

CHAPTER-I

INTRODUCTION

1.1 Background of Study

The basis for the financial planning, analysis and decision-making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is required to aid in economic decision-making. The financial information of an enterprise is contained in the financial statement or accounting reports.

"Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimates and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision."(Bernsten and Wild, 1998: 3) Financial Statement analysis reduces over reliance on hunches, guesses, and intuition and in turn it diminishes its uncertainty in decision-making. It doesn't lessen the need for expert judgment but rather establishes an effective and systematic basis for making business decisions.

Financial statements of a firm mainly include income statement and the balance sheet. They are important source of financial information regarding the firm's operations and its financial position. To analyze the financial performance and strength and weakness of the firm, many types of tools and techniques are used.

Ratio analysis is one of the very popular and widely used tools of financial analysis. Ratio analysis is done with different ratios, which are calculated from the accounting data contained in the financial statement. It is the primary tool for examining the firm's financial position and performance. Ratios are used as yardstick for evaluating the financial condition and performance of the firm.

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the

economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand the tempo and appreciate the value of aggregate economic activity in the economy.

The financial system in Nepal has developed from a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. An indicator of the last decade shows that the sector has growth both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has become more competitive, dynamic and also complex. This constitutional network and the volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

The adoption of the market economy has given birth to many private commercial banks in the country as said earlier. So far all these banks are doing very well. With the slow down in the economy, interest rates are falling down. All the banks are flushed with funds and looking for safe and profitable avenues to invest into.

CAMELS Rating analysis, which refers to capital adequacy ratio, assets quality ratio, management, earning, liquidity positions and sensitivity to market risk are required to predict, evaluate and make decision. It represents a systematic summary of banking transaction, stating actual cash inflow and outflow and earning. They reflect the financial position of a bank. The financial position, cash inflows and outflows that it presents is analyzed and done through financial reports and accounting reports.

CAMELS Rating analysis is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financial, investing and other business decision. It avoids intuition, guesses and hunches which is made for making any business decision and helps in reducing uncertainty in decision making.

CAMELS Rating analysis is one of the very popular and most appropriate tools of the financial analysis. These tools play the role of yardstick for evaluating financial condition and performance of the firm and show the relationship between financial statement account and between firms.

The banking system, which was narrow earlier, has been now evolved to dynamic expanding sector. It could be observed that the financial market also is becoming more competitive, dynamic economy thus birth to many private commercial banks in the economy thus gives birth to many private commercial banks in the country. As all these banks are doing very well in their own business but slow down in economy since few year has fallen down interest flushed with fund and are looking for safe and profitable avenues to invest into.

The researcher has attempted to analyze the financial performance of HBL on the basis of CAMELS Rating System.

1.1.1 Concept of Banking

Bank is a financial institution, which plays a significant role, in the development of a country. "Banking institutions are inevitable for the resources mobilization and all round development of the country. It is resources for economic development and maintains economic confidence of various segments and extends credit to people." (Grywinshki, 1993: 87)

"The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy."(Shrestha, 1993: 32) Banks are institutions whose debts-usually referred to as "bank deposits" are commonly accepted in final settlement of other people's debt. Bank is also defined as an institution, which accepts deposits from the public and in turn advances loan by creating credit. It is different from other financial institutions in the sense that they cannot create credit though they may be accepting deposits and making advances. Banking system occupies an important place in nation's economy. A banking institution is in dispensable in a modern society. It plays an essential role in the economic development of a country and forms the core of the money market in an advanced country.

Various types of banking institutions are performing different functions. There is for instance the central bank, which controls the entire currency and credit of the country. It is the organ of

government that under takes the major financial operations of the government and by its conduct of these operations and by other means influences the behavior of financial institutions so as to support the economic policy of the government. Similarly, commercial banks also perform different functions by accepting the deposits and advancing loans etc. But in modern times commercial banks are concentrated in their activities of fulfilling the financial needs of their customers. The commercial banks have become the heart of financial system as they hold the deposit of the people, government and business units and investing activities to individuals, business firm and government.

1.1.2 Evolution of Banking Industry Globally

The evolution of banking industry had started a long time back, during the ancient time. There was reference to the activities of money changers in the Temple of Delphi and Olympia served as the great depositories for people's surplus funds and these were the centers of money lending transaction. Indeed the traces of "rudimentary banking" were found in the Chaldean, Egyptian and Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire after the death of Justinian in 565AD, and it was not until the recovery of trade and commerce in the middle age that the lessons of finance were learnt a new from the beginning. Money lending in the middle ages was, however, largely confined to the Jews since the Christians were forbidden by the Canon law to indulge in the sinful act of lending money to others on interest. However, as the hold of the Church loosened with the development of trade and commerce about the thirteenth century Christians also took to the lucrative business of money lending, thereby entering into keen competition with the Jews who had hitherto monopolized the business.

As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 was the first public banking institution. Following it were established the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. The Bank of Venice and the Bank of Genoa continued to operate until end of eighteenth century. With the expansion of commercial activities in Northern Europe there sprang up a number of private banking houses in Europe and slowly it spread throughout the world.

1.1.3 Historical Development of Banking System in Nepal

In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual moneylender has acted as fence to institutional credit in presence of unorganized money market.

Banking concept existed even in the ancient period when the goldsmiths and the rich people used to issue the common people against the promised of safe keeping of their valuable items on the presentation of the receipt; the depositors would get back their gold and valuables of the paying a small amount of safe-keeping and saving.

The history of banking in Nepal can be described as a component of gradual and economic sphere of the Nepalese life. Even the financial system is still in evolutionary phase. Though establishment of banking industry was very recent, some crude bank operation was in practice even in ancient times. In Nepalese chronicle, it was recorded that the new era known as "Nepal Sambat" was introduced by "Shankhadhar" a merchant from Kantipur in 880 A.D. after having paid all the outstanding debt of the country. This shows basic of money lending practice in ancient Nepal. In 11th century during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business; particularly for financing the foreign trade with Tibet became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rate of interest and other extra dues on loans advanced.

The establishment of the "Tejarath Adda" by Prime Minister "Ranoddip Singh" during the year 1877 AD was fully subscribed by government of Kathmandu Valley which played vital role in the banking system, was regarded as the father of the modern banking institution. The prime task of "Tejarath Adda" was granting of loans and safeguarding of total national deposits. At that time, Indian currency was commonly used in most part of terai. The primary task of the "Tejarath Adda" was to attract the deposits in government exchequer at the beginning but later on general public was also

allowed to take the loan at the same rate of interest with gold and silver ornaments as securities and collateral. Although the institution did not accept any deposits, it had played an important role in development process of banking system in Nepal.

The main defects of this institution showed that there was no further financial institution set-up & there was no effort to expand the services. Above all of the defects, this institution did not accept any deposit from the public. In the absence of saving mobilization the "Adda" faced financial problems making it impossible to charter to the credit and service need of general population throughout the country. Udyog Parishad (Industrial Development Board) was constituted in 1936 A.D. One year after its establishment, it formulated the "Company Act" and "Nepal Bank Act" in 1937A.D.

In the year 1994 B.S. the establishment of Nepal Bank Limited, with the Imperial Bank of India came into existence under "Nepal Bank Act 1993 B.S." as the first commercial bank of Nepal. At that time Nepalese economy was characterized by the existence of dual currency system (Indian and Nepalese), which was affecting economic stability and development of nation. Thus, the need of establishment of the central bank required great urgency. As a result Nepal Rastra Bank was established as a central bank of country on 13th Kartik 2013 under NRB Act 2012 with the authorized capital of Rs. 10 million fully subscribed by government.

Integrated and speedy development of the country is possible only when the competitive banking services reaches nooks and corners of the country. To cope this situation, government set up Rastriya Banijya Bank in 2022 B.S. as a fully government owned commercial bank. With the come up of RBB, banking services spread to both urban as well as rural area. Agriculture Development Bank was established for the promotion of agriculture sector in country. When the government adopted liberal and market oriented economic policy in the mid 80's Nepal allowed the entry of foreign banks on joint venture basis with foreign capital, technology and experience. Nepal Arab Bank Ltd. was the first joint venture bank established on 2041B.S.under the commercial bank act 2031. With the opening of Nabil the door of opening joint venture banks was opened to the private sector.

1.2 Focus of the Study

Nepal Rastra Bank (NRB), the central Bank of the kingdom of Nepal, was established in 1950 AD to discharge the central banking responsibilities including guiding the development of embryonic domestic financial sectors. To reflect this dynamic environment, the functions and objectives of NRB are as, to formulate necessary monetary and foreign exchange policies, to maintain the stability in price and consolidated the balance of payments for sustainable development of economy of the kingdom of Nepal, to develop a secure, healthy and efficient systems of payments, to make appropriate supervision of the banking and financial system in order to maintain its stability and foster its healthy development and to further enhance the public confidence in Nepal's entire banking and financial system. Since the establishment of the NRB, there has been a mark able growth in quantitative and qualitative financial institutions and their activities.

Due to the increment in the financial institutions, their activities, services are also increased. But it is very necessary to control and promote their performance for the healthy, stable, sound, capable and dynamic financial system and for public confidence over them. Commercial Banks are the major players in the economic and financial development in Nepal. So, their performance should be controlled and promoted through the inspection and supervision. NRB is the authorized institution for the supervision of commercial Banks. Supervision of commercial bank is one of the prime responsibilities of the NRB. Effective supervision of the environment of the state. That is why, it is necessary to perform the commercial banks is an essential component of economic and financial supervision and inspection task over performance of commercial banks'. The task of supervision is to ensure commercial banks operation and performance in a safe and sound manner and holding capital and reserve to support the risks of the banking business. The basic objective of NRB supervision and inspection is to conduct a direct assessment of the overall financial performance of the banking institutions, the evaluation of Capital adequacy, Assets quality, Management, Earnings, Liquidity, Sensitively to market and review of their records.

The objective of the principles in banks supervision and inspection are to safeguard the interests of depositors, investors, to stabilize the monetary system, to promote an efficient financial system and maintain financial stability etc. In context of Nepal, NRB uses two basic inspection and supervision methods. One is on-site inspection, performed examination of files and projects and overall condition of banks in presence at on site and

other is off-site supervision, act of evaluation of banks overall economic and financial condition by gathering relevant information at NRB's desk. This study concerned with the financial performance of the sampled bank, analyzing under the CAMELS ratios; the tools of off-site evaluation. Generally the off-site evaluation is made on regular basis but as the study nature, the analysis is made on the financial statements published at the end of the year.

- CAPITAL:** To assess whether the bank is operating with adequate capital funds in relation to its size of operations and the risk assumed, as well as the bank's compliance with regulatory requirements.
- ASSETS:** To evaluate the market or realizable values of bank's assets, particularly the loan portfolio.
- MANAGEMENT:** To evaluate the efficiency of overall management of bank.
- EARNINGS:** To assess the current and future earning capability and the efficiency of the bank based on the existing assets and liability structure as well as pricing and costs.
- LIQUIDITY:** To evaluate the bank's liquidity in the light of its existing assets and liability mix, and in relation to the legal liquidity requirements.
- SENSITIVITY:** To determine the banks ability to monitor and manage its exposure to market risk.

For each of the financial institutions, every financial indicator carries the high value. CAMELS is also one of the indicators, which indicates the performance level of commercial banks. On measuring the performance level of commercial banks each of the components is measured under the certain standard.

1.3 Statement of the Problem

It has been said that Joint Venture Banks are now operationally more efficient having superior performance while comparing with other commercial banks in Nepal; JVB's have contributed significantly to overall economic development of the country. Yet they are not free from the problems that needed to be resolved for improving their performance of JVB's. Their profitability position and stock prices are generally considered to be yardstick of their better performance

but one can raise the question whether these are enough to reflect the overall performance of JVB's.

A study of financial performance is a basic process which provides information about the profitability, liquidity position, earning capacity, efficiency in operation, credit worthiness, sources and uses of capital, financial achievement and status of the company. The information obtained can be used to measure the efficiency and effectiveness of the company in respect of deploys financial resources in profitable manner.

Among the commercial banks, the performance of those bank are satisfactory with in the short period of time, they have succeed to capture and remarkable share of Nepalese financial sectors.

Economic liberation policy of government has provided a better opportunity for foreign investors. Consequently joint venture banks and financial institutions have been incorporated rapidly. Because of rapid establishment of commercial banks at present they are facing competition.

In Nepal the profitability, operating expenses and dividend distribution to shareholders have found inconsistent. The problem of the study will ultimately find out the reason for difference in financial performance in different period of time.

This study aims of evaluating financial performance and capital employment to check whether the factors are responsible for variation of the profits, liquidity and investment of the banks under the study. Also, the researcher tries to examine the level that the banks are complying with the regulation directed by NRB.

1.4 Objectives of the study

The primary objective of the study is to analyze the financial performance through the tools of CAMELS Approach. The following objectives of the study can be derived.

1. To determine the financial position and quality of operations of the HBL whether the bank is operating for the depositors' interest, banking legislation and banking system norms or not.
2. To examine the need of evaluation of HBL's performance with reference to prudential requirements i.e. CAMELS System.

1.5 Significance of the Study

The banking sector is gearing up to operate in a more competitive and market oriented system. It is modernizing its operations and moving towards providing a range of financial products and services in an innovative and competitive way. In this context no bank can be regarded as competent and well managed unless they manage their resources well, generate adequate profits and provide a decent return to the shareholders.

Thus at the core of banking, the performance of a bank lays the twin parameters of profitability and productivity. Both productivity and profitability of banks have suffered because of directed lending, satisfactory preemption, existence of unviable bank branches, pattern of investment, human resource management policies, ever rising-operational costs, bank debts, inadequate automations, frauds etc. Since there is no room for soft options to survive in the changed environment with status, goodwill, command and respectability, banks have to enhance their competitive capabilities and evolve independent strategies plans for increasing profitability after carefully considering their strength and weakness and advantages of opportunities available in order to facilitate the socio-economic upliftment of the country. For this regard the banks should deliberately think as to how best they can tap the available potential, garner resources, deploy them judiciously and monitor them prudently to maximize income and reduce expenses to achieve an optimum level of profit for the benefit of the stake holder of the bank viz. customers, shareholders and staffs.

Hence, the present study is destined to provide financial information to different sectors of business that is directly influenced by financial performance of Himalayan Bank Limited. Especially, this study will serve the management shareholders, long terms and short-term moneylenders, creditors and employees/staff members of this two joint venture bank in implementing future projects or initiating corrective action by status of organization. In addition this study will

also help these potential investors, financial institutions and people interest in financial institution and similar business. The study also opens many doors to future research in the area of investment and assets management for business.

1.6 Limitations of the study

The study consists of certain assumption limitation due to some reasons, thus limitations of this study are as follows:

1. This study is based on secondary data, so the reliability of this study depends upon the accuracy of published data and the genuine of respondent.
2. This study is only done concerning one particular subject matter and the conclusion is made so overall financial statement concerning other subject is not considered here.
3. The study covers only the annual report of HBL due to limited resources and time frame.
4. The study covers only five years period, i.e., from FY 2006/2007 to FY 2010/2011.

1.7 Organization of the Study

The study on the financial analysis with the help of CAMELS Rating System of HBL has been divided into five chapters viz. Introduction, Review of literature, Research methodology, Presentation and Analysis of Data, and Summary, Conclusion and Recommendation.

Chapter 1: Introduction

The introduction chapter briefly explains about the meaning and historical background of commercial bank in Nepal and also the joint venture banks. It describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Chapter 2: Review of Literature

In this second chapter, the brief explanation of CAMELS Rating analysis has been presented. The relevant and pertinent literature and various studies have also reviewed.

Chapter 3: Research Methodology

The third chapter briefly explains about the research methodology that has been used to evaluate the financial performance of the banks under consideration. This chapter consists of research design, sample and population, source of data and financial tools and techniques to

measure the financial performance of HBL on the basis of CAMELS analysis.

Chapter 4: Presentation and Analysis of Data

In this fourth chapter, the data required for the study has been presented analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study in a very logical manner.

Chapter 5: Summary, Conclusion and Recommendation

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future performances of the two banks under review.

Finally bibliography and appendix are represented at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related areas of the study so that all past studies, their conclusion and deficiencies may be known and further research can be conducted. This chapter highlights upon the literature that have already been conducted by some thesis researches in this particular topic of Joint Venture Banks. Some of them, as are supposed to be relevant for this study purpose.

2.1 Conceptual Review

2.1.1 Concept of Commercial Banks

Financial intermediaries play significant role to the development of national economy. They influence savings and surpluses considerably, which results investments. Financial intermediaries collect financial resources and supply them to the productive sectors that boosts the trade and industry and at last development of the country's economy.

Commercial banks are also financial intermediaries they mediate people who save money and who want to secure the use of money by accepting the deposits, burrowing funds and advancing loans. In addition to these primary functions, commercial banks, collect checks and bills, open letter of the credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc.

"A commercial bank is one which exchanges money, deposits money, accept deposits, 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)

"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.” (Reed /Cotler /Will /Smith, 1976: 39)

In content of Nepal, commercial banks are operated under "Commercial Bank Act 2031 B.S.", In addition to Commercial Bank Act, Nepal Rastra Bank also lays down other many directives.

2.1.1.1 Functions of Commercial Banks

Regarding the function of commercial banks, a Commercial Bank Act state that a commercial bank is one that exchanges money, accept deposits, grants loans, and performs commercial banking functions. The functions and services of modern commercial banks are classified under the following headings.

(i) Accepting Deposits

A commercial bank accepts deposits from customers in the forms of current, saving and fixed deposits. These deposits are repayable on demand. The depositors other than current A/c are paid interest.

(ii) Granting Loans and Deposits

The second main function of the commercial bank is to grant loans and advances to businessman, the industrialist, the individuals, the different organizations etc. in the forms of term loans, cash credit, overdraft, trust receipts, hire purchase loans etc. Banks charge interest on such loan and advances, which is the largest source of total income.

(iii) Agency Service

A modern commercial banks act as an agent of individual's customers, business institutions and different organization. The agency services of banks may involve collection of interest and dividends on debt and share capital. A bank buys and sells securities on behalf of the customers. Bank also collects cheques, drafts promissory notes etc and receives their payments. Sometimes, it

makes payments of insurance premium, bills of electricity, telephone etc. It takes commission for the services rendered.

(iv) Guarantee on Behalf of Customers

The need of bank guarantee arises in business. Generally, business customers enjoy this service. Sometimes, personal customers may also need a bank guarantee. A guarantee is a definite and irrevocable undertaking by a bank on behalf of its customers to make payments up to a specified sum of money to the beneficiary on demand in case of default by its customers.

(v) Issuance of Traveler's Cheque

The people traveling outside the country want to reduce the fear of getting money stolen during the travel. Bank sells the traveler's cheque. The unique feature of the traveler's cheque is that unless the purchaser of traveler's cheque signs for encashment it cannot be encashed.

(vi) Opening Letter of Credit

Today letter of credit has become very popular in foreign business. The letter of credit is established /opened by the bank on the request of the customers.

(vii) Remittance Function

Sending and receiving fund to /from various places is the necessity of today. The remittance service of bank has benefited both business and personal customers. Funds transfers are made through various modes like demand drafts, telegraphic payment order, swift, fax and mail payment orders.

(viii) Other Services

Modern commercial banks are equally important in undertaking safe custody of important valuable and documents. Banks also offer some of the bank services at the door of highly valued customers. Few large banks conduct research and survey in the economic conditions and they supply trade statistics and information. In addition to these, banks also inform their customers about the credit standing of other parties.

2.1.2 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)

The joint venture is common variant for expansion. "A joint venture business involves in equity arrangement between two or more independent enterprises which results in the creation of new organization entity."(Jauch and Glueck, 1988: 232). This thought identified the joint venture as a mutual understanding among two or more firms then bringing a new enterprise in existence. Basically they are constant about the ownership of new firms. In what proportion they are going to contribute ownership is also decided mutually.

Firms within a country as well as operating in different countries may participate in a venture that happens to be more common firm's indifferent countries. The foreign joint venture banks with full-fledged banking functions in Nepal are formed under the 2031 B.S. Joint Venture Bank have been established for trading to achieve mutual exchanges of goods and services, for sharing comparative advantages by performing joint investment schemes between Nepalese investors, financial and non-financial institutions as well as private investors and their parent banks. The parent banks that have experience in highly mechanized and efficient modern banking services in the many part of the world have come to Nepal with superior technology, advanced management skills and international network of banking.

The existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercial banks. The increased competition has led to improve their quality and has caused an extension of services by simplifying procedures and training.

The concept of joint venture banks is a new innovation in finance and it is at a growing stage, mostly in developing countries.

"HMG's deliberate policy of allowing foreign JVB's to operate in Nepal is basically targeted to encourage local traditionally run

commercial banks to enhance their balanceable capacity through competition efficiency, modernization via computerization and prompt customer service."(Shrestha, 2041: 44).

Joint venture banks in Nepal are expected to be the medium of economic development and uplift the community under the guidance, operate under the supervision, controlling and direction of Nepal Rastra Bank. Nepal Arab Bank Limited was the first joint venture bank of Nepal, established in 29th Ashar 2041 B.S.

2.1.2.1 Role and Functions of Joint Venture Banks

With the entry of foreign joint venture banks with foreign collaboration advanced managerial skills, international network, personalized manpower, and modern computerized technology have created serious challenges to the existence of the traditionally running inefficient domestic state owned banks. JVB's are able to provide quality-banking service at the cheaper costs. At same time, JVB's create the opportunity and environment to the domestic banks to improve their style of doing business by modernizing themselves and sharpening the internal strength.

The JVBs have already been providing a dynamic and vital role for the development of the efficient financial market as well as for successful mobilizing and utilizing financial resources in the country, which can be illustrated in the following headings.

(I) Providing Advanced Banking Services

The joint venture banks are expert and efficient for practicing new methods of doing banking business like computerization, providing tele-banking facility, automatic teller machine (ATM), 24 hours banking services, any branch banking facility, premium saving account (PSA), free life insurance of account holders, and other many attractive facilities.

(II) International Management Network

The top level-management of the JVB is either from foreign country or supported by foreign parent institutions for expertise and professional services. And the management is able to formulate policy and strategy according to Nepalese economic climate with the participation of native promoters. Such management system can be a model example to the domestic banks that are operating traditionally.

(III) Creation of Healthy Competition in the Banking Industry

In the post liberalization period the introduction of the JVB's has ended the monopoly of the two domestic banks namely NBL and RBB and brought satisfactory fair competition in the banking business, which results the competitive advantages to customers. Efficiency of the financial market is the backbone of the economy. The advent of the JVB's has contributed much to the direction of domestic saving as well as to the efficiency of funds flow into the economy which surely would not have been possible through the government's conservative and restricting free competition policy.

(IV) Advantage of Foreign Investment

The JVBs play a remarkable role in making available foreign financial resources for the investment. They act as mediators between foreign investors and native investors and promoters. That will help for the promotion of the trade and commerce in the country.

Recently, the JVB's are being criticized, as they only want to operate in urban and suburban areas rather than to rural ones driven by profit motive. However the JVB's have been contributing much in the direction of the development and modernization of the efficient banking system, financial system, domestic saving and creation of the employment opportunities.

2.1.3 CAMELS SYSTEM

The major responsibility of the Nepal Rastra Bank is to perform the inspection and supervision of the commercial bank, under the several policy documents such as Nepal Rastra Bank Act 2058, Bank and Financial Institution Ordinance 2061 etc. Due to this responsibility NRB issues the inspection and supervision by law 2059. Under this by law, NRB also develops the several norms and tool to measure the financial performance position of the commercial banks. NRB inspects and supervise the commercial banks because they have to perform for the safety of the depositors' interest.

To protect the depositor's interest, NRB perform the two types of the inspection and supervision. One is on-site inspection and other is off-site supervision. The main approach to supervising banking institution is to

concentrate on corporate governance, marked discipline and management oversight. But concerning only with the off-site supervision, it is simply analyzing reviewing the several financial and statistical reports of financial institutions and their compliance with provisions made for financial institutions.

On-site financial analysis is based on collecting reviewing and analyzing prudential reports and statistical returns from financial institutions on a regular basis. This report should include basic financial statements as well as supporting schedules that provide great details on exposure to different risk and various other financial aspects of the institution, including provisions and off-sheet balance sheet activities.

The main objective of the on-site supervision of the commercial banks is to determine their financial performance and soundness and to check adherence to some prudential requirements. It also provides some ideas to identify problems and their corrective actions.

The Bank Supervision Department and Financial Institution Supervision Department of NRB establish the some objective to perform the on-site financial analysis (Supervision) as follows:

- A system of information by reporting institutions.
- Ratio analysis for each reporting institutions
- An analysis of the key ratios and determinations of CAMELS rating for each institution.
- An executive summary of each institution.

For the purpose, the financial analysis is made under the CAMELS system that is designed in the off-site supervision manual. CAMELS system is simple the financial tools that is used to rank the commercial banks performance. CAMELS is the composition of the six financial elements. They are Capital Adequacy, Assets Quality, Management, Earnings Position, Liquidity Position and Sensitivity to Market Risk.

2.2 Utility and Importance of CAMELS Analysis

CAMEL analysis is an important and new technique of financial analysis. The data given in financial statement in absolute form are dumb and unable to communicate anything. Ratios are relative form of financial data and very useful technique to check upon the efficiency with which working capital is being used in the enterprises. The following are the some main importance of the CAMELS analysis.

- i. CAMELS analysis simplifies the financial statement. It tells the whole story of change in the financial condition of the business.
- ii. CAMELS analysis provides data for inter-firm comparison.
- iii. CAMELS analysis helps in planning and forecasting.
- iv. CAMELS may be used as a measure for inter-firm and intra-firm comparisons.
- v. CAMELS analysis is also very useful for decision-making.
- vi. For simple assessment of liquidity, profitability, leverage and activity position of the firm, the ratios are very useful. It helps to evaluate the financial condition and performance of the company.
- vii. It also helps NRB to check its directives.

2.3 Users of Financial Statement and CAMELS Analysis

Financial statement users are broadly classified into two groups. Internal users, primarily the managers of a company, are involved in making operating and strategic decision for the business. As employee, they typically have complete access to a company's information system. Internally generated financial reports are, therefore, specially tailored to the unique information needs of an internal decision maker, such as CEO or internal auditor.

External users are individuals not directly involved in the company's operations and NRB. These users must rely on information provided by management as a part of the financial reporting process. There are many classes of external users of financial statements. Creditors are bankers, bondholders and other individuals who lend money to business enterprises. Creditors look to financial statements for evidence concerning the ability of the borrower to pay periodic interest payments and repay the principle amount when the loan matures. Equity investors include existing and potential shareholders of a company. Existing shareholders need financial information in deciding whether to continue holding the stock or sell it. Potential shareholders need financial information to help in choosing among competing alternative investment.

Merger and acquisition analysts are interested in determining the economic value and assessing the financial and operating compatibility of potential merger candidates.

Auditors use financial analysis techniques in determining areas warranting special attention during their examination of a client's financial statements.

A company's board of directors, in their role as appointees of shareholders, monitors management's actions.

Regulatory agencies utilize financial statements in the exercise of their supervisory functions, including the Securities and Exchange Commission, which vigilantly oversees published financial statements for compliance with federal securities laws.

Other users include employees, intermediaries' suppliers, and customers. All of these users rely on the analysis of financial statements.

2.4 Reviews from Relevant Studies

Some studies have been made about the financial performance of the commercial banks. No, sufficient studies review of the financial performance related studies can be made in this subsection. But again no specific studies about the CAMELS system and evaluation of the financial soundness of commercial banks could be found. However, some relevant studies about financial performance of the commercial banks have been reviewed so that the possibilities of limitation will be avoided from the current study and some originality can be created for serving the objective set.

2.4.1 Reviews from Research Studies

Timothy J. Curry, Peter J. Elmer, and Gary S. Fissel on their working paper, "Regulator Use of Market Data to Improve the Identification of Bank Financial Distress" has conclude that the notion that the stock price, return, and other market-related variables can be used to improve the predictive content of Call Report (*Report of Condition and Income*) financial ratios for the purpose of anticipating CAMEL rating changes. A sample of 122 banks and thrifts that were downgraded to the CAMEL 3 level and 148 banks and thrifts downgraded to the 4 or 5 level were analyzed over the period 1988-1996. Extensive univariate analysis confirms that relatively simple measures of stock prices and returns exhibit downward trend as much as two years before banks and thrifts experience CAMEL rating downgrades to 3,

4, or 5. The longer-term nature of these trends suggests that the unvaried trends are not commonly found in stock returns of healthy institutions. However, no relation appears in unvaried comparisons of several other market variables, including average trading volume and average quarterly turnover of shares.

Further they add stock return variables to regression equations that include financial ratios commonly used to predict CAMEL rating changes in off-site monitoring models. The result provides several additional points of interest. Most important, adding relatively simple measures of excess returns, stock prices, and an institution's dividend record improve the CAMEL ratings predictive content of Call Report data and otherwise appear to have a limited independent role in anticipating financial distress. The predictive content of the model is most robust for institutions experiencing the greatest financial distress those being downgraded to the 4 or 5 level. Other market-related variables, such as return volatility, trading volume, and the book-to-market equity ratio, appear to have limited predictive value.

Richard S. Barr, Lawrence M. Seiford, and Thomas F. Siems on their working paper, "Forecasting Bank Failure: A Non-Parametric Frontier Estimation Approach" have presented the multiple-input, multiple-output DEA model (data envelopment analysis) has proven to be effective in qualifying management quality. Banks that survive can be statistically differentiated from banks that fail using the managerial efficiency scores generated by the DEA model. Long before failure occurs, significant differences in the efficiency metric appear which can be statistically detected.

Two new bank-failure prediction models were presented in which the incorporation of the management quality metric results in a significant improvement in classification accuracy. Both the one-year-ahead and two-year-ahead models use proxy variables for each factor in the CAMEL rating plus a variable to capture local economic conditions. The results confirm that management is, indeed, important to the successful operation of a bank. When the management variable was removed from the full model, the results were worse in terms of the model's classification accuracy. The newly developed DEA-based models show superior results to leading published approaches.

2.4.2 Reviews from Articles

The KFA (2006, p: 75-81) article on "Banking at Boiling Point" has tried to find out the financial position of Nepalese 17 commercial Banks on the basis of CAMEL approach. The study has concluded that the total capital fund and CAR of most of the commercial banks is satisfactory except few commercial banks who have failed to maintain it as per the NRB directives. NBL and RBB are exempted from maintaining minimum capital adequacy as these banks are

under reform process of World Bank. The main reason for the banks not being able to maintain minimum capital fund is due to the increased non performing loan. This study also finds that a number of banks have lower NPL and LLP ratio; however, there are banks whose NPL ratios are higher than industry average. These banks will have to focus on risk management control and should focus on recovery of bad loans. In the study period of 2006/07 to 2010/011 total loans and advances of commercial banks has increased by 46% even though there is political uncertainty, conflict and unrest in the country. Most of the commercial banks have been able to grow their net profits while some of the banks resulting from high non performing loans, lack of avenues for earning fee based income and operating in inefficiencies are struggling with either very low net profit or negative profits. EPS reflects the earning power of the bank. Higher ratio shows sound profitability position of the bank. It is found that most banks have been able to earn good EPS, while few are unable to do so.

The study further concludes that the good management can make and poor management can break an organization. Net Profits of some of the banks are extremely low or even negative, which can be attributed to higher provision of loan loss resulting from poor quality of loans. This has caused in negative per employee productivity of such bank, which is quite a paradoxical situation. In management analysis, another important analysis on sustainability of earning has been conducted. The study conclude that management of those banks who have been able to increase net profits in a constant and sustainable manner over a period of time, are considered as efficient and successful whereas management of banks who have not been able to grow their earning in a sustainable manner can be considered as inefficient. It has been observed that some of the banks could not perform well as it exists significant interference o f shareholders in day to day affairs of management. Unfortunately Nepali banking needs to do a lot more in terms of implementing fair corporate governance practices.

The study further concludes that all commercial banks have maintain CRR as per NRB's direction and all these banks are successful to set aside reasonable cash and bank balance to meet their payment obligations. There are few banks who might be maintaining a very low percentage of their deposits as investment in government securities. This can cause liquidity crisis or the banks inability to honor deposit withdrawal, if it so happens it can send a very wrong signal about the entire economy.

Murari R. Sharma (1988, p: 31-42) on his article "Joint Venture Banks in Nepal: Co-existing or crowding out", has highlighted that "It would be operated in the country and not to take advantage to them as additional means of new era in banking. However, it will certainly be unfortunate for the country to develop the JVB's at the cost of the domestic banks. So for one should admit frankly no different treatment has been extended to the domestic and JVB's at least from the government side, which is commendable. If His Majesty's Government keeps on the stance of treating the domestic and JVBs, equally deposit the latter's bargaining strength and if the JVB's also show their alacrity to come forward to share the trials and tribulations of this poor country both types of banks will coalesce and co-exist, complementing each other and contributing to accelerated development. On the country if the JVB's use their straight against trading into the cumber some path of development along with the domestic banks and the government. They will eventually crowd out the domestic banks from the more profitable urban areas and lucrative urban sectors unless remedying by the determination of the government".

Manohar Krishna Shrestha (2047,p:44-54) in his article, "Commercial banks comparative performance evolution", concludes that JVB's are new, operationally more efficient, having superior performance of JVB's is due to their sophisticated technology, banking methods and skill. Their better performance is also due to the government's branching policy in rural areas and financing local banking area efficient in rural sector. Despite having number of deficiency, local banks have to face growing constraints of socio-economic political system on one spectrum and that of issue and challenges of JVB's commanding significant banking business on other spectrum".

Mr. Jagat Timilsina (2004,p:96-102) in his article, "Consumer satisfaction in Joint Venture Commercial Bank," has tried to find out the satisfaction or dissatisfaction from the performance of joint venture commercial bank to people. He concludes that if perceived performance matches expected performance customers are felt neutral. But if perceived performance exceeds desired performance, customers are highly satisfied and vice-versa. Here, perceived performance refers to product or service characteristic. The researcher had taken eight banks as the sample for the study whether these banks are capable for consumer satisfaction or not. Interest rate, fast and efficiency service, reliability, timely information, targeted for poor people, pleasant office environment, good behavior

of employees, distance from customers residence has been taken responsible factors for customer satisfaction and another five factors have been identified as contributing to dissatisfaction i.e., low interest rate, employee behavior, complicated to get other services, hesitation to be familiar with modern banking and high minimum balance. From these factors he concludes that these joint venture banks are performing high satisfaction to their customer.

He further concludes that customer's satisfaction is a critical element in attaining success in any business venture as it helps to gain the market share and retain it. It is imperative that service organizations like banks should be particularly aware of customer satisfaction and dissatisfaction factors.

2.4.3 Reviews from Thesis

Imesh Poudel (2005) on his thesis paper, "CAMELS SYSTEM: An Evaluation of Everest Bank Limited", has tried to conduct the evaluation of EBL under the CAMELS Ratio. The primary objectives of this research work are to determine the financial position and quality of operation of EBL and also to examine the need of evaluation of sample bank's performance with reference to prudential requirements i.e. CAMELS System.

Mr. Poudel has tried to conduct his research work with the help of CAMELS ratios, the tools of off-site evaluation of NRB. These ratios are basically determined by NRB for the supervision of financial institution of Nepal.

In this research work he has concluded that the financial position of EBL was very satisfactory. The bank had maintained most of the provision required by NRB for the safety of depositors' deposit. Bank had maintained adequate capital position, adequate provision for loan and advances, proper management on utilizing the resources, identification of profitable investment sectors, adequate liquidity position and management.

Further he concludes that the NPA of EBL is decreasing at the end of the study period which shows that the bank has the high degree of performing assets. The performance of overnight borrowing and loan to deposit performance is strong in each period. In the case of interest rate sensitivity position of RSL and RSA the bank held the higher sensitive assets. Concerning the foreign exchange position, only the final year performance is strong, which indicates the higher degree of protection of depositors' deposit and public confidence

over the bank's performance. He further concludes that ROA of the bank improve only at the final year of the study period. Similarly, the operating income and operating expenses were higher in FY 2057/58, 2058/59 and 2060/61. It was found that the bank performance was improving, when reached at the end of study period.

This research work has not been completed with the view of NRB directives. First of all the ratios of CAMELS Analysis are not used. Second the NRB off-site supervision is basically designed for rating which has not been used in this research.

Prabhu Narayan Pradhan (2005), on his thesis paper, "Financial Analysis: A Comparative Study of Himalayan Bank Limited and Standard Chartered Bank Nepal Limited" has tried to evaluate the comparative financial position of these two sample banks. The primary objectives of this research work is to analyze the financial strength and weakness of these two joint venture banks and also the comparative financial positions between these two banks in various aspects.

This research work is conducted basically on the basis of secondary data. Financial tools as well as statistical tool have been used to analyze this research work. The key ratios i.e., liquidity ratios, activity ratio, capital structure ratio, profitability ratios and invisibility ratio has been used as financial ratios. The researcher has use arithmetic mean, standard deviation, coefficient of variation and t-test as statistical tool. To make this research more accurate the researcher has segregated the sample years as 3 years, 4 years and 10 years.

He had concluded that both the banks are unable to maintain its liquidity position. It is found that both banks are not adopting constant policy regarding liquidity position. But the analysis signifies that both banks are successful in utilizing its funds. SCBNL is more in utilizing its deposit in investment opportunities where as HBL is more successful in utilizing its deposit in loan and advances. He further concludes that profitability position SCBNL is comparatively better than HBL. It may be due to earlier establishment of SCBNL. The invisibility ratio reverb that both the banks have bright future. The earning per share and dividend per share of SCBNL is higher than that of HBL, but price earning ration of HBL is to some extent greater than that of SCBNL. So this analysis signifies that both banks investment performance is better and the trend of net income to its shareholders' is stability and growing.

Sangita Shakya (2000); in her thesis paper, "Comparative Analysis of Financial Performance of Selected Joint Venture Banks'. A case study of NGBL & HBL", has tried to find out the comparative financial performance of NGBL and HBL. The primary objective of this research work is to evaluate the financial position of these two joint venture banks and to make comparison between these two joint venture banks.

The researcher has used the financial ratio analysis to evaluate the financial performance. No other tools have been used to evaluate the financial performance. Only five years data has been used in this research.

The researcher has concluded that liquidity ratio of HBL have been higher than NGBL. Profitability ratios of both the banks revealed that among various profitability ratios like return on total assets, return on total deposits, the performance of NGBL is better than HBL. HBL has higher return on net worth or shareholder's fund than that of NGBL. She further includes that the activity ratios such as loans and advances to total deposit ratio, total income generating assets of total assets ratio of HBL is higher than NGBL. Total debt to total assets ratios of both the banks exceeded 90%, which indicates that both banks are successful in exploiting debt to total assets, however HBL's ratio is higher as compared to NGBL. The capital adequacy position is better in NGBL than HBL.

Further she recommends that NGBL should increase its cash & bank balance as directed by Nepal Rastra Bank. HBL is also suggested to increase its capital adequacy ratio above 8%. She strongly recommends to both banks to minimize their operating expenses as far as possible since it contributes to enhance the volume of profits. NGBL is suggested to utilize more of the deposits in extending loans and advances and HBL should attempt to stabilize the fluctuating loans and advances to total deposit. She further recommends to both banks to extend their banking facilities even in the rural areas providing special loans to the deprived and priority sectors.

Another thesis submitted by Resham Raj Pathak (2001) on "A Comparative Study on Financial Performance Between NGBL & HBL ", has tried to compare the financial position of these two banks. The primary objectives of this study is to compare these joint venture banks financial position and able to find out their strength and weakness and to recommend in their weak sectors.

Ratio analysis has been used as financial tools to evaluate the data of these sample banks. The researcher has only used the secondary data for the evaluation. The statistical and other tools rather than

financial ratios have been used in this research study. Only five years data has been used from FY 2006/007 to FY2010/011.

In this research work the researcher has concluded that the liquidity position of both banks is unsatisfactory. He has also concluded that short-term solvency positions of both the banks are found below the normal standard. Both the banks have been efficiently in utilizing most part of their total assets in profit generating purpose but comparing both banks NGBL has better performance than HBL for utilizing assets. He also concludes that net profit to total assets of NGBL is higher than that of HBL. Also the return an investment and rate of return of NGBL has always been higher in all fiscal year as compared to HBL. In conclusion, ROI comparatively decided that HBL has idle deposits due to lower return as compared with NGBL. The researcher has found that both the banks are highly leveraged. Comparatively HBL seems relatively more. Thus both banks have lower ratio of shareholder's equity over total claims of creditors. Total debt to total assets ratio of both the banks is found 90% of the total assets are financed by the outsider's funds. The average ratio of HBL is found slightly higher than that of NGBL. The EPS of NGBL is always higher than HBL in all fiscal years but both banks EPS is found in decreasing trend after 1996/97. NGBL has declared dividends in all fiscal years and it can be concluded that NGBL seems much better in terms of offering dividends to its shareholders as compared to HBL.

Further he recommends that both the banks should improve their current ratio. Profitability ratios in both banks are not satisfactory and both these banks should utilize its resources to more profitable sector. Both banks are highly leveraged and it is unfavorable to both the banks. So, banks are suggested to use low debt capital. NGBL has been investing more in government securities rather than investing on loans and advances. He strongly recommended NGBL to invest more in the most earning assets like loans and advances. Lastly the researcher suggests both banks to involve in social responsibility by investing a part of profit.

Mr. Uddhab Prasad Sapkota (2002), in his thesis paper "A Study on Fund Mobilization Policy of SCBNL in Comparison to NBBL & HBL" has tried to compare fund mobilization policy of SCBNL with NBBL and HBL. The primary objectives of this research are to find out the mobilization of funds in different sectors by these sampled banks whether they are properly utilizing there funds or not. Also this study tries to compare SCBNL with HBL and NBBL in profitability and return on investment in different sectors.

This study is based on the secondary data basically annual reports published by these sampled banks. Only financial tools have been used in this research study. Ratio has been used as the key financial tools.

The researcher has compared the fund mobilization policy of SCBNL with HBL & NBBL. He had concluded that liquidity position of SCBNL was not found satisfactory. Loan and advances, cash and bank balances ratio seems too weak than NBBL & HBL. Investment on share and debenture and interest earning power on total working fund seems also in weak condition than NBBL and HBL. Growth ratio of deposits, loan and advances, investments, net profits seems too weak in comparison to NBBL and HBL. The relation of investment and loan and advances with deposits seems positive and the relation of net profit with outside assets seems also be positive. He further concludes that in overall condition SCBNL seems in satisfactory position in comparison to NBBL & HBL.

Further he recommends that investment opportunity is less in present condition, so that SCBNL can select education as its potential investment sector SCBNL has maintained the ratio to cash and bank balance to total deposits considerably lower than NBBL & HBL. SCBNL is recommended to increase cash and bank balance to meet the need of investment and demanded of loan and advances. Since SCBNL use to provide less loan and advances in comparison to its total deposits, SCBNL is strongly recommended to follow a liberal lending policy so that more percentage of deposits can be invested to different profitable sectors. He also recommends that besides giving priority of investing to government securities, SCBNL is recommended to invest its funds in the purchase of share and debenture of other financial and non-financial companies.

Ganesh Prasad Awasthi (2003) in his thesis "A Comparative Study on Financial Performance between HBL & BOKL" has tried to attempt the financial position and comparison between HBL and BOKL. The primary objectives of this study is to evaluate the financial strength and weakness of these sample banks and make comparison between these banks with respect to their financial position.

The researcher is reliable only on secondary data basically five years' annual reports of respective banks. The researcher has only attempt to use the financial ratio analysis to evaluate the financial performance of these banks. No other tools and techniques had been used in this study.

The researcher had concluded that liquidity position of HBL is better than that of BOKL but they are not satisfactory, also the assets utilization in profit generating purpose of HBL is better than BOKL. He also concluded that return on total assets of HBL is found in better performance by utilizing overall resources but the generated profit is found lower for the overall resource in both commercial banks. The ROI has been in fluctuating trend in both banks but in yearly average BOKL has higher rate of return than HBL.

The debt to total assets ratio of both banks is found high. The earning profit on shareholder's equity of both banks is same but not satisfactory. Further he concludes that EPS of HBL is always higher than BOKL and the DPS is also high than that of BOKL.

Further he recommends that profitability ratio in both banks such as ROI, ROTA are not satisfactory. He has also suggested using low debt capital to both banks.

Another thesis submitted by Chandra Prasad Regmi (2003) on "A Comparative Analysis of Financial Performance Of Himalayan Bank Limited & Standard Chartered Bank Nepal Limited", has found that both the banks have unsatisfactory liquidity position. Even though HBL is found slightly better position than SCBNL on an average. He has further concluded that HBL has been successfully utilized their total deposit in the form of extending loan and advance for profit generating purpose as compared to SCBNL. It is also concluded that rate on total assets ratio in use of SCBNL is found better performance by utilizing overall resources but the generated profit is found lower for the overall resources in both banks. Net profit to total deposit ratio of both banks have been found higher and are able to generate profit from deposits. ROI comparatively decided that SCBNL has idle deposit due to the lower return as compared with HBL. He has also concluded that both the banks are highly leveraged, comparatively HBL seems relatively more. In case of DPS, SCBNL is higher than HBL, which shows better signal from investors.

Further he recommends that profitability ratios in both the banks such as ROI, ROTA are not satisfactory. These banks have also idle resources that have to be invested. He also suggests using low debt capital because higher debt capital is unfavorable to the bank and both banks are highly leveraged on shareholder's equity. Both banks are suggested to reduce the operating expenses to maximize the profit. He has also suggested extending the banking facilities in rural areas providing special loans to the derived and priority sector.

2.4.4 Conclusion from Review of Thesis

There had been no complete previous studies regarding CAMELS analysis. Mr. Imesh Poudel had tried to attempt CAMELS System of EBL but the research work has not been completed with the view of NRB directives. First, all the ratios regarding CAMELS System had not been calculated. Second, according to NRB directives, the research should be focused on CAMELS but management portion is totally neglected which is one of the most essential part of the supervision and finally, the method of evaluating sensitivity to market risk is totally incorrect.

Besides CAMELS System, all other studies have been done in comparative financial performance of different banks namely SCBNL, HBL, NBBL, and BOKL. In these research studies all the ratios had not been used which might show the financial strength and weakness of the respective banks. Most of the researchers had neglected the capital adequacy ratio which is one of the important indicators of financial institutions. These entire theses are based in only financial ratio analysis so that these research works are not fully reliable. There has been made comparison between different banks in all theses, which are totally immeasurable because there was vast time period gap between the operations of these banks. Most of the researcher had recommended in those sectors which had not been analyzed or evaluated nowhere in the study.

Basically, this research work is different from all other previous research studies because the researcher had tried to attempt all the factors CAMELS Approach. The researcher had tried to fulfill all the basic requirements of CAMELS Approach that has been directed by NRB. Though all NRB directives had been used in this study the rating is not used because it is done by NRB only and there is only one sample bank in this study.

CHAPTER-III

RESEARCH METHODOLOGY

The prime objective of this study is to evaluate and assess the financial performance of Himalayan Bank Limited on the basis of CAMELS analysis that is directed by NRB. This chapter contains these methods that make convenience for comparison of the performance made by the sample bank with due respect to the directives of NRB.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

3.1 Research Design

The research design followed is basically an evaluation of financial performance of HBL on the basis of CAMELS Approach. Analytical as well as descriptive approaches are used to evaluate the financial performance of the sample bank. Analysis is basically on the basis of secondary data.

3.2 Sources of Data

This study is mainly based on secondary data. Secondary data are collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the Banks. Also some data have been gathered from Nepal Stock Exchange's Website. Similarly, articles, journals related to the financial performance study, previous research reports etc., have also been taken into account while collecting information.

3.3 Population and Samples

All commercial banks currently operating in Nepal is the population. On the basis of researcher's judgment, the study covers only one sample bank of all the private commercial banks i.e., Himalayan Bank Limited (HBL).

3.4 Methods of Data Analysis

Analytical methods have been applied as simply as possible. To make research simple and easily understandable, tables have also been used. Every result is tabulated and clear interpretational is made simultaneously.

3.4.1 Financial Tools

In this research study various financial tools are employed for the analysis. There are more than 200 ratios existing today, but in this study some selected ratios related to CAMELS Analysis are used.

A ratio is defined as "the indicated quotient of two mathematical expression" and as "the relationship between two or more things."(Merriam, 1975: 58)

In financial analysis, "a ratio is used as an index or yardsticks for evaluating the financial position and performance of a firm."(Pandey, 1999: 109)

So ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Ratio indicates a quantitative relationship, which can be in turn used to make a qualitative judgment. The ratio related to CAMELS analysis is presented below:

3.4.1.1 Capital

The inspection of every business starts with the requirement of fund commonly known as capital. The capital of any kind of business enterprise is the permanent fund supplied by the owners of the business. Using an accounting definition, capital is shareholders equity reflected in excess of total liabilities. Normally the capital structure consists of equity and debt mix. Equity refers to the fund contributed by the promoters or shareholders whereas debt is temporary way of raising fund without further dilution of ownership. This is mainly done by issuing bonds and debenture of various maturities.

Every bank should maintain sufficient capital level to support the basic infrastructure of the business. Then, aside from capital used to meet the funding requirement for fixed assets and infrastructure

investment, it is used to absorb unusual losses and to continue to conduct business when resources are not available or have been withdrawn. The strength of the capital position is an important signal to the public as to the safety of their deposit. Therefore, capital strength is important not only for the individual bank but also for the banking system as a whole.

a) Capital Adequacy

This is the section where the adequacy of the capital requirements is measured. Ratios under this section measure whether the firm has maintained the adequate capital fund or not. It helps to decide whether the existing capital is adequate or there is the need of capital reform.

To ensure capital adequacy among the banks, the NRB issued in April 2001a revised capital adequacy directive. The revised regulation on capital adequacy requires the banks to observe a capital ratio consistent with international standards. Every bank should maintain minimum capital fund on the basis of risk weighted assets as shown in the following table.

Fiscal Year	Core Capital	Supplementary capital	Capital Fund
2006/07	4.5	4.5	9.0
2007/08	5.0	5.0	10.0
2008/09	5.5	5.5	11.0
2009/010	6.0	6.0	12.0
2010/011	5.5	5.5	11.0

source :Annual 2006/2007-2010/2011

Risk-Based Capital Ratio

Risk-based capital ratio is calculated by dividing the capital by risk weighted assets. Nepal Rastra Bank divides risk-based capital system into two tiers, -core or equity capital and supplemental capital. For the study purpose the ratio is divided into two ratios:

$$(a) \quad \text{Core Capital to Total Risk Weighted Assets} = \frac{\text{Core Capital}}{\text{Total Risk Weighted Assets}}$$

$$(b) \quad \text{Total Capital to Risk Total Weighted Assets} = \frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}}$$

Both of these ratios evaluate the level of the capital funds i.e. core capital level and total capital fund level and compared with the minimum capital adequacy requirements according to the direction of Nepal Rastra Bank .The total capital funds is total of core capital and supplemental capital and the risk weighted assets is the total of the risk weighted assets of on balance sheet items and off balance sheet item.

b) Proposed Dividend to after Tax Income

The ratio is calculated by dividing the proposed dividend to after tax income. The rate of retention is directly related to increasing capital though high retention is not necessary. The retention rate must be analyzed relative to the growth rate. The dividend payout ratio is directly relative to the retention rate and firm's growth rate. So, it is very necessary to analyze the dividend rate. The ratio indicates the dividend percentage on total after tax income. The comparison of the dividend payout is made with the standard norms to check whether the dividend payout ratio is within the norms or not.

$$\text{Proposed Dividend to after Tax Income} = \frac{\text{Proposed Dividend}}{\text{After Tax Income}}$$

c) Growth Rate of Capital

The ratio is determined by subtracting the balance as of the previous year from the current year balance and dividing the result by the prior year's balance.

$$\text{Growth Rate of Capital} = \frac{\text{Current Year's Balance} - \text{Prior Year's Balance}}{\text{Prior Year's Balance}}$$

This ratio determines the growth rate of capital with comparative growth rate of assets. There should be capital adjustment with respect to the asset growth rate. So there should be equal pace of growth rate of capital and assets. This ratio measures the degree of safety of depositors.

d) Growth Rate of Assets

The ratio is determined by subtracting the balance as of the prior year from the current year's balance and dividing the result by the prior year's balance.

$$\text{Growth Rate of Assets} = \frac{\text{Current Year's Balance} - \text{Prior Year's Balance}}{\text{Prior Year's Balance}}$$

The asset side of the balance sheet represents the primary risk faced by the bank and the loans are the highest risk carrying factors. The ratio measures the growth rate of assets. The growth rate should be within the acceptable range. There are no any standard norms of the assets growth rate. But there should be identification of the change in the percentage change in the risk rated assets and less risk rated assets. This ratio is further used to compare the growth rate of capital.

3.4.1.2 Assets Quality

This is the most critical factor in determining the strength of any bank. The extension of credit is one of the major functions of banking institution. Credit usually represents bulk of the institution's assets while interest on credit represents the major sources of income. Loan involves a high degree of risk. Usually, they represent the major assets of the bank capable of generating interest earnings and therefore with a potential of having a profound impact on the bank's profitability, liquidity and solvency. The quality of a bank's credit points to soundness and stability of the bank and the risk borne by the depositors and creditors. Poor management of loan portfolio is the major cause of liquidity crisis and bank failure around the world.

The ratios under this section are

a) Performing Loan to Total Loan Ratio

The ratio is calculated by dividing the Performing Loan by Total Loan.

$$\text{Performing Loan to Total Loan} = \frac{\text{Performing Loan}}{\text{Total Loan}}$$

This ratio shows much the banks are successful in utilizing their assets for generation purpose. Generally performing loan will have been due date up to 90 days. Higher ratio reflects higher efficiency in the good loan.

b) Non-Performing Loan to Total Loan

The ratio is calculated by dividing the non-performing loan by total loan.

$$\text{Non - Performing Assets to Total Assets} = \frac{\text{Non - Performing Assets}}{\text{Total Assets}}$$

This ratio measures the proportion of the non-performing assets on total asset. This ratio evaluates the degree of management to control the loan loss as well as degree of management to identify the risk less investment sectors. The low value of ratio less than 5% indicates the strong position and greater than 30% indicates the very unsatisfactory position.

c) Loan Loss Provision to Total Loan Ratio

This ratio helps to show the provision for the loss out of total loan. The lower rate shows the better financial position of the bank and vice versa. This ratio can be computed by dividing total loan loss provision by total loan. Mathematically it can be computed as:

$$\text{Loan Loss Provision to Total Loan Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loan}}$$

d) Provisioning for Loan Classified

i) Provisioning for Pass Loan to Total Pass Loan

The ratio is calculated by dividing the pass loan provisioning to pass loan.

$$\text{Provisioning for Pass Loan To Pass Loan} = \frac{\text{Provisioning for Pass Loan}}{\text{Total Pass Loan}}$$

The ratio indicates the percentage of the provisioning regarding to the pass loan. As the prudential requirement of NRB, commercial banks should maintain the certain percentage of provision. The pass loan required 1% of provision, at least, for the strong performance.

ii) Provisioning for Substandard Loan to Total Substandard Loan

The ratio is calculated by dividing provisioning of substandard loan to substandard loan.

$$\text{Provision for Substandard Loan to Total Substandard Loan} = \frac{\text{Provision for Substandard Loan}}{\text{Total Substandard Loan}}$$

This ratio indicates the percentage of the substandard provisioning to total substandard loan. The management willingness to obey the requirements issued by the NRB can be evaluated through this ratio analysis. The range of ratio at 25% indicates the strong performance and ratio at most 10% is the very unsatisfactory performance. If the ratio is below of the 25% the management is not performing to protect the deposition interest.

iii) Provisioning for Doubtful Loan to Total Doubtful Loan

The ratio is calculated by dividing provisioning for doubtful loan by the total doubtful loan.

$$\text{Provisioning for Doubtful Loan to Total Doubtful Loan} = \frac{\text{Provision of Doubtful Loan}}{\text{Total Doubtful Loan}}$$

The ratio measures the level of the doubtful loan provisioning on total loan. Each of the commercial banks is required to maintain the minimum level of provision on the doubtful loan. The banks should maintain at least 50% provision of the total doubtful loan for the strong or sound performance.

iv) Provisioning for Loan Loss to Total Loan Loss

The ratio is calculated by dividing the loss provision by total loan loss.

$$\text{Provisioning for Loan Loss to Total Loan Loss} = \frac{\text{Provisioning for Loan Loss}}{\text{Total Loan Loss}}$$

As other ratio, this ratio also measures the percentage of the provision amount on the loss amount. As the prudential requirements, the bank should maintained 100% provisioning to protect the depositors' deposits. The value greater than or equal to

100% indicates the strong or sound performance of the bank on loss provision.

3.4.1.3 Management

Good Management can make and poor management can break an organization. Banks are no exception to this universal phenomenon. The success of any institution depends on the competency of its management. In fact the management not only makes suitable policy and the business plans but also implements them for the short time and the long time interests which helps to achieve aimed objectives of banks. Management capabilities can be measure by staff efficiency (productivity per staff) and net profit trends.

a) Staff Efficiency (Productivity per Staff)

This ratio is calculated by dividing total net profit by total number of staff.

$$\text{Staff Efficiency} = \frac{\text{Net Profit}}{\text{Total No. of Staff}}$$

Good or bad human resource management translates into staff efficiency of a particular bank. This ratio indicates the total efficiency of management. The degree of management counts over the productivity of staffs. Higher ratio indicates the higher degree of efficiency and lower degree indicates that the management is not so efficient in that particular bank.

3.4.1.4 Earnings Capability

Earning is income generated by any organization during its operation. Earning capability measures the bank's profit level. Every business organization needs profit for the survival and growth of a business. Besides that, profit is needed to meet variety of objectives like achieving a desirable liquidity position, meet fixed interest obligation, overcome the future contingencies, exploit hidden investment opportunities, encourage branch expansion, finance government in need development funds etc. Profit can also be defined as ultimate outputs that a company has. Besides management, both creditors and owners are interested in profitability of the firm; as creditors want to get interest and repayment of principals regularly while owner's want to get a reasonable return on their investment

The ratio under the section, reflect not only the quantity and trend of earning but also factors that may affects the sustainability or quality of earning. The inadequacy management on credit supply affects the quantity and quality of earnings because the interest on loan and advance is the major source of income of the commercial banks. Further the earnings may be adversely affected by the inability to forecast and operating expenses, poorly executed strategies or badly managed or uncontrolled exposure to other risks.

The section includes the following ratios:

a) Earning Assets to Total Assets

The ratio is calculated by dividing the earning assets by the total assets.

$$\text{Earning Assets to Total Assets} = \frac{\text{Earning Assets}}{\text{Total Assets}}$$

This ratio determines the portion of assets that earn. Interest is the major earning of the Commercial Banks. Management should be efficient to control the non-earning assets such as cash, fixed assets etc. Therefore this ratio cannot be 100%. The management should try to maintain the maximum level of the earning assets to earning more. No standard norm is developed. During the analysis, the trend should be in increasing trend. But also there should be 75% earning assets in an average.

b) Interest Income to Total Assets

The ratio is calculated by dividing the interest income by total assets.

$$\text{Interest Income to Total Assets} = \frac{\text{Interest Income}}{\text{Total Assets}}$$

This ratio determines the average rate of interest return on the assets. Interest income, as the major source of income, is the income of each of the assets. This ratio evaluates the average performance the total or gross interest income should be in between the 70% to 80% of total income. So the ratio should be 70% to 80% of return on assets. Higher value is desirable.

c) Interest Expenses to Total Assets

The ratio is calculated by dividing the interest income by total assets.

$$\text{Interest Expenses to Total Assets} = \frac{\text{Interest Expenses}}{\text{Total Assets}}$$

Interest expenses are the major expenses. All assets are not earning assets and no all assets are paid. So this ratio evaluates the average level of expenses as the interest that the bank has to pay. Higher ratio indicates the management in efficiency, unable to control interest expenses. So, the lower value is desirable.

d) Net Interest Margin

Net interest margin is calculated as the difference between interest Income and interest expenses and the ratio can be shown as:

$$\text{Net Interest Margin} = \frac{\text{Interest Income} - \text{Interest Expenses}}{\text{Total Assets}}$$

This ratio evaluates the net earnings of interest by the total assets. Most of the portion of interest earnings is paid as the interest expenses. So the remaining portion of the interest earning is available for the bank. The higher value indicates the management efficiency. The limit of the ratio should be 5% maximum.

e) Non- Interest Income to Total Assets

The ratio is calculated by dividing non interest by total assets.

$$\text{Non - Interest Income to Total Assets} = \frac{\text{Non - Interest Income}}{\text{Total Assets}}$$

This ratio evaluates the capacity of earning of assets other than interest income. Moderated value of the ratio is acceptable because there is the small non-interest income; there is the low potential of earning and low impact of profit or loss.

f) Non-Interest Expenses to Total Assets

The ratio is calculated by dividing the non interest of expenses by total assets.

$$\text{Non - Interest Expenses to Total Assets} = \frac{\text{Non - Interest Expenses}}{\text{Total Assets}}$$

Interest expenses are the major cost of operation of the bank. No the higher value of the non-interest expenses is acceptable. This expense includes the office expenses and staff expenses in major. So there should be the less value of the ratio.

g) Return on Assets

The ratio is calculated by dividing the net income after tax by total assets.

$$\text{Return on Assets} = \frac{\text{Net Income after Tax}}{\text{Total Assets}}$$

Net profit represents the profit after the deduction of the tax and before deducting the preference dividend. Total assets are the total value of assets side of balance sheet. It measures the bank efficiency in the utilization of the overall assets. Higher value indicates the management success in overall operation and lower value indicates inefficient operation of the bank.

h) Earning per Share (EPS)

EPS measures the amount value of shareholders gains from each share held. Higher EPS indicates the higher return to shareholders and vice versa. This is computed by dividing by net profit after tax by no. of shares outstanding.

Mathematically it can be stated as,

$$\text{EPS} = \frac{\text{Net Profit After Tax}}{\text{No. of Shares Outstanding}}$$

i) Price earning ratio (P/E Ratio)

P/E ratio assesses the market appraisal of the performance of a firm. If there is higher P/E ratio, the investors will be very optimistic about the future of the bank. So, higher ratio indicates better for the investors and vice versa. This ratio is computed by dividing market price per share (MPS) by earning per share (EPS). Mathematically it can be stated as:

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

j) Net Profit to Shareholder's Equity

The ratio denotes how much of the shareholders fund is mobilized towards earning profit. The higher the ratio the better it is for the bank. Mathematically it can be calculated as:

$$\text{Net Profit to Shareholder's Equity} = \frac{\text{Net Profit}}{\text{Total Shareholder's Equity}}$$

3.4.1.5 Liquidity Position

Banks are in business where liquidity (ability to pay cash to its depositors) is of prime importance. Liquidity ratio is used to judge a bank's ability to meet short term obligation. It is the comparison between short term obligation and short term resources available to meet such obligation. An institution is in better liquidity position when it has the ability to obtain sufficient funds in timely manner at a reasonable cost. But an institution is in liquidity problem when it has to sell assets in order to unforeseen cash needs.

In evaluating the adequacy of a bank liquidity position, consideration should be given to its capacity to promptly meet the demand for payment on its obligation and to readily fulfill the credit needs of the community it serves. Similarly consideration should be given to the overall effectiveness of the bank's asset/liability strategies and compliance with and adequacy of established liquidity policies. Beside these, the capability of management to properly identify, measure, monitor, and control the bank's liquidity position including effectiveness of funds management strategies, management information system etc should be considered. This section includes the following ratios

a) Cash Reserve Ratio (CRR)

Every commercial bank has to maintain a reserve fund with Nepal Rastra Bank equal to 5% of their total local currency deposit which is known as cash reserve ratio. For maintaining the balance, total local currency deposit of the first week is calculated and then 5% balance has to be maintained in the third week and this turn goes out respectively. Generally it should be done to avoid any problem relating to deficiency of liquid cash. This ratio can be calculated by dividing cash balance at NRB by total local currency deposit in bank. Mathematically it can be stated as:

$$\text{Cash Reserve Ratio} = \frac{\text{Cash Balance At NRB}}{\text{Total Local Currency Deposit}}$$

b) Cash and Bank Balance to Total Deposit Ratio

This ratio is used to measure how much amount bank has set aside as cash and bank balance out of total deposit. Cash and bank balances are the most liquid current assets of bank. Mathematically it can be stated as:

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

c) Overnight Borrowing to Total Liabilities

The ratio is calculated by dividing the call money by the total liabilities.

$$\text{Overnight Borrowing to Total Liabilities} = \frac{\text{Call Money}}{\text{Total Liabilities}}$$

Call money is the money borrowed in the inter-bank market. The ratio indicates the percentage of the call money on the total liabilities. The higher value of ratio indicates the liquidity problem on the bank because this form of money is borrowed usually for the daily liquidity purpose. So, the higher frequency is the best to minimize the cost with the fulfillment of short term obligations.

d) Loan to Deposit

The ratio is calculated by dividing the loan by deposit

$$\text{Loans to Deposit} = \frac{\text{Loans}}{\text{Deposit}}$$

The ratio indicates the degree to which a bank is using its fund to its loan. The higher value of the ratio is desirable. The ratio should not exceed 100%. But due to the non-interest bearing type deposit in the total deposit that should be paid on demand. The ratio should be 40-60% for the strong performance.

e) Growth Rate of Deposit

Subtracting the prior year's amount from current year's amount and dividing the result by the prior year's amount calculate the ratio.

$$\text{Growth Rate of Deposit} = \frac{\text{Current Year Amount} - \text{Prior Year Amount}}{\text{Prior Year Amount}}$$

This ratio evaluates the trend of the deposit growth. So, there should be the increasing trend of deposit and should match or exceed the growth rate of loan. For the liquidity purpose, the increasing the amount deposit than that of loan can meet the obligations regarding to the liabilities.

3.4.1.6 Sensitivity to Market

Sensitivity position defines the bank's ability to monitor and manage the exposure to risk. The ratios under this section reflect the degree to which the changes in interest rate, foreign exchange rates etc. can adversely affect the bank's earning and capital. During the evaluation several factors should be considered such as management's ability to identify, measure and control market risk, as well as its capital and earnings in relation to its level market risk exposure, amount of market risk arising from trading and foreign exchange position etc. The following are the concepts under this section.

a) Interest Rate Risk

This risk measures the degree of the risk due to the interest rate. This risk is analyzed under the rate sensitive liabilities (RSL) and rate sensitive assets (RSA) on their respective maturing period. Interest rate risk can arise from two distinct types of rate movement- a sustained shift in the yield curve or shape swing in rates over a short period of time. The analysis will focus on a sustained upward (+1%) shift in the interest rates inherent to yield curve. The adjusted interest rate change (IRC) for a one percent point increase in interest will be:

$$.01 \times 90/365 = 0.0025 \text{ for 90-days intervals}$$

a) RSL Maturing 1-90 days to RSA Maturing 1-90 days

b) RSL Maturing 91-180 days to RSA Maturing 91-180 days

c) RSL Maturing 181-270 days to RSA Maturing 181-270 days

d) RSL Maturing 271-365 days to RSA Maturing 271-365 days

3.4.2 Statistical Tools

Several numbers of statistical tools can be employed to examine the economic data of HBL. But for this study, the trend analysis has been taken into consideration.

a) Trend Analysis

An effective use of financial ratios can be made by observing the behavior of ratios over a period of time. This can be done with the help of trend analysis depicts the trends in the operation of banks. The trend analysis of ratios indicates the direction of change. It helps in studying the banks position and change there of overtime and determine whether there has been on improvement or deterioration is the financial condition and performance overtime. It is important to analyze trends in ratios as well as their absolute levels, for trends give clues as to whether the financial situation is improving or deteriorating.

The straight-line trend is computed as:

$$Y_c = a + bx$$

Where,

Y=Value of dependent variable.

X=Independent variable (Time in Trend Analysis)

$$a = \frac{\sum y}{n} \text{ \{Y- intercept (the value of Y when X=0)\}}$$

b=Slope of Trend Line [Level of Change or Growth]

$$\text{i.e., } b = \frac{\sum xy}{\sum x^2}$$

Y-Y_c= Fluctuation

Chapter-IV

Data Presentation, Analysis and Interpretation

This chapter deals with the analysis and interpretation of the data for the purpose to change the unprocessed form of data to an understandable presentation. Analyzing the data indicates the organization, tabulation, performing relevant financial analysis of the data gathered from the various sources. A number of tables, charts are prepared and most of them are presented during the analysis of relevant data and some other relevant tables are presented in the annexes. The financial analysis is made after collecting the raw data from the various sources. The result of the analysis has been interpreted under the rationality of the ratio analysis, prudential requirements issued by the NRB for the commercial banks, offsite supervision manual, on-site inspection manual and other factors regarding to the tools used.

4.1 Interpretation and Analysis of Data

4.1.1 Capital Adequacy Ratio

Capital adequacy refers to the condition of having sufficient permanent resources to continue operation despite financial losses or non availability of external funding. Normally the capital structure consists of equity and debt mix. Equity refers to the fund contributed by the promoters/ shareholders whereas debt is temporary way of rising funds without further dilution of ownership, which is mainly done by issuing bonds and debentures of various maturities.

To ensure adequate capital in the banking system, NRB has prescribed the Capital Adequacy Ratio parameters on which the capital of the banks need to be maintained as percentage of its risk weighted assets such as loans it has provided and the securities it holds. Thus this parameter indicates whether a particular bank has enough capital to absorb unexpected losses. Under the capital adequacy section, the financial position of the HBL is analyzed and interpreted using risk based capital ratio, proposed divided to after tax income, growth rate of capital and growth rate of assets

4.1.1.1 Risk-Based Capital Ratio

This is the ratio of capital that should be maintained, at the level of NRB provision that described in Directive No.1, basing on the risk –weighted

assets. Risk –Based capital system is divided into two tiers and analysis is also made, basing on these system and NRB directive. So, the analysis is made using the following ratios;

4.1.1.2 Core Capital to Risk Weighted Assets

Core capital represents the highest form of capital because it represents permanent equity. Permanent equity includes paid up capital, share premium, non-redeemable preference share, general reserve fund etc. This ratio predicates the proportion of the core capital to the total risk-weighted assets.

This proportion should be within the provision that is made on NRB directive no.1. According to the NRB directives no.1 every Commercial Bank should maintain 4.5% of total capital in Fiscal year 2006/2007, 5% in FY 2007/2008, 5.5% in FY 2008/2009, 6% in FY 2009/2010 and 5.5% in FY 2010/2011. From table no 1, the core capital ratio of HBL in the FY 2006/2007, is 6.55%, and in the subsequent FY 2007/08, 2008/09, 2009/010, 2010/011, is 7.07%, 7.69%, 8.33% and 8.65%; respectively. This indicates the ratio is within the provision made on NRB directives.

Table 1
Capital Fund & Risk-Based Ratio Assets

(Rs '000)

Particulars	F.Y.					
	2006/2007	2007/08	2008/09	2009/010	2010/011	Average
Core Capital (A)	834552	1038620	1297384	1525773	172200	973705.8
Supplementary Capital (B)	638421	565591	498834	491290	520902	543007.6
Total Capital (A+B)	1472974	1604212	1796218	2017063	2242843	1826662
Total Risk-Weighted Assets (RWA)	12746774	14681449	16860638	18321719	19918325	16505781
Core Capital÷RWA %	6.55%	7.07%	7.69%	8.33%	8.65%	7.66%
Total Capital÷RWA %	11.56%	10.93%	10.97%	11.98%	11.26%	11.34%

Source: Annual Reports of HBL.:2006/2007-2010/2011

4.1.1.3 Total Capital to Risk Weighted Asset.

Total capital is the sum of core capital and supplementary capital. This ratio predicates the proportion of the total capital to the total risk-weighted assets.

This proportion should be within the proportion that is made on the directive no.1 by NRB. According to the NRB directives no.1 every Commercial Bank should maintain 9% of total capital for Fiscal year 2006/07, 10% for F.Y 2007/08, 11% for F.Y 2008/09, 12 % for F.Y 2009/010 and 11% for FY 2010/011. From the above table no.1, the total capital ratio of HBL is 11.56% in FY 2006/07, 10.93 for FY2007/08, 10.65for FY 2008/09, 11.01 for FY 2009/010 and 11.26 for FY 2010/011. HBL has maintained its capital adequacy as mentioned by the NRB directives. In FY 2008/09 and 2009/010 the percentage is slightly lower but is nominal and is slightly less due to the fluctuation at the end of the period.

4.1.1.4 Proposed Dividend to After Tax Income

This ratio is calculated by dividing the proposed dividend by after tax income.

Table 2
Proposed Dividend and After Tax Income

(Rs '000)

Particulars	2006/2007	2007/08	2008/09	2009/010	2010/011	Average
Proposed Dividend	97500	5645	0	74511	231660	81863.2
After Tax Income	235023	212132	263052	308277	457458	295188.4
Proposed Dividend to After Tax Income	41.49%	2.66%	0.00%	24.17%	50.64%	23.79%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The proposed dividend in FY 2006/07 and 2007/08 is too high and in the FY 2008/09 the dividend is zero. This indicates that the dividend payout is fluctuating and higher dividend might attract the shareholder's but ultimately it may create capital shortage in the future, so the bank should retain its after tax income in capital. The high retention is due to the necessity to increase capital amount. The dividend payout ratio is directly related to the retention rate and retention rate is to growth rate of the firm because the retained amount contributes to the capital amount. In both years the dividend proportion is high than normal assumption of 10%. From this it can be said that there may be the requirement of the capital increment and the Bank is trying to attract and satisfy the shareholders. But if there is no any capital concern then it would not be unusual to say that dividend payout ratio may be less than 10%. On increasing the profit after tax, the Bank is not paying higher dividend comparing to the previous

year. The average proposed dividend of HBL is 23.79%, this shows that the dividend paid to the shareholders of HBL is satisfactory.

4.1.1.5 Growth Rate of Capital

The growth rate of capital is calculated by subtracting prior year capital balance from current year balance and dividing by prior year balance. Capital supports prudent growth and controls unjustified expansion of assets by requiring that asset growth be funded by proportionate amount of additional capital. Ideally, this ratio should keep pace with the growth in assets.

Table 3
Growth Rate of Capital

(Rs. '000')

F.Y.	Total Capital	Growth Rate
2005/06	NA	-
2006/07	1472974	NA
2007/08	1604212	8.91%
2008/09	1796218	11.97
2009/010	2017063	12.29%
2010/011	224283	11.19%
Average	1422950	11.09%

Source: Annual Reports of HBL: 2006/2007-2010/2011

From table no. 3, the growth rate of the capital for the year 2006/07 cannot be calculated due to the lack of sources. The growth rate of capital is 8.91%, 11.97%, 12.29% and 11.19% respectively during the study period. The average growth rate of capital is 11.09%. There are no any norms to measure the quality of direction of the capital independently. So, it should be measured with the comparison of the growth rate of the assets. With the comprising between the growths rate of assets and capital denotes the position of the financial coverage of the bank.

4.1.1.6 Growth Rate of Assets

This ratio is determined by subtracting prior year balance from current year balance and dividing the result by prior year balance.

This ratio simply calculates the growth rate of an asset's item within the balance sheet. This represents primary risk faced by a bank. But while evaluating the ratio during the offsite supervision, it should be strongly consider the each items growth trend because growth rate of each

component of the assets carry the more value than the overall value to evaluate the financial position of the bank.

Table 4
Growth Rate of Assets
(Rs. '000')

F.Y.	Assets	Growth Rate
2005/06	19500	-
2006/07	21315	9.31%
2007/08	24197	13.52%
2008/09	25729	6.33%
2009/010	28871	12.21%
2010/011	30579	5.92%
Average	25031	9.32%

Source:Annual Reports of HBL:2006/2007-2010/2011

From table no. 4.4 in FY 2006/07, the ratio is 9.31% and has rose to 13.52% in FY 2007/08 and decreased to 6.33% in F.Y. 2008/09 and increased to 12.21% in F.Y. 2009/010 and decreased to 5.29% in FY 2010/011. In average the growth rate of assets is 9.32%. Under the CAMELS norms, the growth rate of capital should be equal or exceed the growth rate of the assets. Ideally both ratios should keep the same pace.

Table 5
Comparison of Asset Growth Rate and Capital Growth Rate
(Rs. '000')

F.Y	Capital Growth Rate	Assets Growth Rate
2006/07	NA	9.31%
2007/08	8.91%	13.52%
2008/09	11.97%	6.33%
2009/010	12.29%	12.21%
2010/011	11.19%	5.92%
Average	11.09%	9.32%

Source:Annual Reports of HBL:2006/2007-2010/2011

From the table no.5, in each year the capital growth rate has exceeded the growth rate of assets except in FY 2007/08. In this years, the assets growth rate is higher than capital. So in FY 2007/08, the assets are expanding faster than of capital, hence in fiscal year 2007/08 there is declining capital position and increase in financial leverage. In average growth rate of capital exceeds growth rate of assets.

4.1.2 Assets Quality

This is the most critical factor in determining the strength of any bank. The assets quality section measures the quality of the existing and the potential credit or loan risk, investment portfolios and other assets. The ratios under this section measures the ability of the bank's management to identify, measure, monitor and control the risks associated with the asset quality and the different provision associated with the asset quality section. For the purpose, performing loan to total assets, non-performing loans to total assets, provisioning to classified loan, are analyzed and interpreted.

4.1.2.1 Performing Loan to Total Loan Ratio

This ratio shows much the banks are successful in utilizing their assets for generation purpose. Generally performing loan will have been due date up to 90 days. Higher ratio reflects higher efficiency in the good loans. This ratio can be calculated by dividing performing loan by total loan.

Table 6
Performing Loan to Total Loan

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Performing loan	8759528	9751760	11772168	12449821	14721218	11490899
Total Loan	9557138	10844599	12919631	13451168	15761976	12506902.4
Ratio %	91.65%	89.92%	91.12%	92.56%	93.40%	91.73%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The above table no. 6 highlights that the performing loan of HBL in FY 2006/07 is 91.65%, in FY 2007/08 is 89.92%, in 2008/09 is 91.12%, in FY 2009/010 is 92.56% and in final year it is 93.40% respectively. In fiscal year 2007/08 HBL has the lowest performing loan compared to other years. From FY 2007/08 it has the increasing trend up to final year of the study period which has the highest performing loan ratio of 93.40%. The average performing loan of HBL is 91.73% which is unsatisfactory. This ratio indicates that the bank is not performing in their asset management because the highest performing loan ratio is only 93.40%. The bank should have more than 95% of performing loan to generate more profit.

4.1.2.2 Non-Performing Loans to Total Loan Ratio

This ratio reflects the threat to capital from the low quality asset and includes assets classified sub-standard, doubtful and loss. This ratio evaluates the soundness of credit administration practices, degree of risk identification, diversification of loan, adequacy of the credit policy, degree of internal control system etc. An acceptable level of classified assets loans and investments in relation to capital needs to be established by NRB. However, if non performing loans exceed 5 percent to total loans, it should be review further which shows the weakness of management.

Table 7
Non-Performing Assets to Total Capital

(Rs. '000')

Particulars	F.Y.					Average
	2006/07	2007/08	2008/09	2009/010	2010/011	
Non-Performing loan	797610	1092839	1147463	1001347	1040758	1016003.4
Total Loan	9557138	10844599	12919631	13451168	15761976	12506902.4
Ratio %	8.35%	10.08%	8.88%	7.44%	6.60%	8.27%

Source: Annual Reports of HBL.:2006/2007-2010/2011

Table 7 highlights the low quality assets including the substandard doubtful and bad assets and its proportion to the total capital. During the review period the non-performing loans to total capital ratio are 8.35%, 10.08%, 8.88%, 7.44% and 6.60% in respectively. The non performing loan is highest in FY2007/08 over the study period. From the FY 2007/08 the non performing loan ratio is in decreasing trend and in the FY 2010/011 the non performing loan ratio is lowest. The average non performing asset is 8.27% which shows that there is high degree of credit risk. Lower non performing loan ratio indicates the better risk management and healthy credit management systems and high percentage of the non-performing asset which indicates inefficient credit management practices.

However, HBL has high amount of non performing loan which shows that HBL has poor credit management and should focus on risk management control and also focused on recovery of bad loans.

4.1.2.3 Loan Loss Provision to Total Loan

This ratio helps to show the provision for the loss loan out of total loan. The lower rate shows the better financial position of the bank and vice

versa. This ratio can be computed by dividing total loan loss provision by total loan.

Table 8
Loan Loss Provision to Total Loan

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Loan Loss Provision	643414	842751	967762	1026648	1119417	919998.4
Total Loan	9557138	10844599	12919631	13451168	15761976	12506902
Ratio %	6.73%	7.77%	7.49%	7.63%	7.10%	7.34%

Source: Annual Reports of HBL:2006/2007-2010/2011.

Above table highlights that the Loan loss Provision is 6.73%, 7.77%, 7.49%, 7.63%, and 7.10% respectively for the review period. The total provision for loss loan is on average 7.34%. This indicates that HBL has 7.34% of bad loans which might not be covered by the Bank. The increment in loss loans may bring problem to the Bank. So, the management should be more focused on decreasing such types of loans.

4.1.2.4 Provision for Pass Loan to Total Pass Loan

This ratio measures the proportion of the provision of pass loan on total pass loan.

Table 9
Provision for Pass Loan to Pass Loan

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
provision for Pass Loan	83123	96017	112783	117648	141355	110185
Total Pass Loan	8401097	9566446	11275992	11821695	14055104	11024066
Ratio	1.00%	1.00%	1.00%	1.00%	1.01%	1.00%

Source: Annual Reports of HBL.:2006/2007-2010/2011

This ratio is related to the general loss reserve because the provision made against the loan is never made to avoid the risk. The ratio is 1%, fix respectively during the study period. It shows that there is constant pass loan ratio of 1% for initial four years and slightly increment of 0.01% in

the final year of the study period. According to NRB directives every commercial bank should maintained 1% of pass loan provision to cover the future unknown losses. HBL has met the provision for pass loan according to NRB directives which is satisfactory.

4.1.2.5 Provision for Substandard Loan to Total Substandard Loan

This ratio measures the proportion of the provision of substandard provision on total substandard loan.

Table 10
Provision for Substandard Loan to Total Substandard Loan

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Provision for substandard loan	59933	62629	110338	41866	61954	67344
Total substandard loan	246746	224318	423163	69550	107228	214201
Ratio %	24.29%	27.92%	26.07%	60.20%	57.78%	39.25%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The above table highlights that the provision for substandard loan are 24.29%, 27.92%, 26.07%, 60.20%, 57.78% and average of 39.25% respectively for the reviewed period. In first three year the ratio is within the NRB norms but in fourth and fifth year it has increased about two times which shows that HBL has increased its bad loans. This indicates that the substandard loan will gradually change into doubtful loan.

4.1.2.6 Provision for Doubtful Loan to Total Doubtful Loan

This ratio measures the proportion of the provision of doubtful provision on total doubtful loan.

Table 11
Provision for Doubtful Loan to Total Doubtful Loan

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Provision for Doubtful Loan	67729	184230	27624	114358	155755	109939.2

Doubtful Loan	140456	375018	54475	242116	228489	208110.8
Ratio %	48.22%	49.13%	50.71%	47.23%	68.17%	52.69%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The ratio are 48.22%, 49.13%, 50.71%, 47.23% ,68.17% and average of 52.69% respectively for the reviewed period. The provision for doubtful loans should be 50% of the total doubtful loan as directed by NRB. HBL has tried to maintain its provision of 50% in all years but in FY 2005/06 the provision is more than 50%, which indicates chances of more doubtful debts.

4.1.2.7 Provision for Bad Loan to Total Bad Loan

This ratio measures the proportion of the provision of bad loan provision on total bad loan.

Table 12
Provision for Bad Loan to Total Bad Loan

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Provision for bad loan	387825	476711	654995	686499	706896	582585.2
Total bad loan	410408	493504	669824	689681	705032	593689.8
Ratio %	94.50%	96.60%	97.79%	99.54%	100.26%	97.74%

Source: Annual Reports of HBL.:2006/2007-2010/2011

This ratio also measures the proportion of loss provision to total loss loan. The ratios are 94.50%, 96.60%, 97.79%, 99.54% , 100.26% and average of 97.74% respectively in the reviewed period. The ratio is in increasing trend. In first four years the ratio is below 100% and only in final year the ratio is above 100%. According to NRB directives every commercial bank has to maintain at least 100% loss loan provision. The loan loss provision of HBL is not satisfactory; it is below NRB directives for four years and only in the final year of the study period.

4.1.3 Management

The management should reflect the capabilities of the Board of Directors and management, in their respective roles, to identify, measure, monitor, and control the risks of an institution's activities and to ensure a bank's safe, sound and efficient operation in compliance with applicable laws and regulations.

Directors need not be actively involved in day to day operations. However, they must provide clear guidance regarding acceptable risk exposure levels and ensure that appropriate policies, procedures and practices have been established. Senior management is responsible for developing and implementing policies, procedures and practices that translate the Board's goals, objectives and risk limits into prudent operation standards.

Sound management practices are demonstrated by active oversight by the Board of Directors and management: competent personnel; adequate policies, processes and controls taking into consideration the size and sophistication of the bank; maintenance of an appropriate audit program and internal control environment; and effective risk monitoring and management information systems. This reflects the Board's and management's ability as it applies to all aspects of banking operation as well as other financial service activities in which the bank is involved. The ratio relating to management is staff efficiency ratio, which is analyzed and interpreted in this section.

4.1.3.1 Staff Efficiency per staff

Good or bad human resource management translates staff efficiency of the particular bank. The staff efficiency per staff is calculated by dividing the net profit by number of staff.

Table 13
Staff Efficiency per staff

(Rs. 'million')

Particulars	F.Y.					Average
	2006/07	2007/08	2008/09	2009/010	2010/011	
Net Profit	235	212	263	308	457	295
No. of Staff	357	385	455	501	561	451.8
Ratio %	65%	55%	57%	61%	81%	63.80%

Source: Annual Reports of HBL.:2006/2007-2010/2011

Table no.13 shows that staff efficiency per staff of HBL are 65%, 55%, 57%, 61% and 81% respectively during the study period and the average of which is 63.80%. This ratio has decreased in second and third year and has increases in the last two years. This ratio basically indicates how management is successful in utilizing its human resources in maximizing its earnings. The ratio analyzed indicates that HBL is utilizing its human resources upto its maximum level.

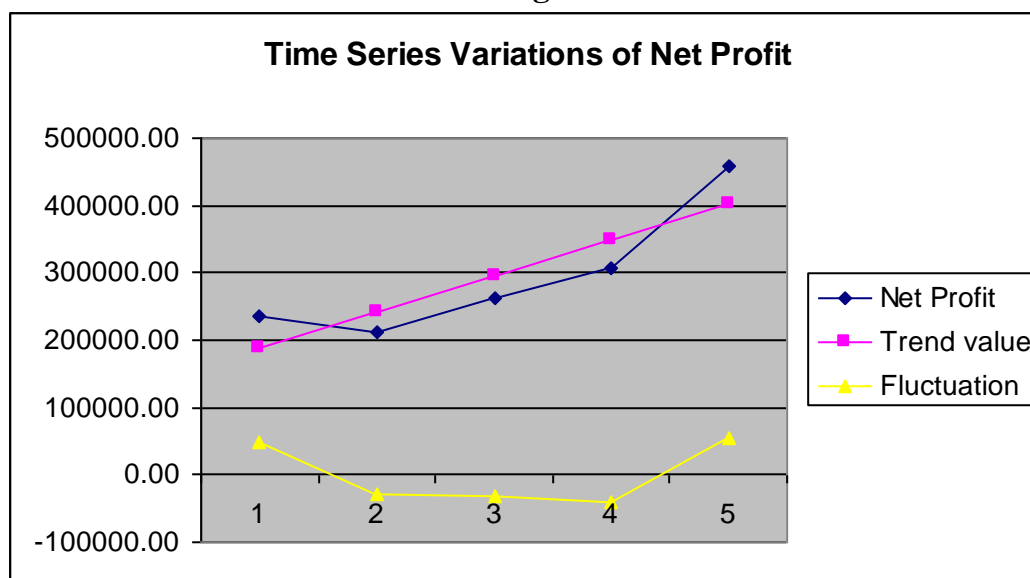
4.1.3.2 Net Profit Trend

Net profit is the basic features to analyze whether the management is efficient or not in fulfilling its target objectives with its entire resources. This trend shows banks position and change over the time period and the degree of earnings sustainability for bank in the country.

**Table No 14
Net Profit Trend**

X		Y	x	x ²	xY	Y _c	Y - Y _c
Years		Net Profit				Trend value	Fluctuation
2006/07	1	235023.00	-2.00	4.00	-470046.00	186985.40	48037.60
2007/08	2	212132.00	-1.00	1.00	-212132.00	241086.90	-28954.90
2008/09	3	263052.00	0.00	0.00	0.00	295188.40	-32136.40
2009/10	4	308277.00	1.00	1.00	308277.00	349289.90	-41012.90
2010/11	5	457458.00	2.00	4.00	914916.00	403391.40	54066.60
		1475942	0	$\sum x^2 = 10$	541015		

Figure 1



Source: Annual Reports of HBL.:2006/2007-2010/2011

The table shows that the HBL's profit trend is in increasing position but there is high fluctuation in the net profit. It can safely conclude that

management of HBL is efficient and successful because net profit is constant in a sustainable manner over a period of time.

4.1.4 Earning Capabilities

Earning capability or the profitability ratios have been employed to measure the operating efficiency of the bank. The earning capabilities not only reflect the quantity and trend of earning but also reflect the quality of the earnings. The ratios relating to earning capabilities under CAMELS system are earning assets to total assets, interest income to total assets interest expenses to total assets, net interest margin, non-interest income to total assets, non-interest expenses to total assets, return on Assets, total operating income to total assets, Staff expenses to total expenses, total operating expenses to total assets, Earning per share, price earning ratio net profit to shareholder's equity have been analyzed and interpreted.

4.1.4.1 Earning Assets to Total Assets.

None of the bank or any business firm contains the 100% earning assets because some of the assets will be none earning e.g. cash and fixed assets. This ratio examines the proportion of the earning assets on total assets.

Table 15
Earning Assets to Total Assets

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Bank Balance (other than current A/C)	Nil	Nil	Nil	Nil	Nil	Nil
Call money	352,350	150,100	368,900	441,081	1,005,28s	463542.2
Investments	9,157,107	10,175,435	9,292,103	11,692,342	10,889,031	10241204
Loans (net) and bill purchased/discounted	8,913,724	10,001,848	11,951,869	12,424,521	14,642,560	11586904
Total Earning Assets (A)	18,423,181	20,327,383	21,612,872	24,557,944	26,536,871	22291650
Total Assets (B)	20,672,434	23,355,223	24,817,370	27,844,695	29,460,390	25230022
Ratio (A÷B)	89.12%	87.04%	87.09%	88.20%	90.08%	88.31%

Source: Annual Reports of HBL.:2006/2007-2010/2011

Table no. 14 shows the ratios of earning asset of HBL remained 89.12%, 87.04%, 87.09%, 88.20% and 90.08% respectively during the reviewed period. The ratio decreased by few points in second year however,

gradually, increased in third fourth and fifth year. The average earning assets of HBL is 88.31%.

The ratio analyzed shows that the Bank has most of the assets as the earning assets due to its low amount of cash reserve, fixed assets plus current account of bank reserve. Bank is performing strongly for the earning assets.

The NRB norms for the CAMELS system are established for 75% of the earning assets on total assets. In each of the study period bank has maintained maximum level of the earning assets; which indicates the strong financial management or performance for the earning assets.

4.1.4.2 Interest Income to Total Assets

Interest is the major sources of banks' operating income necessary to cover its expenses. This ratio is calculated by dividing the income interest by total assets.

Table 16
Interest Income to Total Assets

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Interest Income	1148998	1201233	1245895	1446468	1626474	1333814
Total Assets	21315848	24197974	25729787	28871343	30579808	26138952
Ratio %	5.39%	4.96%	4.82%	5.01%	5.32%	5.10%

Source: Annual Reports of HBL.:2006/2007-2010/2011

Table 15 exhibits that the ratio is 5.39%, 4.96%, 4.82%, 5.01% and 5.32% respectively in the review period. The average interest income is 5.10%. The interest earning proportion is 5.39% in first year and it has continuously declined in second and third year and again increased in last two years over the study period. The ratio is maximum in the first year and has gradually decreased up to the third year and slightly increased in last two years. This trend shows that the bank is increasing its total interest income from its investment in assets.

4.1.4.3 Interest Expenses to Total Assets.

This ratio is computed by dividing the interest expenses by total assets.

Table 17

Interest Expenses to Total Assets

(Rs. '000')

Particulars	FY					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Interest Expenses	578134	554128	491543	561964	648842	566922.2
Total Assets	21315848	24197974	25729787	28871343	30579808	26138952
Ratio %	2.71%	2.29%	1.91%	1.95%	2.12%	2.20%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The table 16 demonstrates that the ratio are 2.71%, 2.29%, 1.91%, 1.95% and 2.12% respectively during the reviewed period. The average interest expense to total assets is 2.20. This ratio shows that the bank had maintained its assets in the lower cost, which indicates that the bank's management is well in bringing the low interest assets.

4.1.4.4 Net Interest Margin

This is the ratio that evaluates the management efficiency to earn more interest income with control on the interest expenses. It is not simply to control the expenses as interest on loan. So, there should be better management, policies, practices, identification for the maximizing the net interest margin

Table 18
Net Interest Margin

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/9	2009/010	2010/011	Average
Interest Income(A)	1148998	1201233	1245895	1446468	1626474	1333814
Interest Expenses(B)	578134	554128	491543	561964	648842	566922.2
Net Income Interest(A-B)	570864	647105	754352	884504	977632	766891.4
Total Assets	21315848	24197974	25729787	28871343	30579808	26138952
Ratio %	2.71%	2.29%	1.91%	1.95%	2.12%	2.20%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The table 17 discloses that the ratio are 2.71%, 2.29%, 1.91%, 1.95% and 2.12% respectively in the study period. The average net interest margin is 2.20%. This indicates that HBL does not have any negative or loss in the interest side but the net interest margin is a bit lower. This might be due to the competition and existing market condition.

4.1.4.5 Non Interest Income to Total Assets

The ratio measures the proportion of the non-interest income, the second major source of income on total assets. Non interest income includes commission non-operational profits, income from foreign exchange, and others income.

Table 19
Non-Interest Income

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Commission and Discount Income	101704	102562	123929	132816	165448	125291.8
Foreign Exchange Income	104601	109599	112419	137301	198130	132410
Other Income	32038	30154	34076	41301	52325	37978.8
Non-Operating Income	2451	10760	3299	2795	58449	15550.8
Total Non-Interest Income	811658	1028075	1028075	1198717	1451984	1103702
Total Assets	21315848	25729787	25729787	28871343	30579808	26445315
Ratio %	3.81%	3.72%	4.00%	4.15%	4.75%	4.09%

Source: Annual Reports of HBL.:2006/2007-2010/2011

Table 18 indicates that the ratios are 3.81%, 3.72%, 4%, 4.15%, and 4.75% respectively. The average non interest income to total asset is 4.09%. The ratios are in increasing trend. The ratio is very small and stable on only few points' change. This indicates the small impact on making the significant change of potential income, Bank's total income could not be changed significantly because of the main earning source is interest income and income other than interest does not carry the higher weight on earnings.

4.1.4.6 Non Interest Expenses to Total Assets

The ratio relates with the expenses relating, generally with staff and office activities. Every institution always tries to maintain the minimum level of the non-interest expenses.

Table 20
Non-Interest Expenses

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Employee Expenses	101537	120145	152509	178589	234589	157473.8
Office Expenses	155786	177131	211047	277375	329699	230207.6
Provision for Doubtful Debts	166506	202873	186226	147139	145155	169579.8
Provision for staff Bonus	38783	40003	46731	58060	67240	50163.4
Income Tax Provision	114023	147896	157522	214265	214941	169729.4
Non Operating Expenses	Na	Na	10988	15012	2902	9634
Total Non- Interest Expenses	576635	688048	765023	890440	994526	782934.4
Total Assets	21315848	25729787	25729787	28871343	30579808	26445315
Ratio %	2.71%	2.84%	2.97%	3.08%	3.25%	2.97%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The ratios are 2.71%, 2.84%, 2.97%, 3.08% and 3.25% respectively in the reviewed period. The average non interest expense is 2.97%. Analyzing the ratio trend it can be said that it is in increasing trend. The ratio increases slightly from the first year and it increases up to final. . It can be said that the management is efficient to control the non-interest expenses during the first four period but greater in last year, with respect to the assets increment. In each of the year the office expenses seemed higher than other, which is also increasing gradually over the period. The staff expenses are also increasing due to increment in number of employee and employee facilities. Technical and non-operational expenses are also incurred during the first two years of the period. On average the ratio shows satisfactory performance of the non-interest expenses but slightly descending the performance at the end of the period.

4.1.4.7 Earning Per Share

Shareholders are concerned about the earnings that will eventually be available to pay them as dividends and the part of this earning money is used to expand their interest in the firm because the firms retains the earning. Earning per share indicates after tax earnings for equity shareholders on per share basis. It reflects the earning power of the bank. The ratio is calculated by dividing net income available by number of outstanding share.

Table 21
Earning per Share

(Rs. '000')

Particulars	FY					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Net profit after tax	235023	212132	263052	308277	457458	295188.4
No of Share Outstanding	3900	4290	5362	6435	7722	5541.8
Earning Per Share	60.26	49.45	49.06	47.91	59.24	53.184

Source: Annual Reports of HBL.:2006/2007-2010/2011

The above table indicates that the EPS is Rs.60.26, Rs. 49.45, Rs. 49.06, Rs. 47.91 and Rs.59.24 for the reviewed period. The EPS is highest in first year and it continuously decreasing till fourth year and has again increased in the fifth year. Higher ratio shows sound profitability position of the bank. In average EPS of HBL is 53.18% which shows that HBL has been able to earn good EPS.

4.1.4.8 Return on Assets

It is the most important ratio to measure the assets performance under profitability concern. It permits an instantaneous of the level of earning.

Table 22
Return on Assets

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Net Income After Taxes	235023	212132	263052	308277	457458	295188.4
Total Assets	21315848	24197974	25729787	28871343	30579808	26138952
Ratio %	1.10%	0.88%	1.02%	1.07%	1.50%	1.11%

Source: Annual Reports of HBL.:2006/2007-2010/2011

Table No. 4.19 declare that the ratios are 1.10%, 0.88%, 1.02%, 1.07% and 1.50% respectively in the reviewed period. The ratio is fluctuating through out the period by small points. The ratio is in average of 1% which is used to be considered satisfactory performance. If the analysis shows ROA is very high, it might indicate the institution taking excessive risk or be capitalizing interest by restructuring bad loans and including uncollected interest in the restructured advance.

4.1.4.9 Price Earning Ratio

This price earning ratio is used as a going concern method of valuing stock. This ratio is widely used by the security analysts to value the firm's performance as expected by investors. It indicates investors' judgment or expectations about the firm's performance. In other words it measure how the market is responding towards the earning performance of the concerned banks.

Price Earning Ratio expresses the relationship between market price of a share of the stock and the stock's current earning per share. Thus it is calculated by dividing market price of share by earning per share.

Table 23
Price Earning Ratio

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Market Price Per Share	1000	836	840	920	1100	939.2
Earning Per Share	60.26	49.45	49.06	47.91	59.24	53.184
Price Earning Ratio %	16.59%	16.91%	17.13%	19.2%	18.57%	17.68%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The above table describes that the P/E ratios are 16.59%, 16.91%, 17.13%, 19.2%, and 18.57% respectively over the reviewed period. The P/E ratio slightly increases up to fourth year but decreases in the last year.

The higher the P/E ratio the greater will be the investors' confidence in the bank's future and vice versa. In average HBL's P/E ratio is 17.68% which shows that HBL has been able to satisfy investors to take their position in the market.

4.1.4.10 Net Profit to Shareholder's Equity or Return on Equity

The ratio denotes how much of the shareholders fund is mobilized towards earning profit. The higher the ratio the better it is for the bank.

Table 24
Net Profit to shareholder's Equity

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Net Profit After Tax	235023	212132	263052	308277	457458	295188.4
Total Shareholder's Equity	1501529	1905883	2291928	2568395	2885593	2230666
Ratio %	15.62%	11.13%	11.48%	12.02%	15.83%	13.22%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The Net Profit to Shareholders' equity of HBL for the reviewed period are 15.62%, 11.13%, 11.48%, 12.02% and 15.83% respectively. The ratio is 15.62 in first year and it decreases for three years and again in final the ratio increases. In average HBL's net profit to shareholder's equity is 13.22%. This ratio might not attract the shareholders because shareholders are more concern about the profit and dividends paid to the share.

4.1.5 Liquidity Analysis

Liquidity ratio refers to the ability of a business firm to pay its short term obligation as and when they fall due for payment. A satisfactory liquidity position is one of the distinguishing characteristics of a bank to satisfy the credit needs of the community, to meet demand for substitutes, withdraws, pay maturing obligations on time and convert non cash assets into "cash" to satisfy immediate needs without loss to bank and consequent import in longer range projection on profitability. An institution has liquidity, when it has the ability to obtain sufficient funds in a timely manner at a reasonable cost. An institution is considered to have a liquidity problem if it needs to rely upon prohibitively high cost of funds or sale of assets, in order to meet unforeseen cash needs, such as deposit run off.

Liquidity position is the key element of effective and efficient management of the assets and liabilities. Some ratios under the liquidity position are used in this study to analyze and interpret the liquidity position of the sampled bank. These ratios are mostly used under the supervisory and inspection tools of the commercial banks to evaluate the liquidity performance. This section includes current ratio; cash reserve ratio, cash and bank balance to total deposit, investment in government securities to total deposit, overnight borrowing to total liabilities, loan to deposit, and growth rate of deposits.

4.1.5.1 Cash Reserve Ratio

Every commercial bank have to maintain a reserve fund with Nepal Rastra Bank equal to 5% of their total local currency deposit which is known as cash reserve ratio. For maintaining the balance, total local currency deposit of the first week is calculated and then 5% balance has to be maintained in the third week and this turn goes out respectively. Generally it should be done to avoid any problem relating to deficiency of liquid cash. This ratio can be calculated by dividing total local currency deposited at NRB by total local currency deposit.

Table 25
Cash Reserve Ratio

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Cash Balance at NRB	695378	1153139	1623936	1565319	1093818	1226318
Total Local Currency Deposits	8128969	9571053	13446190	12303407	6475402	9985004
Ratio %	11.69%	8.30%	8.28%	7.86%	5.92%	8.41%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The above table indicates that the cash reserve ratio has been maintained by HBL in all years. This indicates that HBL is successful in maintaining the cash reserve ratio as directed by the NRB directives, which shows that HBL has high liquidity maintained with NRB. But high liquidity means that it has more idle funds, which could have been invested in profitable sectors.

4.1.5.2 Cash and Bank Balance to Total Deposit

This ratio indicates the ability of banks immediately funds to cover their current margin call, saving, fixed call deposit and other deposits. A high ratio represents the greater ability to cover their deposits and vice versa. This ratio is calculated by dividing cash and bank balances by total deposits.

Table 26
Cash and Bank Balance to Total Deposit

(Rs. '000')

Particulars	F.Y.					
	2006/07	2007/08	2008/09	2009/010	2010/011	Average
Cash and Bank Balance	1264672	1979209	2001184	2014471	1717352	1795378
Total Deposit	18619375	21007379	22010333	24814012	26490852	22588390
Ratio	6.79%	9.42%	9.09%	8.12%	6.48%	7.98%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The above table shows that the cash and bank balance to total deposit of HBL for the reviewed period are 6.79%, 9.42%, 9.09%, 8.12% and 6.48%. The ratio is in fluctuating trend through out the study period. In first and final year the cash and bank balance ratio is lower and in remaining three years there is the higher ratio.

Lower ratio indicates that the bank might face liquidity crunch while paying its obligations; whereas a high ratio points out that the bank has been keeping idle funds and not deploying them properly. In average HBL

has 7.98% of cash and bank balance to total deposit which shows that HBL has reasonable funds to meet their payment obligation.

4.1.5.3 Overnight Borrowing to Total Liabilities

This ratio represents the percentage of money borrowed in the inter bank market. This form of borrowing is usually for daily liquidity purposes and normally for one day.

Table 27
Overnight Borrowing to Total Liabilities

(Rs. '000')

Particulars	F.Y.					Average
	2006/07	2007/08	2008/09	2009/10	2010/11	
Money at Call	352350	150100	368900	441080	1005280	463542
Total Liabilities	19814319	22292091	23437859	26302948	27694215	23908286
Ratio %	1.78%	0.67%	1.57%	1.68%	3.63%	1.87%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The above table shows that overnight borrowing to total liabilities of HBL for the reviewed periods is 1.78%, 0.67%, 1.57%, 1.68% and 3.63% respectively. The average overnight borrowing to total liabilities is 1.87%. The ratio is 1.78% in FY 2006/07 and it decreased in second year, from second year it is in increasing trend.

From this increasing trend it can be said that Bank has high ability of the borrowing in the final year to maintain the strong liquidity position. The high percentage of the ratio indicates the high amount of less costly borrowing among other borrowings because call money is less costly. The borrowing is made to meet the daily liquidity purpose. So should identify the frequency of borrowing rather than amount of borrowing.

4.1.5.4 Loans to Deposit

This ratio shows the degree to which a bank is using its deposit fund to its loans.

Table 28
Loans to Deposit

(Rs. '000')

Particulars	F.Y.					Average
	2006/07	2007/08	2008/09	2009/10	2010/11	
Loans	9557137	10844599	1291963	13451168	15761977	10181369
Deposit	18619375	21007379	22010333	24814012	26490852	22588390
Ratio %	51.32%	51.62%	58.69%	54.21%	59.50%	55.07%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The above table describes the ratio of loans to deposit are 51.32%, 51.62%, 58.69%, 54.21% and 59.50% respectively over the reviewed period. The average loan to deposit is 55.07%. The above table indicates that HBL's investment in loan sector is just an average out of their total deposit. This ratio shows the degree of using the deposit amount. The bank was just able to use about half of total deposit as the loan requirement.

Under the NRB norms, there should be 40% to 60% for the usual range the deposit and never to exceed 100%. Thus, HBL has met the NRB norms for loan to deposit.

4.1.5.5 Growth Rate of Deposit

This ratio is calculated by subtracting last year deposit from current year deposit and dividing by last year deposit.

Table 29
Growth Rate of Deposit

(Rs. '000')

Particulars	F.Y.					Average
	2006/07	2007/08	2008/09	2009/010	2010/011	
Current Year Deposit	18619375	21007379	22010333	24814012	26490852	22588390
Last Year Deposit	17532404	18619375	21007379	22010333	24814012	20796701
Growth Rate	6.20%	12.83%	4.77%	12.74%	6.76%	8.66%

Source: Annual Reports of HBL.:2006/2007-2010/2011

The above table indicates that the growth rate of deposit of HBL is 6.20%, 12.83%, 4.77%, 12.74% and 6.76% respectively in the study period. The average growth rate of deposit is 8.66%. The amount of deposit was increasing through out the period but the increment is in fluctuation trend. In FY 2007/08 and 2009/010 the growth rate seems to be satisfactory, but in other years the pace of growth is not satisfactory

With the NRB supervision norms relating to the liquidity position the growth rate of deposit should match or exceed the growth rate of the loans. Referring to table no 27, and 28, it can be concluded that the loan amount has not exceeded the deposits amount. The growth rate of the deposit creates the higher liquidity position. With increase in the deposit amount, the liquidity position also increases but the loans execute should be taken in the consideration. Hence there is the adequate and efficient liquidity position of the sampled bank.

4.1.6 .Sensitivity to Market Risk

The sensitivity to market risk reflects the degree to which changes in interest rates that affect a bank earnings and capital. So, the sensitivity is

the combination of market risk associated with interest rate. To measure the sensitivity of the concern bank we used the interest rate risk which is analyzed and interpreted.

4.1.6.1 Interest Rate Risk

This section includes rate sensitivity liabilities (RSL) to rate sensitivity assets (RSA) regarding to respective maturity period. This ratio measures the sensitivity of assets and liabilities under each quarter.

Table 30
RSL Liabilities to RSA Assets

(Million Rs.)

Particulars	Days			
	1-90	91-180	181-270	271-365
F.Y. 2008/09				
Total Assets	5418	5942	3028	5553
Total Liabilities	2715	2917	955	470
Net financial assets maturing in each time interval	2703	3025	2073	5083
Cumulative net financial assets	2703	5728	7801	12884
Adjusted interest rate(IRC)	0.0025	0.0025	0.0025	0.0025
Cumulative net financial assets ×IRC	6.7575	14.32	19.5025	32.21
Accumulated earnings impact to date	6.7575	21.0775	40.58	72.79
F.Y. 2009/010				
Total Assets	6947	5972	2199	7218
Total Liabilities	7045	2916	916	392
Net financial assets maturing in each time interval	-98	3056	1283	6826
Cumulative net financial assets	-98	2958	4241	11067
Adjusted interest rate(IRC)	0.0025	0.0025	0.0025	0.0025
Cumulative net financial assets ×IRC	-0.245	7.395	10.6025	27.6675
Accumulated earnings impact to date	-0.245	6.9945	17.597	45.2645
F.Y. 2010/011				
Total Assets	10342	6362	3587	3494
Total Liabilities	8076	1294	811	852
Net financial assets maturing in each time interval	2266	5068	2776	2642
Cumulative net financial assets	2266	7334	10110	12752
Adjusted interest rate(IRC)	0.0025	0.0025	0.0025	0.0025
Cumulative net financial assets ×IRC	5.665	18.335	25.275	29.38
Accumulated earnings impact to date	5.665	24	49.275	78.665

Source: Annual Reports of HBL.2006/2007-2010/2011

No Sufficient data regarding to above ratios for year 2006/07 and 2007/08 are not accessed because before the year2008/09, the commercial banks were not forced to make the record of those data as mandatory. But after

that period NRB requires to make the record of those data through the several prudential requirements. That is why the record of those data from year 2008/09 was only found.

From the above data it can summarize that in fiscal year 2008/09 there is earning of 6.7575 million in first quarter, 21.0775 million in second quarter 40.58 million in third quarter and 72.79 million in fourth quarter. So the accumulated earning impact for the year owing to 1% increase in interest rate is a gain of 72.79 million rupees.

Similarly in the FY 2009/010 there is the loss of Rs. 0.245 million in first quarter, earnings of 6.9945 million rupees in second quarter, 17.597 million rupees in third quarter, and 45.2645 million rupees in fourth quarter. So for the FY 2009/010 the accumulated earning impact for the owing to 1% increase in interest rate is a gain of 45.2645 million rupees.

Again in FY 2010/011 there is earning of 5.665 million rupees in first quarter. 24 million rupees in second quarter, 49.275 million rupees in third quarter 78.665 million rupees in fourth quarter. So the accumulated earning impact for the year owing to a 1% increase in interest rate is a gain of 78.665 million rupees.

4.2 Major Findings

1. The total capital to risk weighted assets of HBL is 11.56%, 10.93%, 10.97%, 11.98% and 12.26% respectively. HBL has also maintained its core capital of 6.55%, 7.07%, 7.69%, 8.33% and 8.65% respectively.
2. The proposed dividend after tax income of HBL in FY 2006/07 to 2010/011 are 41.49% ,2.66%, 0%, 24.17%, and 50.64%. The average proposed dividend after tax income is 23.79%. HBL has not paid any dividend during the fiscal year 2008/09.
3. The comparison of assets growth rate and capital growth rate shows that the capital growth rate exceeds the growth rate of assets except in FY 2007/08.
4. The performing loan ratios of HBL during the fiscal year 2006/07 to 2009/010 are 91.65%, 91.12%, 92.56% and 93.40% respectively. The average performing loan during the study period is 91.73%.
5. The non performing assets to total capital of HBL during the study period are 8.35%, 10.08%, 8.88%, 7.44% and 6.60% respectively. The average non performing assets during this period are 8.27%.
6. The total loan loss provision to total loan ratio of HBL during the study period are 6.73%, 7.77%, 7.49%, 7.63% and 7.10% respectively. The average loan loss provision is found to be maintained at 7.34%.
8. The provision for pass loan to total pass loan are 1% in all the study period.
9. The provision for substandard loan to total substandard loan during the study period are calculated as 24.29%, 27.92%, 26.07%, 60.20% and 57.78% respectively. The average provision for substandard loan to total substandard loan is 39.25% during the study period.
10. The provision for doubtful loan to total loan ratio during the study period has been recorded as 48.22%, 49.13%, 50.71%, 47.23% and 68.17% respectively. The average ratio is 52.69% during this period.
11. The provision for bad loan to total bad loans are 94.50%, 96.60%, 97.79%, 99.54%, 100.26% respectively during the study period. The average ratio is 97.74% during the period.
12. The staff efficiency per staff during the study period is calculated as 65%, 55%, 57%, 61%, and 81% respectively. The average staff efficiency is 63.80%.
13. The net profit is in increasing trend through out the study period.

14. The earning assets to total assets are 89.12%, 87.04%, 87.09%, 88.20% and 90.08% respectively through out the study period. The average ratio is 88.31% during the study period.
15. The interest incomes to total assets are 5.39%, 4.96%, 4.82%, 5.01% and 5.32% during the study period. The average interest income is 5.10% during this period.
16. Interest expenses to total assets are 2.71%, 2.29%, 1.91%, 1.95%, and 2.12% respectively during the study period. The average interest expenses is 2.20% during this period.
18. The net interest margin during the study period is calculated as 2.71%, 2.29%, 1.91%, 1.95%, and 2.12% respectively. The average net interest margin is 2.20% during this period.
19. The non interest income to total assets are 3.81%, 3.72%, 4%, 4.15%, and 4.75% respectively and average non interest income to total assets are 4.09% during the study period.
20. The non interest expenses to total assets are 2.71%, 2.84%, 2.97%, 3.08% and 3.25% respectively and the average non interest expenses is 2.97% during the study period.
21. The earning per share during the study period is calculated as 60.26, 49.45, 49.06, 47.91 and 59.24 respectively during the study period. In average the earning per share is 53.18%.
22. The return on assets during the study period are calculated as 1.10%, 0.88%, 1.02%, 1.07% and 1.50% respectively. In average return on assets is 1.11%.
23. The price earning ratio during the study period are calculated as 16.59%, 16.91%, 17.13%, 19.2% and 18.57% respectively. In average price earning ratio is 17.68%.
24. The net profit to shareholder's equity during the study period are calculated as 15.62%, 11.13%, 11.48%, 12.02%, and 15.83% respectively. In average return on equity is 13.22%.
25. The cash reserve ratio during the study period is 11.69%, 8.30%, 8.28%, 7.86% and 5.92% respectively. In average cash reserve ratio is 8.41%.
26. Cash and bank balance to total deposit are 6.79%, 9.42%, 9.09%, 8.12%, and 6.48% respectively during the study period. The average cash and bank balance to total deposit is 7.98%.
26. The overnight borrowings to total liabilities are 1.78%, 0.67%, 1.57%, 1.68% and 3.63% respectively during the study period. The average ratio is 1.87% during this period.
27. The loans to deposit of HBL are 51.32%, 51.62%, 58.69%, 54.21% and 59.50% respectively during the study period. The average ratio during the study period is 55.07%.

28. In each year growth rate of deposit exceeds growth rate of loans which shows that HBL's has higher liquidity position.
29. In each year HBL made profit by increase in 1% interest rate.

CHAPTER-V

Summary, Conclusion and Recommendation

5.1 Summary

For the development of the financial system it is essential to consider it as a component of the economic system. Without the development of the financial system, none of the economic system can be completely developed because the economic development of the state, at most, depends upon the financial system of the same state. More often the financial system dominates the other systems within the economic system. Commercial banks are the major player in the financial system and they cover the most of the financial activities of the financial system. To make the sound, capable, dynamic, and healthy financial system there should be the strong performance of the commercial banks. This each of the performance should be either promoted or controlled. That is why there is the high needs of inspection and supervision of these banks with an evaluation of their performance, with the degree of compliance of regulatory.

On other hand, these banks, as the JVBs, are working with the average quality of banking service. There is the high need of the quality performance of the commercial banks to meet the international standard. This study was conducted with a view to examine the operating position of HBL, as JVBs, under the CAMELS system concept. CAMELS system is the off-site evaluation of the financial performance of the commercial banks and non-bank financial institution. The study provides the complete idea about the strength and weakness of the sampled bank regarding to ensure deposit and degree of compliance of prudential requirements. The main objective of the CAMELS system is to ensure that the bank is operating in a manner to the interest of depositors or not within the NRB regulation.

In the present context banking business become highly complex and sophisticated. Number of changes creates the threats and opportunities which directly affect the performance of the commercial banks. The financial analysis made on this study, using the financial analysis tools of CAMELS system, helps to make the accurate financial decisions, plan and programs to tackled the threats and grasp the opportunities arouse in the competitive environment. That is why the analysis is made to evaluate the performance and potentiality of the Capital Adequacy, Assets Quality, Management, Earning Capability, Liquidity Position and Sensitivity

Position of HBL. Analysis of these five components, under the CAMELS system is made because most of the performance of the banks is covered by these components. Similarly, NRB as the authorized supervisory institution requires the compliance of the regulatory requirements. CAMELS tools evaluate the degree of the performance with compliance of regulatory requirements. Thus, CAMELS tools evaluate the sampled bank completely.

5.2 Conclusion

From the above analysis it can be concluded that HBL has properly maintained its total capital to risk weighted assets as directed by NRB. The proposed dividend after tax seems to be bit low. This dividend should be increased as all the shareholders expect the high return on their investment. The growth rate of capital and assets in the study period is fluctuating. The growth rate of capital exceeded growth rate of assets in one year which might bring problem for fund management.

The overall assets management of the banks seems not satisfactory. The bank has high non performing loan during the study period. The average non performing loan is 8.27% which means that this portion of total loan is bad and doubtful. The average ratio of non performing loan should be below 2% so as to earn more profit but the analysis shows that HBL has high degree of non performing loan to its total loan.

The management should reflect the capabilities of management and their roles towards achieving their goals. The above analysis reflects that the average staff efficiency is only 63.80%. From this it can be concluded that the management of HBL is just satisfactory.

The earning assets to total assets of HBL is highly satisfactory because its average earning assets to its total assets is above 88%. Similarly, the average net interest margin during the study period is 2.20% also the average return on assets is 1.11%. From the above analysis it can be concluded that the earning capabilities of HBL is just satisfactory.

The cash reserve ratio, cash and bank balance and overnight borrowings are maintained properly by HBL. Similarly the deposit rate is also growing. From this we can conclude that HBL has sufficient liquidity to meet the market needs of liquidity.

The sensitivity to market risk reflects the degree to which changes the interest rates that affects a bank earnings and capital. From the above

analysis we found that even there is 1% change in interest rate there has been profit. So it can be concluded that the 1% change in interest rate would not effect in the Bank's profitability. So bank may change its interest rate by 1% if required.

5.3 Recommendation

1. Shareholders' expect high dividend whereas the bank tries to retain its profit to increase its capital. HBL has satisfactorily distributed the dividend except in FY 2007/2008 and 2008/09. The low dividend might be unwanted for the shareholders. So the management should provide same portion of its income to the shareholders in every fiscal year.
2. The growth rate of capital and assets in the study period is fluctuating. In FY 2007/08 the growth rate of capital exceeds the growth rate of assets; this may bring problem of fund management. So it is suggested that HBL should increase the growth rate of capital to satisfy the growth rate of assets.
3. Regarding the assets management of HBL, it is found that the credit management of HBL is very poor. There is a high degree of non performing loan. The non performing loan should be below 5% of total loan. Assets are the most sensitive part of banking operation. So it is recommended that HBL should manage properly in its poor assets quality. Again it is found that substandard loan and doubtful loans are increasing which should be handling timely.
4. The staff efficiency of HBL is just average. The human resource department should be more conscious about the fact that their human resource is not in maximum utilization. HBL should give more training and motivation to their staffs to bring high results in the future.
5. Net interest margin of HBL seems to be good; however it is lower to standard margin. The standard margin should lies between "3% to 8%." But in contest of Nepal this margin should be 4%. So it is recommended that HBL should try to raise its interest on loan and advances to have satisfactory net interest margin.
6. The total portion of non interest income to total assets is very low. This indicates that the income generate other than interest income is very low. So the HBL should try to bring new services to attract customer and provide their service to generate more income.
7. Investors of any organization are interested on profit, earning per share and dividend per share. The earning per share of HBL seems to be highly satisfactory. So it seems that the investors may not shift their investment from HBL but HBL should try to increase their net profit as to increase the EPS.

8. Return on Assets of HBL seems to be constant at an average of 1%. This seems that the bank has not utilized its assets properly. HBL is suggested to utilize its assets properly where the net return is high. The return seems to be negligible, so proper utilization of assets is must.
9. The net profit to share holder's equity seems to be just in average. Investors basically seek for the higher return. So, HBL is suggested to increase its net profit by deducting other operating costs to satisfy the shareholders and investors.
10. HBL is successful at maintaining its cash reserve ratio as directed by NRB. But the ratio seems high and high ratio indicates the idle fund. This idle deposit should be invested so as to earn profit from this idle fund.
11. Cash and bank balance to total deposit maintained by HBL seems to be high. Maintaining high ratio might be to face the liquidity problems but maintaining too high liquidity might be not suitable for bank because it will not give any return. So HBL is suggested to utilize its funds rather than maintaining cash and bank balance.
12. The total loan to total deposit of HBL seems to be just an average. The bank should try to utilize its deposit to good loans so as to earn more interest. This ratio should be between "60% to 75%" shows that the bank can earn more interest. It is recommended that the bank should try to utilize its total deposit at loans and advances because loan is the major source of banks income.
13. The growth rate of deposit is in fluctuating trend. As there is increasing in financial sectors as well as the market has liquidity crunch, HBL has successfully at increasing its deposit and marketing team should always keep trying on deposit collection.
14. The sensitivity is the combination of market risk associated with the interest rate. In above analysis we have found that the bank will earn even though there is 1% increment in the interest rate. So if there is a problem of deposit shortage in the market, HBL is suggested to increase its rate of interest to capture the deposit market.