CHAPTER I

INTRODUCTION

1.1 Background of the Study

Now, without development of any financial institutions in the country, the nation can not be developed properly. So, the development of financial institutions is increased day to day for national prosperity & generation of employment.

"The open market liberalization policies directly influence the world economy which creates the environment for the establishment, growth and development of financial institutions. Financial institutions are the specialized firms that facilitate the transfer of funds from savers to borrowers. They act as a bridge between the savers and users. They collect scattered deposits and give loans to maximize their wealth" (Poudel, 2006: 15).

"A bank is an organization; the major function of which is to deals in money and credit. The main business of a bank is to pool the scattered idle deposits in the public and channel it for productive use. It collects deposits and invests or lends to those who stand in need of money" (Shrestha, 2007:12).

"Bank is and establishment for the custody of money received from or on behalf of its customers. Its' essential duty is to pay their draft on it, its profit arise from it's used of money left unemployed by them (Oxford English dictionary)

“A Bank is an institution which collects money from those who have its spare or who are saving it out of their income and lends this out of those who require it (Nepal Commercial Bank Act, 2031 B.S.)

Capital accumulation plays an essential role in acceleration of the economy growth of nations but capital accumulation is totally dependent on income level and degree of saving. So the capacity of saving in the developing country is quite low with a relatively higher marginal propensity of consumptions. As a result developing countries (like Nepal) are badly trapped in to the vicious circle of poverty. By the poverty, the basic problems of those countries are raising the level of saving and investment in order to collect the level of saving and investment. In order to collect the enough saving utilizes it into productive sector, financial institutions. (i.e. commercial bank, development Bank, finance company etc) are necessary.

The commercial bank has been a vital role for economic development. Banks are intermediaries, which mobilize funds through the prudential combination of investment portfolio in advanced countries. Now Nepal is underdevelopment country so that joint venture Banks are still to be realize as an essential mechanism of mobilizing interval saving through various Banking schemes in the economy they can accumulate and collect the capital among other prerequisite.

Commercial banks are suppliers of the finance for trade and industry as well as other sector, which plays the vital role for economic and financial development of the country.

They help in the formulation of capital by investing the savings in productive areas. Normally Banking facility is available in underdeveloped country (Like Nepal) is urban area. In almost of the countries banking facilities are concentrated into urban and semi-urban area, they wanted stay for from rural area due to lower rate of return or higher risk. But in fact, without it, other sector of economy can not be flourished.

Banking often perceived on milestone of economy growth of any country. The Banking history is very much old because the first systematic public Banking history or institution goes to credit to Bank of Venice, Italy established in 1157 AD. About after 250 years of bank of Venice establishment, other two bank founded name a as Bank of Barcelona and bank of Genoa in 1401 and 1407 A.D. Respectively then after Bank of Amsterdam is established in 1609 AD. The Bank of England was established in 1694 AD. But the modern banking is started only after introducing banking Act 1883 A.D. in USA. When the government has liberalized economy policy and democracy in the country then the growth of commercial bank is very much. In current situation (Jan. 2008) 23 commercial bank are operating and providing their services to customers. Nepal Rastra Bank (NRB) is the monitoring and regulating body of financial institutions (Viz. commercial banks, development banks and finance company). NRB poses the directive of maintaining Rs. 2000 million on a paid up capital with in dated of 2070 B.S.(kantipur daily,20Aug.2008:14) which is the mandatory rule of NRB.

1.1.1 Evolution of Commercial Banks in Nepal

"Nepal's formal financial system was begun in 1937 AD. With the establishment of Nepal Bank Ltd. (NBL), this was the first commercial Bank in the country. The Nepal Rastra Bank (NRB), the country's central bank, was established in 1956 A.D. under the NRB Act 1955 A.D. The Rastriya Banijaya Bank (RBB) was set up in 1956 A.D. as the second commercial bank under the RBB ACT with a view to expand activities in the banking sector and to provide better Banking facilities to the people. In the developing stage of financial institution in Nepal, the establishment of agriculture development bank was another significant achievement. It was establishment in 1968 A.D. under the ADB/N Act 1967 AD, to address the needs of agriculture sector. (Shrestha and Bhandari, 2004:25) the first joint venture of Nepal is Nepal Arab Bank named as Nabil Bank, which was established in 1984 AD. After democracy in 1990 AD the establishment and growth of financial institutions are large which is mention on the table.

Table 1.1
Establishment and growth of financial institutions

Types of Financial intuitions	Number of institutions in Year						
	1985	1990	1995	2000	2005	2006	Mid Jan 2008
Commercial Banks	3	5	10	13	17	18	23
Development Banks	2	2	3	7	16	29	58
Financials companies	-	-	21	45	60	70	79
Micro credit Development Banks	-	-	4	7	11	11	12
Saving and cooperatives	-	-	6	19	20	19	16
NGO'S	-	-	-	7	47	47	47
Total	5	7	44	98	181	194	235

Source: Banking financing statistics, NRB

1.1.2 Functions of Commercial Banks

"The basic business of banking is a combination of two functions- payments and financial intermediation and however, changed and continues to changed along three dimension: entry of new institution in to banking, as news forms of lending and borrowing are developing, the intermediation function is evolving and other related functions to the basic ones are being added" (Koch and Macdonald, 2004: 20)

Bank undertaking business with the objectives of earning profits is commercial banks. Commercial banks are mainly engaged into their mandate to the rules that is laid down by central bank. In the context of Nepal commercial banks have to follow their activities under the mandatory rules of NRB as per commercial bank act 2031 (1974) and various regulations and directives. The commercial banks in Nepal provide the following main banking functions.

Deposit Acceptance: This is the oldest function of a bank in which the banker charged commission for keeping the money in its custody. Depending upon the nature of the account and chances to the float money, banks used to provide interest in different rates in the different types of account. The first is "Savings" deposits on which the bank pays relatively law interest rates to the depositors. Depositors are allowed to withdraw their money by cheque up to a limited amount during a week or a year. The second is "Current" accounts known as demand deposits. They can withdraw any time available in their account by cheque with out notice and they don't get any interest. The last is

“Fixed” account where money is deposited for fixed time period. The stipulated period 6 months to longer periods ranging up to 10 years or more.

Advance and Loans/Providing Loan

Another, main function of commercial bank is providing of loan to the customers. Banks target to flow loans in different sectors like energy, agriculture, industry, trade, rural sector etc, Banks use to take interests from the borrowers of the loan which is higher than the interest provided by the bank to the depositor. Different forms of loan are presented below.

- Overdraft loan.
- Mortgage wan
- Short term and long term industry loan
- Cash credit
- Discounting bills of exchange and securities
- Retail loans
- Hire-Purchase loans
- Time loan
- Trust receipt loan
- Pre. And post shipment loan etc.

Agency Functions

“On the top of the above stated functions bank also deals with some agency works. The agency will mean the bank acts agents of its client and performs the designated woks on

behalf of its customers. For these services, the bank charges a nominal fee while its renders others fee and charge some of the examples of as agency functions are on below. (Bhatta, 1995: 100)

- Clearing of customers cheques from the other banks via its Nostro accounts.
- Collection of dividends on behalf of its customer and deposit it into their accounts.
- Payment of utility bill like telephone and electricity bill of customers.
- Financial consultancy services as and when required and requested by the customers.
- Issuing Bank Guarantees.
- Underwriting of securities after getting permission from the competent authority.

Foreign Trade Operation Functions

A commercial bank finances foreign trade of its customers by accepting foreign bills of exchange and colleting them from foreign banks. Commercial bank cans also providing of guarantee for international or foreign trade.

Utility facilitation Functions

- Issuance of travelers cheques
- Issuance of letter of credit
- Cheques collection and its payment dealing with bills of exchange
- Remittance of money
- Locker services

- Management of trading ad Banking information
- Dealing in foreign exchange.
- Issuance of debit or credit card (Sharp, Alexander, and Bailey 1999:575)

1.2 Statement of the Problem

The study of "Comparative financial analysis" occupies an important place in theory of finance. Lack of appropriate knowledge about risk and return is the main cause of Manipulation by the financial institutions or stockbrokers to invest Nepalese stock market. The profitability position or capacity of a firm is generally known though financial statements. But the overall performance of the firm may not reflect by financial statement, so that major question emerges whether these are adequate to reflect the overall performance of company. Hence, there is needed to identify the overall condition strengths, weakness threats of the banks. For these purpose, several financial and statistical tools and techniques are developed by different experts and financial institutions all over the world, one of them is CAMEL. This study aims to asses the financial conditions and overall performance of sampled commercial banks in the framework of CAMEL.

- What are the capital Adequacy ratios of commercial banks?
- What are the qualities of assets of banks?
- What are the management qualities of the banks?
- What are the earning capacities of the banks?
- What is the liquidity position of commercial banks?

1.3 Objectives of the Study

The Basic objective of this study is to analyze, evaluate and compare the financial performance of commercial banks in the frame work of CAMEL from fiscal year 058/059 to 063/064.The specific objectives of the study are as follows.

- To examine the capital adequacy of the commercial banks.
- To identify the quality of assets of the banks.
- To analyze the earning performance of the banks.
- To evaluate the liquidity position of the banks.

1.4 Significance of the Study

The study deals with different financial performance and its indicator as well as financial viability of the banks. The study also significance lies mainly in identifying and comparing the financial health of banks in the framework of CAMEL. This study also provides necessary information of performance capability of their banks to the management. It provide the real picture of performance which is beneficial to potential as well as existing shareholders, about risk return and utilizing fund. The study is also useful for depositors, merchant bankers as well as other stakeholders; they can identify the overall performance of the bank. It will be helpful to those who want to conduct further study in this field. Mainly, the purposed study will be significance for the researchers, research group and academicians for the future in the view of review.

1.5 Limitation of the Study

Every research may not be the free from its own limitations, so that this study may not free from it. so, the limitations of the study are:

- The study should be completed with in academic year as well as data taken with in 5 year may not represent the whole scenario of the banks.
- There are 23 commercial banks, but only 4 banks are taken as sample, so sample may not represent the whole population.
- This study is only confined to financial performance analysis of banks in the framework of CAMEL.
- Data taken from F.Y. 059/60 to 063/064 is another limitation of the study
- The analysis is only based on secondary data i.e. annual report of concern banks.
- Analysis is mainly based on financial as well as statistical tools and technique which is develop in the context of efficient market condition is an another limitation of the study.

1.6 Organization of the Study

This study has been conducted in to five chapters. Each of this chapter is summarized and contents of each chapter of this study are mentioned here.

Chapter I: Introduction

Chapter II: Review of literature

Chapter III: Research methodology

Chapter IV: Presentation and Analysis of data.

Chapter V: Summary, conclusion & Recommendations.

The first chapter deals with the subject matter consisting of introduction of the study, statement of the problem, significance of the study, objectives of the study, limitation of study and organization of the study.

The second chapter concern with review of literature which includes conceptual review and review of articles, journal, past thesis and research review undertaken by different author.

The third chapter describes the research methodology adopted to conduct the research. It is concern research design, sources and nature of data, population and sampling, data collection procedure and tools and technique used to solve the research problem.

The fourth chapter is concern with Analytical frame work and presentation of collected data. It included analysis of financial indicators i.e. capital Adequacy, Assets Quality, Management quality, Earning Capacity &liquidity as well as other statistical tool and major findings.

The fifth and final chapter deals with summary and suggestion that consists overall findings, issue and gap as well as conclusion and recommendations of the study.

The bibliography and appendix are incorporated at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

The present research is going to aim as financial performance of commercial bank, for this purpose, it needs to review past related literature in the concern area, which help to set clear ideas, opinions, views and concepts about what they said ? What they done? And what they written ? these all related questions are reviewed which has provided useful in puts in this thesis work. This chapter summarizes about the literatures, which were concerned in this connections. Review of literature is divided in to two parts, Conceptual review and review of related studies. Conceptual review covers the concepts of basic terms and conditions used in the study and review of related studies includes the reviews of internal journals, Nepalese journals along with master degree's thesis work.

2.1 Conceptual Review

Conceptual Review is the sub chapter of review of literature which presents the basic terms and theoretical aspects of the study. It covers the concepts of commercial banks, supervision approaches and financial performance approaches.

2.1.1 Concept of Commercial Banks.

Commercial banks are the most important source of intuitional credit in the money market. A commercial bank is a profit seeking firm, dealing in money or rather dealing in claims of money. Commercial banks are largest source of financial and its business is largely confined to business institutions. Hence, the name is termed as commercial banks.

Commercial banks are established with the concepts of supplying short-terms credit and working capital needs of the industries.

"A commercial bank means bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions"(Commercial Act, 1974).

"Commercial banks are those financial institutions, which play the role of financial intermediary in collection and disbursement of funds from surplus unit to deficit unit (Bhusal, 2008:8)."

Commercial banks is established with a view of provide short term debt necessary for trade and commerce of the country along with other ordinary banking business such as collecting the surplus in the form of deposits, lending debts by discounting bills of exchange, accepting valuable goods in security, acting on an agent of the client etc.

Banks undertaking business with objective of earning profits are commercial banks. Commercial banks pools scattered fund and channel it to productive use. The various forms of commercial banks are deposits banks, savings bank, industrial banks, mixed banks, exim banks etc. It is a financial intermediary, a sort of middlemen between people with surplus funds and people in need of funds. It accepts deposits for the purpose of lending or investment and there by hopes to make profit, which are adequate enough to enable the bank to pay interest at the prescribed rates to its depositors meet establishment expenses, build reserves, pay dividend to the shareholders etc.

2.1.2 Supervision Approaches

Effective and appropriate supervision system is prerequisite for growth and stability of any firm. The supervision facilitates the detections of frauds, malpractices, abuses of power by management and undesirable trends and imprudent practices such as deterioration in the quality of loan portfolio and insider lending. Bank supervision departs and monitoring body of bank viz. NRB are supervised all the commercial bank at present.

Bank and financial institutions are supervised in most, if not all countries. However, the nature of the supervision and its detailed application varies greatly from country to Country depending upon the character of its industry, size, complexity and their priorities. The past has shown that all although the cost of supervision is high, the cost of poor supervision is even higher. The cost of bank failure to the society as a whole is higher than the private cost (the loss to share holders), which is the compelling reason for supervising banks. Some of the major validations behind the supervision are;

- To ensure that banks operate in a safe and sound manner and they hold sufficient capital to support the risks that arise in their business.
- To maintain stability and confidence in the financial system, there by reducing the risk of loss to depositors and other stakeholders.
- To foster and efficient and competitive banking system that is responsive to the public's need for good quality and easy access of financial services at a reasonable cost.

After the institution of Nepal Rastra Bank (NRB), a supervision unit was established in NRB to execute the supervision function, Gradually as the supervisory function started to gain prominence, this unit was converted into "Division" in 2031 B.S. under the banking development and credit department and later in 2041 B.S. into a separate department named inspection and supervision department. Today there are two separate departments executing the supervision function of NRB. Bank supervision department,(BSD) is responsible for the inspection & supervision of all the commercial banks while financial institution supervision department (FISD) oversees the inspection and supervision of all other financial intuitions licensed by NRB. The bank supervision department (BSD) spearheads the supervisory functions of the central bank. The most common supervisory tools used by the regulatory agencies in promoting safety and soundness are on site supervision and off site supervision both on site and offsite supervision (inspection reports) helps to discourage and unnecessary delays (NRB, 2006:15).

2.1.2.1 On-Site Supervision

The BSD is responsible to conduct the on-site examination of the commercial banks in accordance with the annual plan of the department. Almost more than two thirds (2/3) of the department's staff is dedicated to those activities (NRB, 2006:16). On site examinations are carried out at the banks premises and involve examination of their business books and assessment of their technical, professional and organizational resources. The objective of on site supervision (inspection) conducted by Bank supervision. Department (BSD) can be presented or summarized as,

- To assess and appraise the competence and capability of the commercial bank's management and staff, as the quality of the institutions management will determined the soundness of its operation.
- To determine the commercial bank's financial position and the quality of its portfolios and operations so as to ensure that it is not operating against the interests of the depositors.
- To ascertain whether the bank is complying with applicable laws, regulations and monetary measures issued by the NRB.
- To test the accuracy and validity of the data submitted to the NRB by the banks.
- To evaluate the adequacy of bank's records, systems and internal controls (Bhusal, 2007:12).

2.1.2.2 Off Site Supervision

This BSD carries out the off site surveillance of all the commercial banks, operating in Nepal. The core objective of this function is not conduct periodic financial review of the banks in order to identify the potential problems and to gauge the compliance to prevailing laws and statute as well as to support the on-site function of the department. In order to pursuer its objectives through systematic development, the department has devised an off site supervision manual, which has been put into effect. The supervision manual provides guide lines on the objectives, procedures and prescribed documents of the off site supervision. The inspection and supervision by law, 2059 B.S. identifies the following key objectives of an off-site supervision of the bank supervision department.

- To obtain regular information in respect of financial condition and health of the commercial banks.
- To identify potential problems of the commercial banks in the absence of on site inspection.
- To help and strengthen the quality of on site inspection.
- To ascertain the compliance status to the applicable laws, regulations and directives on the basis of financial statements and other documents obtained from the commercial banks.

The off site aspect reviews and analysis the financial conditions of banks using prudential reports, statutory returns and other relevant information. It also monitors trends and developments for the banking sector as a whole. Industry reports are generated on quarterly basis. The off site supervision unit is responsible for supervising banks operations on the basis of data and reports submitted by banks. On the basis of prudential analysis of different financial indicators by banks, groups of peer banks and the banking system on a whole, the banks are rated in terms of the level of risk involved in their business operation in accordance with the adopted methodology for analysis.

The off site surveillance unit monitors, reviews and analyzes financial institutions returns and prepares reports based on said returns and serve as an "Early Warning" device to detect emerging problems before they lead to an opened crisis. The returns are used by the supervisors. Examiners for the purpose of determining banks exposures to risk the effect on bank's profits some basic ratios (the financial soundness indicators) are

computed from these returns and are used to analyze such important areas on capital adequacy, assets & quality, Earnings, liquidity and sensitivity to market risk (CAMELS rating: NRB, 2006). The off site review and analysis deal with capital, liquidity which can be quantified, but is less well suited to qualitative issues such as management Strength and operational risks. Besides, off site supervision is taken as an early warning system to identify potential problems in commercial banks as well as for the compliance of applicable provisions. This supports and strengthens the quality of on site examination.

2.1.3 Financial Performance Approaches

Every business entity should be able to enhance their competitive strength through achieving the financial goals. Commercial banks strength is usually thought of both in quantitative terms. Namely a firms intrinsic financial condition as reflected in its capital, reserves, assets quality, earning and liquidity, and in qualitative terms, as evidenced in the underlying quality and effectiveness of management, internal controls, and risk management policies and practices. The soundness of commercial banks is found on a strong balance sheet and strong management. They are many approaches for measuring the performance of commercial banks focuses on balance sheet. They are EPS, DPS, P/E ratio, ROA, ROE, RAROC, RORAC and CAMEL (Koch and Macnoald., 2004:27). Among them, CAMEL style method of analysis has been considered in this study. With in this framework, the financial condition and performance of 5 commercial banks has been assessed.

2.1.3.1 EPS, DPS and P/E Ratio

Earning per share (EPS) refers the rupee amount earned per share of common stock outstanding. It is also identified to measure the profitableness of shareholder's investment. The earning per share simply shows the profitability of the banks on a per share basis. The higher earning indicates the better achievements of the profitability of banks by mobilizing their funds and vice-versa (Kutal, 2007:61).

Dividend per share (DPS) indicates the rupee earnings actually distributed to common stock holders per share held by them. It measures the dividend distribution to each equity shareholders (Kutal,2007:62)

Price Earning Ratio (P/E ratio) is also called the earning multiplier. P/E ratio is simply the ratio between market price per share (MPS) and Earning per share (EPS). In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings (Kutal, 2007:63).

2.1.3.2 Return on Assets (ROA) Approach:

The rate of return on assets is one of the most common performance measurement approaches of commercial banks. It measures the ability of management to utilize the real and financial resources of the firm to generate returns. Further it examines the profitability of a concern in terms of the relationship between profit earned and assets employed in the firm. It shows the effectiveness of the utilization of assets. It is primarily indicator of managerial efficiency, it indicates how capability the management of the firm

has because converting the institutions assets in to net earning (Rose,2002:135). The return on assets provides information on has efficiently a bank is being run. The higher the bank's return on assets the better it is doing in operation and vice-versa.

2.1.3.3 Return on Equity (ROE) Approach

The return on equity is also one of the popular performance measurement approaches of commercial banks. Equity holders of company are concerned about how much the company is earning of their equity investment. This information is provided by the return on equity. It measures the rate of return on shareholders investment. It is the aggregate return to stockholders before dividends. The higher the return the better, as company can add more to retained earnings and pay more in cash dividends when profit are higher (Koch and Macdonald,2004:28). It measures the rate of return flowing to the banks shareholders. It indicates how well the bank has utilized the resources of the owners.

2.1.3.4 Risk Adjusted Return on Capital (RAROC) Approach.

Risk adjusted return on capital is an effective tool for measuring risk adjusted financial performance. In the 1990's bankers trust popularized a method of evaluating loans known on RAROC. Today, many banks and financial instructions employ RAROC to measure managerial performance (Gup and Kolari, 2005:50). It is a risk adjusted framework or profitability measurement and profitability management. It is defined as the ratio of risk adjusted return to economic capital. Economic capital is attributed on the basis of free risk factor; Market risk, credit risk and operational risk.

The use of risk based capital strength the risk management discipline with in business lines, as the methodologies employed quantified the level of risk with in each business line and attribute capital accordingly. Using this method, income is adjusted for risk. Typically, income is adjusted for expected losses. It provides a uniform view of profitability across businesses (Strategic Business Units/ divisions).

2.1.3.5 Return on Risk Adjusted Capital (RORAC) Approach.

Return on risk adjusted capital is also a popular method of measuring risk adjusted profit of any commercial banks. Using this methods capital is adjusted for risk. Typically, capital is adjusted for a maximum potential loss based on the probability of future returns or volatility of earnings. Today many large bank and financial institutions evaluate their line of business profitability and risk via RAROC and RORAC system (Koch and Macdonald, 2004:32).

2.1.3.6 CAMELS Approach

CAMELS is an ideal rating system, practiced world wise by central banks and rating agencies, to evaluate and analyze safety and soundness of a bank or financial institution. The acronym CAMELS refers to six components namely,

C = Capital Adequacy

A = Assets Quality

M = Management Quality

E = Earning Quality

L = Liquidity and

S = Sensitivity to Market Risks.

The original CAMEL rating system was adopted in 1979. It is maintained by the federal financial institutions examination council (FFIEC). Starting on January 1,1997, a sixth rating component was added to address sensitivity of market, hence, the CAMELS system. Bank examiners use the CAMELS system to rate the quality of banks operations. CAMELS is a numerical rating system based on the examiners judgment of the banks capital adequacy, assets quality, management quality, earning record, liquidity position and sensitivity to the market risk. The rating scale ranges from 1 to 5, with 1 indicating strong performance and 5 is unsatisfactory performance. Banks with a composite CAMELS rating of 4 or 5 receive examination more frequently than banks with a rating of 1 or 2 (Liaw, 2004:57). It has proved as an effective internal supervisory tool for evaluating the soundness of banks and financial institutions on a uniform basis.

CAMELS rating system was originally used by the three federal banking supervisors [the Federal Reserve, the FDIC, and the office of the controller of the currency (OCC)] and other financial supervisory agencies to provide a convenient summary of firm conditions at the time of an exam. (Mc Nally, 1996:177). The rating system is known as the CAMELS serve as a supervisory tool to help identify those banks and non-banks that are having problems and require increases supervision.

Bank supervision department (BSD) and financial institution supervision department (FISD) have been examination of bank and non-banks in Nepal. (NRB Annual reports,

2005) Based on this methodology, the bank and non-banks operations is assessed is respect of the comportment of CAMELS and a consolidated rating is computed.

The most important criteria for deterring the appropriateness of the financial institution to act as a financial intermediary are its solvency, profitability, and liquidity. In this respect, the BASEL committee on banking supervision on the bank of international settlements (BIS) has recommended using capital Adequacy, Assets Quality, Management Quality, earning capacity & liquidity (CAMEL) as criteria for assessing in Financial institution in 1988 (ADCB-2002). The sixth component, market risk or senility of market risk (s) was added to CAMEL January-1, 1997 (Liaw 2004:57). How ever most of the developing countries are using CAMEL instead of CMELS in the performance evaluation of the financial intuitions.

Monetary authorities in the most of the countries are using this system to check up the health of an individual financial institution. In addition, International monetary fund also is using the aggregated indicators of individual financial institutions to assess the financial system soundness of its member countries or part of its surveillance of work (Hilbers, Krueger, Moretti, 2000: 8-12).

2.1.3.6.1 Capital Adequacy (C)

The first component, capital banks can manage with the chocks to their balance sheets. The capital component (C) signals the institutions ability to maintain capital commensurate with the nature and extent of all types of risk and the ability of

management to identify, measure, monitor and control these risk (Koch Macdonald, 2004:35). This effect of credit, market and other risks on the institutions financial condition should be considered when evaluating the adequacy of capital.

Capital is a source of financial support to protect an institution against unexpected losses, and is, there for, a key contributor to the safety and soundness of the firm. So, banks have to make decisions about the amount of capital they need to hold mainly for three reasons. Firstly, capital helps prevents company failure, a situation in which the company cannot satisfy its obligations to pay its depositors and other creditor4s and so goes out of business. Secondary, the amount of capital affects returns for the owners (equity holders) of the company. And thirdly, a minimum amount of firm capital is required by regulatory authorizes. Thus, capital provides a cushion against the risk of failure. The level of capital plays a key role in the evaluation of any banks. Any financial institution should have adequate capital to support the satiability and sustainability of its operation (Mishkin, Eakins, 2006:74).

Capital adequacy is a measure of firms' capital as a percentage of its risk weighted assets, such as the loans has provided and the securities it holds. Thus, this parameter indicates whether as particular institution has enough capital to absorb unexpected losses. This is required to maintain depositors confidence and preventing the institution from going bankrupt. It its capital is sufficient, other financial, managerial and operational weakness can usually be absorbed.

New BASEL Capital Accord (BASEL – III)

BASEL – II is a capital adequacy related standard farmed by BASEL committee. It aims to replace BASEL – I, which was issued in 1988 with an amendment in 1996, to make the capital framework more risk sensitive. BASEL committee set out a minimum capital requirement of 8% for banks in 1998. After the successful, implementation of 1988 capital accord in more than 100 countries, the BASEL committee on Banking supervision (BCBS) reached an agreement on a number of important issues for promoting prudential and uniform banking practice a well as setting standards and guidelines for supervisory functions. Realizing the fact, it ahs developed a new comper4ahensive framework for capital requirements based on the various risk exposures of the banking business, which is also popularly known as BASEL – II (ww.bis.org)

The BASEL-II has been introduced basically for the protection of depositor's interest by preserving the integrity of capital of Banks. There is no doubt that the new accord though complex carries a lot of virtues and will be a milestone in improving banks internal mechanism and supervisory process. The New Accord consists of three re-enforceable pillars:

Pillar 1 – Minimum Capital requirements.

Pillar 2 – Supervisory review process and

Pillar 3 – Market discipline and explicitly which covers three types of risks in the definition of risk weighted assets.

(1) Credit risk

(2) Market risk, and

(3) Operational risk

So, a major innovation of the proposed BASEL – II is the introduction of three district options for the calculation of three types of risks.

(1) Credit Risk

Credit risk is the risk that a counter party to financial transaction will fail to perform according to the terms. And conditions of the contract, either due to bankruptcy or any other reasons whatsoever. A firm always faces the risk that some of its borrowers may renege on timely repayments of loan, interest on loan or meet the other terms of contract. This type of risk varies from borrow to borrower depending on their credit quality. BASEL – II requires banks to accurately measure credit risk to hold sufficient capital to cover it.

(2) Market Risk

Market risk is defined as an adverse impact on the current or future earnings potential of the firm as a result of a movement in interest rates, exchange rates, equity risk or in the volatility of these market factors.

(i) Interest Rate Risk:

Interest Rate Risk is the potential adverse impact on the bank's/Mon-bank's Interest rate risk increases when rates become volatile. The interest rate risk depends on the following three factors and they combine to create the interest rate risk.

- Volatility of interest rates
- The size of an organization
- The duration of exposure.

(ii) Exchange Rate Risk:

Exchange rate risk is an inevitable consequence of trading in a world in which foreign currency values move up and down in response to shifting market supply and demand.

(iii) Operational Risk

Operational risk arises from the breakdown in the internal control systems and corporate governance These risks may arises in the form of incorrect processing of transactions and information due to frauds, human error, failure to comply with established systems and procedures, non compliance with internal policies, laws and regulations, conducting business in unethical manner etc. Operational risk also includes risks resulting from inadequate physical safeguard of assets.

Implementing the new BASEL accord in Nepal has been a challenging task for the supervisors as well as financial institutions. The supervisory capacity building, market discipline issue of poor governance into the industry, poor governance into the market, poor data base, lack of credit rating agencies and lack of adequate, accurate and reliable financial data are some of the challenges ahead for effective implementation of BASEL. II. So, NRB and financial institutions need to have co-ordinate effort efficiently in Nepalese Banks and financial institutions to establish certain baseline for the effective implementation of BASEL – II (www.nrb.org.np).

Capital adequacy norms by NRB

The total capital fund is the sum of core capital and supplementary capital NRB has from time to time stipulated minimum capital fund to be maintained by the commercial banks on the basis of risk weighted assets according to the NRB unified directives for banks and non bank financial institutions issue number E. Pra. Ni. No. O1/061/062 (Ashad 2062 BS.) the capital funds of a commercial bank comprises the following.

Core Capital (Tier 1 - capital)

Core capital include paid up equity, share premium, non-redeemable preference shares, general reserve and retained earnings, proposed bonus share and capital redemption reserve. However, where the amount of good will and fictitious assets exists, the some shall be deducted for the purpose of calculation of the core capital.

Supplementary Capital (Tier-2 capital)

Supplementary capital includes loan loss provision for pass loan, assets revaluation reserve, hybrid capital instruments, unsecured subordinated term debt, exchange equalization reserve, additional loan loss provision, investment adjustment reserve and provision for loss in investment.

As per the unified directives, 2062 the capital fund of 12% would consist of 6% core capital, while the rest would be covered by supplementary capital for the current fiscal year.

2.1.3.6.2 Assets Quality (A)

The assets quality component (A) refers the amount of existing credit risk associated with the loan and investment portfolio as well as off-balance sheet activities (Koch and MacDonald, 2004: 40). Assets quality refers to the degree of financial strength and risk in a financial institutions assets, typically loans and investments. The assets of the firm are assessed to evaluate the market or realizable value of the firm's assets, particularly the loan portfolio. This aspect reviews the quality of the loan portfolio and the investment with due consideration to the provisions made by the firm. It also reviews the activities of firm management in terms of the development and implementation of various policies and the enactment of system of controls.

A comprehensive evaluation of assets quality is the most important components in assessing the current conditions and future viability of the financial institution. The ability of management to identify, measure, monitor and control credit risk is also reflected here. The evaluation of assets quality consider the adequacy of the allowance for loan and lease losses and weight 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 or a institutions assets, including but not limited to, operating, market, reputation, strategic or compliance risks has to be considered.

NRB Directives Related to Assets Quality

According to the NRB unified directives for Banks and Non-Bank. Financial intuitions issue number E. pra.Ni.No.02/061/062 (Ashad 2062 B.S.) finance company has to classified loan into the following four categories.

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

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

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

Loss: All loans and advances, which are past due for more than 1 year and have least possibility of recovery or considered unrecoverable shall included in this category.

Besides this, any loan whether past due or not, in situations of inadequate security, borrower declared insolvent, misuse of borrowed fund is to be classified as loss category.

Loans and Advances fallings in the above category of sub-standard doubtful and loss class are defined as non-performing loan. The loan-loss provisioning, on the basis of the

outstanding loans and advances and bill prophases classified as above should be provided as follows:

Table 2.1

Category of bank loans (as per NRB regulations)

S.N.		Basis of categorization	Loan Loss Provision
1	Pass/Standard	Not-overdue loan + loan principal overdue up to 3 months	1%
2	Sub-Standard	Loan Principal overdue >3 months and up to 6 months.	25%
3	Doubtful	Loan principal over due>6 months and up to 1 year	50%
4	Loss/Bad.	Loan principal overdue >1year	100%

Sources: "Fundamental of Banking". Shrestha, M.S. 2007:199)

Loan loss provision set aside for performing loan is defined as general loan loss provision and loan loss provision set aside for Non-performing loan is defined as specific loan loss provision.

2.1.3.6.3 Management Quality (M)

Good management can make, and poor management can break an organization. Banks are not exception to this universal phenomenon. The Nepalese banking sector has matured over the last 20 years and there is sufficient evidence of professional management being able to translate their management efficiency towards producing wonderful results for the bank.

The performance of the other four components of CAMEL will depend on the vision, capacity, agility, professionalism, integrity and competence of the financial institutions management. As a sound management is crucial for the success of any institution, management quality is generally accorded greater weighting in the assessment of the overall CAMEL framework.

The third factor M (the "hump" in the CAMEL rating) in the acronym CAMEL refers to the banks management quality. While the other remaining factor of CAMEL (i.e. C,A, E & L) can be quantified fairly and easily from current financial statements, management quality is a some what elusive, qualitative and subjective measure, yet over that is crucial to institutional success.

Sound management is the key to bank performance but is difficult to means. It is primarily a qualitative and subjective factor applicable to individual institutions. Several indicators, however, can jointly serve as an indicator of soundness of soundness of management. Expenses ratio, earning per employee (EPE), cost per loan, average loan size and cost per unit of money lent can be used as a proxy of the management quality. ADB recommends cost per unit of money lent as a proxy of management quality. But this can't be used as a whole indicator of management quality in Nepal. Since, the data on amount of the total loan mobilized during a particular fiscal year is not available in published financial statements and annual reports.

The management component (M) reflects the amount of existing credit risk of directors and senor management system and procedures to identify, measure, monitor and control risk (Koch, Macdonald; 2004: 43). Generally, directors do not actively involve in day to day operations; however, they provide clear guidance regulating acceptable risk exposure levels and erasure that appropriate policies, procedures and practices have been established. Senor management is responsible for developing and implementing policies, strategies, procedures and practices that translate the board's goals, objectives, and risk limits in to prudent operating standards.

The competence of the management is the key in evaluating the performance of the commercial bank. The management is responsible to mobilize the resources of the firm and to create a sound control environment and risk management practices .Thus, it focuses on apprising the competence, involvement and integrity of the management in day to day administration of the firm, involvement in formulating policies, strategies and procedures and the implementation of systems and controls, and in ensuing the firms compliance with applicable laws and regulations. So, the overall performance of banks is mainly responsible for management because qualitative management can charge the resources in to productive resources. Management can planning, implementation and control the overall factor of an organization as well as banks.

2.1.3.6.4 Earnings Quality (E)

An analysis of the earnings helps the management shareholders and depositors to evaluate the performance of the bank, sustainability of earnings and to forecast the growth of the bank.

The earning quality component (E) reflects not only the quality and trend in earnings, but also the factor that may affect the sustainability or quality or earnings. (Koch & Macnoald, 2004:46).

The quality and trend of earnings of an institution depend largely on how well the management manages the assets and liabilities of the institutions. This parameter plays importance in how institutions earn its profit. This also explains the sustainability and growth in earning in the future. Future earning adversely affected by an inability to forecast or control funding and operating expenses, improperly executed or ill-advised business strategies or poorly managed or uncontrolled exposure to other risks. An analysis of the earrings helps the management, shareholders and depositors to evaluate the performance of the bank, sustainability of earnings and to forecast the growth of the banks.

The purpose of the earnings (E) measure in CAMEL is to provide a ratio representative of managements' level of effectiveness in utilization of assets to earn profits. Earning capacity or profitability keeps up the sound health of a commercial bank. Profit is important for survival, economic welfare and growth of the business. It is used as yard

stick to measure the economic efficiency of the bank. Good earning performance is spires the confidence of depositors, investors creditors, other stable holders and the public a large. However, the earnings of the bank should be able to absorb normal and expected losses in gives period and provide a source of financial support by contributing to the bank's internal generation of capital and its ability to access capital externally. The earnings are, thus, assessed to evaluate the current and future earning capability and the efficiency of the bank based on the existing assets and liability structure, as well as pricing and costs (Madhu, 2001:75). If banks are earns more they can easily satisfy their al the stable holders.

2.1.3.6.5 Liquidity (L)

Banks are the business where liquidity (ability to pay cash to its depositors) is prime importance liquidity ratios is used to judge a banks ability to meet short term obligations. In the case of commercial banks, First type of liquidity risk arises when depositors of commercial bank's first type of liquidity risk arises when depositors of commercial banks seek to withdraw their money and the second type does when commitment holders want to exercise the commitments recorded of the balance sheet. Commercial banks have to borrow the additional funds or sell the assets at fire sale price to pay off deposit liabilities. They become insolvent if sale price of the assets not enough to meet the liability withdrawals.

The second type of liquidity risk arises when demand for unexpected loans cannot be met due to the luck of the sufficient founds. Commercial banks can raise the funds by running

their cash assets, borrowing additional funds in the money markets and selling off other assets at distressed price. Both liability side liquidity risk (first type risk) and assets side liquidity risk (second type risk) affect the health of commercial banks adversely. But maintaining the high liquidity position to minimize such risks also adversely affects the profitability of financial institutions. Return on highly assets in almost zero. Therefore, financial institutions should strike the trade-off between liquidity position and profitability so that they could maintain their health sound.

Liquidity means the capability of the bank to meet the demand or the customer's deposits. Bank maintain liquidity in various form like ready cash at its disposal, certain. Percentage at central Bank (NRB) as statutory requirement, makes placements in other banks and some percentage in utilizes in investment on government securities (Shrestha, 2007:204)

Liquidity is ability of a company which has funds available to meet cash demand for loans and deposit with draw. The liquidity component (L) reflects the adequacy of institution current and prospective sources of liquidity and fund management practices (Koch and Macdonald, 2004:50). A firm should always keep adequate fund to meet depositors and creditors demand. Lack of adequate liquidity is often one of the first signs that a company is in serious financial trouble (Rose, 2002:135). Much more liquidity surplus hurts the profitability of the commercial banks by reducing the returns on assets. So both the defects and excess liquidity indicate the problem in the financial health of a company. Despite, liquidity management need to design to ensure that the firm has ability

to generate or obtain sufficient funds in a timely manner and on a cost effective basis in order to meet its commitments to its customers and counter parties as they fall due.

Banks pay the depositors their money when demand, and if this is not meet, it damages the bank's image. The confidence of the public will be lost and this leads the bank towards its downfall. So, banks should not investment all the money it has on exposure based assets only, as it will not be repaid when required. Therefore, banks keep a certain percentage of their fund on such assets that can be utilized as need arises, which is known as liquid assets.

Sources of Bank Liquidity

- Primary deposit
- Capital- issuance of shares
- Loans from others.
- Repayment of Loan by Customer.
- Miscellaneous source
    - Cheques sent on collection
    - Commission received etc.

Central Bank ensures liquidity of commercial banks by enforcing the latter to maintain a certain percentage of their deposit liability in the form of reserve funds with the central bank and in its vaults (Shrestha, 2007:204-205).

Liquidity Gap Analysis

Liquidity gap analysis is the most widely known as ALM (assets and liabilities management) technique, and is used for managing both liquidity risk and interest rate risk. Liquidity risk is generated in the balance sheet by the mismatch between the sizes and maturities of assets and liabilities. The risk relates to the possibility of holding inadequate resources to balance the assets. The liquidity gap is typically defined as the difference between net liquid assets and volatile liabilities. If the firm's assets exceed liabilities, the gap should be funded in the market. In the reverse case, the excess resources must be invested. The maintenance of adequate liquidity remains one of the most important features of the commercial banks. They can either store liquidity in their assets or purchase it in money and deposit markets. Because liquid assets have lower returns, stored liquidity has an opportunity cost that result in a trade off between liquidity and profitability. These paradoxical principles of liquidity and profitability are reconciled to the maximum benefits of the bank.

2.1.3.6.6 Sensitivity To Market Risk (S)

Sensitivity of market risk refers to the risk that changes in market conditions could adversely impact earnings and capital. This reflects the degree to which changes in interest rates, foreign exchanges rates, commodity prices, or equity prices can adversely affect a commercial banks earnings or economic capital (Koch and Macdonald, 2004:54). The sensitivity is assessed to determine the banks ability to monitor and mange it exposure to market risk. In addition, consideration should be given to management’s ability to identify measure, monitor and control market risk, the institution’s size, the

nature and complexity of its activities, and the adequacy of its capital and earnings in relation to its level of market risk exposure to evaluate this component.

Sensitivity to market risk is arise due to macro economic variable Viz. inflation rate, interest rate risk, foreign exchange rate and Gross Domestic Product (GDP). Which is directly affecting the firm so that adjustment of such risk and proper strategy should be followed by the bank is the most important factor, which increases the overall performance of the bank.

2.1.4 CAMGELS Framework.

Nepal Rastra Bank (NRB) has used the CAMELS methodology since 2062 B.S. for analysis and rating the soundness of banks and financial institutions (NRB, Annual Repot,2005:45) This analysis methodology may not capture the full range of governance risks in a bank and financial institutions. Rating agencies have also followed a similar framework for rating banks and financial institutions. The rating methodologies employed by central banks, rating agencies, creditors and investors do not appear to include explicitly the analysis of governess risks. SEBON journal (September, 2004) joints out that a key factor contributing to bank failure in Asia was due to lack of adequate bank governance systems and its may be worth white to expand the rating methodology to include governance as a risk factor. The acronym of CAMGLES is,

C = Capital Adequacy.

A = Assets Quality

M = Management Quality

G = Governance,

E = Earnings Quality

L = Liquidity and,

S = Sensitivity to market Risks.

Corporate governance is defined as the distribution of rights and responsibilities among different participants in the organization, such as, the board, managers, shareholders and other stakeholders. (SEBO/N, 2004). Good corporate governance helps ensure that business corporations undertake their operations to maximize shareholders value, which will eventually baring benefits to other stakeholders from a long term prospective. Corporate governance helps any business firm to maximize their wealth and positive relationship among their all the stakeholders.

2.2 Review of Related Studies.

This section deals with the review of international and Nepalese journals & articles as well as master's degree's thesis work. International journals & articles have been accesses from different website and Nepalese articles are accessed from different. Sources and master degree's thesis have been accessed from central library T.U. and library of Shanker Dev Campus (SDC) which is very much help for analysis and related useful methodology.

2.2.1 Review of International Studies

This section provides the overall framework about what international scholars and independent person have done in similar subject. These studies and issues, which are useful and relevant for this research. They provide different results, Uses techniques and measurement basis so that they are presented below.

Berger and Davies (1994:25-40) evaluated the impact of CAMEL rating changes on the parent holding company's common stock price. They separated stock price changes into tow components. The first is a "private information" effect (Which identified the public's awareness of new information discovered by examiners) and due second is a "regulatory discipline" effect (which valued the regulator's presumed ability to force a bank to change its behavior). Their empirical result found that the first component i.e. "private information" effect is much more strong but "regulator's discipline" effect is only weak evidence. However, the information effect applied only a CAMEL down grades, which tends to precede decline of stock price. They didn't found movement in stock price following a CAMEL upgrade, which may consistent with the finding of Hand, Holthausen and left-witch (1992).

Cole and Gunther (1995/98, 13-20) found that the information contained in CAMEL ratings decays quickly with respect to predicting bank failure from 1986- 92. In particular, they found that the previous CAMEL rating that are more than two quarters old is less and weak than that a model using publicly available financial data (P/L A/C, Balance sheet or other), which is a better indicator of likelihood of the bank failure.

These two studies address the issue of information decay directly; however, the primacy purpose of CAMEL ratings is not to identify future bank failures but to provide an assessment of bank's overall conditions at the time of examinations.

De-Young (1998, 5-22) study is "management quality and x-efficiency in National Banks" and the found that a strong positive correlation between efficiency and management quality, as proxies by bank CAMEL ratings. Examining the relationship between cost efficiency and problem loans, he found that cost efficiency to co granger-cause reductions in problem loans. He wrote that a decline in cost inefficiency queerly tends to be followed by a rise in non-performing loans "evidence that bad management practices are manifested not only in aces expenditures, but also in sub par underwriting and monitoring practices that eventually lead to non-performing loans (Deyoung,1998:5-22).

Barger, Davies and Falnnery (1998:32-40) extended this analysis by examining whether the information about. BHC conditions gathered by supervisors was different from that used by the financial markets. They found that assessments by supervisors and rating agencies are complementary but different from those by the stock market. The authors attributed this different to the fact that supervisors and rating agencies, as representatives of debt holders, are more interested in default probabilities than the stock market, which focuses on future revenues and profitability. This rationale also could explain the author's finding that supervisory assessment's are much-less accurate than market assessments of bank future performance.

Hirtle and Lopez (1999:1-20) examined the useful-ness of past CAMEL ratings in assessing bank's current conditions. They found that conditional on current public information, the private supervisory information contained in past CAMEL ratings provides further insight into bank's current conditions, as summered by current CAMEL ratings. The authors bound that over the period from 1989-95, the private supervisory information gathered during the last on-site exam remains useful with respect to the current condition of bank for up to 6 – 12 quarters. (1.5 to 3 years). The overall conclusion drawn from study is that private supervisory information, as summarized by CAMELS ratings is cleanly useful in the supervisory monitoring of bank conditions.

Barth and Others (2002,163-188) carried out a study on "Bank safety and soundness and the structure of Bank supervision: a cross country Analysis". They have raised two central questions about the structure of bank supervision are whether central banks should supervise banks and whether to have multiple supervisors. They have used data for 70 countries across developed, emerging and transition economics to estimate statistical connections between banking performance, the structure of bank. Supervision permissible banking activities legal environments banking market structure and macroeconomic conditions. They found that where central banks supervise banks. Banks trends to have more non-performing loans. Countries with multiple supervisors have lower capital ratios and higher liquidity risk. They also found that conclusions from non-economics may not necessarily apply to transition economics.

Derviz and Podpiera (2004:50-75) investigated the determinants of the movements in the long term standard and poor (S&P) and CAMELS bank ratings in the Czech Republic during the period of 1998 to 01. The same list of explanatory variables corresponding to the CAMELS rating inputs employed by the Czech national Banks banking sector regulators was examined for both ratings in order to select significant predictors among them. They have employed an ordered response log it model to analyze the monthly long run S&P rating and a panel data framework for the analysis of the quarterly CAMELS rating. The predictors for which they found significant explanatory power are: capital adequacy, credit spread, the ratio of total loans to total assets and the total assets value at risk, mode based on these predictors exhibited a predictive accuracy of 70%. Addition, they found that the verified variables satisfactorily predict the S&P rating one month ahead.

2.2.2 Review of National Articles

This section provide the picture about what Nepalese scholars and independent person have done in similar subject, Which is very much useful for current and further research. These studies are presented below.

Baral (2005:41-52) carried out a research study on "Health Check-up of Commercial Banks in the Framework of CAMEL: A Case Study of Joint Venture Bank in Nepal". He has taken as sample for four fiscal year from 2001 to 2004. This study was mostly based on historical data published by Annual reports of joint venture banks and NRB in its supervision annual reports. The study was concluded that the financial health of joint

venture banks is better than that of other commercial banks. The study further indicates that the CAMEL component indicators of the joint venture banks are not so strong to manage the possible shocks.

The Boss (16th July 2005:25-35) magazine has made a different ratio calculation based on the basis of CAMEL. The boss calculated the capital fund and capital adequacy ratio (CAR) for capital adequacy. Total loans (TL), non performing loans ratio (NPL %), loan loss provision (LLP %) for assets quality. Net profit, price earning ratio (P/E ratio), Earning per share (EPS), Return an Equity (ROE) and Return on assess (ROA) for earnings, staff productivity per staff was calculated for management efficiency, for liquidity cash-reserve ratio (CRR) cash and bank balance ratio and investment in government securities ratio are made and decision was made on calculated value as well as NRB directives and requirements.

New Business Age (July 07, 2007:44-45) came up with ranking of Nepali commercial banks for the second consecutive quarter of the F.Y. 2006/07. The assessment was made by using some parameters set under the famous CAMEL model with minor modifications to suit the information availability. The figures were based on the financial results published by respective banks in the news paper. So the banks that had not published the results were excluded from the ranking. The capital adequacy of the Nepalese Commercial banks was ranked by calculating capital adequacy ratio and dept equity ratio. The assets quality of the bank was ranked by calculating non-performing loan to total loan and advances ratio and loan loss provision to non-performing loan ratio. The

management quality was measured by calculating return on net worth and profit per employee. The earning quality was measured by calculating percentage change in net profit and interest income to total income ratio. And the liquidity of Nepalese commercial banks was compared based on the parameters namely liquid assets to total deposit ratio and liquid assets to total assets ratio.

The Boss (14th July 2008:92-93) in 14th July 2008 an article was published by the boss magazine, on the topic of "How strong is financial institution? More than CAMEL required for meaningful analysis". The main conclusion was given by the magazine is in this transition period, CAMEL becomes highly critical for various bodies to analyze banks and financial institutions, and it is not adequate to evaluate existing Nepali banks and financial institutions only in terms of their capital adequacy, assets quality, earning capacity liquidity position and sensitivity to rise alone measuring efficiency of management in quantitative terms also becomes very significant to find out the exact strength of these financial institutions.

2.2.3 Review of Master's Degree's Dissertation

This section provides the overall framework of study which was used by Nepalese universities scholars in master level, which was presented below.

Bhandari (2006) performed a study on "Financial performance analysis of Himalayan Bank limited in the framework of CAMEL". The basic objectives of this study were to analyze and evaluate the financial performance of Himalayan Bank on the basis of CAMEL rating system. He has used the data of fiscal year 1999 to 2004 which cover the

six year period. The study related that adequate capital of the bank. The non-performing loan through decreasing trend is still a matter of concern. The decreasing trend of interest margin which shows the inefficient for monitoring over the banks earning assets by the management. The liquid funds to total deposit ratio is above the industrial average ratio. NRB balance and cash in vault to total deposit ratios are below the industrial average during the study period. He used only one bank for performance evaluation & conclusion is made so that this may not represent the overall banking history.

Chand (2006) conducted a study on "Financial performance analysis of NABIL Bank Limited in the framework of CAMELS". The main objective of the study was to analyze and identify the financial conditions and performance of NABIL Bank. The study has covered only fiscal year of 2000/01 to 2004/05 i.e., 5 years period. The research was only based on secondary data which was published by the bank. Some financial as well as statistical tools and techniques are used to evaluate the financial performance of NABIL. He found that the capital adequacy of the banks were generally above the NRB standards in all the years. The non-performing loan to loan ratio was all below the industrial average and the internal standard. The loan loss provision of the bank is decreasing constantly in each year. The management proxy ratios; total expenses to total income ratio and earning per employees were favorable to the bank. The earning quality ratios were generally above the benchmark prescribed by World Bank. The overall liquidity position of the bank was in good condition. The cumulative gap of risk sensitive assets and risk sensitive liabilities, re-priced over the over maturity bucket was in continuous decreasing trend. The interest rate sensitivity ratio to the total earning assets over the

short term horizon was in decreasing trend. The study is concluded based on single of higher class bank so that this study was not much more different than bhandari's study.

Sharma (2007) performed a research study on "Financial performance analysis of Nepal SBI Bank Ltd. in the framework of CAMEL." The main objectives of this study were to analyze the financial performance of Nepal SBI Bank in the framework of CAMEL ratings system. The study was totally based on secondary data which was published by the bank and the study was covered six year period from 2001 to 2006 A.D. His study was based on financial tools and technique. He concluded that Nepal SBI bank was well capitalized and complying with directives of NRB. The bank was maintained satisfactory level of past due loan on total loan except in 2001. Earning per employees of the bank was found quite high. Net interest margin (NIM) was found satisfactory and the liquidity position of the bank was found sound. This study was made up for performance evaluation of SBI Bank on the basis of CAMEL, but this study is also biased and not significant different than Bhandari and Chand study.

Sanjel (2007) carried out a research study on the topic of "Comparative Analysis of financial status and performance evaluation of Himalayan Bank Limited and NABIL Bank Limited in the framework of CAMELS rating system." The research study was focused on assessing the financial performance of NABIL Bank and Himalayan Bank comparatively in the framework of CAMELS rating system, by using descriptive and analytical research design, prescribed by UFIRS and in accordance to BASEL accord. The primary sources of data was published and audited annual period of bank from the

periods of 2000/01 to 2004/05 and treated as authentic, financial ratios, simple mathematical and statistical tools had been applied to get the meaningful result of the collected data in this research work. He got the result that the capital adequacy ratios are above the NRB in case of NABIL but HBL wasn't able to maintain the adequate level. The non performing loans to loan ratios are well below the industrial average and the international standard. The loan loss provision of NABIL is decreasing continuously in each year whereas the loan loss provision of HBL is in increasing trend but it is below industrial average. The total expenses to revenue ratio are in decreasing trend and the earning per employee is in increasing trend, which in dictates effective management of NABIL. But in case of HBL, both are in decreasing trend, which implies overstaffing in the bank. The earning quality ratios like return on equity (ROE), Return on Assets (ROA), Net Interest Margin (NIM), Earning per share (EPS) of the both banks are generally above the benchmark prescribed by World Bank and in increasing trend which show that the quality of earning is increasing. Overall the liquidity of NABIL is in good position where as the liquidity of NABIL is in good position where as the liquidity position of HBL in overall is also good but the bank is not strictly following the directives of NRB i.e. the amount to be maintained in vault and NRB balance is not sufficient. The study with broadly other studies i.e. Bhandari, Chand & Sharma but this study only considers only 5 years period and only two higher or high ranked banks so this study was silent for lower performance and negative net worth banks.

Kutal (2007) conducted a study on "CAMEL study on joint venture banks with special reference to SCBNL, NABIL and HBL." The main objective of this study was to find out

their financial picture of comparative details and evaluation of performance of standard chartered bank limited (SCBNL), NABIL Bank limited (NABIL) and Himalayan Bank Limited (HBL). She collects the primary data from questionnaire. She got the result that the employee's job satisfaction reflects efficiency in servicing, which was found very well in average for each bank. Despite of aggregate credit policy, non performing loan of HBL is in increasing which is very risky sign, HBL has highest loan amount that SCBNL and NABIL but lowest percentage loan loss provision. HBL should put either extra effort to decrease non performing loan or increase loan loss provision further. SCBNL and NABIL despite of meeting CRR statutory requirement on weekly basis also should maintain minimum 5% cash reserve ratio (CRR) on balance sheet date. HBL cash and bank balance is highest despite of high volume of lending which means there's still lot of fund lying ideal. NABIL'S investment chunk in government securities has gone down substantially which clearly indicates more risky lending performances. All banks capital adequacy is in decreasing trend. It will be beneficial to keep open eye on this issue. SCBNL has higher stakes on earning but seems more conservative in lending to avoid Non-performing loan (NPL) hassles. She uses only 3 years period and her study was not significant different than Sanjal’s study and primary sources of data are biasness.

Shrestha (2007) Carried out a research work on “Comparative Analysis of Financial Status and Performance of HBL and NABIL in the Framework of CAMEL Rating Study” The research study is focused on assessing the financial performance of NABIL Bank limited and Himalayan Bank Ltd. (HBL) comparatively in the framework of CAMELS, by using descriptive and analytical research design Prescribed by UFIRS & in accordance

to BASEL accord. His study seriousness ness the financial performances of NABIL& HBL as regards to their capital adequacy level and trend of risk weighted assets, assets composition and quality of loan assets, management of revenues and expenses, level and trend of earnings. Liquidity position and sensitivity to interest rate risk. The banks audited annual reports of condition for the period 2001/02 to 2005/06 are the primary source of information and treated as authentic. Primary data are also used which was collected by using unstructured interview with senior staff in the bank. He use financial ratios, mathematical and statistical tools have been used to get the result. The capital adequacy ratio of both bank are positive towards the NRB standard. Both banks supplementary capital adequacy ratios are decreasing trend. Both bank has decreasing trends of non performing loans and advances ratio, which is below of international standard of 5%. Both banks are managed and operating efficiently since the total expenses to total revenues ratio are in decreasing trend and earning per employee is increasing trend. The ROE of NABIL bank is above the universal benchmark (15%) and both banks have increasing trend. The liquid assets to total deposit ratio of NABIL is above the industrial average ratio except in the initial period the HBL. The investment on liquid assets is decreasing trend. The NRB balance to total deposits ratio is below the industrial average during the study period. This study was not easily satisfy the whole performance of bank and completely based on past thesis work so result from this study was same from other.

Bhusal (2008) conducted a research entitled by "Financial performance analysis of commercial banks in Nepal in the framework of CAMEL". The fundamental objective of

this study is to analyze and compare the financial performance of Kumari Bank Limited (KBL) and Machhapuchchhre Bank Limited (MBL) in the framework of CAMEL and taken 5 years data of fiscal year of 059/60 to 063/64. She uses only secondary data which was published by respective banks as annual reports. She uses financial as well as statistical tools and technique. In financial tools she uses CAMEL rating system and in statistical tools she uses average return (mean) risk (standard deviation) and coefficient of variation (C.V). She got the result of core capital adequacy ratio of both bank are decreasing in study period but this ratios of both banks are above than NRB standard supplementary and capital adequacy ratios are both with in the NRB standard. The non performing loans ratios of MBL's lower than the KBL except 059/060. The loan loss ratios of KBL are fluctuating trend and MBL are decreasing trend. A total expense to total income ratios of MBL is better than KBL which shows the better operation of MBL than KBL. Normally earning per employee ratios are increasing trends which shows the increase in productivity of employees. Generally return on equity (ROE) of both banks is below than the standard of World Bank (i.e. 15% benchmark) but these ratios of both banks are increasing trend. The cash in vault to total deposit ratio of KBL and MBL are in fluctuating trend during the review period. She concludes that normally the overall performance of each bank may satisfactory. This study was based on only two middle level bank so that this may not represents the whole scenario of banking history and this study was not significant different than other study.

2.3 The Research Gap

There are lots of past studies about CAMEL rating system but they were mainly focused on high performance & high net worth bank and sample was taken as nominal so that the current study is going to be sample as similar rank four commercial bank and their overall performance is nearly same and comparative study is to be made, which gives the accurate result for comparison and interpretation. This study may provide the meaningful interpretation for net worth, cost, and margin. This study also provides the overall performance of banks and their criteria for performance evaluation so that this study is going to be difference than those studies.

CHAPTER – III

RESEARCH METHODOLOGY

This chapter deals with the overall framework or plan for the collection, Analysis, interpretation and presentation of data required to fulfill the research problem and achieve the objectives of the study. It is also specifies the methods and procedures for acquiring the international needed to solve the research problems. The main objectives of the study is to analyze, evaluate and compare the financial performances of 4 commercial banks, they are: Kumai Bank Limited (KBL), Machhapuchchhre Bank Limited (MBL), Lumbini Bank Limited (LLB) and Siddhartha Bank limited (SBL).Effective Research Methodology is applied to meet the objectives of the study, which is described on below.

3.1 Research Design

The study is designed with in framework of descriptive and analytical research design. Descriptive research seeks to find out the fact by the help of sufficient data and information. For analytical purpose, the annual reports published by respective banks other publications made by Nepal Rastra Bank related to sample bank and journal & article are used where necessary. So, this study is performed in and around to fulfill the research objectives.

3.2 Nature and Source of Data

As per the nature of study (Based on CAMEL i.e. Ratio Analysis), the study is solely based on secondary data. For the study purpose, annual reports of sampled bank i.e. five commercial bank's Balance Sheet and income statement are used as the major sources of data. In addition to this necessary information are available from the NRB reports, bulletins and their websites, various articles published journals, reports of NEPSE, Publications made by other related agencies and books written by the various authors are used.

3.3 Population and Sample

Total commercial banks are taken as population till January 2008, there are altogether 23 commercial banks (Banking financial statistics, NRB) are providing their services in Nepal. Some are joint venture and some are private banks. On which only four commercial banks Viz. Kumari Bank limited (KBL). Machhapuchchhre Bank Limited (MBL) and Lumbini Bank Limited (LBL) are selected as a sample for this study for sampling purposed convenience & judgmental sampling method is used.

3.4 Data Collection Methods/ Procedure

The nature of study only secondary data are used, which are collected from direct visit to sample banks were made to collect annual reports covering different fiscal years. Similarly, NRB directives, banking and financial statistics, poverty policy and other publications are collected from the website of NRB. And other necessary data are collected from SEBON library and T.U. library.

3.5 Tools and Technique for Analysis

When different necessary data are obtained from different sources, various financial and statistical tools and techniques have been used in this study to get the meaningful result and to meet the research objectives. Financial ratios are the major tools and technique for the financial analysis. In addition to the financial tools, other statistical tools were also used. The major tools and techniques applied in this study are described below.

3.5.1 Financial Tools

To make rational and meaningful interpretations, keeping with the objectives of the study several analytical financial tools and techniques have been used in the study. Financial performances of the bank have been determined by using financial ratio analysis in the framework of CAMEL. All these ratios are cauterized in accordance of the CAMEL components, which reflects the performance of banks. Following category of key ratio are used to analyze and interpret the relevant components in terms of CAMEL. Where CAMEL is

C = Capital Adequacy

A = Assets Quality

M = Management Quality

E = Earning Capacity/Quality

L = Liquidity

3.5.1.1 Capital Adequacy

Capital adequacy ratio can be measured by using core-capital adequacy ratio, supplementary ratio and Capital adequacy ratio.

Core-Capital Adequacy Ratio (CCAR)

Core capital adequacy ratio measures the relationship between the total core capital and total risk adjusted assets. It shows the adequacy of core capital and financial soundness form very close angle, which is calculated by using following formula or model.

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

Where,

CCAR = Core capital Adequacy Ratio.

Core Capital = Paid up Capital + Share Premium + Non-Redeemable Preference Share + General Reserve + Retained Earning + Proposed Bonus Share – Goodwill if any.

Total Risk Adjusted Assets = On-Balance Sheet Risk Adjusted Assets + Off Balance sheet Risk Adjusted Assets.

Supplementary Capital Adequacy Ratio (SCAR)

Measuring the numerical relationship between supplementary capital and total risk adjusted assets of a firm is supplementary capital adequacy ratio. It measures the proportion of supplementary capital in total risk adjusted assets. More specially, it shows the exact contribution of supplementary capital in capital adequacy. This ratio is used to analyze the supplementary capital adequacy of the company and which is determined by using following model.

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

Where,

SCAR = Supplementary Capital Adequacy Ratio

Supplementary Capital = Loan Loss Provision for Pass Loan + Assets Revaluation Reserve + Hybrid Capital Instrument + Unsecured Subordinate Term Debt+ Exchange Equalization Reserve + Additional Loan Loss Provision+ Investment adjustment Reserve + Provision for Loss in Investment.

Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is the numerical relationship between total capital fund and total Risk Adjusted assets. Capital Adequacy Measures the adequacy of capital and financial soundness of a firm. Capital Adequacy ratio is used to measure the capital in the company of firm. Capital Adequacy Ratio can be done by using following formula or model.

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

Where,

CAR = Capital Adequacy Ratio

Total Capital Fund = Core Capital + Supplementary Capital

3.5.1.2 Assets Quality (A)

Profitability of any organization depends upon assets turnover. Content of a bank's assets is loan, cash and bank balance, money at call, advances etc. assets Quality can be measured by using following formula

Performing Loan Ration (PLR)

Performing loan ratio is the relationship between performing loan and total loan. Performing loan ratio is an indicator of quality/healthy assets block of an organization which can be given as,

$$\text{Performing Loan Ratio} = \frac{\text{Performing Loan}}{\text{Total Loan \& Advances}}$$

Where,

Performing Loan = Total Loan and Advances = Pass Loan + Sub standard + Doubtful + Loss.

Non-Performing Loan Ratio

The non-performing loan ratio measures the relationship between non-performing loan and total loan and advances. It measures the proportion of non-performing loan in to total loan and advances. This ratio is used to analyze and evaluate the quality of assets of the company, which is determined by using the following model.

$$\text{Non Performing Loan} = \frac{\text{Non-Performing Loan}}{\text{Total Loan \& Advances}} \times 100$$

Where,

Non-Performing Loan = Loan not Recovered With in the Given Time Frame Either in the From of Interest Servicing or Principal Repayment.

Total Loan and Advances = Pass Loan + substandard + Doubtful + Loss.

Loan Loss Provision Ratio (LLPR)

Expressing the numerical relationship between loan loss provision and total loan & advances is loan loss ratio. The loan loss provision is a reserve account established by the company in anticipation of loan losses in the future. If any, therefore, loan loss provision shows the percentage of provision made to make good the default loan. This ratio is used to evaluate the quality of assets of the company. Higher ratio implies higher portion of non-performing loan portfolio and vice-versa. Following model can be used to determine the loan loss provision ratio.

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

Where,

Loan Loss Provision = Total Loan Loss Provision (Pass Loan, substandard, Doubtful and Loss)

3.5.1.3 Management Quality

Management is the key function of an institution or an organization which leads it towards its success. Formulation of procedures, preparation of business plans and implementation of the planned projects are some of the core function of management. In financial institutions like banks, policies related to deposit, loan and other services are made by management that is essential to achieve organizational objectives. "Good management can make and poor management can break and organization, sound management is the key performance of any organization but it is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. However, for the successful operation of a company, the quality of management is the most important factor. As the other four CAMEL components can be quantified easily from financial statement of a company (Koch and Macdlonald;2004:98)

Total Expenses to Total Incomes Ratio

The expression of numerical relationship between total expenses and total incomes of the company is total expenses to total incomes ratio: It measures the proportion of total expenses in total incomes. Operating efficiency of firm can be measured by this ratio. If a low or decreasing ratio of total expenses to total revenues indicates that the firm is

operating efficiently and vice-versa which will affect the profitability and overall performance of the firm. The ratio can be given as.

$$\text{Total Expenses to Totl Incomes Ratio} = \frac{\text{Total Expenses}}{\text{Total Incomes}} \mid 100$$

Where,

Total expenses = Operating Expenses + Non Operating Expensed + Provision for Bonus of staff + Provision for Taxation.

Total Incomes = Operating Incomes* + Non Operating Incomes + Write Back of Provision for Possible Loss.

(Operating Incomes* = Invest Income + Commission and Discount + Other Income)

Earning Per Employee

Earning per employee is the numerical relationship between net profits after taxes to total number of employees. Employee the source of income because they generate income low or decreasing profit per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability. It earning per employee is high than the performance of employee is reflected as high. It is calculated by using the following model.

$$\text{Earning Per Employee} = \frac{\text{Net Profit After Taxes}}{\text{Total Number of Employee}}$$

3.5.1.4 Earning Quality

Earning is major indicator to evaluate the performance of and creditability of a fir. Earning has a direct relationship with firm and market price of share. Earning quality

directly attract or unattractive to stakeholder. If earning quality is better it is directly attract the stakeholder and vice-versa. Earning quality can be evaluated by using following model.

Return on Equity

The return equity indicates the relationship between net profits after taxes to total equity capital. It is a measurement of the rate of return following to the firm's shareholders. "It approximates the net benefit that the stock holders have received from investing their capital in the financial firm (i.e. placing their funds at risk in the hope of earning a suitable profit". (Rose, 2002: 140)

Higher the ratio the more favorable it is for the share holders which represents the sound management and efficient mobilization of owner's equity. Following model can be used to determine the return on equity.

$$\text{Return on Equity} = \frac{\text{Net Profit After Taxes}}{\text{Total Equity Capital}} \times 100$$

Where,

Total Equity Capital = Shareholders' Equity+ Paid up Capital + All Reserve Funds + Surplus.

Return on Assets

Return on assets shows the relationship between net income and total assets. "It is primarily an indicator of managerial efficiency; it indicates how capably the management

of the firm has been converting the institution's assets in to net earnings (Rose; 2002:142) It measures the percentage rate of return on total assets. This can be given as,

$$\text{Return on Assets} = \frac{\text{Net profit After Taxes}}{\text{Total Assets}} \times 100$$

Net Interest Margin (NIM)

Expressing the numerical relationship between net interest income and net earning associates of a firm is a net interest margin. "Earning assets are those generating interest or fee income principally the loans and investment on securities, the company has made. The ratio measures how lower a spread between interest revenues and interest costs management has been able to achieve by close control over the firms earning assets and the pursuit of the cheapest sources of funding. (Rose, 2002:143)

It measures the percentage interest return or income based on earning assets. Following modes can be used to determined net interest margin.

$$\text{Net Interest Margin} = \frac{\text{Net Interest Income}}{\text{Net Earning Assets}} \times 100$$

Where,

Net Interest Income = Total Interest Incomes – Total Interest Expenses.

Net Earning Assets = Loan and Advances & Bills Purchase+ Investment + Money at Calls & Short Notice

Earning per Share

The return or income or earning earn by single share can be measured by earning per share. "Earning per share provides a direct measure of the returns following to the firm's

owners – its stockholders - measured relative to the numbers of shares to the public." (Rose; 2002:144). Earning per share can be measured as follows.

$$\text{Earning Per Share} = \frac{\text{Earning Availabe to Common Stock Holders}}{\text{No of Common Stock Outstanding}} \times 100$$

Where,

$$\text{No. of Common Stock Outstanding} = \frac{\text{Paid up Capital}}{\text{Par value of Stock}}$$

3.5.1.5 Liquidity

Liquidity means convertibility of any assets or liabilities in to cash. Liquidity in banks are ability to pay cash to its depositors, Which is prime importance of any bank. Liquidity ratios are used to judge a banks ability to meet short term obligations. Liquidity can be obtained by following method of firm.

Total Liquid Assets to Total Deposits Ratio

Measuring the numerical relationship between total liquid assets ant total deposits is the total liquid assets to total deposits ratio of a firm. It shows the proportion of total liquid assets in total deposits. Further more, it shows the overall short-term liquidity position. The higher ratio indicates the better liquidity position and lower ratio denotes the weak liquidity position of the firm. This ratio can be calculated by using following model.

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

Where,

Total Liquid Assets = Cash Balance + Balance with NRB + Balance with Domestic Bank and Financial Institution + Balance with Foreign Banks + Money at Call and Short Notice + Investment on Government Securities.

Cash & Bank Balance to Total Deposits Ratio

Expressing the numerical relationship between cash & Bank balance and total deposits is the cash & bank balance to total deposits ratio. It measures the proportion of cash & bank balance in total deposits. It shows whether a company is holding the balance as required by Nepal Rastra Bank (NRB) or not. Following model is used to determine the cash & bank balance to total deposits ratio.

$$\text{Cash \& Bank Balance to Total Deposits Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits}} \times 100$$

Where,

Cash & Bank Balance = Balance with Nepal Rastra Bank + Cash Balance + Balance with Banks/financial Institutions.

Cash in Vault to Total Deposit Ratio

Cash in vault to total deposit ratio is indicates the relationship between cash in vault to total deposits. It shows the percentage of total deposit maintained as vault. It is main for immediately refund of deposits or payment is model according in to time, which can be given as,

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

Where,

Cash in Vault = Cash in Hand or Cash Balance in Hand or Cash Balance

3.5.2 Statistical Tools

Some major statistical tools have been used to attain the objectives of this study and to fulfill the research problem. By using different statistical tools and technique to analyzed

the data and obtain the meaningful result. Different statistical tools are used to measure the risk and return and other related variables. The statistical tools are described below.

3.5.2.1 Average (Mean)

An average is a single value, which represents a group of values. It describes the characteristics of the whole group. "A simple arithmetic average is used to summarize the data as a representation of mass data. A simple arithmetic average is a value obtained by dividing the sum of the values by their numbers (Kothari;2004:200). So the average can be given as.

$$(\overline{X}) = \frac{x}{n.} \text{ or } \overline{R}j = \frac{R_j}{n}$$

Where,

$\overline{X}$ = Simple Arthmetic Mean.

= Summation.

N = Total Number of Observation

$\overline{R}$ = Avergerate of Return on Stock j

R = Simple Rate of Return on Stock j

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the presentation and analysis of data which was collected from the different sources as stated in the theoretical as well as chapter -III. The financial performances of sample 4 banks are concentrated in the five components of CAMEL: Capital Adequacy, Assets Quality, Management Quality, Earning Quality and Liquidity. The data collected from annual reports, which was published by respective banks have been used and analyzed with the application of CAMEL rating system. The major finding there by have been emanated as derived from analysis of data. To analyzed and present the data different financial and statistical tools as used, which give us the result.

4.1 Data Presentation and Analysis

In this section, collected data as well as components of CAMEL and its sub-components are presented in table and uses of graph where necessary, which are on below.

4.1.1 Capital Adequacy (C)

Capital adequacy signifies the available portion of the capital bund of financial institution, to meet rises associated with bank assets which are generated from the accepted deposits from outsiders. Capital adequacy is a measure of a financial institution financial strength, in particular its ability to cushion operational and abnormal losses. In addition, it provides a cushion against the risk of failure. Adequate capital reduces firm's risk. A firm should have adequate capital to support its risk assets in accordance with the

risk -weighted capital ratio framework, so the adequacy of firm capital is the most important aspect of a firm such company becomes successful to gain the trust of all sectors (Maishkin and Eakins, 2006: 215). Nepal Rastra Bank (NRB) determines the capital adequacy ratio of all banks and non-bank financial institutions in Nepal. NRB is concerned with this because some financial institutions duvet holds enough capital and have increased capital they can more. Easily absorb potential losses and are more likely to survive.. Moreover, it reduces the like hood of failure, the company with heighten capital ratios is therefore assigned a higher capital adequacy rating, However, k a firm with a relatively high level of capital could fail it the other components of its balance sheet have has been properly management (Madura, 2005: 75).

4.1.1.1 Core Capital Adequacy Ratio (CCAR)

Core- Capital is also known as primary capital which many collected from owner as Bank and earning of bank. It is also called Tier I capital includes the paid up capital, share premium, non-redeemable preference share, general reserves, retained earnings, proposed bonus share and goodwill should be deduct if exist.

Core capital adequacy ratio (CCAR) measures the adequacy of internal sources of shareholders bond to support the financial activities. It reflects the financial strength and soundness of a company. NRB has provided the minimum standard of CCAR, in order to stabilize the capital and assets of commercial Banks. They are required to maintain the CCAR of 5% in F.Y. of 059/060, 5.5% in the F.Y. of 060/061 and in F.Y, 061/062 6% there after till F.Y of 063/ 064 and currently 064/065 the NRB poses the CCAR should be maintained as 5%. A higher value of the ratio above the NRB standard shows the

adequacy of internal sources and higher security to creditors and depositors and vice versa.

4.1. Presentation of Core Capital Adequacy Ratio (CCAR) of Banks.

Table 4.1

Core Capital Adequacy Ratio (CCAR)

Fiscal Year	Banks	Core Capital (in'000')	Total Risk Adjusted Assets (in'000')	Core Capital Adequacy Ratio (%)
059/060	KBL	359546.00	2528768.00	14.22
	MBL	501706.00	2092014.00	23.98
	LBL	276002.00	3213105.00	8.59
	SBL	355006.00	850647.00	41.73
060/061	KBL	555993.00	4449407.00	12.50
	MBL	552869.00	3250633.00	17.01
	LBL	291782.00	3869846.00	7.54
	SBL	390258.00	1979824.00	19.71
061/062	KBL	641716.00	6291843.00	10.20
	MBL	637739.00	6063130.00	10.52
	LBL	245009.00	4314522.00	5.68
	SBL	413425.00	2968444.00	13.93
062/063	KBL	858520.00	7625050.00	11.26
	MBL	911543.00	7631998.00	11.94
	LBL	(727942.00)	4818648.00	-15.11
	SBL	632279.00	4465021.00	14.16
063/064	KBL	1019893.00	9959911.00	10.24
	MBL	928577.00	9200659.00	10.09
	LBL	(435805.00)	5586347.00	-7.80
	SBL	863832.00	7297687.00	11.84

Source: Annual Report of Concerned Banks

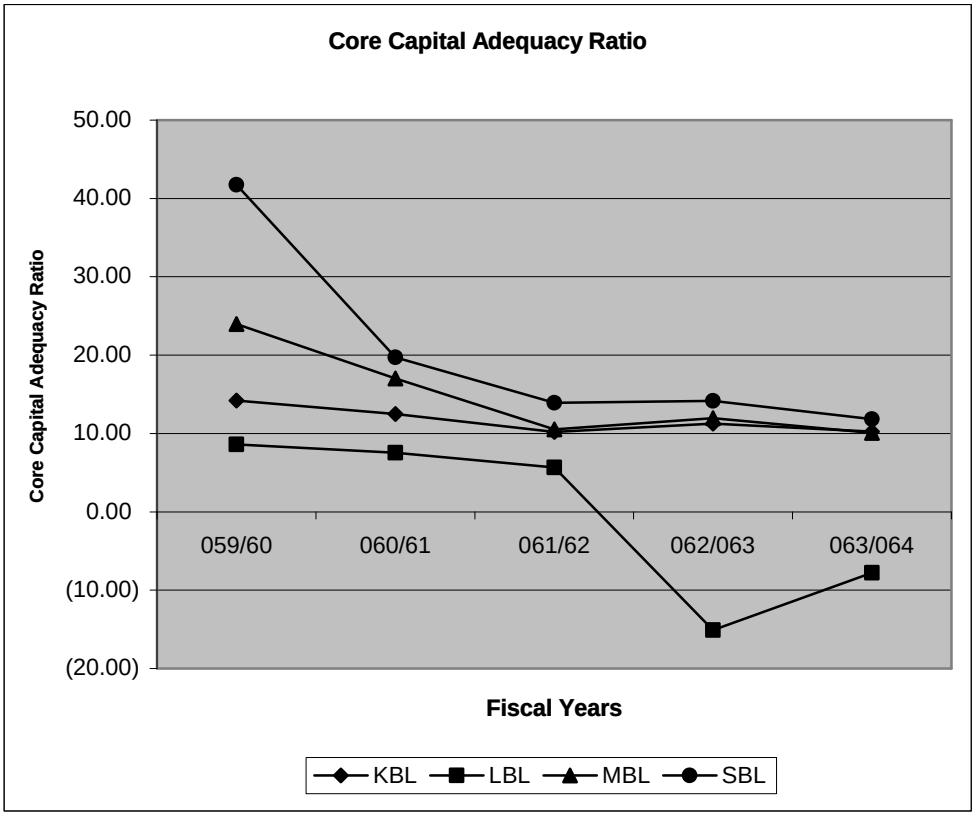

Figure 4.1: Core Capital Adequacy Ratios

From the Table 4.1 and Figure 4.1 shows that The CCAR are fluctuating trends over the study periods of banks. The SBL has more fluctuating than other bank but the LBL has are risky because of continuous decreasing and reaches the negative of core capital which shows the internal sources of share holder's funds is not properly significant. Normally, all the fiscal year the SBL has higher level of CCAR which shows that the SBL has the higher adequacy of internal sources and gives the higher security to creditors and depositors.

The CCAR of all Banks are higher than the minimum required standard provided by Nepal Rastra Bank (NRB) except LBL. The CCAR of all the banks shows the financial strength and soundness except LBL throughout the study period.

4.1.1.2 Supplementary Capital Adequacy Ratio (SCAR)

The supplementary capital adequacy ratio is also called Tier-II capital which measure of a bank's strength with required to the second most reliable form of financial capital from a regulator point of view. This ratio shows the absolute contribution of supplementary capital in capital adequacy. Supplementary capital includes loan loss provision for pass loan, assets revaluation reserve, hybrid capital instrument, unsecured sub-ordinate term debt, exchange equalization reserve, additional loan loss provision, investment adjustment reserve and provision loss in investments. The high value of supplementary capital ratio mans the higher proportion of supplementary capital in total risk adjusted assets and large portion of supplementary capital and vice-versa, as per the NRB unified directives for banks and non-banks financial institutions issue number E. Pra. Ni, No. 01/061/062 (Ashar 2062 B.S) the maximum limit of supplementary capital ratio that can be included in capital adequacy ratio is not more than core capital adequacy ratio of the company in each year.

4.2 Presentation of Supplementary Capital Adequacy Ratio of Banks

Table 4.2

Supplementary Capital Adequacy Ratio

Fiscal Year	Banks	Supplementary Capital (in'000')	Total Risk Adjusted Assets (in'000')	Supplementary Capital Ratio
059/060	KBL	31368.00	2528768.00	1.24
	MBL	16161.00	2092014.00	0.77
	LBL	85764.00	3213105.00	2.67
	SBL	6290.00	850647.00	0.74
060/061	KBL	40470.00	4449407.00	0.91
	MBL	26511.00	3250633.00	0.82
	LBL	45296.00	3869846.00	1.17
	SBL	24060.00	1979824.00	1.22
061/062	KBL	63813.00	6291843.00	1.01
	MBL	51104.00	6063130.00	0.84
	LBL	53987.00	4314522.00	1.25
	SBL	25809.00	2968444.00	0.87
062/063	KBL	82859.00	7625050.00	1.09
	MBL	65524.00	7631998.00	0.86
	LBL	0.00	4818648.00	0.00
	SBL	39035.00	4465021.00	0.87
063/064	KBL	95314.00	9959911.00	0.96
	MBL	119149.00	9200659.00	1.30
	LBL	0.00	5586347.00	0.00
	SBL	76962.00	7297687.00	1.05

Source: Annual Report of Concerned Banks

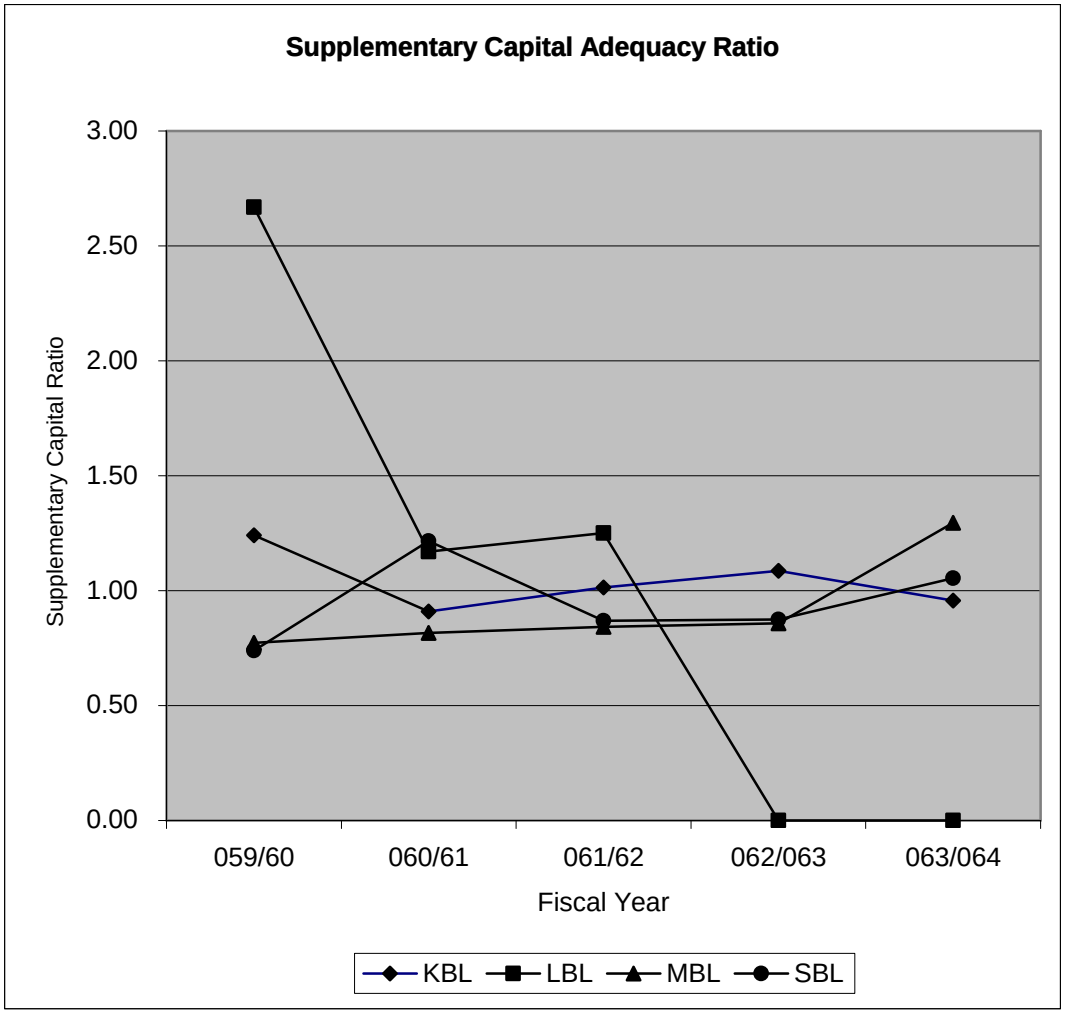

Figure 4.2: Supplementary Capital Adequacy Ratio

The Table 4.2 and Figure 4.2 exhibits that the supplementary capital ratio of KBL is 1.24 %,0.91 %, 1.05 %, 1.8% and 0.86% for respectively from 059/060 to 063/054, which shows the little fluctuation in SCAR ratios. The SCAR of MBL is 0.77%, 0.82%, 0.84%, 0.85% and 1.30% from F.Y. 059/60 to 063/064 which shows the increasing trends of SCAR of MBL with almost same. The SBL has 0.74% 0.72%, 0.86%, 0.87%, and 0.34% from F.Y. 059/060 to 063/064 respectively, which shows the little fluctuations on SCAR. And the LBL has 2.67% 1.1%, and 1.25% from 059/060 to 061/062 respectively and F.Y.

062/063 and 063/064 the bank's supplementary capital has been phase out so that SCAR is Zero. Three Banks are maintained with adequate SCAR of NRB directives except LBL throughout the study period.

4.1.1.3 Capital Adequacy Ratio (CAR)

Total capital fund is the combinations or summations core capital and supplementary capital. This means the total amount invested by share holders, creditors and the amount collected from the various free reserves maintains in the company. Capital adequacy ratio (CAR) measures the adequacy of capital and financial soundness of a company CAR above the NRB standard reveals the sound and strong financial position and higher security to depositors. On the contrary, the low value of capital adequacy ratio with regard to the minimum requirements of NRB shows the lower is its internal sources, comparatively weak financial position and lower security to depositors. NRB has set the standard of capital adequacy ratio of 10% in the F.Y. 059/60, 11% in the F.Y 060/61 and 061/062 were 12% and in F.Y. 064/065 the NRB standard of CAR is 10%.

4.3 Presentation of Capital Adequacy Ratio (CAR) of the Banks of Study Period

Table 4.3

Capital Adequacy Ratio of Commercial Banks

Fiscal Year	Banks	Total Capital Fund (in'000')	Total Risk Adjusted Assets (in'000')	Capital Adequacy Ratio
059/060	KBL	390914.00	2528768.00	15.46
	MBL	517867.00	2092014.00	24.75
	LBL	361766.00	3213105.00	11.26
	SBL	355006.00	850647.00	41.73
060/061	KBL	596463.00	4449407.00	13.41
	MBL	579380.00	3250633.00	17.82
	LBL	337077.00	3869846.00	8.71
	SBL	390258.00	1979824.00	19.71
061/062	KBL	705529.00	6291843.00	11.21
	MBL	688843.00	6063130.00	11.36
	LBL	298996.00	4314522.00	6.93
	SBL	413425.00	2968444.00	13.93
062/063	KBL	940979.00	7625050.00	12.34
	MBL	976067.00	7631998.00	12.79
	LBL	(727942.00)	4818648.00	-15.11
	SBL	632279.00	4465021.00	14.16
063/064	KBL	1115207.00	9959911.00	11.20
	MBL	1101726.00	9200659.00	11.97
	LBL	(435805.00)	5586347.00	-7.80
	SBL	863832.00	7297687.00	11.84

Source: Annual Report of Concerned Banks

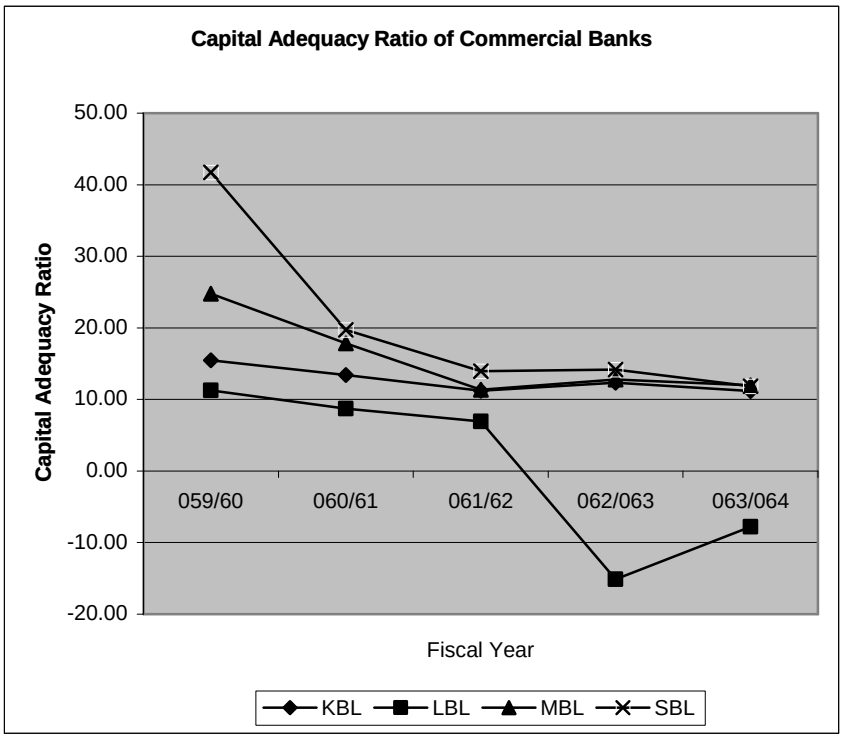

Figure 4.3: Capital Adequacy Ratios of Commercial Banks

From the Table 4.3 and Figure 4.3 the CAR of commercial banks are presented. Normally the CAR of KBL is continuous decreasing trend. The CAR of MBL is fluctuating trend but above the NRB standard. In 059/060 the CAR of MBL is 24.75% and in 063/064 the CAR is 11.97%. In F.Y.059/060, the LBL has adequate CAR but F.Y.060/061 and 061/062 the CAR of LBL is less than the NRB standard. But the F.Y. 062/063 and 063/064 the CAR of LBL is negatives which means un-sufficient fund for smooth operation of Bank. The CAR of SBL has fluctuating because of in F.Y.059/060 the CAR of SBL is 41.73% and the CAR of SBL in F.Y.063/064 is 11.84%. It means the Bank has sufficient fund for meet the any financials obligation. And SBL has higher internal should and comparatively strong financial position and higher security to depositors than that of other Banks. The KBL has consistent CAR i.e. in F.Y. 059/060 the CAR of KBL is 15.46% and in F.Y. 063/064 the CAR of KBL is 11.20%.

4.1.2 Assets Quality (A)

Assets quality is one of the most important factors which measure how effectives an institution is at lending money to people who are willing and able to pay it bank. So, the health of commercial banks largely depends on the quality of assets. Particularly, loan assets and investment held by them, and quality of the assets relies on the financial health of their borrowers. Thus, assets quality has direct impact on the financial performance of financial institutions.

There are different indicators of measuring the quality of asset held by a commercials bank, such as portfolio in arrear, assets compositions loan loss provision performing and non-performing loan ratio, reserve ratio and loan loss converses ratio. But here, only performing loan ratio non performing loan ratio loan loss provision ratio are usual to measure the quality of asset held by banks.

NRB has laid down minimum criteria for the classification on loans based on the overdue period of the advances. Loan with inherent credit weakness are classified as Non Performing Loans (NPL), which are further, classified into three categories namely, sub-standard, doubtful and loan loss requiring provisioning of 25%, 50% and 100% respectively. NRB has directed the commercial banks in regards to the concentration of the loan. Any licensed FI can grant the fund base loan to a single borrowers or borrowers related to the same business group up to the 25% of its primary capital. In the same vein, it can provide the non-fund base loan up to 50% of its core capital (NRB-2005)

Similarly, it has directed FIs to classify the loans into performing loan and non-performing loans. The loan that are not due and 3 month past due fall in the class of performing loans/performing assets and others do in the non-performing loans. Further,

non-performing loans are classified into three groups standard, doubtful and had debts/loss. Commercials banks have to make 1% provision for pass loan/ performing loan, 25% for sub-standard loan, 50% for doubtful loan and 100% for bad-debts/loans (NRB-2005, Shrestha, 2007:198-199). The Normal international standard of the percentage of non performing asset is 5-8 percent of the total assets.

4.1.2.1 Non Performing Loan to Total Loan & Advances Ratio.

Loan and advances usually represent the single largest assets category for most commercial banks. Loan is a risky asset. Each firm makes its own decisions as to how deposited fund should be allocated and these decisions determine its level of credit (default) risk. Risk of non-repayment of loan is known as credit risk. If the borrowers fail to pay the interest or principal with in the time frame, the performing loan turns into non-performing loan.

As per the NRB unified directives 2062, all loans and advances must classify on the basis of aging of principal amount. The total loans and advances consist of pass, sub standard, doubtful and loss loan. The NPL to total loan and advances shows the percentages of NPL in total loan. Lower ratio shows the better proportion of performing loans and risk of default and vice-versa. An internationally recognized non-performing loan bench mark is 5%.

4.4 Presentation of Non-performing to Total Loan & Advances Ratio of Banks on Study Period.

Table 4.4

Non-Performing Loan (NPL) Ratio

Fiscal Year	Banks	Non-performing Loan (in'000')	Total Loan and Advances (in'000')	NPL Ratio
059/060	KBL	36324.00	2137587.00	1.70
	MBL	31099.00	1492118.00	2.08
	LBL	306777.00	2622360.00	11.70
	SBL	0.00	629025.00	0.00
060/061	KBL	28190.00	3697985.00	0.76
	MBL	24983.00	2525872.00	0.99
	LBL	237298.00	3222748.00	7.36
	SBL	25223.00	1567827.00	1.61
061/062	KBL	53988.00	5681013.00	0.95
	MBL	19861.00	5050065.00	0.39
	LBL	561128.00	3685135.00	15.23
	SBL	67927.00	2634931.00	2.58
062/063	KBL	64354.00	7007787.00	0.92
	MBL	16916.00	6033365.00	0.28
	LBL	1339243.00	4321587.00	30.99
	SBL	33573.00	3869270.00	0.87
063/064	KBL	66119.00	9062433.00	0.73
	MBL	85168.00	7319934.00	1.16
	LBL	1007036.00	4944501.00	20.37
	SBL	21542.00	6319727.00	0.34

Source: Annual Report of Concerned Bank

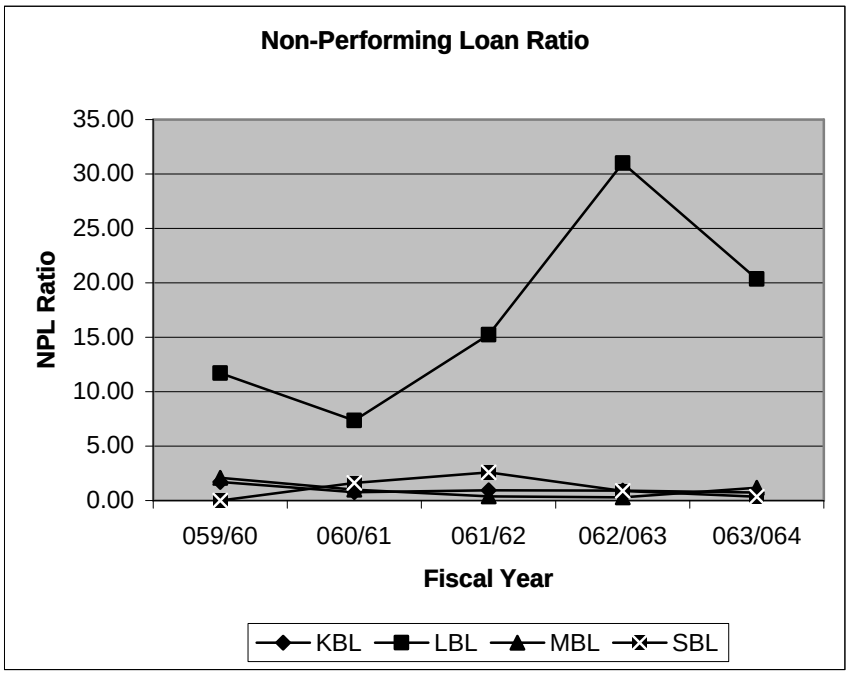

Figure 4.4: Non-Performing Loan (NPL) Ratio

From the Table 4.4 and Figure 4.4, the NPL ratio of KBL is less fluctuating i.e. 1.70%, 0.76%, 0.95%, 0.92% and 0.73% over the study period. The NBL has also the less fluctuating in NPL ratio which is 2.88%, 0.99%, 0.39%, 0.28% and 1.16%, it means the asset quality and performance of bank is continuously increased over the study periods. The LBL has weak NPL ratio because it has higher fluctuating trend of NPL and higher provision for doubtful debts, i.e. The NPL ratio of LBL is 11.70%, 7.36%, 15.23%, 30.99% and 20.37% which is higher there the international standard i.e. 5%. In F.Y. 059/060 the NPL ratio of SBL is 0%, and then it was increased and reaches the 1.61 % and also increased in F.Y.061/62 i.e. 2.58% in F.Y. 062/63 the NPL ratio of SBL is 0.87% which is decreased in F.Y. 063/64 the NPL ratio of SBL is decrease and reaches to 0.34%.

4.1.2.2 Performing Loan to Total Loan and Advanced Ratio.

Performing loan refers to principal + interest of bank which are paying its principal interest on time or overdue up to 3 months. So, performing loan ratio is the proportion of performing loan to total loan and advances. This ratio shows the proportion of good loans. Hence, higher performing loan ratio reflects the competency or success of loan department of bank and vice-versa or the better financial health of bank. This ratio is used to analyze the assets quality.

This ratio can be calculated by two methods, firstly performing loan is divided performing ratio + non-performing ratio to total loan and advances is 100%. So it can be obtained by reducing the value of non-performing ratio from 100%

4.5 Presentation of Performing Loan to Total Loan and Advances Ratio of Banks over the Study Period.

Table 4.5

Performing Loan to Total Loan & Advances Ratio

Fiscal Year	Banks	Performing Loan (in'000')	Total Loan and Advances (in'000')	NPL Ratio
059/060	KBL	2101263.00	2137587.00	98.30
	MBL	1461019.00	1492118.00	97.92
	LBL	2315584.00	2622360.00	88.30
	SBL	629025.00	629025.00	100.00
060/061	KBL	3669795.00	3697985.00	99.24
	MBL	2500889.00	2525872.00	99.01
	LBL	2985450.00	3222748.00	92.64
	SBL	1542604.00	1567827.00	98.39
061/062	KBL	5627025.00	5681013.00	99.05
	MBL	5030204.00	5050065.00	99.61
	LBL	3124007.00	3685135.00	84.77
	SBL	2567004.00	2634931.00	97.42
062/063	KBL	6943433.00	7007787.00	99.08
	MBL	6016449.00	6033365.00	99.72
	LBL	2982344.00	4321587.00	69.01
	SBL	3835697.00	3869270.00	99.13
063/064	KBL	8996314.00	9062433.00	99.27
	MBL	7234771.00	7319934.00	98.84
	LBL	3937465.00	4944501.00	79.63
	SBL	6298185.00	6319727.00	99.66

Source: Annual Report of Concerned Bank

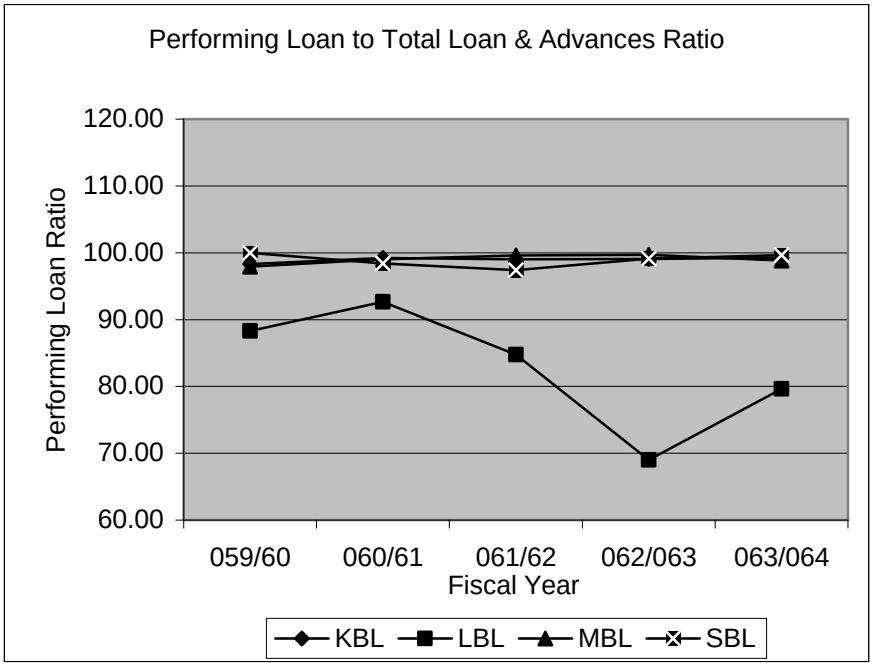

Figure 4.5: Performing Loan to Total Loan & Advances Ratio

From the Table 4.5 and Figure 4.5, the performing loan to total loan and advances is shown. The performing loan ratio of KBL is 98.30%, 99.24%, 99.05%, 99.08% and 99.27% which shows less fluctuating and less non-performing loan ratio. It means higher assets performance of KBL from F.Y. 059/060 to 063/064. The MBL has performing ratio of highest 99.70% and lowest of 97.92% during the study period. The SBL has 100 performing ratio in F.Y. 059/060 which shows the higher and most appropriate ratio than the performing ratio is a little be decreased or changed but the performance of bank is higher because the lowest performing loan ratio is 97.42% in F.Y. 061/62. The performing loan ratio of LBL is very much fluctuating because the highest performing loan ratio is 88.30% in F.Y. 059/060 and lowest ratio is 69.01% in F.Y. 062/063, it means it has highly non-forming ratio which directly affect the overall profitability and performance of bank.

4.1.2.3 Loan Loss Provision Ratio

This ratio shows the numerical relationship between total loan loss provisions kept by the bank and total loan and advances of the banks, which exhibits how efficiently the company manages its loan and advances and makes effort for the loan recovery. More delay the company gets to collect the loan, more provision has to make and the ratio will be higher. This will lead to low earning and high losses in the company. The loan loss indicates the adequacy of allowance for loan and trend in the collection of loan and the performance in the loan portfolio. It is obtained by the ratio of loan loss provision to the total loan. The provision for loan loss reflects in increasing probability on NPL in the volume of total loan and advances, so higher the ratio more will be risky assets in the volume of loans and advances. In fact provision made a loan depend on whether information on “bad loan” is correctly revalued.

4.6 Presentation of Loan Loss Provision to Total Loan & Advances Ratio During the Study Period.

Table 4.6

Loan Loss Provision Ratio

Fiscal Year	Banks	Loan Loss Provision(in'000')	Total Loan and Advances (in'000')	Loan Loss Provision Ratio
059/060	KBL	31850.00	2137587.00	1.49
	MBL	31662.00	1492118.00	2.12
	LBL	180721.00	2622360.00	6.89
	SBL	6290.00	629025.00	1.00
060/061	KBL	48976.00	3697985.00	1.32
	MBL	47531.00	2525872.00	1.88
	LBL	242351.00	3222748.00	7.52
	SBL	24060.00	1567827.00	1.53
061/062	KBL	90087.00	5681013.00	1.59
	MBL	67989.00	5050065.00	1.35
	LBL	517411.00	3685135.00	14.04
	SBL	64155.00	2634931.00	2.43
062/063	KBL	115962.00	7007787.00	1.65
	MBL	77013.00	6033365.00	1.28
	LBL	1337691.00	4321587.00	30.95
	SBL	80140.00	3869270.00	2.07
063/064	KBL	133420.00	9062433.00	1.47
	MBL	190048.00	7319934.00	2.60
	LBL	1103814.00	4944501.00	22.32
	SBL	97140.00	6319727.00	1.54

Source: Annual Report of Concerned Bank

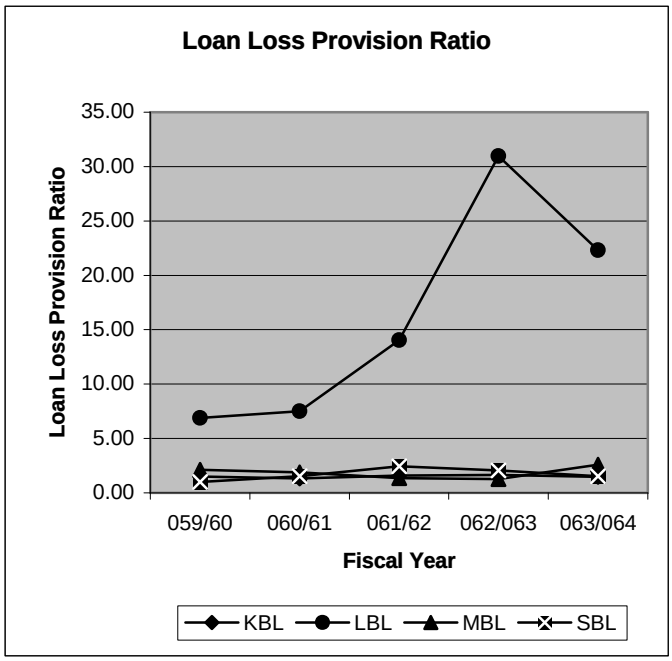

Figure 4.6: Loan Loss Provision Ratio

From the Table 4.6 and Figure 4.6 shows that the loan loss provision kept by the bank. The KBL has 1.49%, 1.32%, 1.59%, 1.65% and 1.47% from F.Y. 059/060 to 063/064. The MBL has 2.12%, 1.88%, 1.35%, 1.28% and 2.60% respectively from F.Y. 059/60 to 063/064. The LBL has 6.89%, 7.52%, 1.35%, 30.95% and 22.32%, The LBL has high fluctuating in loan loss provision because the LBL has higher non-performing ratio is high and above the international standard i.e. 5% from the study period. The SBL has less fluctuating in maintaining the loan loss provision because SBL has less NPL ratio.

4.1.3 Management Quality (M)

Management is key functioning force of an institution that leads it towards its success. Policy determination, formulation procurers, presentation of business plan and implementation of planned projects are some core functions of management. Sound

management is the key performance of any organization but it is difficult to measure. It is primarily a quantitative factor applicable to individual institutions. However, for the successful operation of the company, a quality of a management is the most important factor as the other four CAMAL components can be quantified easily from financial statement of a company.

There are several indicators which can be used as a proxy of management quality, ADB recommends cost per unit of money lent as a proxy of management quality. But this cannot be used as an indicator of management quality in Nepal. Since, the data of amount of the total loan mobilized during a particular F.Y. is not available in published financial statements and annual reports. Here, only the ratio of total expenses to total income and earning per employee are used to indicate the quality of management. Total expense to total income ratio is a used as a proxy of management quality. In this study as the profitability of a company is determined by the gap of total incomes and total expenses which are indirect control and monitoring of the management.

4.1.3.1 Total Expenses to Total Income Ratio

The ratio of total expenses to total income is used as a proxy measure of a management quality. A high level of expenditures in unproductive activities may reflect an inefficient management. A high or increasing ratio of expenses to total incomes indicates inefficient operation of the company which may negatively affects the profitability of the company.

Commercial banks mainly earned income from interest on loan and advances, commissions, fees and discounts and other miscellaneous income. And the main components of expenses of commercial banks are interest on deposits, staff salary, provisions for staff bonus, allowances, provident fund and other operating expenses like rent, water and electricity, fuel, audit fee, management expenses, depreciations, miscellaneous expenses and all other expenses directly related to the operation of company. Expenses such as loss on sale of assets, loss on sale of investments, provision for possible losses and provision for income taxes are non operating expenses.

4.7. Presentation of Total Expenses to Total Income Ratio over the Study Period of Banks

Table 4.7

Total Expenses to Total Income Ratio

Fiscal Year	Banks	Total Expenses (in'000')	Total Income (in'000')	Total Exp to Total Inc. Ratio
059/060	KBL	172955.00	202234.00	85.52
	MBL	129371.00	151145.00	85.59
	LBL	266976.00	335939.00	79.47
	SBL	23822.00	28828.00	82.63
060/061	KBL	277037.00	342849.00	80.80
	MBL	227689.00	243669.00	93.44
	LBL	309168.00	401184.00	77.06
	SBL	83631.00	129758.00	64.45
061/062	KBL	411663.00	540604.00	76.15
	MBL	320742.00	428519.00	74.85
	LBL	318429.00	425176.00	74.89
	SBL	143189.00	240259.00	59.60

062/063	KBL	543763.00	869110.00	62.57
	MBL	497057.00	665750.00	74.66
	LBL	355728.00	405260.00	87.78
	SBL	223921.00	341091.00	65.65
063/064	KBL	678528.00	802585.00	84.54
	MBL	583877.00	807324.00	72.32
	LBL	551589.00	961853.00	57.35
	SBL	361053.00	534642.00	67.53

Source: Annual Reports of Concerned Banks

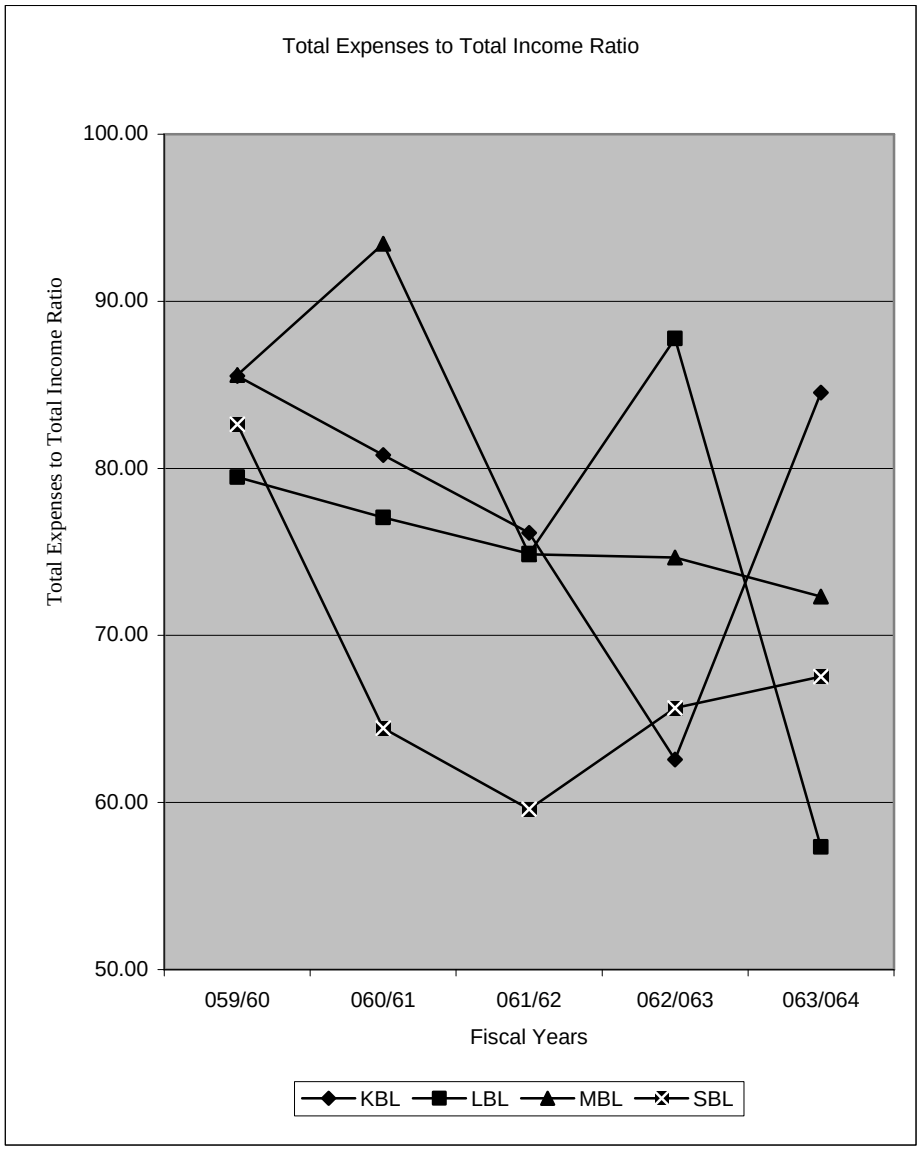

Figure 4.6 : Total Expenses to Total Income Ratio

Total expenses to total income ratio of KBL is 85.52%, 80.80%, 76.14%, 62.57% and 84.54% from F.Y. 059/060 to 063/064. The ratio is decreasing trend except F.Y. 063/064. The ratio of MBL, LBL and SBL are 85.59%, 79.47%, 82.63%, 93.33%, 77.06%, 64.45%, 76.14%, 74.85%, 74.89%, 59.60%, 62.57%, 74.66%, 87.78%, 65.65%, 84.54%, 72.32%, 57.35% and 67.53%, respectively. Total expenses to total income ratio of all the banks are fluctuating trend which means the income and ratio of expenses and income are also fluctuating.

4.1.3.2 Earning Per Employee (EPE)

Ratio of earning per employee is used as a proxy of management quality in this study. It indicates the productivity and profitability of a company work force. Low or decreasing earnings per employee can reflect inefficiencies as a result of overstaffing, which indirectly affects in the profitability of the company. Higher the EPE higher the profitability of the firm.

4.8 Presentation of Earning Per Employee over the Study Period.

Table 4.8

Earning Per Employee.

Fiscal Year	Banks	Net Profit after Tax (in Rs.)	No. of Employee	Earning Per Employee (In Rs.)
059/60	KBL	12474064.00	53.00	235360.00
	MBL	15307486.00	75.00	204100.00
	LBL	89139129.00	143.00	623351.00
	SBL	(1284255.00)	43.00	(29866.00)

060/61	KBL	48685822.00	115.00	423355.00
	MBL	46689946.00	85.00	549293.00
	LBL	18639673.00	141.00	1312196.00
	SBL	17482585.00	57.00	371970.00
061/62	KBL	87880887.00	143.00	614549.00
	MBL	84870027.00	137.00	619489.00
	LBL	(197580188.00)	139.00	(121440.00)
	SBL	70279794.00	56.00	1254996.00
062/063	KBL	103666767.00	177.00	585688.00
	MBL	133996710.00	196.00	683657.00
	LBL	(806062626.00)	142.00	(5676497.00)
	SBL	65252813.00	72.00	906289.00
063/064	KBL	170262908.00	212.00	803127.00
	MBL	74085647.00	234.00	316505.00
	LBL	192404492.00	139.00	1384205.00
	SBL	95305326.00	79.00	1207029.00

Source: Annual Reports of Concerned Banks

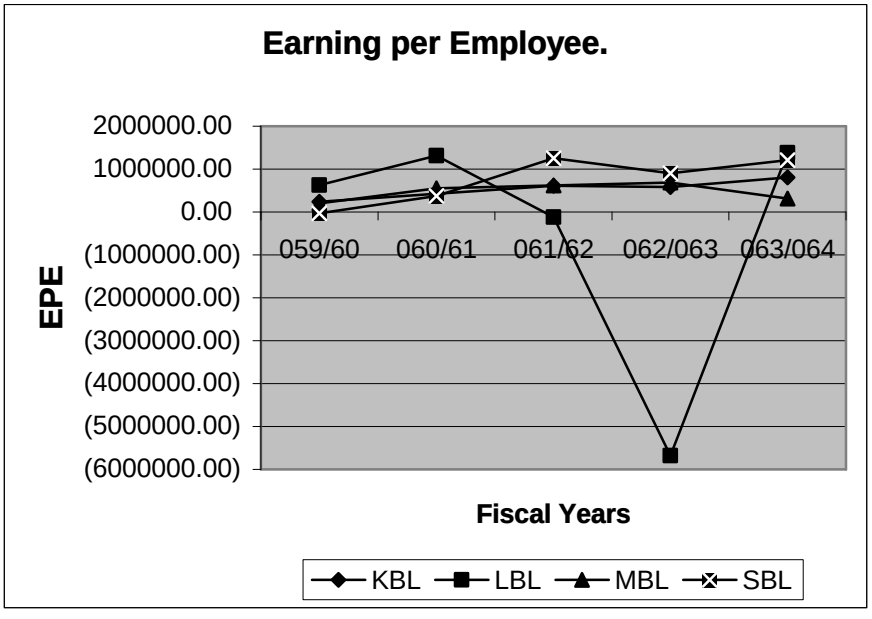

Figure 4.8: Earning per Employee Ratio

From the Table 4.8 and Figure 4.8, the Earning per Employee (EPE) is given. The EPE of KBL and MBL are in increasing trend i.e. both banks EPE were in F.Y. 059/060 were Rs. 235360 and Rs. 204100 and F.Y. 063/064 are were Rs. 803127 and Rs. 316605 respectively. In F.Y. 059/060 the EPE of SBL is negative i.e. (-29866) but the coming F.Y. The SBL performance was increased as positive value. And in F.Y. 063/064 it reached in Rs. 1207029 as EPE. The LBL, EPE was very much fluctuating in study period. Because its EPE was positive and some time negative i.e. in F.Y. 061/062 and 062/063 the EPE of LBL was negative and in F.Y. 063/064 the EPE of LBL was Rs. 1384205.

4.1.4 Earning Quality (E)

Earnings determine the ability of a bank to retain capital, absorb loan losses, support the future growth assets and return to investors. The quality and trend of earnings of an institution depend largely on how well the management manages the assets and liabilities of the institutions. In addition earning capacity largely counts on the efficiency of management. Chronically, Loss making commercial banks reduces their capital base, risks of the solvency and eventually brings down the wealth of their shareholders, conversely, constantly profit making company add equity to the total capital fund reduces the risk of insolvency and finally increases the wealth of their shareholders. Earning quality is one of the indicators of the sound health of any organization. Sound health of a company requires earning profit. The survival of a company is determined by the generation of profit. The ratio which measure the profitability of business operation are mainly, return on equity (ROE), return on assets (ROA) earning per share (EPS) and net

interest margin (NIM) which are used to analyze and evaluate the earning quality or earning performance or profitability of selected banks.

4.1.4.1 Return on Equity (ROE)

ROE measures how well the investor or owner's funds have been utilized by the firm, so it is one of the important ratios to judge whether the company has earned a satisfactory return for its equity shareholders or not. Higher ratio of ROE ensures to owners that their investment is safe and they can get regular return. The return on equity should be 15% and higher as prescribed by the World Bank.

4.9 Presentation of Return on Equity over the Study Period

Table 4.9

Return on Equity (ROE)

Fiscal Year	Banks	Net Profit after Tax (in Rs.)	Return of Equity (In Rs.)	Total Exp to Total Inc. Ratio
059/60	KBL	12474064.00	361033148.00	3.46
	MBL	15307486.00	501705898.00	3.05
	LBL	89139129.00	277848637.00	32.08
	SBL	(1284255.00)	348715745.00	-0.37
060/61	KBL	48685822.00	533403180.00	9.13
	MBL	46689946.00	554221843.00	8.42
	LBL	18639673.00	296488291.00	6.29
	SBL	17482585.00	366198330.00	4.77

061/62	KBL	87880887.00	645441536.00	13.62
	MBL	84870027.00	637739384.00	13.31
	LBL	(197580188.00)	245008996.00	-80.64
	SBL	70279794.00	387888643.00	18.12
062/063	KBL	103666767.00	863850557.00	12.00
	MBL	133996710.00	931091357.00	14.39
	LBL	(806062626.00)	(722069661.00)	111.63
	SBL	65252813.00	603141455.00	10.82
063/064	KBL	170262908.00	1025630159.00	16.60
	MBL	74085647.00	1000264635.00	7.41
	LBL	192404492.00	(429665169.00)	-44.78
	SBL	95305326.00	793709939.00	12.01

Source: Annual Reports of respective Banks

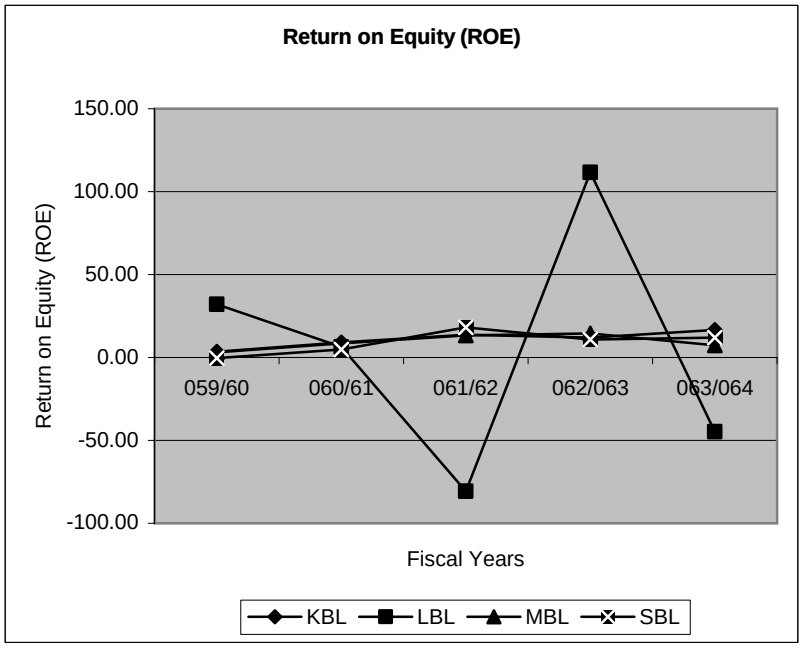

Figure 4.9: Return on Equity (ROE)

From the Table 4.9 and the Figure 4.9 shows that the ROE of KBL and MBL are almost decreasing trends. The ROE of KBL in F.Y. 059/060 is 3.46% and In F.Y. 063/064 is 16.60% respectively. Similarly the ROE of MBL in 059/60 is 3.05% and in F.Y. 063/064 ROE of MBL is 7.41%. The LBL has higher loss, so that return of equity (ROE) is in negatively in each year except F.Y. 059/60 and F.Y. 060/061 respectively. The ROE of SBL is in F.Y. 059/060 is negative and the ROE in F.Y. 063/064 is 12.01% which shows the effective earning performance of bank.

4.1.4.2 Return on Assets (ROA)

A basic measure of the company probability that correct for the size of the firm is the return on assets (ROA), which divides the net income of the company by the amount of its assets. ROA is a useful measure of how wills a manager is doing the job because it indicates how well an institution assets are being used to generate profit. It measures the overall effectiveness of management in generating profit with its available assets. The higher the company returns on assets the better it is doing its operation and vice-versa. A company has earns satisfactory return on assets for its survival. Higher the ROA, the better is the quality of assets, and efficient assets utilization, because the company is earning more money on less investment.

4.10 Presentation of Return on Assets of banks over the study the period.

Table 4.10

Return on Assets

Fiscal Year	Banks	Net Profit after Tax (in Rs.)	Total Assets (In Rs.)	Return on Assets
059/60	KBL	12474064.00	2986175454.00	0.42
	MBL	15307486.00	2399857094.00	0.64
	LBL	89139129.00	3440167990.00	2.59
	SBL	(1284255.00)	863735348.00	-0.15
060/61	KBL	48685822.00	5494176578.00	0.89
	MBL	46689946.00	3448634251.00	1.35
	LBL	18639673.00	4364204711.00	0.43
	SBL	17482585.00	1912039287.00	0.91
061/62	KBL	87880887.00	7437882125.00	1.18
	MBL	84870027.00	6445422625.00	1.32
	LBL	(197580188.00)	4382947863.00	-4.51
	SBL	70279794.00	3091102752.00	2.27
062/063	KBL	103666767.00	9010276184.00	1.15
	MBL	133996710.00	9069830401.00	1.48
	LBL	(806062626.00)	4259343044.00	-18.92
	SBL	65252813.00	4756935449.00	1.37
063/064	KBL	170262908.00	11918311429.00	1.43
	MBL	74085647.00	10807616906.00	0.69
	LBL	192404492.00	5705025580.00	3.37
	SBL	95305326.00	7954664475.00	1.20

Source: Annual Reports of respective Banks

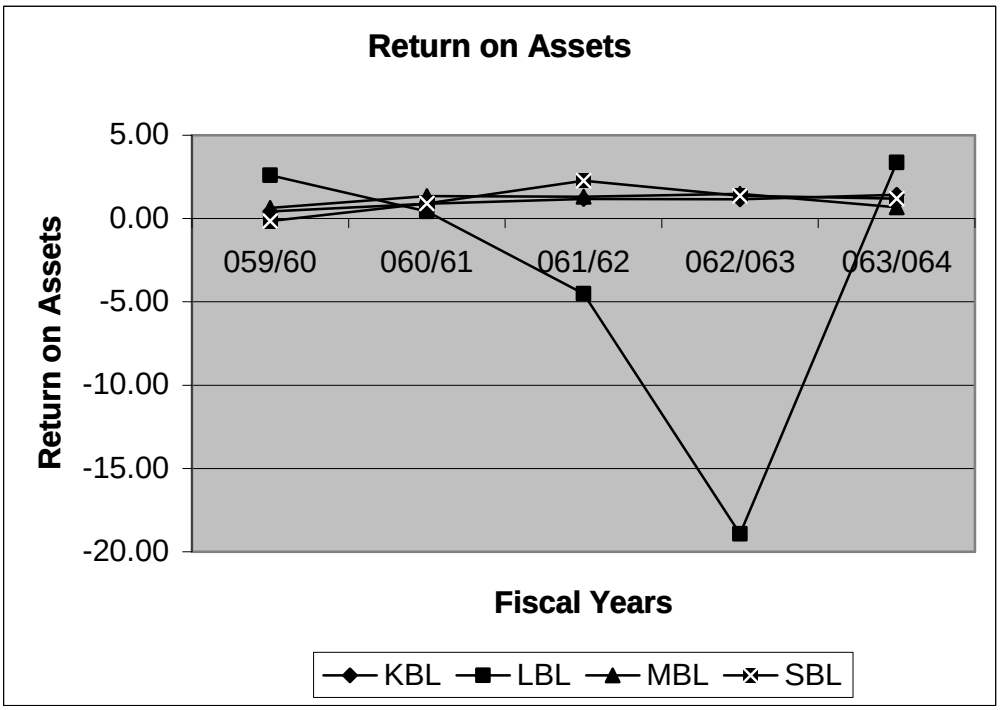

Figure 4.10: Returns on Asset

The Table 4.2 and the Figure 4.10 shows the ROA of four commercial banks. The ROA of KBL is 0.42%, 0.89%, 1.18%, 1.55% and 1.43% from F.Y. 059/060 to 063/064, which shows the continuous increase in ROA except 061/062. The ROA of MBL of F.Y. 059/060 is 0.64% and in F.Y. 063/064 the ROA is 0.79%, which shows the less fluctuating and continues increasing trend. The ROA of LBL is more fluctuating in the study period because when the ROA is reaches in negative and when it is positive it means it is risky for investment and weak performance. The ROA of SBL in F.Y. 059/060 was negative i.e. -0.15% and in F.Y. 063/064 the ROA is 1.20% which shows the increasing in performance and earning capacity of assets.

4.1.4.3 Earning Per Share (EPS)

EPS are generally considered to be the single most important variable in determining a share's price. It is portion of a company's profit allocated to each outstanding share of

common stock. It measures the profit available to the equity share holders on per share basis, which reflects the earning power of a company. Higher EPS indicates grater net profit and lower EPS indicates lower net profit.

Table 4.11 Presentation of EPS on Commercial Banks over the Study Period

Table 4.11

Earning Per Share (EPS)

Fiscal Year	Banks	Net Profit after Tax (in Rs.)	No of Shares	EPS (In Rs.)
059/60	KBL	12474064.00	3500000.00	3.56
	MBL	15307486.00	5442000.00	2.81
	LBL	89139129.00	3500000.00	25.47
	SBL	(1284255.00)	3500000.00	-0.37
060/61	KBL	48685822.00	5000000.00	9.74
	MBL	46689946.00	5500000.00	8.49
	LBL	18639673.00	3500000.00	5.33
	SBL	17482585.00	3500000.00	5.00
061/62	KBL	87880887.00	5000000.00	17.58
	MBL	84870027.00	5500000.00	15.43
	LBL	(197580188.00)	5000000.00	-39.52
	SBL	70279794.00	3500000.00	20.08
062/063	KBL	103666767.00	6250000.00	16.59
	MBL	133996710.00	7150000.00	18.74
	LBL	(806062626.00)	5000000.00	-161.21
	SBL	65252813.00	5000000.00	13.05
063/064	KBL	170262908.00	7500000.00	22.70
	MBL	74085647.00	8216513.00	9.02
	LBL	192404492.00	6000000.00	32.07
	SBL	95305326.00	6000000.00	15.88

Source: Annual Reports of Concerned Banks

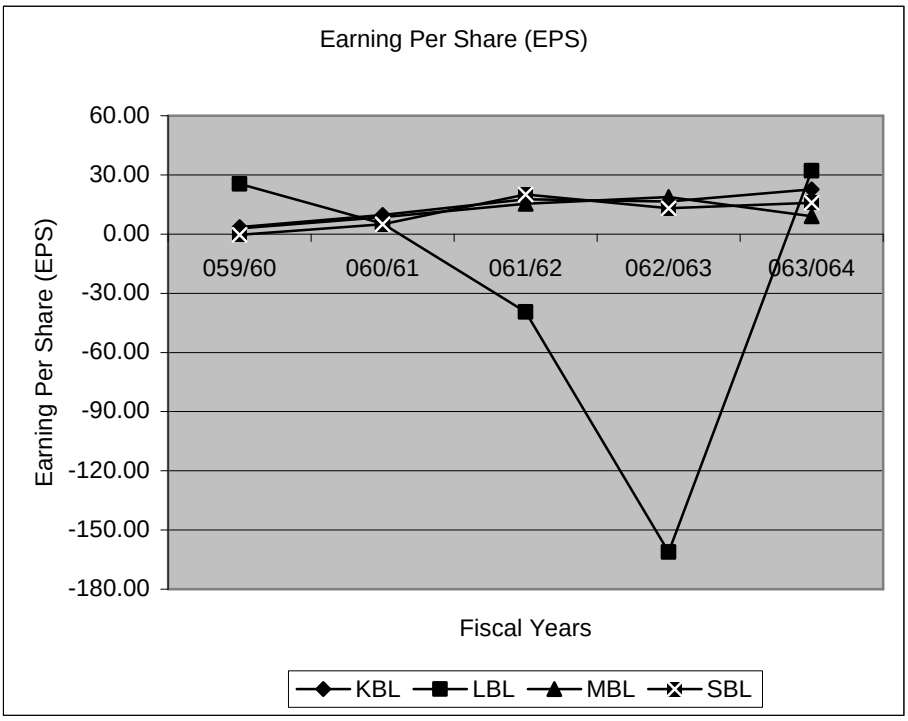

Figure 4.11: Earning Per Share (EPS) Ratio

The Table 4.11 and Figure 4.11 show the EPS of four commercial banks of study period, the EPS of KBL is Rs. 3.56, Rs. 9.74, 17.58, 16.59 and 22.70 from F.Y. 059/060 to F.Y. 063/064 which shows that the EPS is increasing trend. The MBL has also increasing trend of EPS which show that the performance has been increasing ratio. The EPS of LBL has positive in F.Y. 059/060 and in 060/061 but the F.Y. 061/062 and 062/063 it reach in negative which shows the performance of LBL is decreasing but in F.Y. 063/064 the EPS is positive, which shows the performance of banks is now increased. For SBL the EPS of F.Y. 059/060 is negative i.e. Rs. -0.37 but then the EPS is positive and increased which means the performance of the bank is increased at it reaches Rs. 15.86 in F.Y. 063/064.

4.1.4.4. Net Interest Margin (NIM)

The difference between interest income and interest expenses as a percentage of net earning assets is the net interest margin. How well a company manages its assets and liabilities is affected by the spread between the interest earned the company's assets and the interest costs on its liabilities. This spread is exactly what the Net Interest Margin (NIM) measures, so it is the measure of how effectively a company utilized its earning assets in relation to the interest cost of funding. Low interest expenses and high interest revenues will increase the NIM and vice-versa.

Table 4.12 Presentation of Net Interest Margin of Commercial Banks Over the Study Period.

Table 4.12

Net Interest Margin

Fiscal Year	Banks	Net Interest Income(in '000')	Total Earning Assets (in '000)	Net Interest Margin
059/60	KBL	92145.00	2528892.00	3.64
	MBL	62884.00	2082521.00	3.02
	LBL	122196.00	2874389.00	4.25
	SBL	18270.00	728583.00	2.51
060/61	KBL	146313.00	4632513.00	3.16
	MBL	101628.00	2917515.00	3.48
	LBL	163918.00	3568586.00	4.59
	SBL	68124.00	1760648.00	3.87
061/62	KBL	259788.00	6871197.00	3.78
	MBL	194902.00	5545045.00	3.51
	LBL	190315.00	3702909.00	5.14
	SBL	106204.00	2879870.00	3.69

062/063	KBL	268471.00	8431803.00	3.18
	MBL	274701.00	7977732.00	3.44
	LBL	128268.00	3707615.00	3.46
	SBL	151852.00	4540102.00	3.34
063/064	KBL	394231.00	10979646.00	3.59
	MBL	296761.00	9102361.00	3.26
	LBL	193884.00	5000629.00	3.88
	SBL	209813.00	7317222.00	2.87

Source: Annual Reports of respective Banks

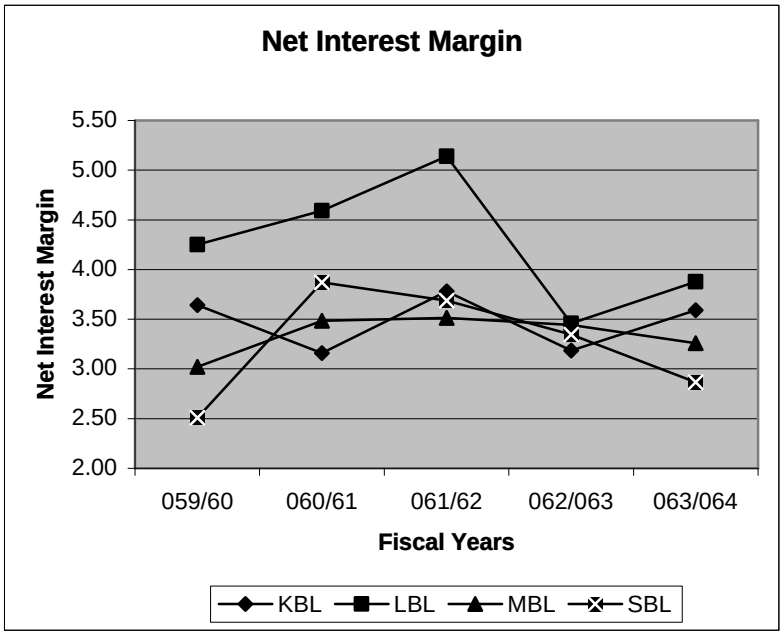

Figure 4.12: Net Interest Margin

The data presented in table 4.12 and figure 4.12 show, the net interest margin (NIM) of KBL is minimum in F.Y. 060/061 with 3.16 % and maximum in the F.Y. 061/062 i.e. 3.78% and the minimum NIM of MBL is 3.02% in F.Y. 059/060 and maximum in F.Y. 061/062 i.e. 3.51%. The minimum NIM of LBL is 3.46% in F.Y. 062/063 and maximum

is 5.14% in F.Y. 061/062. The NIM of SBL is fluctuating i.e. maximum is 3.87% and minimum is 2.51% in F.Y. 060/061 and 059/060 respectively.

4.1.5 Liquidity

Liquidity refers to reserve of cash, securities, a bank's ability to convert an asset into cash, and unused bank lines of credit. Liquidity shows ability of institution to meet projected near term obligation. In case of commercial banks, first type of liquidity risk arises when depositors of commercial bank seek to withdraw their money and the second type does when commitment holders want to exercise the commitment recorded off the balance sheet. Commercial banks have to borrow the additional fund or sell, the assets at fire sell price to pay off the deposit liabilities. They become insolvent if sale price of the assets are not enough to meet the liability withdrawals. The second type of liquidity risk arises when demand for unexpected loan cannot meet due to the lack of the funds. Commercial banks can raise the funds by running down their cash assets at distressed price. Both liability side liquidity risk (first type risk) and asset side liquidity risk (second type risk) affect the health of commercial banks adversely. But maintaining the high liquidity position to minimize such risks also adversely affects the profitability of FIs return on high liquid assets is almost zero. Therefore, FIs should strike the trade off between liquidity position and profitability so that they could maintain their health sound.

A firm should always keep adequate fund to meet depositors and creditors demand. The failure of a company to meet its liquidity will result in poor credit worthiness, loss of creditors' confidence or even in company. A very high degree of liquidity is also bad,

idle assets earn nothing. The firms fund will be unnecessary tied up in current assets; therefore it is necessary to strike a proper balance, between high liquidity and lack of liquidity. This will result in sound health of a company. A firm requires different amount of liquidity depending on its growth rate and variability in lending and deposit activities.

4.1.5.1 Liquid Assets to Total Deposit Ratio

This ratio measures the numerical relationship between liquid assets and total deposit, which is computed by dividing the proportion to total liquid assets in total deposit of the company. Furthermore, it shows the overall short term liquidity position. Cash balance, balance with NRB, balance with domestic banks and financial institutions, balance with foreign banks, money at call and short notice, and investment in government securities are included in total liquid assets.

The higher ratio implies the better liquidity position and lower ratio shows the inefficient liquidity position of the company. So a firm should always maintain sufficient and appropriate liquid funds to meet immediate obligation.

4.13 Presentation of liquid assets to total deposit ratio of liquid assets to total deposit ratio of commercial banks for study period.

Table 4.13

Liquid Assets to Total Deposit Ratio.

Fiscal Year	Banks	Liquid Assets (in '000')	Total Deposit (in '000)	Liquid Assets to Total Deposit Ratio
059/60	KBL	527335.00	2513144.00	20.98
	MBL	501028.00	1778786.00	28.17
	LBL	658489.00	2959746.00	22.25
	SBL	204235.00	391678.00	52.14
060/61	KBL	1287087.00	4807937.00	26.77
	MBL	632065.00	2754632.00	22.95
	LBL	994183.00	3777605.00	26.32
	SBL	288727.00	1291314.00	22.36
061/62	KBL	1653366.00	6268954.00	26.37
	MBL	873469.00	5586803.00	15.63
	LBL	833644.00	4031221.00	20.68
	SBL	429471.00	2461923.00	17.44
062/063	KBL	1648949.00	7768957.00	21.22
	MBL	2436871.00	7893298.00	30.87
	LBL	979129.00	4786440.00	20.46
	SBL	614311.00	3918076.00	15.68
063/064	KBL	2342195.00	10557416.00	22.19
	MBL	2929352.00	9475452.00	30.92
	LBL	1534061.00	6024598.00	25.46
	SBL	1372421.00	6625079.00	20.72

Source: Annual Reports of Concerned Banks

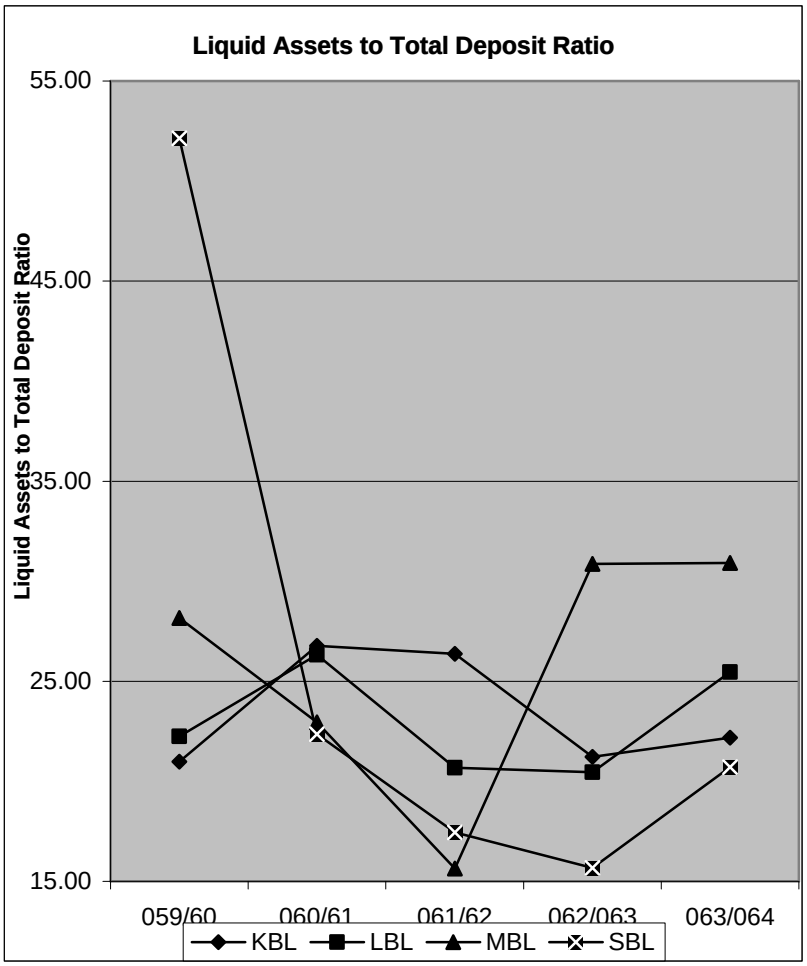

Figure 4.13: Liquid Assets to Total Deposit Ratio of Respective Banks

From the Table 4.13 and Figure 4.13 shows that the ratio of liquid assets to total deposit ratio, which gives the clear picture about the assets that can be changed or liquid into cash quickly. The KBL has 20.98%, 26.77%, 22.37%, 21.22% and 22.19% during the study period which is less fluctuating. The MBL has 28.17%, 22.95%, 26.37%, 30.87% and 30.92% which shows the decrease in liquid assets and reaches to 22.95% and increases and reaches to 30.87% which has higher liquid assets ratio than KBL. LBL has

22.25%, 26.32%, 20.68%, 20.46% and 25.46% over the study period. The SBL has 52.14% which has minimum liquid assets ratio and minimum of 15.68 in F.Y. 062/063.

4.2.5.2 Cash & Bank to Total Deposit Ratio

This ratio tests cash balance kept in the bank received to meet depositors to day withdraw. Bank earning is result of floating or investing depositors' money but also necessary to maintain adequate cash balance to meet daily operation as well. This need to strike out a balance and not tying up of fund more than need that will adversely affect bank's profitability.

4.14 Presentation of Cash and Bank Balance to Total Deposit Ratio of Banks during Study Period.

Table 4.14

Cash and Bank Balance to Total Deposit Ratio

Fiscal Year	Banks	Cash & Bank Balance (in '000')	Total Deposit (in '000)	Cash & Bank Balance to Total Deposit Ratio
059/60	KBL	291705.00	2513144.00	11.61
	MBL	201724.00	1778786.00	11.34
	LBL	333565.00	2959746.00	11.27
	SBL	65087.00	391678.00	16.62
060/61	KBL	685478.00	4807937.00	14.26
	MBL	410746.00	2754632.00	14.91
	LBL	531131.00	3777605.00	14.06
	SBL	71846.00	1291314.00	5.56
061/62	KBL	443371.00	6268954.00	7.07
	MBL	731133.00	5586803.00	13.09

	LBL	419013.00	4031221.00	10.39
	SBL	130729.00	2461923.00	5.31
062/063	KBL	389630.00	7768957.00	5.02
	MBL	773924.00	7893298.00	9.80
	LBL	402134.00	4786440.00	8.40
	SBL	115946.00	3918076.00	2.96
063/064	KBL	672113.00	10557416.00	6.37
	MBL	1284080.00	9475452.00	13.55
	LBL	500807.00	6024598.00	8.31
	SBL	517226.00	6625079.00	7.81

Source: Annual Reports of Concerned Banks

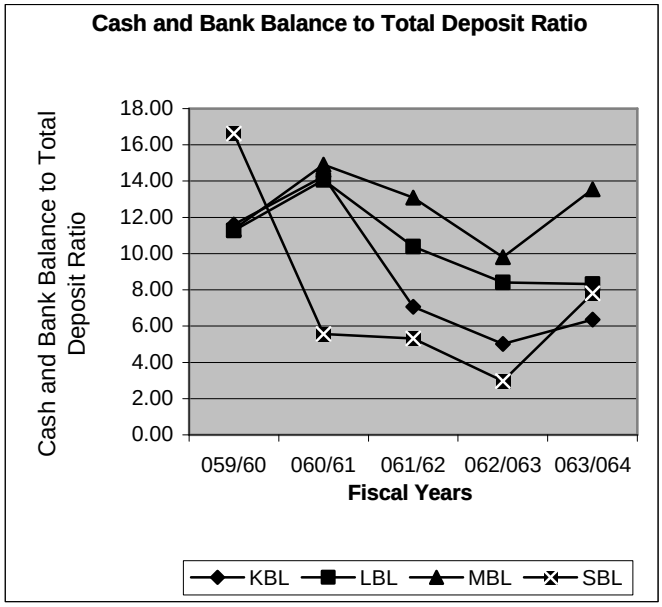

Figure 4.14: Cash and Bank Balance to Total Deposit Ratio

The Table 4.14 and Figure 1.14 show that the cash and bank balance to total deposit ratio of four commercial banks. The KBL has 11.61%, 14.26%, 7.07%, 5.31% and 6.37% over the study period. The ratios continue decrease except F.Y. 259/060 and 063/064. The MBL has 11.34%, 14.91%, 13.09%, 9.80%, and 13.55% which shows the fluctuating

trends of cash and bank balance to total deposit ratio. The SBL has 11.63%, 5.56%, 5.31%, 2.96%, 7.8% from F.Y. 059 /060 to 063/064, which shows the continues decrease except F.Y. 063/064 it means may crash of cash in the future if bank doesn't make its eye attractive. The LBL also the fluctuating trends.

4.2.5.3 Cash in Vault to Total Deposit Ratio

This ratio measures the numerical relationship between cash in vault and total deposit ratio. The term cash in vault represent the cash in hand or cash balance. This ratio measures the firms ability to meet immediate obligation mainly cash withdrawal by depositors, cash in vault facilities the commercial banks to meet their daily operational activities and solve the immediate liquidity crisis, lower ratio indicates that the company might face a liquidity crunch while paying its obligations, whereas a very high ratio indicates that the company has been keeping idle funds and not deploying them properly. So, a company should always maintain the sufficient and appropriate cash reserve.

4.15. Presentation of Cash in Vault to Total Deposit Ratio of Banks over the Study period.

Table 4.15

Cash in Vault to Total Deposit Ratio

Fiscal Year	Banks	Cash in Vault ('000')	Total Deposit (in '000)	Cash in Vault to Total Deposit Ratio
059/60	KBL	40800.00	2513144.00	1.62
	MBL	45642.00	1778786.00	2.57
	LBL	83853.00	2959746.00	2.83
	SBL	9439.00	391678.00	2.41

060/61	KBL	68472.00	4807937.00	1.42
	MBL	65257.00	2754632.00	2.37
	LBL	114709.00	3777605.00	3.04
	SBL	18214.00	1291314.00	1.41
061/62	KBL	111249.00	6268954.00	1.77
	MBL	121550.00	5586803.00	2.18
	LBL	133384.00	4031221.00	3.31
	SBL	33459.00	2461923.00	1.36
062/063	KBL	135795.00	7768957.00	1.75
	MBL	280426.00	7893298.00	3.55
	LBL	103231.00	4786440.00	2.16
	SBL	64977.00	3918076.00	1.66
063/064	KBL	190748.00	10557416.00	1.81
	MBL	385940.00	9475452.00	4.07
	LBL	138478.00	6024598.00	2.30
	SBL	130443.00	6625079.00	1.97

Source: Annual Reports of Concerned Banks

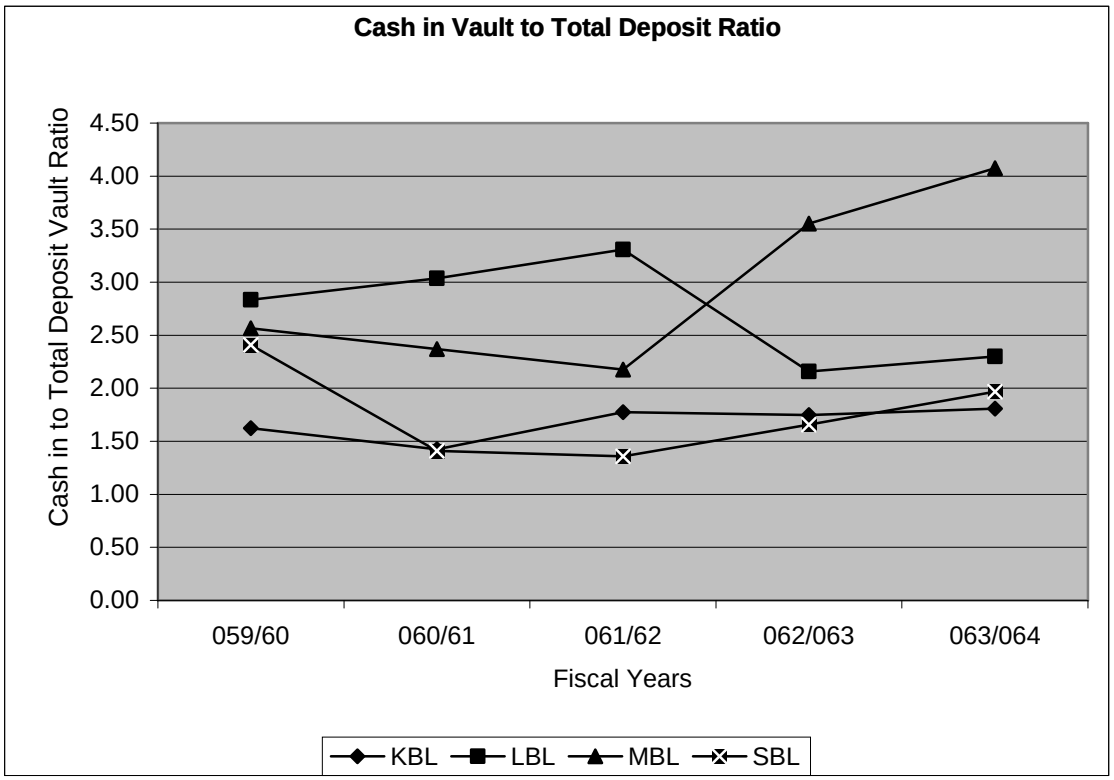

Figure 4.15: Cash in Vault to Total Deposit Ratio

The Table and 4.15 and Figure 4.15 show that the cash in vault to total deposit ratio of commercial banks. KBL has 1.62%, 1.42%, 1.77%, 1.75% and 1.81% from the study period respectively, which show the less fluctuating in cash in vault ratio. MBL has maximums of3.55 in F.Y. 062/063 and minimum of 4.07 in F.Y. 063/064. The LBL has 2.83$, 3.04%, 2.18%, 2.16% and 2.30% over the study period which shows the fluctuating trend of ratio. The SLB has 2.41%, 1.41%, 1.36%, 1.66 and 1.37 over the study period which shows that cash in vault to total deposit ratio continues decrease from F.Y. 059/060 to 061/062 and F.Y. 162/063 and 063/064 the ratio is increased and reaches to 1.66% and 1.97% respectively.

4.2 Major Finding

The major findings of study of performance evaluation of four banks in the frame work of CAMEL are as follows.

4.2.1 Over the five year study period, the core capital adequacy ratio of all four commercial are generally decreasing trend except particular year, which is mainly form increase in total risk weigh assets. The LBL has negative CCAR which shows the higher risky and not proper security and protection to creditors and depositors. But all the other except LBL have maintained CCAR above NRB standard. The supplementary capitals of all the banks are decreasing trends except LBL. LBL has no any supplementary capital in F.Y. 062/063 and 063/064. Supplementary capital ratio provides only small contribution to total capital adequacy ratio. Capital adequacy ratio is the combination between CCAR and SCAR so; CCAR and SCAR affect the capital adequacy ratio. The capital adequacy ratio of LBL in 062/063 and 063/064 are negative which shows the higher risky and less protection and security to creditors and depositors. But all the banks have higher capital adequacy ratio than NRB standard so all the banks except LBL have show that the banks are applying adequate amount of internal sources of shareholders funds.

4.2.2 The non-performing loan to total loans and advances ratio of banks are decreasing trends except LBL. In F.Y. 059/060 this ratio of LBL has 11.70% and in 062/063 the non-performing loan ratio reaches to 30.99% and decreases in F.Y. 063/064 and reaches to 20.37 % which directly affect the profitability and sound performance of Banks rather than LBL, other banks are less then the international standard (i.e. 5%) of NPL ratio, which shows the higher quality and performance of banks assets. The NPL ratio and

performing loan ratio has a negative relationship, so that the performance of performing assets or loan is good except LBL but the LBL has progressive effort, which shows the increase in ratio of performing loans in FY 2063/64 i.e. 79.63%. Due to the different reason, the loan loss provision ratio of LBL is high, which shows the higher chance of delay payment of interest or principal or both or defaulter. Except LBL, The loan loss provision of KBL, MBL and SBL has less than 5% which shows the higher performing assets/loans or less chance of defaulter.

4.2.3 Management quality is a qualitative factor so it is very much difficult to measure but management was direct relation to cost, profit and performance. Total expenses to total income ratio of banks are very much fluctuating trends, which is not the proper sign of effective and efficient management and profitability. The LBL has very much fluctuating trend of total expenses to total income ratio which shows the higher risk in earning then other. But the earning per employee (EPE) is increasing trend except LBL. The LBL has negative EPE which shows the lowest productivity or profitability performance of employee. The KBL has continuous increase in EPE which is positive sign of management for effective and efficient. The MBL has also increasing trends of EPE expect 063/64 due to the decrease in over all net profit after tax which shows the weakness of management. In F.Y. 059/060 The SBL has negative EPE but the performance of management and employee is continuous increases in EPE and reaches in FY 063/64 is Rs, 1207029 which shows the continuous increase in management performance as a whole.

4.2.4 The ROE of LBL in 059/060 is much greater than other banks i.e. 32.08%. But the SBL has negative ROE i.e. -0.37% in FY 059/060. Normally, the KBL and MBL have increasing trends of ROE except MBL in 063/064. The SBL has increasing trend of ROE in FY 060/061 to 063/064. The ROA all the banks are also in increasing trend except LBL because it has a negative profit (i.e. losses) in FY 061/062 and FY 062/063. ROE is increase because net profit after tax is continuous increasing than ratio of ROE is also increased. The EPS of all banks are positive then SBL i.e. Rs. -0.37. Then EPS of all the banks are increasing trends except LBL in FY. 061/062 and 062/063 and MBL in F.Y. 063/064, which is decrease from Rs. 18.74 and reaches to 9.02 in FY 063/064. The net interest income of all the banks are fluctuating trends so that the net interest margin is also fluctuating trends which shows the interest earning capacity of banks are continuous fluctuating trends.

4.2.5 The overall liquidity ratio of the banks is fluctuating trends. The liquid assets to total deposit ratio of banks are also fluctuating trends which shows the many problem may arises if the ratio goes up and down significantly. Generally, the cash and bank balance to deposit is continuous decreasing trends except in FY 063/064. The continuous decrease in cash and bank balance may crises of cash in future or day to day operation and balance deposit to NRB which is mandatory rule if not the bank should poses rules by NRB. The cash in vault to total deposits ratio is also fluctuating trends. The maximum cash in vault to total deposits ratio of MBL in FY 063/064 is 4.07% and the minimum cash in vault ratio is 1.36%. in F.Y. 061/062 of SBL. The MBL has higher liquidity position which shows the higher safeguard from the side of liquidity.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is a last chapter of the study and which deals with three aspects of study: summary, conclusion and recommendations. The first aspect, which summarizes the whole study, the second aspect draw the conclusion based upon findings and the last one forwards the recommendation for the banks on the their weak parts.

5.1 Summary

The study was conducted with the objective to analyze and compare the financial performance of commercial banks of Nepal of Kumari Bank Limited (KBL), Machhapuchchhre Bank Limited (MBL), Lumbini Bank Limited (LBL) and Siddhartha Bank Limited (SBL) in the framework of CAMEL over the five year period from FY 059/060 to 063/064 following descriptive and analytical research design prescribed by UFIRS and in accordance to BASEL accord. The study is totally based on secondary data, which is annual reports and financial statement of KBL, MBL, LBL and SBL are used as a major sources of data. For the study purpose, KBL, MBL, LBL and SBL are drawn as a study with applying convenience sampling method out of 23 commercial banks till mid January 2008, CAMEL is a common method for analyzing the health of individual institution, the quality of performance and the financial condition of the firm, which was designed by regulatory and monitoring authorizes and this study scrutinizes the financial performance of four banks as regards to CAMEL i.e. Capital adequacy (C), Assets quality(A), Management Quality(M), Earning Quality (E) and Liquidity(L). The

analysis of financial statement are done to obtain a better insight into the bank's position and performance, various financial and statistical tools have been used in this study to get the meaningful result and to meet the research objectives.

The intrinsic strength of a firm is usually evaluated based on a CAMEL framework. The CAMEL concept was developed in 1979 by FFIEC. In January 1, 1997, the rating became CAMELS with the addition of market sensitivity rating, under such framework, and individual components are typically evaluated on a rating scale. The CAMELS rating ranges from 1 to 5, lower rating representing a better and well managed firm. The rating system serves as a report card to bank management and directors. It was originally used by the Federal Reserve Bank (FRB), the Federal Deposit Issuance Corporation (FDIC) and the office of the comptroller of the currency (OCC) and other financial supervisory agencies to provide a convenient summary of bank conditions at the time of an examination.

During the research the areas that formed part of the conceptual review were: concept of commercial bank approaches to supervision, financial performance approaches, component of CAMEL, beside these, review of journals, articles and review of thesis were carried out under research review.

The analysis has been made to compare the company's ratios with NRB and international standards. The core capital adequacy ratios are above the NRB standard except LBL, which shows the protection and Security to creditors and depositors and financial

soundness of the company. The supplementary capital adequacy ratios of the banks are as per NRB standards except LBL during the reviewed and study periods which lead to conclude that the banks are running with adequate capital. The capital adequacy ratios of three banks are higher than the NRB standard. But the LBL have negative capital adequacy ratio which shows the lower internal sources and comparatively weak financial position and lower security to depositors than KBL, MBL and SBL etc. The CAR of KBL, MBL and SBL are also the decreasing trend.

The non-performing loan ratios are below the international standard i.e. 5% of KBL, MBL and SBL. It reflects the good performance of the banks in mobilizing loan and advances. But the NPL ratio of LBL is higher than the 5% benchmark which gives the weak performance of assets. The lower NPL ratio shows the better proportion of performing loans and risk of default (Credit). The highest NPL of LBL in FY 062/063 is 30.99% which shows the bank is not very much conscious and aware of non-performing loans and adopting appropriate policies to manage this problem and not to increase the good quality of assets, increasing the NPL ratio than decreasing the performing loan ratio and vice versa. The LBL has the highest loan loss provision in every year and the SBL has minimum loan loss provision in year FY 059/060. The LBL has less safety to default risk and performing assets quality than other banks.

The management quality proxy ratio, the lower average total expenses to total income ratio shows the better operation of the banks. But from the middle of the study period the trend line of total expenses to total income ratios are fluctuating. It is due to changing

ratio of income or expenses are different. So last year, the total expenses to total income ratio of all the banks are increasing trend except MBL and LBL, Which is not good for banks on the other hand, normally the EPE of all the banks are increasing trends except LBL in FY 061/062 and 062/063 and SBL in 059/060 which shows the sign of good management system, regarding human resources, even through the number of employees in all banks are in increasing. Among the four banks SBL has the highest earning per employee (EPE) and LBL has the lowest EPS in study period.

The continuous increase in ROE of banks shows the positive sign to their investors but only crossing above the bench mark of 15% by LBL in FY 059/060, SBL in 061/062 and KBL in FY 063/064, the ROE of LBL is continuously increasing with negatively except FY 059/060 and 063/064. But the ROE of all the three banks are increasing trends but less than the bench mark of 15% set by the World Bank. But both increment in ROE and ROA are good signal for investors or shareholders. Although the no. of shares increased, due to the increment in net profit after tax, EPS of all banks are positively changed. The EPS of LBL is negative in F.Y. 061/062 and 062/063. The NIM of all the banks is fluctuating trends. But in general it seems that all the banks except LBL have well management its assets and liabilities.

The higher average liquid assets to total deposit ratios shows the better liquidity position of the banks. Cash and bank balance to total deposit ratio decreasing trends which shows that the NRB may posses the rules of maintenance the limit of balance. The lower cash in

vault to total deposit ratio shows that any time there may be the crisis of cash and to meet the demand of creditors or depositors.

5.2 Conclusion

Based on the findings, following conclusions have been drawn as a concluding framework for the comparative study on financial performance of CAMEL of KBL, MBL, LBL, & SBL.

5.2.1 Core Capital Adequacy Ratio (CCAR) of all banks are in fluctuating but in decreasing trend through out the study period, CCAR of all banks are above the study period, CCAR of all banks are above the NRB standard except LBL which has negative CCAR, KBL, MBL and SBL have adequately maintained its internal sources or core capital in the past five year's period and have strictly followed the NRB rules and regulations. The higher CCAR of SBL throughout the study period shows SBL's better protection and security to its depositors and creditors and higher financial health and KBL, MBL and LBL. The LBL has negative CCAR so it may risky to depositors and creditors for internal source of funds and security. Supplementary capital adequacy ratio (SCAR) of all the banks are also with in the NRB norms during the review period which reveals that the banks are running with adequate capital through the study period and has strictly followed the NRB directives i.e. Supplementary capital should not be more than the core capital of the banks. The overall capital adequacy ratio (CAR) of SBL is higher than that of KBL, MBL and LBL which shows higher internal sources and comparatively strong financial position and higher security to depositors even in case of liquidation. But LBL has negative CAR so it has weak and lower security to depositors even in case of

liquidation. In the point of view of all banks of MBL, KBL and SBL are financially sound and strong.

5.2.2 The non performing loan ratios of all the banks are fluctuating but in decreasing trends except LBL. The LBL has increase from 061/062 to 062/063 and decrease in 063/064 but which is above than international standard of 5% decreasing NPL ratio shows that banks are much conscious and aware of NPL AND adopting appropriate policies to manage this problem and to increase and quality of assets. It also shows that efficient credit management, low credit risk and good performance of three banks in mobilizing loan and advances. The highest performing loan ratio indicates very conscious and better position regarding distribution of good loans which is shown by KBL during the study period loan loss provision ratio of all banks are decreasing in last couple years, which shows that bank has placed efficient credit management while distributing loans by which they are increasing volume of good loans and by taking appropriate recovery policy and efforts they are decreasing its non-performing loan.

5.2.3 The lower to tell income ratio shows the better operation of the banks and better profitability of the banks. The total income ratios of banks are fluctuating trends which shows the management inefficiency. The earning per employee (EPE) of all the banks is continuous increasing trend except LBL and MBL in FY 063/064. Increase in EPE shows the higher management efficiency and higher productivity of management and Employee, which increases the overall profitability of the banks.

5.2.4 The return on equity (ROE) ratios of banks are below the bench mark (15%) set by the world bank all the year except 059/060 of LBL, SBL of FY 061/062 and FY 062/063 of KBL, But the ratio of 3 banks are in increasing trend, which is a good signal and shows that the return per unit of equity invested by the share holder's is increasing year by year. The ROA of all the banks except LBL, which shows the performance of banks are increasing continuously. The higher return on assets shows that the assets of banks are used in better way to generate profit. The LBL has negative ROA which shows the well performance and weak quality of assets and earning quality. The EPS of all the banks except LBL are continuous increases which show the effective earning quality of the banks. The net interest margins (NIM) of banks are almost constant and less fluctuating trend. Normally all the banks use followed the World Bank standard of (3-4) % which shows the same quality of earning interest. The EPS of LBL is negative in FY 060/061 and 061/062 respectively. The maximum EPS of review period of banks is LBL in 063/064 is Rs. 32.07.

5.2.5 The liquid assets to total deposit ratio of all banks are fluctuating trends. The SBL has decreasing trend of ratio except FY 063/064. The higher average liquid assets to total deposit ratios shows better liquidity position. The cash and bank balance to total deposit ratio is continuously decreasing trends of all banks so that NRB may posses the directive of maintaining limit of balance so that they may be the crash to cash and bank balance. The cash in vault to total deposit ratio of all banks are in fluctuating trend, but MBL has highest among three banks. The decreasing trends of cash in vault to deposit ratio may result in not meet the demand of depositors and withdrawals and cash crises.

5.3 Recommendation

The following recommendations are made based on the major findings, conclusions as suggestion to overcome the weakness as regard to financial performance of Kumari Bank Limited (KBL), Machhapuchchhre Bank Limited (MBL), Lumbini Bank Limited (LBL), and Siddhartha Bank Limited (SBL).

5.3.1 The core capital adequacy of all banks are as per NRB standard except LBL over the review period but are in decreasing trend which also results decrease in total capital adequacy ratio and if it continuous goes down, NRB may provide directives to maintain at the mark. So recommendation is provide and maintain stable (if possible increase) core capital adequacy ratio and keep open eye for future. The LBL should taken appropriate policy, programmed, action and effort for maintaining the NRB standard and providing safety and security to depositors, creditors and investors.

5.3.2 The assets quality of KBL, MBL and SBL shows the satisfactory level. So, the recommendation is to maintain non performing loan (NPL) ratio as lower as possible and try to give additional attention in recovering the doubtful and loss loan in future and try to increase its performing loan near to 100%. The LBL should forward and be conscious for providing loan and recovery loan and minimized NPL.

5.3.3 The total expenses to total income ratio of all banks seems to be fluctuating trends. So, recommendation is made to maintain the stable ratio and try to reduce the operating

and non-operating expenses and try to increase to income which will positively affect the profitability of the company.

5.3.4 The earning quality ratio of the banks like return on equity (ROE), Return on assets (ROA) are in increasing trend except LBL but are below the benchmark set by the World Bank. The most important performance measures for any firm is profitability, without it, no firm can grow and survives in long run. So, the company is recommended to increase its yield as its net profit to gain the trust of the equity holders and other stake holders. The LBL has both ROA and ROE are negative so that proper programmed and action should been taken to earn the profit to survive, grow and reward to respective stakeholders.

5.3.5 Liquid assets of the commercial banks play an important role to meet the day and short term obligation. If liquid assets of the banks are not maintained properly then there is a high probability of banks going to liquidation. So that all the banks should be careful and try to increase liquidity position by increasing total cash to total deposit, cash and bank balance to total deposit and liquid assets to total deposit ratios.

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Appendix 1

List of On-Balance and Off-Balance Sheet and Weights

S.N.	Particulars	Weight
A	**On-Balance Sheet Assets**	0%
1.	Cash Balance	0%
2.	Gold (Tradable)	0%
3.	Balance with Nepal Rastra Bank	0%
4.	Investment in Govt. Securities	0%
5.	Investment in NRB Bond	0%
6.	Fully Secured Loan Against Own Fixed Deposit Receipt	0%
7.	Fully Secured Loan Against Govt. Securities	0%
8.	Balance with Domestic Banks and Financial Institution	20%
9.	Fully Secured FDR Loan against FDR of Other Banks and FIs	20%
10.	Balances with Foreign Banks	20%
11.	Money At Call	20%
12.	Loan Against Guarantee of Internationally Rated Banks	20%
13.	Other Investments in Internationally Rated Banks	20%
14.	Invest in Shares Debentures and Bonds	100%
15.	Other Investments	100%
16.	Loan Advances and Bills Purchased Discounted	100%
17.	Fixed Assets	100%
18.	All Other Assets	100%
B	**Off-Balance Sheet Items**	
1.	Bills Collection	0%
2.	Forward Foreign Exchange Contract	10%
3.	Letters of Credit with Maturity of Less Than 6 Months	20%
4.	Guarantees Provided against CG of A + International Banks	20%
5.	Letters of Credit with More Than 6 Months	50%
6.	Bid Bond	50%
7.	Performance Bond	50%
8.	Advance Payment Guarantee	100%
9.	Financial Guarantee	100%
10.	Other Guarantee	100%
11.	Irrevocable Loan Commitment	100%
12.	Contingent Liability in Respect of Income TAX	100%
13.	All other Contingent Liabilities	100%
A+B	**Total Risk Weighted Assets**	

Source : Banks and Non-Banks Financial Institutions Unified Directives 2062:3-4

Appendix 2

Balance Sheet of Lumbini Bank Limited

Fiscal Years / Capital & Liabilities	2059/060	2060/061	2061/062	2062/063	2063/064
Share Capital	350000000	350000000	500000000	500000000	600000000
Reserve & Surplus	(72151383)	(53511709)	(254991004)	(1222069661)	(1029665169)
Debenture & Bond	-	-	-	-	-
Borrowing	90000000	164719000			23513901
Deposit Amount	2959744445	3777605223	4031220989	4786440191	6024598406
Bills Payable	10683881	4574393	60517365	104584869	14260317
Proposed Divided Payable	-	-	-	-	-
Income Tax Liabilities	-	-	7495737	-	-
Other Liabilities	101891048	120817804	38704776	90387645	72318125
Total Liabilities	**3440167991**	**4364204711**	**4382947863**	**4259343044**	**5705025580**
Assets					
Cash Balance	83852591	114708814	103230924	133384231	138478207
Balance with Nepal Rastra Bank	-	-	267601351	178328639	280521258
Balance with Bank/Finance	249712315	416422326	48181184	90421057	81808186
Money at Calls Short Notice	50000000	30000000	-	50000000	295605000
Investment	382750243	558187601	535184566	673719945	864337323
Loan, Advance, Bills Purchase	2441639355	2980397657	3167723667	2983895391	3840686743
Fixed Assets	37240473	40079428	48344770	41996097	47752159
Non Banking Assets	-	-	64938913	49401811	73752024
Other Assets	194973014	224408885	147742488	58195873	82084680
Total Assets	**3440167991**	**4364204711**	**4382947863**	**4259343044**	**5705025580**

Source : LBL, Annual Reports

Appendix 3

Profit & Loss A/C of Lumbini Bank Limited

Fiscal Years / Particulars	2059/060	2060/061	2061/062	2062/063	2063/064
*Interest Income	308680133	361239927	383790759	343821148	458649067
Interest Expenses	186483709	197321966	193474897	215553238	264765149
Net Interest Income	**122196424**	**163917961**	**190315862**	**128267910**	**193883918**
*Fees Commission & Discount	13034415	14382553	13935412	16581845	24025997
*Other Operating Income	7664786	7058320	14348678	14577627	49648539
Foreign Exchange Gain	6560159	18502778	12293654	20866187	13737412
Total Operating Income	**149455784**	**203861612**	**230893606**	**180293569**	**281295866**
Staff Expenses	29740305	36396348	37083822	48581387	59937746
Other Operating Expenses	41181029	48021909	50384600	70392053	68683291
Foreign Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**78804450**	**119443355**	**143425184**	**61320129**	**152674829**
Provision for Possible Losses	-	73375070	303411648	855593356	217858882
Operating Profit	**78804450**	**46068285**	**(159986464)**	**(794273227)**	**(65184053)**
*Non Operating Income/Expenses	-	(1175450)	(2288894)	(1057956)	1232748
*Write Back of Provision for Possible Loss	20239027	-	-	9412584	414559459
Profit From Regular Activities	**99043477**	**44892835**	**(162275358)**	**(785918599)**	**350608154**
Extra Ordinary Income/Expenses	-	-	(109093)	(9412584)	(109243029)
Profit Before Bonus & Taxes	**99043477**	**44892835**	**(162384451)**	**(795331183)**	**241365125**
Provision for Staff Bonus	9904348	4489284	-	-	21942284
Provision for Tax	-	21763878	35195737	10731440	27018349
Net Profit/Loss	**89139129**	**18639673**	**(197580188)**	**(806062623)**	**192404492**

Source : LBL, Annual Reports

Appendix 4

Principle Indicators of Lumbini Bank Limited

S.N.	Particulars	Indicators	059/60	060/61	061/62	062/63	063/64
1.	Percent of Net Profit Gross Income	%	26.51	4.65	-46.28	-203.63	35.23
2.	Earning Per Share	Rs.	25.47	5.33	-39.25	-161.21	32.07
3.	Market Value Per Share	Rs.	-	-	180.00	172.0	505.00
4.	Price Earning Ratio	Ratio	-	-	-	-	15.75
5.	Dividend (Including Bonus) on Share Capital	%	-	-	-	-	-
6.	Cash Dividend of Share Capital	%	-	-	-	-	-
7.	Invest Income/Loan and Advances	%	11.77	11.21	10.44	7.96	9.28
8.	Staff Exp. Total Operating Exp.	%	41.71	43.11	42.40	40.83	46.60
9.	Invest Expenses on total Deposit and Borrowings	%	6.30	5.22	4.8	4.50	4.39
10.	Exchange Gain/Total Income	%	1.95	4.61	2.89	5.27	2.52
11.	Staff Bonus/Total Staff Expanses	%	0.34	12.33	-	-	36.61
12.	Net Profit Loan and Advances	%	3.40	0.58	-5.34	-18.65	3.89
13.	Net Profit Total Assets	Ratio	2.59	0.43	-4.38	18.92	3.37
14.	Total Credit/Deposit	%	88.60	85.31	91.41	90.29	82.07
15.	Total Operating Expenses/Total Assets	%	2.05	1.93	1.95	2.79	2.25
16.	Adequacy of Capital Fund on Risk Weighted Assets						
	a) Core Capital	%	8.59	7.54	5.68	-15.11	-7.80
	b) Supplementary Capital	%	2.67	1.17	1.25	-	-
	c) Total Capital Fund	%	11.26	8.71	6.93	-15.11	-7.80
17.	Liquidity (CCR)	%	11.27	14.06	6.67	8.40	4.83
18.	Non-Performing Credit/Total Credit	Ratio	11.70	7.36	15.23	30.99	20.37
19.	Weighted Average Interest Rate Spread	%	4.18	4.74	4.39	2.54	3.30
20.	Book Net Worth	Rs.	337077239	296488291	245008996	(722069661)	(429665169)
21.	Total Shares	No.	3500000	3500000	5000000	50000000	60000000
22.	Total Staffs	No.	143	141	139	142	139
23.	Others		-	-	-	-	-

Source : LBL, Annual Reports

Appendix 5

Balance Sheet of Kumari Bank Limited

Fiscal Years / Capital & Liabilities	2059/060	2060/061	2061/062	2062/063	2063/064
Share Capital	350000000	500000000	500000000	625000000	750000000
Reserve & Surplus	11033148	33403180	145441536	238850557	275630159
Debenture & Bond	-	-	-	-	-
Borrowing	-	-	401761328	251400000	212970000
Deposit Amount	2513144223	4807936964	6268954481	7768957276	10557416461
Bills Payable	4129136	14637391	7339236	11918835	16554384
Proposed Divided Payable	-	-	-	6578947	-
Income Tax Liabilities	-	-	-	296343	11006805
Other Liabilities	107868947	138199043	114385544	107274226	94733620
Total Liabilities	**2986175454**	**5494176578**	**7437882125**	**9010276184**	**11918311429**
Assets					
Cash Balance	40800041	68471908	111249095	135794991	190748210
Balance with Nepal Rastra Bank	-	-	-	210552637	384844510
Balance with Bank/Finance	250905209	617006003	332122274	43282117	96520231
Money at Calls Short Notice	-	-	90000000	145000000	372215000
Investment	423154880	983504403	1190271012	1394947753	1678418415
Loan, Advance, Bills Purchase	2105736822	3649008723	5590925657	6891855426	8929013115
Fixed Assets	40424623	57152223	82984150	91932957	189323741
Non Banking Assets	-	-	-	3592027	2394684
Other Assets	125153879	119033318	40329937	93318276	74833523
Total Assets	**2986175454**	**5494176578**	**7437882125**	**9010276184**	**11918311429**

Source : KBL, Annual Reports

Appendix 6

Profit & Loss A/C of Kumari Bank Limited

Fiscal Years / Particulars	2059/060	2060/061	2061/062	2062/063	2063/064
*Interest Income	185090410	310216095	499918465	605526857	719284209
Interest Expenses	92945310	163902663	240130179	337056145	397053120
Net Interest Income	**92145100**	**146313432**	**259788286**	**268470712**	**322231089**
*Fees. Commission & Discount	9413117	16446129	23083001	26281002	40764126
*Other Operating Income	585720	1772928	2608404	10003006	15280956
Foreign Exchange Gain	7143616	14413973	14988827	26373738	20294440
Total Operating Income	**109287553**	**178946462**	**300468518**	**331128458**	**398570611**
Staff Expenses	23254109	28576283	42395007	59819533	74243628
Other Operating Expenses	45503583	56441166	71812004	88683067	104079476
Foreign Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**40526861**	**93929013**	**186261507**	**182625858**	**292247507**
Provision for Possible Losses	16805159	17125580	41111258	25870520	(24950199)
Operating Profit	**23721702**	**76803433**	**145150249**	**156755338**	**267297308**
*Non Operating Income/Expenses	3650	-	5422	(38957)	669885
*Write Back of Provision for Possible Loss	-	-	-	5116699	6264578
Profit From Regular Activities	**23725352**	**76803433**	**145155691**	**161833080**	**274231771**
Extra Ordinary Income/Expenses	-	-	-	-	(816882)
Profit Before Bonus & Taxes	**23725352**	**76803433**	**145155691**	**161833080**	**273414889**
Provision for Staff Bonus	2372535	7680343	14515569	14712099	24855899
Provision for Tax	8878753	20437268	42759565	43454217	78296082
Net Profit/Loss	**12474064**	**48685822**	**87880557**	**103666764**	**170262908**

Source : KBL, Annual Reports

Appendix 7

Principle Indicators of Kumari Bank Limited

S.N.	Particulars	Indicators	059/60	060/61	061/62	062/63	063/64
1.	Percent of Net Profit Gross Income	%	6.17	14.20	16.26	15.52	19.61
2.	Earning Per Share	Rs.	3.26	9.74	17.58	16.59	22.70
3.	Market Value Per Share	Rs.	-	-	369	4.43	8.30
4.	Price Earning Ratio	Ratio	-	-	20.99	26.71	36.56
5.	Dividend (Including Bonus) on Share Capital	%	-	-	-	21.05	21.50
6.	Cash Dividend of Share Capital	%	-	-	-	1.05	1.05
7.	Invest Income/Loan and Advances	%	8.66	8.39	8.33	5.89	7.63
8.	Staff Exp. Total Operating Exp.	%	14.38	14.48	11.96	4.20	17.22
9.	Invest Expenses on total Deposit and Borrowings	%	3.70	3.41	4.48	3.95	3.69
10.	Exchange Gain/Total Income	%	3.53	4.20	2.77	24.59	2.34
11.	Staff Bonus/Total Staff Expanses	%	10.20	26.88	34.24	1.48	25.08
12.	Net Profit Loan and Advances	%	0.58	1.32	1.55	1.1500	1.88
13.	Net Profit Total Assets	Ratio	0.0042	0.0089	0.0118	90.20	1.43
14.	Total Credit/Deposit	%	85.06	76.91	90.62	5.39	85.84
15.	Total Operating Expenses/Total Assets	%	5.42	4.53	4.76		4.83
16.	Adequacy of Capital Fund on Risk Weighted Assets						
	a) Core Capital	%	14.22	12.50	10.20	11.28	10.26
	b) Supplementary Capital	%	1.24	0.91	1.01	1.08	0.96
	c) Total Capital Fund	%	15.46	13.41	11.21	12.36	11.22
17.	Liquidity (CCR)	%	10.72	11.02	3.44	2.71	2.65
18.	Non-Performing Credit/Total Credit	Ratio	0.02	0.01	0.01	0.01	0.73
19.	Weighted Average Interest Rate Spread	%	6.48	3.82	3.85	5.48	4.67
20.	Book Net Worth	Rs.	392883373	570147056	705529193	932620331	1115207184
21.	Total Shares	No.	3500000	5000000	5000000	6250000	7500000115
22.	Total Staffs	No.	53	115	143	177	212
23.	Others		-	-	-	-	-

Source : KBL, Annual Reports

Appendix 8

Balance Sheet of Machhapuchchhere Bank Limited

Fiscal Years / Capital & Liabilities	2059/060	2060/061	2061/062	2062/063	2063/064
Share Capital	544174000	550000000	550000000	715000000	821651300
Reserve & Surplus	-42468102	4221843	87739384	216091357	178613335
Debenture & Bond	-	-	-	-	-
Borrowing	90000000	102167330	154217474	131675197	228504143
Deposit Amount	1778786289	2754632090	5586802644	7893297672	9475451509
Bills Payable	3956740	5135728	9327538	11365097	21482435
Proposed Divided Payable	-	-	-	5644737	4313669
Income Tax Liabilities	-	-	873987	10462065	7372338
Other Liabilities	25408167	32477260	56461598	86294276	70228177
Total Liabilities	**2399857094**	**3448634251**	**6445422625**	**9069830401**	**10807616906**
Assets					
Cash Balance	45642182	65256536	121550140	280421338	385940398
Balance with Nepal Rastra Bank	-	-	463232971	489090528	785688815
Balance with Bank/Finance	156082367	345488632	146350164	44412070	112450972
Money at Calls Short Notice	220000000	150000000	15000000	718474520	694000000
Investment	398356200	274406945	468612175	1190829823	1278468559
Loan, Advance, Bills Purchase	1464165455	2493107932	5061433056	6068427450	7129891542
Fixed Assets	59224645	62412573	86212340	104943331	259532932
Non Banking Assets	-	-	4353750	12532613	3392500
Other Assets	56386245	57961633	78678029	160698728	158251188
Total Assets	**2399857094**	**3448634251**	**6445422625**	**9069830401**	**10807616906**

Source : MBL, Annual Reports

Appendix 9

Profit & Loss A/C of Machhapuchchhere Bank Limited

Fiscal Years / Particulars	2059/060	2060/061	2061/062	2062/063	2063/064
*Interest Income	139040043	215206844	381930448	563362314	694482220
Interest Expenses	76155898	113579092	187027982	288661549	397721715
Net Interest Income	**62884145**	**101627752**	**194902466**	**274700765**	**296760505**
*Fees Commission & Discount	5653912	14840269	21391062	33401892	34305033
*Other Operating Income	504529	1001361	13206187	13690769	49039122
Foreign Exchange Gain	5945606	12621092	11359387	35152377	29036308
Total Operating Income	**74988192**	**130090474**	**240859102**	**356945803**	**409140968**
Staff Expenses	17435463	19872460	29571861	43410162	54360310
Other Operating Expenses	34078609	42357602	59973170	85924280	104181243
Foreign Exchange Loss	-	-	-	-	**1893202**
Operating Profit Before Provision	**23474120**	**67860412**	**151304071**	**227611361**	**248706213**
Provision for Possible Losses	6465802	15980436	22907133	34702545	157606056
Operating Profit	**17008318**	**51879976**	**128396938**	**192908816**	**91100157**
*Non Operating Income/Expenses	-	(2259)	286969	(9271)	462175
*Write Back of Provision for Possible Loss	-	-	345666	20149478	48185458
Profit From Regular Activities	**17008318**	**51877717**	**129029573**	**213049023**	**139747790**
Extra Ordinary Income/Expenses	-	-	(345666)	(1529961)	(14319071)
Profit Before Bonus & Taxes	**17008318**	**51877717**	**128683907**	**211519062**	**125428719**
Provision for Staff Bonus	1700832	5187771	12868391	19229006	11402611
Provision for Tax			30945489	58293246	39940461
Net Profit/Loss	**15307486**	**46689946**	**84870027**	**133996810**	**74085647**

Source : MBL, Annual Reports

Appendix 10

Principle Indicators of Machhapuchchhere Bank Limited

S.N.	Particulars	Indicators	059/60	060/61	061/62	062/63	063/64
1.	Percent of Net Profit Gross Income	%	10.13	19.96	19.82	20.80	8.66
2.	Earning Per Share	Rs.	2.81	8.49	15.43	18.74	9.02
3.	Market Value Per Share	Rs.	100.00	125.00	256.00	320.00	620.00
4.	Price Earning Ratio	Ratio	35.55	14.42	16.59	17.08	68.74
5.	Dividend (Including Bonus) on Share Capital	%	-	-	-	15.79	10.52
6.	Cash Dividend of Share Capital	%	-	-	-	0.79	0.52
7.	Invest Income/Loan and Advances	%	8.39	7-78	7.16	8.80	9.49
8.	Staff Exp. Total Operating Exp.	%	13.66	11.30	10.70	10.39	34.29
9.	Invest Expenses on total Deposit and Borrowings	%	4.08	3.98	3.26	3.60	4.10
10.	Exchange Gain/Total Income	%	(0.25)	2.22	2.65	5.29	-0.22
11.	Staff Bonus/Total Staff Expanses	%	9.76	26.11	43.50	30.70	20.98
12.	Net Profit Loan and Advances	%	1.02	1.84	1.65	2.18	1.01
13.	Net Profit Total Assets	Ratio	.64	1.35	1.31	1.48	0.69
14.	Total Credit/Deposit	%	84.09	92.24	91.83	77.87	77.25
15.	Total Operating Expenses/Total Assets	%	5.32	5.10	4.28	4.61	5.16
16.	Adequacy of Capital Fund on Risk Weighted Assets						
	a) Core Capital	%	23.98	17.01	10.52	11.94	10.68
	b) Supplementary Capital	%	0.77	0.82	0.84	0.85	1.30
	c) Total Capital Fund	%	24.75	17.82	11.36	12.79	11.97
17.	Liquidity (CCR)	%	4.98	4.91	8.27	5.18	8.29
18.	Non-Performing Credit/Total Credit	Ratio	2.08	0.98	0.39	0.28	1.16
19.	Weighted Average Interest Rate Spread	%	2.50	3.78	3.97	3.40	3.38
20.	Book Net Worth	Rs.	501705898	554221843	637739384	931091357	1000264635
21.	Total Shares	No.	4551740	5500000	5500000	7150000	8.216513
22.	Total Staffs	No.	75	85	137	196	234
23.	Others			-	-	-	-

Source : MBL, Annual Reports

Appendix 11

Balance Sheet of Siddhartha Bank Limited

Fiscal Years / Capital & Liabilities	2059/060	2060/061	2061/062	2062/063	2063/064
Share Capital	350000000	350000000	350000000	500000000	600000000
Reserve & Surplus	(1284255)	16198330	37888643	103141455	193709939
Debenture & Bond	-	-	-	-	-
Borrowing	110000000	220000000	190000000	181150000	430000000
Deposit Amount	391677605	1291313880	2461922522	3918076217	6625078506
Bills Payable	-	961993	429211	-	-
Proposed Divided Payable	-	-	-	-	4736842
Income Tax Liabilities	-	-	17083448	1112820	5203446
Other Liabilities	13341998	33565083	33778928	53454957	95935742
Total Liabilities	**863735348**	**1912039286**	**3091102752**	**4756935449**	**7954664475**
Assets					
Cash Balance	9438897	18214419	33459441	64977328	130442580
Balance with Nepal Rastra Bank	-	-	45636582	48831305	380563747
Balance with Bank/Finance	55647855	53631797	51633142	2137673	6220027
Money at Calls Short Notice	102072938	174830000	22471002	100000000	229446305
Investment	3775000	42050560	286623433	650979170	865188561
Loan, Advance, Bills Purchase	622734719	1543767096	2570776015	3789122692	6222586813
Fixed Assets	21819269	28409301	30217153	39692489	46667101
Non Banking Assets	-	-	720146	480097	10173349
Other Assets	48246670	51136113	49565838	60714695	63375992
Total Assets	**863735348**	**1912039286**	**3091102752**	**4756935449**	**7954664475**

Source : SBL, Annual Reports

Appendix 12

Profit & Loss A/C of Siddhartha Bank Limited

Fiscal Years / Particulars	2059/060	2060/061	2061/062	2062/063	2063/064
*Interest Income	23889157	113629914	198184538	305560896	481523807
Interest Expenses	5618773	45505567	91980954	153708962	271710950
Net Interest Income	**18270384**	**68124347**	**106203584**	**151851934**	**209812857**
*Fees Commission & Discount	2163016	7034057	7552790	13774645	20177802
*Other Operating Income	2687477	6866037	7981760	9701472	18659095
Foreign Excnange Gain	87876	2228516	7170573	12050770	14245653
Total Operating Income	**23208753**	**84252957**	**128908707**	**187378821**	**262895407**
Staff Expenses	8040133	16457854	20310190	26087462	33620506
Other Operating Expenses	10162626	21667879	30898025	44124593	55721156
Foreign Excange Loss					
Operating Profit Before Provision	**5005995**	**46127224**	**77700492**	**117166766**	**173553745**
Provision for Possible Losses	6290250	17769423		16472805	20544230
Operating Profit	**(1284255)**	**28357801**	**77700492**	**100693961**	**153009515**
*Non Operating Income/Expenses				3195	35535
*Write Back of Provision for Possible Loss			19369776		
Profit From Regular Activities	**(1284255)**	**28357801**	**97070268**	**100697156**	**153045050**
Extra Ordinary Income/Expenses					
Profit Before Bonus & Taxes	**(1284255)**	**28357801**	**97070268**	**100697156**	**153045050**
Provision for Staff Bonus		2835780	9707027	9154287	13913186
Provision for Tax		8039437	17083448	26290057	43826537
Net Profit/Loss	**(1284255)**	**17482584**	**70279793**	**65252812**	**95305327**

Source : SBL, Annual Reports

Appendix 13

Principle Indicators of Siddhartha Bank Limited

S.N.	Particulars	Indicators	059/60	060/61	061/62	062/63	063/64
1.	Percent of Net Profit Gross Income	%	-4.26	-19.34	29.25	19.13	17.83
2.	Earning Per Share	Rs.	-0.37	-8.89	20.08	13.05	15.88
3.	Market Value Per Share	Rs.				360	778
4.	Price Earning Ratio	Ratio				27.59	48.98
5.	Dividend (Including Bonus) on Share Capital	%					15.79
6.	Cash Dividend of Share Capital	%					0.79
7.	Invest Income/Loan and Advances	%	1.81	7.63	7.49	7.37	6.37
8.	Staff Exp. Total Operating Exp.	%	44.17	19.68	14.18	11.65	9.31
9.	Invest Expenses on total Deposit and Borrowings	%	1.43	4.6	3.47	3.75	3.85
10.	Exchange Gain/Total Income	%		1.72	2.98	3.53	2.66
11.	Staff Bonus/Total Staff Expanses	%			47.59	35.09	41.38
12.	Net Profit Loan and Advances	%		-2.1	2.73	1.72	1.53
13.	Net Profit Total Assets	Ratio		-1.67	2.27	1.37	1.2
14.	Total Credit/Deposit	%	158.99	114.95	104.42	98.75	95.39
15.	Total Operating Expenses/Total Assets	%	1.18	4.5	4.62	4.71	4.54
16.	Adequacy of Capital Fund on Risk Weighted Assets						
	a) Core Capital	%	41.3	16.04	12.77	13.39	10.78
	b) Supplementary Capital	%	0.74	0.72	0.87	0.87	1.05
	c) Total Capital Fund	%	42.04	16.67	13.64	14.16	11.84
17.	Liquidity (CCR)	%	6	6	5.21	5.03	5.07
18.	Non-Performing Credit/Total Credit	Ratio		4.85	2.58	0.87	0.34
19.	Weighted Average Interest Rate Spread	%	5.15	5.53	4.46	4.07	3.57
20.	Total Shares (000)	No.	3500	3500	3500	5000	6000
21.	Net Worth Per Share	Rs.	99.63	90.75	101.83	120.63	132.28
22.	Total Staffs	No.	43	47	56	72	79
23.	Others		-	-	-	-	-

Source : SBL, Annual Reports