CHAPTER–I

INTRODUCTION

1.1 Background of the Study

Banks are intermediary between deficit and surplus unit to collects the scattered deposits and invest them in productive sectors such financial institutions which play a vital role to collect scattered insufficient saving and use them into predictive channels. "Most people like to save little money when they have a chance. They may save because they have no urgent need for the money later time. When they do need the money, they may not have saved enough many people who save money deposit it in some kind of bank. The borrowers pay interest (price for the use of the money) to the bank and the bank pays interest to the people, who have deposited their savings. The banks make a profit by charging more business of receiving, safeguarding and lending money.

The word 'Bank 'has been derived from the Italian word 'Banco'which means a place for keeping, lending & exchanging money. The Bank is a financial institution, which deals with money. It accepts deposit from individuals & organization and provide loan to them. It allows interest on the deposits made and charges interest on the loan granted. Since, it accepts deposit & grant loan, it is regarded as the trader of money. Further it creates Credit and supports for the formation of capital & hence it is regarded as "Manufacturer of Money".

Banks are suppliers of the finance for trade & industry as well as other sector, which plays the vital role for economic & financial development of the country. They help in the formulation of capital by investing the saving in productive areas. Normally Banking facility is available in underdeveloped country (Like Nepal) is urban area. In almost of the country's Banking facilities are concentrated in to urban & semi urban area, they wanted stay far from rural area due to lower rate of return or higher risk. But in fact, without it, other sector of economy cannot be flourished.The growth of financial sector in Nepal is much better as compare to other sectors despite of conflict & political insurgency, banking & financial sector continued growing .Number of bank and financial institutions are increasing day by day. Similarly banking habit of people is also in increasing trend. In fact banks played a pioneering role in the enhancement of economy of the country and hence, it is the life-blood of the modern

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commerce and can be said that modern commerce is so much dependent upon banking that any cessation of banking activities, even for a couple of day will completely paralyze the modern business and economic life of a nature. All the economic activities channeled through bank. Modern bank had gained paramount trust in the public.

1.1.1 Concept of the commercial Bank

Banking sector plays an important role in the economic development of the country. Commercials Banks are one of the vital aspects of this sector which deals in the process of the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development.

Commercial banks came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The banks have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy, intermediation, and maturity transformation, facilitating payments flows, credit allocation and maintaining financial discipline among borrowers. Banks gathers savings, allocates resources providers the liquidity and payment services.

In year 1934 AD, the establishment of **Nepal Bank Ltd**. came into existence under Nepal Bank Act, 1937 as the first commercial bank of Nepal, inaugurated by King Tribhuvan on November 1937**. Rastray Banijya Bank**, the second commercial bank was established in the year 1966. On the long run Commercial Bank Act was felt. Accordingly, it was established in 1974 AD**. According to section 2 (a) of Commercial Bank Act, 1974;** the commercial bank is the heart of economic system; it exchanges money, accepts deposits, grants loan and operates commercial transaction. With the opening of NABIL Bank in 1985, the door of opening commercial bank was opened to the private sector. In current situation Thirty one Commercial bank are operating and

The monitoring and regulating body of financial institution (Viz.Commercial Banks, development Banks & Finance Companies). NRB poses the directive of maintaining

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Rs.2000 million paid up capital with the dated 15 July 2009 AD. This is the mandatory rule of NRB.

1.1.2 Profile of the Selected Banks

a) Standard Chartered Bank Nepal Ltd.

It is the third joint venture bank in Nepalese banking history. It established as a joint venture with Grind lays bank of London in the year 1987 under commercial bank act 2031 B.S. The bank had changed its name from Grind lays Bank to Standard Chartered Bank Nepal Ltd. in July 2001. 75% share of SCBNL is owned by Standard Chartered group itself and 25% share is owned by Nepalese public. SCBNL has its head office at New Baneshwor, Kathmandu and strong network of branches which is caters to a wide range of innovative products and services to Nepalese customers. It has total 17 branches, three in Kathmandu valley and eight outside Kathmandu valley. It also has four extension counters and it is providing services through twenty one ATMs. The main objective in the near term would be to protect revenue lines by providing solutions to the customers through value added and structured products at competitive pricing. Bank has also been honored with some awards and trophy. Some of them are: March 2006- **'Best Commercial Bank 2004-05'**- awarded by The Boss Magazine- Specialty Media Private Limited ,in March 2005 - **Best Commercial Bank for the year 2003-2004**, awarded by The Boss Magazine- Specialty Media Private Limited., in September 2002 **"Bank of the Year 2002 and 2009 Nepal"** by 'The Banker' of the Financial Times.

Capital Structure of SCBNL

Authorized Capital	1,00,00,00,000
Issued Capital	50,00,00,000
Paid up Capital	37,46,40,400

Shareholders pattern of SCBNL

S.No.	Owners	Share (%)
1.	Standard Chartered Bank UK	75
2.	Nepalese Public Shareholders	25
Total		100

(b) Nabil Bank Ltd.

Nabil Bank Limited, the first joint venture bank of Nepal, commenced its operation on 2041/03/29 (July 12, 1984). Dubai Bank Limited, Dubai was the first joint venture partner of NABIL Bank with 50% equity investment. Currently, NB (International) Limited, Ireland is the foreign partner. Nepal Arab Bank limited was used to be the name of Nabil Bank till December 31, 2001. Currently it is widely recognized as NABIL Bank since January 1, 2002. NABIL has 48 -branch networks. It has 63 ATMs, 34 ATMs in the Kathmandu Valley and 29 ATMs are outside Kathmandu Valley. It the corporate banking body, which is also the head office of this very prestigious bank, is in Kamaladi, Kathmandu. It is known by the name NABIL House. Its number of outlets in the country is the highest among the joint venture and private banks operating in Nepal. By this, it becomes the largest bank among the privately owned banks in Nepal. The main objective of NABIL Bank is to be **a *bank of the first choice***. The Banker, the publication of the Financial Times-London, has honored the NABIL **Bank as Bank of the Year 2004** and it is a matter of prestige to be leading bank of the country.

Share Capital & Ownership of Nabil Bank ltd.

NABIL Bank is established with the contribution of following Capital Structures:

Authorized Capital	2,000,000,000
Issued Capital	20,29,769,400
Paid up Capital	20,29,769,400

The share holding of NABIL Bank Ltd is as follows:

N.B.(International) Limited Ireland	50%
Nepalese Public	30%
Other entities	11.08%
Other Licensed Institutions	6.15%
Individuals	2.77%
Total	**100%**

Nepal Industrial Development Corporation, one of the promoters of the Bank, sold 3.85% shared to the general public through auction in FY 2007\08. Though the new shareholders are classified under promoter group, their shares, unlike other promoters are freely traded in the NEPSE.

c) Nepal Investment Bank Ltd.

Nepal investment bank Ltd (NIBL) is the 2nd joint venture bank opened in the country, it was previously known by the name Nepal Indosuez Bank Ltd.

And established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricola Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricola Indosuez to divest a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricola Indosuez in Nepal Indosuez ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. Upon approval of bank's Annual General Meeting, Nepal Rastray Bank and Company Register's office. NIBL has its head office at Darbarmarg, Kathmandu and it has 41 branches spread over the country. NIBL has 67 Automated teller machine for the effective service to the customer in its different branches as well as in the commercial area open for 24 hours a day. 'The Banker', the publication of the Financial Times, London has honored the Nepal Investment Bank as "Bank of the Year 2003, 2005, 2008 and 2010" and it is a matter of prestige to be a leading bank of the country.

Capital Structure of NIBL

Authorized Capital	10,00,000,000
Issued Capital	5,90,868,000
Paid up Capital	5,90,868,000

Share ownership Pattern [In Percent]

Organized institutions	50%
Financial institutions	15%
Commercial Bank	15%
General Public	20%

Total	100%

1.2 Statement of Problem

It is said that the banking sector is the larger economy it is linkage to all sector makes is a proxy for what happening in the economy as a whole, indeed the Nepalese banking sector today is at boiling point questions frequently raised are in a situation where must business is struggling, how can bank show such large profit ? Or if the banking sector mirrors the larger economy, why is this inverse relationship in their performance? Banks and Financial institutions can be evaluated comparing with Nepal Rastray Bank's regulatory framework, in which banks & Financial institutions are required to maintain a standard set by NRB.CAMEL is a widely used tool to analyze financial performance of banks.The general problem towards which the study is directed to investigate the financial performance of SCBNL, NABIL & NIBL in the framework of CAMEL. As per the annual report published by those banks in the year 2011, in this year SCBNL, NABIL & NIBL meet the target in Net profit, which is remarkable, seeing its past record; it has achieved the continuous growth in profit. It is quite fruitful opportunity for the researcher to research organization like SCBNL, NABIL & NIBL. For this analysis I have taken the required data of past five years from (2006/07 to 2010/11). Based on this fundamental problem the following specific problems are set in the study.

1. What is level of freedom in their regular managerial & operational issues?
2. How to promote & maintain safety, soundness & integrity?
3. Do the earning indicators show the performance of bank satisfactory?
4. How to protect the interest of the stakeholders?

1.3 Objective of study

The fundamental objective of the study is to analyze the financial performance of SCBNL, NABIL & NIBL with reference to CAMEL framework. The study has been undertaken with the following specific objective.

1. To examine the Capital adequacy of the bank.

2. To assess the quality of the bank's assets.

3. To analyze the efficiency of the bank's management.

4. To evaluate the earning performance of the bank.

5. To find out the liquidity position of the bank.

1.4 Rational of the study

The study deals with different financial performance and it's indicator as well as financial viability of the banks. The study also significance lies mainly in identifying and comparing the financial health of bank in the framework of CAMEL. This study also provides necessary information of performance capability of their banks to the management. It provide the real picture of performance which is beneficial to potential as well as existing shareholders about risk, return and utilizing fund. The study is also useful for depositors, merchant bankers as well as other stakeholders; they can identify the overall performance of the bank. It will be helpful those who want to conduct further study in this field. Mainly, the purposed study will be significance for researcher, research group and academicians for the future in the view of review.

1.5 Limitations of Study

The study has assumed the following limitations:

1. Though a commercial bank has several function to be analyses but this study will concentrates only on the CAMEL i.e.(Capital adequacy, Assets quality, Management, Earning, Liquidity) function of selected bank, other functions of the banks aren't covered in this research.

2. The period of study will covers only five years (2006/07 to 2010/11)

3. The data used in the study will be both primary secondary and based on the information provided by the bank. The truth of the research will be based upon the data available from the bank.i.e. So, Findings of this study may not be generalized.

1.6 Plan of the Work.

This study will be divided into five chapters.

Chapter 1: Introduction

It deals with introduction of the main topic of the study like general background, statement of the problems, objective of the study and organization of the study and other introductory framework.

Chapter 2: Review of literature

It includes with the review of available relevant studies. It includes the conceptual review of the related books, journals, articles and the published and unpublished research works as well as thesis. It also includes security act.

Chapter 3: Research methodology

It describes research methodology employed in this study i.e. research carried out in this size and shape. For the purpose various financial and statistical tools and techniques are defined which is used for the analysis of the presented data.

Chapter 4: Presentation and Analysis of data

This chapter is the major part of the whole study in which all collected relevant data are analyzed and interpreted by the help of different financial & statistical tools. In this chapter we explained the major findings of the study.

Chapter 5: Summary, Conclusion and Recommendation

It contains the summary of the study, conclusion recommendation and suggestion on the basis of the study.

CHAPTER-II
REVIEW OF LITERATURE

2.1 Conceptual Review

Conceptual Review is important for every study that provides clear concept on subject matter for the study. This Chapter confines to conceptual Review of research and work papers and Review of thesis. This Chapter is focused on brief discussion about the abstract regarding the CAMEL Analysis.

The review of literature is crucial aspect because it denotes planning of the study. The main purpose of literature review is to find out what works have been done in the area of the research problem understudy being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by

various institutions, unpublished thesis submitted by master level students have been reviewed.

2.1.1 Financial Performance Analysis

Financial performance analysis is a process of identifying the financial strength and weakness of the firm by properly establishing the relationship between item of balance sheet and the profit and loss account. It is undertaken to assess the financial strength and weakness of the firm. Financial analysis helps to make the decision making for a firm by using different financial tools. It also helps to find out the optimum Capital structure of a firm. Financial analysis uses data contended in the firm's financial statement supplemented by the statement of cash flows. Furthermore qualitative judgment about the firm's financial performance the primary tools of financial analysis are financial ratios. Financial ratios provide a good technique for assessing financial performance."Financial statement contain a wealth of information, which if properly analyzed and interpreted, can provide valuable insight's in to firm's performance and position" (*Chandra; 1992:85*) "Analysis of financial statement is of interest to lenders, investors, security analysis, managers and others. It generally begins with the calculation of set of financial ratios designed to reveal the relative strength and weakness of a company as compares to other companies in the same industry, and to show whether the firm's position has been improving or deteriorating over time" (*western and Copeland;1991:59*) "Financial analysis is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item of balance sheet and the profit and loss account" (*Pandey;1999:65*)

2.1.2 Concept of CAMEL Rating System

Bank supervisory authorities assign each bank a score on a scale of one (best) to five (worst) for each factor. If a bank has an average score of one or two it is considered to be a high-quality institution, while banks with scores of three or more are considered less-than-satisfactory.

If CAMELS ratings were made public, they are very likely to have an impact on the prices of bank securities, and the current information-sharing relationship between examiners and bankers for supervisory monitoring could be adversely changed. As a

result, CAMEL ratings are often held in high confidentiality and known only to a financial institution's top management.

Federal Reserve Bank of New York (1997) has defined the component of CAMEL as rating system which produces a composite rating of an institution overall condition and performance by assessing five components: Capital Adequacy, Assets Quality, Management Quality, Earning and Liquidity.

"CAMEL was originally developed by the FDIC for the purpose of determining when to schedule an on-site examination of bank". The FFIEC is revised on January 1997, the UFIRS, which is commonly referred to as the CAMEL rating System. This system was designed by regulatory authorities to quantify the performance and the financial condition of the banks which it regulates.

The CAMEL rating system is subjective. Benchmark for each component is provided, but they are guidelines only, and present essential foundations upon which the composite rating is based. They do not eliminate Consideration of other pertinent factors by the examiner. The uniform rating system provides the groundwork for necessary supervisor to be reasonably compared and help institutions supervised by all three US to be reasonably compared and evaluated. Ratings are assigned for each component in addition to the overall rating of a financial institutions financial condition. The ratings are assigned on a scale from 1 to 5. The CAMEL ratings are commonly viewed as summary measures of the private supervisory information gathered by examiners regarding financial institutions overall financial conditions, although they also reflect available public information.

The most important criteria for determining the appropriateness of Financial institutions to act as financial intermediary are its solvency, profitability and liquidity. In this respect the BCBS of the bank of international settlements (BIS) since 1998, has recommended using capital adequacy, Assets quality, Management Quality, earning and liquidity (CAMEL) as criteria for assessing forward looking.

During an on-site bank exam, supervisors gathered Private information such as details on problem loans with which to evaluate a bank's financial condition and monitor to

its compliance with laws and regulatory policies. A key product of such an exam is a supervisory rating of the banks overall condition, commonly referred to as a CAMEL rating. CAMEL system is used by three federal banking supervisors the Federal Reserve, the FDIC, and office of the controller of the currency (OCC) and other financial supervisory agencies to provide a convenient summary of bank condition at the time of exam. In Nepal NRB plays the supervisory role for evaluating the financial institutions and financial condition through rating the financial institutions in accordance to CAMEL is still in its initial phase.

Composite Rating

The FFIEC press release, USA (1996) describes the composite rating and defines the six components rating. According to the press release, composite ratings are based on careful evaluation of an institution managerial, operational, and financial and compliance performance. The six Components used to assess an institutions financial condition operations are capital adequacy, assets quality, management quality, earning quality and adequacy of liquidity and sensitivity to market risk. The rating scale range from 1 to 5.with indicating of 1 rating: the strongest performance and risk management practices relative to the institution's size, complexity, risk profile and the greatest supervisory concern. The composite ratings are defined in the FFIEC press release (1996) is as follows.

Composite 1: Financial institutions in this group is every respect and generally have components rated 1 or 2. Any weaknesses are minor and can be handled in a routine manner by board of directors and management. These Financial institutions are the most capable of withstanding the vagaries of business condition and are resistant to outside influences such as economic instability in their trade area. These Financial institutions are substantial compliance and risk management practices relative to the institutions size, complexity and profile and give no cause for supervisory concern.

Composite 2: Financial institutions in this group is fundamentally sound. For a Forward looking to receive this rating generally no component rating should be more serve than 3. Only moderate weaknesses are present and are well within the board of directors and management capabilities and willingness to correct. These Financial institutions are in substantial compliance with laws and regulations. Overall risk

management practices are satisfactory relative to the institutions size, complexity and risk profile.

Composite 3: Financial institutions in this group exhibit some degree of supervisory concern in one or more of the component areas. These Financial institutions exhibit a combination of weakness that may range from moderate to server: however the magnitude of the deficiencies generally will not cause a component to be rated more severally than 4. Financial institutions in this group generally is more vulnerable to outside influences than those institutions rated a composite 1 or 2. Additionally, These Financial institutions may be in significant non compliance with laws and regulations.

Composite 4: Financial institutions in this group generally exhibit unsound and unpracticed or condition. There are serious or financial deficiencies that result in unsatisfactory performance. The problem range from serve to critically deficient. The weakness and problems are not being satisfactorily addressed or resolved by the board of directors or management. Financial institutions in this group generally are not capable withstanding business fluctuations. There may be significant non compliance with laws and regulations. Risk management practices are generally unacceptable relative to the institutions size, complexity and risk profile. Close supervisory is required, which means in most cases, formal enforcement action is necessary to address the problems. Institution in this group poses a risk to the deposit insurance fund. Failure in a distinct possibility if the problems and weakness are not satisfactorily addressed and resolved.

Composite 5: Financial institutions in this group exhibit extremely unsafe and unsound practices or condition exhibit a critically deficient performance, often contain inadequate risk management practices relative to the institutions size; complexity and risk profile are of the greatest supervisory concern. The volume and severity of the problems are beyond management ability or willingness to the control or correct. Immediate outside financial or other assistance is needed in order for the Financial institutions to be viable. Ongoing supervisory attention is necessary. Institution in this group poses a significant risk to the deposit insurance fund and failure is highly probable.

2.1.3 CAMEL's Components

The CAMEL Approach is a type of financial analysis used to evaluate the managerial performance of banks and financial institutions to determine their soundness and safeness. According to this approach, the financial and managerial performance of bank is a function of 5 elements: Capital Adequacy (C), Assets quality (A), Management Quality (M), Earning ability (E) and liquidity. The concept of financial performance and research in to its measurement is well advanced within finance and management fields. Recently a well judged technique named CAMEL rating is widely used for evaluating performance of financial institutions, especially to banks. Performance of the banking sector under CAMEL framework, which involves analysis and evaluation of five crucial dimensions of banking operations. The CAMEL Components can be described as following manner.

2.1.3.1 Capital Adequacy

Capital adequacy focuses on the total position of bank capital and protects the depositors for the potential shocks losses that banks incur. A financial institution is expected to maintain capital commensurate with the nature and extent to risks to the institution and the ability of management to identify measure, monitor and control these risks. The effect of credit, market and other risks on the institutions financial condition should be considered when evaluating the adequacy of capital. The types and quantity of risks inherent in institutions activities will determine the extent to which it may be necessary to maintain capital at levels above required regulatory minimums to properly reflect the potentially adverse consequences that these risks may have on the institutions capital. The capital adequacy of an institutions related based upon, but not limited to an assessment of the following evaluation factors.

1. Size of the bank.
2. Volume of the inferior quality assets.
3. Bank growth experience, plan and prospects.
4. Quality of capital retained earning
5. Access to the capital market.

Banking transaction directly affected by adequacy and inadequacy of bank capital .if there is inadequate capital the bank should take step for the adequacy of capital as per legal requirement. The bank should remove the inadequacy of bank capital through the medium of collecting of ownership and borrowed capital. It is not good for a bank

to collect borrowed capital in the bank so it has to reduce the amount of borrowed capital as far as possible .The adequacy of the bank capital is necessary for the following function.

1. **For the payment of all types of deposits:** Deposit is liability for a bank so to payback it adequacy of bank capital is necessary for a bank .Hence the adequacy of bank capital is needed to gain trust from its customers.

2. **To meet the demand of all types of cash reserve funds:** Bank has legal obligation to deposit the amount in different types of funds in the Nepal Rasta Bank and its own bank. This legal obligation occur in two ways ,one way is by the provision of law and another is take place due to circulars ,policy and directives issued by NRB .Therefore to meet this legal obligation bank needs an adequate bank capital.

3. **Investment for banking transaction and business:** Bank cannot be operates unless it perform its function of meeting its daily administrative expenditure and the investment in different sector to gain profit. So to perform the above function the bank needs an adequate bank capital.

2.1.3.2 Assets Quality

"Assets quality is one of the most critical areas to determining the overall condition of the bank. The primary factor affecting overall assets quality is the quality of loan portfolio and the credit administration program. Loans are usually the largest of the assets item and can also carry the greatest amount of potential risk to the company's capital account. Security can often be a large portion of the assets and also have identifiable risks. Other items which impact a comprehensive review of assets quality other real estate, other assets, off-balance sheet items and, to a lesser extent, cash and due from accounts and premises and fixed assets" (*Koch and Macdonald; 2004:94*).

"Management often expends significant time, energy and resources on their assets portfolio, particularly the loan portfolio. Problems within this portfolio can detract from their ability to successfully and profitably manage other areas of the institution" (Gitman; 2008:127). Examiners need be diligent and focused in their review of the various assets quality areas, as they have an important impact on all other facts of commercial banks operation. The evaluation of assets should consider the adequacy of the allowance for loan and lease losses (ALLL) and the weight exposure-party, issuer or borrower default under actual or implied contractual agreements. All other risks that may affect the value or marketability of an institutions assets including but not

limited to, operating market, reputation, strategic, or compliance risks, should be considered. Prior to assigning an assets quality rating, several factors should be considered. The factors should be reviewed within the context of any systematic weakness, as opposed to isolated problems, should be given appropriate consideration. Commercial banks collect funds in the form of capital, deposit etc. it mobilizes these funds to generate certain returns by giving loans to the users of money to invest in various alternatives. A significant part of the banks income is through its lending activities. There are basically two types of loans-advances and loss provisions:

1. Performing loans:
   ∫ All goods loans and overdue for below 90 days.

2. Nonperforming loans:
   ∫ Sub standard loans overdue by more than 3 months up to 6 months.
   ∫ Doubtful loans overdue by more than 6 months up to 1 year.
   ∫ Bad loans overdue by more than 1 year.

Rating the Assets Quality Factor

The assets quality rating definitions are applied following a thorough evaluation of existing and potential risks and the mitigation of those risks. The definitions of each rating are as follows.

1. Rating of 1 indicates strong assets quality and credit administration practices. Identified weaknesses are minor in nature and risk exposure is modest in relation to capital protection and management's abilities. Assets quality in such institutions is of minimal supervisory concern.

2. A rating of 2 indicates satisfactory asset quality and credit administration practices. The level and severity of classification and other weakness warrant a limited level of supervisory attention. Risk exposure is commensurate with capital protection and management's abilities.

3. A rating of 3 is assigned when assets quality or credit administration practices are less than satisfactory. Trends may be stable or indicate deterioration is assets quality. The level and sensitivity of classified assets, other weakness, and risk require an elevated level of supervisor concern.

4. A rating 4 is assigned to Financial institutions with deficient assts quality or credit administration practices. The levels of risk and problem assets are significant, inadequately controlled, and subject the FI to Potential losses that, if left unchecked, may threaten its viability.

5. A rating of 5 represent critically deficient assts quality or credit administration practices that present an imminent threat to the institutions viability.

2.1.3.3 Management Quality

The capability of the board of directors and management, in their respective roles, to identify, measure, monitors and controls the risks of institutions activities and to ensure a Financial institutions safe, sound and efficient operation in compliance with applicable laws and regulation is reflected in this rating. Depending on the nature scope of institutions activities, management practices may need to address some or all of the following risks: credit, market, operating or transaction, reputation, strategic, compliance, legal, liquidity and other risks. Sound management practices and demonstrated by: active oversight by the board of directors and management, competent, personnel, adequate policies processes, and controls taking in to consideration the size and sophistication of the institution, maintenance of an appropriate audit program and internal control environment and effective risk monitoring and management information system. This rating should reflect the boards and management's ability as it applies to all aspects of banking operations as well as other financial service activities in which the institution is involved (*Peter;2001:71*). The Capability and performance of management and the board of directors is rated based upon, but not limited to, an assessment of the following evaluation.

1. Structure of perfect management team.
2. Qualitative manpower and its productivity.
3. Good relationship between customer and organization.
4. Adequate management expenses.
5. Perfect internal management system.
6. Fair decision making capability.
7. Proper communication system.
8. Perfect working environment.

Rating of management factors

1. A rating of 1 indicates strong performance by management and board of directors and strong risk management practices relative to the institutions size, complexity and risk profile. All significant risks are consistently and effectively identified, measured, monitored and controlled. Management and the board have demonstrated the ability to promptly and successfully address existing and potential problems and risks.

2. A rating of 2 indicates satisfactory management and board performance and risk management practices relative to the institutions size, complexity and risk profile. Minor weakness may exist, but are not material to the safety and soundness of the institution and are being addressed. In general, significant risks and problems and risks.

3. A rating of 3 indicates management and board performance that need improvement or risk management practices that are less than satisfactory given the nature of the institutions activities. The capabilities of management or the board of directors may be insufficient for the type, size, or condition of the institution. Problems and significant risks may be inadequately identified, measured, monitored or controlled.

4. A rating of 4 indicates deficient management and board performance or risk management practices that are inadequate considering the nature of institutions activities. The level of problems and significant risks are inadequately identified, measured, monitored or controlled and require immediate action by the board and management to preserve the soundness of the institution. Replacing or strengthening management or the board may be necessary.

5. A rating of 5 indicates critically deficient management and board of Performance or risk management practices. Management and the board of directors have not demonstrated the ability to correct problems and implement appropriate risk management practices. Problems and significant risks are inadequately identified, measured, monitored or controlled and now threaten the continued viability of the institution. Replacing or strengthening management or the board of directors is necessary.

Researchers construct various financial ratios to capture management quality. Meyer and Pifer (1970) state that "Managerial ability is like lord Actions elephant difficult to define easy to identify. Over a period of time differences between good and poor management will be systematically reflected by the balance sheet and income data and analysis of such data should enable prediction failures". Graham and Homer (1988)evaluate the factors that contributed to the failure of 16 national banks in USA and conclude that more than 60 percent of failed banks experienced poor management, measured by such variables as poorly followed loan policies, inadequate problem loan identification system and non-existent or poorly followed asset/liability management.

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

Sinkey (1998) Purported that a specific ratio representative of management is difficult to identify, but his view was that many ratios are proxies. Often, researchers have not attempted to include a variable to represent management quality. Thomson (1991) employed the ratio of overhead expenses to total assets as representative of management operating efficiency. As none of the ratios from previous research exhibited significance.

2.1.3.4 Earning Quality

Earnings are the ultimate result of any business. Generally, if the earnings are good then the business is running well. Similarly the aggregate performance of the bank reflects from its earnings. An analysis of the earnings ratio helps the management, investors and creditors to know the performance of the bank. They can get information regarding their interest. The following ratios help the management and other stakeholder to know about the earning policy of the respective banks.

1. Return on equity (ROE)
2. Return on Assets (ROA)
3. Earnings per Share (EPS)

It measures the profit available to the equity shareholders as per share basis i.e. the amount that they can get on each share held. In other words, the ratio measures the earnings available to equity shareholders on a per share basis. An institution's assets quality has a close relationship to the analysis of earnings quality. Poor assets quality may increase the loan loss provision.

Rating the Earning Factor

1. Earning rated 1 is strong. Earning are more than sufficient to support operations and maintain adequate capital and allowance levels after are given to assets quality, growth and other factors affecting the quality, quantity and trend of earnings.

2. Earning rated 2 would be satisfactory and sufficient support operations and maintain adequate and allowances levels after consideration is given to asset quality, growth and other factors affecting the quality, quantity and trend of earnings. Earning that are relatively static or even experiencing a slight decline, may receive a 2 rating provide the institutions level of earnings is adequate in view of the assessment factors listed above.

3. Earning rated 3 may need to improve. Earnings may not fully support operations and provide for the accretion of capital and allowance levels in relation to the institutions overall condition, growth and other factors affecting the quality, quantity and trend of earnings.

4. A rating 4 is the deficient earnings. Earnings are insufficient to support operations and maintain appropriate capital and allowances levels. Erratic Fluctuations in net income or net interest margin, the development of significant negative trends, nominal or unsustainable earnings, intermittent losses, or a substantive drop in earnings from the previous years may characterize institutions rated.

5. A rating of 5 indicates earnings that are critically deficient. A Financial institution with earnings rated 5 is experiencing losses that represent a distinct threat to its viability through the erosion of capital.

2.1.3.5 Liquidity

Simply, liquidity means short-run solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances.

The certain percentage of deposit should be kept in bank in the form of cash. If the bank will keep greater deposit in cash, it losses the opportunity cost. Similarly, if bank keeps low amount in deposit, it could be able to pay depositors on the time of requirement. Liquidity can be measured in following ways.

1. Cash Reserve Ratio
2. Cash and Bank Balance Ratio
3. Investment in Government Securities.

Rating the Liquidity Factors

A rating of 1 indicates strong liquidity position and well developed funds management practices. The institution has reliable access to sufficient sources of funds on favorable terms to meet present and anticipated liquidity needs.

A rating of 2 indicates satisfactory liquidity levels and fund management practices. The institution has access to sufficient sources of funds on acceptable terms to meet present and anticipated liquidity needs. Modest weakness may be evident in funds management practice.

A rating of 3 indicates liquidity levels or funds management practices in need of improvement. Institutions rated 3 may lack ready access to funds on reasonable terms or may evidence significant weakness in funds management practices.

A rating of 4 indicates deficient liquidity levels or inadequate funds management practices. Institutions rated 4 may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet needs.

A rating of 5 indicates liquidity levels of funds management practices so critically deficient that the continued viability of the institution is threatened. Institutions rated 5 require immediate external financial assistance to meet maturing obligations or other liquidity needs.

2.1.4 BASEL Capital Accord

"The BASEL committee on banking supervision (BCBS) is a committee of banking supervisory authorities that was established by central bank governors of the group of ten countries in 1975. It consists of senior representatives of bank supervisory

authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxemburg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the bank for international settlement (BIS) in BASEL, where it's permanent is located". (BIS; II-2005:45) Starting with its publication of "International Convergence of Capital Measurement and Capital Standards "in July 1998, popularly known as BASEL I "Capital Accord, BCBS set out a minimum capital requirement of 8 percent for banks. Prior to that, the committee introduced 25 core principal on effective banking supervision. In 1996, the committee incorporated market risk in the 1988 capital accord. With a major revision of the 1988 accord, there followed by the revised publication of the committees first round of proposals for revising the capital adequacy framework in June 1999 popularly known as BASEL II Capital accord. Since then it is revised in January 2001, April 2003 and released its final revised framework updated in November 2005. In this accord, the concept and rationale of the three pillars (minimum capital requirements, supervisory review and market discipline) approach was introduced, on which the revised framework is based. In the revised framework, BCBS retains key elements of the 1988 capital adequacy framework, including the general requirement for banks to hold total capital equivalent to at least 8 percent of their risk weighted assets; the basis of structure of the 1996 market risk amendment regarding the treatment of market risk; and definition of eligible capital".(BIS; II-2005:45). The new BASEL capital accord (BASEL II), shall be applicable to internally active banks all over the world with effect from end of 2006. Implement the new accord in Nepal has been a challenging task for the supervisors as well as Financial institutions. Hence, certain preparatory homework is needed to Nepalese financial system to implement BASEL II. NRB and Financial institutions need to have coordinated effort efficiency in Nepalese banks and Financial institutions to establish certain baseline for the effective implementation of BASEL II. In this regard, second interaction program was held in Nepal with the bank executive to make them aware of new development. The commercial banks so far has shown positive attitude towards the implementation of BASEL II. "New capital accord implementation preparatory core committee was drafted "NR's concept paper on new capital accord". According to the program of new capital accord implementation, concept paper was forwarded to all the commercial banks for comments and recommendation. A form was also developed so that commercial banks classified their exposure as per the new approach, which was

reviewed by the "BASEL II Implementation working group". NRB has adopted BASEL core principles for effective supervision as guideline for supervision of commercial banks. Core principle methodology adopted by BCBS provides a uniform template for both self assessment and independent assessment. It involves four parts of qualitative assessment system: compliant, largely compliant, and materially non compliant and non compliant. For each principle essential and additional criteria are defined. To achieve a "compliant "assessment with a principle, all essential and additional criteria must be met without any significant deficiencies. A "largely compliant "assessment is given if only minor shortcomings are observed, and these are not seen as sufficient to raise serious doubts about the authority's ability to achieve the objective of the principle. A materially non compliant assessment is given when the shortcoming is sufficient to raise doubts about the authority's ability to achieve compliance, but substantial progress towards compliance has been achieved.There is no doubt that the new accord though complex carries a lot of virtues and will be a milestone in improving banks internal mechanism and supervisory process and beneficial to the commercial banks.

2.2 Review of NRB Directives

NRB Directives associated with CAMEL study can be described in the following manner.

2.2.1 Capital Adequacy Norms by NRB

NRB has form time to time stipulated minimum capital fund to be maintained by the banks on the basis of risk weighted assets. The total capital fund is sum of core capital and supplementary capital. According to the NRB unified Directives for banks and non bank Financial institutions issue number E.pra.ni.no.01/061/062 (Ashar 2062 Bs), the capital funds of a bank comprise the following :(*www.nrb.org.np*).

Core Capital: Core Capital of a bank includes paid up equity, share premium, non-redeemable preference shares, general reserve and accumulated profit and loss. However, where the amount of goodwill exists, the same shall be deducted for the purpose of calculation of the core capital.

Supplementary capital: Supplementary capital includes general loan loss provision, exchange fluctuation reserve, assets revaluation reserve, hybrid capital instruments, unsecured subordinated term debt and other free reserves not allocated for specific purpose.

Banking and financial institution ordinance (BAFIO, 2061) also assimilates the same things, which were included and explained in NRB Act 2058, in regard of bank capital. NRB act is effective from 1st shrawan 2058 (July 16th 2001). According to the NRB Directive, minimum paid- up capital for requirement for establishment commercial bank is under.

1. Rs 250 million to operate all over Nepal except Kathmandu valley.
2. Rs 1000 million to operate all over Nepal.
3. All existing commercial banks are required to raise capital base to Rs 1000 million by mid July, 2009 through minimum 10 percent paid up capital increment every year.

2.2.2 NRB Directives Related to Assets Quality

NRB unified directive for banks and non bank Financial institutions (Ashar 2062 BS) through directive number E.para.Ni.no.02/061/62, requires the banks to classify outstanding loans and advance on the basis of aging of principal amount. As per the directive the loans and advances should be classified into the following four categories:

Pass: Loans and advances whose principal amount is not past due over for 3 months included in this category. These are classified and defined as performing loans.

Substandard: All loan and advances that are past due for a period of 3 months to 6 months included in this category.

Doubtful: All loans and advances, which are past due for a period of 6 months to 1 year, included in this category.

Loss: All loans and advances which are past due for more than 1 year and have least or thin possibility of recovery or considered unrecoverable shall included in this category. Besides this, any loan whether past due or not, in situations of inadequate security, borrower declared insolvent, no whereabouts of the borrower or misuse of borrowed fund, are to be classified as loss category. The directive further requires banks to provision for loan loss, on the basis of the outstanding loans and advances

and bills purchased classified as above. Loan loss provision set aside for performing loans is defined as general loan loss provision and that set aside for non-performing loan as specific loan loss provision.

Loan class	Loan loss provision
Pass	1%
Substandard	25%
Doubtful	50%
Loss	100%

With the objectives of lowering the concentration risk of bank loans to a few big borrowers and to increase the access of small and middle size borrowers to bank loans, NRB through directive number E.pra.Ni.no. 30/061/62 limits commercial bank to extend credit to a single borrower or group related borrowers up to 25% of core capital and fund based credit facilities and not more than 50% of its core capital for non fund based credit facilities like letters of credit, guarantees, acceptances, comments.

2.2.3   NRB Directives Related to Liquidity

NRB had given the institution to the commercials bank since 2023 BS to deposit the amount the amount ratio of 8 percent from their deposit liability. In the beginning of 2047 BS the increase in the quantity of internal credit was high and began to show negative effect on economy. The deflation grew up to 21 percent. So, high liquidity appeared in economy. Hence control of negative effect that may fall on economy to improve the growth price rate and improvement of the position of loss of running account and control the capacity of flowing the loan of the commercial banks, was necessary and the NRB bonds. With sign of improvement of economy, the investment ratio was revised accordingly, since poush 2049 Bs since the beginning of 2050 BS, the economy showed improvement and the rate of deflation fell down to 8.8 percent. With this, the provision of investing in the government securities was removed. With effective from, 2054, chaitra 31st, commercial banks were required to maintain

liquidity of 8 percent of the total current and saving deposits and 6 percent of the fixed deposits, in addition to 3 percent of total deposit in cash at vault. Since then the NRB reserve requirement have been put into force by NRB effective from 22 July 2002. (2059/04/06).

Prevailing Directives as to Cash Reserve Ratio Requirement

a)	Balance to NRB	7% of current and saving deposit liabilities. 4.5 % of fixed deposit liabilities.
b)	Cash to vault	2% Total deposit liabilities.

The compliance of liquidity maintenance, the NRB applies following procedures.

a.   The CRR maintained by banks will be examined on the basis of average weekly balance of deposit liabilities immediately preceding 4th week. A week shall comprise from each Sunday through Saturday.

b.   CRR will not be calculated for the week which is fully off.

c.   Weekly statement of deposit balance to be submitted to NRB inspection and supervision department within 15 days from date of end of the week.

d.   Weekly average of Monday to Friday of total deposit, cash in vault and NRB balance is calculating by dividing by 5.

Penalty will be levied for failing to maintain the adequate liquidity as above under any of the following conditions.

a.   In the case of shortfall in maintenance of NRB balance but cash at vault is exactly 2 %.

b.   In case of shortfall in NRB balance but cash at vault is more than 2 % then up to 1% excess cash of total deposit is added in the balance with NRB then on such shortfall account (after adding up to 1% excess).

c.   In case of shortfall in cash in vault as well as shortfall in NRB balance then on total shortfall amount.

The applicable rate of penalty is as follows:

First time shortfall = Equivalent to bank rate/highest refinance rate.

Second time shortfall= Equivalent to 2 times of bank rate.

Third time shortfall and all subsequent shortfalls=Equivalent to 3 times of bank rate.

2.3   Review of Related Studies

The research studies and work papers carried out by different scholars within various geographical region including dissertations conducted by Nepalese scholars are reviewed in this section, which are related with financial performance analysis of commercial bank, finance company and the other area of the study.

Hirtle and Lopez (1999), Published an article on *"Supervisory Information and Frequency of Bank Examiners"* The study emphasized the usefulness of the past CAMEL rating in assessing banks current conditions. They find that, condition on current public information, the private supervisory information contained in the past CAMEL rating provides further insight in to bank current conditions as summarized by current CAMEL ratings. The authors find that, over the period from 1989 to 1995 the private supervisory information during the last on-site exam remains useful with respect to the current condition of the bank for up to 6 to 12 quarters. The overall conclusion drawn from academic studies is that private supervisory information, as summarized by CAMELS rating, is clearly useful in the supervisory monitoring of bank conditions.

Dziobek, Hobbs and Marston (2000), Published an article on *"Toward a Framework for Systematic Liquidity Policy"* analyze the determinants of bank liquidity defined as the degree to which Financial institutions is able to meet its obligations under normal business condition. Volatility in the depositors and creditor base depends on the type of depositors, insurance coverage and maturity; banks that rely on a narrow or highly volatile funding base are more prone to liquidity squeezes. Household deposits are typically more stable than, for instance, the deposit of institutional investors or corporate entities. Deposit concentration (i.e. fewer, larger size deposits) can also be indicative of volatility. Deposit insurance increase the stability of the deposits it covers, with the important caveat front, foreign financing for instance through commercial credit lines and deposits of nonresidents (either in foreign or domestic currency) can become highly volatile in situations of distress and make the financial system vulnerable to external shocks or adverse developments in the domestic economy. As regards instrument maturity, the longer the time before the liability matures (in terms of remaining maturity), the more stable is the funding, however, in

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countries where banks are required to meet early withdrawal requests with only minor penalties, maturity may be less relevant to determining funding stability.

Derviz and Podpiera (2004), Published an article on *"Predicting Bank CAMELS and S & P Ratings"* based their assessment of commercial banking performance on bank ratings and studied with respect to detecting situations with the potential for adverse development towards failure and owing to the costly nature of frequent supervisory examinations. In this paper they studied model of rating downgrades and consider a specific set of indicators that are suitable as determinants of banks rating. The conclusion about the predictors of obtain from the analysis of downgrades are applicable in relatively stable banking sector situations. Banks experiencing minor liquidity trouble might raise their interest rates on deposits, but a regulator would have a hard time distinguishing which bank has increased its deposit rate of liquidity problems and which has done so owing to an increase in its exposit rate because of liquidity problems which has done so owing to an increase in its cost of funds caused by some other factor. Therefore in their approach the cost of funds one of the plausible downgrade indicators was used in the form of the banks "credit spread". In addition to credit spread, they tested the inclusion of the value at risk (VAR) indicator in the form of total assets VAR, as they believed that this type of indicator might play an important role in determining the level of rating due to its easy computability and data availability to the public. They focused on the capital, assets, management, earning, liquidity, market risk based composite CAMELS rating and the standard and poor's ratings. The choice of their sample was determined by the fact that cross section data is probably less appropriate given the specific character of the relatively small banking market in the Czech Republic. The three chosen banks Cask Sporirelna (CS), Komerni Banka (KB), and Ceskoslovenska Obchodni Banka (CSOB), cover a dominant portion of the market, the rest being occupied by small narrowly specialized banks or foreign bank branches. Therefore, they used panel data with three banks and their financial indicators to analyze the change in the CAMELS and S&P ratings. They found that the reliable predictors of a banks S&P rating are credit spread, capital adequacy, and the total loans to total assets ratio. In the case of the CAMELS rating does not yield itself easily to predictions within any horizon with the studies technique. On the contrary, the S&P rating can be relatively precisely predicted one month in advance.

Baral (2005), Published an article on *"Health Check-Up of Commercial Banks in the Framework of CAMEL: A Case Study of Joint Venture Bank in Nepal"* has conducted a research and published his paper in the journal of Nepalese business studies. *"On Health Check-up"* published his paper abstract in the journal of Nepalese business Studies (Volume II No.1, December 2005) of commercial bank in the framework off CAMEL, a case study of joint venture banks in Nepal. The paper examines the financial health of joint venture banks in the CAMEL framework for a period ranging from fiscal year 2001 to 2004. Three joint venture commercial bank of Nepal were randomly selected for the study. The study was based on historical data disclosed by annual reports of commercial banks. It has covered four fiscal years data for the purpose of study. The study was based totally on the CAMEL framework Ridwan Nurazi and Michael Evans (2005), Published an article on *"An Indonesian Study of the Use of CAMEL(S) Ratios as Predictors of Bank Failure"* This study investigates whether CAMEL(S) ratios can be used to predict bank failure. Based on the literature Review, the study used 13 variables representing CAMEL ratios, one representing sensitivity to market risk, and one representing bank size. Most of the analysis was done using multivariate logistic regression since it is more flexible and relatively free of restrictions. To evaluate for consistency, multiple discriminate analysis was also carried out. The results found that logistic regression in tandem with multiple discriminate analyses could function as an early warning system for identifying bank failure and as a complements to one size examination. The results suggest that the variables ECTA (adequacy ratio), RORA (assets quality), ROA (Management), OEOI (Earnings), CBDT (Liquidity), and LGBS (Bank size) are statistically significant in explaining bank failure. Therefore, stakeholders should focus on these variables to identify and solve banking problems. Cole and Günter (2008). Published an article on *"A CAMEL Rating's Shelf Life"* have stated that under more stable financial conditions, CAMEL rating typically remains accurate for relatively long periods. Also, off-site monitoring systems depend on the integrity of data, which can be enhanced through regular periodic exams. Moreover, the examination process and the CAMEL ratings it generates have numerous important uses, many of which are quite distinct from the relatively narrow application of off-site monitoring systems for the identification of bank failures. The CAMEL ratings can change only when financial conditions change appreciably, as was the case during

the particularly volatile time period. Generally speaking, CAMEL ratings are designed to reflect a bank's financial condition, its compliance with laws and regulatory policies, and the quality of its management and systems of internal control. Only through comprehensive, on site exams can regulators determine whether a bank's management is operating the institutions in accordance with the laws and regulations designed to promote safety and soundness. Moreover, the complex financial reviews that accompany an exam, together with the associated dialog between examiners and bank management, are necessary to assess accurately a bank's credit quality and overall financial posture. Given the multiple dimensions and uses of CAMEL ratings, it would be exceedingly difficult to construct a single comprehensive metric of their information content.

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

First of all, in terms of capital adequacy, results showed that the TRNC banking sector is in a less adequate position as of 2007, compared to the time when the crisis took place in 2001.this result is due to the deterioration in the balance sheet of the sector during the period between 2001 and 2006, which was followed by an improvement between 2006 and 2007. Overall, K.T.Kooperatif Merkez Banks ltd. seems to be the least adequate bank in terms of capital structure, especially from the viewpoint of resistance to loan losses, during the sample period.

Secondly, it can be concluded that the assets quality of the bank in the banks in the sector, to some extent, has diminished too relatively to the years immediately following the TRNC banking crisis of 2000-2001. According the results, K. T. Cooperative Merles Bankers ltd. stands as the bank with the lowest quality of assets during the period under investigation.

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

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

Sangria and Nazir (2010), Published an article on *"Analyzing Financial Performance of Commercial Banks in India: Application of CAMEL Model"* the study focused an effort has been made to evaluate the financial performance of the two major banks operating in northern India. This evaluation has been done by using CAMEL Parameters, the latest model of financial analysis. Through this model it is highlighted that the position of the banks under study is sound and satisfactory so far as their capital adequacy, assets quality, Management capability and liquidity is concerned.

Irfan and Muhammad (2011), Published an article on *"Performance Comparison of Islamic and Conventional Banks in Pakistan"* The study examined and compared the performance of Islamic and Conventional banks operating inside Pakistan during 2005 to 2009 analyzing CAMEL test standard factors such as capital adequacy, assets quality, management quality, earning ability and liquidity position. The financial data for the study was mined from the banks financial statements existing on state bank of Pakistan website. A sample of 5 Islamic Banks and 5 Conventional banks were selected to measure and compare their performance. Each year the average ratios were considered, because some of the young Islamic banks in the sample do not have 5 years of financial data. CAMEL test which is a standard test to check the health of financial institutions was used to determine the performance of Islamic and Conventional banks. The study found that Islamic banks performed better in possessing adequate capital and better liquidity position while conventional banks pioneered in management quality and earning ability. Assets quality for both modes of banking was almost the same, conventional banks recorded slightly smaller loan loss ratio showing improved loan recovery policy whereas, UNCOL ratio analysis showed a nominal better performance for Islamic banks.

Shar, Shah and Jamali (2010), Published an article on *"Performance Evaluation of Banking Sector in Pakistan: An Application of Bankometer"* the study shows the ability to predict which bank is vulnerable to financial distress is of critical importance to investors, creditors, accountholders and many other Stakeholders. An effort has been made to develop and evaluate a new model called "Bankometer". To confirm the accuracy of bankometer, it has been applied on individual banks covering the period 1999-2002 for gauging the solvency of each bank in Pakistan and the results has been compared with CAMEL and CLSA- Stress test. This is an initial attempt to develop a scale which could be applied at global level and prescribes a procedure to gauge the vulnerability of an individual bank.

2.3.2 Review of Thesis

Prior to this, several thesis works have been conducted by various researchers regarding different aspects of commercial banks like financial performance, capital structure, investment policy, interest rate structure and resources mobilization. Some of researcher works are relevant for these studies are reviewed over here.

Poudel (2002), has conducted a research study on *"Financial Performance Analysis of EBL"* has focused with the objectives as to examine the financial statement of the bank and analyze them to see the financial soundness of the bank to observe the return over the equity to highlight the relationship between different variables. The research provides suggestions and recommendation for the improvement of the future performance of EBL based on the findings of the analysis.

The study is found that the liquidity position of the bank to meet the daily cash requirement is sound. There is strong position regarding the mobilization of total deposit on loan and advances, normal position and decreasing trend of regarding the mobilization of total deposit as investment and bank has average position towards the utilization of working fund. Analysis of EPS reveals that the bank has very good increasing trend regarding EPS even through first two years shows the negative figure. The trend analysis of deposit, net profit, loan and advances and EPS shows the increasing trend even though the value shows in the beginning of studying period.

Ghimire (2003), conducted research work on *"A Comparative Case Study of the Financial Performance of Commercial Banks between NBBL, HBL and EBL".* To observe the ability to mobilize the resources in to investment, ability to maintain and manage liquidity, assets, capital, structure, efficiency, productive and financial risk. The research objectives were to highlight financial performance to analyze and

evaluate liquidity, profitability, leverage, activity, trend and growth of loans, investment and total deposit pattern of these banks and finally recommended suggestions for improvement. The research design was descriptive and analytical where both financial and statistical tools we used to analyze the data. The study was from 1996/97 to 2000/01. It includes that current ratio of all the banks was below the normal standard even comparatively better in EBL.

Sheathe (2003*),* has conducted a research study on *"Capital Adequacy Norms for Commercial Banks and its impact of Bank of Kathmandu and Himalayan Bank Ltd"*. The main objective of the study was to evaluate that BOK and HBL are found to be successful to comply with requirement of capital adequacy norms. The CD ratio of HBL is very much low which needs to be improved immediately and CD ratio of BOK is satisfactory. Although, the banks are successful to meet the capital adequacy requirement as per NRB directive.

Bhandari (2006) has conducted a research study on *"Financial Performance Analysis of Himalayan Bank Limited in the Framework of CAMEL"*. The main objective of the study was to analyze the financial performance of Himalayan Bank Limited through CAMEL framework. He had used secondary data for the period of six years from 1999 to 2004. The study revealed the adequate capital of the bank. The non performing loan was in decreasing trend, which shows the improvement of the bank. The bank is still better with return which is proved by its better RO; however it is in decreasing trend. The decreasing trend of net interest margin shows management slack monitoring over the banks earning assets. The liquid fund to total deposit ratio is above the industrial average ratio. NRB balance and cash in vault to total deposit ratios are below the industrial average ratio during the study period.

Sharma (2007) has conducted a research study on "*Financial Performance Analysis of Nepal SBI Bank Ltd in the framework of CAMEL.*"The main objective of the study to analyze the financial performance of Nepal SBI bank Ltd. Through CAMEL framework, the study was based on secondary data covering the six years from 2001 to 2006. The researcher conducts the financial tools to analyze the six years data. He concluded that SBI bank Ltd.was well capitalized and complying with directives of NRB. The banks has maintained satisfactory level of past due loan on total loan except 2001. Earning per employees of the bank was found quite high. Net interest margin of the bank was found satisfactory. Further the liquidity position of the bank was found sound.

Poudel (2007) has conducted a research study on *"A Study on Comparative analysis of Financial Performance between Himalayan Bank and Standard Chartered Bank"* was provided comparative financial performance of SCBNL and HBL only five fiscal years financial performance beginning from 2002 to 2007 were analyzed. In this study financial and statistical tools were used to evaluate the performance of banks. In financial tools liquidity, activity, profitability, structural and income and expenditure ratios. Further, the researcher used the method of least square to find out the trend of different financial indicators he found that the performance of SCBNL is better than that of HBL.

Bhusal (2008) has conducted a research study on *"Financial Performance Analysis of Commercial Banks in Nepal the Frame Work of CAMEL (A Comparative Study of Kumari Bank and Machhapuchhre Bank"*, with the fundamental objective of analyze and compare the financial performance of KBL and MBL in the Framework of CAMEL from 2058/59 to 2062/63. With the help of both secondary data as well as primary data, she conducted her study by applying some financial and statistical tools and techniques. Her study shows both banks are maintaining CAR as per the rule of NR
B and the trend of CAR is decreasing. Both banks are much satisfactory level in the case of assets management. Increasing profit of both banks shows the good sign but it is not enough to meet benchmark set by the World Bank. In the case of liquidity both banks are not properly maintaining the rule of NRB. In her overall analysis there is tough competition between KBL and MBL both are in the phase of improvement.

Maharjan (2009) has conducted a research study on *"A Comparative Study of Financial Performance of SCBNL, NABIL and NIBL"*. The main objective of the study to analyze the financial performance of three sample banks. The major findings of the study he shows that SCBNL found to be comparatively better than NABIL and NIB, because NABIL and NIBL have aggressive working policy from the liquidity point of view. All sample banks are comparatively successful in assets management. Among sample bank NABIL found to be comparatively best in mobilizing its assets and deposits in profitable sectors in form of loan and advances, investment in government securities. Form the profitability point of view, SCBNL found to better among the sample banks because it pay lower interest rate for debt fund and earn higher interest by mobilizing it deposits and assets to different productive and profitable sectors. The capital base of bank is strong in NIBL, since it has higher capital adequacy ratio. NIBL also has more assets from its shareholders fund which shows they are strong from point of view shareholders fund.

Research Gap

Various studies have been conducted on financial performance analysis of commercial banks. The previous studies mainly focused on liquidity, profitability and leverage of the commercial banks. In the context of Nepalese banking environment, there are academic researcher found conducted in the frame work of CAMEL and few researcher are found in the comparative analysis on the commercial banks. So, this research is conducted to know actual comparative financial performance of Standard Chartered   Bank   Nepal Limited (SCBNL), Nepal Arab Bank Limited (NABIL) and Nepal Investment Bank Limited (NIBL) in the framework of CAMEL from the year 2006/07 to 2010/11. Therefore, the comparative study of financial performance of commercial banks will add new dimension toward banking function of commercial banks. The major findings of the study he shows that SCBNL found to be comparatively better than NABIL and NIB, because NABIL and NIBL have aggressive working policy from the liquidity point of view. All sample banks are comparatively successful in assets management. Among sample bank NABIL found to be comparatively best in mobilizing its assets and deposits in profitable sectors in form of loan and advances, investment in government securities. Form the profitability point of view, SCBNL found to better among the sample banks because it pay lower interest rate for debt fund and earn higher interest by mobilizing it deposits and assets to different productive and profitable sectors. The capital base of bank is strong in NIBL, since it has higher capital adequacy ratio. NIBL also has more assets from its shareholders fund which shows they are strong from point of view shareholders fund.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Background

Research is to find out to gain knowledge about a phenomenon. Here, "re" means repeatedly or again and again, "search" says to investigate or to find. Thus, combine researching repeatedly is called research, which includes searching new facts, knowledge, principles and theories in scientific way. Likewise, research needs various methodologies, tools, techniques etc.

Methodology is the research method used to test the hypothesis. Research methodology is a systematic way to solve the research problems. It describes the methods and process applied in the entire aspects of the study. It refers to the various sequential steps (along with a rational of each step) to be adopted by a researcher in studying a problem with certain objectives in view.

Thus the overall approach to the research is presented in this chapter. This chapter contains the research design, population and sample size, sample selection procedure, data collection procedure, data processing, use of tools and techniques etc.

3.2 Research Design

Research design is an overall plan or framework for the collection and analysis of data. It provides the framework "for the study" guidelines, "for the collection and analysis of data". This research study attempts to analyze the financial performance of joint venture banks by using CAMEL rating analysis. Thus, to fulfill the objective of the study, both primary as well as secondary data are used. Furthermore, descriptive as well as analytical and quantitative approaches are used to examine the financial performance of the joint venture banks.

What is the value of Research?

1. Every research works either identify new opportunities for us or give us novel ideas.

2. Research helps us to diagnosing any known problems or opportunities;

3. Help us to establish a standard of taking action on any chosen area of the knowledge domain.

4. Evaluate and develop the current technologies and systems.

Types of Research Design:

Every Research needs lots of dedication from the researcher's part-the amount of dedication mainly depends on the subject matter of the research. Before undertaking any research in any subject areas one must be sure about the intended purpose of the

research-this purpose determines what type of research one is going to undertake. Any scientific research may fall into the following three broadly categories

EXPLORATORY	DESCRIPTIVE	CAUSAL METHOD
Interviewing individuals,	Basic Research,	Extensive Survey
Study of secondary data,	Analysis,	Correlation
Nature,	Field Studies etc.	

Research design adopted for this study is exploratory analysis for collection of data by using of CAMEL framework based on survey study.

3.3 Population and Sample

The population refers to the organizing of the same nature on its services and product in general and for this study all thirty one commercial banks including three governments owned commercial banks operating in the Nepal are the total population. Presently, there are thirty one commercial banks on till 2011. To fulfill objective of the study the first three joint venture bank established in Nepal were selected for the study.

3.4 Source of Data

1. Primary Data: Questionnaires, observation interviewing personally in site. The data regarding the organization its feature and structure were received primary through the office of NABIL, NIBL and SCBL.

2. Secondary Data: It's a secondary which are collected from pre-published data sources. The secondary data sources used in this study are:

This research study is basically based on secondary data. The required data for the study will be collected in following ways:

Library research study, Internet, home pages and related links visit.

Directives of NRB, Annual report of the Standard Chartered Bank Nepal Limited, Nepal Arab Bank Limited and Nepal investment Bank Limited. The other sources will be articles, previous study on related topic, published articles of different authors and Journals.

3.5 Tools for Data analysis

The data collected from different sources are recorded systematically as necessary. Only useful and related data are grouped as per need of the research work. Data are presented in appropriate forms of tables; graphs and charts for analysis of appropriate mathematical, financial as well as statistical tools are used. Some of them are:

3.5.1 Financial Tools

The financial analysis tools are used to determine the financial performance of the banks in the framework of CAMEL components. These ratios are categorized in accordance of the CAMEL components. Following categories of key ratio are used to analyze the relevant components in terms of CAMEL. Analysis of data ratio analysis is the best tool. It is very simple analyzing tools under which ratios are taken to express the relation between two or more data. Through ratio analysis we can establish the relationship among the data and research into conclusion. Under ratio analysis following ratio related to bank are analyzed.

3.5.1.1 Capital Adequacy

Core Capital Adequacy ratio:

Core capital adequacy ratio shows the relationship between the total core capital and or internal sources and total risk adjusted assets. It is used to measure the adequacy of core capital and financial soundness from very close angle. It is calculated by using following model.

Supplementary capital adequacy ratio:

Supplementary capital adequacy ratio is the expression of numerical relationship between supplementary capital and total risk adjusted assets. Furthermore, it shows the absolute contribution of supplementary capital in capital adequacy. The ratio is used to analyze the supplementary capital adequacy and determined by using the following model.

Total Capital Adequacy Ratio:

Commercial bank holds adequate capital depending on their requirement. Capital adequacy ratio is a measure of the amount to bank capitals as a percentage of its risk weighted credit exposure. Nepal Rastra Bank (NRB) which recommends minimum CAR of 11% and 5.5% of Core Capital Ratio (CCR).

(Minimum requirement as per NRB Directives is 11%)

3.5.1.2 Assets Quality

Commercial Banks collect fund in the form of capital, deposit etc. It mobilizes these funds to generate certain returns by giving loans to the users of money to invest in various alternatives. A significant part of the banks income is through its lending activities. There are basically two types of loans and advance Performing loan. Loans on which payments of interest and principal are less than 90 days past due called performing loan.

Non Performing loan

A loan is Non- performing when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full.

Sub standard loan

All loans and advances that are past due for a period of 3 months to 6 months shall be included in this category. Those are classified as nonperforming loan.

Doubtful loan

All loans and advances that are past due for a period of 6 months to one year shall be included in this category. Those are non performing loan.

Bad / Pass loan

All loans and advances, which are past due for a period of 6 months to one year, shall be included in this category. Those are none performing Loan.

Classification of	Provision required
Good	1%
Sub Standard	25%
Doubtful	50%
Bad loans	100%

3.5.1.3 Management Quality

a) Total Expenses to Total Income Ratio:

The total expenses to total income ratio is the expression of numerical relationship between total expenses and total income ratio of the company. It measures the proportion of total expenses in total revenues. A high of increasing ratio of expenses to total revenues can indicate that financial institutions may not be operating efficiently. This can be, but is not necessarily due to management due to management deficiencies. In any cases it is likely to negatively affect profitability (IMF, 2000). Following is the expression of total expenses to total revenue ratio.

b) Earning per employee:

Earning per employee is the numerical relationship between net profits after tax to total number of employee. Low or decreasing earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability (IMF, 2000). It is calculated by using the following formula.

3.5.1.4 Earning Quality

Earning means excess of revenue over cost, so excess revenue earned by any organization in the course of operation is known as profit. It is the ultimate result of any business. Generally, if the earning is good then that business is running well. Similarly the aggregate performance of the bank reflects from its earning. Earning is the ultimate result of any business. Generally, higher earnings reflect better financial position. Similarly the aggregate performance of the bank reflects from its earnings. Following ratios depicts the earning position of SCBNL, NABIL&NIBL.

Earning Per Share:

The income of per common share can be known from the Earning Per share. The earning Per Share is calculated by dividing the net profit after taxes by the total number of outstanding share. It can be calculated in the following manner.

Return on Equity:

This ratio shows the relation between the net profit after tax and Shareholders funds. This ratio indicates how well the firm has used the resources contributed by the owners. It is good for the firm to be the return of investment high. Higher, the ratio

more efficient the management and utilization of shareholders fund. It can be calculated as follows.

Return on Assets:

This ratio establishes the relationship between net profit and total assets. This ratio measures the profitability of all financial resources invested in the firm's assets. Hence the higher ratio implies that the available source and tools are employed efficiently. This ratio can be calculated as follows.

3.5.1.5 Liquidity

Liquidity is the state of owning things of value that can easily be exchanged for cash. Liquidity is the term which denotes the ability of an organization to meet its financial obligation or debts in cash in time. Such an organization has assets which can be converted into cash and without any loss at their conversion through the maintenance of certain reserves and provision. Liquidity reflects the term financial strength of the banks. Bank does not provide all its deposit at loans and advances, but certain percentage is kept as liquidity in the bank itself or elsewhere. Basically bank measures liquidity through three methods. They are as follows. Cash Reserve Ratio (CRR) it is the minimum amount of reserves a bank must hold in the form account balance with NRB. This ratio ensures level of the banks first line of defense in meeting depositor's obligation. It is the mandatory reserves that the commercial bank has to keep in the form of cash in their account in NRB for depositor's assurance and safety of bank which also reflects the banks goodwill. As per the regulation made by NRB, cash Reserve Ratio is to be maintained 5.5% on average of total depositors of bank on weekly basis. It is calculated by using following formula. Since, we cannot find the daily deposit amount in annual report and also cannot access it, we cannot find cash reserve ratio and compare it as mandatory set by NRB of 5.5% on average of total deposit of bank on weekly basis. So, it will give false information or mislead to others if we calculate it on the figure that is given on year ending balance sheet.

Cash and Bank Balance Ratio (CBR)

The ratio measures the bank ability to meet immediate obligation. So, balance should maintain in order to meet their paying obligation. Further, this ratio is employed to measures whether bank's cash balance is sufficient to cover unexpected demand made by the depositors. It is calculated as follows.

Investment in Government Security Ratio (IGSR)

Government securities are known as risk free assets, which are easily converted into cash to meet the short term obligation. That's why every commercial bank has to invest their certain amount in government securities. This ratio calculated as follows: Investment in Government Security Ratio.

3.5.2   Statistical Tools

1. Arithmetic Mean ($\overline{X}$)

Arithmetic Mean or simply a mean of a set observation the sum of the entire observation divided by number of observation. It is also known as the arithmetic mean average. It is the sum of total value of divided by number. It is calculated as:

$$\text{Mean } (\overline{X}) = \frac{Xi}{N}$$

Where,

Xi = Value of Variable I

N = Number of Items

2.   Standard Deviation (u)

Standard Deviation is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. The standard deviation is the absolute in other measure of dispersion are removed. It is said to be the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion. It is calculated as follows.

$$\text{Standard Deviation } (u) = \sqrt{\frac{(X \, Z\overline{X})^2}{N}}$$

3. Coefficient of Variation (CV)

The coefficient of dispersion based on standard deviation multiply by 100 is known as the coefficient of variation (CV). It is independent of units. So, two distributions can bitterly be compared with the help of CV for their variability. Less the C.V. more will be the uniformity, consistency and more than C.V. less will be the uniformity, consistency. It is calculated as:

$$\text{Coefficient of Variation (C.V)} = \frac{u}{\overline{X}} \mid 100$$

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CHAPTER -IV
DATA PRESENTATION AND ANALYSIS

This chapter deals with presentation and analysis of data collected from annual reports of the bank. The raw data Collected has been organized and processed using various tools discussed in the previous chapter "Research Methodology". In this chapter data and information are presented and analyzed using different financial tools in order to achieve the objectives of the study. In data presentation and analysis, the study is focused on CAMELS Components.

4.1 Capital Adequacy

Capital adequacy determines how well banks can manage with stocks to their balance sheets. For the purpose of capital adequacy measurement, bank capital is divided in to Tier I(Core/Primary) capital and Tier II (Supplementary) capital. Risk based capital ratio, Core Capital adequacy ratio, and supplementary capital ratio, past due loans/total loans, total loans to single borrower/ total loans, total loans to a single borrower / core capital and actual provisioning to require provisioning are the ratios used to analyze the capital adequacy ratio. Commercial bank should have adequate capital to support its risks assets in accordance with the risk weighted capital ratio framework. It has become recognized that capital adequacy more appropriately relates to assets structure than to the volume of liabilities. Adequacy and inadequacy of bank capital directly affects the banking transaction. The adequacy of bank capital is the most important aspect of a bank. If there is inadequacy of capital, the bank should take step for the adequacy of capital as per legal requirement because its financial health cannot be regarded capable and healthy without having sound adequate capital.

4.1.1 Core Capital adequacy ratio

Table 4.1

Core Capital adequacy ratio (CCAR)

Years	Banks			
	SCBIlNL	NABIL	NIBILL	NR
2006/07	13.77	10.39	7.90	5.5
2007/08	11.40	8.75	7.71	6.0
2008/09	13.05	8.74	8.56	5.5
2009/10	12.61	8.77	8.5	5.5
2010/11	12.10	8.83	8.77	5.5
Mean	12.58	9.09	11.2	
S.D.	0.76	0.51	0.53	
C.V	0.06	0.05	0.05	

Source: Annual Reports & Appendix - I

Figure 4.1

Core Capital adequacy ratio (CCAR)
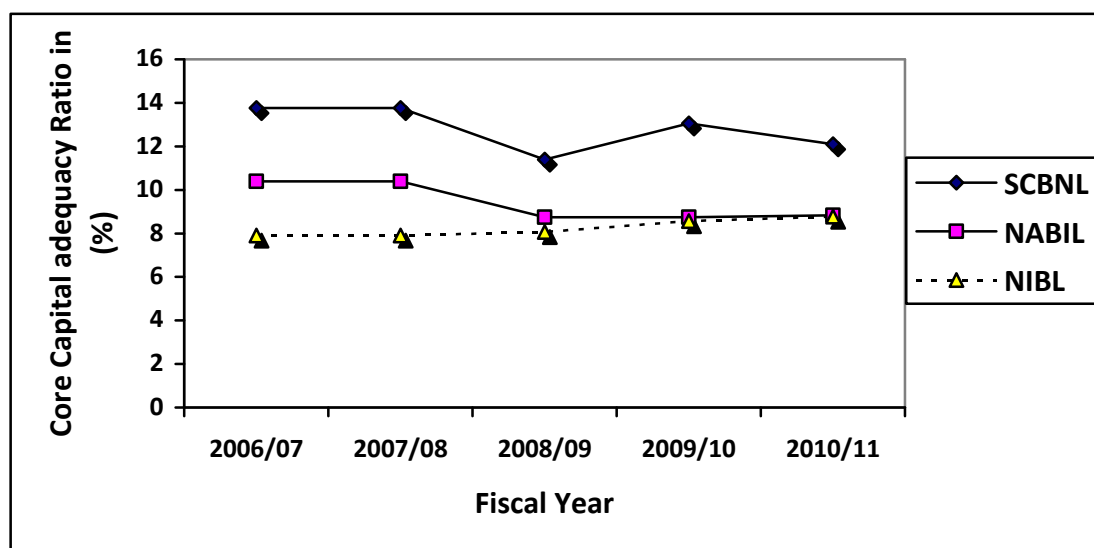
Table and figure 4.1 show CCAR of SCBNL, NABIL and NIBL for the study period 13.77 percent, 11.40 percent, 13.05 percent, 12.61 percent and 12.10 percent likewise 10.39 percent, 8.74 percent, 8.75 percent, 8.77 percent and 8.83 likewise 7.90 percent, 8.06 percent, 8.56 percent, 8.50 percent and 8.77 percent respectively. The table also show the NRB standards required to be maintained by the commercial banks as 5.5 percent in 2006/07 and 6.0 percent in 2007/08 and 5.5 percent in 2007/08, 2009/10, 2010/11. From the table it can be seen that the CCAR maintained by selected

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commercial banks is more than the standards set by the NRB for the study period. The tables reveal an average CCAR of SCBNL, NABIL and NIBL is 12.58 percent, 9.09 percent and 11.23 percent respectively. Based on this we can say that SCBNL's capital base is stronger than NABIL and NIBL. The table's also standard deviation of the sample commercial banks on core capital adequacy ratio. The standard deviation for selected commercial banks is 0.76 percent, 0.51 percent and 0.53 percent respectively. As the standard SCBNL of is more than that of NABIL, NIBL there is more variability in the capital base of this bank than NABIL. The above table also shows the Coefficient of variation for selected commercial banks is 0.06 percent, 0.05 percent and 0.05 percent respectively. As the coefficient of variation of SCBNL are more than NABIL and NIBL. Coefficient Variation based on per unit, which measures the risk per unit between two variables. As per the above table and figure CV of SCBNL is greater than NABIL and NIBL. But NIBL has less CV than SCBNL and NABIL.

4.1.2 Supplementary Capital adequacy Ratio

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

Table 4.2

Supplementary Capital adequacy ratio (SCAR)

Years	Banks		
	SCBNL	NABIL	NIBL
2006/07	1.94	1.64	4.26
2007/08	1.75	2.35	3.22
2008/09	1.65	1.96	2.68
2009/10	1.46	1.72	2.05
2010/11	2.12	1.74	2.14
Mean	1.78	1.88	2.87
S.D.	0.19	0.21	0.57
C.V	0.10	0.11	0.20

Source: Annual Reports & Appendix - II

Figure 4.2

Supplementary Capital adequacy ratio (SCAR)
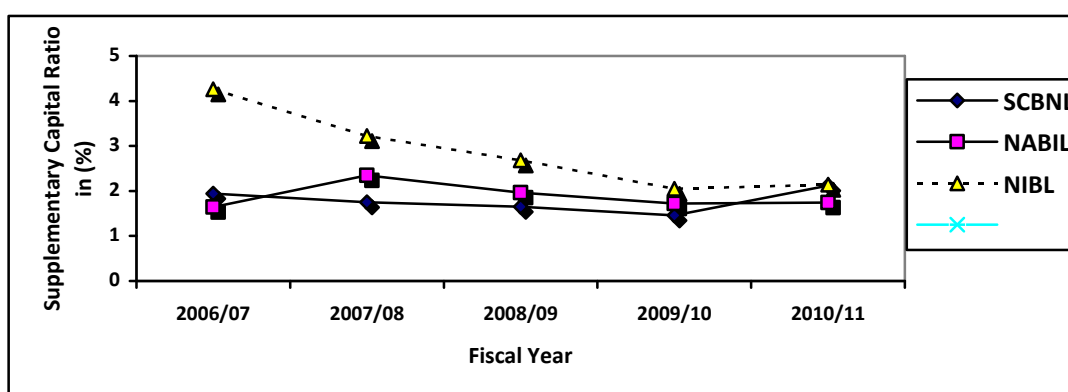
Table and figure 4.2 shows the SCAR of SCBNL, NABIL and NIBL for the study period as 1.94 percent, 1.75 percent, 1.65 percent,1.46 percent and 2.12 percent likewise 1.64 percent, 2.35 percent, 1.96 percent,1.72 percent and 1.74 percent similarly 4.26 percent, 3.22 percent, 2.68 percent,2.05 percent and 2.14 percent respectively. According to NRB directives, up to 100 percent of the SCAR maintained by the concerned banks for a particular year is the standard SCAR similarly; it discloses the standard deviation of selected banks as 0.19 percent, 0.2 percent and 0.57 percent respectively. Based the average SCAR NIBL's capital base is stronger than that of SCBNL and NABIL. Since standard deviation of SCAR of NIBL is higher than that of SCBNL and NABIL, the variability in its SCAR is higher than that of NIBL meaning that more risky in terms of SCAR. NRB standard is not more than 100% of Core Capital.

4.1.3 Total Capital adequacy Ratio

Table 4.3

Capital adequacy Ratio

Years	Banks			
	SCBNL	NABIL	NIBL	NRB
2006/07	15.71	12.04	12.16	11.00
2007/08	13.15	11.10	11.28	11.00
2008/09	14.70	10.70	11.24	11.00
2009/10	14.60	10.49	10.55	11.00
2010/11	14.22	10.58	10.91	11.00
Mean	15.22	11.33	11.44	
S.D.	0.99	0.72	0.57	
C.V	0.07	0.06	0.05	

Source: Annual Reports & Appendix –III

Figure 4.3

Capital adequacy Ratio
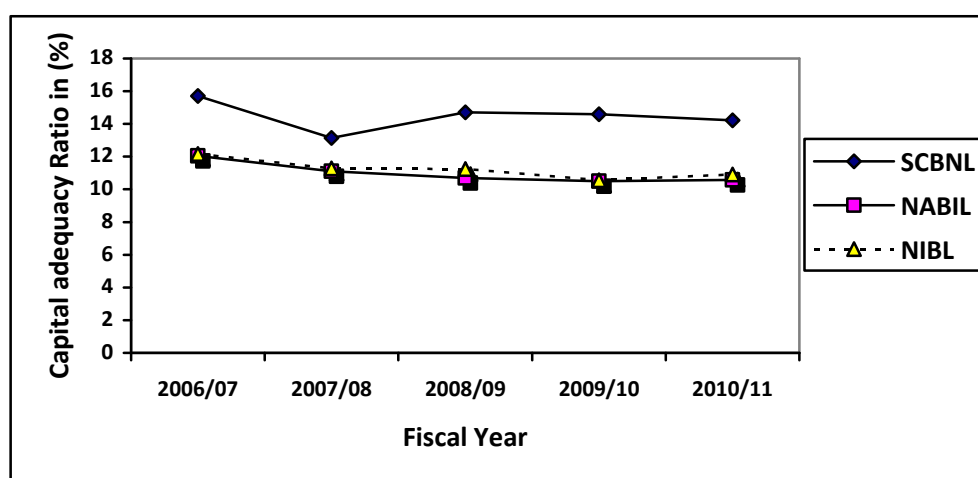
Table and figure 4.3 show total capital adequacy ratio of SCBNL, NABIL and NIBL for the study period. The ratio of SCBNL, NABIL and NIBL is 15.71 percent, 13.15 percent, 14.70 percent, 14.60 percent and 14.22 percent likewise 12.04 percent, 11.10 percent, 10.70 percent, 10.49 percent and 10.58 percent similarly 12.16 percent, 11.28 percent, 11.24 percent, 10.55 percent and 10.91 respectively. The NRB standard on the Total Capital adequacy Ratio for the commercial banks is 11 percent for the study period. The data reveals that the ratio maintained by selected commercial banks is more than the NRB standards on the same except in year 2008/09 and 2009/10 by

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NABIL and 2009/10 by NIBL. The table also discloses mean CAR of SCBNL, NABIL and NIBL is 15.22 percent, 11.33 percent and 11.44 percent respectively. It also discloses S.D. of selected banks as 0.99 percent, 0.72 percent and 0.57 percent respectively. Based on CAR we can say that the capital adequacy base of NIBL is stronger than SCBNL and NABIL. The value on S.D. concludes that there is a greater variability in CAR of SCBNL than that of NABIL and NIBL. The line representing CAR for SCBNL is above the same line for NABIL and NIBL from the point of view of mean. But according the standard deviation NIBL is good position due to the lower S.D. than that of SCBNL and NABIL. Therefore, we can say that the capital of SCBNL is stronger than NABIL and NIBL from the point of view mean and Capital of NIBL is also better position from the point of view S.D.

4.2 Assets Quality

Loans and advances normally dominate the asset side of balance sheet of the banks. Similarly earning from such loans and advances occupy a major space in income statement of the bank. Hence asset is the critical factor in determining the strength of any bank. Primary factors that can be considered are the quality of loan portfolio, mix of risk assets and credit administration system. The quality of assets are measured in terms of ratio of past due loans to total loans and loan classified as substandard /doubtful/ loss to total loans. Provisions made for NPAS and loan provided to single borrower are also the measuring rods used to analyze the assets quality of the bank.

4.2.1 Non-Performing loan to Total Loan and Advances

Table 4.4

Non Performing Loan Ratio

Years	Banks		
	SCBNL	NABIL	NIBL
2006/07	1.83	1.12	2.37
2007/08	0.92	0.74	1.12
2008/09	0.67	0.80	0.58
2009/10	0.61	1.47	0.62
2010/11	0.62	1.77	0.94
Mean	1.23	1.10	1.35
S.D.	0.63	0.29	0.74
C.V	0.51	0.26	0.55

Source: Annual Reports & Appendix - IV
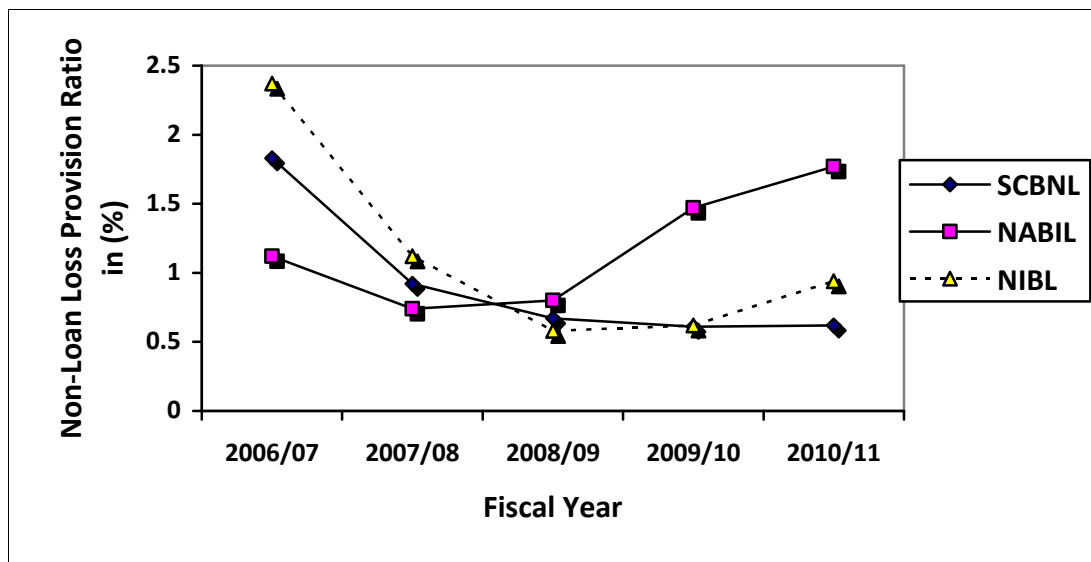
Figure 4.4

Non- Performing Loan Ratio

Table and figure 4.4 show that NPL ratio of SCBNL for the study period are 1.83 percent, 0.92 percent, 0.67 percent, 0.61 percent and 0.62 percent likewise NPL ratio of NABIL are 1.12 percent, 0.74 percent, 0.80 percent ,1.47 percent and 1.77 percent similarly the NPL ratio of NIBL are 2.37 percent, 1.12 percent, 0.58 percent, 0.62 percent and 0.94 percent respectively. The NPL ratio of SCBNL and NIBL is in decreasing trend. But the NPL ratio of NABIL is in increasing trend in last two years (i.e.2008/09 and 2009/10).The table also reveals mean NPL of SCBNL, NABIL and NIBL as 1.23 percent, 1.10 percent and 1.35 percent respectively. The tables also reveal S.D. of selected commercial banks as 0.63 percent, 0.29 percent and 0.74 percent respectively. The table also explains the CV of Selected commercial banks as 0.51 percent, 0.26 percent and 0.55 percent respectively. Similarly, from the S.D. and CV of NPL, we can say that the loan and advances of NABIL is less risky. Therefore, we can conclude that the loan and advances of NABIL is sound as compare to SCBNL and NIBL.

4.2.2 Loan Loss Provision to Total Loan and Advances.

The non –performing loan to total loan and advances measures the risk on the total loan and thus represents the quality of the assets the bank is carrying on. Higher the ratio indicates higher risk on the assets and vice-versa. The ratio of the selected banks for five years period is presented in the table below.

Table 4.5

Loan Loss Provision Ratio

Years	Banks		
	SCBNL	NABIL	NIBL
2006/07	2.66	2.25	2.72
2007/08	1.76	1.81	1.93
2008/09	1.47	1.46	1.59
2009/10	1.36	1.31	1.54
2010/11	1.27	2.29	1.34
Mean	2.04	1.90	2.16
S.D.	0.59	0.51	0.61
C.V	0.29	0.27	0.28

Source: Annual Reports & Appendix - V

Figure 4.5

Loan Loss Provision Ratio
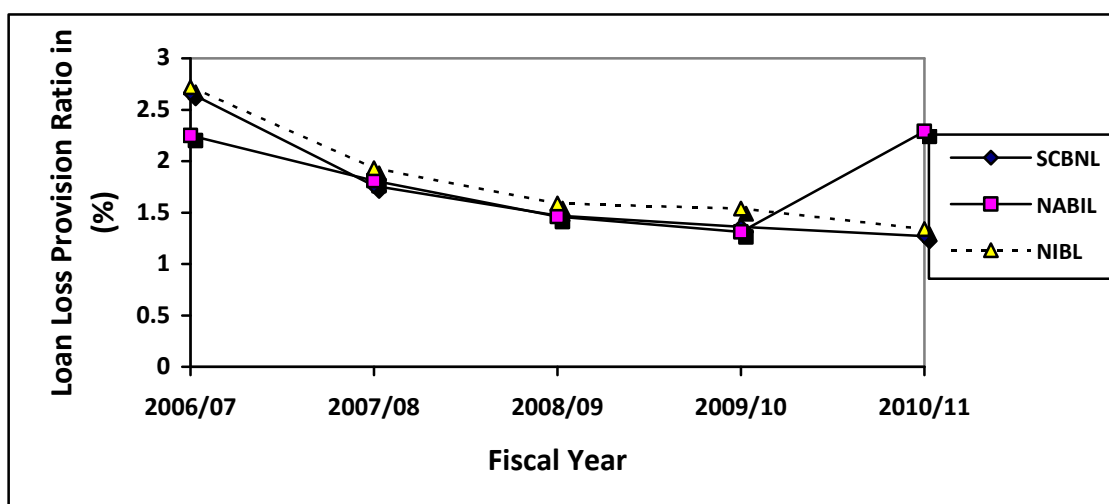
Table and figure 4.5 show the loan loss ratio of SCBNL, NABIL and NIBL for the study period is 2.66 percent, 1.76 percent, 1.47 percent, 1.36 percent and 1.27 percent likewise the same ratio of NABIL for the same period is 2.25 percent, 1.81 percent, 1.46 percent,1.31 percent and 2.29 percent Similarly, the same ratio of NIBL for the study period is 2.72 percent, 1.93 percent, 1.59 percent, 1.54 percent and 1.34 percent. The loan loss provision ratio of selected three commercial banks is decreasing trends because of reduced amount of loan loss provision required for the amount of loan investment by the banks in the study period. It indicates the amount of loan and bad debt is decreasing trend for the selected three commercial banks. The table shows

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mean Loan loss provision ratio of SCBNL, NABIL and NIBL as 2.04 percent, 1.90 percent and 2.16 percent respectively. The value on mean Loan loss Provision reveals that the quality of loans issued by the NIBL is good as compare to SCBNL and NABIL. As the S.D. and CV of NABIL is less than that of SCBNL and NIBL. So, we can conclude that the loans of NABIL are less risky than that of SCBNL and NIBL.

4.3 Management Quality

While the other factors can be quantified fairly easily from current financial statements, management quality being subjective is difficult to quantify. There is one measure that is relevant to management is the ratio of total expenses to total revenue. Another measure that is also relevant to management is the ratio of earning per employee is used as a proxy of management quality.

4.3.1 Total Expenses to Total Revenue Ratio

The ratio of total expenses to total revenue is used as a proxy measure of the management quality. This ratio is calculated by dividing the total expenses by total revenues. Commercial bank's earning originate from interest on loans and advances, investments, commissions and discounts, Foreign Exchange Rate, gains and other miscellaneous income. Conversely, it expends on, Depositors' interest, Staff Salary, Provident Fund, Allowances and   other operating expenses like rent, water and electricity, fuel expenses, audit fee expenses, management expenses, depreciation, miscellaneous expenses and all other expenses directly related to the operation of bank. Expenses such as loss on sale of assets, write off expenses, losses shortage, written off, provision for income tax are non operating expenses.

Table 4.6

Total Expenses to Total Revenue Ratio

Years	Banks		
	SCBNL	**NABIL**	**NIBL**
2006/07	55.61	77.83	87.44
2007/08	46.20	91.75	83.92
2008/09	82.99	83.83	95.20
2009/10	97.74	70.92	99.85
2010/11	96.10	70.69	86.48
Mean	75.72	79.00	90.57
S.D.	4.45	2.65	2.35
C.V	0.05	0.04	0.08

Source: Annual Reports & Appendix – V

Figure 4.6

Total Expenses to Total Revenue Ratio
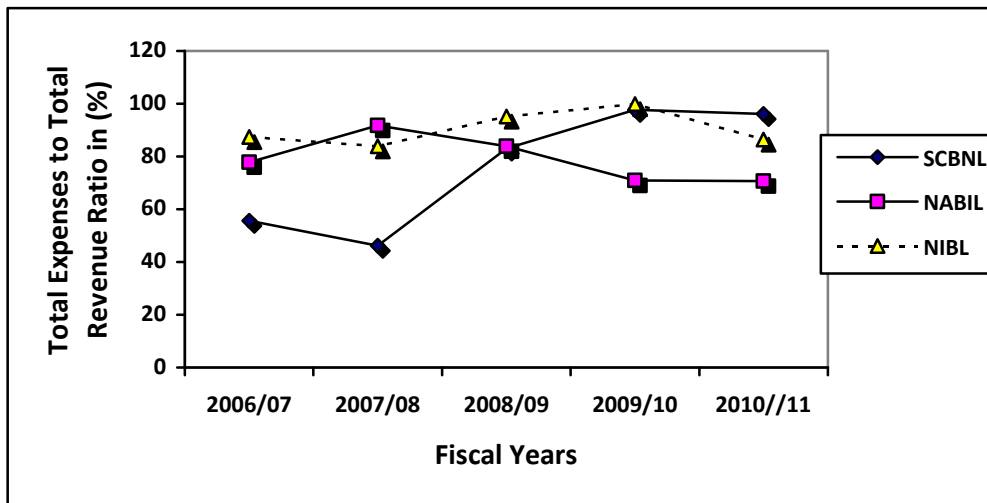
Table and figure 4.6 show ratio on total expenses to total revenue of SCBNL, NABIL and NIBL as 55.61 percent, 46.20 percent, 82.99 percent,97.74 percent and 96.10 percent likewise 77.83 percent, 91.75 percent, 83.83 percent, 70.92 percent and 70.69 percent Similarly 87.44 percent, 83.92 percent, 95.20 percent, 99.85 percent and 86.48 percent respectively. The data reveals that Total expenses to Total Revenue ratio of SCBNL, NIBL is increasing trend but total expenses to total revenue ratio of NIBL is decreasing trend. Table reveals mean expense to revenue ratio of SCBNL, NABIL and NIBL as 68.36 percent, 83.00 percent and 93.17 percent respectively. The table also shows CV of selected commercial banks as 0.05 percent, 0.04 percent and 0.08 percent respectively. Mean ratio on expense to revenue of NIBL is greater than SCBNL and NABIL which indicates larger portion of the income is expensed. Similarly, the CV of NIBL is greater than SCBNL and NIBL meaning that greater variability in its ratio. It means the management of NIBL seems less efficient.

4.3.2 Earning Per Employee

Lower earning per employee can reflect inefficiencies as a result of cover staffing, with similar repercussion in terms of profitability. Earning per employee is calculated by dividing net profit after taxes by number of employees.

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Table 4.7

Earning Per Employee (Rs.)

Years	Banks		
	SCBNL	NABIL	NIBL
2006/07	1970.56	1578.36	975.48
2007/08	2172.20	1794.39	1120.14
2008/09	2615.08	2041.68	1175.74
2009/10	2531.17	2045.06	1443.50
2010/11	2608.79	2036.14	1340.93
Mean	2379.56	1899.11	1211.16
S.D.	247.52	170.16	144.83
C.V	0.10	0.08	0.12

Source: Annual Reports & Appendix – VII

Figure 4.7

Earning Per Employee
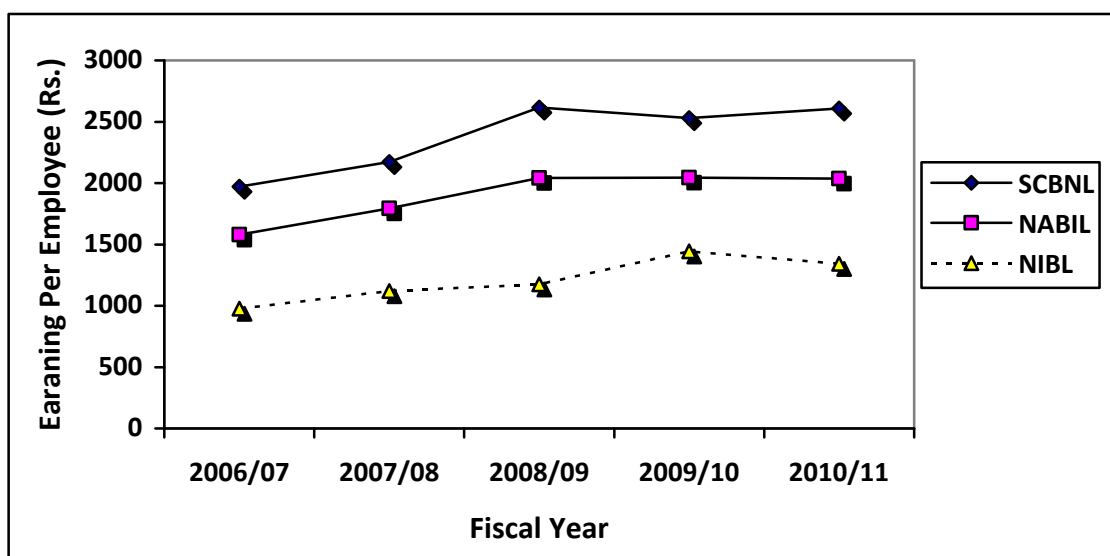
Table and Figure 4.7 show the mean earning per employee of SCBNL, NABIL and NIBL as (Rs.)1970.56, 2172.20, 2615.08, 2531.17 and 2608.79 likewise (Rs.)1578.36, 1794.39, 2041.68, 2045.06 and 2036.08 Similarly (Rs.) 975.48,1120.14, 1175.74 ,1443.50 and 1340.94 respectively. The table also shows the S.D. of selected CB's as (Rs.) 247.52, 170.16 and 144.83 respectively. The value on mean earning per employee of SCBNL is greater than NABIL and NIBL which indicates better management performance of the bank compare to its competitor. Since the S.D. of earning per employee of SCBNL is greater than NABIL and NIBL,

there is more risk in per employee earning of SCBNL the compare to its competitor.

4.4 Earning Performance

The main objective of banks is to earn profit and their level of profitability is measured by profitability ratios. Earning performance allows the banks to remain competitive by providing the resources. Profitability ratios measures the efficiencies of the banks, higher profit ratio indicates higher efficiency and vice-versa.

4.4.1 Return on Assets (ROA)

Return on assets explains the contribution of assets to generating net profit. Return on total assets is calculated by dividing net profit after tax by total assets of the company. Higher return on total assets indicates the higher efficiency in the utilization of total assets and vice – versa.

Table 4.8

Return on Assets

Years	Banks		
	SCBNL	NABIL	NIBL
2006/07	2.42	2.72	1.79
2007/08	2.46	2.32	1.77
2008/09	2.56	2.55	1.68
2009/10	2.70	2.37	2.19
2010/11	2.55	2.43	2.02
Mean	2.53	2.47	1.89
S.D.	0.30	0.47	0.20
C.V	0.12	0.19	0.11

Source: Annual Reports & Appendix – VIII

Figure 4.8

Return on Assets
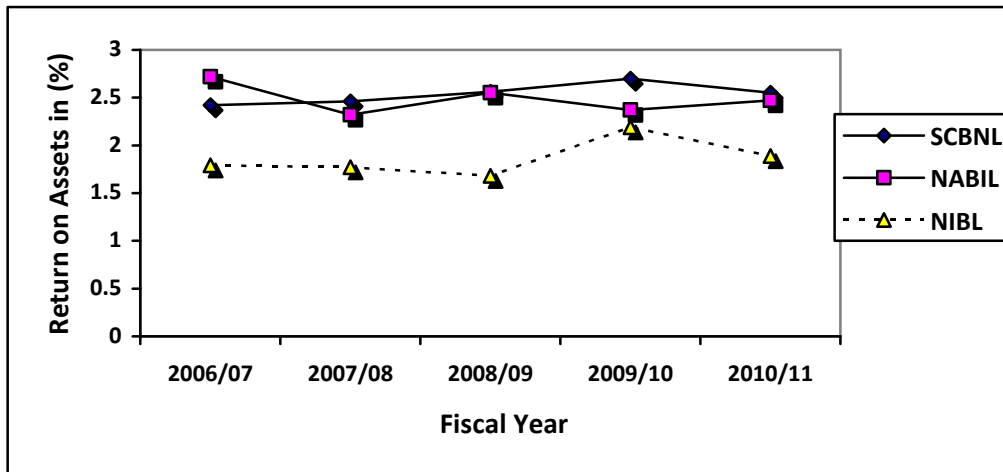
Table and figure 4.8 show mean ROA ratio of SCBNL, NABIL and NIBL is 2.53 percent, 2.47 percent and 1.89 percent respectively. The table also shows CV of ROA ratio of SCBNL, NABIL and NIBL is 0.12 percent, 0.19 percent and 0.11 percent respectively. The mean value of ROA ratio reveals that the return on assets of SCBNL is greater than NABIL and NIBL. Similarly, the value on CV reveals that less variability in the return on assets of SCBNL and NIBL. Therefore, SCBNL and NIBL seem to be less risky.

4.4.2 Earning Per Share (EPS)

The earnings per share show the profitability of the bank on per share basis. It shows the earning available to each shareholder out of the total earning. The earnings per share are calculated by dividing the profit after tax by total number or common share outstanding.

Table 4.9

Earnings per Share (Rs.)

Years	Banks		
	SCBNL	**NABIL**	**NIBL**
2006/07	167.37	137.08	62.57
2007/08	131.92	108.31	57.87
2008/09	109.99	106.76	37.42
2009/10	77.65	78.61	52.55
2010/11	69.51	70.67	48.84
Mean	111.28	100.28	51.85
S.D.	11.53	4.51	8.87
C.V	0.15	0.48	0.16

Source: Annual Reports & Appendix - IX

Figure 4.9

Earning Per Share (Rs.)
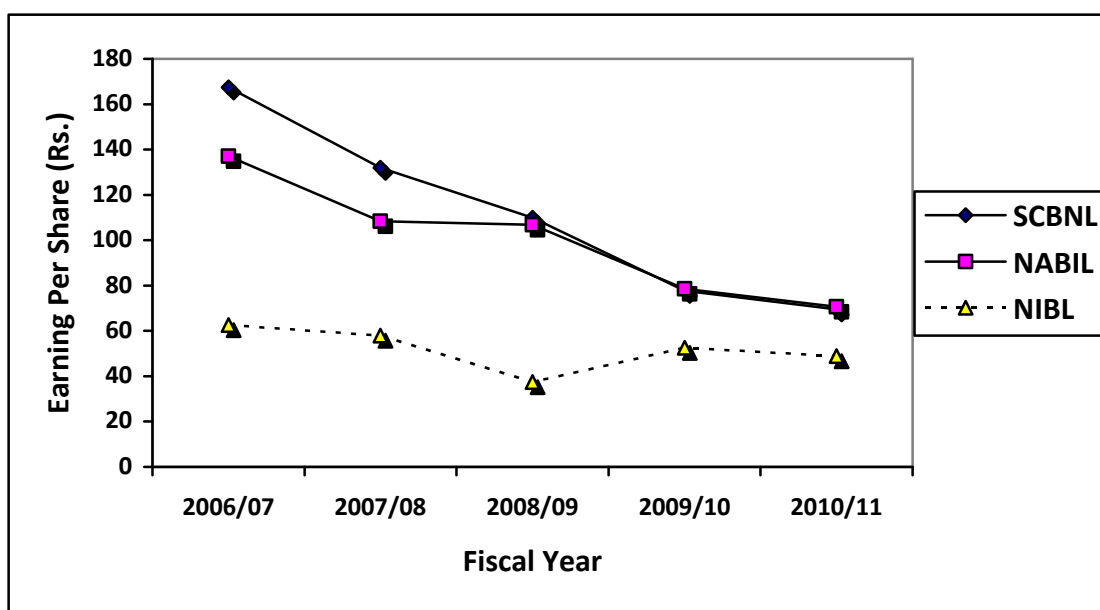
Table and figure 4.9 show EPS of SCBBL,NABIL and NABIL for the study period (Rs.) 167.37,131.92, 109.99,77.65 and 69.51 likewise (Rs.) 137.08, 108.31, 106.76, 78.61 and 70.69 Similarly (Rs.) 62.57, 57.87,37.42,52.55 and 48.84 respectively. The EPS of Selected CB's is decreasing year by year over the study period. This decrease in EPS due to the economic and political Environment over the study period. Further, the table shows mean EPS of SCBNL, NABIL and NIBL as (Rs.) 111.28, 100.28 and 51.85 respectively. It also shows the CV of the banks as 0.15 percent, 0.48 percent

and 0.16 percent respectively. SCBNL's higher mean value on EPS compare to NABIL and NIBL. It indicates that its earning performance is better than NABIL and NIBL. The CV of NABIL indicates great variability in its EPS than two CB's. With this we can say that is more risk in NABIL than SCBNL and NIBL.

4.5 Liquidity Position

The level of liquidity influences the ability of a banking system to withstand shocks. Liquidity risk arises when CBs liability holder like depositor demand immediate cash for the financial claim they hold with financial institutions. Thus, bank should have sound liquidity position to meet the requirement.

4.5.1   Cash and Bank Balance Ratio (CBR)

The ratio measures the bank's ability to meet immediate obligation. So, balance should maintain in order to meet their paying obligation. Further, this ratio is employed to measures whether banks cash balance is sufficient to cover unexpected demand made by the depositors.

Table 4.10

Cash and Bank Balance Ratio

Years	Banks		
	SCBNL	NABIL	NIBL
2006/07	8.20	6.00	9.97
2007/08	6.89	8.37	10.90
2008/09	8.75	9.03	16.96
2009/10	5.48	3.02	13.60
2010/11	6.10	5.02	16.2
Mean	7.08	6.23	13.52
S.D.	1.23	2.19	2.99
C.V	0.17	0.35	0.22

Source: Annual Reports & Appendix - X

Figure 4.10

Cash and Bank Balance Ratio
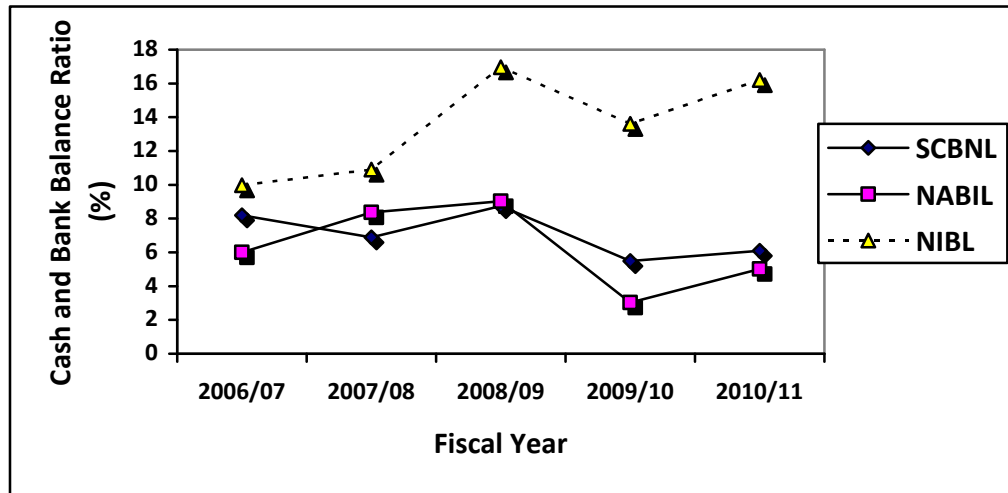
Table and Figure 4.10 show cash and bank balance ratio of selected commercial banks for FY 2006/07 to 2010/11. As shown by the table the cash and bank balance ratio of SCBNL was 8.20 percent, 6.89 percent, 8.75 percent, 5.48 percent and 6.10 percent Likewise the cash and bank ratio of NABIL is 6.00 percent, 8.37 percent, 9.03 percent, 3.02 percent and 5.02. percent Similarly, the cash and bank balance ratio of NIBL is 9.97 percent, 10.90 percent, 16.96 percent, 13.60 percent and 16.20 percent. Mean and CV of SCBNL on cash and bank balance ratio appeared as 7.08 percent and 0.17 percent respectively. Similarly the mean and CV of NABIL and NIBL is 6.23 percent, 0.35 percent and 13.52 percent and 0.22 percent respectively. The mean of NIBL is greater than SCBNL and NABIL which indicates that NIBL is more competent in paying capacity and it keep more liquidity to serve the depositors than SCBNL and NABIL. According to CV analysis, it can be determined that the ratio of NABIL also varied than of SCBNL and NIBL.

4.5.2   Investment in Government Security Ratio (ISGR)

Government Securities are known as risk free assets, which are converted in to cash easily in short period. This ratio also measures the ability to pay short term obligation. This ratio also helps to measures the liquidity position of selected commercial banks.

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Table 4.11

Investment in Government Security Ratio

Years	Banks		
	SCBNL	**NABIL**	**NIBL**
2006/07	28.68	20.60	13.29
2007/08	6.73	14.56	9.15
2008/09	27.87	13.25	5.42
2009/10	24.25	16.68	7.81
2010/11	26.22	13.10	7.36
Mean	22.75	15.63	8.60
S.D.	8.15	2.41	2.62
C.V	0.35	0.15	0.30

Source: Annual Reports & Appendix – XI

Figure 4.11

Investment in Government Securities Ratio
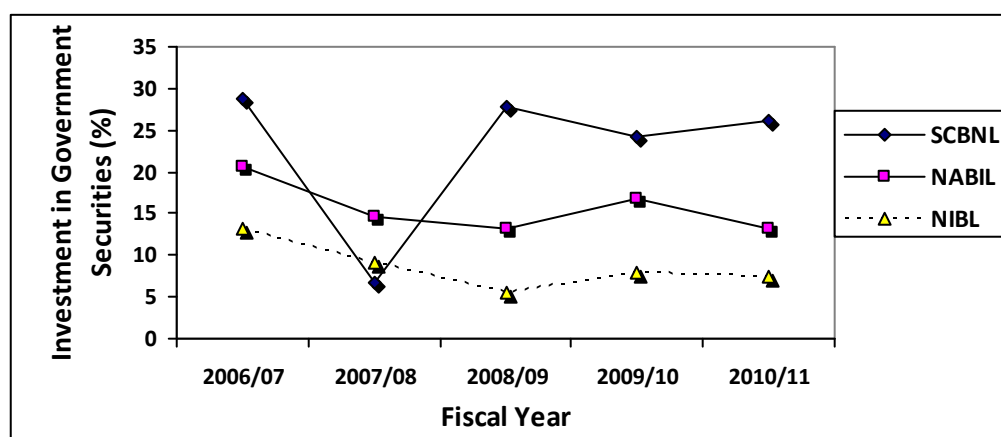
Table and figure 4.11 show the investment in government security of SCBNL, NABIL and NIBL. The table and figure shows the more fluctuation of SCBNL. Investment in Government Security of SCBNL 28.68 percent, 6.73 percent, 27.87 percent,24.25 percent and 26.22 percent Likewise ratio of NABIL is 20.60 percent, 14.56 percent, 13.25 percent,16.68 percent and 13.10 percent Similarly the ratio of NIBL is 13.29 percent, 9.15 percent, 5.42 percent, 7.81 percent and 7.36 percent respectively. The figure and table also shows the mean ratio of SCBNL, NABIL and NIBL 22.75 percent, 15.63 percent and 8.60 percent as respectively. According the table and figure the mean ratio of SCBNL is stronger than NABIL and NIBL, which indicates good liquidity position to meet short term obligation than NABIL and NIBL. The figure and table also shows the CV of selected commercial banks as 0.35 percent, 0.15 percent and 0.30 percent.The CV of SCBNL is greater than NABIL and NIBL.

This indicates the more variability in Investment in Government Security ratio of SCBNL. With this we can say that more risk in SCBNL than NABIL and NIBL

Trend Analysis Projection for Next Five Years

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

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

) It helps in understanding the past behavior of the variable (or data). By observing past behavior data, one can easily observe in his sales or prices what changes had taken place in the past and what were their causes.

) It helps to predict or estimate (or forecast) the behavior of the data in future which is very essential for business planning.

) It helps to compare changes in the values of different phenomenon at different times or places etc.

) It helps to compare the actual current performance of accomplishment with expected ones (on the basis of the past performance) and analysis the causes of such variations.

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

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

In this study, the method of least square is used for the analysis for the selected commercial bank's total deposit trend, net profit trend and loan and advances trend.

The projections are based on the following assumptions.

〕 The main assumption is that other things being will remain constant.

〕 The bank will run in the present position.

〕 The economy will remain in the present stage.

〕 The forecast will be true only when the limitation of least square method is carried out.

〕 NRB will not change its guidelines to commercial banks.

I. Trend analysis of Deposit.

Table 4.12

Trend Value of Total Deposit

Fiscal Year	SCBNL	NABIL	NIBL
Actual Deposit From 2006 to 2009/10			
2006/07	25	24	25
2007/08	29	31	34
2008/09	33	38	43
2009/10	36	45	52
Forecasted Deposit From 2010/11 to 2014/15			
2010/11	40	52	60
2011/12	43	58	69
2012/13	47	65	77
2013/14	50	72	86
2014/15	53	79	95

Source: Annual Reports & Appendix– XII, XIII &

Figure 4.12

Trend Value of Total Deposit
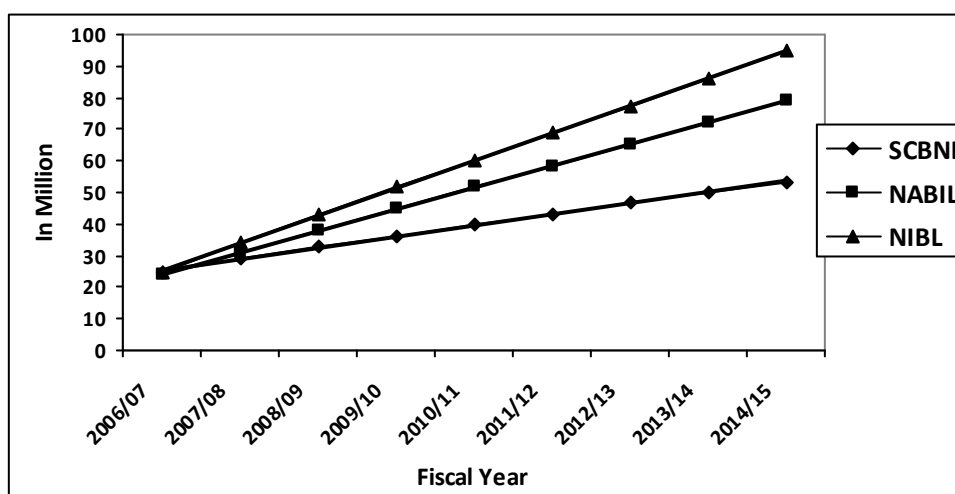
Table and figure show that we can calculate that the total deposit of SCBNL has been increasing by 3.5 billion per year. The table and figure also shows the deposit of NABIL has increasing by 7 billion per year. Similarly total deposit of NIBL has increasing by 8 billion per year. According to the above trend analysis the growth rate of NIBL is greater than SCBNL and NABIL. Hence, Sample banks have maintained good increasing rate in deposits in recent year in spite of growing competition and liquidity crunch situation in current market.

II. Trend analysis of Net Profit

Under this topic the trend values of net profit has been calculated for five years from FY 2006/07 to 2009/10 and the forecast for next five years up to 2011/12to 2014/15.

Table 4.13

Trend Value of Net Profit

Fiscal Year	SCBNL	NABIL	NIBL
Actual Net Profit From 2006/07 to 2009/10			
2006/07	73	70	52
2007/08	85	84	74
2008/09	97	98	96
2009/10	109	111	118
Forecasted Net Profit From 2010/11 to 2014/15			
2010/11	121	125	141
2011/12	133	138	163
2012/13	145	152	185
2013/14	156	166	207
2014/15	168	179	229

Source: An Source: Annual Reports & Appendix– XV, XVI &XVII

Figure 4.13

Trend Value of Net Profit
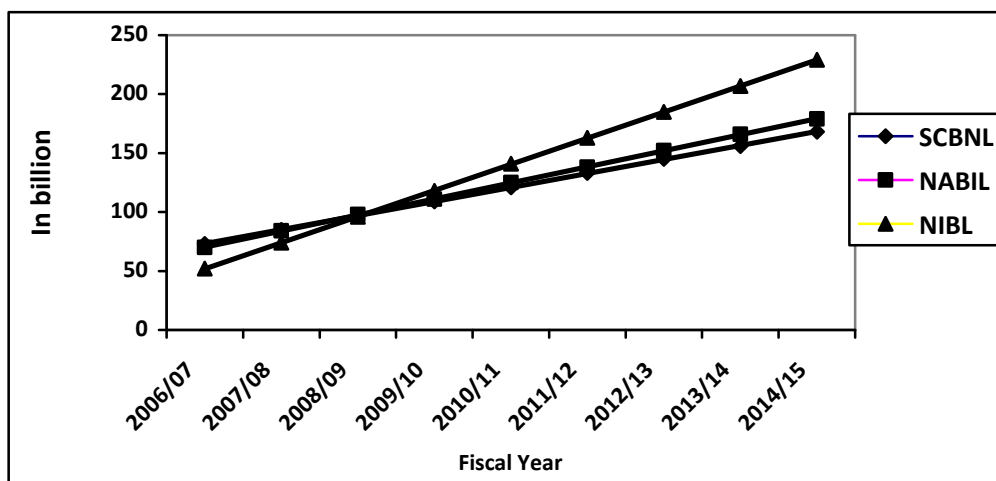
Table and figure 4.13 we can calculate that the Net Profit of SCBNL, NABIL and NIBL respectively. The Net profit of SCBNL has been increased per year by 1.2 billion per year and Net profit of NABIL has been increased by 1.3 billion per year. Similarly the Net Profit of NIBL has been increased by 2.2 billion per year. All selected commercial banks maintained nice rate of increasing rate in profit in previous year and they can perform nicely in coming years too. We can say it by their performance at last five years and trend for next five years.

III. Trend Analysis of Loan and Advance

Under this topic the trend values of loan and advances have been calculated for five years from FY 2006/07 to 2009/10 and forecast for next five years up to 2010/11 to 2014/15.

Table 4.14

Trend Value of Loan & Advance

Fiscal Year	SCBNL	NABIL	NIBL
Actual Loan & Advances From 2006/07 to 2009/10			
2006/07	110	172	197
2007/08	127	223	272
2008/09	144	275	347
2009/10	160	327	421
Forecasted Loan & Advances From 2010/11 to 2014/15			
2010/11	177	378	496
2011/12	194	430	571
2012/13	211	481	646
2013/14	227	533	720
2014/15	244	585	795

Source: Annual Reports & Appendix – XVIII, XVIX &XVX

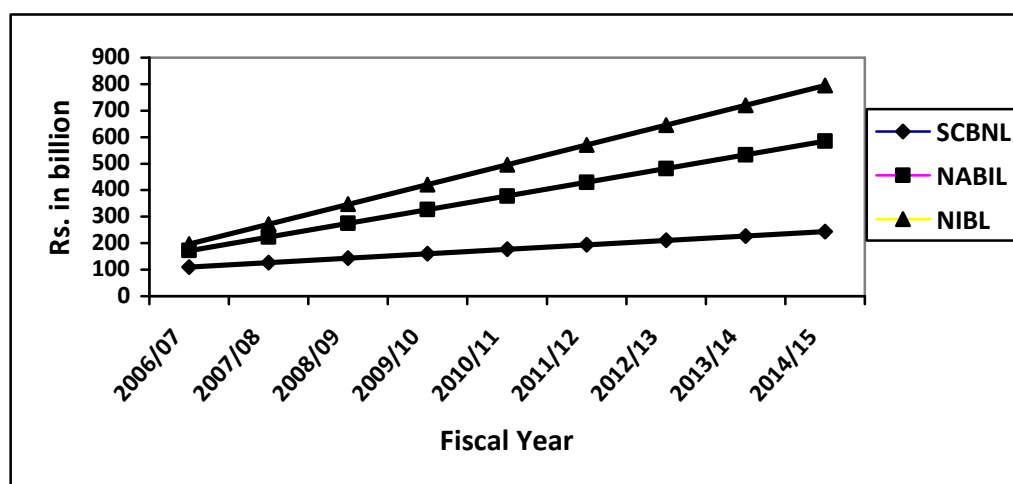**Figure 4.14**

Trend Value of Loan and Advances

Table and figure 4.14 we can calculate that the loan and advance of SCBNL has been increasing 1.6 billion per year and NABIL bank's has increasing by 5.2 billion per

year. Similarly, the loan and advances of NIBL has increased by 7.4 billion. In comparing disbursing loan volume of NIBL is higher than SCBNL and NABIL. It also influences the total income as well as Net profit of the bank. Which are already shown by study in total profit increasing range of both banks? From the above trend analysis of selected commercial banks resulting much satisfactory positions maintained by them.

4.6 Major Findings of the Study

This section lists major findings obtained from the analysis of the data presented for the study purpose. Conclusions drawn from the study are presented in the next chapter entitled "Summary, Conclusions and Recommendations."

4.6.1 Capital Adequacy in Selected Banks

Performance of the selected commercial banks is intended to measures with tools: CCAR, SCAR and TCAR suggested under CAMEL model. The mean CCAR of SCBNL is found 12.58 percent where as the NABIL and NIBL is 9.09 percent, 11.2 percent respectively. Standard deviation of SCBNL of CCAR of SCBNL is 0.76 percent and NABIL and NIBL is 0.51 percent and 0.53 percent respectively. Likewise the mean SCAR of SCBNL, NABIL and NIBL is 1.78 percent, 1.88 percent and 2.87 percent respectively. The Standard deviation and CV of SCBNL, NABIL and NIBL are 0.19 percent, 0.21 percent, 0.57 percent and 0.10 percent, 0.11 percent and 0.20 percent respectively. Similarly the mean TCAR of SCBNL, NABIL and NIBL are 15.22 percent, 11.33 percent and 11.44 percent respectively. The standard deviation and CV of SCBNL, NABIL and NIBL are 0.99 percent, 0.72 percent, 0.57 percent and 0.07 percent, 0.06 percent, 0.05 percent respectively.

4.6.2 Asset Quality of Selected Banks.

Performance of selected commercial banks is intended to measure on the basis of NPL ratio and Loan Loss ratio which are the proxy to the quality of assets. Mean NPL of SCBNL, NABIL and NIBL is found 1.23 percent, 1.10 percent and 1.35 percent respectively. The standard deviation of sample banks is 0.63 percent, 0.29 percent and 0.74 percent respectively. Similarly, coefficient of variation of NPL of SCBNL, NABIL and NIBL is 0.51 percent, 0.26 percent and 0.55 percent respectively. The mean loan loss ratio of 2.04 percent, 1.90 percent and 2.16 percent found for SCBNL,

NABIL and NIBL respectively. The standard deviation and CV of Loan loss ratio of SCBNL, NABIL and NIBL is 0.59 percent, 0.51 percent, 0.61 percent and 0.29 percent, 0.27 percent, 0.28 percent respectively.

4.6.3 Management Efficiency of Selected Banks

Performance of sample commercial banks is intended to measure by tools: total expenses to total revenue ratio and earning per employee under CAMIL. Mean ratio on expenses to revenue for SCBNL, NABIL and NIBL is found to be 75.72 percent, 79.00 percent and 90.57 percent respectively. Standard deviation and CV on the ratio of expenses to revenue ratio of SCBNL, NABIL and NIBL is found 4.45 percent, 2.65 percent, 2.35 percent and 0.05 percent, 0.04 percent, 0.08 percent respectively. Similarly the mean ratio of Earning per Employee for SCBNL, NABIL and NIBL is Rs. 2379.56 percent, 1899.11 percent, 1211.16 percent respectively. Standard deviation and CV of earning per employee of selected commercial banks found to be 247.52 percent, 170.16 percent, 144.83 percent and 010 percent, 0.08 percent, 0.12 percent respectively.

4.6.4 Earning performance of Selected Banks

The performance of sample commercial banks is intended to measure with the use of CAMEL Tool: ROA and EPS. Mean ROA ratio of SCBNL, NABIL and NIBL is found to be 2.53 percent, 2.47 percent and 1.89 percent respectively. Standard deviation and CV of ROA of selected commercial banks found to be 0.30 percent,0.47,0.20 percent and 0.12 percent, 0.19 percent, 0.11 percent respectively. Mean EPS of SCBNL, NABIL and NIBL found to be Rs.111.28, 100.28 and 51.85 respectively. Standard deviation and CV of selected commercial banks found to be 11.53 percent, 4.51 percent and 8.87 percent & 0.15 percent, 0.48 percent and 0.16 percent respectively.

4.6.5 Liquidity Position in Selected Banks

The performance of commercial banks intended to measure with the use of cash and bank balance ratio and investment in government security ratios. Mean ratio of cash and bank balance ratio of SCBNL, NABIL and NIBL is found to be 7.08 percent, 6.23 percent and 13.52 percent respectively. Standard deviation of selected commercial banks is 1.23 percent, 2.19 percent and 2.99 percent respectively. Similarly coefficient

of variation of cash and bank balance ratio of SCBNL, NABIL and NIBL is 0.17 percent, 0.35 percent and 0.22 percent. Mean ratio of ISGR of SCBNL, NABIL and SCBNL is found to be 22.75 percent,15.63 percent and 8.60 percent respectively. Standard deviation and CV of Sample commercial banks for ISGR ratio found to be 8.15 percent, 2.41 percent, 2.62 percent and 0.35 percent, 0.15 percent, 0.30 percent respectively.

CHAPTER -V
SUMMARY, CONCLUSION AND RECOMMENDATION

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

5.1 Summary

This study was carried out as academic requirements for MBS degree on the topic of "CAMEL study on financial performance of SCBNL, NABIL and NIBL." The study was started with the objective to find out the fact about financial performance of SCBNL, NABIL and NIBL. The analysis of financial statement is done to obtain a better insight in to firm's position and performance. CAMEL is a technique of health checking of financial institutions. Financial institutions financial soundness is judged on the basis of capital adequacy, assets quality, management quality, earning quality and liquidity position. Almost, all the government Banks in Nepal are running at loss. Though almost private sector's Banks are earning profit. It is very difficult to call them sound if appraised from CAMEL approach.

Financial institutions are introducing complex and innovative products, they are exposed to many risks and therefore more amplified as well as diversified the functions performed by the Financial institutions supervision department. A key product of supervision is a rating of Financial institutions overall condition, commonly related to as a CAMEL rating. CAMEL rating system is used by the three federal banking supervisions. The Federal Reserve, FDIC and office of the controller of the currency (OCC) and other financial supervisory agencies to provide a convenient summary of Financial institutions conditions at the time of exam. Various studies have been conducted in the past on the financial analysis of commercial banks in the US and other regions were found done. In context of Nepalese banking environment, there are only few researchers conducted in the framework of CAMEL. The study analyze the level, trend and comparative analysis of capital adequacy, non-performing loans, loan loss provision, management quality ratios, earning capacity

and liquidity position components of the SCBNL, NABIL and NIBL during 5 years period FY 2006/07 to FY 20010/11 During the research the areas that formed part of the research review were outline of sample banks concept of financial performance analysis, concept of CAMEL rating system and component evaluation system, Basel capital accord, NRB guidelines. Besides these, review of research paper, work paper dissertations and related reports were reviewed.

The research was conducted within the framework of descriptive and analytical design. For the study purpose, SCBNL, NABIL and NIBL were chosen as a study unit applying convenience sampling as technique out of 31 commercial banks. The required data and information collected from secondary sources. Financial ratios, simple mathematical and statistical tools have applied to get the meaningful results of the collected data in this research work.

The analysis of data and results are presented clearly and simultaneously using sample tables and graphs. In summary following conclusions are drawn by the analysis of data.

5.2 Conclusions

Based on the findings of the study following conclusions have been drawn.

⟩ The performance of SCBNL is stronger as measured by CAR but has a higher risk compared to NIBL. From the CAR measurement NIBIL seems stronger than NABIL but from the standard deviation it seems higher risks among selected commercial banks. There is a greater element of risk in NIBL's capital as compared to SCBNL and NABIL based on SCAR. The capital base of SCBNL is stronger than NABIL and NIBL as measured by TCAR. The findings suggest the performance of commercial banks cannot be determined by a single tool of CAR.

⟩ On the basis of ratios on NPL and loan loss provision the quality of NABIL's assets is better than that of SCBNL and NIBL. Loans advanced by NABIL are secured as compared to SCBNL and NIBIL.

⟩ The management of NABIL's and SCBNL's is less efficient as compared to NIBL. The management of SCBNL is more efficient than NABIL and NIBL as measured by earning per employee. Differing efficiency results of commercial banks are found on the basis of efficiency ratios.

⟩ SCBNL is able to gain more benefits from its assets as compared to NABIL and NIBIL. Similarly, the shares of SCBNL are earning more than that of NABIL and NIBL. A greater variation is seen in the per share earnings of SCBNL than NABIL and NIBL.

⟩ Liquidity position in commercial banks: The performance of commercial banks is measured with CAMEL tools: Cash Reserve Ratio and Investment in Government Securities Ratio. The liquidity position of NIBL is stronger than SCBNL and NABIL as measured by CRR. But there is greater element of risk in the liquidity as measured by CRR.

⟩ From the ISGR ratio SCBNL has good liquidity position than NABIL and NIBL. But it seems has greater risk than NABIL and NIBL. Investment in Government Security of SCBNL has greater than NABIL and NIBL. So, we can say that the liquidity position of SCBNL is good.

5.3 Recommendations

Based on findings and conclusions, following recommendation has been provided.

-) NABIL and SCBNL is maintaining strong capital base which is in consistent with the NRB directives. Capital base is an important source to give an impression to general public that their deposit is secured with the bank which enables it to collect more deposit for further investment there by to earn more returns. Therefore, the NABIL's and NIBL's management is advised to maintain the same spirit. Ratios on NPL and loan loss of SCBNL and NABIL suggest that the loans advanced by these banks are not so secured. Therefore, the management of SCBNL and NABIL is advised to focus on the administration of credit extension including structurizing and monitoring of borrowers. The ratio on total expenses to total revenue suggests that the greater portion of the banks revenue is expensed thereby reducing the residuals (earnings) to its shareholders. The ratios on ROA and EPS suggest that the bank's assets are earning less as compared to its competitor. The bank has maintained effective liquidity position expect in terms of NRB balance to total deposit in some periods.

-) SCBNL has been able to maintain strong capital base as prescribed by the regulatory authority. Its assts quality is also found to be better sound. The management of the SCBNL is advised to maintain the spirit. Earning per employee of NABIL and SCBNL could be enhanced in order to maximize the return. The banks management is advised to maintain the balance with the NRB.

-) NRB being regulator of the commercial banks has a pivotal role in banks performance, protection of shareholders interest and general public's deposits. Therefore, the NRB is advised to be effective in monitoring of the commercial banks so that protection of shareholder and public interest is ensured. All the selected commercial banks have failed to maintain the requirements on balance with NRB in some years over the study period. The NRB is advised to be effective in monitoring this requirement.

-) Although all selected commercial banks has been decreasing the proportion on non-performing loans to total loans and advances of SCBNL, NABIL and NIBL during the study period, the bank requires checking this tendency before they are ultimately written off from the books. The loan loss provision to total loans and advances is decreasing which is a good sign however the provision for doubtful loans has increased in later years which are a matter of concern. The banks need to pay attention in recovering the doubtful and loss loans and lower the provision accordingly.

LIST OF COMMERCIAL BANKS IN NEPAL:

CLASS "A" (LICENSED BY NRB)

1 NEPAL BANK LTD. 1937/11/15 DHARMAPATH,KATHMANDU
2 RASTRIYA BANIJYA BANK LTD. 1966/01/23SINGHADURBARPLAZA,KATHMAND
3 NABIL BANK LTD. 1984/07/16 KANTIPATH, KATHMANDU
4 NEPAL INVESTMENT BANK LTD. 1986/02/27 DURBARMARG,KATHMANDU
5 STANDARD CHARTERED BANK NEPAL LTD.. 1987/01/30 NAYABANESHWOR,
6 HIMALAYAN BANK LTD. 1993/01/18 THAMEL,KATHMANDU
7 NEPAL SBI BANK LTD. 1993/07/07 HATTISAR,KATHMANDU
8 NEPAL BANGLADESH BANK LTD. 1994/06/05 NAYANANESHWOR,KATHMANDU
9 EVEREST BANK LTD. 1994/10/18 LAZIMPAT ,KATHMANDU
10 BANK OF KATHMANDU LTD. 1995/03/12 KAMALDI,KATHMANDU
11 NEPAL CREDIT AND COMMERCE BANK LTD. 1996/10/14 SIDDHARTHANAGAR,
12 LUMBINI BANK LTD. 1998/07/17 NARAYANGADH,CHITAWAN
13 NEPAL INDUSTRIAL & COMMERCIAL BANK LTD. 1998/07/21 BIARATNAGAR,
14 MACHHAPUCHHRE BANK LTD. 2000/10/03 PRITHWICHOWK,POKHARA, KASKI
15 KUMARI BANK LTD. 2001/04/03 DURBARMARG,KATHMANDU
16 LAXMI BANK LTD. 2002/04/03 ADARSANAGAR,BIRGUNJ, PARSA
17 SIDDHARTHA BANK LTD. 2002/12/24 KAMALADI,KATHMANDU
18 AGRICULTURE DEVELOPMENT BANK LTD. 1968/01/21 RAMSHAHPATH,KATHMANDU
19 GLOBAL IME BANK LTD. 2007/01/02 BIRGUNJ, PARSA
20 CITIZENS BANK INTERNATIONAL LTD. 2007/06/21 KAMALADI,KATHMANDU
21 PRIME COMMERCIAL BANK LTD 2007/09/24 NEWROAD,KATHMANDU
22 BANK OF ASIA NEPAL LTD. 2007/10/12 TRIPURESHWOR,KATHMANDU
23 SUNRISE BANK LTD. 2007/10/12 GAIRIDHARA,KATHMANDU
24 GRAND BANK NEPAL LTD. 2008/05/25 KAMALADI, KATHMANDU
25 NMB BANK LTD. 2008/06/05 BABARMAHAL, KATHMANDU
26 KIST BANK LTD. 2009/05/07 ANAMNAGAR, KATHMANDU
27 JANATA BANK NEPAL LTD. 2010/04/05 NAYA BANESHWOR, KATHMANDU
28 MEGA BANK NEPAL LTD. 2010/07/23 KANTIPATH, KATHMANDU
29 COMMERZ & TRUST BANK NEPAL LTD. 2010/09/20 KAMALADI, KATHMANDU
30 CIVIL BANK LTD. 2010/11/26 KAMALADI, KATHMANDU
31 CENTURY COMMERCIAL BANK LTD. 2011/03/10 PUTALISADAK , KATHMANDU
32 SANIMA BANK LTD. 2012/02/15 PUTALISADAK , KATHMANDU

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ANNEX

Annex 1

Capital Adequacy Requirement Ratio $= \dfrac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}} \times 100\%$

Core Capital Adequacy Requirement Ratio $= \dfrac{\text{Total Core Capital}}{\text{Total Risk Weighted Assets}} \times 100\%$

Total Capital Fund= Core Capital + Supplementary Capital

Calculation of Average CAR%

For SCBNL

Average CAR $= \dfrac{15.71 + 13.15 + 14.70 + 14.60 + 14.22}{5} = 14.47\%$

For NABIL

Average CAR $= \dfrac{12.04 + 11.10 + 10.70 + 10.50 + 10.58}{5} = 10.98\%$

For NIBL

Average CAR $= \dfrac{12.17 + 11.28 + 11.24 + 10.55 + 10.91}{5} = 11.23\%$

Table 1.1; Core Capital of SCBNL, NABIL, and NIBL

Year	SCBNL	NABIL	NIBL
2006-07	1951117000	1992849715	1852197400
2007-08	2281331994	2363598989	3080786860
2008-09	2832761000	3044340637	3879969000
2009-10	3050712000	3667854525	4554094000
2010-11	3263248000	4318697617	5083617000

Table1.2 Supplementary Capital of SCBNL, NABIL, NIBL

Year	SCBNL	NABIL	NIBL
2006-07	274167000	314782680	999421610
2007-08	350519000	635131175	1232320570
2008-09	357606000	682742150	1215385000
2009-10	353049300	722374082	1096951000
2010-11	572344000	854701575	124101000

Table1.3 Total Capital Fund of SCBNL, NABIL, NIBL

Year	SCBNL	NABIL	NIBL
2006-07	2225284000	2307632395	2851619010
2007-08	2631850994	2998730164	4313107430
2008-09	3190367000	3727082787	5095353000
2009-10	3530493000	4390228607	5651045000
2010-11	3835592000	5173399192	6324627000

Table 1.4; Total Risk Weighted Assets of SCBNL, NABIL and NIBL

Year	SCBNL	NABIL	NIBL
2006-07	14168420035	19166766033	23435634330
2007-08	20014076000	27010564315	38236768000
2008-09	21703164000	34816500849	45312265000
2009-10	24184585000	41822660075	53553866000
2010-11	26974342000	48885000000	57993926000

Table1.5; Capital adequacy Requirement Ratio **(%)** of SCBNL, NABIL, NIBL

Year	SCBNL	NABIL	NIBL
2006-07	15.71	12.04	12.17
2007-08	13.15	11.1	11.28
2008-09	14.7	10.7	11.24
2009-10	14.51	10.5	10.55
2010-11	14.22	10.58	10.91

Table1.6:Core Capital Ratio (%) of SCBNL,NABIL,NIBL

Year	SCBNL	NABIL	NIBL
2006-07	13.17	10.40	7.90
2007-08	12.15	8.75	7.71
2008-09	13.05	8.74	8.56
2009-10	12.61	8.77	8.5
2010-11	12.10	8.83	8.77

Annex 2

Calculation of loan loss provision ratio

Non Performing Loan Ratio = $\frac{Non-Performing\ Loan}{Total\ Loan\ \&\ Advances} \times 100\%$

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

Table 2.1: Loan Loss Provision of SCBNL

Year	2006-07	2007-08	2008-09	2009-10	2010-11
LLP	287511222	245386620	200946085	219627490	235207344
Total loan	10790148357	13963983752	13679756990	16176582758	18552477835
LLP%	2.66	1.76	1.47	1.36	1.27

Table 2.2: Loan Loss Provision of NABIL

Year	2006-07	2007-08	2008-09	2009-10	2010-11
LLP	357245035	394407016	409079030	762095405	871390355
Total loan	15903023765	21759460334	27999012071	33030968688	38905487889
LLP%	2.25	1.81	1.46	2.31	2.29

Table 2.3: Loan Loss Provision of NIBL

Year	2006-07	2007-08	2008-09	2009-10	2010-11
LLP	482672514	532652478	585950852	630131971	792179392
Total loan	17769099903	27529304736	36827157409	40948440000	41887693911
LLP%	2.72	1.93	1.59	1.54	1.34

Table 2.4; Non Performing Loan Loss of SCBNL, NABIL and NIBL

Year	SCBNL	NABIL	NIBL
2006-07	197017153	178293983	421971549
2007-08	128197820	161085995	309470983
2008-09	91041656	224817413	213907394
2009-10	98135727	486281521	254034452
2010-11	115803901	689851773	395282853

Table 2.5: Non Performing Loan Ratio (%) of SCBNL, NABIL and NIBL

Year	SCBNL	NABIL	NIBL
2006-07	1.83	1.12	2.37
2007-08	0.92	0.74	1.12
2008-09	0.67	0.8	0.58
2009-10	0.61	1.47	0.62
2010-11	0.62	1.77	0.94

Annex 3

Management Efficiency Ratio= $\dfrac{Total\ Net\ Profit\ After\ Tax}{Total\ No.of\ Staffs} \times 100\%$

Table 4.1 Net Profit After Tax of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	691668064	818921008	1025114536	1085872000	1119171286
NABIL	673959698	746468394	1031053098	1139099000	1337745000
NIBL	501398852	696731516	900619072	1265950000	1176000000

Table 3.2 No. of Staffs of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	351	377	392	429	429
NABIL	427	416	505	557	657
NIBL	514	622	766	877	877

Table 3.3 Management Efficiency Ratio of SCBNL, NABIL and NIBL

Year	SCBNL	NABIL	NIBL
2006-07	1970564.29	1578359.95	975484.15
2007-08	2172204.27	1794395.18	1120147.13
2008-09	2615088.1	2041689.3	1175742.91
2009-10	2531170.16	2045061.04	1443500.57
2010-11	2608790.9	2036141.55	1340935.06

Annex 4

Earning Per Share = $\dfrac{\text{Net Profit After Tax}}{\text{Total No.of Share}}$

Table 4.1 Net Profit After Tax of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	691668064	818921008	1025114536	1085872000	1119171286
NABIL	673959698	746468394	1031053098	1139099000	1337745000
NIBL	501398852	696731516	900619072	1265950000	1176000000

Table 4.2 No. of Share Outstanding of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	4132548	6207840	9319664	13984836	16101680
NABIL	4916544	6892160	9657470	14491240	20297694
NIBL	8013526	12039154	24070689	24090977	24090977

Table 4.3 Earning Per share of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	167.37	131.92	109.99	77.65	69.51
NABIL	137.08	108.31	106.76	78.61	70.67
NIBL	62.57	57.87	37.42	52.55	48.84

Table 4.3 Earning Per share of SCBNL, NABIL and NIBL

Calculation of Average EPS

For SCBNL Average EPS $= \dfrac{167.37+131.92+109.99+77.65+69.51}{5} = 111.28$

For NABIL Average EPS $= \dfrac{137.08+108.31+106.76+78.61+70.67}{5} = 100.28$

For NIBL Average EPS $= \dfrac{62.57+57.87+37.42+52.55+48.84}{5} = 51.85$

Calculation of standard Deviation (S.D)

S.D of SCBNL =

$$\sqrt{\frac{(167.37\,Z111.28)^2\ \Gamma\,(131.92\,Z111.28)^2\ \Gamma\,(109.99\,Z111.28)^2\ \Gamma\,(77.65\,Z111.28)^2\ \Gamma\,(69.51\,Z111.28)^2}{5}}$$

$$=\sqrt{\frac{6909.08}{5}}$$

$$=16.43$$

S.D of NABIL=

$$\sqrt{\frac{(137.08\,Z100.28)^2\ \Gamma\,(108.31\,Z100.28)^2\ \Gamma\,(106.76\,Z100.28)^2\ \Gamma\,(78.61\,Z100.28)^2\ \Gamma\,(70.67\,Z100.28)^2}{5}}$$

$$=\sqrt{\frac{561.40}{5}}$$

$$=4.74$$

S.D of NIBL =

$$\sqrt{\frac{(62.57\,Z51.85)^2\ \Gamma\,(57.87\,Z51.85)^2\ \Gamma\,(37.42\,Z51.85)^2\ \Gamma\,(52.55\,Z51.85)^2\ \Gamma\,(48.84\,Z51.85)^2}{5}}$$

$$=\sqrt{\frac{335.92}{5}}$$

$$=8.19$$

Calculation of CO-efficient of Variation

For SCBNL C.V $=\dfrac{\overline{16.43}}{111.28}\times100=14.76\%$

For NABIL C.V $=\dfrac{\overline{4.74}}{100.28}\times100=4.72\%$

For NIBL C.V $=\dfrac{\overline{8.19}}{51.85}\times100=15.79\%$

Table 4.4 Mean, Standard Deviation and Co-efficient of Variation

Banks	SCBNL	NABIL	NIBL
Mean	111.28	100.28	51.85
Standard Deviation	16.43	4.74	8.19
C.V	14.76	4.72	15.79

Annex 5

Price Earning Ratio $= \dfrac{\text{Market Price Per Share}}{\text{Earning Per Share}}$

Table 5.1 Market Price Per Share of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	5900	6830	6010	3279	1800
NABIL	5050	5275	4899	2384	1252
NIBL	1729	2450	1388	705	515

Table 5.2 Earning Per share of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	167.37	131.92	109.99	77.65	69.51
NABIL	137.08	108.31	106.76	78.61	70.67
NIBL	62.57	57.87	37.42	52.55	48.84

Table 5.3 Price Earning Ratio of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	35.25	51.77	54.64	42.23	25.90
NABIL	36.84	48.70	45.89	30.33	29.72
NIBL	27.63	42.31	37.10	13.42	10.54

Calculation of Average P/E ratio

For SCBNL Average P/E ratio

$$= \frac{35.25 + 51.77 + 54.64 + 42.23 + 25.90}{5} = \frac{209.79}{5} = 41.95$$

For NABIL Average P/E ratio

$$= \frac{36.84 + 48.70 + 45.89 + 30.33 + 29.72}{5} = \frac{191.48}{5} = 38.30$$

For NIBL Average P/E ratio

$$= \frac{27.63 + 42.31 + 37.10 + 13.42 + 10.54}{5} = \frac{131}{5} = 26.2$$

Calculation of Standard deviation

S.D of SCBNL=

$$\sqrt{\frac{(35.25 - 41.95)^2 + (51.77 - 41.95)^2 + (54.64 - 41.95)^2 + (42.33 - 41.95)^2 + (25.90 - 41.95)^2}{5}}$$

$$= \sqrt{\frac{556.09}{5}}$$

$$= 10.58$$

S.D of NABIL=

$$\sqrt{\frac{(36.84-38.30)^2+(48.70-38.30)^2+(45.89-38.30)^2+(30.33-38.30)^2+(29.72-38.30)^2}{5}}$$

$$=\sqrt{\frac{304.36}{5}}$$

$$=7.09$$

S.D of NIBL=

$$\sqrt{\frac{(27.63-26.20)^2+(42.31-26.20)^2+(37.10-26.02)^2+(13.42-26.02)^2+(10.54-26.20)^2}{5}}$$

$$=\sqrt{\frac{788}{5}}$$

$$=12.52$$

Calculation of C.V

For SCBNL= $\dfrac{\overline{10.58}}{25.90}\times100=40.8$

For NABIL= $\dfrac{\overline{7.09}}{29.72}\times100=23.85$

For NIBL $=\dfrac{\overline{12.17}}{26.2}\times100=47.79$

Table 5.4 Mean, Standard Deviation and Co-efficient of Variation

Banks	SCBNL	NABIL	NIBL
Mean	41.95	38.30	26.20
Standard Deviation	10.58	7.09	12.52
C.V	40.80	23.85	47.79

Annex 6

Calculation of Average ROA

Return on Assets= $\dfrac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100\%$

Profit after tax is calculated in Annex 4

Table 6.1 Total Assets of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	28596689451	33335788326	40587468009	40213320000	43811000000
NABIL	27253393008	37132759149	43867397504	52912333000	58141000000
NIBL	27590844761	38873306084	53010803126	57935545000	58356827501

Table 6.2 Return on Assets **(%)** of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	2.42	2.46	2.56	2.7	2.55
NABIL	2.72	2.32	2.55	2.37	2.43
NIBL	1.79	1.77	1.68	2.19	2.02

For SCBNL $= \dfrac{2.42 + 2.46 + 2.56 + 2.7 + 2.55}{5} = 2.53$

For NABIL $= \dfrac{2.72 + 2.32 + 2.55 + 2.37 + 2.43}{5} = 2.47$

For NIBL $= \dfrac{1.79 + 1.77 + 1.68 + 2.19 + 2.02}{5} = 1.89$

Calculation of S.D

S.D of SCBNL=

$$\sqrt{\frac{(2.42-2.53)^2+(2.56-2.53)^2+(2.46-2.53)^2+(2.7-2.53)^2+(2.55-2.53)^2}{5}}$$

$$=\sqrt{\frac{0.47}{5}}=0.30$$

S.D of NABIL=

$$\sqrt{\frac{(2.72-2.46)^2+(2.32-2.46)^2+(2.55-2.46)^2+(2.37-2.46)^2+(2.43-2.46)^2}{5}}$$

$$=\sqrt{\frac{1.0682}{5}}=0.47$$

S.D of NIBL=

$$\sqrt{\frac{(1.79-1.89)^2+(1.77-1.89)^2+(1.62-1.89)^2+(2.19-1.89)^2+(2.02-1.89)^2}{5}}$$

$$=\sqrt{\frac{0.203}{5}}=0.20$$

Calculation of C.V

For SCBNL=$\dfrac{\overline{0.30}}{2.53}\times100=0.12$

For NABIL=$\dfrac{\overline{0.47}}{2.46}\times100=0.19$

For NIBL=$\dfrac{\overline{0.20}}{1.89}\times100=0.11$

Table 6.3 Mean, Standard Deviation and Co-efficient of Variation

Banks	SCBNL	NABIL	NIBL
Mean	2.53	2.46	1.89
Standard Deviation	0.20	0.47	0.20
C.V	7.9	19.10	10.58

Annex 7

Table 7.1 Cash Reserve Ratio **(%)** of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	5.46	5.84	8.18	6.74	6.10
NABIL	6	8.37	9.03	3.02	3.01
NIBL	10.47	10.91	10.32	7.77	7.67

Source; Annual Report's Financial key indicator Summary

Calculation of Average CRR

For SCBNL Average CRR $= \dfrac{5.46 + 5.84 + 8.18 + 6.74 + 6.10}{5} = 6.46$

For NABIL Average CRR $= \dfrac{6 + 8.37 + 9.03 + 3.02 + 3.01}{5} = 5.89$

For NIBL Average CRR $= \dfrac{10.47 + 10.91 + 10.32 + 7.77 + 7.67}{5} = 9.43$

Calculation of Standard deviation

S.D of SCBNL=

$$\sqrt{\dfrac{(5.46-6.46)^2 + (5.84-6.46)^2 + (8.18-6.46)^2 + (6.74-6.46)^2 + (6.10-6.46)^2}{5}}$$
$$=\sqrt{0.90}$$
$$=0.94$$

S.D of NABIL=

$$\sqrt{\dfrac{(6-5.89)^2 + (8.37-5.89)^2 + (9.03-5.89)^2 + (3.02-5.89)^2 + (3.01-5.89)^2}{5}}$$
$$=\sqrt{\dfrac{32.5}{5}}$$
$$=2.54$$

S.D of NIBL=

$$\sqrt{\frac{(10.47\,Z9.43)^2\;\Gamma\,(10.91\,Z9.43)^2\;\Gamma\,(10.32\,Z9.43)^2\;\Gamma\,(7.77\,Z9.43)^2\;\Gamma\,(7.67\,Z9.43)^2}{5}} =$$

$$\sqrt{\frac{9.9}{5}}$$

$$=1.41$$

Calculation of C.V

For SCBNL = $\dfrac{\overline{0.94}}{6.46} \times 100 = 13.93$

For NABIL= $\dfrac{\overline{2.54}}{5.89} \times 100 = 43.28$

For NIBL= $\dfrac{\overline{1.41}}{9.43} \times 100 = 14.92$

Annex 8

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

Table 8.1; Total Deposit of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	24647020755	29743998794	35871721127	35182722000	37999242310
NABIL	23342285327	31915047467	37348255840	46410701000	49696112934
NIBL	24488855696	34451726191	46698100065	50094725000	58357000000

Cash and Bank balance

For SCBNL

Balance	2006-07	2007-08	2008-09	2009-10	2010-11
Cash	378422542	414875467	463345996	509031174	610690895
With NRB	1613757788	1266273524	1851132637	819508706	1638276594
other Bank	28840738	369094223	822684902	600766640	726827789
Total	2021021068	2050243214	3137163535	1929306520	2975795278

For NABIL

Balance	2006-07	2007-08	2008-09	2009-10	2010-11
Cash	270406987	511426584	674395434	635986600	744592000
With NRB	1113415436	1829470769	2648596348	549454618	1473986000

Balance	2006-07	2007-08	2008-09	2009-10	2010-11
Cash	763984320	1464482719	1833462494	1525441872	610690895
With NRB	1381351556	1820006035	4411133083	3237217030	1638276594
other Bank	296178324	470452814	1673408313	2053230931	7268277890
Total	2441514200	3754941568	7918003890	6815889833	8140370631
other Bank	16003428	330243702	49520689	214656586	217971000
Total	1399825851	2671141055	3372512471	1400097804	2436549000

For NIBL
Cash and Bank balance Ratio %

Banks	006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	5.46	5.84	8.18	6.74	6.10
NABIL	6	8.37	9.03	3.02	5.02
NIBL	10.47	10.91	10.32	7.77	16.2

Annex 9

Investment in Govt. Securities Ratio $= \dfrac{\text{Total Investment Govt.Securities}}{\text{Total Deposit}} \times 100\%$

Investment in Government Securities

For SCBNL

Investment in	2006-07	2007-08	2008-09	2009-10	2010-11
Treasury bills	5995101329	7157731943	9050988434	7878573686	9309110572
Saving Bond	1046076000	917150000	917150000	648150000	652945839
Total	66759974	62733235	9998753558	8531519525	9962056411

For NABIL

Investment in	2006-07	2007-08	2008-09	2009-10	2010-11
Treasury bills	4085835004	37888386842	1838819440	5665884661	4208460000
Saving Bond	-	858496294	1867283222	-	9332573333
Total	4808348502	4646883136	7948217402	7741556440	430178573

For NIBL

Investment in	2006-07	2007-08	2008-09	2009-10	2010-11
Treasury bills	3256400000	3155000000	2531300000	3911850000	3564600000
Saving Bond	-	-	-	-	730000000
Total	3256400000	3155000000	2531300000	3911850000	4294600000

Table 9.1; Investment in Govt. Securities Ratio **(%)** of SCBNL, NABIL and NIBL

Banks	2006-07	2007-08	2008-09	2009-10	2010-11
SCBNL	28.84	27.36	27.87	24.24	26.22
NABIL	20.60	14.56	23.55	16.68	13.10
NIBL	13.30	10.9	5.42	7.81	7.36

Part 1

Sample Questionnaire

Please tick (   ) an option which you favors most.

1   Which type of customer do you belong to?

1.1   Actual Customer

-who have contractual relationship with a bank by opening account.

1.2   Non Customer

-who come to bank and get any kind of service with paying certain charge.

1.3   User

-who come to bank as third party of the account holders.

2   If you are actual customer i.e. having account at this bank, why you select this bank to open an account?

2.1   Market brand

2.2   Minimum Balance

2.3   Location

2.4   ATM facilities

2.5   Others

3   As a banks regular actual customer do you used to analysis financial performance of your bank?

3.1   Yes

3.2   No

4   It is important to analysis financial performance, why don't you used to do so?

4.1   Deposited amount is low

4.2   No knowledge of analysis

4.3   Have confident on bank

Annex 11
Part 2
Sample Questionnaire

Please tick ( ) an option which you favor most.

B: **Are the commercial banks implementing the directives issued by NRB?**

    (A) Yes   (B) No   (C) Don't know

C: **Who will be benefited most by maintaining capital adequacy requirement?**

    (A) Depositor   (B) Shareholders   (C) Don't know

D: **Is CAR set by NRB fit for regulation and supervision of commercial bank?**

    (A) Fit   (B) unfit   (C) Don't know

E: **Whether loan and advance are reviewed on periodic basis?**

    (A) Yes   (B) No   (C) Don't know

ΞA   **Are you satisfied that with existing requirement for the loan and loan loss provision**?

    (A) Yes   (B) No   (C) Don't know

G: **Are you agree that contributions per staff on profit are appropriate to analysis management Quality?**

    (A) Yes   (B) No   (C) Don't know

H: **Incremental EPS has positive impact on every stakeholder of the bank, to whom do you think the impact is more?**

    (A) Shareholders   (B) Depositors   (C) Banks

I: **Does the increment in CRR from 5% to 5.5% have decrease lending capacity of banks?**

    (A) Yes   (B) No   (C) Don't know

J: **NRB intend to increase interest rate on deposit by increasing CRR, Do bank increases their interest rate on deposit?**

    (A) Yes   (B) No   (C) Don't know