CHAPTER ONE

INTRODUCTION

1.1 Background of the study:

Nepal is under developed and land locked country. Here most of people live in village. More than 83% people are villagers, their economic condition is very poor and nearly 17% people live in urban area. So we can say that Nepal is villager's country (www.cbs.gov.np). In such way Bank and financial institution play significant role by providing financial sources to the rural people. At present, there are 32 commercial Banks, 4 Government Banks, 87 development Banks 80 financial companies, 21 Micro-credit Dev Banks, 16 NRB Licensed Cooperatives and 25 Insurance Companies. These all Banks and financial institution provides financial services to the people (www.nrb.org.np).

Financial companies occupies quite an important place in the economy because it provides capital for the development of industry, trade and business investing the saving collected as deposits. Financial development is one of the indicators of economic development of any country. Financial institution provides regular energy for investment, which is needed for economic development. In the financial sector, new institutions, instruments and financial innovations emerge in response to the need of national economy. Nepal is an under developed country and there is a need for additional capital investment to earn higher rate of economic growth. Domestic saving and foreign capital (grants and loans) are two principal sources of capital available for investment. Among them, domestic saving is the most important and stable sources of capital (Pokhrel, 2009: 12).

"For the development of the nation it is required to have enough capital, without adequate capital investment may not be possible, formation of the adequate capital through the financial institution like finance company banks etc, is important" (Encyclopedia, 1996: 232).

"Banking institutions are inevitable for the resources mobilization and all round development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people" (Ronald, 1993: 87).

“Commercial banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post shipment finance to exporters. They start their operation with automated system, which could easily attract the elite group of business community due to their prompt served modern management. In this way, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade, introduce new techniques and technologies. All these reveal the vital role and the need of joint ventures in Nepalese banking sector or financial service industry” (Shrestha, 2009: 21).

"Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify the current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness" (Weston, Besley & Brigham, 1996: 78).

“To evaluate a firm financial condition and performance, the financial analyst needs to perform “checkups” on various aspects of a firm’s financial health. A tool frequently used during these checkups is a financial data by dividing one quantity by the other. The analysis of financial ratios involves two types of comparison i.e., Internal Comparisons and External Comparisons. First, the analyst can compare a present ratio with past and expected further ratios for the same company. Financial ratios can also be computed for projected, or Performa, statements and compared with present and past ratios. Similarly, the second method of comparison involves comparing the ratios of one firm with those of similar firms or with industry averages at the same point in time. Such a comparison gives insight into the relative financial condition and performance of the firm. It is also helps us identify and significant deviations from any applicable industry average or standard” (Van Horne & Wachowicz, 1996: 125).

1.1.1 Introduction to Concentrate Banks:

Everest Bank Limited

Everest Bank Limited (EBL) started its operations from 18th October 1994 with a view and objective of providing professionalized and efficient banking services to

various segments of the society in Nepal and there by contributes in the economic development of the country. EBL is a joint venture partner with Punjab National Bank (PNB) from India holding 20% equity, Local Promoters 50% equity and remaining 30% equity by General Public in the bank. The bank is providing customer-friendly services through its 44 Branch Network, 20 extension counters and 54 ATM. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables to customers for operational transactions from any branches. EBL has introduced branchless banking system to cover unbanked sector of Nepalese society. EBL has lunched e-ticketing system in Nepal; customer can buy Yeti airlines ticket through internet. EBL also has introduced Mobile Vehicle Banking System on to service the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. The bank gave 50.53% cash dividend and 10% bonus share to its shareholders (Annual Report, 2010/011).

Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since1987 when it was initially registered as a joint-venture operation. Today the bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. Standard Chartered has a history of over 150 years in banking over 70 countries in the Asia, Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. SCBNL is in a position to serve its customers through 15 branch office, 4 extension counter, and 23 ATMs across the country with 429 local staff. The bank pays 50% cash dividend to its shareholders by the profit of 2068 BS. It is one of the first banks in Nepal to implement the Anti-Money Laundering policy and apply the ‘Know Your Customer’ procedures. The Group launched two major initiatives in 2003 under its 'Believing in Life' campaign- 'Living with HIV/AIDS' and 'Seeing is Believing' (Annual Report, 2010-011).

Nepal Investment Bank Limited

Nepal Investment Bank Limited (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepali and French partners. The French partner (holding 50% of the capital) was Credit Agricole Indosuez, decided to divest, a group of companies comprising of bankers, professionals, industrialists and

businessmen acquired the holdings of Credit Agricole Indosuez in Nepal Indosuez Bank in April 2002. The name of the Bank was changed to Nepal Investment Bank Limited. NIBLs share structure is divided among four groups. A group of companies holding 50% of the capital, Rastriya Banijya Bank and Rastriya Beeme Sansthan holding 15% each and the remaining 20%, held by the general public. NIBL providing financial services with 41 branches, one extension counter and 67 ATM counters along with 877 staff. This year the Bank gave away 25% cash dividend and 25% bonus share to its shareholders (Annual Report, 2010/11).

1.2 Statement of the problem:

In the modern economic liberalization and privatization policy adopted by the Nepalese government has open up the opportunity and threat in the banking sectors. As a result the numbers of commercial banks are grow rapidly, the rapid increment in numbers of commercial banks in small kingdom like Nepal has created tough and bottle neck competition among them. So it is necessary to evaluate the performance of these commercial banks.

Financial institutions soundness is judged on the basis of capital adequacy, asset quality, management quality, earnings, and liquidity (CAMEL). Some financial institution have very low capital adequacy ratio while some have piled of non-performing assets. Similarly, it appears that financial institutions do not have proper system managing the correctness of credit classification and provision of some commercial banks. The profitability position of a firm is generally known through financial statements but a major question emerges whether there are adequate to reflect the overall performance of firm. The fundamentals problem of this study is to check up the financial health of Nepal Investment Bank, Everest Bank and Standard Chartered Bank Nepal Ltd in the framework of CAMEL. The information obtained can be used to measure the efficiency and effectiveness of the banks respect of developing resource in profitable manner. This study also attempts to recommend some suggestions for improvement in financial performance aspect.

This study has aimed in answering the following research question:

a. What are the causes of financial inefficiency?
b. What are the probabilities of maintaining a sound and efficient optimal financial structure?
c. How these banks have been able to raise their profitability?

d. How these banks are being able to utilize the fund?

e. Whether the depositors are positive towards these banks or not?

f. To what extent these banks have been successful in minimizing the non-performing assets?

g. Whether products and services provided by these banks are satisfactory or not?

1.3 Objective of the study:

The main objective of the study is to find out individual and comparative financial position of three selected commercial banks Nepal Investment Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited and to recommend, suggestion for the improvement of state of affair. The objectives of the study are given below.

a. To conduct the CAMEL analysis of selected commercial banks.
b. To compare the financial performance of these three (i.e. NIBL, EBL, SCBL) banks.
c. To see the trend of deposit and net profit of selected banks.
d. To suggest and recommend measures for improvement based on findings and analysis to overcome various issues and gaps.

1.4 Significant of the study:

There is no possibility of economic development of a country without the development of a banking system. So the analysis of commercial Bank is most important. The research study is concerned with the financial performance analysis of EBL, SCBNL and NIBL in CAMEL framework. With the major objectives of compare the financial performance of these three banks. The analysis on performance evaluation would help the banks to further improve the operating system. The study would also provide clear picture to banks are operating in which condition.

The study is more important to the management and owners of the concerned banks. The study will be able to analyze their strong and weakness. They can also improve their position by some suggestions and recommendations provided in the report. They will be able to solve the existing problem and formulate the policy and strategies to operate smoothly. Similarly, shareholders are concerned with the banks present and

future profitability. They are interested in the bank financial position to extent it influences the banks earning.

The research study will be useful to aware the management, shareholder, debenture holder, employee, investors, lenders and borrowers, policy maker, researchers, depositors, and customers as well as public can also benefit from it by having a choice between the three commercial banks for their banking transactions.

1.5 Limitations of the study:

The study has attempted to evaluate the financial performance of NIBL, EBL and SCBL. Every study has its own limitations the present study is not an exceptional. The researcher has however tried to eliminate the limitations to the best possible extent. Yet it suffers from the following limitations.

a. There are so many ratios to evaluate the performance of the commercial bank, this study includes only the CAMEL approach to evaluate the financial performance of commercial banks.
b. This study is limited to the financial performance of Nepal Investment Bank Ltd, Everest Bank Ltd, Standard Chartered Bank Nepal Ltd only. This study does not reflect any thing about other commercial banks of the country.
c. This study basically depends on secondary data. The annual report published by the bank is the major data used for the analysis in this study.
d. Financial tools are used for analysis. Hence, the drawbacks and weakness of those tools are the limitation in this study.
e. Report is based on annual report published by the concerned banks.
f. Time and money are also constant for the study.

1.6 Origination of the study:

The research report will be divided into five chapters, which are as follow:

Chapter 1: introduction, it will contain background of the study, introduction to concentrate banks, statement of the problem, objectives of the study, limitation of the study, significant of the study and organization of the study.

Chapter 2: Review of literature which contains conceptual review of the study, review of previous studies and research gap.

Chapter 3: Research methodology contains introduction, research design, nature and sources of data, population and sample, and method of data analysis.

Chapter 4: Data presentation and analysis consists, data presentation and data analysis on the basis of CAMEL approach and major finding of the study.

Chapter 5: This chapter consists of summary of the study, conclusion of the major findings and recommendations for further improvement to the selected banks.

CHAPTER TWO

REVIEW OF LITERATURE

“Scientific research must be based on a past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study. The purpose of literature review is thus to find out what research studies have been conducted in ones chosen field of study and what remain to be done” (Wolff and Panta, 2005: 30).

2.1 Conceptual Review:

2.1.1 Concept of Financial Performance:

Financial performance measures the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added etc (www.businessdictionary.com/definition).

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (www.answers.com/investmentdictionary).

"Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm's financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm's profitability overtime" (Vanhorn & Watchowlcz, 1997: 120).

“Financial performance provides information about a firm’s position as well as its operation over same period. However the real value of financial statement uses in the fact that they can be used to predict the firm’s financial position in the future and to determine expected earnings and dividends. From an investors stand point predicting the future is what financial statement analysis is all about while management point of view financial statement is useful to anticipate future conditions and for planning actions that will influence the future course of events” (Western, Beasley & Brigham, 1993: 82).

On the basis of NRB directives and standards CAMEL system is used to evaluate the performance (or to check up the health) of an individual financial institutions to assess the financial soundness.

Leverage ratio can be used to measure the capital adequacy of a bank. This is the ratio of bank's book value of core capital to the book value of its assets. The higher ratio shows the higher level of capital adequacy. The U.S.A. Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991 has fixed the five target zones: i. 5 percent and above, ii. 4 percent and above, iii. under 4 percent, iv. under 3 percent, v. 2 percent and less, of leverage ratio. The leverage ratio falling in the first zone implies that bank is well capitalized. Similarly, the leverage falling in the second zone shows that bank is adequately capitalized. The leverage falling in the last three zones indicates that bank is inadequately capitalized and regulators should take prompt corrective action to bring the capital to the desirable level (Saunders et al, 2004: 45).

The leverage ratio stated in the foregoing discussion is simple capital to assets ratio. In other words, assets are not risk adjusted. NRB enforced the capital ratio to risk adjusted assets of commercial banks. NRB initially fixed the core capital at the level of 6 percent of the risk weighted assets and total capital at the level of 10 percent of risk weighted assets of the commercial banks. And NRB has strictly directed all commercial banks that the amount of the supplementary capital should not be in excess to the amount of the core capital(www.nrb.org.np).

Credit risk is one of the factors that affect the health of an individual FI. The extent of the credit risk depends on the quality of assets held by an individual FI. The quality of assets held by an FI depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers especially the corporate sector. We can use a number of measures to indicate the quality of assets held by FIs. NRB uses composition of assets, non-performing loan to total loan ratio, net non-performing loan to total loan ratio as the indicators of the quality of assets of commercial banks. NRB has directed the commercial banks in regards to the concentration of the loan. Any licensed FI can grant the fund base loan to a single borrower or borrowers related to the same business group up to the 25 percent of its primary capital. In the same vein, it can provide the non-fund base loan up to 50 percent of its core capital. Similarly, it has directed FIs to classify the loans into performing loan and non-performing loans. The loans that are not due and three

months past due fall in the class of performing loans/performing assets and others do in the non-performing loans. Further, non-performing loans are classified into three groups: substandard, doubtful, and bad debt/ loss.

Commercial banks have to make one percent provision for pass loan/performing loan, 25 percent for substandard loan, 50 percent for doubtful loan and 100 percent for bad loan. Non-performing assets in the total assets of commercial banks was 22.77 percent in the FY 2003/04. But the normal international standard of the percentage of non-performing assets is 5 to 8 percent of the total assets.

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

Earning capacity or profitability keeps up the sound health of an FI. Chronically unprofitable FI risks insolvency on one hand and on the others, unusually high profitability can reflect excessive risk taking of an FI. There are different indicators of profitability. Return on assets, return on equity, interest-spread ratio, earning-spread ratio, gross margin, operating profit margin and net profit margin are commonly used profitability indicators. NRB uses return on total assets as an indicator of profitability of a commercial bank. In addition, it uses the absolute measures such as interest income, net interest income, noninterest income, net non-interest income, non-operating income, net non-operating income and net profit, to evaluate the profitability of a commercial bank.

Liquidity risk threats the solvency of FIs. In the case of commercial banks, first type of liquidity risk arises when depositors of commercial banks seek to withdraw their money and the second type does when commitment holders want to exercise the commitments recorded off the balance sheet. Commercial banks have to borrow the

additional funds or sell the assets at fire sale price to pay off the deposit liabilities. They become insolvent if sale price of the assets are not enough to meet the liability withdrawals. The second type of liquidity risk arises when demand for unexpected loans can not be met due to the lack of the funds. Commercial banks can raise the funds by running down their cash assets, borrowing additional funds in the money markets and selling off other assets at distressed price. Both liability side liquidity risk (first type risk) and assets side liquidity risk (second type risk) affect the health of commercial banks adversely. But maintaining the high liquidity position to minimize such risks also adversely affects the profitability of FIs. Return on highly liquid assets is almost zero. Therefore, FIs should strike the tradeoff between liquidity position and profitability so that they could maintain their health sound.

Commercial bank's liquidity exposure can be measured by analyzing the sources and uses of liquidity. In this approach, total net liquidity is worked out by deducting the total of uses of liquidity from the total of sources of liquidity. NRB uses total loan to total deposit ratio, cash and equivalents to total assets ratio, cash and equivalents to total deposit ratio, NRB balance to total deposit ratio to measure the liquidity position of commercial banks in the course of the performance evaluation of commercial banks (www.nrb.org.np).

2.1.2 Concept of CAMEL:

Since 1970's the use of CAMEL factors has become wide spread, due to its application by regulators around the globe and also because of its simplicity. The CAMEL methodology was originally adopted by North American bank regulators to evaluate the financial and managerial soundness of U.S. commercial lending institutions. The CAMEL reviews and rates five areas of financial and managerial performance: Capital adequacy, Asset quality, Management, Earnings, and Liquidity. The Central bank of Nepal (NRB) has also implemented CAMEL Framework for performance evaluation of the banks and other financial institutions.

Banking supervision has been increasingly concerned due to significant loan losses and bank failures from the 1980s till now. In the light of the banking crisis in recent years worldwide, CAMEL is a useful tool to examine the safety and soundness of banks, and help mitigate the potential risks which may lead to bank failures. The findings revealed that CAMEL rating system is a useful supervisory tool in the U.S.

CAMEL analysis approach is beneficial as it is an internationally standardized rating and provides flexibility between on-site and off-site examination; hence, it is the main model in assessing banks' performance in American International Assurance (www.answers.com).

In Nepal, NRB plays a supervisory role for evaluating financial condition of financial institutions through rating accordance to CAMEL is still in its initial phase. "CAMEL ratings are useful, even after controlling for a wide range of publicly available information about the condition and performance of banks. The acronym "CAMEL" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, and Liquidity. A sixth component, a bank's Sensitivity to market risk, was added in 1997; hence the acronym was changed to CAMELS. (Note that the bulk of the academic literature is based on pre-1997 data and is thus based on CAMEL ratings.) Ratings are assigned for each component in addition to the overall rating of a bank's financial condition. The ratings are assigned on a scale from 1 to 5. Banks with ratings of 1 or 2 are considered to present few, if any, supervisory concerns, while banks with ratings of 3, 4, or 5 present moderate to extreme degrees of supervisory concern" (Cole and Gunther, 2008: 245).

Capital Adequacy

Capital Adequacy shows the financial strength of a bank, and this financial strength usually shows by bank through Capital Adequacy ratio (CAR). CAR = Tier I + Tier II/Risk weighted Assets. This ratio determines the ability of the bank to meet with obligation on time and other risks such as operational risk, credit risk, etc. Tire I is a type of capital, it is a composed of core capital or we can say own capital which consists primarily of common stock, preferred stock, retain earnings. Tier II is a supplementary form of capital of banks. Items include in tier II Capital are, undisclosed reserves, subordinate term debt, general provision, revaluation reserves. In Risk weighted Assets, according to the credit risk assets are weighted (Christopoulos et al, 2011: 12).

Assets Quality

Assets quality is one of the most critical areas in determining the overall condition of the commercial bank. The primary factor effecting overall assets quality is the quality of the loan portfolio and the credit administration program. Loans are usually the

largest of the asset items and can also carry the greatest amount of potential risk to the company's capital account. Security can often be a large portion of the assets and also have identifiable risks. Other items which impact a comprehensive review of asset quality are other real estate, other assets, off-balance sheet items and to a lesser, extent, cash and due from account and premises and fixed assets(Koch and Macdonald, 2004:165)

Management Quality

It is difficult to determine the sound performance of management of the bank. For individual institution it is not a quantitative factor it is primarily qualitative factor. However to determine the soundness of the management we took the ratio which is, Management expenses/total earning. The lower ratio, the better for bank since it shows that management has good ability to handle the bank operations (Baral, 2005: 44).

Earning Capacity

Present and future operation is supported by the strong profitability and earning profile of a bank. Strong profitability and earning position of a bank also build the capacity to absorb future losses if any which strengthen the capital adequacy of a bank. Earning and profitability also helps to expand its network of business and enable to pay satisfactory dividend to the share holder. To measure earning and profitability of a bank, there are a number of variables. Among these variables, Return on Asset (ROA) and Return on Equity (ROE) are mostly used. Return on asset and Return on equity is anticipated to be high enough to demonstrate the profit soundness of a bank (www.answers.com).

Liquidity

An FI must always be liquid to meet depositors' and creditors' demand to maintain public confidence. Cash maintained by the banks and balances with central bank, to total asset ratio (LQD) is an indicator of banks liquidity. In general, banks with a larger volume of liquid assets are perceived safe, since these assets would allow banks to meet unexpected withdrawals (www.slideshare.net).

2.1.3 Concept of Bank:

The word ‘Bank’ is used in the sense of a commercial bank. The word ‘Bank’ is itself derived from the French word “Banque” and “Italian” word ‘Banca’. It referred to a bench. At that time, there were some moneylenders sitting in the bench for keeping, lending and exchanging of money in the market place. That was the origin of commercial bank in the banking history (Singh, 2063: 6).

“A bank is one who in the ordinary course of his business receives money which he repays by honoring cheques of persons from which of one whose account is receive it” (Bardford, 1986 : 453).

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers that have capital deficits to customers with capital surpluses (www.wikipedia.com).

"A banking company means any company which transacts the business of banking. Banking means accepting for the purpose of lending of investment of deposits of money from the public, payable on demand or other wise and withdraw able by cheque, draft or otherwise" (Indian Banking Company Act, 1949).

An organization, usually a corporation, chartered by a state or federal government which does most or all of the following: receives demand deposits and time deposits, honors instruments drawn on them and pays interest on them, discounts notes, makes loans, and invests in securities; collects checks, drafts, and notes, certifies depositor’s checks and issues drafts and cashier's checks (www.investorwords.com).

The commercial banks are referred to a division of a bank that deals with deposits and loans from corporations or large business. It can be regarded as the most successful division of banking (www.onlinewatch.com/retailbanking).

2.1.4 Concept of Commercial Bank:

"A commercial bank is one which exchanges money, deposits money, accepts, grants loan and performs commercial banking functions and which is not a bank meant for co-operative agriculture industries or for such specific purpose" (Nepal Commercial Bank Act, 2031: 1).

"The American Institute of Banking has laid down for functions of the commercial banks i.e. receiving and handling deposits, handling payments for its clients, granting loan and investment and creating money by extension of credit" (American Institute of Banking, 1985: 609).

"Commercial Banks are heart of financial system they hold the deposits of many person, government establishment business unit. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers to customers and the financial activities of the government. They provide the large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of nation is important to the functioning of the economy" (Read, Cotler, Will, Smith, 1976: 39).

2.1.5 Role of Commercial Banks in Economic Development of a Country:

Commercial banks play an important and active role in the economic development of a country. If the banking system in a country is effective', efficient and disciplined, it brings about a rapid growth in the various sectors of the economy. The economic significance of commercial banks is given in brief (www.informationbible.com).

Banks promote capital formation

The commercial banks play an important role in rising of the financial resources. They encourage savings by giving various types of incentives to the savers. They expand branches of the banks in rural and urban areas and mobilize savings even at far of places. These savings are then made available to the businesses which make use of them for productive purposes in the country. The banks are, therefore, not only store houses of the country's wealth, but also provide stream of resources necessary for economic development.

Investment in new enterprises

Businessmen normally hesitate to invest their money in risky enterprises. The commercial banks generally provide short and medium term loans to entrepreneurs to invest in new enterprises and adopt new methods of production. The provision of timely credit increases the productive capacity of the economy.

Promotion of trade and industry

With the growth of commercial banking in the 19th and 20th centuries, there is vast expansion in trade and industry. The use of bank draft, cheque, bill of exchange credit cards etc has revolutionized both national and international trade.

Development of agriculture

The commercial banks, particularly in developing countries, are now providing credit for the development of agriculture and small scale industries in rural areas. The provision of credit to agriculture sector has greatly helped in raising agricultural productivity and income of the farmers. This has led to increased demand for industrial goods and expansion of industry.

Balanced development of different regions

The commercial banks play an important role in achieving balanced in different regions of the country. They help in transferring surplus capital from developed regions to the less developing regions. The traders, industrialists etc of less developed regions are able to get adequate capital for meeting their business needs. This, in turn, increases investment, trade and production in the economy.

Influencing economy activity

The banks can also influence the economic activity of the country through its influence on (a) availability of credit and (b) the rate of interest. If the commercial banks are able to increase the amount of money in circulation through credit creation or by lowering the rate of interest, it directly affects economic development. A low rate of interest can encourage investment. The credit creation activity can raise aggregate demand which leads to more production in the economy.

Implementation of monetary policy

The central bank of the country controls and regulates volume of credit through the active cooperation of the banking system in the country. If helps in bringing price stability and promotes economic growth within shortest possible period to time.

Monetization of the economy

The commercial banks by opening branches in the rural and backward areas are reducing the exchange of goods through barter. The use of money has now greatly

increased the volume of production of goods. The non-monetized sector (barter economy) is now being converted into monetized sector with the help of commercial banks.

Export promotion cells

In order to increase the exports of the country, the commercial banks have established export promotion cells. They provide information about general trade and economic conditions both inside and outside the country to its customers. The banks are, therefore, making positive contribution in the process of economic development.

The commercial banks are now not confined to local banking. They are fast changing into global banking i.e., understanding the global customer, using latest information technology, competing in the open market with high technology system, changing from domestic banking to investment banking etc. The commercial banks are now considered the nerve centre of all economic development in the country. The use of online banking is now on the increase. It has brought revolution in banking industry (www.informationbible.com).

2.1.6 Function of Commercial Banks:

The main functions of commercial banks are accepting deposits from the public and advancing them loans. However, besides these functions there are many other functions which these banks perform. All these functions can be divided under the following heads (www.preservearticles.com/ main function of commercial bank.htm).

Accepting Deposits:

The most important function of commercial banks is to accept deposits from the public. Various sections of society, according to their needs and economic condition, deposit their savings with the banks.

For example, fixed and low income group people deposit their savings in small amounts from the points of view of security, income and saving promotion. On the other hand, traders and businessmen deposit their savings in the banks for the convenience of payment.

Therefore, keeping the needs and interests of various sections of society, banks formulate various deposit schemes. Generally, there are three types of deposits which are as follows:

(i) Current Deposits:

The depositors of such deposits can withdraw and deposit money whenever they desire. Since banks have to keep the deposited amount of such accounts in cash always, they carry either no interest or very low rate of interest. These deposits are called as Demand Deposits because these can be demanded or withdrawn by the depositors at any time they want.

Such deposit accounts are highly useful for traders and big business firms because they have to make payments and accept payments many times in a day.

(ii) Fixed Deposits:

These are the deposits which are deposited for a definite period of time. This period is generally not less than one year and, therefore, these are called as long term deposits. These deposits cannot be withdrawn before the expiry of the stipulated time and, therefore, these are also called as time deposits.

These deposits generally carry a higher rate of interest because banks can use these deposits for a definite time without having the fear of being withdrawn.

(iii) Saving Deposits:

In such deposits, money upto a certain limit can be deposited and withdrawn once or twice in a week. On such deposits, the rate of interest is very less. As is evident from the name of such deposits their main objective is to mobilise small savings in the form of deposits. These deposits are generally done by salaried people and the people who have fixed and less income.

Giving Loans:

The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income.

Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the accounts of borrowers. In other words, they create loans out of deposits and deposits out of loans. This is called as credit creation by commercial banks.

Modern banks give mostly secured loans for productive purposes. In other words, at the time of advancing loans, they demand proper security or collateral. Generally, the value of security or collateral is equal to the amount of loan. This is done mainly with a view to recover the loan money by selling the security in the event of non-refund of the loan.

At limes, banks give loan on the basis of personal security also. Therefore, such loans are called as unsecured loan. Banks generally give following types of loans and advances:

(i) Cash Credit:

In this type of credit scheme, banks advance loans to its customers on the basis of bonds, inventories and other approved securities. Under this scheme, banks enter into an agreement with its customers to which money can be withdrawn many times during a year. Under this set up banks open accounts of their customers and deposit the loan money. With this type of loan, credit is created.

(iii) Demand loans:

These are such loans that can be recalled on demand by the banks. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower, and thus entire loan becomes chargeable to interest with immediate effect.

(iv) Short-term loan:

These loans may be given as personal loans, loans to finance working capital or as priority sector advances. These are made against some security and entire loan amount is transferred to the loan account of the borrower.

Over-Draft:

Banks advance loans to its customer's upto a certain amount through over-drafts, if there are no deposits in the current account. For this banks demand a security from the customers and charge very high rate of interest.

Discounting of Bills of Exchange:

This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and

business firms by discounting their bills. In this way, businessmen get loans on the basis of their bills of exchange before the time of their maturity.

Investment of Funds:

The banks invest their surplus funds in three types of securities—Government securities, other approved securities and other securities. Government securities include both, central and state governments, such as treasury bills, national savings certificate etc.

Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of Land Development Banks units of UTI, shares of Regional Rural banks etc.

Agency Functions:

Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows:

- Banks collect cheques, drafts, bills of exchange and dividends of the shares for their customers.
- Banks make payment for their clients and at times accept the bills of exchange: of their customers for which payment is made at the fixed time.
- Banks pay insurance premium of their customers. Besides this, they also deposit loan installments, income-tax, interest etc. as per directions.
- Banks purchase and sell securities, shares and debentures on behalf of their customers.
- Banks arrange to send money from one place to another for the convenience of their customers.

Miscellaneous Functions:

Besides the functions mentioned above, banks perform many other functions of general utility which are as follows:

- Banks make arrangement of lockers for the safe custody of valuable assets of their customers such as gold, silver, legal documents etc.

- Banks give reference for their customers.
- Banks collect necessary and useful statistics relating to trade and industry.
- For facilitating foreign trade, banks undertake to sell and purchase foreign exchange.
- Banks advise their clients relating to investment decisions as specialist
- Bank does the under-writing of shares and debentures also.
- Banks issue letters of credit.
- During natural calamities, banks are highly useful in mobilizing funds and donations.
- Banks provide loans for consumer durables like Car, Air-conditioner, and Fridge etc (www.preservearticles.com).

2.1.7 Sources Income of Commercial Bank:

A bank is a business organization engaged in the business of borrowing and lending money. A bank can earn income only if it borrows at a lower rate and lends at a higher rate. The difference between the two rates will represent the costs incurred by the bank and the profit. Bank also provides a number of services to its customers for which it charges commission. This is also an important source of income. The followings are the various sources of a bank's profit: (www.commercialbank.com).

Interest on Loans:

The main function of a commercial bank is to borrow money for the purpose of lending at a higher rate of interest. Bank grants various types of loans to the industrialists and traders. The yields from loans constitute the major portion of the income of a bank. The banks grant loans generally for short periods. But now the banks also advance call loans which can be called at a very short notice. Such loans are granted to share brokers and other banks. These assets are highly liquid because they can be called at any time. Moreover, they are source of income to the bank.

Interest on Investments:

Banks also invest an important portion of their resources in government and other first class industrial securities. The interest and dividend received from time to time on these investments is a source of income for the banks. Bank also earn some income when the market prices of these securities rise.

Discounts:

Commercial banks invest a part of their funds in bills of exchange by discounting them. Banks discount both foreign and inland bills of exchange, or in other words, they purchase the bills at discount and receive the full amount at the date of maturity. For instance, if a bill of Rs. 1000 is discounted for Rs. 975, the bank earns a discount of Rs. 25 because bank pays Rs. 975 today, but will get Rs. 1000 on the due date. Discount, as a matter of fact, is the interest on the amount paid for the remaining period of the bill. The rate of discount on bills of exchange is slightly lower than the interest rate charged on loans and advances because bills are considered to be highly liquid assets.

Commission, Brokerage, etc.:

Banks perform numerous services to their customers and charge commission, etc., for such services. Banks collect cheques, rents, dividends, etc accepts bills of exchange, issue drafts and letters of credit and collect pensions and salaries on behalf of their customers. They pay insurance premiums, rents, taxes etc., on behalf of their customers. For all these services banks charge their commission. They also earn locker rents for providing safety vaults to their customers. Recently the banks have also started underwriting the shares and debentures issued by the joint stock companies for which they receive underwriting commission.

Commercial banks also deal in foreign exchange. They sell demand drafts, issue letters of credit and help remittance of funds in foreign countries. They also act as brokers in foreign exchange. Banks earn income out of these operations (www.commercialbank.com).

2.1.8 Risk of Commercial Bank:

Banks face a number of risks in order to conduct their business, and how well these risks are managed and understood is a key driver behind profitability, and how much capital a bank is required to hold. Some of the main risks faced by banks include:

- Credit risk: risk of loss arising from a borrower who does not make payments as promised.
- Liquidity risk: risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit).
- Market risk: risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in value of the market risk factors.
- Operational risk: risk arising from execution of a company's business functions.
- Reputational risk: a type of risk related to the trustworthiness of business.
- Macroeconomic risk: risks related to the aggregate economy the bank is operating in (www.wikipedia.com).

2.1.9 Concept of Joint Venture Bank:

“A Joint Venture Bank is joining of forces between two or more enterprises for the purchase of carrying out a specific operation i.e. industrial and commercial investment production or trade" (Gupta, 1984: 15).

"A joint venture business involves in equity arrangement between two or more independent enterprises which results in the creation of new organization" (Jauch and Glueck, 1988: 232).

“The existence of foreign joint venture bank has presented an environment of healthy competition among the existing commercial banks. The increased competition had led to improve their quality and has caused an extension of services by simplifying procedures and training” (Chopras, 1990: 231).

“Nepal Government’s deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally run commercial banks enhancing their banking capacity through competition, efficiency, modernization, and

mechanization via computerization and prompt customer service" (Vaidhya, 1999: 45).

"All the Nepalese JVBs are established and operated under the rules, regulations, and guidance of NRB. NRB has issued a certain direction to the banks regarding the mandatory credit allocation to the priority sector. The NRB has directed to the government owned banks to invest 3% and the JVBs to invest 0.5% of their total outstanding credit to the priority sector" (NRB, 1998: 4).

2.2 Review of the Previous Studies:

This part consists of a review of past studies conducted by other researchers, which are relevant to the topic.

2.2.1 Review of Journal and Articles:

Shrestha (2006), in his article "*Portfolio Management in commercial Bank, Theory and practice*" has emphasized that portfolio management is essential for individual and institutional investors. Though in the case of small investor as they are not left with much of an option it may be limited to small savings, but for large investors, diversification through investment in mutual funds, shares, debentures should be practiced as any rational investor would seek to derive the maximum return on investment although assuming some risk at the same time. A best mix of investment assets fulfilling the under mentioned aspects are preferred by prudent (large) investors.

They are:

- Higher return which is comparable with alternative opportunities available not undermining the risk taking capability of the investor.
- Adequate liquidity with sufficient safety and profitability of investment.

With these in view, the following strategy needs to be adopted:

- To have a portfolio of different securities and not just holding a single security.
- Don't put all the eggs in the same basket. (For instance don't invest in a single company or single sector). Diversification of investment should be practiced for adequate safety, liquidity and profitability.

- Choose such a portfolio of securities, which ensures maximum return with low degree of risk and uncertainty.

The research has put forward the following approach to be adopted for designing & managing good portfolio.

- Search investment assets (generally securities), which have scope for better returns, depending upon individual characteristics like age, health, need deposition, liquidity and tax liability etc.
- To identify variety of securities for investment to reduce volatility of returns and risk.

This research has also recommended that banks in order to succeed in portfolio management should have skilled manpower, research and analysis team, and proper management information system. He has suggested that the banks having international network can also offer access to global financial markets.

He has also stressed that:

- The survival of every bank depends upon its own financial health and various activities.
- In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standard and give their clients the benefits of global strength, local insights and prudent philosophy.

Norris (2007), in the article *"Be Cautious While Licensing a New Foreign Banks"* studied about the possible impact of foreign banks setting up their branches here said if proper regulations are not made by Nepal Rasta Bank, then the Nepali banks stand to lose a lot. Banks have been assuming that when foreign banks come in they will only be interests in wholesale lending. But if the right rules are not set in place, nothing will stop foreign bank, going into the retail sector. They might do bank going into the retail sector. They might do it just to kill off competition and monopolies the Nepali retail sector which is profitable given the number of bank making profit in retail business currently. The solution suggested is to adopted policies to prohibit foreign banks from entering the retail sector.

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

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

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

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

the least aqcquate bank in terms of capital structure, especially from the viewpoint of resistance to loan losses, during the sample period.

Secondly, it can be concluded that the asset quality of the banks in the sector, to some extent, has diminished relatively to the years immediately following the TRNC banking crisis of 2000-2007. According to the results, K.T. Kooperatif Merkez Bankasi Ltd. stands as the bank with the lowest quality of assets during the period under investigation.

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

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

Shrestha (2009), in the article *"Supervisory Challenges in the Nepalese Banking Sector",* Nepal Rastra Bank Samachar, the author has suggested that the Current global crises is among the greatest challenges to the world economy. Unlike past financial crises, which were confined to particular regions, the current financial continent is quickly spreading across continents. Many countries around the world have experienced impact of global financial crises. The global financial crisis has led policy makers to focus increased attention on the crucial role of banking supervision. Ongoing changes in the structure and nature of banking as well as banking crises, across the globe have focused the attention of policy makers on the appropriate structure, scope and degree of independence of banking supervision. Independence for banks and financial institutions (BFI) supervisory authorities enhances their ability to enforce actions. The issue regarding the independence of supervisory authorities is the degree to which BFI supervisors should be subject to political and economic policy

pressure and influence. How these issues are addressed is important because policies that fail to provide for an appropriate BFI supervisory framework may undermine BFI performance and even lead to full-scale BFI crises.

2.2.2 Review of Previous Thesis:

Karki (2005), in his thesis entitled *"A comparative analysis of financial performance of NABIL and SCBNL"*, has pointed out following objectives.

a. To evaluate liquidity position of both banks.
b. To analyze comparative financial performance of both banks.
c. To study the comparative position of both banks.
d. To offer a package of suggestion to improve the financial performance.
e. To identity the relationship between interests earned and operating profit.

Major Findings of this study are as follows:

a. SCBNL has efficiently operated its long-term fund, deposit and assets to generate more profits.
b. Liquidity position of NABIL bank is favorable in many cases it seems excessive. The proposed recommendation for these banks are to reduce its excessive non-performing assets (Cash and bank balance) and invest on the income generating current assets (Treasury bills), while SCBNL must strength the liquidity position.
c. Comparatively SCBNL's profit ability position is better than that of NABIL.

Upreti (2007), in his thesis entitled *"A comparative study of financial performance of NIBL, HBL, SCBNL and EBL"*, has pointed out following objectives.

a. To study the present of the four joint venture banks.
b. To do the comparative study about the financial performance of these banks with regard to-their profitable liquidity, efficiency and capital structure.
c. To provide recommendation and suggestion on the findings to improve financial performance of these banks.

Major Findings of the study are as follows:

a. Among all the sample banks, HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects.

b. SCBNL has been successful in earning more net profit by the proper use of its available assets.

c. EBL with the highest ratio has been successful in generating more interest by the proper use of its available assets.

d. EBL and HBL seem to have held more cash and bank balance rather than other commercial banks.

Shakya (2008), has conducted a research entitled *"CAMEL study on Financial Performance of Commercial Banks in Nepal with Reference to SCBNL, NABIL and NIBL"*, with objective to evaluate and analysis the financial performance of these banks on the basis of CAMEL concluded the findings such as;

a. From study capital adequacy ratio of all three banks are found to be higher than that of NRB's standard. Among three banks SCBNL has the highest CAR of 15.25%. The conclusion is that all the selected banks are able to give their depositors safe feeling that their deposited amount is safe. And SCBNL's depositors feel safer than of other two banks NABIL and NIBL.
b. From the study NPL of all three banks are found to be least and are effective and efficient in utilizing their assets and are success in decreasing their NPL ratio satisfactorily.
c. From study management efficiency ratio of SCBNL is highest among other two banks NABIL and NIBL. Conclusion is that SCBNL has good management quality than other two banks.
d. Earning per share of all the selected banks seem to be decreasing, it is sign that earning capacity of selected banks are in decreasing trend. And SCBNL has highest earning capacity than other two banks.
e. From the study all three selected banks are found to have higher CRR than that of NRB's standard and SCBNL and NIBL have their CRR above the NRB's standard where as NABIL fails to meet NRB's regulation in year 2004/05 and 2005/06.

On the basis of above conclusion the following suggestions and recommendation are given by him to improve the performance of selected banks.

a. SCBNL should invest its resources in productive sectors as its CAR is higher than requirement and should perform its activities efficiently to increase EPS.

b. NABIL must maintain CRR as per NRB directive.
c. NIBL should utilize its assets in productive sector and improve its credit management to minimize its non performing loan. It should maximize its per employee contribution on profit.

Shrestha (2009), on study entitled *"A Comparative Analysis of Financial Performance of Selected Joint Venture Banks"* an master level thesis summated to faculty of management; T.U. has selected the banks NABIL, HBL and NB for this study. In this present situation, NB Bank is devolved by NRB due to its improper management and internal weaknesses. The basic objectives of her research study are as follows:

a. To examine the comparative financial strengths and weaknesses of the selected Joint Venture Banks.
b. To analyze different financial ratios of these banks etc.

Shrestha attempts of analyzing financial performance were concentrated in ratio analysis and she derived the strengths and weaknesses of Joint Venture Banks by calculating important ratios such as liquidity ratios, leverage ratios, profitability ratios etc. after calculating the above ratios along with income and expenditure analysis and trend analysis, she has come out with some findings which are outlined below:

a. Analysis of liquidity ratio indicates better liquidity position of NB Bank.
b. NB Bank is efficiently utilizing its deposit of loans and advances however total investment of NABIL is better than that of NB Bank and HBL.
c. Capital adequacy ratio of NABIL is better than the other two JVBs etc.

After preparing that research study, she prepared some suggestions which are: NABIL and HBL must shift their investment from low income generating loans and advances and overdraft to increase its profit and to become one of the leading JVBs of Nepal. The venture banks should not only centralized in urban areas but are recommended to activate foreign technology and investment in Nepal by means of their operating skills and international banking techniques.

Timilsena (2010), conduct a research entitled "*The Role of NRB Reference with the Commercial Banks*" with the objective of

a. To study the geographical distribution of the branches of commercial banks,
b. To examine the role of NRB in branch expansion of commercial banks;
c. To review the NRB policy for establishing commercial banks with respect to geographical consideration.
d. To analyze the relationship of interest rate with deposit mobilization and credit expansion of the CBs.

The major findings from his research are

a. Claim on private sector credit has strong relationship with both fixed deposit and paid up capital.
b. Quantity CBs branches have increased when NRB had policy for CBs to open two branches in rural areas before opening their branches in urban areas. This proves how the role of NRB is significant for the development of CBs,
c. Most of the investment portion of CBs is in unproductive sector like home, land, home appliances, etc which is personal consumable things, CBs could not invest in mega project, which create employment opportunity and reduce the imports of the product from the foreign countries.

Chapagain (2011), in her thesis entitled, *"CAMEL Analysis of Joint Venture Commercial Banks: with special reference to NABIL, EBL, SCBNL"* an master level thesis summitted to Shanker Dev campus, faculty of management TU. The basic objectives of her research were to find out individual and comparative financial position of selected joint venture commercial banks in the Liberalized Nepalese economy. Her attempts of analyzing financial position were concentrated in CAMEL approach and she derived the strength and weakness of three major joint venture banks. After calculating and analyzing the CAMEL approach, she has come out with some remarkable findings of this study are as follows:

a. The capital adequacy ratio of all three banks is more than the prescribed value of NRB. Among them SCBNL has high degree of strength of capital sufficiency that means better liquidity position and lending capacity of bank but more of its fund seems to be tied up
b. The performing loan ratio of EBL and SCBNL is in increasing trend where as NABIL has fluctuating trend of performing loan ratio. The increasing trend of performing loan ratio of EBL and SCBNL shows that the bank has invested

their funds in proper way. But, the decreasing trend of NABIL shows that the bank should improve their credit management system.

c. The management efficiency ratio of all the bank is in increasing trend which shows the banks are able to mobilize their employees. Through EBL has increasing trend of management efficiency ratio, it has lower ratio in comparison to NABIL & SCBNL. So EBL should improve its MER.

Gautam (2012), in his thesis entitled *"Liquidity Mobilization of Selected Bank (NABIL, NSBL and LUBL)"* an master level thesis summated to faculty of management, T.U. has pointed out following objectives.

a. To analyze the deposit position of the sample commercial banks.

b. To analyze the liquidity mobilization position of the sample commercial banks.

c. To analyze the relationship between deposits, loan and advances and total investment of the sample commercial banks.

d. To analyze the financial position of the sample commercial banks on the basis of profitability, liquidity, assets management etc.

e. To analyze the trend of total deposits of sample commercial banks.

Major Findings of this study are as follows:

a. The return on total assets ratio of, LUBL is the highest among all of the sample banks. Similarly, NABIL has the moderate ratio and NSBL has the lowest ratio.

b. LUBL, NABIL and NSBL come respectively in first, second and third position according to return on total credit ratio.

c. NSBL has the highest price-earning ratio, NABIL has the moderate ratio and LUBL has the lowest ratio among these three commercial banks.

d. LUBL and NABIL use higher fund in loan & advance then NSBL. NSBL has lowest uses of fund in loan & advances. NSBL has higher uses of fund in investment than other sampled banks.

e. Correlation between total deposit and net income is highly positive of NABIL (0.99) and NSBL (0.97) and LUBL (0.76).

f. The correlation between total deposit and loan & advance of NABIL (0.99) is higher than NSBL (0.98) & LUBL (0.66).

g. All banks have the total deposit trend value is increasing order. NABIL has higher trend than NSBL & LUBL in further five year trend value.

2.3 Research Gap:

There are various studies have been conducted on financial analysis of commercial banks. The previous studies mainly emphasized on liquidity, profitability and leverage ratios of the commercial banks. In the context of liberization and globalization Nepalese banking environment there is appropriate to use an international bank-rating system where bank supervisory authorities rate institutions according to six factors ie, CAMELS. There are few academic research conducted in the framework of CAMEL.

Every year performance of the banks are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about in depth analysis of the financial performance in CAMEL framework which is the major concern of the shareholders and stakeholders. This type of comparative study has not been conducted in Nepalese Banks. So it is helped that this study will provide wider scope in this area.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction:

"Research Methodology is a way to systematically solve the research problem. It may understand as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by researcher problem along with logic behind them" (Kothari, 1990: 10).

"Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data" (Michael, 1985: 57).

3.2 Research Design:

"Research design is the plan, structure, and strategy of investigation so as to obtain answer to research question and control variance" (Kerlinger, 1986: 275). "Research design is like a philosophy of life no one is without one, but some people are more aware of theirs and thus able to make more informed and consistent decisions" (Maxwell, 1996: 34).

By research design we mean an overall frame work or plan for the activities to be undertaken during the course of a research study. The plan is the overall scheme of the research (Wolff and Pant, 1975: 92).

Considering the objectives of the study descriptive and analytical research design has been used. Descriptive techniques have adopted to interpret performance of EBL, SCBNL, and NIBL. For the analytical part, financial and statistical tools have been used with the help of annual report and financial statement published by concentrate banks.

3.3 Nature and sources of Data:

The secondary data are mostly used for this research purpose. The data relating are directly obtained from balance sheet and profit and loss account of concerned banks annual reports published in website. Supplementary data and information are collected from articles, journals, Tribhuvan University central library, Annual Report of NRB, Sensor Survey of 2068, Internet and various websites.

According to the objectives, all the secondary data are complied, processed and tabulated in time series. In order to judge the financial conditions of concentrated banks.

3.4 Population and Sample:

There are 32 commercial banks operating in Nepal under the guidance of Nepal Rasta Bank. So it is not possible to study all the banks. For the purpose of convenience only, three commercial banks i.e. Everest Bank, Standard Chartered Bank Nepal and Nepal Investment Bank Limited are taken as sample of this study and total commercial banks are considered as population.

3.5 Method of Data Analysis:

The collected data will have no meaning if such data will not be analyzed. With the objective of study, various financial and statistical tools have been used to measure comparative financial analysis and to draw inferences on the study area.

3.5.1 Financial Tools:

This study is based on the following financial tools and techniques. The tools are used to evaluate performance of bank based in the CAMEL framework.

Capital adequacy:

This ratio is used to protect depositors and promote the stability and efficiency of financial systems in the bank. In other words it focus on the total position of bank capital and protects the depositors for the potential shocks of losses that a bank incur. According to NRB directive the bank capital has been categorized into two parts core capital and supplementary capital.

Capital adequacy measure the adequacy of capital and financial soundness of finance company. The sum of core and supplementary capital is measured to be total capital fund. The capital adequacy ratio is based on total risk weighted assets. The capital adequacy ratio can be calculated as under.

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

Where,

CAR = Capital adequacy ratio

Total capital fund = Core capital + Supplementary capital

Total risk adjusted assets = On-balance sheet risk adjusted assets + Off-balance sheet risk adjusted assets

a) Core Capital Ratio:

The capital which is kept in the reserve for general purpose is known as core capital. It is the ratio which is used to measure the relationship of core capital fund and total risk weighted assets. It can be calculated as:

$$\text{CCR} = \frac{Total\ Core\ Capital}{Total\ Risk\ Weighted\ Assets} \times 100$$

Where,

CCR = Core capital ratio

Core capital = Paid-up capital + share premium + non-redeemable preference share + general reserve + cumulative profit + goodwill if any

b) Supplementary Capita Ratio:

It measures the portion of supplementary capital in total risk adjusted assets. It also shows the absolute contribution in capital adequacy. The ratio is used to analyze the supplementary capital adequacy and determined as under:

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

Where,

SCR = Supplementary capital ratio

Supplementary capital = Loan loss provision + exchange equalization reserve + assets revaluation reserve + hybrid capital instrument + unsecured subordinate term debt + interest rate fluctuation fund + other free reserve

Assets quality:

Bank managers are concerned with the quality of their loans since that provides earnings for the bank. Loan quality and asset quality are two terms with basically the same meaning. The composition of all commercial banks shows the concentration of loans and advances indicates vulnerability of assets to credit risk, especially since the portion of non-performing assets is significant.

a) Performing Loan Ratio (PLR):

All good and overdue loans below 90 days are performing loans. This ratio shows how much the banks are successful in utilizing their assets for profit generation purpose. Higher ratio indicates efficiency in utilizing the good loans. The ratio is calculated as under:

PL Ratio = $\frac{Performing\ Loan}{Total\ Loan} \times 100$

b) Non-performing Loan Ratio (NPLP):

It shows the percentage of non-performing loan in relation to the total loan and advances. Lower the ratio indicates robust and sound credit management where as higher ratio indicates poor credit management. Hence, lower the ratio is preferred. It can be calculated as under:

NPL Ratio = $\frac{Non-performing\ Loan}{Total\ Loan} \times 100$

c) Loan Loss Provision Ratio (LLPR):

This is the provision set aside by the banks in order to cover the probable loss caused due to the default of the loan amount. It is used to appraise quality of asset. This ratio shows the possibility of loan default. It measures the proportion of loan loss provision in total loan and advances. This ratio shows how much the bank needs to set the provision to cover the loss of default loan in the future from the loan released by the bank. Lower LLP ratio signifies that the bank has higher volume of good loan and the provision is less required and vice versa. The ratio is determined as under:

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

d) Loan Loss Coverage Ratio (LLCR):

Loan loss coverage ratio indicates the provision made by bank for exposure of loan loss in terms of non-performing loans. Higher the loan loss coverage ratio better is the financial condition and vice versa. LLC ratio can be calculated as under:

LLC Ratio = $\frac{Total\ Loan\ Loss\ Provision}{Total\ Non\ Performing\ Loan} \times 100$

Management quality:

Sound management is the most important pre-rquisite for the strength and growth of any financial institution. Since indicators of management quality are primarily specific to individual institutions.

a) Management Efficiency Ratio (MER):

MER shows the contribution of each employee in generating total net income. A good management always has sufficient number of efficient, motivated, responsible and dedicated manpower in the team. The higher ratio indicates existence of efficient management and vice versa. It can be calculated as follows:

$$\text{Management Efficiency Ratio} = \frac{Net\ Profit\ After\ Tax}{Total\ No.of\ Staff}$$

b) Total Expenses to Total Income Ratio (TETIR):

TETIR measures the proportion of total expense in total revenues. Higher the ratio indicates lower the operating efficiency and vice versa. In any case, it is likely to negatively affect profitability (IMF 2000). It can be calculated as follows:

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

Earnings:

The amount of profit that a company produces during a specific period, which is usually defined as a quarter or a year. Earnings typically refer to after-tax net income. Strong earnings and profitability profile of a bank reflect its ability to support present and future operations. More specifically, this determines the capacity to absorb losses by building an adequate capital base finance its expansion and pay adequate dividends to its shareholders.

a) Earning Per Share (EPS):

Earning per share provides a direct measure of the returns flowing to the company's owners its stockholders measured relative to the members of shares to the public. It measures the earnings available to equity shareholders on a per share basis. It gives the strength of the share in the market. EPS can be calculated as follows:

$$\text{EPS} = \frac{Net\ profit\ after\ tax(NPAT)}{Total\ No.of\ Shares}$$

b) Price Earning Ratio (P/E Ratio):

This ratio reflects the price currently being paid by the market for each rupee of currently reported EPS. This ratio helps security analysts to assess a banks performance as expected by the investors. Higher the ratio indicates better place for the investment and vice versa. It can be calculated as follows:

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

c) Return on Assets (ROA):

This ratio indicates how efficiently a bank is utilizing and mobilizing its assets to generate profit. It measures a company's success in earning a return for the common stockholders. Higher the ratio better utilization of total assets. The ratio is calculated as follows:

$$\text{ROA} = \frac{Net\ profit\ after\ tax\ (NPAT)}{Total\ Assets\ (TA)} \times 100$$

d) Return on Equity (ROE):

ROE is one of the important ratios to judge whether the firm has earned a satisfactory return for its equity holders or not. This ratio reveals how well the firm has used the resources to earn profit for the owners. Higher the ratio, more favorable to its stock holders which represent the sound management and efficient mobilization of the owners equity. The ratio is calculated as under:

$$\text{ROE} = \frac{Net\ profit\ after\ tax(NPAT)}{Shareholders\ Fund} \times 100$$

Liquidity:

The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. The ability to convert an asset to cash quickly. Also known as "marketability". Liquidity indicators measured as percentage of demand and time liabilities (excluding interbank items) of the banks.

a) Cash Reserve Ratio (CRR):

According to NRB directive all commercial banks are required to maintain 5.5% (new 6% from this year) of their total deposit of Nepalese currencies as CRR in their account in NRB for maintaining adequate liquidity. NRB has prescribed this

mandatory requirement in order to save the commercial banks from the liquidity risk. CRR can be calculated as under:

$$\text{CRR} = \frac{NRB\ Balance\ (LCY)}{LCY\ Deposits - Margin\ Deposits} \times 100$$

b) Cash and Bank Balance Ratio (CBB Ratio):

This ratio is designed to measure the bank's ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower the ratio indicates that banks might face liquidity crunch while paying its obligations whereas very high ratio indicates that the bank has kept idle funds and not deploying them properly. It can be calculated as under:

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

c) Investment in Government Securities Ratio:

Government securities are those securities which are risk free and can be easily converted into cash anytime. Banks can utilize their fund investing into government securities which are liquidity in nature and whenever they need cash they can easily manage. It can be calculated as follows:

$$\text{Investment in Gov. Securities Ratio} = \frac{\text{Investment in Gov.Securities}}{Total\ Deposits} \times 100$$

3.5.2 Statistical Tools:

In this study, statistical tools i.e. Trend Analysis is used to find the trend of total deposit and net profit for next two year. A trend is a series of situation that follows a sequence. A widely and most commonly used method to describe the trend is the method of last square. Under this, a trend line is fitted to the data satisfying the condition. It is used to describe the trend of any variable whether it increases or decreases with the passage of time. The general equation used for trend is given below:

$Y = a + bX$

Where,

Y = Dependent variable

X = Independent variable

a = Y-intercept

b = Slope of the trend line

In the above model,

$b = \Sigma XY/X^2$

$a = \Sigma Y/N$

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Financial Analysis:

The financial analysis is undertaken to assess the financial strengths and weaknesses of the firm. The analysis is usually based on financial statements prepared by the firm. The analysis can be performed by insiders or by outsiders. One of the outsiders is financial institution considering the extension of credit to the firm. Financial analysis can serve as the basis for decision-making. The loan officer of the bank needs to decide whether or not to extend the loan to the firm. The insiders wanted to make financial analysis to an assessment of the performance of the firm or its various divisions. The analysis is also made to find out whether to use debt or equity funds to finance a planned plant expansion. Financial analysis uses data contained in the firm's financial statement. The financial statement are used the balance sheet and income statements, supplemented by the statement of cash flows. The primary tools are financial ratios. This chapter is devoted to definition and calculation of a set of commonly used financial ratios in the aspect of bank through CAMEL approach an integrated model for analyzing financial performance.

4.2 Capital Adequacy:

The inception of every business requires funds commonly known as capital. Normally, the capital structure consists of an equity and debt mix. Equity refers to the funds contributed by the promoters/shareholders, where as debt is a temporary way of raising funds without further dilution of ownership. This is mainly done by issuing bonds and debentures of various maturities.

4.2.1 Capital Adequacy Ratio (CAR):

The capital adequacy ratio is based on total risk-weighted assets. The sum of core and supplementary capital is measured to be total capital fund. For the purpose of calculation of capital fund, the risk-weighted assets have been classified in to two parts; on-Balance sheet Risk-weighted Assets and off-Balance sheet Risk-weighted Items. The capital adequacy ratio would measure the total capital fund on the basis of total risk-weighted assets. According to NRB directives, commercial bank should maintain their CAR 11% according to BASEL-I up to fiscal year 2007/08 and 10%

according to BASEL-II. All commercial banks should maintain CAR. This is created to protect the interest of the depositors. In the event of non-fulfillment of CAR in any quarter, the bank shall fulfill the shortfall amount within next six month. The capital adequacy ratio can be determined as follows:

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

Computation of Capital Adequacy Ratio

Table 4.1

Capital Adequacy Ratio of NIBL

Fiscal Year	Total capital Fund	Total Risk-weighted Assets	Ratio (in %)
2006/07	2851619000	23435634000	12.17
2007/08	3891235000	38236768000	10.18
2008/09	5095353000	45312265000	11.24
2009/10	5651045000	53553866000	10.55
2010/11	6324627000	57993926000	10.91

Table 4.2

Capital Adequacy Ratio of EBL

Fiscal Year	Total capital Fund	Total Risk-weighted Assets	Ratio (in %)
2006/07	1676116000	14976737000	11.19
2007/08	2348390000	20974862000	11.20
2008/09	2703870000	25619753000	10.55
2009/10	3257142000	30240428000	10.77
2010/11	3605840000	34583547000	10.43

Table 4.3

Capital Adequacy Ratio of SCBNL

Fiscal Year	Total capital Fund	Total Risk-weighted Assets	Ratio (in %)
2006/07	2225284000	14168420000	15.71
2007/08	2630902000	20014076000	13.15
2008/09	3190367000	21703164000	14.70
2009/10	3498973000	24106648000	15.51
2010/11	3835592000	26974342000	14.22

The above three table showing Capital Adequacy Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.4

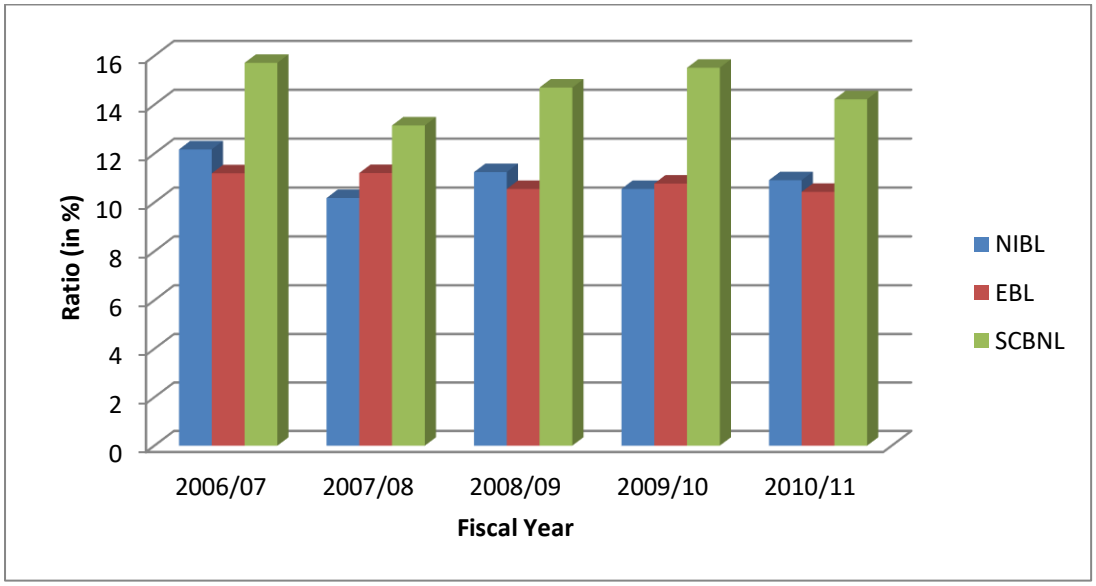
Capital Adequacy Ratio of NIBL, EBL and SCBNL (in %)

Fiscal Year	NIBL	EBL	SCBNL
2006/07	12.17	11.19	15.71
2007/08	10.18	11.20	13.15
2008/09	11.24	10.55	14.70
2009/10	10.55	10.77	15.51
2010/11	10.91	10.43	14.22
Average	11.01	10.83	14.66

The above table shows the CAR of NIBL, EBL, and SCBNL from fiscal year 2005/06 to 2010/11. All the three banks have maintained CAR as per the NRBs standard. Among three bank SCBNL has highest average ratio of 14.66% which shows the SCBNL has high degree of strength of capital sufficiency in comparison to NIBL and EBL. The CAR of NIBL and EBL are also satisfactory level.

Figure 4.1

Capital Adequacy Ratio of NIBL, EBL and SCBNL



The above figure shows that all three banks have CAR above the NRBs directive i.e. 11% up to fiscal year 2008/09 according to BASEL-I and 10% from fiscal year 2009/10 according to BASEL-II. The average ratio of NIBL, EBL and SCBNL are 11.01%, 10.83 and 14.66 respectively. This shows that in comparison to two banks NIBL and EBL, SCBNL has high degree of strength of capital sufficiency that means better liquidity position and lending capacity of bank but more of its fund seems to be tied up. The trend of NIBL and EBL are just wants to maintain CAR as NRBs requirement but SCBNL is higher.

4.2.2 Core Capital Ratio (CCR):

The capital which is kept in the reserve for general purpose is known as core capital. It is the ratio which is used to measure the relationship of core capital fund and total risk weighted assets. As per the rule of NRB all commercial banks had to maintain core capital ratio of minimum 5.5% of total risk weighted assets during BASEL-I implementation in the FY 2007/08. According to BASEL-II from the FY 2008/09 all commercial banks have to maintain 6% of Capital Ratio. Core capital consists of paid up equity share capital, share premium, non redeemable preference share, general reserve, cumulative profit and loss (up to previous fiscal year) and current year profit and losses per balance sheet. It is calculated by:

$$\text{CCR} = \frac{Total\ Core\ Capital}{Total\ Risk\ Weighted\ Assets} \times 100$$

Computation of Core Capital Ratio

Table 4.5

Core Capital Ratio of NIBL

Fiscal Year	Total Core Capital	Total Risk Weighted Assets	Ratio (in %)
2006/07	1852197000	23435634000	7.90
2007/08	2658915000	38236768000	6.95
2008/09	3879969000	45312265000	8.56
2009/10	4554094000	53553866000	8.50
2010/11	5083617000	57993926000	8.77

Table 4.6

Core Capital Ratio of EBL

Fiscal Year	Total Core Capital	Total Risk Weighted Assets	Ratio (in %)
2006/07	1171133000	14976737000	7.82
2007/08	1560859000	20974862000	7.44
2008/09	1981579000	25619753000	7.73
2009/10	2537093000	30240428000	8.39
2010/11	2927168000	34583547000	8.46

Table 4.7

Core Capital Ratio of SCBNL

Fiscal Year	Total Core Capital	Total Risk Weighted Assets	Ratio (in %)
2006/07	1951117000	14168420000	13.77
2007/08	2304758000	20014076000	11.52
2008/09	2832761000	21703164000	13.05
2009/10	3019192000	24106648000	12.52
2010/11	3263248000	26974342000	12.10

The above three tables showing Core Capital Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.8

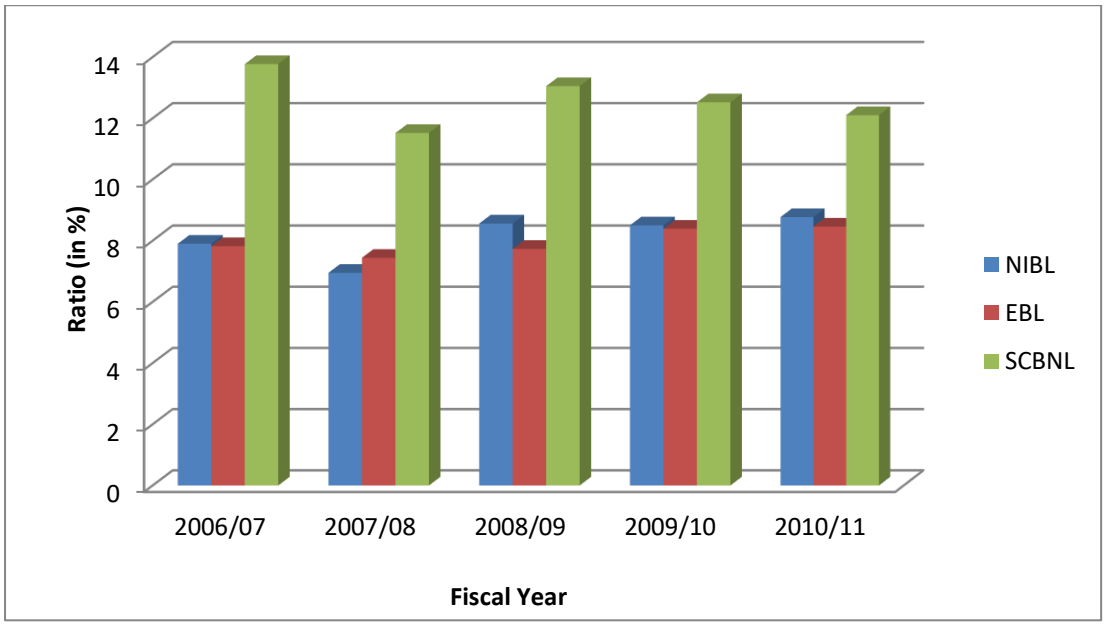
Core Capital Ratio of NIBL, EBL and SCBNL (in %)

Fiscal Year	NIBL	EBL	SCBNL
2006/07	7.90	7.82	13.77
2007/08	6.95	7.44	11.52
2008/09	8.56	7.73	13.05
2009/10	8.50	8.39	12.52
2010/11	8.77	8.46	12.10
Average	8.14	7.79	12.57

The above table shows the CCR of NIBL, EBL, and SCBNL from fiscal year 2005/06 to 2010/11.From the above table we can say that the SCBNL has maintain highest average ratio of 12.57% which shows that it is doing better in terms of safeguarding the interest of depositors than the other two bank. Similarly, NIBL and EBL have second and third respectively in terms of maintaining core capital ratio.

Figure 4.2

Core Capital Ratio of NIBL, EBL and SCBNL



The above figure shows that all three banks have CCR above the NRBs directive i.e. 5.5% up to fiscal year 2008/09 according to BASEL-I and 6% from fiscal year 2009/10 according to BASEL-II. Among three banks, SCBNL, NIBL and EBL are ranked as first, second and third respectively according to CCR. SCBNL has found maintaining double the NRBs regulation. It shows that it is doing well in terms of safeguarding the interest of depositors than the other two banks whereas EBL has maintaining comparatively lower CCR.

4.2.3 Supplementary Capital Ratio (SCR):

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

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

Table 4.9

Supplementary Capital Ratio of NIBL

Fiscal Year	Supplementary Capital	Total Risk Weighted Assets	Ratio (in %)
2006/07	999422000	23435634000	4.26
2007/08	1232321000	38236768000	3.22
2008/09	1215385000	45312265000	2.68
2009/10	1096951000	53553866000	2.05
2010/11	1241010000	57993926000	2.14

Table 4.10

Supplementary Capital Ratio of EBL

Fiscal Year	Supplementary Capital	Total Risk Weighted Assets	Ratio (in %)
2006/07	504982000	14976737000	3.37
2007/08	787531000	20974862000	3.75
2008/09	722291000	25619753000	2.82
2009/10	720049000	30240428000	2.38
2010/11	678673000	34583547000	1.96

Table 4.11

Supplementary Capital Ratio of SCBNL

Fiscal Year	Supplementary Capital	Total Risk Weighted Assets	Ratio (in %)
2006/07	274167000	14168420000	1.94
2007/08	326144000	20014076000	1.63
2008/09	357606000	21703164000	1.65
2009/10	479781000	24106648000	1.99
2010/11	572344000	26974342000	2.12

The above three tables showing Supplementary Capital Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.12

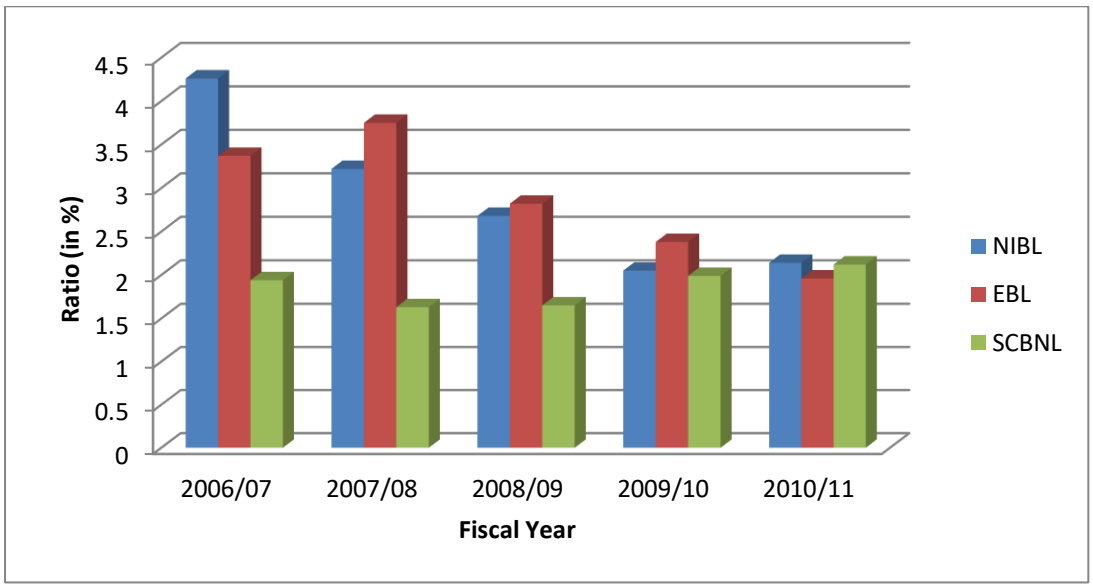
Supplementary Capital Ratio of NIBL, EBL and SCBNL (in %)

Fiscal Year	NIBL	EBL	SCBNL
2006/07	4.26	3.37	1.94
2007/08	3.22	3.75	1.63
2008/09	2.68	2.82	1.65
2009/10	2.05	2.38	1.99
2010/11	2.14	1.96	2.12
Average	2.87	2.86	1.87

The above table shows the SCR of NIBL, EBL, and SCBNL from fiscal year 2005/06 to 2010/11. From the above table we can say that the SCBNL has maintain lower average ratio of 1.87% which shows that it is doing better in terms of safeguarding the interest of depositors than the other two bank.

Figure 4.3

Supplementary Capital Ratio of NIBL, EBL and SCBNL



The above figure shows the SCR of NIBL, EBL, and SCBNL from fiscal year 2005/06 to 2010/11. According to NRBs directive, up to100% of the SC maintained by the concerned banks for particular year is the standard of SCR. Based on average SCR, SCBNL's capital base is stronger than that of NIBL and EBL.

4.3 Assets Quality:

Assets are the most vital factors in the determining the strength of the bank. Assets quality means the capacity of assets to create income as well as the re-cover ability of the principal amount. The major asset for the bank is loan and advances. This is the most risky assets item that needs crucial assessment. Banks collect fund 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 and non-performing loan. Under this following ratios are calculated:

4.3.1 Performing Loan Ratio (PLR):

All good and overdue loans below 90 days are performing loans. This ratio shows how much the banks are successful in utilizing their assets for profit generating purpose. Higher ratio indicates efficiency in utilizing the good loans.

Performing Loan Ratio = $\frac{Performing\ Loan}{Total\ Loan} \times 100$

Computation of Performing loan Ratio

Table 4.13

Performing Loan Ratio of NIBL

Fiscal Year	Performing Loan	Total Loan	Ratio (in %)
2006/07	17347128354	17769099903	97.63
2007/08	27219833753	27529304736	98.88
2008/09	36613250015	36826157409	99.42
2009/10	40694405581	40948440033	99.38
2010/11	41492411058	41887693911	99.06

Table 4.14

Performing Loan Ratio of EBL

Fiscal Year	Performing Loan	Total Loan	Ratio (in %)
2006/07	13969507152	14082686087	99.20
2007/08	18709121394	18836431762	99.32
2008/09	24351570294	24469555526	99.52
2009/10	28112693861	28156399843	99.84
2010/11	31553441194	31661842757	99.66

Table 4.15

Performing Loan Ratio of SCBNL

Fiscal Year	Performing Loan	Total Loan	Ratio (in %)
2006/07	10593131204	10790148357	98.17
2007/08	13835263970	13963983752	99.08
2008/09	13789661419	13880703075	99.39
2009/10	16078447031	16176582758	99.39
2010/11	18546673934	18662477835	99.38

The above three table showing Performing Loan Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.16

Performing Loan Ratio of NIBL, EBL and SCBNL (in %)

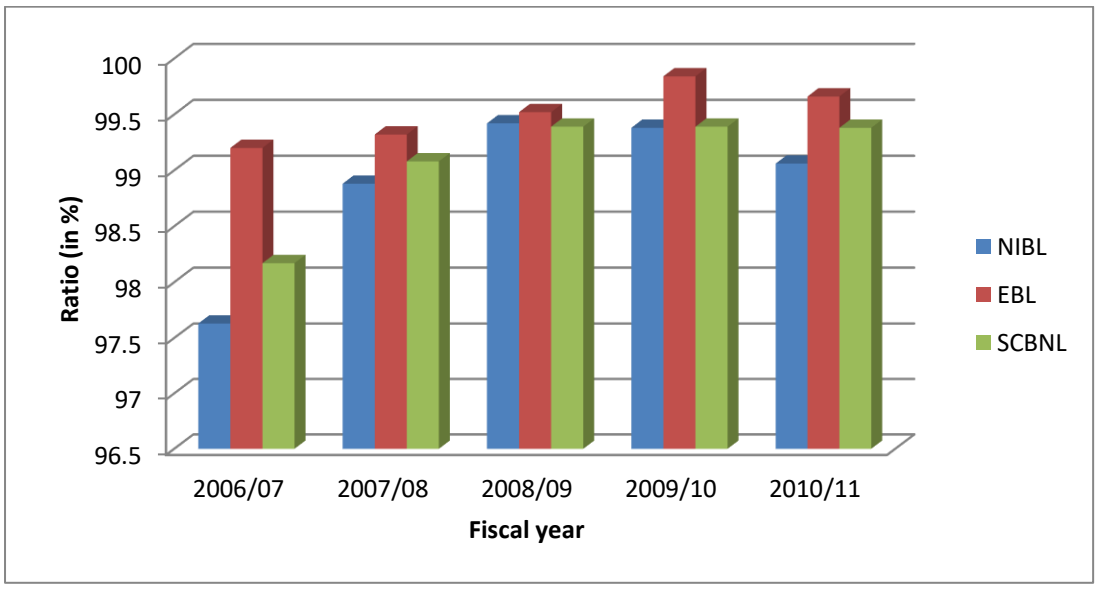
Fiscal Year	NIBL	EBL	SCBNL
2006/07	97.63	99.20	98.17
2007/08	98.88	99.32	99.08
2008/09	99.42	99.52	99.39
2009/10	99.38	99.84	99.39
2010/11	99.06	99.66	99.38
Average	98.87	99.51	99.08

Source: Annual Report

The above table shows the performing loan ratio of NIBL, EBL and SCBNL from fiscal year 2006/07 to 2010/11. EBL has highest average ratio of 99.51% among three banks which indicates that the bank has invested its fund in right place. All the banks have increasing trend of performing loan ratio.

Figure 4.4

Performing Loan Ratio of NIBL, EBL and SCBNL



The above figure shows the performing loan ratio of EBL is higher than other two banks which indicate that the bank has invested its funds in proper way. The performing loan ratio of SCBNL and NIBL are also not worse. The performing loan ratio of SCBNL and NIBL are increasing trend in first three year and there after slightly decreases at last year which shows the banks should concentrate their attention towards credit management. Banks has to investigate properly to maximize the performing loan before providing the loan.

4.3.2 Non Performing Loan Ratio (NPLR):

It shows the percentage of non-performing loan in relation to the total loan and advances. Lower ratio indicates the robust and sound credit management where as higher ratio indicates poor credit management. Hence, lower ratio is preferred. It is calculated by the following formula:

$$\text{Non Performing Loan Ratio} = \frac{Non-performing\ Loan}{Total\ Loan} \times 100$$

Computation of Non Performing Loan Ratio

Table 4.17

Non Performing Loan Ratio of NIBL

Fiscal Year	Non Performing Loan	Total Loan	Ratio (in %)
2006/07	421971550	17769099903	2.37
2007/08	309470983	27529304736	1.12
2008/09	213907394	36826157409	0.58
2009/10	254034452	40948440033	0.62
2010/11	395282853	41887693911	0.94

Table 4.18

Non Performing Loan Ratio of EBL

Fiscal Year	Non Performing Loan	Total Loan	Ratio (in %)
2006/07	1131178936	14082686087	0.80
2007/08	127310368	18836431762	0.68
2008/09	117985232	24469555526	0.48
2009/10	43705982	28156399843	0.16
2010/11	108401563	31661842757	0.34

Table 4.19

Non Performing Loan Ratio of SCBNL

Fiscal Year	Non Performing Loan	Total Loan	Ratio (in %)
2006/07	197017153	10790148357	1.83
2007/08	128719782	13963983752	0.92
2008/09	91041656	13880703075	0.66
2009/10	98135727	16176582758	0.61
2010/11	115803901	18662477835	0.62

The above three tables showing Non Performing Loan Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.20

Non Performing Loan Ratio of NIBL, EBL and SCBNL (in %)

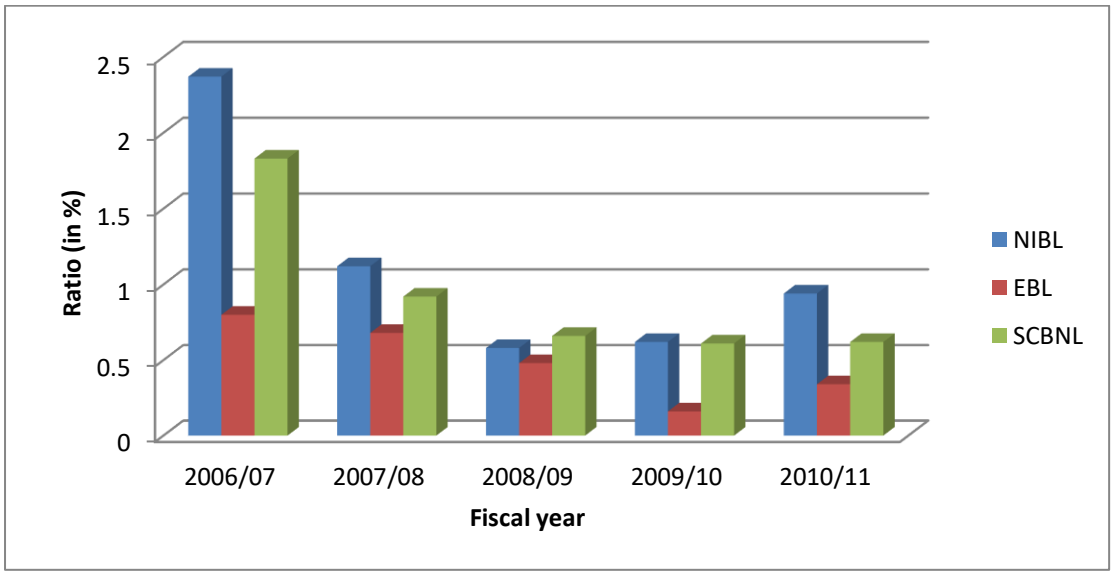
Fiscal Year	NIBL	EBL	SCBNL
2006/07	2.37	0.80	1.83
2007/08	1.12	0.68	0.92
2008/09	0.58	0.48	0.66
2009/10	0.62	0.16	0.61
2010/11	0.94	0.34	0.62
Average	1.13	0.49	0.92

Source: Annual Report

The above table shows the non performing loan ratio of NIBL, EBL and SCBNL. NIBL has the highest average non performing loan ratio of 1.13% it shows the weak to manage its loan and advance in comparison to EBL and SCBNL. NIBL should focus on managing it loan and try to reduce NPL ratio.

Figure 4.5

Non Performing Loan Ratio of NIBL, EBL and SCBNL



The above figure shows that the non performing loan ratio of EBL has lowest than other two banks which indicates that EBL is able to manage its loan and advance in comparison to SCBNL and NIBL. SCBNL has the decreasing trend of nonperforming loan ratio but higher than EBL which shows the SCBNL should also focus on

managing its loan. The NPL ratio of SCBNL and NIBL are in decreasing for the first three year, this implies that the management of both bank are trying to reduce NPL ratio.

4.3.3 Loan Loss Provision Ratio (LLP Ratio):

This is the provision set aside by the banks in order to cover the probable loss caused due to the default of the loan amount. This ratio shows how much the bank needs to set the provision to cover the loss of default loan in the future from the loan released by the bank. Lower LLP ratio signifies that the bank has higher volume of good loan and the provision is less required and vice versa. LLP to TL is always less than LLP to NPL as NPL is the part of TL. If the LLP to TL is lower than we can say that the quality of loan is better. But if the LLP to TL is higher than we can say that the quality of loan is not nice but at least we can feel safe as it has more provision for losses from loan.

This ratio is calculated by dividing the total provision made by the bank by its total loans and advances. This can be presented as:

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

Computation of Loan Loss Provision Ratio

Table 4.21

Loan Loss Provision Ratio of NIBL

Fiscal Year	Total Loan Loss Provision	Total Loan & Advances	Ratio (in %)
2006/07	482672514	17769099903	2.72
2007/08	532652478	27529304736	1.93
2008/09	585950852	36826157409	1.59
2009/10	630131971	40948440033	1.54
2010/11	792179392	41887693911	1.89

Table 4.22

Loan Loss Provision Ratio of EBL

Fiscal Year	Total Loan Loss Provision	Total Loan & Advances	Ratio (in %)
2006/07	418604423	14082686087	2.97
2007/08	497346200	18836431762	2.64
2008/09	584881910	24469555526	2.39
2009/10	600043812	28156399843	2.13
2010/11	604151295	31661842757	1.91

Table 4.23

Loan Loss Provision Ratio of SCBNL

Fiscal Year	Total Loan Loss Provision	Total Loan & Advances	Ratio (in %)
2006/07	287511222	10790148357	2.66
2007/08	245386620	13963983752	1.76
2008/09	200946085	13880703075	1.45
2009/10	219627490	16176582758	1.36
2010/11	235207344	18662477835	1.26

The above three tables showing Loan Loss Provision Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.24

Loan Loss Provision Ratio of NIBL, EBL and SCBNL (in %)

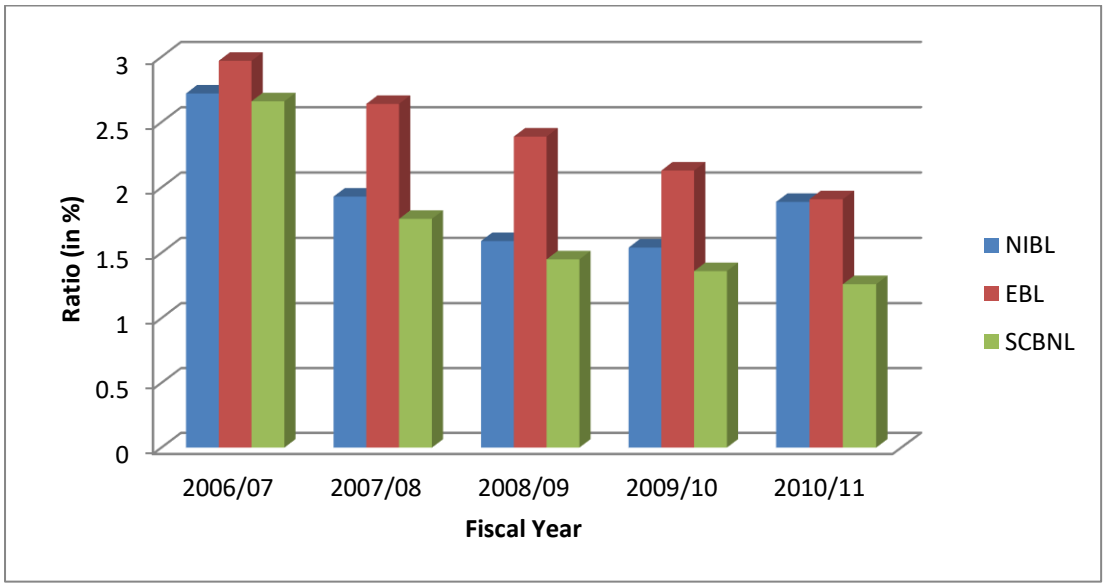
Fiscal Year	NIBL	EBL	SCBNL
2006/07	2.72	2.97	2.66
2007/08	1.93	2.64	1.76
2008/09	1.59	2.39	1.45
2009/10	1.54	2.13	1.36
2010/11	1.89	1.91	1.26
Average	1.93	2.41	1.70

Source: Annual Report

The above table shows the loan loss provision ratio of NIBL, EBL and SCBNL from fiscal year 2006/07 to 2010/11. From the table we come to know that the three banks have decreasing rate of LLP ratio which shows that all banks are able to reduce their non performing loan by following effective credit management.

Figure 4.6

Loan Loss Provision Ratio of NIBL, EBL and SCBNL



The above figure shows that the LLP ratio of NIBL, EBL and SCBNL are in decreasing trend from fiscal year 2006/07 to 2010/11. It indicates the sound credit management system followed by the banks under this period. EBL has the highest average LLPR 2.41% and NIBL has 1.93% whereas SCBNL has the lowest average ratio of 1.70%.

4.3.4 Loan Loss Coverage Ratio (LLC Ratio):

Loan loss coverage ratio is mandatory that for every loan bank needs to keep some provision. It indicates the provision made by bank for exposure of loan loss in terms of non-performing loans. Higher the loan loss coverage ratio better is the financial condition and vice-versa. It can be calculated as:

$$\text{LLC Ratio} = \frac{Total\ Loan\ Loss\ Provision}{Total\ Non\ Performing\ Loan} \times 100$$

Computation of Loan Loss Coverage Ratio

Table 4.25

Loan Loss Coverage Ratio of NIBL

Fiscal Year	Total Loan Loss Provision	Total Non Performing Loan	Ratio (in %)
2006/07	482672514	421971550	114
2007/08	532652478	309470983	172
2008/09	585950852	213907394	274
2009/10	630131971	254034452	248
2010/11	792179392	395282853	200

Table 4.26

Loan Loss Coverage Ratio of EBL

Fiscal Year	Total Loan Loss Provision	Total Non Performing Loan	Ratio (in %)
2006/07	418604423	1131178936	37
2007/08	497346200	127310368	391
2008/09	584881910	117985232	496
2009/10	600043812	43705982	1373
2010/11	604151295	108401563	557

Table 4.27

Loan Loss Coverage Ratio of SCBNL

Fiscal Year	Total Loan Loss Provision	Total Non Performing Loan	Ratio (in %)
2006/07	287511222	197017153	146
2007/08	245386620	128719782	191
2008/09	200946085	91041656	221
2009/10	219627490	98135727	224
2010/11	235207344	115803901	203

The above three tables showing Loan Loss Coverage Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.28

Loan Loss Coverage Ratio of NIBL, EBL and SCBNL (in %)

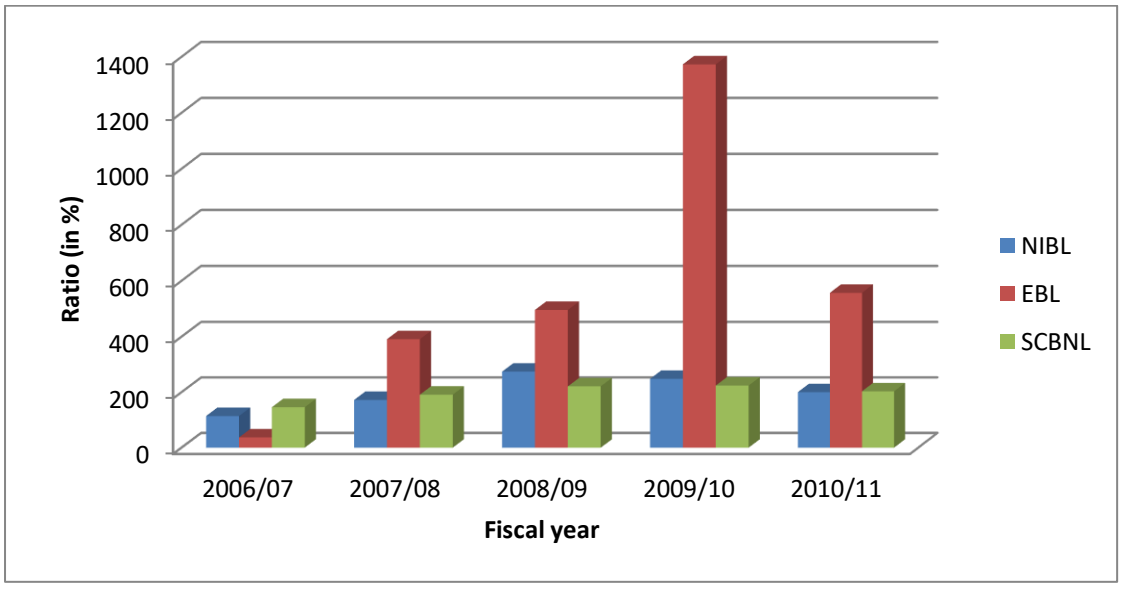
Fiscal Year	NIBL	EBL	SCBNL
2006/07	114	37	146
2007/08	172	391	191
2008/09	274	496	221
2009/10	248	1373	224
2010/11	200	557	203
Average	202	571	197

Source: Annual Report

The above table shows that the loan loss coverage ratio of NIBL, EBL and SCBNL from fiscal year 2006/07 to 2010/11. Among the three bank EBL has the highest average ratio of 571% which shows that EBL can recover their non performing loan loss in case of any fault made by loan taker in comparison to other two banks.

Figure 4.7

Loan Loss Coverage Ratio of NIBL, EBL and SCBNL



The above figure shows that all the banks have maintained sufficient provision to cover future loan loss. The LLCR of SCBNL and NIBL are in increasing trend up to fiscal year 2008/09 and thereafter decreasing. EBL has the highest LLCR in the fiscal year 2009/10 and also the lowest LLCR in the fiscal year 2006/07. The banks are

separating higher amount in loan loss provision to recover their non performing loan loss in case of any fault made.

4.4 Management Quality:

Management is the pillar of an organization and id responsible for organizational growth and success. To meet the unlimited needs from limited resources, management is very essential. It has been said that an effective management can make the organization whereas an ineffective management can break. It is a set of activities like planning, organizing, leading, staffing, directing, communicating, motivating and controlling. Over the years, the Nepali financial sector has evolved strongly with robust management discipline. At the same time, we also have enough cases where due to poor management, banks have performed poorly. Human resource management is one of the key management issues; good or bad human resource management translates into efficient or inefficient staff performance.

4.4.1 Management Efficiency Ratio (ME Ratio):

Management Efficiency Ratio is calculated in order to find out the contribution of each staff on the net profit of the organization. Management efficiency ratio measures the management quality and efficiency of per staff contribution to the earning of the organization. A good management always has sufficient number of efficient, motivated, responsible and dedicated manpower in the team. It is always confident at its system. The higher ratio indicates existence of efficient management and vice versa. It can be calculated by using following formula:

Management Efficiency Ratio = $\frac{Net\ Profit\ After\ Tax}{Total\ No.of\ Staff}$

Computation of Management Efficiency Ratio

Table 4.29

Management Efficiency Ratio of NIBL

Fiscal Year	Net Profit After Tax	No. of Staff	ME Ratio
2006/07	501398852	514	975484
2007/08	696731516	622	1120147
2008/09	900619072	766	1175743
2009/10	1265949588	877	1443500
2010/11	1176641031	877	1341666

Table 4.30

Management Efficiency Ratio of EBL

Fiscal Year	Net Profit After Tax	No. of Staff	ME Ratio
2006/07	296409281	393	754222
2007/08	451218613	449	1004941
2008/09	638732757	534	1196129
2009/10	831765632	568	1464376
2010/11	931303628	586	1589255

Table 4.31

Management Efficiency Ratio of SCBNL

Fiscal Year	Net Profit After Tax	No. of Staff	ME Ratio
2006/07	691668064	351	1970564
2007/08	818921008	377	2172204
2008/09	1025114536	392	2615088
2009/10	1085871694	429	2531169
2010/11	1119171286	429	2608791

The above three tables showing Management Efficiency Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.32

Management Efficiency Ratio of NIBL, EBL and SCBNL (in Rs)

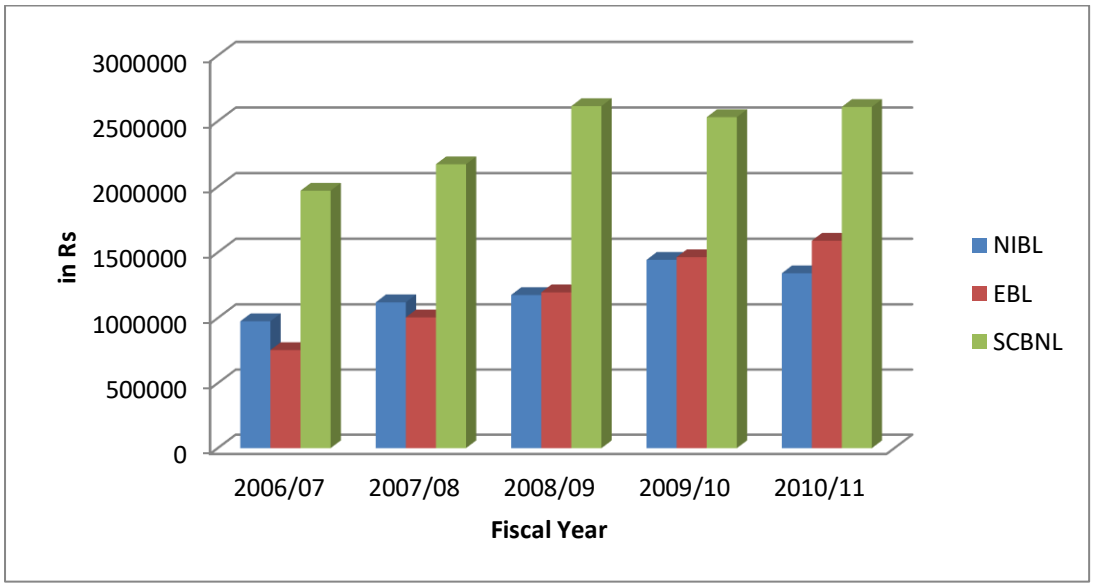
Fiscal Year	NIBL	EBL	SCBNL
2006/07	975484	754222	1970564
2007/08	1120147	1004941	2172204
2008/09	1175743	1196129	2615088
2009/10	1443500	1464376	2531169
2010/11	1341666	1589255	2608791
Average	969808	1201785	2379563

Source: Annual Report

The above table shows the management efficiency ratio of NIBL, EBL and SCBNL from fiscal year 2006/07 to 2010/11. Among the banks SCBNL has the highest MER than EBL and NIBL which shows the bank's management is successful to manage its employee efficiently to contribute the profit.

Figure 4.8

Management Efficiency Ratio of NIBL, EBL and SCBNL



The above figure shows that SCBNL's per employee contribution to net profit is high and it is successful to manage its employee efficiency than other two banks. NIBL has the lowest MER than other two banks. As effectively the human resources are mobilized to better earning the bank gain. So, the NIBL and EBL would be either to reduce number of staff or to increase efficiency or to increase profit volume.

4.4.2 Total Expenses to Income Ratio (TETIR):

The ratio of total expenses to total revenue is used as a proxy measure of the management quality. The ratio is calculated by dividing the total expenses by total revenues. Commercial banks earnings originate from interest on loan and advances, investment, commissions and discount, foreign exchange rate gain and other miscellaneous income. Conversely, it expends on depositors interest, staff salary, provident fund, allowances and other operating expenses like rent, water & electricity, fuel expenses, management expenses, depreciation, miscellaneous expenses, and all other expenses directly related to the operation of bank. Expenses such as loss on sale of assets, write off expenses, losses shortage, written off, provision for income tax are

non operating expenses. Following is the expression of total expenses to total revenue ratio:

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

Computation of Total Expenses to Total Income Ratio

Table 4.33

Total Expenses to Total Income Ratio of NIBL

Fiscal Year	Total Expenses	Total Income	Ratio (in %)
2006/07	1368645673	1931560529	70.86
2007/08	1917687075	2641783322	72.59
2008/09	2801069697	3750284130	74.69
2009/10	3990377441	5288777102	75.45
2010/11	5072127740	6316930446	80.29

Table 4.34

Total Expenses to Total Income Ratio of EBL

Fiscal Year	Total Expenses	Total Income	Ratio (in %)
2006/07	984600138	1358498539	72.48
2007/08	1297669861	1842507351	70.43
2008/09	1833522570	2557839951	71.68
2009/10	2626690059	3500766359	75.03
2010/11	3744931786	4728815555	79.19

Table 4.35

Total Expenses to Total Income Ratio of SCBNL

Fiscal Year	Total Expenses	Total Income	Ratio (in %)
2006/07	1267320900	1971060684	64.30
2007/08	1421346552	2245874886	63.29
2008/09	1661980525	2635912267	63.05
2009/10	1788123725	2873450936	62.23
2010/11	2313286937	3464357205	66.77

The above three tables showing Total Expenses to Total Income Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.36

Total Expenses to Total Income Ratio of NIBL, EBL and SCBNL (in %)

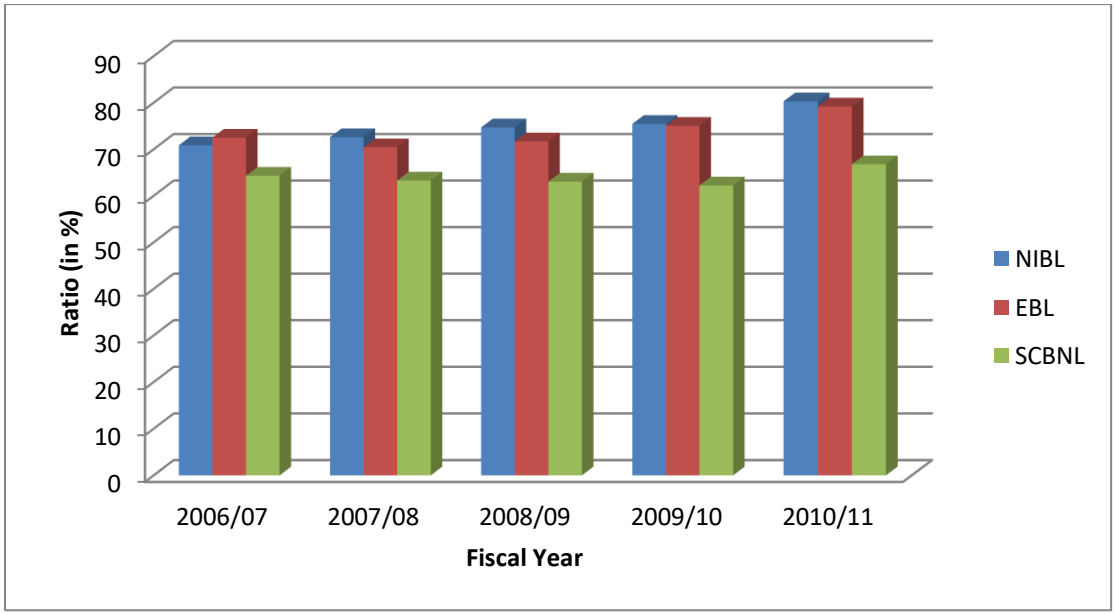
Fiscal Year	NIBL	EBL	SCBNL
2006/07	70.86	72.48	64.30
2007/08	72.59	70.43	63.29
2008/09	74.69	71.68	63.05
2009/10	75.45	75.03	62.23
2010/11	80.29	79.19	66.77
Average	74.78	73.76	63.93

Source: Annual Report

The above table shows the ratio on total expenses to total revenue of NIBL, EBL and SCBNL from the fiscal year 2006/07 to 2010/11. Average ratio on expenses to revenue of SCBNL is lower than NIBL and EBL which indicates small portion of the income is expensed. It means the management of SCBNL seems more efficient then other two banks.

Figure 4.9

Total Expenses to Total Income Ratio of NIBL, EBL and SCBNL



From the above figure shows that the ratio on total expenses to total revenue of NIBL and EBL are in increasing trend in the study period it is the indicator of inefficient management where the large portion of the income is expensed. In the other hand SCBNL's average expenses to income ratio is lower than other two banks which shows the management of SCBNL is more efficient.

4.5 Earning Capacity:

In simple sense earning can be understood as profit. Profit is earned by the banks largely through financing activities, in the form of loans and advances to the customers, placements in other banks investment in government securities etc. Revenue is earned through non-exposure functions by way of commissions and fees, but its contribution in the overall profit remains in the lowest side. Hence, banks earns major portion of their income through funding money, which it acquires through various means such as collecting deposits in various accounts, by issuing shares, debentures etc.

Thus, it can be said that an analysis of earning helps the management, shareholders and depositors to know about the performance of bank, sustainability of earnings, and to forecast the growth of the bank. The success of a bank relies heavily upon the efficiency of the management to drive it towards earning good profits. The following ratios have been analyzed to test earning capacity of the bank.

4.5.1 Earning Per Share (EPS):

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

$$\text{EPS} = \frac{Net\ profit\ after\ tax(NPAT)}{Total\ No.of\ Shares}$$

Computation of Earnings per Share (EPS)

Table 4.37

Earnings per Share of NIBL

Fiscal Year	Net Profit After Tax	No. of Shares	EPS (in Rs)
2006/07	501398852	8013526	62.57
2007/08	696731516	12039154	57.87
2008/09	900619072	24070689	37.42
2009/10	1265949588	24090977	52.55
2010/11	1176641031	24090977	48.84

Table 4.38

Earnings per Share of EBL

Fiscal Year	Net Profit After Tax	No. of Shares	EPS (in Rs)
2006/07	296409281	3780000	78.42
2007/08	451218613	4914000	91.82
2008/09	638732757	6388210	99.99
2009/10	831765632	8304673	100.16
2010/11	931303628	11196095	83.18

Table 4.39

Earnings per Share of SCBNL

Fiscal Year	Net Profit After Tax	No. of Shares	EPS (in Rs)
2006/07	691668064	4132548	167.37
2007/08	818921008	6207840	131.92
2008/09	1025114536	9319664	109.99
2009/10	1085871694	13984836	77.65
2010/11	1119171286	16101680	69.50

The above three tables showing Earnings per Share of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.40

Earnings per Share of NIBL, EBL and SCBNL (in Rs)

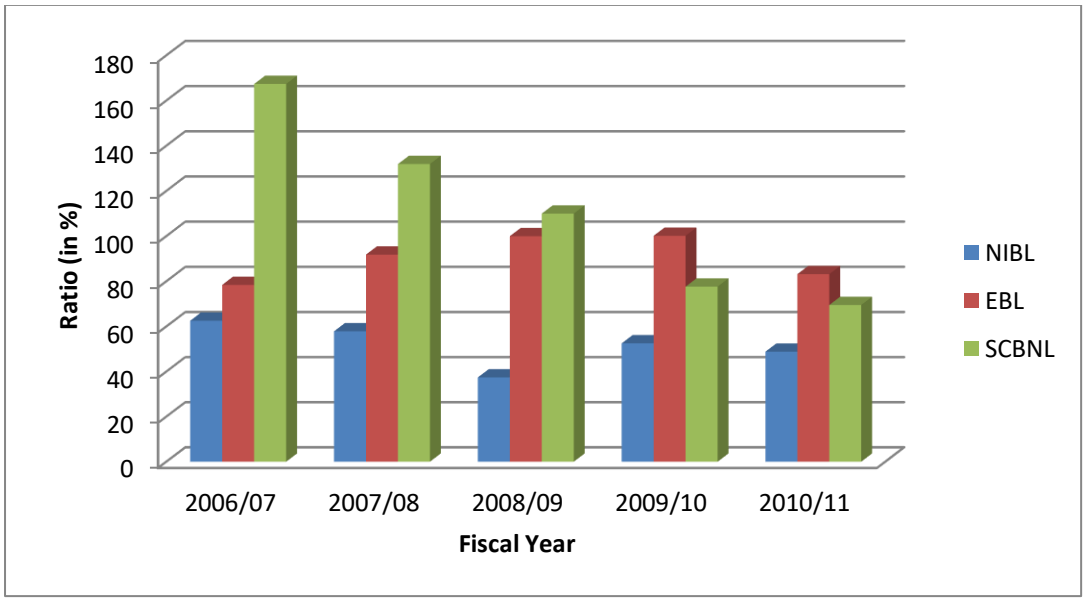
Fiscal Year	NIBL	EBL	SCBNL
2006/07	62.57	78.42	167.37
2007/08	57.87	91.82	131.92
2008/09	37.42	99.99	109.99
2009/10	52.55	100.16	77.65
2010/11	48.84	83.18	69.50
Average	51.85	90.72	111.29

Source: Annual Report

The above table shows the earning per share of NIBL, EBL and SCBNL from the fiscal year 2006/07 to 2010/11. EPS of EBL has increasing trend except 2010/11 whereas SCBNL and NIBL are decreasing trend in the study period. There is no standard value prescribed for EPS but higher value is preferable. So, the banks need to increase in profit volume.

Figure 4.10

Earnings per Share of NIBL, EBL and SCBNL



From the above figure EPS of SCBNL has decreasing in trend but average EPS is higher than other two banks it indicates that it earning performance is better than EBL and NIBL. Higher the EPS profitability per share is higher and vice versa. EPS of

NIBL are lower in the study period and lower in average other then two banks. So, higher volume of profit is required to have higher level of EPS.

4.5.2 Price Earnings Ratio (P/E Ratio):

This ratio reflects the price currently being paid by the market for each rupee of currently reported EPS. This ratio helps security analysts to assess a bank's performance as expected by the investors. Higher ratio indicates better place for the investment and vice versa. It can be calculated by using following formula:

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

Computation of Price Earnings Ratio

Table 4.41

Price Earnings Ratio of NIBL (in times)

Fiscal Year	Market Price Per Share	Earning Per Share	P/E Ratio
2006/07	1729	62.57	27.63
2007/08	2450	57.87	42.33
2008/09	1388	37.42	37.10
2009/10	705	52.55	13.42
2010/11	515	48.84	10.54

Table 4.42

Price Earnings Ratio of EBL (in times)

Fiscal Year	Market Price Per Share	Earning Per Share	P/E Ratio
2006/07	2430	78.42	30.99
2007/08	3132	91.82	34.11
2008/09	2455	99.99	24.55
2009/10	1630	100.16	16.27
2010/11	1094	83.18	13.15

Table 4.43

Price Earnings Ratio of SCBNL (in times)

Fiscal Year	Market Price Per Share	Earning Per Share	P/E Ratio
2006/07	5900	167.37	35.25
2007/08	6830	131.92	51.77
2008/09	6010	109.99	54.64
2009/10	3279	77.65	42.23
2010/11	1800	69.50	25.90

The above three tables showing Price Earnings Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.44

Price Earnings Ratio of NIBL, EBL and SCBNL (in times)

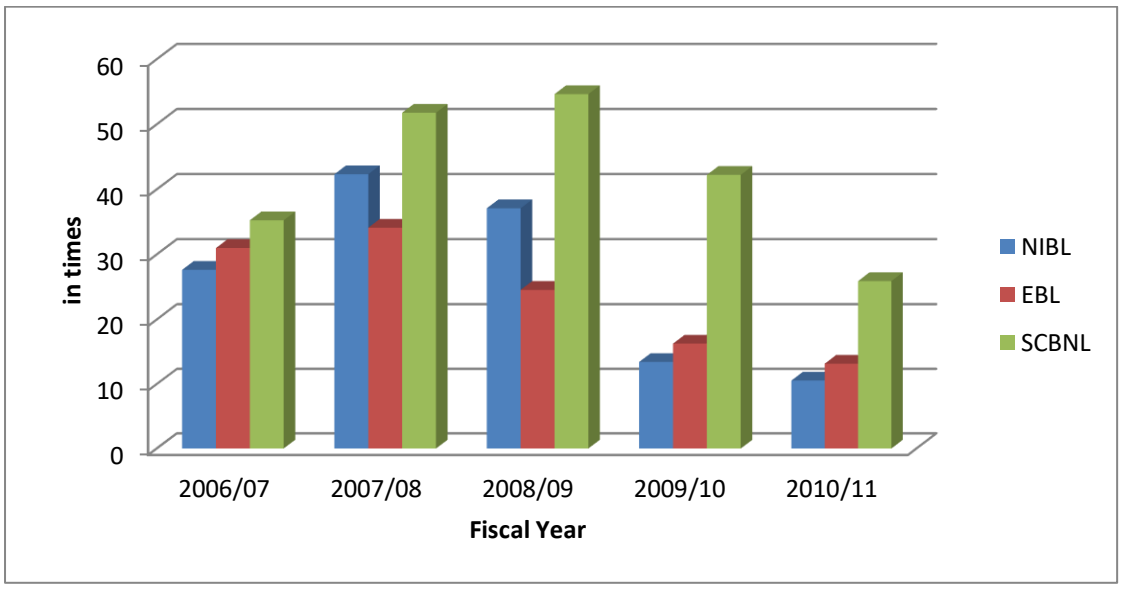
Fiscal Year	NIBL	EBL	SCBNL
2006/07	27.63	30.99	35.25
2007/08	42.33	34.11	51.77
2008/09	37.10	24.55	54.64
2009/10	13.42	16.27	42.23
2010/11	10.54	13.15	25.90
Average	26.20	23.81	41.96

Source: Annual Report

The above table shows the price earning ratio of NIBL, EBL and SCBNL from the fiscal year 2006/07 to 2010/11. The SCBNL has the highest value of average P/E ratio of 41.96 times where as EBL has the lowest average ratio of 23.81 times. Higher the P/E ratio indicates that the investors are willing to pay higher amount to those shares by expecting the better performance of the bank.

Figure 4.11

Price Earnings Ratio of NIBL, EBL and SCBNL



The above figure shows that the EBL has the lowest average P/E ratio 23.81 times whereas SCBNL has the highest average P/E ratio 41.96 times. In year 2008/09 SCBNL has the highest P/E ratio of 54.64 times which signifies that the public have more trust on the banks earning as well as overall performance. In first two year NIBL and EBL are increasing and thereafter in decreasing trend whereas SCBNL has increasing trend for the first three year and decreasing and remain the higher among the three banks.

4.5.3 Return on Assets (ROA):

This ratio indicates how efficient a bank is utilizing and mobilizing its assets to generate profit. Higher the ratio the better it is as it shows higher turnover of assets. It measures a company's success in earning a return for the common stockholders. Higher ROA indicates better utilization of total assets. It can be calculated as under:

$$\text{ROA} = \frac{Net\ profit\ after\ tax\ (NPAT)}{Total\ Assets\ (TA)} \times 100$$

Computation of Return on Assets

Table 4.45

Return on Assets of NIBL

Fiscal Year	Net Profit After Tax	Total Assets	ROA (in %)
2006/07	501398852	27590844761	1.82
2007/08	696731516	38873306084	1.79
2008/09	900619072	53010803126	1.70
2009/10	1265949588	57305413482	2.21
2010/11	1176641031	58356827501	2.02

Table 4.46

Return on Assets of EBL

Fiscal Year	Net Profit After Tax	Total Assets	ROA (in %)
2006/07	296409281	21432574300	1.38
2007/08	451218613	27149342884	1.66
2008/09	638732757	36916848654	1.73
2009/10	831765632	41382760711	2.01
2010/11	931303628	46236212262	2.01

Table 4.47

Return on Assets of SCBNL

Fiscal Year	Net Profit After Tax	Total Assets	ROA (in %)
2006/07	691668064	28596689451	2.42
2007/08	818921008	33335788326	2.46
2008/09	1025114536	40066570593	2.56
2009/10	1085871694	40213319926	2.70
2010/11	1119171286	43810519664	2.55

The above three tables showing Return on Assets of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.48

Return on Assets of NIBL, EBL and SCBNL (in %)

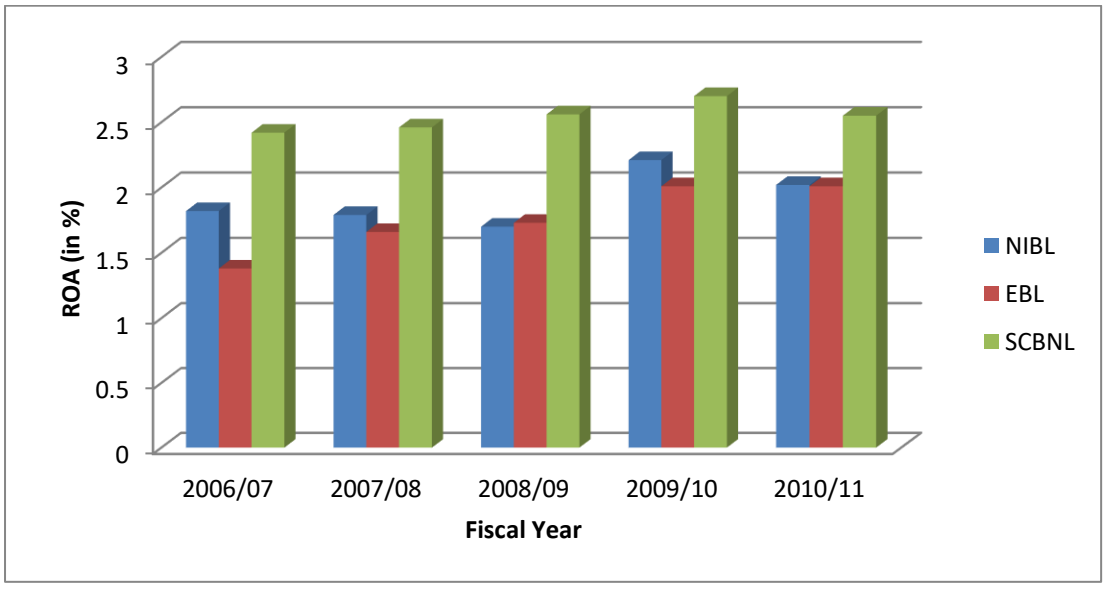
Fiscal Year	NIBL	EBL	SCBNL
2006/07	1.82	1.38	2.42
2007/08	1.79	1.66	2.46
2008/09	1.70	1.73	2.56
2009/10	2.21	2.01	2.70
2010/11	2.02	2.01	2.55
Average	1.91	1.76	2.54

Source: Annual Report

The above table shows the return on assets of NIBL, EBL and SCBNL from the fiscal year 2006/07 to 2010/11. In the above table the average ROA of SCBNL is highest 2.54% whereas the average ROA of EBL 1.76 is the lowest. Maximum ROA shows that the bank is successful in utilizing its assets properly.

Figure 4.12

Return on Assets of NIBL, EBL and SCBNL



The above figure shows that the ROA of SCBNL and EBL are in increasing trend for the period but ROA of NIBL is in fluctuating over the period. The ROA of SCBNL in the fiscal year 2009/10 is highest among the entire ratio which indicates the bank was most successful in mobilizing its assets to yield highest return.

4.5.4 Return on Equity (ROE):

This is one of the important ratios to judge whether the firm has earned a satisfactory return for its equity-holders or not. This ratio reveals how well the firm has used the resources of the owners to earn profit. So, the highest the ratio, the more favorable it is for the stock holders which represent the sound management and efficient mobilization of the owners equity. The return on equity ratio can be calculated by using the following formula:

$$\text{ROE} = \frac{Net\ profit\ after\ tax(NPAT)}{Shareholders\ Fund} \times 100$$

Computation of Return on Equity

Table 4.49

Return on Equity of NIBL

Fiscal Year	Net Profit After Tax	Shareholders Fund	ROE (in %)
2006/07	501398852	1878123538	26.70
2007/08	696731516	2686786048	25.93
2008/09	900619072	3907839708	23.05
2009/10	1265949588	4585393092	27.61
2010/11	1176641031	5159759697	22.80

Table 4.50

Return on Equity of EBL

Fiscal Year	Net Profit After Tax	Shareholders Fund	ROE (in %)
2006/07	296409281	1201515266	24.67
2007/08	451218613	1921237580	23.49
2008/09	638732757	2203625055	28.99
2009/10	831765632	2759137855	30.15
2010/11	931303628	3113546056	29.91

Table 4.51

Return on Equity of SCBNL

Fiscal Year	Net Profit After Tax	Shareholders Fund	ROE (in %)
2006/07	691668064	2116353361	32.68
2007/08	818921008	2492547996	32.85
2008/09	1025114536	3052469731	33.58
2009/10	1085871694	3369709444	32.22
2010/11	1119171286	3677777062	30.43

The above three tables showing Return on Equity of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.52

Return on Equity of NIBL, EBL and SCBNL (in %)

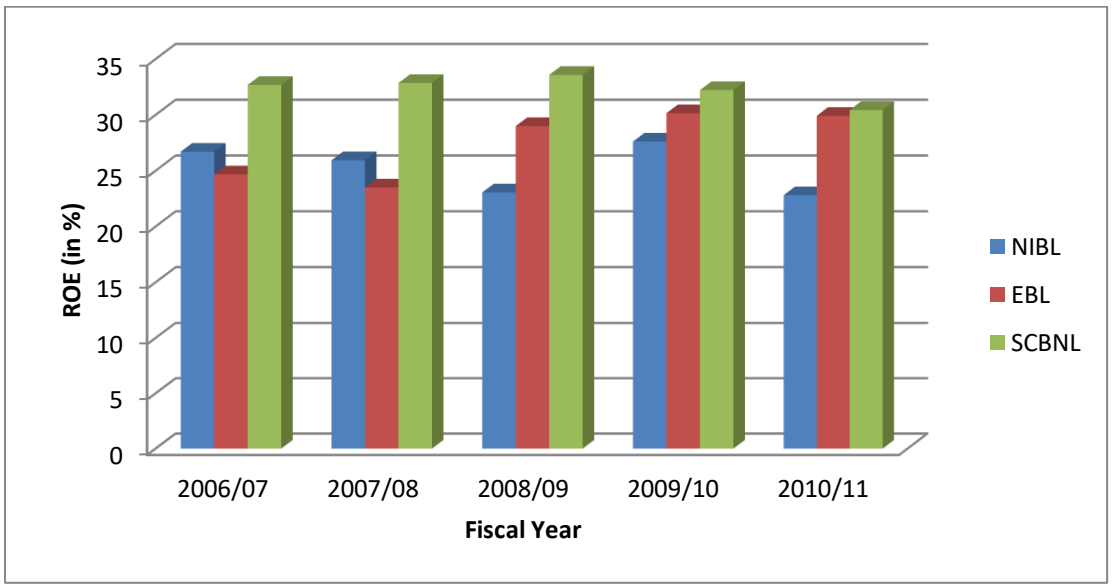
Fiscal Year	NIBL	EBL	SCBNL
2006/07	26.70	24.67	32.68
2007/08	25.93	23.49	32.85
2008/09	23.05	28.99	33.58
2009/10	27.61	30.15	32.22
2010/11	22.80	29.91	30.43
Average	25.22	27.44	32.35

Source: Annual Report

The above table shows the Return on Equity of NIBL, EBL and SCBNL from the fiscal year 2006/07 to 2010/11. Among the three banks, SCBNL has the highest average ROE in comparison to EBL and NIBL which indicates the SCBNL has utilized its shareholders fund maximum. Higher the ratio betters the performance and vice versa.

Figure 4.13

Return on Equity of NIBL, EBL and SCBNL



The above figure shows that ROE of three banks are fluctuating trend for the study period. The average ROE of SCBNL is highest 32.35% whereas the average ROE of NIBL is lowest 25.22%. Higher ROE indicates that the bank is utilizing its fund in a proper way.

4.6 Liquidity:

Liquidity is defined as banks capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. In other organizations too, liquidity is required for various purposes. Inadequate liquidity does damage credit-standing of those organizations but if banks fail to repay the deposits on demand, the bank loses the trust of the public. This leads to "runs" in the bank and probably bankruptcy thereof. The following ratios have been analyzed to test liquidity position of the bank:

4.6.1 Cash reserve Ratio (CRR):

As per the rule of NRB all commercial banks are required to maintain 5.5% of their total deposit of Nepalese currency as CRR in their account with NRB for maintaining adequate liquidity. NRB has prescribed this mandatory requirement in order to save the commercial banks from the liquidity risk. CRR can be computed as follows:

$$\text{CRR} = \frac{NRB\ Balance\ (LCY)}{LCY\ Deposits - Margin\ Deposits} \times 100$$

Computation of Cash Reserve Ratio

Table 4.53

Cash Reserve Ratio of NIBL, EBL and SCBNL (in %)

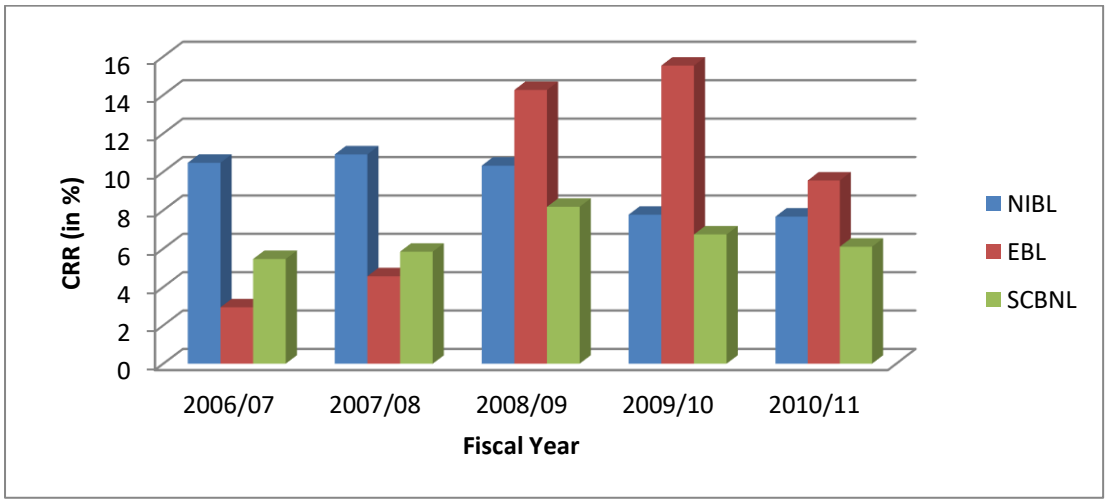
Fiscal Year	NIBL	EBL	SCBNL
2006/07	10.47	2.94	5.46
2007/08	10.91	4.56	5.84
2008/09	10.32	14.26	8.18
2009/10	7.77	15.53	6.74
2010/11	7.67	9.55	6.10
Average	9.43	9.37	6.46

Source: Annual Report NIBL, EBL and SCBNL

The above table shows the cash reserve ratio of NIBL, EBL and SCBNL from fiscal year 2006/07 to 2010/11. EBL has failed to maintain CRR in the initial two years and there after it maintains in the remaining three year. NIBL and SCBNL are able to maintain CRR for the study period.

Figure 4.14

Cash Reserve Ratio of NIBL, EBL and SCBNL



As per NRB directive the commercial banks have to maintain a reserve of 5% against their deposits up to fiscal year 2008/09 according to BASEL-I and 5.5% from fiscal

year 2009/10 according to BASEL-II. The above figure shows that SCBNL has just maintained CRR to optimum utilize the total deposited by its customers. EBL has failed to maintain CRR in first two year which may have bad impact to their customer. NIBL is able to maintain CRR in every year which is good for bank to be safe from liquidity problem.

4.6.2 Cash and Bank Balance Ratio (CBBR):

This ratio is designed to measure the bank's ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower ratio indicates that banks might face liquidity crunch while paying its obligations whereas very high ratio indicates that the bank has kept idle funds and not deploying them properly. It can be calculated as under:

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

Computation of Cash and Bank Balance Ratio

Table 4.54

Cash and Bank Balance Ratio of NIBL

Fiscal Year	Cash & Bank Balance	Total Deposits	Ratio (in %)
2006/07	2441514200	24488855696	9.97
2007/08	3754941568	34451726191	10.90
2008/09	7918003890	46698100065	16.96
2009/10	6815889833	50094725497	13.61
2010/11	8140370632	50138122242	16.24

Table 4.55

Cash and Bank Balance Ratio of EBL

Fiscal Year	Cash & Bank Balance	Total Deposits	Ratio (in %)
2006/07	2391420594	18186253541	13.15
2007/08	2667971830	23976298535	11.13
2008/09	6164371163	33322946246	18.50
2009/10	7818815003	36932310008	21.17
2010/11	6122862952	41127914339	14.89

Table 4.56

Cash and Bank Balance Ratio of SCBNL

Fiscal Year	Cash & Bank Balance	Total Deposits	Ratio (in %)
2006/07	2021021068	24647020755	8.20
2007/08	2050243214	29743998794	6.89
2008/09	3137163535	35350823711	8.87
2009/10	1929306520	35182721454	5.48
2010/11	2975795278	37999242310	7.83

The above three tables showing Cash and Bank Balance Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.57

Cash and Bank Balance Ratio of NIBL, EBL and SCBNL (in %)

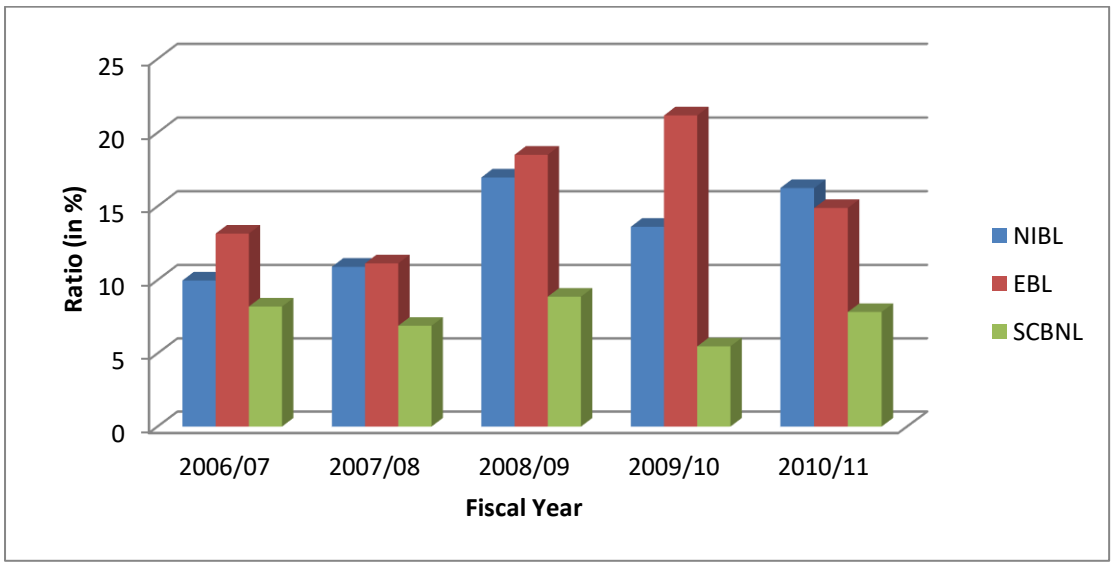
Fiscal Year	NIBL	EBL	SCBNL
2006/07	9.97	13.15	8.20
2007/08	10.90	11.13	6.89
2008/09	16.96	18.50	8.87
2009/10	13.61	21.17	5.48
2010/11	16.24	14.89	7.83
Average	13.54	15.77	7.45

Source: Annual Report

The above table shows the cash and bank balance ratio of NIBL, EBL and SCBNL from the fiscal year 2006/07 to 2010/11. EBL has the highest average ratio of 15.77% in comparison and NIBL is following nearly by 13.54% whereas SCBNL have the average ratio of 7.45%. So, SCBNL is able to utilized fund to generate the volume of profit keeping idle to cash and bank balance.

Figure 4.15

Cash and Bank Balance Ratio of NIBL, EBL and SCBNL



This ratio reflects the bank ability to pay short term and immediate obligation to its customers. The above figure indicates that the EBL has the highest ratio among the three banks whereas SCBNL has the lowest ratio among them. The banks should manage their cash effectively so that there won't be extra idle cash and the obligation should also meet to increases their profitability.

4.6.3 Investment in Government Securities Ratio (IGSR):

Banks around the world invest significant portion of their deposits in government securities because merely maintaining adequate CRR and C&B Balance cannot be considered sufficient for liquidity maintenance. Government securities are those securities which are risk free and can be easily converted into cash anytime. Banks can utilize their fund investing into government securities which are liquid in nature. And whenever they need cash they can easily manage because government securities are easily accepted by any investing organization. Investment in government securities ratio depicts ratio of total deposits invested in government securities. Mathematically:

$$\text{Investment in Gov. Securities Ratio} = \frac{\text{Investment in Gov.Securities}}{Total\ Deposits} \times 100$$

Computation of Investment in Gov. Securities Ratio

Table 4.58

Investment in Government Securities Ratio of NIBL

Fiscal Year	Total Inv. in Gov. Sec.	Total Deposits	Ratio (in %)
2006/07	3256400000	24488855696	13.30
2007/08	3155000000	34451726191	9.16
2008/09	2531300000	46698100065	5.42
2009/10	4201850000	50094725497	8.39
2010/11	4294600000	50138122242	8.57

Table 4.59

Investment in Government Securities Ratio of EBL

Fiscal Year	Total Inv. in Gov. Sec.	Total Deposits	Ratio (in %)
2006/07	4704632426	18186253541	25.87
2007/08	4821604744	23976298535	20.11
2008/09	5146045773	33322946246	15.44
2009/10	4354353089	36932310008	11.79
2010/11	7145017521	41127914339	17.37

Table 4.60

Investment in Government Securities Ratio of SCBNL

Fiscal Year	Total Inv. in Gov. Sec.	Total Deposits	Ratio (in %)
2006/07	7107936303	24647020755	28.84
2007/08	8137615178	29743998794	27.36
2008/09	9998753558	35350823711	28.28
2009/10	8531519525	35182721454	24.25
2010/11	9957260572	37999242310	26.20

The above three tables showing Investment in Government Securities Ratio of NIBL, EBL and SCBNL are summarized in the following table:

Table 4.61

Investment in Gov. Securities Ratio of NIBL, EBL and SCBNL (in %)

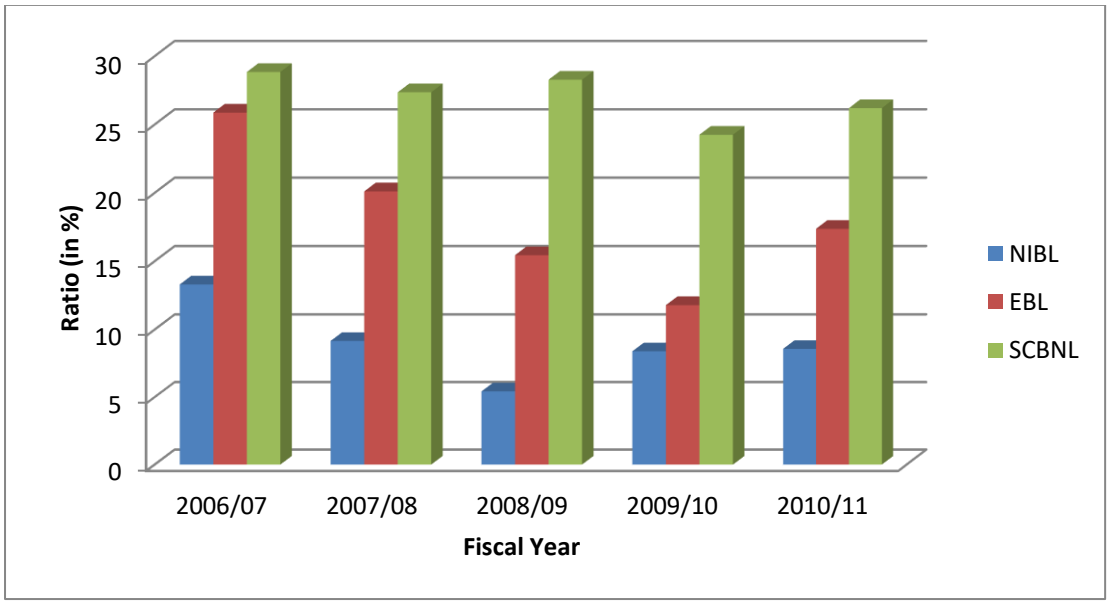
Fiscal Year	NIBL	EBL	SCBNL
2006/07	13.30	25.87	28.84
2007/08	9.16	20.11	27.36
2008/09	5.42	15.44	28.28
2009/10	8.39	11.79	24.25
2010/11	8.57	17.37	26.20
Average	8.97	18.12	26.99

Source: Annual Report

The above table shows the investment in government securities ratio of NIBL, EBL and SCBNL from the fiscal year 2006/07 to 2010/11. SCBNL has the highest average ratio of 26.99% than EBL and NIBL which shows it has invested the highest proportion of its deposits in the government securities. The higher the ratio higher will be the liquidity position of the bank and vice versa.

Figure 4.16

Investment in Gov. Securities Ratio of NIBL, EBL and SCBNL



The above figure shows that all three banks have fluctuating trend on investment in government securities ratio. Generally the investment depends on the combination of deposits of the banks. Higher the percentage of fixed deposits higher will be the

investment in government securities. SCBNL has the higher average investment in government securities ratio of 26.99% it indicates that the bank has the higher liquidity position as compare to EBL and NIBL.

4.7 Trend Analysis and Projected for Next Two Years:

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

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

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

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

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

In this study, the method of lease square is used for the analysis of the NIBL, EBL & SCBNL total deposit trend and net profit trend. The projections are based on the following assumptions:

- The main assumption is that other things being will remain constant.
- The bank will run in the present position.
- The economy will remain in the present stage.

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

4.7.1 Trend Analysis of Total Deposit:

Under this topic the trend values of total deposit has been calculated for five years from F.Y. 2006/07 to 2010/11 and the forecast for next two years up to 2012/13.

Table 4.62

Trend Value of Total Deposit (in millions)

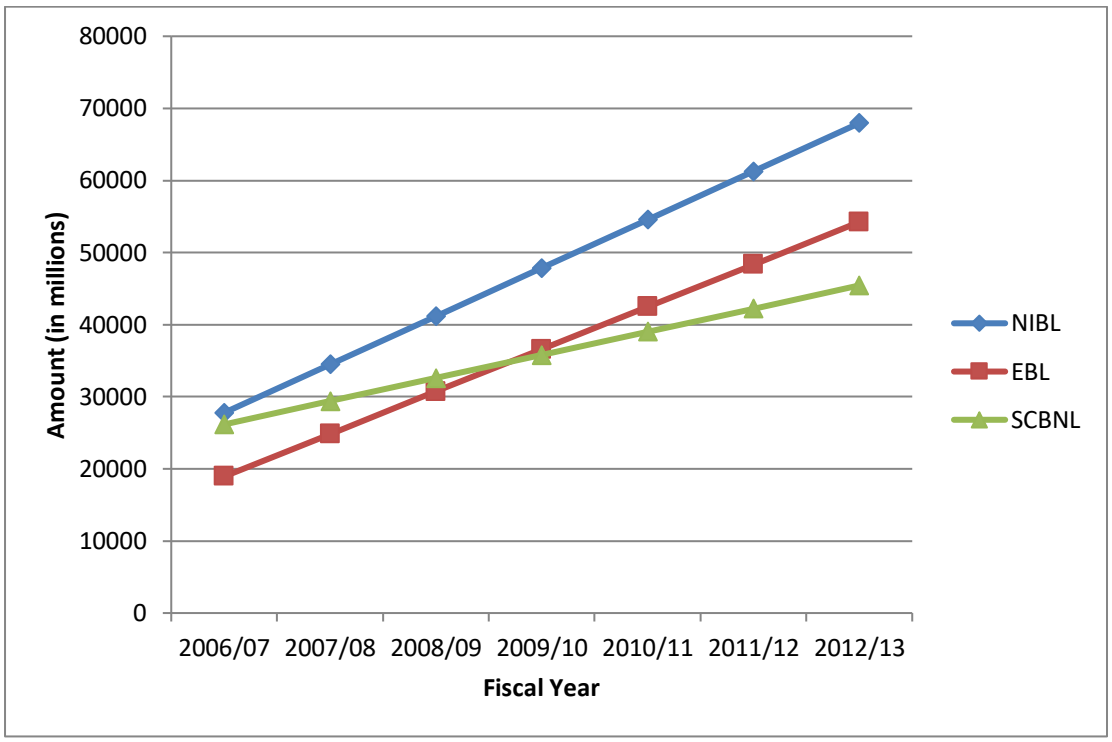
Fiscal Year	NIBL		EBL		SCBNL	
	Trend	Actual	Trend	Actual	Trend	Actual
2006/07	27785.99	24488.85	18941.28	18186.25	26156.13	24647.02
2007/08	34480.15	34451.73	24825.21	23976.30	29370.44	29743.99
2008/09	41174.30	46698.10	30709.14	33322.94	32584.75	35350.82
2009/10	47868.45	50094.72	36593.07	36932.31	35799.06	35182.72
2010/11	54562.60	50138.12	42477.00	41127.91	39013.37	37999.24
2011/12	61256.75		48360.93		42227.68	
2012/13	67950.90		54244.86		45441.99	

Sources: Appendix I, II & III

The above table shows the trend value of total deposits of NIBL, EBL and SCBNL from the fiscal year 2006/07 to 2012/13 and actual value of total deposits from the fiscal year 2006/07 to 2010/11. The trend value of total deposits of all the banks are, less or more close to its actual deposits which shows the trend line are fitted and reliable. All the banks should keep continue of growth rate of their deposit for the better future of the bank.

Figure 4.17

Trend Value of Total Deposit



From the above figure we can say that the trend value of total deposits of NIBL has been increasing by 6694.15 million per year and EBL has increasing by 5883.93 million every year whereas SCBNL has been increasing by 3214.31 million per year. According to the above trend analysis the growth rate of NIBL is higher than other two banks. Hence all the banks have maintained increasing rate in deposits in recent years in spite of growing competition in the market.

4.7.2 Trend Analysis of Net Profit:

Under this topic the trend values of net profit has been calculated for five years from F.Y. 2006/07 to 2010/11 and the forecast for next two years 2011/12 to 2012/13.

Table 4.63

Trend Value of Net Profit (in millions)

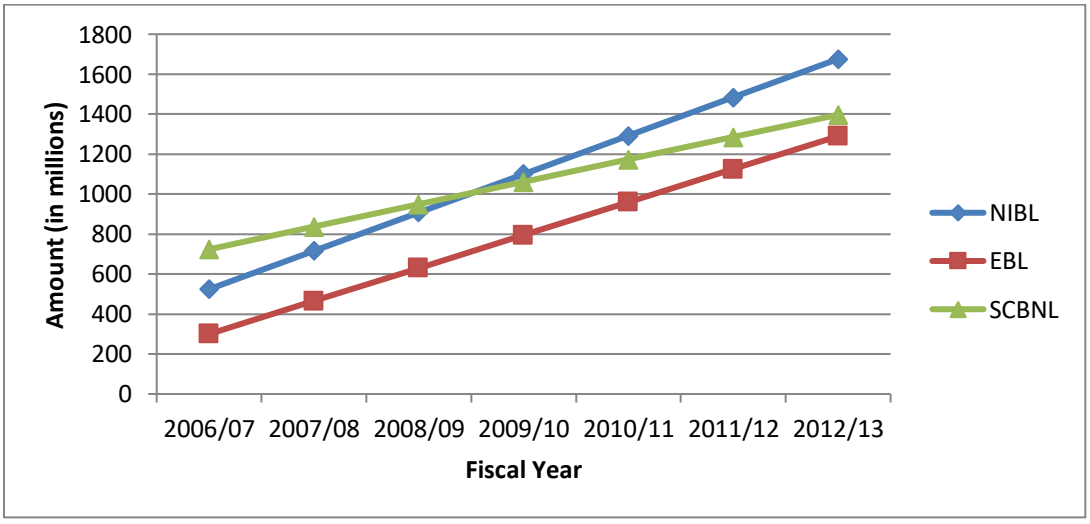
Fiscal Year	NIBL		EBL		SCBNL	
	Trend	Actual	Trend	Actual	Trend	Actual
2006/07	524.33	501.39	299.93	296.41	723.77	691.67
2007/08	716.30	696.73	464.91	451.23	835.96	818.92
2008/09	908.27	900.62	629.89	638.73	948.15	1025.11
2009/10	1100.24	1265.95	794.87	831.76	1060.34	1085.87
2010/11	1292.21	1176.64	959.85	931.30	1172.53	1119.17
2011/12	1484.18		1124.83		1284.72	
2012/13	1676.15		1289.81		1396.91	

Sources: Appendix IV, V & VI

The table shows calculate net profit for five year from 2006/07 to 2010/11and the trend value of net profit of NIBL, EBL and SCBNL for seven years from 2006/07 to 2012/13. The total net profit of NIBL, EBL and SCBNL are better and in increasing trend. The net profit of NIBL in fiscal year 2009/10 is 1265.95 million it is the highest volume among the three banks in the study period it indicates the bank has performing better than other. The calculated trend values of net profit of NIBL, EBL and SCBNL are fitted in the trend line given.

Figure 4.18

Trend Value of Net Profit



From the above figure we can calculate that the trend value of net profit of NIBL has increasing 191.97 million per year and EBL has increasing by 164.98 million every year where SCBNL has increasing by 112.19 million per year. All the banks have maintained the increasing rate in net profit in previous year and they can perform better in coming year too. We can say it by their performance at last five years and trend for next two years.

4.8 Major Findings:

The major findings of the study are obtained on the basis of analyzing financial data of the relevant banks which can be enlisted as follows:

- The capital adequacy ratio of NIBL, EBL and SCBNL is more than the required value of NRB, which is 11% & 10% according to BASEL-I and BASEL-II respectively. BASEL-I implemented up to fiscal year 2008/09 and thereafter implemented BASEL-II. Among the three banks, SCBNL has the highest average ratio of 14.66%, the average ratio of NIBL & EBL are 11.01% and 10.83% respectively. This implies that SCBNL has better liquidity position and lending capacity of bank but more of its fund seems to be tied up.
- The core capital ratio of NIBL, EBL and SCBNL is more than the required value of NRB, which is 5% up to fiscal year 2007/08 and 5.5% from fiscal year 2009/10 according to BASEL-I & BASEL-II respectively. According to core capital ratio SCBNL, NIBL and EBL are ranked as 1st, 2nd & 3rd respectively.
- The average supplementary capital ratios are found 2.87%, 2.86% and 1.87% of NIBL, EBL & SCBNL.
- The average performing loan ratio of EBL, NIBL and SCBNL are 99.51%, 99.08%, 98.87% respectively.
- The average non performing loan ratio of NIBL is the highest among all of the sample banks. Similarly, SCBNL has the moderate ratio and EBL has the lowest ratio.
- The loan loss provision ratio of all the banks is decreasing trend in the study period which shows the banks are reducing their non performing loan. EBL has the highest average loan loss provision ratio of 2.42%, NIBL has the moderate average ratio of 1.93% and SCBNL has the lowest average ratio of 1.70%.

- The loan loss coverage ratio shows the capacity of the bank to cover loan loss in case of any default made by loan taker in the future. All the selected banks have made higher provision than non performing loan.
- Management efficiency ratio of all the banks is increasing trend which shows the banks are able to mobilize their employees. Through the increasing trend of management efficiency ratio NIBL has the lowest average ratio.
- The average total expenses to total income ratio of SCBNL, EBL and NIBL are 63.93%, 73.76%, 74.78% respectively.
- All the selected banks have different nature in EPS. The SCBNL has the highest average EPS of Rs 111.29, EBL has the moderate EPS of Rs 90.72 and NIBL has the lowest EPS of Rs 51.85 only.
- SCBNL has the highest average P/E ratio, NIBL has the moderate ratio and EBL has the lowest average P/E ratio among the selected banks which shows the public have lower trust on the banks earning as well as its performance.
- The average return on total assets ratio of SCBNL has the highest among the selected commercial banks. Similarly, NIBL comes in second positions and EBL is the last in selected banks.
- All the selected banks have fluctuating trend in ROE. Among them SCBNL has the highest average ROE of 32.35% and EBL has the moderate ratio whereas NIBL has the lowest average ratio of 25.22%.
- Except EBL in fiscal year 2006/07 & 2007/08 all the banks has maintain CRR of 5% up to fiscal year 2008/09 and 5.5% from fiscal year 2009/10 according to BASEL-I and BASEL-II respectively. As NRB directive bank will maintain CRR on weekly basis the above shown CRR may not reflects actual position of banks.
- Cash and bank balance ratio reflects the bank's ability to pay short term and immediate obligation to the customers. EBL has the highest average cash and bank balance ratio of 15.77% than NIBL & SCBNL. All the selected banks have fluctuating trend of cash and bank balance ratio.
- The higher percentage of investment in government securities reflects the better liquidity position of the bank but it might lose opportunities to earn more interest. The average investment in government securities ratio of SCBNL, EBL and NIBL are 29.99%, 18.12%, 8.97% respectively.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Having completed the basic analysis required for the study, the final and most important task for the research is to enlist findings of the study and recommend for the further improvement. This would be meaningful to the top management of the banks to initiate action and achieve the desired result. The objective of the research is not only to point out errors and mistakes but also to correct them and direction for further growth and improvement.

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

5.1 Summary:

The study "Comparative Financial Performance Analysis of NIBL, EBL and SCBNL in the CAMEL Framework" has been prepared to fulfill the requirement of Master's of Business Studies (MBS) program. For the study purpose, NIBL, EBL and SCBNL are chosen as random sampling techniques out of 32 commercial banks. The required data and information were collected from secondary sources.

The study was started with the objective to find out the fact about financial performance of NIBL, EBL and SCBNL. The analysis of financial statement is done to obtain a better insight in to firm's position and performance. CAMEL is a technique of health checking of financial institutions. Various ratios that are related to financial performance of the bank have been used to analyze the financial performance of the NIBL, EBL and SCBNL. We have followed the CAMEL approach for the performance analysis of the banks and which has been done through ratio analysis, trend analysis and graphic presentation. Financial institution financial soundness is judged on the basis of capital adequacy, asset quality, management quality, earnings and liquidity position. The required secondary data is abstracted from the annual report of three selected commercial bank.

The research was conducted with descriptive and analytical research design. The study analyze the level and comparative analysis of capital adequacy, assets quality ratio, management quality ratio, earning capacity and liquidity position components and trend analysis of total deposit & net profit of the NIBL, EBL and SCBNL during of 5 year period Fiscal year 2006/07 to 2010/11.

5.2 Conclusions:

The study shows that all the selected banks are performing well under the NRB directives despite of having unstable political environment of the country. After going through the overall study and findings plus the financial report, we found that the three banks are well managed with good capital structure and sound performance.

- The study shows that the capital adequacy ratio is more than 11% & 10% as required by NRB according to BASEL-I and BASEL-II respectively maintained by selected banks throughout the study period. It seems good condition of capital adequacy in the banks, which will protect to its depositors. SCBNL has high level of strength of capital sufficiency it means liquidity position and lending capacity of bank but more of these funds seems to be tied up. CCR of selected banks are above the NRB directives 5.5% up to fiscal year 2007/08 according to BASEL-I & 6% from fiscal year 2008/09 according to BASEL-II. Among three banks SCBNL, NIBL and EBL have ranked 1st, 2nd, & 3rd respectively having the capital adequacy.
- In overall performing loan ratio of selected three banks are in satisfactory position. NPL ratio of EBL and SCBNL are decreasing trend except last year but NIBL also has decreasing first three year and there after increases. The banks should minimize its NPL ratio as possible for effective utilization of assets. According to their credit management system EBL, SCBNL & NIBL are ranked 1st, 2nd, & 3rd respectively. Loan loss provision ratio of these three banks are decreasing trend in the study period. It shows the sound credit management system followed by the banks. From the loan loss coverage ratio we can say that the banks have maintained sufficient provision to cover further loan loss.
- For effective and efficient management, management efficiency ratio should be high. From the study, management efficiency ratio is in increasing trend of selected banks. SCBNL has the highest management efficiency ratio than EBL

and NIBL. Also total expenses to total income ratio is lower than other two banks and decreasing in trend except last year of the study. The conclusion is that SCBNL have good management quality than EBL and NIBL under the study.

- Higher the earning higher the performance of the bank. It is not only important to bank but also equally important to shareholders and depositors. From the study, EBL has increasing trend of EPS except last year but decreasing trend in P/E ratio. NIBL has fluctuating trend over the period of EPS and P/E ratio whereas SCBNL has decreasing trend of EPS but fluctuating in P/E ratio. SCBNL and EBL have increasing trend of ROA and ROE except last year whereas NIBL has fluctuating trend of ROA and ROE.
- EBL has failed to maintain CRR in first two year after that it is able to maintain. NIBL and SCBNL are able to maintain CRR in every year. All the three banks have fluctuating trend of cash and bank balance ratio. But EBL has the highest average cash and bank balance ratio than NIBL and SCBNL which shows the better liquidity position of EBL. All the three banks have fluctuating trend of investment in government securities ratio. SCBNL has highest average ratio of investment in government securities which is good for maintaining liquidity rather than keeping idle capital but less earning from the fund invested in government securities.
- The trend of the total deposit of all banks is in increasing trend, which indicates that the sources of fund are increasing to investment opportunity to earn higher volume of profit.
- The trend of the net profit of all the banks is in increasing trend, which encourages the bank to perform better than current situation in future to earn more net profit by satisfying their customer.

5.3 Recommendations:

On the basis of analysis made and conclusion draw above, some important recommendations have been made here which will be beneficial for the banks to overcome their problems and inefficiencies if applied. They will help the banks to improve their future performances.

Recommendations to Nepal Investment Bank Limited

- The bank has able to maintain the capital adequacy according to NRB directive. So it is better to continue this trend to their high liquidity position and lending capacity.
- The bank has lower level of Assets quality, so it should be concentrate to the credit management to improve their performing loan & decrease nonperforming loan.
- Management efficiency ratio of the bank is in increasing trend which is good for the bank and to keep it continue, the bank should adopt new technology as per the change and train their employees to contribution to the profit.
- EPS of NIBL is in fluctuating trend, so it should concentrate to perform its activities more efficiently to increase EPS & earning in future.
- The bank has able to maintain CRR as per NRB directive, so it good to keep it continue. The bank should concentrate to invest their idle cash & bank balance to government securities to earn and keep the liquidity position to the bank.

Recommendations to Everest Bank Limited

- The bank is able to maintain capital adequacy according to NRB directive, so it should be keep it continue to higher liquidity position.
- EBL has increasing trend of performing loan and decreasing trend of non-performing loan which is good for the bank and the same trend should be continued in the future also.
- The management efficiency ratio of the bank is in increasing trend, so it should be continue in the future by adopting new technology & innovations as per change and train their employees.
- EPS of EBL is in increasing trend except last year, so the bank should concentrate to increase their EPS and earning in future.
- EBL has unable to maintain CRR as per NRB directive in first two year but able to maintain thereafter. So the banks management is advised to maintain the balance with the NRB.

Recommendations to Standard Chartered Bank Nepal Limited

- Higher capital adequacy ratio in excess to statutory requirement indicates banks inability to invest its resources. The bank should strive their best to

invest their resources in productive sector as their CAR is higher than requirement.

- SCBNL has increasing trend of performing loan ratio and decreasing trend of non-performing loan ratio, so it should be continue in future.
- Management efficiency ratio of SCBNL is in increasing trend except 2009/10. To better mobilize its human resources efficiently the bank should train their employees as per change in new technology and innovations for better contribution from them.
- EPS of SCBNL is in decreasing trend so it should concentrate to perform its activities more effectively to increase EPS in future. Similarly, ROA and ROE of the bank better to have increasing trend.
- Overall liquidity position managed by the bank is good for the bank and to keep it continue in future.

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Appendix

Appendix-I

Trend analysis of total deposit for the period ending 2006/07 to 2012/13 of NIBL

(in millions)

Year (t)	Total Deposit (Y)	X= t-2008/09	X^2	XY	Yc= a+bX
2006/07	24488.85	-2	4	-48977.70	27785.99
2007/08	34451.73	-1	1	-34451.73	34480.15
2008/09	46698.10	0	0	0	41174.30
2009/10	50094.72	1	1	50094.72	47868.45
2010/11	50138.12	2	4	100276.24	54562.60
	$\sum Y=205871.52$		$\Sigma X^2=10$	$\Sigma XY=66941.53$	
2011/12		3			61256.75
2012/13		4			67950.90

Appendix-II

Trend analysis of total deposit for the period ending 2006/07 to 2012/13 of EBL

(in millions)

Year (t)	Total Deposit (Y)	X= t-2008/09	X^2	XY	Yc= a+bX
2006/07	18186.25	-2	4	-36372.50	18941.28
2007/08	23976.30	-1	1	-23976.30	24825.21
2008/09	33322.94	0	0	0	30709.14
2009/10	36932.31	1	1	36932.31	36593.07
2010/11	41127.91	2	4	82255.82	42477.00
	$\sum Y=153545.71$		$\Sigma X^2=10$	$\Sigma XY=58839.33$	
2011/12		3			48360.93
2012/13		4			54244.86

Appendix-III

Trend analysis of total deposit for the period ending 2006/07 to 2012/13 of SCBNL

(in millions)

Year (t)	Total Deposit (Y)	X= t-2008/09	X^2	XY	Yc= a+bX
2006/07	24647.02	-2	4	-49294.04	26156.13
2007/08	29743.99	-1	1	-29743.99	29370.44
2008/09	35350.82	0	0	0	32584.75
2009/10	35182.72	1	1	35182.72	35799.06
2010/11	37999.24	2	4	75998.48	39013.37
	∑Y=162923.79		ΣX^2=10	ΣXY=32143.17	
2011/12		3			42227.68
2012/13		4			45441.99

Appendix-IV

Trend analysis of Net Profit for the period ending 2006/07 to 2012/13 of NIBL

(in millions)

Year (t)	Net Profit (Y)	X= t-2008/09	X^2	XY	Yc= a+bX
2006/07	501.39	-2	4	-1002.78	524.33
2007/08	696.73	-1	1	-696.73	716.30
2008/09	900.62	0	0	0	908.27
2009/10	1265.95	1	1	1265.95	1100.24
2010/11	1176.64	2	4	2353.28	1292.21
	∑Y=4541.33		ΣX^2=10	ΣXY=1919.72	
2011/12		3			1484.18
2012/13		4			1676.15

Appendix-V

Trend analysis of Net Profit for the period ending 2006/07 to 2012/13 of EBL

(in millions)

Year (t)	Net Profit (Y)	X= t-2008/09	X^2	XY	Yc= a+bX
2006/07	296.41	-2	4	-592.82	299.93
2007/08	451.23	-1	1	-451.23	464.91
2008/09	638.73	0	0	0	629.89
2009/10	831.76	1	1	831.76	794.87
2010/11	931.30	2	4	1862.60	959.85
	$\sum Y=3149.43$		$\Sigma X^2=10$	$\Sigma XY=1649.85$	
2011/12		3			1124.83
2012/13		4			1289.81

Appendix-VI

Trend analysis of Net Profit for the period ending 2006/07 to 2012/13 of SCBNL

(in millions)

Year (t)	Net Profit (Y)	X= t-2008/09	X^2	XY	Yc= a+bX
2006/07	691.67	-2	4	-1383.34	723.77
2007/08	818.92	-1	1	-818.92	835.96
2008/09	1025.11	0	0	0	948.15
2009/10	1085.87	1	1	1085.87	1060.34
2010/11	1119.17	2	4	2238.34	1172.53
	$\sum Y=4740.74$		$\Sigma X^2=10$	$\Sigma XY=1121.95$	
2011/12		3			1284.72
2012/13		4			1396.91