

**A CASE STUDY OF POSITIONING COMMERCIAL BANKS ON
THE BASIS OF CAMEL RATING**

A THESIS

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VIVA- VOCE SHEET

We have conducted the Viva- Voce examination of thesis prepared by

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DECLARATION

I hereby declare that the thesis **A CASE STUDY OF POSITIONING COMMERCIAL BANKS ON THE BASIS OF CAMEL RATING**” submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work done for the partial fulfillment of requirements for the Master of Business Studies (M.B.S.) under the supervision of Prof. Dr. Bihari Binod Pokharel and Mr. Madan Kandel of Nepal Commerce Campus.

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APPENDIX- I

Total Capital

1. Capital Adequacy Ratio = $\frac{\text{Total Capital}}{\text{Risk Weighted Assets}}$

2. Total Capital = Core Capital +Supplementary Capital

Loan Loss Provision
3. Loan Loss Provision to Total Credit = -----
Total Credit

Non Performing Assets
4. Non Performing Assets to Total Credit = -----
Total Credit

Contingent Liabilities
5. Contingent Liabilities =
Total Assets

Average Interest Income
6. Average Yield (Credit and Investment) = -----
Average Loan and Investment

Total Investment
7. Investment to Total Assets = -----
Total Assets

Loan & Advances
8. Loan & Advances to Total Assets = -----
Total Assets

Total Market Deposit
9. Market Coverage on Deposit = -----
Total Deposit

Total Market Credit
10. Market Coverage on Credit = -----
Total Credit

Total Market investment
11. Market Coverage on Investment = -----
Total Investment

This Year Deposit – Last Year Deposit
12. Deposit Growth =
Last Year Deposit

This Year Assets – Last Year Assets

13. Assets Growth = $\frac{\text{Total Cost} - \text{Last Year Assets}}{\text{Last Year Assets}}$

14. Cost to Income = $\frac{\text{Total Cost}}{\text{Total Income}}$

15. Cost of Deposit = $\frac{\text{Total Interest Expenses}}{\text{Total Deposit} + \text{Borrowing}}$

16. Earning Per Share = $\frac{\text{Net Profit}}{\text{Total Number of Share}}$

17. P/E Ratio = $\frac{\text{Market Price per Share}}{\text{Earning Per Share}}$

18. Return on Net Worth = $\frac{\text{Net Profit after Tax}}{\text{Net Worth}}$

19. Interest Spread to Average Working Fund = $\frac{\text{Interest Spread}}{\text{Average Working Fund}}$

20. Operating Profit to Average Working Fund = $\frac{\text{Operating Profit}}{\text{Average Working Fund}}$

21. Net Profit to Total Assets = $\frac{\text{Net Profit}}{\text{Total Assets}}$

22. Other Income to Net interest income = $\frac{\text{Other Income}}{\text{Net Interest Income}}$

23. Interest Income to Total Income = $\frac{\text{Interest Income}}{\text{Total income}}$

Fee Based income

24. Fee Based Income to Total Income = -----
Total Income

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Total Assets

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CHAPTER - 1

INTRODUCTION

Background of the Study

Nepal is a land-locked country - locked by India from East, South & West and by China from North. Though the total area of the country is 141 thousand square kilometer, climatic diversity is an important feature. Geographically, there are three ecological belts Himalayan Region, Hilly Region and Plain Terai Region. Because of dominating position of Hinduism, caste system is an inherent character of the country and similarly Nepal is a multilingual country.

The growth rate of Nepal was very low and lowest in comparison to South Asian Neighbors in previous years. It is because of the dominant traditional subsistence agriculture. Even now Agriculture covers 39.2% of the total GDP of the nation alone. Agriculture, though crucial in Nepalese economy, has not been commercialized and is going on with the century-back technology. It is not like an occupation but like a way of

life in Nepalese situation. Still, due to the lack of irrigation facilities and also due to difficult topographical realities, agriculture is dependent on monsoon and hence the growth rate of Nepal basically rests on the monsoon conditions every year. However, recently some improvements are observed and expansion of non -agricultural sectors of work has become fast. Previously in the FY 1998/99, growth rate was 3.9% in comparison to that of china 7.1%, of India 6.8%, of Bangladesh 4.3% and of Pakistan 3.1%, the close neighborhood countries. During the year, growth rate in agriculture was 2.9% and that of non -agricultural sector was 4.9%. The present estimates for the FY 1999/2000 have been 6% - in agriculture estimated to be 5% and in non-agricultural sector 6.7%.

The Nepalese society today is economically highly fragmented, unequal and distorted. This is happening amidst a resource base which is considered strong and viable by any indicators of natural, cultural and human wealth. The capital base remained highly volatile due to rulers' keeping their assets abroad. This led to serious economic effects resulting in low degree of industrialization and agricultural transformation, massive unemployment, deepening poverty, social discrimination and deprivation, inequality and external dependence.

Even after almost 50 years of planned development, the country is unable to overcome structural deficiency, rigidity and development disparity. Instead, major areas and population of the country are kept outside the market net. The eventual consequence for the economy has been the low resource efficiency and productivity all over the country leading to absolute poverty, income disparity and unemployment as well as low income and saving. This has had a negative effect on investment and growth. The country today is economically in a low equilibrium population trap, which is undermining the smooth transition of the so-called traditional economy to a modern and diversified structure suitable for the competitive world under the WTO framework (World Bank, 2004).

The intent of this paper, therefore, is to present an overview of the Nepalese economy which is joining the WTO and is waiting for prosperity and justice required for dynamic social changes without discrimination, deprivation and cultural fragmentation- the genesis of the current crisis. The paper, for this purpose, is split into various sections. Let us

discuss the current state of the economy first

Nepal in the present context is running from the critical situation. It's under rundown situation politically, socially, technologically and economically as well. If one has to choose the most critical situation then it will be economically. Due to various problems of Nepalese economic condition pressured by socially, politically and technologically Nepal is advancing its development in diminishing rate.

What is Commercial Bank?

Meaning of Bank

There is no unanimity among experts and economists about the origin of the word 'bank' or 'banking'. According to some learned authors, the word bank is derived from the Greek word 'banque' or 'bancus', which means a bench. The early bankers, the Jews in Lombardy, transacted their business at benches in the market place. When a banker failed, his 'banco' (a bench or a table on which money changers kept their money heaped on it) was broken up by people, hence the word 'bankrupt' erupted. There are others who are of opinion that the word bank is originally derived from word back meaning a joint stock fund which was Italianized into 'banco' when the Germans were masters of a great part of Italy. (Ram; 1965: 302) But Macleod in his book Theory and Practice of banking ridicules the idea. He says therein, "Nevertheless, there can be no possible doubt that this derivation is pure delusion for the money changers as such were never called 'benchieri' in the Middle Ages". He also quotes several authorities in his support. Finally, he remarks, "There is no doubt whatever that these learned authors are perfectly correct and the true original meaning of a 'banco' is a heap or mound and this word was metaphorically applied to signify a common fund or joint stock formed by the contribution of a multitude of persons."

The word banking has been used to denote a certain kind of trading in money. According to K. N. Garg "It consists of principally the exchanging of money; the lending of money; the depositing of money; and the transmitting the money." Like wise he clarifies that, "In spite

of many definitions of the word bank or banker, it is rather curious that none is so satisfactory as to be universally accepted for the obvious reason that the diverse activities come within the orbit of the business of banking. In most countries, it is carried on under duly codified legislation, and there is no doubt regarding the legal concept of the word, through all persons and institutions doing this business do not come under the grip.” (Garg; 1977: 237) Likewise he in his book called “Money, Banking, Trade and Finance” has collected definitions regarding bank provided by different scholars like Gautier, John Paget, Findlay Shirras, Kinley and Dr. H. L. Hart.

According to Gautier, “The word bank expresses the business which consists in effecting on account of other receipts, and payments, buying and selling either money or gold and silver or letters of exchange and drafts, public securities and shares in industrial enterprises - in a word - all the obligations whose creation has resulted from the use of credit on the part of states and societies and individuals.”

Likewise John Paget explains, “No one and nobody corporate and otherwise can be a banker who does not (1) take deposit accounts, (2) take current accounts, (3) issue and pay cheques drawn upon himself, (4) collect cheques crossed and uncrossed for his customers - and it might be said that even if all the above functions are performed by a person or body corporate, he or it may not be a banker or bank unless he fulfills the following conditions (1) Banking is his or its known occupation (2) he or it must profess to be a banker or bank and the public take him or it as such, (3) has an intention of earning by so doing, (4) this business is not subsidiary.” Here he explains the general but important duties and responsibility of a banking institution.

In the words of Findlay Shirras, “A banker or bank is a person, firm or company, having a place of business where credits are opened by the deposit or collection of money or currency subject to be paid or remitted upon draft, cheque or order or where money is advanced or loaned on stocks, bonds, bullion and bills of exchange, and promissory notes are received for discount and sale.”

According to Dr. H. L. Hart, “A banker is one who, in the ordinary course of his

business, honors cheques drawn upon him by persons from and for whom he receives money on current account.”

F. A. Bardford, “A bank is one who in ordinary course of his business receives money which he repays by honoring cheques of persons from which of one whose account receives it.” (Bardford, pg. 453-454)

Whatever the experts define about the word, what ever the words that they use in its definition and whatever meaning they try to interpret, its facility has served the human race in the past period and also will be in the existence as long as human race exists in this universe. It has been integral part of the preset society whose separation is far behind the imagination whether for the social community or for the business community.

History of Banking Sector

In the ancient times we can find the concept of banking existed but it was not as expanded and developed in its customer service as it is available at present. General services of banking were provided by goldsmiths and rich people in those days. According to Paul A. Samuelson, “Banking concept existed even in the ancient period when the goldsmiths and the rich people used to issue the common people against the promise of safe keeping of their valuable items on the presentation of the receipt; the depositors would get back their gold and valuables after paying a small amount for safe keeping and saving.” (Samuelson, 1996: 12)

According to French writer Revil Pout, bank notes were used in Babylonia around 600 years, before the banking word was first used during the establishment of the Bank of Venice in Italy. Modern banking is said to be originated in the medieval Italy. “The bank of Venice” is the first established bank in Venice, Italy in 1157 to finance the monarch in the wars. Likewise in 1171 the kingdom of Venice was in economic trouble due to the fight with the neighboring kingdom. Then she demanded from public one percent of their properties in the form of compulsory loans. Commissioners were appointed to pay interest to the creditors and to manage the banking and selling of loan certificates. Such loans were called “Monta” in Italian Language. Germans, in those days, controlled most

part of Italy and the German word “bank” came into use. French called it “Banke” and lately Englishmen called “Bank”. Banking system was developed in England in the middle of the sixteenth century. Later, Bank of Barcelona was established in Spain in 1401. The development of banking took place rapidly during the 17th century with the establishment of bank of Amsterdam in 1607 and Bank of Hamburg in 1617. The Bank of England was established in 1694. The development of bank took a primary position during 18th century with the industrial revolution in Europe. By the 19th century almost all the countries had their own bank. According to Adam Smith, “The earliest banks of Italy, where the name began, were finance companies... to make loans to and float loans for the governments of cities in which they formed After these banks had been long established, they began to do what we call banking business, but at first they never thought of it.” (Smith, 1776: 423.)

It is said that the present bank has three ancestors: merchant, the money lender and the goldsmith. According to Geoffrey Crowther, “The present day banker has three ancestors of particular note. One we have already met: the merchant, whose high and widespread reputation of credit enables him to issue documents that will be taken all over the known world as titles to money. To this day the title of ‘merchant banker’ is reserved by usage to the older, cosmopolitan and more exclusive private banking firms, nearly every one of which can trace its ancestry to a trader in commodities, more tangible (though hardly more profitable) than money.

The bankers two other ancestors are money lenders and the goldsmith. Lending and borrowing are almost as old as money itself and the village money lender is found even in quite primitive communities. He is not usually regarded as a very lovely object; usurer is one of the oldest terms of abuse. But the services he performs are undoubtedly useful and necessary, even though the reward he exacts in return may usually be rapacious. The goldsmith ancestry of the modern bank is purely an English affair.” (Crowther; 1958: 22-25)

The history of banking is not only interesting but also shows and reveals the fact about ancient or past life styles and social configurations. It also shows the contribution made by this sector in the past period.

History of Nepalese Banking

Though the institutional development of financial market in Nepal has very short history (about sixty years) compared to other countries like Britain, Italy, France, Germany, some crude banking operations were known to have been practiced even in the ancient times. It is however difficult to trace their origin and development through ages. The little information available regarding the subject is the matter of great historical interest and importance.

In the Nepalese chronicle, it was recorded that the new era known as 'Nepal Sambat' was introduced by Shankhadhar Swakhawa, a Sudra merchant of Kantipur in 879 or 880 A.D. after having paid all the outstanding debts in the country. This is considered to be an adequate basis for a logical reference and conclusion that the money lending operations were in practice on an extensive scale during that period. Towards the close of the 14th century, Jayasthiti Malla, ruler of Kantipur, classified the people in 64 classes on the basis of their occupation. This list included a class called "Tanka Dhari", meaning money-dealers. This again considered as evidence to the existence of professional money lenders and bankers during the medieval period of Nepal. It is further believed that money lending business, particularly for financing the foreign trade with Tibet became quite popular during the reign of Mallas. (Shrestha; 1962: 181) But in the absence of any regulatory measures, the scrupulous and cunning money lenders were known to have charged exorbitant or very high rates of interest and other extra dues for the loans and advanced. Such unscrupulous money lenders which were also called Sahu Mahajans and Jamindars (i.e. merchants and land lords) might have faced some inconveniences in the valley of Kathmandu when Prime Minister Ronodip Singh established the first financial institution, called "Tejarath Adda" during 1933 B.S. for supplying credit to employees and public against security of gold, silver and other treasures at a low interest rate of 5 %.

Then after, the true sense of institutional banking started in the history of Nepalese banking industry with the establishment of Nepal Bank Limited in 1994 B.S. as a semi -- government bank. The major responsibility and challenge faced by this bank in its primary days of its establishment is to attract public out from the dominance of local

merchants and land lords. Then after twenty years, Nepal Rastra Bank was established in 2013 B.S. to start and develop the banking practice. Then Rastriya Banijya Bank, fully government bank, was established in 2022 B.S. to start competitive banking service and to expand the banking concept in the nooks and corners of the country. Even today, this unorganized sector has been occupying a very large share in rural market where there is no access of the modern banking facility and its awareness

Despite all these government efforts to promote modern concept of financial sector, it was found to have sluggish result. Thus government then initiated a liberal financial policy and open market competitions which was started to attract foreign investment. Then new history of joint venture commercial banks then started with the establishment of Nepal Arab Bank Limited. Since then, there is huge competition and rapid development in this industry and until now we have 17 commercial banks operating in the Nepalese financial market.

Commercial Banks

Commercial banks are organized on a joint stock company system, primarily for the purpose of earning a profit. They can be either of the branch banking type as we see in most of the countries with a large network of branches or of the unit banking type, as we see in the United States where banks operations are confined to a single office or to a few branches within a strictly limited area. Although the commercial banks attract deposits of all kinds - current, savings and fixed - their resources are chiefly drawn from current deposits, which are repayable on demand. So they attach much importance to the liquidity of their demand. So they attach much importance to the liquidity of their investments and as such they specialize in satisfying the short term credit needs of business other than the long term.

The word commercial itself describes well what actually it is. Bank established with a view of making profit, fulfilling the social obligation is best says commercial bank. In Nepal there are altogether 17 commercial banks with three government representative bank - Nepal Bank, Rastriya Banijya Bank and Agriculture Development Bank. Till date

there are altogether 25 commercial banks in Nepal.

Importance of Financial Institutions

For the development of each and every country there should be positive emphasis of the development of short term as well as long term programmes in the country. For formulating and implementing such programmes, participation of private and public sector is must for its success. Besides, the nation should be able to mobilize its own domestic resources to achieve the pre determined economic growth. To mobilize domestic resources fund is required to carry out all the pre mentioned and pre scheduled activities. All the funds cannot be borne by government itself. In order to collect the scattered capital funds from various savers and use those to productive sectors financial market plays great role. Financial market consists of financial institutions including financial intermediaries using various financial instruments and linking savers and users of funds. According to Ronald Grywinshki, “Banking institutions are inevitable for the resource mobilization and all round development of the country. It is resource for economic development; it maintains economic confidence of various segments and extends credit to people.” (Grywinshki; 1993; 87)

The financial institutions act as an intermediary by transferring or mobilizing the resources from the surplus to the deficit or from unproductive to productive which provides fuel to the all round economic development of the country. According to Peter Rose, “Financial intermediaries not only transfer money and securities between users and savers but also they create new products. They gain economies of scale in analyzing the credit worthiness of potential borrowers, in processing and collecting loans, and minimizes cost of information and make easy flow of transactions.” (Rose;1999:4)

This clearly reveals the fact that the economic activities of a country can hardly be carried forward without the assistance of the financial institutions. financial institutions comprises financial intermediaries like banks, credit unions, saving and loan associations, money market, insurance companies, finance companies, leasing companies, pension funds, etc

Nepal - Money and Banking

Nepal's first commercial bank, the Nepal Bank Limited, was established in 1937. The government owned 51 percent of the shares in the bank and controlled its operations to a large extent. Nepal Bank Limited was headquartered in Kathmandu and had branches in other parts of the country.

There were other government banking institutions. Rastriya Banijya Bank (National Commercial Bank), a state-owned commercial bank, was established in 1966. The Land Reform Savings Corporation was established in 1966 to deal with finances related to land reforms.

There were two other specialized financial institutions. Nepal Industrial Development Corporation, a state-owned development finance organization headquartered in Kathmandu, was established in 1959 with United States assistance to offer financial and technical assistance to private industry. Although the government invested in the corporation, representatives from the private business sector also sat on the board of directors. The Co-operative Bank, which became the Agricultural Development Bank in 1967, was the main source of financing for small agribusinesses and cooperatives. Almost 75 percent of the bank was state-owned; 21 percent was owned by the Nepal Rastra Bank and 5 percent by cooperatives and private individuals. The Agricultural Development Bank also served as the government's implementing agency for small farmers' group development projects assisted by the Asian Development Bank and financed by the United Nations Development Programme. The Ministry of Finance reported in 1990 that the Agricultural Development Bank, which is vested with the leading role in agricultural loan investment, had granted loans to only 9 percent of the total number of farming families since 1965.

Since the 1960s, both commercial and specialized banks have expanded. More businesses and households had better access to the credit market although the credit market had not expanded.

In the mid-1980s, three foreign commercial banks opened branches in Nepal. The Nepal Arab Bank was co-owned by the Emirates Bank International Limited (Dubai), the Nepalese government, and the Nepalese public. The Nepal Indosuez Bank was jointly owned by the French Banque Indosuez, Rastriya Banijya Bank, Rastriya Beema Sansthan (National Insurance Corporation), and the Nepalese public. Nepal Grindlays Bank was co-owned by a British firm called Grindlays Bank, local financial interests, and the Nepalese public.

Nepal Rastra Bank was created in 1956 as the central bank. Its function was to supervise commercial banks and to guide the basic monetary policy of the nation. Its major aims were to regulate the issue of paper money; secure countrywide circulation of Nepalese currency and achieve stability in its exchange rates; mobilize capital for economic development and for trade and industry growth; develop the banking system in the country, thereby ensuring the existence of banking facilities; and maintain the economic interests of the general public. Nepal Rastra Bank also was to oversee foreign exchange rates and foreign exchange reserves.

Prior to the establishment of Nepal Rastra Bank, Kathmandu had little control over its foreign currency holdings. Indian rupees were the prevalent medium of exchange in most parts of the country. Nepalese currency was used mostly in the Kathmandu Valley and the surrounding hill areas. The existence of a dual currency system made it hard for the government to know the status of Indian currency holdings in Nepal. The exchange rates between Indian and Nepalese rupees were determined in the marketplace. Between 1932 and 1955, the value of 100 Indian rupees varied between Rs71 and Rs177. The government entered the currency market with a form of fixed exchange rate between the two currencies in 1958. An act passed in 1960 sought to regulate foreign exchange transactions. Beginning in the 1960s, the government made special efforts to use Nepalese currency inside the country as a medium of exchange.

It was only after the signing of the 1960 Trade and Transit Treaty with India that Nepal had full access to foreign currencies other than the Indian rupee. Prior to the treaty, all foreign exchange earnings went to the Central Bank of India, and all foreign currency

needs were provided by the Indian government. After 1960 Nepal had full access to all foreign currency transactions and directly controlled its exports and imports with countries other than India.

As a result of the treaty, the government had to separate Indian currency (convertible currency because of free convertibility) from other currencies (nonconvertible currency because it was directly controlled by Nepal Rastra Bank). In 1991 government statistics still separated trade with India from trade with other countries.

Nepal, of course, has a large opportunity for economic development, given economically viable resource endowments. Efforts in this regard have been made in the past four or more decades, beginning in the 1950s. It, however, appears that little is realized in terms of achievements, in sectoral performance or indicators of development affecting quality of life and social transformation. This situation is worsening. This is mainly because of the defective economic policies of the government. While the role of a welfare state and hence the ground for public intervention has been substantially reduced, the tradition bound socio-economic structure based on deep-rooted feudal institutions is benefiting only a few. A majority of the people, therefore, are deprived of social opportunities that could make them economically well off. Again, when economic power backs political power, politics is centered in the hand of already well to do families. This cycle is repeated when economic and political powers re-enforce each other and the rich but resourceful people resist any fundamental change against their compounded interests. The society in Nepal, therefore, is experiencing excessive negative shocks because of which it is losing active dynamism, and hence progress is slow. Besides, the present governance structure is highly centralized keeping many parts of the country alienated from power centre. Subsequently, poverty, discrimination, deprivation and inequality across family and regions are substantiated and sustained. The seeds of crisis are now exploding in the form of the Maoist insurgency which effects the present as well as the future of the Nepalese economy and society. The crisis of governance and economy needs to be tackled with vision.

Brief introduction of Some Selected or Sample Commercial Banks

Standard Chartered Bank Nepal (SCB)

Standard chartered bank Nepal limited has been in operation in Nepal since 1987 when it was initially registered as a joint venture operation. Today the bank is an integral part of Standard Chartered Group who has 75 % ownership in the company with 25% shares owned by the Nepalese public. The bank enjoys the status of the largest international bank currently operating in Nepal

With 150 years in the emerging markets Standard Chartered Group has unmatched knowledge and understanding of its customers in its markets. The Group has more than 500 offices across over 50 countries primarily in Asia, the sub - continent, the middle east, Africa and Latin America.

Standard Chartered bank Nepal limited, offers a full range of banking product and services in wholesale and consumer banking catering to a wide range of customers from individuals to mid market local corporate to multinationals and large public sector companies, as well as embassies, aid agencies, airlines, hotels and government corporations.

The Bank has been the pioneer in introducing customer focused products and services in the country and aspires to continue to be a leader in introducing new products and highest level of service delivery. It is the first bank in Nepal that has implemented the Anti-Money Laundering and applies the Know Your Customer procedure on all the customer accounts.

Standard Chartered Bank Nepal is a socially responsible corporate and recognizes its responsibilities to its staff and to the communities in which it operates. The bank concentrates on the project that assist children, particularly in the areas of health and education and it has taken up various initiatives to benefit the community. Two majors initiatives in the area of health "Living with HIV" and "Seeing is Believing" have been undertaken by the Bank since 2003.

PRODUCTS & SERVICES offered by the Bank are as follows: Consumer Bank

- Current, savings, call and term deposit accounts in Local & Foreign currency
- Fund Transfer Services - Local & International - Drafts, SWIFT
- Credit Card Services - Issuance & Acquiring
- 24 Hour ATM services - SCBNL debit card, VISA and Master Card
- Safe Deposit lockers
- Foreign Exchange Services - Issuance/purchase of Travellers Cheques
- Xtra Banking - 365 days banking from Kantipath and Lalitpur Branches
- Priority Banking; Home Banking
- Auto Loan
- Home Loan; Home Advantage
- Personal Loan
- SMS Banking
- Corporate Employee accounts

Wholesale Bank

- Trade Finance
- Letters of credit: Issuance and acceptance
- Guarantees: Issuance and acceptance
- Commercial Lending (Working Capital)
- Term Lending
- Loan Syndication
- Forward Exchange Rates
- Electronic Banking
- Cash Management
- Operating Accounts
- Quick Collection Services
- Quick Payment Services
- Cheque writer

Corporate Social Responsibility

Standard Chartered Bank Nepal is a socially responsible corporate and recognizes its responsibilities to its staff and to the communities in which it operates. The Bank concentrates on projects that assist children, particularly in the areas of health and education and it has taken up various initiatives to benefit the community. 2 major initiatives in the area of health 'Living with HIV' and 'Seeing is Believing' have been undertaken by the Bank since 2003.

Awards & Achievements

- July 2004 - Award for the Best Presented Accounts in the Financial Institutions Category in Nepal for the Year 2002-2003 and 2002-2001 awarded by Institute of Chartered Accountants of Nepal (ICAN).
- December 2003 - The Best Company, Financial Institutions from Top 10 awards for Business Excellence awarded by 'The BOSS'
- September 2002 "Bank of the Year 2002 Nepal" by 'The Banker' of the financial times.
- April 2002 - Commercially Important Person (CIP) awarded by His Majesty's Government the Ministry of Finance
- April 2002- National Excellence Award 2002" for significant achievement in customers satisfaction and relationship" awarded by Federation of Nepalese Chamber of Commerce & Industry (FNCCI)

Nabil Bank Limited.

Nabil bank limited is the first foreign joint venture bank in Nepal. Nabil bank commenced its operation in 12 July 1984. Nabil Bank was incorporated with the objectives of extending international standard modern banking services to various sectors of the society. Pursuing its objectives, Nabil bank provides a full range of commercial banking services through its 18 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil Bank, as pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as

it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. The services provided by the bank are deposits facility, privilege banking, lending, collections, tele-banking, safe deposits locker, fund transfer etc.

PRODUCTS & SERVICES offered by the Bank are as follows:

- Deposits
- Lending
- Documentary Credits
- Collections
- Cards
- Tele-Banking
- Safe deposits locker
- Fund transfer
- Western money transfer
- Automated Teller Machine (ATM)
- Awards & Achievements
- Bank of the year 2004

Himalayan bank (HBL)

Himalayan Bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the Bank also offers industrial and merchant banking services.

Himalayan Bank has always been committed to providing a quality service to its valued customers, with a personal touch. All customers are treated with utmost courtesy as valued clients. The Bank, wherever possible, offers tailor made facilities to its clients,

based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan Bank has adopted the latest banking technology. This has not only helped the Bank to constantly improve its service level but has also prepared the Bank for future adaptation to new technology. The Bank already offers unique services such as SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future.

Kumari Bank Limited (KBL)

Kumari Bank was established in the year 2001 with the objective of providing full range of financial services, including deposits, consumer finance, commercial banking and corporate investment banking.

The bank believes in good corporate governance with transparency in all dealings and conduct. Customer is always our first priority geared towards providing fast, reliable and efficient financial services and solutions. Employees have direct input and control over their work process. Employees are treated equitably with respect and good faith. Our priority stands in providing world class services to our customers at higher satisfaction level. Practicing total quality management by embracing good governance to optimize our assets in order to achieve sound business growth is the vision of this bank. Kumari Bank aims to position itself as a provider of "Complete Banking" solutions by providing a wide range of traditional and innovative banking products and services to all segments of the Nepalese economy

Capital strength

Authorized capital	NPR 1.00 Billion
Paid up Capital	NPR 350 Millions
Share Capital	NPR 150 Millions (to be issued shortly)

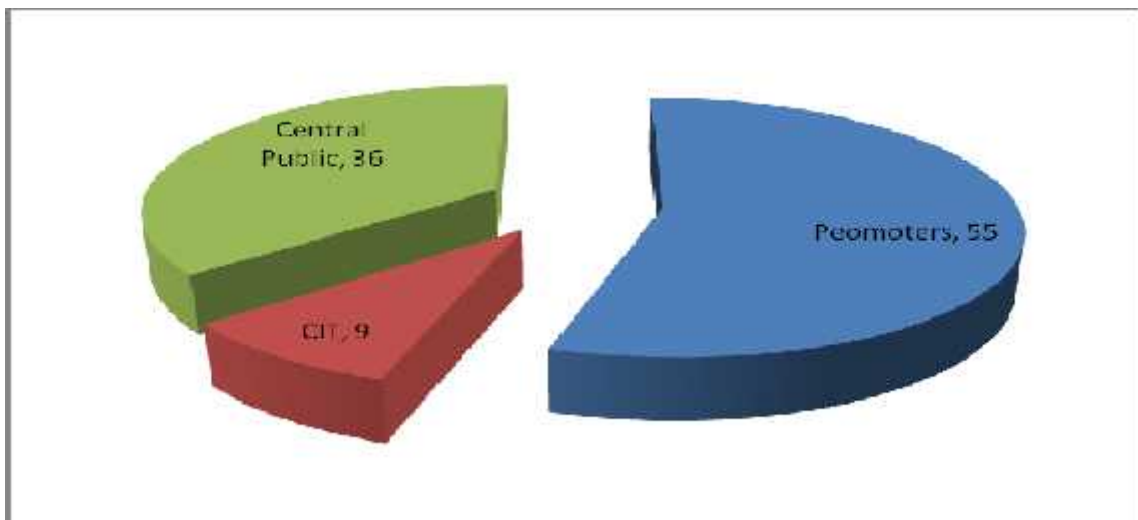
The bank provides full range of personal financial services, including current, saving and time deposits accounts, loans and investments. Other services of the bank include cash

management, salary management, safe deposits lockers, weekend banking, foreign exchange and transfer services, remittance services, internet banking, evening banking, 365 days banking.

Kumari Bank understands the present market condition and needs of the business community have enabled to design products and services which not only give our customers a one stop integrated banking solution but also add value to the overall business. The provision of services to small and medium size enterprise is core strength of Kumari Bank. These enterprises can avail term loans, working capital loans, trust receipt loans. Both funded and non funded facilities are granted within the single obligor stipulated by the central bank.

Laxmi Bank Ltd (LXBL)

Laxmi Bank was incorporated in April 2002 as a commercial bank. The current shareholding constitutes of promoters holding 55.42 percent, Citizen Investment Trust holding 9.02 percent and the general public holding 35.56 percent. Promoters represent Nepal's leading business families with diversified business interests. The Bank's shares are listed and actively traded in the Nepalese Stock Exchange.



Laxmi Bank has grown with branches in Birgunj, Banepa, two in Pokhara, Biratnagar, Narayanghat, Pulchowk, Lalitpur, Teku, New Road, and more recently in Janakpur.

Three more branches will soon be operational from New Baneswor and Bhatbhatini in Kathmandu and from Damak in outside the Valley. Following the merger with Hisef Finance Ltd., a decade old first generation finance company, its office in Hattisar, Kathmandu was converted to that of Laxmi Bank. This office was converted to a full branch and our corporate office in October 2005.

With a view to providing safe, seamless, quick and advance banking services, the bank has been heavily investing in contemporary banking technologies. The Bank uses Flexcube as its main banking platform. Flexcube incidentally has been ranked the number one selling core banking solution globally, and has been embraced by over 500 financial institutions across over 90 countries. The Bank provides its services through a host of delivery channels including cell phone, Internet, ATM, Point of Sales (PoS) etc., in addition to a network of physical branches. Our Internet banking facility comes with capabilities of online shopping in addition to regular Internet banking features. Similarly, through the bank's alliance with Smart Choice Technologies (SCT), the ATM/Debit cardholder of Laxmi Bank has access to a network of ATMs, and PoS terminals located in all major urban centers of the country. The bank is the first in South Asia to have implemented SWIFTNet, the advanced version of the SWIFT technology, which is used for speedy and secure payment and messaging services.

Under a professional management team, the bank has established itself as an emerging key player. Today the bank is recognized as an innovative and progressive bank geared to providing shareholders and customers with quality earnings and value-added services. Transparency, good governance, and sound business growth are our driving forces.

Passion for Excellence

Our pursuit of excellence has led us to take several bold steps, sometimes to the extent of pursuing strategies or introducing initiatives, which no Nepali Bank has previously attempted. Our pioneering spirit has been received with tremendous encouragement, evident through awards like the Best Presented Accounts.

Mission

We take great pride in the fact that our vision, mission and values are not the sole properties of our leadership. They belong to each and every staff. Our people identify with our business philosophy and have elected overwhelmingly to play their parts to make it a reality. Our mission thus goes as follows:

We are committed to excellence in delivery of entire gamut of financial services in order to achieve sound business growth and maximize stakeholder values by embracing team spirit, progressive technology and good corporate governance.

Our IT capabilities are arguably the best in Nepalese banking industry today, products and services we offer are comprehensive in context of the markets we operate in, we have been recognized for transparency and good governance, we have built a solid foundation for sound business growth. But we are not done yet, we are only beginning the scratch the surface and we believe we can achieve much more and continue setting standards.

Nepal Investment Bank (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

1. A group of companies holding 50% of the capital
2. Rashtriya Banijya Bank holding 15% of the Capital.

3. Rashtriya Beema Sansthan holding the same percentage.
4. The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange)

We believe that NIBL, which is managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. We are sure that your choice of a bank will be guided among other things by its reliability and professionalism.

MISSION

To be the leading Nepali Bank, delivering world class service through the blending of state-of-the art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. We are committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.

Statement of the Problem

With the viewpoint of socio-economic development the country is in a backward position. The Structural Adjustment program (SAP), liberalization and privatization policies have not been fruitful for the nation. SAP was introduced in 1985 and speedy liberalization started after the restoration of multiparty democracy in 1990. But it is unfortunate that practical application efforts in a need-based approach has always been lacking. And hence, with the adoption of the policy of liberalization & globalization, undue emphasis on privatization of state-owned enterprises is being observed, while other crucial aspects have been neglected. It is basically related to lack of good governance and political weaknesses and short political vision of the national political parties, too. Political instability has become a character. Political party with majority seats in the parliament has not proved itself capable to give a stable government. As a result, a small political group is playing terrorism in the name of Maoism and the whole government machinery has not been successful to control it in an effective manner. Because of the

increasing terrorist activities, economy is gradually being affected; basically the adverse effect is being visualized in tourism industry, which has a vital role to play in Nepalese economy.

Beside it, banking sector of Nepal also plays a vital role in the advancement of the economy. In this rundown situation, banks are the one of the most powerful tools for maintaining the consistency in the economy but there are also many problems facing by commercial banks in respect to the directives laid by the central banks of the Nepal Rastra Bank. The commercial banks of Nepal have to follow the rules and regulation set by the Nepal Rastra Bank. Here this research work is being conducted to find out the answers of following the following questions.

- ❖ Are banks maintaining adequate capital as per the directive of Nepal Rastra Bank?
- ❖ Are banks managing the assets properly for the smooth functioning of their business?
- ❖ Is banks' management competent enough to handle the contemporary pressure and problems of the business and take their organization to a new height?
- ❖ Are banks earning enough revenue and profit to satisfy their depositors and shareholders?
- ❖ Are banks maintaining enough liquidity to run their business smoothly?
- ❖ Are banks responding efficiently to the market risk?

Importance of the Study

The study benefits to lot of groups like share holders, management teams of bank, general public who act as depositors and their customers and policy makers of the concerned banks. The general public will find them ease to categorize the commercial banks on their performance standards and can invest accordingly. On the other hand, the management can do their bank's SWOT analysis on the basis of this CAMEL rating and can plan accordingly. With the help of this rating, Nepal Rastra Bank can easily set standards for the banks and can advise them to improve accordingly.

Objective of the Study

CAMEL Rating System

An international bank-rating system with which bank supervisory authorities rate institutions according to Five factors - the Five areas examined are represented by the acronym "CAMEL."

The five factors examined are as follows:

- C - Capital adequacy
- A - Asset quality
- M - Management quality
- E - Earnings
- L - Liquidity

Bank supervisory authorities assign each bank a score on a scale of 1 (best) to 5 (worst) for each factor. If a bank has an average score less than 2 it is considered to be a highquality institution while banks with scores greater than 3 are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

The specific objectives of the study are:-

- To evaluate and analyze capital adequacy of the bank which shows the adequacy of capital in the contingent situation.
- To evaluate and study the assets quality of overall banks.
- To evaluate the management quality and to study the impact in respect to the market scenario.
- To analyze and evaluate the persistent earnings of the banks.
- To analyze and evaluate the liquidity condition of the banks so that in

future the safety liquidity position can be made accordingly.

- To analyze the sensitivity of the market in accordingly the little changes in the banks sensitivity context.
- To provide suggestions and recommendations to the concerned for future improvement.

Along with the objectives that I have stated, different hypothesis statements concerned with these objectives will also be tested if necessary.

Limitations of the Study

Due to unavailability of data for market sensitiveness, I have ignored the part of “S” factor in the study. Thus the whole research is only based on five factors- CAMEL.

- ❖ This analysis is based on the secondary data only.
- ❖ Data taken for the analysis are from secondary source (Website) and the authenticity of the data is dependent on the accuracy of the website used and the publications.
- ❖ All the data taken are from fiscal year 2003 to 2007.
- ❖ Among the different aspects of dividend policy only the market price of stock has been selected & only cash dividend is taken for the analysis, besides credit management in Nepalese commercial bank, cash flow analysis of the commercial banks are also considered in the study
- ❖ Only six firms are taken as sample for study.

Organization of the Study

The whole study has been divided into five chapters each devoted to some aspect of the study on the dividend price and its impact on the market price of the share. The study comprises of five chapters, which are as follows

- | | |
|------------|----------------------|
| Chapter 1: | Introduction |
| Chapter 2: | Review of Literature |

Chapter 3:	Research methodology
Chapter 4:	Data presentation and analysis.
Chapter 5:	Summary, recommendation and conclusion.

First chapter deals with the introductory part of the study, which includes background of the study, focus of the study, statement of the problem, objective of the study and significance of the study.

Second chapter deals with review of the different literature in regards to the theoretical analysis and review of books, articles and thesis related to the study field. Therefore it includes conceptual framework and other related studies. Similarly third chapter deals with research methodology used to carry out the research. It includes research design, population and sample, source and technique of data collection, data analysis tools and limitation of the methodology.

Chapter four is the main part of the study, which includes analysis and interpretation of the data using financial and statistical tools. Similarly this chapter also includes the major finding of the study and chapter five covers summary of the study, the conclusion and the possible suggestions.

CHAPTER - 2

REVIEW OF LITERATURE

2. Conceptual Framework

There are different model used to rate the commercial banks. CAMEL is one of the best tools used to rate the quality of commercial banks. The method even has adopted by Nepal Rastra Bank and publishes it time to time. "CAMEL" is an international bank rating system with which bank supervisory authorities rate institutions according to five factors. The five areas examined are represented by the acronym "CAMEL."

The five factors examined are as follows:

- C - Capital adequacy
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Bank supervisory authorities assign each bank a score on a scale of 1 (best) to 5 (worst) for each factor. If a bank has an average score less than 2 it is considered to be a high quality institution while banks with scores greater than 3 are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

During an on-site bank exam, supervisors gather private information, such as details on problem loans, with which to evaluate a bank's financial condition and to monitor its compliance with laws and regulatory policies. A key product of such an exam is a supervisory rating of the bank's overall condition, commonly referred to as a CAMEL rating. This rating system is used by the three federal banking supervisors (the Federal Reserve, the FDIC, and the OCC) and other financial supervisory agencies to provide a convenient summary of bank conditions at the time of an exam.

The acronym "CAMEL" refers to the five components of a bank's condition that are

assessed: Capital adequacy, Asset quality, Management, Earnings, and Liquidity. A sixth component, a bank's Sensitivity to market risk was added in 1997; hence the acronym was changed to CAMELS. (Note that due to lack of proper data available, whole research is thus based on CAMEL ratings.) Ratings are assigned for each component in addition to the overall rating of a bank's financial condition. The ratings are assigned on a scale from 1 to 5 (standard rating is 1-5 but may differ person to person). Banks with ratings of 1 or 2 are considered to present few, if any, supervisory concerns, while banks with ratings of 3, 4, or 5 present moderate to extreme degrees of supervisory concern.

All exam materials are highly confidential, including the CAMELS. A bank's CAMELS rating are directly known only by the bank's senior management and the appropriate supervisory staff. "CAMELS" ratings are never released by supervisory agencies, even on a lagged basis. While exam results are confidential, the public may infer such supervisory information on bank conditions based on subsequent bank actions or specific disclosures. Overall, the private supervisory information gathered during a bank exam is not disclosed to the public by supervisors, although studies show that it does filter into the financial markets

Capital Adequacy Ratio

The Basel capital adequacy ratio was adopted in 1988 by the Basel Committee on Banking Supervision as a benchmark to evaluate whether banks operating in the G-10 countries have adequate capital to survive likely economic shocks. The ratio calls for minimum levels of capital to

- (i) Provide a cushion against losses due to default arising from both on- and off-balance- sheet exposures;
- (ii) Demonstrate that bank owners are willing to put their own funds at risk;
- (iii) Provide quickly available resources free of transactions and liquidation costs;
- (iv) provide for normal expansion and business finance; (v) level the playing field by requiring universal application of the standard to internationally

active banks; and

- (v) Encourage less risky lending.

Banks should have sufficient capital in relation to the volume and risky ness of their business to absorb losses without using depositors' funds. This capital investment gives owners and managers a powerful incentive to run the bank safely and soundly. Conventionally, the adequacy of the amount of capital available to buffer against losses is measured by a so-called capital adequacy ratio. However, capital is simply the difference between the value of a bank's assets and its liabilities to third parties. Its calculation depends fundamentally, therefore, on the value attributed to its assets.

There are two main types of capital adequacy ratios: the "risk assets" method as used in the Basle Capital Accord, and the simpler "gearing" or "leverage" ratio, which is the ratio between share holders' funds and total assets or liabilities. Both types of ratios tend to address credit risk: the risk of non re-payment of a credit granted by the bank. Some countries, including the United States, apply both systems in parallel.

The Basle capital standard calls for a ratio between capital and risk-weighted assets of at least 8 percent. This ratio, designed to establish minimum levels of capital for internationally active banks is now applied in the G-10 countries, as well as in the European Economic Area, 90 and in some 80 other countries worldwide. However, even in the industrialized countries, with relatively well-managed and highly diversified banks operating in an established financial environment, an 8 percent ratio is generally seen as an absolute floor, and the banking systems in most of these countries have ratios that are considerably higher. In developing and transition economies, proper account needs to be taken of the higher risk environment in those countries when determining how the numerator and denominator of the capital adequacy ratio are to be calculated. For instance, the risk weights attached to particular categories of assets could be set at a higher level, to reflect higher risk. For example, if a government has a history of not meeting promptly interest payments on its obligations, the usual zero percent risk weighting may not adequately reflect the risk. Also, the quantitative standard could be set at higher than 8 percent, or the

calculation of capital made more limited, thus requiring more capital. This mechanism imposes a natural restraint on the expansion of a bank's risk assets, since more capital will have to be raised to support those assets.

It is sometimes argued that higher capital requirements place banks in such countries at a competitive disadvantage relative to banks operating in G-10 countries. However, the counter argument is that a higher ratio basically reflects higher risk, for which the bank needs an adequate buffer.

Therefore, the basic issue when a country describes itself as using the "Basle" model is not whether the appropriate adaptations have been made to reflect local conditions. Unless the proper loan provisioning and interest suspension rules have been applied, capital may be overstated to the point where any ratio analysis becomes meaningless. Moreover, ratio analysis needs to be complemented by a qualitative assessment of the bank's ability to manage its risks.

The traditional capital adequacy ratios were developed to address the credit risks in banks' portfolios. But banks also carry other significant risks for which a capital buffer is required, notably market risk- that is, the risk of a change in the market value of an asset or commitment. This type of risk is inherent in banks' holdings of trading portfolio securities, financial derivatives, and open foreign exchange positions. Banks are also vulnerable to interest rate risk when there is a substantial difference between the effective maturities, or pricing intervals, between liabilities and assets. Adequacy standards against such market risks are now being introduced.

THE BASLE CAPITAL ACCORD:

The Basle Capital Accord of 1988 defined capital, the numerator in the risk asset ratio, as follows:

Tier I capital includes issued and paid-up share capital, non-cumulative preferred stock, and disclosed reserves from post tax retained earnings. It is the highest quality capital, and should form no less than 50 percent of total regulatory capital.

Tier II capital can include a range of other items, including undisclosed reserves that have passed through the profit and loss account; conservatively valued revaluation reserves; revaluation of equities held at historical cost can be included at a discount; general loan loss reserves, up to 1.25 percent of risk-weighted assets; hybrid debt instruments available to support losses without triggering liquidation; and subordinated term debt, up to a maximum of 50 percent of Tier I capital. Goodwill and investments in other banks and financial institutions should normally be deducted. For most banks the use made to Tier II capital is much less than 50 percent.

The bank's assets are divided into four or more categories of risk, for instance,

1. Commercial loans,
2. Mortgage lending,
3. Inter-bank debt, and
4. Government debt.

For each risk category, a risk weighting is established. This weighting, or coefficient, is applied to the total amount of assets in each category. Normal credit risks are assigned a 100 percent rating, while the other risk categories carry a lower weighting, based on the risk of that category relative to normal credit risks. The amounts obtained for each of the categories are added to obtain the total of "risk-weighted assets," which is the denominator of the risk-weighted ratio. Off-balance sheet items are also included in the ratio, converted into credit equivalents by applying conversion factors reflecting the degree to which an off-balance sheet items reflect expected on-balance sheet credit commitments of the bank.

The Basle Committee considers that the risk-weighted ratio has three advantages over the gearing ratio.

- ❖ First, it does not penalize banks for holding relatively low-risk assets such as government securities;
- ❖ Second, it allows for incorporation of off-balance sheet items; and

- ❖ Third, it allows for better international comparisons of banks with different balance sheet structures.

Assets Quality

EVALUATION OF ASSET QUALITY

The asset quality rating reflects the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, and other assets, as well as off-balance sheet transactions. The ability of management to identify, measure, monitor, and control credit risk is also reflected here. The evaluation of asset quality should consider the adequacy of the Allowance for Loan and Lease Losses (ALLL) and weigh the exposure to counter-party, issuer, or borrower default under actual or implied contractual agreements. All other risks that may affect the value or marketability of an institution's assets, including, but not limited to, operating, market, reputation, strategic, or compliance risks, should also be considered.

Prior to assigning an asset quality rating, several factors should be considered. The factors should be reviewed within the context of any local and regional conditions that might impact bank performance. Also, any systemic weaknesses, as opposed to isolated problems, should be given appropriate consideration. The following is not a complete list of all possible factors that may influence an examiner's assessment; however, all assessments should consider the following:

1. The adequacy of underwriting standards, soundness of credit administration practices, and appropriateness of risk identification practices.
2. The level, distribution, severity, and trend of problem, classified, non-accrual, restructured, delinquent, and nonperforming assets for both on- and off-balance sheet transactions.
3. The adequacy of the allowance for loan and lease losses and other asset valuation reserves.
4. The credit risk arising from or reduced by off-balance sheet transactions,

such as unfunded commitments, credit derivatives, commercial and standby letters of credit, and lines of credit.

5. The diversification and quality of the loan and investment portfolios.
6. The extent of securities underwriting activities and exposure to counterparties in trading activities.
7. The existence of asset concentrations.
8. The adequacy of loan and investment policies, procedures, and practices.
9. The ability of management to properly administer its assets, including the timely identification and collection of problem assets.
10. The adequacy of internal controls and management information systems.
11. The volume and nature of credit documentation exceptions.

As with the evaluation of other component ratings, the above factors, among others, should be evaluated not only according to the current level but also considering any ongoing trends. The same level might be looked on more or less favorably depending on any improving or deteriorating trends in one or more factors. The examiner should never look at things in a vacuum, instead, noting how the current level or status of each factor relates to previous and expected future performance and the performance of other similar institutions.

Asset quality is one of the most critical areas in determining the overall condition of a bank. The primary factor effecting overall asset quality is the quality of the loan portfolio and the credit administration program. Loans are usually the largest of the asset items and can also carry the greatest amount of potential risk to the bank's capital account. Securities can often be a large portion of the assets and also have identifiable risks. Other items which impact a comprehensive review of asset quality are other real estate, other assets, off-balance sheet items and, to a lesser extent, cash and due from accounts, and premises and fixed assets. This is one of the most critical factors in determining overall condition of any bank. Primary factors that can be considered are the quality of loan portfolio, mix of risk assets and credit administration system. The assets quality helps to maintain the smoothness of the organization. Under assets quality following parameter can be analyzed:

1. Total Loan Loss Provision to Total Credit
2. Non Performing assets (NPA) to Total Credit
3. Contingent Liabilities to Total Assets
4. Average Yield (Credit and Investment)
5. Investment to Total Assets
6. Loan and advances to Total Assets
 - Total loan loss provision to total credit shows the aggressiveness of loan flow and the quality of loan to the customer.
 - Non performing assets are the doubtful to return the principal and/or interest due to the near future. This result in huge losses to a bank, therefore, low profit with low NPA is preferable rather than high profit with high NPA.
 - Contingent liabilities to total assets are the ratio of non-funded exposure to the bank. Such exposures to the bank result in high losses if in case of default.
 - Average yield indicates the interest income earned by a bank by its lending activities. Generally, yield increases with the increase in the risk perception of the assets.
 - Investment to total assets indicates the proportion of investment to the total assets of a bank. A higher ratio means the bank has conservatively kept a high cushion of investment to guard against NPA.
 - Loan and advances to total assets shows the ratio of loan and advances against total assets.

Management Quality

Since management quality is inextricably tied to a bank's success or failure, it is important to develop and improve methods for grading management efficacy. Recent research by Barr, Killgo, Siems and Zimmel (2002) generates a proxy for management quality that measures the relative productive efficiency of U.S. Commercial banks from 1984 to 1998. These efficiency scores suggest that significant differences in performance and soundness exist between the most efficient and least efficient institutions and point to the hump in the CAMELS rating as an important indicator of a bank's ability to survive.

Sound management is 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, for instance, efficiency measures do—as an indicator of management soundness. This parameter evaluates management quality so as to assign premium to better quality banks and discount poorly managed ones. As management quality is a subjective measure, it is very difficult to prescribe any specific rating method for this parameter, leaving this parameter open to subjective judgments. Under management quality following parameter can be analyzed:

1. Market covered on deposits
 2. Market Coverage on credit
 3. Market Coverage on Investment
 4. Deposits Growth
 5. Assets Growth
 6. Cost to Income
 7. Cost to deposits
 8. Earnings per share (EPS)
 9. Price/ Earnings Ratio
 10. Dividend payout ratio.
- Deposits growth shows how well a bank is successful in capturing the market's money.
 - Assets growth is the balance sheet growth indicating an aggressive

attitude towards growth.

- Cost to income is a ratio expressing a bank's cost effectiveness which sets operating expenses in relation to operating income. It is useful to measure how costs are changing compared to income - for example if a bank's interest income is rising but costs are rising at a higher rate looking at changes in this ratio will highlight the fact.
- Cost to deposit ratio shows the cost of fund. Lower the cost of deposit better for the bank as it directly hamper the overall profitability of a bank.
- EPS is a key ratio used in share valuations. It shows how much of the banks profit, after tax, each shareholder own.
- The P/E ratio looks at the relationship between the stock price and the company's earnings. The P/E is the most popular metric of stock analysis. Bank with high P/E ratios are more likely to be considered "risky" investments than those with low P/E ratios, since a high P/E ratio signifies high expectations. The higher the P/E ratio, the more the market is willing to pay for each rupee of annual earnings.
- Dividend payout ratio tells us what percentage return a bank pays out to shareholders in the form of dividends.

Earning Quality

Chronically unprofitable financial institutions risk insolvency. Compared with most other indicators, trends in profitability can be more difficult to interpret—for instance, unusually high profitability can reflect excessive risk taking. This parameter lays importance on how a bank earns its profit. This also explains the sustainability and growth in earnings in the future. Under Earning quality following parameters can be analyzed:

1. Return on Net worth (RONW)
2. Interest Spread/ Average working fund
3. Operating Profit to Average working Fund
4. Net profit to assets

5. Other income to net interest income
6. Interest Income to Total Income
7. Fee Based income to Total Income
8. Net profit to net worth

- RONW indicates the return on shareholders' fund. It should be reasonably be above the cost of capital to warrant ploughing back of the profits. This ratio is very important from share valuation point of view. For a company, net worth is the total assets minus total liabilities. Net worth is an important determinant of the
- Value of a company, considering it is composed primarily of all the money that has been invested since its inception, as well as the retained earnings for the duration of its operation. Net worth can be used to determine creditworthiness because it gives a snapshot of the company's investment history. Also called owner's equity, shareholders' equity, or net assets.
- Interest spread is the difference between interest income earned and interest expended. The ratio shows how much a bank can earn for every single rupee spent on working funds. The higher the ratio is better.
- Operating profit to average working fund ratio represents how much a bank can earn from its operation net of the operating expenses for every rupee spent on working fund. The higher the ratio, better for the bank.
- Net profit to asset measures the return on net worth or the return on the equity. A higher ratio means better income generating capacity of the assets and better earning potential in future.
- Other income to net interest income ratio determines the future ability to work on low spread. This also indicates whether a bank is solely reliant on interest income for its profit or are there other sources of income as well.
- Net profit to net worth measures the net worth or return on equity. This is very important ratio for the shareholders. A higher ratio means that the shareholders' funds are utilized in a better manner than would have been

elsewhere. Also, only a high return on equity justifies retention on profit.

Liquidity

Banks are in a business where liquidity is of prime importance. Banks must be able to manage demand and supply of funds. Cash balance, bank balance, investment in government bonds are the most liquid form of assets. Liquidity is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. This ability to convert an asset to cash quickly is also known as "marketability". It is safer to invest in liquid assets than illiquid ones because it is easier for you to get your money out of the investment. Examples of assets that are easily converted into cash include blue chip and money market securities.

The term liquidity is used in various ways, all relating to availability of, access to, or convertibility into cash.

- An institution is said to have liquidity if it can easily meet its needs for cash either because it has cash on hand or can otherwise raise or borrow cash.
- A market is said to be liquid if the instruments it trades can easily be bought or sold in quantity with little impact on market prices.
- An asset is said to be liquid if the market for that asset is liquid.

The common theme in all three contexts is cash. A corporation is liquid if it has ready access to cash. A market is liquid if participants can easily convert positions into cash. An asset is liquid if it can easily be converted to cash.

The liquidity of an institution depends on:

- The institution's short-term need for cash;
- Cash on hand;
- Available lines of credit;
- The liquidity of the institution's assets;
- The institution's reputation in the marketplace how willing will counterparty is to transact trades with or lend to the institution?

Under Liquidity following parameters can be analyzed:

1. Liquid assets to Total assets
2. Cash and bank balance to Total assets
3. Investment in Government securities to Total Assets
4. Cash Reserve Ratio. (CRR)
5. Credit to Deposits Ratio
 - Liquid asset to total asset shows the cash & bank and investments. The ratio shows the overall liquidity position of a bank.
 - Cash and bank has the highest liquidity and safety among all assets.
 - Investment in government securities are the second most liquid asset of any bank.
 - This is the amount of money that the banks have to necessarily park with Nepal Rastra Bank. The base of this is the total of the deposits that a bank has. In India, the RBI pays the bank interest on the amount parked with it but in Nepal Nepal Rastra Bank doesn't pay interest in it. Currently CRR is 5% of total deposits to be kept in Nepal Rastra Bank by commercial banks.

Credit to deposits ratio indicates the total advances as a proportion of total deposits. It indicates management aggressiveness and liquidity position of a bank to improve the income

Review of Books and Articles

Capital Adequacy

As an international standard, capital adequacy has been developed to ensure banks to absorb a reasonable level of losses before becoming bankrupt. Since it was launched in 1988, the Basel Capital Accord has become the global standard by which the financial soundness of banks is assessed. The outcome of an agreement among the members of the Basel Committee on Banking Supervision, comprising bank regulators from the Group of 10 countries, the Accord was originally intended to apply only to internationally active

banks headquartered in those countries. It is now applied, however, in most countries— industrial, emerging, and developing—and to most banks, including many that operate only domestically. Hence, recent proposals from the Basel Committee to update its now 12-year-old agreement raise significant issues that affect many countries besides the small group of countries represented on the Committee. The Committee recognizes this and has therefore been consulting widely on its proposals.

The Accord's original aims were to stem the decline in bank capital observed for much of the twentieth century. To achieve these objectives, the Basel Committee developed a simple risk-measurement framework that assigned all bank assets to one of four risk-weighting categories, ranging from zero to 100 percent, depending on the credit risk of the borrower. Inter-bank lending generally attracts a 20 percent risk weighting. The Basel methodology requires banks to maintain a minimum ratio of capital to total risk-adjusted assets - that is, the total for all of a bank's assets, after the amount of each asset has been multiplied by the relevant risk weighting—of 8 percent. The Basel Committee has decided to revise the Accord now for a number of reasons. Many leading banks have argued that their internal risk-management systems provide better evaluations of risk than the Basel Committee's framework, which, they argue, provides insufficient differentiation of bank assets by broad risk categories.

Although the Accord initially forced banks from the Group of 10 countries to raise additional capital, more than a decade of financial innovation has created risks that are not encompassed by its measurement framework. This document introduced three pillars -

1. Improving the framework for calculating capital adequacy,
2. Developing a process of supervisory review, and
3. Strengthening market discipline.

The overall aim is to produce a capital-adequacy standard that incorporates some of the refinements of modern risk-management practice while maintaining the concept of a regulatory minimum capital requirement.

1. Improved calculation of capital adequacy.

The primary methodology proposed by the Committee making regulatory use of ratings assigned by the credit-rating agencies has attracted a good deal of criticism. Allegations that the use of credit ratings as measures of risk has made capital flows more cyclical are undermined by experience: ratings have been stable over time, and the response of the rating agencies to the Asian crises was much less volatile than that of financial market participants.

The proper selection of rating agencies, however, is a key prerequisite for the successful use of external credit ratings. In consequence, the approvals process for credit rating agencies should be centralized, perhaps by creating a forum involving a representative group of local regulatory agencies and with the participation of multilateral financial institutions. Whereas the original Basel Accord prescribed rules for calculating capital, which the external ratings approach seeks to refine further, the internal ratings approach would shift the regulatory emphasis to assessing the quality of banks' own risk-management processes. The shift in emphasis parallels the 1996 Market Risk

Amendment to the Basel Accord, which permitted banks to use their internal value-at-risk (VaR) models as an alternative to the standardized approach for calculating capital requirements for market risk, subject to regulatory approval of these models. The new capital framework proposals seek to extend this philosophy to encompass credit risk as well.

Credit-risk models, which use many of the same statistical techniques as VaR models, are currently at the cutting edge of risk-management practice. One problem with such an approach, however, is that, in the Basel Committee's view, credit-risk models are not yet sufficiently refined to be used for regulatory purposes. Fundamental problems concerning the validation and back-testing of credit-risk models remain. The Basel Committee consequently proposes to make use of banks' own internal rating systems. The majority of banks—in both developed and developing countries—can therefore be expected to continue to use the standardized approach, incorporating whatever refinements the Basel

Committee ultimately decides on.

2. Upgraded supervisory review.

The second pillar of the Basel Committee's approach is supervisory review. By giving supervisory review the status of a second pillar of bank capital adequacy, the Basel Committee intends to ensure that the qualitative dimension of banking supervision is not overlooked.

Emerging markets and other developing countries' markets need to improve their ability to supervise banks and other financial institutions.

3. Increased use of market discipline.

The objective of this proposal is to create a class of investors whose incentives are aligned with those of banking supervisors and deposit-protection agencies, and who actively monitor, analyze, and exert discipline on banks. Most studies on the use of subordinated debt as an instrument of market discipline have focused on its potential use in the developed world, especially the United States

Review of Previous Studies

In this chapter, different previous studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created in this field of study.

Since this is my new field of study, I have taken information from the most related thesis so that any new information can be value added for my thesis work.

Acharya, Sabita Study (2004) conducted a research study on entitled "*A comparative study on financial performance of Nabil and Standard Chartered Bank*", an unpublished Master's Degree Thesis, T.U July 2004 is gyrated around the objectives function, policies and strategies of joint venture banks and analysis of their financial performance. She has

taken two sample banks - Nabil Bank and Standard Chartered Bank. Her finding shows that Standard Chartered Bank is more successful in generating profits than Nabil Bank. Both the banks had been able to utilize their assets satisfactorily. Comparatively, loan and advances to total deposits ratio, loan and advances to saving deposits ratio and non-performing assets to total assets ratio of Nabil Bank is higher than that of Standard Chartered Bank, however, loan and advances to fixed deposits ratio, performing assets to total assets ratio, performing assets to total debt ratio and investment to total deposits ratio of Standard Chartered bank is higher than that of Nabil. Most of the capital structure ratios show that capital structure of both banks are highly leveraged. The study comparatively made, indicated better liquidity position of Nabil Bank than that of Standard Chartered Bank.

Despite of her findings, she had recommended that

1. Profit is essential for the survival and growth. But over the study period both banks are seen unable to earn a satisfactory level of profit.
2. Standard Chartered bank should be more serious to improve the efficiency in utilizing its deposits in loan and advances for generating the profits. But however, both the banks should keep up their efforts in utilizing their assets in performing assets at their best level
3. With respect to leverage ratios, both banks are suggested to maintain an appropriate level of debt and owner's equity by increasing equity base.
4. In order to increase the market price of the share it is suggested Nabil bank should emphasize on increasing the value of Earning per share.
5. The economic liberalization policy adopted by HMG (His Majesty Government) has created an environment of strict competition even in the banking sector. In this context both banks are suggested to formulate and implement some sound and effective financial and non-financial strategies to meet required level of profitability as well as the social responsibilities.
6. She points out the current ratio of both the banks is below the normal standard 2:1 which indicates unsatisfactory liquidity position. This shows that both banks are aggressive in working capital policy

Her research is only revolving around objective functions and strategies of joint venture banks but did not clearly state the quality tools to measure the performance of a bank as a whole.

Puudel, Ramji (2000) has conducted another research study entitled, "*A comparative analysis of financial performance between Nepal Bank and Nepal Gryindlays Bank*", an unpublished Master Degree Thesis, T.U, 2000 has concluded that the current assets of the both banks are adequate to meet the current liabilities. However, Nepal Gryindlays Bank is far better in terms of utilizing its short term resources.

The research is only revolving around maximum utilization of current assets of the bank as a whole but did not clearly mention about the liquidity aspects to be maintained to measure the performance of a bank as a whole. A bank fails to cope with the situation if liquidity aspect of the bank is not properly handled.

Similarly Joshi, Deepak (2002) conducted another research study entitled, "A study on commercial banks of Nepal with special reference to financial analysis of Rastriya Banijya Bank" an unpublished Master Degree Thesis, T.U concluded that liquidity position is an important factor and may cause a serious problem if the bank has maintained low liquidity than required. Gradual increase in the amount of funded debt and highly geared capital structure seems to be negative performance for the bank. On the other hand, return on assets and equity is also less than satisfactory level. In the view of Mr. Deepak Joshi, the bank should invest its resources in more productive sectors and equity financing should be emphasized.

The research is only revolving around the liquidity aspect of the banks but has totally ignored the earning and assets quality of the bank.

Shakya. Sangita (2000) has conducted another research study entitled, "*Comparative Analysis of financial performance of selected Joint Ventures banks, A case study of Nepal Gryindlays Bank and Himalayan bank*," an unpublished Master Degree thesis, T.U, 2000 shows Himalayan Bank is more efficient in case of liquidity. Her finding also shows that Capital Adequacy, operational activity and profitability ratios were also better than Nepal

Gryindlays bank but while analysis the trend, profit before tax of Nepal Gryindlays bank has been increasing at the higher rate than that of Himalayan Bank.

The research is only revolving around performance appraisal between two bank and limited to extract the information within these banks only. She has completely ignored the empirical model to be applied for the better return and to maintain capital adequacy to the line of satisfying the need prescribed by Nepal Rastra Bank Bhattarai, Manoj (2002) conducted the research on “Dividend Policy and Its Impact on Market Price of Stock”, In his thesis, Manoj Bhattarai studied the dividend policy and its impact on market of stock with the data taken from two commercial banks and two insurance companies in 2002. He analyzed the data of five years from 1995 to 2000 using simple and multiple regression equations. The main objectives of his study are as follows:

- To study the prevailing practices and efforts made in dividend policy in the Nepalese firms with the help of sample firms.
- To find out the impact of dividend policy on market price of stock.
- To analyze if there is any uniformity among DPS, EPS, MPS and DPR in the sample firms.

In his thesis he has concluded that there is not any consistency in dividend policy in the sample firms. It has indicated the need of dividend strategy as well as the need of proper analysis of the respective sector of the firms.

Most of the Nepalese firm from the very past did not have profit planning and investment strategy, which has imbalanced the whole position of the firms. It means there is not consistency even in the earnings.

Besides all the D/P ratio of the sample firms, in many years, it is found more than the popular practice (i.e. 40%). The MPS is affected by the financial position and the dividend paid by the firms, in this regards the MPS of the sample firms is seem to be fluctuated. It denotes that Nepalese investors are not treated fairly. The lack of financial knowledge and the market inefficiency has affected the market price of the share in all

the firms.

Khatiwada, Narayan Prasad (2001) conducted a research study “Impact of Dividend and Earning Announcement on Shareholder’s Return and Stock Prices in Nepal”, A thesis conducted by Narayan Prasad Khatiwada in 2001 entitled Impact of Dividend and Earning Announcement on Shareholder’s Return and Stock Prices in Nepal collected the data of six joint venture commercial banks. The study carried out with the following objectives analyzed the data for the period of three years with the following objectives:

- To analyze the impact of earning and dividend announcement on shareholders return.
- To identify the correlation between the return of individual securities with market return.
- To identify the quality of systematic and unsystematic risk.

It was conclude in the thesis that the announcement of dividend and earning do not affect the shareholders return in average and shareholders realized positive abnormal return from half of the sample firms.

Rajbhandari, Prerana Laxmi (2001) conducted a study on dividend policy. She has taken the data from three commercial banks and three insurance companies for five years covering the period of 1994/95 to 1998/99. The main objectives of her study are as follows:

- To examine the relationship between and market price of the stock.
- To identify the appropriate dividend policy followed by the banks and insurance companies.
- To analyze the relationship between dividend policy decision of banks and insurance companies.

After the analysis, Mrs Rajbhandari found out and concluded that the average DPS & EPS of all sample forms seem satisfactory; the analysis of coefficient of variation shows that there is the largest fluctuation in EPS and DPS; the analysis of dividend payout ratio shows, none of the banks or insurance companies have constant payout ratio each year. It is

fluctuating from year to year.

Timilsena, Sadakar (1997) completed his study on *"Dividend and Stock Prices: An Empirical Study"*, as a Thesis for the partial fulfillment of MBS. This study on dividend and stock prices was carried out by using the data from 16 enterprises from 1990 to 1994.

The objective of this study was as follows:

- To test the relationship between dividend per share and stock prices.
- To determine the impact of dividend policy on stock price.
- To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.
- To explain price behavior, the study used simulation equation model as developed by Friend and Puckrtt (1964).

The relationship between dividend Per Share and stock price is positive in the sample companies.

Dividend per share affects the share price variedly in different sectors. Changing the dividend policy or dividend per share might help to increase the market price of shares.

The relationship between stock price and retained earnings is not prominent. The relationship between stock prices and lagged earnings price ratio is negative.

Gautam, Rishi Raj (1996) in his unpublished thesis entitled *"Dividend Policy in commercial Banks: A Comparative Study of NGBL, NIBL and NABIL"* has conducted a comparative study of dividend policy of commercial banks by using the secondary data of three banks in 1998. The major findings of his study are as follows:

Average earning per share and dividend per share of all concerned banks are satisfactory.

Analysis indicates the largest fluctuations in earning per share and dividend per share. No banks exhibit constant dividend payout ratio.

There is no clearly defined dividend strategy in the sample banks in spite of good earning

and potentials. On the other hand there is significant relationship perceived between earnings and dividend of expansion program.

Correlation between DPS and EPS of all sample banks is fairly positive. But it is fairly safe to say that the relationship is not significant.

Theoretically, issue of bonus share has equal impact on EPS, MPS and DPS. But in case of these sample banks, a significant variation in the degree of impact is observed. Pradhan, Radhe Shyam (1993) conducted a landmark study "Stock Market Behavior in Small Capital Market: A Case of Nepal", The Nepalese Management Review, vol. IX, (Summer, 1993), in the field of dividend policy in Nepal. He studied stock market behavior of 17 firms covering the period 1986 to 1990 with the following objectives:

- To access the stock market behavior in Nepal.
- To examine the relationship of market equity, market value, price earning and dividend with liquidity, profitability, leverage, assets turnover and interest turnover.

At last he found out and concluded that higher earnings on stock leads to the larger ratio of dividend per share. Stock with larger ratio of dividend per share to market price have lower leverage ratio. Stocks with larger ratio of dividend per share to market price have higher liquidity. Positive relationship between the ratio of dividend per share to market price and interest coverage ratio. Dividend per share and market price per share are positively correlated. Positive relationship of dividend payout with liquidity, profitability, assets turnover and interest coverage ratios.

Pandeya, Bishnu Dev (2000) has conducted another research study entitled, "*A study of financial analysis on Himalayan Bank*" an unpublished Master Degree's thesis, T.U, 2000 shows the financial position of Himalayan Bank for the period of 1994/95 to 1998/99. He had tried to examine the growth of Himalayan Bank. He concluded that the overall liquidity and capital structure position of the bank is below the satisfactory boundary. Profitability was mostly from loan and advances. Trend of deposits collection showed the bank was in higher risk with respect to saving and fixed deposits.

The research shows that trend of deposits collection of bank was in higher risk with respect to saving and fixed deposits but had ignored the gap analysis aspect where accepting deposits and raising the risk assets proportionately.

Siwakoti. Rajendra Prasad (1998) has conducted another research study entitled, "*A study on an appraisal of financial position of Nepal Gryindlays Bank*", an unpublished Master Degree's thesis, T.U , 1998 has attempted to highlight the functions and fundamental policies of said bank. The study was of period 1988/89 to 1994/95 – a years period analysis. The study was performing to reveal SWOT (Strength, Weakness, Opportunities and Threats) of Nepal Gryindlays Bank during the periods. Study shows that the liquidity position of the bank is below the standard where as capital structure is highly leverage. The coverage ratio interest earned to total assets, return in net worth is also not satisfactory. The capital adequacy of the bank is above the standard set by Nepal Rastra Bank.

Thought the research is one of the good attempts to show an appraisal of financial position of Nepal Gryindlays bank was limited only to interest coverage ratio and the liquidity aspect. It has failed to describe other factor like management quality, earning quality, assets quality and capital adequacy of the bank which are also vital for any bank appraisal.

Bhattarai, Shama (2004) had conducted another research study entitled "*Implementation of directives issued by Nepal Rastra Bank, a comparative study of Nepal SBI Bank and Nepal Bangladesh Bank limited with respect to capital adequacy, loan classification and provisioning*", an unpublished Master's Degree Thesis, T.U July 2004 has attempted to examine the norm and standard laid down by Nepal Rastra Bank relating to capital adequacy, loan classification and provisioning by making a comparative study between Nepal Bangladesh Bank and Nepal SBI Bank. The study was undertaken to find out the impact of the changes in Nepal Rastra Bank's directives on the performance of the commercial banks. An effort was also made to find out whether the directives were implemented and that Nepal Rastra Bank was taking enough steps to monitor the implementation. The study reveals that there was a significant impact of the directives on

the various aspects of the commercial banks. For instance, the increased provisioning amount would decrease the overall profitability of the commercial banks. It was also found that both the banks would fall short in supplementary capital, however, maintained its total capital according to new directives relating to capital adequacy norms.

Though the research had covered major part, it has only gyrated around the directives and limitation outside the directives has totally ignored as per the international standard like Basel II. It did not clearly mentioned about the quality of the commercial bank expect the capital adequacy, loan standard laid down by Nepal Rastra bank.

Dhungel, Preetam (2006), conducted a research study on “*Credit Management In Nepalese Commercial Banks (Nabil bank limited and Everest Bank*” an unpublished Master's Degree Thesis, T.U July 2006 has attempted to examine the norm of credit management in Nepalese Commercial Banks. The study was undertaken to find out whether the credit management by Financial institutions are quality or quantity. The effort reveals there was a significant impact of credit in Nepalese banking sector in terms of performance. The analysis of Non Performing Loan (NPA) is directly related with the credit management of the banks. The study has shown that the good credit management has lower NPA whereas the aggressive credit policy has higher NPA.

Though the research has covered the handful quality part of credit, it has ignored the standard credit deposit ratio evaluate the performance criteria. The impact of aggressive credit management and liquidity aspect has totally ignored in the study.

Similarly, Tiwari, Din Nath (2006) has conducted a research study on “*Credit management of Himalayan bank*” an unpublished Master's Degree Thesis, T.U July 2006 has attempted the good effort in analyzing the credit management. Here the attempt was shown on the basis of liquidity position, current ratio and loan and advances to total assets with respect to the credit management of the bank. The study was undertaken to show the relation among good credit management and liquidity management, total assets etc.

Though the research is one of the good finding in the area of credit management, it has

also failed to show the credit deposits ratio of the bank in relation with the credit management. The risk of having high credit deposit management in relation to NPA and bad loans has totally ignored in the study.

Neupane, Hari Prasad (2006) has conducted the research study on : *A study of cash flow analysis of commercial banks in Nepal*” an unpublished Master's Degree Thesis, T.U July 2006 has attempted to examine liquidity aspect of the commercial banks. Here he has focused more on the cash flow aspect of the commercial banks to meet the day-to-day operation cash flow. The relation between good liquidity and soundness of the banks has been highlighted more in the study.

Though the study was a good concern relating to the liquidity of the banks, it has ignored the direct impact between the liquidity and profitability of the banks. As we know any beyond the sufficient liquidity hampers the profitability of the bank, the study is silent in the aspect of showing the standard liquidity to be maintained in the bank. The analysis is mainly hovering around the analysis of balance sheet, liquidity position of the bank and operating cash flow only. The analysis of liquidity to other aspect is still found to be silent.

Review of Article

The article on "Role of Foreign Banks in Nepal", on Nepal Rastra Bank Samachar, Nepal Rastra Bank Baishak 2049, pp 1-2, by Sunil Chopra unquestionably conducted that joint venture banks are playing an increasingly dynamic and fundamental role in the economic development of the country which in return increase with time.

The article entitled "Capital adequacy of bank, The Nepalese Context" by R.L Shrestha in NRB Samachar, 34th Anniversary 2046, pp 24-27 has suggested the banks that deal in highly risky transaction to maintain strong capital base. He concluded that the capital base should neither be too much leading to inefficient allocation of scarce resources nor too weak to expose to extreme risk. The study accepts that the operations of the banks and the degree of risk associated with them are subject to changes country wise, bank

wise and time period wise.

The another article entitled "Banijya Bank Haru ko Star Nirdharan" by Nepal Rastra Bank, Bank Regulation and Supervision Department on Kantipur daily dated 27th Ashad 2062 had published 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 five factors examined are as follows:

- C Capital adequacy
- A Asset 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 banks 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 Rasta Bank using the "CAELS" rating standard:

Banks	*NRB Rating (Poush 2061)	*NRB Rating (Chaitra 2061)
Nepal Industrial & Commercial Bank	11	1
Everest Bank	1	2
Standard Chartered Bank Nepal	2	3
Nabil Bank	5	4
Laxmi Bank	3	5
Nepal Investment Bank	10	6
Bank of Kathmandu	12	7
Machhapuchhre Bank	4	8
Siddhartha Bank	13	9
Nepal SBI Bank	9	10
Nepal Bangladesh Bank	8	11
Himalayan Bank	6	12
Kumari Bank	7	13
Nepal Credit & Commerce Bank	14	14
Lumbini Bank	15	15

Source: Kantipur Daily (Ashadh 27, 2062).

The total point for this rating was 13,480 where Nepal Industrial & commercial bank had scored 1,250 points out of 13,480 and saved the position of 1st among the other commercial banks. Previously, this bank was on 11th position. With the better performance and remarkably change in Capital standard and the profit earned resulted this bank as in 1st position while rating.

Another related article entitled, "Ranking of Commercial Banks: the M Factor", by Brinda Shrestha - a treasury dealer in Laxmi Bank published an article in Business Age, August 2005 issue 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 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 measures of performance and reveals relationship between efficiency and soundness .She summarized that any bank's 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 Nepal Rastra Bank, she is also suggesting and awaking Nepal Rastra Bank and general people to consider M factor while making any decision. Anyways, she had also welcomed this kind of rating used by Nepal Rastra Bank generalizing this is the right track direction 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 based 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" puts Nepal Industrial and commercial bank in 5th position while Nepal Rastra Bank had declared 1st position by using "CAELS" rating standard. The variance of this position clearly shows 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.

Following is the table reflecting the ranking presented by Mrs. Brinda Shrestha - the treasury dealer of Laxmi Bank using the "CAMEL" rating standard:

Banks	*NRB Rating (Poush 2061)	*NRB Rating (Chaitra 2061)	CAMEL Rating
Standard Chartered Bank Nepal	2	3	1
Nabil Bank	5	4	2
Himalayan Bank	6	12	3
Nepal Investment Bank	10	6	4
Nepal Industrial & Commercial Bank	11	1	5
Laxmi Bank	3	5	6
Everest Bank	1	2	7
Bank of Kathmandu	12	7	8
Kumari Bank	7	13	9
Machhapuchhre Bank	4	8	10
Siddhartha Bank	13	9	11
Nepal SBI Bank	9	10	12
Nepal Bangladesh Bank	8	11	13
Nepal Credit & Commerce Bank	14	14	14
Lumbini Bank	15	15	15

Source: Business Age (August 2005 issue).

CHAPTER - 3

RESEARCH METHODOLOGY

3. Introduction

In order to start any activities, pre planning of way to perform that activity is not only necessary but is also very important. It is important in the sense that it not only makes us easy to act and perform but also helps us to obtain our desired results and objectives within the specified time period. For analyzing the profitability in the context of commercial banks in Nepal we do have to determine the systematic process that we are going to use. An introduction relating to this thesis work is made in the first chapter and relevant literatures are reviewed in the second chapter. The 'research methodology', which is used to analyze to collected data, are mentioned in this chapter.

Research methodology is the way to solve systematically about the research problem. (Kothari; 1990: 39) This chapter highlights about the methodology adopted in the process of present study. It also focuses about sources and limitations of the data, which are used in the present study. 'Research Methodology' is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study. "Research methodology" refers to the various sequential steps (along with a rationale, of each such step) to be adopted by a researcher in studying a problem with certain object/objects in view" (Kothari; 1990: 39). This chapter incorporates Research design, Nature and Sources of Data, Population and Sample, Data collection procedure and lastly, Methods of Analysis. This chapter offers the methods of investigation followed by the objective of the case study, also states the sources and limitations of the data used in the study. So, it is the methods, steps, and guidelines, which are to be followed in analysis, and it is a way presenting the collected data with meaningful analysis.

Research Design

The word “Research” is derived from French word “Researcher” which means to seek again. Therefore to seek and compare the concerned banks for the case study, the research is designed as per objectives of the study.

According to Kerlinger “Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the paradigm of the operation of the variables. When we draw diagrams that outline the variables and their relation and juxtaposition, we build structural schemes for accomplishing operational research purposes. Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problems encountered in the research will be tackled.” (Kerlinger; 1986: 275) But if we are to describe in one sentence it is purely and simply the framework or plan for a study that guides the collection and analysis of the data.

The research design is of both descriptive and prescriptive nature. Descriptive research is used to compare and to assess the opinions, behaviors of the firms and to describe the situation and events occurring during the study period where analytical research is used to find out the result employing financial as well as statistical tools. For the analytical purpose, the annual reports published by the related banks and other publications of the related banks published by the banks respectively and Nepal Rastra Bank, Nepal Stock Exchange Ltd & other related agencies, were collected for the year fiscal year 2006/07 to 2003/04. In this study both descriptive and analytical research design is used.

Nature and Sources of Data

Though the study will mainly be based on the secondary data provided by concerned

banks, primary data in relation to the subject matter will also be collected. The primary data will be collected in the form of interview, questionnaire and in other forms while secondary data will be collected from annual reports, profit and loss accounts, balance sheets, brochures, journals and articles published in various magazines, newspapers and other internal banking reports and publications. Besides it other necessary information that is concerned to the topic will also be gathered from different websites, related banks and related agencies like Nepal Rastra Bank, Nepal Stock Exchange Limited, Ministry of Finance, National Planning Commission etc.

Data Processing Procedures

For the purpose of this study, the different data are obtained from different sources, which are scanned and tabulated under different heads. After tabulation, they are analyzed by applying both financial and statistical tools.

Population and Sample Size

Currently there are 23 commercial banks operating under the approval of Nepal Rastra Bank.

Table 1

S.N.	Name of Commercial Banks	Established Date	Authorized Capital	No. of Branches
1	Nepal Bank Limited	1994/04/30	1,000	98
2	Rastriya Banijya Bank Limited	2022/10/10	1,500	118
3	Nepal Arab Bank Limited (NABIL)	2041/03/29	5,00	19
4	Nepal Indosuez Bank Limited (Nepal Investment Bank Ltd.)	2042/11/16	1,000	21
5	Standard Chartered Bank Nepal Limited	2043/10/16	1,000	17

6	Himalayan Bank Limited	2049/10/05	1,000	19
7	Nepal SBI Bank Limited	2050/03/23	1,000	22
8	Nepal Bangladesh Bank Limited	2050/02/23	3,000	17
9	Everest Bank Limited	2051/07/01	1,000	29
10	Bank of Kathmandu Limited	2051/11/28	1,000	22
11	Nepal Credit & Commerce Bank Limited	2053/06/28	2,000	17
12	Lumbini Bank Limited	2055/04/01	2,000	5
13	Nepal Industrial & Commercial Bank Ltd.	2055/04/05	1,000	13
14	Macchapuchre Bank Limited	2057/06/17	2,000	22
15	Kumari Bank Limited	2056/08/24	2,000	14
16	Laxmi Bank Limited	2058/06/11	1,000	14
17	Siddhartha Bank Limited	2058/06/12	8,20	10
18	Agriculture Development Bank	2006/03/16	12,000	
19	Global Bank	2007/06/21	2,000	7
20	Citizen bank International	2007/06/21	2,000	9
21	Prime Commercial Bank Ltd	2007/09/24	1,500	7
22	Bank of Asia Nepal Ltd	2007/10/12	2,000	10
23	Sunrise Bank Ltd	2007/10/12	2,000	7
24	Development Credit Ltd	2008/05/25	2,000	5
25	NMB Bank Ltd	2008/05/26	1,000	4
26	Kist Bank	2009-04-05	2000	12

Out of the above banks, the samples to be selected are as follows:

1. Standard Chartered Bank Nepal Limited
2. Nepal Arab Bank Limited (NABIL)
3. Nepal Investment Bank.

4. Himalayan Bank Limited
5. Kumari Bank Limited
6. Laxmi Bank Limited

Period of the Study

The whole study is based on the financial figure from FY 2006/07 to FY 2003/2004

Method analysis

Financial tools and empirical models will be tried to be used in the process of research and study. Main focus will be given to ratio analysis as it is taken as the powerful tool of financial analysis to point out the economic and financial position of business unit through which it can be x-rayed

Ratio Analysis

Ratio analysis is one of the most powerful tools for analyzing the financial performance of any firm. Since many diverse groups of people are interested in analyzing the financial information to indicate the operating and financial efficiency and growth of the firm. These people use ratio to determine those financial characteristics of the firm in which they are interested.

Utility of ratio analysis can hardly be neglected. With the help of ratios, one can determine

- ❖ The ability of the firm to meet its current obligations
- ❖ The extent to which the firm has used its long- term solvency by borrowing funds
- ❖ The efficiency with which the firm is utilizing its assets in generating sales revenue and

The overall operating efficiency and performance of the firm

In this ratio analysis we mainly focus on the following ratios of the sample institutions.

1. Capital Adequacy Ratio:
2. Assets Quality Ratio:
3. Management Quality Ratio:
4. Earning Quality Ratio:
5. Liquidity Ratio

With above analysis, detail analysis on return, expense, income and market related ratios have been made in order to find out the true picture of profitability of the sample banks. Profitability analysis would be incomplete if these above aspects are not taken into considerations.

CHAPTER - 4

DATA PRESENTATION AND ANALYSIS

Parameter

Following assumption has been done while scoring each and every parameter used for determining value.

S.No.	Parameters	Weight age (%)
1.	Capital Adequacy	10
2.	Asset Quality	25
3.	Management Quality	15
4.	Earning Quality	25
5.	Liquidity	25
Total		100

Capital Adequacy Ratio.

Capital adequacy indicates whether the bank has enough capital to absorb unexpected losses. It is required to maintain depositor confidence and preventing the bank from going bankrupt.

The banks have to maintain the capital adequacy ratio specified by Nepal Rastra Bank from time to time. Capital adequacy ratio is equal to the ratio of TIER - I and TIER - II capital to the aggregate of risk weighted assets (RWA). An aggregate measure of capital adequacy potentially disguises information on individual institutions. It is useful to supplement the aggregate ratio with information on the dispersion of ratios for individual institutions or sub sectors of the banking system.

The capital adequacy ratio is calculated as:

$$\text{Risk-based Capital Adequacy Ratio} = \frac{\text{Capital}}{\text{Risk-Weighted Assets}} \times 100$$

Where: Capital = (tier 1 Capital - Goodwill - other related items) + (tier 2 Capital)

Tier-1 capital, or "core capital," consists of equity capital and disclosed reserves that are considered freely available to meet claims against the bank. Equity investment on subsidiaries, intangible assets, losses in current period and those brought forward from previous year will be deducted from Tier - I capital.

Tier-2 capital consists of financial instruments and reserves that are available to absorb losses, but which might lack permanency, have uncertain values, might entail costs if sold, or otherwise lack the full loss-absorption capacity of tier 1 capital items. Goodwill is subtracted because the value of goodwill may fall during crises, and various adjustments are made to capital to prevent possible double counting of value. Risk-weighted assets, the denominator, are the weighed total of each class of assets and off-balance-sheet asset exposures, with weights related to the risk associated with each type of asset.

4.2 FY 2007/08

Capital Adequacy and its Rating

Dimension	Percentage										
Capital Adequacy Ratio	Below 11%	11%	12%	13%	14%	15%	16%	17%	18%	19%	Above 20%
Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given based on their merit percentage obtained in related to the standard prescribed by Nepal Rastra Bank which is 11%. Below the standard, we have assigned zero point and above twenty percentages (20%), we have assigned ten (10) points

as shown in above table.

For FY 2007/08

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Core Capital	1,951	1,993	2,0105	1,852	1,020	841
Supplementary Capital	274	315	547	999	95	81
Total Capital	2,225	2308	2651	2851	1115	922
RAW	14168	19167	21890	23435	9960	7416
Min. Capital Fund (@11%)	1559	2108	2408	2578	1096	816
Min. Core Capital (@5.5%)	779	1054	1204	1289	548	408
Capital Fund (Excess/short)	667	199	243	273	20	106
Core Capital (Excess/short)	1172	939	901	563	472	433
Capital Adequacy Ratio	15.71%	12.04%	12.11%	12.17%	11.20%	12.43%
Point (10)	6	1	2	2	1	2

In the above table Standard Chartered Bank has got the highest point. Capital adequacy of other banks is almost par with the standard given by Nepal Rastra Bank. Below this, Nepal Rastra Bank will interrupt time to time to banks to maintain the capital adequacy at least to 11%. Here Standard Chartered Bank has more room to flow the loans compare to other banks.

Assets Quality and their Rating

S.N.	Dimension	Percentage										
1.	Total Loan Loss provision to Total Credit	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	Above 10%
	Points	10	9	8	7	6	5	4	3	2	1	0
2.	Non Performance Assets to Total Credit	0%	1%	2%	3%	4%	5%	6%	7%	8% to 9%	10 %to 11%	Above 12%
	Points	10	9	8	7	6	5	4	3	2	1	0
3.	Contingent Liabilities/Total Assets*	<8% or >28%	9% or 27%	10% or 26%	11% or 25%	12% or 24%	13% or 23%	14% or 22%	15% or 21%	16% or 20%	17% or 19%	18%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Average Yield (Credit & Investment)**	<5.0% or >10.0%	<5.25% or >9.75%	<5.50% or >9.50%	<5.75% or >9.25%	<6.0% or >9.0%	<6.25% or >8.75%	<6.50% or >8.50%	<6.75% or >8.25%	<7.0% or >8.0%	<7.25% or >7.25%	8%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Investment to Total Assets*	Below 5%	Above 5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Loans & Advances to Total Assets*	Above 75%	Below <75%	<70%	<65%	<60%	<55%	<50%	<45%	<40%	<35%	30#
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2007/08

Figures in Million

Banks	SCB	NABI L	HBL	NIBL	Kumari	Laxmi
Total Loan Loss Provision	288	14	91	482	133	92
Total Credit (Loans & Advances)	10503	15546	17286	17286	8929	6437
Non Performing Assets	197	178	642	421	66	23
Investments	13553	8945	11823	9761	1678	1437
Total Assets	28597	27253	33519	27590	11918	8583
Interest Income	1412	1588	1775	1585	791	470
Contingent Liabilities	6854	5695	6854	8365	1414	1281
Total Loan Loss Provision to Total Credit	2.74%	0.09%	0.52%	2.79%	1.19%	1.43%
Points	8	10	10	8	9	10
Non Performing Assets to Total Credit	1.88%	1.15%	3.71%	2.44%	0.74%	0.36%
Points	8	9	6	7	9	10
Contingent Liabilities/Total Assets*	24%	21%	20%	30%	12%	15%
Points	4	7	8	1	4	7
Average Yield (Credit & Investment)**	5.68%	6.65%	6.44%	5.86%	7.39%	5.22%
Points	2	7	6	3	9	1
Investment to Total Assets*	47%	33%	35%	35%	14%	17%
Points	10	7	7	7	3	4
Loans & Advances to Total Assets*	37%	57%	52%	63%	75%	75%
Points	8	4	5	3	2	2
Points	67%	73%	70%	48%	60%	57%
Total Points (25)	16.67	18.33	17.50	12.08	15.00	14.17

Assets quality indicates what types of advances the bank has made to generate interest income. When loans are given to highly rated blue chip corporate, the rates attracted are lower than that by lower rated doubtful corporate. Thus assets quality indicates the type of debtors of the bank.

In above tables, comparing all the dimensions of Asset quality, it is found that Nabil

Bank is the best among the selected banks where are Laxmi Bank stands last position.

Management Quality and its Rating

S.N.	Dimension	Percentage										
		Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
1.	Market Coverage on Deposit	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Market Coverage Credit	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Market Coverage Investment	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Deposit Growth	Negative	0% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Assets Growth	Negative	0% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Cost to income Ratio	0% to 30%	31% to 35%	36% to 40%	41% to 45%	46% to 50%	51% to 55%	56% to 60%	61% to 65%	66% to 70%	71% to 75%	Above 76%
	Points	10	9	8	7	6	5	4	3	2	1	0
7.	Cost of Deposit	0% to 0.7%	0.8% to 1.4%	1.5% to 2.1%	2.2% to 2.8%	2.9% to 3.5%	3.6% to 4.2%	4.3% to 4.9%	5.0% to 5.6%	5.7% to 6.3%	6.4% to 7.0%	Above 7.1%
	Points	10	9	8	7	6	5	4	3	2	1	0
8.	Earning Per Share (EPS)	Negative	0% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
9.	Price/Earning Ratio	0	1-2 times	3-4 times	5-6 times	7-8 times	9-10 times	11-12 times	13-14 times	15-16 times	17-18 times	Above 19 times
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2007/08

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Total Credit	10,503	15,546	17,286	17,286	8,929	6,437
Investment	13,553	8,945	11,823	9,761	1,678	1,437
Total Assets	28,597	27,253	33,519	27,590	11,918	8,583
Deposit	24,647	23,342	30,048	24,489	10,557	7,612
Market Value per Share	5,900	5,050	1,740	1,729	830	690
Earning per Share	167	137	61	63	23	11
Interest Income	1,412	1,588	1,775	1,585	791	470
Non Interest Income	29	88	40	47	15	16
Interest Expenses	413	556	767	686	397	280
Personal Expenses	200	240	272	145	74	49
Other Operating Expenses	228	188	342	243	104	64
Total Operating Cost	428	428	614	388	178	112
Non Interest Spread	999	1,032	1,008	899	394	190
Market Coverage on Deposit	7%	6.92%	9%	7%	3%	2%
Points	7	7	9	7	2	2
Market Coverage Credit	5%	6.71%	7%	7%	4%	3%
Points	5	7	7	7	3	3
Market Coverage on Investment	14%	9.56%	13%	10%	2%	2%
Points	10	9	10	10	2	2
Deposit Growth	7%	20.65%	13%	29%	36%	71%
Points	1	3	2	3	4	8
Assets Growth	11%	22%	14%	29%	32%	65%
Points	2	3	2	3	4	7
Cost to income Ratio	1.49%	2.50%	2.49%	1.58%	3.91%	3.90%
Points	8	7	7	8	5	5
Cost of Deposit	167.37	137.08	60.66	62.57	22.70	10.75
Points	10	10	7	7	3	2
Price/Earning Ratio	35	36.84	29	28	37	64
Points	4	4	3	3	4	7
Dividend Payout Ratio	130%	140.00%	40%	5%	11%	0%
Points	10	10	4	1	2	-
Points	64%	68%	55%	56%	36%	41%
Total Points (15)	9.60	10.20	8.25	8.40	5.40	6.15

Management quality here used to evaluate management skills and quality so as to assign premium to better quality of the banks and discount poorly managed ones.

In above table, after considering all dimension, we found that management quality of Nabil bank stand first position whereas Kumari Bank stands last position.

Earning Quality and its Rating

S.N.	Dimension	Percentage										
		0%	1% to 4%	5% to 8%	9% to 12%	13% to 16%	17% to 20%	21% to 24%	25% to 28%	29% to 32%	33% to 36%	Above 37%
1.	Return on Net Worth	0%	1% to 4%	5% to 8%	9% to 12%	13% to 16%	17% to 20%	21% to 24%	25% to 28%	29% to 32%	33% to 36%	Above 37%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Interest	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Operating Profit to	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Net Profit to Assets	0% to 0.3%	0.4% to 0.6%	0.7% to 0.9%	1.0% to 1.2%	1.3% to 1.5%	1.6% to 1.8%	1.9% to 2.1%	2.2% to 2.4%	2.5% to 2.7%	2.8% to 3.0%	Above 3.0%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Other income to Net Interest	0%	1% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Net Profit to Net Worth	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 5.0%
	Points	0	1	2	3	4	5	6	7	8	9	10
7.	Interest Income Total	Below 60%	61% to 64%	65% to 68%	69% to 72%	73% to 76%	77% to 80%	81% to 84%	85% to 88%	89% to 92%	93% to 96%	97% to 100%
	Points	10	9	8	7	6	5	4	3	2	1	0
8.	Fee Based income to Total Income	0%	1% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being best.

For FY 2007/08

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Other Income	29	88	40	47	15	16
Commission and Discount Income	221	151	193	164	41	15
Interest Income	1,412	1,588	1,775	1,585	791	470
Total Income	1,662	1,826	2,009	1,796	847	501
Interest Expenses	413	556	767	686	397	280
Interest Spread	999	1,032	1,008	899	394	190
Operating Profit	1,093	1,038	689	727	267	107
Net Profit after Tax	692	674	492	501	170	66
Net worth	2,116	2,057	2,146	1,878	1,025	864
Average Working Fund (Total Assets)	28,597	27,253	33,519	27,590	11,918	8,583
Return on Net Worth (Net Profit to New Worth)	32.68%	32.76%	22.91%	26.68%	16.61%	7.59%
Points	8	9	6	7	4	2
Interest Spread/Average Working Fund	3.5%	3.8%	3.0%	3.3%	3.3%	2.2%
Points	6	7	5	6	6	4
Operating Profit to Average Working fund	3.8%	3.8%	2.1%	2.6%	2.2%	1.2%
Points	7	7	4	5	4	2
Net Profit to Assets	2.4%	2.5%	1.5%	1.8%	1.4%	0.8%
Points	7	8	4	5	4	2
Other Income to Net Interest	3%	8%	4%	5%	4%	8%
Points	1	1	1	1	1	1
Interest Income to Total Income	85%	87%	88%	88%	93%	94%
Points	3	3	3	3	1	1
Fee Based income to Total Income	13.31%	8.25%	9.62%	9.13%	4.81%	3.02%
Points	2.00	1.00	1.00	1.00	1.00	1.00
Points	49%	51%	34%	40%	30%	19%
Total Points	12.14	12.86	8.57	10.00	7.50	4.64

The earning quality lays importance on how a bank earns its profit. This quality also explains the sustainability and growth in earnings in the future.

Comparing above table, we found that again Nabil bank is in first position.

Where as Laxmi Bank is in last position.

Liquidity Quality and its Rating

S.N.	Dimension	Percentage										
		0%	1% to 5%	6% to 10%	11% to 15%	16% to 20%	21% to 25%	26% to 30%	31% to 35%	36% to 40%	41% to 45%	Above 46%
1.	Liquid Assets to Total Assets	0%	1% to 5%	6% to 10%	11% to 15%	16% to 20%	21% to 25%	26% to 30%	31% to 35%	36% to 40%	41% to 45%	Above 46%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Cash & Bank Balance to total Assets	0%	1% or > 19%	2% or 18%	3% or 17%	4% or 16%	5% or 15%	6% or 14%	7% or 13%	8% or 12%	9% or 11%	10%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Investment Gov. Securities to Total Assets	0%	1% to 3%	4% to 6%	7% to 9%	10% to 12%	13% to 15%	16% to 18%	19% to 21%	22% to 24%	25% to 27%	Above 28%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Cash Reserved Ratio*	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	>15% or <5%
	Points	10	9	8	7	6	5	4	3	2	1	0
5.	Credit to Deposit Ratio	Below 55%	56% to 60%	61% to 65%	66% to 70%	71% to 75%	76% to 80%	81% to 85%	86% to 90%	91% to 95%	96% to 100%	Above 100%
	Points	10	9	8	7	6	5	4	3	2	1	0

In the above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2007/08

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Investment in Govt. Securities	7,108	4,808	6,455	3,256	1,298	978
Money at call and short notice	1,761	564	1,710	363	372	13
Cash Balance	378	270	177	764	191	119
Balance with other Banks	1,643	1,129	1,580	3,058	481	350
Total Liquid Assets	10,890	6,772	9,922	7,441	2,342	1,461
Total Assets	28,597	27,253	33,519	27,590	11,918	8,583
Deposit	24,647	23,342	30,048	24,489	10,557	7,612
Total Loans & Advances	10,503	15,546	17,286	17,286	8,929	6,437
Liquid Assets to Total Assets	38%	25%	30%	27%	20%	17%
Points	8	5	6	6	4	5
Cash & Bank Balance to Total Assets	7%	5%	5%	14%	6%	5%
Points	7	5	5	6	6	5
Investment in Gov. Securities to Total Assets	25%	18%	19%	12%	11%	25%
Points	9	6	7	4	4	4
Cash Reserve Ratio	5.46%	6.00%	5.92%	5.92%	3.65%	5.65%
Points	10	9	9	9	0	9
Credit to Deposit Ration	43%	67%	58%	71%	85%	43%
Points	10	7	9	6	4	4
Points	88%	64%	72%	62%	36%	54%
Total Points	22.00	16.00	18.00	15.50	9.00	13.50

Banks are in a business where liquidity is of prime importance. Among assets, cash and investment are the most liquid of a bank's assets. There is an international saying- "A bank goes wrong when its liquidity goes wrong. It's not the bad loans that make bank failure. It is liquidity that makes bank failure.

With a view, in a above table, Standard Chartered Bank is the best in terms of liquidity and

Kumari Bank Stands last.

4.3 FY 2006/07

Capital Adequacy and its Rating

Dimension	Percentage										
	Below 11%	11%	12%	13%	14%	15%	16%	17%	18%	19%	Above 20%
Capital Adequacy Ratio											
Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard prescribed by Nepal Rastra Bank which is 11%. Below the standard, we have assigned zero point and above twenty percentages (20%), we have assigned ten (10) points as shown in above table.

For FY 2006/07

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Core Capital	1,606	1,830	2,104	1,393	812	604
Supplementary Capital	237	258	546	701	78	34
Total Capital	1,843	2,088	2,650	2,094	890	638
RAW	12,369	16,976	21,889	17,491	7,943	3,085
Min. Capital Fund (@ 11%)	1,361	1,867	2,408	1,924	874	339
Min. Core Capital (@ 5.5%)	680	934	1,204	962	437	170
Capital Fund (Excess/Short)	482	221	242	170	16	299
Core Capital (Excess/short)	926	896	900	431	375	434
Capital Adequacy Ratio	14.90%	12.30%	12.11%	11.97%	11.20%	20.68%
Point (10)	4	2	2	1	1	10

In the above table Laxmi Bank Ltd has got the highest point. Capital adequacy of other banks is almost par with the standard given by Nepal Rastra Bank. Below this, Nepal Rastra Bank will interrupt time to time to banks to maintain the capital adequacy at least to 11%. Here Laxmi bank has more room to flow the loans compare to other banks.

Assets Quality and Their Rating

S.N.	Dimension	Percentage										
		1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	Above 10%
1.	Total Loan Loss Provision to Total Credit											
	Points	10	9	8	7	6	5	4	3	2	1	0
2.	Non Performing Assets to Total Credit	0%	1%	2%	3%	4%	5%	6%	7%	8% to 9%	10% to 11%	Above 12%
	Points	10	9	8	7	6	5	4	3	2	1	0
3.	Contingent Liabilities/total Assets*	<8% or >28%	9% or 27%	10% or 26%	11% or 25%	12% or 24%	13% or 23%	14% or 22%	15% or 21%	16% or 20%	17% or 19%	18%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Average Yield (Credit & Investment)*	<5.0% or >10.0%	5.25% or 9.75%	5.50% or 9.50%	5.75% or 9.25%	6.0% or 9.0%	6.25% or 8.75%	6.50% or 8.50%	6.75% or 8.25%	7.0% or 8.0%	7.25% or 7.75%	8%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Investment to Total Assets	Below 5%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Loans & Advances to Total Assets*	Above 75%	<75%	<70%	<65%	<60%	<55%	<50%	<45%	<40%	<35%	30%
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2006/07

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Total Loan Loss Provision	48	4	90	401	133	6
Total Credit (Loans & Advances)	8,935	12,922	16,997	12,776	7,093	2,657
Non Performing Assets	195	144	642	272	59	44
Investments	21,491	8,478	7,105	8,124	2,025	811
Total Assets	25,776	22,329	33,519	21,330	9,454	3,820
Interest Income	1,190	1,309	1,776	1,173	631	214
Contingent Liabilities	5,184	5,498	6,853	6,077	1,263	225
Total Loan Loss Provision to Total Credit	0.54%	0.03%	0.53%	3.14%	1.88%	0.21%
Points	9	10	10	8	9	10
Non Performing Assets to Total Credit	2.18%	1.11%	3.78%	2.13%	0.84%	1.65%
Points	8	9	6	8	9	8
Contingent Liabilities/Total Assets*	20%	25%	20%	28%	13%	6%
Points	8	3	7	1	5	0
Average Yield (Credit & Investment)**	4.66%	6.65%	6.44%	6.17%	7.10%	5.22%
Points	0	7	6	5	8	1
Investment to Total Assets*	83%	38%	21%	38%	21%	21%
Points	10	8	4	8	4	4
Loan & Advances to total Assets*	35%	58%	51%	60%	75%	70%
Points	9	4	6	4	1	2
Points	73%	68%	65%	57%	60%	42%
Total points (25)	18.33	17.08	16.25	14.17	15.00	10.42

Assets quality indicates what types of advances the bank has made to generate interest income. When loans are given to highly rated blue chip corporate, the rates attracted are lower than that by lower rated doubtful corporate. Thus assets quality indicates the type of debtors of the bank.

In above tables, comparing all the dimensions of Asset quality, it is found that FY 2006/07 SCB is the best among the selected banks where are Laxmi Bank stands last position.

Management Quality and its Rating

S.N.	Dimension	Percentage										
		Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
1.	Market coverage on Deposit	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Market Coverage on Credit	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Market Coverage on Investment	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Deposit Growth	Negative	0% to 1%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Assets Growth	Negative	0% to 1%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Cost to Income Ratio	0% to 30%	31% to 35%	36% to 40%	41% to 45%	46% to 50%	51% to 55%	56% to 60%	61% to 65%	66% to 70%	71% to 75%	Above 76%
	Points	10	9	8	7	6	5	4	3	2	1	0
7.	Deposit	0.7%	1.14%	2.1%	2.8%	3.5%	4.2%	4.9%	5.6%	6.3%	7.0%	7.1%
	Points	0	1	2	3	4	5	6	7	8	9	10
8.	Share (EPS)	Negative	0% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
9.	Price/Earning Ratio	0	1-2 times	3-4 times	5-6 times	7-8 times	9-10 times	11-12 times	13-14 times	15-16 times	17-18 times	Above 19 times
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2006/07

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Total Credit	8,935	12,922	16,997	12,776	7,093	2,657
Investment	21,491	8,478	7,105	8,124	2,025	811
Total Assets	25,776	22,329	33,519	21,330	9,454	3,820
Deposit	23,061	19,347	30,048	18,927	8,198	3,052
Market Value Per Share	2,345	2,240	1,740	1,260	576	285
Earning Per Share	144	129	61	59	20	434
Interest Income	1,190	1,309	1,776	1,173	631	214
Non Interest Income	25	82	40	36	8	8
Interest Expenses	303	357	767	491	311	118
Personnel Expenses	168	219	272	121	57	29
Other Operating Expenses	221	182	341	191	86	37
Total Operating Cost	389	401	613	312	143	66
Net Interest Spread	887	952	1,009	682	320	96
Market Coverage on Deposit	6.83%	5.73%	8.90%	5.61%	2.43%	0.90%
Points	7	6	9	6	2	1
Market Coverage on Credit	3.85%	5.57%	7.33%	5.51%	3.06%	1.15%
Points	4	6	7	6	3	1
Market Coverage on Investment	22.98%	9.06%	7.60%	8.69%	2.17%	0.87%
Points	10	9	8	9	2	1
Deposit Growth	19.27%	32.64%	13.43%	32.78%	30.00%	81.24%
Points	2	4	10	4	3	9
Asset Growth	18%	31%	14%	31%	27%	48%
Points	2	4	2	4	3	5
Cost of Income Ratio	43%	39%	58%	43%	44%	64%
Points	7	8	4	7	7	3
Cost of Deposit	1.31%	1.76%	2.49%	3.51%	3.63%	3.57%
Points	9	8	7	5	5	5
Earning Per Share (EPS)	143.91	129.21	60.66	59.35	19.88	4.34
Points	10	10	7	6	2	1
Price/Earning Ratio	16.29	17.34	28.69	21.23	28.99	65.67
Points	2	2	3	3	3	7
Dividend Payout Ratio	120%	85.00%	15%	20%	0%	0%
Points	10	9	2	2	0	-
Points	63%	66%	59%	52%	30%	33%

Total Points (15)	9.45	9.90	8.85	7.80	4.50	4.95
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Management quality here used to evaluate management skills and quality so as to assign premium to better quality of the banks and discount poorly managed ones.

In above table, after considering all dimension, we found that management quality of Nabil bank FY 2006/07 stand first position whereas Kumari Bank stands last position.

Earning Quality and its Rating

S.N.	Dimension	Percentage										
		0%	1% to 4%	5% to 8%	9% to 12%	13% to 16%	17% to 20%	21% to 24%	25% to 28%	29% to 32%	33% to 36%	Above 37%
1.	Return on Net Worth	0%	1% to 4%	5% to 8%	9% to 12%	13% to 16%	17% to 20%	21% to 24%	25% to 28%	29% to 32%	33% to 36%	Above 37%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Interest Spread/Average	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 5%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Operating Profit to	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 5%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Net profit to Assets	0% to 0.3%	0.4% to 0.6%	0.7% to 0.9%	1.0% to 1.2%	1.3% to 1.5%	1.6% to 1.8%	1.9% to 2.1%	2.2% to 2.4%	2.5% to 2.7%	2.8% to 3.0%	Above 3.0%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Other Income to Net Interest	0%	1% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Net Profit to Net Worth	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 5.0%
	Points	0	1	2	3	4	5	6	7	8	9	10
7.	Interest Income to Total Income	Below 60%	61% to 64%	65% to 68%	69% to 72%	73% to 76%	77% to 80%	81% to 84%	85% to 88%	89% to 92%	93% to 96%	97% to 100%
	Points	10	9	8	7	6	5	4	3	2	1	0
8.	Free Based income to Total Income	0%	1% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	10	9	8	7	6	5	4	3	2	1	0

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2006/07

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Other Income	25	82	40	36	8	8
Commission and Discount Income	223	138	193	116	31	14
Interest Income	1,190	1,309	1,776	1,173	631	214
Total Income	1,438	1,529	2,009	1,325	670	236
Interest Expenses	303	357	767	491	311	118
Interest Spread	887	952	1,009	682	320	96
Operating Profit	981	953	688	544	223	45
Net Profit after Tax	658	635	491	351	125	26
Net Worth	1,754	2,057	2,145	1,415	816	642
Average Working Fund (Total Assets)	25,776	22,329	33,519	21,330	9,454	3,820
Return on Net Worth (Net Profit to Net Worth)	37.51%	30.87%	22.89%	24.81%	15.32%	4.05%
Points	10	8	6	7	4	1
Interest Spread/Average Working Fund	3.4%	4.3%	3.0%	3.2%	3.4%	2.5%
Points	6	8	5	6	6	4
Operating Profit to Average Working Fund	3.8%	4.3%	2.1%	2.6%	2.4%	1.2%
Points	7	8	4	5	4	2
Net Profit to Assets	2.6%	2.8%	1.5%	1.6%	1.3%	0.7%
Points	8	9	4	5	4	2
Other Income to Net Interest	2.82%	8.61%	3.96%	5.28%	2.60%	7.81%
Points	1	1	1	1	1	1
Interest income to Total Income	82.75%	85.61%	88.40%	88.53%	94.13%	90.87%
Points	4	3	3	2	1	2
Fee Based income to Total Income	15.51%	9.03%	9.61%	8.75%	4.63%	5.94%
Point	54%	54%	34%	39%	30%	19%

Points	54%	54%	34%	39%	30%	19%
Total Points (25)	13.57	13.57	8.57	9.64	7.50	4.64

The earning quality lays importance on how a bank earns its profit. This quality also explains the sustainability and growth in earnings in the future.

Comparing above table, we found that again Nabil bank and SCB both stood in first position where as Laxmi Bank is in last position.

4.3.2 Liquidity Quality and its Rating

S.N.	Dimension	Percentage										
		0%	1% to 5%	6% to 10%	11% to 15%	16% to 20%	21% to 25%	26% to 30%	31% to 35%	36% to 40%	41% to 45%	Above 46%
1.	Liquid Assets to Total Assets	0%	1% to 5%	6% to 10%	11% to 15%	16% to 20%	21% to 25%	26% to 30%	31% to 35%	36% to 40%	41% to 45%	Above 46%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Cash & Bank Balance to Total Assets	0%	1 or >19%	2% >18%	3% >17%	4% >16%	5% >15%	6% >14%	7% >13%	8% >12%	9% >11%	10%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Investment in Gov. Securities to Assets	0%	1% to 3%	4% to 6%	7% to 9%	10% to 12%	13% to 15%	16% to 18%	19% to 21%	22% to 24%	25% to 27%	Above 28%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Cash Reserve Ratio*	5%	6%	7%	8%	9%	11%	12%	13%	14%	15%	>15% or <5%
	Points	10	9	8	7	6	5	4	3	2	1	0
5.	Credit to Deposit Ratio	Below 55%	56% to 60%	61% to 65%	66% to 70%	71% to 75%	76% to 80%	81% to 85%	86% to 90%	91% to 95%	96% to 100%	Above 100%
	Points	10	9	8	7	6	5	4	3	2	1	0

In above table, points are given on the basis of their merit percentage obtained in related to

the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2006/07

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Investment in Gov. Securities	8,644	2,300	6,454	2,522	1,199	401
Money at call and short notice	1,977	1,734	1,710	70	217	57
Cash Balance	279	237	177	563	147	109
Balance with other Banks	997	392	1,579	3,300	399	358
Total Liquid Assets	11,897	4,663	9,920	6,455	1,963	925
Total Assets	25,776	22,329	33,519	21,330	9,454	3,820
Deposit	23,061	19,347	30,048	18,927	8,198	3,052
Total Loans & Advances	8,935	12,922	16,997	12,776	7,093	2,657
Liquid Assets to Total Assets	46.16%	20.88%	29.60%	30.26%	20.76%	24.21%
Points	10	5	6	6	5	5
Cash & Bank Balance to Total Assets	4.95%	2.82%	5.24%	18.11%	5.78%	12.23%
Points	5	3	5	2	6	8
Investment in Gov. Securities to Total Assets	33.54%	10.30%	19.25%	11.82%	12.69%	10.50%
Points	10	4	7	4	5	4
Cash Reserve Ratio	5.46%	3.26%	5.92%	3.65%	3.53%	5.65%
Points	10	0	9	0	0	9
Credit to Deposit Ratio	38.75%	66.79%	56.57%	67.50%	86.51%	87.06%
Points	10	7	9	7	3	3
Points	90%	38%	72%	38%	38%	58%
Total Points (25)	22.5	9.5	18	9.5	9.5	14.5

Banks are in a business where liquidity is of prime importance. Among assets, cash and investment are the most liquid of a bank's assets. There is an international saying - "A bank goes wrong when its liquidity goes wrong. It's not the bad loans that make bank failure. It is its liquidity that makes bank failure"

With a view, in above table, again in FY 2006/07 Standard Chartered Bank is the best in

terms of liquidity and Kumari Bank stands last.

4.4 FY 2005/06

Capital Adequacy and its Rating

S.N.	Dimension	Percentage										
		Below 11%	11%	12%	13%	14%	15%	16%	17%	18%	19%	Above 20%
1.	Capital Adequacy Ratio											
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard prescribed by Nepal Rastra Bank which is 11%. Below the standard, we have assigned zero point and above twenty percentages (20%), we have assigned ten (10) points as shown in above table.

For FY 2005/06

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Core Capital	1,450	1,610	1,525	1,161	641	604
Supplementary Capital	214	156	491	417	64	34
Total Capital	1,664	1,766	2,016	1,579	705	638
RAW	10,498	14,193	18,321	13,633	6,292	3,085
Min. Capital Fund (@11%)	1,155	1,561	2,015	1,500	692	339
Min. Core Capital (@5.5%)	577	781	1,008	750	346	170
Capital Fund (Excess/short)	509	205	1	79	13	299
Core Capital (Excess/short)	873	829	517	412	295	434
Capital Adequacy Ratio	15.85%	12.44%	11.00%	11.58%	11.20%	20.68%
Point (10)	6	2	1	1	1	10

In the above table Laxmi Bank has got the highest point. Capital adequacy of other banks is almost par with the standard given by Nepal Rastra Bank. Below this, Nepal Rastra Bank will interrupt time to time to banks to maintain the capital adequacy at least to 11%.

Here Standard Chartered Bank and Laxmi bank has more room to flow the loans compare to other banks.

Assets Quality and their Rating

S.N.	Dimension	Percentage										
		1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	Above 10%
1.	Total Loan Loss Provision to Total Credit	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	Above 10%
	Points	10	9	8	7	6	5	4	3	2	1	0
2.	Non Performing Assets to Total Credit	0%	1%	2%	3%	4%	5%	6%	7%	8% to 9%	10% to 11%	Above 12%
	Points	10	9	8	7	6	5	4	3	2	1	0
3.	Contingent Liabilities/Total Assets*	<8% or >28%	9% or 27%	10% or 26%	11% or 25%	12% or 24%	13% or 23%	14% or 22%	15% or 21%	16% or 20%	17% or 19%	18%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Average Yield (Credit & investment)**	<5.0% or >10.0%	5.25% or 9.75%	5.50% or 9.50%	5.75% or 9.25%	6.0% or 9.0%	6.25% or 8.75%	6.50% or 8.50%	6.75% or 8.25%	7.0% or 8.0%	7.25% or 7.75%	8%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Investment to Total Assets	Below 5%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Loans & Advances to Total Assets*	Above 75%	<75%	<70%	<65%	<60%	<55%	<50%	<45%	<40%	<35%	30%
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2005/06

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Total loan loss provision	30	4	59	325	133	6
Total credit (loan & advance)	8,143	10,586	12,425	10,126	5,590	2,657
Non performing assets	267	144	1,001	281	54	44
Investment	16,905	6,680	17,161	5,883	2,309	811
Total assets	21,893	17,186	27,844	16,274	7,437	3,820
Interest income	1,059	1,069	1,446	887	499	214
Contingent liabilities	4,077	4,691	7,719	3,995	1,139	225
Total Loan Loss Provision to Total Credit	0.37%	0.04%	0.47%	3.21%	2.39%	0.21%
Points	10	10	10	8	9	10
Non Performing Assets to Total Credit	3.28%	1.36%	8.06%	2.77%	0.97%	1.65%
Points	7	9	2	7	9	8
Contingent Liabilities/Total Assets*	19%	27%	28%	25%	15%	6%
Points	9	1	1	3	7	0
Average Yield (Credit & Investment)**	5.68%	6.62%	5.29%	5.99%	7.39%	5.22%
Points	3	7	1	4	9	1
Investment to Total Assets*	77%	39%	62%	36%	31%	21%
Points	10	8	10	7	6	4
Loan & Advances to Total Assets*	37%	62%	45%	62%	75%	70%
Points	8	3	7	3	2	2
Points	78%	63%	52%	53%	70%	42%
Total Points (25)	19.58	15.83	12.92	13.33	17.50	10.42

Assets quality indicates what types of advances the bank has made to generate interest income. When loans are given to highly rated blue chip corporate, the rates attracted are lower than that by lower rated doubtful corporate. Thus assets quality indicates the type of debtors of the bank.

In above tables, comparing all the dimensions of Asset quality, it is found that in FY 2005/06 SCB is the best among the selected banks where are Laxmi Bank stands last position.

Management Quality and its Rating

S.N.	Dimension	Percentage										
		Below	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above
1.	Market Coverage on Deposit	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Market Coverage on Credit	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Market Coverage on Investment	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Deposit Growth	Negative	0% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Assets Growth	Negative	0% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Cost to income Ratio	0% to 30%	31% to 35%	36% to 40%	41% to 45%	46% to 50%	51% to 55%	56% to 60%	61% to 65%	66% to 70%	71% to 75%	Above 76%
	Points	10	9	8	7	6	5	4	3	2	1	0
7.	Cost of Deposit	0% to 0.7%	0.8% to 1.4%	1.5% to 2.1%	2.2% to 2.8%	2.9% to 3.5%	3.6% to 4.2%	4.3% to 4.9%	5.0% to 5.6%	5.7% to 6.3%	6.4% to 7.0%	Above 7.1%
	Points	10	9	8	7	6	5	4	3	2	1	0
8.	Earning Per Share (EPS)	Negative	0% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
9.	Price/Earning Ratio	0	1-2 times	3-4 times	5-6 times	7-8 times	9-10 times	11-12 times	13-14 times	15-16 times	17-18 times	Above 19 times
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their percentage obtained in related to the standard. Points are assigned as 1 being the poor and 0 being the best.

For FY 2005/06

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Total Credit	8,143	10,586	12,425	10,126	5,590	2,657
Investment	16,905	6,680	17,161	5,883	2,309	811
Total Assets	21,893	17,186	27,844	16,274	7,437	3,820
Deposit	19,335	14,586	24,814	14,254	6,268	3,052
Market Value Per Share	2,345	1,505	920	800	369	285
Earning Per Share	144	105	48	40	18	434
Interest Income	1,059	1,069	1,446	887	499	214
Non Interest Income	63	56	41	57	3	8
Interest Expenses	254	244	561	355	240	118
Personnel Expenses	149	200	179	97	42	29
Other Operating Expenses	256	190	277	183	72	37
Total Operating Cost	405	390	456	280	114	66
Net Interest Spread	805	825	885	532	259	96
Market Coverage Deposit	5.7%	4.3%	7.4%	4.2%	1.9%	0.9%
Points	6	4	7	4	2	1
Market Coverage Credit	3.5%	4.6%	5.4%	4.4%	2.4%	1.2%
Points	4	4	5	4	2	1
Market Coverage on Investment	18.1%	7.1%	18.35.%	6.3%	2.5%	0.9%
Points	10	7	10	6	2	1
Deposit Growth	-8.6%	2.7%	12.7%	23.7%	30.4%	81.2%
Point	0	1	2	3	3	9
Asset Growth	11.0%	3.0%	12.0%	23.0%	35.0%	48.0%
Point	10	1	2	3	4	5
Cost to income Ratio	47.0%	44.0%	49.0%	48.0%	44.0%	64.0%
Points	6	7	6	6	7	3
Earning Per Share (EPS)	1.5%	1.8%	2.2%	3.2%	3.5%	3.6%
Points	9	8	7	6	6	5
Price/Earning Ratio	143.930	105.490	47.910	39.500	17.580	4.340

Points	10	10	5	4	2	1
Dividend Payout Ratio	16.29	14.27	19.20	20.25	20.99	65.67
Points	120.0%	70.0%	11.6%	12.5%	0.0%	0.0%
Points	67%	50%	48%	41%	31%	33%
Total Points (15)	10.05	7.50	7.20	6.15	4.65	4.95

Management quality here used to evaluate management skills and quality so as to assign premium to better quality of the banks and discount poorly managed ones.

In above table, after considering all dimension, we found that management quality of SCB in FY 2005/06 stand first position whereas Kumari Bank stands last position.

Earning Quality and its Rating

S.N.	Dimension	Percentage										
		0%	1% to 4%	5% to 8%	9% to 12%	13% to 16%	17% to 20%	21% to 24%	25% to 28%	29% to 32%	33% to 36%	Above 37%
1.	Return on Net Worth	0%	1% to 4%	5% to 8%	9% to 12%	13% to 16%	17% to 20%	21% to 24%	25% to 28%	29% to 32%	33% to 36%	Above 37%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Interest Spread/Average	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 5%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Operating Profit to	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 5%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Net Profit to Assets	0% to 0.3%	0.4% to 0.6%	0.7% to 0.9%	1.0% to 1.2%	1.3% to 1.5%	1.6% to 1.8%	1.9% to 2.1%	2.2% to 2.4%	2.5% to 2.7%	2.8% to 3.0%	Above 3.0%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Other Income to Net Interest	0%	1% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Net Profit to Net Worth	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 5%
	Points	0	1	2	3	4	5	6	7	8	9	10
7.	Interest Income to Total Income	Below 60%	61% to 64%	65% to 68%	69% to 72%	73% to 76%	77% to 80%	81% to 84%	85% to 88%	89% to 92%	93% to 96%	97% to 100%
	Points	0	1	2	3	4	5	6	7	8	9	10
8.	Fee Based Income to Total income	0%	1% to 10%	11% to	21% to	31% to	41% to	51% to	61% to	71% to	81% to	Above 91%

				20%	30%	40%	50%	60%	70%	80%	90%	
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2005/06

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Other Income	63	56	41	57	3	8
Commission and Discount Income	185	129	133	94	23	14
Interest Income	1,059	1,069	1,446	887	499	214
Total Income	1,307	1,254	1,620	1,037	525	236
Interest Expenses	254	244	561	355	240	118
Interest Spread	805	825	885	532	259	96
Operating Profit	917	877	654	511	187	45
Net Profit After Tax	539	518	308	232	88	26
Net Worth	1,578	1,657	1,542	1,180	645	642
Average Working Fund (Total Assets)	21,893	17,186	27,844	16,274	7,437	3,820
Return on Net Worth (Net Profit to Net Worth)	34.16%	31.26%	19.97%	19.67%	13.64%	4.05%
Points	9	8	5	5	4	1
Interest Spread/Average Working Fund	3.7%	4.8%	3.2%	3.3%	3.5%	2.5%
Points	7	9	5	6	6	4
Operating Profit to Average Working Fund	4.2%	5.1%	2.3%	3.1%	2.5%	1.2%
Points	8	10	4	6	4	2
Net profit to Assets	2.5%	3.0%	1.1%	1.4%	1.2%	0.7%
Points	8	10	4	4	3	2
Other Income to Net Interest Income	8%	7%	5%	11%	1%	8%
Points	1	1	1	2	1	1
Interest income to Total Income	81%	85%	89%	86%	95%	91%
Points	4	3	2	3	1	2
Fee Based income to Total Income	14.15%	10.29%	8.21%	9.02%	4.38%	5.94%
Points	2.00	2.00	2.00	1.00	5.00	1.00
Points	56%	61%	33%	39%	34%	19%
Total Points (25)	13.93	15.36	8.21	9.64	8.57	4.64

The earning quality lays importance on how a bank earns its profit. This quality also explains the sustainability and growth in earnings in the future.

Comparing above table, we found that again Nabil bank is in first position where as Laxmi Bank is in last position.

4.4.2 Liquidity Quality and its Rating

S.N.	Dimension	Percentage										
1.	Liquid Assets to Total Assets	0%	1% to 5%	6% to 10%	11% to 15%	16% to 20%	21% to 25%	26% to 30%	31% to 35%	36% to 40%	41% to 45%	Above 46%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Cash & Bank Balance to Total Assets	0%	1% or >19%	2% or 18%	3% or 17%	4% or 16%	5% or 15%	6% or 14%	7% or 13%	8% or 12%	9% or 11%	10%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Investment in Gov. Securities to Total Assets	0%	1% to 3%	4% to 6%	7% to 9%	10% to 12%	13% to 15%	16% to 18%	19% to 21%	22% to 24%	25% to 27%	Above 28%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Cash Reserve Ratio*	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	>15% or <5%
	Points	10	9	8	7	6	5	4	3	2	1	0
5.	Credit to Deposit Ratio	Below 55%	56% to 60%	61% to 65%	66% to 70%	71% to 75%	76% to 80%	81% to 85%	86% to 90%	91% to 95%	96% to 100%	Above 100%
	Points	10	9	8	7	6	5	4	3	2	1	0

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2005/06

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Investment in Govt. Securities	7,203	2,413	5,469	1,949	1,119	401
Money at call and short notice	2,260	868	441	140	90	57
Cash Balance	195	146	286	374	111	109
Balance with other Banks	915	413	1,727	1,746	332	358
Total Liquid Assets	10,573	3,840	7,923	4,209	1,652	925
Total Assets	21,893	17,186	27,844	16,274	7,437	3,820
Deposit	19,335	14,586	24,814	14,254	6,268	3,052
Total loans & Advances	8,143	10,586	12,425	10,126	5,590	2,657
Liquid Assets to Total Assets	48%	22%	28%	26%	22%	24%
Points	10	5	6	6	5	5
Cash & Bank Balance to Total Assets	5%	3%	7%	13%	6%	12%
Points	5	3	7	7	6	8
Investment in Gov. Securities to Total Assets	33%	14%	20%	12%	15%	10%
Points	10	5	7	4	5	4
Cash Reserve Ratio	5.46%	3.83%	7.86%	5.92%	3.65%	8.95%
Points	10	0	7	9	0	6
Credit to Deposit Ratio	42%	73%	50%	71%	89%	87%
Points	10	6	10	6	3	3
Points	90%	38%	74%	64%	38%	52%
Total Points (25)	22.5	9.5	18.5	16	9.5	13

Banks are in a business where liquidity is of prime importance. Among assets, cash and

investment are the most liquid of a bank's assets. There is an international saying - "A bank goes wrong when its liquidity goes wrong. It's not the bad loans that make bank failure. It is its liquidity that makes bank failure"

With a view, in above table, standard Chartered Bank is the best in terms of liquidity and Kumari Bank stands last.

4.5 FY 2004/05

Capital Adequacy and its Rating

S.N.	Dimension	Percentage										
		Below 11%	11%	12%	13%	14%	15%	16%	17%	18%	19%	Above 20%
1.	Capital Adequacy Ratio	Below 11%	11%	12%	13%	14%	15%	16%	17%	18%	19%	Above 20%
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard prescribed by Nepal Rastra Bank which is 11%. Below the standard, we have assigned zero point and above twenty percentages (20%), we have assigned ten (10) points as shown in above table.

For FY 2004/05

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Core Capital	1,379	1,830	2,104	711	555	604
Supplementary Capital	181	258	546	389	40	34
Total Capital	1,560	2,088	2,650	1,099	595	638
RAW	10,023	16,976	21,889	9,837	4,449	3,085
Min. Capital Fund (@ 11%)	1,103	1,867	2,408	1,082	489	339
Min. Core Capital (@5.5%)	551	934	1,204	541	245	170
Capital Fund (Excess/short)	457	221	242	17	106	299
Core Capital (Excess/short)	828	896	900	170	310	434
Capital Adequacy Ratio	15.56%	12.30%	12.11%	11.18%	13.37%	20.68%
Point (10)	6	2	2	1	3	10

In the above table Laxmi bank and Standard Chartered Bank has got the highest point and second highest point. Capital adequacy of other banks is almost par with the standard given by Nepal Rastra Bank. Below this, Nepal Rastra Bank will interrupt time to time to banks to maintain the capital adequacy at least to 11%. Here Laxmi bank and Standard Chartered Bank have more room to flow the loans compare to other banks.

Assets Quality their Rating

S.N.	Dimension	Percentage										
		1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	Above 10%
1.	Total Loan Loss Provision to Total Credit	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	Above 10%
	Points	10	9	8	7	6	5	4	3	2	1	0
2.	Non Performing Assets to Total Credit	0%	1%	2%	3%	4%	5%	6%	7%	8% to 9%	10% to 11%	Above 12%
	Points	1%	2%	3%	4%	5%	6%	7%	8%	9%	1%	0%
3.	Contingent Liabilities/Total Assets*	<8% or >28%	9% or 27%	10% or 26%	11% or 25%	12% or 24%	13% or 23%	14% or 22%	15% or 21%	16% or 20%	17% or 19%	18%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Average Yield (Credit & investment)*	<5.0% or >10.0%	5.25% or 9.75%	5.50% or 9.50%	5.75% or 9.25%	6.0% or 9.0%	6.25% or 8.75%	6.50% or 8.50%	6.75% or 8.25%	7.0% or 8.0%	7.25% or 7.75%	8%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Investment to Total Assets*	Below 5%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Loans & Advances to Total Assets*	Above 75%	<75%	<70%	<65%	<60%	<55%	<50%	<45%	<40%	<35%	30%
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2004/05

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Total Loan Loss Provision	24	4	90	208	133	6
Total Credit (Loans & Advances)	6,410	12,922	16,997	7,130	3,649	2,657
Non Performing Assets	252	144	642	181	28	44
Investments	19,308	8,478	7,105	5,864	1,585	811
Total Assets	23,642	22,329	33,519	13,255	5,494	3,820
Interest Income	1,042	1,309	1,776	731	310	214
Contingent Liabilities	4,332	5,498	6,853	3,335	855	225
Total Loan Loss Provision to Total Credit	0.37%	0.03%	0.53%	2.92%	3.66%	0.21%
Points	10	10	10	8	7	10
Non Performing Assets to Total Credit	3.93%	1.11%	3.78%	2.54%	0.77%	1.65%
Points	6	9	6	7	9	8
Contingent Liabilities/Total Assets*	18%	25%	20%	25%	16%	6%
Points	10	3	7	3	8	0
Average Yield (Credit & Investment)**	5.68%	6.65%	6.44%	5.98%	7.39%	5.22%
Points	2	7	6	4	9	1
Investment to Total Assets*	82%	38%	21%	44%	29%	21%
Points	10	8	4	9	6	4
Loans & Advances to Total Assets*	27%	58%	51%	54%	66%	70%
Points	9	4	6	5	2	2
Points	78%	68%	65%	60%	68%	42%
Total Points (25)	19.58	17.08	16.25	15.00	17.08	10.42

Assets quality indicates what types of advances the bank has made to generate interest income. When loans are given to highly rated blue chip corporate, the rates attracted are lower than that by lower rated doubtful corporate. Thus assets quality indicates the type of debtors of the bank.

In above tables, comparing all the dimensions of Asset quality, it is found that again in FY 2004/05 SCB is the best among the selected banks where Laxmi Bank stands last

position are.

Management Quality and its Rating

S.N.	Dimension	Percentage										
1.	Market Coverage Deposit	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Market Coverage Credit	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Market coverage Investment	Below 1%	1%	2%	3%	4%	5%	6%	7%	8%	9%	Above 10%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Deposit Growth	Negative	0% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Assets Growth	Negative	0% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Cost to Income Ratio	0% to 30%	31% to 35%	36% to 40%	41% to 45%	46% to 50%	51% to 55%	56% to 60%	61% to 65%	66% to 70%	71% to 75%	Above 76%
	Points	10	9	8	7	6	5	4	3	2	1	0
7.	Cost of Deposit	0% to 0.7%	0.8% to 1.4%	1.5% to 2.1%	2.2% to 2.8%	2.9% to 3.5%	3.6% to 4.2%	4.3% to 4.9%	5.0% to 5.6%	5.7% to 6.3%	6.4% to 7.0%	Above 7.1%
	Points	10	9	8	7	6	5	4	3	2	1	0
8.	Earning Per Share (EPS)	Negative	0% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
9.	Price/Earning Ratio	0	1-2 times	3-4 times	5-6 times	7-8 times	9-10 times	11-12 times	13-14 times	15-16 times	17-18 times	Above 19 times
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2004/05

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Total Credit	6,410	12,922	16,997	7,130	3,649	2,657
Investment	19,308	8,478	7,105	5,864	1,585	811
Total Assets	23,642	22,329	33,519	13,255	5,494	3,820
Deposit	21,164	19,347	30,048	11,524	4,807	3,052
Market Value Per Share	1,745	2,240	1,740	940	-	285
Earning Per Share	144	129	61	52	10	434
Interest Income	1,042	1,309	1,776	731	310	214
Non Interest Income	70	82	40	37	2	8
Interest Expenses	278	357	767	326	163	118
Personnel Expenses	135	219	272	90	29	29
Other Operating Expenses	279	182	341	149	56	37
Total Operating Cost	414	401	613	239	85	66
Net Interest Spread	764	952	1,009	405	147	96
Market Coverage Deposit	6.27%	5.73%	8.90%	8.90%	1.42%	0.90%
Points	6	6	9	9	1	1
Market Coverage Credit	2.76%	5.57%	7.33%	7.33%	1.57%	1.15%
Points	3	6	7	7	2	1
Market Coverage on Investment	20.64%	9.06%	7.60%	7.60%	1.69%	0.87%
Points	10	9	8	8	2	1
Deposit Growth	33.65%	32.64%	13.43%	45.46%	-38.13%	81.24%
Point	4	4	2	5	0	9
Asset Growth	28.00%	31.00%	13.78%	47.00%	84.00%	48.00%
Point	3	4	2	5	9	5
Cost to income Ratio	50.00%	39.00%	58.00%	54.00%	57.00%	64.00%
Points	6	8	4	5	4	3
Earning Per Share (EPS)	1.41%	1.76%	2.49%	3.44%	1.45%	3.57%
Points	9	8	7	6	8	5
Price/Earning Ratio	10	10	7	6	1	1
Points	10	10	7	6	1	1
Price/Earning Ratio	13	17.34	29	18	-	66
Points	2	2	3	2	0	7
Dividend Payout Ratio	110%	85.00%	15%	15%	0%	0%
Points	10	9	2	2	0	-
Points	63%	66%	51%	55%	27%	33%
Total Points (15)	9.45	9.90	7.65	8.25	4.05	4.95

Management quality here used to evaluate management skills and quality so as to assign premium to better quality of the banks and discount poorly managed ones.

In above table, after considering all dimension, we found that management quality of in FY 2005/06 Nabil bank stand first position whereas Kumari Bank stands last position.

Earning Quality and its Rating

S.N.	Dimension	Percentage										
1.	Return on Net Worth	0%	1% to 4%	5% to 8%	9% to 12%	13% to 16%	17% to 20%	21% to 24%	25% to 28%	29% to 32%	33% to 36%	Above 37%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Interest Spread/Average	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 5%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Operating Profit to	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 5%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Net Profit to Assets	0% to 0.3%	0.4% to 0.6%	0.7% to 0.9%	1.0% to 1.2%	1.3% to 1.5%	1.6% to 1.8%	1.9% to 2.1%	2.2% to 2.4%	2.5% to 2.7%	2.8% to 3.0%	Above 3.0%
	Points	0	1	2	3	4	5	6	7	8	9	10
5.	Other Income to Net Interest	0%	1% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10
6.	Net Profit to Net Worth	0% to 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% to 2.0%	2.1% to 2.5%	2.6% to 3.0%	3.1% to 3.5%	3.6% to 4.0%	4.1% to 4.5%	4.6% to 5.0%	Above 5%
	Points	0	1	2	3	4	5	6	7	8	9	10
7.	Interest Income to Total Income	Below 60%	61% to 64%	65% to 68%	69% to 72%	73% to 76%	77% to 80%	81% to 84%	85% to 88%	89% to 92%	93% to 96%	97% to 100%
	Points	0	1	2	3	4	5	6	7	8	9	10
8.	Fee Based Income to Total income	0%	1% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	51% to 60%	61% to 70%	71% to 80%	81% to 90%	Above 91%
	Points	0	1	2	3	4	5	6	7	8	9	10

In above table, points are given on the basis of their merit percentage obtained in related to

the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2004/05

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Other Income	70	82	40	37	2	8
Commission and Discount Income	199	138	193	56	16	14
Interest Income	1,042	1,309	1,776	731	310	214
Total Income	1,311	1,529	2,009	824	328	236
Interest Expenses	278	357	767	326	163	118
Interest Spread	764	952	1,009	405	147	96
Operating Profit	882	953	688	348	94	45
Net Profit After Tax	538	635	491	153	49	26
Net Worth	1,158	2,057	2,145	729	560	642
Average Working Fund (Total Assets)	23,642	22,329	33,519	13,255	5,494	3,820
Return on Net Worth (Net Profit to Net Worth)	46.44%	30.87%	22.89%	20.94%	8.75%	4.05%
Points	10	8	6	6	3	1
Interest Spread/Average Working Fund	3.2%	4.3%	3.0%	3.1%	2.7%	2.5%
Points	6	8	5	6	5	4
Operating Profit to Average Working Fund	3.7%	4.3%	2.1%	2.6%	1.7%	1.2%
Points	7	8	4	5	3	2
Net profit to Assets	2.3%	2.8%	1.5%	1.2%	0.9%	0.7%
Points	7	9	4	5	2	2
Other Income to Net Interest Income	9%	9%	4%	9%	1%	8%
Points	1	1	1	1	1	1
Interest income to Total Income	79%	86%	88%	89%	95%	91%
Points	5	3	3	2	10	2
Fee Based income to Total Income	15.18%	9.03%	9.61%	6.76%	4.88%	5.94%
Points	2.00	1.00	1.00	1.00	1.00	1.00
Points	54%	54%	34%	37%	36%	19%
Total Points (25)	13.57	13.57	8.57	9.29	8.93	4.64

The earning quality lays importance on how a bank earns its profit. This quality also

explains the sustainability and growth in earnings in the future.

Comparing above table, we found that again SCB and Nabil bank are neck to neck and are in first position where as Laxmi Bank is in last position.

4.2 Liquid Quality and its Rating

S.N.	Dimension	Percentage										
1.	Liquid Assets to Total Assets	0%	1% to 5%	6% to 10%	11% to 15%	16% to 20%	21% to 25%	26% to 30%	31% to 35%	36% to 40%	41% to 45%	Above 46%
	Points	0	1	2	3	4	5	6	7	8	9	10
2.	Cash & Bank Balance to Total Assets	0%	1% or >19%	2% or 18%	3% or 17%	4% or 16%	5% or 15%	6% or 14%	7% or 13%	8% or 12%	9% or 11%	10%
	Points	0	1	2	3	4	5	6	7	8	9	10
3.	Investment in Gov. Securities to Total Assets	0%	1% to 3%	4% to 6%	7% to 9%	10% to 12%	13% to 15%	16% to 18%	19% to 21%	22% to 24%	25% to 27%	Above 28%
	Points	0	1	2	3	4	5	6	7	8	9	10
4.	Cash Reserve Ratio*	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	>15% or <5%
	Points	10	9	8	7	6	5	4	3	2	1	0
5.	Credit to Deposit Ratio	Below 55%	56% to 60%	61% to 65%	66% to 70%	71% to 75%	76% to 80%	81% to 85%	86% to 90%	91% to 95%	96% to 100%	Above 100%
	Points	10	9	8	7	6	5	4	3	2	1	0

In above table, points are given on the basis of their merit percentage obtained in related to the standard. Points are assigned as 1 being the poor and 10 being the best.

For FY 2004/05

Figures in Million

Banks	SCB	NABIL	HBL	NIBL	Kumari	Laxmi
Investment in Govt. Securities	7,948	2,300	6,454	2,001	601	401
Money at call and short notice	7,948	2,300	6,454	2,001	601	401
Cash Balance	188	237	177	315	68	109
Balance with other Banks	1,835	392	1,579	1,457	617	358
Total Liquid Assets	12,190	4,663	9,920	4,084	1,286	925
Total Assets	23,642	22,329	33,519	13,255	5,494	3,820
Deposit	21,164	19,347	30,048	11,524	4,807	3,052
Total loans & Advances	6,410	12,922	16,997	7,130	3,649	2,657
Liquid Assets to Total Assets	52%	21%	30%	31%	23%	24%
Points	10	5	6	7	5	5
Cash & Bank Balance to Total Assets	9%	3%	5%	13%	12%	12%
Points	9	3	5	7	8	8
Investment in Gov. Securities to Total Assets	34%	10%	19%	15%	11%	10%
Points	10	4	7	5	4	4
Cash Reserve Ratio	5.46%	6.87%	5.92%	9.19%	11.02%	5.65%
Points	10	8	9	6	4	9
Credit to Deposit Ratio	30%	67%	57%	62%	76%	87%
Points	10	7	9	8	5	3
Points	98%	54%	72%	66%	52%	58%
Total Points (25)	24.5	13.5	18	16.5	13	14.5

Banks are in a business where liquidity is of prime importance. Among assets, cash and investment are the most liquid of a bank's assets. There is an international saying - "A bank goes wrong when its liquidity goes wrong. It's not the bad loans that make bank failure. It is its liquidity that makes bank failure"

With a view, in above table, Standard Chartered Bank is the best in terms of liquidity and

Kumari Bank stands last.

4.6 Consolidate Overview of Banks in term of CAMEL rating

Highlights of Analysis of Financial Institutions

Parameters	Analysis as per Annual Report 2007/08					
	SCB	NABIL	HBL	NIBL	Laxmi	Kumari
Capital Adequacy (10)	6.00	1.00	2.00	2.00	2.00	1.00
Asset Quality (25)	16.67	18.33	17.50	12.05	14.17	15.00
Management Quality (15)	9.60	10.20	8.25	8.40	6.15	5.40
Earning Quality (25)	12.14	12.86	8.57	10.00	4.64	7.50
Liquidity (25)	22.00	16.00	18.00	15.50	13.50	9.00
Total Score (100)	66.41	58.39	54.32	47.95	40.46	37.90
Position	1.00	2.00	3.00	4.00	5.00	6.00

After compiling points of each and every dimension of CAMEL, we found that overall performance of SCB is the best among all other sampling banks. Above table shows that if we assume only 6 banks in Nepal, the best bank is SCB and least is Kumari bank. SCB got 66.41 points, Nabil Bank got 58.39 points, Himalayan Bank got 54.32 points, NIBL got 47.95 points, Laxmi Bank got 40.46 points and Kumari Bank got 37.90 points in FY 2007/08. As per this rating, Standard Chartered bank stood 1 position where as Kumari bank stood 6 position. Hence overall quality of Standard Chartered Bank is good compare to all others sampling banks.

Highlights of Analysis of Financial Institutions

Parameters	Analysis as per Annual Report 2006/07					
	SCB	NABIL	HBL	NIBL	Laxmi	Kumari
Capital Adequacy (10)	4.00	2.00	2.00	10.00	1.00	1.00
Asset Quality (25)	18.33	16.25	17.08	10.42	14.17	15.00
Management Quality (15)	9.45	8.85	9.90	4.95	7.80	4.50
Earning Quality (25)	13.57	8.57	13.57	4.64	9.64	7.50

Liquidity (25)	22.50	18.00	9.50	14.50	9.50	9.50
Total Score (100)	67.85	53.67	52.05	44.51	42.11	37.50

After compiling points of each and every dimension of CAMEL, we found that overall performance of SCB is the best among all other sampling banks 2006/07. As per this rating, Standard Chartered bank stood 1 position where as Kumari bank stood 6 position.

Hence overall quality of Standard Chartered Bank is good compare to all others sampling banks.

Highlights of Analysis of Financial Institutions

Parameters	Analysis as per Annual Report 2005/06					
	SCB	NABIL	HBL	NIBL	Laxmi	Kumari
Capital Adequacy (10)	6.00	2.00	1.00	1.00	10.00	1.00
Asset Quality (25)	19.58	15.83	12.92	13.33	10.42	17.50
Management Quality (15)	10.05	7.50	7.20	6.15	4.95	4.65
Earning Quality (25)	13.93	15.36	8.21	9.64	4.64	8.57
Liquidity (25)	22.50	9.50	18.50	16.00	13.00	9.50
Total Score (100)	72.06	50.19	47.83	46.12	43.01	41.22

After compiling points of each and every dimension of CAMEL, we found that overall performance of SCB is the best among all other sampling banks 2005/06. As per this rating, again Standard Chartered bank stood 1 position where as Kumari bank stood 6 position. Hence overall quality of Standard Chartered Bank is good compare to all others sampling banks.

Highlights of Analysis of Financial Institutions

Parameters	Analysis as per Annual Report 2004/05					
	SCB	NABIL	HBL	NIBL	Laxmi	Kumari
Capital Adequacy (10)	6.00	2.00	2.00	1.00	3.00	10.00
Asset Quality (25)	19.58	17.08	16.25	15.00	17.08	10.42
Management Quality (15)	9.45	9.90	7.65	8.25	4.05	4.95
Earning Quality (25)	13.57	13.57	8.57	9.29	8.93	4.64
Liquidity (25)	24.50	13.50	18.00	16.50	13.00	14.50
Total Score (100)	73.10	56.05	52.47	50.04	46.06	44.51

After compiling points of each and every dimension of CAMEL, we found that overall performance of SCB is the best among all other sampling banks 2004/05. As per this rating, again Standard Chartered bank stood 1 position where as Laxmi bank stood 6 position. Hence overall quality of Standard Chartered Bank is good compare to all others sampling banks.

As Bird Eye's View

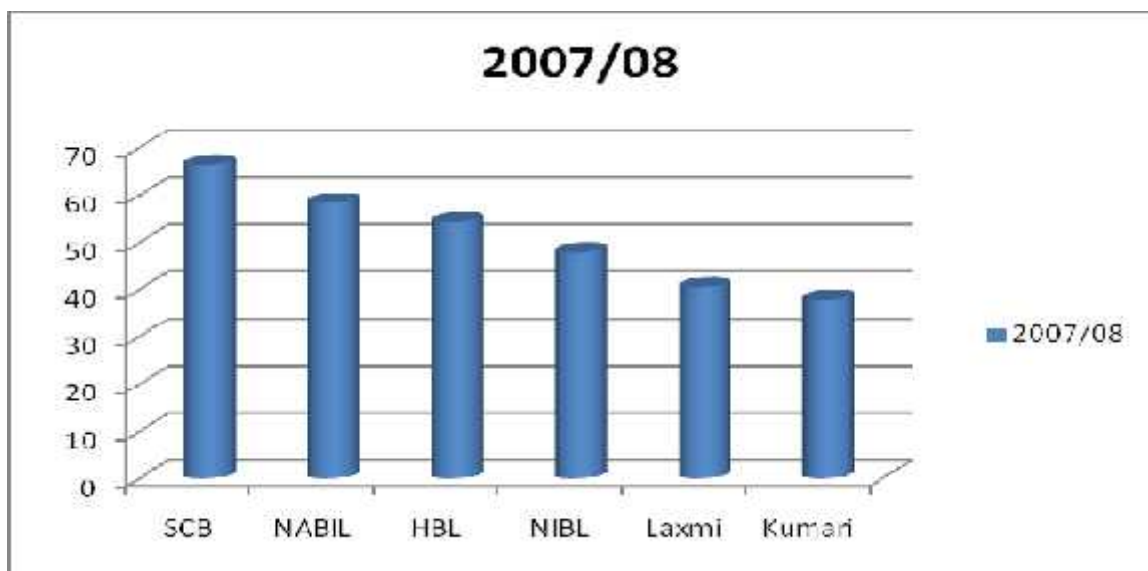
Bird Eye's View								
Year	2007/08	2006/067	2005/06	2004/05	Total	Position	Mean	Standard
Banks					Score			Deviation
SCB	66.41	67.85	72.06	73.10	279.42	1.00	69.86	3.23
NABIL	58.39	52.05	50.19	56.05	216.68	2.00	54.17	3.73
HBL	54.32	53.67	47.83	52.47	208.29	3.00	52.07	2.93
NIBL	47.95	42.11	46.12	50.04	186.22	4.00	46.56	3.37
Laxmi	40.46	44.51	43.01	44.51	172.49	5.00	43.12	1.91
Kumari	37.90	37.50	41.22	46.06	162.68	6.00	40.67	3.96

After completing points of each and every dimension of CAMEL from FY 22006/07 to 2003/04, we found that overall performance of SCB is the best among all other sampling banks. Above table shows that if we assume only 6 banks in Nepal, the best bank is SCB and least is Kumari bank. SCB got 279.42 points, Nabil Bank got 216.68 points,

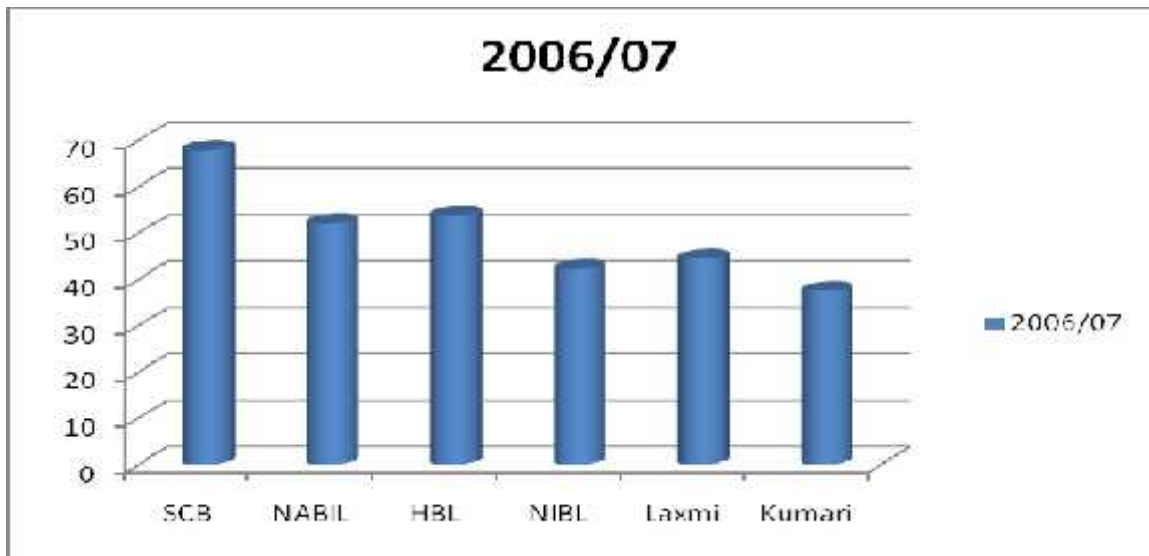
Himalayan Bank got 208.21 points, NIBL got 186.22 points, Laxmi Bank got 172.49 points and Kumari Bank got 162.68 points in overall rating. As per this rating, Standard Chartered bank stood 1 position where as Kumari bank stood 6 position. Hence overall quality of Standard Chartered Bank is good compare to all others sampling banks. Second best bank for Nepal can be considered as NABIL bank as it has neck to neck competition with SCB.

Considering the overall performance with Standard Deviation, the more fluctuating is found on Kumari Bank where as the least fluctuation is found in Laxmi Bank performance. This standard deviation here shows the constituency in the work performance as a whole. SCB, NABIL and NIBL are the next whose standard deviation is more than 3%. Even though if we consider co-efficient of variance of above mentioned banks comes as 0.05, 0.07, 0.06, 0.07, 0.04 and 0.10 respectively. In the analysis of co-efficient of variance, KBL seems more volatile and Laxmi Bank seems more persistent and consistent in the overall performance during the years with CV of 0.04.

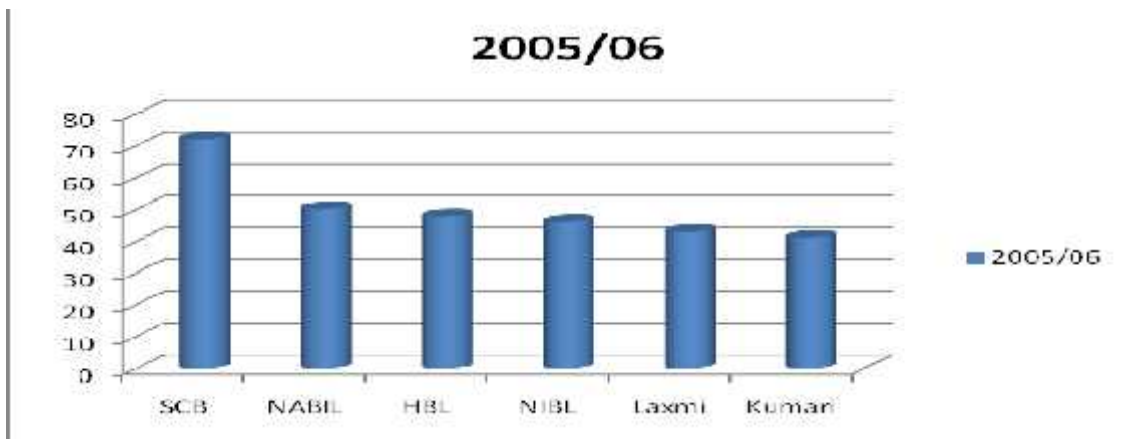
Graphical Representation 2007/08



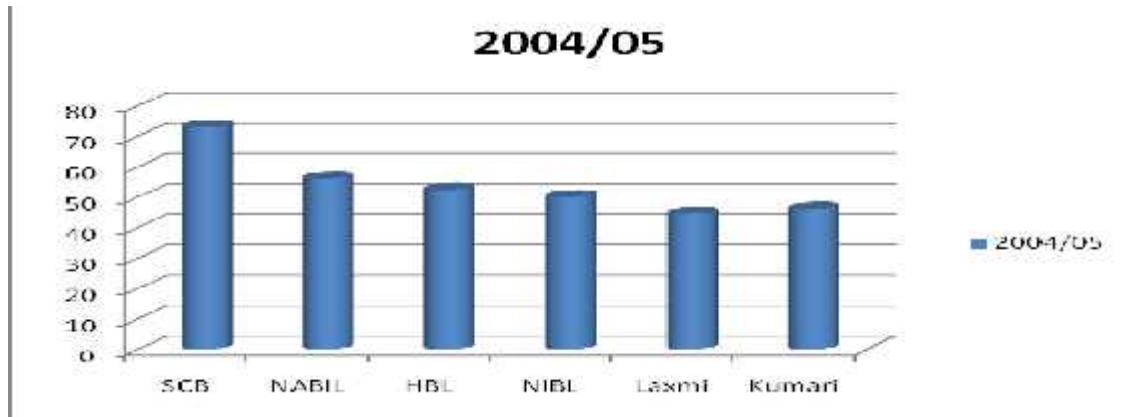
Graphical Representation 2006/07



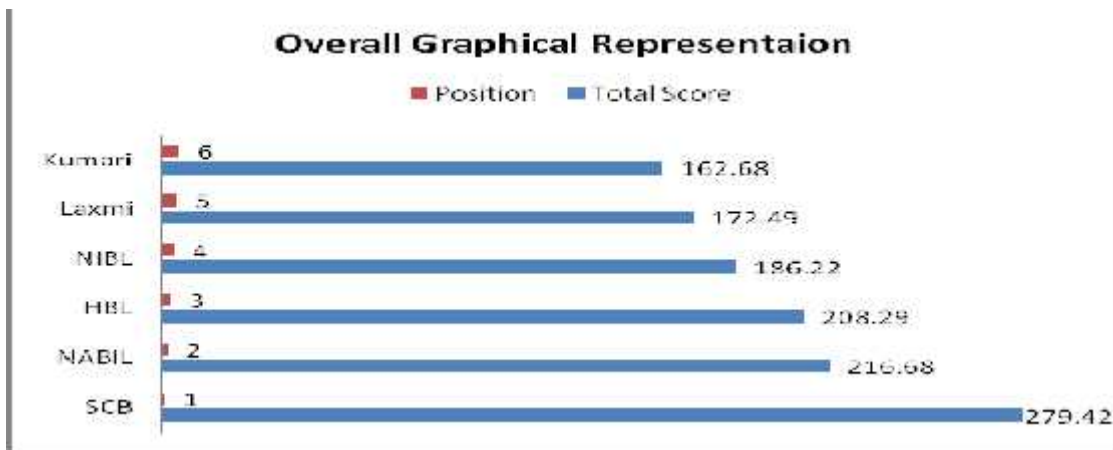
Graphical Representation 2005/06



Graphical Representation 2004/05



Overall Graphical Representation



CHAPTER - 5

SUMMARY, RECOMMENDATIONS AND CONCLUSION

Summary

"CAMEL" is an international bank-rating system with which bank supervisory authorities rate institutions according to five factors. The five areas examined are represented by the acronym "CAMEL."

The five factors examined are as follows:

C - Capital Adequacy

A - Asset Quality

M - Management Quality

E - Earnings Quality

L - Liquidity Quality

Bank supervisory authorities assign each bank a score on a scale of 1 (best) to 5 (worst) for each factor. If a bank has an average score less than 2 it is considered to be a high quality institution while banks with scores greater than 3 are considered to be less-than satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

By using this CAMEL rating, anyone can make the framework about the performance of the bank. The rating here shows the attempt of evaluating the commercial banks as a whole in terms of Capital Adequacy, Assets Quality, Management Quality, Earnings Quality and Liquidity Quality.

All exam materials are highly confidential, including the CAMELS. A bank's CAMELS rating are directly known only by the bank's senior management and the appropriate supervisory staff. "CAMELS" ratings are never released by supervisory agencies, even on a lagged basis. While exam results are confidential, the public may infer such supervisory information on bank conditions based on subsequent bank actions or specific disclosures.

Overall, the private supervisory information gathered during a bank exam is not disclosed to the public by supervisors, although studies show that it does filter into the financial markets

In my research work, after compiling all the data (assuming only 6 banks in Nepal) Standard Chartered bank seems good in overall performance where as Kumari Bank is the least in the performance among the sample banks. 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. So no loop holes in the performance are oversees by any good performance. Every performance has its own score and averages in terms of quality as mentioned by the parameter above. Though different banks are good in different aspect in different years, more consistent bank is seemed as Laxmi Bank with standard deviation of 1.91%. All time good performance is of Standard Chartered Bank then followed by NABIL, Himalayan, NIBL, Laxmi and Kumari Bank. This is one of the good models to see if banks are giving their best effort. Anyone using this benchmark can develop the basic framework to judge the bank as a whole instead of judging the particular banks in term of only one aspect. This model covers all the aspect of banking to be a quality, safe and sustainable bank.

Recommendation

As per the study conducted, I have come to find that there are several factors that can be implemented by financial institutions especially the banking sector. They are as follows:

- Since lots of the banks are having problem with regards to loan turning bad. Therefore the banks should carry out feasible study of the project by employing its own professional before granting the loan: Loans and advances falls under high risk, high return category. SCB has been more conservative but still it has been able to achieve higher profit where as other banks have lower profit which has been eroded by the NPAs. In order to decrease its NPAs the banks should carry out a feasible study

about the project before granting a loan to an individual. This will help them to maintain quality loans.

- Excess fund should be invested on risk free securities instead of giving to any project without feasible study:
- Looking at SCB, it was found that they employ low profits-low risk strategy. Excess fund of SCB is being invested on risk free investment like government securities. This is one of the reasons why NPA is least in this bank thereby adding more to its profitability. Currently as explained earlier high credit deposit ratio indicate high-risk strategy of other banks. So other banks should also change its strategy by changing its credit deposit attitude.
- Should not invest directly in to the priority sector:
- In order to fulfill the NRB guidelines with regard to the investment to be made in the priority sector, the bank should not invest directly into it. Therefore in order to fulfill the NRB guidelines with regard to the investment to be made in the priority sector, the bank should invest indirectly into it. Indirectly means the bank should invest in agriculture development bank. This is allowed as per NRB guidelines. This way, the bank will have reduced their chances of generating NPA as well as fulfill the statutory requirements
- Should come up with some new product looking at the global scenario:
- The bank should venture out in new and innovative product and services, which may have already been implemented in a similar economy market abroad. Introducing new concepts with adequate exposure will increase the brands positive visibility as well as ultimately increase its deposit base. Some of the new concepts that may be implemented are zero base deposit, home banking etc (further concepts are discussed in

the annex).

- Reduce its cost of deposit:
- Some banks seem to have a higher cost of deposit compare to other profitable bank. Considering this as one of the factor that reduces the profitability of the bank, these banks should try to reduce it. To achieve this, bank should look into the possibility of gathering more non interest bearing deposits like using the current account. One way of achieving this is by induce deposit in current Accounts. In order to reduce the cost of deposit, the bank should discourage deposit in savings and fixed accounts. This can be done by reducing the interest rate of these accounts. Moreover, by improving services as mention above they should try to increase its cliental base in current account. This will reduce the interest liabilities of saving and fixed deposit. To encourage the people to deposit in current account bank can provide miniscule interest on this account.
- Standard norms for feasible study:
- Before granting loans banks should see if the project is feasible or not. Therefore they should carry out the following analysis:

Credit Analysis of the project and individual:

In every lending arrangement bank has to make a decision only when they are convinced that all the four pillars of credit are in places. These pillars are (i) Industry analysis (ii) Financial condition (iii) Management quality and (iv) Security. Only after taking stocks of all the four pillars of the credit, banks should decide to enter into the lending arrangements. These are the basic philosophy of any credit analysis and apply to all the loans. BOK should do the same to reduce their NPA.

Collateral Study

Banks in Nepal place excessive reliance in the collateral rather than the cash flow of the project. Collateral liquidation is, by experience, a long and arduous process. The liquidation of the collateral has become even more difficult in the absence of adequate legal provision. Besides, the bank tends to totally overlook the competence of the collateral. The competence of the collateral directly influences the executability of the collateral thereby severely affecting the realizable value of the collateral. Realization of the full value of loan by way of liquidation appears to be an almost impossible task. The banks, if at all, are able to liquidate the collateral, chances of recovering the full value of the loan appears very remote.

Business alliance with other banks

It is very costly for a bank to implement the entire project by itself because of the capital base of a bank and poor economic condition of the country. However to cope up with this problem the banks can again look at the international market and then come up with various types of business forms like getting into a mergers and alliances.

With this respect we suggest the banks to make alliance with other banks thereby bringing expensive technologies such as ATMs, Credit card, communication devices, software, and other business activities such as combined branches, consortium lending, attracting remittances and other fee based income etc.

Banking product:

Since Nepal is entering in WTO; the bank of the future has to be essentially a marketing organization that also sells banking products in order to face a global competition. New distribution channels have to be used; maybe by outsourcing services like disbursement and servicing of consumer loans, credit card business, Direct Selling Agents (DSAs) to sell the bank's products. Siddhartha bank, Kumari bank and Laxmi bank have to expand its revenue stream through expanding its services.

Innovative product:

As seen in case of Himalayan Bank where promotional activities like lottery coupons to the depositors of premium saving account are being implemented. Thus in the similar way we can come up with some new schemes to promote the banking services.

Some of the others products where banks can explore to be a market leader in Nepalese industry are as follows.

HOME BANKING

The bank can outsource this service so that they make house calls to get the application form filled in properly and also take your passport-sized photo. Home banking has already become common abroad, where the customers can order a draft or cash over phone or even the Internet and have it delivered home. Medium banks can initiate these services.

Loans:

Increasingly banks are wooing customers in every way possible through consumer loans, car loans, personal loans, professional loans, education loans, housing loans et al. You name your need and banks are willing to give you a loan for meeting it. The service standards have improved and the customer is nearer to being king than in the days gone by. With increased competition, interest rates on loans have seen a steady reduction and the customer can choose between the various options. BoK should market these services adequately to capture these non-commercial customers.

Priority Banking:

Laxmi bank can have esteemed category of clients. Therein Laxmi bank will depute a relationship manager, who will look after all your investment needs, right from sale and purchase of property to making the clients will. So whether it be loans or fixed deposits, credit cards or debit cards, life becomes increasingly simpler for the customer. And this,

if not the interest earned on the money, will be an enough reason for those clients to bank with Laxmi bank

Strengthen customer loyalty:

'One man's loss is the other man's profit,' the saying is true. But the financial institutions should work towards retaining their present customers. This can be achieved through better relation with the existing customers. One way for banks to establish better one to one relationships with their customers is to make documents more personalized and targeted to each recipient. Here are a few ways banks can personalize documents and make them more powerful customer service and marketing tools:

Variable Messaging

The latest hardware and software enable banks to build strong communication links with customers through the use of variable information integrated into the body of documents or attachments.

Simplified Formats. Providing both form and function, personalized documents can present all of a customer's account information in one, easy-to-read format. For example, customers can see their total financial picture in colorful bar graphs or pie charts created with their own personal financial data

Conclusion

Banking has become highly sophisticated. Changes are taking place in the banking environment around us each and every day. These changes have brought about risks and opportunities, which have direct bearing on the operation of the banks. Banks play an important role in the economic upliftment of the country. Central bank, as the sole monetary authority of the country, is responsible for the total financial stability of the country. It undoubtedly needs to be capable of supervising the banks and other financial institutions. Thus it will ensure their sound financial health and help towards checking

any undesirable financial crisis.

As can be seen, some banks in Nepal are going downhill, not to forget the global banking crisis. This is due to volatility of the banking business, wherein they are subjected to market failures arising from asymmetries of information. The mismanagement of credit operations, imprudent investment and lack of transparency in operation followed by inefficient supervision are the factors that may have led to the declining health of the financial institutions. The turmoil in the financial system of the Southeast Asian region that led to the failure of a number of financial institutions, had pointed out the urgency of enhancing the capability of the supervising authorities. This has led the Nepal central bank, the Rastra Bank to take some prudential regulation to safeguard the banks from its collapses, and some of the methods have been, the requirement of maintaining an adequate CAR and making provisions for bad loans.

Besides the internal management of the banks, the external environments also equally affect the health of the bank. One of them is competition. With the opening up of new banks and non-bank finance institutions competition in the financial services industry is getting very intense with margins decreasing by the day. With industrial growth maintaining very intense with margins decreasing day by day. With the industrial growth maintaining a slow pace and good quality incremental assets difficult to come by, some banks and finance companies appear to be lowering their standards in pursuit of sustenance of growth and profitability. This could have a negative repercussion in the long run as assets are not being priced for the risk- a basic tenet of the risk-reward principle. There is an alarming tendency among banks and financial institutions to lower credit standards. This can only be detrimental to the industry and the economy as a whole. The recent and long awaited commitment of the government and the central bank to push through focused financial sector reform is very welcome move. If implemented in the spirit in which it is intended can only do well for the country.

As of last year, while the economic indicators were on an improving trend, it did not reflected in improved investor's confidence. The infighting in the ruling party, the deteriorating law and order situation and the frequent 'Bundhs' and strikes whether due

to political reasons or on account of industrial action made the matters worse. Foreign investment has reduced to a trickle and domestic businesses have become very shy of new capital investments. All the problems were further elevated due to the recent Royal Massacre and the September 11 terrorism, which have brought about a global recession.

In the mean time the government should also be equally concerned about the two nationalized banks, which takes a major chunk of the economy. For an economy to develop there should be free competition allowing the foreign banks to open in Nepal. But due to the very bad state of these banks it is not possible. If free competition is allowed in banking sector then those sick banks won't be able to sustain and might collapse, which might have a devastating impact on the economy of the country. So first step should be towards restructuring and recovering these banks.

Therefore for the overall enhancement of the financial sector of Nepal, a well-designed strategy should be build covering the different aspects of the sector. Reforms have to be made in different aspects of banking sector.