

# **CAMEL ANALYSIS OF HBL, EBL AND NIBL**

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled “ **CAMEL ANALYSIS OF HBL, EBL & NIBL**” submitted to office of Dean, faculty of Management , Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies ( M.B.S) under the guidance of Shree Bhadra Neupane and Kamal Prakash Adhikari, Shanker Dev Camppus.

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Despite my best effort and care some mistakes might have crept in I take the entire responsibility of any mistake in research paper and beg a pardon for that.

Raj Kumar Shrestha

## ABBREVIATIONS

ADB	= Asian Development Bank
AGM	= Annual General Meeting
ATM	= Automated Teller Machine
CB	= Commercial Bank
CAMEL	= Capital, Assets, Management, Earning and Liquidity
CEO	= Chief Executive Officer
CSR	= Corporate Social Responsibility
C.V	= Coefficient of Variance
CSR	= Corporate Social Responsibility
EPS	= Earnings Per share
EB	= Everest Bank limited
FDICIA	= Federal Deposit Insurance Corporation Improvement Act
FILs	= Financial Institutions
FY	= Fiscal year
HBL	= Himalayan Bank limited
JVBs	= Joint venture Banks
LC	= Letter of credit
MBS	= Master of business study
MPS	= Market price per share
NB	= Nepal Bank limited
NO.	= Number
NIB	= Nepal Investment bank limited
NRB	= Nepal Rastra Bank
NPL	= Non performing loan
NRs	= Nepalese Rupees
NEPSE	= Nepal stock Exchange
OBS	= Off Balance Sheet
RBB	= Rastriya Banijya Bank limited
SEBON	= Securities Exchange Board of Nepal
S.D.	= Standard deviation
TU	= Tribhuvan University

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# CHAPTER - I

## INTRODUCTION

### 1.1 Background of the Study

The Economic growth rate of Nepal was very low and lowest in comparison to south Asian neighbors in previous years. Financial institution plays a vital role for the Nepalese economic development. There are various types of banking Institution which are performing different function in the Nepalese contest. It can be divided in to three parts the central bank & other financial institution which are known as financial intermediaries.

Financial institutions are the specialized firm that facilitates the transfer to fund from savers to borrowers. Bank is a financial institution that acts as a bridge between the savers and users by collecting scattered deposits and gives loan to maximize their wealth. Bank is the principal sources of credit for millions of individuals and families and for many units of government. During transaction businesses and consumers make payments from bank provided check, debit card or credit card hence, bank can be said as a financial intermediary accepting deposits and granting loans offer with widest menu of services of many financial institutions. The established, growth and development of the financial sector directly influences by the open market & liberalization policies.

A bank is a financial intermediary that performs one and more of the following activities, safeguards and transfers of fund, lends or facilities lending guarantees, creditworthiness and exchange money. Such institutions commercial banks central banks, trust companies, finance companies life insurance and Investment bankers provide these services.

The evaluation of banking industry had started a long time back, during ancient times. There was reference to the activities of money changer in the temple of Jerusalem in the New Testament In ancient Greece the famous temple of Delphi and Olympia served as the great depositories for the people's surplus funds and these were the centers of money landing transaction. Indeed the traces of rudimentary banking were found in the Chaldean, Egyptian and Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern banking suffered oblivion after the fall of the Roman Empire After the death of Emperor Justinian In 535 AD it was not until the revival of trade and commerce in

the middle Age that the lessons of finance were learnt a new from the beginning money lending in the middle Age was however Largely confined to the Jews since the Christians were forbidden by the canon law to indulge in the sinful act of lending money to others on Interest. However as the hole of the church loosened with the development of trade and commerce about the thirteenth century Christians also took to the lucrative business of money lending thereby entering into keen Competition with the Jews Who had hither to monopolized the business.

As a public enterprise banking made Its first beginning around the middle of the twelfth century in Italy and the bank of Venice, founded in 1157 was the first public banking institutions, following it were Established the bank of Barcelona and the bank of Genoa in 1401 and 1407 respectively. The bank of Venice & the bank of Genoa continued to operate Until the Eighteenth century with the expansion of commercial activities in Northern Europe there sprang up a number of private banking house In Europe and slowly it spread throughout the world. In Nepal, Modern banking starts form the Establishment of Nepal bank limited in 1937AD.

Concept of bank has been changing due to the change of the time & situations, many well known economists scholars and acts of nations of world have gives definitions regarding bank.

“An Organization where people and business can invest or borrow money changes it to foreign money etc or a building where there services are offered” (*Cambridge International dictionary of English; 2006: 115*)

“Bank is an establishment for the custody of money received from or on behalf on it. Its profit arises from its use of the money left unemployed by them” (*Oxford English dictionary; 2005: 107*)

“Banking means the accepting for the purpose of lending and Investment of deposits of money from the public, repayable on demand or otherwise and withdrawn by checks, draft order of otherwise” ( *Gupta ; 1984: 15-24*)

According to these definition that Banks are financial Institution which have offer several financial services It could be quite impossible for the entrepreneur to acquire the saving of general public for investment without bank therefore it is said to be banking sector is mirror of the larger economy. It comes in to existence mainly with the objectives of collecting the idle fund, mobilizing them in to productive sector and causing an overall economic development. The banks have

the responsibility of safeguarding the interest of the depositors. The shareholders and the society they are serving, modern banking being a lot more than just deposit and loans cater a range Of services via, remittance of money, letter of credit, bank guarantee, issue of money exchange of foreign currency, provide security to Invaluable, controlling monetary activities of entire nation.

A part from commercial banks, there are variable number of development banks, co-operative, NGOs & postal saving officers that undertake limited banking & financial services. Non banking financial sector comprises funds trusts & thrift like Employee provident fund, citizen investment trusts and mutual fund.

## **1.2 Profile of Selected Banks**

### **Himalayan Bank Limited**

Himalayan bank was established in 1993 AD in joint venture with Habib bank limited (Pakistan) having the mission Of “To become a leading bank of the country” Habib bank limited hold 20% share of HBL. Despite the Cut- throat competition in the Nepalese banking sector, HBL has been able to maintain a lead in the primary banking activities loan & Deposit

Having head office on Kathmandu Kamaladi, HBL has 38 branches all over the country. HBL provide ‘Any branch Banking facility, Internet banking & SMS banking, living up to the expectations and aspiration of the customers and other stakeholders of being innovative HBL very recently introduced several new product and services . HBL serves with different kinds of deposit and loan products card services, Himalayan SMS&SMS banking, Himal remit, International Banking (LC), safe deposit locker etc. HBL is operating with authorize capital 3 billion and 2,00,00,00,000 issue and paid up capital. It is awarded by lots of national and international awards. It becomes number one bank of Nepal in 2003 and 2006.

Himalayan bank limited believes in corporate social responsibility (CSR) and has always promoted social activities Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis significant portion of the sponsorship budget of the bank is committed to wards activities the assist the society at large.

### **Everest Bank Ltd**

Everest bank Limited (EBL) was established in 1994 and started It operations with the view and objectives of Extending professionalized and efficient banking services to various segment of the society. EBL Joined hands with Panjab national

bank (PNB) India as its joint venture partner in 1997. PNB is the largest public sector bank of India having 1109 years of banking history with more than 4400 offices all over India and Its known for its strong system and procedures and a distinct work culture. The banks paid-up capital has increased to 1800 million against the Authorized capital of 2000 million whereas the core capital of the bank is around 850 millions. The local Nepalese promoter hold 50 % stock in the bank equity while joint venture partner PNB contributes 20% of equity where as the public holds remaining 30%.

Having the head on office lajimpat Kathmandu, in this operating with 38 branches in the country. Different kinds of loans and deposits, e-banking, safe deposit lockers, ATM etc. are its main product. Everest bank limited believes in customer satisfaction so it's always ready to serve as soon as possible. It is handed by CEO Mr. P.K. Mahapatra and Chairman Mr. Bishnu.Krishna. Shrestha.

### **Nepal Investment Bank Limited**

Nepal Investment bank limited Formerly known as Nepal Indosuez Bank limited was established in 1985 with a French joint venture partner named credit Agricola Indosuez which hold 50% of the shares Now It has no Foreign investment so it is fully Nepalese owned institution .

Now a day it is operating with Rs 2.4 million issues and paid up capital it has 4 billion authorized capitals which meets 2 billion excess the minimum authorized capital amount for the 'A' class banks as per NRB regulation.

NIBL is operating with the guidance of Mr Prithivi B. Pande chairman and chief executive Director of NIBL. NIBL believes that their prosperity is directly linked with the well being of the society in which they work.

NIBL has its head office at Darbar Marg Kathmandu and it has 39 branches spread over the country. The banker the publication of the financial times, London has honored the Nepal investment Bank as "Bank of the year 2003", "Bank of the year 2005", "Bank of the year 2008" and "Bank of the year 2010" and it is a matter of prestige to be a leading Bank of the country.

## **1.3 Focus of The Study**

The cause of bank failures in his study the further stated CAMEL stands for capital adequacy, Assets quality, management Quality, Earnings Quality and liquidity. CAMEL analysis is considered as the best available technique to check financial health of financial institution. This research study is focused on comparing the financial condition and performance of Everest, Himalayan and Nepal Investment

bank in the frame work of CAMEL by using descriptive and analytical research design.

George and his friends in their Model is an internationally accepted tool for evaluating performance and predicting method for Evaluating bank performance and healthy position of the bank. It considers all area of banking Operations. NRB dictated FIS to disclose the financials information in uniform way only in the fiscal year (FY) 2001/02. In this study attempt has been made to check up the financial health of joint venture banks in the framework of CAMEL. But the present study among the 31 commercial bank I have only selected 3 commercial bank's quantitative financial performance on the CAMEL model. This study has mainly focused on balance sheet data in the started from FY 2006/007 to 2010/011. Here was fully ignore off balance item like as human resource management, staff satisfaction, social works of commercial bank, goodwill etc.

#### **1.4 Statement of the Problems**

For the purpose of the study CAMAL tool will be used to assess the overall financial conditions and strength of Everest (EBL), Himalayan (HBL), & Nepal Investment bank Ltd (NIBL). Besides the study it also attempts to answer the following research question.

- ❖ Are banking maintaining adequate capital as per the directive of NRB?
- ❖ What is the position of management Efficiency of selected commercial Bank?
- ❖ What are the qualities of assets?
- ❖ Are Banks maintaining enough liquidity to run their business smoothly?
- ❖ Which bank's financial performance is better?
- ❖ Do they utilizing their Employees efficient?
- ❖ Are their shareholders earning a profitable ratio?

#### **1.5 Objectives of the Study**

The general objective of this study is to analyze the performance of the banks under study Everest Bank Ltd, Himalayan Bank Ltd, Nepal Investment Bank Ltd. In a comparative analysis using different ratio, trade as well as graph through CAMEL analysis the main objects are as follows:-

- ❖ To analyzed CAR & CCR according to NRB directives.
- ❖ To study and evaluate the earning position of the respective Bank.
- ❖ To study assets utility position of the Banks.
- ❖ To compare the staff's efficiency of the Bank.
- ❖ To compare EPS and DPS of bank.
- ❖ To analyze CRR& CBBR.

## **1.6 Significance of the Study**

This research study is much more significant for the customers, employees and owner of the related banks to know banks strength, weakness and management of Assets, capital and liquidity of selected commercial banks. To might be highly significant for other competitive financial Institution and bank to make policy for throat cut competition. It may be fruit full for those students' researchers, Teachers and other who want to prepare recherche study regarding commercial banks. Banking is the field which is related to all the economy activities of the nation. From a small farmer to huge trader is keeping a touch with bank so the financial performance of banks directly or indirectly affects the economy of the country. So it was significant for the government and economy system of the nation.

## **1.7 Limitations of the Study**

Every study has to be conducted with certain size. So existing limitation of this research will be

- ❖ The study ignored the part of 'S' factor due to the unavailability of data. So the whole research is only base on five factors CAMEL.
- ❖ It covers the performance of EBL, HBL & NIBL. For the period FY 2006/007 to 20010/011 which may not represent the overall scenario of all 32 commercial banks present in the country.
- ❖ The focus is given to the quantitative aspects of the sampled banks but qualitative factor are not studied.
- ❖ Due to availability of limited information, this study will not cover every part of the performance aspects. So this study may not be sufficient.

## **1.8 Organization of the Study**

The study has been organized into five chapters. Each chapter deals with the specific aspects of the study which is as follows

### **Chapter I: Introduction**

This chapter introduction deals with background, focus of the study, statement of the problem, objective of the study, significant of the study, limitation of the study and organization of the study.

## **Chapter II: Review of Literature**

This Chapter Review of Literature deals with conceptual view and review of related studies like as review of related banks journals, articles and the published & unpublished research.

## **Chapter III: Research Metrology**

This Chapter Research metrology shows what kinds of data are used for the study. How the data are collected? In what way Sample & population of the study are adopted with tools of analysis are presented?

## **Chapter IV: Data Presentation and Analysis**

This Chapter focuses on presentation and analysis of data with concerned analytical frame work though CAMEL approach.

## **Chapter V: Summary, Conclusions and Recommendation**

This Chapter describes the summary, conclusions, recommendations and suggestion on the basis of the study. In the last, appendices and bibliography are also presented.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

In this chapter the focus has been made on the review of literature that is relevant to the CAMEL Analysis of three selected commercial banks EBL, HBL, and NIBL. Review of literature is basically a stock taking of available literature in the field of research. Every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers. Other information was managing bureaus and concerned commercial bank. This chapter helps to take adequate feed back to broaden the information base and inputs to the study. Conceptual framework was given by different authors' research scholars. Practitioners etc. are reviewed from books. Research papers, annual reports, articles etc. which are arranged into the following order.

- **Conceptual Framework**
  - **Review of Journal and Articles**
  - **Review of Thesis**

#### **2.1 Conceptual Framework**

##### **2.1.1 Financial System**

The system of financial market and financial service firms is undergoing recovery. Now financial service and instrument are expanding rapidly in volume and variety. Home equity credit line, international mutual funds currency and interest rate swaps, loan securitizations and other new service and instrument are only the vanguard of a wave of financial innovations sweeping through the global financial system today. A trend toward deregulation of the financial sector by major government around the world has unleashed the forces of competitions and innovation on a scale never seen before banks and insurance companies, security dealers, mutual funds and thrift institutions are locked in an intense struggle for the customer's business that is unparalleled history.

The expanding competitive struggle in a deregulated financial marketplace has given rise not only to new service and new financial instruments but also to new type of financial institutions. Large, multi product, multi market technologically sophisticated, sales-oriented organizations that are designed to weather the risks inherent in today's volatile financial market place. More and more, financial institutions look alike offering the same service and organized in the same ways.

Traditional distinctions between one type of financial institution and another are becoming hopelessly blurred. This process of homogenization is creating real challenges for marketing professionals trying to convince the public that their particular financial institution is really different from its rivals.

More financial institutions are establishing interstate operations and expanding their marketing programs to cover whole regions and in many instances the whole globe the results are falling geographic barriers to inter-institutional competition and strong pressure to consolidate small financial institutions into large ones . More financial institutions are becoming stockholder owned corporations to open up new sources of capital to fund their expansion. Under intense competitive pressure and rising costs the number of independently owned financial institutions is declining victims of merger or failure.

Financial markets that have traditionally been local in character are expanding to become regional national and even international in scope. This market broadening reflects recent advances in communications technology such breakthroughs offer the prospect of reduced service delivery costs improving employee productivity brining new service on line more rapidly and expanding the effective marketing area of both old and new services. Someday most commercial and consumer loans will be traded in national and international markets providing new sources of liquidity for financial institution making these loans and improving the availability of credit to the public.

As new market develop, business and government will have less reason to borrow from traditional financial intermediaries and more reason to sell debt and equity securities directly to investors in the open market indeed the role of the traditional financially intermediary in the channeling of savings in to investment is shrinking moreover the development of a market for securitized assets pools of loans allows almost any large firm with a strong market reputation to package its loans and issue new securities against them there by generating more cash flow to make new investment thus there is less need for traditional loans from financial institutions although many banks and insurance companies have learned that they can benefit from this trend by selling advice on how to effectively package new security offerings by acting as agent for such offering and by issuing standby credit guarantees in case something goes wrong .

Of course the trends we observe in today's financial system and among financial institutions is not a completely new story its roots lie deep in history today's trend toward deregulation of financial institutions counteracts the excesses of an earlier era the great depression of the 1930s when comprehensive regulation of financial institutions promised safety but tended to stifle both competition and innovation furthermore the current emphasis in the financial sector on new product development and research frequent technological updating elaborate marketing programs to sell financial services and strategic planning is a carryover from

manufacturing and industrial firms that have used such techniques for decades there is a growing awareness their the challenges and techniques of managing a financial institution are not fundamentally different from those of managing any other business firm the products are different but the methods of control and decision making are essentially the same .

Capital market investors can only approximately price the securities of financial institutions that do not fully disclose their financial condition and prospects. serious consideration needs to be given to greater financial disclosure of the risk exposure of individual financial institutions, especially for the protection of retirement savings the recently passed FDIC improvement Act of 1991 requires annual full scope one site examination of each U.S. insured depository institution (but only once every 18 months for depositories with less than Rs. 100 million in assets). Moreover federally insured depository institutions (except those under Rs.150 million in assets ) must supply bank regulatory agencies with annual reports including an annual audit by an independent public accountant the FDCI improvement Act also calls for more public disclosure of auditor information and off the market values of institutional assets and capital in combination with a strong risk- adjusted insurance program increased public informed investing to more effectively control risk taking by financial institutions .

The financial crisis of 2009 in America as well as to the financial institution because the Lehman brothers liquidation and Mary lynch merging with bank of America create threat for all the financial system in the global economy so financial institution carefully analyze their on balance sheet and off balance sheet and this is the main fear for the financial institution. Finally the future of the Nepalese financial system seems to be tough. Basically the international competition technology regulation are those factor in which the Nepalese financial institution can face huge damage in their performance as well as profitability after 2010 AD. The Nepalese institution has to face huge challenge from international institution because the multinational financial institution is going to open and operate after that time. The Nepal Rasta banks regulate both qualitative as well as quantitative factors of Nepalese financial system to operate smoothly in future market. The Nepalese financial institution also must develop new product and can sustain them in the financial market. The capital adequacy restriction (BASLE ACCORD) is being imposed to all the financial institution. They are regulated by NRB and security board. But current political stability in the economic is the signal of good future for the financial system that much we can hope.

## **2.1.2Types of Financial Markets**

- I. Money Market and Capital Market**
- II. Open Market and Negotiated Market**
- III. Primary and Secondary Market**
- IV. Spot and Futures, Forward And Option Market**

## **i. The Money and Capital Markets**

The flow of funds through the financial markets may be divided in different segments depending on the characteristics of the financial claims being trade. One of the most important divisions of financial system is between the money market and the capital market.

The money market is designed for the making of short – term loans. It is the institution through which individuals and institutions with temporary surplus funds meet the needs of borrowers who have temporary fund shortages. Thus the money markets enable economic units to manage their liquidity positions. By convention, security or loan maturity within one year or less is considered to be a money market instruments. One of the principal functions of the money market is to finance the working capital need of corporations. It also provides government short term function view of fulfilling budget deficit and regulating monetary policy. The money market also supplies funds for speculative buying of securities and commodities. Money market instruments are treasury bills, commercial paper, Eurodollar deposits, federal fund (in Nepal inter bank loan), negotiable certificate of deposit, banker acceptance, re-purchase agreement etc.

Capital market is designed to finance long term investments by business governments and households. Trading of funds in the capital market makes possible construction of highways, schools and homes. Investment made in plant and machine also. Financial institutions in the capital market have original maturities of more than one year and ranges in size from small loans to multimillion rupees credit. The corporate note, bonds, debenture, equity are capital market instrument.

## **ii. Open Market and Negotiated Market**

Another distraction between markets in the financial system that is often useful focuses on open market versus negotiated markets for example some corporate bonds are sold in the open market to the highest bidder and bought and sold any number of time before they matures and a repaid off. In contrast, the negotiated market for corporate bonds, securities generally are sold to one or a few buyers under private contract. An individual who goes to his or her local banker to secure a loan for a new car enters the negotiated market for auto loans in the market for corporate stocks. There are the major stock exchanges which represents the open market. Operating the same time however is the negotiated market for stock, in which a corporation may sell its entire stock issue to one or a handful of buyers.

### **iii. Primary and Secondary Market**

The financial markets may also be divided into primary market and secondary markets. The primary market is for the trading of new securities which are never being issues before. Its principle function is raising financial capital to support new investment in building, equipment inventories and to meet capital adequacy.

The secondary market deals in securities previously issued. Its chief function is to provide liquidity to security investors that provide an avenue for converting financial instruments into ready cash. The volume of trading in the secondary market is for larger than trading in the primary market. However the secondary market does not support new investment.

### **iv. Spot and Future , Forward and Option Markets**

A spot market is one in which securities or financial services are traded for immediate delivery (usually within one or two business day). If you pick up the telephone and instruct your broker to purchase share at today's price, this is spot market transaction. You expect to acquire ownership of shares within a matter of minutes or hours.

A future or forwards market is designed to bid contracts calling for the future delivery of financial instruments. For example, you may call your broker and ask to purchase a contract from another investors calling for deliver to you of Rs. 1 million in Treasury bond six months from today. The purpose of such contract would be to reduce risk by agreeing on a price today rather than waiting six months. When Treasury bond prices were might have risen.

Option markets also offer investors in the money and capital markets an opportunity to reduced risk. These markets make possible the trading of option on selected stocks and bonds, which are agreement's that provide an investor's the right to either buy form or sell designated securities to the writer of the option at a guaranteed price at any time during the life of the contract.

## **2.1.3 Bank Rating on the CAMEL System**

### **2.1.3.1 Capital**

“CAMEL framework system looks at five major aspects of an fl: Capital Adequacy, Asset Quality, Management Soundness Earning and Liquidity to market

risk.”(Hilbers; 2000:12) The first component capital adequacy ultimately determines how well fl can manage with shocks to their balance sheets. Thus it tracks capital adequacy ratios that take into account. The most important financial risks are foreign ex-change, credit and interest rate risks by assigning risk weighting to the institutions assets. Its control the system for the purpose of capital adequacy measurement bank capital is divided to tier I and tier II. Tier I capital is primary capital and tire II capital is supplementary capital. in Nepalese context, tire I (core/primary) capital includes paid –up capital, share premium, non \_redeemable preference share, general reserve fund , accumulated profit capital redemption reserve capital adjustment fund and other free reserve. Amount of the goodwill, fictitious assets investment in the financial instrument issued by an organized organization in excess to the limit specified by NRB. And investment in the financial instruments issued by the organizations having the own financial interest is deducted from the sum of ass elements of the primary capital to arrive at the core capital. Similarly, tier II (supplementary) capital comprises of general loan loss provision, assets revaluation reserve, hybrid capital instruments subordinated term loan, exchange equalization reserve, excess loan loss provision, and investment adjustment reserve. Thus, the total capital of commercial banks was in the sum of core capital and supplementary capital.

Leverage ratio can be used to measure the capital adequacy of a bank. This is the ratio of bank’s book value of core capital to the book value of its assets. The higher ratio shows the higher level of capital adequacy, the U.S.A. federal deposit insurance corporation improvement Act (FDICIA) of 1991 has fixed the five target zones: is 5% and above , 4% and above , under 4% , 2%and less of leverage ratio the leverage ratio falling in the first

Zone implies their bank is well capitalized. Similarly the leverage falling in the second zone shows that bank is adequately capitalized. The leverage falling in the last three zones indicates that bank is inadequately capitalized and regulators should take prompt corrective action to bring the capital to the desirable level.

The leverage ratio rated in the foregoing discussion is simple capital to assets ratio, in other words, assets are not risk adjusted, and the 1993 Basel accord enforced the capital ratio to risk adjusted assets of commercial banks. According to this accord core capital must equal to or exceed 4% of the risk weighted assets of the commercial banks. Similarly, the amount of the supplementary capital should not exceed the amount of the core capital and the total capital must equal or exceed 8%of risk weighted assets. NRB initially fixed the core capital at the level of 4.5% of the risk weighted assets and total capital at the level of 9% of risk weighted assets of the commercial banks. For the Current FY2009/2010 the mandatory level of core capital and total capital are 5.5% and 10% of risk weighted assets of commercial banks. “NRB has strictly directed all commercial bank that the amount

of the supplementary capital should not be in excess to the amount of the core capital.” (NRB Annual Report; 2008)

### **2.1.3.2 Loan (Assets)**

The central focus of commercial banking concerns the acquisition and servicing of loans. But while commercial banks provide a vital service to business organizations and to the community as a sources of loans they are not charitable organizations and cannot be expected to provide loans which may have wide spread social merits but which may or may not be repaid. Indeed, banks have primary responsibility to those depositors who have entrusted their funds for safe keeping. Banks also have responsibility to those who have provided debt and equity capital, thus banks are expected to operate profitably. It is through returns to equity holders in the form of dividends and though retained earnings that banks are able to continue in operation and to grow along with the communities they serve.

Credit risk is one of the factors that affect the health of an individual fl. The extent of the credit risk depends on the quality of assets held by an individual fl. The quality of assets held by an fl depends on exposure to specific risks, trends in non-performing loans and the health and profitability of bank borrowers especially the corporate sector; we can use a number of measures to indicate the quality of assets held by FLs.

ADB suggests these measures loan concentration by industry, region, borrower and portfolio quality related party policies and exposure on outstanding loan, approval process of loan check and balance of loan loss provision ratio portfolio in arrear loan loss ratio and reserve ratio of checking the quality of assets of an fl.

NRB uses composition of assets, non performing loan to total loan ratio, net non performing loan to total loan ratio as the indicators of the quality of assets of commercial banks. NRB has directed the commercial banks in regards to the concentration of the loan. Any licensed fl can grant the fund base loan to single borrowers related to the same business group up to 25% of its primary capital. In the same vein it can provide thus non fund base loan up to 50% of its core capital. Similarly, it has directed FLs to classify the loan in to performing loan and non performing loans. The loan that are not due and 3 months past due fall in the class of performing loans/performing assets and other do in the non- performing loans. Further non performing loans are classified in to three groups: sub-standard, doubtful and bad debt/loss.

### **2.1.3.3 Management Quality**

Sound management is the key to bank performance but is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. Several indicators however can jointly serve as an indicator of management soundness. Expenses ratio earning per employee cost per loan average loan size and cost per unit of money lent can be used as a proxy of the management quality. ADB recommends cost per unit of money lent as a proxy of management quality. But this cannot be used as an indicator of management quality in Nepal. Since the data on amount of the total loan mobilized during a particular FY is not available in published financial statement and annual reports. As stated earlier. “NRB has skipped up this component of CAMELS in the performance evaluation of commercial banks.” (*NRB Supervision Report; 2005*)

### **2.1.3.4 Earning Performance**

Earning performance or profitability keeps up the sound health of fl. chronically unprofitable fl risks insolvency on one hand and on the others. Unusually high profitability can reflect excessive risk taking of an fl. There are different indicators of profitability. Return on equity, interest spread ratio, earning spread ratio gross margin, operating profit margin and net profit margin are commonly used profitability indicators NRB uses return on total assets as an indicator of profitability of a commercial bank. In addition, it uses the absolute measures such as interest income net interest income , non interest income net not interest income, non operating income net non operating income and net profit, to evaluate the profitability of a commercial bank.

Business Organization is inspired to generate profit; the volume of profit earned is also one of the major indications of a good financial performance of a firm. “Profit Earned by the firm is the main financial performance indicator of a business enterprise.”(*Robbins; 1957: 21-22*)

### **2.1.3.5 Liquidity**

Liquidity risk threatens the solvency of FLs. In the case of commercial banks first type of liquidity risk arises when depositors of commercial banks seek to withdraw their money and the second type does when commitment holders wants to exercises the commitments recorders off the balance sheet, commercials banks have to borrow the additional fund or sell the assets at fire sale price to pay off the deposit liabilities. They become insolvent if sale price of the assets are not enough to meet the liability withdrawals the second type of liquidity risk arises when demand for unexpected loan cannot meet due to the lack of funds. Commercial

bank raises the funds by running down their cash assets borrowing additional funds in the money markets and selling of other assets at distressed price. Both liability side liquidity risk (first type risk) and asset side liquidity risk (second type risk) affect the health of commercial banks adversely affects the profitability of FLs. return on highly liquid assets is almost zero. Therefore FLs should strike the tradeoff between liquidity position and profitability so that they could maintain their health sound.

“liquidity management is the part of the risk management framework of the financial services industry, which concerns all financial institutions whether they are commercial bank or development banks or financial companies or other institutions” (*Shrestha;2061 B.S:16*)

“liquidity risk involves the inability to fund increases in assets manage unplanned changes in funding sources and to meet obligations when required without incurring additional cost or inducing a cash flow crisis primarily an effective and strong liquidity risk management policy and framework will ensure that a bank has sufficient liquid assets to meet liabilities that fall due in the short term and to meet any unexpected demands for funds by its depositors or creditors the effectiveness of a banks liquidity risk management will determine the extent to which the institution money be subject to cash flow crisis and additional costs” (*Reserve bank of Fiji; banking supervision policy statement no 9:25*)

Commercial bank’s liquidity exposure can be measured by analyzing the sources and uses of liquidity. In this approach total net liquidity is worked out by deducting the total of uses of liquidity from the total of sources of liquidity. Similarly, BIS maturity laddering model can be used to measure the liquidity of a commercial bank. In addition different liquidity exposure ratios such as borrowed fund of total assets, loan to deposit and commitment to lend to total assets are used to measure the liquidity position of a commercial bank. NRB uses total loan to total deposit ratio cash and equivalents to total assets ratio, cash and equivalents to total deposit ratio. NRB balance to total deposit ratio to measure the liquidity position of commercial banks in the course of the performance evaluation of commercial banks.

### **2.1.3.6 Sensitivity to Market Risk**

Commercial banks are increasingly involved in diversified operations such as lending and borrowing transaction in foreign exchange. Selling off assets pledged for securities and so on. all these are subject to market risk like interest rate risk, foreign exchange rate risk and financial assets and commodity price risk the health of an fl more sensitive to market risk is more hazardous than that of the most sensitive, foreign exchange risk interest rate risk equity price risk and commodity price risk are the indicators of sensitivity to market risk. (It is just information for supervisor and reader because it has been ignored this part in this thesis)

## • Review of Related Studies

The number of the financial analysis regarding the commercial banks as well as the financial performance of Nepal Rastra Bank has been found out in order to review this section. But due to the short span of its establishment very few researches have been made in the area of the liquidity management of bank in Nepalese context and basically most of them have focused on financial analysis and financial performance of the commercial / joint venture banks as their relevant field.

## 2.2 Review of Journals and Articles

The Basle Committee on banking Supervision of the bank of International Settlements (BIS) has recommended using capital adequacy, assets quality, management quality, earning and liquidity (CAMEL) as criteria for assessing a FL in 1988 (ADB2002) . The component, market risk (S) was added to CAMEL in 1997 (Gilbert, Meyer and Vaughan 2000). However, most of the developing countries are using CAMEL instead of CAMELS in the performance evaluation of the FIs. The central banks in some of the countries like Nepal, Kenya use CAEL instead of CAMELS. CAMELS' framework is a common method for evaluation the soundness of FIs. This system was developed by regulatory authorities of U.S banks. The Federal Reserve Bank, the comptroller of the currency and the Federal Deposit Insurance Corporation all use this system (McNally 1996). Monetary authorities in the most of the countries are using this system to check up the health of an individual FL. In addition international monetary fund also is using the aggregated indicators of individual fls to assess the financial system soundness of its member countries as part of its surveillance work (Hilbers, Krueger and Moretti2000).

The another article entitled “*Banijya Bank Haru ko Star Nirdharan*” by Nepal Rastra Bank, Bank Regulation and Supervision Department report at 27<sup>th</sup> Ashad 2062 had publish 15 commercial banks ranking (Excluding Nepal Bank and Rastriya Banijya Bank). The ranking was done on the basis CAELS rating system. The five areas examined are represented by the acronym “CAELS”.

The examined factors are as follows

- C Capital Adequacy
- A Assets quality
- E Earnings
- L Liquidity
- S Sensitivity to Market Risk

This was the one of the international standard used by Nepal Rastra Bank for ranking the commercial banks and published to public ever. Nepal Rastra Bank, however, ignored the management quality for analysis and in return for ranking of Commercial banks. With this step of publicizing the bank ranking, Nepal Rastra Bank had helped public directly and indirectly for monitoring and evaluating the commercial banks.

Following is the table reflecting the ranking presented by the Nepal Rastra Bank using the “CAELS” rating standard;

The total point for this rating was 13480 where Nepal industrial & commercial bank had scored 12509 points out of 13480 and saved the position of 1<sup>st</sup> among the other commercial banks. Previously this bank was on 11<sup>th</sup> position. With the better performance and remarkably change in capital standard and the profit earned resulted this bank as in 1<sup>th</sup> position while rating.

Shrestha (2005) published an article “*Ranking of Commercial Bank*” emphasizing the importance of M factor in CAELS rating system. In the article, the focuses were merely on the management quality. She had tried to conclude that CAELS is incomplete without management factor. Thus was focused on CAMEL rating. The article shows that the management quality shouldn’t be ignore while ranking the commercial banks. She tried to show us how management quality play the vital role and how it exists consistent relationship between efficiency and independent measure of performance and reveals relationship between efficiency and soundness. She was summarized that any banks success or failure also depends upon management quality no matter what is the size of the bank nor does profitability of the bank. For rating this missing M factor she had taken the parameter like board member promoters, market perception and pro-activeness of management. As Nepal Rastra Bank excluded the management factor. Mrs Brinda Shrestha had Exclude “S” factor due to the lack of information on portfolios of individual banks.

Even though , the article shows the criticism against the article published by the Nepal Rastra Bank, she is also suggesting the a waking Nepal Rastra Bank and general people to consider M factor while making any decision. Anyways, they had also welcomed this kind of rating used by Nepal Rastra Bank generalizing this is the right track directing where transparency will not only open up the possibility for the general public to evaluate performance of banks it will also positively impose an ever essential sense of flaxen competition among the banks to earn integrity base on their performance.

The following table clearly shows

How important M factor is for this rating?

How M factor remarkably changes the ranking of the bank?

Her “CAMEL” ranking has puts Nepal industrial and commercial bank in 5<sup>th</sup> position while Nepal Rastra Bank had declared 1<sup>st</sup> position by using “CAELS” rating standard. The variance of this position clearly shoes the role of the management in developing the credibility of the bank and side by side suggest us the impact of sensitivity of market risk the S factor because in her article she had also ignored the S factor due to the lack of information on portfolios of individual banks. She was an officer of laxmi bank ltd at treasury depart.

Pradhan, (2003) in his research article *“Role of Saving Investment and Capital Formation In Economic Development A Case of Nepal”* has studies about the strong role and impact of saving, investment & capital formation on economic development of Nepal this study is based on secondary data only the necessary data on saving, investment, capital formation and gross domestic product has been capital formation on economic development were analyzed by using various regression models. The regressions equations used in their study have been estimated at current prices as well as in real terms with the entire study period divided in two different sub periods.

The result presented in this paper suggest that in all cases GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to their important conclusions they are:-

1. Saving investment and capital formation have positive impact on economic development.
2. The current values and past values of saving investment and capital formation have positive impact on economic development but the current values have the largest impact.
3. There is a strong role played by saving and capital formation on economic development while weak role played by investment.

Jha,(2005) in his article *“Challenges and Opportunities that the Nepali Banking Sector”* pointed out that Nepali banking sector is going to faces the rapid transformation. With liberalization in financial markets and integration of domestic market with external markets bank operation have become more complex and

dynamic. The opportunities to enter new business and new market and to deliver higher level of customer service will be immense. Four trends that affect the banking industry in future are consolidation and merger, globalization of operation and development of new technology and sustenance of traditional services. With the new capital adequacy norms coming through, it is expected that few banks have no choice but to merge. In order to have a sustainable growth in the bottom line, banks must increase their global market operations, especially in treasury product by being more innovative and selecting a pool of products which the global market is offering today to reward the calculated risk taken by the bank.

Heuvel (2005) has published an article “*Bank failure Evidence from the Colombian financial Crisis*” where he has analyzed during 1990 to 2000 AD. Colombian Financial System Experienced a period of Financial Stress. Characterized by the failure of mainly banks and other financial institutions are the severe deterioration of the whole system’s financial health. The capitalization (C) ratio of the system fell dramatically as did profitability and liquidity As a consequence of the Crisis. There is theoretical as well as practical reason to consider that the Capitalization ratio plays a special role for financial institutions the literature on capital crunch shows that. Under capital regulations, this ratio is important for financial institutions when they are taking decisions on portfolio Composition in the practical world. Following the BASAL accord (Basal Committee on Banking Supervision: 2004/005) Financial institutions and Supervisions now follow. Closely the capital ratio of the institutions they regulate and impose minimum requirements. Thus Capitalization plays a special role for financial institutions in determining their overall financial health and thus the degree of trouble that they might experience in episodes of financial Stress. We focus on the Capitalization Variable & Identify a non linear effect.

Increasing the Capitalization ratio decrease the Probability of default. When looking ahead, the capitalization ratio is the significant of the relevant indicators that explain bank failure. Increase in this ratio lead to a reduction in the hazard rate of failure at any given moment in time. The other important variables explaining bank failure dynamics are bank’s size and profitability. When using time varying Covariates, profitability gains significance as a short run indicator of instantaneous failure. This result indicates that profitability is an important indicator of within period feasibility of the bank, while Capitalization is a less noisy indicator of financial health.

The result presented in this paper suggest that in all cases GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to their important conclusions. They are:-

1. Saving investment and capital formation have positive impact on economic development.

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## 2.3 Review of Thesis

Mahato,(2000) in his unpublished master's thesis "*A CAMEL Analysis of NABIL & NIBL*" has mainly list out the following objectives.

- a) To Check NRB Direction.
- b) To Compare Assets Quality Each Other.
- c) To analyzed utility position of both bank.
- d) To provided suggestions to Improve bank's performance.

At last it can be concluded that NABIL is more oriented towards discharging responsibility towards its shareholder then NIBL. More than this, NABIL is found paying more attention towards the attainment of national objectives. NABIL's participation in the task of economic development with liberal attitude towards the government had being more responsive to the national priorities like branches expansion, ore employment more resources mobilization etc. so from the shareholder and government point of view NABIL is performing much better than NIBL . But it doesn't mean that NIBL is not performing well. Relatively, NABIL is doing better banking business.

Joshi, (2002) in her thesis "*A Comparative Study on Financial Performance of Nepal SBI Bank ltd & Nepal Bangladesh Bank Ltd*" The study objective are finding position of liquidity according to Nepal Rastra Bank, it also express on Non Performing Loan and Investment and landing policy, further more it find out staff turnover ratio. The liquidity position of NSBL exists in normal standard and NBBL is still trying to gain that position. However NBBL has better turnover than NSBL resulting in to the increment of profit for the organization. but deposit of the fluctuating trend in the ratio of cash and bank balance to total deposit NSBL is more efficient then NBBL in cash management i.e. it is more able to keep more cash balance against its various deposit . However the overall finding is that NBBL seems to be more successful in mobilizing its customer's saving in much more productive sectors.

Shaky, (2004) has performed her dissertation on "*Liquidity Assessment of Nepal Bangladesh Bank Ltd*" was based on Nepal Bangladesh bank. Its main objective is

to analyze the liquidity assessment of NBBL for the creation of better investment. In this regard she has tried to focus on the major problem of NBBL which is at crucial stage. Besides she has also raised relevant problem on mushrooming of the banks. Other problems which she has focused are:

There was high flow of money in the market but less viable and investible project.

Due to lack of study of liquidity and available investment sector it is not able to attract as much clients as it could have

Due to the political problems, this bank is also going via saturation.

Beneficial investment strategy needs to be in operation.

After complete the thesis she has finding that NBBL was not able to maintain the conventional standard of 2:1 the cash and bank balance to total deposit ratio was not satisfactory as the average ratio was found to be only 17.18% which means that NBBL was not capable to keep more cash balance against its various deposit and thus . It defines that its liquidity position is not good in spite of its slight improvement in 2001/02. Loans and advances to total deposit ratio also showed the fluctuating trend. This study recommended that the concerned authorities should develop the sense of safety and security in the mind of investors. She even suggested the NBBL to promote their international banking network to increase their remittance and other banking business

Gautam,(2006) has conducted his research on “ *A Comparative Study on Financial Performance of Standard Chartered Bank Limited & Nepal Bangladesh Bank Limited*” financial performance is analyzed with two important tools , the first most important tools are the financial tools which includes ratio analysis and other is a statistical tools which is bankruptcy score.

The main objectives of research are

1. To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability ,
2. To access the debt servicing of the joint venture commercial bank
3. To examine the correlation and the signification of their relationship between different ratio.
4. To provide suggestions and recommendation for the optimal structure of the JVS commercial bank.
5. To obtained the objectives some financial statistical and accounting tool.

He has found his study were the JVs bank are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming in to existence after this study therefore JVs bank's are operating with higher

technology and new efficient methods in banking sector. Now ever, this JVB's vie SCBNL & NBBL to examine and evaluating the financial data.

The research findings of the study are as follows

1. The research sample JVB's have used high percent of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.
2. The on an average , NBBL bank constitutes 16.27 times of P/E ratio , which should be reduce as quickly as possible
3. The financial risk of the banks NBBL average degree of financial leverage constitutes 3.73 times which indicates the higher degree of financial risks.
4. The average ROE of JVB's i.e. SCBL & NBBL are 37.36% &21.75% respectively Now in Nepal many banks and other financial institution are functioning to collect deposit & invest money somewhere in the investable sectors. Therefore, efficient has been increased since liberalization policy taken by the government, heavy remittance has also helps to increase the amount of deposit in bank.

Baniya, (2009) has conducted his study entitled "*CAMEL analysis of KBL, MBL & SBL*". The Objectives of his study is to find out errors and mistakes existing in the financial institution. It helps the financial institution to correct them and provide direction for further growth and improvement.

Through his research Baniya has found that the capital adequacy ratio is more than 11% prescribed by NRB is maintained by sample banks. SBL has the highest asset management ratio in the FY 2063/064 with lowest rate of nonperforming loan. Furthermore his study also found out that Nepali banking sector are only focusing on plain vanilla banking products such as loans, deposit, letter of credits, guarantees, remittances, etc. value added products like funded risk participation, option and other derivative and treasury area are not developed.

His study also highlights the major problem that banking sector is facing today which has been due to high performance on non – performing loans , the major cause for this in non – compliance of basis credit principle.

Sainju, Neeraj Man (2009) conducted a research study on entitled "*positioning commercial bank on the basis of Camel Ration*" an unpublished Masters Degree Thesis T.U. January 2009 has concluded six sample banks Standard Chartered Bank , Nabil Bank , HBL, KBL,LXBL, and NIBL. His findings show that standard chartered bank seems good in overall performance where as KBL is the last among the sample banks. He has mentioned that the overall criteria to evaluate the banks rating consider the banking performance as a whole. It does not only consider the best part of the performance but it assumes what is the best to be the best in all

criteria and evaluates the banking performance in terms of quality as a whole. Every performance has its own score and averages in terms of quality as mentioned by the parameter that he has calculated. His findings conclude that all time good performance is of Standard Chartered Bank then followed by NABIL, HBL, NIBL, LXBL and KBL.

## **Research Gap**

Investment in different sector is made on the basis of the directive and circular of Nepal Rastra Bank as well as the investment guidelines and policy of the concerned commercial bank. The directives of NRB change over time. NRB makes necessary amendments in prevailing directives and circulars and communicates to commercial banks. Commercial banks should follow these directives and circulars. Furthermore, their own investment guidelines and policies should be inline with NRB directive and circular. So the up to dated study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data. NRB circulars and guideline than that of studies previously conducted. Again CAMEL analysis is the dynamic health check up of financial institutions. Nepal Rastra Bank observe and control the financial institution through directive and circular so we should see the result by using fresh data as they follow the directive or not. So that I had used the fresh data and try analyses in deeper level.

Any bank have many type of deposit product but they are likely same as well as. In Nepal KYC policy is a disturb source income on banking system and many high level business man practice cash to cash transaction. Investment function is the major function of the commercial bank. HBL, EBL are leading joint venture commercial banks and NIBL is a truly Nepalese commercial bank of Nepal. They having huge market share and its investment activities have significant impact on the national economy. This study put its effort to find out the proportion of the total loan and advances of bank & healthy computation of market according to NRB directives. Hence this study fulfills the prevailing research gap about the in depth analysis of the investment policy pursued by the organization. Which is the major concern of public shareholders and other stakeholders?

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objective in view. In other words, Research methodology describes the methods and process applied in the entire subject of the study. Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done significantly. It is necessary for the researcher to know not only the research methods/ techniques but also the methodology. Researchers not only need to know how to develop certain indices or tests. They also need to know which of these methods or techniques are relevant and which are not, and what would they mean and indicate and why.

The topic of the problem has been selected as “CAMEL analysis of EBL, HBL and NIBL”. The sole objective of this study is to regular health check up of selected commercial banks in the framework of CAMEL. In order to reach and accomplish the objective of the study different activities are carried out and different stages are crossed during the study period. For this purpose the chapter aims to present and reflect the methods and techniques those are carried out and followed during the study period, the research methodology adopted for the present study is mentioned in this chapter which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

#### **1.1 Research Design**

A research design is purely and simply the framework of plan for a study that guides the collection and analysis of data. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. It is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial tools have been applied to examine facts and descriptive techniques have been adopted to evaluate financial position of three selected commercial banks in financial market.

## **1.2 Population and Sample**

The population refers to the industries of the same nature and its services and product in general. Thus, the total commercial Banks constitutes the population of the data and the Banks under study constitutes the sample for the study. So from the population of 31 commercial Banks operating in Nepal, HBL EBL& NIBL has been selected as the sample for the study because of the ranking position of these three selected banks are to be same and the sample size is 9.67 percentage which represent the whole banking industry so I have choose HBL, NIBL & EBL.

## **1.3 Sources of Data**

Data are collected from secondary sources. The data presented in this study only secondary data. The secondary data are those that have been used from published sources or used by someone previously. The annual reports of the concerned Bank are the major sources of data for the study. However, besides the annual reports of the subjected Bank, the following sources of data have also been used in the course of the study.

- NRB reports and bulleting.
- Annual reports of selected commercial Banks.
- Government publications i.e. economic survey.
- External agencies i.e. marketing intermediaries.
- Audit report of selected commercial Bank.
- Authorized person of selected bank.

Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related research study.

## **1.4 Data Collection Techniques**

This study is mainly based on secondary data obtained from various sources mentioned above. The annual reports of Himalayan Bank, Everest Bank and Nepal investment Bank limited for the period of five years from fiscal year 2006/2007 to 2010/011 were obtained from the field visit of its corporate offices located at Kamaladi, Lagimpat and durbar Marga Kathmandu. NRB publication such as quarterly economic bulleting and financial statistics, economic report, etc. has been collected by the personal visit of concerned departments of Nepal Rastra Bank at Baluwatar. NRB regulatory directive banking and financial statistics of the commercial banks in Nepal monitory policy and other related publication will be obtained through internet surfing to NRB official website and periodicals.

### **3.5 Data Analysis Tools**

Presentation and analysis of the collected data is the core of the research work. The collected raw data are first presented in systematic manner in tabular forms and are then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph charts and tables have been presented to analyze and interpret the findings of the study. The tools applied are:

#### **3.5.1 Financial Tools**

Financial ratios are the major tools for the analysis. Financial ratio analysis tools will be used to determine the performance of the banks in the framework of CAMEL. These ratios are categorized in accordance of the CAMEL components. Following category of key ratio will be used to analyze the relevant components in terms of CAMEL.

##### **➤ Capital Adequacy (c)**

“A financial institution is expected to maintain capital commensurate with the nature and extent of risks to the institution and ability of management to identify measure, monitor and control these risks the effect of credit market and other risks the effect of credit marker and other risks on institution financial condition should be considered when evaluation the adequacy of capital the types and quantity of risk inherent in an institutions activities will determine the extent to which it may be necessary to maintain capital at levels above required regulatory minimums to properly reflect the potentially adverse consequences that these risk may have on the institution capital” (*swindle ;1995: 45* )

Capital Adequacy is a measure of a FLs financial strength in particular its ability to cushion operational and abnormal losses. An fl should have adequate capital to support its risk assets in accordance with the risk –weighted capital ratio framework. It has become recognized that Capital Adequacy more appropriately relates to asset structure than to the volume of liabilities. This is exemplified by central banks efforts internationally to unify the capital requirements of commercial banks and to generate worldwide classification formulae. Some of the measures to calculate the Capital Adequacy are mentioned below.

## 1. Capital Adequacy Ratio (CAR)

This ratio will reflect the relationship between the total capital funds to the total risk weighted assets. The ratio is calculated by dividing the total capital fund by the total risk weighted assets as given below

$$\text{Capital Adequacy Ratio} = \frac{\text{total capital fund}}{\text{Total Risk Weighted Assets}} \times 100$$

Where,

Total Capital fund = Core Capital + Supplementary Capital

Total Risk Weighted Assets = on balance sheet risk + off balance sheet risk

### **Core capital**

It includes the following items

- Paid up capital
- Share premium
- Non-redeemable preference share
- General reserve
- Capital redemption reserve
- Retained earnings/loss

### **Supplementary capital**

It includes the following items:

- Loan loss provision for good of pass loan
- Assets revaluation reserve
- Convertible debentures
- Other fee reserves
- Investment adjustment reserves
- Hybrid capital instrument

If any bank and financial institutions fail to maintain authorized CAR then following penalties should be penalized

- ❖ Restriction on opening new branches
- ❖ Restriction on refinancing
- ❖ Restriction on getting loan from other banks
- ❖ Restriction on accepting deposit and other penalties according to NRB rule and regulations.

## 1 Core Capital Ratio(CCR)

This ratio reflects the relationship between the core capital or internal sources and total risk weighted assets of the commercial banks. The ratio is calculated by dividing the figures of core capital by the figure of risk weighted assets as given below.

$$\text{Core Capital (Tier I) Ratio} = \frac{\text{Total Core Capital}}{\text{Total Risk Weighted Assets}} \times 100$$

### ➤ Assets Quality (A)

Assets quality has direct impact on the financial performance of an FL. The quality of assets particularly, loan assets and investments. It would depend largely on the risk management system of the institution. The value of loan assets would depend on the realizable value of the collateral while investment assets would depend on the market value. To analyze the assets quality of the bank following ratios will be used in this study.

#### 1. Nonperforming Loan Ratio (NPLR)

This ratio highlights the perfect circumstances of the commercial banks in overall non-performing loans. This ratio aware about the possibilities of rollover of the funds exposed to risk assets as calculated below:

$$\text{Non Performing loan ratio} = \frac{\text{Total non performing loan}}{\text{Total loan \& advances}} \times 100$$

## **2. Loan Loss Provision Ratio (LLPR)**

This ratio measures the percentage of loan loss provision on loan and advances. Loan loss provision on credit is given to reduce risk of nonpayment of released credit. as per the directives to bank and finance companies by NRB 1% of good credit can be provisioned, 25% of as loan loss provision sub standard loan, 50% of as loan loss provision doubtful loan and 100% of as loan loss provision bad loan to reduce risk that may arise due to no recovery of disbursed loan which is computed as below.

$$\text{Loan loss provision ratio} = \frac{\text{Total loan loss provision}}{\text{Total loan \& advances}} \times 100$$

## **3. Loan Loss Coverage Ratio (LLCR)**

This ratio measures the relation between the loan loss reserves to the non –performing assets which includes loan and advance. It is derived by dividing loan loss reserve by non-performing assets as given below:

$$\text{Loan loss coverage ratio} = \frac{\text{Total loan loss provision}}{\text{Total non performing loan}} \times 100$$

## **4. Total Credit Deposit (C/D) Ratio:**

This ratio is calculated to find out how successfully the banks are utilizing their total deposit on credit for profit generating purposes. Greater the C/D ratio implies the better utilization of total deposit and better earning with high risk. It is calculated as:

$$\text{Total CD ratio} = \frac{\text{Total credit}}{\text{Total deposit}} \times 100$$

## 5. Total LCY (Local Currency) C/D Ratio:

This ratio is calculated to find out how successfully the banks are utilizing their total deposit on credit for profit generating purposes through local currency only. Greater the C/D ratio implies the better utilization of total deposit and better earning with high risk. It is calculated as:

$$\text{LCY CD ratio} = \frac{\text{Total lcy credit}}{\text{Toal lcy deposit}} \times 100$$

### ➤ Management (M)

The performance of the other four CAMEL components will depend on the vision. Are they capability, agility, professionalism, integrity and competence of the FI's management? As sound management is crucial for the success of any institution management quality is generally accorded greater weighting in the assessment of the overall CAMEL composite rating. To analyze the management quality and efficiency of the bank following.

#### 1. Management Efficiency (Earning Per Employee) Ratio(MER)

The relationship between the net profits after tax with the number of the employees is the management efficiency ratio. This shows how efficient the management is this is calculated by dividing the net profit after tax by number of employees. MER is calculated as follows:

$$\text{Earning Per Employee} = \frac{\text{NPAT}}{\text{Total no of staff}}$$

## ➤ **Earning(E)**

The quality and trend of an institution depend largely on how well the management manages the assets and liabilities of the institution. An fl must earn reasonable profit to support assets growth, build up adequate reserves and enhance shareholders value good earnings performance would inspire the confidence of depositors, investors. Creditors and public are at large. To measure the profitability soundness of the bank the following ratios will be used.

### **Return on Equity (ROE)**

This ratio will reflect the relationship between net profits after tax to the shareholders equity. The ratio is calculated by dividing net profit after tax by the shareholders' equity as given below.

$$\text{Return on equity} = \frac{NPAT}{\text{Total shareholder fund}} \times 100$$

### **Return on Assets (ROA)**

This ratio is very much crucial for measuring the profitability of funds invested in the bank's assets. Here we compute the relationship between the net profit after tax and assets with the help of the following formula.

$$\text{Return on Assets (ROA)} = \frac{NPAT}{\text{Total Assets}} \times 100$$

### **Earnings per Share (EPS)**

This ratio tells us what profit has been earned by the common shareholder for ever share hold. A company can decide whether to increase or reduce the number of shares on issue. This is determined by dividing net profit after tax by number of shares.

$$\text{Earnings per Share (EPS)} = \frac{NPAT}{\text{Total no of share}}$$

### ➤ **Liquidity (L)**

An fl must always be liquid to meet depositors and creditors demand to maintain public confidence. There needs to be an effective asset and liability management system to minimize maturity mismatches between assets and liabilities and to optimize returns. As liquidity has inverse relationship with profitability an fl must strike a balance between liquidity and profitability. It measures the bank's ability to meet their current obligation as they become due. The following ratios will be used to analyze the liquidity position of the bank.

### **Cash Reserve Ratio (CRR)**

It shows the relationship between the cash balance in Nepal Rastra Bank and the total deposit. The total deposit also comprises of local currency. This is calculated by dividing the NRB balance with total deposit.

$$\text{Cash Reserve Ratio} = \frac{NRB \text{ Balance}(lcy)}{\text{Total Deposit}(lcy)} \times 100$$

### **Cash & Bank Balance Ratio (CBBR)**

This ratio shows the relationship between the cash and bank balance to the total deposit. The total deposit also comprises of local currency. This is calculated by dividing the cash and bank balance with total deposit.

$$\text{Cash \& Bank balance Ratio} = \frac{\text{Total cash \& Bank Balance}}{\text{Total deposit}} \times 100$$

### **Investment in Government Securities Ratio (IGSR)**

This ratio calculates the relation of investment in government securities with the total deposit. This shows the banks investment in government securities with its total deposit this can be derived by dividing investment in government securities by total deposit.

$$\text{Investment in Government securities} = \frac{\text{Total investment in government securities}}{\text{Total deposit}}$$

### **3.5.2 Statistical Tools:**

Statistical tools are used to draw the relationship between different variables related to the study topic. Although various statistical tools are available to analyze the obtained data, the researcher has selected the most suitable and commonly usable tools to draw trustworthy various numerical. In this study, different statistical tools will be used to analyze the data and reach the meaningful result which is as follows.

- **Average or Mean**

The arithmetic mean is a single value of selected series, which represents them in average. It is very useful with respect of statistical analysis and is easy to calculate it is used to summarize the data as a representation of mass data. It can be calculated by using following statistical formula.

$$\bar{x} = \frac{\sum x}{N}$$

Where,

$\bar{x}$  = Sample Arithmetic Mean

$\sum x$  = Summation of  $x$

N = Total No of Observation

- **Standard Deviation**

Standard deviation is the most important and widely used measure of studying dispersion and gives uniform, correct and stable results. The standard deviation measure the absolute dispersion. A small value of standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa. Amongst all methods of finding out dispersion, standard deviation is regarded as the best.

It is used to find out the deviation in absolute term. It is determined in the following ways:

$$\sigma = \sqrt{\frac{\sum(x-\bar{x})^2}{n}}$$

Where

$\sigma$  = standard Deviation

$x$  = *individual value*

$\bar{x}$  = *simple Arithmetic mean*

N = Total no. of observatio

- **Coefficient of Variation:**

The Co-efficient of variance is the relative measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation the mean express in percent.

This is pure number independent of the units of measurement and thus, is suitable for comparing the variability, homogeneity or uniformity of two or more distributions. A distribution with smaller C.V, is said to be more homogeneous or less variable then other and the series with greater C.V. is said to be more heterogeneous or more variable then the other . It is relative measure of dispersion based on standard deviation. Symbolically, it is defined as:

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

Where,

C.V. = Coefficient of variation

$\sigma$  = *Standard Deviation*

$\bar{x}$  = *Simple Arithmetic Mean*

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter contains evaluation of the performance of HBL, EBL & NIBL to achieve the objective set in chapter one. To accomplish the objective of measuring the profitability the relevant data are extracted presented in tabular and graphical form. This chapter helps to provide conclusion after detailed analysis. So that proper recommendation can be given at the end of the study.

On regarding mathematical presentation part, this chapter presents the various ratios that affect performance of the concerned banks in the framework of CAMAL. These analytical tools can be used to compare the performance of the banks over a period of time. The above mentioned ratios are the sub –indicators of the financial position of a company that compare with the help of statistical tool viz. mean, Standard deviation & co-efficient of variation.

If commercial banks have good performance in terms of these latest frameworks then It will be able to provide the return in form of benefit to every party. In order to find out the strength and weakness of the commercial banks in terms of their financial performance various ratios and variable have been calculated which are presented as follows.

#### **4.1 Analysis of Capital Adequacy(c)**

The first component, Capital adequacy ultimately determines how well bank can deal with uncertainties. This ratio protects deposits and promotes the stability and efficiencies of commercial banks. Capital adequacy ratios take in to account the most important financial risks foreign ex-change, credit and interest rate risks by assigning risk weighting to the institution's assets.

For the purpose of capital adequacy measurement, bank capital is divided into core capital and supplementary capital. Core capital is that capital is that capital which is

permanent in nature. It includes paid up capital, share premium, non redeemable preference share, General reserve fund, accumulated profit, capital redemption reserve, capital adjustment fund and other free reserve. Amount of goodwill, factitious assets, investment in financial instrument in excess to limit specified by NRB and investment in the financial instrument issued by the organizations having the own financial interest is deducted from the sum of all elements of the primary capital to arrive at the core capital.

Supplementary capital is defined as that capital which is temporary in nature. It comprises of general loan loss provision assets revaluation reserve, hybrid capital instruments subordinated term loan. Exchange equalization reserve excess loan loss provision and investment adjustment reserve and provision for loss on investments. Thus, the total capital of commercial banks is the sum of core capital and supplementary capital.

According to NRB, core capital must be equal to or exceed 5.5 percent of the risk weighted assets of the commercial banks. Similarly, the amount of the supplementary capital should not exceed the amount of the core capital and the total capital must equal or exceed 11 percent of risk – weighted assets.

For The analysis purpose we have used capital Adequacy Ratio (CCR) and Core Capital Ratio (CCR).

#### **4.1.1 Core Capital Ratio (CCR)**

This ratio reflects the relationship between the core capital and total risk weighted assets of the commercial banks. The ratio is calculated by dividing the figures of core capital by the figure of risk weighted assets. The core capital ratio of the three sampled banks are given in table 4.1

Table No.4.1

**Comparative core capital ratio of HBL, EBL & NIBL (in %)**

<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	9.61	7.82	7.90
2007/008	9.36	9.04	7.77
2008/009	8.81	8.52	8.56
2009/010	8.68	8.39	8.50
2010/011	8.88	8.46	8.77
<b>Average</b>	<b>9.06</b>	<b>8.44</b>	<b>8.29</b>
<b><math>\sigma</math></b>	0.12	0.15	0.15
<b>C.V.</b>	<b>1.37</b>	<b>1.78</b>	<b>1.85</b>

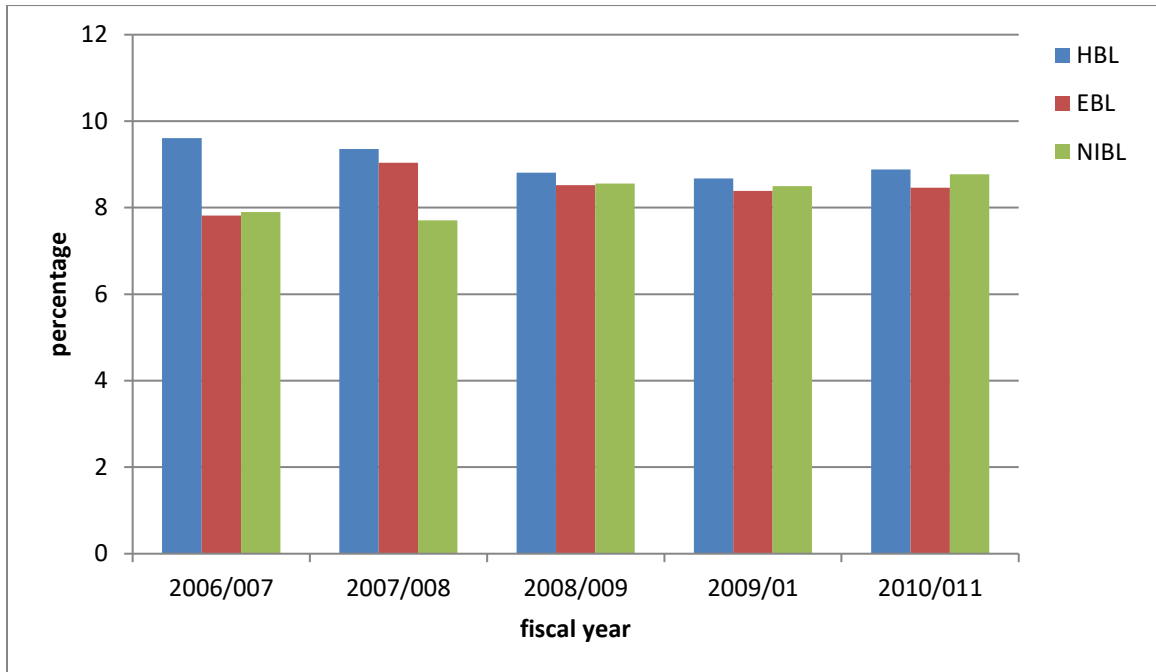
*Source Annex 1*

The capital which is kept in the reserve for general purpose is known as core capital it is the ratio which is used to measure the relationship of core capital fund and RWA. As per rule of NRB all Banks had to maintain Core capital ratio of minimum 5.5% of total RWA during BASEL-I implementation until in the FY 2010/11.

In table 4.1 we perceive that the ratio of HBL have decrease except last study year. The main reason behind the fluctuation of CCR is lack of consistency in the growth rate of core capital & RWA in F/Y 2006/007, the figure of CCR has decrease from 9.61% to 9.36% because the core capital has increased by 4.81% whereas RWA has increase by 14.82% which resulted lower figure of CCR. It shows that the assets couldn't provide return as per the level of capital injection another reason for decrease in CCR was high investments in risky assets and low investments in risk free assets such as treasury bill and government bonds. In FY 2009/10 the net profit of the HBL has decreased which also reduced CCR. In last FY 2010/11 CCR of HBL has increased form 8.68 to 8.88 which is due to increase in net profit and retained earning. Hear CCR of HBL is more uniform/stable than that of EBL & NIBL as per the figure of S.D & CV. So all the selected commercial banks were clever in their core capital utilized on NRB directives. In other hand the NIBL maximum utilized their core capital to generated RWA because there cost of equity is less than other Commercial Bank i.e. HBL & EBL. There is maximum proportion of General reserve & Retain earning in core capital of NIBL so it can used those fund for any sector which is needed.

## Graph no 4.1

### Core Capital Ratio



Here, we observe that bank have maintained minimum percentage of CCR in all four year as per the NRB standard. if we see the trend of last five year HBL is doing better in terms of safeguarding interest of depositor and doing better job in term of share holders earning like as NIBL is doing better in safe interest of deposit on year by year. On an average, HBL has higher CCR as compare then other it depicts that HBL has better protection and security to its creditors and depositors. But NIBL has more deposit collection in current year then HBL& EBL.

#### 4.1.2 Capital Adequacy Ratio (CAR )

This ratio will reflect the relationship between the total capital funds to the total risk weighted assets of the commercial banks. This ratio is calculated by dividing the total capital fund by the total risk weighted assets.

The capital adequacy ratio of the three sampled banks are given in table 4.2

Table no 4.2

**Comparative Capital Adequacy Ratio of HBL, EBL & NIBL (in %)**

<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	11.13	11.20	12.17
2007/008	12.42	11.44	11.28
2008/009	11.02	11.34	11.24
2009/010	10.72	10.77	10.55
2010/011	10.68	10.43	10.91
<b>Average</b>	<b>11.19</b>	<b>11.03</b>	<b>11.23</b>
$\sigma$	0.39	0.14	0.29
C.V.	3.49	1.3	5.8

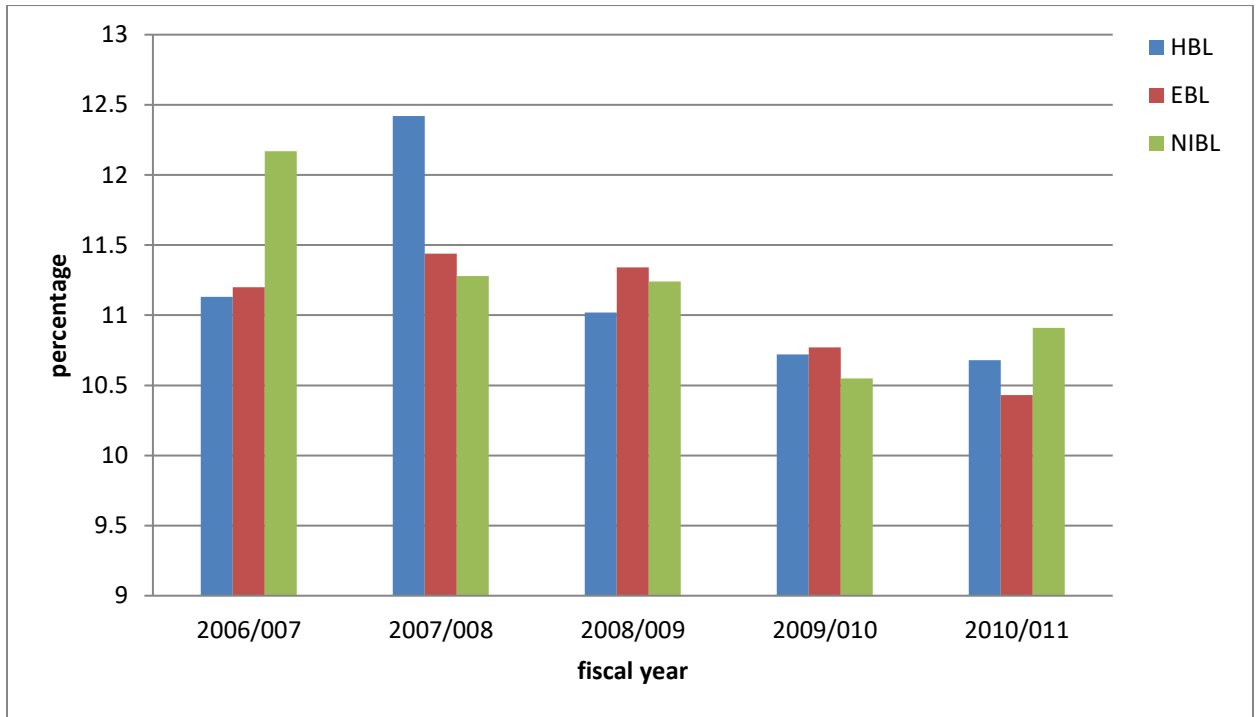
*Source Annex 1*

The capital adequacy ratio is based on RWA. The sum of core capital and supplementary capital is measured to be total capital fund. For the purpose of calculation of capital fund the RWA have been classified in to two part on balance sheet RWA & off balance sheet Risk weight item. According to NRB direction commercial bank should maintain their CAR 11% According to BASEL-I up to fiscal year 2007/08 and 10% According to BASEL-II. All commercial bank should maintain CAR. This is created to protect the interest of the depositors. In the event of non-fulfillment of CAR in any quarter, the bank shall full fill the shortfall amount with in next six month.

The figure of CAR of HBL has increased in FY 2007/08 from 11.13 to 12.42 although the figure of CCR has decreased. It is due to the increase in provision for loan loss. It is also because of issuance of convertible debenture. After FY 2008/009 the figures of CAR have decreased until the last study year which is due to the increased figure RWA and also because of recover of loss loans. In FY 2009/10 the figure of NPA highly increased although the figure of CAR has decreased because the net profit figure has decreased by 32.49 % in that fiscal year. The figure of CCR is in decreasing trend in accordance with decrease in figure of CAR. The CAR of EBL is more uniform/stable than that of HBL & NIBL as per the figure of SD & CV. In other side of bank EBL Best utilized their Reserve and surplus to generate RWA. Reserve & Surplus (Supplement Capital) of NIBL is more than others, NIBL increase their paid up capital to meet NRB directives by issue of right share in FY 2008/09. But EBL has not maintained 2 Arab paid up capital according to NRB directives till current F/Y 2009/10. In shareholders point of view EBL is the best commercial bank than other out of two.

## Graph no 4.2

### Capital Adequacy Ratio



According to NRB, all the commercial banks have to maintain 10% of CAR and 6 % CCR if the CAR and CCR is higher than NRB minimum percentage then it is considered as that the interest of depositors is safe. But in concern to share holders, the excess of CAR means less earning per share. during the process of maintaining the CAR, the fund should be mobilize in such a way that , the bank can get return from table no 4.2 observe that all the banks under the study have maintained CAR in all five year as per the NRB standard.

The above figure shows that in HBL has higher CAR in 2007/08 and In 2006/07 have higher on NIBL. In 2008 EBL bank leads other two banks by 11.34% CAR. All banks has slightly decreased CAR ratio on last 3 year. But HBL has more decreased then other two banks except last year. Similarly EBL trend was sustainable ratio arrange 10.5-11.5 like as in fame. More CAR ratio indicates that more owners' fund being utilized by the bank. Lower the ratio is better from the prospective of the banks because always cost of equity is higher than cost of debt where as higher is better from the prospective of the depositor because they was feel safety. In 2<sup>nd</sup> last year the NIBL has lower CAR then

other but it's have more deposit then HBL&EBL it is a one important question in my study why are public deposit in NIBL? Standard deviation and C.V. of EBL is lower than HBL& NIBL. It shows that CAR of EBL is less fluctuating which makes less risk to EBL then other selected commercial bank.

## 4.2 Analysis of Assets Quality (A)

Assets ratio examines that the degree of financial strength and risk in bank assets. A bank may have to take risk on certain sectors. I.e. the volume of risk needs to be adjusted against the loans and advances, and expected return etc. the mechanism adjusting risk is to create provision out of total loan overdue. In this regard NRB issue certain percentage to create provision out of total loan. The assets quality can be analyzed in terms of following ration. NRB has directed the commercial banks in regards to the concentration of the loan. Any licensed financial institution can grant the fund base loan to a single borrower or borrowers related to the same business group up to 25 percent of its primary capital. In the same vein, it can provide the non – fund base loan up to 50 percent of its core capital

### Classification of loan

<b>Types of loan</b>	<b>Period</b>	<b>Loan loss provision</b>
Good/pass	Up to 3 month	1%
Sub – standard	3 to 6 month	25%
Doubtful	6 month to 1 year	50%
Bad/loss	More than 1 year	100%

Source: NRB directive 2069

### 4.2.1 Non-performing Loan Ratio (NPLR)

This ratio shows the subsequent threat to the bank is value of nonperforming loan is high. This loan consists of substandard loan, doubtful loan and bad loan. Generally this loan will have been due of 3 month to 6 months, 6 months to 12 months and above 1 year. Higher ratio indicates the higher risk associated with the loan and vice versa. The non – performing assets ratio of the three sampled banks are given I table no 4.3

Table No 4.3

#### Comparative Non-Performing Loan Ratio of HBL, EBL&NIBL

Fiscal year	HBL	EBL	NIBL
2006/007	3.61	0.80	2.37
2007/008	2.36	0.68	1.12
2008/009	2.16	0.48	0.58
2009/010	3.52	0.16	0.62
2010/011	4.22	0.34	0.94
<b>Average</b>	<b>3.17</b>	<b>0.49</b>	<b>1.12</b>
$\sigma$	0.61	0.05	0.43
C.V.	19.24	10.76	38.15

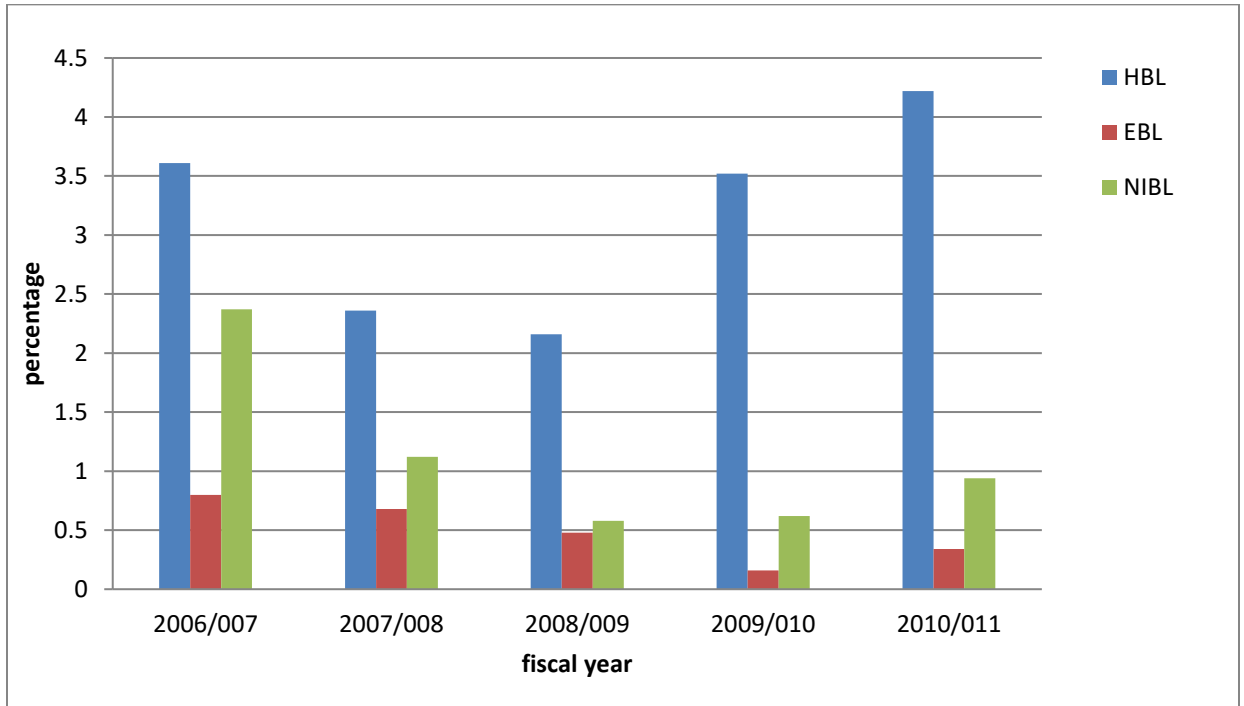
Source Annex 2

On the part of HBL, The figure of NPL ratio has decreased until FY 2008/009 the main reason behind it is write back/ recovering of bad loans. This explains that the credit policy is sustainable in ass observed year but in current year the policy of credit of HBL not a perfect perform. In last two fiscal years the ratios of NPL have increased which is due to increase in bad loans. Likewise the ratio of EBL has decreased. This explains that the credit policy is strong sustainable similarly the ratio of NIBL has ranged from 0.58 to 2.37 in FY 2008/009 and 2006/007. It is so that NIBL credit policy improves on favor to bank day by day. In the figure shows that higher ratio indicates the higher risk associated with the loan & Advance and vice versa. From the above data, HBL is in highly risky position that means it has not managed its loan properly. NIBL and EBL have lower then market average NPRL i.e. 3.3% (KANTIPUR DAILY NEWSPAPER ON 7 JUNE 011) but HBL hasn't success reduce their NPLR on this days. Where there was highly non performing loan. That direct impact in P/L Account & decrease in profit. In table we have seen NPR of EBL was very low but there loan was Re-structure type loan. It was proved

that in table 4.4 (Loan Loss Provision Ratio) of EBL higher than NIBL. So at the side of shareholder and public point of views NIBL is better than EBL & HBL.

### Graph No 4.3

#### Non-performing Loan Ratio



In Above figure shows that higher ratio indicates the higher risk associated with the loan & Advance and vice versa. From the above analysis data, HBL is in highly risky position that means it has not managed its loan properly. On the other hand, EBL has lower NPL ratio than that of other two banks this means EBL has better robust credit management. NIBL has decreasing trend of NPLR except the last year. So NIBL and HBL ware follows their creditor nearly.

#### 4.2.2 Loan Loss Provision Ratio (LLPR)

This ratio measures the percentage of loan loss provision on loan advances. Loan loss provision on credit is given to reduce risk of non- payment of released credit. As per the directives to bank and finance companies by NRB (2058 B.S) 1% of good credit can be provisioned as loan loss provision to reduce risk that may arise due to no recovery of disbursed loan.

Table no 4.4

**Comparative loan loss Provision Ratio of HBL, EBL & NIBL (In %)**

<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	4.47	2.97	2.70
2007/008	3.38	2.64	1.94
2008/009	2.85	2.39	1.59
2009/010	3.92	2.13	1.54
2010/011	4.25	1.90	1.89
<b>Average</b>	<b>3.77</b>	<b>2.53</b>	<b>1.96</b>
$\sigma$	0.34	0.134	0.173
C.V.	8.95	5.30	8.83

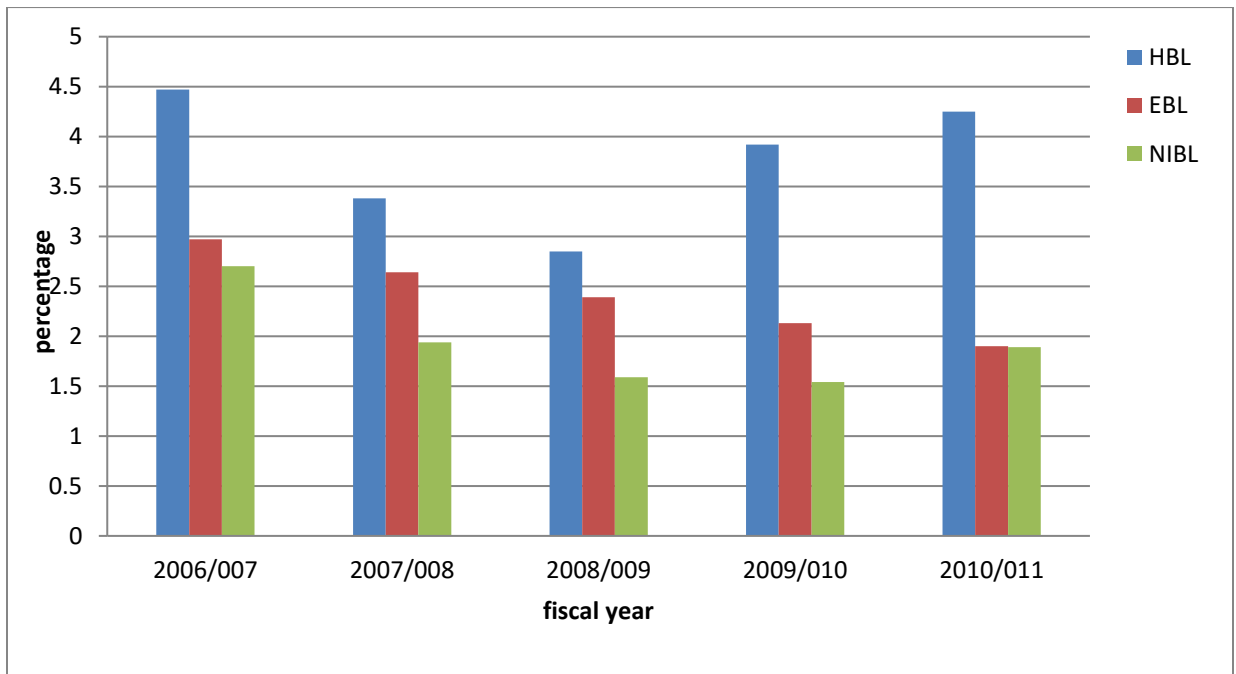
*Source Annex 2*

In table no 4.4 states that the ratio of HBL has been fluctuated. The main cause behind the fluctuated ratio was the sum of total loan and the proportion of not performing loan, performing loan. This ratio depicts how much provision a bank has to create for its loan out of the total loan provided. The lower rate of loan loss provision, the better is the financial position. The ratios of LLP have been fluctuated as per the fluctuation in NPA. But the figure of LLPR of EBL in FY 2010/11 has decreased though the figure of NPL has increased which is due to restructuring of bad loans and increased volume of total loan & advances. On an average, NIBL has lower LLPR as compare to HBL & EBL it depicts that NIBL has better financial position than other. But Standard deviation and C.V. of EBL is lower than HBL& NIBL it shows that LLPR of EBL is less fluctuating which makes less risk to EBL then other

All the ratio is as close in one percentage now a days. It was very strong point of NIBL. Their loan loss provision of NIBL on Credit is given to reduce risk of Nonpayment of released credit. Loan Loss Provision has direct effect at the current year profit. If there has been mansion high percentage of provision there will be decrease in profit of the bank & vice versa. So at above table I have seen NIBL is best commercial bank than other in the view point of shareholder. But all the commercial bank has mansion loan loss provision according to the NRB directives.

## Graph No 4.4

### Loan loss provision Ratio



Higher the provision ratio represents the progress of the bank, because the bank is in safe side whereas depositor did not get enough advantage through the provision. Loan loss provision (LLPR) is made in order to be in safe position, if the issued loans. Become bad debts or to cover the loss from due. LLPR is calculated in relation with total loan & total provision of loan. This ratio depicts how much provision a bank has to create for its loan out of the total loan provided. The lower rate of loan loss provision, the better is the financial position.

On an average, NIBL has lower LLPR as compare to HBL & EBL it depicts that NIBL has better financial position than other. But Standard deviation and C.V. of EBL is lower than HBL & NIBL it shows that LLPR of EBL is less fluctuating which makes less risk to EBL than other.

### 4.2.3 Loan Loss Coverage Ratio (LLCR)

This ratio measures the relation between the loan loss reserves to the non- performing assets which includes loan and advance. It is derived by dividing loan loss reserve by non-performing assets.

Table No. 4.5

#### Comparative Loan loss Coverage Ratio of HBL, EBL, & NIBL (In %)

<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	124	369.86	114
2007/008	142.9	390.66	172
2008/009	131.74	495.72	273
2009/010	111.54	477	248
2010/011	100.68	575	200
<b>Average</b>	<b>122.16</b>	<b>461.65</b>	<b>201.4</b>
$\sigma$	14.32	74.44	56.21
C.V.	11.72	16.12	27.96

*Source Annex 2*

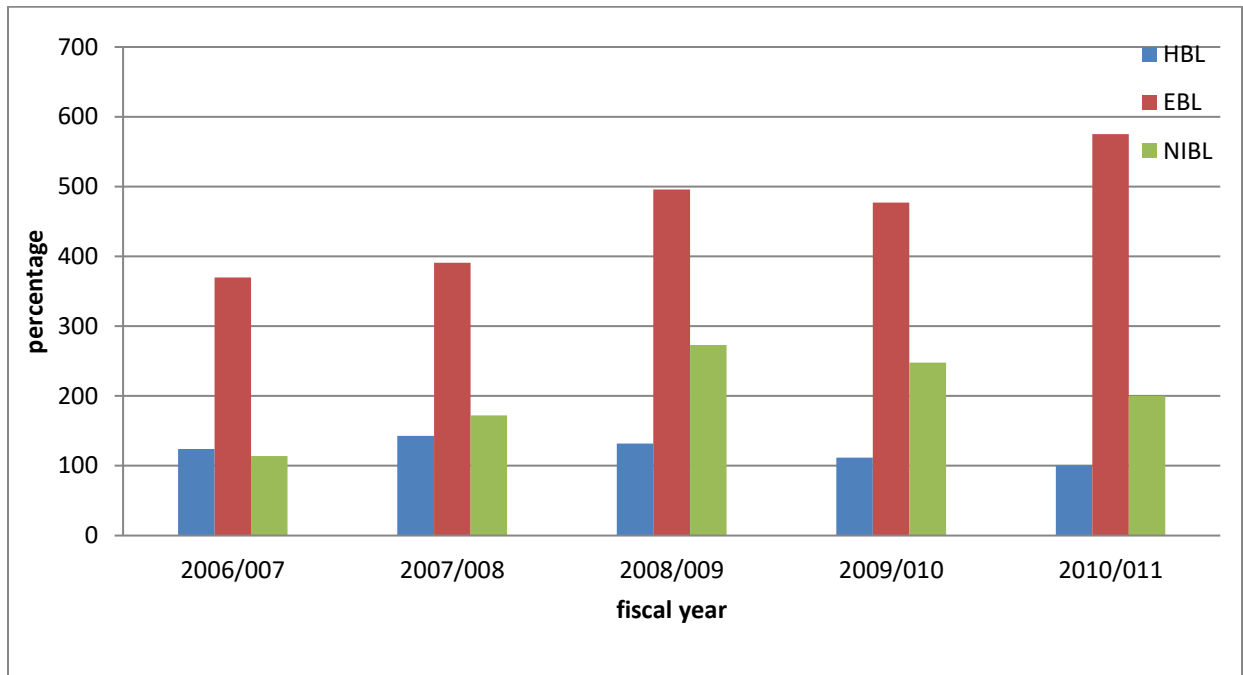
Table no 4.5 states; The Loan Loss Coverage Ratios of EBL has significantly increased covering more than 3 times. The non-performing loans by the total loan loss provision providing a thick cushion for the depositors' safety. Those of HBL and NIBL have decreased at last year, though they are still enough to cover the non-performing loans. However, NIBL have may face problems if even a small portion of its performing loans degrade. The non-performing loans of all have increased significantly at current year and if this trend goes up, the LLCR will be inadequate. Whereas EBL shows less amount of growth up to F.Y.2008/09 and in F.Y.2009/010 EBL ratio shows decreased and again growth up it mean EBL has maximum amount of growth which is very appreciable. The main cause behind the increased LLCR of EBL is increasing in total loan loss provision amount and decreasing in total sum of nonperforming loan. On the data HBL have small unit of standard deviation and coefficient of variation then other. It mean more homogeneous then other.

A bank must have minimum volume of loan loss provision that it should cover non performing loan of the respective bank. Therefore loan loss coverage ratio is the measurement of the amount set by the bank as loan loss provision against the total nonperforming loan of the bank. This ratio helps the bank to analyze the provision to be set up as loan loss. Loan loss coverage ratio minimum 100% is quite essential. Higher loan loss coverage ratio is regarded as good for any bank Above figure shows that EBL has increasing

trend, it means EBL has set up the provision well in case of nonperforming loan to recover. Whereas NIBL&HBL has shows fluctuating trend. It is due to the increase and decrease in provision for loan loss. It is also because of issuance of type of loan amount.

## Graph No. 4.5

### Loan Loss Coverage Ratio



Higher loan loss coverage ratio represents the progress of the bank. This ratio depicts how much bad debts is covered from its provision. From table no 4.5 we observe that EBL is better than HBL & NIBL in terms of covering bad debts from loan loss provision of the bank. On an average, EBL has higher LLCR as compare to HBL and NIBL it depicts that EBL is performing better in terms of covering bad debts from its provision. The trend of EBL & NIBL is increasing except last year but HBL have decreasing trend. Standard deviation and C.V. of HBL is lower than other chosen commercial bank it shows that LLCR of HBL is less fluctuated which was less risk to other then of two.

#### 4.2.4 Credit Deposit Ratio (CDR)

The major source of a bank is deposit and the major outlet of resource is the credit. CDR is the ratio of total cash outflow as loan to total cash inflows as deposit. So this ratio provides the ratio of efficiency with which the resources are mobilized. Following table displays the deposit collected by banks and their subsequent mobilization.

Table No 4.6

#### Comparative Credit Deposit Ratio of HBL, EBL & NIBL (In %)

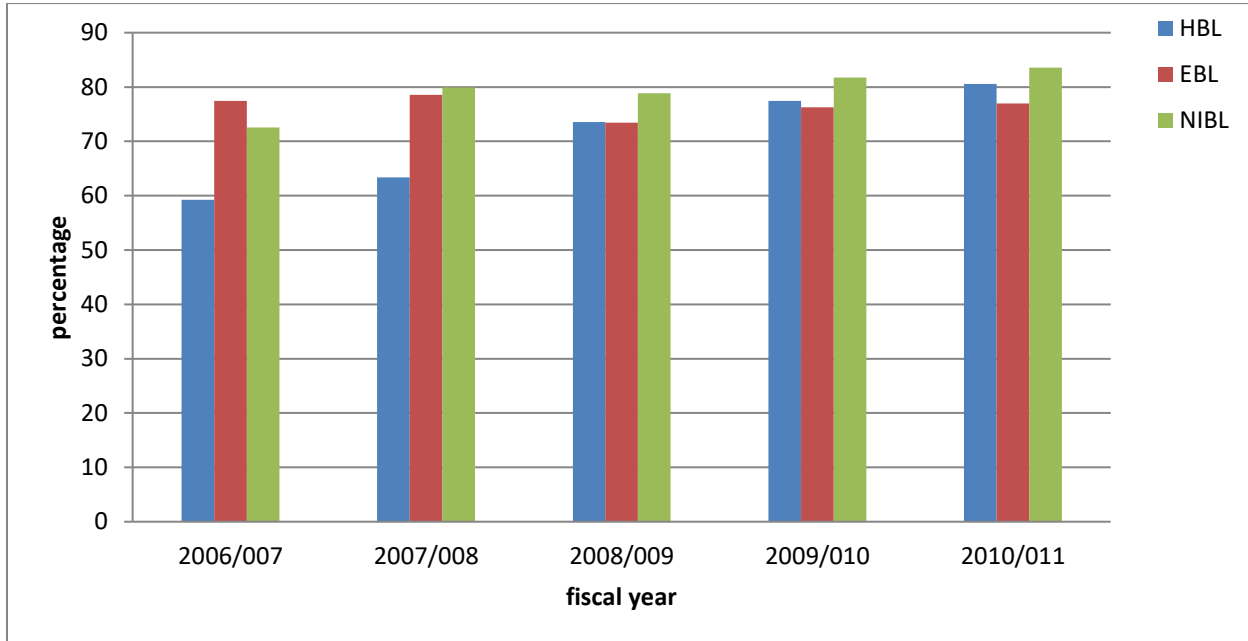
Fiscal Year	HBL	EBL	NIBL
2006/007	59.22	77.44	72.56
2007/008	63.37	78.56	79.91
2008/009	73.58	73.43	78.86
2009/010	77.43	76.24	81.73
2010/011	80.57	76.98	83.54
<b>Average</b>	<b>70.83</b>	<b>76.52</b>	<b>79.31</b>
$\sigma$	8.20	1.71	3.71
C.V.	11.58	2.24	4.68

Source Annex 2

In the figure no 4.6 CD ratio of HBL have increasing year by year the main cause be hind the increased of CD ratio is lack of consistency in the growth rate of total loan and total deposit. In term of HBL the loan and advance has increase 1779million to 3296 million whereas total deposit has increase only 3004million to 4092million in the study period. In fiscal year 2006/007 HBL has practiced Any Branch Banking Services so it has mansion huge amount at vault. It has impact at investment & decrease profit. In average NIBL show high CD ratio than other bank so it achieve high opportunity to gain interest income and it also face high risk on our market scenario of liquidity problem. But the all commercial bank has mansion CD Ratio below 80 percent by the guidelines of NRB but NIBL has not mansion in last 2<sup>nd</sup> last & last year. The standard deviation and C.V. of EBL is lower then HBL & NIBL it means increase of loan and deposit of EBL is more uniform then other. This again means that the HBL has higher market risk than Everest bank and NIBL. In data analysis all bank utilize their deposit on credit on year by year.

## Graph No 4.6

### Credit Deposit Ratio



Above table exhibits that the total LCY credit to total LCY deposit of three commercial banks of five consecutive years. The LCY C/D ratio of HBL and NIBL is in increasing trend. The EBL has in fluctuating. The NIBL has higher C/D ratio than Everest and HBL except fiscal 2006/007. In average, NIBL has higher C/D ratio as compare to other. This means that the NIBL has utilized its deposit higher than Everest and HBL. Again standard deviation and C.V. of EBL is lower than HBL & NIBL it shows that C/D ratio of EBL is fluctuating less which makes less risk to other, this again means that the HBL has higher market risk than Everest bank and NIBL. In trend analysis all bank utilize their deposit on credit on year by year.

### 4.3 Analysis of Management Efficiency (M)

The success of any institution depends on the competency of its management. In fact the management not only makes suitable policy and the business plans, but also implements them for the short time and the long time interests which helps to achieve aimed objective of bank and financial institution, it is evaluated by checking the effectiveness of the board of directors, **the quality of the qualification**, the man power and officials

management ,operating expenditure, customers relation between the officials and institution ,management information system, organization and working method , internal control system , power , monitoring , decision process , policy, rules etc.

Even though the present situation of Nepal is economically unusable an unsteady, those banks have managed to survive in this situation too. They are increasing their deposit ratio. Their performance loan is also increasing. The present banks we have studied are the premier banks of Nepal and till the date have displayed remarkable in terms of their management and their ability to change according to time and market demand.

Sound management is a key to bank performance but is difficult to measure due to qualitative factor applicable to individual institutions. Several indicators can jointly serve as an indicator of management soundness. Management Efficiency Ratios are used as a proxy of the management quality. However we have only used earning per employee (EPE) to indicate the quality of management.

#### **4.3.1 Management Efficiency Ratio (MER)**

MER is the ratio between NPAT (Net Profit after Tax) and total no. of staff. This ratio shows the earning capacity of the staff. If the Human Resource of banks are well managed i.e. right person at right place then the return will be higher if not then definitely the profit will be lower . This is calculated by dividing the net profit after tax by number of employees. In our study period the no of staff on EBL & NIBL increase but the no of staff on HBL is fluctuating trend it mean HBL has face staff turnover problem in current situation.

Table No 4.7

**Comparative Management Efficiency Ratio of HBL, EBL & NIBL**

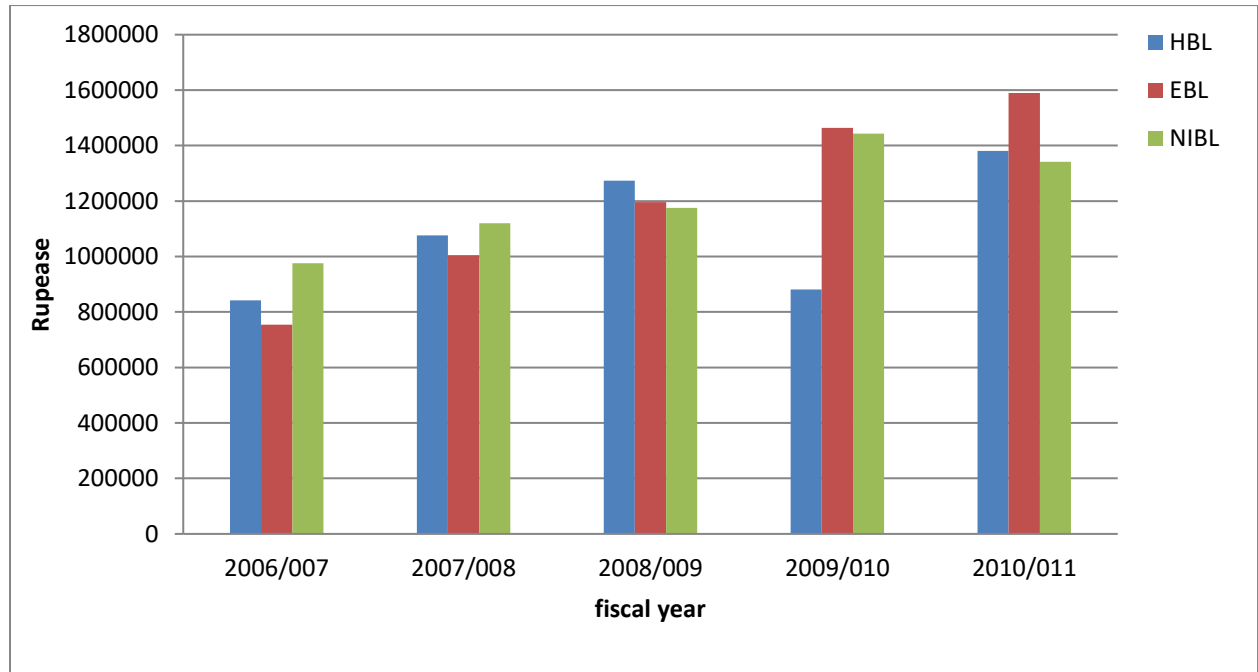
<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	842162	754222	975484
2007/008	1075920	1004941	1120147
2008/009	1273832	1196128	1175742
2009/010	881798	1464376	1443500
2010/011	1380394	1589255	1341666

*Source Annex 3*

The above table shows the management efficiency Ratio of HBL, EBL & NIBL from 2006/07 to 2010/11. Among three banks EBL has the highest MER then HBL & NIBL which shows that the EBL's per employee contribution to net profit is high and it is successful to manage its employee. As effectively the human resource are mobilized the better earning the bank gain so the remedy would be either to reduce no of staff or to increase profit volume. The study period on HBL MER Ratio was fluctuation trend. It is not perfect management there staff. MER of NIBL was increasing trend. It mean they improved their staff management day by day. The main cause of MER trend fluctuating of HBL was its profit and staff categories. There were different categories of staff and they have awarded different facilities at same level and same work. So it has direct effect at productivity of staff.

## Graph No 4.7

### Management Efficiency Ratio



Higher MER indicates the better management soundness of the bank. The above figure illustrate that NIBL has significantly higher MER than that of EBL & HBL in the fiscal year 2006/007 & 2007/008 But in FY 2008/009 it is quite lower in year 2009/010. EBL lead the other commercial bank in average EBL has in increasing trend. Which show that EBL has utilized its staff efficiently? In my opinion EBL's staff also self motivated to their job so it have high productivity then other

#### 4.4 Analysis of Earning Performance (E)

Earning is the profit that the bank earns. It can be defined as profit made by bank from different kind of transaction. The different kinds of transaction can be such as lending of deposits , trade finance , remittance and other various service ect. So we can say that earning reflect aggregate performance of the bank. Earning capacity or profitability keeps up the sound health of a bank. There are different indicators of profitability for analyzing, they are as follows:

#### 4.4.1 Return on Equity (ROE)

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization of in other words to earn high profit and thereby maximizing return on it's equity capital return on equity play the measuring role of profitability of bank , it reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilized it's owned capital and vice – versa. This ratio will reflect the relationship between net profits after tax to the shareholder's equity. The ratio is calculated by dividing net profit after tax by the shareholder's equity, following table shows the return on equity of HBL, EBL & NIBL during the study of period.

Table no 4.8

#### Comparative return on equity of HBL, EBL & NIBL (In %)

<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	22.91	19.56	26.68
2007/008	25.30	21.35	25.51
2008/009	24.13	24.35	23.05
2009/010	14.79	30.14	27.60
2010/011	22.35	29.91	22.8
<b>Average</b>	<b>21.89</b>	<b>25.06</b>	<b>25.1</b>
$\sigma$	3.69	4.33	1.92
C.V.	18.9	17.30	7.65

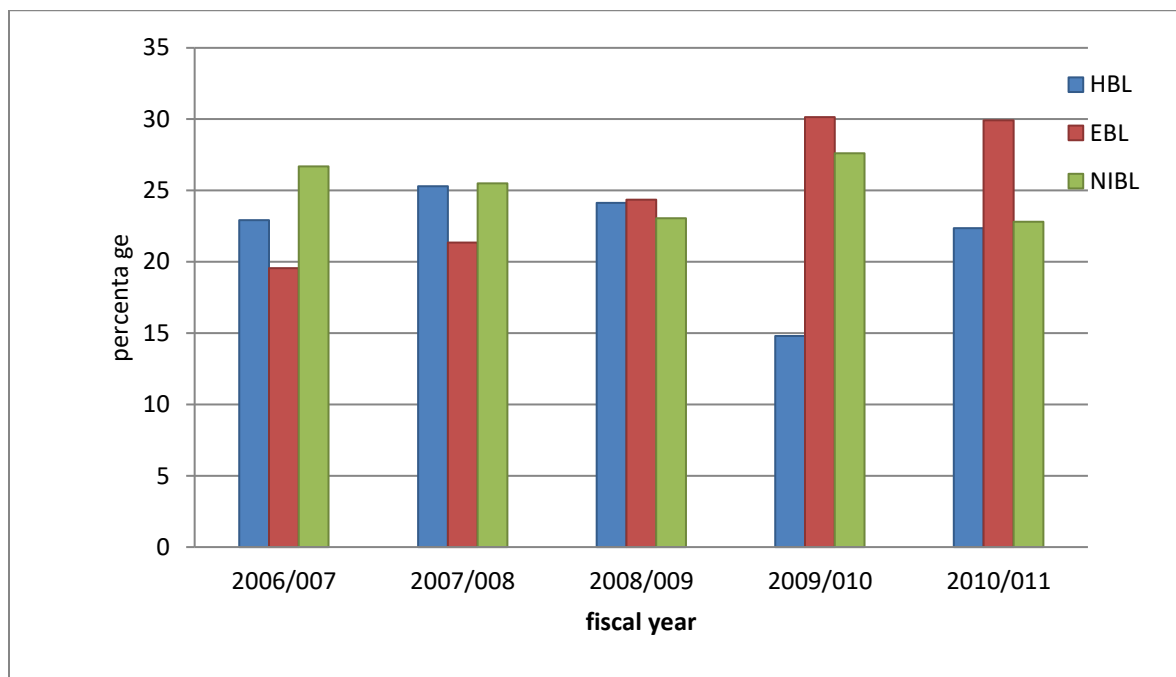
Source Annex 4

The figures of ROE of HBL have fluctuated. The main reason behind the fluctuation of ROE is lack of stable growth of net profit after tax and total shareholder fund. In F/Y 2008/09 the ratio of ROE has decrease from 25.30 to 24.13. because the proportion of NPAT increase less than the proportion the total shareholder fund. In fiscal year 2009/10 the ratio of ROE has decreased from 24.18 to 14.79 which is due to decrease in net profit and increase in total share holder fund. Whereas increased in share premium, increase in provision & reserve. This decrement of ROE on FY 2007/08 to 2009/10 indicates shareholder decreasing rate of return from their investment. HBL increase the paid up capital to meet the level of 2 Arab But profit increase proportion was not properly in FY 2009/10. So that ROE of HBL was decreased. HBL has relatively more inconsistency throughout the study period because its range is higher and not homogeneous.

At the last year of the study, the EBL ratio becomes 29.91% this increment of ROE of last year indicates shareholders increasing rate of return from their investment. Similarly in case of NIBL, the ratio has ranged from 23.05 in the fiscal year 2008/009 to 27.60 in fiscal year 2009/010. In table show that ROE of NIBL are constant level like as 26.68, 25.51 & 22.8 in fiscal year 2006/007, in FY 2007/008 and in FY 2010/011 with average of 25.1, standard deviation 1.92 % and C.V. 7.65 % respectively. In result the investor looking forward to invest in there share on primary and secondary market. The NIBL has utilized their shareholder fund to increase profit than other.

## Graph No 4.8

### Return on Equity



Higher the ROE better it will be for the shareholders as the main objective of organization is wealth maximization. From the graph no 4.8 despite stiff completion and adverse macroeconomic environment NIBL is currently generating higher ROE in comparison with EBL & HBL, in brief it signifies that the share holders of NIBL are getting higher return but in case of HBL they are getting lesser. It can be concluded that NIBL has utilized the equity for the profit generation. It provides to be a good strength of NIBL in attracting future investment also while HBL shows it's weakness regarding efficient utilizations of its owner's equity in comparison with EBL & NIBL. EBL has

increasing return in each year. It is also better performance same as NIBL. But NIBL has homogeneous return in each year; it is the strength point of EBL & NIBL.

#### 4.4.2 Return on Assets (ROA)

Return on assets is very crucial for measuring the profitability as well as production power of assets. The ratio measure the profit that a share holder fund has generated the high ratio indicates high return to shareholder and vice versa the relationship between net profit and total assets give the return on assets, it also measure how management uses all the assets in the business to generate operating surplus.

Table no 4.9

#### Comparative return on assets of HBL, EBL & NIBL (In %)

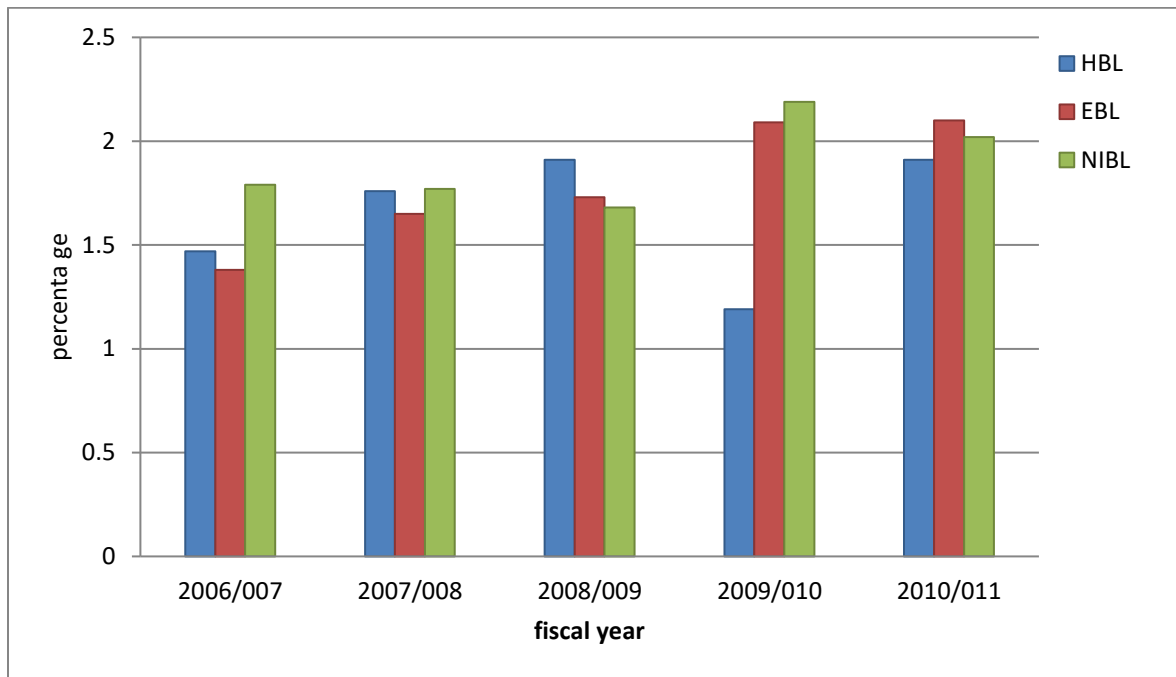
<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	1.47	1.38	1.79
2007/008	1.76	1.65	1.77
2008/009	1.91	1.73	1.68
2009/010	1.19	2.09	2.19
2010/011	1.91	2.10	2.02
<b>Average</b>	<b>1.65</b>	<b>1.79</b>	<b>1.89</b>
$\sigma$	0.27	0.12	0.08
<b>C.V.</b>	<b>16.36</b>	<b>6.86</b>	<b>4.43</b>

Source Annex 4

The figure of ROA of HBL increasing first three year and goes down from 1.91% to 1.19%. Again HBL has maintained same level of ROA. Behind the increase and decrease the ratio is lack of consistency in the growth rate of total assets and net profit. The ROA ratio is based on total assets & net profit. In fiscal year 2009/10 HBL profit goes down from 75.28 million to 50.87 million so ratio of HBL also decreases. In the fiscal year 2006/007 of EBL , ROA is 1.38 % which means the bank has only 1.38% capacity of earning , the profit from assets, further in fiscal year 2007/008 it is 1.65,in FY 2008/009 it is 1.73to 2.1 at last year. Then the ratio was increasing track. Similarly the ratio of NIBL has range 1.68 in year 2008/009 to 2.19 the year 2009/010. In year 2006/007 ROA 1.79%, in year 2007/008 1.77% and at last current year it has 2.02%.which is decreasing trend until year 2008/009 but in last year the ratio was growing up. And average of

1.89%, S.D. 0.08 % and C.V. 4.43. It is said that ROA of NIBL more homogenous than other of two.

**Graph No.4.9**  
**Return on Assets**



Higher the ROA better the bank. The above figure shows that the ROA of EBL increasing trend while HBL&NIBL is in fluctuating trend. But in average all of fiscal year NIBL ROA lead then other except in year 2008/009 and in 2010/011. This may because the total assets investment was higher and there profit earning was lower. But in case of NIBL it has utilized its assets efficiently so, from above figure we can conclude that NIBL is in better position than that of other two commercial bank.

In average, NIBL has higher ROA as compare to HBL & EBL it depicts that NIBL is generating better return on assets than other chosen commercial bank. Standard deviation and C.V. of NIBL is lower than other it shows that ROA of NIBL is fluctuating less than other which makes less risk to NIBL.

#### 4.4.2 Earnings Per Share (EPS)

This ratio tells us what profit has been earned by the common shareholder for every share hold. A company can decide whether to increase or reduce the number of shares on issue. This is determined by dividing net profit after tax by number of shares.

**Table no 4.10**

#### **Comparative Earning per shares of HBL, EBL&NIBL (In Rs)**

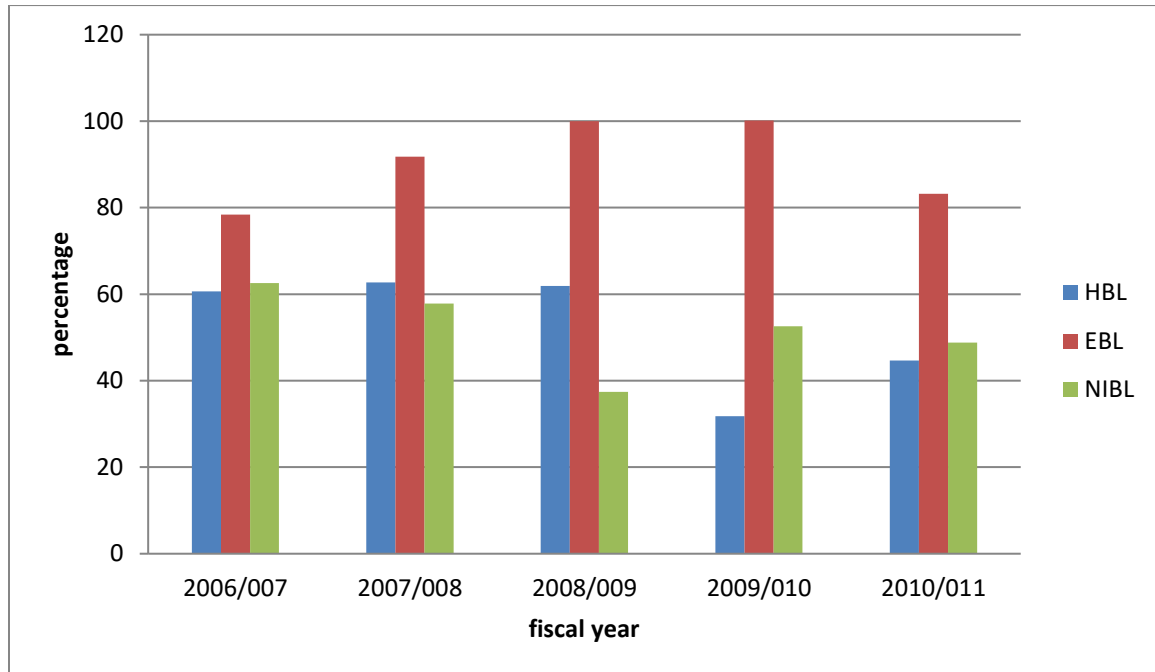
<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	60.66	78.42	62.57
2007/008	62.74	91.82	57.87
2008/009	61.90	99.99	37.42
2009/010	31.80	100.16	52.55
2010/011	44.65	83.18	48.84
<b>Average</b>	<b>52.35</b>	<b>90.7</b>	<b>51.8</b>
$\sigma$	12.24	8.76	8.59
<b>C.V.</b>	<b>23.38</b>	<b>9.65</b>	<b>16.59</b>

*Source Annex 4*

The above table shows the earning per share of HBL, EBL & NIBL from 2006/007 to 2010/11. Among three commercial banks EBL has the highest EPS. It depicts that EBL has better earnings per share than other. Standard deviation and C.V. of EBL is lower than HBL & NIBL it show that EPS of EBL is fluctuating less which makes less risk to EBL. In this sense EBL seems more successful to attract the investors because of on an average, EBL has higher EPS as compare to HBL & NIBL. An another side of study In fluctuation trend there was face high market risk. The share holder feels not favor. The EPS of HBL & NIBL fluctuating. It's mainly affected by their no of share and net profit after tax. HBL & NIBL increasing their capital by using issue of right share in study period. But profit is not increased to compare with capital.

## Graph No 4.10

### Earnings per Share



The above figure exhibits EPS of three commercial banks. This reveals EPS of EBL is in increasing trend until 2<sup>nd</sup> last study period and NIBL EPS trend decreasing continuously up to fiscal year 2008/009 and moving upward in the last year of the study. HBL trend is a level of constant nearly but at 2<sup>nd</sup> last year it also moving down ward, in this sense EBL seems more successful to attract the investors because of on an average, EBL has higher EPS as compare to HBL & NIBL. It depicts that EBL has better earnings per share than other. Standard deviation and C.V. of EBL is lower than HBL & NIBL it show that EPS of EBL is fluctuating less which makes less risk to EBL .

### 4.5 Analysis of Liquidity Position (L)

Liquidity ratio is used to measure the bank's ability in the short term obligation. Bank should maintain an appropriate level of liquidity. So that it will be success to pay cash over the counters, especially current & saving account holders. It means that the volume of liquidity must be appropriate with regard to the requirement. Generally it reflects the short term financial strength of the bank.

Liquidity reflects the short-term financial strength of banks. Bank does not provide all deposit at loan and advance certain percentage of deposit should be kept in bank in the liquid form, liquidity risk threatens the solvency of financial institutions.

There are two types of liquidity risk in commercial banks, first type of liquidity risk arises when depositors of commercial banks seek to withdraw their money and the second type of risk arise when commitment holder want to exercise the commitments recorded off the balance sheet. Commercial banks have to borrow the additional funds or sell the assets at fire sale price to pay off the deposit liabilities. They become insolvent if sale price of the assets are not enough to meet the liability withdrawals.

The second type of liquidity risk arises when demand for unexpected loans cannot be met due to the lack of the funds. Commercial bank can raise the funds by borrowing additional funds in the money markets and selling off other assets at distressed price. Both liability side liquidity risk (first type risk) and assets side liquidity risk (second type risk) affect the health of commercial banks adversely.

Maintaining the high liquidity position to minimize such risks also adversely affects the profitability of commercial banks. Return on highly liquid assets is almost zero. Therefore, banks should strike the tradeoff between liquidity position and profitability so that they could maintain their health sound. Commercial bank's liquidity exposure can be measured by analyzing the sources and uses of liquidity.

#### **4.5.1 Cash Reserve Ratio (CRR)**

Every commercial bank have to maintain a reserve fund with Nepal Rashtra Bank equal to 5.5% of their total local currency deposit which is known as CRR. For maintaining the balance, total local currency deposit of the first week is calculated & then 5.5% balance has to be maintaining in the third week this turn goes out respectively. Cash reserve ratio is the ratio of cash balance in Nepal Rastra Bank's account. It shows the relationship between the cash balance in Nepal Rastra bank and the total deposit. The total deposit also comprises of local currency. From the liquidity aspect of the bank, we can say that maintaining the CCR helps bank to utilize their reserves in the case of major liquidity needs.

**Table No 4.11**

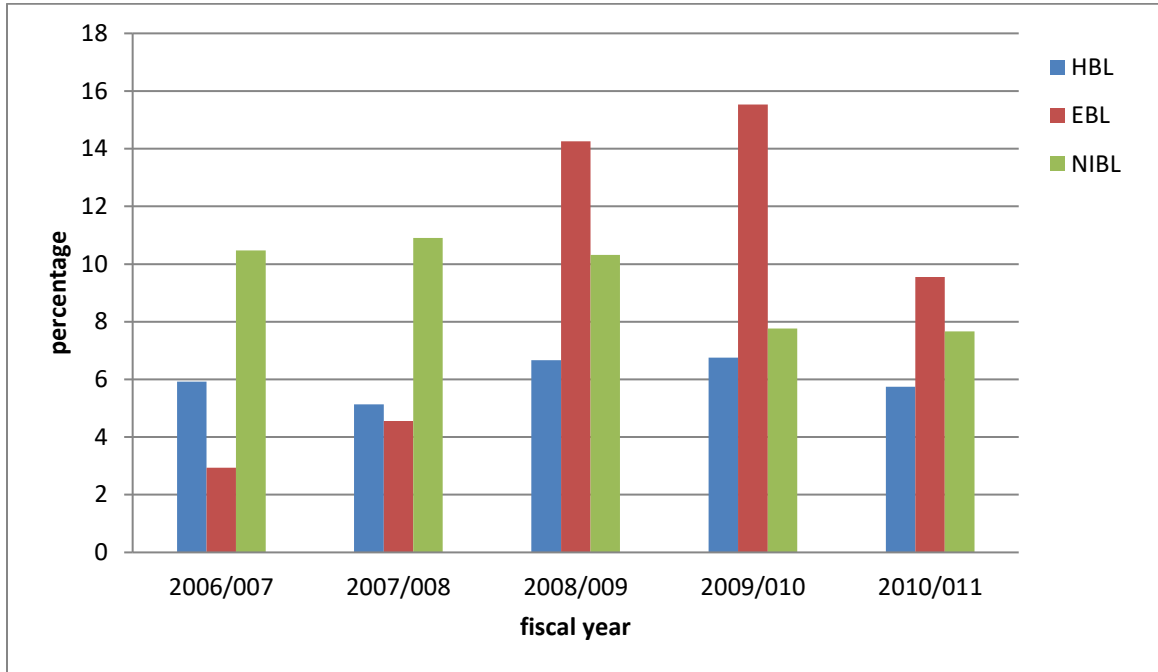
**Comparative Cash Reserve Ratio of HBL, EBL & NIBL (In %)**

<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	5.92	2.94	10.47
2007/008	5.13	4.56	10.91
2008/009	6.76	14.26	10.32
2009/010	6.76	15.53	7.77
2010/011	5.75	9.55	7.67
<b>Average</b>	<b>6.06</b>	<b>9.36</b>	<b>9.42</b>
$\sigma$	0.58	5.03	1.4
<b>C.V.</b>	<b>9.7</b>	<b>53.7</b>	<b>14.86</b>

*Source: Annual Report*

The figures of CRR of all banks were fluctuated. The main reason behind the fluctuation of ratio was deposit mobilizing in market and operation policy of those bank likewise cash management, bills management etc. Standard deviation and C.V. of HBL is lower than EBL& NIBL it shows that CRR of HBL is fluctuating less than other which makes less risk to HBL as compare to other selected bank. EBL has failed to maintain CRR in fiscal year 2006/07 and 2007/08. In overall NIBL has minted NRB standard in sufficient. In average CRR of all commercial banks has maintained above 5.5 percent which was directives by NRB. But NIBL and EBL had kept more than necessity. It is good from the perspective of depositor but it directly affect on profit.

**Graph No. 4.11**  
**Cash Reserve Ratio**



Here, we observe that HBL & NIBL has maintained minimum percentage of CRR successfully. But on EBL calculated CRR on the bases of end FY data. So the ratio is like as artificial. Here we can say that all the commercial bank maintained their CRR properly. Here in last two year reveals that EBL is doing better than HBL & NIBL in terms of liquidity. Whereas CRR of EBL is below then the minimum requirement directed by NRB in fiscal year 2006/007, 2007/008. Which eventually increase the liquidity risk at this movement? The other hand CRR of NIBL is fluctuating less than other & slightly higher than CRR of HBL which makes less risk to NIBL as compare to HBL&EBL.

In average, NIBL has higher CRR as compare to other it depicts that NIBL has better liquidity position than HBL & EBL. Standard deviation and C.V. of HBL is lower than EBL& NIBL it shows that CRR of HBL is fluctuating less than other which makes less risk to HBL as compare to other selected bank.

#### 4.5.2 Cash & Bank Balance Ratio (CBBR)

This ratio shows the relationship between the cash and bank balance to the total deposit. The total deposit also comprises of local currency. This is calculated by dividing the cash and bank balance with total deposit.

Table No. 4.12

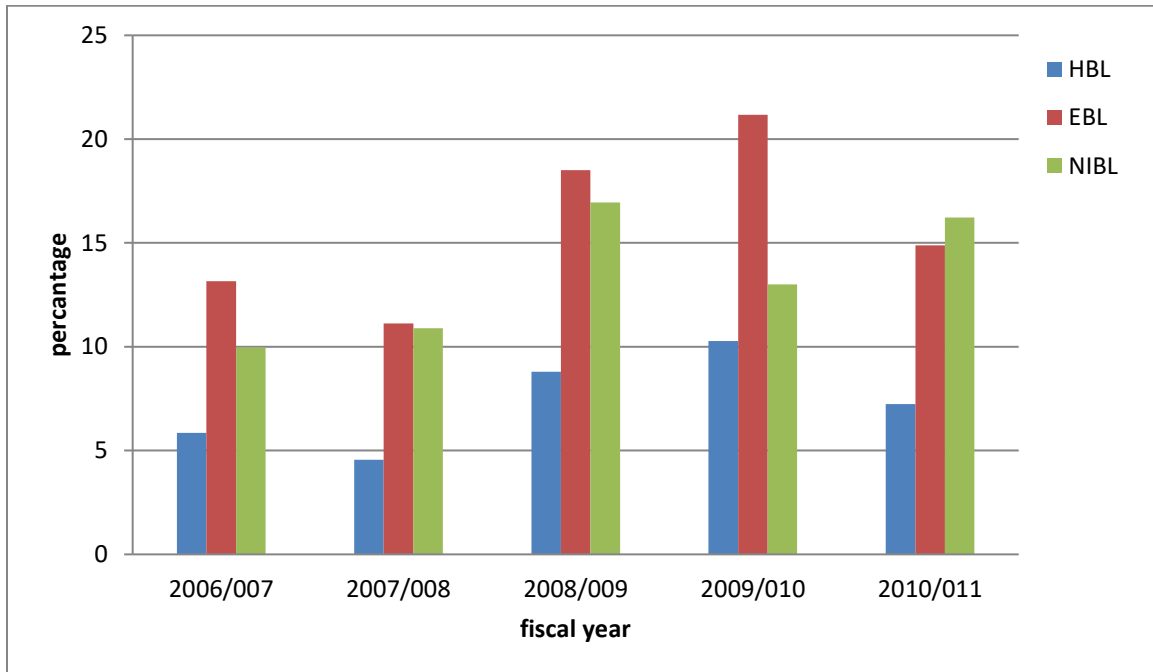
#### Comparative Cash & Bank Balance Ratio of HBL, EBL & NIBL (In %)

<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	5.85	13.15	9.96
2007/008	4.55	11.13	10.89
2008/009	8.79	18.5	16.95
2009/010	10.28	21.17	13
2010/011	7.24	14.88	16.23
<b>Average</b>	<b>7.3</b>	<b>15.76</b>	<b>13.4</b>
$\sigma$	2.04	3.62	2.78
<b>C.V.</b>	<b>29.9</b>	<b>23</b>	<b>20.81</b>

Source Annex 5

In the figure no 4.12 CBBR of HBL has fluctuated. It was due to depends on growth rate of deposit and investment policy of management. EBL has the highest average ratio of 15.76 % in compeer to HBL & NIBL. HBL & NIBL have the average ratio of 7.3% and 13.4 % respectively. According to the standard division HBL ratio was more uniform. On the business point of view the large amount idle cash has direct impact on bank profit. So HBL was better than of two.

**Graph No. 4.12**  
**Cash & Bank Balance Ratio**



Here, we observe that three sample banks have fluctuating trend. On EBL has increasing trend & average of EBL has higher ratio as compared to HBL & NIBL. It reveals that EBL is doing better than other in term of liquidity. A higher ratio represents a greater ability to meet the depositors demand but bank cost is high because of idle cash.

On an average, EBL has higher CBR as compare to HBL & NIBL it depicts that EBL has better liquidity position than other. Standard deviation and C.V. of NIBL is lower than HBL & EBL it shows that CBR of NIBL is fluctuating less than other which makes less risk to NIBL as compare to HBL & EBL in terms of liquidity.

### 4.5.3 Investment in Government Securities Ratio ( IGSR)

Government securities are those securities, which are risk free and can be easily converted into cash at any time. This ratio is used to measure how much amount has been invested in government securities. NRB has recently made the provision of 6.0% of total deposits for SLR to invest in government securities till January 2010. It can be calculated dividing investment in government securities by total deposit.

**Table No. 4.13**

#### **Comparative Investment in Government Securities Ratio of HBL, EBL & NIBL (In %)**

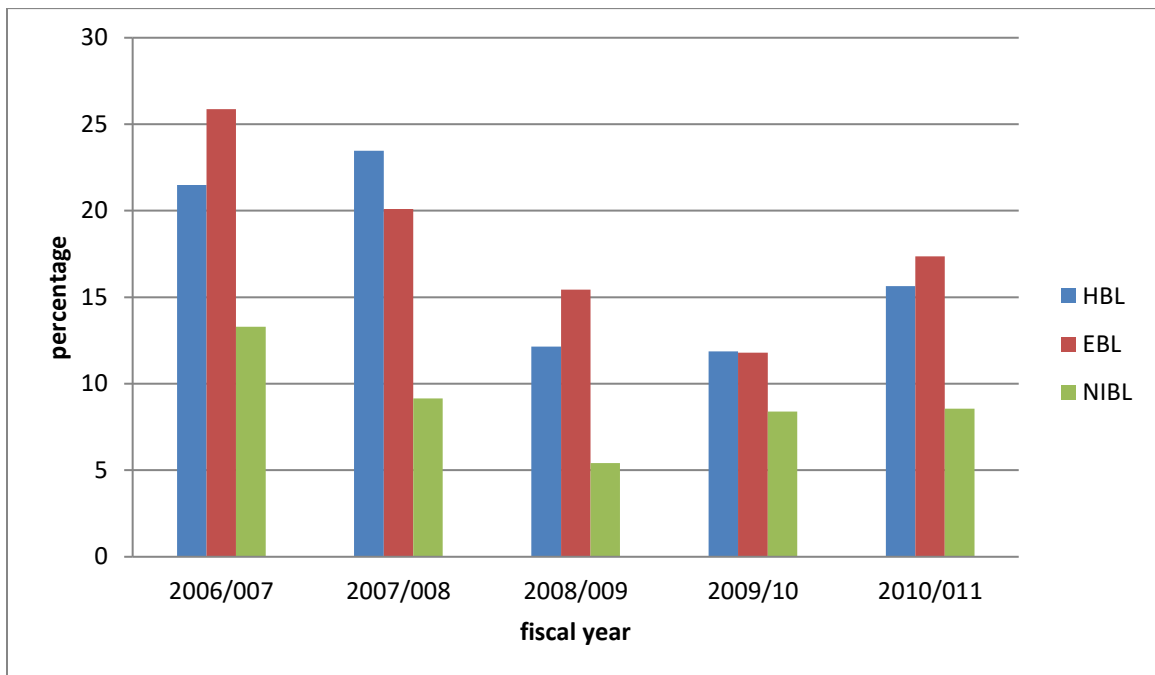
<b>Fiscal year</b>	<b>HBL</b>	<b>EBL</b>	<b>NIBL</b>
2006/007	21.48	25.87	13.29
2007/008	23.46	20.10	9.16
2008/009	12.15	15.44	5.42
2009/010	11.87	11.79	8.39
2010/011	15.65	17.37	8.56
<b>Average</b>	<b>16.92</b>	<b>18.11</b>	<b>8.96</b>
$\sigma$	4.76	4.72	2.52
<b>C.V.</b>	<b>28.14</b>	<b>26</b>	<b>28.18</b>

*Source Annex 5*

The investment in government securities ratios of HBL & NIBL are in fluctuating trend over the review period. Similarly the ratios of EBL is in decreasing trend until 2<sup>nd</sup> last year but EBL has better liquidity position than that of HBL & NIBL which depicts by the higher average investment in government securities ratio of EBL than other. The investment in government securities ratios of NIBL is less stable and consistent than that of HBL & EBL because it has higher CV of investment in government securities. In average the cost of fund of EBL was lower than others so EBL invests in government securities at lower return with lower risk. On behalf of NIBL, the ratio ranged from 5.42% in the year 2008/009 to 13.29 in year 2006/007. In 2007/008, 2009/010 & 2010/011 ratios are 9.16%, 8.39 % 8.56% respectively. Main cause of that result display was cost

of deposit of NIBL higher than other. So NIBL wants to invest in other sector than government securities because the risk and return was higher in other sector.

**Graph No. 4.13**  
**Investment in Govt. Securities Ratio**



Government securities are liquid. So investment in government securities provides the liquidity to the bank. Even though those securities have very less interest income but they can be changed into cash quickly. Here IGSR of three sampled banks have fluctuating trend. On an average, EBL has higher IGSR as compare to HBL & NIBL it depicts that EBL has better liquidity position and it is in safe side in terms of liquidity as compare to other selected bank. Standard deviation and C.V. of EBL also lower than other it shows that IGSR of EBL is fluctuating less than NIBL & HBL.

## 4.6 Major Finding of the Study

The major finding of a comparative CAMEL analysis on commercial bank In Nepal with special reference of HBL, EBL & NIBL.

- ❖ Over the five years of study period, the core capital ratio of EBL & NIBL is in fluctuating trend, the core capital ratio of HBL is in decreasing trend. If it goes further down than as per NRB standard , NRB may provide directions to maintain at the marks the ratio of HBL in the review period are 9.61 percent, 9.36 percent, 8.81 percent, 8.68 percent & 8.88 percent respectively and the ratio of EBL are 7.82 percent, 9.04 percent, 8.52 percent , 8.39 percent & 8.46 percent. On the other hands, the ratio of NIBL in the past five year are 7.9 percent, 7.71 percent, 8.56 percent, 8.50 percent and 8.77 percent separately. In all the years of the review period the core capital ratio of HBL is higher than that of EBL & NIBL which shows HBL has better protection and security to its creditors and depositors. Also higher financial strength than other. In shareholder view it is not good because of the cost of equity is higher than cost of debts. In average EBL has minimum CCR ratio except in the fiscal year 2007/008. But NIBL is doing better in terms of shareholders earning. The CCR of NIBL is fluctuating less then HBL & EBL, it depicts the NIBL has less risk then other commercial bank.
  
- ❖ In the past five years, the total capital adequacy Ratio of HBL are 11.13 percent, 12.42 percent, 11.02 percent, 10.72 percent and 10.68 percent respectively and ratios of EBL are 11.20 percent , 11.44 percent , 11.34 percent 10.77 percent & 10.43 percent And NIBL are 12.17 percent , 11.28 percent , 11.24 percent , 10.55 percent & 10.91 percent respectively in the review period. The ratio of HBL are increased from 11.13 to 12.42 in first and second period and decreasing continuously up to fiscal year 2010/011, ratio of EBL are in fluctuating trend, throughout the study period. Those has decreasing continuously in last four year. Similarly ratio of NIBL is in decreasing trend. Continuously on study period from FY 2006.007 to 2009/010 and nearly grow up. The all bank have maintained minimum CAR as per NRB standard (10%). The CAR of NIBL is higher than other in first study year which show that NIBL has higher internal sources and comparatively strong financial position and higher security to depositors then HBL and EBL. But in last year of the study it has lower CAR. Its means NIBL invest and created assets used by debt maximum because of cost of capital is always greater then cost of deposit/debt.

- ❖ Nonperforming loan ratio of EBL is in decreasing trend and less than one percent on the study period. The non performing loan ratio of NIBL is also in decreasing trend continuously up to FY 2008/009 & moving upward in the fourth period through out . The ratios of HBL are in fluctuating trend. The NPL ratios of HBL are 3.61 percent, 2.36 percent, 2.16 percent, 3.52 percent and 4.22 percent respectively. Also EBL ratios are 0.80 percent, 0.68 percent, 0.48 percent, 0.16 percent & 0.34 percent, respectively And ratio of NIBL are 2.37 percent , 1.12 percent , 0.58 percent , 0.62 percent & 0.94 percent respectively in the review period . The NPL ratio of EBL is lower than the NPL ratios of HBL & NIBL in all the five fiscal year. The lower NPL ratio of EBL shows the better proportion of performing loans and risk of default (credit) then that of HBL & NIBL. But it is found that the NPL ratio of all three banks are below 5 percent ( international standard) But EBL and NIBL have more Re-structure loan so in tabulated value is more golden and favor on side of bank. It shows efficient credit management low credit risk and good performance of all the banks in mobilizing loan & advances. In FY 2005/006 HBL have NPL ratio 6.6 percent so NRB oblique to opened new branch for HBL in current now HBL also improve and they follow up their creditor in nearly. The NPL ratio of EBL is fluctuating less then HBL & NIBL. It depicts the EBL has less risk than other.
  
- ❖ The loan loss provision ratios of HBL are fluctuating over the study period while the loan loss provision ratios of EBL & NIBL decreasing trend. The ratios of HBL are 4.47 percent, 3.38 percent, 2.85 percent, 3.92 percent and 4.25 percent respectively. The ratios of EBL are 2.97 percent, 2.64 percent, 2.39 percent, 2.13 percent & 1.90 percent respectively. Similarly the ratios of NIBL are 2.70 percent, 1.94 percent, 1.59 percent, 1.54 percent and 1.89 percent thought out the study period. Above figure shows that EBL has decreasing trend, it means EBL has set up the provision well in case of nonperforming loan to recover. Whereas NIBL has also decreasing trend & close near about one percent. Similarly HBL has shows fluctuating trend. The mean average ratio of HBL 3.77% and coefficient of variation between them is 8.96 percent while the mean average ratio of EBL 2.53 % and coefficient of variation is 5.30 %, and the mean average ratio of NIBL 1.96 percent with coefficient of variation 8.83 percent. The higher CV. Of HBL reveals that the LLP ratios of HBL are more variable and less consistent than that of other and also the higher average LLP ratio of HBL means the higher risky assets of HBL in the volume of loan and advances then of EBL & NIBL.
  
- ❖ The loan loss coverage ratios of HBL are fluctuating over the study period while the LLC ratios of EBL are in increasing trend except last year of study. The LLC ratios of NIBL are also increasing until 3<sup>rd</sup> period of study and goes down in 2<sup>nd</sup> last and last year. The ratio of HBL are 124%, 142.91%, 131.74 %, 111.54 % & 100.68% respectively and the

ratios of EBL are 369.86%, 390.66 %, 495.72 % , 1372 % & 557%. In other side the ratio of NIBL are 114 %, 172 %, 273 %, 201 % & 200 % respectively throughout the study period. The mean average of HBL is 122.16 percent and CV between them is 11.79 %, the mean average of EBL is 461.65 % and CV between them is 16.12 percent while the mean average ratio of NIBL is 201.4 percent and CV is 27.96 %. The higher CV of NIBL reveals the LLC ratios of NIBL are more variable but highly increased than that of other. the higher average LLC ratio of EBL means higher bad debts covering from loan loss provision of EBL it shows the progress of EBL in terms of covering bad debts than that of HBL. The NIBL also not poor in terms of covering bad debts recover.

- ❖ The credit deposit ratios of HBL & NIBL are increasing trend and ratios of EBL is in fluctuating trend over the study period of five year. The C/D ratios of HBL are 56.57 percent, 61.23 percent, 71.49 percent, 74.39 percent, 80.56 percent while CD ratios of EBL are 77.44 percent, 78.56 percent, 73.43 percent 76.24 percent and 76.98 percent respectively throughout the review period. And the credit deposit ratios of NIBL are 72.56 percent, 79.91 percent, 78.56 percent, 81.73 percent and 83.54 percent. The CD ratio of HBL is more variable and less consistent as compare with EBL & NIBL. In last year for the study period Higher CD ratio of NIBL depicts the less ideal cash with bank better utilization of deposit and better performance in mobilizing loan and advances. Then that of HBL & EBL. but EBL has less fluctuation so it have face less market risk then other bank and earning interest income by their deposit.
- ❖ The management Efficiency Ratio ( Earning per Employee Ratio ) of EBL and NIBL are increasing trend But EBL has higher than NIBL in last three year on study period of five year. Ratio of HBL was increasing trend until FY 2008/009 & down ward in 2<sup>nd</sup> last year. The higher mean average MER of NIBL reveals the better management system of NIBL as compare to HBL & EBL. The increasing trend of earning per employee reflects the efficiency of staffs as well as good management quality.
- ❖ The return on equity ratios of HBL & NIBL are fluctuating trend. While the ratio of EBL are in increasing trend over the study period of five year. The ROE ratios of HBL are 22.91 %, 25.30 %, 24.13 %, 14.79 % & 22.35% The ROE ratios of EBL are 19.56%, 21.35%, 24.35%, 26.25% & 29.91% respectively and the ROE ratios of NIBL are 26.68%, 25.51%, 23%, 27.60 % & 22.8% respectively during the review period .the increasing trend in ROE ratios of EBL good sign for them but the fluctuating trend in ROE ratios of HBL & NIBL are the sign of lower performing than that of EBL. The mean average ROE ratio of HBL , EBL,NIBL are 21.89 % , 25.06 % and 25.1% respectively with CV are 18.9 % , 17.3 % & 7.65%. The higher mean average ROE ratio of NIBL proves that it earned a better return for its equity shareholders than other of two

commercial banks. The higher CV. Of HBL depicts the ROE more variable and less consistent than other and vice versa.

- ❖ The return on assets ratio of both banks HBL & EBL are increasing trend over the study period of five year except of HBL in the fiscal years 2009/010 and NIBL Ratios are decreasing trend first three year and grow up. The ROA ratios of HBL are 1.47 percent, 1.76 percent, 1.91 percent, 1.19 percent & 1.91 percent. Throughout the review period And ROA Ratio of EBL are 1.38 percent, 1.65 percent, 1.76 percent, 2.09 percent & 2.1 percent. And ROA Ratio of NIBL are 1.79 percent, 1.77 percent, 1.68 percent, 2.19 percent & 2.02 percent respectively over the study period. The return on assets ratios of NIBL are higher than that of HBL & EBL in all the fiscal year except in FY 2008/009 and current year throughout the study period which shows that the assets of NIBL are used in better ways to generated profit then that of HBL & EBL. In other side of study, in EBL's ratio are increasing trend. It is shows that EBL managed there assets properly and created profit and the ROA ratio of HBL more variable and less consistent then other selected commercial bank.
- ❖ The Earning per share of EBL are in increasing trend in the review four fiscal year and goes down at current year. EPS of HBL & NIBL are in fluctuating trend. The EPS of HBL are Rs 60.66, Rs62.74, Rs 61.90, Rs 31.80 and Rs 44.65 similarly the EPS of EBL are Rs 78.43, Rs 91.82, Rs 99.99, Rs 100.16 & Rs 83.18 respectively and the EPS of NIBL are Rs 62.57, Rs 57.87, Rs 37.42, Rs 52.55 Rs 48.84 respectively over the study period of five year. The decrease in Earning per share of NIBL in FY 2008/009&2009/010 because of the higher number of share then the net profit after taxes. And the other bank HBL EPS decrease caused was increase in no of share and decrease in net profit after taxes in fiscal year 2009/010.the higher Earning per share of EBL shows the higher Earning power the bank.
- ❖ The NRB balance to total LCY deposit ratios of both HBL & NIBL banks are in fluctuating trend over the study period of five year & ratios of EBL are increasing trend except current year. the CRR ratios of HBL are 5.92 percent , 5.13 percent , 6.76 percent 6.76 percent 5.75 percent and CRR ratios of EBL are 2.94 percent , 4.56 percent , 14.26 percent 15.53 percent, 9.55 respectively and CRR of NIBL are 10.47 percent , 10.91 percent , 10.32 percent, 7.77 percent and 7.67 percent respectively during the review period. All the selected commercial bank has maintained the balance as per standard by Nepal Rastra Bank in all the observed year except in fiscal year 2006/007 & 2007/008 EBL have not maintained CRR according to NRB direction. It also determine deposit structure mean if there have call current deposit volume high there will mansion CRR high then other and vice versa.

- ❖ The cash and bank balance ratios of all banks is in fluctuating trend during the review period. The CB ratios of HBL are 5.85 percent, 4.55 percent, 8.79 percent, 10.28 percent, 7.24 percent respectively EBL are 13.15 percent, 11.13 percent, 18.5 percent, 21.17 percent, 14.88 percent. And NIBL have 9.96 percent, 10.89 percent, 16.95 percent, & 13 percent, 16.23 percent over the review period. The mean average CB ratio of EBL 15.76 percent. The higher CB ratio of EBL shows the lower liquidity risk but higher the idle funds than that of HBL & NIBL.
- ❖ The investment in government securities ratios of NIBL & HBL are in fluctuating trend but ratios of EBL are in decreasing trend over the study period of five years except of current year. The investment in government securities ratios of HBL are 21.48 %, 23.46 %, 12.15 %, 11.87%, 15.65% and the ratio of EBL are 25.87 %, 20.10 %, 15.44 %, 11.79 %, 17.35% respectively. And the ratios of NIBL are 13.29 %, 9.16 %, 5.42 %, 8.39 %, and 8.56% during the study period. The mean average investment in government securities ratio of HBL 16.92 percent, of EBL is 18.11 percent and of NIBL is 8.96 percent. The higher average investment in government securities ratio of EBL shows its better liquidity position than that of other at the view of depositor. At the side of management its direct impact profit and bank performance.
- ❖ At last CAMEL analysis found that NIBL performed better than EBL & HBL. NIBL followed the guideline of NRB and earned more profit. People feel saved and also feel their own bank with NIBL. So it has achieved the award bank of the year at last year given by ICRA Nepal. It has collected more deposit and more profit than other private commercial bank.

## CHAPTER – V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

Having completed the basic analysis required for the study. The final and most important task of the researcher is to enlist findings, issues and challenges of the study and give suggestions for further improvement. This would be meaningful to the top management of the commercial banks to initiate action and achieve the desired result. The objectives of the researcher are not only to point out errors and mistakes but also be correct them and give directions for further growth and improvement.

Banking history in Nepal, in true sense started with the inception of Nepal Bank Ltd. (NBL) on 30<sup>th</sup> Kartik 1994 B.S. Right from inception. It carried out the functions of a commercial bank. But, integrated and speedy development of country is possible only when competitive banking service reaches nooks and corners of the country. On account of this view, at present, Nepalese financial system comprises of 32 commercial banks, 89 development banks, 79 finance companies, 18 micro credit development banks, 16 saving and credit co-operatives, 45 non- governmental organizations performing limited banking activities till dated 2012/1/1. Hence, it is these banking sectors, which have played a vital role in the economic development of the country. Besides, it is due to those reforms that have made a fall-out of the general liberalizations of the economy resulting in to stiff competitive challenges for the private sector banks from public sector banks, foreign bank and financial institutions and thus mobilizing the liquid funds of the public. But the intense competition and lack of sufficient investment opportunities have crested threats to the bank. Therefore, the study has been conducted to evaluate the performance of the selected commercial banks. Among the listed commercial banks in Nepal Rastra Bank (NRB), only HBL, EBL & NIBL have been taken as sample to assess the efficacy of commercial banks in terms of the indicators of the overall banking sectors.

To check the chances of duplication and follow the principles and doctrines of the research, supportive text and the previous directions have been reviewed, in this chapter, summary of the study and conclusion derived from the study are presented for analyzing the financial data of the sample bank, the financial tools – ratio analysis and statistical tools have been applied.

The world is competitive and everyone has to fight to sustain. The line of control has been dissolved and the world has been globalized. So the competition is not only with us that is why the performance and sustainability is important.

This study covers comparative financial analysis of three commercial banks through CAMEL approach. Various tools and techniques have been used to analyze the data. The primary purpose of conducting this study is to evaluate the efficacy of the commercial banks in Nepal. For this, specific objectives are defined in particular goals. The basic objectives are to examine how the commercial banks are managing their efficacy in the framework of CAMEL. Basically, the study has been organized in to five chapters consisting of introduction. Conceptual framework and literature review, research method, data presentation & analysis and finally summary, conclusion & recommendation are made. To achieve the objectives of this study, descriptive cum analytical research designed has been used. Financial tools along with statistical tools have been applied to examine and evaluate the profitability of Himalayan bank limited, Everest bank limited & Nepal investment bank limited in the framework of CAMEL.

Second chapter helped the researcher to provide knowledge about the conceptual and theoretical framework of CAMEL and profitability of the commercial banks in the framework of CAMEL. It tried to know the some concept used in this study, in third chapter, suitable research methodology has been used to covering use financial tools. The available data have been analyzed according the need to portray the overall financial performance of commercial banks. Certain issues and findings have been materialized from analysis of data fallowed by a package of suggestion and recommendation. The scope of the study is limited to the randomly selected three commercial banks, namely HBL, EBL & NIBL. In this regard five year trend from fiscal year 2006/007 to 2010/011 and data have been analyzed via descriptive approach. Similarly, evaluation and analysis of qualities of data have been collected from secondary sources as well related literatures have been reviewed. A general concept has been given as conceptual frameworks. Finally the data have been analyzed with the help of various statistical and financial tools to possible extend. From the analysis and interpretation of the data, the researcher arrives at the following conclusions.

## 5.2 Conclusion

This study is performed in order to analyze the financial position of HBL, EBL & NIBL. For this the standard CAMEL analysis was conducted and then some strong and weak points of three sampled banks are taken and recommendation for it is also given on the basis of finding on CAMEL analysis.

Economic development plays the significant role for the countries overall development in Nepalese perspective the establishment of financial institutions have played progressive role for the economic development of the country. So, far commercial banks have been proved as prime movers of the economic development in Nepalese scenario. But as developing country, Nepal needs to strengthen its economic structure to achieve rapid overall development and Nepalese commercial banks, lack of development due to the problems of fund mobilization and investment similarly; Nepalese finance companies are still stuck to traditional approaches for the fund utilization and management. So they need to revitalize their role, which requires encouraging environment to be innovative and diversify their business to their projected areas. They should resort to find new methods of financing instead of developing only on the time bound fixed deposit that cannot always cope with the long – term lending maturity structure. They have not been able to utilize their funds most efficiently and productively. Similarly, commercial banks continue to have a gradual diversification of their function by shifting a considerable portion of their assets.

On the other ground , there has been increasing competition among the existing commercial banks, co-operative societies and finance companies particularly due to the opening of co-operative which without taking license from the central bank of Nepal and accepting deposit at an exorbitant rate has hampered the existing formal commercial banks deposit mobilization and investment activities.

Hence, commercial banks are one financial institution which stimulates using by mobilizing idle resources in one hand and on the other hand, lend the resources to mobilize to those who have investment opportunities. Thus, they have served as one institution of development to enhance and promote industrial and agricultural activities in the country even though , sufficient returns have not been earned and strong , stable appropriate investment policy has not been followed by the commercial banks. Whatever may be the outcome, the deposit mobilization capability of commercial banks is going favorable and the lending capability has also gone up to considerable extend.

From the studies following points have been concluded:

- HBL has better protection and security to its creditors and depositors and higher financial strength than EBL & NIBL. HBL has higher core capital ratio than EBL and NIBL. But NIBL is doing better in terms of shareholders earning. The core capital ratios of HBL are more stable and consistent than other commercial bank.
- All the commercial banks HBL, EBL & NIBL have maintained minimum CAR as per NRB standard. HBL has higher internal sources and comparatively strong financial position and higher security to depositors than EBL & NIBL because the capital adequacy ratio of HBL is higher than EBL but in average NIBL & HBL are equal throughout the study period. The capital adequacy ratio of EBL is more stable and fluctuating than HBL & NIBL.
- EBL has better proportion of performing loans and risk of default (credit) than that of other because of EBL has lower non-performing loan ratio than HBL & NIBL. But it is found that the NPL ratios of all the banks are below 5 percent (international standard/ NRB direction) on study period. It shows efficient credit management, low credit risk and good performance of all the banks in mobilizing loan and advances. The NPL ratios of EBL are better than other in term of internal management of credit.
- The loan loss provision ratios of EBL & NIBL are decreasing and HBL are in fluctuating trend over the study period. HBL has higher risky assets than EBL & NIBL which shows the higher mean average loan loss provision ratio of HBL. The loan loss provision ratios of NIBL are more variable and less consistent than that of other because NIBL has the higher CV than HBL & EBL.
- EBL is best improving its performance by covering higher bad debts from its loan loss provision which shows by the higher average loan loss coverage ratio of EBL than HBL & NIBL. The trend of loan loss coverage ratios of EBL is more variable and less consistent than other selected commercial bank on study period.
- NIBL has less idle cash, better utilization of deposit and better performance in mobilizing loan and advances than that of other it depicts by higher mean average credit to deposit ratio of NIBL than HBL & EBL. The trend of CD ratio of HBL is more variable and less consistent as compare to NIBL & EBL.
- The management efficiency ratios (Earning per employee ratio) of NIBL & EBL are in increasing trend over the study period but ratios of HBL are in fluctuating trend over the study period. The increasing trend of earning per employee reflects the efficiency of staffs as well as good management quality. In overall NIBL has the better management system as compare to EBL & HBL which depicts by the higher mean average MER of NIBL. And management efficiency ratios of NIBL are more variable and less consistent than other.
- NIBL has earned a better return for its equity shareholders than HBL & EBL which depicts by higher mean average ROE ratio of NIBL. The ROE ratios of HBL are more

variable and less consistent than that of other selected commercial banks. The return on equity ratios of EBL are in increasing trend while the ratios of HBL & NIBL are in fluctuating over the last four fiscal year. NIBL is doing better than HBL & EBL in terms of generating returns for its equity shareholders.

- The return on assets ratios of both banks HBL & NIBL is in fluctuating trend over the study period but in terms of EBL. The ratios are increasing trend over the study period. In overall the assets of NIBL are used in better ways to generate profit than that of HBL and EBL. Which reveals the higher mean average ROA of NIBL than other selected banks? And ROA ratios of HBL are more variable and less consistent then that of EBL & NIBL.
- The earning per shares of both banks HBL & NIBL are in fluctuating trend. HBL in the fiscal year 2009/010 while NIBL in fiscal year 2008/009 it because of the higher proportion of increment in the number of share than the net profit after taxes. But the ratios of EBL are in increasing trend on over first four and goes down. EBL has the higher Earning per share power than others. That reveals the higher EPS of EBL. The EPS of HBL is more variable and less consistent then other selected commercial bank.
- The NPR balance to total deposit ratios of both HBL & NIBL banks are in fluctuating trend over the study period. But the ratios of EBL are in increasing trend. HBL & NIBL has maintained the balance as per standard set by Nepal Rastra Bank in all the observed year except in the fiscal year 2006/007 & 2007/008 but EBL has not maintained NRB standard. Liquidity position of NIBL is comparatively better than HBL & EBL because of NIBL has highest cash reserve ratio. The CRR of HBL is more stable and consistent than that of other which indicates the stable policy of HBL.
- The cash and bank balance ratios of all selected commercial banks are in fluctuating trend during the review period. EBL has the lower liquidity risk but higher idle funds than that of HBL & NIBL which depicts by the higher average CBB ratio of EBL than other, but the CBB ratios of NIBL are more stable and consistent then that of HBL & EBL which indicates the stable policy of NIBL. In overall NIBL have huge amount of deposit part from call current account so it maintained CBB higher then other.
- The investment in government securities ratios of HBL & NIBL are in fluctuating trend over the review period. Similarly the ratios of EBL is in decreasing trend until 2<sup>nd</sup> last year but EBL has better liquidity position than that of HBL & NIBL which depicts by the higher average investment in government securities ratio of EBL than other. The investment in government securities ratios of NIBL is less stable and consistent than that of HBL & EBL because it has higher CV of investment in government securities.

### 5.3 Recommendations

Commercial banks are key suggested for improvement in the present status by applying following recommendations.

1. The all bank should be maintained adequate capital on the basis of total risk weighted assets as per standard set by Nepal Rastra Bank. In this regard, NIBL should be more serious than other selected commercial bank.
2. It is recommended that HBL should be held more quality assets and provision for possible losses due to excessive non-performing assets in order to prevent from threat of insolvency.
3. The management efficiency of the HBL is not better as compare to NIBL & EBL. so to increase the management efficiency of HBL , it recommended to highly motivated their staff by using salary scale & transfer out sources to permanent staff who have serve above one year in office and increment in net profit after tax as well as management system. Earning performance of commercial banks reflects aggregate performance of the bank and attracts the investor. That is why the bank should be generated sufficient return for the equity. In this regard, HBL should be increased in the net profit after tax in the proportion of increase in number of shares. Ones again HBL should try to earn non funded income.
4. Every commercial bank should be maintained minimum cash balance in NRB as per standard set by NRB. In this regard, HBL is more serious than NIBL & EBL to maintain minimum balance. So it is recommended to keep adequate liquidity by maintaining minimum CRR investing in government securities and keeping cash in other financial institutions in order to prevent from threat of insolvency of the bank. But EBL have more fluctuation trend of CRR it is risky in scenario of Nepales contain so it should to maintain CRR at content level.
5. Keeping all there in consideration the HBL has little less performance than that of EBL & EBL has less performance than that of NIBL. Therefore in the future a head the HBL should improve its weakness by adopting the innovative approach to marketing in the light of growing competition in the banking sector all banks NIBL, HBL & EBL should be customer oriented . It should strengthen and activate it's marketing function as it is an effective tool to attract and retain the customers for the purpose the bank should develop an innovative approach .to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The banks are also required to exposé new market areas for this purpose it is recommended to form a strong market department in its central level, which deals with the banking products, place, price & promotion.

6. To get success in competitive banking environment deposit must be utilized as loan and advance. The largest item of banks assets side it loan and advance. It has been found that loan and advances to total deposit ratio of HBL is lower than that of NIBL. It means HBL has not properly used their existing fund as loan and advances so HBL is recommended to follow liberal lending policy and to invest more deposit in loan & advances with follow robust credit policy.
7. Investment pattern of the commercial banks only shows their interest in hire purchase, term loan, auto loan etc. So the credit should be diverted to the productive, industrial as well as agricultural sector to expect long – term existence of commercial banks to support the national economy.
8. Most of the commercial banks have concentrated in Kathmandu for resources mobilization. Such concentration in a few pocket areas of Kathmandu requires a new shift of focus and strategy to expand regionally to rural areas where public savings scattered can be collected and utilize to formal productive sectors.
9. Training and seminar are very important to have frequent sharing of experience by conducting a seminar at least once or twice a year. Which helps to increase in operating efficiency of the banks. NRB should also encourage training to new entrants by providing orientation on the conceptual dimensions and practical aspects of operating commercial banks through the development of capital market training institute.
10. Commercial banks are playing with public money that consists of both depositors and investors. As such NRB has to keep a strict watch over their activities to protect the interest of public. The quality of loan portfolio the adequacy of capital the soundness of management, earning performance and liquidity position should always and strictly supervise in the commercial banks. For these regular follow up as well as regular information must be made mandatory to NRB to have correct evaluation and monitoring of their performance and minimize any irregularities directed in the course of investigation a case of as like as Gorkha Development Bank limited in Nepal.
11. The modern banking technologies followed by commercial banks in Nepal are mostly beneficial to the high level depositors. The banks should introduce advance and modern banking technologies to capture more market of financial services industry. Not only this, the commercial banks should adopt efficient and latest market strategy to make its transaction more capable as well as fulfill growing demand of new financial services and facilities.
12. An emphasis should be given on planning research and development for the proper planning and controlling purpose. Proper and regular internal system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

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## Annex 1

### Capital Adequacy (C)

#### Core Capital Ratio (CCR)

Himalayan Bank Limited:

Total core capital fund to Total Risk Weighted Assets Ratio for the year 2006/007 to 2010/11 **(000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total core capital fund	2356289	2469785	3074436	3414638	3916970
Total risk weighted Assets	24519135	28152903	34905889	39357055	44124521
<b>CAR</b>	<b>9.61</b>	<b>9.36</b>	<b>8.81</b>	<b>8.68</b>	<b>8.88</b>

Everest bank limited:

Total core capital fund to Total RWA Ratio for the FY 2006/007 to 2010/11 **(000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total core capital fund	1171133	1900859	1981579	2537092	2927168
Total risk weighted Assets	14976737	21039879	25619753	30240428	34583547
<b>CAR</b>	<b>7.82</b>	<b>9.04</b>	<b>8.52</b>	<b>8.39</b>	<b>8.46</b>

NIBL bank limited:

Total core capital fund to Total Risk Weighted Assets Ratio for the fiscal year 2006/007 to 2010/11 **(000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total core capital fund	2472051	2658915	3879969	4554094	5083617
Total risk weighted Assets	31291786	38236768	45312265	53553865	57993926

<b>CAR</b>	<b>7.90</b>	<b>6.95</b>	<b>8.56</b>	<b>8.50</b>	<b>8.77</b>
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**Calculation of Average, standard deviation and coefficient of variation**

**Himalayan bank ltd.**

<b>Fiscal year</b>	<b>Value(x)</b>	<b>(x - <math>\bar{x}</math>)</b>	<b>(x - <math>\bar{x}</math>)<sup>2</sup></b>
2006/007	9.61	0.49	0.24
2007/008	9.36	0.24	0.0576
2008/009	8.81	-0.31	0.0961
2009/010	8.68	-0.44	0.1936
2010/011	8.88	-0.184	0.03385
	<b><math>\Sigma x=45.32</math></b>		<b><math>\Sigma(x - \bar{x})^2=0.6212</math></b>

$$\begin{aligned} \text{Average } (\bar{x}) &= \frac{\Sigma x}{N} \\ &= 45.32/5 \\ &= 9.06\% \end{aligned}$$

$$\begin{aligned} \text{Standard deviation } (\sigma) &= \sqrt{\frac{\Sigma(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{0.6212}{5}} \\ &= 0.1242 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of variation C.V.} &= \frac{\sigma}{\bar{x}} \times 100 \\ &= \frac{0.1242}{9.06} \times 100 \\ &= 1.37\% \end{aligned}$$

### **Capital Adequacy Ratio ( CAR)**

Himalayan bank limited:

Total capital fund to Total Risk Weighted Assets Ratio for the fiscal year 2006/007 to 2010/11 **(000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total capital fund	2728979	3253515	3845211	4218361	4711243
Total risk weighted Assets	24519135	28152903	34905889	39357055	44124521
<b>CAR</b>	<b>11.13</b>	<b>11.46</b>	<b>11.02</b>	<b>10.72</b>	<b>10.68</b>

Everest bank limited:

Total capital fund to Total Risk Weighted Assets Ratio for the fiscal year 2006/007 to 2010/11 **(000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total capital fund	1676116	2406056	2703870	3257141	3605840
Total risk weighted Assets	14976737	21039879	25619753	30240428	34583547
<b>CAR</b>	<b>11.20</b>	<b>11.44</b>	<b>11.34</b>	<b>10.77</b>	<b>10.43</b>

NIBL bank limited:

Total capital fund to Total Risk Weighted Assets Ratio for the fiscal year 2006/007 to 2010/11 **(000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total capital fund	3808210	3891235	5045353	5651044	6324627
Total risk weighted Assets	31291786	38236768	45312265	53553865	57993926
<b>CAR</b>	<b>12.17</b>	<b>11.28</b>	<b>11.24</b>	<b>10.55</b>	<b>10.91</b>

### Calculation of Average, standard deviation and coefficient of variation

#### Himalayan bank ltd.

Fiscal year	Value(x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2006/007	11.13	0.19	0.0361
2007/008	12.42	1.1	1.21
2008/009	11.04	-0.3	0.09
2009/010	10.72	-0.6	0.36
2010/011	10.68	-0.512	0.26
	$\Sigma x=55.96$		$\Sigma(x - \bar{x})^2=1.958$

$$\begin{aligned}\text{Average } \bar{x} &= \frac{\Sigma x}{N} \\ &= 55.96/5 \\ &= 11.19\end{aligned}$$

$$\begin{aligned}\text{Standard deviation } (\sigma) &= \sqrt{\frac{\Sigma(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{1.9581}{5}} \\ &= 0.39\end{aligned}$$

$$\begin{aligned}\text{Coefficient of variation C.V.} &= \frac{\sigma}{\bar{x}} \times 100 \\ &= \frac{0.39}{11.19} \times 100 \\ &= 3.49 \%\end{aligned}$$

## Annex 2 Assets Quality

### Non Performing loan Ratio (NPLR)

Himalayan bank limited:

Total Non-Performing Loan to Total Loan & Advance Ratio for the fiscal year 2006/007  
to 2010/11 **(00000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total non performing loan	6423	4762	5512	10251	13917
Total loan & advance	177937	201796	255195	291237	329682
<b>NPLR</b>	<b>3.61</b>	<b>2.36</b>	<b>2.16</b>	<b>3.5</b>	<b>4.22</b>

Everest bank limited:

Total Non-Performing Loan to Total Loan & Advance Ratio for the fiscal year 2006/007  
to 2010/11 **(00000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total non performing loan	1126	1280	1174	450	1084
Total loan & advance	140827	188364	244696	281564	316618
<b>NPLR</b>	<b>0.80</b>	<b>8.68</b>	<b>0.48</b>	<b>0.16</b>	<b>0.34</b>

Nepal investment bank limited:

Total Non-Performing Loan to Total Loan & Advance Ratio for the fiscal year 2006/007  
to 2010/11

**(00000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total non performing loan	4211	3083	2135	2538	3952
Total loan & advance	177691	275293	368271	409484	418876
<b>NPLR</b>	<b>2.37</b>	<b>1.12</b>	<b>0.58</b>	<b>0.62</b>	<b>0.94</b>

### Calculation of Average, standard deviation and coefficient of variation

#### Himalayan bank ltd.

Fiscal year	Value(x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2006/007	3.61	0.69	0.4761
2007/008	2.36	-0.56	0.3136
2008/009	2.16	-0.76	0.5776
2009/010	3.52	0.6	0.36
2010/011	4.22	-1.04	1.08
	$\Sigma x=15.9$		$\Sigma(x - \bar{x})^2=3.05$

$$\text{Average } \bar{x} = \frac{\Sigma x}{N}$$

$$= 15.9/5$$

$$= 3.18 \%$$

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\Sigma(x-\bar{x})^2}{n}}$$

$$= \sqrt{\frac{3.05}{5}}$$

$$= 0.61$$

$$\text{Coefficient of variation C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

$$= \frac{0.61}{3.18} \times 100$$

$$= 19.24 \%$$

### **Loan Loss Provision Ratio (LLPR)**

Himalayan bank limited:

Total loan loss provision to Total Loan & Advance Ratio for the fiscal year 2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total loan loss provision	7957	6820	7263	11431	14012
Total loan & advance	177937	201796	255195	291237	329682
<b>LLPR</b>	<b>4.47</b>	<b>3.38</b>	<b>2.85</b>	<b>3.9</b>	<b>4.25</b>

Everest bank limited:

Total loan loss provision to Total Loan & Advance Ratio for the fiscal year 2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total loan loss provision	4186	4973	5848	6000	6041
Total loan & advance	140827	188364	244696	281564	316618
<b>LLPR</b>	<b>2.97</b>	<b>2.64</b>	<b>2.39</b>	<b>2.13</b>	<b>1.90</b>

Nepal investment bank limited:

Total loan loss provision to Total Loan & Advance Ratio for the fiscal year 2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total loan loss provision	4826	5326	5859	6301	7921
Total loan & advance	177691	275293	368271	409484	418876
<b>LLPR</b>	<b>2.70</b>	<b>1.94</b>	<b>1.59</b>	<b>1.54</b>	<b>1.89</b>

### Calculation of Average, standard deviation and coefficient of variation

#### Himalayan bank ltd.

Fiscal year	Value(x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2006/007	4.47	0.82	0.6724
2007/008	3.38	0.27	0.0729
2008/009	2.85	-0.8	0.64
2009/010	3.92	0.27	0.0729
2010/011	4.25	-0.48	0.23
	$\Sigma x=18.85$		$\Sigma(x - \bar{x})^2=1.688$

$$\text{Average } \bar{x} = \frac{\Sigma x}{N}$$

$$= 18.85/5$$

$$= 3.77 \%$$

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\Sigma(x-\bar{x})^2}{n}}$$

$$= \sqrt{\frac{1.688}{5}}$$

$$= 0.34$$

$$\text{Coefficient of variation C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

$$= \frac{0.34}{3.77} \times 100$$

$$= 8.95 \%$$

### Loan Loss Coverage Ratio (LLCR)

Himalayan bank limited:

Total loan loss provision to total nonperforming loan Ratio for the fiscal year 2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total loan loss provision	7957	6820	7263	11431	14012
Total non performing loan	6416	4772	5513	10248	13917
<b>LLCR</b>	<b>124</b>	<b>142.91</b>	<b>131.74</b>	<b>111.54</b>	<b>100.68</b>

Everest bank limited:

Total loan loss provision to non performing loan Ratio for the fiscal year 2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total loan loss provision	4186	4973	5848	6000	6041
Total non performing loan	1131	1273	1179	437	1084
<b>LLCR</b>	<b>370</b>	<b>390.65</b>	<b>496</b>	<b>1373</b>	<b>557</b>

Nepal investment bank limited:

Total loan loss provision to Total non performing loan Ratio for the fiscal year 2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total loan loss provision	4826	5326	5859	6301	7921
Total non performing loan	4219	3094	2139	2540	3952
<b>LLCR</b>	<b>114</b>	<b>172</b>	<b>273</b>	<b>248</b>	<b>200</b>

### Calculation of Average, standard deviation and coefficient of variation

#### Himalayan bank ltd.

Fiscal year	Value(x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2006/007	124	-1.84	3.38
2007/008	142.9	20.74	430.14
2008/009	131.74	9.58	17.64
2009/010	111.54	-10.62	112.78
2010/011	100.68	-21.4	461.73
	<b><math>\sum x=610.84</math></b>		<b><math>\sum(x - \bar{x})^2=1025.67</math></b>

$$\text{Average } \bar{x} = \frac{\sum x}{N}$$

$$= 610.84/5$$

$$= 122.16 \%$$

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}}$$

$$= \sqrt{\frac{1025.67}{5}}$$

$$= 14.32$$

$$\text{Coefficient of variation C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

$$= \frac{14}{122.16} \times 100$$

$$= 11.72 \%$$

### **Credit Deposit Ratio (CDR)**

Himalayan bank limited:

Total loan to total deposit Ratio For the fiscal year 2006/007 to 2010/11

**(00000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total loan	177937	201796	255195	291238	329683
Total Deposit	300484	318428	346814	376112	409206
<b>CDR</b>	<b>59.22</b>	<b>63.37</b>	<b>73.58</b>	<b>77.43</b>	<b>80.56</b>

Everest bank limited

Total loan to total deposit Ratio For the year 2006/007 to 2010/11

**(00000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total loan	140827	188364	244696	281564	316618
Total Deposit	181862	239763	333229	369323	411279
<b>CDR</b>	<b>77.44</b>	<b>78.56</b>	<b>73.43</b>	<b>76.24</b>	<b>76.98</b>

Nepal Investment bank limited

Total loan to total deposit Ratio For the year 2006/007 to 2010/11

**(00000)**

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total loan	177691	255293	368271	409484	418877
Total Deposit	244888	344517	466981	500947	501381
<b>CDR</b>	<b>72.56</b>	<b>79.91</b>	<b>78.86</b>	<b>81.73</b>	<b>83.54</b>

### Calculation of Average, standard deviation and coefficient of variation

Himalayan bank ltd.

Fiscal year	Value(x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2006/007	59.22	-11.61	134.79
2007/008	63.37	-7.46	55.65
2008/009	73.58	2.75	7.56
2009/010	77.43	6.6	43.56
2010/011	80.57	9.74	94.86
	$\sum x=354.17$		$\sum(x - \bar{x})^2=336.42$

$$\begin{aligned}\text{Average } \bar{x} &= \frac{\sum x}{N} \\ &= 354.17/5 \\ &= 70.83\%\end{aligned}$$

$$\begin{aligned}\text{Standard deviation } (\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{336.42}{5}} \\ &= 8.20\end{aligned}$$

$$\text{Coefficient of variation C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

$$\begin{aligned}&= \frac{8.2}{70.83} \times 100 \\ &= 11.58\%\end{aligned}$$

### Annex 3

#### Management (M)

##### Management efficiency ratio (MER)

Himalayan Bank Limited:

Total Net profit After Tax to Total No. of Staff Ratio for the Fiscal year 2006/007 to 2010/11

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	491823608	635868720	752834712	508797446	893115143
Total No of staff	584	591	591	577	647
<b>MER</b>	<b>842162</b>	<b>1075920</b>	<b>1273832</b>	<b>881798</b>	<b>1380394</b>

Everest bank limited:

Total Net profit After Tax to Total No. of Staff Ratio for the Fiscal year 2006/007 to 2010/11

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	296409246	451218509	638732352	831742848	931303628
Total No of staff	393	449	534	568	586
<b>MER</b>	<b>754222</b>	<b>1004941</b>	<b>1196128</b>	<b>1464376</b>	<b>1589255</b>

Nepal investment bank limited:

Total Net profit After Tax to Total No. of Staff Ratio for the Fiscal year 2006/007 to 2010/11

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	501398776	696731434	900618372	1265949500	1176641031
Total No of staff	514	622	766	877	877
<b>MER</b>	<b>975484</b>	<b>1120147</b>	<b>1175742</b>	<b>1443500</b>	<b>1341666</b>

## Annex 4

### Earning (E)

#### Return on Equity (ROE)

Himalayan Bank Limited:

Total net profit after tax to Total Shareholder fund Ratio for the fiscal year 2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	4918	6358	7528	5087	8931
Total shareholder fund	21465	25129	31198	34392	39954
<b>ROE</b>	<b>22.91</b>	<b>25.30</b>	<b>24.13</b>	<b>14.79</b>	<b>22.35</b>

Everest bank limited:

Total net profit after tax to Total Shareholder fund Ratio for the fiscal year 2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	2964	4512	6386	8318	9313
Total shareholder fund	15147	21127	26216	27591	31135
<b>ROE</b>	<b>19.56</b>	<b>21.35</b>	<b>24.35</b>	<b>30.14</b>	<b>29.91</b>

Nepal investment bank Limited:

Total net profit after tax to Total Shareholder fund Ratio for the fiscal year 2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	5013	6967	9006	12659	11766
Total shareholder fund	18781	26867	39078	45853	51596
<b>ROE</b>	<b>26.68</b>	<b>25.51</b>	<b>23.05</b>	<b>27.60</b>	<b>22.8</b>

## Calculation of Average, standard deviation and coefficient of variation

Himalayan bank ltd.

Fiscal year	Value(x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2006/007	22.91	1.02	1.04
2007/008	25.30	3.41	11.63
2008/009	24.13	2.24	5.02
2009/010	14.79	-7.1	50.41
2010/011	22.35	0.56	0.31
	<b><math>\sum x=109.47</math></b>		<b><math>\sum(x - \bar{x})^2=68.4</math></b>

$$\text{Average } \bar{x} = \frac{\sum x}{N}$$

$$= 109.47/5$$

$$= 21.89 \%$$

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}}$$

$$= \sqrt{\frac{68.41}{5}}$$

$$= 3.69$$

$$\text{Coefficient of variation C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

$$= \frac{3.69}{21.89} \times 100$$

$$= 18.9 \%$$

### Return on Assets (ROA)

Himalayan bank Limited:

Total net profit after tax to Total Assets Ratio for the fiscal year 2006/007 to 2010/11  
(000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	491837	635877	752837	508798	893115
Total Assets	34314868	36857624	40046686	43860251	48137497
<b>ROA</b>	<b>1.47</b>	<b>1.76</b>	<b>1.91</b>	<b>1.19</b>	<b>1.91</b>

Everest bank Limited:

Total net profit after tax to Total Assets Ratio For the fiscal year 2006/007 to 2010/11  
(000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	296443	451263	638608	831875	931303
Total Assets	21481376	27349272	36913757	39802631	46236212
<b>ROA</b>	<b>1.38</b>	<b>1.65</b>	<b>1.73</b>	<b>2.09</b>	<b>2.10</b>

Nepal investment bank Ltd.

Total net profit after tax to Total Assets Ratio for the fiscal year 2006/007 to 2010/11  
(000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	501399	696732	900619	1265950	1176641
Total Assets	28073517	39405959	53596379	57935545	58356827
<b>ROA</b>	<b>1.79</b>	<b>1.77</b>	<b>1.68</b>	<b>2.19</b>	<b>2.02</b>

## Calculation of Average, standard deviation and coefficient of variation

Himalayan bank ltd.

Fiscal year	Value(x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2006/007	1.47	-0.18	0.0324
2007/008	1.76	0.11	0.0121
2008/009	1.91	0.26	0.0676
2009/010	1.19	-0.46	0.2116
2010/011	1.91	0.26	0.0676
	$\sum x=8.23$		$\sum(x - \bar{x})^2=0.3913$

$$\begin{aligned}\text{Average } \bar{x} &= \frac{\sum x}{N} \\ &= 8.23/5 \\ &= 1.65\end{aligned}$$

$$\begin{aligned}\text{Standard deviation } (\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{0.3913}{5}} \\ &= 0.27\end{aligned}$$

$$\begin{aligned}\text{Coefficient of variation C.V.} &= \frac{\sigma}{\bar{x}} \times 100 \\ &= \frac{0.27}{1.65} \times 100 \\ &= 16.95\%\end{aligned}$$

**Earning per Share (EPS)**

Himalayan bank Limited:

Total Net profit After Tax to Total No. of ordinary share Ratio for the Fiscal year  
2006/007 to 2010/11

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	491823608	635868720	752834712	508797446	893115143
Total No of share	8108100	10135125	12162150	16000000	20000000
<b>EPSr</b>	<b>60.66</b>	<b>62.74</b>	<b>61.90</b>	<b>31.80</b>	<b>44.65</b>

e

Everest bank Limited:

Total Net profit After Tax to Total No. of ordinary share Ratio for the Fiscal year  
2006/007 to 2010/11

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	296409246	451218509	638732352	831742848	931303628
Total No of share	3780000	4914000	6388210	8304673	11196095
<b>EPS</b>	<b>78.42</b>	<b>91.82</b>	<b>99.99</b>	<b>100.16</b>	<b>83.18</b>

Nepal investment bank Limited:

Total Net profit After Tax to Total No. of ordinary share Ratio for the Fiscal year  
2006/007 to 2010/11

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
NPAT	501398776	696731434	900618372	1265949500	1176641031
Total No of share	8013526	12039154	24070689	24090977	24090977
<b>EPS</b>	<b>62.57</b>	<b>57.87</b>	<b>37.42</b>	<b>52.55</b>	<b>48.84</b>

## Calculation of Average, standard deviation and coefficient of variation EPS

Himalayan bank ltd.

Fiscal year	Value(x)	(x - $\bar{x}$ )	(x - $\bar{x}$ ) <sup>2</sup>
2006/007	60.66	8.31	69
2007/008	62.74	10.39	107.95
2008/009	61.90	9.55	91.20
2009/010	31.80	-20.55	422.30
2010/011	44.65	-7.69	59.22
	<b><math>\sum x=261.73</math></b>		<b><math>\sum(x - \bar{x})^2=749.67</math></b>

$$\text{Average } \bar{x} = \frac{\sum x}{N}$$

$$= 261.73/5$$

$$= 52.35 \%$$

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}}$$

$$= \sqrt{\frac{749.67}{5}}$$

$$= 12.24$$

$$\text{Coefficient of variation C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

$$= \frac{12.24}{52.35} \times 100$$

$$= 23.38\%$$

**Calculation of Average, standard deviation and coefficient of variation of CRR  
Himalayan bank ltd.**

<b>Fiscal year</b>	<b>Value(x)</b>	<b>(x - <math>\bar{x}</math>)</b>	<b>(x - <math>\bar{x}</math>)<sup>2</sup></b>
2006/007	5.92	-0.22	0.0484
2007/008	5.13	-0.93	0.8649
2008/009	6.76	0.61	0.3721
2009/010	6.76	0.61	0.3721
2010/011	5.75	-0.31	0.09734
	<b><math>\sum x=30.31</math></b>		<b><math>\sum(x - \bar{x})^2=1.755</math></b>

$$\begin{aligned} \text{Average } \bar{x} &= \frac{\sum x}{N} \\ &= 30.31/5 \\ &= 6.06\% \end{aligned}$$

$$\begin{aligned} \text{Standard deviation } (\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{1.755}{5}} \\ &= 0.59 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of variation C.V.} &= \frac{\sigma}{\bar{x}} \times 100 \\ &= \frac{0.59}{6.14} \times 100 \\ &= 9.73\% \end{aligned}$$

**Annex 5**  
**Liquidity (L)**

**Cash & Bank Balance Ratio (CBBR)**

Himalayan Bank Limited:

Total Cash & Bank Balance to Total Deposit Ratio for the fiscal year 2006/007 to 2010/11 (00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total cash & bank balance	17573	14481	30485	38664	29646
Total deposit	300484	318227	346813	376112	409206
<b>CBBR</b>	<b>5.58</b>	<b>4.55</b>	<b>8.79</b>	<b>10.28</b>	<b>7.24</b>

Everest bank limited:

Total Cash & Bank Balance to Total Deposit Ratio for the fiscal year 2006/007 to 2010/11 (00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total cash & bank balance	23914	26679	61643	78188	61227
Total deposit	181862	239763	333229	369323	411279
<b>CBBR</b>	<b>13.15</b>	<b>11.13</b>	<b>18.5</b>	<b>21.17</b>	<b>14.88</b>

Nepal investment bank Limited:

Total Cash & Bank Balance to Total Deposit Ratio for the fiscal year 2006/007  
To 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total cash & bank balance	24415	37549	79180	65158	81403
Total deposit	244888	344517	466981	500947	501381
<b>CBBR</b>	<b>9.96</b>	<b>10.89</b>	<b>16.95</b>	<b>13</b>	<b>16.23</b>

## Calculation of Average, standard deviation and coefficient of variation

Himalayan bank ltd.

Fiscal year	Value(x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2006/007	5.85	-1.45	2.10
2007/008	4.55	-2.75	7.56
2008/009	8.79	1.49	2.22
2009/010	10.28	2.98	8.88
2010/011	7.24	-0.096	0.0092
	$\sum x=36.68$		$\sum(x - \bar{x})^2=20.76$

$$\begin{aligned}\text{Average } \bar{x} &= \frac{\sum x}{N} \\ &= 36.68/5 \\ &= 7.3\%\end{aligned}$$

$$\begin{aligned}\text{Standard deviation } (\sigma) &= \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \\ &= \sqrt{\frac{20.76}{5}} \\ &= 2.037\end{aligned}$$

$$\text{Coefficient of variation C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

$$\begin{aligned}&= \frac{2.037}{7.3} \times 100 \\ &= 27.91\%\end{aligned}$$

**Investment in government securities ratio (IIGSR)**

Himalayan bank limited:

Total investment in government securities to Total Deposit Ratio For the fiscal year  
2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/010</b>	<b>2010/011</b>
Total invest in GS	64548	74716	42123	44653	64072
Total deposit	300484	318227	346813	376112	409206
<b>IIGSR</b>	<b>21.48</b>	<b>23.46</b>	<b>12.15</b>	<b>11.87</b>	<b>15.65</b>

Everest bank limited:

Total investment in government securities to Total Deposit Ratio For the fiscal year  
2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total invest in GS	47046	48216	51460	43543	71449
Total deposit	181862	239763	333229	369323	411279
<b>IIGSR</b>	<b>25.87</b>	<b>20.10</b>	<b>15.44</b>	<b>11.79</b>	<b>17.37</b>

Nepal investment bank limited:

Total investment in government securities to Total Deposit Ratio For the fiscal year  
2006/007 to 2010/11

(00000)

<b>Fiscal year</b>	<b>2006/007</b>	<b>2007/008</b>	<b>2008/009</b>	<b>2009/10</b>	<b>2010/11</b>
Total invest in GS	32564	31550	25313	42018	42946
Total deposit	244888	344517	466981	500947	501381
<b>IIGSR</b>	<b>13.29</b>	<b>9.16</b>	<b>5.42</b>	<b>8.39</b>	<b>8.56</b>

## Calculation of Average, standard deviation and coefficient of variation

Himalayan bank ltd.

Fiscal year	Value(x)	$(x - \bar{x})$	$(x - \bar{x})^2$
2006/007	21.48	4.56	20.79
2007/008	23.46	6.54	42.77
2008/009	12.15	-4.77	22.75
2009/010	11.87	-5.05	25.50
2010/011	15.65	-1.27	1.62
	$\Sigma x=84.61$		$\Sigma(x - \bar{x})^2=113.43$

$$\text{Average } \bar{x} = \frac{\Sigma x}{N}$$

$$= 84.61/5$$

$$= 16.92\%$$

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\Sigma(x-\bar{x})^2}{n}}$$

$$= \sqrt{\frac{113.43}{5}}$$

$$= 4.76$$

$$\text{Coefficient of variation C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

$$= \frac{4.76}{16.92} \times 100$$

$$= 28.14\%$$

**Annex 6**

**Table 1.1 Lists of Commercial Banks in Nepal**

<b>SN</b>	<b>Name</b>	<b>Operation Date</b>	<b>Head office</b>
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	Nabil Bank Limited	1984/07/16	Kathmandu
5	Nepal Investment Bank Ltd	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Limited	1987/01/30	Kathmandu
7	Himalayan Bank Limited	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	Nepal Credit And Commercial Bank Ltd	1996/10/14	Siddharthanagar
13	Lumbini Bank Ltd	1998/07/17	Narayangadh
14	Nepal Industrial and Commercial 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 Limited	2002/04/03	Birjung parsa
18	Siddhartha Bank Limited	2002/12/24	Kathmandu
19	Global IME Bank Limited	2007/01/02	Kathmandu
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu
21	Prime Bank Limited	2007/09/24	Kathmandu
22	Sunrise Bank Ltd	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd	2007/10/12	Kathmandu
24	Grand Bank Ltd	2008/05/24	Kathmandu
25	NMB Bank Limited	2008/06/01	Kathmandu
26	Kist Bank Limited	2009/05/03	Kathmandu
27	Janata Bank Limited	2010/04/28	Kathmandu
28	Mega Bank Limited	2010/07/23	Kathmandu
29	Commerz & Trust Bank Ltd	2010/09/09	Kathmandu
30	Civil Bank Ltd	2010/02/20	Kathmandu
31	Century Commercial Bank Ltd	2011/02/19	Kathmandu
32	Sanima Bank Ltd	2012/03/05	Kathmandu

Source: NRB Report; 2011