and 2.41 is found for NIC and EBL respectively. Similarly, the CV of 10.98% and 14.88% is found for NIC and EBL respectively

- Performance of sample commercial banks is intended to measure by tools: total expense to total revenue and earnings per employee under CAMEL. Mean ratio on expense to revenue for NIC and EBL is found to be 81.05 and 76.33 respectively. Coefficient of variation on the ratio of expense to revenue of NIC and EBL is found 0.04 and 0.05 respectively. Mean ratio of earning per employee for NIC and EBL is found 1182.56 and 1203.14 respectively. Standard deviation of earning per employee of NIC and EBL is found to be 227.88 and 302.70 respectively.

- The performance of sample commercial banks is intended to measure with the use of CAMEL tool: ROA and EPS. Mean ROA ratio of NIC and EBL is found to 1.86 and 1.76 respectively. Coefficient of variation of ROA of NIC and EBL is found 20.59% and 12.58% respectively. The mean EPS of 29.94 and 90.25 is found for NIC and EBL respectively. Similarly, the CV of 17.50% and 9.26% is found for NIC and EBL respectively.

- The performance of commercial banks is intended to measure with the use of liquid asset to total deposit, NRB balance to total deposit and cash-in-vault to total deposit ratios. Mean and CV of ratio of liquid asset to total deposit of NIC and EBL is found to be 18.92 and 14.98 respectively. Similarly, the mean and CV on the same for NIC and EBL is found 61.48% and 21.31% respectively. NIC has maintained the NRB to total deposit ratio in FY 2008/09 only. EBL has maintained the ratio of NRB to total deposit except FY 2007/08. The mean and CV of NIC and EBL's ratio on cash-in-vault to total deposit are found as 2.82, 5.11 and 0.11 and 0.43 respectively. The mean and CV of NIC and EBL's ratio on NRB balance to total deposit are found as 6.46 and 827 as well as 0.64 and 0.45 respectively.

CHAPTER - V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter is divided into three sections. The first section is summary, which describes the whole research in a summarized form. The second section is conclusion. It lists the conclusions drawn from the analysis of the data for the study. The third section is recommendations. It includes necessary suggestions given to the authorities concerned for the consideration to implementation.

5.1 Summary

This study was carried out as academic requirements for MBS degree on the topic of "Comparative Financial Performance Analysis of NIC and EBL in the Framework of CAMELS." The study was started with the objective to find out the fact about financial performance of NIC and EBL. The analysis of financial statement is done to obtain a better insight in to firm's position and performance. CAMEL is a technique of health checking of financial institutions. Financial institution's financial soundness is judged on the basis of capital adequacy, asset quality, management quality, earning quality and liquidity position. Almost, all the government Banks in Nepal are running at loss. Though almost private sector's Banks are earning profit. It is very to difficult to call them sound if appraised from CAMEL approach.

FIs are introducing complex and innovative products, they are exposed to many risks and therefore more amplified as well as diversified the functions performed by the FI supervision department. A key product of supervision is a rating of the FI's overall condition, commonly related to as a CAMEL rating. CAMEL rating system is used by the three federal banking supervisors [The Federal Reserve, FDIC and Office of the controller of the Currency (OCC)] and other financial supervisory agencies to provide a convenient summary of FI conditions at the time of exam. Various studies have been conducted in the past on the financial analysis of commercial banks in the US and other regions were found done. In context of Nepalese banking environment, there are only few researchers conducted in the framework of CAMEL. The study analyze the level, trend and comparative analysis of capital adequacy, non-performing loans, loan loss provision, management quality ratios, earning capacity and liquidity position components of the NIC and EBL during of 5 years period FY 2006/07 to FY 2010/11. During the research the areas that formed part of the research review were

outline of sample banks concept of financial performance analysis, concept of CAMEL rating system and component evaluation system, Basel capital accord, NRB guidelines. Besides these, review of research paper, work paper dissertations and related reports were reviewed.

The research was conducted within the framework of descriptive and analytical research design. For the study purpose, NIC and EBL were chosen as a study unit applying convenience sampling as technique out of 32 commercial banks. The required data and information were collected from secondary sources. Financial ratios, simple mathematical and statistical tools have applied to get the meaningful result of the collected data in this research work.

The analysis of data and results are presented clearly and simultaneously using suitable tables and graphs. In summary following conclusion are drawn by the analysis of data.

5.2 Conclusions

Based on the findings of the study following conclusions have been drawn:

- The performance of NIC is stronger as measured by CCAR but has a higher risk compared to EBL. Based on SCAR, EBL's capital base is stronger than that of NIC. And there is also less element of risk in EBL's capital as compared to NIC's. The capital base of NIC is stronger than that of EBL as measured by TCAR. But there is high risk component of NIC than EBL. The findings suggest that performance of commercial banks cannot be determined by a single tool of CAR.
- On the basis of ratios on NPL and loan loss provision, the quality of EBL's asset is better than that of NIC. Loans advanced by EBL are not secured as compared to NIC.
- The management of NIC, as measured by expense to revenue ratio, is less efficient compared to EBL. The management of EBL is more efficient than NIC as measured by earning per employee. Differing efficiency results of commercial banks are found on the basis of efficiency ratios.
- NIC is able to gain more benefits from its assets as compared to EBL, due to proper assets utilization by NIC. Similarly, the shares of EBL are earning more than that of NIC. A greater variation is seen in the per share earnings of EBL than in NIC.

- Liquidity Position in Commercial Banks: The performance of sample commercial banks is measured with CAMEL tools: Liquid Assets to Total Deposit Ratio, NRB Balance to Total Deposit Ratio and Cash in Vault to Total Deposits. The liquidity position of NIC, as measured by liquid assets to total deposit, is strong compare to EBL But there is a greater element of risk in the liquidity position of NIC as compared to EBL.

  EBL has maintained the ratio of NRB to total deposit except second year whereas NIC has maintained the ratio, only in year. EBL is able to maintain more efficient liquidity position than NIC in terms of cash in vault to total deposit.

5.3 Recommendations

Based on findings and conclusions, following recommendations have been provided:

- NIC is maintaining strong capital base which is in consistent with the NRB directives. Capital base is an important source to give an impression to general public that their deposit is secured with the bank which enables it to collect more deposits for further investment thereby to earn more returns. Therefore, the NIC's management is advised to maintain the same spirit. Ratios on NPL and Loan Loss of EBL suggest that the loans advanced by this bank are not so secured due to greater CV. Therefore, the management of EBL is advised to focus on the administration of credit extension including scrutinizing and monitoring of borrowers. The ratio on total expenses to total revenue suggest that the greater portion of the bank's revenue is expensed thereby reducing the residuals (earnings) to its shareholders. The ratios on ROA and EPS suggest that the bank's asset is earning less as compared to its competitor. The bank has maintained effective liquidity position except in terms of NRB balance to total deposit in some periods.

- EBL has been able to maintain strong capital base as prescribed by the regulatory authority. Its asset quality is also found to be sound. The management of the EBL is advised to maintain the spirit. Earning per employee of NIC could be enhanced in order to maximize the return. The bank's management is advised to maintain the balance with the NRB.

- NRB being regulator of the commercial banks has a pivotal role in bank's performance, protection of shareholders' interest and general public's deposits. Therefore, the NRB is advised to be effective in monitoring of the commercial banks so that protection of shareholder and public interest is ensured. Both the banks have failed to maintain the requirements on balance with the NRB in some years over the study period. The NRB is advised to be effective in monitoring this requirement.

- Although NIC has been decreasing the proportion on non-performing loans to total loans and advances from last two years and EBL has just increase at last during the study period, the bank requires checking this tendency before they are ultimately written-off from the books. The loan loss provision to total loans and advances is decreasing which is a good sign however the provision for Doubtful Loans has increased in later years which are a matter of concern. The banks need to pay attention in recovering the Doubtful and Loss Loans and lower the provision accordingly.

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APPENDIX-I

Lists of Commercial Banks in Nepal			
S.N.	**Names**	**Operation Date**	**Head Office**
1	Nepal Bank Ltd.	1937/11/15	Kathmandu
2	Rastriya Banijya Bank Ltd.	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Ltd.	1984/07/16	Kathmandu
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Ltd.	1993/06/05	Kathmandu
10	Everest Bank Ltd.	1994/10/18	Kathmandu
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
12	NCC Bank Ltd.	1996/10/14	Siddharthanagar
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh
14	NIC Bank Ltd.	1998/07/21	Biratnagar
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski
16	Kumari Bank Ltd.	2001/04/03	Kathmandu
17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	Grand Bank Nepal Ltd.	2008/05/25	Kathmandu
25	NMB Bank Ltd.	2008/06/05	Kathmandu
26	KIST Bank Ltd.	2009/05/07	Kathmandu
27	Janata Bank Nepal Ltd.	2010/04/05	Kathmandu
28	Mega Bank Nepal Ltd.	2010/07/23	Kathmandu
29	Commerz and Trust Bank Ltd.	2010/09/20	Kathmandu

30	Civil Bank Ltd.	2010/11/26	Kathmandu
31	Century Bank Ltd.	2011/03/10	Kathmandu
32	Sanima Bank Ltd.	2012	Kathmandu

Sources: Nepal Rastra Bank

Appendix - II

Core Capital Adequacy Ratio

NPR in 000

Bank	NIC			EBL			NRB*
Year	Core Capital	TRWA	CCAR	Core Capital	TRWA	CCAR	Std %
2006/07	911807	9905036	9.21	11711331	14976737	7.82	5.50
2007/08	1293751	12321131	10.50	1900859	20974862	9.03	6.00
2008/09	1649000	15734733	10.48	1981579	25619753	7.73	6.00
2009/10	1750459	15559350	11.25	2537092	30240428	8.39	6.00
2010/11	1956125	17250711	11.34	2927168	34583547	8.46	6.00
Mean			10.56			8.29	
S.D			0.71			0.40	

Source: Annual reports of NIC and EBL,* NRB Reports

Appendix -III

NPR in 000

Bank	NIC			EBL		
Year	SC	TRWA	SCAR	SC	TRWA	SCAR
2006/07	296801	9905036	3.00	504982	14976737	3.37
2007/08	321969	12321131	2.61	505197	20974862	2.40
2008/09	305930	15734733	1.94	722291	25619753	2.82
2009/10	260102	15559350	1.67	720049	30240428	2.38
2010/11	267647	17250711	1.55	678673	34583547	1.96
Mean			2.15			2.59
S.D			0.58			0.45

Supplementary Capital Adequacy Ratio

Source: Annual reports of NIC and EBL,* NRB Reports

Appendix -IV

Total Capital Adequacy Ratio

NPR in 000

Bank	NIC			EBL			NRB* Std %
Year	Total Capital Fund	TRWA	CAR	Total Capital Fund	TRWA	CAR	
2006/07	1208609	9905036	12.20	1676116	14976737	11.19	11
2007/08	1615719	12321131	13.11	2406056	20974862	11.44	11
2008/09	1954930	15734732	12.42	2703870	25619753	10.55	11
2009/10	2010561	15559350	12.92	3257141	30240428	10.77	11
2010/11	2223772	17250711	12.89	3605840	34583547	10.43	11
Mean			12.71			10.88	
S.D			0.26			0.24	

Source: Annual reports of NIC and EBL,* NRB Reports

Appendix - V

Non-performing Loan Ratio

NPR in 000

Bank	NIC			EBL		
Year	NPL	Total Loan	NPL Ratio(%)	NPL	Total Loan	NPL Ratio(%)
2006/07	101140	8941398	1.13	113179	14082686	0.80
2007/08	98167	11264678	0.87	127310	18836432	0.68
2008/09	129178	13915850	0.93	114646	23884673	0.48
2009/10	92493	12929304	0.72	43706	28156400	0.16
2010/11	90357	15165516	0.60	94194	31661843	0.30
Mean			0.85			0.48
S.D			0.18			0.24
C.V.			21.18			50.72

Source: Annual reports of NIC and EBL

Appendix -VI

Loan Loss Provision Ratio

NPR in 000

Bank	NIC			EBL		
Year	Loan Loss Provision	Loan and Advances	Loan Loss Ratio (%)	Loan Loss Provision	Loan and Advances	Loan Loss Ratio (%)
2006/07	187252	8941398	2.09	418604	14082686	2.97
2007/08	200656	11264678	1.78	497346	18836432	2.64
2008/09	236456	13915850	1.70	584880	23884673	2.45
2009/10	197290	12929304	1.54	600044	28156400	2.13
2010/11	231576	15165516	1.53	604152	31661843	1.91
Mean			1.73			2.41
S.D			0.19			0.36
C.V.			10.98			14.88

Source: Annual reports of NIC and EBL

Appendix - VII

Total Expenses to Total Revenue Ratio

NPR in 000

Bank	NIC			EBL		
Year	Total Expenses	Total Revenue	Total Expenses/ Total Revenue (%)	Total Expenses	Total Revenue	Total Expenses/Total Revenue(%)
2006/07	768678	927154	82.90	1075091	1371501	78.38
2007/08	838379	1081437	77.52	1416008	1867227	75.83
2008/09	1183703	1501436	78.84	1932157	2570889	75.16
2009/10	1611303	2061146	78.18	2764892	3596657	76.87
2010/11	2092269	2587975	80.85	3855284	4786585	80.54
Mean			79.66			77.36
S.D			1.88			1.76
C.V.			2.36%			2.27%

Source: Annual reports of NIC and EBL

Appendix - VIII

Earning Per Employee **NPR in000**

Bank	NIC			EBL		
Year	Net Profit	No. of employees	Earnings per employee	Net Profit	No. of employees	Earning per employee
2006/07	158475	189	838.49	296409	393	754.22
2007/08	243058	232	1047.66	451219	449	1004.94
2008/09	317434	270	1175.68	638733	534	1202.89
2009/10	449844	327	1375.67	831766	568	1464.38
2010/11	495704	336	1475.31	931304	586	1589.26
Mean			1182.56			1203.14
S.D.			227.88			302.70

Source: Annual reports of NIC and EBL

Appendix -IX

Return on Assets

NPR in 000

Bank	NIC			EBL		
Year	Net Profit	Total Assets	Return on Assets (%)	Net Profit	Total Assets	Return on Assets (%)
2006/07	158475	11678834	1.36	296409	21432574	1.38
2007/08	243058	15238736	1.60	451219	27149343	1.66
2008/09	317434	18783077	1.69	638733	36916849	1.73
2009/10	449844	20309331	2.30	831766	41382761	2.01
2010/11	495704	22090376	2.34	931304	46236212	2.01
Mean			1.86			1.76
S.D			0.38			0.22
C.V.			20.59			12.58

Source: Annual reports of NIC and EBL

Appendix - X

Earning Per Share

NPR in 000

Bank	NIC			EBL		
Year	Net Profit	No of Share(000)	Earning Per Share (RS)	Net Profit	No of Share(000)	Earning Per Share (Rs)
2006/07	158475	6600	24.01	296409	3780	78.42
2007/08	243058	9440	25.75	451219	4914	91.82
2008/09	317434	11405	27.83	624068	6388	97.69
2009/10	449844	13115	34.30	831766	8304	100.16
2010/11	495704	13115	37.80	9313304	11196	83.18
Mean			29.94			90.25
S.D			5.24			8.36

Appendix - XI

Liquid Assets to Total Deposit Ratio

NPR in 000

Bank	NIC			EBL		
Year	Liquid Assets	Total Deposit	Liquid Assets /Total Deposit (%)	Liquid Assets	Total Deposit	Liquid Assets /Total Deposit (%)
2006/07	762768	10068231	7.58	2391421	18186254	13.15
2007/08	1352349	13084689	10.34	3013972	23976299	12.57
2008/09	1821302	15580000	11.69	4373451	33322946	13.12
2009/10	6006481	15968918	37.61	7818815	36932310	21.17
2010/11	5040150	18394436	27.40	6122863	41127914	14.89
Mean			18.92			14.98
S.D			11.63			3.19
C.V.			61.48			21.31

Source: Annual reports of NIC and EBL

Appendix - XII

NRB Balance to Total Deposit Ratio

NPR in 000

Bank	NIC			EBL			
Year	NRB Balance	Total Deposit	NRB Balance/ Total deposit (%)	NRB Balance	Total Deposit	NRB Balance/ Total deposit (%)	NRB standard (%) *
2006/07	262735	10068231	2.61	1178198	18186254	6.48	5.00
2007/08	634114	13084689	4.85	1080915	23976299	4.51	5.50
2008/09	970981	15580000	6.23	4787163	33322946	14.37	5.50
2009/10	589322	15968918	3.69	5625114	36932310	15.23	5.50
2010/11	817947	18394436	4.45	4706321	41127914	11.44	5.50
Mean			4.37			10.41	
S.D			1.19			4.24	
C.V.			27.23			40.71	

Source: Annual Reports of NIC and EBL * NRB Reports

Appendix - XIII

Cash in Vault to Total Deposit Ratio

NPR in 000

Bank	NIC			EBL		
Year	Cash in Vault	Total Deposit	Cash in Vault/Total Deposit (%)	Cash in Vault	Total Deposit	Cash in Vault/ Total Deposit (%)
2006/07	181607	10068231	1.80	534997	18186254	2.94
2007/08	235246	13084689	1.80	822989	23976299	3.43
2008/09	337349	15579931	2.17	944696	33322946	2.83
2009/10	530611	15968918	3.32	1091500	36932310	2.96
2010/11	405796	18394436	2.21	1048999	41127914	2.55
Mean			2.26			2.94
S.D			0.56			0.30
C.V.			24.78			10.20%

Source: Annual Reports of NIC and EBL

Appendix - XIV

Trend analysis of Total Deposit for the period ending 2006/07to2015/1

Of **NIC**

NPR in '000,000'

Year	Time(t)	X X(t Z$\bar{t}$)	Total deposit(Y)		$\mathbf{X^2}$	XY	**Yc=a+ bx**
2006/07	1	-2	10068		4	-20136	10712
2007/08	2	-1	13084		1	-13084	12665
2008/09	3	0	15580		0	0	14619
2009/10	4	1	15969		1	15969	16573
2010/11	5	2	18394		4	36788	18526
N=5	**∑t=15**	**∑x=0**	**∑y=73095**		**∑x2=10**	**∑xy= 19537**	
2011/12	6	3					20480
2012/13	7	4					22434
2013/14	8	5					24387
2014/15	9	6					26341
2015/16	10	7					28295

Appendix – XV

Trend analysis of Total Deposit for the period ending 2006/07to2015/16

Of **EBL**

NPR in '000,000'

Year	Time(t)	X X(t Z$\bar{t}$)	Total deposit (Y)		$\mathbf{X^2}$	XY	**yc=a+b x**
2006/07	1	-2	18186		4	-36372	18923
2007/08	2	-1	23976		1	-23976	24807
2008/09	3	0	33323		0	0	30691
2009/10	4	1	36932		1	36932	36575
2010/11	5	2	41128		4	82256	42459
N=5	**∑t = 15**	**∑x=0**	**∑y=153456**		**∑x2= 10**	**∑xy= 58840**	
2011/12	6	3					48343
2012/13	7	4					54227
2013/14	8	5					60111
2014/15	9	6					65995
1015/16	10	7					71879

Appendix - XVI

Trend analysis of Net Profit for the period ending 2006/07 to 2015/16 of **NIC**

NPR in '000,00'

Year	Time(t)	X X(t Z$\bar{t}$)	Net Profit (Y)		X^2	XY	yc=a+ bx
2006/07	1	-2	1584		4	-3168	1566
2007/08	2	-1	2430		1	-2430	2447
2008/09	3	0	3174		0	0	3329
2009/10	4	1	4498		1	4498	4210
2010/11	5	2	4957		4	9914	5091
N=5	**∑t=15**	**∑x=0**	**∑y=16643**		**∑x2=10**	**∑xy= 8814**	
2011/12	6	3					5973
2012/13	7	4					6854
2013/14	8	5					7736
2014/15	9	6					8617
1015/16	10	7					9498

Appendix - XVII

Trend analysis of Net Profit for the period ending 2006/07 to 2015/16 Of **EBL**

NPR in 000,00'

Year	Time(t)	X X(t Z$\bar{t}$)	Net Profit (Y)		X^2	XY	yc=a+ bx
2006/07	1	-2	2964		4	-5928	2969
2007/08	2	-1	4512		1	-4512	4619
2008/09	3	0	6240		0	0	6269
2009/10	4	1	8317		1	8317	7919
2010/11	5	2	9313		4	18626	9570
N=5	**∑t=15**	**∑x=0**	**∑y= 31346**		**∑x2=10**	**∑xy= 16503**	
2011/12	6	3					11220
2012/13	7	4					12870
2013/14	8	5					14521
2014/15	9	6					16171
1015/16	10	7					17821

Appendix - XVIII

Trend analysis of Loan & Advance for the period ending 2006/07 to 2015/16

Of **NIC**

NPR in '000,000'

Year	Time(t)	X $X(t\ \bar{Z}t)$	Loan & Advance (Y)		X^2	XY	yc=a+bx
2006/07	1	-2	8941		4	-17882	9620
2007/08	2	-1	11264		1	-11264	11031
2008/09	3	0	13915		0	0	12443
2009/10	4	1	12929		1	12929	13854
2010/11	5	2	15165		4	30330	15265
N=5	**∑t=15**	**∑x=0**	**∑y= 62214**		**∑x2 =10**	**∑xy= 14113**	
2011/12	6	3					16677
2012/13	7	4					18088
2013/14	8	5					19499
2014/15	9	6					20911
2015/16	10	7					22322

Appendix - XIX

Trend analysis of Loan & Advance for the period ending 2006/07 to 2015/16

Of EBL

NPR in '000,000'

Year	Time(t)	X $X(t\ \bar{Z}t)$	Loan & Advance (Y)		X^2	XY	yc=a+bx
2006/07	1	-2	14082		4	-28164	14428
2007/08	2	-1	18836		1	-18836	18876
2008/09	3	0	23884		0	0	23324
2009/10	4	1	28156		1	28156	27772
2010/11	5	2	31661		4	63322	32219
N=5	**∑t=15**	**∑x=0**	**∑y= 116619**		**∑x2=10**	**∑xy= 44478**	
2011/12	6	3					36667
2012/13	7	4					41115
2013/14	8	5					45563
2014/15	9	6					50011
2015/16	10	7					54458