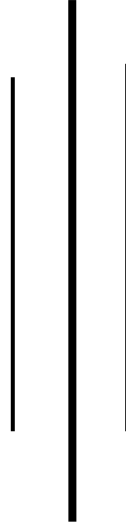


Capital Adequacy of Commercial Banks in Nepal

(Nepal SBI Bank Ltd, Himalayan Bank Ltd, and Everest Bank Ltd)



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**A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University**

***In partial fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S)***

**Kathmandu, Nepal
September 2013**

RECOMMENDATION

This is to certify that the Thesis

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"Capital Adequacy of Commercial Banks in Nepal"
(Nepal SBI Bank Ltd, Himalayan Bank Ltd, and Everest Bank Ltd)

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**Capital Adequacy of Commercial Banks in Nepal: Himalayan Bank Ltd, Everest Bank Ltd and Nepal SBI Bank Ltd**” submitted to office Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies (MBS) under the guidance and supervision of **Dr.Shilu Bajracharya**, of Shanker Dev Campus.

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Second Year Symbol No.: 391362

ACKNOWLEDGEMENT

It has been a great pleasure for me to complete this research work under the supervision and guidance of **Dr. Shilu Bajracharya**, Reader of Shanker Dev Campus. I acknowledge my profound gratification to her for her inestimable and continual guidance and support. Moreover, I am heartily indebted to the Library department of Shankar Dev Campus, and Central Library of Tribuvan University for providing me the research materials during my study.

Throughout my research, I have received tremendous support from the personals of Nepal Rastra Bank, Nepal SBI Bank Limited, Himalayan Bank Limited, and Everest Bank Limited. I am spiritually thankful to all the concerned officials for their valuable assistance.

I would to thanks librarians of Public Youth Campus for providing necessary information and materials for this thesis. I wish to express the sincerest thanks to all my friends and well wisher who provided valuable co-operation in my efforts.

Jyoti SharmaAdhikari
Researcher

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ABBREVIATIONS

HBL	Himalayan Bank Limited
EBL	Everest Bank Limited
FY	Fiscal Year
BIS	Bank for International Settlement
NBBL	Nepal Bangladesh Bank Limited
NCBL	Standard Chartered Bank Nepal Limited
NIBL	Nepal Investment Bank Ltd
NPA	Non Performing Assets
NBA	Non Banking Assets
CRR	Cash Reserve Ratio
NRB	Nepal Rastra Bank
SCBNL	Standard Chartered Bank Nepal Limited
TRWA	Total Risk Weighted Assets
IMF	International Monetary Fun

CHAPTER-1

INTRODUCTION

1.1 Background of the Study

Nepal, which is surrounded by China to the north and India to the east, west and south, is one of the least developed countries in the world which is directing her efforts in accelerating the pace of her economic development. Being landlocked happens to be a disadvantage for the country. Nepal is located in between the latitude 26°22' North to 30°27' North and longitude 80°4' East to 88°12' East. The average length being 885 km. east to west and average breadth is about 193 km. north to south and area is 147,181 sq. km.

Agriculture is the mainstay of the Economy, providing a livelihood for over 80 % of the population and accounting for 40% of GDP. Industrial activities mainly involve the processing of agricultural product including jute, sugarcane, tobacco and grains. Therefore, major concentration of every government of Nepal has been the development and advancement of agriculture sector. But still there has been scarcity of finance in this sector. Nepalese agriculture has been suffering from lack of modernization, deterioration in fertility due to soil erosion, rapid deforestation, and over dependent on monsoon. To some extent the establishment of Agricultural Development Bank has provided the support the farmer to raise the required capital (Dahal, 2002:15) .

Capital formations of commercial banks play a crucial role on it. Capital is one of the most important components for an organization. Capital, in the simple term, is defined as the wealth employed for the production of more wealth. Capital includes any fund thus employed. In accounting term, Capital is excess of assets of assets over liabilities. Without capital it is not possible to set up any type of business whether it is a general store or a big business house. Every organization is started with a zero position and only

come into existence when the promoters, owners or shareholders finance on it as capital. Each and every organization should have adequate capital to run business. Although the banks are the major source of capital, they also have to raise the capital to run business. Especially, the banks' capital have major role to play as the banks have obligation to mass people and its depositors. Capital is required by a bank as a cushion to absorb losses, which should be borne by shareholders rather than depositors and to finance the infrastructure of the business (NRB, 2006:15-17).

Capital adequacy has become one of the most important factors for assessing the soundness of the banking sector. Raise and utilization of fund are the primary function of the commercial banks. Commercial banks collect the large amount of deposit from general public. The depositors think that the depositing their money in a bank is safe. But what does happen if the bank does not have enough capital to provide a buffer against the future, unexpected losses? So, capital must be sufficient to protect a bank's depositors and counterparties from the risk like, market and credit risks. Otherwise the bank will use all the money of depositors in their own interest and depositors will have to bear loss (NRB, 2006:17).

Capital adequacy is one of the most important and emerging topics in the prudential regulations issued by Nepal Rastra Bank (central bank of Nepal) and implemented by Commercial Bank in Nepal. Capital adequacy is a measure of the financial strength of banks or securities firms, usually expressed as a ratio of its capital to its assets. For banks, there is now a worldwide capital adequacy standard, drawn up by the Basel committee, of the Bank for International Settlements (BIS). This BIS ration requires banks to have capital equal to 8 percent of their assets.

Capital adequacy measures the financial strength of a financial institution. It tells how much capital it has relative to (as a percentage of) the money it has lent out, i.e. its assets. There are specific minimum levels of capital set by international banking rules. They are

designed to make it possible for banks to absorb a reasonable amount of losses before getting into deep trouble.

With every investment decision, there is not only an anticipated return, but also a certain amount of risk associated with that return. The investment decision therefore, may be characterized as tradeoff between risk and return. It is generally assumed that the larger amount of risk, the larger the anticipated return must be to compensate for this risk. Just as the risk associated with various securities and assets varies widely, the ability and willingness to accept risk also varies substantially from investor to investor. This proposed study aims to look at the role of capital adequacy of the commercial banks in economic development, sustainable future for commercial banks with the maintenance of adequate capital.

The efficient functioning of markets requires participants to have confidence in each other's stability and ability to transact business. Capital rules help foster this confidence because they require each member of the financial community to have adequate capital. This capital must be sufficient to protect depositors and counter-parties from the risks of the institution's on- and off-balance sheet risks. Banks are required to set aside capital to cover these two main risks. Capital standards should be designed to allow a firm to absorb its losses, and in the worst case, to allow a firm to wind down its business without loss to customers, counter-parties and without disrupting the orderly functioning of financial markets.

The commercial bank established under the commercial banks Act 2031 BS and Company Act 2053 BS. However, Nepal Rastra Bank as a regulatory body for banks and the financial institutions, has right to specify the capital requirements and other requirements. Being the Central Bank of Nepal, Nepal Rastra Bank has the responsibility to give special attention to the interest of the depositors. It is to be noted that as per the banking and financial statistics of Nepal Rastra Bank, the commercial banks of Nepal have collected more than Rs 867978.25 million money from the depositors by Mid July

of 2012. Such a big amount of money should have to be secured and Nepal Rastra Bank has the major responsibility to protect it (NRB, Statistics Department, Sources and Uses of Funds of Commercial Banks Mid July 2012).

Nepal Rastra Bank issues various directives to be complied by all commercial banks of the country in March 2001. The directives consist of nice volumes. The NRB directive no 1 includes the capital adequacy norms for the commercial banks representing the requirements of maintaining capital fund to the prescribed ratios. The directives are said to be based on the internationally accepted norms of Basel Committee. The Basle committee on banking supervision is a committee of banking supervisory authorities which was established by the central bank Governors of the Group of Ten countries in 1997. The Basle committee on banking supervision in 1988 has developed an internationally accepted standard for capital adequacy based on what is known as the “risk assets” approach. This show how important capital for supervisory purposes allocates weight to different board categories of assets (e.g. government securities, loans to banks, customers’ advances) and expresses capital as a percentage of total risk – weighted assets. The committee consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Sweden Switzerland, the United Kingdom and the United States. Widely accepted, though national authorities are free to impose higher standards on their banks and often do so. As originally designed, this approach was only concerned with credit risk, but at the beginning of 1996 the Basel Committee published proposal to bring market risks into the calculation of capital requirements (NRB, 2001:11-12).

1.2 Focus of the Study

The study is based on the capital funds of the bank which is supposed to be adequate as per the Nepal Rastra Bank directive no.1, which is related with the capital adequacy norms for commercial banks. Basically, the norms emphasize on the basic requirements of the capital fund that a commercial banks should possess. The basic objective of the norms is to safeguard the interest of the depositors. The thesis report is generally focused

on accordance of the capital adequacy norms of Nepal Rastra Bank by these commercial banks. As stated by these norms, bank's capital has been divided into two categories which are usually known as Tier-1 and tier-2. At present, 32 commercial banks have been established in the country and some more are in the process of being established.(Mid Jan 2013) The report as case study, analyzes the matters, issues and problem related the capital funds of Nepal SBI Bank(SBI), Himalayan Bank Ltd (HBL) and Everest Bank Ltd (EBL). Generally, the thesis report is focused on accordance of the capital adequacy norms of Nepal Rastra Bank by these commercial banks.

1.2.1 Introduction of Sample Banks

a) Nepal SBI Bank Ltd (NSBL)

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India(SBI), Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed on 17 July 1992.

Nepal SBI Bank Ltd. is a subsidiary of State Bank of India which has 55 percent of ownership and rest is held by a local partner viz. Employee Provident Fund (15%) and general public (30%). In terms of the Technical Services Agreement between SBI and the NSBL, the former provides management support to the bank through its expatriate officers including Managing Director who is also the CEO of the Bank. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Chief Credit Officer oversee the overall banking operations in the Bank. The Bank was established in July 1993 & is now having 538 Nepalese employees working in 50 branches, 6 extension counters, 2 Regional Offices & the Corporate Office. The Bank has Authorized Capital 3,000,000,000, Issued Capital 2,102,966,165 and Paid up capital 2,093,989,769.

State Bank of India (SBI), with a 200 year history, is the largest commercial bank in India in terms of assets, deposits, profits, branches, customers and employees. The Government of India is the single largest shareholder of this Fortune 500 entity with 61.58% ownership. SBI is ranked 60th in the list of Top 1000 Banks in the world by “The Banker” in July 2012.

The origins of State Bank of India date back to 1806 when the Bank of Calcutta (later called the Bank of Bengal) was established. In 1921, the Bank of Bengal and two other banks (Bank of Madras and Bank of Bombay) were amalgamated to form the Imperial Bank of India. In 1955, the Reserve Bank of India acquired the controlling interests of the Imperial Bank of India and SBI was created by an act of Parliament to succeed the Imperial Bank of India.

The SBI group, consists of SBI and five associate banks. The group has an extensive network, with over 20000 plus branches in India and another 173 offices in 34 countries across the world. As of 31st March 2012, the group had assets worth USD 359 billion, deposits of USD 278 billion and capital & reserves in excess of USD 20.88 billion. The group commands over 22% share of the domestic Indian banking market.

SBI's non- banking subsidiaries / Joint ventures are market leaders in their respective areas and provide wide ranging services, which include life insurance, merchant banking, mutual funds, credit cards, factoring services, security trading and primary dealership, making the SBI Group a truly large financial supermarket and India's financial icon. SBI has arrangements with over 1500 various international / local banks to exchange financial messages through SWIFT in all business centers of the world to facilitate trade related banking business, reinforced by dedicated and highly skilled teams of professionals.

Nepal SBI Bank Limited is a major national level financial services provider engaged in various retail and commercial banking services. We, a team of nearly 580 people, move,

lend, invest and protect money for over 350,000 customers nationally and worldwide. Now in its 18th year of operations, Bank is continuously upgrading quality of its service delivery and customer satisfaction with the help of state-of-the-art technology.

b) Himalayan Bank Limited (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits. The Bank has 3,000,000,000 Authorized Capital & 2,400,000,000 Paid up and issued capital.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and

services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Himal Remit TM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

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

HBL holds of a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank. The Bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; Preferred Provider and Quality Financial Services; therefore we at HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus. The Bank always strives positioning itself in the hearts and minds of the customers. The Bank takes the objectives To become the Bank of first choice is the main objective of the Bank.

Now, the team of the bank is Manoj Bahadur Shrestha (Chairman of Director), Prachanda Bahadur Shrestha (Chairman Executive Management Team), & Ashoke SJB Rana is the CEO of the Bank.

c) Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. The Bank has Authorized Capital 2,400,000,000, Issued Capital 1,391,635,700 and Paid up capital 1,391,635,700.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K.

Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services

Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

The bank has been conferred with “Bank of the Year 2006, Nepal” by the banker, a publication of financial times, London the bank was bestowed with the “NICCI Excellence award” by Nepal India chamber of commerce for its spectacular performance under finance sector.

Recognizing the value of offerings a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first bank to introduce Any Branch Banking System (ABBS) in Nepal. EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.

EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society.

EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

The Bank has the vision of to evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial and related services.

To integrate the frontiers of technology & serving the various segments of society.

To be committed to excellence in corporate values.

- Bank has mission of to provide excellent professional services & improve its position as a leader in the field of financial related services.

- To build & maintain a team of motivated and committed workforce with high work ethos.
- To use the latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments.

In the Bank the chairperson of Board of Director is Mr. B.K Shrestha and Mr. P.K. Mohapatra Chief Executive Officer.

1.2.2 Introduction of Nepal Rastra Bank (NRB)

Nepal Rastra Bank was established in 1955 under the Nepal Rastra Bank Act, 2012 BS. Now, Nepal Rastra Bank is running under a new act – Nepal Rastra Bank Act, 2058 BS. Nepal Rastra Bank is the central bank of Nepal. Nepal Rastra Bank is the only authority to issued Nepalese Rupees currency. It has right to fix exchange rates with other convertible currencies. Nepal Rastra Bank has 12 branches throughout the Kingdom of Nepal including the Head office at Baluwatar and the main Banking office at Thapathali in Kathmandu. NRB has formulated several regulations related to establishment, operation, capital, ownership etc. of commercial banks operating in Nepal. To regulate the operations of commercial banks, Nepal Rastra Bank has issued various directives which include capital adequacy norms to be followed by commercial banks.

The role of NRB is that of a facilitator in addition to that of a regulator and a supervisor. This role has acquired more prominence in the deregulated and liberalized environment as it exists at present.

Nepal Rastra Bank, which acts on behalf of the government, has its policy set in line with the government's policy of the "economic liberalization" and its role in the economy is indispensable. NRB's role has further increased in this kind of recessionary period of the country. In the order to bet out of this situation, NRB with effect from Dec. 3, 1997 reduced the refinancing bank rate from 11% to 9%. There was no objective of this policy

change. Firstly, NRB wanted to put pressure on commercial banks to reduce the lending rates. This was needed to increase the credit flow in the economy. Secondly, NRB wanted to inject liquidity into the system from its own source. It was believed that with the reduction in the bank rate, commercial banks would borrow from the central bank at the lower rate.

As per the Nepal Rastra Bank Act, 2058 BS the objectives of NRB are stated as follows:

To formulate and maintain appropriate monetary and foreign exchange policy for stable price and balance of payments situation required for sustainable economic development;

To manage the required liquidity and stability of banking and financial sector;

To develop secure, healthy, and efficient payment system;

To monitor, and evaluate banking and financial system within the country supervise

In addition to, Nepal Rastra Banks Act. 2058 BS has prescribed the rights, duties and functions of NRB as follows:

- a. To issue currency notes and coins in the market;
- b. To formulate and implement necessary monetary policy for price stability;
- c. To formulate and implement foreign exchange policy;
- d. To determine the foreign exchange rate adjustment regime;
- e. To operate and manage foreign exchange reserves;
- f. To issue license to commercial banks and finance companies for carrying out financial transactions and regulate, inspect, supervise and monitor such transactions;
- g. To function as the banker, advisor and fiscal agent of Nepal Government;
- h. To function as a bank of commercial bank and financial institutions and as a lender of last resort,
- i. To establish, promote and regulate the system of payments, clearing and settlements;
and
- j. To carry out other important functions as necessary towards realizing the objectives enjoined by the Act.

1.3 Statement of the Problem

Capital adequacy requirement is a must for effective running of bank capitals. Adequacy plays a catalytic role in protection of bank from getting failure and as well as it also helps generate sufficient confidence among depositors and creditors. Thus purpose of capital adequacy ratio is to protect the interest of depositors and creditors by making bank keep more risk-free assets and by increasing their capital base. Adequate capital keeps the bank healthy and robust against all the contingencies and enhances the image of the bank in the financial market. Higher the capital adequacy ratio the more sound the bank is.

Regarding the capital adequacy ratio, there is always been conflict between management and regulatory authorities. Regulatory authorities always focus in increasing capital adequacy ratio in order to stabilize the financial system while management wishes to reduce the ratio so as to increase shareholders rate of return on investment. Thus, capital management has been most important and most controversial issues in the financial institutions. And hence the present study will try to find out the answers of following questions;

- a. Are the banks maintaining the minimum core capital and supplementary capital and finally the capital adequacy ratio set by the NRB ?
- b. Do they keep the loan loss provision as directed by the NRB?
- c. To what extent does the bank possess credit risk ?

1.4 Objectives of the Study

The main objective of the study is to highlight the capital adequacy and investment pattern of commercial banks. For serving the purpose other objectives are:

- i. To analyze the impact of Nepal Rastra Bank regulation on capital adequacy norms on commercial banks;
- ii. To analyze the capital adequacy of commercial banks i.e. NSBL, HBL, and EBL.

- iii. To examine the relation of Capital fund to the other factors of commercial bank & to assess the steps taken by commercial bank to fulfill the requirement as these norms.
- iv. To make necessary suggestions and recommendations on the basis of findings.

1.5 Significance of the Study

The study will have a great importance in the present context of banking business in Nepal. We can study that there is a lack of investment opportunity of fund. In such a situation, these deposits have to be protected by adequate capital fund of respective commercial banks. Actually, the banks should have adequate capital fund though there are plenty of investment opportunities. Currently, raising capital is a tough task. The increasing nonperforming assets, being the main headache of commercial banks, meeting the capital adequacy is very tough, however it is not impossible. It has been observed that any study has not been undertaken regarding the capital adequacy norms for commercial bank. Raising capital is a tough task at present.

1.6 Limitation of the Study

As each and every study has its limitation. We have limited resources and it may be difficult to explore researcher to find out new aspect. Reliability of statistical tools used and lack of research experience are the major limitation and some other limitations can be enlisted as follows:

- The authenticity of the report depends on the authenticity of the data provided and collected.
- Time constraint is another major limitation of this study. Because of such the scope of study is limited, so as to complete the study within specified time frame.
- The study analyzes the five-year data from 2007/08 to 2011/12 .
- The study is limited of the capital fund and capital adequacy norms for commercial banks.

- The study is mainly based on the secondary data collected from various sources. However, some primary data has also been derived from the analysis of questionnaire prepared for the research study.

1.7 Organization of the Study

The study has been organized into five chapters, each chapter deals with the specific aspects of the study, which is as follows:

Chapter one: Introduction.

Chapter two: Review of Literature.

Chapter three: Research Methodology.

Chapter four: Presentation and Analysis of Data.

Chapter five: Summary, Conclusion and Recommendation.

First Chapter provides a general introduction to the study named Capital adequacy norms, introduction to Nepal Rastra Bank, introduction Nepal SBI Bank, Everest bank & Himalayan Bank to Bank Ltd. It contains general background, statement of the problems, objective of the study, significance of the study and limitation of the study.

Second Chapter presents the theoretical analysis and review of the related and pertinent literature available. It will include a discussion on the conceptual framework and review of related studies highlighting on its relevant findings.

Third Chapter describes the methodology employed in preparing this study. It deals with research design, population and sample, source of data for the study. It briefly mentions the data collection and analysis technique and inherent limitation of such technique.

Four Chapter of study illustrates the collected data into a systematic format. The analysis of these data is also included in this section. As well as, interpretation of analysis has also been done in this section. The major findings of the study is presented in this chapter

Last Chapter presents summary, conclusion and recommendation of the study. This section incorporates an outlet for future research. Bibliography and appendix are included at the end of the study.

CHAPTER 2

REVIEW OF LITERATURE

The first chapter has already highlighted about the general introduction of the study name capital adequacy norms, introduction to Nepal Rastra Bank, Nepal SBI Bank Ltd, Himalayan Bank Limited and Everest Bank Limited regarding their growth and the objectives. This second chapter consists of relevant review of literatures, which is very important as it provides valuable inputs to this study. Only by knowing what others have said, one can be realistic to make the study more useful and relevant.

The available literature is reviewed relating to the field of this study and conceptual thoughts are presented below:

2.1 Conceptual Review

2.1.1 Evolution of Banking Sector Globally

The beginning of modern commercial banking is traceable to primeval days. As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy. The Bank of Venice, founded in 1157 was the first public banking institution. Following it were established the Bank of Barcelona and the Bank of Genoa in 1047 respectively. The Bank of Venice and the Bank of Genoa continued to operate until the end of the eighteenth century. With the expansion of commercial activities in Northern Europe there sprang up a number of private banking houses in Europe and slowly it spread throughout the world.

The scope of development of commercial banks was in the 19th century. According to M.C Vaish, the 19th century witnessed the phenomenal development of modern problems enabling to turn their attention away from old money changing business to many new

important jobs that comes in the wake of the new industrial progress. The 20th century observes development of various banking institutions highly specialize, sophisticated particularly in advanced countries like the U.S.A, U.K., France, Japan and others. Today various international organizations like L.F.C, I.M.F., A.D.B., World Bank etc have developed which are influencing the whole business of the global world (Grywinshki, 1991:87).

In the context of India, the British established the commercial bank in the colonial age, which was called as Exchange Bank's. So the term banking system is different in various countries. Similarly, in the context of Nepal the first step towards the establishment of a modern banking was taken any in 1973 A.D. However it does not mean that the banking in Nepal is of recent origin. In Nepal, modern banking starts from the establishment of Nepal Bank Limited.

2.1.2 Evolution of Banking Sector in Nepal

Banking services is the oldest service industry in Nepal. It has gone through the various stages of evolution and development. Though the modern banking institution has a very recent origin in Nepal, some crude bank operations were in practice even in the ancient times. Nepal has a long history of using of money. History unveils that the first Nepali coins to be introduced were Manank during the time in power of the King Mandev and Gunank during the time of power of the King Gunakamdev. Afterwards the coins were reintroduced during the control of Amshuverma. After the unification of Nepal, the great King Prithivi Narayan Shah started the coin Mohar. The Taksar was established in 1789 to issue coins scientifically. In 1876, during Rana Regime an office named Tejarath Adda was established Tejarath Adda did not collect deposits from the public but gave loans to employees and public against the bullion.

Later, with the growing necessity of the commercial banks in the world, the Nepal Bank Limited, the first commercial bank of Nepal, came into being in 1937 A.D replacing the

older system of banking. Nepal Bank Limited dominated the financial sector of the country for almost 30 years without any competitor. This bank played a major role to boost up the Nepalese economy during that period. The growth and development country is possible only when competitive banking services reach each and every corner of the country. In the present situation different type of banks are being practiced in Nepal, but among them commercial banks play essential role in the economic development of the country. Nepal Rastra Bank was established in 1955 a central bank of Nepal which was very essential for Nepalese economy. However, as the central bank Nepal Rastra Bank had its own limitations and as a commercial bank it was not logical for Nepal Bank Limited to go to unprofitable sector. So to catch up with these problems, the government established Rastriya Banijaya Bank in 2022 B.S (1965 A.D), under Banijaya Bank Act 1965 A.D as a fully state owned commercial bank.

With the aim to provide quality-bank service, enhance the efficiently and healthy competition, foreign investment and new technology in banking sector was introduced. Nepal Arab Bank, the first joint venture bank of Nepal was established in 1984 A.D (2041 B.S). The bank was the outcome of joint venture with Dubai Bank Ltd. of United Arab Emirates. The footstep of this bank was followed by Nepal Indosuez Bank, a joint venture bank with a bank of Paris in 1986 A.D (2041 B.S) and later Nepal Grind lays Bank, now renamed as Standard Chartered Bank, a joint venture bank with a bank of United Kingdom was established in 1987 A.D (2042 B.S). (Dahal: 2002:10-11)

2.1.3 Concept of Central Bank

A central bank is the government's bank world over. Central bank is the head of monetary and banking sector. Central bank is the national institution that monitors all financial and monetary procedures and policies.

Clark has expressed "the central bank as bank that often carries out government economic policy, influences interest and exchange rates and monitors the activities of

commercial and merchant banks. In this way it functions as the government's bankers and is the lender of the last resort to the banking system" (Clark, 1999:65).

Encyclopedia Britannica defines Central Bank as an institution that is charged with regulating the size of a nation's money supply, the availability and the cost of credit, and the foreign-exchange value of its currency. Regulation of the availability and cost of credit may be nonselective or may be designed to influence the distribution of credit among competing uses. The principal objectives of modern central bank in carrying out these functions are to maintain monetary and credit conditions conducive to high level of employment and production, a reasonably stable level of domestic prices, and an adequate level of international reserves. (Encyclopedia Britannica, 2002)

According to R.P. Kent- "Central bank may be defined as an institution which is charged with the responsibility of managing the expansion and contraction of the volume of money in the interest of the general public welfare" (Dahal, 2002:24).

2.1.4 Development of Central Bank

Unlike commercial bank, a central bank neither accepts deposits from the public nor gives loan to the public. It is set up to make sound monetary policy. Being the bank of government, its focus is always on monetary stability. It controls banking sector by regulation, persuasion and market operation.

In 1894, the Bank of England was converted into the central bank of England. Bank of England's successful operation as the central bank encouraged other countries to establish a central bank. This was done by establishing the Governor and the Company of the Bank of England.

In Sept 1920, an international Financial Conference was held at Brussels, which pointed out that those countries which had not yet established a central bank and were suffered

from the World War 1 and the consequences should establish a central bank. In the spring of 1922, the Genoa Conference also indicated the need of central bank.

Shekhar and Shekhar have stated that after the World War I and the consequent chaotic monetary conditions brought home to many countries the imperative necessity of establishing a centralized institution capable of creating and maintaining equilibrium in the monetary sphere (Shekhar & Shekhar,1994:512).

2.1.5 Importance and Function of Central Bank

The importance and function of a central bank is a complex task. It is difficult to lay down each function of a central bank. A careful study of the central banks operating in various countries would enable to draw certain bred conclusions as to fundamental function of a central bank (Shekhar& Shekhar, 1994:521).

A central bank is also important in the context to co-ordinate with different institutions such as International Monetary Fund etc. It works under the supervision and guidance of such institution to develop the monetary system of a country.

Generally, central bank enjoys the monopoly of note issue. It issues notes of various denominations and supplies to the market as per requirement. It controls money flow in the market by imposing monetary policy. It issues notes after full analysis of unemployment, inflation, economic growth, etc. of the country.

The role of central bank is that of a banker of the banks. The central bank also acts as a lender of the last resort. When banks in the country need fund and they cannot collect from other sources, they knock the door of the central bank. Central bank as the lender of the last resort gives loans to banks with or without securities. Though central banks try to rescue failing banks in a number of ways, it will not be prudent for every bank to expect all types to support from central banks. Central normally rescue those banks which are ‘to big to fail’ and the banks which can be revived.

A central bank is the supervisor of the financial sector. It makes regulations for operation of financial institutions. It gives guides and assists in operating banking system as a whole. A central bank has full authority to interfere in the banking market. It regularly monitors to ensure proper implementation of its rules. In case of violation, it takes different types of actions. A central bank is empowered even to snatch the license of operation.

The central bank plays the role of a watch dog when it comes to supervising the financial institutions of the country. It comes up with various, monetary policies which have to be followed by the financial institutions operating under it. In case it is found that the central bank are not complying with prudential norms laid down by it, it has right to penalize such institutions (Vidya, 1979: 78-79).

Objectives between a central bank and other commercial banks are different. The main objectives of a central bank is to assist the government to implement economic policies without any profit motive, whereas the main objective of other banks is to earn profit by mobilizing funds collected from the general public. As well as the central bank plays the role of guardian and parents to other commercial banks.

A central bank is also important in the context to co-ordinate with different international institutions such as International Monetary Fund (IMF) etc. It works under the supervision and guidance of such institution to develop the monetary system of a country.

2.1.6 Concept of Commercial Banks

Commercial banks are the financial institutions which primarily think of profit making but which is not a sole objectives and should not evaluate just on the ground of the profit it earns. Commercial banks provide short term debt necessary for trade and commerce. They take deposits from the public, which helping the capital formation, grant loan in

different forms. They provide working capital to trade, to industry and even to agriculture. Commercial banks of developing country financial small and cottage industry under priority sector investment scheme to uplift the backward sector of the economy.

“A commercial bank is a financial intermediary that provides a financial service product in an evolving industry. The industry is characterized by changing competition, regulation and technology. The central activity of banking remains the securing of deposit funds and making of consumer and commercial loans” (Johnson & Johnson, 1992:3)

Stating the function and need of commercial banks, the World Book Encyclopedia has defined, “Commercial Banks are the most numerous banks. They offer a full arrange of services. They primarily serve the needs of business but also offer their services to industry”(The World Book Encyclopedia, 1998:93).

“Trade within a country involves only one kind of currency such as dollars in America, Yen in Japan or Rupees in Nepal. Trade among countries may involve several kinds of currencies. For this reason, business firms and government use an international system of banking and finance to exchange one kind of currency for another.” (The World Book Encyclopedia, 1998:64).

According to John Holland, “Commercial banks are financial intermediaries that borrow money from savers in the form of deposit and re-lend them to ultimate borrowers by making loans on buying securities.”(Holland, 1999:67).

American institute of banking defines commercial banks as “Commercial bank is a corporation, which accepts demand deposits subject to check and makes short term loans to business enterprises, regard less of the scope of its other securities”(American Institute of Banking, 1972:345).

Under the Nepal Commercial Bank Act, 2031 B.S. “The commercial banks are those banks which provide short term and long term debts whenever necessary for trade and commerce. They accept deposits from the public and grant loans in different forms. They purchase and discount the bill for exchange, promissory notes, and exchange foreign currencies”(Nepal Commercial Bank Act. 2031 B.S).

Commercial Banks are controlled and regulated by central banks. In Nepal, Nepal Rastra Bank is the central bank that controls and regulates the commercial banks through Rastra bank Act 2058 B.S.

2.2 Theoretical Review

In 1975, an international committee was formed by the central banks and supervisory authorities of ten centralized countries to coordinate the surveillance exercised by national authorities over the international banks. This group of ten countries, known as the G-10 countries, included Belgium, Canada, France, Germany, Holland, Italy, Japan, Sweden, the United Kingdom and the United States. Since inception, the Basle Committee on Banking Supervision has met regularly at the Bank for International Settlement in Basle, Switzerland.

The Basle concordat 1975 provided a general statement on the responsibilities of national authorities for the supervision of international banks. This concordat was revised in 1983, paving the way for more standardized methods of bank supervision among central banks around the world.

In 1988, after consulting with bank supervisors around the world, the Basle Committee proposed a risk based capital adequacy framework. Underlying this framework, commonly known as the Basle Capital Accord, was the premise that a uniform approach to establishing minimum levels of capital will help to: a) Strengthen the soundness and

stability of international banking system, b) Promote a fair and consistent basis for evaluating capital; and c) Diminish competitive inequalities among international banks. The weighted risk based risk based framework proposed by the Basle Committee focuses on credit risk and takes into account both off balance sheet and on balance sheet credit risk exposure. The approach also distinguishes the varying degrees of risk inherent to different assets by assigning weights according to asset class. The Basel I Capital Accord 1988 have been endorsed by the Group of Ten central-bank Governors. The Basle Committee on Banking Supervision comprises representatives of the central banks and supervisory authorities of the Group of Ten countries (Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, United States and Luxembourg (Basle Committee on Banking Supervision, 1988:1).

For the purpose of study, following major four sections are divided. The first two describe the framework: Section third constituents of capital and Section fourth the risk weighting system. Section III deals with the target standard ratio; and Section IV with implementing arrangements.

2.2.1 The constituents of capital under Capital Accord 1988

As per Capital Accord 1988, there are two types of capital. First one is core capital and the next is supplementary capital.

a) Core Capital (basic equity)

The key element of capital on which the main emphasis is placed on equity capital and disclosed reserves is core capital. It includes fully paid ordinary shares/common stock and non-cumulative perpetual preferred stock (but excluding cumulative preferred stock). This emphasis on equity capital and disclosed reserves reflects the importance to secure progressive enhancement in the quality, as well as the level, of the total capital resources maintained by major banks. Notwithstanding this emphasis, there are a number of other important and legitimate constituents of a bank's capital base, which is included within

the system of measurement. Individual supervisory authorities are free at their discretion to apply a policy of deduction on a case-by-case basis.

For supervisory purposes, it has been defined in two tiers in a way which have the effect of requiring at least 50% of a bank's capital base to consist of a core element comprised of equity capital and published reserves. The other element of capital (supplementary capital) is admitted to an amount equal to that of the core capital.

b) Supplementary Capital

The Supplementary (Tier 2) Capital includes reserves which, though unpublished, have been passed through the profit and loss account and all other capital instruments eligible and acceptable for capital purposes. Elements of the Tier 2 capital will be reckoned as capital funds up to a maximum of 100 percent of Tier 1 capital arrived at, after making adjustments referred to in 2.4. In case, where the Tier 1 capital of a bank is negative, the Tier 2 capital for regulatory purposes shall be considered as zero and hence the capital fund, in such cases, shall be equal to the core capital.

2.2.2 The Risk Weights under Capital Accord 1988

Weighted risk ratio in which capital is related to different categories of asset or off-balance-sheet exposure, weighted according to broad categories of relative riskiness, is the method for assessing the capital adequacy of banks. The framework of weights has been kept simple and only five weights are used - 0, 10, 20, 50 and 100%.

a) There are six aspects of the structure to which attention is particularly drawn while calculating risk weights in capital accord 1988.

b) Target Standard Ratio

The target standard ratio of capital to weighted risk assets should be set at 8% (of which the core capital element is at least 4%). This is expressed as a common minimum

standard which international banks in member countries were expected to observe by the end of 1992.

Implementation

Each country should decide the way in which the supervisory authorities introduce and apply these recommendations in the light of their different legal structures and existing supervisory arrangements. Accordingly, Nepal Rastra Bank had developed its capital adequacy norms suitable to our country based on the framework prescribed in the 1988 capital accord.

This accord was revised in 1996 with the introduction of capital charge for market risk. This 1988 accord was adopted by more than 100 countries, including Nepal. The accord had contributed to strengthen bank capital at a time when a number of countries had experienced problems in their banking systems. It has become one of the benchmark measures of bank's financial health.

2.2.3 Provisions for Capital Adequacy in Commercial Banking Sector in Nepal

Present capital adequacy norms developed by central bank of Nepal had considered major international norms from The Basel I Capital Accord 1988. Nepal Rastra Bank had issued unified directives to banks and financial institutions operated in Nepal. That directive had included the directive related with capital adequacy. Following provisions are made in that directive.

To develop a healthy, capable and secured banking system for promoting economic growth of the country and to protect the interest of depositors, this directive in respect of maintenance of minimum capital fund by commercial banks had been issued on 14 September, 2001 by Nepal Rastra Bank (NRB, 2001). Major areas covered in capital adequacy directives issued by Nepal Rastra Bank are given below.

Maintenance of Minimum Capital Fund

On the basis of the risk-weighted assets, the banks shall maintain the prescribed proportion of minimum capital fund as per the following time-table.

TableNo:2.1
Regulatory Requirement of Capital Adequacy

Time Table	Core Capital	Total Capital Fund
For FY 2007/08	5.5%	12%
For FY 2008/9	6.0%	10%
For FY 2009/10	6.0%	10%
For FY 2010/11	6.0%	10%
For FY 2011/12	6.0%	10%

* Revised by circulars of NRB

Definition of Capital

For the purpose of calculation of Capital fund, the capital of the banks is divided into the following two components and defined:

A) Core Capital

The amounts under the following heads shall be included in the Core Capital

- (a) Paid up capital
- (b) Share premium
- (c) Non-redeemable preference shares
- (d) General Reserve Fund
- (e) Accumulated Profit and loss account

However, where the amount of Goodwill exists, the amount of goodwill shall be deducted for the purpose of calculation of Core Capital.

B) Supplementary Capital

For the purpose of the calculation of capital fund, the amount under the following heads, subject up to one hundred percent of the core capital, shall be included under the supplementary capital.

a) Assets Revaluation Reserve

The amount of Assets Revaluation Reserve can be included for the purpose of calculation supplementary capital subject up to 2 percent of the total supplementary capital, inclusive of the amount of the reserve.

b) Hybrid Capital Instruments

This includes the following instruments that have the characteristics of both debt and equity:

- i. Unsecured, fully paid up instruments issued by the bank which are subordinated to priority of payment after) depositors and creditors, and available to absorb losses as well as convertible into ordinary capital.
- ii. Instruments, which are non-redeemable at the option of the holder except with the approval of Nepal Rastra Bank.
- iii. Perpetual or long-term preference stock (Shares) convertible into common stock if the profit and loss account becomes negative.

However, banks and financial institutions cannot hold (purchase) Hybrid Capital Instruments issued by any bank of financial institution.

(c) Unsecured Subordinated Term Debt.

Unsecured and subordinated debt instruments (priority of payment after the depositors) issued by bank with a minimum maturity term of over five years and limited life

redeemable preference shares. To reflect the diminishing value of these instruments, a discount (amortization) factor of 20 percent during the last five years shall be applied.

- (a) The issue of these instruments by banks shall not exceed 50 percent of their vided as follows with assignment of separate risk weight-age. Accordingly, for determining the Total Risk Weighted Assets the amount as exhibited in the balance sheet assets shall be multiplied by their respective risk weight-age and then added together. Risk weights for off balance sheet items are given in Appendix 2.
- (b) Risk weighted off Balance Sheet items
- (c) For the purpose of calculation Capital Fund, the Off-Balance Sheet Items are divided as follows with assignment of separate risk weight-age. Accordingly, for determining the total Risk Weighted Off Balance sheet assets, the amount of such transaction shall be multiplied by their respective risk-weights and then added together. Risk weights for off balance sheet items are given in Appendix 3.

1. Capital Fund Ratios

This ratio would measure the total capital fund on the basis of total risk-weighted assets.

The capital fund ratio shall be determined as follows:

$$\text{Capital fund ratio} = \frac{\text{Core capital} + \text{Supplementary capital}}{\text{Sum of risk-weighted assets}} \times 100$$

Sum of risk-weighted assets. = Total on balance sheet risk-weighted assets + Total off balance sheet risk-weighted items.

2. Reporting Requirement of Capital Fund

Banks shall, at the end of Ashwin, Poush, Chaitra and Ashad of each fiscal year, prepare the statements of capital fund and other relevant statements on the basis of the financial statements as per the enclosed directives Form No. 1 and 2 and submit to the

Banking operations Department and Inspection and Supervision Department of Nepal Rastra Bank within 1 (one) month from the end of each quarter.

In respect of FY 2058/59, such statement is submitted on half-yearly basis. In determining the capital fund, the un-audited quarterly net profit (or net loss) amount shall be exhibited separately in the balance sheet under profit and loss account and such net profit/loss amount may be included for the purpose of calculation of the capital fund.

3. Time Period for Fulfilling the Shortfall in Capital Fund

In the event of non-fulfillment of capital fund ratio as mentioned under section 1 above in any quarter, the shortfall amount shall be fulfilled within next 6 (six) months. Until the fulfillment of such capital fund, banks shall not declare or distribute dividend to its shareholders under section 18 of commercial bank act, 2031. The shortfall in the capital fund may be rectified:

- a) by issuing new shares.
- b) by reallocating assets.

4. Actions for not complying the Directives Relating with Capital Fund.

2.2.4 Playing Factors in the Provisions for Capital Adequacy in Commercial

Banking Sector in Nepal as per On-Site Inspection Manual of Nepal Rastra Bank

Capital adequacy shows the condition of having sufficient permanent resources to bank/non-bank's long term financial stability. The components of the balance sheet and the proportion of each category of assets and liabilities should be consistent with the objective and targets of the bank/nonblank. Furthermore, the balance sheet composition should also be fairly consistent over time, thereby reflecting a conscious effort to pursue good asset/liability management.

Assets and liabilities inconsistent with the usual operations of the bank reflect a shift in business emphasis. Significant fluctuations in the asset/liability mix over time may

indicate that the bank/non-bank lacks clear, long term objectives and is pursuing poor operational strategies that may put the bank/non-bank at greater risk of loss.

a) Assets Quality and Risk Estimations

Although the overall risk-mix inherent to assets appearing on the balance sheet is important in evaluating capital adequacy, possible weakness attached to individual assets are essential to consider. An indicator of asset quality problems is the amount of credit that has been classified and the relative severity of these classifications in relation to capital. Delinquency and foreclosure trends, the level of non-accrued interest or non performing loans, and the decline in the market value of securities are also signals with respect to asset quality. Consideration must be given to signs of deterioration in asset quality and its potential impact on the bank/non-bank's capital.

b) Off Balance Sheet Exposures

Off-balance sheet activities should be examined along with on balance sheet activities to determine the overall level of risk within a bank/non-bank. Off-balance sheet activities can be a source of instability. Each activity must be viewed in the light of its contribution to risk and the ability of management to administer it. The major risks include: credit risk, interest rate risk, country risk, and foreign exchange risk. Currently, the risk based capital adequacy ratio only considers capital requirements in relation to credit risk. It is important, therefore, for management to implement controls and procedures to identify, monitor, and manage all risks relating to the activities of the banks/non-banks.

2.2.5 Present Effort for the Development of Prudential Directives in Capital Adequacy

After the successful implementation of 1988 capital accord in more than 100 countries, the Basel Committee on Banking Supervision reached an agreement on a number of important issues for promoting prudential and uniform banking practices as well as setting standards and guidelines for supervisory functions. Realizing the fact, In January

2001, it has developed a new comprehensive framework for capital requirements based on the various risk exposures of the banking business, which is also popularly known as Basel–II. It will replace the current 1988 Capital Accord. The proposal is based on three mutually reinforcing pillars that allow banks and supervisors to evaluate properly the various risks that banks face. The Basel–II has been introduced basically for the protection of depositor's interest by preserving the integrity of capital of Banks. It is expected that the Basel–II will be a milestone in the global banking history.

Key Elements of the New Accord

The New Accord consists of three re-enforceable pillars:

- (1) Minimum capital requirements,
- (2) Supervisory review process and
- (3) Market discipline.

The proposals comprising of each of the three pillars are summarized below:-

1) Pillar 1: Minimum Capital Requirements

In new capital accord 2005 also, the definition of eligible regulatory capital, as outlined in the 1988 Accord¹¹ is eligible for inclusion in Tier 1 (Core Capital) and in Tier II (Supplementary Capital) except in exceptional cases.

The current accord is based on the concept of a capital ratio where the numerator represents the amount of capital a bank has available and the denominator is a measure of the risks faced by the bank and is referred to as risk-weighted assets. The resulting capital ratio may be not less than 8%.

"Likewise, risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8%) and adding the resulting figures to the sum of risk-weighted assets for credit risk"(International Convergence of Capital Measurement and Capital Standards, 2005:5).

The current accord explicitly covers three types of risks in the definition of risk-weighted assets:

- (1) Credit risk
- (2) Market risk, and
- (3) Operational risk

A major innovation of the proposed Basel–II is the introduction of three distinct options for the calculation of three types of risk. It is not feasible or desirable to insist upon a one-size-fits-all approach to the measurement of either risk. Instead, for credit, operational and market risk, there are three approaches of increasing risk sensitivity to allow banks and supervisors to select the approach or approaches that they believe are most appropriate to the stage of development of bank's operation and of the financial market infrastructure. The following table identifies the three primary approaches available by risk type.

Given the kind of responsibilities, the supervisor's role assumes high importance in the Basel–II . Pillar II does not seek to harmonize supervisory processes across countries as they have different supervisory objectives, legal processes and authority of supervisors. It allows for sufficient national discretion but still it wants supervisors to maintain some degree of consistency in their approaches.

3) Pillar 3: Market Discipline

Banking operation is becoming complex and difficult for supervisors to monitor and control. Though supervisors try to indoctrinate corporate governance in banks, they can take indication from the market to strengthen their supervisory and monitoring activities. In this context, Basel Committee has recognized that market discipline is so important that it warrants being the third pillar of Basel–II norms. This market discipline is brought through greater transparency by asking banks to make adequate disclosures. The potential market participants of these disclosures are supervisors, bank's customers, rating agencies, depositors and investors.

With frequent and material disclosures, outsiders can learn about the bank's risk. Armed with this information, the outsiders can always protect themselves by ending their relationships with the bank.

Market discipline has two important components:

- Market signaling is the form of change in bank's share prices or change in bank's borrowing rates

Responsiveness of the bank or the supervisor to market signals Seeing the importance of the impact that the market can have on banks, Pillar III provides a comprehensive menu of public and regulatory disclosures like disclosures related to capital structure (core and supplementary capital), capital adequacy, risk assessment and risk management processes to enhance the transparency in banking operations.

2.3 Capital and Capital Adequacy

Capital is a part of wealth or money or property which may be used for the production of more wealth and additional wealth. It consists of those kinds of wealth other than free gifts of nature which yield income. Capital is a stock resource that may be employed in the production of goods and services and the price paid for the use of credit or money, respectively.

Patheja has defined banks capital as common stock plus surplus plus undivided profits plus reserves for contingencies and other capital reserves. In addition since a bank's loan-loss reserves also serves as buffer for absorbing losses, a broader definition of bank capital include this account. (Patheja, 1994:224)

Verma & Malhotra has indicated that the general public is interested in the higher profitability and safety of the funds of a bank, because the public expects the shareholders to assume all the risks. Lower profitability of a bank fills the faith of the prospective depositors and all their incentive for investing in the various deposit schemes. The Basel Committee sets a standard for all the banking norms, which will be accepted by central bank of all big industrialist countries. The first Basel Capital Accord was issued in

1988 and was implemented by 1992. The committee has now issued New Basel Capital Accord which will be implemented by 2006 to overcome the drawbacks of the current capital accord. Central banks of developing underdeveloped countries follow these standards Nepal Rastra Bank also follows these standards and accordingly sets standard for commercial banks in Nepal.

According to the directive issued by Nepal Rastra Bank, the bank capital has been categorized in to two parts: core capital and supplementary capital. This categorized is also known as core capital for Tier-1 capital and supplementary capital for Tier-2 capital.

The Tier-1 capital consists of the following components:

1. Share Capital,
2. Share Premium,
3. Non- Redeemable Preference Shares,
4. General Reserve Fund, and
5. Accumulated Profit and Loss Goodwill amount to be deducted, if any.

The Tier -2 capital consists of the following components:

1. General Loan Loss Provision,
2. Exchange Equalization Reserve,
3. Assets Revaluation Reserve,
4. Hybrid Capital Instruments,
5. Unsecured Subordinated Term Debt,
6. Interest Rate Fluctuation Fund, and
7. Other free Reserves

The total of Tier-1 and Tier-2 capital is considered for calculating capital adequacy ratio. The capital adequacy ratio is based on total risk-weighted assets (NRB Directives No.1, 2004:1-2).

Adequate capital is required to the efficient operating and functioning of the firm in the modern competitive environment, is always the matter of controversial debate. In one hand holding excess capital keeps the firm in low profit position, on the other hand inadequate capital limits the firm to meet the public demand of loan and low earning capacity. Capital adequacy aims at setting minimum level of capital as a function of risks. Thus capital should be risk based.

“Capital is adequate either when it reduces the chances of future insolvency of an institution to some predetermine level of alternately when the premium paid by the banks to an insurer is ‘fair’, that is, when it fully covers the risks borne by the insurer. Such risks, in turn, depend upon the risk in the portfolio selected by the bank, on its capital and on term of the insurance w.r.t. when insolvency will be determined and what loss will be paid.”(Maisel, 1982:302).

Clark has defined capital adequacy as legal requirement that a financial institution (such as a bank) should have enough capital to meet all its obligations and fund the services it offers (Clark, 1999:504).

The capital adequacy ratio is calculated using the following basic formula:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital Fund}}{\text{Total Risk - Weighted Asscets}} * 100\%$$

Total Risk-Weighted Assets (TRWA) = Assets held by a financial institution to which degree of risk have been assigned, so that adequate provision can be set aside.

2.3.1 Definition of Capital Fund for Commercial Banks

For the purpose of calculation of Capital Fund, the capital of the banks is divided into two components, Core Capital and Supplementary Capital.

Core Capital:

Core Capital of commercial banks includes:

- Paid up capital
- Share premium
- Non-redeemable preference shares
- General Reserve Fund
- Accumulated Profit and Loss Account

The amount of goodwill shall be deducted from; the; amount of core capital, if amount of goodwill exists at all.

Supplementary Capital:

Supplementary Capital of Commercial banks includes:

- General Loan loss provision:

General loan loss provision limited to a maximum of 1.25% of total Risk Weighted Exposures. General loan loss provision refers to the provisions created in respect of Pass Loans only and it does not include provisions of rescheduled/restructured and classified loans. The additional loan loss provisions created in respect of Personal Guarantee loans and loans in excess of Single Obligor Limits are specific provisions and hence cannot be included under this category. Such provisions however can be deducted from the gross exposures while calculating risk weighted exposures for credit risk.

However, provisions created in excess of the regulatory requirements or provisions which is not

attributable to identifiable losses in any specific loans shall be allowed to be included in the General Loan Loss Provision and shall be eligible for Tier II capital subject to a maximum of 1.25% of total risk weighted exposures.

The amount of general loan loss provision shall not exceed 1.25 percent of the total risk weighted asset

- Exchange Equalization Reserve
- Assets Revaluation Reserve

The asset revaluation reserve can be included in the supplementary capital but is limited only up to 2 percent of the total supplementary capital including this reserve amount

- Hybrid Capital Instruments

There are two types of instruments includes under this, they are:

- Unsecured, fully paid up instruments issued by the bank which are subordinated to (priority of payment after) depositors and creditors, not available to absorb losses as well as convertible into ordinary capital.
- Instruments which are non-redeemable at the option of the holder except with the approval of NRB
- Perpetual or long term preference stock (share) convertible into common shares if the profit and loss account becomes negative.
- Unsecured Subordinated Term debt

Unsecured and subordinated debt instruments (priority of payment after the depositors) issued by bank with a minimum maturity period of five years and limited life redeemable preference shares. In order to show the diminishing value of these instruments, banks are required to amortize the value of the instruments at the rate of 20 percent every year.

- Other free resources not allocated for a specific purpose.

(NRB Unified Directives 2067)

2.3.2 Review of NRB Capital Adequacy Norms for Commercial Banks

With the objectives to build up a strong, capable and secured banking system for promoting economic growth of the country as well as to protect the interests of

depositors, as provide under section 23 (1) of Nepal Rastra Bank Act 2012 relating to development and regulation of banking system. This directives is respects to maintenances of minimum capital fund by commercial banks has been issued in exercise of authority under section 14 (a) commercial banking Act, 2031.

Commercial banks need to maintain the prescribed proportion of minimum capital fund in the basis of the risk weighted assets. As per the directives issue by the Central Bank, the banks need to follow the following time table:

Regulatory Requirement of Capital Adequacy

Time Table	Core Capital	Total Capital Fund
For FY 2007/08	5.5%	12%
For FY 2008/9	6.0%	10%
For FY 2009/10	6.0%	10%
For FY 2010/11	6.0%	10%
For FY 2011/12	6.0%	10%

* Revised by circulars of NRB

Since, the capital of the bank is divided into two categories core and supplementary capital. Core capital is known as Tier-1 capital and Supplementary capital is known as Tier-2 capital. The core capital is the summation of share capital, share premium, non-redeemable preference shares, general reserve fund and accumulated profit/loss. Similarly supplementary capital has been defined to include general loan loss provision.

1. Suspension of declaration/ distribution of dividend (including bonus share).
2. Suspension of opening new branch.
3. Suspension of access to refinancing facilities of Nepal Rastra Bank.
4. Restriction on lending activities of the bank.
5. Restriction on accepting new deposits.

6. Initiation of any other actions by exercising the authority under Section 32 of Nepal Rastra Bank Act, 2012. (NRB Directives No. 1, 2004:1-5)

2.3.3 Loan Classification and Provision

All financial Institutions are required to classify their loan and advances as per the maturity date. Total loan and advances will be classified in to the following four categories.

(a) Pass: Loans/advances which have not overdue and which are overdue by a period up to three months.

(b) Sub-standard: Loans/advances which are overdue by a period from three months to a maximum period of six months.

(c) Doubtful: Loans/advances which are overdue by a period from six-months to a maximum period of one year.

(d) Loss: Loans/advances which are overdue by a period of more than one year. The loans which are in pass class and which have been rescheduled/restructured

are called as "the performing loan, and the sub-standard, doubtful and loss categories are called non-performing loans.

Note: Loans/advances also include bills purchased and discounted.

Additional Provisions Relating to Loss Loans

In case there seem any of the following discrepancies in any of the following loans, whether or not the deadline for repayment of which is expired, such loans and advances has to be categorized as the loss loan:

- (a) The market price of the collateral cannot secure the loans;
- (b) The debtor is bankrupt or has been declared to be bankrupt;
- (c) The debtor disappears or is not identified;
- (d) In case non-fund based facilities such as purchased or discounted bills and L/C and guarantee which have been converted into fund-based loan, are not recovered within ninety days from the date of their conversion into loan;
- (e) Loan is misused;
- (f) Expiry of six months of the date of auction process after the loan could not be recovered or a case is pending at a court under the recovery process;
- (g) Providing loan to a debtor who has been enlisted in the black-list of Credit Information Bureau Ltd;
- (h) The Project/business is not in a condition to be operated or project or business is not in operation
- (i) The credit card loan is not written off within 90 days from the date of expiry of the deadline;
- (j) While converting the L/C, guarantee and other possible liabilities into a fund based loan under the regular process, if the said loan is not recovered within 90 days; and
- (k) In case of expiry of the deadline of a trust-receipt loan.

Loan on Installment Basis

If the loan is provided on installment basis, whole principle should be classified as per the maturity of installment.

Any loan provided for more than one year period must be in installment basis.

Loan loss provision will be set aside for all categories of loan and advances as per the following percentages.

Pass	1%
Sub-standard	25%
Doubtful	50%
Loss	100%

Loan against Personal Guarantee

Loan and advances provided against personal guarantee needs details net worth of the guarantor and additional 20% provision. Personal guarantee taken on top of other collateral

for additional security also have same treatment.

Current A\C Overdrawn

Realization of interest and principle by overdrawing the current account and/or OD accounts not allowed, in case of such practiced is followed by the bank it should be classified one level down if it is not settled within one month.

Restructuring and Rescheduling

All restructured and rescheduled loans needs 12.5% loan loss provision.

There must be written proposal and sufficient collateral and projected cash flow for restructuring and rescheduling of loan.

At least 25% interest must be recovered for such restructuring. In case of loan classified as sick industry by the committee formed by Nepal government 12% interest recovery will be sufficient for restructuring but 25% provision is required. If such loan is regular for 2 years, it can classify as good.

Provision for NBA

(1) In case of the non-banking assets accepted by the licensed institution, cent percent loss provisions shall be made from the date of the acceptance.

(2) In case of sale of the non-banking assets, necessary adjustment in the accounts of loss provision maintained for such property shall immediately be made.

Writing Back of Provision

Provision can be write back in the following circumstances only

- If the loan is write off
- If the loan is repaid
- If the classification of loan is changed (surprisingly removed)

Change of classification due to restructuring and rescheduling of loan cannot write back the provision already made at least for two years till the interest payment is regular.

Such written back provision cannot be utilized for distribution of dividend and bonus.

2.4 Review of Related Studies

Narayan Prasad Poudel (2053) in his article called 'Financial Statement Analysis' published in Nepal Rastra Bank Samachar on 2053 is reviewed. According to Mr. Poudel, Balance Sheet, Profit/Loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items.

Mr. Poudel further writes that, "Saving collection is another factor which is essential for banks to balance their operations and generate sufficient surplus in their cash-flows. In recent years growth rate of banks deposits has decline to about 16% compared against 23% of the past. Mobilization of internal resources in the country demands that banks attract more financial resources from the public".

The users of the financial statements of a bank need relevant, reliable and comparable information, which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decision. According to Poudel, the principal objectives of analyzing financial statements are to identify:

- Financial adoptability (liquidity),
- Financial performance (profitability),
- Financial position of the bank (solvency)

According to Mr. Poudel, the other factors, to be considered in analyzing the financial statements of banks is to assess the capital adequacy ratio and liquidity position. In the line of the norms set by Bank for International Settlements, capital adequacy of a bank is assessed on the basis of risk-weighted assets. It indicated a bank's financial strength and solvency. Presently, the capital fund of a bank should not be less than 8% (at least 4% should be in the form of tier-1 capital or core capital) of its risk-weighted assets as capital fund. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base (Poudel: 2053:26-31).

Surendra Pandey (2003) in his article called 'NRB's effort to reform commercial banks' published in The Rising on June 10, 2003 is reviewed. Mr. Pandey stressed that "one of the main objectives of a commercial bank is to safeguard the money of depositors. With the economic trends highlights the performance of the economy in the first month of the current fiscal year (mid July 1997- mid March 1998). Revenue collection grew by mere 4.3% while the non-budgetary and other receipts registered a decline in absolute terms. Thus, total resources fell by 2.3%. On the expenditure side, an overall increase of 8.0% was observed. Development expenditure continued to stagnate whilst regular expenditure surged. Consequently, the fiscal deficit widened to USD 75.5 Million. Around 75% of the fiscal deficit was financed through foreign cash loans with the remainder being financed through the sale of treasury Bills and borrowing from NRB (NRB Press Communication, 1998).

In an effort to fight the above economic slowdown of the country, NRB, during the month of April, 1998, lowered the Cash Reserve Ratio (CRR) by an average of

1.5%.Banks, which was earlier required to maintain 12% of their local currency deposits as CRR, now have to maintain between 10 and 11% depending on their deposits mix. Under the new arrangements, saving and current account with the banks will attract 11% CRR while the term deposits will attract CRR at the lower rate of 9%. The aim of this move was to reduce the cost of funds of the banks so that the benefit could be passed on to the industry and export related borrowers. The CRR reduction has released additional liquidity between NRP 1,000 million to NRP 1,500 million to the banks. As expected several banks have started to drop interest rates. The decision of NRB to cut CRR comes at a time when the Nepalese industry has been reeling under the recession. The cut in CRR and the resultant drop in the interest rates should contribute towards the recovery of the recession hit industry (NRB Press Communication, 1998).

Basel-II norms are expected to have far-reaching consequences on the health of financial sectors worldwide because of the increased emphasis on banks' risk-management systems, supervisory review process and market discipline. The new norms bring to front not only the issues of bank-wide risk measurement but also of active risk management.

The new capital adequacy framework (new capital accord) and its accompanying documentation constitute a very detailed set of proposals with something to say about every aspect of how banks originate measure and manage risk. This is quite fitting. Since the original Accord of 1988, every aspect of risk management in banking has changed and it is inevitable that regulators, as custodians of the financial system, should seek to leverage this transformation in banks' own methods. But instigating such wide-ranging, once and for all, change to the regulatory framework brings its own risks. In particular, the measurement of risks under Pillar I need to be as sensitive and flexibly formulated as possible – while supervisory review and market discipline need to be formulated to reinforce (Barclays, 2001:25).

I mechanism and supervisory process. It will be beneficial to the commercial banks, as it requires review and measurement of risk, which ultimately have effect of risk management approach to comply with the accord standards (NRB, 2006:15).

To reform of supervisory authorities' practices and measures to ensure that the national supervisory practices in different countries do not vary unnecessarily. Supervisory authorities related to the current capital adequacy regime require a considerable input of work and expense from banks. The proposed changes would increase the amount of information needed by the authorities concerning risks related to commercial banking activities, in particular. In order to avoid unnecessary effort and costs, the changes should be implemented in a way that would allow the systems and data currently used for banks' business management and supervision to be utilized as far as possible (NRB, 2006:26).

This new accord has examined possible approaches in relation to these risks. Furthermore, and more generally, capital ratios, judged in isolation, may provide a misleading guide to relative strength of banking industries. There may be differences between countries in the fiscal treatment and accounting presentation for tax purposes of certain classes of provisions for losses and of capital reserves derived from retained earnings may to some extent distort the comparability of the real or apparent capital positions of international banks (NRB, 2006:28).

An article by M. Lamsal (2001) entitled “NRB directives: Bankers plea for lighter structure” in Business Age on July 2001 conclude that the central bank rocked that commercial banks with seven directives issued in two installments asking banks to start complying with the new structures by mid-July 2001 or face grave consequences. NRB claims that these are based on the internationally accepted banking norms of Basel committee. The researcher has opined that banks are expected to be disparate to meet the regret of capital adequacy norms since the consequences the banks have to face in case of non-compliance are very strict for this purpose they will have to issue additional shares, which is not possible for them in the short-run or they do not prefer to go for additional

share issue simply because they will also have to pay the same dividend as the past to the holders of shares so issued. This becomes the more difficult as the business is not going to expand commensurately. The difficult is understandable now when every banker is complaining of the lack of new investment projects (Lamsal, 2001:31-35).

An article by R. Heakal (2003) entitled ‘what are central banks?’ has written that the central bank has been described as “the lender of the last resort.” This means that the central bank is responsible for providing its economy with funds when commercial banks cannot cover a supply shortage. In other words, the central bank prevents the country’s banking system from failing. Though, the primary goal of central banks is to provide their countries’ currencies with price stability by controlling inflation. A central bank also acts as the regulatory authority of a country’s monetary policy and is the sole provide and printer of notes and coins in circulation. Time has proven that the central bank can best function in these capacities by remaining independent from government fiscal policy and therefore uninfluenced by political concerns of any regime. The central bank should also be completely divested of any commercial banking interests (Heakal, 2003).

2.5 Review of Thesis

B.R Bohara, (1992), has conducted a research entitled “Comparative study of the financial performance of NABIL and NIBL”. The basic objectives of the researcher’s study were highlighted the financial performance and role of joint venture banks in the liberalized Nepalese economy. Researcher’s attempts of analyzing financial performance were concentrated in ratio analysis and he derived the strength and weakness of two major banks by calculating important ratio liquidity ratio and profitability ratio. After calculating the ratio, along with income and expenditure analysis and trend analysis, Mr. Bohara has and Capital Formation in Nepal” has indicated that capital fund has significant and positive relation with both deposit and loans. That means increase or decrease in capital fund increase or decrease deposits as well as loans. However the degrees of relationship were different. But relation of capital with profit was positive and

insignificant. That indicated less of increase or decrease in profit is due to capital fund or capital fund is least responsible in changing profit. Bank should increase capital fund to increase the capital fund ratio according to increase in deposit.

S. Pandey (2002), in researcher's study entitled 'Nepal Rastra Bank directives, their implementation and impact on the commercial banks- A case study of HBL' has set conclusion on the subject of the capital adequacy of HBL during his study periods, i.e., as of poush 2058 as the capital fund of HBL stands at Rs.1070 million comprising of Rs.756 million core capital and Rs.314 million of supplementary capital.

Samir Dhakal (2006) in the study entitled "A comparative study of Capital Adequacy of Joint Venture Banks in Nepal especially of Nepal Arab Bank Ltd. and Nepal Investment Bank Ltd." concludes that the liquidity position of both the banks is below the normal standard of 2:1. Comparatively this ratio of NIBL is better on an average. Both the banks are found to be efficient in utilizing most of their total assets. Capital structure is highly leveraged, capital adequacy ratio of NIBL is better than that of NABIL and the profitability position of both the banks is not recorded as satisfactory. Based on the findings of analysis, the research suggests finding out the root cause of weak liquidity position to improve the liquidity of both banks. Similarly, both the banks are suggested to or to mobilize resources more efficiently and to extend their banking facilities even in the rural areas.

NavRaj Timsina (2010), in researcher's study entitled "A study on capital adequacy of commercial banks in Nepal," and following conclusions were drawn on the basis of quantitative and qualitative analysis on the selected commercial banks (Standard Chartered Bank Nepal Limited, Nepal Investment Bank Limited and Rastriya Banijya Bank Limited)

Average total risk weighted assets of SCBNL was Rs 9608 million. RWA in SCBNL is more or less consistent. The bank had Rs 7839 million (81.5%) of on balance sheet risk

assets and Rs 1769 million (18.5%) of off balance sheet risk assets in average. Majority of risk weighed asset is composed by loan and advance and bills and purchase (54%) in total risk weighted assets. Average total risk weighted assets of NIBL was Rs 7670 million. RWA in NIBL is increasing trend. The bank had Rs 6640 million (86.5%) of on balance sheet risk assets and Rs 1030 million (13.5%) of off balance sheet risk assets in average. Majority of risk weighed asset in NIBL is composed by loan and advance and bills and purchase (72%) in total risk weighted assets. Risk weighted assets of both on balance sheet and off balance sheet assets of Rastriya Banijya Bank Limited was fluctuating. The bank had Rs 51508 million (98%) of on balance sheet risk assets and Rs 796 million (2%) of off balance sheet risk assets in average. majority of risk weighed asset is composed by loan and advance and bills and purchase (22%) and by other assets (46%) in total risk weighted assets.

Rastriya Banijya Bank Limited has not focused on off balance sheet transactions (2% of total risk weighted assets) in its business to increase profitability in comparison to Standard Chartered Bank Nepal Limited (18.5%) and Nepal Investment Bank Limited (13.5%) of off balance sheet risk weighted assets based on total RWA. Net profit and capital fund of SCBNL and NIBL are in increasing in each year in comparison to last year. But, in case of RBB, capital fund of RBB is continuously decreasing up to FY 2004/05.

Two variable relationships: There is positive correlation between capital fund and net profit but negative relationship between capital fund and non-performing loan in SCBNL and NIBL. All those relationship were significant in SCBNL and NIBL. But in case of RBB, there is negative correlation between capital fund and net profit, capital fund and GDP, capital fund and NPL. Relationship of capital fund to net profit was significant but relationship of capital fund to non-performing loan was insignificant. Multiple regression for SCBNL: There is positive relationship ($r=97.49\%$) of capital fund among net profit, NPL and it was significant in SCBNL. Multiple regression line of SCBNL shows that in

each year, capital fund will increase with positive intercept 4.7% plus 0.74 percent of % of net profit increased minus 0.36% of % NPL increased. Multiple regression for RBB: There is positive relationship ($r=99.53\%$) of capital fund among net profit, NPL and it was not significant in RBB. Multiple regression line of RBB (based on actual values) shows that in each year, capital fund (dependent variable) will decrease by 15103.8 million intercept plus 1.98 times of net profit plus 2.71 times of non-performing loan.

Percentage of pass loan to total loan is increasing each year in SCBNL and NIBL where as percentage of bad loan is decreasing each year. It is good indicator of the bank to reduce credit risk and to increase profitability of the bank. Pass loan of the SCBNL consist about more than 95% of total loan where as bad loan consists less than 2.5% of total loan in SCBNL and NIBL. In case of RBB, percentage of pass loan is fluctuating. The average percentage of pass loan and non-performing loan both was 50%. The percentage of non-performing loan was increasing up to FY 2003/04 and began to decrease from FY 2004/05. Since the level of NPL in RBB significantly higher in comparison to SCBNL and NIBL, there is high credit risk in RBB.

Santosh Dhakal (2012), in researcher's study "**Capital Adequacy and Investment Pattern Of Neplease commercial Bank**" A comparative study of Machhapuchhre Bank, Kumari Bank, and Everest Bank Ltd.

Conclude that the market seems over crowded and the banks are now finding a tough competition among themselves. Since the entry barriers are not so high due to the government liberal policy, this competition is expected to be more intense in the near future, as there is always the possibility of a new player entering this sectors. The commercial banks in Nepal are doing well but they are not giving satisfactory results due to some internal and external factors.

Commercial banks of Nepal are bound by the directives of NRB. The directives No. 1 has set norms on capital adequacy for commercial banks. Every commercial bank has to meet

the requirement of capital adequacy as stated by the directives. Capital adequacy is the portion of capital fund in regard of risk-weighted assets that commercial banks hold. Capital adequacy is required to the money of the depositors as the banks are playing with the money they collected from the depositors.

Under the study, MBL, KBL & EBL are found to be successful to comply with requirement of capital adequacy norms. Well the banks are meeting the requirement. Capital adequacy ratio shows the strength of a bank. The capital deposit ratios of MBL, KBL & EBL seems to be satisfied. The lack of policy in regard of these types of ratios caused to the relaxation of the banks not to meet the adequate ratios. The correlation coefficient between deposit and total investment and between capital and credit are found to be positive. The test of hypothesis revealed that the deposit and total investment and capital and credit are correlated the trend analysis of total deposit and total credit are in increasing trend.

2.6 Research Gap

From the above literature, it can be concluded that capital adequacy is the pre-requisite for running commercial bank smoothly. Capital adequacy should be maintained for the welfare and benefit of the investors and bank itself. Previous researchers analyzed financial performance by using secondary source of information in terms of financial ratio. But actually speaking, capital adequacy can be determined by various factors. Among them, country's environment and fiscal policy in terms NRB directives and adequate fund may be the strong determinant for capital adequacy management in the commercial banks. Present study tries to define different accord and directives of central bank in Nepal by applying those various facts in the context of Nepalese commercial banks. It can be very useful or important in capital adequacy management. Thus, present study will be fruitful to those interested person, parties, scholars, professor, students, businessman and government for academically as well as policy perspective. Hope this study will help to others in future in the related field .

CHAPTER 3

RESEARCH METHODOLOGY

Research is common parlance that refers to a search for knowledge. Research is a careful critical inquiry or examination on seeking facts and principles, diligent investigation in order to ascertain something. Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically (Kothari, 1990:35). A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study the applied methodology will be used. The following are the details of research Methodology used in the analysis.

3.1 Research Design

A research design is the arrangement of condition of collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. “Research design is a plan, structure and strategy of investigation concerted so as to obtain answer to research question and to control variance” (Kerlinger,1993:300) Keeping in mind the objectives of the study, descriptive cum analytical research design has been followed. The research design is basically focused on analytical study. The research examines the relationship of bank capital to various other stakes, like credits, deposits, etc. This study research attempts to analyze the capital funds of commercial banks taking the data and information of Nepal SBI Bank, Everest bank & Himalayan Bank to Bank Ltd Financial as well as statistical tools have been done for analyzing the research.

3.2 Population and Sample

A present 32 commercial banks have been working in Nepal. Since, it is difficult to study the entire population with this short period of time. Only three commercial banks have been selected. So, NSBL, HBL, and EBL have been selected for the case study. It is assumed that these three samples can represent the basis financial characteristics of the remaining other commercial banks. So, Nepal SBI Bank Ltd, Himalayan Bank Limited and Everest Bank Limited have been selected for the case study. Hence, the population of the study comprises of all these commercial banks and the samples are NSBL, HBL, and EBL researcher will take every precaution to avoid the sampling error and inaccuracies that may creep in during the process of collecting and analyzing the data.

While the research questionnaire, different responds of the respondents have been considered as sample for the study. Ten bank officials have been interviewed with a questionnaire.

3.3 Sources of Data

To conduct any research, data collection is a major task. This research is mainly based on the secondary sources of data and information. A. Major secondary sources are as follows:

- i) Annual reports of sample commercial banks.
- ii) Quarterly bank and financial institution statistics published by Nepal Rastra Bank.
- iii) Annual reports of commercial banks published by Nepal Rastra Bank.
- iv) Economic Survey published by Nepal Government, Ministry of Finance.
- v) Statistical Year Book of Nepal published by Central Bureau of Statistics.
- vi) Previous Research Studies and Articles on the subject.
- vii) Various IMF, World Bank, UN Reports.

3.4 Data Collection Technique

Study is based on both primary and secondary data. For the secondary data and information, directives of Nepal Rastra Bank, annual reports of Nepal SBI Bank Ltd, Himalayan Bank Limited and Everest Bank Limited various publications of Nepal Rastra Bank. A part from these various books, journals, seminar papers available in the library and relevant articles from the website has been used.

For primary data collection, opinion survey is conducted through interview, conversation and questionnaire distribution to the respondents. Primary data is basically aimed at observation of investor's trading strategies and opinion of financial executives and brokers. Such are accomplished by distribution of close end questionnaire to the respondent. Beside that unstructured interview and conversation with bank officials and bank account holders has been considered.

3.5 Data Analysis Tools

Generally different methodologies of data analysis have been adopted. However, in this study attempts have been made to apply some financial tools and statistical tools.

3.5.1 Financial Tools

The best tool for financial analysis is Ratio analysis. Ratio can be taken as expression of relationships between two items or group of items and may be calculated in any number and ways so far meaningful co-relation is obtainable. "Ratios are relationship, expressed in mathematical terms between figures which have a cause effect relationship or which are connected with each other in some other manners" (Grewal, 1974:102). The following ratios related to the banks are used to analyze the data:

a) Capital Adequacy Ratio

The capital adequacy ratio is one of the most significant ratios, used specially to assess the bank's strength of the capital structure of the adequacy of the capital. The fundamental objective of this research study is to examine capital adequacy of Nepal SBI

Bank Ltd, Himalayan Bank Limited and Everest Bank Limited. Capital adequacy ratio is the primary tool to analyze the capital fund of a bank. It is based on total risk-weighted assets of the bank. Capital adequacy ratios are a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposure.

To determine the adequacy of total capital fund:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital Fund}}{\text{Total Risk - Weighted Assets}} * 100\%$$

Total Risk-Weighted Assets (TRWA) = Assets held by a financial institution to which degree of risk have been assigned, so that adequate provision can be set aside.

To determine the adequacy of core capital:

$$\text{Capital Adequacy Ratio} = \frac{\text{Core Capital}}{\text{Total Risk - Weighted Assets}} * 100\%$$

b) Capital to Deposit Ratio: The capital/deposit ratio is an important tool in measuring capital adequacy ratios of banks. Naturally, the function of a bank requires a lot of capital. It is known on the basis of deposit in the bank, whether a bank has an adequate ownership capital or not. But this ratio cannot reflect the capital adequacy of a bank. The capital to deposit ratio is derived by the following method:

$$\text{Capital to Deposit ratio} = \frac{\text{Total Capital Fund}}{\text{Total Deposit Collected}} * 100\%$$

c) Credit/Deposit Ratio: The major tool to examine the liquidity of a bank is credit/deposit ratio. It measures the ratio to fund that a bank has utilized in credit out of the deposit total collected. In other words, credit and deposit are the major function of

commercial banks. The relationship between these two factors shows the efficiency, ability and idle resources of commercial banks. The ratio of credit and deposit declares by the effective utilization of collected resources. The credit /deposit ratio is derived by the following method:

$$\text{Credit/Deposit ratio: } \frac{\text{Total Credit}}{\text{Total Deposit Collected}} * 100\%$$

3.5.2 Statistical Tools

a) Karl Pearson Correlation (r)

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. It does not tell us anything about causes and effect relationship. Correlation analysis helps us in determining the degree of relationship between two or more variable. “In business, correlation analysis enables the executive to estimate costs, sales, price and other variables. On the basis of some other series with which their costs, sales or prices may be functionally related. Some of the guesswork can be removed from decisions when the relationship between variables to be estimated and the one or more other variables on which it depends is closed and reasonably in variant.”(Gupta, 1991:556)

For the purpose of analysis of cash management in Nepalese commercial banks, the correlation analysis is applied in same related topics. In these topics it can be seen the correlation between dependent and independent variables of cash management. The formula of correlation is as follows:

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Where

$$x = X - \bar{X}$$

$$y = Y - \bar{Y}$$

b) Test of Hypothesis:

The reliability of the calculated value of correlation coefficient can be tested by using the t-test.

To test the null hypothesis that the observed sample has been drawn from a population in which the considered variables are uncorrelated i.e.

Null hypothesis $H_0: \rho = 0$

Alternative hypothesis, $\rho \neq 0$

Under H_0 , the test statistic,

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

Where,

r=observed correlation coefficient

n=total pairs of observations.

Decision: Null hypothesis is accepted if calculated value of t is less than tabulated value of t at 5% level of significance with (n-2) d.f reject otherwise.

c) Trend Analysis:

“Trend analysis is an analysis of financial ratio over time used to determine the improvement or deterioration of its financial situation” (Weston & Bringham, 1992:297).

Trend analysis of ratios indicates the direction of change over a period of time. Trend analysis informs about the expected future return, future achievement of the bank, and future credit worthiness of the bank. Financial capability of the bank and much other information which would be helpful to concerned parties of the bank such as a statistical

tool for the analysis of selected commercial banks. The liner trend line for different variables according to line has been fitted.

The liner trend line equation is:

$$y = b_0 + b_1 t \dots \dots \dots (I)$$

Where,

y = considering variable

b₀ = y-intercept

b₁ = measures the increasing or decreasing rate o of Y

t = tine period considered

The value of constants b₀&b₁ can be estimated by using the principle of least square method. The normal equations are:

$$\Sigma y = nb_0 + b_1 \Sigma t \dots \dots \dots (II)$$

$$\Sigma ty = b_0 \Sigma t + b_1 \Sigma t^2 \dots \dots \dots (III)$$

But for simplification, if the time variable in measured as a deviation from its mean, i.e, Midpoint is taken as the origin, the negative values in the first half of the series balance out the positive value in the second half so that $\Sigma t = 0$.the values of constant board b₁ can easily be determined by using following formula:

$$B_0 = \Sigma y / n$$

$$B_1 = \Sigma ty / \Sigma t^2$$

Beside the above mentioned analytical tool, graphical representation of the data is going to enhance the understandability at a glance.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of relevant data of HBL, EBL and SBI Which were collected from various sources, are changed into an understandable presentation using financial as well as statistical tools mentioned in the previous chapter i.e., Research methodology. This chapter is the heart of this study. This chapter will be of great relevance for this study, as all the findings, conclusions and recommendations are going to be derived from the calculations done in this section. The analyses of data consist of organizing, tabulating and performing financial as well as statistical analysis. This chapter is divided into following parts:-

1. Presentation of data
2. Ratio analysis
3. Statistical analysis
4. Impact of capital adequacy norms
5. Major Findings

4.1 Presentation of Data

In this section the collected data and information are presented, various tables, charts and graphs are used to best present the data. The data and information has been presented below:

4.1.1 Capital Fund

Capital fund of a bank consists of two types of components: tier-1 capital and tier-2 capital. Tier-1 capital is known as core capital and Tier-2 capital is known as supplementary capital. So, the total capital fund of a bank derived by adding these two components.

a) Constituent of Core Capital

The core capital is the major part of capital for banks. It appears in balance sheet under the heading of Capital and Liabilities. Following items falls under core capital.

- a. **Paid Up Capital:** Paid up capital includes an amount paid by the shareholders on ordinary shares only. It is made up of ordinary shares held by the promoters as well as by the general public. It also includes bonus shares issued from time to the existing shareholders out of profit earned by the bank.
- b. **Share Premium:** Share premium is the excess of price over par value received by the bank that had issued shares.
- c. **Non-redeemable Preference Share:** Non-redeemable preference share is that type of share, which gets fixed rate of preference dividend, and it cannot redeemed unless it liquidates.
- d. **General Reserve:** General reserve is an amount set aside out of profit for the future use or for the expansion of business. For commercial banks, banks should transfer at least 20% of net profit in such reserve account annually. Such reserve can be used only after getting approval from Nepal Rastra Bank.

b) Constituent of Supplementary Capital

The amount of supplemental capital is limited to the total amount of core capital. Any excess of supplemental capital over core capital is ineligible for the calculation of the capital adequacy ratio. Following are the components of supplement capital.

- a. **General loan loss provisions :** General loan loss provision is the provision made against the pass loans of bank. This amount is limited to 1.25% of total risk weighted assets.
- b. **Exchange fluctuation reserve:** This reserve arises from the requirement that bank must transfer 25% of their foreign exchange revaluation gain for the year to the exchange equalization reserve in order to offset possible future revaluation losses.

- c. **Assets revaluation reserve:** Assets are revalued from the historic cost to market value. If revaluation results gain, the excess amount is transferred to assets revaluation reserve. Such reserve should not be more than 2 percent of total supplementary capital.
- d. **Hybrid capital instruments:** These are such capital instrument which has both/combine characteristics of capital and debt. These instruments are unsecured, are not redeemable, participate in losses. It includes cumulative perpetual preferred shares, perpetual loan stocks, and mandatory convertible loan stocks approved by the NRB etc.
- e. **Subordinated term debt:** These are redeemable preference shares and debentures, repayment period of which is 5 years or more. They are issued without any security.
- f. **Other free reserves:** Those reserves, which should not be used for the purpose of meeting future liabilities. Such reserves are created from profit e.g. Contingency reserves, Dividend equalization reserves etc.

Calculation of Risk Based Capital Ratio

In case of Basle regulatory framework, the risk based capital ratio is calculated using the following formula:

$$\text{Risk Based Capital} = \frac{\text{Tier I capital} + \text{Tier II capital}}{\text{Sum of risk weighted assets}} \times 100$$

Where sum of risk weighted assets = sum of (on balance sheet items x risk weights) +
Sum of (off-balance sheet items x conversion factors x risk weights)

But in case of Nepalese regulatory framework, the risk based capital ratio is calculated

Using the following formula:

$$\text{Risk Based Capital} = \frac{\text{Tier I capital} + \text{Tier II capital}}{\text{Sum of risk weighted asset}} \times 100$$

4.1.1.1 Capital Fund of HBL

HBL has increasing its capital fund. The capital fund of HBL over the period of last five years has been presented below:

Table No. 4.1
Capital Fund of HBL

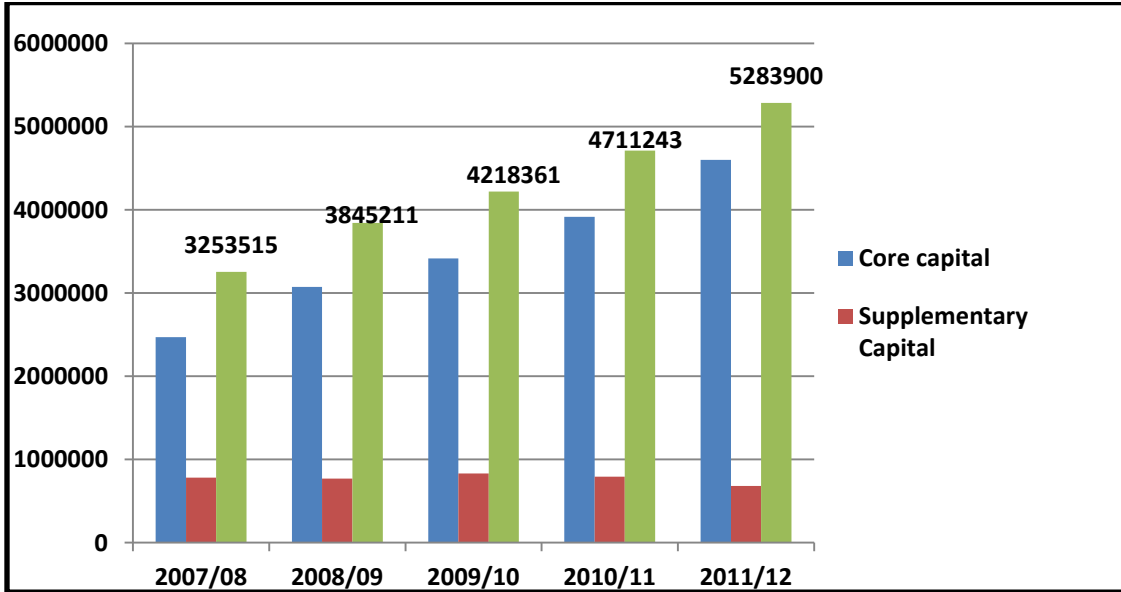
(Rs. In '000)

Fiscal Year	Core capital	Supplementary Capital	Total Capital Fund
2007/08	2469785	783730	3253515
2008/09	3074436	770774	3845211
2009/10	3414638	830722	4218361
2010/11	3916970	794272	4711243
2011/12	4600146	683754	5283900

Source: Annual Report of HBL.

The above table shows that the capital fund of HBL has been increasing throughout the review period. The core capital and supplementary capital has been significantly increased over the five years period. The total capital fund of HBL seems to be growing consistently. The capital funds of bank are largely depends upon share capital. The capital fund of HBL is presented in the figure below:

Figure No. 4.1
Capital Fund of HBL



4.1.1.2 Capital Fund of SBI

Issued and paid up capital of the bank increased by Rs. 150 million and reached Rs. 500 million.

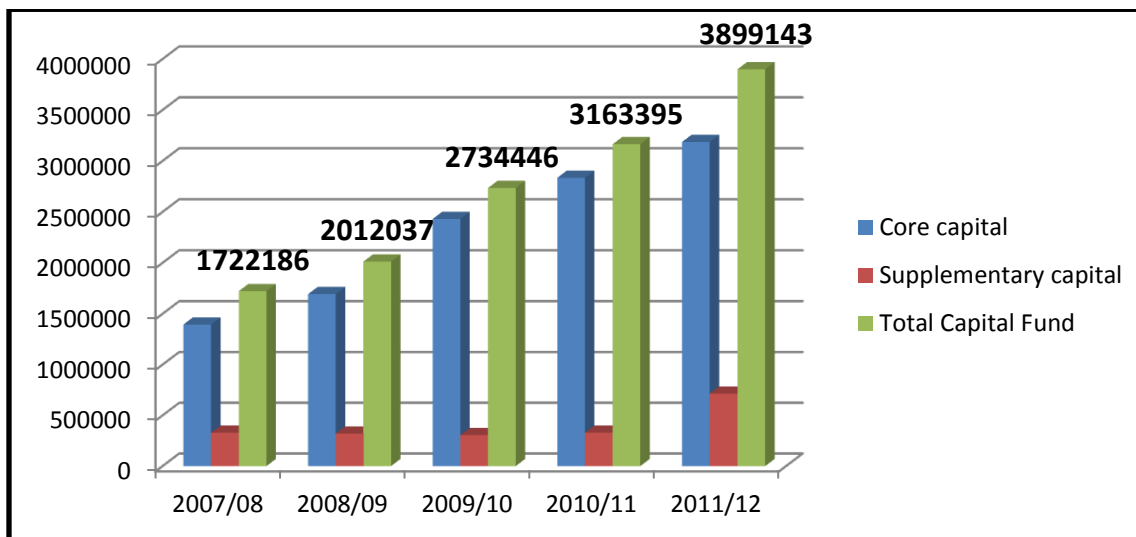
Table No. 4.2
Capital Fund of SBI

(Rs. In '000)

Fiscal Year	Core capital	Supplementary capital	Total Capital Fund
2007/08	1394064	328122	1722186
2008/09	1692371	319666	2012037
2009/10	2430021	304425	2734446
2010/11	2834109	329286	3163395
2011/12	3185117	714025	3899143

Source: Annual Report of SBI

The above table shows that the capital fund of SBI has been increasing. The core capital and the supplementary capital of SBI have been gradually increased over the five years period. Therefore, the total capital fund of SBI increased from 172 million to 389 million. The capital fund of KBL has been presented in the figure below:



4.1.1.3 Capital Fund of EBL

EBL has increased its capital fund. The bank issued an unsecured subordinate term debt in the FY 2007/08 amounting at Rs 300 million to increase its supplementary capital. The bank has a plan to issue bonus share by 20% of its paid up capital. The capital fund of EBL over the period of last five fiscal years has been presented below:

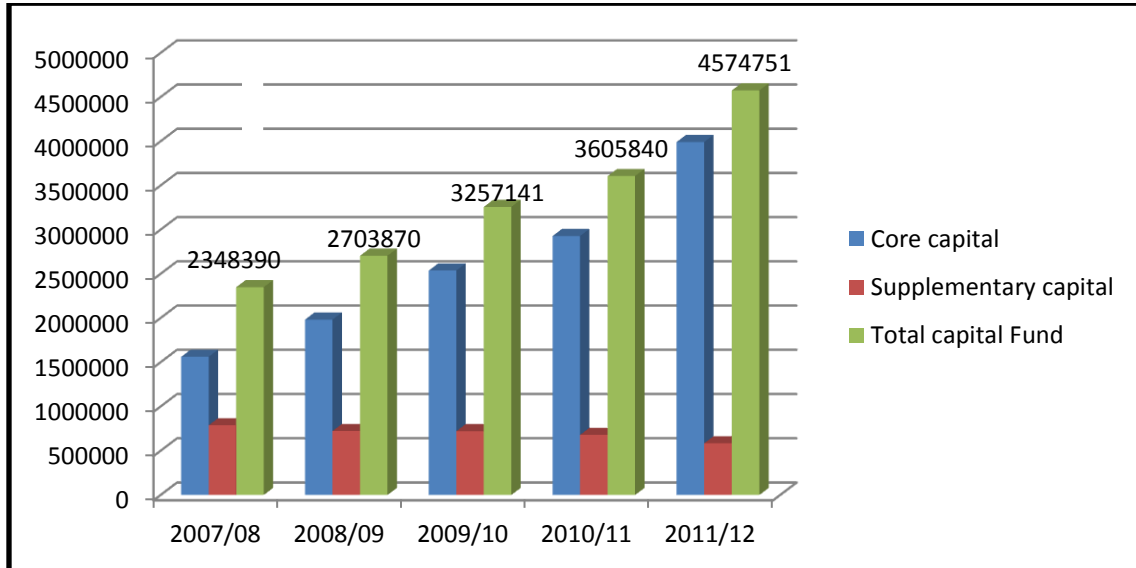
Table No. 4.3
Capital Fund of EBL (Rs. In '000)

Fiscal Year	Core capital	Supplementary capital	Total capital Fund
2007/08	1560859	787531	2348390
2008/09	1981579	722291	2703870
2009/10	2537093	720049	3257141
2010/11	2927168	678673	3605840
2011/12	3990924	583827	4574751

Source: Annual Report of EBL

The above table shows that the capital fund of EBL has been increasing throughout the review period. The core capital and supplementary capital has been significantly increased over the five years period. The capital fund of EBL is presented in the figure below:

Figure No. 4.3



4.1.2 Risk –Weighted Assets of HBL, SBI and EBL

Capital adequacy ratio deals with the asset side of the balance sheet of the banks. For this purpose, first the bank calculates the total weighted assets, both the on balance sheet assets and the off- balance sheets are considered for the purpose of calculation of total risk weighted assets. The assets are categorized into four types while assigning weight-age then NRB has assigned weight-age of 0%, 20%, 50% and 100% according to their nature of risk bearing which is based on the standard of Basel committee. On the basis of the data collected from HBL, SBI and EBL the total risk-weighted assets have been presented below:

Table No. 4.4
Risk- weighted Assets of HBL, EBL and SBI

(Rs. In '000)

Fiscal Year	HBL	SBI	EBL
2007/08	25624467	14565374	19509798
2008/09	32628846	15904775	24131922
2009/10	36049314	20580286	27499899
2010/11	39545254	25267759	31440377
2011/12	42584895	32226282	37792502

Source: Annual Report of HBL, SBI and EBL

4.1.3 Deposit Collection Trend of HBL, EBL, SBI & National Total

Being the main function of the commercial bank, every commercial bank collects the deposit from general public. Verma & Malhotra (1993) has mentioned that a commercial bank has usually access to three sources of fund: capital fund, deposits and borrowings.

Table No. 4.5

(Amount in millions)

Fiscal Year	HBL	EBL	SBI	National Total	Share of HBL	Share of EBL	Share of SBI
2007/08	31805	23976	13715	426080	7.46	5.63	3.22
2008/09	34681	33322	27957	563604	8.14	7.82	6.56
2009/10	37611	36932	34896	630881	8.83	8.67	8.19
2010/11	40920	41127	42415	687588	9.60	9.65	9.95
2011/12	47731	50006	53337	867978	11.20	11.74	12.52

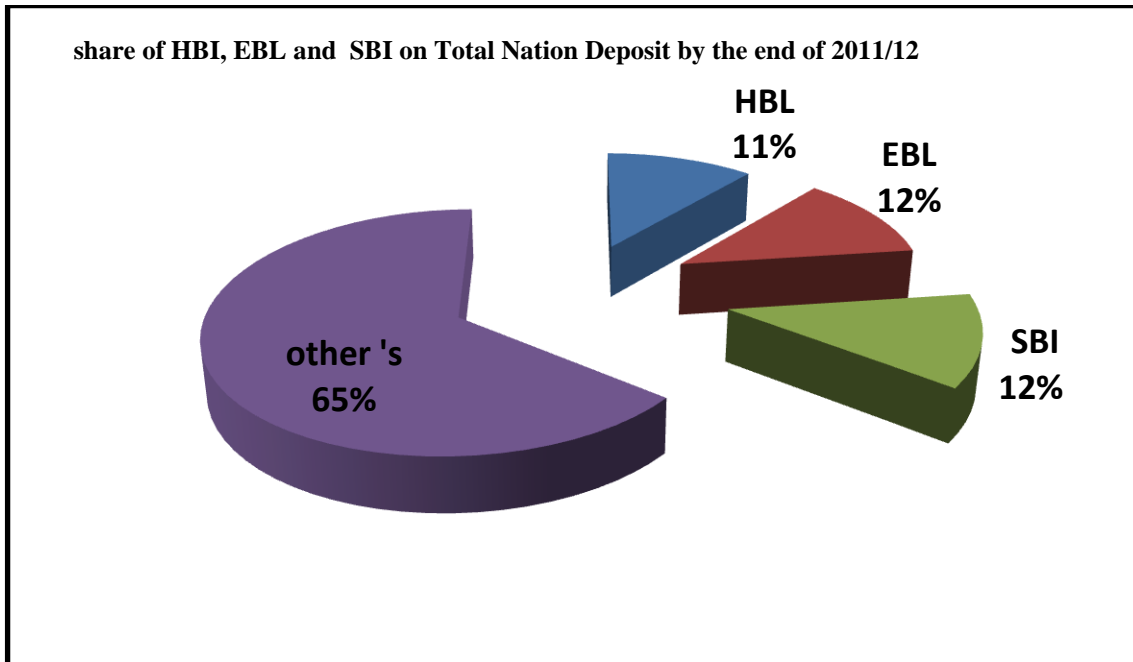
Source: Annual Report of HBL, SBI and EBL and Appendix -L

The Table shows that HBL, EBL and SBI have been gradually increasing the deposit collection but sometimes decreasing ratio on national ratio. However, a small share in the total national deposits than that of HBL. HBL has more than 11.20% share in national deposit collections at the end of fiscal year 2011/12.

In the year 2011/12 EBL has collected deposits amounting at Rs. 50006 million whereas HBL has collected deposits amounting at Rs. 47731 million and SBI collected deposited 53337. The total deposit collections by all the banks at the end of fiscal year 2007/08 amounted at Rs. 426080 million which increased to Rs 867978 million at the end of fiscal year 2011/12.

The deposit collection by HBL, EBL & SBI and other remaining banks by the end of FY 2011/12 are illustrated in the Figure 4.4 in a pie-chart format.

Figure 4.4 **Deposit Ratio of HBL, SBI and EBL and National Total**



4.1.4 Credit Trend of HBL, EBL & SBI

The main source of income of a bank is interest income from credit. Most of the amounts of deposit collected are used for credit lending. Bhandari (2003) believes that the commercial banks are inspired with the motive of gaining profit. To fulfill this objective, they should widely manage and improve banking sector. They must pay much more attention to the flow of loan. Being commercial banks, one of the prime functions of HBL, EBL and SBI is credit lending. The credit lending trends of HBL, EBL and SBI for last five fiscal year share been illustrated in the Table 4.6 including the national total and their share on it.

Table No.4.6
Credit Trend of HBL, EBL, SBI and National Total

(Amount in millions)

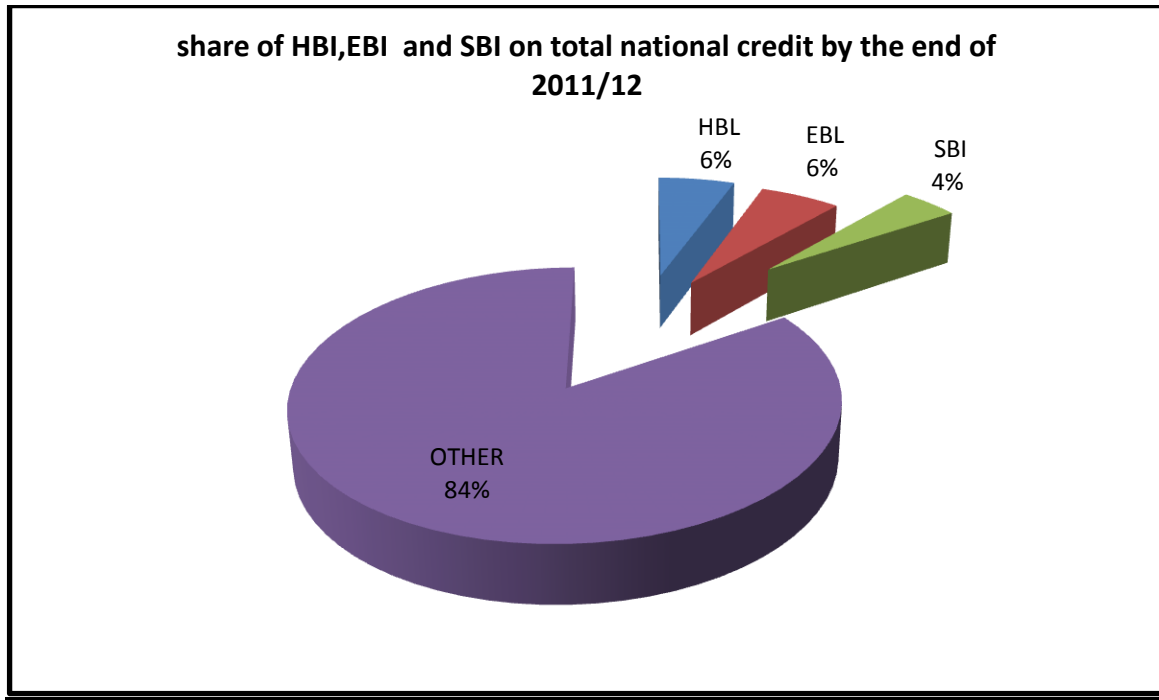
At the End of Fiscal Year	HBL	EBL	SBI	National Total	% HBL	% EBL	% SBI
2007/08	19985.2	18814.3	12574.2	302913.4	6.60	6.21	4.15
2008/09	25292.1	24366.2	15465.2	398143	6.35	6.12	3.88
2009/10	28976.6	28129.7	17887.2	469279.84	6.17	5.99	3.81
2010/11	31656.6	31534.7	21657.1	528023.14	6.00	5.97	4.10
2011/12	34282.6	36376.00	26403.8	622575.49	5.51	5.84	4.24

Source: Annual Reports of HBL, EBL, SBI & Banking & Financial Statistics (2012) and Appendix -M

The Table 4.6 shows that HBL, EBL and SBI are very much eager to flow loan. This is very much clear by the statistics of their credit trend for last five fiscal years. Both the banks are growing their share of credit in the market. HBL had credit of Rs. 34282.6 millions at the end of 2011/12 that is the 5.51% of national total. EBL had credit of Rs 36376.00 millions which was 5.84% of national total at the end of 2011/12. SBI had credit of Rs. 26403.8 millions which was 4.24% of national total at the end of 2011/12.

The credit flow of HBL, EBL and SBI and other remaining banks by the end of FY 2011/12 are illustrated in the Figure 4.5 in a pie-chart format.

Figure 4.5



In the Figure 4.5, the share of HBL, EBL and SBI on total national credit can be viewed. Since SBI has a lesser share of 4% in credit therefore it has a small pie, where as HBL has a bigger pie as it has a share of more than 6% and EBL has more than SBI & less than HBL it has 6%.

4.2.1 Ratio Analysis

The ratio analysis is the most powerful tool of the financial analysis and it is used in analyzing the financial information to indicate the operating and financial efficiency and growth of the bank. The following ratios are used to evaluate the financial statement of HBL, SBI and EBL in regard of the capital adequacy and capital fund.

4.2.1 Capital Adequacy Ratio of HBL, SBI and EBL

Capital adequacy ratio is the ratio of the total capital fund of the bank to the total Risk-Weighted assets (TRWA). NRB requires banks to maintain a certain capital adequacy ratio based on the total risk weighted assets in order to safe guard the money of the depositors against any possible loss. The first of the eleven different directives issued by NRB under the prudential norms to be followed by the banks contains detailed instructions with respect to the maintenance of capital adequacy ratio, its calculation and the possible penalties for its non compliance. Banks are required to maintain capital adequacy mainly in three different ways, the core capital adequacy ratio, the supplementary capital adequacy and the total capital adequacy ratio. The calculation of capital adequacy ratios of HBL, SBI and EBL has been presented in Appendix-I. The below table 4.7 shows the capital adequacy ratio for the period of five FY starting from 2007/08 to FY 2011/12.

Table No.4.7
Capital Adequacy of HBL, SBI & EBL

Fiscal Year	HBL Percentage of Total Capital	HBL Percentage of Core Capital	SBI Percentage of Total Capital	SBI Percentage of Core Capital	EBL Percentage of Total Capital	EBL Percentage of Core Capital
2007/08	12.42	9.36	12.32	9.97	11.44	9.04
2008/09	11.02	8.81	11.92	10.03	11.34	8.52
2009/10	10.72	8.68	12.25	11.89	10.77	8.39
2010/11	10.68	8.88	11.52	10.32	10.43	8.46
2011/12	11.02	9.60	11.21	9.16	11.02	9.61

Details calculation shown in Appendix -F

The above table shows that the capital adequacy ratio of HBL, SBI and EBL are able to comply with the requirement of NRB. Since the prescribed proportion of minimum

capital fund by NRB. SBI has maintained the total capital fund at 11.92% to 12.32% and core capital 9.16 % to 11.89% of total risk weighted assets. So, SBI have higher capital adequacy ratio than prescribed ratio by NRB.

EBL has also maintained the total capital fund at 10.43% to 11.44% and core capital 8.39 % to 9.61% of total risk weighted assets. So, EBL have higher capital adequacy ratio than prescribed ratio by NRB.

For the FY 2007/08 to 2011/12 were total capital fund at 11%, 12%, 10%,10% and 10%. Core capital at 5.5%, 5.5%, 6%, 6% and 6% on total risk weighted assets.

In FY 2007/08 to 2011/12 HBL has maintained the total capital fund at 11.02% to 12.42% and core capital 8.68% to 9.60% of total risk weighted assets. While required of norms directed by NRB was 9% to 12%. So, HBL have higher capital adequacy ratio than prescribed ratio.

4.2.2 Capital to Deposit Ratio of HBL, SBI and EBL

The capital to deposit ratio is an important tool in measuring capital adequacy ratio of banks. It is assumed that the capital to deposit ratio should be 10%. If there is 8% capital of the total deposit of the bank it is considered good.

The calculation of capital to deposit ratios of HBL, EBL and SBI are shown in Appendix- The table 4.8 shows that capital to deposit ratios for the period of five FY starting from FY 2007/2008 to 2011/12 .

Capital to Deposit Ratio

Table 4.8

Fiscal Year	HBL	EBL	SBI
2007/08	10.23	9.79	12.56
2008/09	11.09	8.11	7.20
2009/10	11.22	8.82	7.84
2010/11	11.51	8.77	7.46
2011/12	11.07	9.15	7.31

Details calculation shown in Appendix -G

The above table shows that the capital to deposit ratios of HBL, SBI and EBL has been found satisfactory. It can be said that the capital to deposit ratios that the commercial banks presently maintaining are sufficient. Capital to deposit ratios of commercial banks is seemed to be adequate than want actually required.

Credit to Deposit ratio of HBL, EBL & SBI

Table 4.9

Fiscal Year	HBL	EBL	SBI
2007/08	62.84	78.47	91.68
2008/09	72.93	73.12	55.32
2009/10	77.04	76.17	51.26
2010/11	77.36	76.68	51.06
2011/12	71.82	72.74	49.50

Details calculation shown in Appendix -H

The above table shows that credit to deposit ratio of HBL, EBL and SBI has been found satisfactory. The credit deposit to deposit ratio of HBL was 62.84% at the end of FY 2007/08 which is increased to 77.36% at the end of FY 2010/11 and decreased to 71.82 at

the end of FY 2011/12 . The C/D ratio of HBL is in between 62.84% to 77.36%, whereas EBL 78.47% at the end of FY 2007/08 which is increased to 76.68% at the end of FY 2010/11 and decreased to 72.74% at the end of 2011/12. The C/D ratio of SBI is in between 49.50% to 91.68%. Whereas SBI 91.68% at the end of 2007/08 and decreased 55.32% to 49.50. There is not any standard for credit\deposit ratio in Nepal, a ratio between 75% - 80% can be accepted to be adequate. As compare to three banks, two banks are somehow nearer to this standard.

4.3 Statistical Analysis

Under this analysis, some statistical tools are used to achieve the objectives of the study. Following statistical tools are used for this purpose.

4.3.1 Correlation Coefficient

Attempts have been made to measure the association between Deposit and Total Investment and between Capital and Credit using Karl Person's correlation coefficient. Correlation analysis is a measure of association that is based on numerical values of the two variables. It is preferred in this study to identify the relationship between variables whether the relationship is significant or not. Value of correlation coefficient is presented below:

Table No. 4.10

Correlation Coefficient of Deposit Vs Capital and Capital Vs Credit

Correlation	HBL	EBL	SBI
Capital & Deposit	0.992	0.968	0.981
Capital and Credit	0.986	0.978	0.991

Detail calculation shown in Appendix -I

Since the calculated correlation coefficient between Deposit and Total capital of HBL is 0.992, EBL is 0.968 and SBI is 0.981. Similarly, the calculated correlation coefficient between capital and credit of HBL is 0.986, EBL is 0.978 and SBI is 0.991. It can be said that Deposit, Capital and Credit of a bank are presented below in the tables.

4.3.2 Test of Hypothesis

The calculated values of correlation coefficients presented in table 4.8 are tested by using t-test.

Table No. 4.11

Hypothesis -1

Null Hypothesis (H_0)	Deposit and Total capital of HBL are not correlated
Alternative Hypothesis (H_1)	Deposit and Total Capital of HBL are correlated
Correlation Coefficient (r_1)	0.992
Calculated value (t_{cal})	13.63
Tabulated value (t_{tab})	3.18
Degree of freedom (d.f)	3
Level of significance (α)	5%
Decision	H_0 rejected i.e.; Capital and Deposit of HBL are correlated.

Detail calculation shown in Appendix -I

Table No 4.12
Hypothesis- 2

Null Hypothesis (H ₀)	Deposit and Total Capital of EBL are not correlated
Alternative Hypothesis (H ₁)	Deposit and Total Capital of EBL are correlated
Correlation Coefficient (r ₁)	0.968
Calculated value (t _{cal})	6.712
Tabulated value (t _{tab})	3.18
Degree of freedom (d.f)	3
Level of significance (1)	5%
Decision	H ₀ rejected i.e.; Capital and Deposit of EBL are correlated.

Detail calculation shown in Appendix -I

Table No 4.13
Hypothesis- 3

Null Hypothesis (H ₀)	Deposit and Total Capital of SBI are not correlated
Alternative Hypothesis (H ₁)	Deposit and Total Capital of SBI are correlated
Correlation Coefficient (r ₁)	0.981
Calculated value (t _{cal})	8.75
Tabulated value (t _{tab})	3.18
Degree of freedom (d.f)	3
Level of significance (1)	5%
Decision	H ₀ rejected i.e.; Capital and Deposit of SBI are correlated.

Detail calculation shown in Appendix -I

Table No. 4.14
Hypothesis- 4

Null Hypothesis (H_0)	Capital and Credit of HBL are not correlated
Alternative Hypothesis (H_1)	Capital and Credit of HBL are correlated
Correlation Coefficient (r_1)	0.986
Calculated value (t_{cal})	10.22
Tabulated value (t_{tab})	3.18
Degree of freedom (d.f)	3
Level of significance (α)	5%
Decision	H_0 rejected i.e.; Capital and Credit of HBL are correlated.

Detail calculation shown in Appendix -I

Table No 4.15
Hypothesis -5

Null Hypothesis (H_0)	Capital and Credit of EBL are not correlated
Alternative Hypothesis (H_1)	Capital and Credit of EBL are correlated
Correlation Coefficient (r_1)	0.978
Calculated value (t_{cal})	8.06
Tabulated value (t_{tab})	3.18
Degree of freedom (d.f)	3
Level of significance (α)	5 %
Decision	H_0 rejected i.e.; Capital and Credit of EBL are correlated.

Detail calculation shown in Appendix -I

Table No 4.16
Hypothesis- 6

Null Hypothesis (H_0)	Capital and Credit of SBI are not correlated
Alternative Hypothesis (H_1)	Capital and Credit of SBI are correlated
Correlation Coefficient (r_1)	0.991
Calculated value (t_{cal})	12.80
Tabulated value (t_{tab})	3.18
Degree of freedom (d.f)	3
Level of significance (α)	5%
Decision	H_0 rejected i.e.; Capital and Credit of SBI are correlated.

Detail calculation shown in Appendix -I

The above table shows that there is a relationship between deposit and total investment and capital and credit of all three banks. So, it is concluded that the increase in deposit causes the increase in investment. Also increase in capital causes increase in credit.

4.4 Impact of Capital Adequacy Norms on HBL, EBL and SBI

4.4.1 Study of Changes in Capital Fund of HBL, EBL and SBI

The capital adequacy norms have greater impact on changes in capital fund of commercial banks. Table 4.1 Table 4.2 and Table 4.3 have already presented the components of capital that are included in capital funds of HBL, EBL and SBI respectively. The Table 4.17 shows the raise of capital funds of all sample banks in the form of amount and percentage.

Table 4.17**Changes in Capital Fund of HBL, EBL and SBI**

(Rs. In millions)

Fiscal Year	HBL	Amount Increased	Percentage Increment	EBL	Amount Increased	Percentage Increment	SBI	Amount Increased	Percentage Increment
2007/08	3253.515	----	----	2348.39			1722.186		
2008/09	3845.211	591.696	18.19	2703.87	355.48	15.14	2012.037	289.851	16.83
2009/10	4218.361	373.15	9.70	3257.141	553.271	20.46	2734.446	722.409	35.90
2010/11	4711.243	492.882	11.68	3605.84	348.699	10.71	3163.395	428.949	15.69
2011/12	5283.9	572.657	12.16	4574.751	968.911	26.87	3899.143	735.748	23.26

Detail calculation shown in Appendix -J

In the beginning of the study period HBL had total capital fund of Rs. 3253.515 millions which has been increased up to Rs. 591.696 millions by the end of FY 2008/09 being annual increment of 18.19%, 9.70%, 11.68% and 12.16%. As well as EBL had capital fund of Rs. 2348.39 millions in the beginning of the study period. EBL increased its capital fund up to Rs. 968.911 millions by the end of FY 2011/12 being annual increment by 15.14%, 20.46%, 10.71% and 26.87%. & SBI had capital fund of Rs. 1722.186 millions in the beginning of the study period. SBI increased its capital fund up to Rs. 735.748 millions by the end of FY 2011/12 being annual increment by 16.83%, 35.90%, 15.69% and 23.26%.

Therefore the capital adequacy norms have impact on commercial banks making them increase their capital fund every year.

4.4.2 Study of Changes in Share Capital of HBL, EBL and SBI

It has been observed in Table 4.10 that the capital base of HBL, EBL and SBI has been increased. The banks have been increasing the core capital accordingly. The Table 4.16 shows that the raise of new capital of all bank.

Table 4.18
Changes in Share Capital of HBL, EBL and SBI

(Rs.In Thousands)

Fiscal Year	HBL	Amount Increased	Percentage Increment	EBL	Amount Increased	Percentage Increment	SBI	Amount Increased	Percentage Increment
2007/08	1216215	831400	874527
2008/09	1600000	383785	31.56	1030467	199067	23.94	1224338	349811	40.00
2009/10	2000000	400000	25.00	1279607	249140	24.18	1861324	636986	52.03
2010/11	2400000	400000	20.00	1391570	111963	8.75	2102966	241642	12.98
2011/12	2760000	360000	15.00	1761126	369556	26.56	2355739	252773	12.02

Detail calculation shown in Appendix -K

In the beginning of the study period HBL had paid-up capital of Rs. 1216215 Thousands which has increased to Rs. 1600000 Thousand by the end of FY 2008/2009, to Rs. 2000000 Thousand by the end of FY 2009/2010, Rs. 2400000 Thousand by the end of FY 2010/2011, to Rs. 2760000Thousand by the end of FY 2011/2012. As well as EBL had paid-up capital of Rs. 831400 Thousand in the beginning of the study period. EBL increased it capital to Rs. 1030467 Thousand by the end of FY 2008/09, to Rs. 1279607 Thousand by the end of FY 2009/10, to Rs. 1391570 Thousand by the end of FY 2010/011 and to Rs. 1761126 Thousand by the end of FY 2011/112. And SBI had paid-

up capital of Rs. 874527 Thousand in the beginning of the study period. Rs. 1224338 Thousand by the end of FY 2008/09, to Rs. 1861324 Thousand by the end of FY 2009/10 ,to Rs. 111963Thousand by the end of FY 2010/11 and to Rs. 2355739 Thousand by the end of FY 2011/12.

4.5 Major Findings of the Study

The thesis has been concentrated on the capital adequacy norms and capital relates items of HBL, EBL and SBI, certain findings based on the analysis conducted under the analytical section are going to be exposed in the following section: . The findings of the study are as follows:

Capital Fund: In the beginning of the study period HBL had total capital fund of Rs. 3253.515 Millions which has been increased up to Rs. 5283.9 Millions by the end of FY 2011/12 being annual increment of 18.19%, 9.70%, 11.68% and 12.16%. As well as EBL had capital fund of Rs. 2348.39 Millions in the beginning of the study period. EBL increased its capital fund up to Rs. 4574.751 Millions by the end of FY 2011/12 being annual increment by 15.14%, 20.46%, 10.71% and 26.87%. & SBI had capital fund of Rs. 1722.186 Millions in the beginning of the study period. SBI increased its capital fund up to Rs. 3899.143 Millions by the end of FY 2011/12 being annual increment by 16.83%, 35.90%, 15.69% and 23.26%.

Capital Adequacy: It is found that all sample banks are quite successful in maintaining capital adequacy as prescribed by NRB. Beginning of the year all samples banks are adequate the NRB prescribed capital adequacy ratio by 12.42%, 11.44% & 12.32% respectively HBL, EBL & SBI. In other years all sample banks have meet the requirement regularly. In the last year of the study i.e., in FY 2011/12 HBL, EBL and SBI all three banks have quite similar. HBL has capital adequacy ratio 11.02%, EBL has 11.02% and SBI has 11.21% while the requirement of norms directed by NRB is only 10%.

The above table shows that the capital adequacy ratio of HBL, EBL and SBI are able to fulfill with the requirement of NRB. Since the prescribed proportion of minimum capital fund by NRB for the FY 2007/08 to 2011/12 were total capital fund at 11%, 12%, 10%, 10 % and 10%. Core capital at 5.5%, 5.5%, 6 %, 6 % and 6 % on total risk weighted assets.

In FY 2007/08 to 2010/11 HBL has maintained the total capital fund at 10.72% to 12.42% and core capital 8.68% to 9.60% of total risk weighted assets. While required of norms directed by NRB was 10% to 12%. So, HBL have higher capital adequacy ratio than prescribed ratio.

In FY 2007/08 to 2011/12 EBL has maintained the total capital fund at 10.43% to 11.44% and core capital 8.39 % to 9.61% of total risk weighted assets. So, EBL have higher capital adequacy ratio than prescribed ratio by NRB.

And in FY 2007/08 to 2011/12 SBI has maintained the total capital fund at 11.21% to 12.32% and core capital 9.16 % to 11.89% of total risk weighted assets. So, SBI have higher capital adequacy ratio than prescribed ratio by NRB.

Risk-weighted Assets: While studying the capital adequacy the most significant component is risk-weighted assets. HBL had larger amount of risk-weighted assets than others sample banks. HBL had of Rs. 25624467 thousand in the year 2007/08 which is increased to Rs. 32628846 thousand, Rs 36049314 thousand, Rs. 39545254 thousand and Rs. 42584895 thousand in the year of 2011/12. EBL had risk-weighted assets of Rs. 19509798 thousand in FY 2007/08 which has been increased to Rs. 24131922 thousand, Rs. 27499899 thousand, Rs. 31440377 thousand and Rs. 37792502 thousand in the year of 2011/12. SBI had risk-weighted assets of Rs 14565374 thousand in FY 2007/08 which has been increased to Rs. 15904775 thousand, Rs. 20580286

thousand and Rs. 25267759 thousand in succeeding years. and Rs. 32226282 thousand in the year of 2011/12.

Capital to Deposit Ratio: Around 8% to 10% of capital to deposit ratio is acceptable for commercial bank. The capitals to deposit ratios of HBL in the beginning year there is 10.23% it means it is satisfactory. And rest of the year is in increasing trends. (11.09%, 11.22%, 11.51% and 11.07%). The capital to deposit ratio of EBL is also satisfactory and acceptable but SBI capital to deposit ratio is unsatisfactory. But in Nepal there are no such norms or standards to regularize this requirement. Still, it can be said that the capital to deposit ratios that the commercial banks presently maintaining are not sufficient.

CD Ratio: The Credit / Deposit Ratio (CD Ratio) is one of the most important ratios for commercial banks. This ratio shows how effectively the banks have been using the fund they collected from depositors. In this regard, HBL has been maintaining CD Ratio around 62.84% to 77.36%, EBL has been maintaining CD Ratio around 72.74% to 78.47% & SBI has 49.50 % to 91.68 %. The percentage of CD ratio indicates the percentage of the fund used in credits by the bank. It is learnt that the CD ratios of EBL is more satisfactory than HBL and SBI.

Statistical Analysis: The correlation coefficients between capital and deposit and correlation coefficients between capital and credit of both the banks showed that they are correlated. All coefficients are more than 0.9 which is near to 1. The coefficients nearest to 1 show the relationship to be more perfect. Also, the test of hypothesis proved the existence of their relationship.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This research aimed at studying capital adequacy norms for commercial banks set by NRB with case study of HBL, EBL and SBI. Raise and utilization of funds are the primary functions of commercial banks. As such, commercial banks collect a large amount of deposits from general public. Capital must be sufficient to protect a bank's depositors and counterparties from the risks like, credit and market risks. Otherwise the banks will use all the money of depositors in their own interest and depositors will have to suffer loss.

Being the central bank of Nepal, NRB has the responsibility to give special attention to the interest of depositors. NRB has issued various directives to regulate commercial banks. The directive no. 1 has been issued for a norm on capital adequacy to be followed by commercial banks. The thesis report has been prepared with the study of capital funds of HBL, EBL and SBI. The study showed that the capital fund of HBL, EBL and SBI meet the requirements of the norms. Capital Adequacy Ratios have been calculated to check the adequacy as per the norms. Capital-to-deposit ratios and CD ratios, which are key ratios of commercial banks, have also been checked. Analyses have been done to check the relationship of capital fund with deposit and credit. Four test of hypothesis have been done to check the existence of the relationship of these components.

5.2 Conclusion

Commercial banks of Nepal are bound by the directives of NRB. The directive no.1 has set norms on capital adequacy for commercial banks. Every commercial bank has to meet the requirement of capital adequacy as stated by the directive. Capital adequacy is the portion of capital fund in regard of risk-weighted assets that a commercial bank holds. Capital adequacy is required to safeguard the money of the

depositors as the banks are playing with the money they collected from the depositors.

The banks under study, HBL, EBL and SBI, are found to be successful to comply with requirement of capital adequacy norms. Anyhow the banks are meeting the requirements. However some bank officials are not satisfied with the provisions.

The capital-to-deposit ratio of three banks seems to be satisfactory. The CD ratio of HBL is low in the beginning and increasing slowly. Although all the bank of CD ratio is satisfactory. And the banks are successful to meet the capital adequacy requirement; they seem to be ineffective to fulfill other capital and deposit ratios which are also very much important in regard of safeguarding the money of the depositors. The lack of policy in regard of these types of ratios caused to the relaxation of the banks not to meet the adequate ratios.

The correlation coefficients between capital and deposit and between capital and credit are found to be positive and near to perfect correlation. The test of hypothesis revealed that the capital and deposit and correlated. Also, the test brought to light that capital and credit are also correlated.

5.3 Recommendation

After the thorough study of the research, the following recommendations have been proposed for consideration by the concerns:

The capital funds of all commercial banks under study are highly depending upon share capital. It is recommended to the commercial banks to follow optimal capital structure which maximizes the market value of the firm. The banks should use some sort of debt financing also depending upon its viability. It is notable that HBL has already

started the debt financing. But still debt financing is an unaccustomed source of financing for commercial banks in Nepal.

Capital-to-deposit ratios of commercial banks under study are seemed to be less than what actually required. There is lack of standard on such type of ratio. Therefore, NRB should set appropriate standard for capital-to-deposit ratio to be maintained by commercial banks. An 8% to 10% ratio is appropriate for the ratio of capital-to-deposit.

CD ratios of SBI are comparatively less than that of HBL and EBL. This showed that HBL & EBL has not been effectively using the funds collected from depositors. It is recommended to SBI that it should concentrate more on credit and investment. The bank shall expand its branches in rural areas of Nepal and search investment opportunities there. There is not any standard for credit\deposit ratio in Nepal, a ratio between 75% - 80% can be accepted to be adequate. As compare to three banks all three banks are somehow nearer to this standard.

The commercial banks should try to maintain appropriate capital-to-deposit ratios and CD ratios as stated above. They can no way escape pointing on to the lack of the policy.

While lending loans and advances, banks should keep in account that the fund they are going to lend is collected from public and hence should be carefully treated on behalf of the depositors to protect their interest.

NRB should consult to the various bank officials before setting or resetting standards on capital adequacy norms. The complaints and criticisms of bank officials should be considered accordingly. Consequently, an optimal standard will ensue which will satisfy almost everyone.

It has been found that the depositors are not aware of the fact of the necessity of adequate capital fund to safeguard their deposits. They deposit their money to any banks regardless of adequate capital fund which may endanger safety of their money. Therefore, NRB should initiate awareness programs to make the depositors aware of such fact and think before depositing money in any commercial banks.

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APPENDIX-A

Capital Fund to Risk Weighted Assets of COMMERCIAL BANKS

(Rs. in million)

BANK	Mid-July 2007		Mid-July 2008		Mid-July 2009		Mid-July 2010		Mid-July 2011		Mid-July 2012	
	Capital Fund	Capital Fund to Risk Weighted Assets(%)	Capital Fund	Capital Fund to Risk Weighted Assets(%)	Capital Fund	Capital Fund to Risk Weighted Assets(%)	Capital Fund	Capital Fund to Risk Weighted Assets(%)	Capital Fund	Capital Fund to Risk Weighted Assets(%)	Capital Fund	Capital Fund to Risk Weighted Assets(%)
1 Nepal Bank Limited	(6334.74)	(32.47)	(5744.60)	(22.60)	(5404.00)	(14.85)	(4851.80)	(11.17)	(4607.70)	(9.66)	(3008.00)	(5.46)
2 Rastriya Banijya Bank	(17265.78)	(48.45)	#####	(44.17)	#####	(37.70)	(8617.08)	(24.08)	(7422.94)	(22.52)	(4738.00)	(9.35)
3 NABIL Bank Limited	2307.63	12.04	3207.70	11.91	4065.20	11.71	3129.41	11.61	3835.70	11.75	6921.00	12.71
4 Nepal Investment Bank Limited	2851.62	12.17	3898.50	11.31	5538.10	12.10	3765.16	11.69	4585.39	12.09	7397.00	11.82
5 Standard Chartered Bank Nepal Limited.	2225.28	15.71	3115.40	16.80	3190.40	14.70	3053.00	17.78	3371.62	17.38	5019.00	16.28
6 Himalayan Bank Limited	2651.37	12.11	3348.00	12.50	3980.70	11.31	3119.88	11.02	3439.22	11.45	5700.76	11.90
7 Nepal SBI Bank Limited	1444.80	13.29	1726.00	12.54	2048.40	12.18	2141.89	14.14	2508.19	11.84	3999.00	11.37
8 Nepal Bangladesh Bank Limited	(2707.44)	(23.55)	(2151.40)	(16.49)	855.60	6.62	1112.24	12.87	1845.66	10.53	2323.00	11.86
9 Everest Bank Limited	1676.12	11.19	2387.13	11.34	2875.90	11.04	2203.62	10.56	2759.14	10.43	4643.10	11.08
10 Bank of Kathmandu Limited	1265.83	12.38	1635.16	11.47	2067.70	11.91	1741.60	11.45	2071.36	11.62	3240.64	12.58
11 Nepal Credit and Commerce Bank Limited	(574.91)	(9.13)	734.10	11.22	992.00	10.93	1099.00	14.25	1523.30	13.58	1923.00	11.81
12 Nepal Industrial & Commercial Bank Limited	1208.61	12.20	1626.90	12.96	1963.70	14.60	1660.25	15.30	17649.53	24.49	2643.00	12.85
13 Lumbini Bank Limited	(435.81)	(7.80)	366.90	5.99	998.40	17.78	1151.52	24.62	1442.28	14.68	2112.00	23.55
14 Machhapuchhre Bank Limited	1110.67	12.07	1264.17	11.30	1776.60	11.61	1700.20	11.18	1773.51	10.86	2789.00	14.60
15 Kumari Bank Limited	1115.21	11.20	1898.80	14.96	2060.80	11.57	1624.51	13.80	1966.16	14.45	2760.00	13.27
16 Laxmi Bank Limited	921.93	12.43	1213.24	11.16	1721.60	11.49	1795.60	14.99	1912.81	13.21	2649.55	11.81
17 Siddhartha Bank Limited	863.82	11.84	1178.00	11.20	1630.70	10.45	1492.79	10.73	1877.69	11.75	3022.00	11.47
18 Agriculture Development Bank Ltd.	1753.24	4.19	6661.59	14.93	11206.60	15.79	8976.24	18.05	10903.50	19.95	16324.00	18.25
19 Global Bank Ltd	487.34	14.69	767.61	11.66	1054.70	9.53	1522.28	11.36	1563.31	11.20	3386.00	12.47
20 Citizens Bank International Ltd.	565.12	21.43	668.00	11.80	1116.10	11.65	1308.27	11.28	2144.29	15.57	2571.03	15.54
21 Prime Commercial Bank Ltd			776.41	13.28	1131.90	10.35	1329.21	11.68	2410.48	16.34	3018.74	14.85
22 Bank of Asia Nepal Ltd.			732.10	21.30	1143.00	12.45	1534.98	14.86	2091.93	17.41	2494.08	16.81
23 Sunrise Bank Ltd.			707.89	14.16	1493.70	13.36	1582.12	11.74	2182.42	14.68	2409.00	12.75
24 Development Credit Bank Ltd.			1318.80	28.23	1929.80	21.02	1883.79	24.03	2032.97	21.23	2413.00	18.38
25 NMB Bank Ltd.			1286.50	36.25	1642.80	20.14	1816.05	20.68	2169.96	17.80	2289.00	14.65
26 Kist Bank Ltd.							2045.10	14.83	2089.52	14.49	2359.99	12.53
27 Janata Bank Nepal Limited							1400.00	67.81	1446.17	36.44	2210.82	24.39
28 Mega Bank Nepal Limited									1682.61	19.33	1862.00	19.11
29 Commerz and Trust Bank Nepal Limited									1400.00	28.77	1495.00	20.80
30 Civil Bank Limited									1200.00	21.28	1306.00	14.19
31 Century Commercial Bank Limited									1100.95	42.08	1200.00	23.06
32 Sanima Bank Limited											2334.00	21.81
Total	(4870.10)	(1.71)	15460.31	235.00	37257.20	241.74	40719.83	377.06	74949.02	464.49	97068.72	443.75

APPENDIX-B

Reporting Forms

FORM NO.1 CAPITAL ADEQUACY TABLE

1.1 RISK WEIGHTED EXPOSURES		Current Period	Previous Period
a	Risk Weighted Exposure for Credit Risk		
b	Risk Weighted Exposure for Operational Risk		
c	Risk Weighted Exposure for Market Risk		
Total Risk Weighted Exposures (a+b+c)			

1.2 CAPITAL		Current Period	Previous Period
Core Capital (Tier 1)			
a	Paid up Equity Share Capital		
b	Irredeemable Non-cumulative preference shares		
c	Share Premium		
d	Proposed Bonus Equity Shares		
e	Statutory General Reserves		
f	Retained Earnings		
g	Un-audited current year cumulative profit		
h	Capital Redemption Reserve		
i	Capital Adjustment Reserve		
j	Dividend Equalization Reserves		
k	Other Free Reserve		
l	Less: Goodwill		
m	Less: Miscellaneous Expenditure not written off		
n	Less: Investment in equity in licensed Financial Institutions		
o	Less: Investment in equity of institutions with financial interests		
p	Less: Investment in equity of institutions in excess of limits		
q	Less: Investments arising out of underwriting commitments		
r	Less: Reciprocal crossholdings		
s	Less: Other Deductions		
Supplementary Capital (Tier 2)			
a	Cumulative and/or Redeemable Preference Share		
b	Subordinated Term Debt		
c	Hybrid Capital Instruments		
d	General loan loss provision		
e	Exchange Equalization Reserve		
f	Investment Adjustment Reserve		
g	Assets Revaluation Reserve		
h	Other Reserves		
Total Capital Fund (Tier I and Tier II)			

1.3 CAPITAL ADEQUACY RATIOS		Current Period	Previous Period
Tier 1 Capital to Total Risk Weighted Exposures			
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures			

FORM NO.2 RISK WEIGHTED EXPOSURE FOR CREDIT RISK

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b-c	e	f=d*e
Cash Balance	0	0		0	0%	0
Balance With Nepal Rastra Bank	0	0		0	0%	0
Gold	0	0		0	0%	0
Investment in Nepalese Government Securities	0	0		0	0%	0
All Claims on Government of Nepal	0	0		0	0%	0
Investment in Nepal Rastra Bank securities	0	0		0	0%	0
All claims on Nepal Rastra Bank	0	0		0	0%	0
Claims on Foreign Government and Central Bank (ECA 0-1)	0	0		0	0%	0
Claims on Foreign Government and Central Bank (ECA -2)	0	0	0	0	20%	0
Claims on Foreign Government and Central Bank (ECA -3)	0	0	0	0	50%	0
Claims on Foreign Government and Central Bank (ECA-4-6)	0	0	0	0	100%	0
Claims on Foreign Government and Central Bank (ECA -7)	0	0	0	0	150%	0
Claims On BIS, IMF, ECB, EC and on Multilateral Development Banks (MDB's) recognized by the framework	0	0		0	0%	0
Claims on Other Multilateral Development Banks	0	0	0	0	100%	0
Claims on Public Sector Entity (ECA 0-1)	0	0	0	0	20%	0
Claims on Public Sector Entity (ECA 2)	0	0	0	0	50%	0
Claims on Public Sector Entity (ECA 3-6)	0	0	0	0	100%	0
Claims on Public Sector Entity (ECA 7)	0	0	0	0	150%	0
Claims on domestic banks that meet capital adequacy requirements	0	0	0	0	20%	0
Claims on domestic banks that do not meet capital adequacy requirements	0	0	0	0	100%	0
Claims on foreign bank (ECA Rating 0-1)	0	0	0	0	20%	0
Claims on foreign bank (ECA Rating 2)	0	0	0	0	50%	0
Claims on foreign bank (ECA Rating 3-6)	0	0	0	0	100%	0
Claims on foreign bank (ECA Rating 7)	0	0	0	0	150%	0
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	0	0	0	0	20%	0
Claims on Domestic Corporates	0	0	0		100%	
Claims on Foreign Corporates (ECA 0-1)	0	0	0	0	20%	0
Claims on Foreign Corporates (ECA 2)	0	0	0	0	50%	0
Claims on Foreign Corporates (ECA 3-6)	0	0	0	0	100%	0
Claims on Foreign Corporates (ECA 7)	0	0	0	0	150%	0
Regulatory Retail Portfolio (Not Overdue)	0	0	0	0	75%	0
Claims fulfilling all criterion of regulatory retail except granularity	0	0	0	0	100%	0
Claims secured by residential properties	0	0	0	0	60%	0
Claims not fully secured by residential properties	0	0	0	0	150%	0
Claims secured by residential properties (Overdue)	0	0	0	0	100%	0
Claims secured by Commercial real estate	0	0	0	0	100%	0
Past due claims (except for claim secured by residential properties)	0	0	0	0	150%	0

Annexure: Reporting Forms

High Risk claims	0	0	0	0	150%	0
Investments in equity and other capital instruments of institutions listed in the stock exchange	0	0	0	0	100%	0
Investments in equity and other capital instruments of institutions not listed in the stock exchange	0	0	0	0	150%	0
Other Assets (as per attachment)	0	0	0	0	100%	0
TOTAL	0	0	0	0		0
B. Off Balance Sheet Exposures	Gross Book Value a	Specific Provisions b	Eligible CRM c	Net Value d=a-b-c	Risk Weight e	Risk Weighted Exposures f=d*e
Revocable Commitments	0	0		0	0%	0
Bills Under Collection	0	0		0	0%	0
Forward Exchange Contract Liabilities	0	0	0	0	10%	0
LC Commitments With Original Maturity Upto 6 months domestic counterparty	0	0	0	0	20%	0
foreign counterparty (ECA Rating 0-1)	0	0	0	0	20%	0
foreign counterparty (ECA Rating 2)	0	0	0	0	50%	0
foreign counterparty (ECA Rating 3-6)	0	0	0	0	100%	0
foreign counterparty (ECA Rating 7)	0	0	0	0	150%	0
LC Commitments With Original Maturity Over 6 months domestic counterparty	0	0	0	0	50%	0
foreign counterparty (ECA Rating 0-1)	0	0	0	0	20%	0
foreign counterparty (ECA Rating 2)	0	0	0	0	50%	0
foreign counterparty (ECA Rating 3-6)	0	0	0	0	100%	0
foreign counterparty (ECA Rating 7)	0	0	0	0	150%	0
Bid Bond, Performance Bond and Counter guarantee domestic counterparty	0	0	0	0	50%	0
foreign counterparty (ECA Rating 0-1)	0	0	0	0	20%	0
foreign counterparty (ECA Rating 2)	0	0	0	0	50%	0
foreign counterparty (ECA Rating 3-6)	0	0	0	0	100%	0
foreign counterparty (ECA Rating 7)	0	0	0	0	150%	0
Underwriting commitments	0	0	0	0	50%	0
Lending of Bank's Securities or Posting of Securities collateral as	0	0	0	0	100%	0
Repurchase Agreements, Assets sale with recourse	0	0	0	0	100%	0
Advance Payment Guarantee	0	0	0	0	100%	0
Financial Guarantee	0	0	0	0	100%	0
Acceptances and Endorsements	0	0	0	0	100%	0
Unpaid portion of Partly paid shares and Securities	0	0	0	0	100%	0
Irrevocable Credit commitments (short term)	0	0	0	0	20%	0
Irrevocable Credit commitments (long term)	0	0	0	0	50%	0
Other Contingent Liabilities	0	0	0	0	100%	0
TOTAL	0	0	0	0		0
Total RWE for credit Risk (A) +(B)	0	0	0	0		0

APPENDIX- C

Statement of Assets & Liabilities of HIMALAYAN BANK LT D

(Rs. In million)

	Liabilities	2007	2008	2009	2010	2011	2012
1	CAPITAL FUND	1328.2	1541.7	2513.0	3119.9	3439.2	3995.5
	a. Paid-up Capital	643.5	772.2	1216.2	1600.0	2000.0	2400.0
	b. Calls in Advance				0.0	0.0	0.0
	c. Statutory Reserves	381.8	443.4	760.5	911.0	1012.8	1191.4
	d. Share Premium	0.0	0.0	0.0	0.0	0.0	0.0
	e. Retained Earning	173.9	158.2	96.8	36.5	136.6	32.9
	f. Others Reserves	102.9	154.3	418.6	549.2	266.7	341.4
	g. Exchange Fluctuation Fund	26.1	13.6	20.9	23.1	23.1	29.8
2	BORROWINGS	485.0	383.0	500.0	500.0	510.0	500.0
a. NRB		25.0	23.0	0.0	0.0	10.0	0.0
	b. "A" Class Licensed Institution	100.0	0.0	0.0	0.0	0.0	0.0
	c. Foreign Banks and Fin. Ins.	0.0	0.0	0.0	0.0	0.0	0.0
	d. Other Financial Ins.	360.0	0.0	0.0	0.0	0.0	0.0
	e. Bonds and Securities		360.0	500.0	500.0	500.0	500.0
3	DEPOSITS	24831.1	26456.2	34681.0	37609.4	40920.6	47731.0
	a. Current	5013.0	4993.6	7566.4	9036.6	3694.3	4584.0
	Domestic	3446.9	3647.4	5614.3	6718.8	2903.9	3593.4
	Foreign	1566.1	1346.2	1952.1	2317.8	790.4	990.7
	b. Savings	12852.4	14582.8	20061.0	16294.7	15994.6	21915.6
	Domestic	11925.3	13287.7	18477.5	15494.6	15233.4	21195.2
	Foreign	927.1	1295.1	1583.5	800.1	761.2	720.4
c. Fixed		6364.3	6350.2	6377.1	11328.6	13507.4	11866.5
	Domestic	2540.0	2353.3	5054.2	10153.6	12501.7	11091.6
	Foreign	3824.3	3996.9	1322.9	1175.0	1005.6	774.9
	d. Call Deposits	15.4	41.6	11.2	4.4	6505.1	8393.4
	e. Others	586.0	488.0	665.2	945.0	1219.4	971.5
4	Bills Payable		101.3	114.7	303.9	92.5	19.0
5	Other Liabilities	1705.9	2067.2	1731.4	2175.1	2981.5	2566.9
	1. Sundry Creditors	17.2	83.6	25.4	18.1	72.4	97.5
	2. Loan Loss Provision	937.1	1029.0	708.4	1093.3	1347.8	940.1
	3. Interest Suspense a/c	518.2	558.2	377.6	501.1	614.9	534.4
	4. Others	233.4	396.4	620.0	562.5	946.4	995.0
6	Reconciliation A/c	0.0	1.7	68.6	188.7	(56.40)	33.6
7	Profit & Loss A/c	752.4	513.8	1182.1	871.8	1411.0	1052.5
	Total	29102.6	31064.9	40790.7	44768.8	49298.5	55898.4
	Assets						
1	LIQUID FUNDS	8173.2	2677.6	4398.5	4324.6	3805.2	6626.9
	a. Cash Balance	287.2	305.4	473.8	514.2	632.0	951.3
	Nepalese Notes & Coins	287.2	263.3	424.0	478.1	595.6	916.3
	Foreign Currency	0.0	42.1	49.8	36.2	36.5	35.1
	b. Bank Balance	1262.2	1366.9	2574.8	3351.9	2332.3	5411.0
	1. In Nepal Rastra Bank	1412.0	1093.0	2328.4	2604.8	1390.6	3979.2
	Domestic Currency	1373.2	1109.6	2180.2	2572.7	1342.0	3885.9
	Foreign Currency	38.8	(16.60)	148.2	32.1	48.6	93.3
	2. "A" Class Licensed Institution	2.5	78.6	80.1	383.0	146.5	234.4
	Domestic Currency	2.5	78.6	78.6	369.1	143.8	233.4
	Foreign Currency	0.0	0.0	1.5	13.8	2.7	1.0
	3. Other Financial Ins.			0.0	0.0	0.0	0.0
	4. In Foreign banks	(152.30)	195.3	166.2	364.1	795.2	1197.4
	c. Money at Call	6623.8	1005.3	1350.0	458.6	840.8	264.6
	Domestic Currency	200.0	0.0	700.0	200.0	200.0	0.0
	Foreign Currency	6423.8	1005.3	650.0	258.6	640.8	264.6
2	INVESTMENTS	5469.7	5144.4	4212.3	4465.4	6407.4	9199.9
	a. Govt. Securities	5469.7	4577.7	4212.3	4465.4	4725.6	6440.6
	b. NRB Bond		566.7	0.0	0.0	1681.8	2759.3
	c. Govt. Non-Fin. Ins.			0.0	0.0	0.0	0.0
	d. Other Non-Fin Ins.			0.0	0.0	0.0	0.0
	e. Non Residents			0.0	0.0	0.0	0.0
3	SHARE & OTHER INVESTMENT	39.9	5746.1	4319.2	3829.8	2257.0	870.6
	a. Interbank Lending						0.0
	b. Non Residents	0.0	5746.1	4225.3	3750.9	2067.0	0.0
	c. Others	39.9		93.9	78.9	190.0	870.6
4	LOANS & ADVANCES	13245.0	15515.7	25292.1	28976.6	31656.6	34282.6
	a. Private Sector	12499.6	14911.1	25292.1	28976.6	31656.6	33422.3
	b. Financial Institutions			0.0	0.0	0.0	860.3
	c. Government Organizations	745.4	604.6	0.0	0.0	0.0	0.0
5	BILL PURCHASED	345.9	252.6	285.3	147.2	1311.6	1685.9
	a. Domestic Bills Purchased	345.9	252.6	152.8	7.3	1141.1	52.0
	b. Foreign Bills Purchased			132.6	139.9	170.6	23.8
	c. Import Bills & Imports			0.0	0.0	0.0	1610.1
6	LOANS AGAINST COLLECTED BILLS	0.0	0.0	0.0	0.0	0.0	0.0
	a. Against Domestic Bills			0.0	0.0	0.0	0.0
	b. Against Foreign Bills			0.0	0.0	0.0	0.0
7	FIXED ASSETS	481.0	540.8	863.6	969.7	1096.8	1305.4
8	OTHER ASSETS	1035.8	1050.0	1238.6	1869.9	2569.8	1833.7
	a. Accrued Interests	701.4	688.2	408.8	573.8	755.9	534.4
	Financial institution					137.6	0.0
	Govt. Entp.		0.0	0.0	0.0	0.0	0.0
	Private Sector	701.4	688.2	408.8	573.8	618.4	534.4
	b. Staff Loans / Adv.		109.4	231.3	524.5	720.8	824.8
	c. Sundry Debtors	58.8	27.1	27.5	60.3	93.1	0.0
	d. Cash In Transit	0.0	0.0	0.0	0.0	0.00	0.0
	e. Others	275.6	225.3	571.0	711.3	999.9	474.5
9	Expenses not Written off		121.5	138.9	155.7	179.9	93.6
10	Non Banking Assets	57.9	16.2	42.3	29.9	14.1	0.0
11	Reconciliation Account	254.2	0.0	0.0	0.0	0.0	0.0
12	Profit & Loss A/c	0.0	0.0	0.0	0.0	0.0	0.0
	Total	29102.6	31064.9	40790.7	44768.8	49298.5	55898.5

APPENDIX- D

Statement of Assets & Liabilities of NEPAL SBI BANK LTD

(Rs. In million)

	Liabilities	2007	2008	2009	2010	2011	2012
1	CAPITAL FUND	689.3	1119.8	1414.6	2141.9	2508.2	2822.1
	a. Paid-up Capital	431.9	840.2	874.5	1653.6	1869.3	2094.0
	b. Calls in Advance				0.0	0.0	0.0
	c. Statutory Reserves	191.0	245.7	241.2	304.5	382.9	475.8
	d. Share Premium	0.0	0.0	0.0	0.0	49.7	0.0
	e. Retained Earning	38.2	5.3	1.5	3.8	4.2	4.2
	f. Others Reserves	22.4	22.4	287.1	169.7	191.9	237.8
	g. Exchange Fluctuation Fund	5.8	6.2	10.2	10.2	10.2	10.3
2	BORROWINGS	67.4	0.0	927.5	308.2	200.0	600.0
a. NRB		67.4	0.0	0.0	0.0	0.0	0.0
	b. "A"Class Licensed Institution			0.0	0.0	0.0	0.0
	c. Foreign Banks and Fin. Ins.			727.5	108.2	0.0	0.0
	d. Other Financial Ins.			0.0	0.0	0.0	0.0
	e. Bonds and Securities			200.0	200.0	200.0	600.0
3	DEPOSITS	8645.8	10852.7	27957.2	34896.3	42415.4	53337.1
a. Current		1774.1	1375.4	2864.7	2861.9	4259.4	3777.9
	Domestic	1724.2	1326.9	2671.9	2520.4	4156.2	3516.2
	Foreign	49.9	48.5	192.9	341.5	103.2	261.7
	b. Savings	2684.7	2832.7	5822.3	7348.8	8079.2	10344.6
	Domestic	2601.0	2764.9	5751.6	7259.8	7961.3	10278.5
	Foreign	83.7	67.8	70.7	89.0	117.9	66.1
c. Fixed		4086.4	6116.2	17438.4	22148.9	28013.6	36208.7
	Domestic	4086.4	5970.4	7473.0	10408.5	14780.5	16251.5
	Foreign	0.0	145.8	9965.4	11740.5	13233.1	19957.2
	d. Call Deposits	0.0	449.0	1645.3	2413.5	1917.1	2701.0
	e. Others	100.6	79.4	186.5	123.1	146.2	305.0
4	Bills Payable	32.7	35.5	62.9	172.6	80.7	120.4
5	Other Liabilities	957.2	1263.1	1289.9	1461.8	1467.2	1846.1
	1. Sundry Creditors	11.4	86.1	95.3	199.8	206.2	452.1
	2. Loan Loss Provision	397.3	613.6	474.9	464.2	353.7	321.6
	3. Interest Suspense a/c	475.5	462.8	297.9	270.3	140.4	77.0
	4. Others	73.0	100.6	421.8	527.5	766.9	995.4
6	Reconciliation A/c	7.1	244.7	0.0	0.0	0.0	0.0
7	Profit & Loss A/c	217.1	219.8	337.6	400.5	458.4	471.1
	Total	10616.6	13735.6	31989.8	39381.3	47129.9	59196.8
	Assets						
1	LIQUID FUNDS	459.6	894.5	1910.9	3549.4	4877.5	5686.6
	a. Cash Balance	143.7	269.7	659.0	815.7	1007.7	1186.8
	Nepalese Notes & Coins	125.3	244.1	640.5	796.9	978.5	1167.1
	Foreign Currency	18.4	25.6	18.5	18.8	29.2	19.7
	b. Bank Balance	315.9	261.6	1251.9	2733.8	3869.8	4321.6
	1. In Nepal Rastra Bank	390.1	629.9	444.1	1842.8	2330.6	3269.6
	Domestic Currency	387.6	626.3	380.6	1777.3	2318.0	3229.0
	Foreign Currency	2.5	3.6	63.5	65.5	12.6	40.6
	2. "A"Class Licensed Institution	8.1	4.7	47.0	56.9	59.7	113.5
	Domestic Currency	8.1	4.1	45.0	52.3	55.3	108.0
	Foreign Currency		0.6	2.0	4.7	4.4	5.5
	3. Other Financial Ins.			0.0	0.0	0.0	0.0
	4. In Foreign banks	(82.30)	(373.00)	760.8	834.0	1479.5	938.5
	c. Money at Call	0.0	363.2	0.0	0.0	0.0	178.3
	Domestic Currency		215.0	0.0	0.0	0.0	90.0
	Foreign Currency		148.2	0.0	0.0	0.0	88.3
2	INVESTMENTS	2588.2	3680.4	3306.6	4313.3	5574.8	4560.7
	a. Govt. Securities	2470.0	3680.4	3306.6	3720.6	5574.8	4560.7
	b. NRB Bond	118.2	0.0	0.0	592.7	0.0	0.0
	c. Govt. Non-Fin. Ins.			0.0	0.0	0.0	0.0
	d. Other Non-Fin Ins.			0.0	0.0	0.0	0.0
3	SHARE & OTHER INVESTMENT	19.5	19.5	9979.6	11941.8	13336.2	19902.7
	a. Interbank Lending						0.0
	b. Non Residents	0.0	0.0	9946.7	11904.8	13296.5	0.0
	c. Others	19.5	19.5	32.9	37.0	39.6	19902.7
4	LOANS & ADVANCES	6619.1	8059.6	15465.2	17887.2	21657.1	26403.8
	a. Private Sector	6576.1	7896.6	14871.1	17048.0	21072.8	25296.4
	b. Financial Institutions			383.8	558.0	584.3	1107.4
	c. Government Organizations	43.0	163.0	210.3	281.2	0.0	0.0
5	BILL PURCHED	146.1	190.8	146.8	136.2	61.7	59.9
	a. Domestic Bills Purchased	29.5	26.8	20.7	17.8	0.0	19.0
	b. Foreign Bills Purchased	116.6	164.0	126.1	118.4	61.7	40.9
	c. Import Bills & Imports			0.0	0.0	0.0	0.0
6	LOANS AGAINST COLLECTED BILLS	0.0	0.0	0.0	0.0	0.0	0.0
	a. Against Domestic Bills				0.0	0.0	0.0
	b. Against Foreign Bills				0.0	0.0	0.0
7	FIXED ASSETS	132.6	147.2	405.9	630.3	753.5	1147.4
8	OTHER ASSETS	632.1	697.6	774.2	920.1	860.8	1386.7
	a. Accrued Interests	494.0	431.4	385.0	384.8	248.7	381.7
	Financial institution					0.0	0.0
	Govt. Entp.		0.0	35.2	62.6	0.0	0.0
	Private Sector	494.0	431.4	349.8	322.1	248.7	381.7
	b. Staff Loans / Adv.		46.5	87.5	123.8	176.2	312.2
	c. Sundry Debtors	1.0	0.9	66.5	121.0	44.9	326.3
	d. Cash In Transit	0.0	0.0	0.0	0.0	0.0	0.0
	e. Others	137.1	218.8	235.1	290.6	391.1	366.4
9	Expenses not Written off	0.0	2.4	0.5	0.0	8.4	31.2
10	Non Banking Assets	19.4	43.6	0.0	2.9	0.0	17.8
11	Reconciliation Account	0.0	0.0	0.0	0.0	0.0	0.0
12	Profit & Loss A/c	0.0	0.0	0.0	0.0	0.0	0.0
	Total	10616.6	13735.6	31989.8	39381.3	47129.9	59196.8

APPENDIX- E

Statement of Assets & Liabilities of EVEREST BANK LTD.

(Rs. In million)

	Liabilities	2007	2008	2009	2010	2011	2012
1	CAPITAL FUND	980.3	832.5	2066.5	2203.6	2759.1	3113.5
	a. Paid-up Capital	755.0	518.0	838.8	1030.5	1279.6	1391.6
	b. Calls in Advance				0.0	0.0	0.0
	c. Statutory Reserves	93.2	127.3	447.9	450.8	617.2	803.5
	d. Share Premium	6.4	6.4	206.4	14.8	14.8	14.8
	e. Retained Earning	46.9	70.5	83.8	82.4	72.6	36.1
	f. Others Reserves	63.0	94.5	467.5	603.0	752.9	844.7
	g. Exchange Fluctuation Fund	15.8	15.8	22.0	22.0	22.0	22.9
2	BORROWINGS	0.0	300.0	612.0	704.6	782.0	0.0
		0.0	0.0	0.0	404.6	482.0	0.0
	b. "A"Class Licensed Institution	0.0	0.0	0.0	0.0	0.0	0.0
	c. Foreign Banks and Fin. Ins.	0.0	0.0	0.0	0.0	0.0	0.0
	d. Other Financial Ins.	0.0	300.0	312.0	0.0	0.0	0.0
	e. Bonds and Securities			300.0	300.0	300.0	0.0
3	DEPOSITS	10097.8	13802.5	33322.9	36932.3	41127.9	50006.1
	a. Current	1025.2	1155.2	4859.9	4173.3	4791.2	6098.3
	Domestic	997.8	1128.5	4840.1	4074.3	4741.4	6019.9
	Foreign	27.4	26.7	19.8	99.1	49.8	78.4
	b. Savings	4806.9	6929.2	14782.3	13360.0	13039.1	17269.3
	Domestic	4767.5	6815.0	14623.8	13217.7	12926.5	17184.5
	Foreign	39.4	114.2	158.5	142.3	112.6	84.8
		3444.5	4298.2	7094.7	10440.3	15061.9	13007.5
	Domestic	3418.0	3758.1	6630.4	9873.9	14724.0	12914.5
	Foreign	26.5	540.1	464.2	566.4	338.0	93.0
	d. Call Deposits	704.4	1293.3	6294.0	8412.8	7550.0	12952.2
	e. Others	116.8	126.6	292.0	545.9	685.6	678.9
4	Bills Payable	17.6	11.1	148.7	145.5	49.7	692.4
5	Other Liabilities	782.1	1176.5	1213.6	1222.1	1235.1	1697.1
	1. Sundry Creditors	231.9	29.4	93.0	77.6	75.7	235.1
	2. Loan Loss Provision	317.7	356.1	584.9	600.0	604.2	705.9
	3. Interest Suspense a/c	57.8	61.6	81.1	68.6	55.2	88.6
	4. Others	174.7	729.4	454.6	475.9	500.1	667.6
6	Reconciliation A/c	2915.4	211.4	12.6	13.1	10.4	9.5
7	Profit & Loss A/c	275.8	380.5	624.1	831.8	931.3	1090.6
	Total	15069.0	16714.5	38000.3	42053.0	46895.6	56609.2
	Assets						
1	LIQUID FUNDS	1624.2	1619.6	6164.4	7818.8	6122.9	10363.3
	a. Cash Balance	192.6	259.4	944.7	1091.5	1049.0	1701.0
	Nepalese Notes & Coins	180.6	246.1	927.3	1072.6	1036.6	1688.4
	Foreign Currency	12.0	13.3	17.4	18.9	12.4	12.6
	b. Bank Balance	861.6	1360.2	5219.7	6727.3	5073.9	8662.3
	1. In Nepal Rastra Bank	774.5	1139.5	4787.2	5625.1	4706.3	8159.8
	Domestic Currency	757.1	1136.5	4342.3	5606.0	4685.1	8132.8
	Foreign Currency	17.4	3.0	444.9	19.1	21.2	26.9
	2. "A"Class Licensed Institution	13.4	6.1	26.0	118.1	134.1	144.4
	Domestic Currency	12.5	6.1	24.0	116.0	134.1	144.4
	Foreign Currency	0.9	0.0	2.0	2.1	0.0	0.0
	3. Other Financial Ins.	0.0	0.0	0.0	0.0	0.0	0.0
	4. In Foreign banks	73.7	214.6	406.5	984.1	233.4	358.2
	c. Money at Call	570.0	0.0	0.0	0.0	0.0	0.0
	Domestic Currency	570.0	0.0	0.0	0.0	0.0	0.0
	Foreign Currency	0.0	0.0	0.0	0.0	0.0	0.0
2	INVESTMENTS	2100.3	3548.6	5146.0	4354.4	7145.0	6068.9
	a. Govt. Securities	2100.3	3548.6	5146.0	4354.4	7145.0	6068.9
	b. NRB Bond			0.0	0.0	0.0	0.0
	c. Govt. Non-Fin. Ins.			0.0	0.0	0.0	0.0
	d. Other Non-Fin Ins.			0.0	0.0	0.0	0.0
	e. Non Residents			0.0	0.0	0.0	0.0
3	SHARE & OTHER INVESTMENT	19.4	652.7	804.0	655.6	600.5	1796.4
	a. Interbank Lending						0.0
	b. Non Residents		646.2	702.0	291.7	313.1	0.0
	c. Others	19.4	6.5	102.0	363.8	287.5	1796.4
4	LOANS & ADVANCES	7914.4	10124.2	24366.2	28129.7	31534.7	36376.0
	a. Private Sector	7914.4	9630.6	22025.8	24002.0	26578.2	29910.3
	b. Financial Institutions			1632.9	3063.0	2671.6	4581.2
	c. Government Organizations	0.0	493.6	707.5	1064.6	2284.9	1884.4
5	BILL PURCHED	29.7	30.7	103.4	26.7	127.1	240.9
	a. Domestic Bills Purchased	16.4	21.7	99.9	18.5	23.1	9.8
	b. Foreign Bills Purchased	13.3	9.0	3.5	8.2	104.0	231.1
	b. Against Foreign Bills			0.0	0.0	0.0	0.0
7	FIXED ASSETS	133.7	152.0	427.2	463.1	460.3	547.9
8	OTHER ASSETS	449.9	576.9	989.1	604.8	905.1	1215.9
	a. Accrued Interests	180.6	110.2	140.5	108.1	146.4	145.4
	Financial institution					76.5	59.1
	Govt. Entp.		0.0	23.6	0.0	0.0	56.8
	Private Sector	180.6	110.2	116.9	108.1	69.9	29.5
	b. Staff Loans / Adv.		72.8	306.0	424.8	649.1	806.1
	c. Sundry Debtors	20.9	9.7	75.3	17.4	20.1	12.0
	d. Cash In Transit	3.3	0.0	0.0	0.0	0.0	0.0
	e. Others	245.1	384.1	467.4	54.4	89.5	252.5
9	Expenses not Written off	0.0	0.0	0.0	0.0	0.0	0.0
10	Non Banking Assets	48.7	9.9	0.0	0.0	0.0	0.0
11	Reconciliation Account	2748.7	0.0	0.0	0.0	0.0	0.0
12	Profit & Loss A/c	0.0	0.0	0.0	0.0	0.0	0.0
	Total	15069.0	16714.5	38000.3	42053.0	46895.6	56609.2

APPENDIX- F

Risk- weighted Assets of HBL, EBL and SBI

Fiscal Year	HBL	SBI	EBL
2007/08	25624467	14565374	19509798
2008/09	32628846	15904775	24131922
2009/10	36049314	20580286	27499899
2010/11	39545254	25267759	31440377
2011/12	42584895	32226282	37792502

Total Capital Fund of HBL, EBL and SBI

Fiscal Year	HBL	EBL	SBI
2007/08	3253515	2348390	1722186
2008/09	3845211	2703870	2012037
2009/10	4218361	3257141	2734446
2010/11	4711243	3605840	3163395
2011/12	5283900	4574751	3899143

We have,

$$\text{Ratio of Total Capital Fund as } = \frac{\text{Total Capital Fund}}{\text{TRWA}} * 100\%$$

$$\text{Calculation of Capital Adequacy of HBL at 2007/08} = \frac{\text{Total Capital Fund}}{\text{TRWA}} * 100$$

$$= \frac{3253515 * 100}{25624467} = 12.42$$

Same as Calculation of Core Capital Fund

$$\text{Ratio of Core Capital Fund as } = \frac{\text{Core Capital Fund}}{\text{TRWA}} * 100\% = 9.36$$

APPENDIX-G

Calculation of Capital to Deposit Ratio

Fiscal Year	HBL		EBL		SBI	
	Capital fund	Deposit	Capital Fund	Deposit	Capital Fund	Deposit
2007/08	3253.515	31805	2348.39	23976	1722.19	13715
2008/09	3845.211	34681	2703.87	33322	2012.04	27957
2009/10	4218.361	37611	3257.141	36932	2734.45	34896
2010/11	4711.243	40920	3605.84	41127	3163.4	42415
2011/12	5283.9	47731	4574.751	50006	3899.14	53337

$$\text{Capital to Deposit Ratio} = \frac{\text{Capital Fund}}{\text{Deposit}} * 100\%$$

$$\text{Capital to Deposit ratio of HBL at 2007/08} = \frac{3253.515}{31805} * 100\%$$

= 10.23% and same as others fiscal year

APPENDIX-H

Calculation of Credit to Deposit Ratio

Fiscal Year	HBL		EBL		SBI	
	Credit	Deposit	Credit	Deposit	Credit	Deposit
2007/08	19985.2	31805	18814.3	23976	12574.2	13715
2008/09	25292.1	34681	24366.2	33322	15465.2	27957
2009/10	28976.6	37611	28129.7	36932	17887.2	34896
2010/11	31656.6	40920	31534.7	41127	21657.1	42415
2011/12	34282.6	47731	36376	50006	26403.8	53337

$$\text{Capital to Deposit Ratio} = \frac{\text{Credit}}{\text{Deposit}} * 100\%$$

$$\text{Capital to Deposit ratio of HBL at 2007/08} = \frac{19985.2}{31805} * 100\%$$

= 62.84% and same as others fiscal year

APPENDIX-I

Calculation of Correlation Coefficient

Fiscal Year	HBL		EBL		SBI	
	Capital	Credit	Capital	Credit	Capital	Credit
2007/08	3253.515	19985.2	2348.39	18814.3	1722.186	12574.2
2008/09	3845.211	25292.1	2703.87	24366.2	2012.037	15465.2
2009/10	4218.361	28976.6	3257.141	28129.7	2734.446	17887.2
2010/11	4711.243	31656.6	3605.84	31534.7	3163.395	21657.1
2011/12	5283.9	34282.6	4574.751	36376	3899.143	26403.8
Sum	21312.23	140193.1	16489.992	139220.9	13531.207	93987.5

Calculation of Correlation Co-efficient of Credit on Capital of HBL

Let the variables Capital be X and Credit be Y

HBI				
x= (X-X)	y= (Y-Y)	xy	x ²	y ²
-1008.931	-8053.42	8125345.094	1017941.763	64857573.7
-417.235	-2746.52	1145944.272	174085.0452	7543372.11
-44.085	937.98	-41350.8483	1943.487225	879806.4804
448.797	3617.98	1623738.57	201418.7472	13089779.28
1021.454	6243.98	6377938.347	1043368.274	38987286.24
Σ=		17231615.43	2438757.317	125357817.8

$$X = \frac{\sum X}{N} = \frac{21312.2}{5} = 4262.446$$

$$Y = \frac{\sum Y}{N} = \frac{140193.1}{5} = 28038.62$$

Now,

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \cdot \sqrt{\sum y^2}} = \frac{17231615.43}{17484748.74} = 0.986$$

Calculation of Correlation Co-efficient of Credit on Capital of EBL

Let the variables Capital be X and Credit be Y

X	Y	x=(X-X̄)	y=(Y-Ȳ)	xy	x ²	y ²
2348.39	18814.3	-949.608	-9029.88	8574849.9	901756.11	81538733
2703.87	24366.2	-594.128	-3477.98	2066366.7	352988.56	12096345
3257.141	28129.7	-40.857	285.52	-11665.605	1669.3271	81521.67
3605.84	31534.7	307.842	3690.52	1136095.6	94766.451	13619938
4574.751	36376	1276.753	8531.82	10893023	1630097.2	72791953
Σ= 16489.992	139220.9			22658670	2981277.6	180128490

N = 5

$$\bar{Y} = \frac{\sum Y}{N} = \frac{139220.9}{5} = 27844.180$$

Now,

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \cdot \sqrt{\sum y^2}} = \frac{22658670}{23173563.5} = 0.978$$

APPENDIX-J

Capital Fund

Fiscal Year	HBI			EBI			SBI		
	Capital Fund	Amount Increased	% Increment	Capital Fund	Amount Increased	% Increment	Capital Fund	Amount Increased	% Increment
2007/08	3253.515			2348.39			1722.186		
2008/09	3845.211	591.696	18.19	2703.87	355.48	15.14	2012.037	289.851	16.83
2009/10	4218.361	373.15	9.70	3257.141	553.271	20.46	2734.446	722.409	35.90
2010/11	4711.243	492.882	11.68	3605.84	348.699	10.71	3163.395	428.949	15.69
2011/12	5283.9	572.657	12.16	4574.751	968.911	26.87	3899.143	735.748	23.26

Calculation,

For Example calculation of HBL FY 2008/09's increment

Increased amount of Capital Fund = Capital Fund (2008/09)-Capital Fund of (2007/08)

$$= 3845.211 - 3253.515$$

Amount Increased = 591.696 then after

Percentage of Increased amount = $\frac{591.696}{3253.515} * 100\%$ = 18.19% same as others

APPENDIX-K

Share Capital

	HBL	Amount Increased	% Increment	EBL	Amount Increased	% Increment	SBI	Amount Increased	% Increment
2007/08	1216215			831400			874527		
2008/09	1600000	383785	31.56	1030467	199067	23.94	1224338	349811	40.00
2009/10	2000000	400000	25.00	1279607	249140	24.18	1861324	636986	52.03
2010/11	2400000	400000	20.00	1391570	111963	8.75	2102966	241642	12.98
2011/12	2760000	360000	15.00	1761126	369556	26.56	2355739	252773	12.02

Calculation,

For Example calculation of HBL FY 2007/08's increment

Increased amount of Share Capital = Share Capital (2008/09)- Share Capital (2007/08)

$$= 1600000-1216215$$

Amount Increased = 383785 then after

Percentage of Increased amount of Share Capital = $\frac{383785}{1216215} * 100\%$ = 31.56 % same as others

APPENDIX-L

Deposit Trend

At the End of Fiscal Year	HBL	EBL	SBI	National Total	Share of HBL	Share of EBL	Share of SBI
2007/08	31805	23976	13715	426080	7.46	5.63	3.22
2008/09	34681	33322	27957	563604	8.14	7.82	6.56
2009/10	37611	36932	34896	630881	8.83	8.67	8.19
2010/11	40920	41127	42415	687588	9.6	9.65	9.95
2011/12	47731	50006	53337	867978	11.2	11.74	12.52

Calculation of Deposit% of HBL on (2007/08) = $\frac{\text{Deposit on 2007/08}}{\text{National total deposit on 2007/08}} * 100\%$

$$= \frac{31805}{426080} * 100\%$$

= 7.46 same as calculation methods are used .

APPENDIX-M

Credit Trend

At the End of Fiscal Year	HBL	EBL	SBI	National Total	% HBL	% EBL	% SBI
2007/08	19985.2	18814.3	12574.2	302913.4	6.60	6.21	4.15
2008/09	25292.1	24366.2	15465.2	398143	6.35	6.12	3.88
2009/10	28976.6	28129.7	17887.2	469279.84	6.17	5.99	3.81
2010/11	31656.6	31534.7	21657.1	528023.14	6.00	5.97	4.10
2011/12	34282.6	36376.00	26403.8	622575.49	5.51	5.84	4.24

Calculation

$$\begin{aligned}
 \text{Credit \% of EBL on (2007/08)} &= \frac{\text{Credit t on 2007/08}}{\text{National total deposit on 2007/08}} * 100\% \\
 &= \frac{18814.3}{302913.4} * 100\% \\
 &= 6.21 \text{ same as calculation methods are used .}
 \end{aligned}$$

APPENDIX-N

Calculation of Credit to Deposit Ratio:

Fiscal Year	Deposit			Credit		
	HBL	EBL	SBI	HBL	EBL	SBI
2007/08	31805	23976	13715	19985.2	18814.3	12574.2
2008/09	34681	33322	27957	25292.1	24366.2	15465.2
2009/10	37611	36932	34896	28976.6	28129.7	17887.2
2010/11	40920	41127	42415	31656.6	31534.7	21657.1
2011/12	47731	50006	53337	34282.6	36376	26403.8

We have,

$$\text{Credit to Deposit Ratio} = \frac{\text{Credit}}{\text{Deposit}} * 100\%$$

for calculation of 2007/08 of HBL

$$\text{CD Ratio} = \frac{\text{Credit as on 2007/08}}{\text{Deposit as on 2007/08}} * 100\%$$

$$= \frac{19985.2}{31805} * 100\%$$

$$= 62.83$$

Same as calculation as are follows:

HBL	EBL	SBI
62.84	78.47	91.68
72.93	73.12	55.32
77.04	76.17	51.26
77.36	76.68	51.06
71.82	72.74	49.50

