

CAMEL ANALYSIS OF JOINT VENTURE COMMERCIAL BANKS

(with respect to NABIL Bank Limited, Everest Bank Limited and
Standard Chartered Bank Nepal Limited)

THESIS

SUBMITTED BY

ANITA GHIMIRE

ROLL NO. 1117/065

REGISTRATION NO. 24794-95

SUBMITTED TO:

OFFICE OF THE DEAN

RESEARCH DEPARTMENT

FACULTY OF MANAGEMENT

TRIBHUVAN UNIVERSITY

In Partial fulfillment of the Requirement for the Degree of

Masters of Business Studies (MBS)

Shanker Dev Campus

Putalisadak, Kathmandu

Nepal

July, 2013

RECOMMENDATION

This is to certify that the thesis

Submitted by
Anita Ghimire

Entitled:

CAMEL ANALYSIS OF JOINT VENTURE COMMERCIAL BANKS

(With respect to NABIL Bank Limited, Everest Bank Limited and
Standard Chartered Bank Nepal Limited)

Has been prepared as approved by this Department in the presented format
of Faculty of Management. This thesis is forwarded for examination.

Krishna Prasad Acharya
(Thesis Supervisor)

Prof Dr. Kamal Deep Dhakal
(Head of Research Department)

Asso.Prof Prakash Singh Pradhan
(Campus Chief)

Sajeev Shrestha
(Thesis Supervisor)

Date:_____

VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis Presented

by:

ANITA GHIMIRE

Entitled:

**CAMEL ANALYSIS OF JOINT VENTURE COMMERCIAL
BANKS**

(with respect to NABIL Bank Limited, Everest Bank Limited and
Standard Chartered Bank Nepal Limited)

And found the thesis to be the original work of the student and written according to
the prescribed format. We recommend the thesis to be accepted as partial fulfillment
of the requirement for the degree of

Master of Business Studies (MBS)

Viva- Voce Committee

Head, Research Department -----

Member (Thesis Supervisor) -----

Member (Thesis Supervisor) -----

Member (External Expert) -----

DECLARATION

I hereby declare that the this thesis entitled “ CAMEL ANALYSIS OF JOINT VENTURE COMMERCIAL BANK LTD.” Submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University is my orginal work done in the form of partial fulfillment of the requirement for the Master of Business Studies (MBS) under the supervision of Krishna Prasad Acharya and Sajeev Shrestha.

Anita Ghimire

Researcher

Shanker Dev Campus

T.U. Regd. No.24794-95

Campus Roll No.

1117/065

Date:

ACKNOWLEDGEMENTS

This thesis has been prepared for Partial fulfillment of the required for the master degree in Business Studies. It is my privilege to complete this thesis themes entitled **“Camel Analysis of Joint Venture Commercial Banks LTD.”** regards, I am very much thankful to the Tribhuvan University of Nepal for providing us an opportunity to study this program.

I would like to express my sincere gratitude to my research supervisor Krishna Prasad Acharya and sajeev shrestha of shanker Dev Campus for their patient and continuous guidance with valuable comments and kind support to me all way through this thesis.

Similarly, I would like to thank all staff of commercial Bank for providing the necessary materials, information and for their kind co-operation. I have pleasure to thank all the Library staffs of Shanker Dev Campus and Tribhuvan University as well for providing me their precious time while collecting necessary information. At last but not the least, I would like to thank to all my family members and friends for supporting me to complete this study.

Anita Ghimire

Shanker Dev Campus

TABLE OF CONTENTS

Recommendations

Viva-voce sheet

Declaration

Acknowledgements

List of tables

List of figures

Abbreviations

CHAPTER-I INTRODUCTION		Page No.
1.1	Background of the study	1
1.2	Evolution of Banking Sector	3
1.3	Evolution of Banking Sector in Nepal	4
1.4	Commercial Bank in Nepal	6
1.5	Introduction of some Selected Banks	9
	1.5.1 Nabil Bank Limited	9
	1.5.2 Everest Bank Limited	10
	1.5.3 Standard Chartered Bank Nepal Limited	11
1.6	Statement of Problem	12
1.7	Objective of the Study	13
1.8	Significance of the Study	13
1.9	Limitations of the Study	14
1.10	Organization of the Study	14
CHAPTER-II LITERATURE REVIEW		
2.1	Conceptual Review	16
2.2	Concept of Commercial Bank	16

2.3	Function of Commercial Bank	17
	2.3.1 Accepting deposits	17
	2.3.2 Giving loan	18
	2.3.3 Over-draft	19
	2.3.4 Discounting of bill of exchange	19
	2.3.5 Investment fund	19
	2.3.6 Agency function	19
	2.3.7 Miscellaneous function	20
2.4	Definition of 'CAMEL' Bank Rating System	20
2.5	'CAMELS' Components:	21
	2.5.1 Capital Adequacy	23
	2.5.2 Assets Quality	23
	2.5.3 Management	24
	2.5.4 Earning	25
	2.5.5 Liquidity	27
	2.5.6 Sensitivity to market risk	28
2.6	Review of Related Studies	29
	2.6.1 Review of Journals & Articles	29
	2.6.2 Review of Previous Thesis	34
2.7	Research Gap	39
CHAPTER –III RESEARCH METHODOLOGY		
3.1	Research Design	40
3.2	Sample Size	40
3.3	Nature and Source of Data	41
3.4	Data analysis Tools & Techniques	41
	3.4.1 Financial tools	41

3.4.2 Statistical tools	49
CHAPTER-IV DATA PRESENTATION AND ANALYSIS	
4.1 Financial Analysis	50
4.2 Capital Adequacy	50
4.2.1 Capital Adequacy Ratio	51
4.2.2 Core Capital Ratio	54
4.3 Assets Quality	57
4.3.1 Performing Loan Ratio	57
4.3.2 Non Performing Loan Ratio	60
4.3.3 Loan Loss Provision Ratio	62
4.3.4 Loan Loss Coverage Ratio	65
4.4 Management	68
4.4.1 Management Efficiency Ratio	68
4.5 Earning Capacity	71
4.5.1 Earning Per Share	71
4.5.2 Price Earning Ratio	74
4.5.3 Return on Assets	77
4.5.4 Return on Equity	79
4.6 Liquidity	82
4.6.1 Cash Reserve Ratio	82
4.6.2 Cash and Bank Balance Ratio	84
4.6.3 Investment in Government Securities Ratio	86
4.7 Statistical Analysis	89
4.7.1 t-test for correlation	89
4.7.2 Trend Analysis	91
4.7.2.1 Trend Analysis of Net Profit	91

4.8 Finding of the Study	93
CHAPTER-V SUMMARY, CONCLUSION AND RECOMMENDATIONS	
5.1 Summary	97
5.2 Conclusion	98
5.3 Recommendations	100
BIBLIOGRAPHY	
ANNEXS	

LIST OF TABLES

Table No.	Title	Page No.
1.1	List of commercial banks in Nepal	8
2.1	Loan classification and provision as per NRB directives	24
4.1	Capital Adequacy Ratio of NABIL, EBL and SCBNL	53
4.2	Core Capital Ratio of NABIL, EBL and SCBNL	56
4.3	Performing Loan Ratio of NABIL, EBL and SCBNL	59
4.4	Non-performing Loan Ratio of NABIL, EBL and SCBNL	61
4.5	Loan Loss Provision Ratio of NABIL, EBL and SCBNL	64
4.6	Loan Loss Coverage Ratio of NABIL, EBL and SCBNL	67
4.7	Management Efficiency Ratio of NABIL, EBL and SCBNL	70
4.8	Earning Per Share of NABIL, EBL and SCBNL	73
4.9	Price Earning Ratio of NABIL, EBL and SCBNL	75
4.10	Return on Assets of NABIL, EBL and SCBNL	78
4.11	Return on Equity of NABIL, EBL and SCBNL	81
4.12	Cash Reserve Ratio of NABIL, EBL and SCBNL	83
4.13	Cash & Bank Balance Ratio of NABIL, EBL & SCBNL	85
4.14	Investment in Government Securities Ratio of NABIL, EBL and SCBNL	88
4.15	t-test for correlation coefficient between NPAT with No. of Staff of NABIL, EBL & SCBNL	89
4.16	t-test for correlation coefficient between NPAT with No. of Shares of NABIL, EBL & SCBNL	89
4.17	t-test for correlation coefficient between NPAT with Total Assets of NABIL, EBL & SCBNL	90

4.18 t-test for correlation coefficient between NPAT with Shareholder's Fund of NABIL, EBL & SCBNL	90
4.19 t-test for correlation coefficient between MPS with EPS of NABIL, EBL & SCBNL	91
4.20 Actual and Estimated Profit of NABIL, EBL & SCBNL	92

LIST OF FIGTURE

Figure No.	Title	Page No.
4.1	Capital Adequacy Ratio of NABIL, EBL and SCBNL	53
4.2	Core Capital Ratio of NABIL, EBL and SCBNL	56
4.3	Performing Loan Ratio of NABIL, EBL and SCBNL	59
4.4	Non- performing Loan Ratio of NABIL, EBL and SCBNL	62
4.5	Loan Loss Provision Ratio of NABIL, EBL and SCBNL	65
4.6	Loan Loss Coverage Ratio of NABIL, EBL and SCBNL	67
4.7	Management Efficiency Ratio of NABIL, EBL and SCBNL	70
4.8	Earning Per Share of NABIL, EBL and SCBNL	73
4.9	Price Earning Ratio of NABIL, EBL and SCBNL	76
4.10	Return on Assets of NABIL, EBL and SCBNL	79
4.11	Return on Equity of NABIL, EBL and SCBNL	81
4.12	Cash Reserve Ratio of NABIL, EBL and SCBNL	83
4.13	Cash & Bank Balance Ratio of NABIL, EBL & SCBNL	86
4.14	Investment in Government Securities Ratio of NABIL, EBL and SCBNL	88
4.15	Actual and Estimated Profit of NABIL, EBL and SCBNL	93

ABBREVIATION

AD	:	Anno Domimo
AGM	:	Annual General Meeting
ATM	:	Automatic Teller Machine
BS	:	Bikram Sambat
CAMEL	:	Capital, Assets, Management, Earning, Liquidity
CA	:	Current Assets
CAR	:	Capital Adequacy Ratio
CCR	:	Core Capital Ratio
CF	:	Capital Fund
CRR	:	Cash Reserve Ratio
CL	:	Current Liabilities
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
FY	:	Fiscal Years
KTM	:	Kathmandu
LLP	:	Loan Loss Provision
Ltd	:	Limited
MER	:	Management Efficiency Ratio
MPS	:	Market Price Per Share
NIDC	:	Nepal Industrial Development Corporation
NPAT	:	Net Profit After Tax
NPL	:	Non –Performing Loan
NRB	:	Nepal Rastra Bank
PL	:	Performing Loan
P/E	:	Price Earning
PVT	:	Private
ROA	:	Return on Assets
ROE	:	Return on Equity
SCBNL	:	Standard Chartered Bank Nepal Limited
TA	:	Total Assets

CHAPTER-I

INTRODUCTION

1.1 Background of the study

A bank is an institution, which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. Banks render a wide range of services to the people of different walks of life. The term 'Bank' derives from Latin word 'Bancus' which refers to the bench on which the Banker would keep the money records. Some persons trace its origin to the French word 'Banque' and the Italian word 'Banca' which means a bench for keeping, lending and exchanging of money or coins in the market place by moneylenders and moneychangers. The concept of Banking has developed from the ancient history with the effort of ancient goldsmith who developed the practice of storing people's gold and valuables. The history reveals that it was the merchant banker who first evolved the system of banking by trading in commodities than money. Then they issued different documents as the near substitutes of money, called drafts or hundis in modern days.

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 A. D. Broadly speaking, a bank draws surplus idle money in the hand of public in the form of deposit and supplies that money in the form of loans to those who are in a position to utilize the same for some productive uses. With the passage of time, function of bank have increased manifold. Since Banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society.

Banking sector plays an important role in the economic development of the country Commercial banks are one of the vital aspects of this sector, which deals in the process of channeling the available resources in the needed sectors. It is the intermediary between the deficit and surplus of financial resource. All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposits in the banks and hence banks can

provide such funds to finance the industrial activities in the form of loans and advances.

In our country, the development of Banking is relatively recent. However, some crude Banking operations were in practice even in the ancient times. In Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Sankhadhar, a Sudra merchant of Kantipur in 879 A. D or 880 A. D. after having paid all the outstanding debts in the country. The establishment of the 'Tejarath Adda' during the year 1877 A. D. was fully subscribed by the government of Kathmandu Valley, which played a vital role in the banking system. Hence, the establishment of 'Tejarath Adda' was running smoothly for the following decades.

Modern commercial banks are identified with different names such as Business banks, Retail banks, Clearing banks, Joint Venture banks, Merchant banks, and Development banks etc. No matter what name we give to banks, they all perform the same basic function: i.e. they provide a link between lenders, those who have surplus money and do not wish to spend immediately, with borrowers, and those who do not have surplus money but wish to borrow for investment in productive purposes. Basically, by charging a rate of interest to borrowers slightly higher than they pay to lenders, the banks make their profit. This is known as financial intermediation.

Main objective of the joint venture is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry etc. That means they are required to mobilize their resources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country.

Therefore, bank is the financial institution that deals with the financial situation of the society. It accepts deposits and invests those deposits as loan for individuals, corporate, government and private organization to earn profit as interest. So, bank works as a lively body of the country which helps in economic

and social development of a country. The function of bank is not only depositing and lending money but also remittance of money, providing letter of credit, bank guarantee etc. Bank has also developed credit money such as Visa card, Debit card, and Credit card etc. to facilitate the general public. ATM (Automatic Teller Machine) is the latest form of credit money issued by bank. So, bank can be considered as the backbone of overall economic development of a country.

1.2 Evolution of Banking Sector

The origin of modern commercial banking is traceable in ancient times. There is a reference to the activities of moneychangers in the temple of Jerusalem in the New Testament. In ancient Greece the famous temples of Delphi and Olympia served as the great depositories for peoples' surplus funds and these were the centers of money lending transaction. Indeed the traces of "rudimentary banking" are found in the Chaldean, Egyptian and Phoenician history. The development of banking in ancient Roman roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire after the death of Emperor Justinian in 565 AD, and it was not until the revival of trade and commerce in the middle ages was, however, largely confined to the Jews since the Christians were forbidden by the Canon law to indulge in the Church loosened with the development of trade and commerce about the thirteen 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 bank of Venice, founded in 1157 was the first public banking institution. Following it were established the Bank of Barcelona the Bank of Genoa in 1401 and 1407 respectively. The Bank of Venice and Bank of Genoa continued to operate till the end of the eighteenth century. With the expansion of commercial activities in Northern Europe there sprang up a number of private banking house in Europe and slowly it spread through out the world. In Nepal, modern banking starts from the establishment of Nepal Bank limited.

1.3 Evolution of banking sector in Nepal

Banking service is the oldest service industry in Nepal. It has gone through the various stages of evolution and development since the Vedic times (2000 to 1400 B.C.). Through the modern banking institution has a very recent origin in Nepal, some crude bank operations were in practice even in the ancient times. In the Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shakhadhar, a Sudra merchant of Kantipur in 879 or 880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. Towards the end of 8th century, Gunkam Dev had borrowed money to rebuild the Kathmandu valley. 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 reign of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced. These inconveniences led the Prime Minister Rana (1877-1885) to establish Tijarath in Kathmandu, which was a government financial institution supplying credit to the people at 5% rate of interest against security of gold, silver and ornaments. The government servants were also entitled to take loans from Tijarath, repayable from their salary at the source. During the time of Chandra Shamsher (1901-1929), credit facilities of Tijarath were extended to some other parts of the country by opening its branches. It is believed that the so-called well-to-do persons used to take loans from private money lenders even at higher rate of interest than those from the government institutions, for they were not prepared to disclose in public anything that was likely to affect their prestige. When they were approached by this type of clients, the professional money lenders used to raise loans in their own names from Tijarath at 5% rate of interest against gold and ornaments, which were not their own but brought to them by their clients as security for the loans to be financed from the funds raised from Tijarath itself. Thus, without any resources of their own and without any risks on their own part, the money lenders could manage very well to exploit their special type of clients just playing the role of middlemen between their clients and to curb unfair practice on the part of the unscrupulous moneylenders, legislative measures were also taken.

Later Tijarath was replaced by the first commercial bank, Nepal Bank Limited, during the time of Juddha Shamsher. The establishment of Nepal Bank Limited is a great landmark in the history of modern banking as it has solved many problems and difficulties, which the trade and commerce have facing. This bank performed commercial and some of the central banking function, as there was no central bank until Nepal Rastra Bank was established. In 1956, the central bank of Nepal, Nepal Rastra Bank was established. It was established with the purpose of developing Banking system in the country to promote industry, trade and agriculture as well as to circulate Nepalese currency all over the country

In 2022 B.S., the second commercial bank of Nepal, Rastriya Banijya Bank was established with the hundred percent equity holding of the government . These two, NBL &RBB, Commercial banks enjoyed monopoly till 2041 B.S. With the first joint venture bank, Nepal Arab Bank Limited coming in the operate in the country.

In 2042 B.S., finance company Act was passed; but private kept stony silence till 2049 B.S. The first break came in the month of Shrawan of the year, when first company Nepal Housing and Development Finance Company. The second came in the Poush of the same year, Nepal Finance and Saving Company. In the following three years, our financial system has witnessed the emergence of number of such finance companies.

Nepal's Financial System		No of Institutions
Organization		
1	Central Bank	1
2	Commercial Bank	32
3.	Development Bank	88
4.	Finance Companies	70

5.	Micro Credit Development Banks	24
6.	Non Government Organization (NGOs)	45
7.	Saving and Credit Co-operative	16

Source: www.gorkhapatra.com.np

1.4 Commercial Bank in Nepal

Commercial Banks are the major components in the financial system. They work as the intermediary between depository and lenders and facilitate in overall development of the economy, with major thrust in industrial development. The banking sector in Nepal started with the establishment of Nepal Bank Limited. Today, we got 26 commercial banks in operation.

The Nepal Bank limited was incorporated in 1937 under the Nepal Bank Act of 1973. Its authorized capital was Rs.100 Lakh. Initially funds were raised from 20 thousand partly paid-up and 5 thousand fully paid-up ordinary shares of Rs. 100 each. By 1949-50, all the 25 thousand shares were fully paid-up. It was establishment as a semi-government institution. Initially, the government and the rest 49% by the general took 51% of share public. As a semi-public enterprise and in the absence of central banking institution, the Nepal Bank was authorized to carry on certain transactions on behalf of the government in accordance with its instruction and order. Thus, prior to the establishment Nepal Rastra Bank received deposits of government money and remitted it through bills of exchange, cheques and hoondies in Nepal and foreign countries. Currently, HMG/N holds 41% of share in Nepal Bank Limited.

In 2022 B.S. an entirely government owned commercial bank, named Rastriya banijya bank was established under a separate Act with the authorized capital of Rs 1 core. Being a government owned commercial bank; its objective and operation are somewhat different from those of the Nepal Bank Ltd. By 2045 B.S., it has expanded to 194 branched throughout the country. Currently, due to its financial position government is given management contract for two years.

The basic objective to allow foreign banks to open a joint venture with Nepal is mainly to develop the banking sector, to create healthy competition in the banking sector, to further develop the already existing old banks and to introduce new technological efficiency in the banking sector. Nepal Arab Bank Limited (i.e. Nepal Bank Ltd) is the first foreign bank to be established in 20412 B.S. in Nepal. Initially, United Arab Emirates Bank 20% By the financial institutions, owned 50% of shares and the general public owns remaining 30% shares. Five years ago the National Bank of Bangladesh brought the 50% shares of United Arab Bank and sold it to NB international (Ireland). It was established with the authorized capital of Rs 100 million, issued of Rs 50 million and paid-up capital of Rs 30 million. Nepal Indoseuz Bank was established as second foreign bank in 2042 B.S. In this bank, Indoseuz Bank of France, 15% shares by Rastriya Banijya Bank, 15% by National Insurance Corporation and 20% by the general public initially held 50% share. It was established with the authorized capital of Rs 120 million , issued of Rs 30 million. Currently, its foreign JV partner is Credit Agricole.

Nepal Grindlays Bank was established as the third foreign bank in 2043 B.S. In this bank also 50% share is initially held by ANZ Bank of Australia, 35% is held by Nepal Bank Limited and remaining 15% share held by the general public. It was established with the authorized capital of Rs 10 million ,issued of Rs 50 million and paid-up capital of Rs 30 million. Currently, its JV partner is Standard Chartered Bank.

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Employee Provident fund and Habib Bank Limited, one of the largest commercial banks of Pakistan. It is the first commercial bank of Nepal with maximum the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking.

Apart from these banks, we already have many commercial bank like Everest Bank Limited, Nepal Bangladesh Bank Limited, Nepal State Bank of India, Bank of Kathmandu Limited, Nepal Credit and Commercial Bank Limited, Lumbini Bank Limited, Machapuchre Bank Limited, Kumari Bank Limited, Laxmi Bank Limited, Siddhartha Bank Limited, and Agricultural Development Bank Nepal.

Table 1.1 List of Commercial Bank in Nepal

S.No.	Names	Opration Date (A.D.)	Head Office	Paid up Capital (Rs.Thousand)
1	Nepal Bank Limited	1937/11/15	Kathmandu	3803.83
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	11723.00
3	Agriculture Development Bank Ltd	1968/01/02	Kathmandu	94743.00
4	NABIL Bank Limited	19984/07/16	Kathmandu	20297.69
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	30129.24
6	Standard Chartered Bank Limited	1987/01/18	Kathmandu	16101.68
7	Himalayan Bank Limited	1993/01/18	Kathmandu	24000.00
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	20939.90
9	Nepal Bangladesh Bank Limited	1994/05/06	Kathmandu	20093.96
10	Everest Bank Limited	1994/10/18	Kathmandu	13915.70
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	16041.87
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanaga r, Rupendehi	14000.00
13	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitwan	14300.00
14	Nepal industrial & Commercial Bank Limited	1998/07/21	Biaratnagar, Morang	13115.52
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	24787.94
16	Kumari Bank Limited	2001/04/03	Kathmandu	16038.00
17	Laxmi Bank Limited	2002/03/04	Birgunj, Parsa	16940.81
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	16192.44
19	Global IME Bank Limited	2007/01/02	Birgunj, Parsa	21845.00
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	21018.40
21	Prime Commercial Bank Ltd.	2007/9/24	Kathmandu	22457.46
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	20150.00
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	20000.00

24	Grand Bank Nepal Ltd.	2001/01/23	Kathmandu	20000.00
25	NMB Bank Ltd	1996/11/26	Kathmandu	20000.00
26	Kist Bank Limited	2003/02/21	Kathmandu	20000.00
27	Janata Bank Limited	2063	Kathmandu	20000.00
28	Maga Bank Nepal Ltd.	2010/07/23	Kathmandu	16310.00
29	Commerz and Trust Bank Nepal	2009/10/30	Kathmandu	14000.00
30	Civil Bank Limited	2011/03/25	Kathmandu	12000.00
31	Century Commercial Bank Limited	2011/04/9	Kathmandu	10800.00
32	Sanima Bank Limited	2012/03/16	Kathmandu	20160.00

Source:www.gorkhapatra.com.np

Apart from Commercial Banks, Finance companies, Development Banks, Co-operatives and NGO and many non-depository financial institutions like Insurance companies Mutual Fund etc. are also in our financial system.

1.5 Introduction of some selected commercial Banks

1.5.1 NABIL Bank Limited

The first joint venture bank, NABIL Bank Ltd, was established with technical service agreement in the country in 1984 under the management of Dubai bank Ltd. United Arab Emirates. Its ownership structure consist of 50% share from Dubai bank ltd. 20% share financial institution of Nepal and rest 30% share from the general public. Its initial paid up capital was Rs 30 million pursuing its objective. Nepal provides a full range of commercial banking services through its 40 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

NABIL as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. NABIL has total 505 permanent employee. NABIL has 50-branch network and a counter in all major cities. The corporate banking body, which is also the head office of this very prestigious bank, is in Kamaladi,

Kathmandu. It has 79 –ATM, 43-in Kathmandu valley and 36- outside the Kathmandu valley.

Today NABIL stands in a position to claim that it is the ‘Bank of first choice’ to all its stakeholders. The bank provides a complete range of consumer, retail, SME and corporate banking service through its offices spread across the country. On the technological front, the bank has earned a reputation in providing an array of card product and internet telebanking facilities besides ATMs and Any Branch Banking Service. The Banker, the publication of the financial Times-London, has honored the NABIL Bank as ‘Bank of the year 2004’ and it is the matter of prestige to be leading bank of the country.

Operations of the bank including day to day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, Credit cards, state of art, world renowned software from Infosys technologies system, Bangalore India internet banking system and telebanking system.

1.5.2 Everest Bank Limited

Everest Bank Limited was registered on November 17, 1992 and came into operation on October 18, 1994 with joint venture Punjab national bank of India;. This bank is established with 50% of the shares are owned by the local promoters 20% by our joint partner Punjab national bank India and 30% of the shares are owned by general public. It has Rs 600 million authorized capital Rs 466.8 million of issued capital and Rs 455 million of paid up capital, It has objective of extending professionalized and efficient banking service to various segments of the society. The bank had an initial paid up capital of 3 core. Today the bank has grown to become one of the leading banks I n Nepal. We at EBL believe that the long term development of an organization depends on how we build trust among our stakeholders. Our values are focused on the ethics at work place and outside. Thus we need of conduct where by all employees working, needs to follow it stringently. The Bank has been honored with ‘**Bank of the year 2006, Nepal**’ by Financial Times.

The main vision of the bank is to evolve and position the bank as a progressive, cost effective and customer friendly institution providing comprehensive financial and

related services, Integrating frontiers of technology and servicing various segments of society, committed to excellence in serving the public and also excelling in corporate values.

The main mission of the bank is to provide excellent professional services and improve its position as a leader in the field of financial related services, build and maintain a team of motivated and committed workforce with high work ethos, use latest technology aimed at customer satisfaction and act as an effective catalyst for socioeconomic development.

1.5.3 Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint venture operation. It was established as a joint venture with Grindlays Bank of London in the year 1987 under commercial bank act 2031 B.S. The bank had changed its name from Grindelays Bank to Standard Chartered Bank Nepal Ltd. in July 2001. Today the bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The bank enjoys the status of the largest international bank currently operating in Nepal. Standard Chartered Bank Nepal Ltd. has its Head office at New Baneshwor, Kathmandu and strong network of branches which provides a wide range of innovative products and services to Nepalese customers. With 15 points of representation, 20-ATMs across the country and with more than 394 local staff, Standard Chartered Bank Nepal Ltd is in a position to serve its customer through an extensive domestic network. In addition the global network of Standard Chartered Group gives the bank a unique opportunity to provide truly international banking services in Nepal.

The Bank has been the pioneer in introducing ‘Customer Focused’ products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first bank in Nepal that has implemented the Anti- money Laundering policy and applied the ‘Know Your Customer’ procedure on all the customer accounts. The bank has been honored with some awards. Some of them are: November 2009 –**“Bank of the year 2009 Nepal”** by ‘The Banker’ of the Financial times, in March 2006-‘Best Commercial Bank 2004-

05'-awarded by The Boss Magazine-Specialty Media Private limited.-in March 2011-
'FNCCI National Excellence Award 2066-067' Awarded by the Federation of
Nepalese Chamber of Commerce and Industry.

1.6 Statement of the problem:

NABIL, EBL and SCBNL banks are the reputed joint venture commercial banks in the country. These banks are providing full fledged banking service to their customer. But in this present competitive market, there are growing several banks prevailing in the country. From 2010A.D., Nepal Rastra Bank has provided permission to access the international bank in the country and Nepalese Commercial Banks would be competed with international banks. Therefore, their sustainability for long span is questionable in the market. What types of products and services International Banks will offer to the customers and that product and services can provide to its customer by Nepalese commercial banks at the same cost of International Banks? If Nepalese banks are not able to provide the best banking services to their valued customers, then their existence in the market would be questionable. These banks also facing problem of excessive market competition with other commercial banks. So, now they must be well prepared and have to strengthen competency to achieve productive output by financially strengthen and optimum utilization of resources. The management must focus on implementation of effective and appropriate plan, strategies and control mechanism.

Therefore, this study will attempt to find out the answer of the questions such as:

1. Are these selected joint venture commercial bank maintaining adequate capital as directed by NRB or not?
2. To what extent these banks have been able to decline their non –performing loans?
3. How much provisions have been maintained by these banks to cover their non-performing loans?
4. How well are these banks managing its function and activities to compete with International Banks in future?
5. Are the earning of these bank increasing ?
6. What is the liquidity position of these banks?
7. Whether the depositors are positive towards these banks or not?
8. Products and services provided by these banks are satisfactory or not?

1.7 Objective of the study:

The general objective of the study is to find out individual and comparative financial position of three selected joint venture commercial banks, NABIL, EBL and SCBNL and to recommend, suggestion for the improvement of state of affair. The specific objective of the study are given below.

1. To measure the capital adequacy of selected banks.
2. To evaluate the assets quality of selected banks.
3. To analyze and compared the efficiency of the selected bank Management.
4. To see the relationship between Net profit after Tax with No. of Staff, No. of Shares, Total Assets and Shareholder's Fund.
5. To See the relationship between Market Price Per Share with Earning Per Share.
6. To see the trend of Actual and Estimated Profit.

1.8 Significance of the study:

Banking sector plays a vital role for the country's economic development and considered as a pre-requisite for the country. It is for economic development, it maintains economic confidence of various segments and extends credit to people. The banking sector has to take great responsibilities since the country is undergoing through a recessive economic situation.

CAMEL ANALYSIS of the three major joint venture commercial banks namely NABIL, EBL and SCBNL will be of great importance for policy makers, academicians, professional Bankers, shareholders, management, stock brokers, depositors, prospective customers, investors and the general public. It is believed that this study will be precious primarily to the students of finance, because they can relate their theoretical knowledge on finance to the practical results derived from the study.

The study of financial performance analysis will help the management and owners of the selected banks. They will be able to analyze their strong and weak points. They can also speculate as to how to improve their position by some

suggestions and recommendations provide in the report. Similarly, they will be able to trace the difference in their performance from their immediate competitors. Furthermore the comparative financial position of three JVBs will help the shareholders and the general public to know the best performing bank in this economy.

1.9 Limitations of the study:

Basically, the study has been conducted as partial fulfillment of the requirement of the ‘Master of Business Studies’. So this study has the following limitations:

- 1 Among the various JVBs, the study is focused only on three JVBs namely, NABIL, EBL and SCBNL. NABIL and SCBNL being the first two banks to operate in Nepal are considered as ‘established Banks’ and hence have been selected. Everest Bank Limited, though considered as the second – generation bank has also been able to expose as established bank since the performance of this bank is very much comparable and competitive with the established banks.
- 2 The study covers the period of six years only.
- 3 Some of information of the banks were confidential and thus could not be included in the report.
- 4 Accuracy depends upon the data provided by the organization where the degree of faithfulness depends upon concerned authority.
- 5 Report is based on annual report published by the concerned banks.
- 6 Only few statistical methodologies are considering for computation and analysis or the data.
- 7 This study is prepared in a limited period of time for the partial fulfillment of MBS and cannot be considered as masterpiece.

1.10 Organization of the Study

The dissertations are found to be difficult to understand to create confusion if it has not partitions in to various heads. For our convenience, the entire thesis has been segregated into five parts. They are mentioned as bellows:

- a) Introduction
- b) Literature Review

- c) Research Methodology
 - d) Data Presentation & Analysis
 - e) Summary, Conclusion, Major Findings & recommendation
- Chapter First has been entitled as “Introduction” which deals with the general ideas about the banking sectors, general background of the study, Introduction of related bank, statement of the problem, significance of the study, objective of the study, limitations of the study.
 - Part two is “Literature Review” which gives the knowledge about the literature that has been studied during the course of the preparation of the thesis. This part portrays about the literature available in the study. It includes review of NRB article, review of related studies, review of financial journals & economic article and review of books.
 - Third Chapter is “Research Methodology” which comprises all the tools and technology those have been adopted in the study. This chapter furnishes about the research design, source of data, population & sample, method of data analysis employed in the study.
 - In the fourth chapter entitled “Data Presentation & Analysis”, the data collected from the various sources are presented and process it in readable and understandable form. The graphs, bar Diagram, pie chart are drawn from the data obtained in this part of the study.
 - The last chapter is “Summary, Conclusion, Major Findings & recommendation” in which the entire study is summed up. The conclusions acquired from the study are presented in the chapter. The major findings, for which the study had been carried, are also the subject matter of this chapter. After conducting the study, the researcher provides extremely vital recommendations to the scholars, relevant organizations and government in this part. Besides, above chapter, bibliography and appendixes are also included.

CHAPTER II

LITRATURE REVIEW

The review of literature is a crucial aspect of planning of the study. The main purpose of literature review is to find out what works have been done in the area of research problem under the study and what has not been done in the field of the research study being undertaken. For review study the researcher uses different books, reports, journals and research studies published by various institution, unpublished dissertations by master level students have been reviewed. It is divided into headings:

-) Conceptual Review
-) Review of related studies

2.1. Conceptual Review

This Section present the theoretical aspect of the study, which includes the concept of commercial bank, Function of the commercial banks Concept of CAMEL rating system.

“Financial analysis is to analysis the achieved statement to see if the result meet the objective of the firm to identify problem if any in the past present and or likely to be in future and provide recommendation, to solve the problems. (Pradhan, 2000:120)

“Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing the relation between the items of balance sheet which represent analysis snapshots of the firms financial position analysis at analysis moment that deposits analysis summary of the firm’s profitability overtime.”(Vanhome & Watchowicz, 1997:120)

Comparative analysis presents the same information for two of more time periods and is presented side-by-side to allow for easy analysis financial analysis often compare financial ratio of solvency profitability, growth etc.

2.2 Concept of Commercial Bank

The central focus of commercial banking concerns the acquisition and servicing of loans. A bank mobilizes deposits and lends to business. Banks lend or invest up to

75%-80% of their deposits. Indeed, commercial banks are the primary, if not only, source of loans for most small and medium-sized business firms and provide vital service to business organization and to the community as a source of loans. Banks also have a responsibility to those depositors who have entrusted their funds for safekeeping. Banks also have responsibility to those who have provided debt and equity capital; thus banks are expected to operate profitably. It is through returns to equity holders in the form of dividends and through retained earnings that banks are able to continue in operation and to grow along with the communities they serve. Accordingly the well managed bank must institute loan policies designed to ensure that adequate control exists in the approval and disbursement of loans and that outstanding loans are monitored so as to ensure compliance with terms of the loan and ultimate repayment of principal and interest.

The business mainly borrows from the bank to acquire/ create assets, to meet cash flow gap, to optimize return on shareholders capital and to manage tax.

2.3 Functions of commercial Bank

The main function of commercial Bank are accepting deposits from the public and advancing the loan. However, besides these function there are many other function which these bank perform. All these function can be divided under the following heads.

2.3.1 Accepting deposits:

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

For example fixed and low income group people deposit their saving in small amounts from the points of view of security, income and saving promotion. On the other hand, traders and businessman deposit their saving in the bank for the convenience of payment. Therefore keeping the needs and interest of various sections of society, banks formulate various deposit scheme Generally there are three types of deposits which are as follows:

Current deposits: The depositors such deposits can withdraw and deposit money, when ever they desire. Since banks have to keep the deposited amount of such account in cash always, they carry either on interest or very low rate of interest. These

deposits are called as Deposits because these can be demanded or withdrawn by the depositors at any time they want. Such deposit account accounts are highly useful for traders and his business firms because they have to make payments and accept payments many times in a day.

Fixed deposit: These are the deposits which are deposited for a definite period of time. This period is generally not less than one year⁵ and therefore, these are called as long term deposits. These deposits cannot be withdrawn before the expiry of the stipulated time and, therefore, these are also called as time deposits.

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

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

2.3.2 Giving Loans:

The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income. Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the accounts of borrower's. in other words , they create loans out of deposits and deposits of loans. This is called as credit creation by commercial banks. Modern banks give mostly secured loans for productive purpose. In other words, at the time of advancing loans, they demand proper security of collateral. Generally, the value of security or collateral is equal to the amount of loan. This is done mainly with a view to recover the loan money by selling the security in the event of non-refund of the loan. At times, banks give loan on the basis of personal security also. Therefore, such loans are called as unsecured loan. Banks generally give following types of loans and advances:

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

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

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

2.3.3 Over- Draft:

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

2.3.4 Discounting of Bills of Exchange:

This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. In this way, businessmen get loans on the basis of their bills of exchange before the time of their maturity.

2.3.5 Investment of Funds:

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

Other securities include securities of state associated bodies like electricity boards, housing boards, debenture of land development Banks units of UTI, shares of Regional Rural bank etc.

2.3.6 Agency Function:

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

Banks collect cheques, drafts, bills of exchange and dividends of the shares for their customers.

Banks make payment for their clients and at times accept the bills of exchange: of their customers for which payment is made at the fixed time.,

Banks pay insurance premium of their customers. Besides this, they also deposit loan installment, income- tax, interest etc. as per directions.

Banks purchase and sell securities, share and debenture on behalf of their customers.

Banks arrange to send money from one place to another for the convenience of their customers.

2.3.7 Miscellaneous Functions:

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

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

Banks give reference for their customers.

Banks collect necessary and useful statistics relating to trade and industry.

For facilitating foreign trade, banks undertake to sell and purchase foreign exchange.

Banks advise their clients relating to investment decisions as specialist.

Banks do the under-writing of shares and debentures also.

Banks issue letters of credit.

During natural calamities, banks are highly useful in mobilizing funds and donations.

Banks provide loans for consumer durables like Car, Air-conditioner, and Fridge etc.

2.4 Definition of 'CAMEL' Bank Rating System

An internal bank – rating system where bank supervisory authorities rate institutions according to six factors. When examiner evaluate banks health, they develop an overall rating based on Capital adequacy, Assets Quality, Management Efficiency, Earning Ability and Liquidity Position.

Bank Supervision authorities assign each bank a score on a scale of one (best) to five (worst) for each factor. If a bank has an average score less than two it is considered to be a high-quality institution, while banks with scores greater than three are considered to be less- than-satisfactory establishment. The system helps the supervisory authority identify banks that are in need of attention. The CAMEL rating

is a United States Supervisory rating of the bank's overall condition used to classify the nations fewer than 8,000 banks

this rating is based on financial statements of the bank and on-site examination by regulators like the Federal Reserve, the office of the comptroller of the Currency and Federal Deposit Insurance Corporation. The scale is from 1 to 5 with 1 being strongest and 5 being weakest. There rating are not released to the Public but only top management of the banking company to prevent a bank run on a bank which has a bad 'CAMEL' rating. It is a tool being used by the United States government.

2.5 'CAMELS' Components:

The CAMEL rating system, development from the uniform financial institution. The objective is to evaluate five different components of an institution's operations including Capital Adequacy, Assets Quality, Management Efficiency and Liquidity. A six components was added in 1997-Sensitivity to market risk, Each of the factor score from 'one' to five' with one being the strongest rating. The CAMELS rating system is formed as:

C = Capital Adequacy

A = Assets Quality

M = Management Efficiency

E = Earning Ability

L = Liquidity Position

S = Sensitivity

2.5.1 Capital Adequacy

The difference between total assets and total liabilities is called capital. It shows ability of the firm that liability could b privileged. It assumes that if all the assets of the bank take as a loans and deposits as liability. If there is any loss from loans it will be a great risk for banks to meet the demand of their depositors. Therefore to prevent the bank from failure it is necessary to maintain a significant level of capital adequacy (Chen, 2003, p. 21).

Basel capital accord set the rules for the Capital requirements. It represents the capital standard for banks which applied to banks in G10 countries. The Basel capital has two parts, these are Tier one and Tier two (Chen, 2003, P.21).Tier I capital is primary

capital and Tier II capital is supplementary capital. In Nepalese context Tier I (core/Primary) capital. Includes paid up capital, share premium non-redeemable preference share, general reserve fund, accumulated profit, capital redemption reserve, capital adjustment fund, and other free reserve. Amount of the goodwill, fictitious assets, investment in the financial instrument issued by an organized organization excess to the limit specified by NRB, and investment in the financial instruments issued by the organization having the own financial interest is deducted from the sum of all elements of the primary capital to arrive at the core capital. Similarly, Tier II (supplementary) capital comprise of general loan loss provision, assets revaluation reserve, hybrid capital instruments, subordinated term loan, exchange equalization reserve, excess loan loss provision, and investment adjustment reserve. Thus the total capital of commercial banks is the sum of core capital and supplementary capital.(NRB, 2010).

Capital Adequacy Ratio is the ratio which determines the banks capacity to meet the time liabilities and the other risk, such as credit risk, operating risk etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses and protects the bank's depositors and other lenders. Banking regulators in most countries define and monitor CAR to protect depositors, there by maintaining confidence in the banking system. NRB has prescribed the Capital Adequacy Ratio parameters on which the capital of the need to be maintained as a percentage of its risk weighted assets such as loans it has provided and the securities it holds. It measures the ratio of total shareholder's funds to total risk weighted assets of the bank. Thus this parameter indicates whether a particular bank has enough capital to absorb unexpected losses. As per the NRB instruction commercial banks had to maintain 11% of capital Adequacy Ratio (total Capital), and 5.5% Core Capital in BASEL I in the FY 2006/07 and 2007/2008. In BASEL II from the FY 2008/2009, NRB require 10%of Total Capital Adequacy Ratio and 5% of core capital ratio. These ratio have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum percentage then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share.

2.5.2 Assets Quality

Quality of bank's assets is related to the left side of its balance sheet. Usually top management of the bank is concerned mostly with quality of the loans they provide to their customer as it provides earnings to their bank. Assets quality and loan quality are two words that have same meaning but must often they are used inter changeable, Quality of the assets as its affects both cost to the banks and economies of scales for the bank(Bernstein,1996,p.1.0) Government bonds and T-bills are considered as good quality loans where as Junk bonds, corporate credits to low credit score firms etc are bad quality loan has a higher probability of becoming a non-performing loan with no return. Investments, Loan and Advances are the prime assets of any financial institutions. The major source of income of these financial institution is generated from the returns obtained from these investments, loan and advances. Thus, they must be conscious about insolvency and bankruptcy. A significant part of the banks income is generated from the lending activities. Basically there are two types of loans:

1. Performing Loan

Performing Loan is the loan on which the interest is paid timely or overdue up to 90 days. It is also known as good loan or pass loan.

2. Non-Performing loan

The loan which goes beyond the due date of 3 month falls under NPL. There are three types of Nonperforming loan.

- Sub-standard NPL:- Loan overdue by more than 3 months up to 6 months.
- Doubtful NPL:- Loan over due by more than 6 months up to 1 year.
- Bad Loan:- Loan overdue by more than 1 year.

Table No. 2.1

Loan Classification and Provision as per NRB directives

Classification of Loans	Category	Duration overdue	Loan Loss Provision
Performing Loan	Standard/ Pass/Good	Up to 1 to 3 months	1%
Non- Performing Loan	Sub-Standard	3 month to 6 month	25%
	Doubtful	6months to 1 year	50%
	Bad loan	More than 1year	100%

Source: NRB directives

2.5.3 Management

It is difficult to determine the sound performance of management of the bank. For individual institution it is not a quantitative factor it is primarily quantitative factor. How to measure the soundness of the management? However there are quite a few indicators loan, cost per unit of money lent and average loan size, expense quality (Baral, 2005, p 44).

Management in all business and organizational activities is the act of getting people together to accomplish desired goals and objective using available resources efficiently and effectively. Management comprises Planning, organization(a group of one or more people or entities) .Management can also be defined as human action, including design, to facilitate the production of useful outcomes from a system. In for-profit work, management has as its primary function the satisfaction of a range of stakeholders. This typically involves making a profit (for the shareholders), Creating valued products at a cost (for Customer) and providing rewarding employment opportunities (for employee). In nonprofit management ass the importance of keeping the faith of donors. Over the years, the Nepali financial sector has evolved strongly with robust management discipline. At the same time, we also have enough cases where due to poor management, bank performed poorly. Human resource

management is one of the key management issues good or bad human resource management translates into efficient staff performance. Management can be evaluated in the CAMELS framework according to (Sundararjan, Errico, 2002, p. 10):

- Leadership, administration ability, and compentency in technical work
- Bank's management has the ability to deal with changing situations
- Obedient to banking law and regulations
- Agree on internal policies
- To show keenness in fulfilling the legal need of the community.

In the success of bank operation management is the most important elements. The efficient functioning of management is a crucial part in the success of the organization. In fact, the management is essential to make suitable policy and business plans and implement them for the short and the long term interest, which helps to achieve aimed objectives of bank and financial institutions. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and the officials, operating expenditure, customers relation with the officials and the institution, management information system, organization and working method, internal control system, power concentration, monitoring, decision making process, policies, etc. An institution can take a desire momentum only when the management is capable of projecting strong and long term vision.

In CAMEL analysis Management Efficiency Ratio is calculated in order to find out the contribution of each staff on the net profit of the organization. Management efficiency ratio measure the management quality and efficiency of per staff contribution to the earning of the organization.

2.5.4 Earning Ability

Earning are the net benefits of a corporation operation. Earning is also the amount on which corporate tax is due. For an analysis of specific aspects of corporate operation several more specific terms are used as EBIT earning before interest and taxes, EBITDA earning before interest, taxes, deprecation and amortization. Many alternative term for earnings are in common use, such as income and profit. To stay in the market for a long term, bank are totally dependent upon generation of adequate earning, rewards to be paid back to its shareholders, protect and improve its capital.

To be accepted publically totally depends upon sufficient earning if there are losses it reduce the capital and liquidity (Couto & Brasil, 2002. p. 3) .

Earning of a bank is a significant gauge to analyze its financial strength. As we know that money itself is merchandise of the banks, for a longer period of time banks can maintain losses before they get out of cash. Supervisor must take action whenever they realize that bank's earning are decreasing or the bank may goes into bankruptcy. It is difficult for the supervisor to look into the earning record of the bank and simply from an opinion about earning position. Past earning performances have its effects on the bank's balance sheet but if conclusion of the supervisor is based upon the results which have taken from the earning records and will used for timely action, it is suggested that supervisors should be concerned with the indicators that reflect bank's future financial positions and future result (Couto & Brasil, 2002, p 3). To measure bank earning several variable are used. The ratio used are, $ROA = \text{Net profit}/\text{total assets}$. This ratio avoids the volatility of earning linked with unusual items, and the profitability of the bank. The higher of the ratio greater the profitability and has a positive connection with CAMELS. It also compares the total assets with net profit and shows that assets management is well-organized to make profit or not. Second ratio which is used to measure earning of bank is $ROE = \text{net profit}/\text{own capital}$. This ratio shows the efficiency of the bank, that how the bank uses its own capital in an efficient manner. It is very easy for the efficient bank to produce money using its own capital.

The earning & income status of any financial institution is indication of their success. Good earning builds the confidence of its stakeholders like creditors, depositors, shareholders, management, public etc. Thus, it can be said that an analysis of earning helps the management, shareholders and depositors to know about the performance of the bank, sustainability of earnings, and to forecast the growth of the bank. The success of a bank relies heavily upon the efficiency of the management to drive it towards earning good profits.

2.5.5 Liquidity Position

The Liquidity position of any financial institution determines their capacity to meet their current financial obligations without any difficulty. Every financial institution must be enabling to refund the deposited amount to every deposit holders as per the demand made by them. These financial institutions are bound to maintain statutory liquid asset as per the direction of central bank i.e. NRB. The liquid asset maintained by these financial institution is examined by the central bank by below mentioned ways: i) On-Site Inspection ii) Special Inspection iii) Follow up Inspection iv) Off-Site inspection In a standard CAMELS rating system, liquidity of a banks its measured according to: unpredictability of a bank's deposits, dependence of the bank on interest sensitive funds, methodological proficiency of a bank relative to the structure of liabilities, assets of the bank on its balance sheet that can be very easily converted into cash, access and availability of inter- bank markets and cash resources such as LLR (Lenders Last Resort) services provided by the central bank of the country (Sundararajan & Errico, 2002, p. 11). Any financial institution or bank that maintain a high level of liquidity have the capability to overcome the difficulties it may face in short term business activates, keep the cash supply lines open in case of financial distress and can grab the available investment opportunities that may result in a good return. In short term perspective, liquidity of a financial institution/ bank depends upon their capabilities to fulfill day to day expenses and gratify the demand of withdrawals by the depositors. Primarily there are three main components that help any financial institution to attain liquidity their anticipated future cash inflow and out flow, access of the bank to inter-bank market and the highly liquid assets that can be easily converted into cash (jrtome, 2008, p 10)

For liquidity evaluation of a bank its current status of liquidity is taken into consideration in relation to the liabilities it has. It also considers the capacity of the bank to deal with the possibility of unanticipated charges in its financing resources and prevailing market conditions that will affect liquidation of its assets and the minimum possible erosion in its earnings.(Christopoulos, 2011, p. 13).

Loan to Total Deposits (LI) = Total Loans/Total Deposits

This particular ratio of Loan to Total Assets shows proportion of the deposits of the bank to issue loan and its dependence on the interbank market. If the result of this

ratio is lower, it means that bank maintain good level of liquidity, and if the value is less than 1 so it shows that deposits of the banks are enough to cover the loan obligations and are secured.

Circulating Assets to Total Assets (L2) = Circulation Assets/ Total Assets

The above ratio shows status of bank's liquidity in respect to its circulating assets that may include cash available in hand, claims of the bank against other banks in inter-bank market, bank's investment, derivatives and swaps. If the ratio is higher it shows this particular bank have good level of liquidity (Christopoulos, 2011. p. 13).

2.5.6 Sensitivity to market risk:

Earning and capital of financial institutions can be adversely affected by changes in exchange rate, interest rate, equity price or commodity price. Many financial institutions consider changes in interest rates as market risk. This S components of the CAMELS rating system mainly focuses on the ability of the bank to recognize, monitor, manage and control the market risk and give indication to management for the Liquidity or we can say to focus on stock ratios whether bank has sufficiently liquidity. To know that bank position is secure or not the management and credit analyst should thoroughly approach and make analysis of liquidity.

Sensitivity of the market risk are examined by the banks to assess the changes in foreign currency, interest rate, product purchase and selling prices which totally effects the bank's assets values and profits. The ratio used to measure the sensitivity of the market risk is **Total securities to total assets = Total securities/total assets**. Banks now a day's have to changes their self because of market demands. Portfolio may boost the bank's profit if the price movement is in favor of banks, and if it is not then it may create big problems for the bank. The ratio tells the correlation of banks securities with total assets and provides us the percentage change of its portfolio with respect to alteration in interest rates or other issues associated with the issuer of the securities. The higher the value of this ratio is more risky, that the bank's portfolio is subjected to market risk. The lower the ratio is good for the bank since it shows the response towards market risk is appropriate (Christopoulos, et al, 2011, p. 13).

2.6 Review of related studies

2.6.1 Review of journal and articles

Ramesh Lal Shrestha in his article, “Capital adequacy of bank, The Nepalese Contest” has thrown precaution over the capital base that it should neither be too much lending to inefficient allocation of scarce resources or too weak so as to expose to extreme risk while dealing highly risk transaction to maintain strong capital base. He supports that fact that the operation, bank wise and time wise. He had suggested the banks of Nepal to present standard capital adequacy ratios keeping in mind various relevant factors.

An article on “Basel Capital Accord: past, present and future” which is published on info Himalayan try to explained on requirement of Basel Capital. The Basel Capital Accord is a manual for capital measurement and capital standards. The Accord is prepared by the Basel Committee on banking supervision. The Basel committee issued the first Basel Capital Accorded in 1988. By the end of 1992, the Capital Accorded was implemented worldwide.

The article entitled “Role of foreign banks in Nepal”, on Nepal Rastra Bank Samaschar, Nepal Rastra Bank Baishak 2049, pp1-2, by Sunil Chopra unquestionably conducted that joint- venture bank are playing an increasingly dynamic and fundamental role in the economic development of the country which in return increase with time.

Rijal analyzed on Management control System in Nepalese Commercial Banks The Nepalese commercial banking sector is very competitive. The commercial banks are competitive mainly in service and many of them adapting differentiation strategy. The priority of the majority of commercial banks is customer retention. Commercial Banks are encouraging employee to also congenial in Nepalese Commercial banks and the informal organization and communication System also gradually exist in some of the commercial banks of Nepal. However the future research needs to examine the relationship between management control system and effectiveness of the commercial banks of Nepal.-(journal of Nepalese Business Studies 2006)

Baral examined On Health Check-up , a case study of joint venture Banks in Nepal. The paper examined the financial health of joint venture Banks in the CAMEL framework for a period ranging from fiscal year 2001 to 2004. Three joint venture commercial Banks of Nepal were randomly selected for the study. The study was based on historical data disclosed by annual reports of commercial Banks. It was covered four fiscal years' data for the purpose of study. The study was based totally on the CAMEL framework.-(J ournal of Nepalese Business Studies 2005)

There has been substantial growth in the number of joint venture banks in Nepal since 1990s the basic reason behind this is the government's deliberate policy of allowing foreign joint venture bank to operate in Nepal. Government's liberalization policy also encourage the traditionally run domestic commercial banks to enhance their efficiency and computerization and prompt customer services by setting them to the exposure of the joint venture banks.(Shrestha M.K.,1990:16)

Nepal Rastra Bank (NRB) has directed commercial banks to banks to increase their capital Adequacy ratio if their liquid assets fall below 20 percent of total deposits. Liquid assets include cash and bank balance, money at call and short notice having placement of to 90days and investments in Government securities. Although the capital adequacy framework, which was revised in 2008, required banks to categories an additional 0.5percent of total deposits as risk weighted assets in case their liquid assets remain below 20percent, the new provision has required them increase this portion.

As per NRB'S new directive, if the liquid assets of any commercial bank stands between 19-20percent, 1 percent of its total deposits will be termed risk weighted assets. This means the bank should add money by 10 percent of added risk assets or 0.001 percent of total deposits under the capital adequacy ratio.

As per Basel-II norms, commercial banks are required to maintain 10 percent capital adequacy ratio against total risk weighted assets.

Banks with liquid assets between 18-19 percent will have to face risk weighted assets added by percentage of total deposits. The capital adequacy ratio then should be managed accordingly.

Additional 3,4 and 5 percent risk weighted assets will be added if any bank has liquid funds between 17-18 percent, 16-17 percent and 15-16 percent respectively and money should be managed under the capital adequacy ratio accordingly.

The credit and deposit ratio of commercial banks stands at 88percent as per the latest report of NRB on the country's macro economic situation. This means that banks have little liquidity prevalent and should manage more funds to fulfill their obligation regarding capital adequacy. The capital adequacy ratio is a key measure to determine the health of banks and financial institutions. Central bank officials said that NRB's move aimed at forcing banks to maintain adequacy liquidity so that they would not make excessive lending to face liquidity crisis in the future.

However, bankers said that NRB's move was counter productive and unpractical given that it would hurt banks further which were already facing an acute liquidity crisis.

Laxmi Bank chief executive officer Suman Joshi said the central Bank's move would force banks to manage deposits acquired with much effort for maintaining the capital adequacy ratio.

"The new provision is better for the future but not for now," said Joshi. "We want NRB to give us time to fulfill the new provision."

He added that there had been talk in the banking community to make public the opinion of the Nepal Bankers Association soon regarding the new NRB directive.

Meanwhile, NRB has also allowed B, C and D class financial institutions to handle incoming remittance. B and C class financial institutions can also do transactions in Indian currency. National level development banks can accept deposits in foreign exchange. They can also provide foreign exchange facility against passport and can open agency accounts in foreign banks.

B and C class financial institutions have also been allowed to issue debit and credit cards by being an agent of commercial banks as per the central bank's latest circular.

Ace Development Bank CEO Siddhant Raj Pandey said that they were already enjoying these facilities. "I am surprised to see a new circular about facilities already available to development banks." The new circular has also allowed regional development banks to purchase foreign exchange and sell it to NRB and commercial banks. (www.ekantipur.com 2010 Feb 12)

A 'stress test' carried out by Nepal Rastra Bank (NRB) has revealed a mixed result of the capabilities of Nepal commercial banks to endure adverse situations. The central bank tested their capacity by subjective five areas- credit quality, interest rate, exchange rate, equity price and liquidity in the third quarter- to hypothetical shocks.

Stress testing is a risk management tool used to evaluate the potential impact on a firm of a specific event and movement components like earning, liquidity and capital.

Most banks were found to be weak on credit quality. Their ability to endure shock is tested by their capital adequacy ratio (CAR). CAR is defined as the ratio of bank's core capital to its risk assets.

NRB carried out the tests on commercial banks at the end of the third quarter of this fiscal year after introducing stress- testing guidelines in January.

The first hypothesis under credit quality was 15 percent of a bank's performing loans deteriorating to substandard, 15 percent of substandard loans deteriorating to doubtful and 15 percent of doubtful loans deteriorating to loss.

The NRB test found that the CAR of 22 out of the 32 commercial banks tested fell below 10 percent when this shock was applied. "This means that commercial banks need to do serious homework to mitigate this risk," said Maha Prasad Adhikari, deputy governor of NRB.

However, bankers have countered that the result is not very alarming as the minimum CAR Nepali commercial banks are required to maintain is higher than the prudent international practice.

"According to Basel II, banks are required to maintain a minimum CAR of 8 percent," said Sashin Joshi, CEO of NIC Bank. "But as per central bank regulations, Nepali commercial bank have to maintain a minimum CAR of 10 percent which is a cushion of 2 percent. Therefore, the CAR falling below 10 percent which is not that worrisome. However, if it falls below 8percent, it will be a big worry," said Joshi.???

Meanwhile, a majority of the commercial banks were able to withstand the second type of shock where all the substandard loans deteriorate to doubtful and all the

doubtful loans deteriorate to loss. “The test showed that 30 commercial banks were able to absorb this shock,” said Adhikari.

The stress test also revealed that commercial banks are very fragile when it comes to absorbing the shock on real estate lending. However, in the third hypothetical scenario, where 25 percent of the performing real estate loans degrade to substandard, 29 commercial banks survived the shock.

Although banks performed pretty satisfactorily to this shock, they found the fourth shock very difficult to withstand. With regard to the fourth shock in which 25 percent of the performing real estate loans deteriorate to loss, only 19 commercial banks were able to survive it. “This result shows that the state of real estate lending could be more vulnerable than it is being depicted,” said Adhikari.

Joshi expressed reservations over those tests too. “We practice very stringent provisioning on the basis of the time frame while internationally, provisioning is done once the possible loss is figured out,” he said. “Therefore, the situation might not be as alarming as shown by the central bank’s stress test. Nevertheless, a few banks are really vulnerable considering their exposure and quality of real estate loans,” Joshi added.

Similarly, under the fifth hypothetical shock where loans to two big borrowers become substandard, 29 out of the 32 commercial banks were able to endure the shock. “The results of these shock tests show that there are still some banks where a handful of people are enjoying most of their lending,” said Adhikari. Joshi agreed that there was credit concentration in some banks which is a very unhealthy practice.

“Although the test results have raised various questions, the only way to mitigate the risks is for commercial banks to diversify their lending portfolio, assess the credit quality and increase the capital cushion by further increasing the paid-up capital,” said Adhikari.

Meanwhile, most of the banks performed satisfactorily to other stress tests. Since Nepali banks and financial institutions do not bear interest rate risks as they pass them directly to their clients, they were found to be protected. Also, they were safe from

exchange rate risks as the net open position to foreign currency is low for a majority of them.

As Nepali BFIs are not allowed to make equity investments except in their subsidiaries, they were very capable of enduring shocks due to fluctuations in share prices. Likewise, commercial banks were awash in excess liquidity when the test was conducted making them able to absorb the liquidity shock.??(Source: The Kathmandu post, 20 June 2012)

2. 6.2 Review of Previous Thesis

Marajan (2008) examined on “ *A Comparative Analysis of Financial Performance between Nepal Bangladesh Bank Ltd and Standard Chartered Bank Nepal Ltd. On 2008*” was initiated with clear-cut objective to compare the financial position of those banks. The conclusions of the study were:

- a) Liquidity positions of both banks were sound.
- b) Capital employment rate NBBL was found better than late one.
- c) Investment of NBBL was found riskier than that of NBBL.
- d) Profitability position of NBBL was increasing trend till fiscal year 1997 and stable thereafter whereas showed fluctuation during the period of year.
- e) SCBNL seen more safe in future as the capital base of SCBNL was higher than NBBL

Shakya (2008), investigated “*CAML Study on Performance of Commercial Banks in Nepal with Reference to SCBNL, NABIL and NIBL*”, with objective to evaluate and analysis the financial performance of these bank on the basis of CAMEL concludes the findings such as:

- a) From study CAR ratio of all three selected banks are found to be higher than of NRB’s standard. Among three banks SCBNL has the highest CAR of 15.25%. The conclusion is that all the selected banks are able to give their depositors safe feeling that their deposited

amount is safe. And SCBNL's depositors feel safer than of other two banks NABIL and NIBL.

b) From the study NPL of all three banks are found to be least and are decreasing. The conclusion is that all three selected banks are efficient in utilizing their assets and are success in decreasing their NPL ratio satisfactorily.

c) From study management efficiency ratio of SCBNL is highest among other two banks NABIL and NIBL. Conclusion is that SCBNL has good management quality than other two banks under study.

d) Earning per share of all the selected banks seem to be decrease, it is sign that earning capacity of selected banks are in decreasing trend. And SCBNL. Has highest earning capacity than other two banks.

e) From the study all three selected banks are found to have higher CRR than that of NRB's standard and SCBNL and NIBL have their CRR above the NRB's standard where as NABIL fail to meet NRB's regulation in year 2004/2005/06

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

Ghale measured (2009), "*A Study on Comparative Analysis of Financial Performance of Joint Venture Banks in Nepal: NABIL\$NBBL on 2009*" was intended to evaluate the financial performance of NABIL and NBBL. The researcher has been able to find the mentioned facts relevant to those banks:

a) Liquidity Position of NABIL was higher than that of NBBL.

b) The profitability ratios showed that both banks were able to earn significantly. However, EPS ratio of NABIL bank was higher than NBBL. The reason behind the less earning of NBBL was low capital base. The DPS trend of NABIL was positive and greater than NBBL.

- c) The composition of the operating expenditure showed that NBBL was Paying more of its income in paying interest, commission and general expenses.

Ghimire (2003), Investigated “*A comparative Case Study of the Financial Performance of Commercial Banks between NBBL, HBL and EBL*”. To observe the ability to mobilize the resources into investment, ability to maintain and manage liquidity, assets, capital structure efficiency, productive and financial risk.

The research objectives were to highlight financial performance to analyze and evaluate liquidity, profitability, leverage activity, trend and growth of loans, investment and total deposit pattern of these banks and finally recommend suggestion for improvement. The research design was descriptive and analytical where both financial and statistical tools we used to analyze the data. The study was from 1996/97 to 200/01. It concludes that current ratio of all the banks was below the normal standard even comparatively better in EBL.

Parajuli (2008), examined “*A Comparative Study of Financial Performance of joint Venture Banks in Nepal 2008*” is the topic of the thesis intended to evaluate effectiveness of monitoring and collecting policy of banks. The study was limited between Nepal Arab Bank and Standard Chartered Bank Nepal Ltd. among various joint venture banks. The researcher has able to conclude the following points:

- a) The liquidity ratio portrays that the liquidity position is relatively higher in case of NABIL.
- b) NABIL had better performance than SCBNL in term of the activity ratio. The researcher pointed the reason behind it that NABIL might have comparatively better lending policy than SCBNL.
- c) Profitability ratio(Net Profit to Total Assets, Net Profit to Total Deposit, Net Profit to Total Capital Employed, EPS) were found higher than NABIL but DPS was higher in case of NABIL.

Dhakal (2009), Analyzed “*A Comparative Study on Financial Performance of Nepal SBI Bank Ltd. & Nepal Investment Bank Ltd. on 2009*” laid the main objective to find

the position and to examine relative financial performance of those joint venture banks. The findings of the study have been presented briefly as below:

- a) The current ratio showed that both banks were able to meet their current liabilities. However, the liquidity position of NIBL was comparatively better than NSBL.
- b) Capital Employment ratio of NSBL found to be higher than that of NIBL.
- c) Both EPS and DPS of NIBL were greater than NSBL. Thus, NIBL had been able to satisfy their shareholder effectively.
- d) NIBL had adopted more aggressive lending and borrowing policy to generate profit than NSBL.

Pandey, (2010) examined “ *A study on a comparative analysis on financial performance of banks*” (with reference to EBL, HBL and NSBIL). With objective to evaluate and analysis the financial performance of these banks. The findings of the study have presented briefly as below.

- a) Among the entire sample bank, NSBI has the lowest ratio of net Profit to total assets. It means NSBI has not utilized its assets into Profit generating projects as much as other sample bank does.
- b) EPS of EBL is the highest than other sample bank in the study period. Similarly with the highest dividend payout ratio of HBL refers that the bank provides maximum amount of dividend to its shareholders.
- c) NSBI bank has highest price earning ratio than other sample banks likewise HBL has highest net interest income compare to other bank which is the strong strength of bank.

Manandhar (2011) examined, “*A Case Study on CAMEL Analysis of Commercial Banks*” (with reference to Siddhartha Bank Ltd., Everest Bank Ltd., Laxmi Bank Ltd. & Bank of Kathmandu Ltd.) with objective to evaluate and analysis the financial performance of these bank on the basis of CAMEL concludes the finding such as:

By considering overall performance from F.Y. 2062/63 till F.Y.2066/67, it is found that EBL has performed well and LXBL has performed badly. From F.Y. 2062/63 to F.Y.2063/64, BOK has performed the best & from F.Y. 2064/65 to F.Y. 2066/67,EBL has performed the best. LXBL shows bad performance from F.Y. 2062/63 to 2065/66 but in F.Y. 2066/67 LXBL shows far progress. LXBL's performance in this year is appreciable and suggested to focus in its management policy. This year SBL shows bad performance as it scored lowest point among selected four banks. SBL is suggested to focus on its Capital Adequacy and Earning policy. BOK drop its performance and EBL raise its performance in recent years if compare to data of F.Y. 2062/63 & F.Y.2063/64. BOK is suggested to focus on its assets policy & EBL even with its good performance is suggested to focus on its liquidity policy for securing its position in the market. EBL is best not only among selected four banks but also within 30 commercial banks.

Shrestha (2012), investigated "*Financial Performance of Commercial Banks and A Case Study of NABIL, NIBL & NICB*". He attempts to analyze the financial performance of NABIL, NIBL & NICB with the help of ratio analysis.

The Finding of the study have been presented briefly as below:

From the point of view of profitability the three banks are at the satisfactory level but they have liquidity position especially current and quick ratios, which are below the prescribe standard. In summary, financial performance of sample banks are seemed satisfactory. In comparison, profitability, turnover position, capital structure, and other indicators (EPS, P/E ratio and MVPS to BVPS) are better than in Nabil as compared to NIB & NIC whereas capital adequacy and assets quality ratio is better in NIC than Nabil & NIB. In totality, Nabil bank is better as compared to NIB & NIC because Nabil is less risky than two banks and it is successful to attract the investor and have strong management. In other Nabil bank investing in less risky sector. Total operating income and financial indicators between the three sampled banks do not differ significantly except the net working capital leverage and Capital adequacy position.

2.7 Research Gap

During research period several studies have been found conducted in similar topic. Some of them were studies for references and found that many studies by different people have either focuses on comparative study of a particular banks in specific area or have done the research work in analyzing the feasibility or profitability part of the bank. Though they have well tried to explain the area but unable to touch all the ground for analyzing the bank as a whole different studies how the particular area's pros and cons of the bank. The whole studies revolve around the specific area and ignored the other essential part of banking industry business to be a good bank. The thesis has tried well to cover all the aspects and elements to identify the good bank. For this purpose different parameters (tool) have been calculated to rate the bank performance and its quality as a whole. The tool being CAMEL rating which has successfully elaborate capital aspects, Assets Quality, Management Quality, Earning Ability and liquidity position and also in this thesis used more financial ratios, correlation coefficient, t-test, trend analysis of profit of selected banks. This is the model by which we can gain knowledge of the bank as a whole. It has touched every element to become a sound banking industry.

CHAPTER III

RESEARCH METHODOLOGY

“Research Methodology refers to the various sequential steps to adopt by a research in studying a problem with certain objective in view” (Mr. Joshi, 2001). Methodology is the research method used to test hypothesis. Every study is intended towards the analysis discover and actual position of any situation. The findings are possible only with help of certain tools and techniques. The research oriented task ask for serious consideration on research design; sample size; sources of data; data collecting instrument and procedure; data tabulation; data analyzing techniques to be adopted and study limitation in term of tools unavailable. The prime objective of this study is to evaluate analysis and assess the financial analysis of the selected banks after the analysis, a package of suggestion will be offered if needed to improve the performance of the banks. The proper analysis of the study can be meaningful on the right choice of research tools that helps to come to meaningful conclusion. This study is focused on both primary and secondary data. While primary data are collected from the respective banks through questionnaire, secondary data required for the evaluation and obtained from the respective annual reports of the concerned banks especially from profits and loss accounts, balance sheet and other publications made by the banks. In order to achieve the pre-determined objectives of this study certain research methodology has been applied. So the purpose of this chapter is to present and explain the research method applied in this study.

3.1 Research Design:

A Research design is a specification of methods and procedures for acquiring the information needed. It is a plan for the collection and analysis of data. It is the overall operational pattern of framework for the project that stipulates what information is to be collected, from which sources and by what procedures. On this regard the research design followed for this study is descriptive and analytical.

3.2 Sample size

A Sample is that of the universe which we select for the purpose of investigation (Gupta, 1995). Sampling technique is very much essential for conducting any

research. It allows the researcher more time to make an intensive study of the research problem. When the study of whole population is not possible, the sampling technique is adopted. The idea sampling represents the whole universe accurately and independently. For the study purpose too, sampling is done while extracting data required. The study of financial data of some banks from very beginning period makes the study lengthy and vague. Thus, the financial data of recent six years are taken as sampling for the study. There are 32 commercial banks currently operating in the country. Among them NABIL, EBL and SCBNL have been chosen for research purposes as sample in this project work.

3.3 Nature and sources of Data

The sources of the information required for any study will be either primary or secondary data. The data processing original character and collected from actual field by the researcher or through agent for the first time is known as primary data. The data are utilized when secondary data are not accessible easily. The data compiled by previous researcher for their purpose is known as secondary data. The use of secondary data reduce the considerable amount of time and tension of collecting information from the analyzing the subject matter of the thesis. The secondary data used are internal reports, annual reports and published materials of NABIL, EBL and SCBNL. Nepal Rastra Bank directives and other sources.

3.4 Data Analysis Tools & Techniques

The data and information, obtained from the related field, are found in rude form and need further processing to make it readable and understandable. The data should be analyzed by the use of various tools and techniques. The adopted tools may be statistical, financial or banking tools.

3.4.1 Financial Tools

Financial analysis is the process of analyzing various items of financial statements of a firm to ensure its comparative strength and weakness. The financial is carried on basis of the financial statement prepared to know the financial position of any organization either trading concern or manufacturing. The financial analysis is made by the external and internal parties to understand the financial condition. The internal body comprises management and Board of Directors and external parties comprise

shareholders, creditors, government, bondholders, scholars etc. The external parties are interested to know it because of their interest towards the organization. Thus, the financial health of any organization is the matter of concern of stakeholders.

There are various tools and techniques available for the analysis of any financial data obtained. The research study involves ratio analysis for judging capital adequacy, return on assets, management efficiency, earning capacity and liquidity position of the banks. Under ratio analysis, following ratios related to bank are analyzed:

A. Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio is the ratio which determines the banks capacity to meet the time liabilities and the other risk, such as credit risk, operating risk etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses and protects the bank's depositors and other lenders. Banking regulators in most countries define and monitor CAR to protect depositors, there by maintaining confidence in the banking system. NRB has prescribed the Capital Adequacy Ratio parameters on which the capital of the need to be maintained as a percentage of its risk weighted assets such as loans it has provided and the securities it holds. It measures the ratio of total shareholder's funds to total risk weighted assets of the bank. Thus this parameter indicates whether a particular bank has enough capital to absorb unexpected losses. According to the directive issued by NRB, the bank capital has been categorized into two parts:

- Core capital
- Supplementary capital

As per the NRB instruction commercial banks had to maintain 11% of capital Adequacy Ratio (total Capital), and 5.5% Core Capital in BASEL I in the FY 2006/07 and 2007/2008. In BASEL II from the FY 2008/2009, NRB require 10% of Total Capital Adequacy Ratio and 5% of core capital ratio. These ratio have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum percentage then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of

CAR means less earning per share. The capital adequacy ratio shall be determined as follows:

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

B. Core Capital Ratio (CCR)

The capital which is kept in the reserve for general purpose is known core capital. It is the ratio which is used to measure the relationship of core capital fund and total risk weighted assets. As per the rule of NRB all commercial banks had to maintain core capital ratio of minimum 5.5% of total risk weighted assets during BASEL-I implementation in the FY 2006/07 and 2007/08. According to BASEL-II from the FY 2008/09 all commercial banks have to maintain 6% of Core Capital Ratio. Core Capital consists of paid up equity share capital, share premium, non redeemable preference share, general reserve, cumulative profit and loss (up to previous fiscal year) and current year profit and losses per balance sheet. It is calculated by

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

C. Performing Loan Ratio (PL Ratio)

Performing Loan is the loan on which the interest is paid timely or overdue up to 90 days. It is also known as good loan or pass loan. This ratio show how much the banks are successful in utilizing their assets for profit generating purpose. Higher ratio indicate efficiency in utilizing the good loans.

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

D. Non performing Loan Ratio (NPL Ratio)

The loan which goes beyond the due date of 3 month falls under NPL.

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

$$\text{NPL Ratio} = \frac{\text{Non performing loan}}{\text{Total Loans}} \times 100$$

E. Loan Loss Provision Ratio (LLP Ratio)

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

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

F. Loan Loss Coverage Ratio (LLC Ratio)

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

$$\text{Total Loan Loss Provision}$$

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

G. Management Efficiency Ratio (ME Ratio)

Management Efficiency Ratio is the ratio of net income of any bank to its number of working employees. This ratio shows the contribution of each employee in generating total net income. A good management always has sufficient number of efficient, motivated, responsible and dedicated manpower in the team. It is always confident at its system. The higher ratio indicates existence of efficient management and vice versa. It can be calculate by using following formula:

$$\text{ME Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total No. of Staff}}$$

H. Earning Per Share (EPS)

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

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

I. Price Earning Ratio (P/E Ratio)

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

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

J. Return on Assets (ROA)

This ratio indicates how efficient a bank is utilizing and mobilizing its assets to generate profit. Higher the ratio the better it is as it shows higher turnover of assets. It measures a company's success in earning a return for the common stockholders. Higher ROA indicates better utilization of total assets. The return on assets is derived by dividing net profit after tax by total assets. Mathematically:

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

K. Return on Equity (ROE)

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

$$\text{b ROE} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{Shareholder's Fund}} \times 100$$

L. Cash Reserve Ratio (CRR)

As per the rule of NRB all commercial banks are required to maintain 5.5% of their total deposit of Nepalese currency as CRR in their account with NRB for maintaining

adequate liquidity. NRB has prescribed this mandatory requirement in order to save the commercial banks from the liquidity risk. CRR can be computed as follows:

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

M. Cash and Bank Balance Ratio

This ratio is designed to measure the bank’s ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower ratio indicates that bank might face liquidity crunch while paying it obligation whereas very high ratio indicates that the bank has kept idle funds and not deploying them properly. Cash and bank balance ratio is derived by dividing the cash and bank balance by total depositors. Symbolically:

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

N. Investment in Government Securities Ratio

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

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

3.4.2. Statistical tools

3.4.2.1 Correlation Coefficient (r)

Correlation analysis is a Statistical tool can use to described the degree to which one variable is linearly related to another. The coefficient of correlation measure the degree of relationship between two sets of figures. In this study simple correlation coefficient is used to determine the relationship of different variables.

$$r = \frac{n \sum XY - \sum X \cdot \sum Y}{\sqrt{[n \sum X^2 - (\sum X)^2] [n \sum Y^2 - (\sum Y)^2]}}$$

Where,

r = Correlation Coefficient

n = Number of observation

X = x-variable

Y = Y-variable

Value of r always lies between +1 and -1, r = +1 denoted the perfect positive correlation between the two variable and r = -1 denoted the perfect negative correlation between the two variables. If r = 0, there is no correlation between the two variables.

3.4.2.2 t-test for Correlation Coefficient

Null hypothesis, Ho p= 0 i.e. there is no correlation between two variable.

Alternative hypothesis, H1: p ≠ 0 (two tailed test) i.e. there is correlation between two variable.

Test Statistic: Under Ho, ,

$$t = \frac{r}{\sqrt{\frac{1-r^2}{n-2}}}$$

Where,

r = Correlation Coefficient

n = Sample number of pairs of observation

Level of significance: We use level of significance $\alpha = 5\%$

Degree of freedom: $n-2$

Critical value: the tabulated or critical value of t at $\alpha\%$ level of significance for $(n-2)$ degree of freedom in a one/two tailed test is obtained from t -tables.

Decision: If calculated $-t$ is less than or equal to tabulated value the null hypothesis is accepted and if calculated $-t$ is greater than tabulated, null hypothesis is rejected.

3.4.2.3 Trend Analysis

In this study, statistical tools i.e. Trend Analysis is used to find the trend of profit over the passage of time. A trend is a series of situation that following a sequence. A widely and most commonly used method to describe the trend is the method of least square. Under this; a Trend line is fitted to the data satisfying the condition. It is used to describe the trend of any variable whether it increases or decreases with the passage of time. Least square trend has been used to find out the trend ratio (Kothari, 1989). The general equation used for trend analysis is given below

$$y = a + bx$$

Where,

y = Dependent Variable

x = Coded time in year (independent)

a = Y-intercept variable

b = Slope of the trend Line or yearly increment

CHAPTER- IV

DATA PRESENTATION & ANALYSIS

4.1 Financial Analysis

Financial analysis is the process of analyzing various items of financial statements of a firm to ensure its comparative strength and weakness. The financial is carried on basis of the financial statement prepared to know the financial position of any organization either trading concern or manufacturing. The financial analysis is made by the external and internal parties to understand the financial condition. The internal body comprises management and Board of Directors and external parties comprise shareholders, creditors, government, bondholders, scholars etc. The external parties are interested to know it because of their interest towards the organization. Thus, the financial health of any organization is the matter of concern of stakeholders.

There are various tools and techniques available for the analysis of any financial data obtained .Financial ratios are powerful tools of financial analysis. We have devoted to study and calculate a set of commonly used financial ratio in the aspect of bank through CAMEL approach where:

C = Capital Adequacy

A = Assets Quality

M = Management

E = Earning

L = Liquidity

4.2 Capital Adequacy

Every financial institution must be sound in term of capital base for its stability. The adequate capital ensure the deposit holders from the possible risk associated with the business. The sufficient capital base also enables financial institution for the additional loan out flow in various prescribed sectors. In sum, the capital adequacy promotes the depositor holders and creditors (if any) confidence on the financial institution; loan availing capacity; enable to afford large portion of nonperforming assets and also uphold to enhance their goodwill and fame.

4.2.1 Capital Adequacy Ratio

Capital Adequacy Ratio parameters on which the capital of the need to be maintained as a percentage of its risk weighted assets such as loans it has provided and the securities it holds. It measures the ratio of total shareholder's funds to total risk weighted assets of the bank. Thus this parameter indicates whether a particular bank has enough capital to absorb unexpected losses. As per the NRB instruction commercial banks had to maintain 11% of capital Adequacy Ratio (total Capital), and 5.5% Core Capital in BASEL I in the FY 2006/07 and 2007/2008. In BASEL II from the FY 2008/2009, NRB require 10% of Total Capital Adequacy Ratio and 5% of core capital ratio. These ratio have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum percentage then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share.

Formula:

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

Computation of Capital Adequacy Ratio:

Capital Adequacy Ratio of NABIL Bank Limited

Year	Total Capital Fund	Total Risk-weighted Assets	Ratio (in %)
2006/07	2307632395	19166766033	12.04
2007/08	2998730164	2701564315	11.10
2008/09	3727082787	34816500849	10.70
2009/10	4390228607	41822660075	10.49
2010/11	5173399192	48884969486	10.58
2011/12	6086741224	55273316419	11.01

Capital Adequacy Ratio of Everest Bank Limited

Year	Total Capital Fund	Total Risk-weighted Assets	Ratio (in%)
2006/07	1676115000	14976737000	11.19
2007/08	2406056000	210398979000	11.44
2008/09	2703870000	25619753000	10.55
2009/10	3257141000	30240428000	10.77
2010/11	3605840000	34583547000	10.42
2011/12	4574751000	41525347000	11.02

Capital Adequacy Ratio of Standard Chartered Bank Nepal Limited

Year	Total Capital Fund	Total Risk-weighted Assets	Ratio (in %)
2006/07	222528000	14168420035	15.71
2007/08	2655277000	18969853751	14.00
2008/09	3190367000	21703164000	14.70
2009/10	3498973000	24106648000	14.51
2010/11	3835592000	26974342000	14.22
2011/12	4295167000	30837799000	13.93

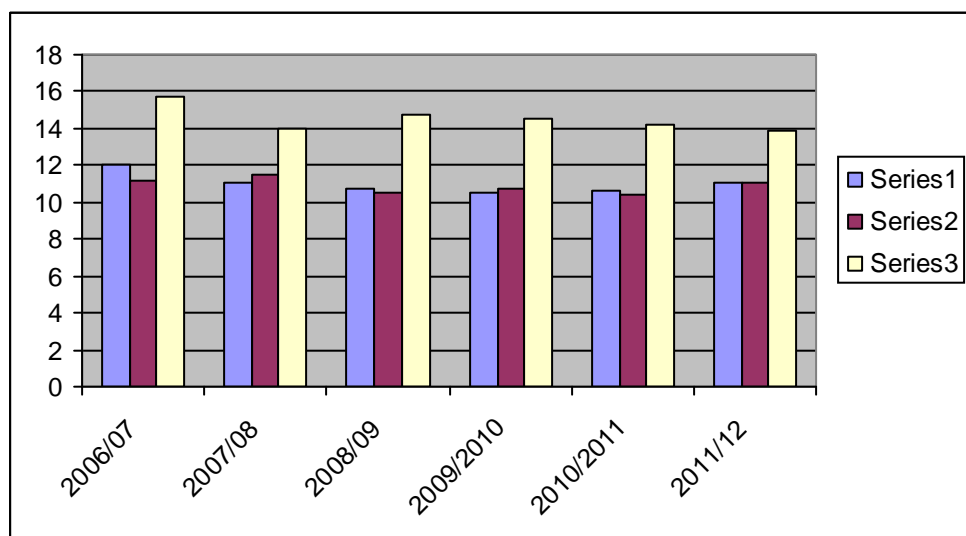
The above three table showing Capital Adequacy Ratio of NABIL, EBL and SCBNL are summarized in the following table:

Table No. 4.1
Capital Adequacy Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	12.04	11.19	15.71
2007/08	11.10	11.44	14.00
2008/09	10.70	10.55	14.70
2009/10	10.49	10.77	14.51
2010/11	10.58	10.42	14.22
2011/12	11.01	11.02	13.93
Average in %	10.99	10.90	14.51

The above table shows the CAR of NABIL, EBL and SCBNL from fiscal year 2006/07 to 2011/12. All the three banks have maintained CAR as per NRB's standard. Among three bank SCBNL has highest average ratio of 14.51% which shows that the SCBNL has high Degree of strength of capital sufficiency in comparison to NABIL and EBL .But the CAR of NABIL and EBL is also satisfactory level.

Figure No. 4.1
Capital Adequacy Ratio of NABIL, EBL and SCBNL



The above figure shows that all three banks have CAR above the NRB's standard i.e. 11% up to fiscal year 2008/09 according to BASEL-I and 10% from fiscal year 2009/10 according to BASEL- II. However, SCBNL has the highest average ratio of 14.51% the average ratio of NABIL and EBL are 10.99% and 10.90%. This explains that in comparison to two banks NABIL and EBL, SCBNL has high degree of strength of capital sufficiency that means better liquidity position and lending capacity of bank but more of its fund seems to be tied up. The trend of NABIL is in decreasing, it shows that NABIL just want CAR as NRB's requirement. The trend of EBL and SCBNL is not consistent.

4.2.2 Core Capital Ratio

Core Capital Ratio is the ratio of bank's core equity Capital to its total risk- weighted assets. Core Capital measure of a bank's financial strength from a regulator's point of view. Which consists primary of common stock and disclosed reserve or retained earning, but may also include non-redeemable, non Cumulative Preferred stock. As per the rule of NRB all commercial banks had to maintain core capital ratio of minimum 5.5% of total risk weighted assets during BASEL-I implementation in the FY 2007/08 and 2008/09. According to BASEL-II from the FY 2009/10 all commercial banks have to maintain 6% of Core Capital Ratio.

Formula:

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

Computation of Core Capital Ratio:

Core Capital Ratio of NABIL Bank Limited

Year	Total Core Capital	Total Risk Weighted Assets	Ratio (in %)
2006/07	1992849715	19166766033	10.40
2007/08	2363598890	27010564315	8.75
2008/09	3044340637	34816500849	8.74
2009/10	3667854525	41822660075	8.77
2010/11	4318697617	48884969486	8.33
2011/12	5139280637	55273316419	9.30

Core Capital Ratio of Everest Bank Limited

Year	Total Core Capital	Total Risk Weighted Assets	Ratio (in %)
2006/07	1171133000	15986737000	7.81
2007/08	1900859000	21039879000	9.03
2008/09	1981579000	25619753000	7.73
2009/10	2537093000	30240428000	8.38
2010/11	297168000	34583547000	8.46
2011/12	3990924000	41525347000	9.61

Core Capital Ratio of Standard Chartered Bank Nepal Limited

Year	Total Core Capital	Total Risk Weighted Assets	Ratio (in %)
2006/07	1606898000	14168420035	11.34
2007/08	1951117000	18969853751	10.28
2008/09	2304758000	21703164000	10.61
2009/10	3019192000	24106648000	12.52
2010/11	3263248000	26974342000	12.09
2011/12	370701000	30837799000	12.02

The above three tables showing Core Capital Ratio of NABIL EBL and SCBNL are summarized in the following Table:

Table No. 4.2

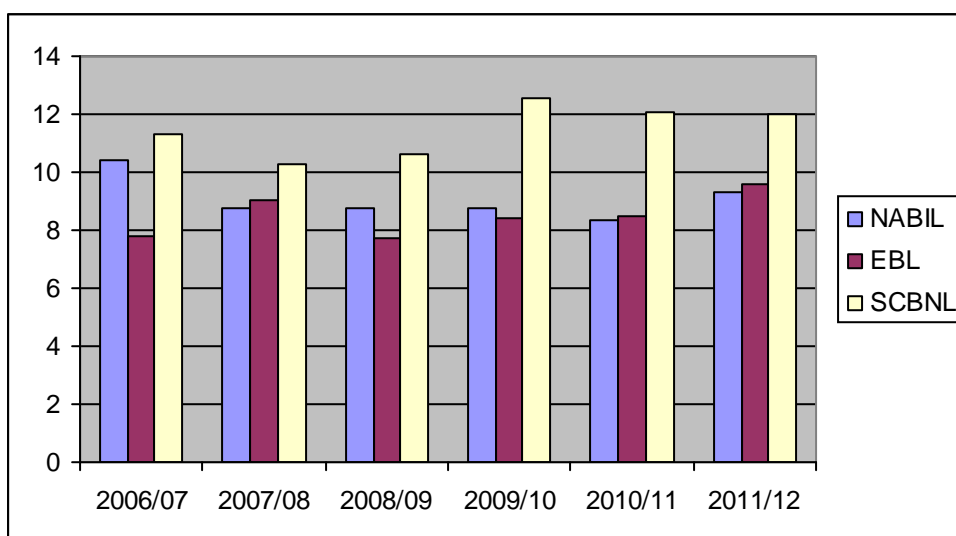
Core Capital Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	10.40	7.8	11.34
2007/08	8.75	9.03	10.28
2008/09	8.74	7.73	10.61
2009/10	8.77	8.38	12.52
2010/11	8.33	8.46	12.09
2011/12	9.30	9.61	12.02
Average in %	9.05	8.50	11.48

The above table shows the CCR of NABIL, EBL and SCBNL from fiscal year 2006/07 to 2011/12. From the above table we can see the SCBNL has maintained highest average ratio of 11.48% which explains that it is doing better in terms of safeguarding the interest of depositors than the other two bank. Similarly, NABIL and EBL have ranked 2nd and 3rd respectively in terms of maintaining core capital ratio.

Figure No. 4.2

Core Capital Ratio of NABIL, EBL and SCBNL



The above figure shows that all three banks have CCR above the NRB's standard i.e. 5.5% up to fiscal year 2008/09 according to BASEL-I and 6% from fiscal year 2009/10 according to BASEL-II. Among these banks, SCBNL has ranked 1st every time by having highest CCR whereas NABIL and EBL is ranked as 2nd and 3rd respectively. SCBNL has found maintaining higher CCR and even double the NRB's regulation. It explains that it is doing well in terms of safeguarding the interest of depositors than other two banks whereas EBL is doing a better job in terms of shareholders earning as it has maintained comparatively lower CCR. The above figure shows that the trend of CCR of EBL and SCBNL is inconsistent and fluctuating whereas NABIL has a decreasing trend of CCR.

4.3 Assets Quality

Investments, Loan and Advances are the prime assets of any financial institutions. The major source of income of these financial institutions is generated from the returns obtained from these investments, loans and advances. Thus, they must be conscious about insolvency and bankruptcy. Quality of the assets as it affects both cost to the banks and economies of scale for the bank (Bernstein, 1996, p. 1.) Government bonds and T-bills are considered as good quality loans whereas Junk bonds, corporate credits to low credit score firms etc are bad quality loans. A higher probability of becoming a non-performing loan with no return. A significant part of the bank's income is generated from the lending activities. Basically there are two types of loans:

4.3.1 Performing Loan Ratio

Performing Loan is the loan on which the interest is paid timely or overdue up to 90 days. It is also known as good loan or pass loan. The ratio shows how much the banks are successful in utilizing their assets for profit generating purposes. Higher ratio indicates efficiency in utilizing the good loans.

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

Computation of Performing Loan Ratio:

Performing Loan Ratio of NABIL Bank Limited

Year	Performing Loan	Total Loan	Ratio (in %)
2006/07	15724729781	15903023765	98.88
2007/08	21598374339	21759460334	99.26
2008/09	27774194658	27999012071	99.20
2009/10	32544687167	33030968688	99.53
2010/11	38215636116	38905487889	98.22
2011/12	41867708655	42867767793	97.67

Performing Loan Ratio of Everest Bank Limited

Year	Performing Loan	Total Loan	Ratio (in %)
2006/07	13969507151	14082686087	99.20
2007/08	18709121394	18836431762	99.32
2008/09	24351570294	24469555526	99.52
2009/10	28112693861	28156399843	99.84
2010/11	31553441194	31661842757	99.66
2011/12	36309338831	36616831527	99.16

Performing Loan of Standard Chartered Bank Limited

Year	Performing Loan	Total Loan	Ratio (in %)
2006/07	10593131204	10790148357	98.17
2007/08	13835263970	13963983752	99.08
2008/09	13789661419	13880703075	99.34
2009/10	16078447031	16176582758	99.39
2010/11	18546673934	18662477835	99.38
2011/12	19674023265	19828509313	99.22

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

Table No. 4.3

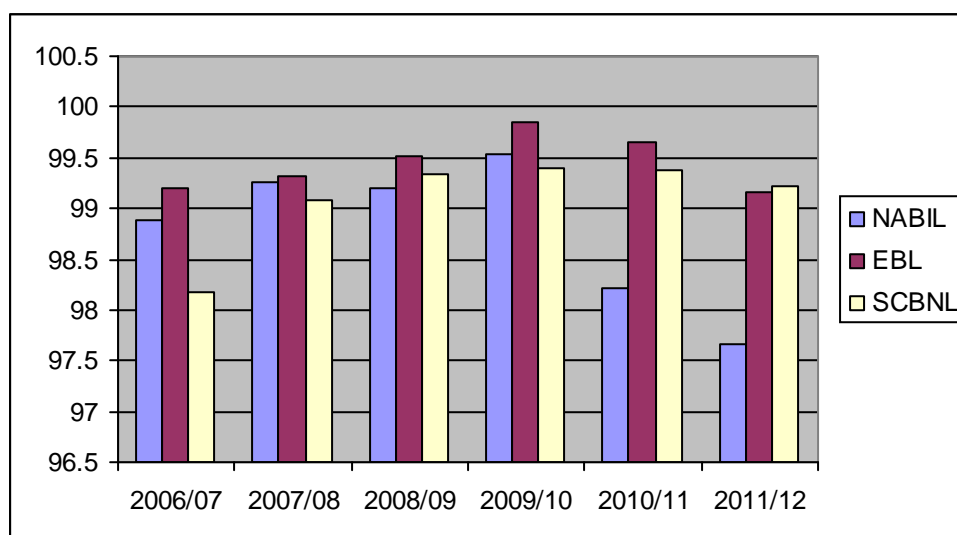
Performing Loan Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	98.88	99.20	98.17
2007/08	99.26	99.32	99.08
2008/09	99.20	99.52	99.34
2009/10	99.53	99.84	99.39
2010/11	98.22	99.66	99.38
2011/12	97.67	99.16	99.22
Average %	98.79	99.45	99.09

The above table shows the Performing Loan Ratio of NABIL, EBL and SCBNL from fiscal year 2006/07 to 2011/12. Among three banks EBL has highest average ratio of 99.45%. Which explains that the bank has invested its fund in proper way. All three banks have increasing trend of performing loan ratio.

Figure No. 4.3

Performing Loan Ratio of NABIL, EBL and SCBNL



The above figure shows the performing loan ratio of NABIL, EBL and SCBNL. The performing loan of EBL and SCBNL is in increasing trend from fiscal year 2006/07 to 2011/12. Which shows that the bank has invested its fund in proper way. The

performing loan ratio of NABIL is also not bad. It has increasing trend from fiscal year 2006/07 to 2008/09, but decreased in the year 2009/10 which shows NABIL should concentrate their attention towards credit management. Before providing the loan the bank has to investigate properly to maximize the performing loan. Performing loans are paid within 3 months. Higher performing loan means that the bank invested properly.

4.3.2 Non Performing Loan Ratio

A Nonperforming Loan is a loan that is in default or closet to being in default. Many loan become non-performing after being in default for 90 days, but this can depend on the contract terms. It shows the percentage of non-performing loan in relation to the total loan and advances. Lower ratio indicates the robust and sound credit management whereas higher ratio indicates poor credit management. Hence, lower ratio is preferred. It is calculated by the following formula:

$$\text{NPL Ratio} = \frac{\text{Non performing loan}}{\text{Total Loans}} \times 100$$

Computation of Non performing Loan Ratio

Non Performing Loan Ratio of NABIL Bank Limited

Year	Non performing Loan	Total Loan	Ratio (in%)
2006/07	178293983	15903023765	1.12
2007/08	161085995	21759460334	0.74
2008/09	224817413	27999012071	0.80
2009/10	487541602	33030968688	1.47
2010/11	689851773	38905487889	1.77
2011/12	1000059138	42867767793	2.33

Non Performing Loan Ratio of EBL Limited

Year	Non performing Loan	Total Loan	Ratio (in %)
2006/07	113178936	14082686087	0.80
2007/08	127310368	18836431762	0.68
2008/09	117985232	24469555526	0.48
2009/10	125560472	28156399843	0.44
2010/11	108401563	31661842757	0.34
2011/12	307492696	36616831527	0.84

Non Performing Loan Ratio of Standard Chartered Bank Limited

Year	Non Performing Loan	Total Loan	Ratio (in %)
2006/07	195932315	10790148357	2.13
2007/08	197071153	13963983752	1.83
2008/09	128719782	13880703075	0.92
2009/10	98135727	16176582758	0.60
2010/11	115803901	18662477835	0.62
2011/12	154486048	19828509313	0.77

The above three tables showing Non Performing Loan Ratio of NABIL, EBL and SCBNL are summarized table:

Table No. 4.4

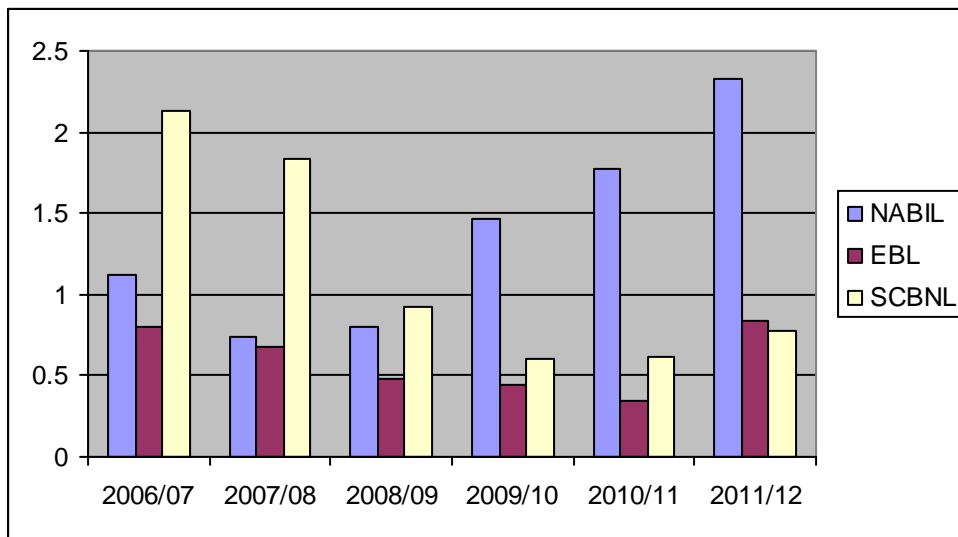
Non Performing Loan Ratio of NABL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	1.12	0.80	2.13
2007/08	0.74	0.68	1.83
2008/09	0.80	0.48	0.92
2009/10	1.47	0.44	0.60
2010/11	1.77	0.34	0.62
2011/12	2.33	0.84	0.77
Average in %	1.37	0.59	1.14

The above table shows that Non Performing Loan Ratio of NABIL, EBL and SCBNL from fiscal Year 2006/07 to 2011/12. Among three banks, EBL has lowest average ratio of 0.55% which shows that EBL is able to manage its loan and advance in comparison to NABIL and SCBNL. NABIL and SCBNL should focus on managing its loan and advance and try to reduce NPL ratio.

Figure No. 4.4

Non Performing Loan Ratio of NABIL, EBL and SCBNL



The above figure shows the NABIL bank has inconsistent and fluctuating trend of Non Performing loan ratio. In the fiscal year 2007/08 the bank is able to decrease NPL ratio in comparison to previous two fiscal year and again increased in year 2009/10. So NABIL should focus on managing its loan and advance. The NPL ratio of EBL and SCBNL is in decrease trend from fiscal year 2006/07 to 2011/12, this implies that management of both bank trying to reduce NPL ratio, which is very good for these two banks.

4.3.3 Loan Loss Provision Ratio (LLP Ratio)

A non-cash expense for banks to account for future losses on loan defaults. Banks assume that a certain percentage of loan will default or become slow-paying. bank enter a percentage as an expense when calculating their pre-tax income. This guarantees a bank's solvency and capitalization if and when the default occur. The

loan loss provision allocated each year increase with riskiness of the loans a given bank makes. A bank making a small number of risky loans will have a low loan loss provision compare to a bank taking higher risks. Lower LLP ratio signifies that the bank has higher volume of good loan and the provision isles required and vice versa. LLP to TL is always less than LLP to NPL as NPL is part of TL. It the LLP to TL is lower then we can say that the quality of loan is better. But if the LLP to TL is higher then we can say that the quality of loan is not nice but at least we can feel safe as it has more provision for losses from loan.

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

Computation of Loan Loss Provision Ratio:

Loan Loss Provision Ratio of NABIL Bank Limited

Year	Total Loan Loss Provision	Total Loan \$ advance	Ratio (in %)
2006/07	357245035	15903023765	2.25
2007/08	394407016	21759460334	1.81
2008/09	409079030	27999012071	1.46
2009/10	762095405	32268873283	2.36
2010/11	871390335	38034097554	2.29
2011/12	1262085159	41605682634	3.03

Loan Loss Provision Ratio of Everest Bank Limited

Year	Total Loan Loss Provision	Total Loan & Advance	Ratio (in %)
2006/07	418604423	14082686087	2.97
2007/08	497346200	18836431762	2.64
2008/09	584881910	24469555526	2.39
2009/10	6000043812	28156399843	2.13
2010/11	604151295	31661842757	1.91
2011/12	705856854	36616831527	1.92

Loan Loss Provision Ratio of Standard Chartered Bank Nepal Limited

Year	Total Loan Loss Provision	Total Loan & Advance	Ratio (in %)
2006/07	287511222	10790148357	2.66
2007/08	245386620	13963983752	1.76
2008/09	235207344	13679756990	1.72
2009/10	219627490	15956955268	1.78
2010/11	200946085	18427270491	1.09
2011/12	235207344	19575968330	1.20

The above three table showing Loan Loss Provision Ratio of NABIL, EBL and SCBNL are summarize in the following table:

Table No. 4.5

Loan Loss Provision Ratio of NABIL, EBL and SCBNL

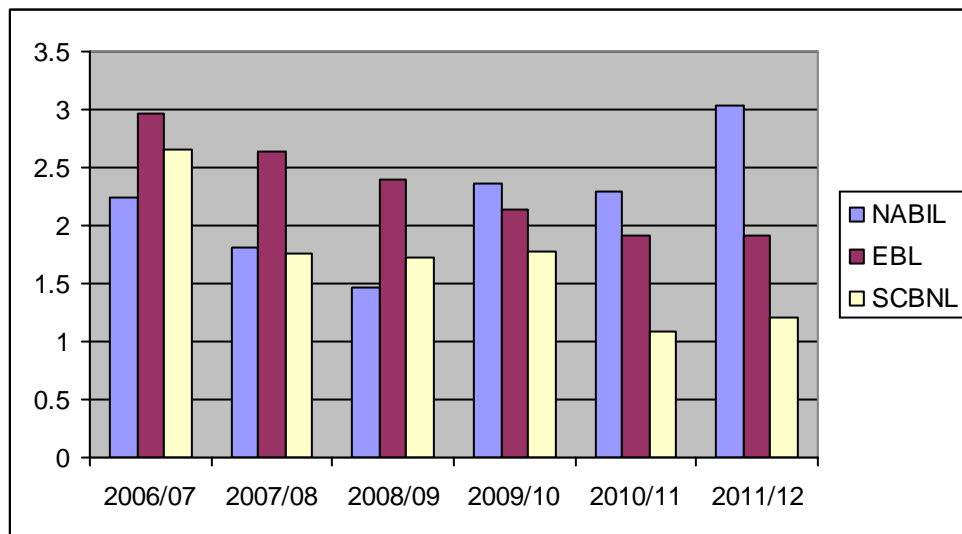
Year	NABIL	EBL	SCBNL
2006/07	2.25	2.97	2.66
2007/08	1.81	2.64	1.76
2008/09	1.46	2.39	1.72
2009/10	2.36	2.13	1.78
2010/11	2.29	1.91	1.09
2011/12	3.03	1.92	1.20
Average in %	2.2	2.32	1.70

The above table shows the Loan Loss Provision Ratio of NABIL, EBL and SCBNL from fiscal year 2006/07 to 2011/12. From the table we come to know that all the three banks have decreasing rate of LLP ratio which shows

that all banks are to reduce non performing loan by following robust credit management.

Figure No. 4.5

Loan Loss Provision Ratio of NABIL, EBL and SCBNL



The above figure shows that the LLPR of all the three banks are in decreasing trend from fiscal year 2006/07 to 2011/12. It clearly indicates the sound credit management system followed by the banks under study. EBL has the highest LLPR in the fiscal year 2006/07 whereas SCBNL has the Lowest LLPR in the fiscal year 2010/11.

4.3.4 Loan Loss Coverage Ratio (LLC Ratio)

Financial ratio measuring a bank's ability to absorb potential loss form nonperforming loan by dividing the ending balance of the loan loss reserves balance by total nonperforming loans. Higher the loan loss coverage ratio better is the financial condition and vice-versa. Loan Loss Coverage Ratio can be calculated as:

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

Computation of Loan Loss Coverage Ratio:**Loan Loss Coverage Ratio of NABIL BANK Limited**

Year	Total Loan Loss Provision	Total Non Performing Loan	Ratio (in %)
2006/07	356239106	182624480	195.07
2007/08	357245035	178293983	200.37
2008/09	394407016	161085995	244.84
2009/10	762095405	487541602	156.31
2010/11	871390335	689851773	126.32
2011/12	1262085159	1000059138	126.20

Loan Loss Coverage Ratio of Everest Bank Limited

Year	Total Loan Loss Provision	Total Non Performing Loan	Ratio (in %)
2006/07	418604423	113178936	369.86
2007/08	497346200	127310368	390.66
2008/09	584881910	117985232	495.75
2009/10	600043812	125560472	477.89
2010/11	604151295	108401563	557.38
2011/12	705856854	307492696	229.55

Loan Loss Coverage Ratio of Standard Chartered Bank Nepal Limited

Year	Total Loan Loss Provision	Total Non Performing Loan	Ratio (in %)
2006/07	287511222	197071153	145.90
2007/08	245386620	128719782	190.64
2008/09	235207344	91041656	220.72
2009/10	219627490	98135727	223.80
2010/11	200946085	115803901	173.52
2011/12	235207344	154486048	152.25

The above three table showing Loan Loss Coverage Ratio of NABIL, EBL and SCBNL are Summarized in the following table:

Table No. 4.6

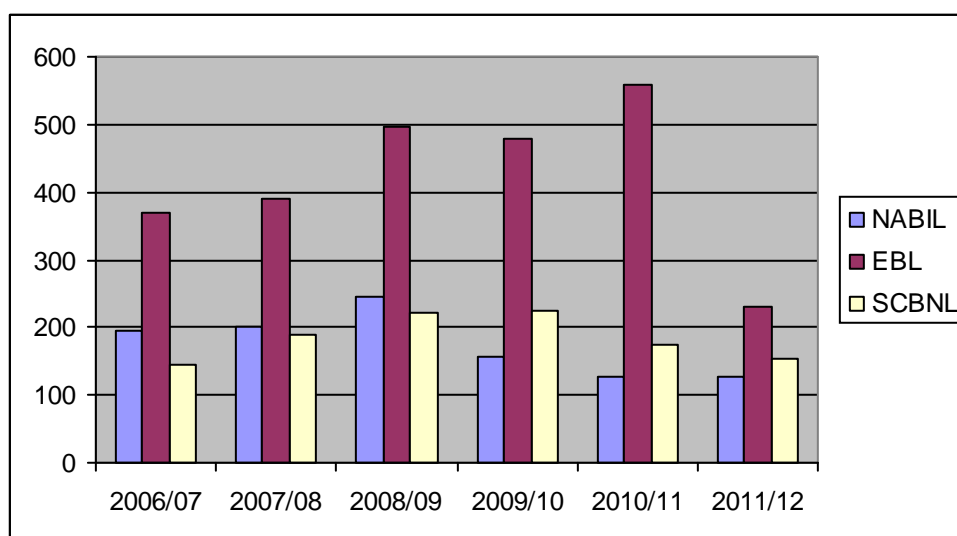
Loan Loss Coverage Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	195.07	369.86	145.90
2007/08	200.37	390.66	190.64
2008/09	244.84	495.72	220.72
2009/10	156.31	477.89	223.80
2010/11	126.32	557.38	173.52
2011/12	126.20	229.55	152.25
Average in %	174.85	420.17	184.47

The above table shows that the Loan Loss Coverage ratio of NABIL, EBL and SCBNL from fiscal year 2006/07 to 2011/12. Among three bank EBL has the highest average ratio of 420.17% which shows that EBL can recover their non performing loan loss in case of any fault made by loan taker in comparison to NABIL and SCBNL.

Figure No. 4.6

Loan loss coverage Ratio of NABIL, EBL and SCBNL



The above figure shows that all banks have maintained sufficient provision to cover future loan loss. The LLCR of EBL and SCBNL are in increasing trend whereas the ratio of NABIL bank has declined in the fiscal year 2008/09. NABIL has the highest LLCR in fiscal year 2007/08 whereas SCBNL has the lowest LLCR in the fiscal year 2006/07. The data shows the LLCR more than 150% it is due to the fact that there is a provision of 1% for good loan which is not added in non-performing loan.

4.4 Management

The success and failure of any organization are determine by efficiency and capability of its management set-up. Management team not only formulates optimum policy and organization plans but also implement for the achievement of short term and long term objective. The structure of BOD, quality of human manpower, operational cost, management information system, internal control system, decision making procedure, adoption of directives are important determinants of the qualitative management. The negative indication of C-A-E& L signals inefficiency of any management team. In CAMEL analysis Management Efficiency Ratio is calculated in order to find out the contribution of each staff of the net profit of the organization.

4.4.1 Management Efficiency Ratio (ME Ratio)

Management Efficiency Ratio is the ratio of net income of any bank to its number of working employees. This ratio shows the contribution of each employee in generating total net income. A good management always has sufficient number of efficient, motivated, responsible and dedicated manpower in the team. It is always confident at its system.

$$\text{ME Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total No. of Staff}}$$

Computation of Management Efficiency Ratio:

Management Efficiency Ratio of NABIL Bank Limited

Year	Net Profit After Tax	No. of Staff	MER
2006/07	673959698	427	1578359
2007/08	746468394	416	1794395
2008/09	1031053098	505	2041689
2009/10	1141051430	557	2048566
2010/11	1337745485	657	2036142
2011/12	1696276110	650	2609655

Management Efficiency Ratio of Everest Bank Limited

Year	Net Profit After Tax	No. of Staff	MER
2006/07	296409281	393	754222
2007/08	451218613	449	1004941
2008/09	638732757	521	1225974
2009/10	831765632	568	1464376
2010/11	931303628	586	1589255
2011/12	1090564222	625	1744902

Management Efficiency Ratio of Standard Chartered Bank Nepali Limited

Year	Net Profit After Tax	No. of Staff	MER
2006/07	691668064	351	1970564
2007/08	818921008	377	2172204
2008/09	1025114536	392	2615088
2009/10	1085871694	429	2531169
2010/11	1119171286	429	2608790
2011/12	1168967497	424	2756998

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

Table No. 4.7

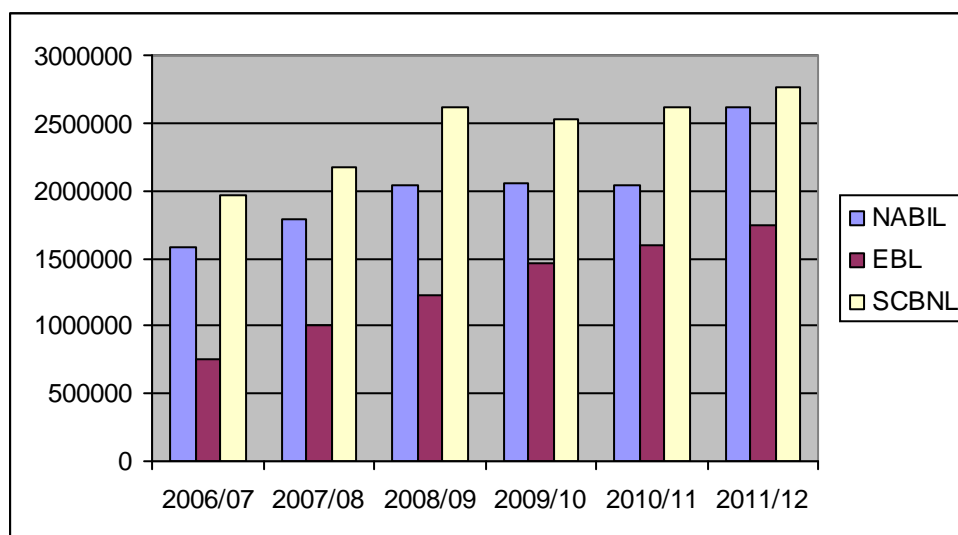
Management Efficiency Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	1578359	754222	1970564
2007/08	1794395	1004941	2172204
2008/09	2041689	1225974	2615088
2009/10	2048566	1464376	2531169
2010/11	2036142	1589255	2608790
2011/12	2609655	1744902	2756998
Average in %	2018134	1297278	2442468

The above table shows the Management Efficiency Ratio of NABIL, EBL and SCBNL from fiscal year 2006/07 to 2011/12. Among three banks SCBNL has the highest MER than NABIL and EBL which shows that the SCBNL which shows that the SCBNL's per employee contribution to net profit is high and it is successful to manage its employee efficiency that other two banks.

Figure No. 4.7

Management Efficiency Ratio of NABIL, EBL and SCBNL



The above figure shows that SCBNL has higher, management efficiency ratio than NABIL and EBL. NABIL has highest management efficiency ratio than EBL. This

explains that SCBNL's per employee contribution to net profit is high and high and it is successful into manage its employee efficiency than other two banks. As efficiency the human resources are mobilized the better earning the bank gain. So, the remedy would be either to reduce no. of staffs of to increase efficiency or to increase profit volume.

4.5 Earning Capacity

The earning & income status of any financial institution is indication of their success. The optimum utilization of the available fund, the recovery of principal and interest, return of the investment affects the earning position of financial organizations. The earning status also guarantee for the organization stability. The earning position can be assessed by examination of the financial statement prepared at the end of the fiscal year. In this connection, the earning generation capacity and its future trend of various variables can be also evaluated from it. The earning ascertain dividend to shareholders, bonus to employee and tax to government. Every CB's are directed to allocate certain amount of income in General Reserve for the gradual increment in Capital fund. Earning helps the management, shareholders and depositors to know about the performance of the bank, sustainability of earning, and to forecast the growth of the bank. The following ratio have been analyzed to test earning capacity of the bank.

4.5.1 Earning Per Share (EPS)

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

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

Computation of Earning Per Share (EPS):

Earning Per Share of NABIL Bank Limited

Year	Net Profit After Tax	No. of Shares	EPS (Npr)
2006/07	673959698	4916544	137.08
2007/08	746468394	6442848	115.86
2008/09	1031053098	9088973	113.44
2009/10	1141051430	13614741	83.81
2010/11	13377455485	18929468	70.67
2011/12	1696276110	20297694	83.57

Earning Per share of Everest Bank Limited

Year	Net Profit After Tax	No. of Shares	EPS(Npr)
2006/07	296409281	3780000	78.42
2007/08	451218613	4914000	91.82
2008/09	638732757	6388210	99.99
2009/10	831765632	8304673	100.16
2010/11	931303628	11196095	83.18
2011/12	1090564222	12316357	88.55

Earning Per Share of Standard Chartered Bank Nepal Limited

Year	Net Profit After Tax	No. of Shares	EPS (Npr)
2006/07	691668064	4132548	167.37
2007/08	818921008	6207840	131.92
2008/09	1025114536	9319664	109.99
2009/10	1085871694	13984836	77.65
2010/11	1119171286	16101680	69.51
2011/12	1168967497	16101680	72.59

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

Table No. 4.8

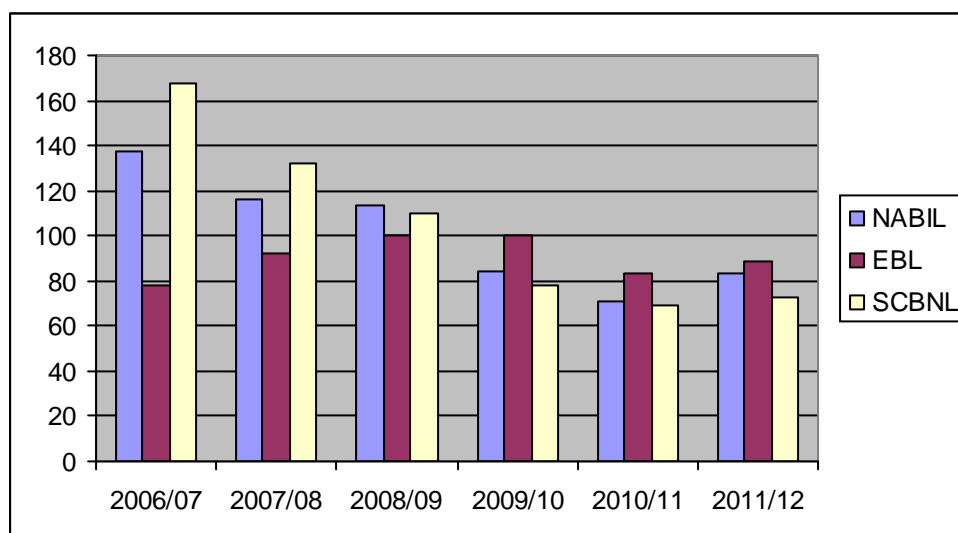
Earning Per Share of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	137.08	78.42	167.37
2007/08	115.86	91.82	131.92
2008/09	113.44	99.99	109.99
2009/10	83.81	100.16	77.65
2010/11	70.67	83.18	69.51
2011/12	83.57	88.55	72.59
Average in %	100.73	90.35	104.83

The above table shows the Earning per Share of NABIL, EBL and SCBNL from fiscal year 2006/07 to 2011/12. Among three banks SCBNL has the highest EPS of Rs. 104.83. than NABIL and EBL. There is no standard value prescribed for EPS but higher value is preferable. So, the banks need to increased profit volume.

Figure No. 4.8

Earning Per Share of NABIL, EBL and SCBNL



The above figure shows that the average EPS of SCBNL is the highest which is Rs.145.65 where as the average EPS of EBL is the lowest which is Rs.90.71. NABIL

has the decreasing trend of EPS from fiscal year 2006/07 to 2011/12. EBL has the increasing trend of EPS from fiscal year 2006/07 to 2009/10 but it is decreasing to 83.18 in 2010/11. Similarly SCBNL has increasing trend in initial two year then after it starts to decrease. There is no standard value prescribed for EPS but higher value is preferable. Higher volume of profit is required to have higher level of EPS. So, the banks need to increase profit volume.

4.5.2 Price Earning Ratio (P/E Ratio)

The price to earnings ratio (PE ratio) is the measure of the share price relative to the annual net income earned by the firm per share. PE ratio shows current investor demand for a company share. A high PE ratio generally indicates increased demand because investors anticipate earning growth in the future. The ratio helps security analysis to assess a bank's performance as expected by the investors. It can be calculated by using following formula.

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

Computation of Price Earning Ratio:

Price Earning Ratio of NABIL Bank Limited

Year	Market Price Per Share	Earning Per Share	P/E Ratio
2006/07	5050	137.08	36.84
2007/08	5275	115.86	45.53
2008/09	4899	113.44	43.18`
2009/10	2384	83.81	28.44
2010/11	1252	70.67	17.71
2011/12	1355	83.57	16.21

Price Earning Ratio of Everest Bank Limited

Year	Market Price Per Share	Earning Per Share	P/E Ratio
2006/07	2430	78.42	30.99
2007/08	3132	91.82	34.11
2008/09	2455	99.99	24.55
2009/10	1630	100.16	16.29
2010/11	1094	83.18	13.15
2011/12	1033	88.55	11.67

Price Earning Ratio of Standard Chartered Bank Nepal Limited

Year	Market Price Per Share	Earning Per Share	P/E Ratio
2006/07	5900	167.37	35.25
2007/08	6830	131.92	51.77
2008/09	6010	109.99	54.64
2009/10	3279	77.65	42.23
2010/11	1800	69.51	25.90
2011/12	1799	72.60	24.78

The above three table showing Price Earning Ratio of NABIL, EBL and SCBNL are summarized in the following table:

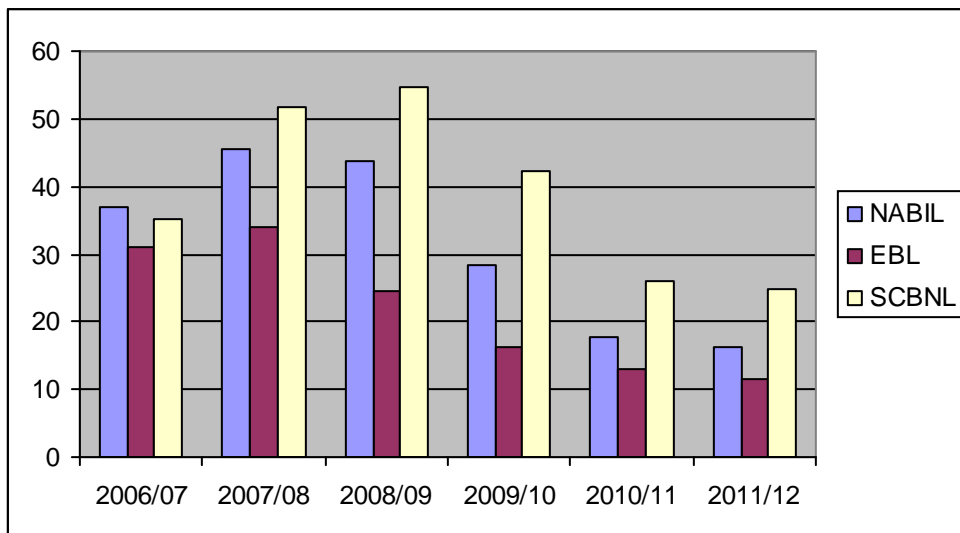
Table No. 4.9
Price Earning Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	36.84	30.99	35.25
2007/08	45.53	34.11	51.77
2008/09	43.81	24.55	54.64
2009/10	28.44	16.29	42.23
2010/11	17.71	13.15	25.90
2011/12	16.21	11.67	24.78
Average in %	31.42	21.79	39.09

The above table shows the Price Earning Ratio of NABIL, EBL and SCBNL from the fiscal year 2006/07 to 2011/12. The SCBNL has the highest value

of average ratio of 39.09 times where as EBL has the lowest value of average ratio of 21.79 times. SCBNL has the highest P/E Ratio of 54.64 times in year 2008/09 which signifies that the public have more trust on the bank's earning as well as its performance.

Figure No. 4.9
Price Earning Ratio of NABIL, EBL and SCBNL



The above figure shows that SCBNL has the highest value of average ratio which is 41.96 times where as EBL has the lowest value of average ratio which is 23.19 times. SCBNL has the highest P/E ratio of 54.64 times in year 2008/09 which signifies that the public have more trust on the bank's earning as well as its performance. SCBNL has the increasing trend of P/E ratio from year 2006/07 to 2008/09. Similarly NABIL and EBL have increased trend of P/E ratio from year 2006/07 to 2007/08 but both banks have decreased value of P/E ratio in year 2009/09.

4.5.3 Return on Assets (ROA)

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

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

Computation of Return on Assets:

Return on Assets of NABIL Bank Limited

Year	Net Profit After Tax	Total Assets	ROA (in %)
2006/07	673959698	27253393008	2.47
2007/08	746468394	37132759149	2.01
2008/09	1031053098	43867397504	2.35
2009/10	1141051430	52150237343	2.19
2010/11	1337745485	58141437401	2.30
2011/12	1696276110	63200298255	2.80

Return on Assets of Everest Bank Limited

Year	Net Profit After Tax	Total Assets	ROA (in %)
2006/07	296409281	21432574300	1.49
2007/08	451218613	27149342884	1.38
2008/09	638732757	36916848654	1.66
2009/10	831765632	41382760711	2.00
2010/11	931303628	46236212262	2.01
2011/12	1090564222	55813129057	2.11

Return on Assets of Standard Chartered Bank Nepal Limited

Year	Net Profit After Tax	Total Assets	ROA (in %)
2006/07	691668064	2577632320	2.56
2007/08	818921008	28596689451	2.42
2008/09	1025114536	33335788326	2.46
2009/10	1085871694	40213319926	2.70
2010/11	1119171286	43810519664	2.55
2011/12	1168967497	41677052360	2.80

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

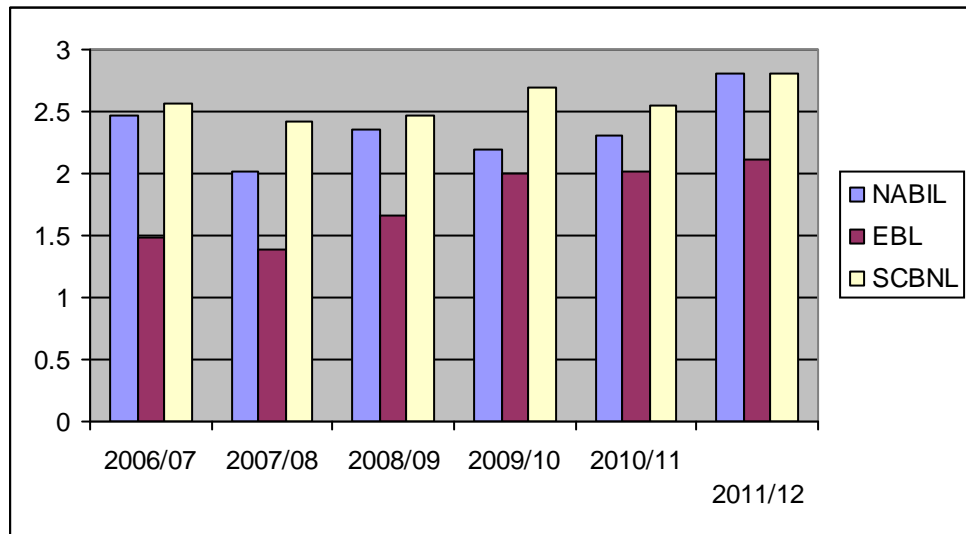
Table No. 4.10
Return on Assets on NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	2.47	1.49	2.56
2007/08	2.01	1.38	2.42
2008/09	2.35	1.66	2.46
2009/10	2.19	2.00	2.70
2010/11	2.30	2.01	2.55
2011/12	2.80	2.11	2.80
Average in %	2.35	1.77	2.58

The above table shows the Return on Assets on NABIL, EBL and SCBNL from the fiscal year 2006/07 to 2011/12. In the above table the average ROA ratio of SCBNL is highest which 2.58% is where as the average ROA ratio of EBL is the Lowest which is 1.77% SCBNL has higher ROA in comparison to NABIL & EBL. Maximum ROA ratio shows that the bank is successful in utilizing its assets properly.

Figure No. 4.10

Return on Assets of NABIL, EBL and SCBNL



The above figure shows that the average ROA ratio of SCBNL is highest which 2.58% is, where as the average ROA ratio of EWBL is Lowest which is 1.77%. The ratio of SCBNL in the fiscal year 2006/07 is the highest among all the ratio which indicate the bank was most successful in mobilizing its assets to yield highest return. The average ROA ratio of SCBNL is higher than NABIL & EBL which shows that the SCBNL is able to utilize its assets more in comparison to NABIL & EBL. The movement of ratio shows that the bank is successful in utilizing its assets properly.

4.5.4 Return on Equity (ROE)

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

$$\text{ROE} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{Shareholder's Fund}} \times 100$$

Computation of Return on Equity:

Return on Equity of NABIL Bank Limited

Year	Net Profit After Tax	Shareholder's Fund	ROE (in %)
2006/07	673959698	2057049715	32.76
2007/08	766468394	2437198989	30.63
2008/09	1031053098	3130240637	32.94
2009/10	1141051430	3835123456	29.75
2010/11	1337745485	4566517777	29.29
2011/12	1696276110	5607524330	30.25

Return on Equity of Everest Bank Limited

Year	Net Profit After Tax	Shareholder's Fund	ROE (in %)
2006/07	296409281	1201515266	24.67
2007/08	451218613	2921237580	23.48
2008/09	638732757	2203625055	28.98
2009/10	831765632	3169100000	26.24
2010/11	931303628	3531300000	26.37
2011/12	1090564222	4774600000	24.48

Return on Equity of Standard Chartered Bank Nepal Limited

Year	Net Profit After Tax	Shareholder's of Equity	ROE (in %)
2006/07	691668064	2368963119	34.25
2007/08	818921008	2492547996	32.85
2008/09	1025114536	3052469731	33.58
2009/10	1085871694	3369709733	32.22
2010/11	1119171286	367777733	30.43
2011/12	1168967497	4122169000	28.36

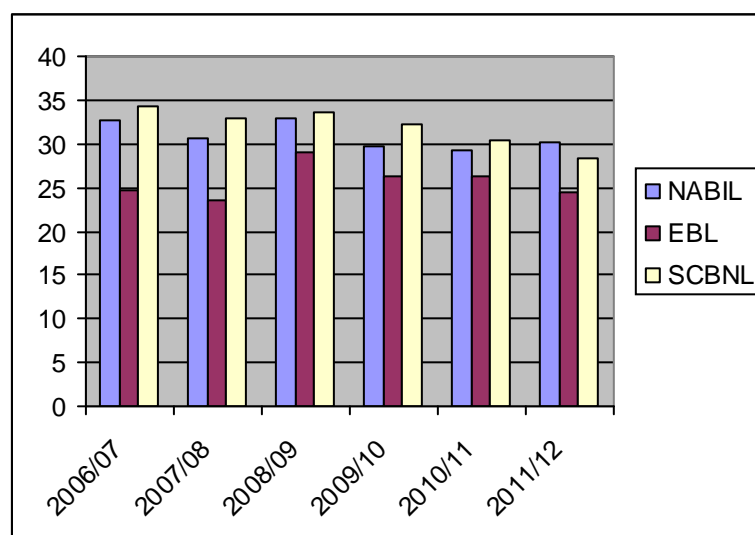
The above table showing Return on Equity of NABIL, EBL and SCBNL are summarized in the following table:

Table No. 4.11
Return on Equity of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	32.76	24.67	34.25
2007/08	30.63	23.48	32.85
2008/09	32.94	28.98	33.58
2009/10	29.75	26.24	32.22
2010/11	29.29	26.37	30.43
2011/12	30.25	24.48	28.36
Average in %	30.94	25.70	31.95

The above table shows the Return on Equity of NABIL, EBL and SCBNL from the fiscal year 2006/07 to 2011/12. Among three banks, SCBNL has the highest average ROE in comparison to NABIL and EBL which shows the SCBNL has utilized its shareholder's fund maximum. Higher ROE ratio indicates the bank is utilizing its fund in a proper way.

Figure No. 4.11
Return on Equity of NABIL, EBL and SCBNL



The above table shows that the average ROE ratio of SCBNL is the highest which is 31.95% whereas the average ROE ratio of EBL is the lowest which

25.70% NABIL and EBL both have inconsistent and fluctuating trend of ROE ratio where as SCBNL has decreasing trend of ROE from fiscal year 2008/09 to fiscal year 2010/11 it is highest in 2006/07 which is 34.25%. Higher ROE ratio indicates the bank is utilizing its funds in a proper way.

4.6 Liquidity

The Liquidity position of any financial institution determines their capacity to meet their current financial obligations without any difficulty. Every financial institution must be enabling to refund the deposited amount to every deposit holders as per the demand made by them. These financial institutions are bound to maintain statutory liquid asset as per the direction of central bank i.e. NRB. The liquid asset maintained by these financial institution is examined by the central bank by below mentioned ways: i) On-Site Inspection ii) Special Inspection iii) Follow up Inspection iv) Off-Site inspection.

The following ratios have been analyzed to test Liquidity Position of bank.

4.6.1 Cash Reserve Ratio (CRR)

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

$$\text{CRR} = \frac{\text{NRB Balance (LCY)}}{\text{LCY Deposits – Margin Deposits}}$$

Computation of Cash Reserve Ratio:

Table No. 4.12

Cash Reserve Ratio of NABIL, EBL and SCBNL

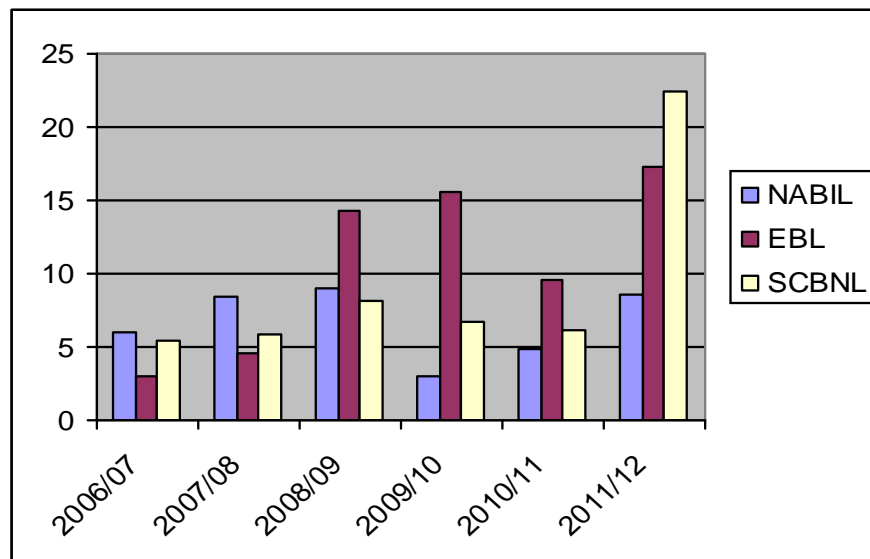
Year	NABIL	EBL	SCBNL
2006/07	6.00	2.94	5.46
2007/08	8.37	4.56	5.84
2008/09	9.03	14.26	8.18
2009/10	3.03	15.53	6.74
2010/11	4.90	9.55	6.10
2011/12	8.60	17.22	22.40
Average in %	6.65	10.68	9.12

Source: Annual Report of NABIL EBL and SCBNL

The above table shows the Cash Reserve Ratio of NABIL, EBL and SCBNL from fiscal year 2006/07 to 2011/12. NABIL bank has failed to maintain CRR in the initial two years i.e. 2009/10 and 2010/11 and thereafter it maintain in the remaining three year. EBL has failed to maintain CRR initial two year 2006/07 and 2007/08. SCBNL is able to maintain CRR in all the years.

Figure No. 4.12

Cash Reserve Ratio of NABIL, EBL and SCBNL



As prescribed by NRB the commercial banks have to maintain a reserve of 5% against their deposits up to fiscal year 2008/09 according to BASEL-I & from fiscal year 2009/10 they have to maintain a reserve of 5.5% against their deposits according to BASEL-II. The above figure shows that, NABIL bank fails to maintain CRR in fiscal year 2009/10 & 2010/11, it has maintained CRR. Everest bank has to maintain CRR in every year except 2006/07 and 2007/08 which may have bad impact on their customer. SCBNL is able to maintain CRR in every year which is very good for bank to be safe from liquidity problem. As NRB wants bank to maintain FRR on weekly basis, the above shown CRR may not reflect actual position of banks.

4.6.2 Cash and Bank Balance Ratio

This ratio is designed to measure the bank's ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower ratio indicates that bank might face liquidity crunch while paying its obligation whereas very high ratio indicates that the bank has kept idle funds and not deploying them properly. C&B Balance ratio shows the percent of deposit maintained as Liquid assets as compared to the total deposits.

It is Calculated as follows:

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

Computation of Cash & Bank Balance ratio:

Cash & Bank Balance Ratio of NABIL bank Limited

Year	Cash & Bank Balance	Total Deposit	Ratio (in %)
2006/07	1399825851	23342285327	6.00
2007/08	2671141055	31915047467	8.38
2008/09	3372512471	37348255840	9.04
2009/10	4518241804	46410700628	9.74
2010/11	4889061362	49696112934	9.84
2011/12	4732639000	55023695253	8.60

Cash & Bank Balance Ratio of Everest Bank Limited

Year	Cash & Bank Balance	Total Deposit	Ratio (in %)
2006/07	2391420594	18186253541	13.15
2007/08	2667971830	23976298535	11.13
2008/09	6164371163	33322946246	18.50
2009/10	7818815003	3632310008	21.17
2010/11	6212862952	41127914339	14.89
2011/12	10363306307	50006100272	20.72

Cash & Bank Balance Ratio of standard Chartered Bank Nepal Limited

Year	Cash & Bank Balance	Total Deposit	Ratio (in %)
2006/07	2021021068	24647020755	8.20
2007/08	2050243214	29743998794	6.90
2008/09	3137163535	35871721127	8.75
2009/10	1929306520	35182721454	5.48
2010/11	2975795278	37999242310	7.83
2011/12	3653308000	35965630744	10.16

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

Table No. 4.13

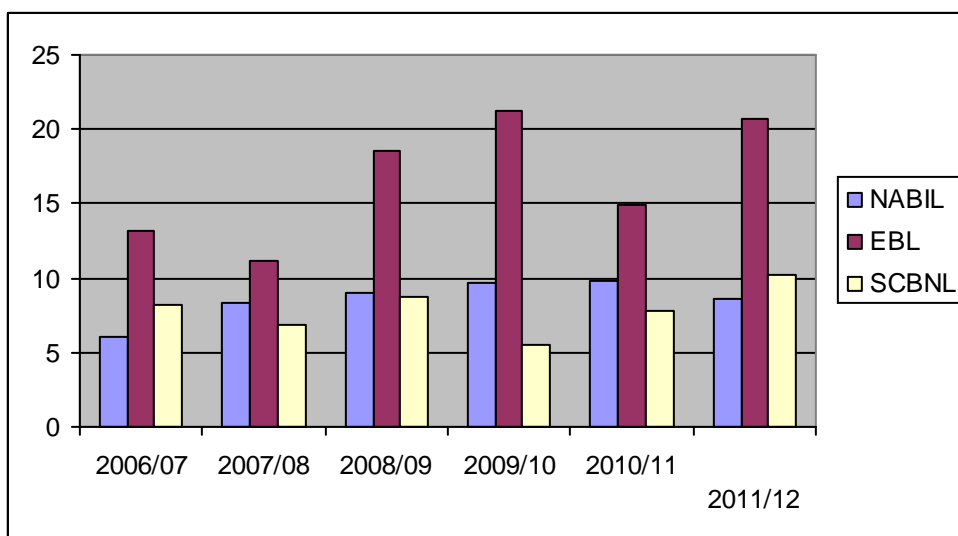
Cash & Bank Balance Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	6.00	13.15	8.20
2007/08	8.38	11.13	6.90
2008/09	9.04	18.50	8.75
2009/10	9.74	21.17	5.48
2010/11	9.84	14.89	7.83
2011/12	8.60	20.72	10.16
Average in %	8.6	16.59	7.89

The above table shows the cash & Bank Balance Ratio of NABIL, EBL and SCBNL from the fiscal 2006/07 to 2011/12. EBL has the highest average ratio of 16.59% in comparison to NABIL and SCBNL have the average ratio of 8.60% & 7.89% respectively.

Figure No. 4.13

Cash & Bank Balance Ratio of NABIL, EBL and SCBNL



4.6.3 Investment in Government Securities Ratio

Bank invest their idle funds in risk free and highly liquid government securities. This makes it possible to meet any immediate liquidity obligation while at the same time earn some returns.

It is calculated as:

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

Computation of Investment in Government Securities Ratio:

Investment in Government Securities Ratio of NABIL

Year	Total Investment in govt. Securities	Total Deposits	Ratio (in %)
2006/07	4808348503	23342285327	20.60
2007/08	4646883136	31915047467	14.56
2008/09	3706102662	37348255840	9.92
2009/10	7973664007	46410700628	17.18
2010/11	8745230498	49696112934	17.60
2011/12	7999977303	55023695253	14.54

Investment in Government securities Ratio of EBL

Year	Total Investment in govt. Securities	Total Deposit	Ratio (in %)
2006/07	4704632426	18186253541	25.87
2007/08	4821604744	23976298535	20.11
2008/09	5146045773	33322946246	15.44
2009/10	4354353089	36932310008	11.79
2010/11	7145017521	41127914339	17.37
2011/12	6068876365	50006100272	12.14

Investment in Government Securities Ratio of SCBNL

Year	Total investment govt. Securities	Total Deposits	Ratio (in %)
2006/07	7107937303	24647020755	28.84
2007/08	8137615178	29743998794	27.36
2008/09	9998753558	35871721127	27.87
2009/10	853151925	3518721454	24.25
2010/11	995760572	37999242310	26.20
2011/12	7862717274	35965630744	21.86

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

Table No. 4.14

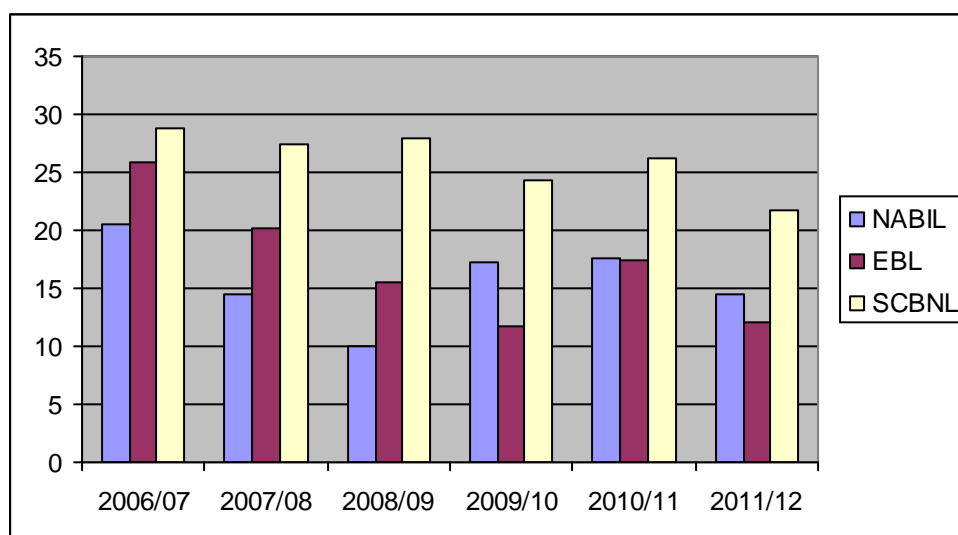
Investment in Government Securities Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2006/07	20.60	25.87	28.84
2007/08	14.56	20.11	27.36
2008/09	9.92	15.44	27.87
2009/10	17.18	11.79	24.25
2010/11	17.60	17.37	26.20
2011/12	14.54	12.14	21.80
Average in %	18.88	17.12	26.05

The above figure shows that SCBNL has invested the highest proportion of its deposit in the government securities i.e. 26.05%. All three banks have fluctuating trend of investment in government securities ratio. Generally the investment depends on the combination of deposits the bank, has. The more the percentage of fixed deposits higher the investment in government securities. The higher percentage shows the better liquidity position of the bank.

Figure No. 4.14

Investment in Government Securities Ratio of NABIL, EBL and SCBNL



The above table shows that SCBNL has invested the higher proportion of its deposit in the government securities i.e. 26.05% all three banks fluctuating trend of

investment in government securities ratio. Generally the investment depends on the combination of deposits the bank has. The more the percentage of fixed deposits higher the investment in government securities. The higher percentage shows the better liquidity position of the bank.

4.7 Statistical Analysis

4.7.1 t-test for Correlation

Table No. 4.15

T-test for Correlation Coefficient between Net Profit After Tax with No. of Staff of NABIL, EBL and SCBNL

Bank	r	r ²	tcal (Ho)	ttab	Result
NABIL	0.94	0.88	5.53	2.78	tcal Ψ ttab so, H1 is accepted
EBL	0.99	0.98	14.1	2.78	tcal Ψ ttab so, H1 is accepted
SCBNL	0.95	0.90	5.94	2.78	tcal Ψ ttab, so, H1 is accepted

As per above table, the result shows all three banks accepted to H1. it means that the correlation between NPAT and No. of Staff is significant.

Table No.4.16

t-test for Correlation Coefficient between Net Profit After Tax with No. of Share of NABIL, EBL and SCBNL

Bank	r	r ²	tcal (Ho)	ttab	Result
NABIL	0.56	0.31	1.34	2.78	tcal ttab so, Ho is accepted
EBL	0.97	0.94	8.08	2.78	tcal Ψ ttab so, H1 is accepted
SCBNL	0.99	0.98	14.1	2.78	tcal Ψ ttab so, H1 is accepted

As per above table, the result shows NABIL bank accepted to Ho, it means that the correlation between NPAT and No. of Share is not significant. And other two banks accepted to H1, it means that the correlation between NPAT and No. of Share is significant.

Table No. 4.17

t-test for Correlation Coefficient between Net Profit After Tax with Total Assets of NABIL, EBL and SCBNL.

Bank	R	r ²	tcal (H0)	ttab	result
NABIL	0.96	0.92	6.86	2.78	tcal Ψ ttab so, H1 is accepted
EBL	0.99	0.98	14.1	2.78	tcal Ψ ttab so, H1 is accepted
SCBNL	0.93	0.86	5.03	2.78	tcal Ψ ttab so, H1 is accepted

As per above table, the result shows all three banks accepted to H1. it means that the correlation between NPAT and Total Assets is significant.

Table No. 4.18

t-test for Correlation Coefficient between Net Profit After Tax with Shareholder's fund of NABIL EBL and SCBNL.

Bank	R	r ²	tcal (Ho)	ttab	result
NABIL	0.99	0.98	14.1	2.78	tcal Ψ ttab so, H1 is accepted
EBL	0.89	0.79	3.87	2.78	tcal Ψ ttab so, H1 is accepted
SCBNL	0.13	0.02	0.26	2.78	tcal ttab so, Ho is accepted

As per above table, the result shows NABIL and EBL Bank accepted to H1. it means that the correlation between NPAT and Shareholder fund is significant. SCBNL accepted to Ho, it means that the correlation between NPAT and Shareholder fund is not significant.

Table No.4.19

T-test for Correlation Coefficient between Market Price Per Share with Earning Per Share of NABIL, EBL and SCBNL.

Bank	r	r ²	tcal (H0)	ttab	Result
NABIL	0.92	0.84	4.6	2.78	tcal Ψ ttab so, H1 is accepted
EBL	0.14	0.02	0.28	2.78	tcal ttab so, Ho is accepted
SCBNL	0.84	0.70	3.05	2.78	tcal Ψ ttab so, H1 is accepted

As per above table, the result shows NABIL bank and SCBNL accepted to H1, it means that the correlation between MPS and EPS is significant. EBL accepted to Ho, it means that the correlation between MPS and EPS is not significant.

4.7.2 Trend Analysis

A trend is a series of situation that follows a sequence. A widely and most commonly used method to describe the trend is the method of least square. Under this, a trend line is fitted to the data satisfying the condition. It is used to describe the trend of any variable whether it increases or decreases with the passage of time. The trend analysis of profit of different banks, have been presented as below:

4.7.2.1 Trend analysis of Net Profit

Trend analysis of net profit under this topic the trend value of net profit has been calculated for five years from final year 2007/08 to 2011/12 and the forecasting for next four years up to 2016/17.

Table No. 4.20

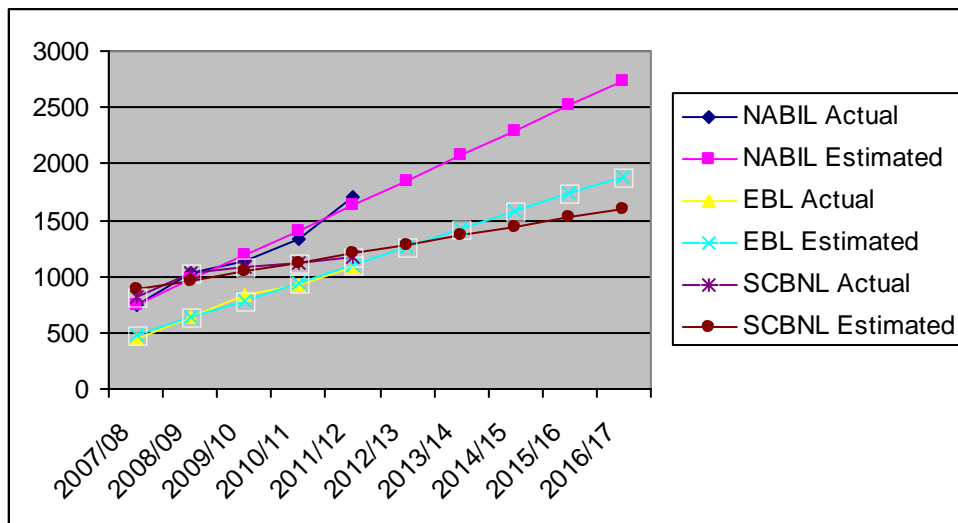
Actual and Estimated Profit of NABIL, EBL and SCBNL (Rs. in million)

Year	NABIL		EBL		SCBNL	
	Actual	Estimated	Actual	Estimated	Actual	Estimated
2007/08	746	749.1	451	474.6	819	884.8
2008/09	1031	969.8	638	631.6	1025	964.2
2009/10	1141	1190.5	831	788.6	1086	1043.6
2010/11	1337	1411.2	931	945.6	1119	1123
2011/12	1696	1631.9	1090	1102.6	1169	1202.4
2012/13		1852		1259.5		1281.8
2013/14		2072.6		1416.6		1361.2
2014/15		2293.2		1573.7		1440.6
2015/16		2513.8		1730.8		1520
2016/17		2734.4		1887.9		1599.4

Source: Annex I

The above table shows the Actual profit & estimated profit of NABIL, EBL and SCBNL from the fiscal year 2006/07 to 2011/12. All the three banks have increasing trend of profit from beginning to ending. NABIL bank has highest profit in year 2010/12. than EBL and SCBNL. The estimated profits of NABIL bank has been increased per year by 220.7million, EBL bank has been increased per year by 157million and SCBNL increased its profit by 79.4million per year. All bank has maintained nice rate of increasing rate profit in previous year and they can perform nicely in coming years too. Estimated profit of all the banks are calculated by using least square method which is shown in annex I. All the banks should keep continue of growth rate of their profit for the better future of the bank. On the basis of above table, the actual and estimated profit of all the three banks is shown in graph below:

Figure No. 15



The above figure shows that all the three banks have increasing trend of profit from fiscal year 2006/07 to 2011/12. NABIL bank has highest profit in the fiscal year 2011/12. Though EBL has lower profit than NABIL and SCBNL in all the fiscal year but the trend of profit is in increasing. In conclusion, we can say that profit earning trend of all the banks is appreciable and hope that the future of all the banks is bright.

4.8 Findings of the Study

This section lists major finding obtained from the analysis of the data presented for the study purpose.

- The capital adequacy ratio of all three banks is more than the prescribed values of NRB, which is 11% & 10% according to BASEL-I& BASEL-2 respectively. BASEL-II is implemented from the year 2009/10. Among three banks, SCBNL has the highest average ratio of 14.51%, the average ratio of NABIL & EBL are 10.99% & 10.90% respectively. This explains that SCBNL has high degree of strength of capital sufficiency that means better liquidity position and lending capacity of bank but more of its fund seems to be tied up.
- The Core Capital ratio of all the banks has more than the prescribed values of NRB which is 5% up to fiscal year 2008/09& 5.5% from fiscal year 2009/10 according to BASEL-I & BASEL-II respectively.

Among three banks, SCBNL has ranked 1st every time by having highest CCR where as NABIL & EBL is ranked as 2nd & 3rd respectively.

- The Performing Loan Ratio of EBL & SCBNL is increasing trend where as NABIL has fluctuating trend of performing Loan ratio. The increasing trend of performing loan ratio of EBL and SCBNL shows that the bank has invested their funds in proper way. But the decreasing trend of NABIL shows that the bank should improve their credit management system.
- The Non Performing Loan Ratio of EBL and & SCBNL is in decreasing trend from fiscal year 2006/07 to 2011/12 which indicates that credit and risk management of both the bank is good. NABIL bank has inconsistent and fluctuating trend of non- performing loan ratio which shows NABIL should focus on managing its loan and advances.
- The Loan Loss Provision Ratio of all the banks is in decreasing trend from fiscal year 2006/07 to 2011/12 which shows the banks are reducing their non-performing loan and that's why the amount of provision made for non-performing loan is decreasing. EBL has highest average ratio of 2.40% which shows EBL has good capacity to bear the non-performing loan loss. Currently, NABIL has improved their LLP ratio which was in decreasing trend up to last year in study period.
- The Loan Loss Coverage Ratio of EBL & SCBNL is in increasing trend but NABIL has fluctuating trend of LLCR. The loan loss coverage ratio shows the capacity of the bank to cover loan loss in case of any default made by loan taker in the future. The data show the LLCR more than 100% and in some cases it is even more than 400%. It is due to the fact that there is a provision of 1% for good loan also which is not added in non-performing loan.
- The management efficiency ratio of the entire bank is in increasing trend which shows the banks are able to mobilize their employees. Though EBL has increasing trend of management efficiency ratio, it

has lower ratio in comparison to NABIL & SCBNL. So EBL should improve its MER.

- The Earning Per Share of NABIL is in increasing trend for the years, thereafter it is in decreasing trend. EBL has increasing trend of EPS from beginning to ending during the study period. SCBNL has decreasing trend of EPS from year 2006/07 to 2011/12, though it has highest average EPS than other banks but it is not satisfactory level of EPS. Even there is not any standard value prescribed for EPS but highest value is preferable. So all the banks need to be increased their profit volume.
- Price Earning (P/E ratio) of SCBNL is the highest value of average ratio which is 41.96 as well as highest P/E ratio in latest fiscal year. It shows the public have more trust on the bank's earning as well as its performance. Similarly, SCBNL has increasing trend of P/E ratio from fiscal year 2006/07 to 2008/09 EBL has increasing trend for the first two years but both banks have decreased P/E ratio in the last year which shows both banks need to be increased P/E ratio.
- The average ROA of NABIL is highest than EBL and SCBNL which shows the bank is utilizing its assets more efficiently than other banks. The trend of ROA ratio of all the banks is in fluctuating trend throughout the study period. Maximum ROA ratio shows that the bank is successful in utilizing its assets properly.
- The average ROE ratio of SCBNL is the highest which is 32.66% where as the average ROE ratio of EBL is the lowest which is 25.95%. All three sample banks have fluctuating trend of ROE ratio where as SCBNL has decreasing trend of ROE from fiscal year 2008/09 to 2010/11.
- NABIL fails to maintain CRR in fiscal year 2009/10 to 2011/12. But from fiscal year 2006/07 to 2008/09, it has maintain RR. Everest bank has failed to maintain CRR in every year except 2006/07 and 2007/08, which may have bad impact on their customer. SCBNL is able to maintain CRR in every year which is very good for bank to be safe from liquidity problem. As NRB wants bank to maintain

CRR on weekly basis, the above shown CRR may not reflect actual position of banks.

- Cash and bank balance ratio reflects the bank's ability to pay short term and immediate obligation to the average customer. EBL has the highest average cash and bank balance ratio than other two banks. This shows that the EBL has enough liquidity. NABIL has the lowest ratio and SCBNL has fluctuating trend of ratio.
- The average investment in government securities ratio of SCBNL is the highest than other two banks. Nabil Bank has fluctuating trend of investment in government securities ratio. SCBNL and EBL have decreasing trend. The higher percentage shows the better liquidity position of the bank. But it might lose opportunities to earn more interest than from that of government securities.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is divided into three sections. The first section is summary which describes the whole research in a summarized form. The second section is conclusion which lists the conclusions drawn from the analysis of the data for the study. The third section is recommendation. It includes necessary suggestions given to the authorities concerned for the consideration to implementation.

5.1 Summary

The study was carried out as academic requirements for MBS degree on the topic of “CAMEL analysis of Joint Venture Commercial Banks.” The study was started with the objective to find out the facts about ratio analysis as well as financial performance of NABIL, EBL and SCBNL. The analysis of financial statements is done to obtain a better insight into firm’s position and performance. CAMEL is a technique of health checking of financial institutions. Financial institutions’ financial soundness is judged on the basis of Capital Adequacy, Assets Quality, management Quality and Liquidity Position. Almost all government banks in Nepal are running at loss. Though almost private sector’s banks are earning profit. It is very difficult to call them sound if appraised from CAMEL approach.

For this work various tools are used to study and this study is primarily based on secondary data. However, the analysis is done on the basis of primary data also. For secondary data, the most important tool used is financial tool where different types of ratios are used for the findings. Similarly, statistical methods are used to find out mean, trend analysis. The secondary data is abstracted from the annual reports of three selected joint venture commercial banks. The study covers the periods as six years from 2006/07 to 2011/12. For collection of the primary data, the schedules of questionnaires were developed and asked to the employees and customers of the banks.

In this whole study, the study has been divided into five chapters of the different topics. The summary of each chapter can be presented in each paragraph.

In the first Chapter “Introduction” provides the brief introduction of the study, where I have described the background of the study, evolution of banking sector list of commercial bank introduction of some selected banks: NABIL, EBL and SCBNL. In this first chapter included the objective of the study, statement of the problem, significance of the study and limitation of the study.

In the second chapter, Literature review of related study the CAMEL approach. Review of previous thesis, previous study, journal and articles. Many inputs can be taken for the study and other researcher can also take advantage from this section.

Third chapter explains about the methodology of the study. Financial and statistical tools are used, which included ratio analysis, trend analysis. In this topic included research design, source of data, data collection techniques.

Fourth chapter is data presentation and analysis. Data analysis tools mentioned in the third chapter is used to analyze the data in this chapter. Various ratios that are related to financial performance of the bank have been used to analyze the financial performance of the NABIL, EBL and SCBNL. I have followed the CAMEL approach for the performance analysis of the banks and which has been done through ratio analysis, trend analysis and graphical presentation. Capital, Assets, Management, Earning and Liquidity position of the banks have been analyzed and compared to get the idea about the financial position of these banks.

5.2 Conclusion

Bank is a resource mobilizing institution, which accepts deposits from the various sources and invest such accumulated resources in the field of agriculture, trade, commerce, industry, tourism etc. The commercial bank has its own role and contribution and it is a source for economic development. It maintains economic confidence of various segment and extends credit people. Now the role of bank is not only limited to the lending. It has also extended its business to remittance non fund based business where the bank can generate income without lending to borrows. However, the income generated from the fund based business cannot be ignored as it covers more than 70% of the total income of the bank. After going through the overall

study and findings plus the financial reports I found that all three banks are well managed with good capital structure and sound performance. Based on the entire study and findings some conclusion made.

- The performance of SCBNL has the highest average ratio comparison between two banks. This explains that SCBNL has high degree of strength of capital sufficiency that means liquidity position and lending capacity of bank but more of its fund seems to be tied up.
- On the basis of ratios on Non Performing Loan of EBL & SCBNL is in increasing trend, NABIL bank has fluctuating trend of performing loan ratio. The increasing trend of performing loan ratio of EBL & SCBNL show that then bank has invested their funds in proper way. But the decreasing trend of NABIL shows that the bank should improve their credit management system.
- From the study, management efficiency ratio of all banks is well. Though EBL has increasing trend of management efficiency ratio, it has lower ratio in comparison to NABIL & SCBNL. So EBL should improve its MER.
- From the study, Earning Per Share ratio of NABIL is in increasing trend for the years there after it is in decreasing trend. EBL has increasing trend of EPS from beginning to ending during the study period. SCBNL has decreasing trend of EPS from year 2006/07 to 2010/11, though it has highest average EPS than other banks but it is not satisfactory level of EPS. There is no standard value prescribed for EPS but higher value is preferable. So, the banks need to increase their profit volume.
- On the basis of ratio on Cash Reserve EBL bank failed to maintain CRR in every year except 2006/07 and 2007/08 which may have bad impact of their customer. SCBNL has maintained CRR in every year which is very good for bank to be safe from liquidity problem. The trend of the profit of all the banks is in increasing trend, which encourages the bank to perform better than current situation in future to earn more profit by satisfying their customer.
- NRB as the bank of the bank is a regulating body of all the commercial banks. It has established various standard such as CAR, CCR and CRR

for the protection of the depositors and investors. From the study, all selected banks found to maintain NRB's regulation except in case of CRR, NABIL has failed to maintain CRR in last two years in the study period and EBL has failed to maintain CRR in first two year in the study period.

5.3 Recommendation

Base on finding and conclusion following recommendation have been provided they will help the banks to improve their future performances.

Recommendations to NABIL Bank Limited

- NABIL has fluctuating trend of performing loan and non-performing loan. So it is better for NABIL to have increasing trend of performing loan and decreasing trend of non-performing loan.
- Management efficiency ratio of NABIL is in increasing trend which is good for the bank and to keep it continue, the bank should adopt new technology as per the change and train their employee accordingly.
- EPS of NABIL is in increasing trend in the initial three years, after then it is in decreasing trend. So it should perform its activities more efficiently to increase EPS in future. NABIL's return on assets is in decreasing trend and return on equity is in fluctuating trend, it is better to have increasing trend of return on assets and return on equity.
- From the liquidity management perspective NABIL could incur liquidity risk in year 2009/10 & 2010/11 because its CRR was below 5%. So it must maintain its CRR as per NRB directive.

Recommendations to Everest Bank Limited

- EBL has increasing trend of performing loan and decreasing trend of non-performing loan which is very good for the bank and the same trend should be continued in the future also.
- Management efficiency ratio of EBL is in increasing trend which is good for the bank but in comparison to other bank it is lower. Therefore, the bank should adopt new technology and innovations as per the change and train the their employees accordingly, to maximize per employee contribution.

- Though EBL has increasing trend of EPS, but in comparison to other banks it is lower. So it should perform its activities more efficiently to increase EPS in future. EBL has lowest ROA, it explains that EBL has not efficiently utilized its assets its assets to increase profit, so EBL must effectively utilize its assets.
- From the liquidity management perspective EBL could maintain their RR in respective condition. It has good RR except 2006/07, which was below than prescribed by NRB directive.

Recommendations to Standard Chartered Bank Nepal Limited

- High capital adequacy ratio in excess to statutory requirement indicants bank's inability to invest its resource, possibly limiting its future earning. SCBNL should strive their best to invest their resources in productive sector as their CAR is highest than requirement.
- SCBNL has increasing trend of performing loan ratio and decreasing trend of non-performing loan ratio which is very good for the bank and should be continued in future. Similarly loan loss provision ratio is in decreasing trend and non loss coverage ratio is in increasing trend which indicates the better credit management system applied by the bank for their better future.
- Management efficiency ratio of SCBNL is in increasing trend which shows that the bank is able to mobilize its human resources efficiently. The bank should train their employees as per the change in new technology and innovations for better contribution from them.
- EPS of SCBNL is in decreasing trend so it should perform its activities more efficiently to increase EPS in future. Similarly, ROA and ROE of SCBNL are in fluctuating trend, it is better to have increased trend.
- Investment in government securities of SCBNL is very high, it is good for its government securities.

BIBLIOGRAPHY

Books:

- Bajracharya, B.C. (2000), Business Statistics & Mathematics. Kathmandu:
M.K Publishers & Distributers.
- Bhandari, D.R (2003), Banking and Insurance. Kathmandu, Aashish
Publication.
- Dangol, R.M. & Dangol, J (2062), Management Accounting. Kathmandu,
Taleju Prakashan.
- Ghimire, S.R. (2005), Financial Management. Kathmandu K.P. Pustak
Bhandar.
- Gupta, S. P. (2002), Statistical Methods, Education Publisher. New Delhi
Sultan Chand and Son's.
- Hampton, J.J (1998), Financial Decision Making. New Delhi: Prentice Hall
of India.
- Joshi, P. R. (2001), Research Methodology, Kathmandu, Buddha Academic
Publication and Distribution Pvt. Ltd.
- Kothari, C.R.(1994), Research Methodology: Method & Techniques. New
Delhi, Vikash Publication.
- Limbu, Y. B. (2059), Principles of Book-Keeping and Government
Accounting Kathmandu, Ratna Pustak Bhandar.
- Pandey, I. M. (2002), Financial Management. New Jersey, Vikash
Publication House Private Limited.
- Sharma, N (2003), A Textbook of Accountancy and Auditing. Kathmandu,
Ekta Books Distributors Pvt. Ltd.
- Sinky, Josheph F. Jr. (1998), Commercial Bank and Financial Management

New Jersey Prentice Hall.

Van Horne, J. C. (1999), Financial Management and Policy. New Delhi,
Prentice Hall of India.

Varshney, N. P. and Swaroop, G. (1994), Banking Law & Practices. New
Delhi.

Thesis

Shakya (2008), has conducted a research entitled “*CAML Study on Performance of*

Commercial Banks in Nepal with Reference to SCBNL, NABIL and NIBL”.Kathmandu, An unpublished Master Degree Thesis Submitted to Faculty of Management, Tribhuvan University.

Parajuli (2008) Study “*A Comparative Study of Financial Performance of joint Venture*

Banks in Nepal 2008” .Kathmandu, An unpublished Master Degree Thesis Submitted to Faculty of Management, Tribhuvan University.

Ghale (2009), states in his study entitled, “*A Study on Comparative Analysis of*

Financial Performance of Joint Venture Banks in Nepal: NABIL\$NBBL on 2009” .Kathmandu, An unpublished Master Degree Thesis Submitted to Faculty of Management, Tribhuvan University.

Ghale (2009), states in his study entitled, “*A Study on Comparative Analysis of*

Financial Performance of Joint Venture Banks in Nepal: NABIL\$NBBL on 2009” .Kathmandu, An unpublished Master Degree Thesis Submitted to Faculty of Management, Tribhuvan University.

Dhakal (2009) “*A Comparative Study on Financial Performance of Nepal SBI Bank*

Ltd. & Nepal Investment Bank Ltd. on 2009” .Kathmandu, An unpublished Master Degree Thesis Submitted to Faculty of Management, Tribhuvan University.

Pandey (2010) examined “*A study on a comparative analysis on financial performance*

of banks” . Kathmandu, An unpublished Master Degree Thesis Submitted to Faculty of Management, Tribhuvan University.

Manandhar (2011) examined, “*A Case Study on CAMEL Analysis of Commercial*

Banks”. Kathmandu, An unpublished Master Degree Thesis Submitted to Faculty of Management, Tribhuvan University.

Shrestha (2012), investigated “*Financial Performanc of Commercial Banks and A*

Case Study of NABIL, NIBL & NICB". Kathmandu, An unpublished Master Degree Thesis Submitted to Faculty of Management, Tribhuvan University.

Reports, Journals & articles

Nepal Rastra Bank, Baishak 2049 pp1-2, "Role of foreign banks in Nepal"

Saroj Rijal in "Management Control System in Nepalese Commercial Banks"(Journal of Nepalese Business Studies 2006)

Baral Keshar J. (2005) ".Health Check-Up of Commercial Banks in the framework of CAMEI"A Case Study of Joint Venture Bank in Nepal "Journal of Nepalese Business Studies,"Vol 2, No. 1p 41-55.

Nepal Rastra Bank Directives and Circular.

The Kathmandu Post.

www. ekantipur.com

Annual Reports of Sample Banks From 2005/06 to 20011/12

Website

www.nrb.org.np

www.google.com

www.nabilbank.com

www.everestbank.com

www.standardbank.com

ANNEX-I

Trend Analysis of profit of NABIL, EBL and SCBNL(RS. in million)

Year	X	NABIL (Y)	EBL (Y1)	SCBNL (Y2)	x= (X-3)	x ²	xY	xY1	xY2
2007/08	1	746	451	819	-2	4	-1492	-902	-1638
2008/09	2	1031	639	1025	-1	1	-1031	-639	1025
2009/10	3	1141	832	1086	0	0	0	0	0
2010/11	4	1338	931	1119	1	1	1338	931	1119
2011/12	5	1696	1090	1169	2	4	3392	2180	2338
Total	n= 5	∑Y= 5952	∑Y1= 3943	∑Y2= 5218	∑x= 0	∑x ² = 10	∑xY= 2207	∑xY1= 1570	∑xY2= 794

Year 2009/10 is taken as base years

For NABIL Bank Limited:

$$a = \frac{\sum Y}{n} = \frac{5952}{5} = 1190.5$$

we have the least square trend is $y = a + bx$

$$y = 1190.5 + 220.7x$$

$$b = \frac{\sum xY}{\sum x^2} = \frac{2207}{10} = 220.7$$

For Everest Bank Limited: we have the least square trend is $y = a + bx$

$$y = 788.6 + 157x$$

$$a = \frac{\sum Y1}{n} = \frac{3943}{5} = 788.6$$

$$b = \frac{\sum xY1}{\sum x^2} = \frac{1570}{10} = 157$$

For Standard Chartered Bank:

We have the least square trend is $Y = a + bx$

$$a = \frac{\sum Y2}{n} = \frac{5218}{5} = 1043.6$$

$$Y = 1043.6 + 79.4x$$

b $\sum xY^2 / \sum x^2$ X794/10 X79.4

Calculation of Estimated Profit of NABIL, EBL and SCBNL (Rs. in million)

$$Y=a+bx$$

Year	NABIL	EBL	SCBNL
2007/8	749.1	474.6	884.8
2008/9	969.8	631.6	964.2
2009/10	1190.5	788.6	1043.6
2010/11	1411.2	945.6	1123
2011/12	1631.9	1102.6	1202.4
2012/13	1852	1259.5	1281.8
2013/14	2072.6	1416.6	1361.2
2014/15	2293.2	1573.7	1440.6
2015/16	2513.8	1730.8	1520
2016/17	2734.4	1887.9	1599.4

ANNEX II

Selected page of annual reports of concerned banks