

# **CAMEL ANALYSIS OF JOINT VENTURE BANKS IN NEPAL**

(Special Reference to Nabil Bank Ltd, Himalayan Bank Ltd, Standard Chartered Bank Nepal Ltd and Nepal SBI Bank Ltd.)

## **A Thesis**

**Submitted By**

**Anira Shrestha**

Patan Multiple Campus

TU Regd. No: 7-2-488-44-2004

Campus Roll No: 129/2064

Exam Roll No: - 220023/2066

## **Submitted to:**

Office of the Dean

Faculty of Management

Tribhuvan University

In the partial fulfillment of the requirements for the degree of

**Master of Business Studies (MBS)**

Kathmandu, Nepal

Dec, 2014

# RECOMMENDATION

This is to certify that the Thesis

Submitted by  
**Anira Shrestha**  
Entitled

**CAMEL Analysis of Joint Venture Banks in Nepal** ( Special Reference to Nabil Bank Ltd, Himalayan Bank Ltd, Standard Chartered Bank Nepal Ltd and Nepal SBI Bank Ltd.)

has been prepared as approved by this department in the prescribed format of faculty of management. This Thesis forwarded for examination.

-----  
Yuga Raj Bhattra

*Head of Research Department*

-----  
Yuga Raj Bhattra

*Thesis Supervisor*

-----  
Babu Ram Singh Thapa

*(Asst. Campus Chief)*

# VIVA-VOCE SHEET

We have conducted the VIVA-VOCE examination of the Thesis. Presented

Submitted by

**Anira Shrestha**

Entitled

## **CAMEL Analysis of Joint venture Banks in Nepal**

(Special Reference to Nabil Bank Ltd, Himalayan Bank Ltd, Standard Chartered Bank Nepal Ltd and Nepal SBI Bank Ltd.)

And found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as the partial fulfillment of the requirement for **Master degree in Business Studies (MBS)**.

### **VIVA-VOCE Committee**

Head of Research Department

-----

Member (Thesis Supervisor)

-----

Member (External expert)

-----

# TABLE OF CONTENTS

	Page No.
<b>Recommendation</b>	
<b>VIVA-VOCE Sheet</b>	
<b>Declaration</b>	
<b>Acknowledgements</b>	
<b>Table of Contents</b>	
<b>List of Tables</b>	
<b>List of Figures</b>	
<b>Abbreviations</b>	
<b>CHAPTER-1.INTRODUCTION</b>	<b>1-13</b>
1.1 Background of the Study	1
1.2 Statement of the Problem	9
1.3 Objectives of the Study	9
1.4 Significance of the Study	10
1.5 Limitations of the Study	11
1.6 Organization of the Study	11
<b>CHAPTER-2.REVIEW OF LITERATURE</b>	<b>14-28</b>
2.1 Conceptual Framework	14
2.2 Legal Provision NRB Directives	24
2.3 Review of Previous Studies	25
2.4 Concluding Remarks of the reviews	28
<b>CHAPTER-3.RESEARCH METHODOLOGY</b>	<b>29-33</b>
3.1. Introduction	29
3.2. Research Design	29
3.3. Population and Sample	29
3.4. Nature and Sources of Data	31
3.5. Data Collection Procedure	31
3.6. Data Analysis Tools	32

<b>CHAPTER-4.PRESENTATION AND ANALYSIS OF DATA</b>	<b>34-62</b>
4.1 Analysis of Secondary Data	34
4.1.1 Capital Adequacy	35
4.1.2 Assets Quality Management	38
4.1.3 Management Efficiency	44
4.1.4 Earning Analysis	46
4.1.5 Liquidity Management	50
4.2 Analysis of Primary Data	56
4.2.1 Questionnaire Survey	56
4.2.2 Observation	58
4.3 Findings	59
<b>CHAPTER-5.SUMMARY, CONCLUSION AND RECOMMENDATIONS</b>	<b>63-67</b>
5.1 Summary	63
5.2 Conclusion	64
5.3 Sugestions & Recommendations	66

## **BIBLIOGRAPHY**

## **ANNEXES**

## LIST OF TABLES

<b>Table No.</b>	<b>Title of Table</b>	<b>Page No.</b>
Table-2.1	Capital Adequacy at Different Situation	17
Table-2.2	Impact of Earning	21
Table-2.3	Impact of Liquidity Aspect	23
Table-2.4	Loan Classification and Provision	24
Table-3.1	List of Licensed Commercial Banks	31
Table-4.1	Capital Adequacy Ratio	35
Table-4.2	Core Capital Ratio	37
Table-4.3	Non performing Loan Ratio	39
Table-4.4	Loan Loss Coverage ratio	40
Table-4.5	Loan Loss Provision Ratio	42
Table-4.6	Credit Deposit Ratio	43
Table-4.7	Management Efficiency Ratio	45
Table-4.8	Earning Per Share	46
Table-4.9	Return on Equity	48
Table-4.10	Return on Assets	49
Table-4.11	Cash Reserve Ratio	51
Table-4.12	Cash and Bank Balance Ratio	53
Table-4.13	Investment in Government Securities Ratio	55
Table-4.14	Factor Affecting Management Efficiency	56
Table-4.15	Responses for Risk Preferences	57
Table-4.16	Responses for Performance, Goodwill and Services	57
Table-4.17	Responses for Management Efficiency	58
Table-4.18	Observation Result	59

## LIST OF FIGURES

<b>Table No.</b>	<b>Title of Figure</b>	<b>Page No.</b>
Figure-4.1	Capital Adequacy Ratio	35
Figure-4.2	Core Capital Ratio	37
Figure-4.3	Non Performing Loan ratio	39
Figure-4.4	Loan Loss Coverage Ratio	41
Figure-4.5	Loan Loss Provision Ratio	42
Figure-4.6	Credit Deposit Ratio	44
Figure-4.7	Management Efficiency Ratio	45
Figure-4.8	Earning Per Share	47
Figure-4.9	Return on Equity	48
Figure-4.10	Return on Assets	50
Figure-4.11	Cash Reserve Ratio	52
Figure-4.12	Cash and Bank Balance Ratio	54
Figure-4.13	Investment in Government Securities Ratio	55

## ABBREVIATIONS

ABBS	Any Branch Banking Service
ATM	Automated Teller Machine
CAMEL	Capital Adequacy, Assets management, Management Efficiency, Earning analysis and Liquidity analysis.
CAR	Capital Adequacy Ration
CB	Commercial banks
CCR	Cash reserve ratio
CEO	Chief executive officer
CRR	Cash Reserve ratio
CSR	Corporate Social Responsibility
EPS	Earning Per Share
FNCCI	Federation of Nepal Chamber of Commerce and Industry
FY	Fiscal Year
HBL	Himalayan Bank Limited
HIV	Human Immunodeficiency virus
KYC	Know year Customer
LC	Letter of Credit
LLCR	Loan Loss Coverage Ration
LLPR	Loan Loss Provision Ration
MER	Management Efficiency Ration
MIS	Management Information System
NBB	Nepal Bangladesh Bank
NBB	Nepal Bank Limited
NIDC	Nepal Industrial Development Corporation
NMB	Nepal Merchant Bank
NPAT	Net Profit After Tax
NPL	Non Performing Loan
NRB	Nepal Rastra Bank
NSBI	Nepal State Bank of India
RBB	RastriyaBanijya Bank
ROA	Return on Assets
ROE	Return of Equity
SCBNL	Standard Chartered bank Nepal Limited.
SD	Standard Deviation
SOC	Swift Operating Center
SWIFT	Society of worldwide inter-bank Financial

# CHAPTER-1

## INTRODUCTION

### 1.1 Background of the Study

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development. With the opening of Nabil bank in 1985 the door of opening commercial banks was opened to the private sector. Then whole lots of commercial banks were opened in Nepal. Today almost all the commercial banks are making profit. The inefficiency of the two public sector banks has lead to the success of other private banks because these public sector banks has invested very huge amount for banking infrastructure. Current banking environment is the result of their restless effort and huge networking of banking even in the far remote area of Nepal.

Banking has come to the person to present advanced form through various stages. Some sorts of banking activities have been carried out since the immemorial. Traditional forms of banking were traced during the civilization of Greece, Rome and Mesopotamia. As early as 2000 BC Babylonians had developed a system of banks. Regarding the origin of banking institution in the world, the bank of Venice of Italy which was established in 1157 A.D. was the first banking institution in the world. Second banking institution bank of Barcelona of Spain was established in 1401 A.D. as a joint stock bank and later in 1844 A.D. it became the first central bank in the world. After the business and trade was grown up a famous bank "Bank of Amsterdam" was established in Holland in 1609 A.D. which was very popular and important in international trade. But later due to the forced demand of excessive loan those bank were not able to survive.

To examine, analyze and measure the performance of commercial banks CAMEL is the popular and effective tool. Current Nepalese banking environment is very conducive for the development and growth of banks but some time due to the various reason some bank are performing below the

standard and causing various problem to the investor, depositor and other banks also. This research study is focusing to the thorough and systematic analysis and evaluation of the joint venture bank by using the CAMEL. Those banks are taken for the reference which can perfectly represent the joint venture banks in Nepal by considering their strategy, performance and capital structure differences. Four banks are taken for the study these are: Standard Chartered Bank Nepal limited (SCBNL), Nabil Bank limited (Nabil), Himalayan

## **Introduction of Sample Banks**

### **Himalayan Bank Limited**

Himalayan Bank was established in 16<sup>th</sup> January, 1993 in joint venture with Habib Bank Limited, one of the largest and oldest commercial bank of Pakistan. HBL was the first commercial bank of Nepal established with more than 50% of equity share from Nepalese investors. It is one of the leading banks of Nepal with 2.898billion paid up capital. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the Plain vanilla banking products- Loans and Deposits etc. The bank also offers industrial and merchant banking. According to unaudited financial results (quarterly published) the performance of the bank is excellent. HBL has worldwide correspondent network with more than 30 different countries. Himalayan Bank Limited holds a vision to become a Leading Bank of the country by providing products and services to the customers. Similarly, the Bank's mission is to become preferred provider of quality financial services in the country and the objective is to become a bank of first choice.

It has always been committed in providing a quality service to the valued customers. That's why it continuously services by establishing 47 ATM counter in the valley&28 outside the valley. The bank has more aggressive plan of establishing more branches in different part of the country. The bank not only values the customer's satisfaction but it is also aware of the corporate social responsibility. Corporate Social Responsibility (CSR) holds one of the

very important aspects of HBL. It has always been promoting social activities which is beneficial or provides common good to the society. HBL has very skillful, enthusiastic and professional human resource that's why it is able to win the huge market share, share of people's heart and share of mind in very competitive financial market. The HBL is not only introducing the plain vanilla banking products but also concentrating on value added banking products.

HBL has been providing various products and services for their customer's convenient. They are as follows: Fixed Deposit, Savings Deposits, Current Account Deposit, Premium Savings Account(PSA Deposit), Call Deposit, Recurring Saving Account, Jumbo Term Deposit, Funded Loan, Non Funded Loan, Retail/Consumer Loans, Small Business Enterprises Loan, Medium Business Enterprises Loan, Safe Deposit Locker, Card Services, SMS Banking and Internet Banking.

To assist its trading Customers, HBL offers Letter of Credit (LC) facilities. Customers can place their LC application in any of HBL Branches. The fees/charges are one of the lowest amongst the commercial banks of Nepal. The Customers enjoy wide correspondent network of Himalayan Bank in addition to the attractive rates. You may download LC Application form and for further details, please contact any of our Branches.

**Himal Remit**, a premium online customer focused and technology oriented Money Transfer product is brought to you by Himalayan Bank Limited, the leading joint venture bank of Nepal. Himalayan Bank is a pioneer in the field of retail money transfer business with over 13 years of customized service delivery experience in the field. Himalayan Bank has the largest network covering all major cities, towns and villages of the country and is capable of paying at more than 200 locations across Nepal.

Himal Remit is customer focused online Money Transfer technology product brought to you by Himalayan Bank Limited. Its remittance service is most broadened and well managed sector compare to other Nepalese commercial banks. It is the bank who brings highest remittance inside the country. Himalayan Bank is a pioneer in the field of retail money transfer business with over 13 years of customized service delivery experience in the field.

Himalayan Bank has the largest network covering all major cities, towns and villages.

Himalayan Bank Limited holds of a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

No organization can survive in long term without considering social responsibility as a important factor of business growth and prosperity. So HBL also well understood the fact and moved towards the various social welfare and awareness program like sports, education and health etc.

*Corporate Social Responsibility* (CSR) holds one of the very important aspects of HBL. Being one of the corporate citizens of the country, HBL has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society as large.

### **Nabil Bank Limited**

Nabil bank is the first private commercial bank opened in Nepal in 2041(1984). Earlier it was known as Nepal Arab Bank Limited. Now 50% of Nabil share owned by N.B. (International) Limited, 10% by Nepal industry Development Corporation, 6.67% by Rastria Beema Sasthan, 0.33% by Nepal stock exchange limited and the remaining 30% by Nepalese general public.

It is commercialized, well managed and customer oriented bank established in joint venture with Dubai Bank Limited, Dubai Who extended Nabil in initial period. Today Nabil stand in a position to claim that is the Bank of the 1<sup>st</sup> choice to al its stakeholder. Nabil is fully equipped with modern technology which includes ATMs, Credit cards, state-of-art, world renowned software from Infosys technology, System, Internet Banking and tele-banking system.

The management team of Nabil bank has always ensured that the competitiveness and professionalism of institution stays as the top. The

mission and goals of the intuition so far has been achieved through highly qualified professional and experienced human resource.

NABIL Bank provides a full range of commercial banking services through its outlets spread across the country and reputed correspondent banks across the world. Moreover, NABIL has a good name in the market for high quality services and products. Besides the regular deposit account in local currency as well as in a range of other major foreign currencies NABIL bank also offers many other special deposit schemes like Call Time, Provident Fund, Retirement Fund and Bachat etc. NABIL has various types of loan products for its customers like: Working capital & project financing, Trade Finance, Priority and Deprived sector Financing, Mortgage Loan and Personal Lending. It has other value added banking services like Debit and Credit card services, Internet Banking system, Telephone Banking services etc. It uses fax, telex, mail transfer, SWIFT transfer, traveler's Cheque; anywhere branch banking etc. for fund transfer. NABIL has remittance relationship with various correspondent banks in various countries. Nepal also has agreement with Western Union Money Transfer in order to easy transfer of money throughout the country.

It is concerned to be "Bank of The First Choice" through customer satisfaction, highly acclaimed service. Recently, the Bank has come up with New Motto "Your Bank @ Your Service". The Bank has very strong focus on the Quality customer and increase trade loan, Increase the bank portion on export import trade, Increase income to related card and remittance, and Control the operating expenses.

The Bankers publication of finance Times, London has honored the NabilBank As the " Bank of the Year 2004" Nabil Bank has been rated 5A2 by Dun & Bradstreet (D&B), one of the world leading providers of Business information. "Asian News Network" announces The CEO of NABIL Bank Anil Shah Asian ideal 2007.

NABIL Bank is also involved in partnership with the Glaucoma center at the Tilganga Eye Hospital to increase overall knowledge about blinding disease.

In education, it has helped to educate under privileged children at the Mary Ward School and in sport NABIL Three Star Club to promote sportsmanship and healthy living. In education, the Bank is supporting the education of underprivileged children at the Mary Ward School affiliated with St. Mary's High School. And in Sport, It has entered into a partnership with Nabil Three Star Club to promote the spirit of sport. The Bank on a yearly basis also conduct blood donation programs where we have partnered with the Nepal Red Cross Society (NRCS). The employees of the Bank have also been supporting girl child education for underprivileged children long before the Bank as an institution adopted its CSR initiatives which also go to complement how close such causes are to the people who form Nabil Bank.

### **Standard Chartered Bank Nepal Limited (SCBNL)**

Standard Chartered Bank Limited (SCBNL) is one of the joint Venture banks, which was established in 2043 B.S. (1987) as Nepal Grindlays bank in collaboration with Grind lays Bank London. The acquisition of the Grind lays franchise by standard Chartered Group and Change its Name as Standard Chartered Bank Limited in July 2001 A.D. Out of total Share 75%of Standard Chartered group and 25% of general public. Out of 75% of Standard Chartered group 50% of Standard Chartered Grind lays 25%Standard Chartered U.K. This bank is the largest international bank currently operating in Nepal. Standard Chartered has history of over 150 years in banking and operates in many of the worlds fastest growing markets in over 70 countries. According to the annual report of 2013-14, it has 19 branches and 23 ATMs and more than 450 local staff which show Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through as extensive domestic network. In addition, the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking services in Nepal. Standard Chartered Bank Nepal Limited offers a full range of banking products and services in Wholesale and Consumer banking. The Bank has been the pioneer in introducing 'customer focused' products and services and aspires to continue to be a leader in introducing new products in delivering superior services. Corporate Social Responsibility is an integral part

of Standard Chartered's ambition to become the world's best international bank and is the mainstay of the Bank's values.

Standard Chartered bank has set the 5 values for its smooth and quality corporate culture and services. These are: Trustworthiness, Responsiveness, Creativeness, International standard and Courageous. This bank is using the participation, competitive position and management discipline approach to win the customer heart and market share. The management body has identified 5 stakeholders these are: Customer, our people, communities, Investors and regulators. The Chairman of this bank is Mr. Sunil Khusuwal and Chief executive officer is Mr. Joseph Silvanus. "Seeing is Believing" and 'Living with HIV' are the two major initiatives of the Bank under its 'Believing in Life' campaign launched in 2003. Leading the way with various expertises is the main slogan of this bank.

Standard Chartered Bank Limited has offered wide range of banking products and Services in terms of wholesale and consumer banking rising from individuals to local corporate, large public sector companies, aid agencies, hotel and Government Corporation.

Normally other bank focuses on its interest income but the Standard Chartered Bank Limited focus on commission, charges and other income. It invests in low risky assets than other commercial banks because it invest very large amount in government securities. SCBNL introduce project "Know Your Customer" (KYC) and follow it strictly. It focus on to fulfill its social responsibility on avoidable blindness and HIV/AIDS.

### **Nepal SBI Bank Limited.**

Nepal SBI Bank limited was established in 2050. It started its operation on 23<sup>rd</sup> Ashad 2050. Nepal SBI bank is a joint venture between employee's provident fund, Nepalese entrepreneurs and state bank of India. Where in Indian Bank hold 50% of equity. The initial paid up capital was Rs. 119.95 million in 2050. According to the annual report of 2012-13 the total paid up capital till that time is Rs2355738504. Among which 50.02 % shares of foreign

investors(State Bank of India), 5 % share of 'A' class licensed institutions, 15% shares from employees provident fund and rest of the 29.98% of general public shares. Its corporate office is situated in Hattisar, Kathmandu. Their chairman of the board is Mrs.Hasana Sharma and Managing director is Mr.Alok Kumar Sharma. Nepal SBI Bank has issued 6% debenture of Rs. 200,000,000 in 2006 which is matured in 2013. Under the technical service agreement signed State bank of India has been providing top management services to the bank. The bank operates with the objectives of mobilizing the fund to industry, commerce and trade as well as providing quality banking services.

In the area of technology up-gradation and automation this bank had networked its branches and shifted to core banking platform in July 2006. It has strong connectivity and software system to perform every kind of quality banking activities. It has established connectivity with swift operating centre (SOC) of SBI at Mumbai which enable to remit money instantly to India in case the beneficiary maintains an account with any of the SBI branches of India on the Core banking platform. Arrangements were made with various international "money transfer Companies" in the Gulf and Malaysia to further augment foreign inward remittances. M/s CSC & Co., Chartered Accountants has been conducting audit of the Bank. It has a facility to deposit the money in local as well as foreign currency. According to banks annual reports(2012-13), they expanded branches to 56, 6 extension counters 10 3 regional offices till the end of 31/1/2013 and Total number of ATM counter of the bank is 75 at that date which is already accomplished. It is the corporate agent of 5 reputed non life insurance company of Nepal.

Nepal SBI Bank has very wide range of banking products which are very competitive in the market. But it is focusing only on plain vanilla products nothing else. It is facilitating India-Nepal trade and other monetary transaction. They are introducing various kinds of products to facilitate these trade and transaction.

## **1.2 Statement of the Problem**

Some financial institution has lack of proper knowledge about various types of risk such as management risk, liquidity risk, purchasing power risk, business risk, interest rate risk, financial risk, etc., while providing loans and advances. They are unable to invest the deposit collections on profitable sectors or opportunities. They have always feared of high degree of risk and uncertainty. Due to lack of proper analysis and research of profitable sectors for their investment or utilization of their deposit collection, commercial banks and financial institutions are concentrated in a few sectors, over crowding themselves and creating unfair competition as well as leaving an adverse effect in national economy. Commercial bank's investment has been found to have lower productivity due to lack of supervision regarding whether there is proper utilization of their investment or not. Lack of farsightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to commercial banks.

This study is directed to resolve the following issues:

1. What is the capital adequacy position of sample banks?
2. What is the assets management efficiency position of sample banks?
3. What is the existing earnings position of sample banks?
4. What is the liquidity position of sample banks?

## **1.3 Objectives of the Study**

Objective of the study is to evaluate the CAMEL analysis of joint venture commercial banks of Nepal .The specific objectives of the study are:

1. To examine the capital adequacy position of sample banks.
2. To assess the assets management efficiency of sample banks.
3. To evaluate the earning positions of sample banks.
4. To point out the liquidity position of sample banks.

## **1.4 Significance of the Study**

Financial institutions specially “A” class commercial banks play very significant role in the national economic and social development. Joint venture banks are the key player among the ‘A’ class commercial banks so they have also very important role to play for the national economic and social development. CAMEL analysis is recently developed performance evaluation technique so by CAMEL analysis of respected joint venture banks, we can figure out the existing situation of the joint venture banks and their contribution for the nation. For the academic purpose also it helps to add some thoughts and findings for the interested group and people. We can point out the significance of this study as:

This study provides the detail description and thorough analysis of the different financial records and documents which helps to identify the limitation or short comings and helps to make good move further to perform better in competitive market. It will help to clarify the importance of different financial and accounting requirements for the effective performance of the institutions like role of CRR, C/D ratio, Loan loss provision and others in long term trustworthy and value added performance.

Banks and financial institutions are the mirror of any country’s economic and social development. They have very huge contribution for the government revenue and expenditure. All financial institutions are survived on the trust and belief of public so if they can not maintain the trust and belief the whole national economy will be in threat. Proper obligation and execution of financial rules and regulation is necessary for every kind of financial institution. From this CAMEL analysis we can point out the key factor for the banks success and failure which, I think, very useful to the policy maker and regulatory body. This will provide thorough analysis of banks current situation which helps to get brief ideas and information about the current situation and further improvement requirements.

Enough liquidity management, enough loan loss provision, proper cash reserve ratio and their management efficiency is directly related to the success and failure of the banks. This study will provide detail information about these factors and helps depositors and investors to get awareness & move forward smoothly and profitably in the banking environment.

This research is perfectly based on the systematic and scientific research procedure which helps to guide them for further research very well. This can be a vast source of knowledge for the banks financial system, management system and their performance determinants.

### **1.5 Limitations of the Study**

All research studies are done to solve the particular research problem. It requires various kinds of data, materials and other relevant information, which may not sufficient to the researcher. This study can not escape from the frame of limitations. This study is mainly based on secondary data, particularly financial data and information given by respected banks, this is not sufficient for the deep and good research study. Some limitations of the study are given below:-

- ) This study is mainly based on secondary data, so the limitations of secondary data may exist.
- ) By the limitation of data, here only 5 year's data are taken out which may not be sufficient for the study.
- ) Limitations of the time frame and resources are also constrained for the study.
- ) Only 4 joint venture banks are taken for the detail study which may not represent whole population of joint venture banks
- ) Primary data are collected without considering behavioral differences.

### **1.6 Organization of the Study**

The thesis outlook is divided into the following five chapters:-

## **Introduction**

This chapter contains the brief introduction of the subject matter i.e. general background of the study, commercial banks in Nepal, brief introduction of Nabil, SCBNL, HBL and NSBI. Other topics included in this chapter are: Scope of the study, statement of problem, objective, signification and limitation of the study.

## **Literature Review**

This chapter is a crucial aspect because it donates planning of the study. The main purpose of literature review is to find out what works have been done and what have not been done in the area of the research problems under the study. This part will be divided in three headings:

- ) Conceptual review
- ) Review or related studies and papers
- ) Review Thesis

## **Research Methodology**

In this chapter researcher will use specific method of research.

- ) Research design: A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. This research design will be analytical and descriptive.
- ) Population and sampling: The size of the population is 26 and judgmental sampling is used. So that data of four banks are taken.
- ) Data collection technique: Two types of data, primary and secondary, will be used in the study. Primary data will be collected by personal interview, questionnaire and observation.
- ) Methods of data Analysis: Financial and Statistical method of data analyzing will be used for the study.

### **Data Presentation and Analysis**

Various data will gathered from the application of the different methods and presented and decorated as required by the research objectives. In this chapter data are interpreted and analyzed with the help of various analytical tools and technique.

### **Summary Conclusion and Recommendations.**

This chapter states summery conclusion and recommendations which may be beneficial to referenced banks for understanding their performance and improving their future policies and procedure.

## CHAPTER 2

# REVIEW OF LITERATURE

## 2.1 Conceptual Framework

CAMEL analysis is the popular performance evaluation method. This is a short form of following factors which are very important for the smooth operation and quality as well as trustworthy services of commercial banks. Advance developed banks and banking environment uses CAMELS analysis in which last “S” stand for Sensitivity analysis but in the context of Developing banking environment like Nepal’s only CAMEL analysis is fair enough for the evaluation of the Bank’s performance. This CAMEL analysis includes following factors analysis:

### 2.1.1 CAMEL Approach

#### C – Capital Adequacy

- ) Total Capital Fund
- ) Total Risky Weighted Assets
- ) Core Capital Fund

#### A – Assets Quality

- ) Loan Loss Provision to Non performing Loan
- ) Non- performing Loan to Total Loan
- ) Performing Loan to Total Loan

#### M – Management

- ) No of Employ \_\_\_\_\_
- ) Net profit after tax

## **E – Earnings**

- ) Price Earnings Ratio
- ) Net Profit to Total Assets
- ) Net Profit to Shareholder's Fund
- ) Earning per share

## **L – Liquidity**

- ) Cash Reserve Ratio
- ) Cash & Bank Balance to Total Deposits
- ) Investment in Government Securities to Total Deposits

CAMEL analysis helps to determine the strength of the financial institutions. Using CAMEL analysis, we can compare the performance of the bank over a period. Financial tools as well as statistical tools and diagrams have been used to give the clear view of the analysis. The statistical diagrams include tabulation, graph etc.

Brief descriptions of the CAMEL factors are as follows.

### **Capital Adequacy (C)**

Capital is the life blood of every business without which no one can imagine the business. It is termed different to different person. Professional economics speaks of it as wealth whereas business person speaks of it as total assets. Whatever may be the term used, capital is the fund raised to finance different assets. Sources may be either short-term or long-term, capital fund is shareholder's total claim on the bank that can be categorizes into two parts:

- ) Core Capital
- ) Supplementary Capital

## **Core Capital**

Core capital is that capital which is kept in reserve for nonspecific purpose and includes following head items:

- ) Paid up capital
- ) Share premium
- ) Non-redeemable preference share
- ) General reserve fund
- ) Cumulative profit/loss ( up to previous FY) and
- ) Current year profit/loss ( as per B/S)
- ) Capital Redemption Reserve
- ) Capital Adjustment Fund

## **Supplementary Capital**

Supplementary capital is that capital which is kept in reserve for specific purpose of to cover loss which includes the following items:

- ) General loan loss provision
- ) Exchange fluctuation reserve
- ) Assets revaluation reserve
- ) Hybrid capital instrument
- ) Unsecured subordinates term debt
- ) Interest spread reserve and
- ) Other free reserve

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

Capital adequacy ratio reflects the overall financial condition of the banks and also the ability of the management to meet additional capital requirement. It defines relationship between capital fund and total risk weighted assets of the bank.

According to NRB's guidelines, banks in Nepal should maintain 11% capital adequacy ratio and 5.5% core capital ratio. These ratios have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum percentage then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share.

**Table 2.1**  
**Impact of Capital Adequacy at Different Situations:**

<b>Classification of loans</b>	<b>Category</b>	<b>Duration overdue</b>	<b>Loan Loss Provision</b>
Performing loan	Standard Pass/ good	Up to 1 to 3 months	1%
Non-performing Loan	Sub-standard	3 to 6 months	25%
	Doubtful	6 months to 1 year	50%
	Bad Loans	More than 1 year	100%

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

Core capital is the capital of owners which is not used for specific purpose. More core capital fund indicates more owners' fund being utilized by the bank. CCR can be computed as follows:

### **Assets Quality (A)**

Asset quality has direct impact on the financial performance of a financial institution. This is the most critical factor in determining the strength of any bank. The quality of assets particularly, loan assets and investments, would depend largely on the risk management system of the institution. The value of loan assets would depend on the realizable value of the collateral. This is the most risky assets that need very crucial assessment. Sufficient credit appraisal should be done before providing loan to any party. A significant part of bank's income is generated from the lending activities. In the context of Nepal this income is more than 70%.

Assets are the most vital factors in determining the strength of the bank. The major asset for the bank is loan and advances. This is the most risky assets item that needs crucial assessment. Banks collect funds in the form of capital, deposits, borrowing, etc. It mobilizes these funds to generate certain returns by giving loans and advances to the users of money to invest in various alternatives. Bank gives loan and advances in high volume from which higher interest is generated as well as there is high risk. A significant part of the

banks income is generated from the lending activities. Basically there are two types of loan:

Performing Loan (PL): Performing loan is the loan in which the interest is paid timely or overdue up to 90 days. It is also known as good loan or pas loan.

- ) Non-performing Loan (NPL): The loan which goes beyond the due date of 3 months falls under NPL. There are three types of NPL:
- ) Sub-standard NPL: Loans overdue by more than 3 months up to 6 months.
- ) Doubtful NPL: Loans overdue by more than 6 months up to 1 year.
- ) Bad Loan: Loans overdue by more than 1 year.

But there are some exceptions regarding that provision for different loans they are as follows:

- ) For loan which is provided without keeping any collateral but only on the basis of personal guarantee then, the provision must be 20% more for each phase i.e. good, substandard, doubtful and bad.
- ) The provision must be doubled in each phase in case of loan given to those who hold 1% or more than 1% of the share of the same bank.
- ) In case of swap loans, same percentage of provision must be provided as it was in old bank.
- ) Lastly, for the case restructuring of loan, 11% provision should be added to the provision of good loan only i.e. previous 1% should be made 12% and provision for other phases is same.

If loan is provided against personal guarantee only need to add 20% extra loan loss provision on previous category. If loan is swap than loan loss provision need to maintain according to previous categories.

### **Performing Loan Ratio**

This ratio shows how much the banks are successful in utilizing their assets for the purpose of profit generation. Higher ratio indicates efficiency in utilizing the good loans.

### **Non-performing Loan Ratio (NPL)**

Non-performing loan consists of sub-standard, doubtful and bad loans. Higher NPL ratio shows bad management of assets. If the ratio is low it indicates a favorable credit management position.

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

It is mandatory that for every loan bank need to keep some provision to cover future loss. It indicates the provision made by bank for exposure of loan losses in terms of non-performing loan. Higher the LLCR better is the financial position and vice-versa.

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

It indicates to percentage of loan loss provision in terms of total loan value. In other word how much provision a bank has created for the given loan? Lower the ratio better is the financial position and vice-versa.

## **Management (M)**

Management is the core part of any business or organization. The success of any institution depends on the competency of its management. It is a set of activities including planning, organization, and leading, staffing and controlling human resources, physical information with the aim of achieving an organization's goal, efficiently and effectively in a changing environment. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and the official operating expenditure, customer relation with the officials and institution's management information system, organization and working method, internal control system, power concentration, monitoring, decision making process policies.

An institution can take a desire momentum only when the management is capable of strong and long term vision. For the proper and efficient management, the banks have to possess the following qualities:

- ) Structure of management team should be sound and perfect
- ) Efficient & qualitative manpower and its productivity
- ) Healthy relationship between customers and organization
- ) Adequate management expenses
- ) Internal management should be perfect
- ) Fair decision making capability
- ) Proper communication system
- ) Working environment should be perfect.

The capability and performance of management & the Board of directors is related based upon, but not limited to, an assessment of the following evaluation factor.

- ) The level of quality of oversight and support of all institution activities by the BOD and management.
- ) The ability in their respective roles, to plan for and respond to risks that may arise from changing business condition or initiation of new activities or products.
- ) The adequacy, time lines and effectiveness of MIS and risk monitoring system appropriate for the institutions size, complexity and risk profile.
- ) The adequacy of audits and internal control to promote effective operations and reliable financial and regulatory reporting; sage guard assets and ensure compliance with laws, regulations and internal policies.
- ) Management depth and succession.
- ) Demonstrated willingness to serve the legitimate banking needs of the community.
- ) The overall performance of the institution and its risk profile.

## Earnings (E)

Generally, earning is the ultimate result of any business. Earnings show that how efficiently the bank is working in each and every sector, the proper use of the available funds and the picture of the recovery of the capital and interest on loan, profitability of investment etc. It means the bank's whole action reflects from its earning. An analysis of the earning ratio helps the management, investors and creditors to know the performance of the bank and can get information regarding their interest. The following ratios help the management and other stakeholders to know about earning policy of the respective banks.

### 1. Earning Per Share (EPS)

It measures the profit available to the equity shareholders as per share basis i.e. the amount that they can get on each share hold. In other words, this ratio measures the earning available to equity shareholders on a per share basis.

**Table 2.2**  
**Impact of Earning**

Earning views	Point of view		
	Shareholder	Depositor	Bank
Increases	<ul style="list-style-type: none"> <li>- It is positive. Value of share will increase.</li> <li>- The risk involved in decrease of the value of share decrease.</li> <li>- Can be sold at high price value.</li> </ul>	<ul style="list-style-type: none"> <li>- It is positive</li> <li>- Increment in interest % may be expected</li> </ul>	<ul style="list-style-type: none"> <li>- It is positive Creates goodwill.</li> <li>- Probability of handsome income in future.</li> </ul>
Decrease	<ul style="list-style-type: none"> <li>- Market value per share will decrease.</li> </ul>	<ul style="list-style-type: none"> <li>- The attitude towards bank will be changed.</li> </ul>	<ul style="list-style-type: none"> <li>- Bad impact on its goodwill.</li> <li>- Shareholder equity ownership transfer may be possible</li> <li>- Deposit might be decrease i.e. withdrawal possibility might be high.</li> </ul>

## **2. Returns On Equity (ROE)**

Generally when shareholders invest their capital in bank they can get some additional benefit from bank which is known as return on equity. ROE is the ratio of bank's net income after tax to total equity capital or net worth.

## **3. Return On Assets (ROA)**

Every financial institute has their own assets and ROA shows the productivity of these assets. It measure how efficiently the assets are utilized in the financial organization. This ratio judges the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in bank thereby indicating effective use of the resources available and vice-versa. It is calculated in terms of relationship between net profit and assets.

## **Liquidity (L)**

Liquidity refers to the speed and ease with which an asset can be converted to cash without significant loss of value. In banking term, liquidity means ability of bank to satisfy ones liability on demand of customer. As we know that the banks are profit oriented. They believe on optimum disbursement of deposits in loan and advances. So that more and more income can be generated. Meanwhile, to invest in the profitable venture prevalent in the market and at the same time maintain confidence among the customers, they should have a stand by position of liquid funds, sufficient t cover the likely demand. But it is also true that they can not keep all the deposits in the form of cash .The deposits are honored to allocate in various uses in order to generate income. Only the certain percent of deposit should be kept in the bank in the form of cash. If the bank will keep greater deposit in cash it losses the opportunity cost. Similarly if the bank keeps low amount in deposit, it will face the liquidity crises or it will not be able to pay depositors on the time of their requirement.

**Table2.3  
Impact of Liquidity Aspect:**

<b>Liquidity position at different stage</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
<b>Bank</b>	This position is not good because idle money which mobilized will be burden to bank.	It shows that they are performing well and are minting liquidity position well.	It shows bank is not maintaining CRR ratio by NRB and may be panelized.
<b>Depositor</b>	This is good for because the money will be available in bank.	This position is also good because banks are maintaining good position of liquidity.	It shows bad conditions because they can't withdraw money.

**Liquidity can be measured in following ways:**

**Cash Reserve Ratio (CRR)**

According to NRB directives all commercial banks are required to maintain 5% of their deposits as CRR in their 'NOSTRO' accounts maintained with NRB. NRB has issued this guideline to the bank to ensure that the bank maintain their adequate liquidity. NRB has prescribed this mandatory requirement because all commercial bank can face unexpected liquidity risk. The CRR maintained by the banks will be examined on the basis of average weekly balance of deposit liability immediately preceding 2<sup>nd</sup> week. A week shall comprise from each Sunday through Saturday.

**Cash and Bank Balance Ratio (C&B Ratio)**

The bank must be able to meet its immediate obligation of customers. Cash & bank balance ratio shows the percent of deposit maintained as liquid assets. A higher ratio represents a greater ability to meet any unexpected demand made by the customers. If the bank can not deep adequate amount of deposit it cannot operate its daily transaction. But maintaining very high ratio also indicates the losses of opportunity cost. So the bank should manage C&B ratio properly.

## Investment in Government securities Ratio

Government securities are those securities which are risk free and can be easily converted in cash at anytime. The banks instead of keeping their funds idle invest in various government securities which are liquid in nature as they can be traded any time. And this investment in government securities ratio shows how much fund is invested in government securities. Only maintaining cash reserve ratio and cash & bank balance ration cannot be considered sufficient for immediate liquidity obligation.

## 2.2 Legal Provision NRB Directives

To make commercial banks and financial institutions more responsible and transparent NRB supervises commercial banks and other financial institutions. NRB makes the standard for CAR, CCR and CRR.

The NRB has announced that the BASEL II accord on capital adequacy is implemented in Nepal from July 2007. Now commercial banks have to maintain minimum 5.5% CRR and 11% CAR. It is revised time to time. Loans are classified as per their duration and nature. According to the duration of loan payment bank has to maintain certain percentage of loan loss provision.

**Table no 2.4**  
**Loan classification and provision as per NRB Directives:**

<b>Classification of loans</b>	<b>Category</b>	<b>Duration overdue</b>	<b>Loan Loss Provision</b>
Performing loan	Standard Pass/good	Up to 1 to 3 months	1%
	Sub-standard	3 to 6 months	25%
	Doubtful	6 months to 1 year	50%
Non-performing Loan	Bad Loans	More than 1 year	100%

## **2.3 Review of Previous Studies**

### **Review of studies before 2000.**

Jackson (1975) conducted a study on commercial bank regulation structure and performance. The study was carried out to identify the determinants of commercial banks allocation efficiency. Both theoretical and empirical microeconomic analysis has applied to examine the competitive effects of banking influences. In this chapter the nature of banking was examined; showing that banks are essentially financial intermediaries that are engaged in greater completion than is commonly believed. For the empirical purpose, data covering 1644 banks over the period 1969-1971 were collected. Regression analysis was used to measure the relationship among variables. As a conclusion the study shows that, the relative desirable banking performance is associated with several traits including banks assets size, non bank competition, low cash holdings, low labor cost, state non member basis status, multi bank company legislation, National bank status, low time deposit and low equity capitalization.

Meyer and Pifer (1970) state that “management ability is like lord actions elephant-difficult to define but easy to identify. Over a period of time differences between good and poor management will be systematically reflected by the balance sheet and income data and analysis of such data should enable prediction of failures.

West (1985) develop a model to predict bank failure, with different from the majority of research utilizing FDIC generated information, rather than data from the financial statements. Some evidence resulted to support the contention that a loan quality factor (i.e., non performing loan) had predictive value in this context for monitoring problems banks through its choice in a step wise logical analysis.

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

Barker and Holdsworth (1993) in respect to predicting bank failure, find evidence that CAMEL ratings are useful even after controlling for a wide range of publicly available information about the condition and performance of banks.

Paudel (1997) concluded that current assets of NBL&NGBL in the FY 2047/48 to 2051/52, banks are adequate to meet the current liabilities. However NGBL is better in term of utilization of resources where as NBL has better turnover but low profit making capability and gradually decreasing in profitability.

Mandal (1998) in thesis paper, "Comparative financial performance appraisal of joint venture banks" has studied mainly three banks: Nepal Arab Bank Ltd. (Nabil), Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosuez Bank Ltd. (NIBL). The main finding is that both NGBL and Nabil have mobilized the debt funds in proper way for generating more return but NIBL couldn't do as good as Nabil and NGBL. He has recommended enhancing banking facilities in rural areas by encouraging small entrepreneurs' development programs, to play merchant banking role, to mobilize the deposit funds in productive sectors and

#### **Review of studies during 2000 to date:**

Ghimire(2000) conducted research on the subject of "A comparative study of Financial performance of Himalayan Bank Ltd. and Nepal SBI Bank Ltd. And stated that the major concerned facts of this research was that the overall liquidity, earning and growth position of HBL was stronger then that of NSBI's capital adequacy, quality of assets as well as turnover position was found to be superior to that of HBL. HBL was more efficient in creating credit in comparison to Nepal SBI Bank Ltd.

Ghimire(2008) has summarized the findings in 5 points as Profitability, assets management , Capital Structure, liquidity position and NRB regulation compliance. Profitability of both SCBNL &Nabil banks is unsatisfactory although they have been able to earn positive profits. Assets management of both banks is satisfactory but the two banks are stronger in different ratios.

Both banks have low leveraged capital structure because total debt to total assets ratio of both banks are not in satisfactory position. The total assets to net worth ratio of Nabil bank is lesser than the SCBNL during the study period on average. Liquidity positions of both banks have unsatisfactory because the current ratios of both banks are below the normal standard. SCBNL has complied with the NRB directives except the fiscal year 1999/2000 and 2000/01 regarding the priority sector loan but Nabil bank has not complied the NRB directives at all and paying the penalty amount by doing so. Market to book value ratio, dividend yield and office operating expenses to total operating income ratio of SCBNL on mean is greater except price earning ratio and personnel expenses to total income ratio of Nabil bank.

**Niraula (2009)** conducted a study on CAMEL analysis of selected commercial banks (with reference to NABIL, HBL and NIBL). The basic objective of the study was to analyze and examine financial performance of the respected banks under CAMEL tools. He had used secondary and primary data as per the requirement of study. The study revealed the CAMEL position of banks. His study clearly shows Nabil is performing very well. CCR and CAR of Nabil is decreasing year by year. Its trend shows that it only wants to maintain the benchmark of NRB. Investing less on Government securities, Nabil shows that it wants to take risk and return by investing in risky field. HBL stands on last among studied CBs. Its CAR and CCR are increasing year by year which is hampering its net profit. HBL's NPL ratio is decreasing but its not good enough to outperform the competitors.

**Basnet (2010)** in thesis " A comparative CAMEL study of commercial banks in Nepal with reference to Bank of Kathmandu and Kumari bank limited, concludes that commercial banks have to channelize funds by gradually shifting priorities from hire purchase to trading for industries to help capital formation in the country. Most of the CB's are concentrated for urban area for resource mobilization and other banking activities which is not good for long term banking business as well as overall national economic benefit. so such concentration need to be revised and requires a new shift of focus and strategy to expand regionally to rural areas where scattered public savings can be collected and utilize to formal productive sectors. The both banks

should be maintained adequate capital on the basis of total RWA as per NRB standard. Both banks should generate sufficient returns for equity holders.

**Panday (2011)** conducted a study on “CAMEL analysis of Everest Bank limited, Kumari Bank limited and Siddhartha Bank limited.” The objective of that study was to analyze, compare and evaluate the CAMEL factors or variables with considering NRB rules. This study has covered 5 fiscal years. He conducted through analysis of CAMEL and provides good suggestion and recommendations. His recommendation was to reduce the weakness of studied banks. He did complete and intensive literature review which also enlighten and enrich the CAMEL understanding and provide the baseline for further research and analysis.

## **2.4 Concluding Remarks of the reviews:**

From the literature reviews, it is concluded that most of the ventured banks doesn't follow the NRB directives which may lead them to face the problem of Liquidations.

Barker and Holdsworth (1993). in respect to predicting bank failure, find evidence that CAMEL ratings are useful even after controlling for a wide range of publicly available information about the condition and performance of banks.

Panday (2011), conducted a study on “CAMEL analysis of Everest Bank limited, Kumari Bank limited and Siddhartha Bank limited.” The objective of that study was to analyze, compare and evaluate the CAMEL factors or variables with considering NRB rules. This study has covered 5 fiscal years. He conducted through analysis of CAMEL and provides good suggestion and recommendations. His recommendation was to reduce the weakness of studied banks. He did complete and intensive literature review which also enlighten and enrich the CAMEL understanding and provide the baseline for further research and analysis.

## CHAPTER 3

# RESEARCH METHODOLOGY

### 3.1 Introduction

As the basic objective of the present research is to find out the performance rating under the CAMEL framework and to determine whether they are performing in satisfactory level or not as well as under the guideline set by Nepal Rastra Bank or not. This chapter includes research design, population and sample, data collection procedure, data analysis tools and nature & sources of data. The above research procedures are adopted comprehensively to accomplish the objectives set in the study. The research design is of both descriptive and analytical in nature. For the analytical purpose, the annual reports published by the relative banks and other publication of the related banks published by NRB were collected.

### 3.2 Research Design

This research study mainly focuses towards the capital adequacy, Assets quality, Management quality, Earnings and liquidity. For this purpose, the research design of this study is used for analytical as well descriptive methods of collected data. There is limited time and resources so I must utilize effectively all the resources within a given time frame. On the basis of thorough literature review and theoretical framework I have decided the following procedure is effective for this research:

### 3.3 Population and sample

Taking an overview of financial institutions providing banking facility in Nepal, at present, there are about 30 commercial banks, 87 development banks, 79 Finance companies, 21 micro credit financial institutions, 16 cooperatives authorized from NRB and 45 non government financial institutions in the Nepalese market.

**Table 3.1**  
**List of Licensed commercial Banks in Nepal**

<b>S. N.</b>	<b>Commercial Banks</b>	<b>Established date</b>	<b>Head Office</b>
1.	Nepal Bank Ltd.	1994-07-30	Kathmandu
2	Rastriya Banijya Bank	2022-10-10	Kathmandu
3	Nabil Bank Ltd.	2041-03-29	Kathmandu
4	Nepal Investment bank Ltd.	2042-11-26	Kathmandu
5	Standard Chartered Bank Nepal Ltd.	2043-10-16	Kathmandu
6	Himalayan Bank Ltd.	2049-10-05	Kathmandu
7	Nepal SBI Bank Ltd.	2050-03-23	Kathmandu
8	Nepal Bangladesh Bank Ltd.	2050-02-23	Kathmandu
9	Everest Bank Ltd.	2051-07-01	Kathmandu
10	Bank of Kathmandu Ltd.	2051-11-28	Kathmandu
11	Nepal credit and commerce Bank Ltd.	2053-06-28	Siddharthanagar
12	Lumbini bank Ltd.	2055-04-01	Narayangadh
13	Machhapuchhre Bank Ltd.	2057-06-17	Pokhara
14	Kumari Bank Ltd.	2057-12-21	Kathmandu
15	Laxmi Bank Ltd.	2058-06-11	Birgunj
16	Siddhartha Bank Ltd.	2059-09-09	Kathmandu
17	Agricultural Development Bank Ltd.	1968-01-02	Kathmandu
18	Global IME Bank	2007	Birgunj
19	Citizens Bank Ltd.	2007	kathmandu
20	Prime Commercial Bank	2007	kathmandu
21	NIC Asia Bank	2007	Kathmandu
22	Sunrise Bank Ltd.	2007	Kathmandu
23	NMB Bank Ltd.	2008	Kathmandu
24	Grand Bank Ltd	2008	Kathmandu
25	Kist Bank Ltd.	2009	Kathmandu
26	Janata Bank Ltd.	2010	Kathmandu

27	Mega Bank Ltd.	2010	Kathmandu
28	Commerz & Trust bank Ltd	2010	Kathmandu
29	Civil Bank Ltd	2010	Kathmandu
30	Century Commercial Bank	2011	Kathmandu

Source: [www.google.com](http://www.google.com)

Among these 6 joint venture banks, the effort has been made to take sample which represent almost all banks strategy, capital structure, goodwill and performance. Like NSBI and NBB are almost same in performance, goodwill and venture partnership. Everest and Himalayan bank are almost same in strategy and service. SCBNL and Nabil banks are the major joint venture banks of Nepal so without their thorough analysis we can not complete the perfect analysis of Nepalese joint venture banks. From that reason reference banks (samples) are taken NSBI, SCBNL, Nabil, and HBL bank in this research study.

### **3.4 Nature and Sources of Data**

This research study is based on large extent of secondary data which are collected from published audited annual reports of respected banks, published NRB directives and various newspapers magazine, previous research studies and other well known literature. Primary data are used to identify the management efficiency on ordinary people's point of view or market perspective. A systematic questionnaire was prepared and data collected through this questionnaire. Observation method of data collection has done to identify the speed, reliability and efficiency of customer services.

### **3.5 Data Collection Procedure**

For collecting the data, a questionnaire will be designed in view of data requirements. This study will be made on both primary and secondary sources of data. The primary data is collected through questionnaires as well as direct observation method. The secondary data is collected through published journals, newspapers, annual reports and official web sites of respected banks as well as various published NRB directives.

Sample size is taken by using following well known and appropriate formula.

Sample size

$$n = pq \left( Z \propto \frac{1}{e} \right)^2$$
$$= 0.93 * 0.07 (1.96/0.05)^2$$
$$= 100$$

Where,

There is 93% chances of getting right answer and only 7% chances of getting wrong that's why P=0.93 and Q=0.07. My sample size will represent the population in 95% confidence level that means in 95% confidence the sample of 100 people will represent the total population.

### 3.6 Data Analysis Tools

For analyzing the data, various statistical, accounting and financial measures are used. The collected data were categorized, tabulated, processed and analyzed by using different methods and tools of analysis like- Ratio analysis, average etc. Following are the **statistical tools** which is useful for this study.

#### Sample size

$$n = \left( \frac{Z_{\alpha} * \sigma}{E} \right)^2 \quad E = (1 - \alpha)$$

$$n = pq \left( Z \propto \frac{1}{e} \right)^2$$

To Calculate Standard Deviation

$$S.D. = \sqrt{(x + \bar{x})^2 / n}$$

To Calculate Mean,

$$\bar{x} = \sum x / n$$

To Calculate C.V.

$$C.V. = \sum x / \sigma$$

In CAMEL analysis financial tools has great importance because all the analysis and findings are based on financial tools i.e. ratio analysis of various factors. Followings are the financial tools used in this analysis.

## **Financial tools**

### *Ratio Analysis*

*Capital adequacy ratio has been computed as follow:*

$$\text{CAR} = \text{Total capital fund} / \text{Total risk weighted assets} \times 100$$

*Where,*

$$\text{Total capital fund} = \text{Core capital} + \text{supplementary capital}$$

$$\text{Total risk weighted assets} = \text{On balance Sheet Risk Weighted Item} + \text{Off Balance Sheet Item}$$

$$\text{CRR} = \text{Total core capital} / \text{Total risk weighted assets} \times 100$$

$$\text{Performing Loan Ratio} = \text{Performing Loan} / \text{Total Loan} \times 100$$

$$\text{Performing Loan Ratio} = \text{Performing Loan} / \text{Total Loan} \times 100$$

$$\text{NPL Ratio} = \text{Total NPL} / \text{Total Loan \& Advances} \times 100$$

$$\text{Loan Loss Coverage Ratio (LLCR)} = \text{Total Loan Loss Provision} / \text{Total Non-performing Loan} \times 100$$

$$\text{Loan Loss Provision Ratio} = \text{Total Loan Loss Provision} / \text{Total Loan} \times 100$$

$$\text{Management Efficiency Ratio} = \text{Net Profit After Tax} / \text{Total no. of Staffs} \times 100$$

$$\text{Earning per Share} = \text{Net Profit After Tax} / \text{No. Of Equity Share}$$

$$\text{Return on Equity (ROE)} = \text{NPAT} / \text{Total Shareholder's fund} \times 100$$

$$\text{Return on Assets (ROA)} = \text{Net Profit After Tax} / \text{Total Assets} \times 100$$

$$\text{Cash Reserve Ratio} = \text{NRB Balance (LYC only)} / \text{Liquidity deposits} - \text{Margin deposits} \times 100$$

$$\text{Cash \& Bank Balance Ratio} = \text{Cash \& Bank Balance} / \text{Total Deposit} \times 100$$

$$\text{Investment in Government Securities} = \text{Investment in Government Securities} / \text{Total Deposits}$$

## CHAPTER 4

# PRESENTATION AND ANALYSIS OF DATA

### 4.1 Analysis of Secondary Data

Secondary data are collected from banks official websites, banking textbooks and journal and news papers. As per the confidence level of accuracy of secondary data these presented data are accurate and valid. Balance sheet and Income statement of respected banks are the main sources of related factor analysis. Here we have used the table, graph and ratio to present and decorate the data .Because of the limitation of data availability, only 5 years data are presented for analysis.

This chapter is also called the central nervous system, which helps to provide conclusion after detailed analysis, so that proper recommendation can be given at the end of the study. The gist of research work presents in the form of major findings. In this way this chapter makes proper linkage and associates with every chapter. On regarding mathematical presentation part, study has been carried based on the CAMEL analysis. CAMEL stands for the following:

**C = Capital Adequacy**

**A = Assets Quality**

**M = Management Analysis**

**E = Earning**

**L = Liquidity**

These analytical tools have been used to compare the performance of the banks over the period of last 5 years. Both the financial and statistical tools have been employed for analysis purpose. Hence, if any bank has good performance in terms of these CAMEL factors; it will be able to provide the return in form of benefit to every party. In order to find out the strength and weakness of the banks in terms of their financial performance, various ratios and variable have been calculated which are presented as follows:

### 4.1.1. Capital(C)

#### Capital Adequacy Ratio (CAR)

Capital adequacy ratio reflects the overall financial condition of the banks and also the ability of the management to meet additional capital requirement. It defines relationship between capital fund and total risk weighted assets of the bank.

Capital adequacy ratio has been computed as follow:

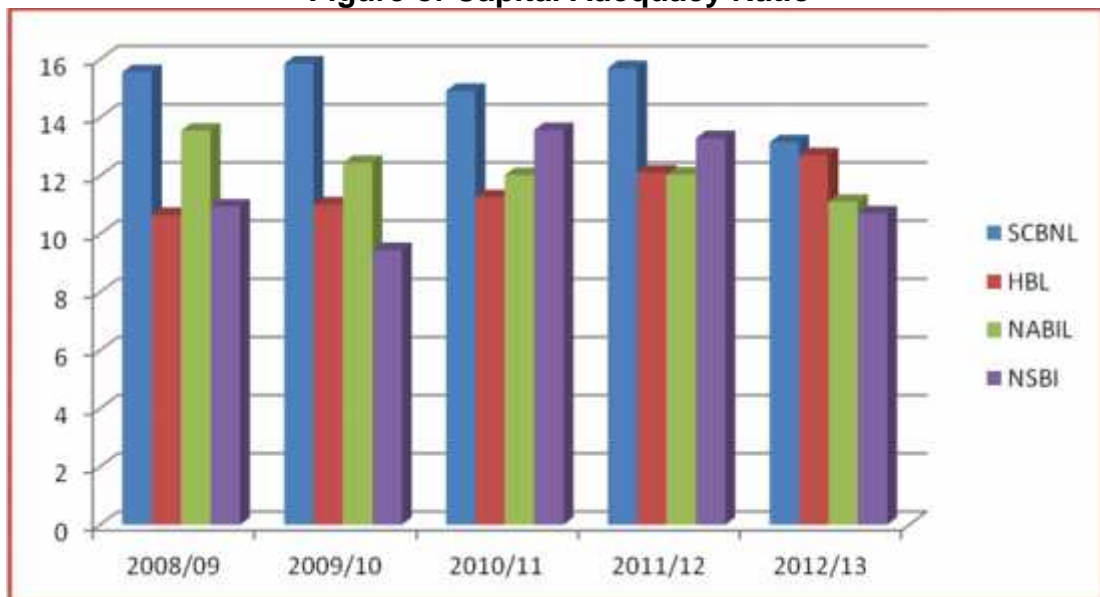
$$CAR = \text{Total capital fund} / \text{Total risk weighted assets} * 100$$

**Table 4.1**  
**Computation of CAR**

Year/Bank	SCBNL	HBL	NABIL	NSBI
2008/09	15.56	10.65	13.55	10.94
2009/10	15.85	11.01	12.44	9.44
2010/11	14.91	11.26	12.02	13.57
2011/12	15.70	12.11	12.04	13.29
2012/13	13.15	12.70	11.10	10.70
<b>Mean</b>	<b>15.03</b>	<b>11.55</b>	<b>12.23</b>	<b>11.59</b>
<b>S.D.</b>	<b>1.12</b>	<b>0.84</b>	<b>0.89</b>	<b>1.78</b>

Source:websites of the related banks

**Figure 4.1**  
**Figure of Capital Adequacy Ratio**



The CAR of SCBNL and NSBI are quite fluctuating comparing to HBL and Nabil. SCBNL 2009/10 Capital Adequacy Ratio is 16.06% which is Greater

then all three banks and its 4 years other CAR ratio's. HBL maintain the increasing CAR ratio. The increasing fund of CAR shows that safe position of depositor and creditor. From the above table it is seen that in the year 2008/09, 2009/10 and 2012/13 the NSBI was not able to maintain the minimum requirement of CAR. All the other banks have maintained their CAR more then required. It shows that the other 3 Banks has mobilized most of the funds in market maintaining high CAR is good but most of the fund seems to be tied up, which ultimately affect the net profit after tax.

The mean CAR of SCBNL is 15.03%, HBL has mean CAR of 11.55, Nabil has mean CAR of 12.23 and NSBI has 11.59% which indicates that all four banks are able to maintain the minimum 11% CAR mandated by NRB. SCBNL has the highest mean CAR whereas HBL has the lowest. This implies that HBL is successfully utilizing its deposits but it may face problems with depositors incase of failure in recovering loans.

The Standard Deviation of NSBI is very high i.e. 1.78 that means the fluctuation of Capital Adequacy ratio of Nepal SBI bank is very high which is followed by Standard Chartered bank with Standard deviation of 1.12.

Maintaining high CAR is good from the view point of protection of depositor's fund but it is bad from the perspective of bank as high CAR indicates bank's inability to mobilize its resources which ultimately affect the profit.

Now, we can conclude that Nabil is investing more in non risky assets, where as SCBNL is diversifying its funds to risky assets. If we see the average CAR the HBL is risk averter and SCBNL is risk seeker.

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

Core capital is the capital of owners which is not used for specific purpose. More core capital fund indicates more owners' fund being utilized by the bank. CCR can be computed as follows:

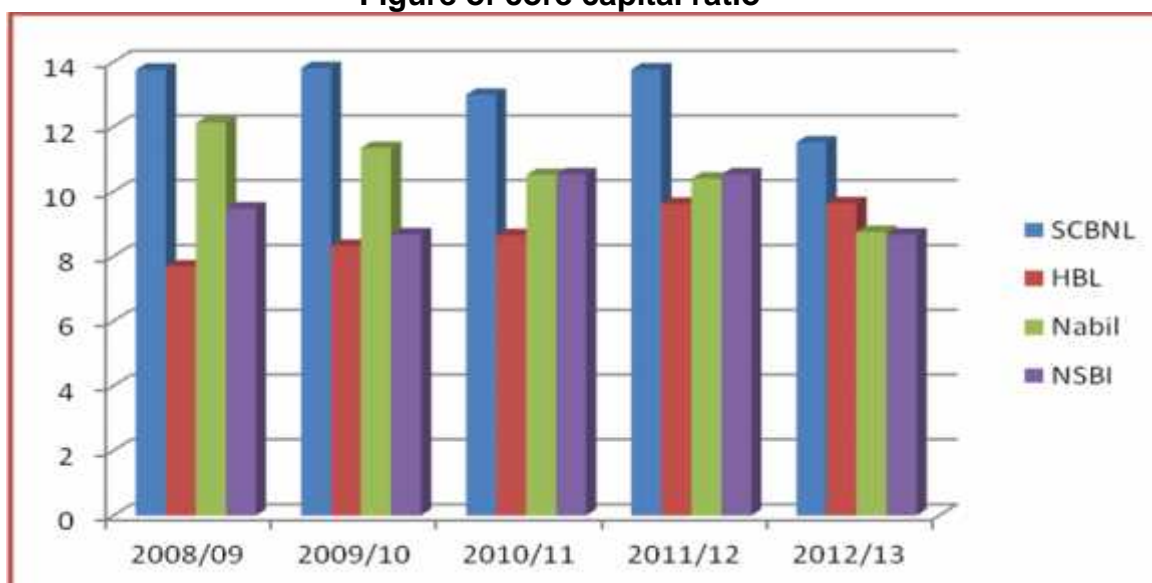
$$CCR = \text{Total core capital} / \text{Total risk weighted assets} * 100$$

**Table 4.2**  
**Computation Of Core Capital Ratio In %**

Year/Bank	SCBNL	HBL	Nabil	NSBI
2008/09	13.76	7.69	12.12	9.48
2009/10	13.81	8.33	11.35	8.68
2010/11	12.99	8.65	10.51	10.53
2011/12	13.77	9.62	10.40	10.53
2012/13	11.52	9.64	8.75	8.67
<b>Mean</b>	<b>13.17</b>	<b>8.78</b>	<b>10.63</b>	<b>9.58</b>
<b>S.D.</b>	<b>0.99</b>	<b>0.84</b>	<b>1.26</b>	<b>0.93</b>

Source: website of the related banks

**Figure 4.2**  
**Figure of core capital ratio**



It shows that Core Capital Ratio (CCR) of SCBNL is 13.17, HBL is 8.78%, Nabil is 10.63 and NSBI is 9.58% which indicates that all the four banks have maintained higher CCR than required core capital as per NRB regulation (i.e. 5.5%). Among them SCBNL has the highest percent of core capital so it is doing well in terms of safeguarding interest of depositors. In case of HBL and NSBI they are in between Nabil and SCBNL so we can say HBL and NSBI are

also in safe position. Whereas comparatively HBL has maintained lower CCR than other three which implies that HBL has higher portion of its depositors money has been utilized in risky assets but its CCR is improving. So to safeguard its depositor's money NRB has made mandatory 5.5% CCR but HBL is maintaining 8.78% (mean CCR) which is satisfactory in term of return on shareholders. IF we comparatively analyze these four banks CCR, the SCBNL has utilized lower capital in risky assets financing. So it is in safer position.

#### **4.1.2. Assets Quality (A)**

Basically there are two types of loan:

##### **2.1 Performing Loan**

Loans are said to be performing if on that loan timely interest is being paid or it is overdue up to 90 days after the maturity date. It is also known as good loan. After the completion of the maturity date of such loans up to 3months it is still considered as good loan but 1% of provision should be made.

##### **2.2 Non Performing loan (NPL)/ Non Performing Assets (NPA)**

A loan on which neither interest payment, nor principal repayment is being made is called non performing loan. A loan is nonperforming when payments of interest and principal are past due by 90 days or more. Once a loan is placed on nonperforming status, the bank can no longer take interest earned on the loan into its income. This, in turn, adversely affects earnings. NRB have regulated a three- tier approach towards classification of Non-Performing Assets (NPAs), corresponding to 'substandard', 'doubtful' and 'loss/Bad' categories, using delinquency period as the main bench mark.

Substandard Loans are those where principal and/or interest are more than 90 days past due. Provision for such loan is 25% of outstanding balance.

Doubtful Loans are those where principal and/or interest are at least 180 days past due. Provision required is 50%

Loss/Bad Loans are those where principal and/or interest are at least 1 year past due. For such loans provision of 100% is made.

### Non-performing Loan Ratio

It is the ratio of total non performing loans (they are, substandard, doubtful and bad) to total loans and advances. Lower is the better and vice versa. Lower NPL indicates better risk assessment and strong credit management system however higher NPL shows weakness in credit risk management.

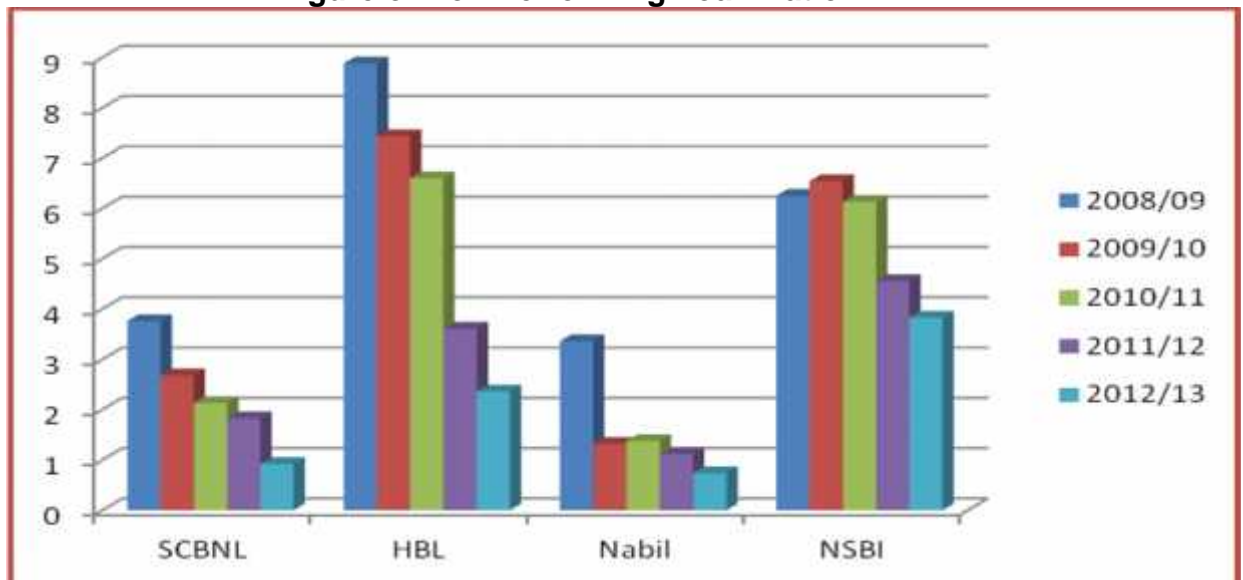
$$\text{NPL Ratio} = \text{Total NPL} / \text{Total Loan \& Advances} * 100$$

**Table 4.3**  
**Computation Of NP Loan Ratio In %**

Year/Bank	SCBNL	HBL	Nabil	NSBI
2008/09	3.76	8.88	3.36	6.25
2009/10	2.68	7.44	1.32	6.54
2010/11	2.13	6.60	1.38	6.13
2011/12	1.83	3.61	1.12	4.56
2012/13	0.92	2.36	0.74	3.83
<b>Mean</b>	<b>2.27</b>	<b>5.78</b>	<b>1.58</b>	<b>5.46</b>
<b>S.D.</b>	<b>1.05</b>	<b>2.71</b>	<b>1.02</b>	<b>1.20</b>

Source: website of the related banks

**Figure 4.3**  
**Figure of Non Performing Loan Ratio**



Nabil has the lowest rate of NPL ratio i.e. 1.02% which shows that Nabil bank has maintain its loans and advances most effectively and efficiently which shows its batter risk assessment and credit management system. SCBNL which has 2.27 NPL ration has also been able to maintain its loan and

advances very efficiently and effectively because its ratio is decreasing very rapidly. NPL ratio of HBL shows very improving trend. HBL has been able to reduce the NPL ratio from 8.88 in 2008/09 to 2.36 in 2012/13. It is remarkable improvement in loan and advances management but still its average is very high so it has to improve its performance to reduce NPL. NSBI has also been able to gradually decrease the NPL ratio but still there is enough room for improvement. If NPL increases net profit decreases and vice versa. So to have a high profit banks should lower their NPL. From the trend analysis we can see the impressive improvement in HBL non performing loan ration. Standard Deviation of HBL is very high compare to other banks which shows its NPL Ratio is very fluctuating then others. Other 3 banks have almost equal standard deviation.

### **Loan Loss Coverage Ratio**

Loan loss coverage ratio refers to the ratio of allowance for probable losses on non-performing loans (NPL) to total NPL. Banks use the loan-loss coverage ratio to define the quality of its assets and how well it protects itself from losses caused by problematic loans. The higher this ratio is, the better the bank is handling itself in regards to loans. In other words, it is the financial ratio measuring a bank's ability to absorb potential losses from nonperforming loans. The ratio is calculated by dividing the ending balance of the Loan Loss Reserves balance by total non performing loans.

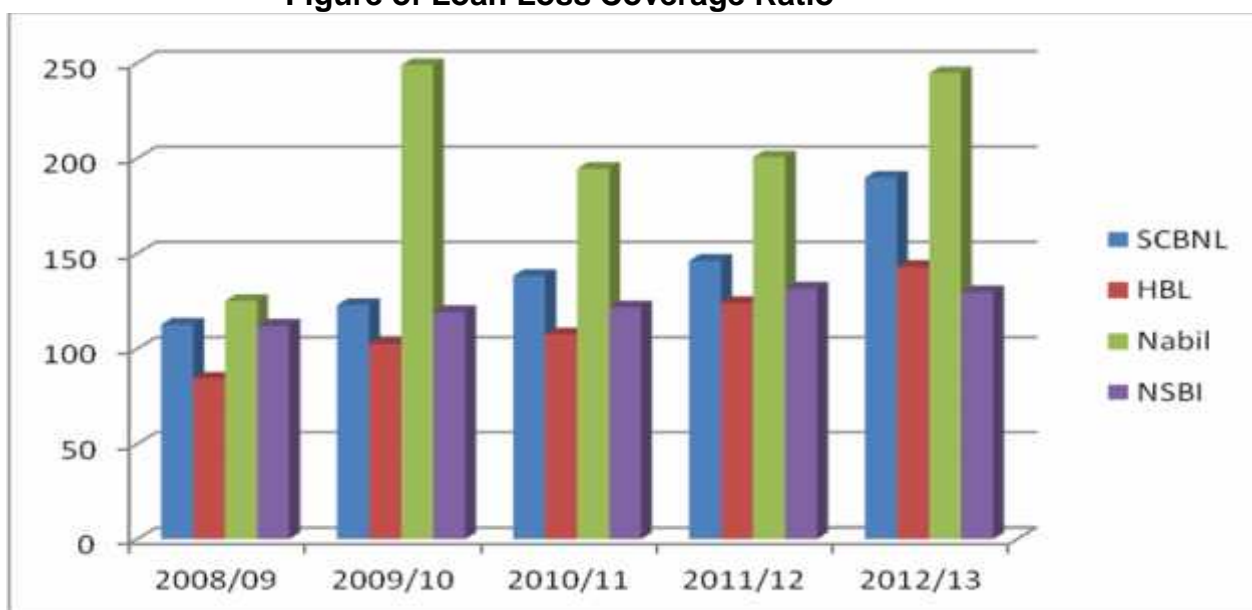
$$\text{Loan Loss Coverage Ratio (LLCR)} = \frac{\text{Total Loan Loss Provision}}{\text{Total Non-performing Loan}} * 100$$

**Table 4.4**  
**Computation of Loan Loss Coverage ratio in %**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	112.70	84.39	125.09	112.14
<b>2009/10</b>	123.01	102.60	248.97	119.27
<b>2010/11</b>	138.27	107.49	194.54	121.78
<b>2011/12</b>	146.19	123.99	200.56	131.59
<b>2012/13</b>	189.92	142.98	244.72	129.71
<b>Mean</b>	<b>142.02</b>	<b>112.29</b>	<b>202.77</b>	<b>122.90</b>
<b>S.D.</b>	<b>29.78</b>	<b>22.21</b>	<b>50.00</b>	<b>7.94</b>

Source: website of the related banks

**Figure 4.4**  
**Figure of Loan Loss Coverage Ratio**



It shows that, Nabil bank has the highest loan loss coverage ratio compared to the other three banks and this means it has managed its credit risk properly and is more committed to safeguard its depositor's interest as the bank's Loan loss Provision can cover NPL to the maximum. Whereas, among all four banks HBL has the lowest loan loss coverage ratio and which indicates that most of the loans of the bank is in risky position. All the four banks have their loan loss coverage ratio in increasing trend and more than 100% which is very good sign as this ratio provides indication of the adequacy of a bank's loan loss reserve to cover or absorb possible future loan losses. Standard deviation of Nabil is very high and NSBI is very low which shows high fluctuation in Nabil's ratio and relatively consistence in NSBI's loan loss coverage ratio.

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

This ratio depicts how much provision a bank has created for its potential loan losses. It is the ability of the management to have sufficient provision for the non-performing loans. Lower LLP ratio refers to better financial performance as well as better credit management of bank because lower loan loss provision signifies that bank has higher volume of good loan and provision required is less. Loan loss provision is the sum of amount that banks are required to set or kept for potential loan loss. Loan loss provision is deductible

expenses. It is deducted from interest income. It is a provision set by a bank to cover unpredictable loss caused due to default of the loan amount loan loss provision ratio determines the provision made in terms of total loan provided in particular year on the basis of over due, So higher ratio is better from depositor and creditor side.

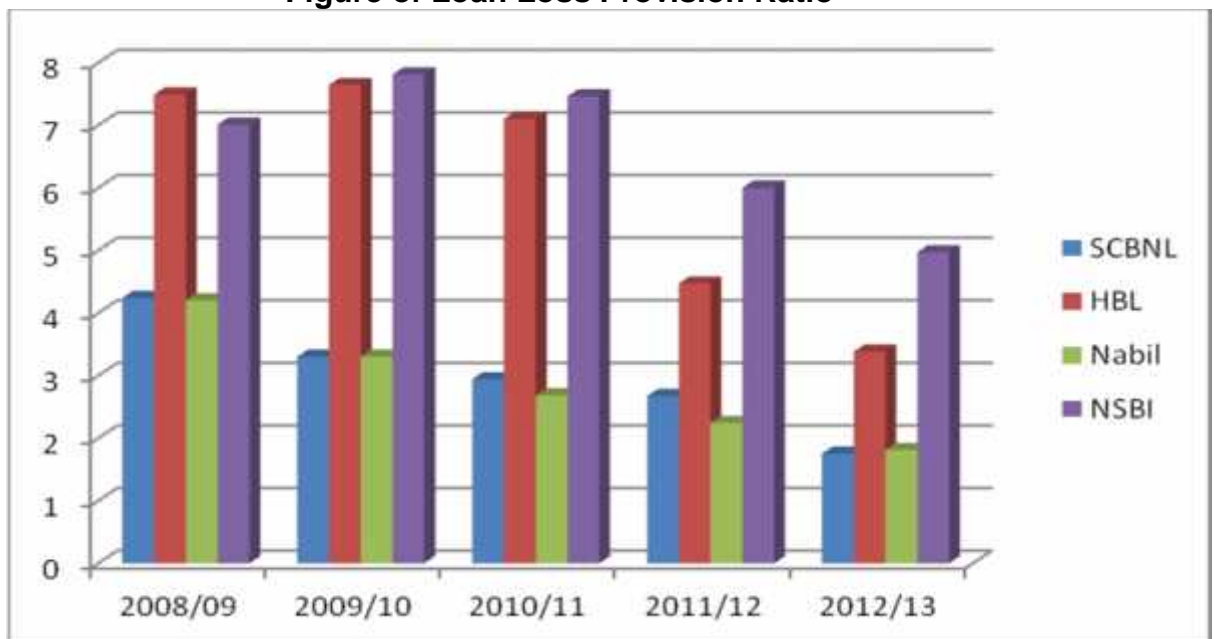
**Loan Loss Provision Ratio: -  $\frac{\text{Total Loan Loss Provision (LLP)}}{\text{Total Loans \& Advances}}$**

**Table 4.5**  
**Computation of Loan Loss Provision Ratio (LLPR) in %**

Year/Bank	SCBNL	HBL	Nabil	NSBI
2008/09	4.24	7.49	4.20	7.01
2009/10	3.30	7.64	3.30	7.81
2010/11	2.94	7.10	2.68	7.46
2011/12	2.67	4.47	2.24	6.00
2012/13	1.75	3.38	1.81	4.97
Mean	2.98	6.02	2.85	6.65
S.D.	0.91	1.96	0.93	1.16

Source: website of the related banks

**Figure 4.5**  
**Figure of Loan Loss Provision Ratio**



Data reveals the provision made for loan loss by each bank during the study period. All bank maintained the LLPR based on NPLR. Nabil has better quality of loan since LLP ratio is lower among all four banks in specified years. SCBNL has also impressive LLP ratio of average 2.98. But NSBI and HBL has miserable NPL ratio so they have to work hard and give special focus to decrease the NPL ratio. All four banks have decreasing trend in loan loss provision ratio, so we can say that these banks are able to written off their loans compared to provision. From the Standard deviation we can say that the fluctuation of HBL's LLP ratio is high and SCNLS's LLP ratio fluctuation is low.

### **Credit Deposit Ratio**

It's the ratio of total credit to total deposit. Depositor can feel safe in lower C/D ratio but investor has lower return in lower C/D ratio. That's why the optimal level of C/D ratio must be maintained to satisfy both stakeholders. Generally 70% C/D ratio is optimal but there is no exact level to maintain.

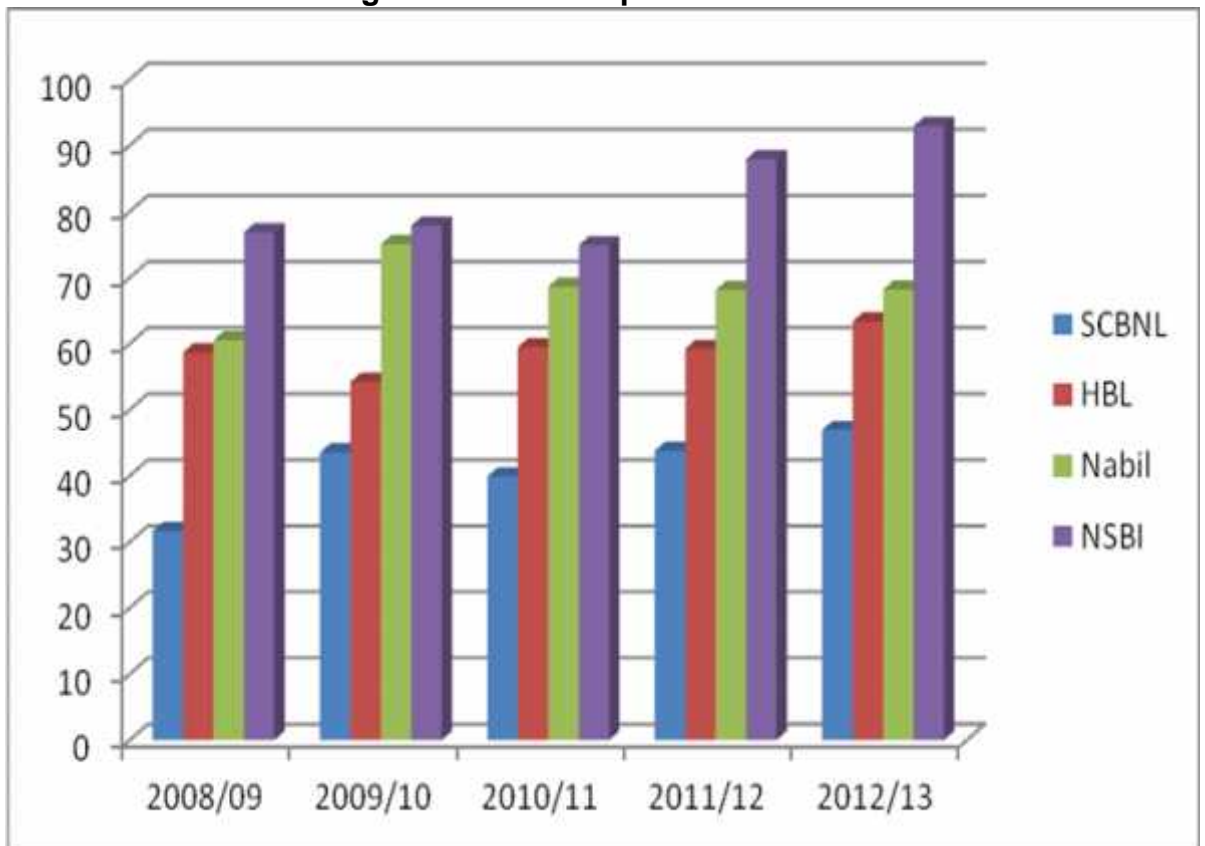
$$\text{Credit Deposit Ratio} = \text{Total Credit} / \text{Total deposit} * 100$$

**Table 4.6**  
**Credit Deposit Ratio in %**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	31.63	58.70	60.55	76.85
<b>2009/10</b>	43.55	54.21	75.05	77.86
<b>2010/11</b>	39.92	59.50	68.64	74.90
<b>2011/12</b>	43.78	59.22	68.13	87.94
<b>2012/13</b>	46.95	63.37	68.18	92.93
<b>Mean</b>	<b>41.17</b>	<b>59.00</b>	<b>68.11</b>	<b>82.10</b>
<b>S.D.</b>	<b>5.88</b>	<b>3.26</b>	<b>5.14</b>	<b>7.89</b>

Source: website of the related banks

**Figure 4.6**  
**Figure of Credit Deposit Ratio**



From the data SCBNL has provided low rate of deposit then others so its C/D ratio also lower. That means the depositors can feel safer in SCBNL bank's C/D ratio condition. In 2012/13 NSBI provides very high loan and taking high risk so depositors feel very risk in that condition. Mean C/D ratio of NSBI is also very high and standard deviation as well which indicates very risky position of NSBI.

### **4.1.3. Management Efficiency**

Good management can make and poor management can break the organization. Banks are no exception to this universal phenomenon. Good management of bank particularly refers to this proper layout, product and services, customer's satisfaction, staff motivation, focus on corporate government and above all the achievement of its goal. Therefore Proper and strong management can lead any banks towards fulfilling its target.

## Management Efficiency Ratio

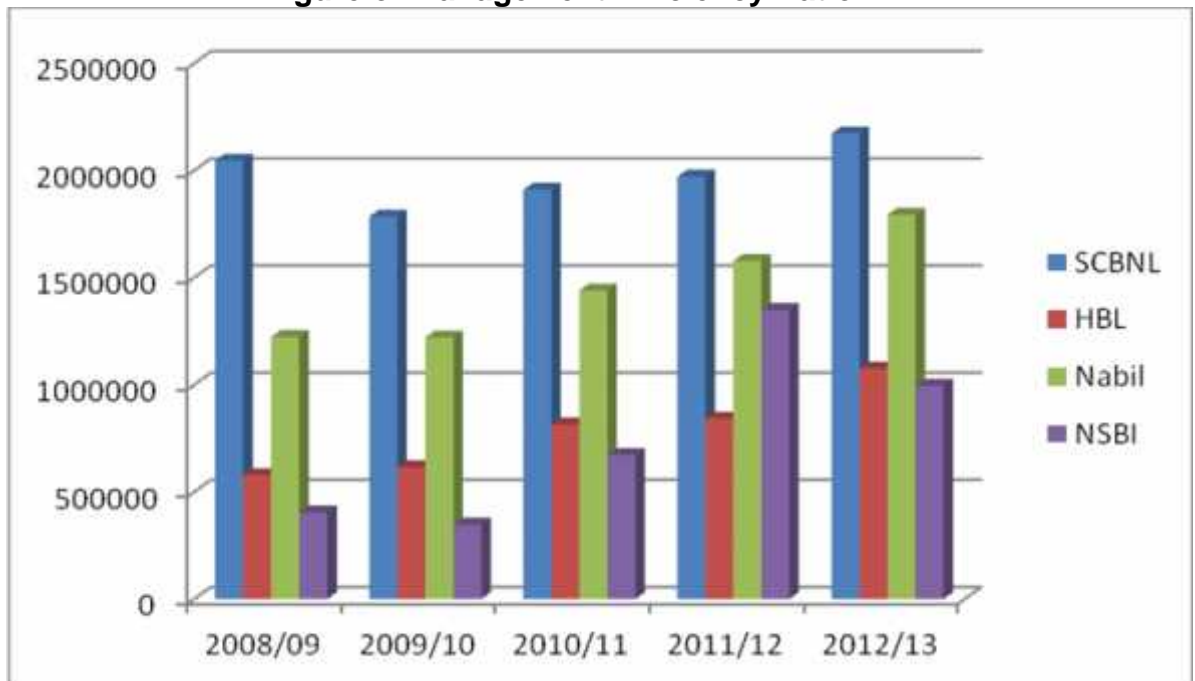
$$MER = \text{Total Net Profit after Tax (NPAT)} / \text{Total Number of Staff}$$

**Table 4.7**  
**Management Efficiency Ratio**

Year/Bank	SCBNL	HBL	Nabil	NSBI
2008/09	2045627	578022	1223118	403974
2009/10	1784768	614770	1220657	347561
2010/11	1910145	814617	1439909	672414
2011/12	1971510	842466	1578454	1349206
2012/13	2172414	1076142	1793269	995984
<b>Mean</b>	<b>1976893</b>	<b>785203</b>	<b>1451082</b>	<b>753828</b>

Source: website of the related banks

**Figure 4.7**  
**Figure of Management Efficiency Ratio**



MER of SCBNL is highest among other, so we can conclude that its staff has higher efficiency to generate NPAT like wise lowest MER of NSBI shows the lowest effectiveness or capability to generate NPAT.

#### 4.1.4. Earning Analysis

This analysis is basically used to measure the earning compared to no of shareholders, equity capital and total assets. So we generally use the following tools to analyze:

- ) Earning per share
- ) Return on equity
- ) Return on assets

#### 1. Earning Per Share

Earning par share is earning made by the shareholders in proportion to the no. of share issued by the bank. This is calculated with the help of following formula:

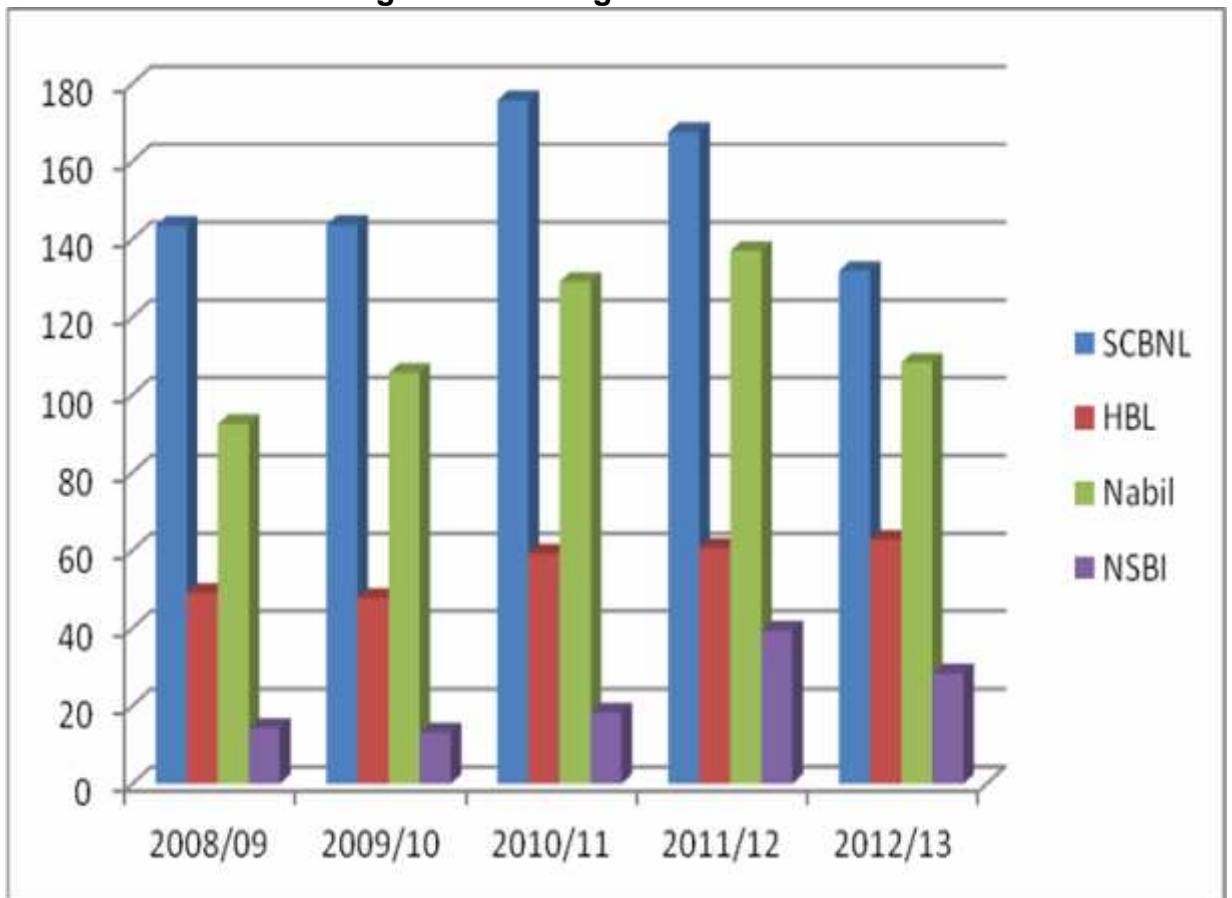
$$EPS = (\text{Net Profit after Tax (NPAT)} / \text{Number of share}) * 100$$

**Table 4.8**  
**Earning Per Share (In Rs.)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	143.47	49.07	92.48	14.29
<b>2009/10</b>	143.73	47.83	105.69	13.19
<b>2010/11</b>	175.73	59.20	129.07	18.28
<b>2011/12</b>	167.55	60.67	136.99	39.35
<b>2012/13</b>	131.88	62.72	108.27	28.34
<b>Mean</b>	<b>152.47</b>	<b>55.90</b>	<b>114.50</b>	<b>22.69</b>
<b>S.D.</b>	<b>18.37</b>	<b>6.93</b>	<b>18.16</b>	<b>11.07</b>

Source: website of the related banks

**Figure 4.8**  
**Figure of Earning Per Share**



E.P.S. of SCBNL is very high which shows its good performance to grab the profit as well. Nepal SBI bank has very low level of earning per share which shows the weak performance of this bank. Nabil has also very good EPS but very fluctuating. HBL has pretty consistent and increasing EPS which is good for long term business. NSBI must improve its performance to match up with other competitor because EPS is the main determinant for the investor's satisfaction. EPS of SCBNL and Nabil is impressive but still they are not matching up with international standard so all the banks have lots of room to improve. Standard deviation of SCBNL and Nabil is very high which shows high volatility or fluctuation in Earning Per Share during the study period. High Fluctuation in EPS indicates the high risk for the investor because they can not predict accurately for further investment decision and can not rely on the one year performance.

## 2. Return on Equity (ROE)

It represents the earning earned by the bank from employing shareholders equity. It shows the % return earned by using shareholders equity. This is calculated by the following formula:

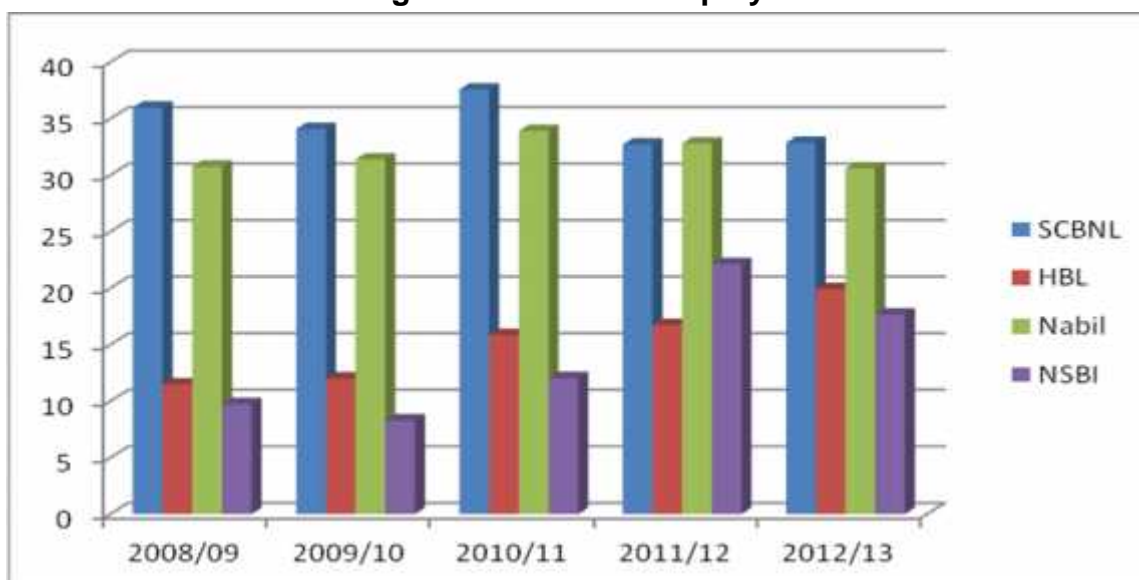
$$ROE = \text{Net Profit after Tax} / \text{Shareholders Equity} * 100$$

**Table 4.9**  
**Return on Equity**

Year/Bank	SCBNL	HBL	Nabil	NSBI
2008/09	35.96	11.47	30.74	9.73
2009/10	34.07	11.99	31.38	8.27
2010/11	37.57	15.84	33.90	12.04
2011/12	32.70	16.72	32.80	22.12
2012/13	32.85	19.91	30.57	17.66
<b>Mean</b>	<b>34.63</b>	<b>15.19</b>	<b>31.88</b>	<b>13.96</b>
<b>Standard Deviation</b>	<b>2.10</b>	<b>3.50</b>	<b>1.43</b>	<b>5.79</b>
<b>C.V.</b>	<b>16.49</b>	<b>4.34</b>	<b>22.29</b>	<b>2.41</b>

Source: website of the related banks

**Figure 4.9**  
**Figure of Return on Equity**



HBL and NSBI have increasing trend of ROE at same time Nabil and SCBNL has decreasing trend of ROE. Nabil and SCBNL has very fluctuating ROE which increases the risk factor but their return is also very well which is

compensating the risk efficiently. C.V. shows the return percentage by taking per unit risk. Higher C.V. is better because it requires lower level of risk taking to earn one percentage of return. From that point of view Nabil is better because it is able to achieve 22.29 percentage returns by absorbing 1 unit of risk. In the same way SCBNL has also quite impressive ROE and CV but Nepal SBI bank has weak ROE and CV but high standard deviation which shows miserable condition of NSBI bank's performance based on this ratio.

### **Return on Asset**

It measures the productivity of the assets. It measures how efficiently the assets are utilized in the financial organization. This ratio shows the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets. It measures the effectiveness with which the firm has employed its total resources. It is calculated in term of relationship between net profit after tax and assets.

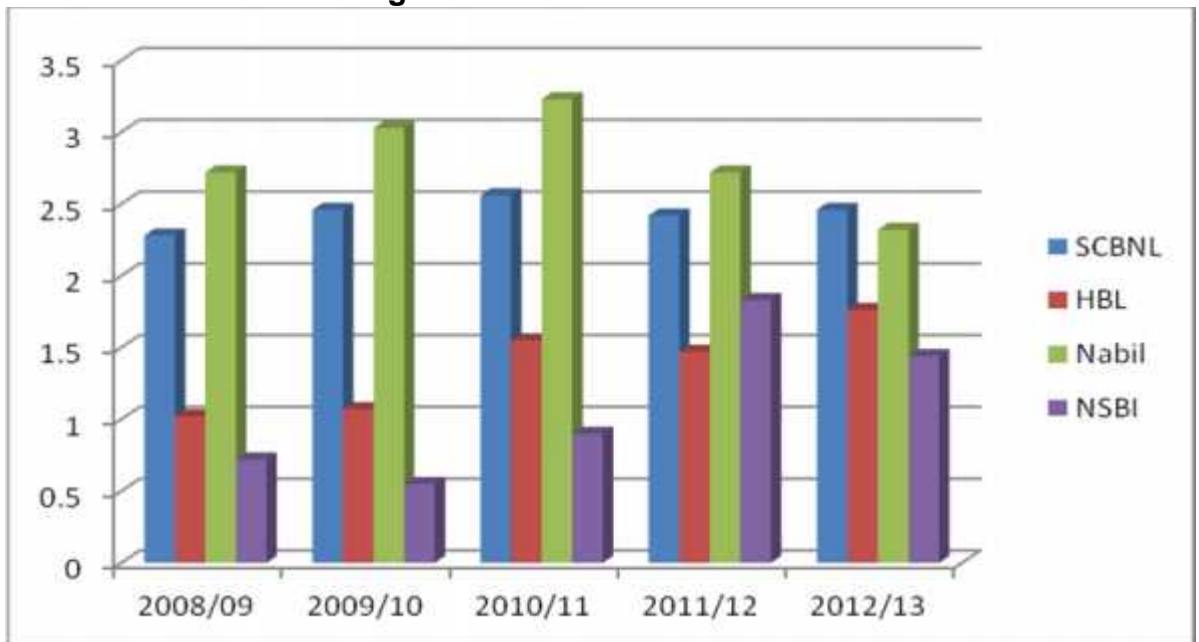
$$\text{Return on assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} * 100$$

**Table 4.10**  
**Return on Assets %**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	2.28	1.02	2.72	0.72
<b>2009/10</b>	2.46	1.07	3.03	0.55
<b>2010/11</b>	2.56	1.55	3.23	0.90
<b>2011/12</b>	2.42	1.47	2.72	1.83
<b>2012/13</b>	2.46	1.76	2.32	1.44
<b>Mean</b>	<b>2.44</b>	<b>1.37</b>	<b>2.80</b>	<b>1.09</b>
<b>S.D.</b>	<b>0.10</b>	<b>0.32</b>	<b>0.35</b>	<b>0.53</b>

Source: website of the related banks

**Figure 4.10**  
**Figure of return on Assets**



SCBNL and NSBI has quite fluctuating trend in ROA, Nabil has decreasing and HBL has increasing trend in ROA. Nepal SBI banks Fluctuation rate is very high in ROA because its Standard deviation is higher then other banks.

#### **4.1.5 Liquidity (L)**

Liquidity refers to the speed and ease with which an asset can be converted to cash without significant loss of value. In banking term, liquidity means ability of bank to satisfy ones liability on demand of customer. As we know that the banks are profit oriented. They believe on optimum disbursement of deposits in loan and advances. So that more and more income can be generated. Meanwhile, to invest in the profitable venture prevalent in the market and at the same time maintain confidence among the customers, they should have a stand by position of liquid funds, sufficient t cover the likely demand. It is also true that they can not keep all the deposits in the form of cash .The deposits are honored to allocate in various uses in order to generate income. Only the certain percent of deposit should be kept in the bank in the form of cash. If the bank will keep greater deposit in cash it losses the opportunity cost. Similarly if the bank keeps low amount in deposit, it will face the liquidity crises or it will not be able to pay depositors on the time of requirement.

**Liquidity can be measured in following ways:**

- ) Cash Reserve Ratio (CRR)
- ) Cash & Bank Balance Ratio
- ) Investment in Government Securities Ratios

**Cash Reserve Ratio (CRR)**

According to NRB directives all commercial banks are required to maintain 5% of their deposits as CRR in their 'NOSTRO' accounts maintained with NRB. NRB has issued this guideline to the bank to ensure that the bank maintains their adequate liquidity. NRB has prescribed this mandatory requirement because all commercial bank can face unexpected liquidity risk. It is calculated as:

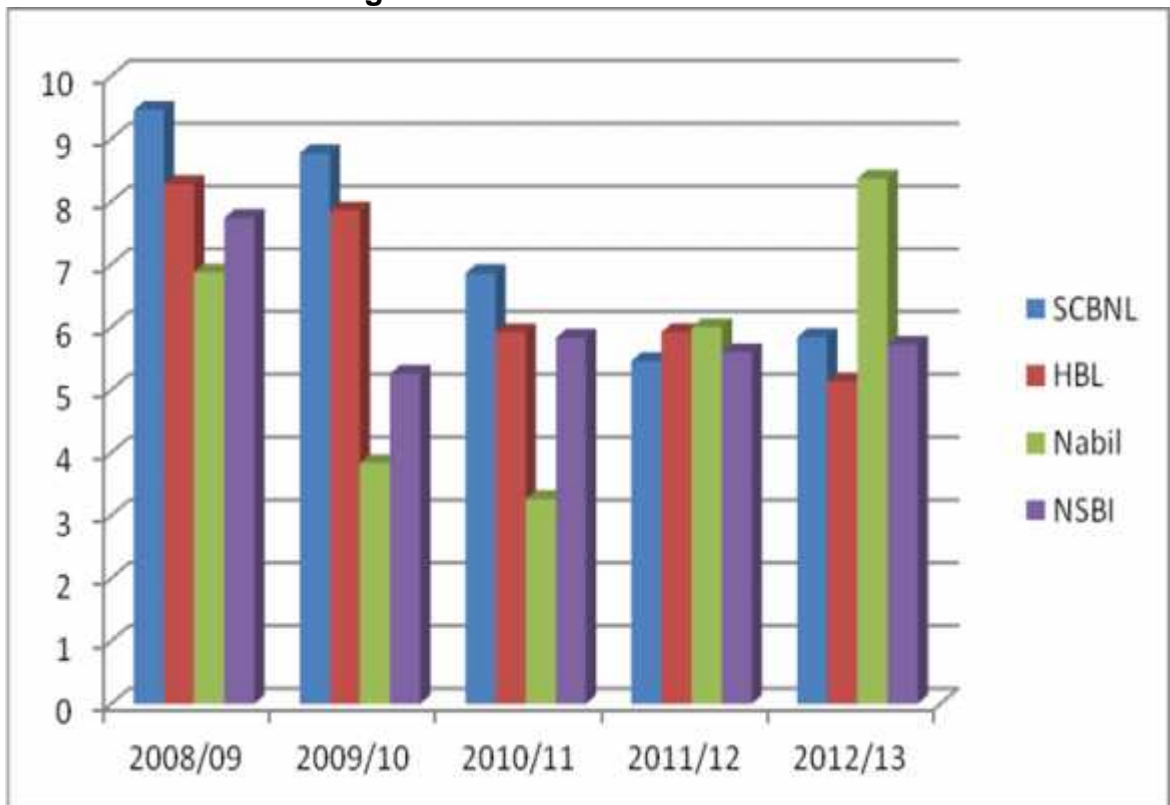
$$\text{Cash Reserve Ratio} = \frac{\text{NRB Balance (LYC only)}}{\text{Liquidity deposits} - \text{Margin deposits}} * 100$$

**Table 4.11**  
**Cash Reserve Ratio %**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	9.46	8.28	6.87	7.74
<b>2009/10</b>	8.77	7.86	3.83	5.26
<b>2010/11</b>	6.86	5.92	3.26	5.83
<b>2011/12</b>	5.46	5.92	6.00	5.60
<b>2012/13</b>	5.84	5.13	8.37	5.72
<b>Mean</b>	<b>7.28</b>	<b>6.62</b>	<b>5.67</b>	<b>6.03</b>
<b>S.D.</b>	<b>1.77</b>	<b>1.37</b>	<b>2.12</b>	<b>0.98</b>

Source: website of the related banks

**Figure 4.11**  
**Figure of Cash Reserve Ratio**



The CRR of SCBNL is higher in average which is very good because the liquidity position of SCBNL is at higher stage. In the year 2009/10 SCBNL has 8.77 liquidity ratio (CRR) which shows some loss of opportunity cost and high stake holders security but SCBNL has been able to reduce this ratio to the perfect beneficial level of 5 to 7. In case of the Nabil, the CRR is very fluctuating and 2009/10 as well as 2010/11 it didn't able to maintain even statutory requirement. According to NRB, it should not be lower than 5% but it has maintained just only 3.83% in 2009/10 and 3.26% in the year 2010/11. But gradually it has made a good improvement in the year 2011/12 and 2012/13. HBL and NSBI have very good management of liquidity because they are able to maintain perfect ratio of Cash reserve or liquidity. Their CRR is quite rigid compare to other two banks since its Standard deviation is lower then others. From the CRR data table NSBI is the most impressive CRR ratio because it grabs the full opportunity of cash, maintain very low standard deviation and at the same time it is able to maintain NRB statutory requirement also.

### **Cash and Bank Balance Ratio (C&B Ratio)**

The bank must be able to meet its immediate obligation of customers. Cash & bank balance ratio shows the percent of deposit maintained as liquid assets. A higher ratio represents a greater ability to meet any unexpected demand made by the customers. If the bank can not keep adequate amount of deposit it cannot operate its daily transaction. But maintaining very high ratio also indicates the losses of opportunity cost. So the bank should manage C&B ratio properly. Enough cash and bank balance is very necessary for the bank to maintain the customer trust and faith to the institution and banking environment. It is calculated as:

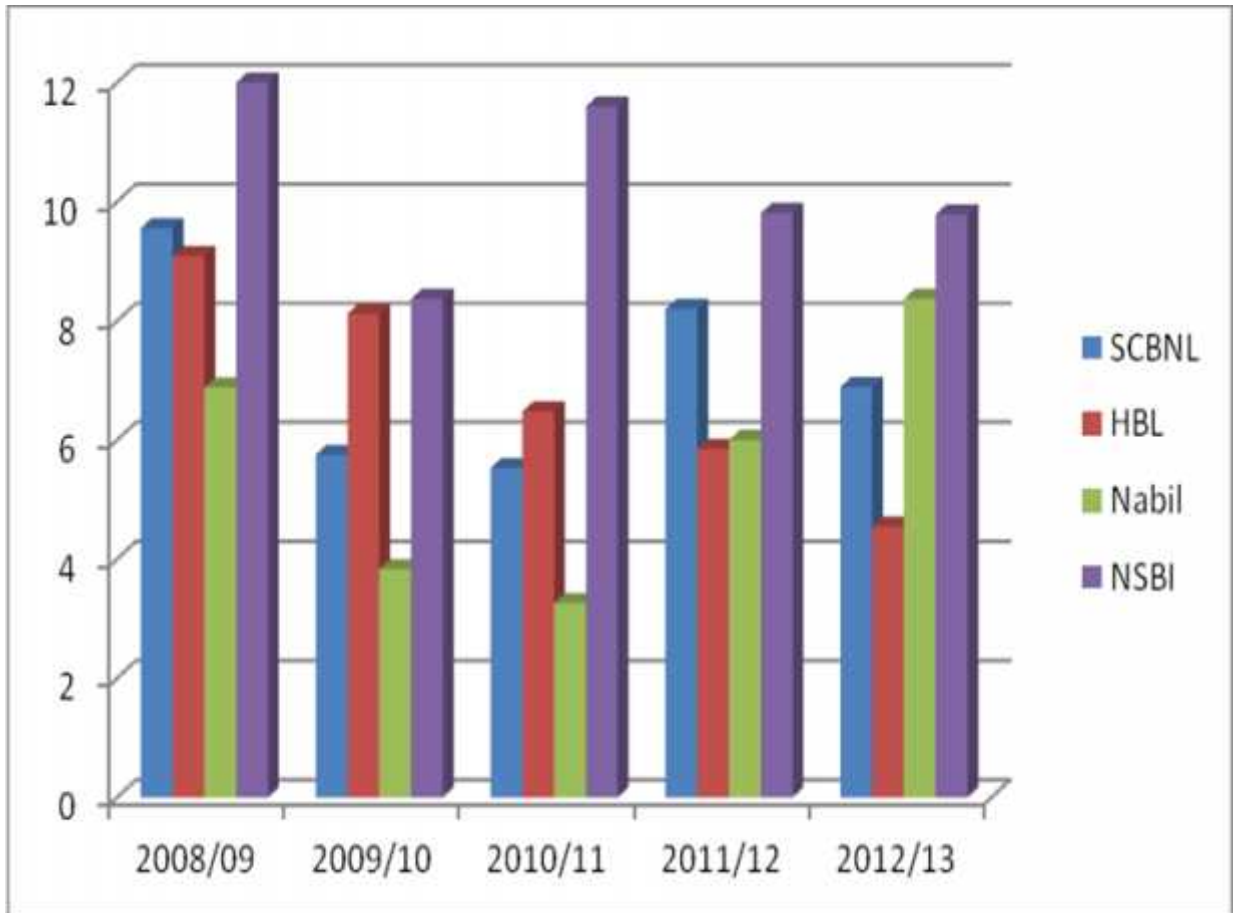
$$\text{Cash \& Bank Balance Ratio} = \text{Cash \& Bank Balance} / \text{Total Deposit} * 100$$

**Table 4.12**  
**Computation Of Cash & Bank Balance Ratio %**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	<b>9.56</b>	<b>9.09</b>	<b>6.88</b>	<b>12.00</b>
<b>2009/10</b>	<b>5.75</b>	<b>8.12</b>	<b>3.83</b>	<b>8.37</b>
<b>2010/11</b>	<b>5.53</b>	<b>6.48</b>	<b>3.26</b>	<b>11.60</b>
<b>2011/12</b>	<b>8.20</b>	<b>5.85</b>	<b>6.00</b>	<b>9.81</b>
<b>2012/13</b>	<b>6.89</b>	<b>4.55</b>	<b>8.37</b>	<b>9.79</b>
<b>Mean</b>	<b>7.19</b>	<b>6.82</b>	<b>5.67</b>	<b>10.31</b>
<b>S.D.</b>	<b>1.70</b>	<b>1.81</b>	<b>2.12</b>	<b>1.49</b>

Source: website of the related banks

**Figure 4.12**  
**Figure of Cash and Bank Balance Ratio**



Nabil has increasing trend of cash and bank balance ratio whereas HBL and NSBI have decreasing trend. NSBI has the highest C & B ratio which shows the high liquidity position of the NSBI banks compare to others but at the same time that also shows the largest amount of idle money in the bank. Other 3 banks have almost same average C&B ratio and this is around 5 % which is quite necessary for the smooth operation of the daily activities.

**Investment in Government Securities Ratio:**

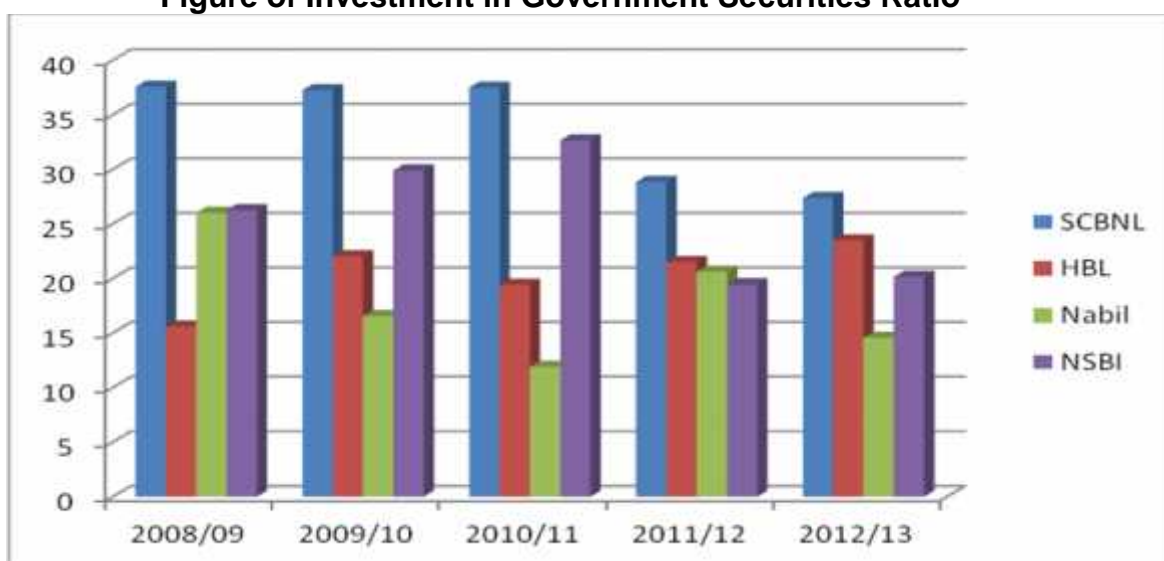
Government security is a risk free security. The banks instead of keeping their funds idle invest in various government securities which are liquid in nature as they can be traded any time. This ratio measures how much of the total deposit is utilized in investing in government securities. It is calculated as:

**Investment in Govt Securities ratio = Investment in Government Securities / Total Deposits \*100**

**Table 4.13  
Computation of Investment in Government Securities Ratio**

Year/Bank	SCBNL	HBL	Nabil	NSBI
<b>2008/09</b>	37.56	15.59	26.01	26.26
<b>2009/10</b>	37.25	22.04	16.55	29.90
<b>2010/11</b>	37.49	19.42	11.89	32.64
<b>2011/12</b>	28.84	21.48	20.60	19.46
<b>2012/13</b>	27.36	23.47	14.56	20.15
<b>Mean</b>	<b>33.70</b>	<b>20.40</b>	<b>17.92</b>	<b>25.68</b>
<b>S.D.</b>	<b>5.14</b>	<b>3.06</b>	<b>5.53</b>	<b>5.83</b>

**Figure 4.13  
Figure of Investment in Government Securities Ratio**



Regarding investment in government securities there is no regulation of NRB, so the bank can invest in government securities as they like. Like as the above table shows there is no consistency in the investment in government securities among all banks. SCBNL has the highest investment in government securities where as NSBI has the lowest. But as per their government securities investment compared to their Deposit Nabil has very low investment i.e. only in average 17.92% of deposit is invested in government securities. Likewise Standard Chartered bank has very high portion of deposit invested in

government securities i.e. 33.70 % in average of 5 years. That shows SCBNL is very risk averter and Nabil is very risk taker bank because government security is the least risky investment then any other.

## 4.2 Analysis of Primary Data

### 4.2.1 Questionnaire Survey

A survey is done for the analysis of management efficiency of referenced banks. 100 peoples are taken for survey from the banking training institute of all around Kathmandu where CAMEL analysis is their special course of study. From the first question we can find out the most important and least important factor for management efficiency. From the survey we got following responses for the first question.

**Table 4.14**  
**Factor Affecting Management Efficiency**

<b>Factor affecting management efficiency</b>	<b>1st</b>	<b>2nd</b>	<b>3rd</b>	<b>4th</b>	<b>5<sup>th</sup></b>
Marketing Strategy	7	8	13	25	<b>47</b>
Safe and sound services	<b>44</b>	29	12	13	2
Good return for the stakeholder	26	<b>48</b>	16	3	7
More branches and huge volume	11	6	28	24	<b>31</b>
High Corporate responsibility bearing capacity	12	10	<b>31</b>	27	20

From these responses we can conclude that all factors are important in management efficiency of any financial institution but most important factor for the management efficiency is Safe and sound services and good return for the stock holder. Forty four responses are collected for a safe and sound service is the first important factor in management efficiency which is maximum among other five. Good return for the stakeholder has got 48 responses out of 100 to be the second most important factor for the management efficiency. In this way High corporate responsibility bearing factor is third important factor, More branches and huge size is 4<sup>th</sup> important

factor, and Marketing strategy is least important factor for the management efficiency among those five factors.

In second question, we attempted to get responses for the risk preference of the bank according to the people's view which is very important to determine the efficiency and quality of management. Properly managed bank has very calculated and low level of risk so from the risk preference we can find out the management efficiency of respected banks. We got following responses for the risk preferences of the banks:

**Table 4.15  
Responses for Risk Preference**

<b>Name of Banks</b>	<b>Most risky</b>	<b>Risky</b>	<b>Not risky</b>	<b>Very safe</b>
Standard Chartered Bank Nepal Ltd.	11	5	27	57
Nabil bank Limited	8	20	29	43
Himalayan Bank Limited	22	57	21	0
Nepal SBI Bank Limited	59	18	9	14

From these responses we can conclude that the Standard Chartered Bank is least risky bank and Nepal SBI bank is most risky bank among these 4 banks.

Performance goodwill and services are the main deterrents of management efficiency so an attempt has been done to identify the good performing bank and not good performing bank. According to the survey following result was obtained for the performance, goodwill and services standard of banks:

**Table 4.16  
Responses for Performance, Goodwill and Services**

<b>Name of Banks</b>	<b>1st</b>	<b>2nd</b>	<b>3rd</b>	<b>4<sup>th</sup></b>	<b>Error</b>
Standard Chartered Bank Nepal Ltd.	40	43	10	5	4
Nabil bank Limited	47	40	4	3	4
Himalayan Bank Limited	9	7	72	8	4
Nepal SBI Bank Limited	7	2	8	79	4

From these responses we can conclude that the Nabil bank has better performance, goodwill and services and Nepal SBI bank has not better services among four referenced banks. 4 question paper were not filled as per requirement so they are taken as error in response. Other responses taken from the survey are presented in the following table:

**Table 4.17**  
**Responses of Management Efficiency**

<b>Name of Banks</b>	<b>Efficient and trust worthy service</b>	<b>Aggressive and best marketing strategy</b>	<b>Corporate Responsibility bearing capacity</b>
SCBNL	57	44	62
Nabil	31	42	26
HBL	8	10	8
NSBI	4	4	4

From these responses, we can conclude that SCBNL is the efficiently managed bank which is outperforming the other competitors. SCBNL has got highest marks in all three most important traits of management efficiency. Nabil is in second position of excellent management efficiency which is followed by HBL. The least marks obtained bank is NSBI in all three factors.

#### **4.2.2 Observation**

An observation of the respected banks has done for the analysis of their service efficiency, customer arrival rate, length of queue and security arrangement for the sound evaluation of management efficiency of the banks. Data were recorded at the busy time of 10.30 AM to 12.30 PM. Number of customer arrival and queue length are presented in mean value of the data. Head office of SCBNL Newbaneshwor, NSBI branch of Newroad, Himalayan bank of NewRoad BishalBazar branch and Nabil bank of Newroad branch are observed in three days and Following result was found from this observation:

**Table 4.18  
Observation Result**

<b>Name of Banks</b>	<b>Customer arrival rate in every 5 minute</b>	<b>Number of customer in queue</b>	<b>Quality of assistance &amp; security.</b>	<b>Physical environment and location quality.</b>
SCBNL	5	12	Good	Best
Nabil	4	10	Good	Good
HBL	3	16	Fair	Best
NSBI	3	15	Fair	Best

From this observation Standard chartered bank is the most efficient bank because it has lower rate of time consumption for service and higher level of security, quality assistance and working environment. Himalayan bank has very wide network of remittance collection and disbursement and service for remittance take little longer time then regular banking service that's why its service rate fall below the Nepal SBI bank but regular service rate of NSBI is lower then others.

### **4.3 Major Findings**

) The mean CAR of SCBNL is 15.03%, HBL has mean CAR of 11.55, Nabil has mean CAR of 12.23 and NSBI has 11.59% which indicates that all four banks are able to maintain the minimum 11% CAR mandated by NRB. SCBNL has the highest mean CAR whereas HBL has the lowest. This implies that HBL is successfully utilizing its deposits but it may face problems with depositors incase of failure in recovering loans.

) Mean Core Capital Ratio (CCR) of SCBNL is 13.17, HBL is 8.78%, Nabil is 10.63% and NSBI is 9.58% which indicates that all the four banks have maintained higher CCR than required core capital as per NRB regulation (i.e. 5.5%). Among them SCBNL has the highest percent of core capital so it is doing well in terms of safeguarding interest of depositors. In case of Nabil and NSBI they are in between HBL and SCBNL so we can say Nabil and

NSBI are also in safe position. Whereas comparatively HBL has maintained lower CCR than other three which implies that HBL has higher portion of its depositors money has been utilized in risky assets. So to safeguard its depositor's money NRB has made mandatory 5.5% CCR but HBL is maintaining 8.78% (mean CCR) which is satisfactory in term of return on shareholders. IF we comparatively analyze these four banks CCR, the SCBNL has utilized lower capital in risky assets financing. So it is in safer position.

) Non performing loan to total loan of NABIL is the lowest among four. NPLR of HBL is the highest but in decreasing trend. It has average of 5.78% NPLR but decreasing in trend. SCBNL has also quite remarkable NPL ratio of 2.27 in average. HBL and NSBI fall in to one category which needs lots of improvement and Nabil and SCBNL fall into another category in which they need to decrease and sustain this impressive NPL ratio.

) Loan loss coverage ratio (LLCR) of SCBNL and HBL are in increasing trend while this ratio of NABIL and NSBI are fluctuating. Loan loss coverage ratio of Nabil is 202.77 in average which is highest among these four banks which is very good. LLCR of HBL is very low which is 112.29 in average so HBL needs to increase its LLCR. Due to the very huge investment in government security SCBNL's current LLCR ratio which is 142.02 in average of five years is also considered good but NSBI has still needed to improve its LLC ratio from 122.90 in average.

) Loan loss provision ratio (LLPR) of NSBI is very high i.e. 6.65 in averages which is very high compare to other 3 banks. NABIL has the lowest LLPR of 2.85 in average. HBL and NSBI are high LLPR having banks and SCBNL and Nabil are low LLPR having banks. All the banks have decreasing trend of LLPR which is commendable.

) Credit deposit ratio (C/D Ratio) of NSBI is very high i.e. 82.10 where as the lowest value is of SCBNL i.e. 41.17. Due to the optimal level in between 65 to 75 Nabil is in optimal level i.e. 68.11 % in 5 years average. SCBNL is very

safe and NSBI, 82.10 in average, is very risky for depositor's point of view. HBL has 59.00% of C/D ratio in five years average and increasing in trend. NSBI has very increasing trend which can be very dangerous in this competitive environment that's why it must decrease in at least 70% in average C/D ratio.

) Management efficiency ratio, a staff contribution, of SCBNL in net profit is very high compare to other 3 banks. Due to over staffing on HBL and low profit on NSBI per staff net profit are very low in those two banks. NABIL has average profit on per staff contribution. SCBNL has Rs.1976893 profit per employee in 5 years average, Nabil has Rs.1451082 profit per employee in 5 years average, HBL has Rs.785203 profit per employee in 5 years average and NSBI has Rs. 753828 profit per employee in average. HBL and NSBI must increase their efficiency in very high pace.

) Earning per share (EPS) of SCBNL is the highest Rs. 152.47 per share in average whereas EPS of NSBI is very low Rs. 22.69 in average. All the banks except HBL have lower EPS then last year. EPS of SCBNL has been decreasing very rapidly since 2011/12 but still in higher level then other 3 banks. Nabil has Rs.114.5 earning per share and EPS of HBL is Rs. 55.90 in 5 years average.

) Return on Equity (ROE) of SCBNL is the highest where as the lowest value is of NSBI. Mean ROE of SCBNL is 34.63, Nabil is 31.88, HBL is 15.19 and NSBI is 13.69 which show HBL and NSBI has very low level of ROE and Nabil and SCBNL has very impressive ROE. In Nepalese context more then 30% of ROE is very high return. Standard deviation of Nabil Bank is very low i.e. 1.43 which shows little fluctuation in return which means low risk for investor. SCBNL and HBL have standard deviation of 2.10 and 3.50 respectively. Nepal SBI Bank has very high standard deviation which indicates high risk for investor due to its fluctuating natures return. If we compare mean return with its standard deviation in term of C.V. Nabil bank has the highest C.V. which shows it is getting higher return for bearing per unit risk compare to other 3 banks.

- ) Return on Assets (ROA) of NABIL is the highest but is in decreasing trend. ROA of SCBNL, NSBI and HBL is fluctuating. Due to the very high value of assets of HBL its ROA is very low despite the good return. Nabil has lower value of total assets than SCBNL in average that's why it has high ROA. Mean ROA of SCBNL is 2.44%, HBL is 1.37%, Nabil is 2.80% and NSBI is 1.09%.
- ) SCBNL, NSBI and HBL have maintained cash reserve ratio (CRR) as per NRB directives in all four years but NABIL has failed to maintain this ratio in the first two years. But it was able to maintain this ratio in year 2011/12 and 2012/13. The CRR of NSBI is always in the up to mark of NRB requirement and SCBNL is little bit high than minimum requirement of CRR. Mean CRR of SCBNL, HBL, Nabil and NSBI is 7.28, 6.62, 5.67 and 6.03 respectively. Nabil bank's cash reserve ratio is highly fluctuating compared to others since its standard deviation is higher than others.
- ) Cash and bank balance of HBL is in decreasing trend whereas SCBNL and NABIL have drastically increased its value in 2011/12 and 2012/13. C and B balance ratio of NSBI is fluctuating and still very high compared to other 3 banks. NSBI has 10.31 % C & B balance ratio which provides the enough liquidity and loss of opportunity cost but other banks have around 6% cash and bank balance ratio in average.
- ) Investment in government securities of SCBNL is the highest but the ratio was decreased from 37.49% of 2009/10 to 27.36% in year 2012/13. And the ratio of HBL and NABIL is fluctuating. Mean investment in government securities ratio of SCBNL is 33.70, HBL is 20.40, Nabil is 17.92 and NSBI is 25.61 %.
- ) From the primary data analysis SCBNL is the efficiently managed bank from every aspect of study. In questionnaire survey it has got quite impressive and very positive responses from the respondent. In observation too it has proved as a best joint venture bank of the Nepal from its speed and reliability in services. Well cultured employee with high potential is the essence of its success.

## CHAPTER 5

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This is the last chapter of this project which aims to sum up every analytical part that would be important and meaningful to the management of the commercial bank to sign up the actions as per its present situation and demand. In one sense this chapter not only covers to pinpoint errors and mistake but also to correct them and give direction for further growth and improvement.

#### **5.1 Summary**

The primary purpose of conducting this study is to evaluate the performance of joint venture commercial banks in Nepal. Basically the study has been organized in to five main chapters consisting of introduction, review of literature, research methodology, presentation and analysis of data and finally summary, finding, conclusion and recommendations are made.

In Introduction chapter, the main focus is given to clarify the term Bank, Commercial bank and CAMEL analysis. In the same way, thorough literature review from books, journals, articles and previous thesis has been presented in the second chapter which lays the foundation for the further study, analysis and findings. In chapter three an effort has been made to describe the method of data collection, their sample and population size, sample selection procedure and source & uses of data. In chapter four, collected data are presented in a systematic format and analyze and interpret them on the basis of mean and standard deviation of 5 years respected bank's data.

The scope of the study is limited to the rationally selected banks namely SCBNL, HBL, NABIL and NSBI. In this regard five years trend from 2008/09 to 2012/13 and data have been analyzed through descriptive approach. Similarly to evaluate and analyze data have been collected from both primary and secondary sources. The data has been analyzed with the help of various

statistical and financial tools to possible extent. Findings shows that all the banks are doing well but there is lots of room for improvement and they have to increase their efficiency, capital and management skills to match up the international standard banks. Nabil and Himalayan bank are planning to go abroad for business but their sustainability and performance there is in question. They should improve a lot to compete with international standard banks like ICICI, City bank etc. Recent global recession also presents various challenges for banking sector so currently wait and watch strategy is good for now.

## **5.2 Conclusion**

Economical development plays the significant role for the countries overall development. In the Nepalese prospective since the establishment of financial institution have played progressive role for the economical development of the country. So far commercial banks have been proved as prime movers of the economical development in Nepalese scenario. But as a developing country Nepal need to strengthen its economical structure to achieve rapid overall development and Nepalese bank lack development due to the problems of fund mobilization and investment. Similarly Nepalese banks are still stuck to traditional approaches for the fund utilization and management .So they need to revitalize their role which requires encouraging environment to be innovative & diversify their business to their projected areas. Also the present condition of Nepalese market is not good due to various reasons like unstable political situation, criminal activities are being increased. In spite of such conditions and intense competition among existing financial institution, banks are performing their functions and providing services to their customers even though they are in risk.

All the four banks under our study i.e. SCBNL, HBL, NABIL and NSBI are leading joint venture financial institutions of Nepal. They have been successful in both attracting deposits and mobilizing it in the right sectors. Out of the four banks SCBNL has maintained the highest value of CAR whereas Nabil has the lowest. It shows that although depositors of SCBNL are in safe side the bank has filed to mobilize its capital efficiently and effectively. By maintaining

high CRR, SCBNL has safeguarded the interest of depositors whereas shareholders are on better side of Nabil as it has the lowest value. SCBNL and NABIL are neck to neck in term of NPL & LLPR while HBL and NSBI are little below in comparison. NSBI is far ahead than other three banks in credit deposit ratio. SCBNL has the best management efficiency ratio (MER), EPS, ROE and investment in government securities. SCBNL NSBI & HBL are able to maintained required CRR in all the years but NABIL has maintained it only in year 2011/12 and 2012/13. Cash & bank balance of SCBNL & NABIL is increasing but for HBL it is continuously decreasing. NSBI has very high Cash and Bank balance which provide more then enough liquidity to this bank. Hence if we were to rank these banks on the basis of CAMEL analysis it would be SCBNL on the top followed by NABIL, HBL and NSBI.

SCBNL is very safe and sound player because it has invested very high amount in government security which are least risky then any other investment but still it is able to make abnormal profit to the shareholders. SCBNL is able to collect large amount of fund in very low cost as deposit which is the best achievement of management of this bank. It has very high value of assets that's why depositors don't have to fear about the risk of failure and loss of their money.

Nabil is also very efficiently and effectively managed bank. This bank is able to collect highest amount of deposit then other three banks that also shows its credibility and market power. It is pursuing very closely to the SCBNL in earning per share and return on equity. ROA is highest then other 3 banks and per employee contribution in profit is also very satisfactory. Its earning growth rate is very high compare to other commercial banks.

HBL is also good managed bank but it is not able to out perform its competitors in the matter of return, management efficiency, liquidity and capital adequacy. This bank has a lot to improve in the area of employee efficiency. It has collected large amount of deposit but not invested in good return having area that's why it has not been able to increase NPAT, ROE and EPS. Its Non performing loan is still high which should be reduced in any

condition. It also improves its brand value to the heart of people because it doesn't get well response from the respondent in primary survey in the matter of management efficiency and service quality.

NSBI is least performing bank among these 4 banks due to the low return, high cash and bank balance, low management efficiency and not being able to collect large amount of deposit, it is least performing bank among these 4. Its non performing loan ratio is highest than others in 2012/13 and 4 years average also. Due to the low level of deposit collection and low utilization and mobilization of collected fund it fail get even market level return. EPS, ROE and ROA all are below the mark so there is lots of room for improvement for this bank. NSBI has to improve its brand value to the customer because most of the respondent in primary survey doesn't fill good about its management efficiency and quality of services.

### **5.3 Suggestion and Recommendations**

After highlighting on the performance of these three commercial banks in Nepal, some recommendation and suggestions are given below:

- ) High capital ratio in excess to statutory requirement indicates bank's inability to invest its resources, possibly limiting its future earning. All the four banks should act their best to invest their resources in productive sectors as their CAR is higher than requirement.
- ) SCBNL should decrease core capital ration because it is too much high then statutory requirement. Because it will further increase the return for equity holders by taking calculated risk. There is a opportunity waiting for this bank.
- ) HBL and NSBI should utilize its assets to the productive areas and improve its credit management to minimize its non performing loan.
- ) From the liquidity management perspective NABIL could incur liquidity risk in year 2008/09 & 2009/10 because its CRR was below 5%. So it must maintain its CRR as per NRB directive.
- ) ROE of SCBNL, NSBI & NABIL is in decreasing trend since last year which may lessen shareholders' confidence toward bank. So they should mobilize

their shareholders equity more efficiently and smoothly to bring it back to increasing trend.

- ) HBL either should increase its Net profit by efficiently utilize available employee or decrease its number of employee to increase its management efficiency. It should try to win the share of heart and improve the brand value. There is lots of room to improve in service efficiency. It has very good reputation in remittance service but customer has to stand a lot in queue to get that service so it has to correct this mismanagement also.
- ) EPS of NABIL is in decreasing trend so it should perform its activities more efficiently to increase EPS in future.
- ) NSBI should lunch very aggressive marketing campaign to attract more deposit and mobilize or utilize this fund in very productive sector. Hire some competitive human resource and face the challenge of competition. Reduce cash and bank balance in some extent and invest more in government securities. It has to improve the brand value in the heart of people.

Finally it is universal that banks are the heart of our financial system. Because of global integration and liberalization of the economy banking sector out of various sector of the economy is likely to face various challenges. So it is high time to Nepalese banks and financial institutions to strengthen their competitiveness by introducing innovative, value-added products along with plain vanilla products. Therefore, these banks are adapting new technologies which make them compete enough to race in global market. They have to follow the guidelines issued by NRB that controls their operations. Some other points to improve the performance of commercial banks.

- ) Increase deposit and invest in government securities as well as deprived and priority sectors.
- ) Enhance Liberal lending policy & sound credit allocation policy as well as innovative approach of marketing.
- ) Focus on rural banking and national development by branch expansion in appropriate location.
- ) Invest in human resource development to be the global competitor and focus on employee motivation, maintenance and utilization.
- ) Improve in ground level service efficiency and working environment.

# BIBLIOGRAPHY

## Books

Bhandari , Dilli Raj.(2003). *Banking and insurance principle and Practices:*

Ayush Publication.

Brigham, E.F. & Houston J. (2000). *Fundamental of Financial Management:*

New York, Harcourt Collage Publishers.

Chandra , Prasana (1986). *Fundamental of Financial Management: India*

institute of management, Bangalore

Gitman L.J. (1988). *Principles of managerial finance: Harper Collins*

*Publishers,New York.*

Hamptor, J.J. (1998). *Financial Decision Making: Prentice Hall of India Pvt.*

Ltd.

Jain Premila, *Financial Management: Pointer Publishers, Jaipur India, 1996.*

Koch T.W. & S.S. Macdonald (2004). *Bank Management, Singapore:*

Thomson Asia Pvt. Ltd.

Kothari K. C. (1984). *Quantitive Techniques*: Vikash Publishing House Pvt.

Kothari, C.R. (1990). *Research Methodology: Methods and Techniques*, New

Delhi: Willy Eastern Limited.

Madhura Jeff (1989). *Bank Management, Financial markets and institutions*:

west Publishing Company St. Paul.

Myer J. N.(1961). *Financial Statement Analysis*: Englewood cliffs, Prentice

Hall.

Sharma P.K. & Chaudari A. K.(2058). *Statistical Methods*, Kathmandu: Khanal

Books Prakashan.

Thapa K., Bhattra R. and Basnet D. (2006). *Investment: theory and solution*,

Asmita Books Publishers and Distributors, Kathmandu.

Thapa Kiran (2060). *Corporate Financial Management, Theory and practice*,

Khanal Books and Stationary, Kathmandu.

Weston, J. F. & Copeland, J.F. (1992). *Managerial Finance*, Chicago: the

Dryden Press.

Wolff H.K and P.R. Pant (2007). *Social Science Research and Thesis writing,*

Kathmandu: Buddha Academic Enterprise Pvt. Ltd.

## **Journals & Articles**

Barker D. and D. Holdsworth (1993). *The case study of banks failures in the*

*1990s.* Federal Reserve Bank of New York, Research Paper no. 9325.

Barr R.S., L.M. Seiford and T.F. Siems (1993). *An Envelopment - Analysis*

*approach to pleasuring the management quality of banks.*  
Analysis of

operation Research, 38.

Jha Resta (2009, March). *Troubled Global Economy- cause and concern.* The

Boss magazine.

Mayer, P.A. and H.W. Piffer (1970, September). *Prediction of Banks Failures.*

The journal of Finance, 25: 835-868.

W. Jackson,(1975, June). *Commercial bank regulator structure and performance*. The journal of finance, XXX (III):917-920.

## **Masters Thesis**

Basnet Uma (2010). *A comparative CAMEL study of commercial banks in*

*Nepal with reference to Bank of Kathmandu and Kumari bank limited,*

Master's Degree, Tribhuvan University.

Ghimire L. N. (2000). *A Comparative study of financial performance of Himalayan Bank Ltd. and Nepal SBI Bank Ltd*, Master Degree, Tribhuvan University

Ghimire Pratikshya (2008). *Financial Performance of Joint Venture Banks*

*(with reference to Standard Chartered Bank Ltd. & Nabil Bank Ltd.),*

Master Degree, Tribhuvan University.

Mandal Mahendra (1998). *Comparative Financial Performance Appraisal of*

*Joint Venture Banks*, Master Degree, Tribhuvan University.

Niraula Raman (2009). *CAMEL Analysis of selected commercial banks (with*

*reference to Nabil, Himalayan Bank and Nepal Investment Bank*

*Limited*), Master Degree, Tribhuvan University.

Panday Anmol (2011). *CAMEL analysis of Everest Bank, Kumari bank and*

*Siddhartha Bank limited*, Master's Degree, Tribhuvan University.

Poudel Ramji (1997). *A Comparative Analysis of Financial Performance between Nepal Bank Ltd. And Nepal Grindlays Bank Ltd.*,  
Master Degree, Tribhuvan University.

## **Related Websites**

www.nrb.org.np

www.google scholar.com

www.bis.org (Bank for international settlement.)

www.solutionmatrix.com

[www.standard](http://www.standardchartersbank.com) charters bank.com

www.hbl.com

[www.SBI](http://www.SBI) Nepal.com

[www.Nabil](http://www.Nabil) bank.com

## Annex 1

### ❖ Total risk weighted Assets (Rs. In million)

Year/Bank	❖ SCBNL	❖ HBL	❖ Nabil	❖ NSBI
2008/09	❖ 10023	❖ 16861	❖ 11872	❖ 6552
2009/10	❖ 10498	❖ 18321	❖ 14193	❖ 7888
2010/11	❖ 12370	❖ 19918	❖ 17420	❖ 9159
2011/12	❖ 14168	❖ 21890	❖ 19167	❖ 10873
2012/13	❖ 20014	❖ 25624	❖ 27011	❖ 16086

### Total capital Fund (Rs. In million)

Year/Bank	SCBNL	HBL	Nabil	NSBI
2008/09	1560	1796	1609	717
2009/10	1664	2017	1766	745
2010/11	1844	2243	2094	1243
2011/12	2225	2651	2308	1445
2012/13	2631	3254	2999	1722

### Total Core Capital (Rs. In million)

Year/Bank	SCBNL	HBL	NABIL	NSBI
2008/09	1379	1297	1439	621
2009/10	1450	1526	1611	683
2010/11	1607	1722	1831	964
2011/12	1951	2105	1993	1145
2012/13	2305	2470	2364	1394

### Total Risk weighted assets (Rs. In million)

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	10023	16861	11872	6552
<b>2009/10</b>	10498	18321	14193	7870
<b>2010/11</b>	12370	19918	17420	9159
<b>2011/12</b>	14168	21890	19167	10873
<b>2012/13</b>	20014	25624	27011	16086

**Non Performing Loan (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	252	1147	287	346
<b>2009/10</b>	226	1001	145	441
<b>2010/11</b>	196	1041	183	505
<b>2011/12</b>	197	642	178	459
<b>2012/13</b>	129	477	161	488

**Total loan and Advances (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	6694	12920	8549	5532
<b>2009/10</b>	8421	13451	10947	6739
<b>2010/11</b>	9206	15762	13279	8241
<b>2011/12</b>	10790	17794	15903	10065
<b>2012/13</b>	13964	20180	21759	12746

**Loan Loss Provision (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	284	968	359	<b>388</b>
<b>2009/10</b>	278	1027	361	<b>526</b>
<b>2010/11</b>	271	1119	356	<b>615</b>
<b>2011/12</b>	288	796	357	<b>604</b>
<b>2012/13</b>	<b>245</b>	<b>682</b>	<b>394</b>	<b>633</b>

**Total Non-Performing Loan (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	252	1147	287	346
<b>2009/10</b>	226	1001	145	441
<b>2010/11</b>	196	1041	183	505
<b>2011/12</b>	197	642	178	459
<b>2012/13</b>	129	477	161	488

**Total Loan Loss Provision (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	<b>284</b>	<b>968</b>	<b>359</b>	<b>388</b>
<b>2009/10</b>	<b>278</b>	<b>1027</b>	<b>361</b>	<b>526</b>
<b>2010/11</b>	<b>271</b>	<b>1119</b>	<b>356</b>	<b>615</b>
<b>2011/12</b>	<b>288</b>	<b>796</b>	<b>357</b>	<b>604</b>
<b>2012/13</b>	<b>245</b>	<b>682</b>	<b>394</b>	<b>633</b>

**Total Loans & Advances (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	6694	12920	8549	5532
<b>2009/10</b>	8421	13451	10947	6739
<b>2010/11</b>	9206	15762	13279	8241
<b>2011/12</b>	10790	17794	15903	10065
<b>2012/13</b>	13964	20180	21759	12746

**Total Deposit (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	21161	22010	14119	7198
<b>2009/10</b>	19335	24814	14587	8655
<b>2010/11</b>	23061	26491	19347	11002
<b>2011/12</b>	24647	30048	23342	11445
<b>2012/13</b>	29744	31843	31915	13715

**Total Loans & Advances (Total Credit) (Rs in million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	6694	12920	8549	5532
<b>2009/10</b>	8421	13451	10947	6739
<b>2010/11</b>	9206	15762	13279	8241
<b>2011/12</b>	10790	17794	15903	10065
<b>2012/13</b>	13964	20180	21759	12746

**Net Profit After Tax (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	538	263	455	61
<b>2009/10</b>	539	308	520	57
<b>2010/11</b>	659	457	635	117
<b>2011/12</b>	692	492	674	255
<b>2012/13</b>	819	<b>636</b>	746	248

**No of Staffs (In number)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	263	455	372	151
<b>2009/10</b>	302	501	426	164
<b>2010/11</b>	345	561	441	174
<b>2011/12</b>	351	584	427	189
<b>2012/13</b>	377	591	416	249



**Net Profit after Tax (Rs.in million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	538	263	455	61
<b>2009/10</b>	539	308	520	57
<b>2010/11</b>	659	457	635	117
<b>2011/12</b>	692	492	674	255
<b>2012/13</b>	819	<b>636</b>	746	248

**No of share (In Rs.)**

Year/Bank	SCBNL	HBL	Nabil	NSBI
2008/09	3.75	5.36	4.92	4.27
2009/10	3.75	6.44	4.92	4.32
2010/11	3.75	7.72	4.92	6.40
2011/12	4.13	8.11	4.92	6.48
2012/13	6.21	10.14	6.89	8.75

**Net Profit after Tax (Rs. in million)**

Year/Bank	SCBNL	HBL	Nabil	NSBI
2008/09	538	263	455	61
2009/10	539	308	520	57
2010/11	659	457	635	117
2011/12	692	492	674	255
2012/13	819	<b>636</b>	746	248

**Shareholders Equity (In million)**

Year/Bank	SCBNL	HBL	Nabil	NSBI
2008/09	1496	2292	1480	627
2009/10	1582	2568	1657	689
2010/11	1754	2886	1873	972
2011/12	2116	2942	2055	1153
2012/13	<b>2493</b>	<b>3195</b>	<b>2440</b>	<b>1404</b>

**Net Profit after Tax (Rs. in million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	538	263	455	61
<b>2009/10</b>	539	308	520	57
<b>2010/11</b>	659	457	635	117
<b>2011/12</b>	692	492	674	255
<b>2012/13</b>	819	636	746	248

**Total assets (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	23642	25730	16746	8440
<b>2009/10</b>	21894	28871	17186	10364
<b>2010/11</b>	25742	29484	19659	13000
<b>2011/12</b>	28595	33469	24779	13934
<b>2012/13</b>	33293	36136	32155	17222

**Cash and Bank Balance (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	2023	2001	971	864
<b>2009/10</b>	1112	2014	559	724
<b>2010/11</b>	1276	1717	630	1276
<b>2011/12</b>	2021	1757	1400	1123
<b>2012/13</b>	2050	1448	2671	1343

**Total Deposit (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	21161	22010	14119	7198
<b>2009/10</b>	19335	24814	14587	8655
<b>2010/11</b>	23061	26491	19347	11002
<b>2011/12</b>	24647	30048	23342	11445
<b>2012/13</b>	29744	31843	31915	13715

**Total investment in Government Securities (Rs. In Million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	7948	3432	3673	1890
<b>2009/10</b>	7203	5470	2414	2588
<b>2010/11</b>	8645	5144	2301	3591
<b>2011/12</b>	7108	6455	4808	2227
<b>2012/13</b>	8138	7472	4647	2763

**Total Deposits (Rs. In million)**

<b>Year/Bank</b>	<b>SCBNL</b>	<b>HBL</b>	<b>Nabil</b>	<b>NSBI</b>
<b>2008/09</b>	21161	22010	14119	7198
<b>2009/10</b>	19335	24814	14587	8655
<b>2010/11</b>	23061	26491	19347	11002
<b>2011/12</b>	24647	30048	23342	11445
<b>2012/13</b>	29744	31843	31915	13715

## Annex 2

### Research questionnaire for the study of management efficiency

(special reference to Standard Chartered Bank, Nabil Bank, Himalayan Bank and SBI Bank)

#### Questionnaire

Name:

Signature

Address:

Occupation:

**Please read the question carefully and give your view.**

1. Please rank (1 to 5) to the following factor according to their importance for management efficiency. (1 for most important and 5 for least important)

<input type="checkbox"/>	Marketing strategy	<input type="text"/>
<input type="checkbox"/>	Safe and sound services	<input type="text"/>
<input type="checkbox"/>	Good return for the stakeholder	<input type="text"/>
<input type="checkbox"/>	More branches and huge volume	<input type="text"/>
<input type="checkbox"/>	High Corporate responsibility bearing capacity	<input type="text"/>

2. Please rank '1 to 4' to the following banks according to their risk preference. (1 for most risky and 4 for list risky)

<input type="checkbox"/>	Nabil bank	<input type="text"/>
<input type="checkbox"/>	Standard Chartered Bank Nepal	<input type="text"/>
<input type="checkbox"/>	Himalayan Bank	<input type="text"/>
<input type="checkbox"/>	Nepal SBI Bank	<input type="text"/>

3. Which bank is most efficient and trustworthy service provider bank in your knowledge and experience?

<input type="checkbox"/>	Nabil bank	<input type="text"/>
<input type="checkbox"/>	Standard Chartered Bank Nepal	<input type="text"/>
<input type="checkbox"/>	Himalayan Bank	<input type="text"/>
<input type="checkbox"/>	Nepal SBI Bank	<input type="text"/>

4. Please rank the following banks (1 to 4) according to their performance, goodwill and services.

<input type="checkbox"/>	Nabil bank	<input type="text"/>
<input type="checkbox"/>	Standard Chartered Bank Nepal	<input type="text"/>
<input type="checkbox"/>	Himalayan Bank	<input type="text"/>
<input type="checkbox"/>	Nepal SBI Bank	<input type="text"/>

5. Which bank has implemented most aggressive and best marketing strategy among these?

- Nabil bank
- Standard Chartered Bank Nepal
- Himalayan Bank
- Nepal SBI Bank


6. Which bank is maintaining high corporate responsibility?

- Standard Chartered Bank Nepal
- Nabil Bank
- Nepal SBI Bank
- Himalayan Bank


Thank you for your kind support and valuable time for this response.