A STUDY ON CAMEL ANALYSIS OF NEPAL INDUSTRIAL & COMMERCIAL BANK AND EVEREST BANK LIMITED

By:

PABINA MANANDHAR

Shanker Dev Campus

Campus Roll No.:201/063

T.U. Regd. No.:7-2-274-489-2003

A Thesis Submitted to:

Office of Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirement for the Degree of

Masters of Business Studies(M.B.S.)

Kathmandu,Nepal

October 2012

RECOMMENDATION

This is to certify that the thesis

Submitted by

PabinaManandhar

Entitled:

A STUDY ON CAMEL ANALYSIS OF NEPAL INDUSTRIAL & COMMERCIAL BANK AND EVEREST BANK LIMITED

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

| --- | --- | --- |
| Prof. Dr. Kamal Das Manandhar | Prof. Dr. Kamal Deep Dhakal | Ass.Prof. Prakash Singh Pradhan |
| (Thesis Supervisor) | (Head of Research Department) | (Campus Chief) |

KiranThapa
(Thesis Supervisor)

Date:_____

VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis presented

By

PABINA MANANDHAR

Entitled:

A STUDY OF CAMEL ANALYSIS OF NEPAL INDUSTRIAL & COMMERCIAL BANK AND EVEREST BANK LIMITED

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

Master Degree of Business Studies (M.B.S.)

Viva-Voce committee

Head Research Department …….

Member (Thesis Supervisor) …….

Member (Thesis Supervisor) …….

Member (External Expert) …….

TRIBHUVAN UNIVERSITY

Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled "A study on CAMEL analysis of Nepal Industrial & Commercial Bank and Everest Bank Limited" submitted to the Office of the Dean, Faculty of Management, Tribhuvan University is my original work completed in the form of partial fulfillment of the requirements for the Master of Business Studies(M.B.S.) under the supervision of K. D. Manandhar and KiranThapa, Sanker Dev Campus.

PabinaManandhar
Researcher
Shanker Dev Campus
T.U. Regd. No.7-2-274-489-2003
Campus Roll No.: 201/063

Date:October 2012

ACKNOWLEDGMENTS

It is my great opportunity to complete this thesis under the supervision of K.D. Manandhar, Assistant Dean of Management in T.U. and KiranThapa,Shanker Dev Campus,Ramshahpath,Kathmandu, for generous encouragement and undertaking of the supervision of my entire research work. This form of report is the outcome of this continuous encouragement, helpful suggestions and comments.

At this moment I cannot forget teaching and non teaching staffs of Shanker Dev Campus, T.U. who inspired me by showing keen interest in my work. The help of my friends is also unforgettable to me. I would also express my sincere thanks to my brother for providing proper suggestion while preparing this thesis. There are other compatriots who have been supportive, directly or indirectly. I thank all of them.

I would like to thanks my family members for their valuable suggestions, continuous encouragement and help through the research work.

PabinaManandhar

Shanker Dev Campus

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER-I
INTRODUCTION

1.1 Background

Bank, a financial institution, plays a vital role in the economic development of the country. It helps the growth of agriculture trade, commerce and industry of the national economy. Bank is resources for the economic development, which maintains the self confidence of various segments. In the absence of the banking and financial facilities, the growth of economic development becomes stagnant. By leading their resources in small scale industries under incentive banking programmed the banks has contributed to the economic growth of the economy. Banking situation are inevitable for the resources and they maintain economic confidence of various segments. Bank as a manager collects disburse and control the flow of money. In this way, entire infrastructure of national development, direction of economy, rate of progress and even the habit of people falls under the periphery of banking systems.

The word Bank is derived from Latin word "*bancus*" which refers to the bench on which the banker would keep its money and his records. Some person traced its origin to the French word "*banque*" and the Italian word "*banca*" which means a bench for keeping, leading and exchanging of money or coin in the market place by moneylender or moneychangers. Banking concepts existed even in the ancient period, when the gold smiths reach people used to issue receipt to the common people against the promise to keeping of their valuable items on the presentation of receipt, the depositors would get back their gold and valuable after paying a small amount for safe keeping and saving. The modern banking practices are the outcomes of several experiences of the past. Traditional form of banking was traced during the civilization of Greece and Rome. Actually the merchants, goldsmiths, and the money lenders were the ancestors of modern banking. It was the merchant banker who first evolved the system of banking by trading in commodities than money. Their trading activities required the remittance of money from one place to another. For this they issued different documents as the near substitutes

of money called draft in modern days. The next stage in the growth of banking was goldsmith. The business of goldsmith was such that he had to take deposits such as bullion money & amendments for the security from theft. This makes possible to the goldsmith to charge something for taking care of the money & bullion. On the other hand as the evidence of receiving valuables he used to issue a receipt to the depositors. As such receipts are good for payment equivalent to the amount mentioned it became like the modern cheque as a medium of exchange & a means of payments. Finally moneylenders in the early ago contributed in the growth of banking to a large extent. He advances the coin on loan by charging interest. As a safe guard he uses to keep some money in the reserve. The above mentioned simple principle led the development of modern banking.

Thus, bank is the financial institution that deals with the financial situation of the society. It accepts deposits and invests those deposits as a loan for individuals, corporate, government, and private organizations to earn profit as interest. In this way bank helps in economic and social development of a country. The function of bank is not only limited to collect deposits and lend money but also to provide different services such as remittance, letter of credit, bank guarantee, etc. Bank also developed credit money such as visa card, debit card, credit card, etc to facilitate general people.

1.2 Definitions of Banks

Different experts have given their own definitions which are listed below:

According to the Concise Oxford Dictionary, the term Bank is defined as "An establishment of the custody of money which it pays out on customer's order."

According to K. N. Garg, "It consists of principally exchanging of money, the lending of money, the depositing of money, and the transmitting the money."

According to Gautier, "The word bank expresses the business which consists in effecting on account of other receipts, and payments, buying and selling either money or gold and silver or letters of exchange and drafts, public securities and shares in industrial enterprises - in a word - all the obligations whose creation has resulted from the use of credit on the part of states and societies and individuals."

John Paget explains, "No one and nobody corporate and otherwise can be a banker who does not (1) take deposit accounts, (2) take current accounts, (3) issue and pay cheques drawn upon himself, (4) collect cheques crossed and uncrossed for his customers - and it might be said that even if all the above functions are performed by a person or body corporate, he or it may not be a banker or bank unless he fulfills the following conditions (1) Banking is his or its known occupation (2) he or it must profess to be a banker or bank and the public take him or it as such, (3) has an intention of earning by so doing, (4) this business is not subsidiary."

Shirras, "A banker or bank is a person, firm or company, having a place of business where credits are opened by the deposit or collection of money or currency subject to be paid or remitted upon draft, cheque or order or where money is advanced or loaned on stocks, bonds, bullion and bills of exchange, and promissory notes are received for discount and sale."

According to Dr. H. L. Hart, "A banker is one who, in the ordinary course of his business, honors cheques drawn upon him by persons from and for whom he receives money on current account."

F. A. Bardford, "A bank is one who in ordinary course of his business receives money which he repays by honoring cheques of persons from which of one whose account receives it."

1.3 Commercial Banks

A single institution cannot fulfill all the services demanded by the customers. So. different types of bank also emerged in the banking industry specializing in different functions areas. There are different types of banks which are commercial bank, development banks, finance, micro banks. Commercial banks represent a key financial intermediary because they serve all types of surplus and deficit units. They offer deposits accounts with the size and maturity characteristics desired by surplus units to provide loan of size and maturity desired by deficit units. The commercial bank has been a vital role for economic development. Commercial banks are

suppliers of the finance for trade and industry as well as other sector. They help in the formulation of capital by investing savings in productive sectors.

The word commercial itself describes well what actually it is. Bank established with a view of making profit, fulfilling the social obligation is best says commercial bank. Till date there are altogether 32 commercial banks in Nepal. The first commercial bank is Nepal bank Ltd, established in 1994 B.S. is none government sector. Then the Nepal Rastra Bank (Central Bank of Nepal) in 2013 B.S. was a significant dimension in the development of banking sector. The second commercial bank is Rastriya Banijaya Bank Ltd., which has established in 2021 B.S., a fully wondered of government bank. Then after, other banks were established gradually.

1.4 Everest Bank

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K. Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

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

Bank to build strong links with trade and industry. The bank has been conferred with "Bank of the Year 2006, Nepal" by the banker, a publication of financial times, London. The bank was bestowed with the "NICCI Excellence award" by Nepal India chamber of commerce for its spectacular performance under finance sector.

Recognizing the value of offerings a complete range of services, EBL have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. EBL was one of the first bank to introduce Any Branch Banking System (ABBS) in Nepal.

EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society.

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

1.4.1 Vision & Mission of EBL

Vision

- To evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial and related services.
- To integrate the frontiers of technology & serving the various segments of society.
- To be committed to excellence in corporate values.

Mission

- To provide excellent professional services & improve its position as a leader in the field of financial related services.

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

Shares subscription of EBL

Subscription	Holding %
Promoter share holders	50%
Punjab National bank	20%
General Public	30%
Total	100%

Capital Structure of EBL

Share Structure	NRS
Authorized Capital	1000000000
Issued Capital	729800000
Paid up Capital	518000000

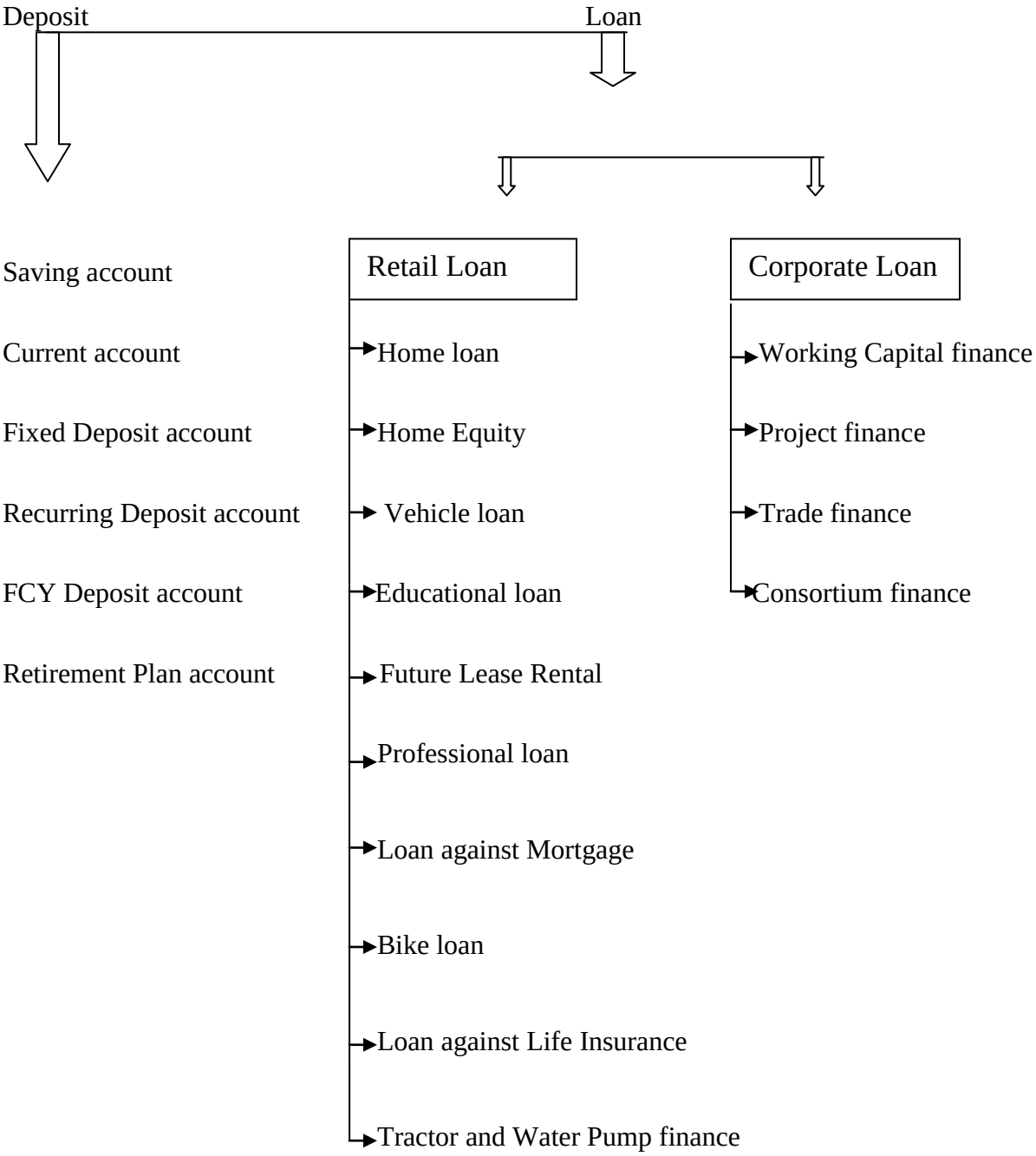
1.4.2 Products & Services offered by the EBL:

Everest Bank Ltd (EBL), a joint venture partner of Punjab National Bank (PNB) is always committed towards excellent service for the people who believe in quality banking. Associated with Smart Choice Technology (SCT), EBL facilitates wide sharing of ATMs under SCT network from more than 850 Locations throughout Nepal. There are more than 28 EBL's ATM inside Kathmandu valley and 27 EBL's ATM outside the Kathmandu valley.EBL also facilities with the internet banking from which its customer can have fund transfers, balance inquiry, bill payment, account statements, etc of their account through internet. Along with Internet Banking, EBL has present its SMS Banking services.EBL is providing SMS bill payment and Mobile recharge facility to the NTC & UTL mobile user. With the help of this service the customer can make the bill payment or

recharge pre-paid and post-paid mobile at anytime and anywhere. EBL provide facility of inward and outward remittance. It has also the ABBS facility.

EBL has introduced new product as Everest Bank Ghar- Dailo Banking Sewa. This service is unique delivery channel in banking services to facilitate rural people in banking with the help of sophisticated technology. This service is branchless banking service through point of transaction (POT) machine by using smart cards. The customer can avail the facility of banking at his/her own convenient time. Remittance from abroad can also be credited to these accounts and can be withdrawn through different Location.

Services provided by EBL are as follows:



1.5 Nepal Industrial & Commercial Bank(NIC)

Nepal Industrial & Commercial Bank (NIC Bank) commenced its operation on 21 July 1998 from Biratnagar with a vision to become one of the most respectable banks in Nepal based on honorable conduct and long-term financial performance. The Bank was promoted by some of the prominent business houses of the country. The Bank has grown rapidly with 36 branches throughout the country while several branches are planned to be opened this year. All branches are inter-connected through V-Sat and are capable of providing real time on-line transactions.

The Bank is the first commercial Bank in Nepal to have received ISO 9001:2000 certification for quality management system. Furthermore, NIC Bank became the 1st Bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted/ confirmed by more than 200 banks worldwide. The Bank has also been awarded the "Bank of the Year 2007-Nepal" by the world-renowned financial publication of The Financial Times, U.K.-The Banker. This is the fruit of the Bank's outstanding performance backed by belief and support of its customers towards the Bank.

The Bank has a mission to become a leading bank in Nepal by providing complete financial solutions to their customers, superior value to their shareholders and promising growth opportunities to their employees. NIC Bank's organizational structure is designed to support its business goals. However, it is flexible enough in seeking to ensure effective control and supervision and consistency in standards across all businesses at the same time.

The organization structure is divided into five major areas viz Consumer Banking, Business Banking, Special Assets Management, Treasury and Liability Marketing and Transaction Banking all of which are supported by the corporate center. The Bank is committed towards providing financial services to its patrons by the means of efficient and cost effective service delivery through its Transaction Banking, Consumer Banking, Business Banking and Treasury divisions.

The bank believes in continuously offering new and value added services to its customers with commitment to quality and value its clients at the same time. Accordingly, the bank has been in the forefront in launching innovative and superior products having unique customer friendly features with immense success.

1.5.1 Vision and Mission of NIC Bank Ltd.

Vision:

- To become one of the most respectable banks in Nepal based on honorable conduct and long-term financial performance.

Mission:

- To become a leading bank in Nepal by providing complete financial solutions to our customers, superior value to our shareholders and promising growth opportunities to our employees.

Shares subscription of NIC

Subscription	Holding %
Promoter share holders	51%
General Public	49%
Total	100%

Capital Structure of NIC

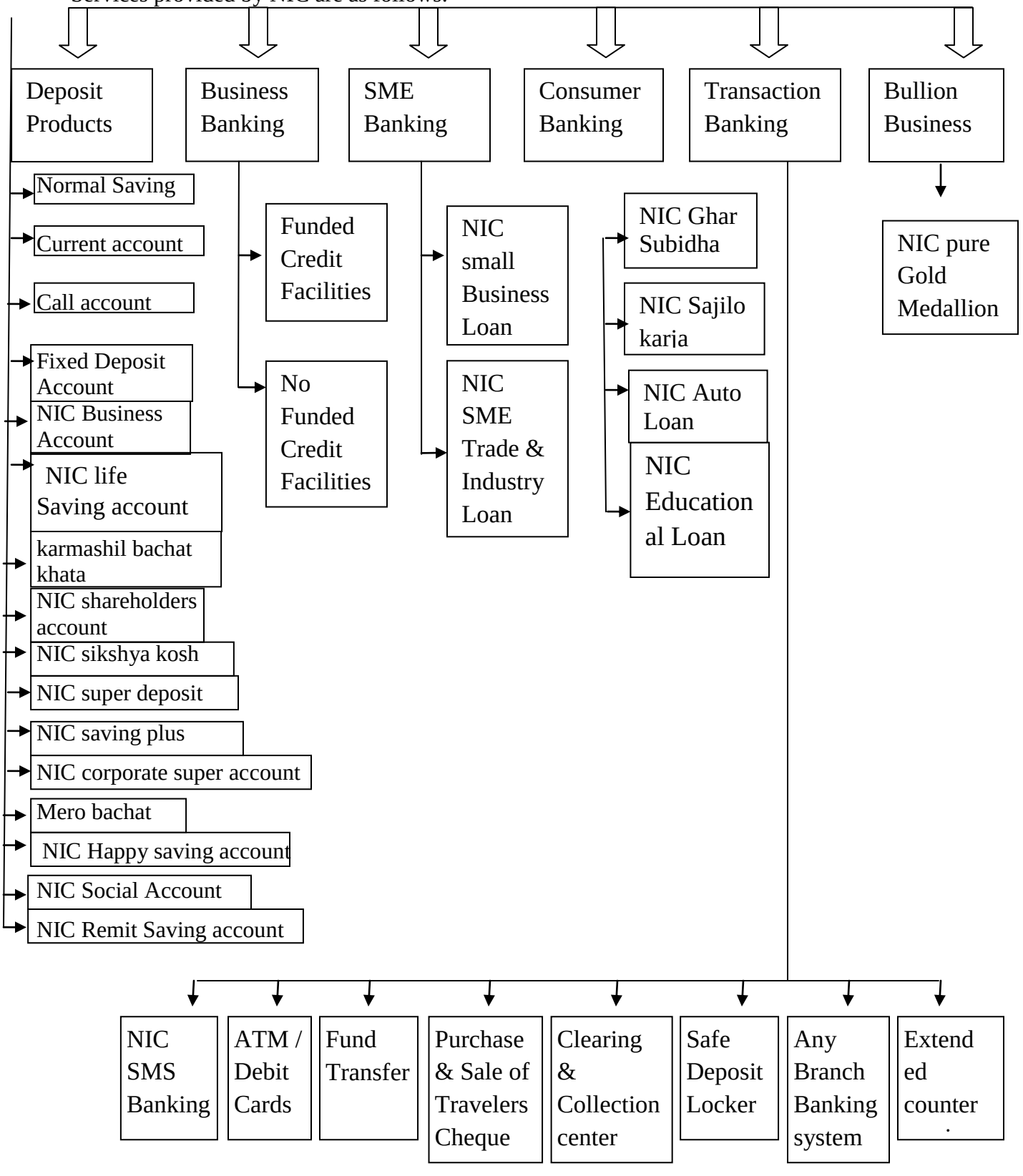
Share Structure	NRS
Authorized Capital	1600000000
Paid up Capital	1311550000

1.5.2 Products & Services provided by NIC:

The Bank is committed towards providing financial services to its patrons by the means of efficient and cost effective service delivery through its Transaction Banking, Consumer Banking, Business Banking and Treasury Divisions.

Consumer Banking comprises of consumer lending, retail credit products and banking services for individuals with dedicated teams. Consumer Banking services include home loans, auto loans, personal loans, education loans, travel loans, etc. Liability Marketing & Transaction Banking comprises of institutional and personal deposit products and transaction banking services including debit cards, ATMs, safe deposit lockers, payment services, drafts, remittance, SMS Banking, Traveler's cheques, etc. Business banking group comprises of corporate banking business including credit products and other banking services. It also includes corporate transaction banking, trade finance services, foreign exchange and corporate financing solutions including project & infrastructure finance, working capital & term loan credit, structured financing, syndication, cash management and advisory services. Special Assets Management division is responsible for managing non-performing and restructures loans. Treasury is responsible for management of liquidity and exposure to market risk, mobilization of resources, balance sheet management, pricing, investor relations and international operation. The Bank's treasury division offers a full range of Risk Management and Cash Management products and provides effective Treasury advisory services. Further, treasury also leverages its strong relationships with financial institutions to provide a wide range of Banking services. The Corporate center comprises all shared services and corporate functions including finance, secretarial, risk management, legal, human resources, branding and corporate communications.

Services provided by NIC are as follows:



1.6 Focus of the Study

The study has focused on the financial performance of Nepalese bank like Nepal Industrial and Commercial bank and Everest Bank in the framework of internationally recognized bank‘s rating system known as CAMEL. The performance indicators are usually calculated in form of ratios and are compared over a period of time which demonstrates whether the financial performance is improving or deteriorating. It specially investigates how a bank has managed its capital, assets, management, earning, and liquidity so as to earn profits. This research study is focused on comparing the financial condition and performance of Nepal Industrial and Commercial Bank (NIC) and Everest Bank Limited (EBL) in the framework of CAMEL by using descriptive and analytical research design. Here, we assess the bank effectiveness, efficiency and soundness through CAMEL.

1.7 Statement of the Problem

Everest Bank Limited and Nepal Industrial and Commercial Bank have been operating well from the establishment. Their experience on international banking, prompt and computerized services, professional attitude are the factors for rapid progress. The aggregate performance of any organization irrespective to its kind, size and type can be evaluated with the aid of financial statements. Financial statements are the instruments which help to evaluate the bank by various parties. Shareholder judge it whether to keep the share of that organization with it or to sell in the share market. Depositors analyze it to deposit their money in the bank or not. Investors assess to invest in it or not. Thus, the analysis of components financial statements has paramount importance.

Financial institutions play an important role for the industrial development in the underdeveloped country like ours. We have been seeing that the commercial banks have more responsibilities and act as an agent in development of the country. Establishment of financial institution is not sufficient, the financial institution must have strong position. Financial position means its assets structure and the way it is financed. Equity, long term loan, issuance of bonds and debenture, financial assistance from different agencies and retained earnings are different sources from which the capital is accumulated. Each source of capital has its own merits as well as demerits. These capital are invested in

various form such as fixed assets, current assets, long term investment, short term investment etc to earn profit As well as to operate organization. The investment of joint venture banks to agriculture and industrial sector is not satisfactory to meet the growing need of the present day.

Hence, there is needed to identify the overall conditions strengths, weakness, opportunities and threats of bank. For this purpose, several financial and statistical tools and techniques are developed by different experts and financial institutions all over the world. One of them is CAMEL. Therefore, the study tries to evaluate and compare the soundness of two commercial banks i.e. Everest bank and NIC bank through the CAMEL analysis.

This research is concentrated on the following issues:

- Does a bank have managed its capital requirement by maintaining its capital adequacy and core capital ratio?
- How a bank has determined the strength of banks through assets quality?
- How banks have managed their efficiency ratio on the basis of their number of employees?
- Does banks have maintained their level of profitability through their earnings?
- Are the liquidity position of the banks is in adequate condition as regulated by the Central Bank?

1.8 Objectives of the Study

The objectives of this study is to find out the comparative financial performance of two banks i.e. EBL and NIC bank on the basis of CAMEL method over five years period from 2062/63 to 2067/68. Apart from the above general objective, some specific objectives of the study are listed as follows:

- To analyze the comparative financial position of two banks i.e. EBL and NIC bank by using CAMEL.

- To analyze the trends of deposits utilization.
- To evaluate the liquidity, assets, management efficiency, profitability, and risk position.
- To determine the proportion of loan loss provision to total loan and advances to evaluate non-performing assets positions of the bank.
- To recognize the bank having higher ranking in term of international standard, CAMEL proposed by Bank for International Settlement (BIS).
- To evaluate and compare the financial performance of banks in CAMEL.
- To make suggestions to the banks with recommendations and conclusions.
- To know the overall scenario of banking system.

1.9 Significance of the Study

The significance of study lays mainly in identifying problem and deteriorating financial institution, as well as for categorizing institution with deficiencies in particular component areas. The research is prepared in order to supplement present examination procedure applicable to financial institutions of Nepal. As, such the study assists the stakeholders in fulfilling their collective missions of maintaining stability and public confidence. This study will try to analyze the strengths and weakness of banks and also help to trace similarities and differences in their performance from their immediate competitors as the banks are similar in structure, size, capital, services, etc. shareholders of the bank can also gain from this study as they would like to make an analysis of the financial position to know how safe their investments are. It would be helpful for senior management involved in day to day operations. Bankers and examiners alike can use their report to further their understanding of banks financial conditions. As CAMEL has been researched in the context of Nepal, the scholars will find it a literature for their future works.

1.10 Limitations of the Study

The study is prepared to portray the accurate report of financial analysis of commercial banks. However, there exist some drawbacks as it ignores other commercial banks. Although the study aims to achieve the objectives mentioned earlier, few limitations are faced during the survey.

- This study is mainly based on secondary data.
- This study covers the data of five years from 2062/63 to 2066/67. Therefore, the major findings of the study and conclusion would have been different if entire period of bank were taken.
- This study deals with only two commercial bank whereas there are more than 30 commercial banks which are fully operating. Hence, it does not reflect the complete picture of overall banking industry of country.
- This study is focused on the financial analysis in the framework of five components of CAMEL system. Due to the unavailability of detail financial data, CAMEL component 'S' is missing in the study.
- The analysis of this study is based on its financial statement and annual reports, reliability of analysis depend on the reliability of data,

1.11 Organization of the study

The overall study has been organized into five chapters as follows:

Chapter One: Introduction

It includes background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study itself.

Chapter Two: Review of Literature

This chapter concerns about the concept of capital, assets, management analysis, earning, liquidity and review of related thesis or articles to highlight the related terms and to present the available information about previous related studies. Especially it includes conceptual review and review of major studies.

Chapter Three: Research Methodology

This chapter includes research design, population and sample, nature and sources of data, data analysis tools, data processing procedure and limitations of the study.

Chapter Four: Data Presentation and Analysis

Various data are gathered from the application of different methods and presented and tabulated as required by the research objectives. Data are interpreted and analyzed with the help of various analytical tools and technique. It also includes major finding of the study.

Chapter Five: Summary, Conclusion and Recommendations

This chapter includes summary and conclusion of the study. It also includes recommendation on the basis of the study.

CHAPTER-II
REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. Review of literature is based on available literature in the field of research. Every possible effort has been made to grasp knowledge and information that is available from libraries; document collection center helps to take adequate feedback to broaden the information to study. The chapter highlights the concept and review of existing literature that is available and related with these particular topics. Several books, journals and articles, and thesis have been reviewed while preparing the review. This chapter is focused on brief discussion about the abstract regarding the CAMEL analysis.

Conceptual Framework

There are different model used to rate the commercial banks. CAMEL is one of the best tools used to rate the quality of commercial banks. The method even has adopted by Nepal Rastra Bank and publishes it time to time. "CAMEL" is an international bank rating system with which bank supervisory authorities rate institutions according to five factors. The five areas examined are represented by the acronym "CAMEL." The five factors examined are as follows:

C - Capital adequacy

A - Asset quality

M - Management quality

E - Earnings

L - Liquidity

Bank supervisory authorities assign each bank a score on a scale of 1 (best) to 5 (worst) for each factor. If a bank has an average score less than 2 it is considered to be a high quality institution while banks with scores greater than 3 are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

During an on-site bank exam, supervisors gather private information, such as details on problem loans, with which to evaluate a bank's financial condition and to monitor its compliance with laws and regulatory policies. A key product of such an exam is a supervisory rating of the bank's overall condition, commonly referred to as a CAMEL rating. This rating system is used by the three federal banking supervisors (the Federal Reserve, the FDIC, and the OCC) and other financial supervisory agencies to provide a convenient summary of bank conditions at the time of an exam.

The acronym "CAMEL" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, and Liquidity. A sixth component, a bank's Sensitivity to market risk was added in 1997; hence the acronym was changed to CAMELS. (Note that due to lack of proper data available, whole research is thus based on CAMEL ratings.) Ratings are assigned for each component in addition to the overall rating of a bank's financial condition. The ratings are assigned on a scale from 1 to 5 (standard rating is 1-5 but may differ person to person). Banks with ratings of 1 or 2 are considered to present few, if any, supervisory concerns, while banks with ratings of 3, 4, or 5 present moderate to extreme degrees of supervisory concern.

All exam materials are highly confidential, including the CAMELS. A bank's CAMELS rating are directly known only by the bank's senior management and the appropriate supervisory staff. "CAMELS" ratings are never released by supervisory agencies, even on a lagged basis. While exam results are confidential, the public may infer such supervisory information on bank conditions based on subsequent bank actions or specific disclosures. Overall, the private supervisory information gathered during a bank exam is not disclosed to the public by supervisors, although studies show that it does filter into the financial markets.

2.1 Capital Adequacy Ratio

The Basel capital adequacy ratio was adopted in 1988 by the Basel Committee on Banking Supervision as a benchmark to evaluate whether banks operating in the G-10 countries have adequate capital to survive likely economic shocks. The ratio calls for minimum levels of capital to

- provide a cushion against losses due to default arising from both on- and off-balance-sheet exposures;
- demonstrate that bank owners are willing to put their own funds at risk;
- provide quickly available resources free of transactions and liquidation costs;
- provide for normal expansion and business finance;
- level the playing field by requiring universal application of the standard to internationally active banks;
- Encourage less risky lending.

Banks should have sufficient capital in relation to the volume and riskiness of their business to absorb losses without using depositors' funds. This capital investment gives owners and managers a powerful incentive to run the bank safely and soundly. Conventionally, the adequacy of the amount of capital available to buffer against losses is measured by a so-called capital adequacy ratio. However, capital is simply the difference between the value of a bank's assets and its liabilities to third parties. Its calculation depends fundamentally, therefore, on the value attributed to its assets.

There are two main types of capital adequacy ratios: the "risk assets" method as used in the Basle Capital Accord, and the simpler "gearing" or "leverage" ratio, which is the ratio between share holders' funds and total assets or liabilities. Both types of ratios tend to address credit risk: the risk of non-repayment of a credit granted by the bank. Some countries, including the United States, apply both systems in parallel.

The Basle capital standard calls for a ratio between capital and risk-weighted assets of at least 8 percent. This ratio, designed to establish minimum levels of capital for internationally active banks is now applied in the G-10 countries, as well as in the European Economic Area, 90 and in some 80 other countries worldwide.

However, even in the industrialized countries, with relatively well-managed and highly banks operating in an established financial environment, an 8 percent ratio is generally seen as an absolute floor, and the banking systems in most of these countries have ratios that are considerably higher. In developing and transition economies, proper account needs to be taken of the higher risk environment in those

countries when determining how the numerator and denominator of the capital adequacy ratio are to be calculated. For instance, the risk weights attached to particular categories of assets could be set at a higher level, to reflect higher risk. For example, if a government has a history of not meeting promptly interest payments on its obligations, the usual zero percent risk weighting may not adequately reflect the risk. Also, the quantitative standard could be set at higher than 8 percent, or the calculation of capital made more limited, thus requiring more capital.

This mechanism imposes a natural restraint on the expansion of a bank's risk assets, since more capital will have to be raised to support those assets.

It is sometimes argued that higher capital requirements place banks in such countries at a competitive disadvantage relative to banks operating in G-10 countries. However, the counter argument is that a higher ratio basically reflects higher risk, for which the bank needs an adequate buffer.

Therefore, the basic issue when a country describes itself as using the "Basle" model is not whether the appropriate adaptations have been made to reflect local conditions. Unless the proper loan provisioning and interest suspension rules have been applied, capital may be overstated to the point where any ratio analysis becomes meaningless. Moreover, ratio analysis needs to be complemented by a qualitative assessment of the bank's ability to manage its risks.

The traditional capital adequacy ratios were developed to address the credit risks in banks' portfolios. But banks also carry other significant risks for which a capital buffer is required, notably market risk- that is, the risk of a change in the market value of an asset or commitment. This type of risk is inherent in banks' holdings of trading portfolio securities, financial derivatives, and open foreign exchange positions. Banks are also vulnerable to interest rate risk when there is a substantial difference between the effective maturities, or pricing intervals, between liabilities and assets. Adequacy standards against such market risks are now being introduced.

THE BASLE CAPITAL ACCORD:

The Basel Committee on Banking Supervision (BCBS) is a committee of banking supervisory authorities that was established by the 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, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, and the United States. It usually meets at the Bank for International Settlements (BIS) in Basel, where its permanent Secretariat is located. (BIS, November 2005) Starting with its publication of "International Convergence of Capital Measurement and Capital Standards" in July 1988, popularly known as Basel I Capital Accord, BCBS set out a minimum capital requirement of 8% for banks. Prior to that, the committee introduced 25 core principles 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% of their risk-weighted assets; the basic structure of the 1996 Market Risk Amendment regarding the treatment of market risk; and the definition of eligible capital. (BIS, 2005) The new Basel capital accord (Basel II), shall be applicable to internally active banks all over the world with effect from end of 2006. Implementing the new accord in Nepal has been a challenging task for the supervisors as well as FIs. Hence, certain preparatory homework is needed to Nepalese financial system to implement BASEL II. NRB and FIs need to have coordinated effort efficiently in Nepalese banks and FIs to establish certain baseline for the effective implementation of BASEL II. In this regard, second interaction program was held in Nepal with the banks

executives to make them aware of the 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 NRBs 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 recommendations. A form was also developed so that commercial banks classify their exposures 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 part qualitative assessment system: Compliant, Largely Compliant, 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 short coming are observed, and these are not seen as sufficient to raise serious doubts about the authority's ability to achieve the objective of that principle. A materially non-compliant assessment is given when the shortcomings are sufficient to raise doubts about the authorities ability to achieve compliance, but substantial progress has been made. A non-compliant assessment is given when no 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.

The Basle Capital Accord of 1988 defined capital, the numerator in the risk asset ratio, as follows:

Tier I capital includes issued and paid-up share capital, non-cumulative preferred stock, and disclosed reserves from post tax retained earnings. It is the highest quality capital, and should form no less than 50 percent of total regulatory capital. **Tier II** capital can include a range of other items, including undisclosed reserves that

have passed through the profit and loss account; conservatively valued revaluation reserves; revaluation of equities held at historical cost can be included at a discount; general loan loss reserves, up to 1 percent of risk-weighted assets; hybrid debt instruments available to support losses without triggering liquidation; and subordinated term debt, up to a maximum of 50 percent of Tier I capital. Goodwill and investments in other banks and financial institutions should normally be deducted. For most banks the use made to Tier II capital is much less than 50 percent.

Capital Adequacy Norms by NRB

NRB has from 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 the sum of core capital and supplementary capital. According to the NRB unified directives for Banks and Non-Bank FIs issue number E. Pra.Ni.No 01/061/62 (Ashad 2062 BS), the capital funds of a bank comprise the following:

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 a specific purpose.

The following Directives with regard to the capital adequacy ratio to be maintained by a licensed institution have been issued having exercised the powers conferred by Section 79 of the Nepal Rastra Bank Act, 2002.

The capital adequacy to be maintained:

Based on its risk-weight assets, a licensed institution shall have to maintain the

following capital adequacy ratio: -

Minimum capital fund to be maintained based on the risk-weight assets (percent) Institution

	Core capital	capital fund
"A" Class	6.0	10.0
"B" and "C" Class	5.5	11.0
"D" class	4.0	8.0

2.2 Assets Quality

The asset quality rating reflects the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, and other assets, as well as off-balance sheet transactions. The ability of management to identify, measure, monitor, and control credit risk is also reflected here. The evaluation of asset quality should consider the adequacy of the Allowance for Loan and Lease Losses (ALLL) and weigh the exposure to counter-party, issuer, or borrower default under actual or implied contractual agreements. All other risks that may affect the value or market ability of an institution's assets, including, but not limited to, operating, market, reputation, strategic, or compliance risks, should also be considered.

Prior to assigning an asset quality rating, several factors should be considered. The factors should be reviewed within the context of any local and regional conditions that might impact bank performance. Also, any systemic weaknesses, as opposed to isolated problems, should be given appropriate consideration. The following is not a complete list of all possible factors that may influence an examiner's assessment; however, all assessments should consider the following:

- The adequacy of underwriting standards, soundness of credit administration practices, and appropriateness of risk identification practices.
- The level, distribution, severity, and trend of problem, classified, non-accrual, restructured, delinquent, and nonperforming assets for both on- and off-balance sheet transactions

- The adequacy of the allowance for loan and lease losses and other asset valuation reserves.
- The credit risk arising from or reduced by off-balance sheet transactions, such as unfunded commitments, credit derivatives, commercial and standby letters of credit, and lines of credit.
- The diversification and quality of the loan and investment portfolios.
- The extent of securities underwriting activities and exposure to counter-parties in trading activities.
- The existence of asset concentrations.
- The adequacy of loan and investment policies, procedures, and practices.
- The ability of management to properly administer its assets, including the timely identification and collection of problem assets.
- The adequacy of internal controls and management information systems.
- The volume and nature of credit documentation exceptions.

As with the evaluation of other component ratings, the above factors, among others, should be evaluated not only according to the current level but also considering any ongoing trends. The same level might be looked on more or less favorably depending on any improving or deteriorating trends in one or more factors. The examiner should never look at things in a vacuum, instead, noting how the current level or status of each factor relates to previous and expected future performance and the performance of other similar institutions.

Asset quality is one of the most critical areas in determining the overall condition of a bank. The primary factor effecting overall asset quality is the quality of the loan portfolio and the credit administration program. Loans are usually the largest of the asset items and can also carry the greatest amount of potential risk to the bank's capital account. can often be a large portion of the assets and also have identifiable risks. Other items which impact a comprehensive review of asset quality are other real estate, other assets, off-balance sheet items and, to a lesser extent, cash and due from accounts, and premises and fixed assets. This is one of the most critical factors in determining overall condition of any bank. Primary factors that can be considered are the quality of loan portfolio, mix

of risk assets and credit administration system. The assets quality helps to maintain the smoothness of the organization. Under assets quality following parameter can be analyzed:

1. Total Loan Loss Provision to Total Credit
2. Non-Performing assets (NPA) to Total Credit
3. Contingent Liabilities to Total Assets
4. Credit to Deposits Ratio
5. Investment to Total Assets
6. Loan and advances to Total Assets

- Total loan loss provision to total credit shows the aggressiveness of loan flow and the quality of loan to the customer.
- Non-performing assets are the doubtful to return the principal and/or interest due to the near future. This result in huge losses to a bank, therefore, low profit with low NPA is preferable rather than high profit with high NPA.
- Contingent liabilities to total assets are the ratio of non-funded exposure to the bank. Such exposures to the bank result in high losses if in case of default.
- Credit to deposits ratio indicates the total advances as a proportion of total deposits.
- Investment to total assets indicates the proportion of investment to the total assets of a bank. A higher ratio means the bank has conservatively kept a high cushion of investment to guard against NPA.
- Loan and advances to total assets shows the ratio of loan and advances against total assets.

As per NRB directives, despite a slowdown in real estate and stock market transactions, the nonperforming loan (NPL) ratio has increased marginally. To avoid further depletion in the quality of loan and advances of banks and financial institutions, NRB has raised the ceiling for individual residential home loan upto Rs. 8 million from Rs. 6 million and allowed renewal of such loan upto mid-July 2012 upon the payment of interest dues by the borrowers. Similarly, banks and financial institutions are allowed to fix margin

requirement of their own by minimizing inherent risk in such margin-type loan against the collateral of shares.

Prevailing directives as to Classification of loans

Classification of loans Provision	Category	Duration Overdue	Loan Loss
Performing Loan	Standard Pass/Good	Upto 1 to 3 months	1%
	Sub-Standard	3 to 6 months	25%
Non-Performing Loan	Doubtful	6 months to 1 year	50%
	Bad Loans	more than 1 years	100%

2.3 Management Quality

Since management quality is inextricably tied to a bank's success or failure, it is important to develop and improve methods for grading management efficacy. Recent research by Barr, Killgo, Siems and Zimmel (2002) generates a proxy for management quality that measures the relative productive efficiency of U.S. Commercial banks from 1984 to 1998. These efficiency scores suggest that significant differences in performance and soundness exist between the most efficient and least efficient institutions and point to the hump in the CAMELS rating as an important indicator of a bank's ability to survive.

Sound management is key to bank performance but is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. Several indicators, however, can jointly serve as, for instance, efficiency measures do as an indicator of management soundness. This parameter evaluates management quality so as to assign premium to better quality banks and discount poorly managed ones. As management quality is a subjective measure, it is very difficult to prescribe any specific rating method for this parameter, leaving this parameter open to subjective judgments. Under management quality following parameter can be analyzed:

1. Deposits Growth
2. Assets Growth

3. Earning per Employee

4. Price/ Earnings Ratio

5. Dividend payout ratio.

- Deposits growth shows how well a bank is successful in capturing the market's money.
- Assets growth is the balance sheet growth indicating an aggressive attitude towards growth.
- Earning per employee shows the relationship between net profit after tax and total number of employee working under a management.
- The P/E ratio looks at the relationship between the stock price and the company's earnings. The P/E is the most popular metric of stock analysis. Bank with high P/E ratios are more likely to be considered "risky" investments than those with low P/E ratios, since a high P/E ratio signifies high expectations. The higher the P/E ratio, the more the market is willing to pay for each rupee of annual earnings.
- Dividend payout ratio tells us what percentage return a bank pays out to shareholders in the form of dividends.

2.4 Earning Quality

Chronically unprofitable financial institutions risk insolvency. Compared with most other indicators, trends in profitability can be more difficult to interpret—for instance, unusually high profitability can reflect excessive risk taking. This parameter lays importance on how a bank earns its profit. This also explains the sustainability and growth in earnings in the future. Under Earning quality following parameters can be analyzed:

1. Return on Net worth (RONW)

2. Interest Spread/ Average working fund

3. Operating Profit to Average working Fund

4. Net profit to assets

5. Other income to net interest income

6. Interest Income to Total Income

8. Net profit to net worth

- RONW indicates the return on shareholders' fund. It should be reasonably be above the cost of capital to warrant pouching back of the profits. This ratio is very important from share valuation point of view. For a company, net worth is the total assets minus total liabilities. Net worth is an important determinant of the value of a company, considering it is composed primarily of all the money that has been invested since its inception, as well as the retained earnings for the duration of its operation. Net worth can be used to determine creditworthiness because it gives a snapshot of the company's investment history. Also called owner's equity, shareholders' equity, or net assets.
- Interest spread is the difference between interest income earned and interest expended. The ratio shows how much a bank can earn for every single rupee spent on working funds. The higher the ratio is better.
- Operating profit to average working fund ratio represents how much a bank can earn from its operation net of the operating expenses for every rupee spent on working fund. The higher the ratio, better for the bank.
- Net profit to asset measures the return on net worth or the return on the equity. A higher ratio means better income generating capacity of the assets and better earning potential in future.
- Other income to net interest income ratio determines the future ability to work on low spread. This also indicates whether a bank is solely reliant on interest income for its profit or are there other sources of income as well.
- Net profit to net worth measures the net worth or return on equity. This is very important ratio for the shareholders. A higher ratio means that the shareholders' funds are utilized in a better manner than would have been elsewhere. Also, only a high return on equity justifies retention on profit.

2.5 Liquidity

Banks are in a business where liquidity is of prime importance. Banks must be able to manage demand and supply of funds. Cash balance, bank balance, investment in

government bonds are the most liquid form of assets. Liquidity is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. This ability to convert an asset to cash quickly is also known as "marketability". It is safer to invest in liquid assets than illiquid ones because it is easier for you to get your money out of the investment. Examples of assets that are easily converted into cash include blue chip and money market securities.

The term liquidity is used in various ways, all relating to availability of, access to, or convertibility into cash.

- An institution is said to have liquidity if it can easily meet its needs for cash either because it has cash on hand or can otherwise raise or borrow cash.
- A market is said to be liquid if the instruments it trades can easily be bought or sold in quantity with little impact on market prices.
- An asset is said to be liquid if the market for that asset is liquid.

The common theme in all three contexts is cash. A corporation is liquid if it has ready access to cash. A market is liquid if participants can easily convert positions into cash. An asset is liquid if it can easily be converted to cash.

The liquidity of an institution depends on:

- The institution's short-term need for cash;
- Cash on hand;
- Available lines of credit;
- The liquidity of the institution's assets;
- The institution's reputation in the marketplace—how willing will counterparty is to transact trades with or lend to the institution?

Under Liquidity following parameters can be analyzed:

1. Liquid assets to Total assets
2. Cash and bank balance to Total assets

3. Investment in Government securities to Total Assets

4. Cash Reserve Ratio (CRR)

- Liquid asset to total asset shows the cash & bank and investments. The ratio shows the overall liquidity position of a bank.
- Cash and bank has the highest liquidity and safety among all assets.
- Investment in government securities are the second most liquid asset of any bank.
- This is the amount of money that the banks have to necessarily park with Nepal Rastra Bank. The base of this is the total of the deposits that a bank has. In India, the RBI pays the bank interest on the amount parked with it but in Nepal, Nepal Rastra Bank doesn't pays interest in it. Currently CRR is 5% of total deposits to be kept in Nepal Rastra Bank by commercial banks.
- It indicates management aggressiveness and liquidity position of a bank to improve the income.

2.6 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.

2.6.1 Review of Journals and Articles

Hirtle and Lopez (1999), examine the usefulness of past CAMEL ratings in assessing bank's current conditions. They find that, conditional on current public information, the private supervisory information contained in past CAMEL ratings 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 gathered during the last on-site exam remains useful with respect to the current condition of a bank for up to 6 to 12 quarters (or 1.5 to 3 years). The overall conclusion drawn from academic is that private supervisory information, as summarized by CAMELS ratings, is clearly useful in the supervisory monitoring of bank conditions.

Kolari et al., (2000), developed models and predicted bank failure, where the models initially included three measures of loan default disclosure along with 25 other financial measures. The loan default measures included allowances for loan losses to total assets, net loan charge-offs to total assets and provision for loan losses to total assets. In the final analysis, the allowances for loan losses to total assets were significant in row of the six predictions. As with many other studies, there was a lack of theory for the choice of variables, as stepwise legit was utilized for the decision of inclusion or elimination.

Dziobek, Hobbs and Marston (2000), analyze the determinants of bank liquidity defined as the degree to which a FI is able to meet its obligations under normal business conditions. 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 deposits 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 countries where banks are required to meet early withdrawal requests with only minor penalties, maturity may be less relevant to determining funding stability.

Sahajwala and Van den Bergh (2000) , based their work paper of Basel committee on banking supervision on a study of a number of new bank monitoring systems currently in use or under development in various G10 countries. Such systems are collectively termed "supervisory risk assessment and early warning systems". The objective of the paper was to provide an overview of the different approaches taken by bank supervisors and to make a preliminary general assessment of the methods that are being used or developed. The study reveals that supervisory authorities are now clearly moving towards putting in

place more formal, structured and risk focused procedures for ongoing banking supervision. Individual approaches and system have been developed and adopted, typically in the 1990s, with a greater focus on risk profiles and risk management capabilities of individual banking institution and on the generation of timely warning of potential changes to a banks financial position. These new and modified systems have contributed positively to the supervisory process, and supervisors are working towards refining the systems further in order to improve the systems‟ accuracy and predictive power.

Gytan and Johnson (2001), have presented their work paper on a "Review of Alternative Methodologies for Early Detection of Banking Distress". The various methodologies proposed by different researchers, in the paper are aimed to the early identification of financial distress for countries without an important recent history of bank failure, but facing an unstable international environment. They evaluate several indicators, the signal extraction approach, limited dependent estimation and finally duration models. In the Early Warning System (EWS) of systematic banking crises section they reviewed the literature aimed to predict crises of the complete banking system of a country. They also include some methodologies approaches that have been used as early warning systems for currency crises, but have a potential application methods requires a sample in which the events have appeared repeatedly. Since there has not been so may repeated episodes in any given country, the estimation must rely on a sample of different countries that have suffered banking problems. According to them, the literature on indicators and EWS of systems crises can be classified by their methodological approach:

1) Qualitative indicators,

2) Signal Extraction,

3) Limited Dependent Regression,

4) Other models.

Derviz and Podpiera (2004), 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 models of rating downgrades and consider a specific set of indicators that are suitable as determinants of a banks rating. The conclusions about the predictors obtained 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 because of liquidity problems and 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 asset VaR, as they believed that this type of indicator might play an important role in determining the level of the 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&P) 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 i.e., Ceska Sporirelna (CS), Komercni 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 CAMES 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) 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 examined the financial health of joint venture Banks in the CAMEL framework for a period ranging from fiscal year 2001 to 2004. Three joint venture Commercial Banks of Nepal were randomly selected for the study. The study was based on historical data disclosed by annual reports of Commercial Banks. It has covered four fiscal years‟ data for the purpose of study. The study was based totally on the CAMEL framework.

Cole and Gunther (2008), in their article, "A CAMEL Rating's Shelf Life", have stated that under more stable financial conditions, CAMEL ratings typically remain accurate for relatively long periods. Also, off-site monitoring systems depend on the integrity of accounting data, which can be enhanced through regular periodic exams. Moreover, the examination process and the CAMEL ratings it generates have numerous important uses, many of which are quite distinct from the relatively narrow application of off-site monitoring systems for the identification of bank failures. The CAMEL 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 banks' 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 banks' management is operating the institution 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 banks' 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.

Atikogulları (2009), in his 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 sizes have been

analyzed in terms of capital adequacy, asset and management quality, earnings ability, liquidity and asset size. As a result of this analysis, a number of conclusions have been obtained.

First of all, in terms of capital adequacy, results showed that the TRNC banking sector is in a less adequate position as of 2007, compared to the time when the crisis took place in 2001. This result is due to the deterioration in the balance sheets of the sector during the period between 2001 and 2006, which was followed by an improvement between 2006 and 2007. Overall, K.T. Kooperatif Merkez Bankası 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 asset quality of the banks in the sector, to some extent, has diminished relatively to the years immediately following the TRNC banking crisis of 2000-2001. According to the results, K.T. Kooperatif Merkez Bankası Ltd. stands as the bank with the lowest quality of assets during the period under investigation.

Thirdly, the overall continuous increase in cost management and stable operating efficiency of the local banks reveals an improving management quality in the TRNC banking sector, indicating good signs regarding the future of the banking sector.
Fourthly, in terms of profitability, trends of the banks have shown lots of fluctuations during the period investigated. However, in general, the profitability of the banks is noticeably higher in 2007 than in 2001, which indicates an overall increase in the profitability of the sector since the time when crisis took place. Finally, in general, liquidity level of the banks in the TRNC banking sector is deteriorating since 2002-2003, after a sharp and immediate increase following the banking crisis 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.

2.6.2 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 research works are relevant for these studies are reviewed over here.

Adhikari (1993), conducted a study evaluating the "Financial performance of Nepal Bank Ltd". The study has concluded that investment portfolio of the bank has not managed so efficient to maximize the return. Operational efficiency of the bank is indicated by the operational loss has been found unsatisfactory.

So the bank has been suggested to manage its investment portfolio efficiently. It is recommended that the bank should try to mobilize its resources efficiently by creating new business and service ideas which will certainly help for the better utilization of ideal resources and for the economic development of the country. It has focused on utilization and mobilization of funds and resources of Nepal Bank Ltd. This study especially concentrated on the deposit collection of the bank and disbursement of fund as loan and advances. Therefore, its main study areas are uses and sources of funds and income and expenses trends of the bank.

Poudel (2002), in the thesis entitled "Financial Performance Analysis of EBL" has focused on 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 though 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 into investment, ability to maintain and manage liquidity, assets, capital structure, efficiency, productive and financial risk.

The research objectives were to highlight financial performance to analyze and evaluate liquidity, profitability, leverage, activity, trend and growth of loans, investment and total deposit pattern of these banks and finally recommend 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 200/01. It concludes that current ratio of all the banks was below the normal standard even comparatively better in EBL.

Maharjan (2006), a thesis entitled "A Comparative Study of Financial Performance of HBL, NIBL and EBL" shows that EBL found to be comparatively better than sample bank because HBL and NIBL have aggressive working policy from the liquidity point of view. All sample banks are comparatively successful in assets management.

Among sample banks, EBL found to be comparatively best in mobilizing its assets and deposits in profitable sectors in form of loan and advances, investment in government securities and shares & debentures. From the profitability point of view, NIBL found to be 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. NIBL is also found to be best on the basis of leverage ratio because HBL and EBL use a high debt fund rather than equity fund and assets. The capital base of bank is strong in NIBL, since it has higher capital adequacy ratio. NIBL also has more assets from its shareholder's fund which shows they are strong from point of view of shareholder's fund.

EBL has highest positive growth rate of net profit among sample banks. The growth rate of earning per share is negative in HBL and positive in NIBL and EBL. Among them, EBL has highest positive growth in EPS since it has highest growth of net profit. EBL and NIBL have perfect positive correlation between the investment and net profit

than HBL. EBL and NIBL are able to earn a net profit from investment and loan & advances. NIBL has highest deposit among sample banks in past. Since HBL, NIBL and EBL have less mobilization of deposits, it is recommended that HBL, NIBL and EBL to increase loan and advances to different productive or profitable sectors.

Rijal (2007), in his thesis, "Financial Performance Analysis of Nepal SBI Bank Ltd. in the Framework of CAMEL", has the basic objective of analyzing the financial performance of Nepal SBI Bank Ltd. (NSBL) in the CAMEL framework. The specific objectives of the study are to analyze the capital strength and the ability of Nepal SBI Bank, to defend the risk, to examine the capacity of the bank in meeting the liabilities by analyzing liquidity position, to measure the risk on the total assets of the bank by measuring assets quality and to measure the performance of the bank in managing the resources and earning the profit.

The major findings of the study are NSBL was well capitalized and complying with the directives of NRB the bank has maintained satisfactory level of past due loan on total loan except in 2001, earning per employees of the bank was found quite high and NIM of the bank was found satisfactory. Furthermore, the liquidity position of the bank was found sound.

Ghale (2008), in her thesis, "Financial Performance Analysis of Annapurna Finance Company Limited in the Framework of CAMEL", has the main Objectives of analyzing the financial performance of Annapurna Finance Company Limited (AFCL) in the framework of CAMEL from the F.Y. 059/60 to the F.Y. 063/64. The other specific objectives are to analyze the capital fund of AFCL and compare it with the NRB requirement, examine the assets quality by analyzing the situation of Non-Performing loan, measure the profitability and liquidity of AFCL.

The major findings of the study are: the capital fund of AFCL is sound and sufficient to meet the financial operation as per the NRB standard, non-performing loan ratios are below the international standard and in fluctuating trend, The loan loss ratios are also fluctuating but in increasing trend during the study period, the management proxy ratio total expense to total income ratios are also in fluctuating trend due to changes in taxation rate and increase in provision for possible losses. Another management

proxy ratio earning per employee is in increasing trend, the earning quality ratios are generally in fluctuating and decreasing trend except the net interest margin which is in increasing trend. The overall liquidity position of AFCL is in good condition.

Dahal (2009), in his thesis, "Financial Performance analysis of NIC Bank Ltd. in the Framework of CAMEL", has the main objective of analyzing the financial performance of Nepal Credit & Commercial Bank (NIC) in the framework of CAMEL from the F.Y. 059/60 to the F.Y. 064/65.Its other objectives are to examine the capital adequacy of the bank, to assess the quality of the bank's assets, to analyze the efficiency of the bank's management, to evaluate the earning performance of the bank, to find out the liquidity position of the bank.

The major Findings of the study are: the core capital adequacy ratio is above the NRB standard in the entire study period. Thus, it is found that the core capital adequacy ratio of NICBL is adequate and sufficient; the ratio of past due loan to total loan has fluctuating trend during the study period. The total loan of the bank has gone up throughout the study period; this study shows that the earning per employee of the bank is increasing trend. The increased earning per employee reflects efficiency of staffs as well as good management quality; from this study, it is found that the bank has maintained an optimum level of NRB balance; the increased loan to total deposit ratio shows that the bank should be more serious to maintain reasonable liquid position of its fund; The net spread the bank has strong position. The net spread of the bank is above 2 percent throughout the study period. Net spread above 2 percent can be regarded as a strong position. Therefore, the bank has maintained strong position regarding the net spread. This is the good symbol of bank's profitability and earning.

Shrestha (2010),in his thesis, "Evaluation & Comparison of the Financial Position of the Sample Banks Using CAMEL Rating System has the main objectives of evaluating and comparing the financial performances of the sample banks in CAMEL Rating from the F.Y. 061/62 to the F.Y. 065/66. Its other objectives are ascertaining the financial position of the sample banks by using the CAMEL Rating System, making suggestions to the banks with recommendations and conclusions.

The major Findings of the study are: Core Capital Ratio (CCR) indicator shows that NIC Bank is better than other banks; Capital Adequacy indicators show that Machhapuchhre Bank is better than other banks; the banks undertaken for study have loan loss coverage ratio, greater than 100% which means all NPLs are well covered. The bank which has least loan loss coverage ratio but enough provision can be considered as good; all of Earning Quality indicators show that NIC Bank is better than other banks; the banks having higher liquid assets can be considered good, since it can be easily converted in cash and grab investment opportunity; NIC is better in managing CRR than the other banks taken for study.

2.6.3 Research Gap

During my research period I found that many studies by different people have either focuses on comparative study of a particular banks in specific area or have done the research work in analyzing the feasibility or profitability part of the bank. Though they have well tried to explain the area but unable to touch all the ground for analyzing the bank as a whole. Different studies show the particular area's pros and cons of the bank. The whole studies revolve around the specific area and ignored the other essential part of banking industry business to be a good bank.

In my study I have tried well to my knowledge to cover all the aspects and elements to identify the good bank. For this purpose I have identify the tool to rate the bank performance and its quality as a whole. The tool being CAMEL rating which has successfully elaborate Capital aspects, Assets Quality, Management Quality, Earning Quality and Liquidity Quality. This is the model by which we can gain ample knowledge of the bank as a whole. It has touched every aspect of the bank element to become a sound banking industry.

However, there are certain gap between the present research and the previous research conducted. There are researches which had done general comparison and the comparison is done between the two banks only. This study tries to evaluate the financial performance of five medium size commercial banks in the frame work of CAMEL using annual reports of five consecutive years.

CHAPTER-III

RESEARCH METHEDOLOGY

This chapter provides the overall framework or plan for the collection, analysis and presentation of data required to fulfill the objectives of the study. Objective of using different tools and techniques for the analysis and presentation as well as is to answer the research questions as explained under this section. It includes the type of information to be collected and sources of the information for the study purpose. Research methodology refers to the various sequential steps (along with a rational on each such steps) to be adopted by a researcher in studying a problem with certain object in view. In order to start any activities, pre planning of way to perform that activity is not only necessary but is also very important. It is important in the sense that it not only makes us easy to act and perform but also helps us to obtain our desired results and objectives within the specified time period. For analyzing the profitability in the context of commercial banks in Nepal we do have to determine the systematic process that we are going to use. An introduction relating to this thesis work is made in the first chapter and relevant literatures are reviewed in the second chapter. The 'research methodology', which is used to analyze to collected data, are mentioned in this chapter.

Research methodology is the way to solve systematically about the research problem. (Kothari; 1990: 39) This chapter highlights about the methodology adopted in the process of present study. It also focuses about sources and limitations of the data, which are used in the present study. 'Research Methodology' is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study. "Research methodology ‘refers to the various sequential steps (along with a rationale, of each such step) to be adopted by a researcher in studying a problem with certain object/objects in view’(Kothari; 1990: 39).This chapter incorporates Research design, Nature and Sources of Data, Population and Sample, Data collection procedure and lastly, Methods of Analysis.

3.1 Research Design

By research design we mean an overall framework or plan for the activities to be undertaken during the course of a research study. The plan is the overall scheme or program of the research. Therefore, to achieve the desired end of this study descriptive and analytical research design is applied. Descriptive research design seeks to find out the fact by help of sufficient data and information.

Research design is the task of defining the research problem. A research design is the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Wolf, H.K., and P.R. Pant, 2002). In fact the research design is the conceptual structure within which the research is conducted. This research study aims at portraying accurately on the financial performance of NIC Bank Ltd. A case study analytical research design is used for the study purpose to achieve the desired end. The study period covers six fiscal years starting from FY2006/07 to 2010/11.

According to Kerlinger "Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the paradigm of the operation of the variables. When we draw diagrams that outline the variables and their relation and juxtaposition, we build structural schemes for accomplishing operational research purposes. Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problems encountered in the research will be tackled." (Kerlinger; 1986: 275) But if we are to describe in one sentence it is purely and simply the framework or plan for a study that guides the collection and analysis of the data.

The research design is of both descriptive and prescriptive nature. Descriptive research is used to compare and to assess the opinions, behaviors of the firms and to describe the

situation and events occurring during the study period where analytical research is used to find out the result employing financial as well as statistical tools. For the analytical purpose, the annual reports published by the relative banks and other publications of the related banks published by the banks respectively and Nepal Rastra Bank, Nepal Stock Exchange Ltd & other related agencies, were collected for the year fiscal year 2006/07 to 2010/11. In this study both descriptive and analytical research design is used.

NRB Directives Affecting Financial Performances/ Achievement

To mobilize bank's deposit in different sectors of the different parts of the nation and to prevent them from the financial problems .Nepal Rastra Bank (NRB) can establish a legal framework by formulating various rules and regulation. These directives must have direct or indirect impact while making decisions to discuss those rules and regulations which are formulated by NRB in terms of investment and credit to priority sectors, deprived sector, other institution, single borrower limit, cash reserve requirement (CRR), loan loss provision, capital adequacy ratio, interest spread, and productive sector investment. A commercial bank is directly related to the fact that how much fund must collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and counters, how much flexible and helpful the NRB rules are also important, but we discuss only those, which are related to investment function of commercial banks. The main provisions established by NRB in the form of prudential norms in the above relevant are briefly discussed here under:

a. Provision for investment in the deprived sectors:

Some rules, which are formulated by NRB, affect areas of credit and investment extension to the deprived sector by the commercial bank. According to the new provision, which effect from 3rd quarter of FY 1995/96, investment in share of the rural development bank by commercial banks, which used the deprived sector lending?

b. Provision for credit to the priority sectors:

NRB requires commercial banks to extend loan and advance, amounting to at least 12 percent of their total outstanding credit to the priority sectors. Commercial banks' credit to the deprived sectors is also a part of priority sectors credit. Under priority sectors,

credit to agriculture, credit to cottage and small industries and credit to service are counted commercial banks' loan to the co-operative licensed by the NRB is also to be computed as the priority sectors from fiscal year 1995/96 onwards.

c. Provision for the investment in productive sector:

Nepal being a developing country needs to develop infrastructure and primary productive sectors agriculture; industry etc. for this, NRB has directed commercial banks to extend at least 40 percent of their total credit to the productive sectors. Loans to priority sectors, agriculture sectors and industrial sector have to be included in productive sectors investment.

d. Provision for the single borrower credit limit:

With the objective of lowering the risk of over concentration of bank loans a few big borrowers and also to increase the access of small and middle size borrower to the and loans, NRB directed commercial banks to set an upper limit of loan financed to an individual, firm, company or group of companies.

e. Directives to raise capital funds (CAR):

The commercial banks under operation and having low capital base directed to raise their capital funds at a minimum level of Rs.500 million with 5 years of period i.e. by the end of FY 2000/01. Moreover, the commercial banks are allowed to include paid up capital and reserve for meeting the minimum capital requirement but they have to deduct the net loss from such if they are in loss. Besides this, NRB had directed commercial banks to lease 8 percent capital adequacy ratio (CAR) of their risk weighted assets (RWA) and off balance sheet transaction i.e. letter of credit, letter of acceptance, bonds, guarantee etc.

f. Cash reserve requirement (CRR):

In the context of higher inflation rate than expected and continued deficit in BOP, monetary easing might produce risks in both these aspects. However, it is equally important to prevent the economic contraction that may be generated due to the monetary contraction as it may adversely affect both inflation and BOP situation. In this background, cash reserve ratio (CRR) to be maintained by class 'A' commercial banks and class 'B' and 'C' licensed institutions accepting demand/call deposits has been reduced

by 0.5 percentage points to 5 percent from 5.5 percent. The reduction in CRR will help in the achievement of targeted economic growth through the supply of additional resources to productive sector with lowered financial intermediation cost.

g. Loan classification and loss provision:

With a view to improving the quality of assets of commercial banks NRB has directed commercial banks to classify their out-standing loan and advance, investment and other assets in six categories. The classification is done in two ways. The loan of more than 1 lakh is to be classified as debt service charge ratio, repayment situation and financial condition of borrower, management efficiency, quality of collateral. The loans of less than 1 lakh have to be classified as per maturity period.

h. Directives regarding interest rate spread:

The interest rate spread, the difference between interest charged on loan and advance and the interest paid to the depositors, has widened significantly in the aftermath of deregulation in interest rates which has caused lower financial intermediation. Therefore, NRB has required commercial banks to limit interest rate spread between deposit and lending rates to a maximum extend of 5 percent. NRB has also provided commercial banks with new calculation method of interest rate spread for a certain period recently.

3.2 Nature & Source of Data

This study is mainly based on secondary data. The data used in the study are taken from the annual reports of the bank and publications of Nepal Rastra Bank. For the purpose of the study, the annual reports of the NIC and EBL are used as the major sources of data. Besides the annual reports of those banks required data and information is collected from the following sources.

- NRB reports and bulletins and its website.
- Various publications dealing in the subject matters of study. Various articles published in journals, etc.
- Various research report and Dissertations. Nepal Stock Exchange report.
- Formal and informal talks with the senior staff of the company were also helpful to obtain the information of the related problem.

3.3 Population & Sample

Currently there are 32 commercial banks operating under the approval of Nepal Rastra Bank. Out of the 32 banks, the samples to be selected are as follows:

- Nepal Credit & Commercial Bank
- Everest Bank Ltd**.**

3.4 Data Collection Procedures

As stated earlier, the study is mainly based on secondary data. The annual reports and other information of have been obtained from sample banks. NRB directives, banking and financial statistics and other publications are collected from the web site of NRB. Some supplementary data and information, literature review are collected from the Shanker Dev Library, Katmandu Western Regional Library, Pokhara, Central Library, T.U. NRB publication , different journals magazines and other published and unpublished reports documented by the concern authorities.

3.4.1 Data Processing

First of all, necessary data are collected from the published documents and then audited financial statements recorded in master sheet manually. Then, data are entered in to table to work out CAMEL financial ratio and prepare the necessary figures. Finally, different financial tools under CAMEL are worked out with the help of computer programmers.

3.4.2 Data Analysis Tools

Various financial and statistical tools have been used to measure the comparative financial analysis and to draw inferences on the study area. Graphs, charts and tables as appropriate have also been used to analyze the data. The collected data have been organized, tabulated, processed and analyzed using various statistical and financial tools as described in the following sections.

3.5 Methods of Analysis

Financial tools and empirical models will be tried to be used in the process of research and study. Main focus will be given to ratio analysis as it is taken as the powerful tool of financial analysis to point out the economic and financial position of business. This study is based on following financial tools and techniques:

3.5.1 Capital Adequacy

Capital Adequacy is measure of a financial institution's financial strength in a particular its ability to cushion operational and abnormal losses. Minimum capital adequacy ratio have been designed to ensure banks can absorb a reasonable level of losses before becoming insolvent. The higher the capital adequacy ratio a bank has the greater level of unexpected losses it can absorb before becoming insolvent. Financial institution should have adequate capital to support its risk assets in accordance with the risk weighted capital ratio framework. It has become recognized that capital adequacy is more appropriately relates to asset structure than to the volume of liabilities.

Risk weighted assets, core capital and supplementary capital are the major figures used to calculate capital adequacy ratio.

a) Core Capital Adequacy Ratio (CCAR)

Core capital adequacy ratio shows the relationship between the total core capital 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:

$$\text{Core Capital Adequacy Ratio} = \frac{\text{Total Core capital}}{\text{Total Risk Adjusted Assets}} \times 100$$

Where,

Core Capital = paid-up capital + share premium +non-redeemable Preference share + general reserve + cumulative profit -goodwill if any

b) Supplementary Capital Adequacy Ratio (SCAR)

Supplementary capital adequacy ratio is the expression of numerical relationship between supplementary capital and total risk adjusted assets. It measures the proportion of

supplementary capital in 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:

$$\text{Supplementary Capital Adequacy Ratio} = \frac{\text{Supplementary Capital}}{\text{Total Risk Adjusted Assets}} \times 100$$

Where,

Supplementary Capital=Loan loss provision + exchange equalization reserve + assets revaluation reserve + hybrid capital instrument + Unsecured subordinate term debt + interest rate fluctuation fund + Other free reserves

c) Total Capital Adequacy Ratio (CAR)

Capital adequacy ratio is the numerical relationship between total capital fund and risk adjusted assets. It measures the adequacy of capital and financial soundness of finance company. Capital adequacy ratio is used to measure of capital in the bank. It is worked by using the following model:

$$\text{Total Capital Adequacy Ratio} = \frac{\text{Total Capital Fund}}{\text{Total Risk Adjusted assets}} \times 100$$

Where,

Total capital fund = Core capital + Supplementary capital

Total Risk Adjusted Assets = On balance sheet risk adjusted assets + off Balance sheet risk adjusted assets

3.5.2 Assets Quality

a) Non-performing Loan Ratio (NPL)

The non-performing loan ratio indicates the relationship between non-performing loan and total loan. It measures the proportion of non-performing loan in total loan and advances. The ratio is used to analyze the asset quality and determined by using the given model:

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

Where,

Non-performing loan = loan not recovered within the given the time Frame either in the form of interest servicing or principal repayment.

b) Loan Loss Ratio (LLR)

The loan loss ratio is the expression of numerical relationship between loan loss provision and loan and advances. It is used to appraise quality of asset. It measures the proportion of loan loss provision in total and advances. This ratio shows the possibility of loan default. Higher ratio implies higher portion of non-performing loan portfolio. For the purpose of study following is used to determine the loan loss ratio:

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

c) Loan Loss coverage Ratio (LLCR)

The loan loss coverage ratio provides an indication of the adequacy of bank's loan reserve to cover or absorb possible future loan losses. It indicates how efficiently banks manages its loan and advances and makes effort for the loan recovery and shows how well a bank is prepared to cover for its non-performing loans. Default risk is one of the major risk faced by banks. Loan loss coverage predicts how much safe bank is to protect balance sheet if default risk occurs. Higher this ratio means more safety. It is calculated as follows:

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

d) Credit Deposit Ratio (C/D Ratio):

The C/D ratio present the percentage of the credit disburses by the bank in respect to the deposit collect. Credit deposit ratio is use to determine the credit policy of the bank.C/D ratio is very much influenced by the behavior of bank's liabilities. The higher the volatile deposit and volatile borrowings, the lowest the volume of loan and vice- versa. Moreover, the bank should fix the amount of loan it wishes to give to a single borrower. Limit shouldn't be more than the one set by regulatory authorities. It is calculated as follows:

$$\text{Credit Deposit Ratio} = \frac{\text{Total Credit}}{\text{Total Deposit}} \times 100$$

3.5.3 Management Quality

a) Total Expenses to Total Incomes Ratio

The total expenses to total income ratio is the expression of numerical relationship between total expenses and total incomes of the company. It measures the proportion of total expenses in total revenues. A high or 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 deficiencies. In any case, it is likely to negatively affect profitability (IMF, 2000). Following is the expression of total expenses to total revenues ratio:

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

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 model:

$$\text{Earning Per Employee} = \frac{\text{Net Profits after tax}}{\text{Total number of Employee}} \times 100$$

3.5.4 Earning Quality

a) Return on Assets (ROA)

Return on assets is the numerical relationship between net incomes after taxes to total assets of a company. It is primarily an indicator of managerial efficiency; it indicates how capably the management of the company has been converting the institution's assets into net earning (Rose, 1999). It is calculated by using the following model:

$$\text{Return on Assets} = \frac{\text{Net Income after Tax}}{\text{Total Assets}} \times 100$$

b) Earning Per Share (EPS)

Earning per share provides a direct measure of the returns flowing to the company's owners-its stockholders- measured relative to the members of shares to the public(Rose, 1999). It gives the strength of the share in the market. Following is the expression of earning per share:

$$\text{Earning Per Share} = \frac{\text{Net Profit after Tax}}{\text{Total number of Shares}}$$

c) Return on Equity(ROE)

It measures a company's success in earning a return for the common stockholders. Computed as the ratio of net profit after tax to total equity, it reflects the income earned from its internal sources. Return on equity reveals how well the bank uses the resources of owners. ROE of 15% is treated as standard and banking industry are desired to have higher than this (World Bank, 1996). Higher ROE indicates better utilization of the capital fund and higher investment by the shareholder. It is calculated by the following model:

$$\text{Return on Equity} = \frac{\text{Net Income after Tax}}{\text{Total Equity}} \times 100$$

3.5.5 Liquidity Position

a) Total Liquid Fund to Total Deposits Ratio

A total liquid fund to total deposits is the expression of numerical relationship between total liquid funds and total deposits of the company. It measures the proportion of total liquid funds in total deposits. Furthermore, it shows the overall short-term liquidity position. The higher ratio implies the better liquidity position and lower ratio shows the inefficient liquidity position of the company. It is calculated by using the following model:

$$\text{Total Liquid Fund to Total Deposits Ratio} = \frac{\text{Total Liquid Fund}}{\text{Total Deposits}} \times 100$$

Where,

Total Liquid Fund = cash in hand + foreign currency in hand + Balance with NRB + balance with domestic bank + balance Held abroad + calls deposits

b) Cash in Vault to Total Deposit Ratio

Cash in vault to total deposits ratio indicates the relationship between cash in vault to total deposits. It shows the percentage of total deposit maintained as vault. It is worked out by using the following model:

$$\text{Cash in Vault to Total Deposits Ratio} = \frac{\text{Cash in Vault}}{\text{Total Deposits}} \times 100$$

c) 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 minimum level of the banks' first line of defense in meeting depositors' obligations. Commercial banks are required to maintain cash reserve ratio in the form of NRB Balance specified as the Percentage of total deposits. Total Deposit means Current, Savings and Fixed Deposit Account as well as Call Account deposit and certificates of deposits. For the purpose, deposits held in convertible foreign currency, employees guarantee amount and margin account will not be included (NRB Directive Manual, 2004). It is calculated by the following model:

$$\text{CRR} = \frac{\text{Cash Balance in NRB}}{\text{Total Deposits}} \times 100$$

d) Investment in Government Securities (IGS)

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. In order to earn more and more profit by making its banking transaction more trustworthy and strong, the bank invest in different types of securities. It earns profit from it. Such type of investment is favorable to save to be safe from liquidity crisis. While making such investments, banks have to match the maturity of their liabilities and assets so that they can meet their obligations on time without suffering from a liquidity crunch. It can be calculated as follows:

$$\text{Investment in Government Securities} = \frac{\text{Total investment in government securities}}{\text{Total Deposits}} \times 100$$

CHAPTER-IV
DATA ANALYSIS AND PRESENTATION

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 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 financial analysis of Nepal Industrial & Commercial Bank and Everest Bank Limited are concentrated in five CAMELS component i.e. Capital Adequacy, Assets Quality, Management Quality, Earning Quality, and Liquidity. The data are collected from different sources has been defined and documented in excel tables which are further processed to analyze and arrived at the findings on the financial performance of EBL & NIC.

4.1 Capital Adequacy

Capital adequacy analysis of sampled banks is made based on the regulations and standard ascertain by NRB as to maintain minimum risk based Core & Total Capital Standard which includes a definition for Risk Based Capital, a system for calculating Risk Weighted Assets (RWA) by assigning on and off balance sheet items to broad risk categories. Capital Adequacy Ratios take into account the most important financial risks such as foreign exchange, credit and interest rate risks, by assigning risk weightings to the institutions assets.

Capital adequacy determines how well banks can manage with shocks to their balance sheets. For the purpose of capital adequacy measurement, bank capital is divided into core/primary capital and supplementary capital. Risk based capital ratio, core capital adequacy ratio, supplementary capital ratio, past due loans/total loans, total loans to a single Borrower/ total loans, total loans to a single Borrower/ core capital & actual provisioning to required 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 can't be regarded capable and healthy without having adequate capital.

Capital Adequacy Ratio is calculated as follows:

4.1.1 Core Capital Adequacy Ratio (CCAR):

Core capital is also known as primary capital. It is also called Tier -I capital. Tier I capital includes the paid up capital, share premium, non-redeemable preference share, general reserve, retained earnings, proposed bonus-share and goodwill deductible if any. Core capital adequacy ratio (CCAR)measures the adequacy of internal sources of shareholders fund to support the financial activities. It reflects the financial strength and soundness of a company. Nepal Rastra Bank has provided the minimum standard of CCAR in order to stabilize the capital and assets of financial institutions. It is calculated as follows:

$$\text{CCAR} = \frac{\text{Total Core Capital}}{\text{Total Risk Adjusted Assets}} \times 100$$

Table 4.1 is the observed core capital ratio during the study period in numerical terms which is presented below:

Table 4.1

Core Capital Ratio

Banks	EBL			NIC		
Fiscal Year	**Core Capital Fund**	**Total Risk Weighted Assets**	**Core Capital Ratio**	**Core Capital Fund**	**Total Risk Weighted Assets**	**Core Capital Ratio**
2006/07	1171133000	14976737000	7.82	911806552	9905036012	9.21
2007/08	1900859000	21039879000	9.03	1293750759	12321131296	10.5
2008/09	1981579000	24131922000	8.21	1649007425	15741613929	10.48
2009/10	2537093000	30240428000	8.39	1750459218	15559349706	11.25
2010/11	2927168000	34583547000	8.46	1956125429	17250711439	11.34

Figure 4.1 is a bar diagram which represents the above tabulated numerical data which help to compare the core capital adequacy ratio among two banks.

Figure 4.1

Core Capital Ratio

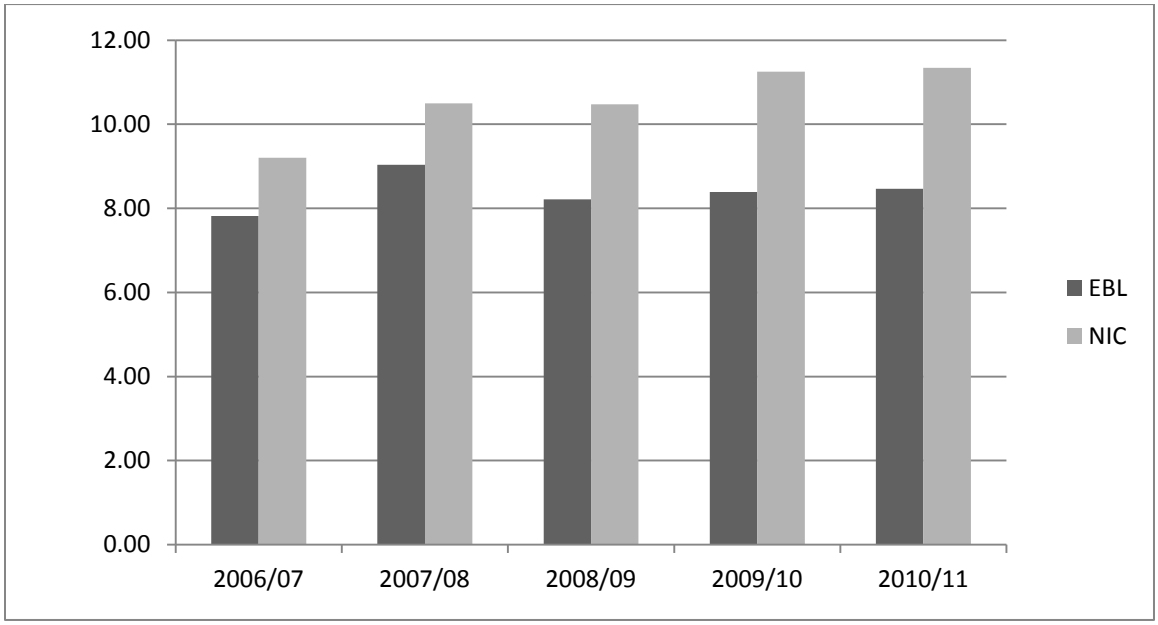
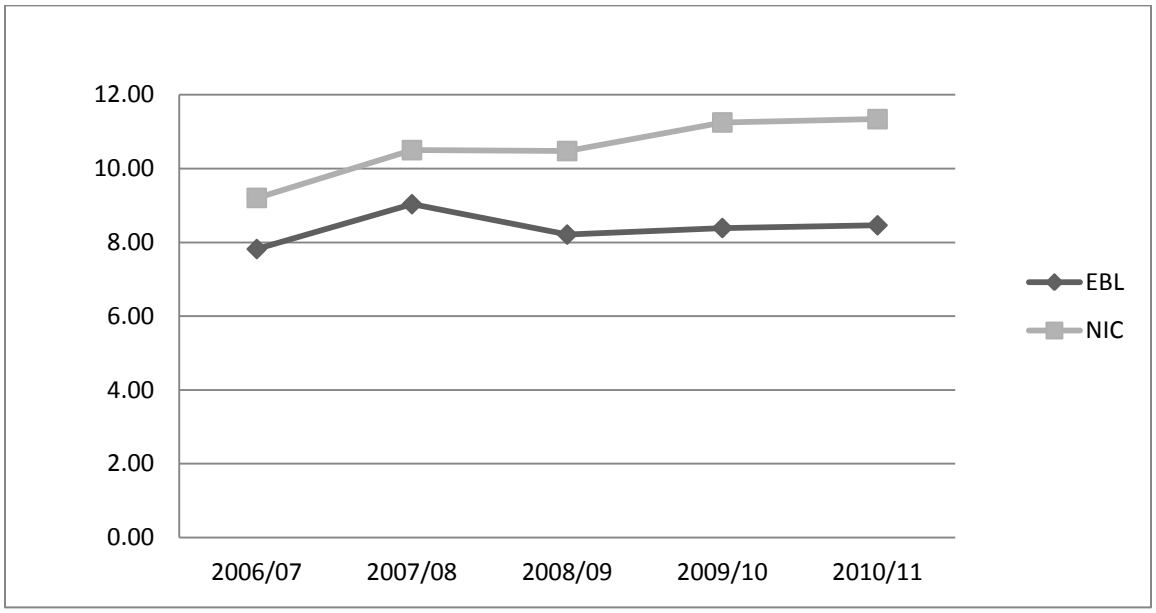


Figure 4.2 is a trend analysis of core capital adequacy ratio among two banks over the five years study period.

Figure 4.2

Core Capital Ratio



As shown in above Figure 4.1 and Figure 4.2, the core capital adequacy ratio is of NIC is highest in FY 2010/11 i.e.11.34 and the lowest is in FY 2006/07 i.e.9.21 which shows that the CCAR ratio of NIC bank is in increasing trend. And, the core capital adequacy ratio of EBL is highest in FY 2007/08 i.e., 9.03 and lowest is in FY 2006/07 i.e., 7.82 which shows that the CCAR ratio is increasing from FY 2006/07to FY 2007/08 i.e., 7.82 to 9.03.Again from FY 2007/08 it decrease in FY 2008/09 i.e.9.03 to 8.21 and from FY 2009/10 to FY 2010/11 it increases at the low rate i.e.8.39 to 8.46. Above CCAR trend line shows that the EBL is much more fluctuating than NIC.

4.1.2 Supplementary Capital Adequacy Ratio (SCAR):

Supplementary capital is also called Tier II capital. Tier II capital includes loan loss provision for pass loan, asset revaluation reverses, hybrid capital instrument, unsecured subordinate term debt, exchange equalization reserve, additional loan loss provision and investment adjustment reserve and provision for loss in investments. Supplementary capital adequacy ratio indicates the contribution of supplementary capita in capital adequacy ratio of a firm. A high value of supplementary capital ratio means the higher proportion of supplementary capital in total risk adjusted assets and lager portion of supplementary capital in total risk adjusted asset and large portion of

supplementary capital in capital adequacy ratio and vice-versa. As per NRB, the maximum limit of supplementary capital ratio that can be included in capital adequacy ratio is not more than core capital adequacy ratio of the company in each year. It is calculated as follows:

$$\text{SCAR} = \frac{\text{Supplementary Capital}}{\text{Total Risk Adjusted Assets}} \times 100$$

Table 4.2 is the observed supplementary capital adequacy ratio during the study period in numerical terms which is presented below:

Table 4.2

Supplementary Capital Adequacy Ratio

Banks	EBL			NIC		
Fiscal Year	**Supplementary Capital Fund**	**Total Risk Weighted Assets**	**Supplementary Capital Adequacy Ratio**	**Supplementary Capital Fund**	**Total Risk Weighted Assets**	**Supplementary Capital Adequacy Ratio**
2006/07	504982000	14976737000	3.37	296801251	9905036012	3.00
2007/08	787531000	21039879000	3.74	319880079	12321131296	2.60
2008/09	722291000	24131922000	2.99	305927368	15741613929	1.94
2009/10	720049000	30240428000	2.38	260102281	15559349706	1.67
2010/11	678673000	34583547000	1.96	267647038	17250711439	1.55

Figure 4.3 is a bar diagram which represents the above tabulated numerical data which help to compare the supplementary capital adequacy ratio among two banks.

Figure 4.3

Supplementary Capital Adequacy Ratio

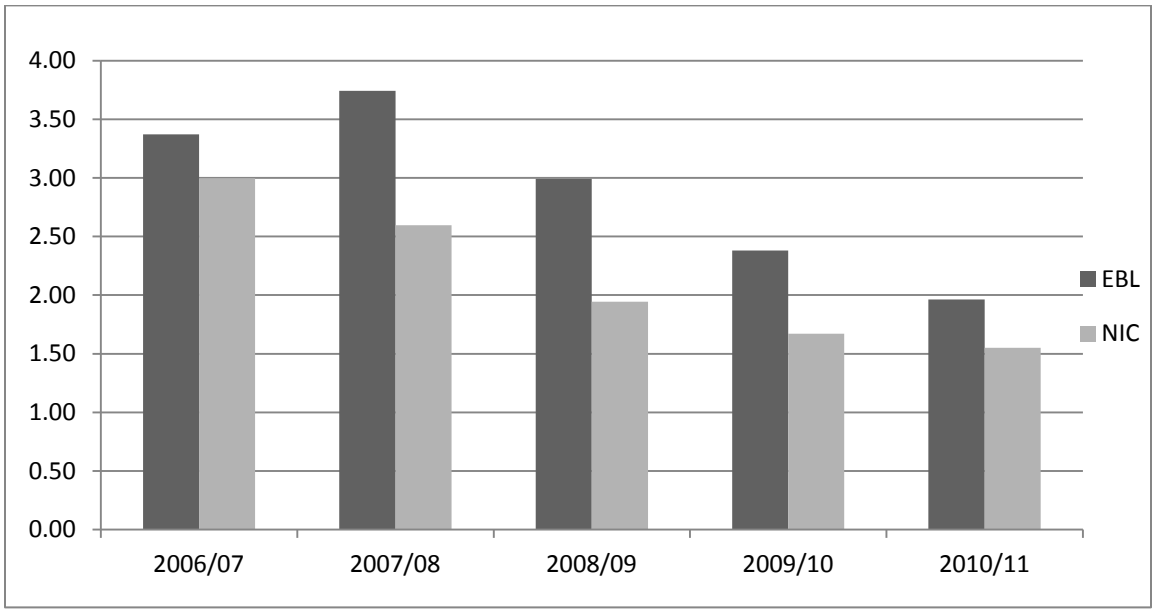
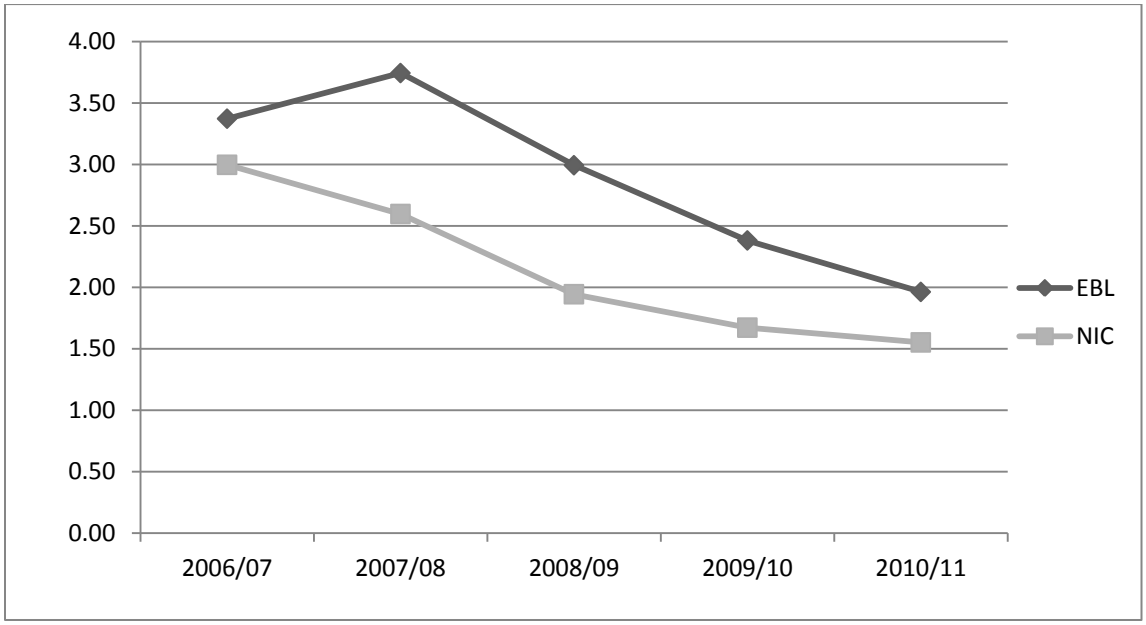


Figure 4.4 is a trend analysis of supplementary capital adequacy ratio among two banks over the five years study period.

Figure 4.4

Supplementary Capital Adequacy Ratio



As shown in above Figure 4.3 and Figure 4.4, the supplementary capital adequacy ratio of NIC is highest in FY 2006/07 i.e.3.00 and the lowest is in FY 2010/11 i.e.1.55 which shows that SCAR ratio of NIC bank is in decreasing trend. And, the supplementary capital adequacy ratio of EBL is highest in FY 2007/08 i.e.3.74 and the lowest is in FY 2010/11 i.e.1.96 which shows that SCAR ratio of EBL bank is increasing at first but then in decreasing trend.

4.1.3 Total Capital Adequacy Ratio(CAR):

The total capital adequacy ratio is the numerical relationship between total capital fund and risk adjusted assets. And the total capital fund is the sum of core capital & supplementary capital. It measures the adequacy of capital and financial soundness of bank.

$$CAR = \frac{\text{Total Capital Fund}}{\text{Total Risk Adjusted assets}} \times 100$$

Table 4.3 is the observed total capital adequacy ratio during the study period in numerical terms which is presented below:

Table 4.3

Total Capital Adequacy Ratio

Banks	EBL			NIC		
Fiscal Year	**Total Capital Fund**	**Total Risk Weighted Assets**	**Total Capital Adequacy Ratio**	**Total Capital Fund**	**Total Risk Weighted Assets**	**Total Capital Adequacy Ratio**
2006/07	1676115000	14976737000	11.19	1208607803	9905036012	12.20
2007/08	2406056000	21039879000	11.44	1615719466	12321131296	13.11
2008/09	2703870000	24131922000	11.20	1954934793	15741613929	12.42
2009/10	3257142000	30240428000	10.77	2010561500	15559349706	12.92
2010/11	3605840000	34583547000	10.43	2223772467	17250711439	12.89

Figure 4.5 is a bar diagram which represents the above tabulated numerical data which help to compare the total capital adequacy ratio among two banks.

Figure 4.5

Total Capital Adequacy Ratio

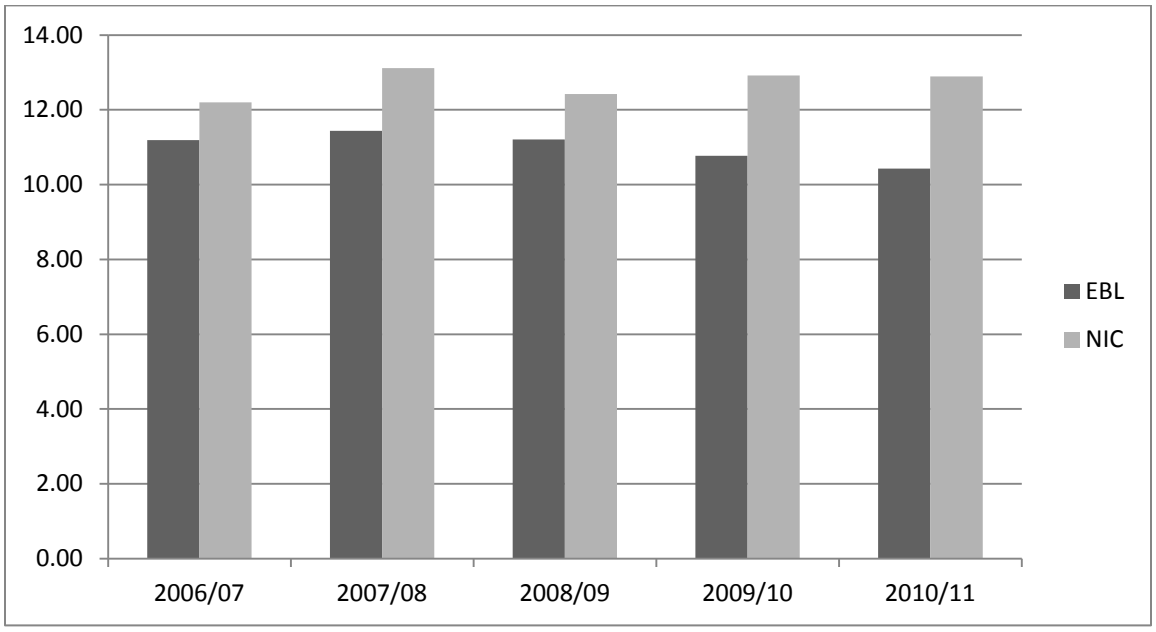
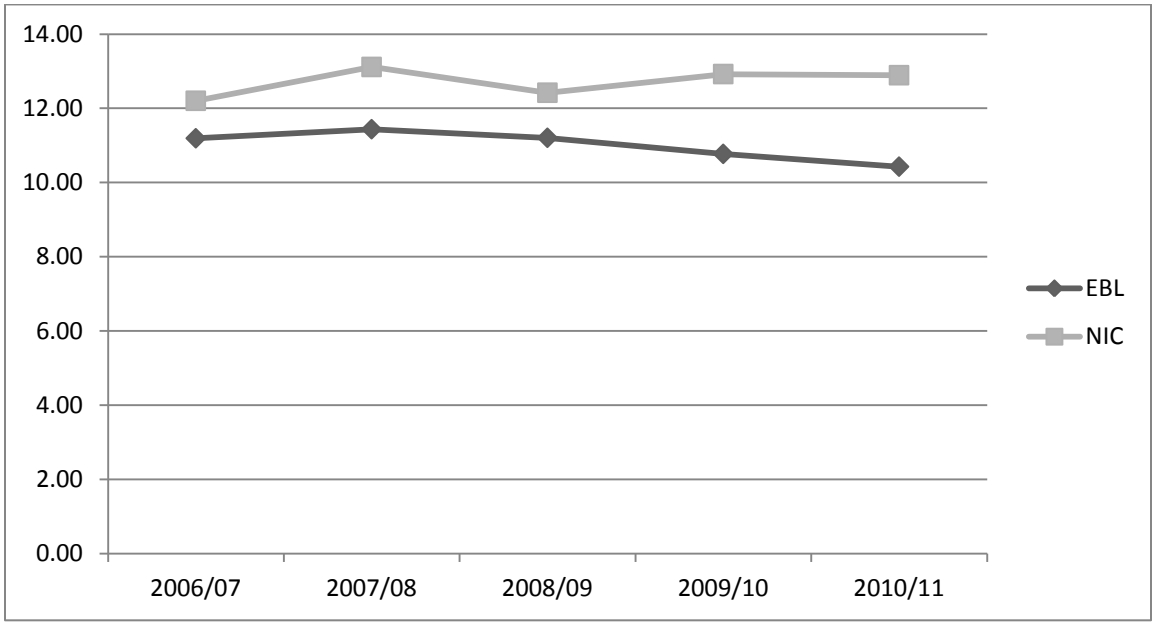


Figure 4.6 is a trend analysis of total capital adequacy ratio among two banks over the five years study period.

Figure 4.6

Total Capital Adequacy Ratio



As shown in above Figure 4.5 and Figure 4.6, the total capital adequacy ratio of NIC & EBL is highest in FY 2007/08 i.e., 13.11 & 11.44 respectively. And the total capital adequacy fund of NIC is lowest in FY 2006/07 i.e. 12.20 and of EBL is lowest in FY 2010/11 i.e 10.43.the total capital adequacy ratio of both EBL & NIC is in FY 2007/08 (i.e. 11.44 & 13.11)and both decrease in FY 2008/09 (i.e.11.20 & 12.42).in FY 2009/10,CAR ratio of NIC bank increases to 12.92 but EBL bank decreases ton 10.77.again in FY 2010/11,the CAR ratio of EBL decreases to 10.43 whereas of NIC bank is slightly decreases to 12.89.thus, this trend line of CAR ratio of EBL & NIC bank shows that they both are fluctuating in decreasing trend.

4.2 Assets Quality

Asset quality is one of the most important factors which measures how effective an institution is at landing money to people who are willing and able to pay it back . Thus, assets quality has direct impact on the financial performance of a financial institution (mishkin and Eakins, 2006)

There are different indicators of measuring the quality of assets held by a company .Such as portfolio in arrear, asset composition, loan loss ratio, non -performing loan ratio and reserve ratio. But, here, only non-performing loan ratio and loan loss ratio, are used to measure the quality of assets. The increasing trend of this ratio shows the deteriorating quality of EBL & NIC assets.

4.2.1 Non-performing Loan Ratio (NPL):

Loan is a risky asset. Each firm makes its own decision as to how deposited funds should be allocated and these decisions determine its level of credit (default) risk. Risk of non-repayment of loan is known as credit risk. If the borrower fails to pay the interest or principal within the time frame, the performing loan turns into non-performing loan. Lower ratio shows the better proportion of performing loans and risk of default and vice -versa.

$$\text{NPL Ratio} = \frac{\text{Non Performing Loan}}{\text{Total Loan \& Advance}} \times 100$$

Table 4.4 is the observed non-performing loan ratio during the study period in numerical terms which is presented below:

Table 4.4

Non-performing Loan Ratio

Banks	**EBL**			**NIC**		
Fiscal Year	**Total Non-performing Loan**	**Total Loan & Advance**	**Non-performing Loan Ratio**	**Total Non-performing Loan**	**Total Loan & Advance**	**Non-performing Loan Ratio**
2006/07	113178936	14082686087	0.80	101140201	9128649206	1.11
2007/08	126639038	18836431762	0.67	98167144	11465334005	0.86
2008/09	117985232	24366195740	0.48	129178432	13915850035	0.93
2009/10	125560472	28156399843	0.45	92492646	12929304091	0.72
2010/11	108512928	31661842757	0.34	90356906	15165515868	0.60

Figure 4.7 is a bar diagram which represents the above tabulated numerical data which help to compare the non-performing loan ratio among two banks.

Figure 4.7

Non-performing Loan Ratio

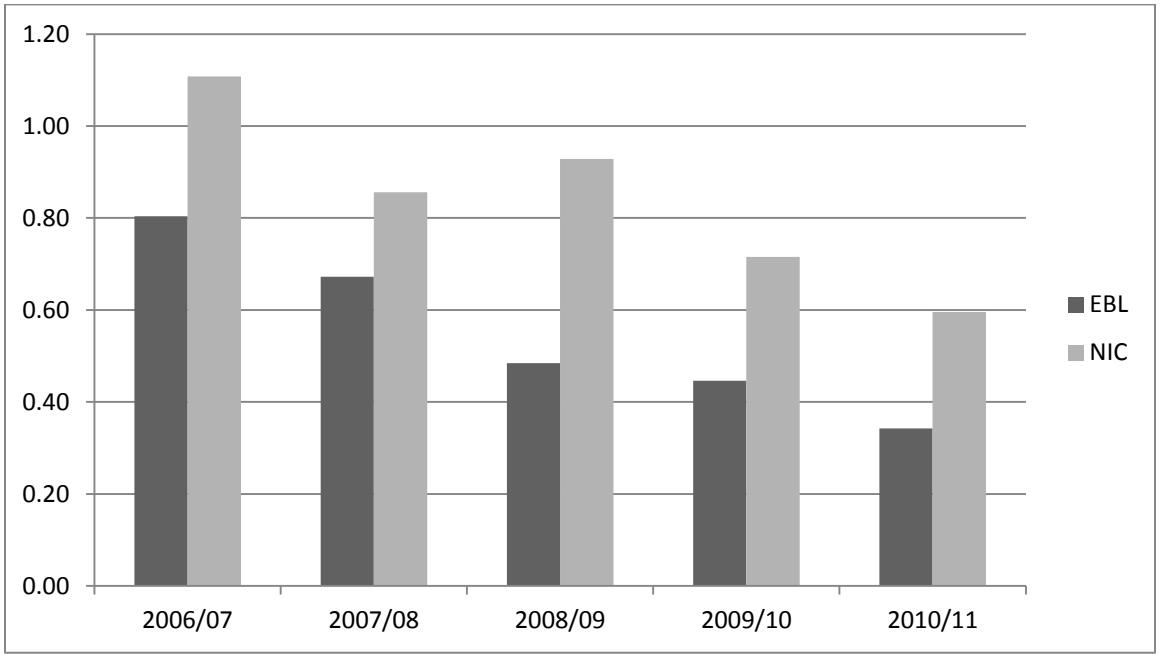
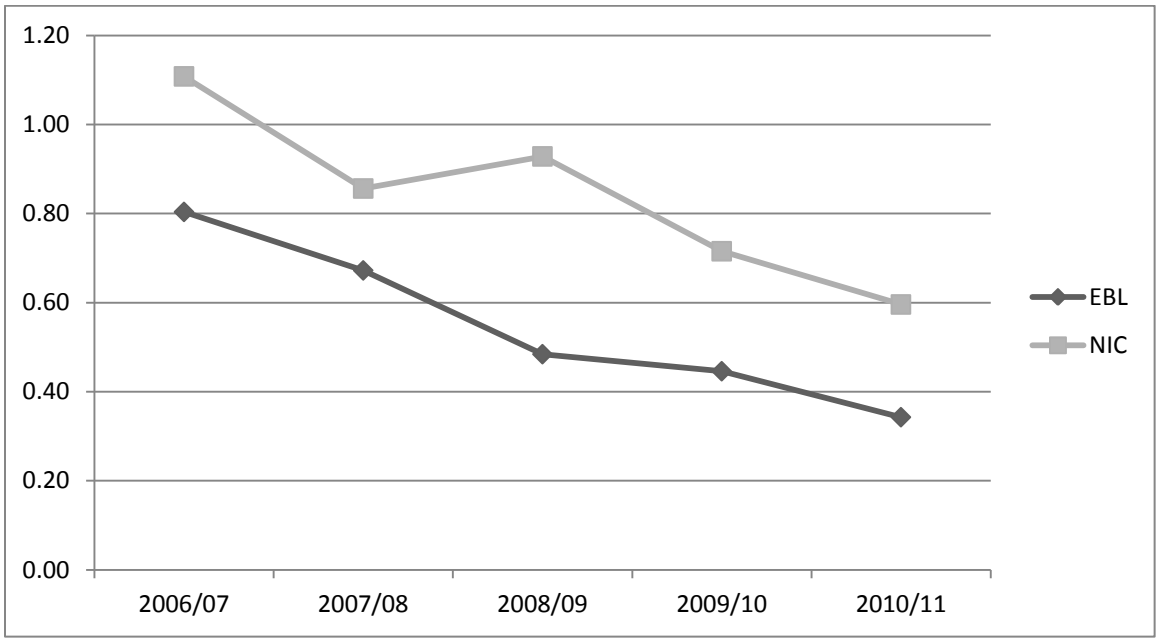


Figure 4.8 is a trend analysis of non-performing loan ratio among two banks over the five years study period.

Figure 4.8

Non-performing Loan Ratio



As shown in above figure 4.7 and Figure 4.8, the no- performing loan ratio of both NIC & EBL is highest in FY 2006/07(i.e. 1.11 & 0.80) & lowest in FY 2010/11(i.e. 0.60& 0.34) respectively. The non-performing loan ratio of EBL is decreasing from FY 2006/07 to 2010/11 (i.e., 0.80 to 0.34) at increasing rate. But the ratio of NIC bank is decreases in FY 2007/2008 i.e. 0.86 and in FY 2008/09, it again starts to increase i.e. 0.93 and after then in FY 2009/10 & 2010/11 it again decreases. Thus the trend line of EBL is sloping downward without any increments but the trend line of NIC is fluctuating downwards.

4.2.2 Loan Loss Ratio (LLR):

The loan loss ratio shows how efficiently the company manages its loan and advances and makes effort for the loan recovery more delay the company gets to collect loan, more provision has to make and the ratio will be higher. This will be lead to low earning and high losses in the company. The loan loss ratio indicates the adequacy of allowance for loan and trend in the collection of loan and the performance in loan portfolio. It is obtained by the ratio of loan loss provision for loan loss reflects the

increasing probability on NPL in the volume of total loans and advances. So, higher the ratio more will be risky assets in the volume of loans and advances.

$$LLR = \frac{\text{Loan Loss Provision}}{\text{Total Loan and Advances}} \times 100$$

Table 4.5 is the observed loan loss ratio during the study period in numerical terms which is presented below:

Table 4.5

Loan Loss Ratio

Banks	**EBL**			**NIC**		
Fiscal Year	**Total Loan Loss Provision**	**Total Loan & Advance**	**Loan Loss Ratio**	**Total Loan Loss Provision**	**Total Loan & Advance**	**Loan Loss Ratio**
2006/07	418604423	14082686087	2.97	187251555	9128649206	2.05
2007/08	497346200	18836431762	2.64	200655909	11465334005	1.75
2008/09	226816062	24366195740	0.93	236456256	13915850035	1.70
2009/10	600043812	28156399843	2.13	197289772	12929304091	1.53
2010/11	604151295	31661842757	1.91	231575967	15165515868	1.53

Figure 4.9 is a bar diagram which represents the above tabulated numerical data which help to compare the loan loss ratio among two banks.

Figure 4.9

Loan Loss Ratio

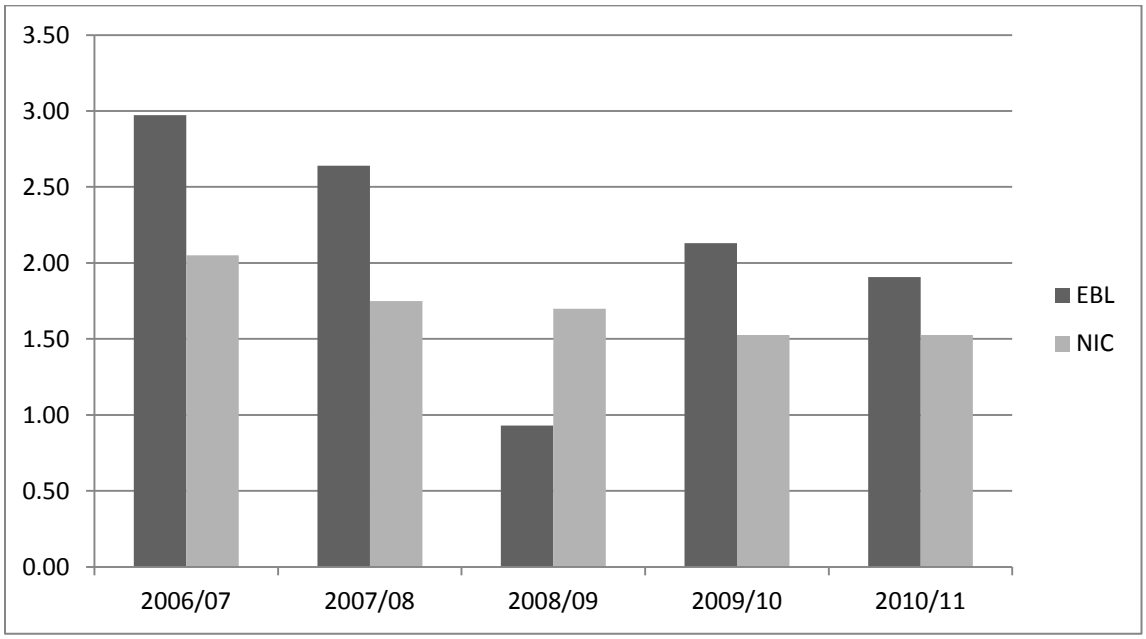
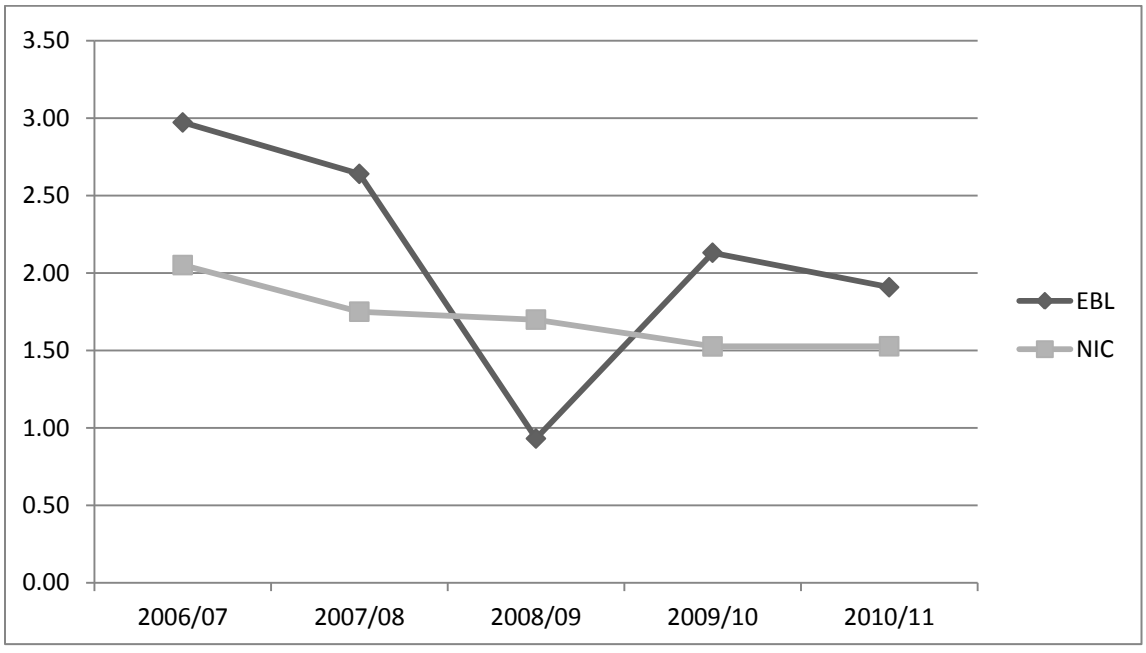


Figure 4.10 is a trend analysis of loan loss ratio among two banks over the five years study period.

Figure 4.10

Loan Loss Ratio



As shown in above Figure 4.9 and Figure 4.10,the loan loss ratio of both NIC bank& EBL is highest in FY 2006/07(i.e. 2.05 & 2.97 respectively).and in FY 2007/08, the loan loss ratio of NIC is slowing decreases and stable in FY 2009/10 & FY 2010/2011(i.e.1.53).but the ratio of EBL decreases upto 0.93 in FY 2008/09.and in FY 2008/09 it increases to 2.13 and again decreases in FY 2010/2011 i.e. 1.91 which shows that the loan loss ratio of EBL is much more fluctuate than NIC bank.

4.2.3 Loan Loss Coverage Ratio (LLCR):

It is mandatory that for every loan, bank need to keep some provision. It indicates the provision made by bank for exposure of loan loss in term of non-performing loans. Higher the LLCR is better the financial position and vise-versa.

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

Table 4.6 is the observed loan loss coverage ratio during the study period in numerical terms which is presented below:

Table 4.6

Loan Loss Coverage Ratio

Banks	**EBL**			**NIC**		
Fiscal Year	**Total Loan Loss Provision**	**Total Non-Performing Loan**	**Loan Loss Coverage Ratio**	**Total Loan Loss Provision**	**Total Non-Performing Loan**	**Loan Loss Coverage Ratio**
2006/07	418604423	113178936	369.86	187251555	101140201	185.14
2007/08	497346200	126639038	392.73	200655909	98167144	204.40
2008/09	226816062	117985232	192.24	236456256	129178432	183.05
2009/10	600043812	125560472	477.89	197289772	92492646	213.30
2010/11	604151295	108512928	556.76	231575967	90356906	256.29

Figure 4.11 is a bar diagram which represents the above tabulated numerical data which help to compare the loan loss coverage ratio among two banks.

Figure 4.11

Loan Loss Coverage Ratio

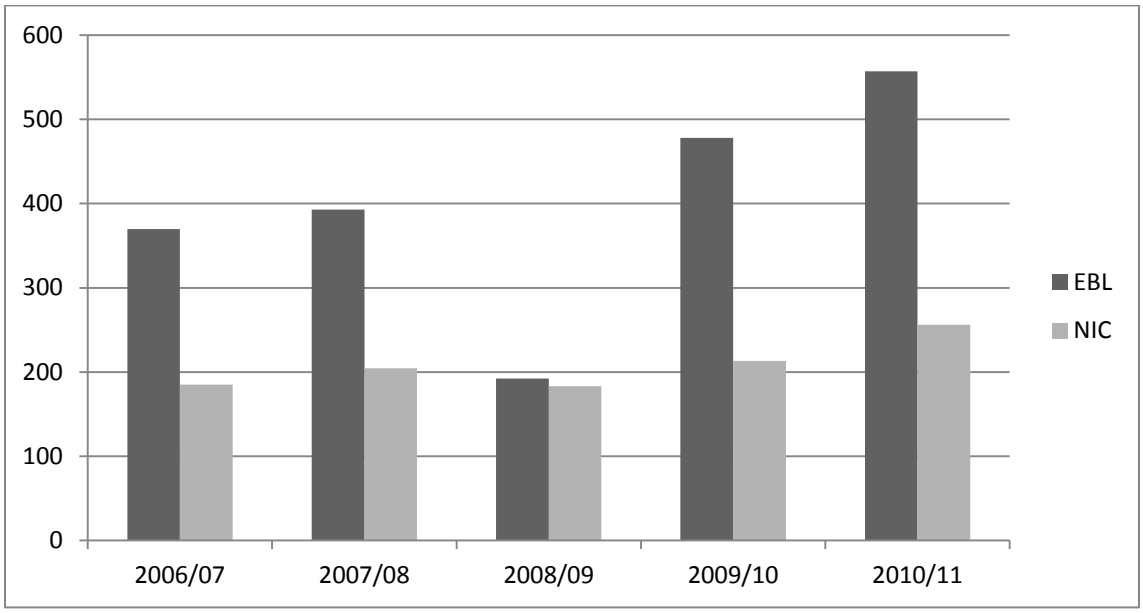
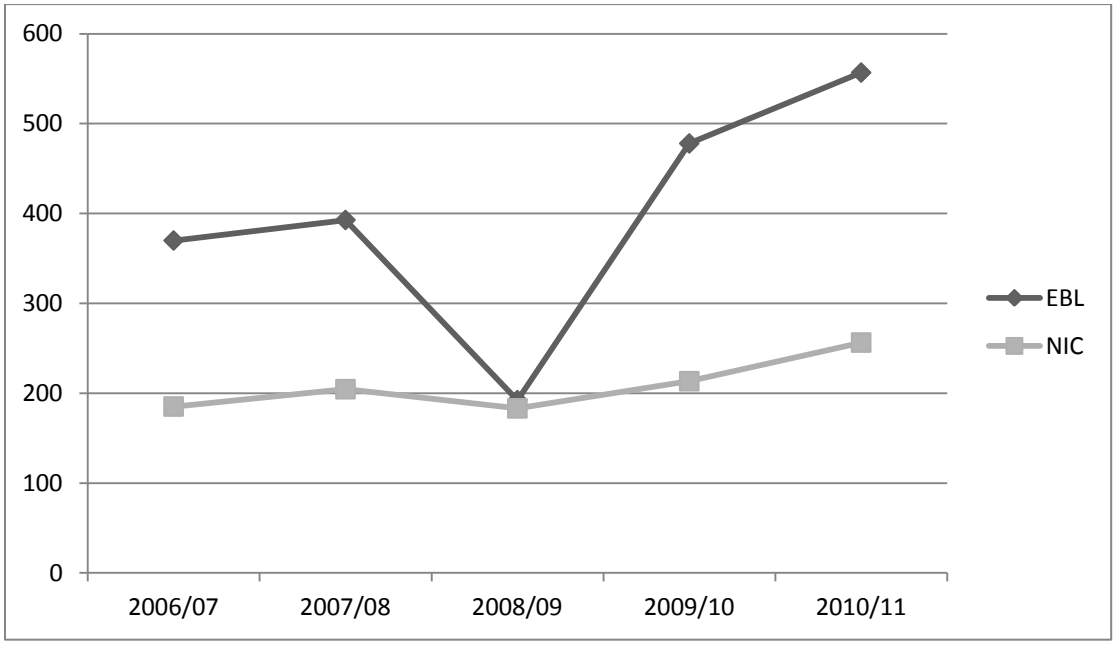


Figure 4.12 is a trend analysis of loan loss coverage ratio among two banks over the five years study period.

.**Figure 4.12**

Loan Loss Coverage Ratio



As shown in above Figure 4.11 and Figure 4.12,the loan loss coverage ratio of both NIC bank & EBL bank intersect each other in FY 2008/09. The loan loss coverage ratio of both EBL& NIC is highest in FY 2010/11 (i.e.556.76 & 256.29) & both are lowest in FY 2008/09(i.e.192.24 & 183.05). At first, the trend line of EBL increases at low rate but the trend line slopes downward at high rate in next year. Again in FY 2009/10, the trend line increases at high rate. In this way the trend line of EBL is fluctuating in high rate during the period. But, in case of NIC, the trend line is fluctuating same as EBL but in a low rate.

4.2.4 Credit Deposit Ratio (C/D Ratio):

Credit deposit ratio shows the how many percent of total loan the bank is disbursing out of total deposit. Higher C/D Ratio is good on behalf of bank and is insecure in return from depositor point of view. Lower ratio means more safety for depositors.

$$\text{C/D Ratio} = \frac{\text{Total Credit}}{\text{Total Deposit}} \times 100$$

Table 4.7 is the observed credit deposit ratio during the study period in numerical terms which is presented below:

Table 4.7

Credit Deposit Ratio

Banks	EBL			NIC		
Fiscal Year	**Total Credit**	**Total deposits**	**Credit Deposit Ratio**	**Total Credit**	**Total deposits**	**Credit Deposit Ratio**
2006/07	14082686087	18186253541	77.44	9128649206	10068230869	90.67
2007/08	18836431762	23976298535	78.56	11465334005	13084688672	87.62
2008/09	24469555526	33322946246	73.43	13915850035	15579930904	89.32
2009/10	28156399843	36932310008	76.24	12929304091	15968917926	80.97
2010/11	31661842757	41127914339	76.98	15165515868	18394435547	82.45

Figure 4.13 is a bar diagram which represents the above tabulated numerical data which help to compare the credit deposit ratio among two banks.

Figure 4.13

Credit Deposit Ratio

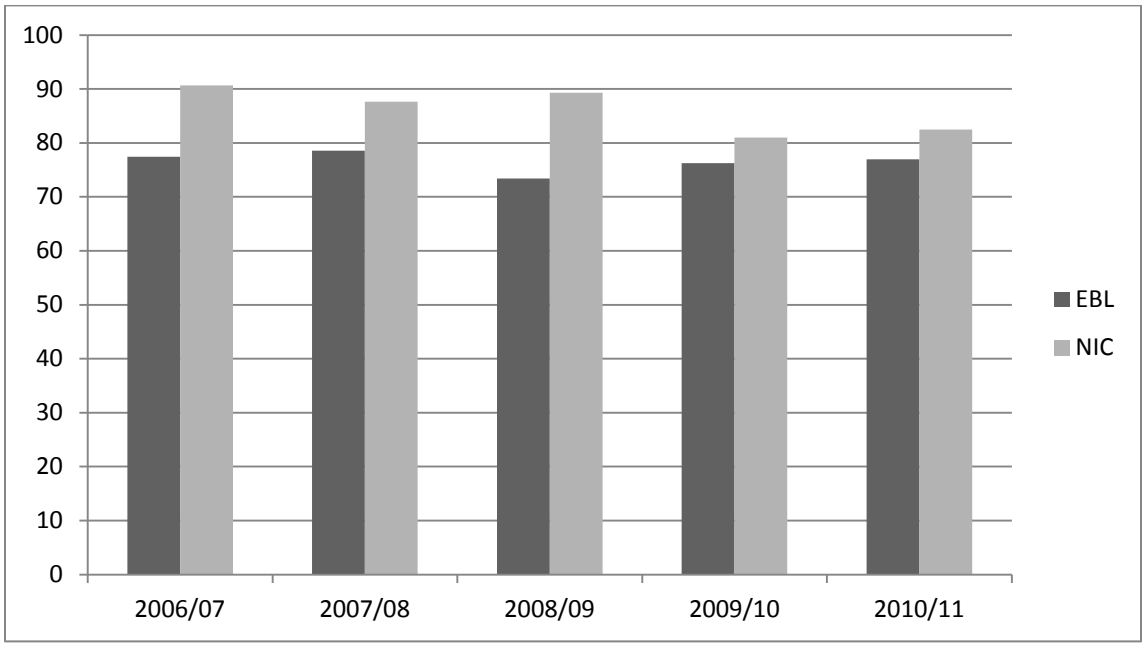
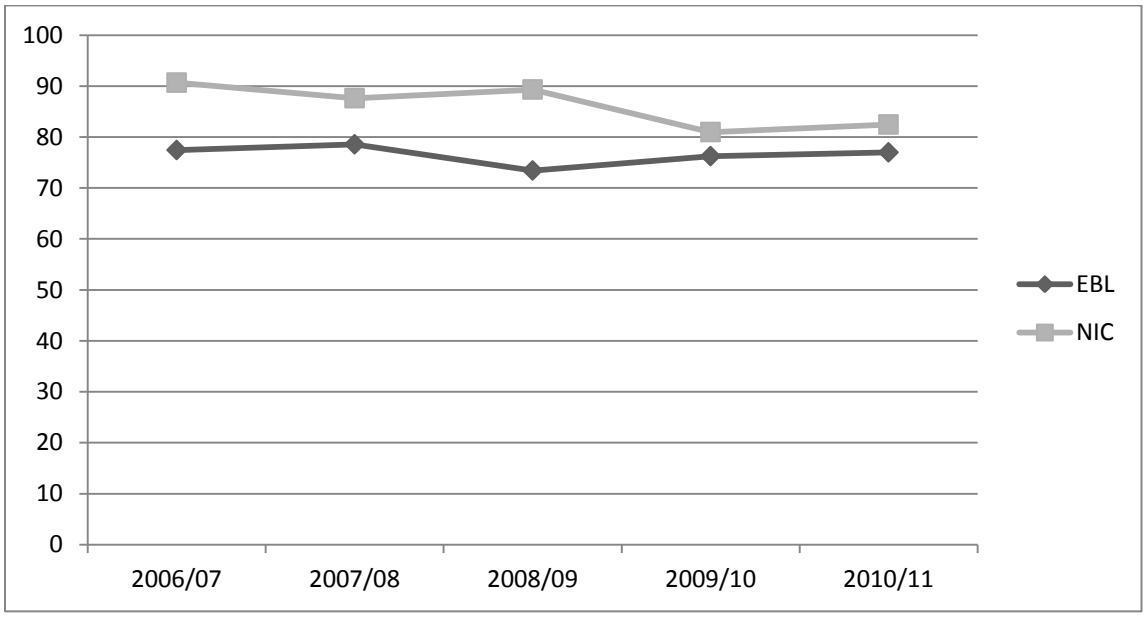


Figure 4.14 is a trend analysis of credit deposit ratio among two banks over the five years study period.

Figure 4.14

Credit Deposit Ratio



As shown in above Figure 4.13 and Figure 4.14,the credit deposit ratio of both EBL& NIC is highest in FY 2006/07(i.e. 77.44& 90.67) . The lowest CD ratio of EBL in FY 2008/09(i.e.73.43) & of NIC is in FY 2009/10(i.e. 80.97). Both bank C/D ratio's trend line is fluctuating in low rate but doesn't intersect each other during the period.

4.3 Management Quality:

Good management can make and poor management can break an organization. Sound management is the key performance of any organization but it is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. However, for the successful operation of a company, the quality of management is the most important factor. As the other four CAMEL components can be qualified easily from financial statements of a company (Koch, 2004) .

There are several indicators which can be used as a proxy of management quality. But here, only the ratio of total expenses to total income and earning per employee are used to indicate the quality of management. Total expenses to total income ratio is used as a proxy of management quality in this study as the profitability of a company is determined by the gap of total income and total expenses which are in the management.

4.3.1 Total Expenses to Total Income Ratio:

The ratio of total expenses to total income is used as a proxy measure of the management quality. A highs level of expenditure in unproductive activities may reflect an inefficient management. A high or increasing ratio of expenses to total income indicates inefficient operation of the company which may negative affect profitability of the company (Koch, 2004)

Financial institutions earned incomes from interest on loans and advances, commission, fees and discounts and other miscellaneous income. And, the main components of expenses of financial institutions are interest on deposit, staff salary, provision for staff and other operating expenses, audit fee expenses, management expenses, and all other expenses directly related to the operation of the company. Expenses such as loss on sales of assets, loss on sale of investment, provision for possible losses and provision for income tax are non-operating expenses.

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

Table 4.8 is the observed total expenses to total income ratio during the study period in numerical terms which is presented below:

Table 4.8

Total Expenses to Total Income Ratio

Banks	**EBL**			**NIC**		
Fiscal Year	**Total Expenses**	**Total Income**	**Total Expenses to Total Income Ratio**	**Total Expenses**	**Total Income**	**Total Expenses to Total Income Ratio**
2006/07	780830116	1242095588	62.86	540926553	796679655	67.90
2007/08	1024332993	1696762564	60.37	659272723	1019612542	64.66
2008/09	1491804745	2355745505	63.33	961525796	1427711413	67.35
2009/10	2151665546	3304981850	65.10	1288081685	1928877754	66.78
2010/11	3212118173	4526780516	70.96	1774524173	2487576981	71.34

Figure 4.15 is a bar diagram which represents the above tabulated numerical data which help to compare total expenses to total income ratio among two banks.

Figure 4.15

Total Expenses to Total Income Ratio

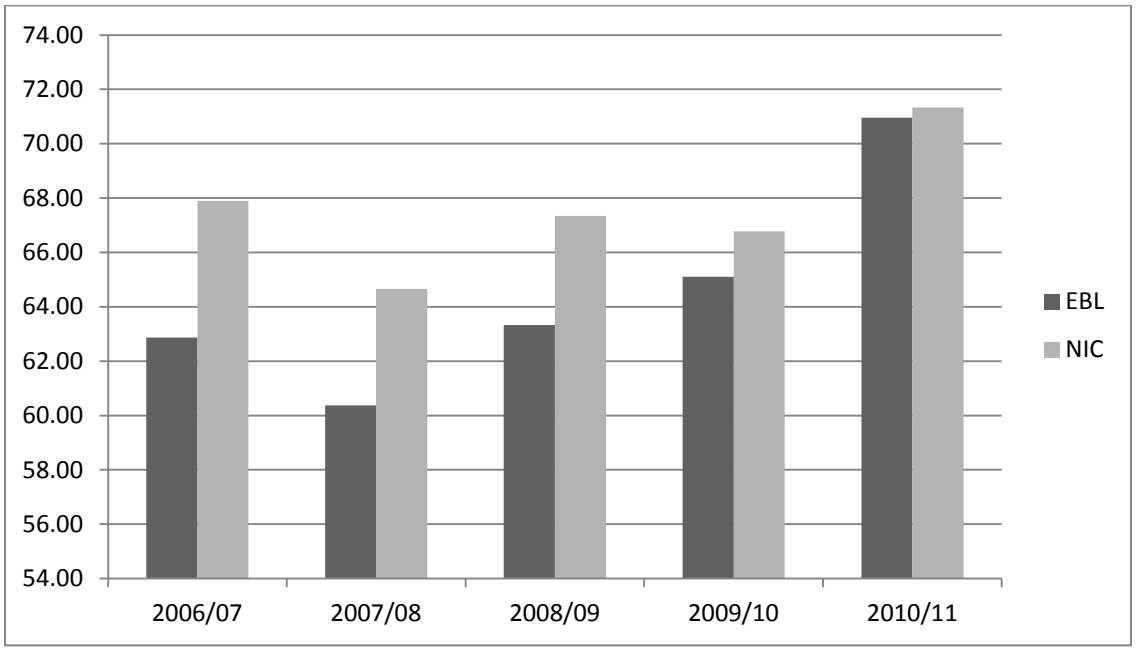
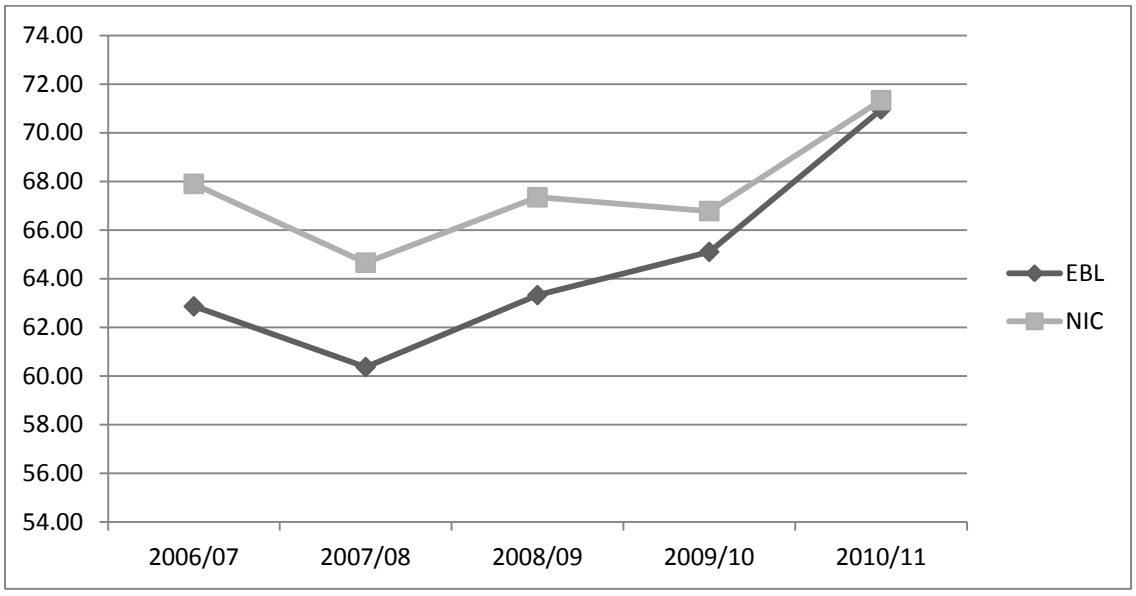


Figure 4.16 is a trend analysis of total expenses to total income ratio among two banks over the five years study period

Figure 4.16

Total Expenses to Total Income Ratio



As shown in above Figure 4.15 and Figure 4.16,the total expenses to total income ratio of both NIC bank & EBL bank is highest in FY 2010/11(i.e. 71.34 & 70.96).the trend line of both EBL & NIC ratio is decreases at first sloping downward and slowly it increases at decreasing rate and intersect each other.

4.3.2 Earning per Employee:

Earning per employee per employee is calculated by dividing net profit after taxes by number of employee. Low or decreasing earning per employee can reflect inefficiencies as a result of over staffing with similar repercussion in terms of profitability (IMF, 2001).

In other words, ratio of earning per employee is used as proxy of management quality. It indicates the productivity and profitability of a company's workforce (koch, 2004). Low or decreasing earning per employee can reflect inefficiencies as a result of over staffing, which indirectly effect in the profitability of the company. It is also known as Management Efficiency Ratio.

$$\text{Earning Per Employee} = \frac{\text{Net Profits after tax}}{\text{Total number of Employee}}$$

Table 4.9 is the observed earning per employee during the study period in numerical terms which is presented below:

Table 4.9

Earning per Employee

Banks	**EBL**			**NIC**		
Fiscal Year	**Net profit after tax**	**Total number of employee**	**Earning per employee**	**Net profit after tax**	**Total number of employee**	**Earning per employee**
2006/07	296409281	393	754222	158475051	189	838492
2007/08	451218613	449	1004941	243058040	232	1047664
2008/09	638732757	531	1202887	317434138	270	1175682
2009/10	600043812	568	1056415	449843702	327	1375669
2010/11	931303628	586	1589255	495703676	336	1475309

Figure 4.17 is a bar diagram which represents the above tabulated numerical data which help to compare the earning per employee among two banks.

Figure 4.17

Earning per Employee

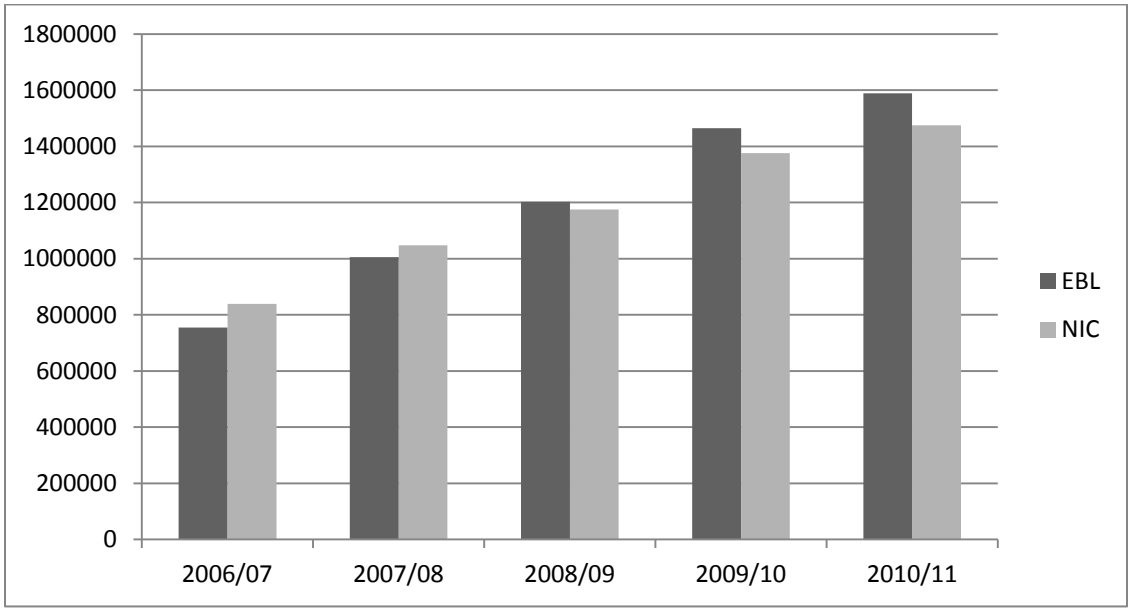
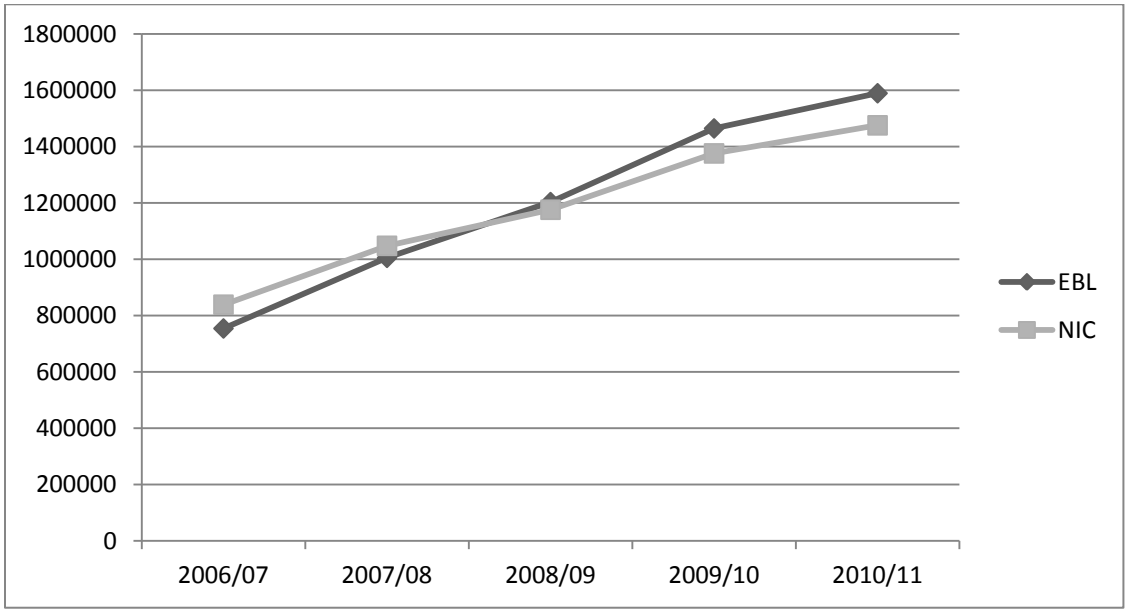


Figure 4.18 is a trend analysis of earning per employee among two banks over the five years study period.

Figure 4.18

Earning per Employee



As shown in above Figure 4.17 and Figure 4.18,the earning per employee of both NIC bank & EBL is highest in FY 20010/11(i.e. 1475309 & 1589255 respectively)& lowest in FY 2006/07(i.e.838492 & 754222 respectively). In FY 2008/09, there is an intersecting point of EBL & NIC. At first, trend line of EBL is highest than trend line of NIC but after FY 2008/09 the trend line of NIC is highest than EBL. Both NIC & EBL trend line is sloping upward from FY 2006/07 to FY 2010/11.The earning per employee of both bank is in increasing trend.

4.4 Earning Quality:

The quality and trend of earning of an institution depend largely on how well the management manages the assets and liabilities of the institution. In addition, earning capacity largely counts on the efficient of management. Chronically, loss making financial institutions reduces their capital base, risk the solvency and eventually bring down the wealth of their shareholders. Conversely, constantly profit making company add equity to the total capital fund, reduce the risk of in solvency, and finally increase the wealth of their shareholders (sounders and corenett, 2004).

Earning quality is one of the indicators of the sound health of a financial institution. Sound health of a financial institution requires earning profit. The survival of a financial institution is determined by the generation of profit. The ratio which measure the profitability of business operation are mainly, Return on Equity (ROE), Return on Assets (ROA), Net Interest Margin (NIM) and Earning Per Share (EPS) are used to evaluate the profitability of NIC & EBL.

4.4.1 Return on Assets (ROA):

As basic measure of company profitability that correct for the size of the firm is the return on assets (ROA), which divided the net income of the company by the amount of its assets. ROA is a useful measure of how well a manager is doing the job because it indicates how well an institution's assets are being used to generate profits. It measures the overall effectiveness of management in generating profit with its available assets. The higher the company's return on assets the better it is doing in operation and vice-versa. A company has to earn satisfactory return on assets for its survival (Mishkin and Eakins, 2006). The

return on assets ratio should be 1.5% and higher as prescribed by the World Bank (McNally, 1996).

In simple way Return on Total Assets records the relationship between total assets and net profit. It is the rate of return earned by the company and whole for all its investments including the lenders. Higher return on total assets ratio shows higher earning of the company in terms its total assets. Lower return on total assets ratio indicates unsound financial position due to lower level of return.

$$\text{Return on Assets} = \frac{\text{Net Income after Tax}}{\text{Total Assets}} \times 100$$

Table 4.10 is the observed return on assets during the study period in numerical terms which is presented below:

Table 4.10

Return on Assets

Banks	**EBL**			**NIC**		
Fiscal Year	**Net profit after tax**	**Total assets**	**Return on Assets**	**Net profit after tax**	**Total assets**	**Return on Assets**
2006/07	296409281	21432574300	1.38	158475051	11678834055	1.36
2007/08	451218613	27149342884	1.66	243058040	15238736314	1.60
2008/09	638732757	36916848654	1.73	317434138	18750633197	1.69
2009/10	831765632	41382760711	2.01	449843702	20309330616	2.21
2010/11	931303628	46236212262	2.01	495703676	22090376318	2.24

Figure 4.19 is a bar diagram which represents the above tabulated numerical data which help to compare the return on assets among two banks.

Figure 4.19

Return on Assets

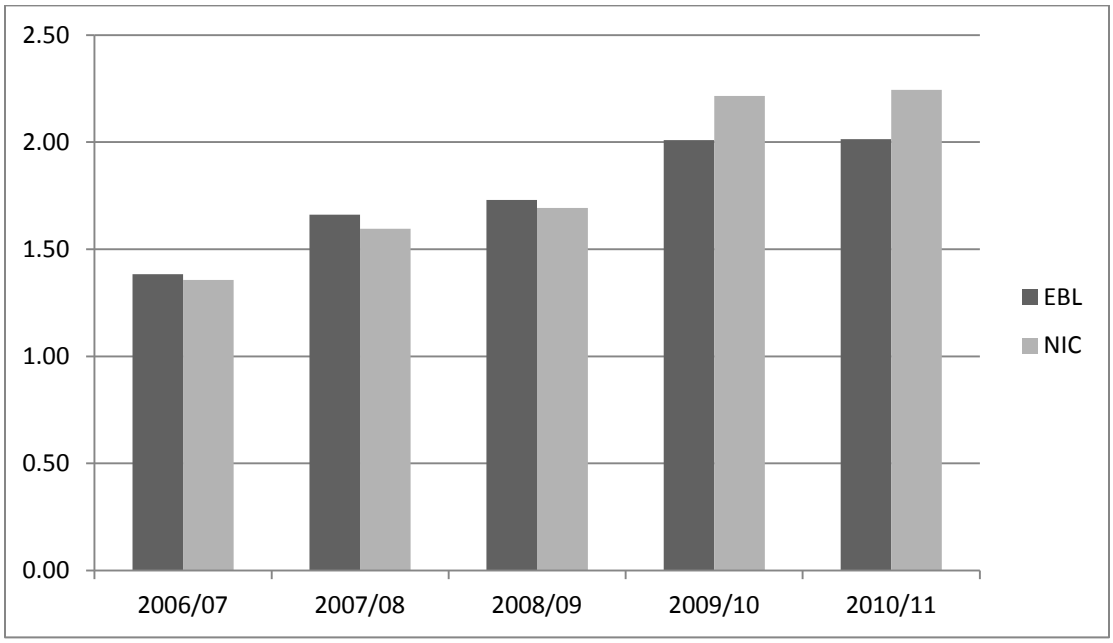
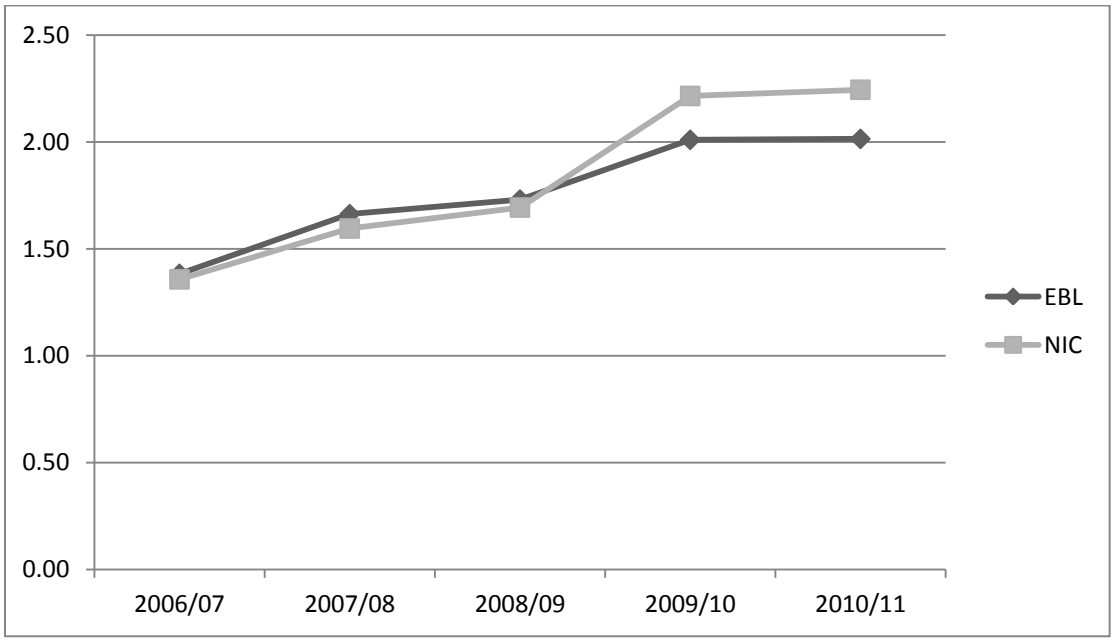


Figure 4.20 is a trend analysis of return on assets among two banks over the five years study period.

Figure 4.20

Return on Assets



As shown in above Figure 4.19and Figure 4.20, the return on assets of both NIC bank & EBL is highest in FY 2010/11(i.e.2.24 & 2.01 respectively)& lowest in FY 2006/07(i.e. 1.36 & 1.38 respectively).in FY 2006/07, the ROA trend line of EBL is sloping higher than the trend line of NIC but after FY 2008/09 the ROA trend line of NIC is sloping higher than trend line of EBL. Both lines are in increasing trend and sloping upward. The trend line of EBL is straight from FY 2009/10 to FY 2010/11(i.e. 2.01).

4.4.2 Earning per Share (EPS):

Earning per share is generally be considered to be the single most important variable in determining a share's price. It is the portion of a company's profit allocated to each outstanding share of common stock. The earning per share of a company measures the profit available to the equity shareholders on per share basis. It reflects the earning power of a company. Higher EPS indicates greater net profit and lower EPS indicates less net profit (Pandey, 2005). The EPS is supposed to be a best comparison between two banks.

$$\text{Earning Per Share} = \frac{\text{Net Profit after Tax}}{\text{Total number of Shares}}$$

Table 4.11 is the observed earning per share during the study period in numerical terms which is presented below:

Table 4.11

Earning Per Share

Banks	**EBL**			**NIC**		
Fiscal Year	**Net profit after tax**	**Total no. of shares**	**Earning per Share**	**Net profit after tax**	**Total no. of shares**	**Earning per Share**
2006/07	296409281	3780000	78.42	158475051	6600000	24.01
2007/08	451218613	4914000	91.82	243058040	9438771	25.75
2008/09	638732757	6388210	99.99	317434138	11404800	27.83
2009/10	831765632	8304673	100.16	449843702	13115520	34.30
2010/11	931303628	11196095	83.18	495703676	13115520	37.80

Figure 4.21 is a bar diagram which represents the above tabulated numerical data which help to compare the earning per share among two banks.

Figure 4.21

Earning Per Share

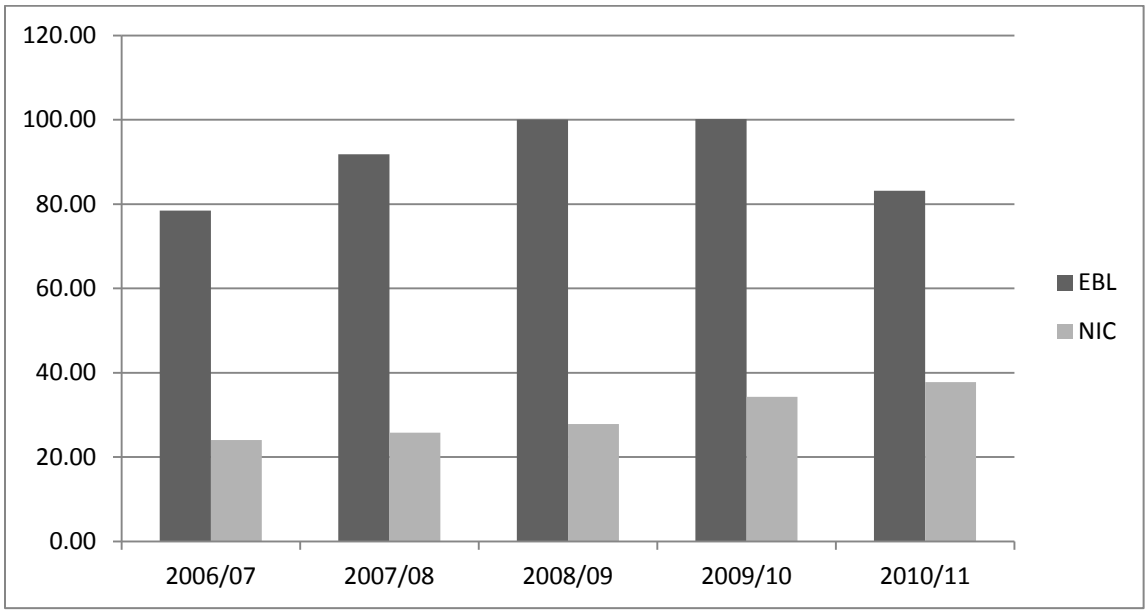
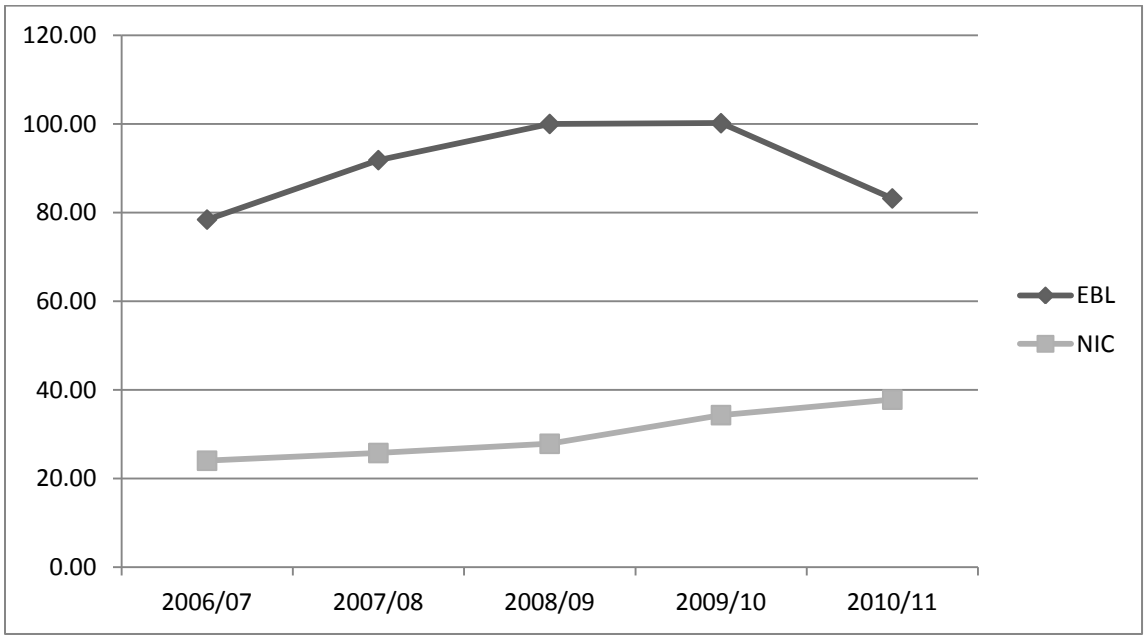


Figure 4.22 is a trend analysis of earning per share among two banks over the five years study period.

Figure 4.22

Earning Per Share



As shown in above Figure 4.21 and Figure 4.22, EPS of EBL bank is much more higher than the EPS of NIC bank. Here, the trend line of NIC bank does not meet trend line of EBL in the period from FY 2006/07 to FY 2010/11. Trend line of EBL is increasing from FY 2006/07 to FY 2009/10 and then starts decreasing in FY 2010/11. But the trend line of NIC is increasing in decreasing rate from FY 2006/07 to FY 2010/11.the EPS of NIC bank is highest in FY 2010/11(i.e.37.80) and EBL is in FY 2009/10(i.e. 100.16).and the lowest of both NIC & EBL is in FY 2006/07(i.e. 24.01 & 78.42 respectively).

4.4.3 Return on Equity (ROE):

Return on shareholder's equity is the most commonly used ratio is for measuring the return on owner's investment. It is the proportion of net income after tax to shareholders equity. In other way, ROE measures how well the owners are doing on their investment. It indicates how profitability the owner's funds have been utilized by the firm. So it is one of the important ratio to judge whether the company has earned a satisfactory return for its equity shareholders of not. Higher ratio of ROE ensures to owners that their investment is safe and they can get regular return (Mishkin and Eakins, 2006). The return on equity ratio should be in 15 percent and higher as prescribed by the World Bank (McNally, 1996).

$$\text{Return on Equity} = \frac{\text{Net Income after Tax}}{\text{Total Equity}} \times 100$$

Table 4.12 is the observed return on equity during the study period in numerical terms which is presented below:

Table 4.12

Return on Equity

Banks	EBL			NIC		
Fiscal Year	**Net profit after tax**	**Total Equity**	**Return on Equity**	**Net profit after tax**	**Total Equity**	**Return on Equity**
2006/07	296409281	1201515266	24.67	158475051	917990162	17.26
2007/08	451218613	1921237580	23.49	243058040	1303426900	18.65
2008/09	638732757	2203625055	28.99	317434138	1660253729	19.12
2009/10	831765632	2759137855	30.15	449843702	1764952168	25.49
2010/11	931303628	3113546056	29.91	495703676	1998345444	24.81

Figure 4.23 is a bar diagram which represents the above tabulated numerical data which help to compare the return on equity among two banks.

Figure 4.23

Return on Equity

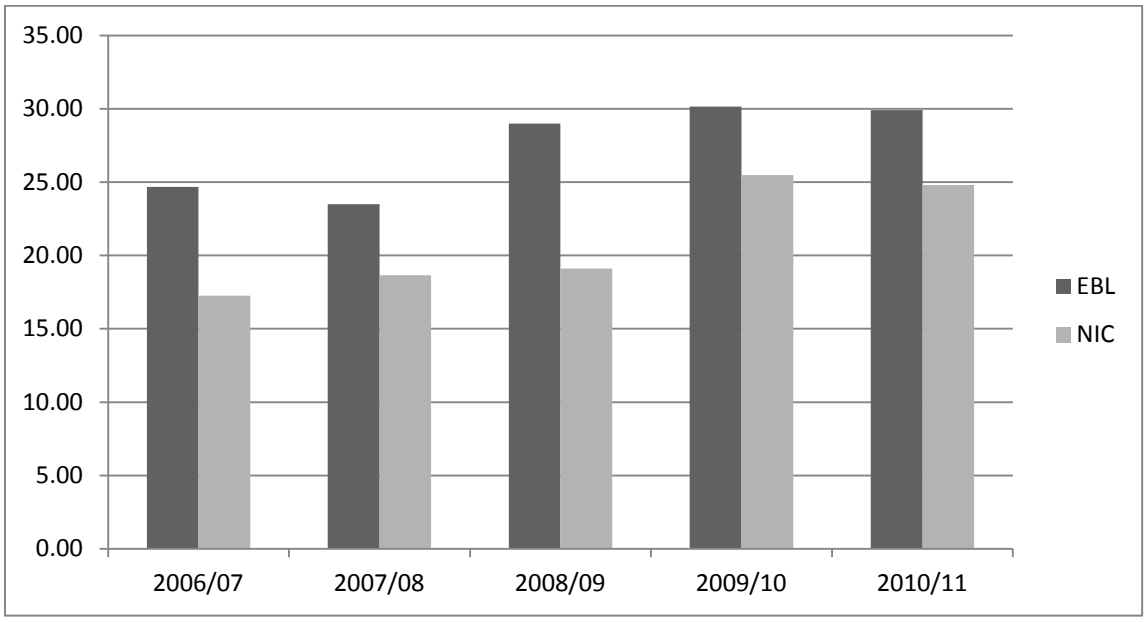
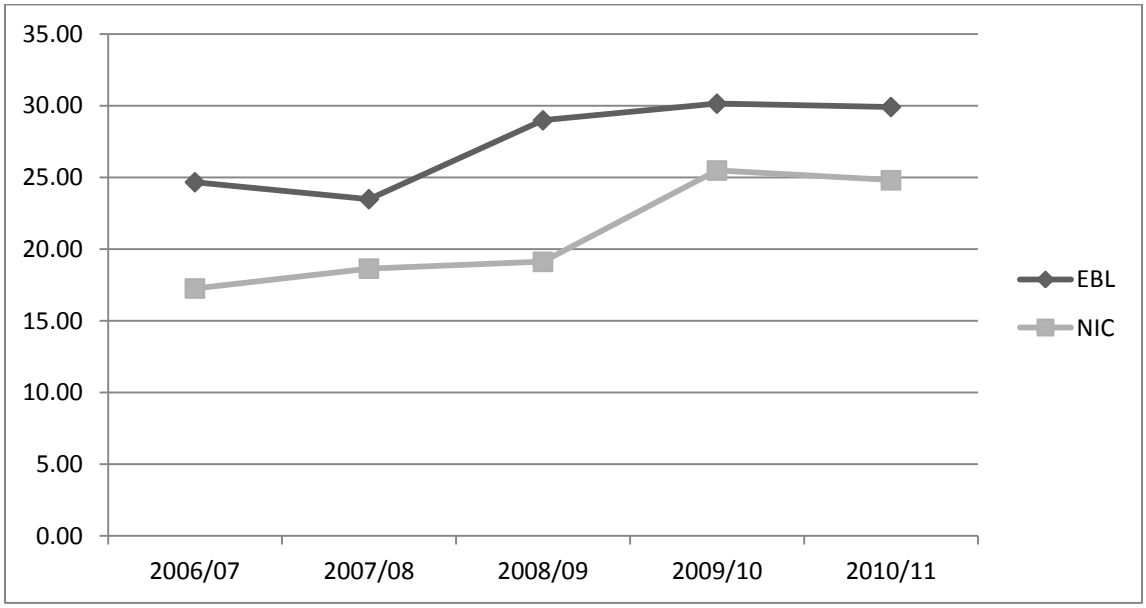


Figure 4.24 is a trend analysis of return on equity among two banks over the five years study period.

Figure 4.24

Return on Equity



As shown in above Figure 4.23 and Figure 4.24, return on equity of both EBL bank& NIC is highest in FY 2009/10(i.e.30.15& 25.49 respectively).the ROE of EBL is lowest in FY 2007/08(i.e.23.49).and the return on equity of NIC bank is lowest in FY 2006/07(i.e.17.26).the trend line of both EBL & NIC doesn't intersect each other at any point. The trend line of ROE of EBL is sloping downward at first and later on sloping upward in low rate. The trend line of ROE of NIC is increasing at low rate at first but later on it starts sloping downward.

4.5 Liquidity Position:

A firm should always keep adequate fund to meet depositors' and creditors' demand. The failure of a company to meet its liquidity will result in poor credit worthiness, loss creditors' confidence or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad, idle assets earn nothing. The firm's funds will be unnecessary tied up in current assets. Therefore, it is necessary strike a proper balance between high liquidity and lack of liquidity (Pandey, 2005). This will result in sound health of a company. A firm requires different amount of liquidity depending on its growth rate and variability in lending and deposit activities (Gup and Kolari, 2005). 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 daily requirement.

4.5.1 Total Liquid Fund to Total Deposits Ratio:

This ratio is computed by dividing liquid assets by total deposits. It measures the proportion of total liquid assets in total deposits of the company. Furthermore, it shows the overall short-term liquidity position. Cash in hand, balance with NRB, balance with domestic bank and financial institutions, money to call and investment in government securities are included in total liquid assets. The higher ratio implies the better liquidity position and lower ratio shows the inefficient liquidity position of the company. So a firm should always maintain sufficient and appropriate liquid funds to meet immediate obligation (Mishkin and Eakins, 2006).

$$\text{Total Liquid Fund to Total Deposits Ratio} = \frac{\text{Total Liquid Fund}}{\text{Total Deposits}} \times 100$$

Table 4.13 is the observed total liquid fund to total deposits ratio during the study period in numerical terms which is presented below:

Table 4.13

Total Liquid Fund to Total Deposits Ratio

Banks	**EBL**			**NIC**		
Fiscal Year	**Total Liquid Fund**	**Total deposits**	**Total Liquid Fund to Total Deposit**	**Total Liquid Fund**	**Total deposits**	**Total Liquid Fund to Total Deposit**
2006/07	2391420594	18186253541	13.15	762767676	10068230869	7.58
2007/08	3013971830	23976298535	12.57	1192348786	13084688672	9.11
2008/09	6164371163	33322946246	18.50	1461150549	15579930904	9.38
2009/10	2747019820	36932310008	7.44	2186130109	15968917926	13.69
2010/11	6122862952	41127914339	14.89	1677057237	18394435547	9.12

Figure 4.25 is a bar diagram which represents the above tabulated numerical data which help to compare the total liquid fund to total deposit ratio among two banks.

Figure 4.25

Total Liquid Fund to Total Deposits Ratio

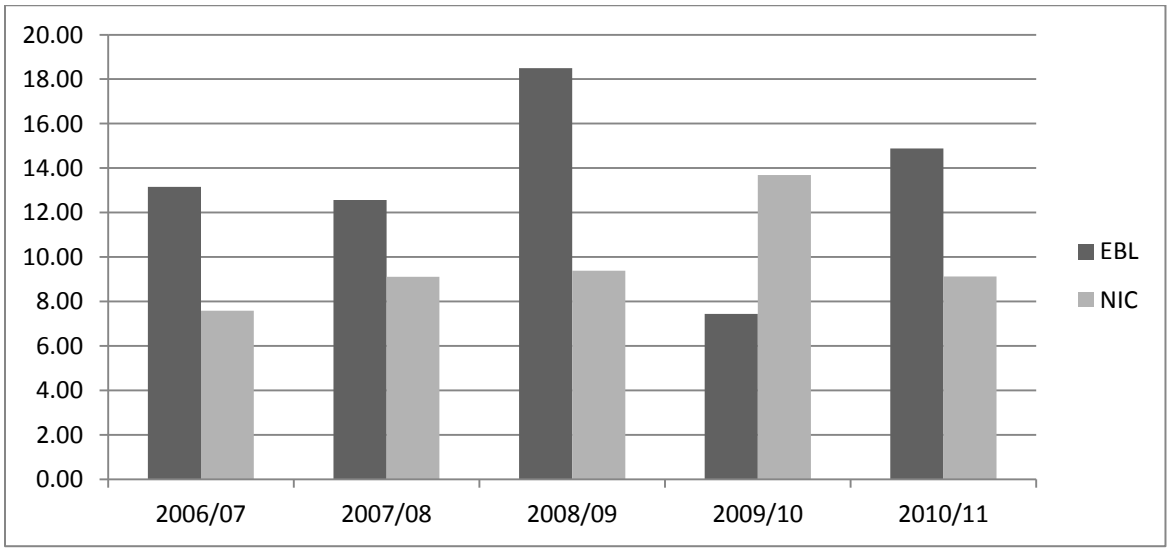
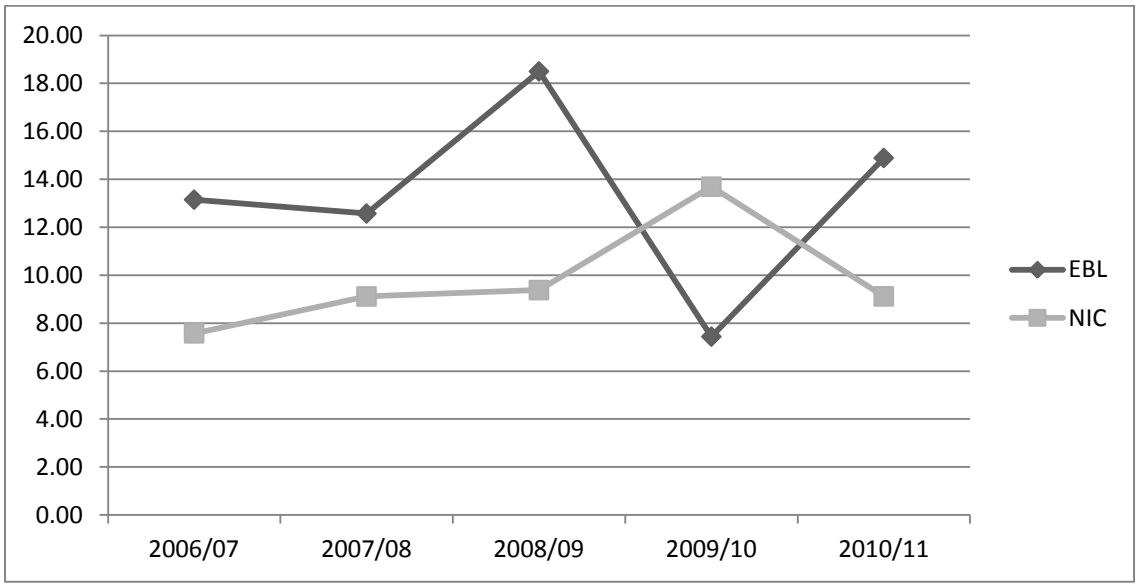


Figure 4.26 is a trend analysis of total liquid fund to total deposit among two banks over the five years study period.

Figure 4.26

Total Liquid Fund to Total Deposits Ratio



As shown in above Figure 4.25 and Figure 4.26, total liquid fund to total deposit ratio of EBL is highest in FY 2008/09 (i.e.18.50) & of NIC is in FY 2009/10(i.e.13.69). And the lowest of EBL is in FY 2009/10 (i.e.7.44) & of NIC is in FY 2006/07(i.e. 7.58). The trend line of EBL is much more fluctuating than the trend line of NIC. In FY 2008/09, the total liquid fund to total deposit ratio of EBL is sloping upward higher than NIC trend line but in FY 2009/10, it slopes downward lower than NIC trend line.

4.5.2 Cash in Vault to Total Deposit Ratio:

This ratio shows the percentage of total deposits held as cash in hand at vault. The banks are required by NRB to store certain portion of the total deposits in their own vault in order to meet unexpected withdrawal from certain depositors. This ratio measures the firm's ability to meet immediate obligation mainly cash withdrawal by depositors. Lower ratio indicates that the company might face a liquidity crunch while paying its obligations. Whereas a very high ratio indicates that the company has been keeping idle funds and not deploying them properly. So a company should always maintain the sufficient and appropriate cash reserve (Gup and Kolari2005).

$$\text{Cash in Vault to Total Deposits Ratio} = \frac{\text{Cash in Vault}}{\text{Total Deposits}} \times 100$$

Table 4.14 is the observed cash in vault to total deposits ratio during the study period in numerical terms which is presented below:

Table 4.14

Cash in Vault to Total Deposits Ratio

Banks	**EBL**			**NIC**		
Fiscal Year	**Cash in Vault**	**Total deposits**	**Cash in Vault to total deposit**	**Cash in Vault**	**Total deposits**	**Cash in Vault to total deposit**
2006/07	534996791	18186253541	2.94	181606909	10068230869	1.80
2007/08	822989425	23976298535	3.43	235246176	13084688672	1.80
2008/09	944695793	33322946246	2.83	337349455	15579930904	2.17
2009/10	1091500407	36932310008	2.96	530610696	15968917926	3.32
2010/11	1048998721	41127914339	2.55	405796475	18394435547	2.21

Figure 4.27 is a bar diagram which represents the above tabulated numerical data which help to compare cash in vault to total deposit ratio among two banks.

Figure 4.27

Cash in Vault to Total Deposits Ratio

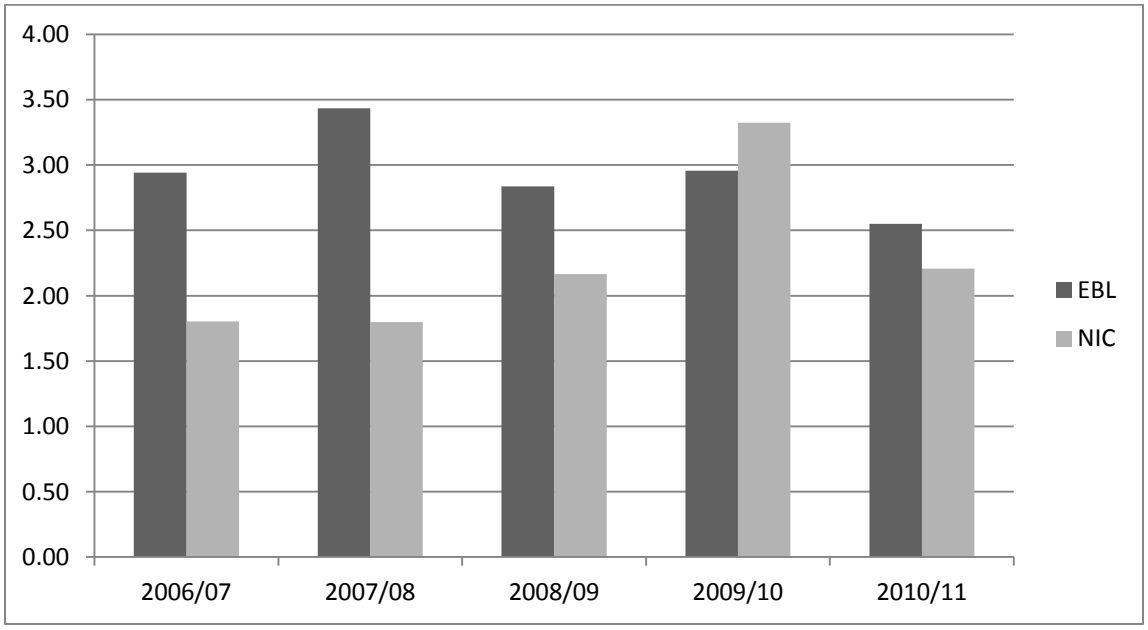
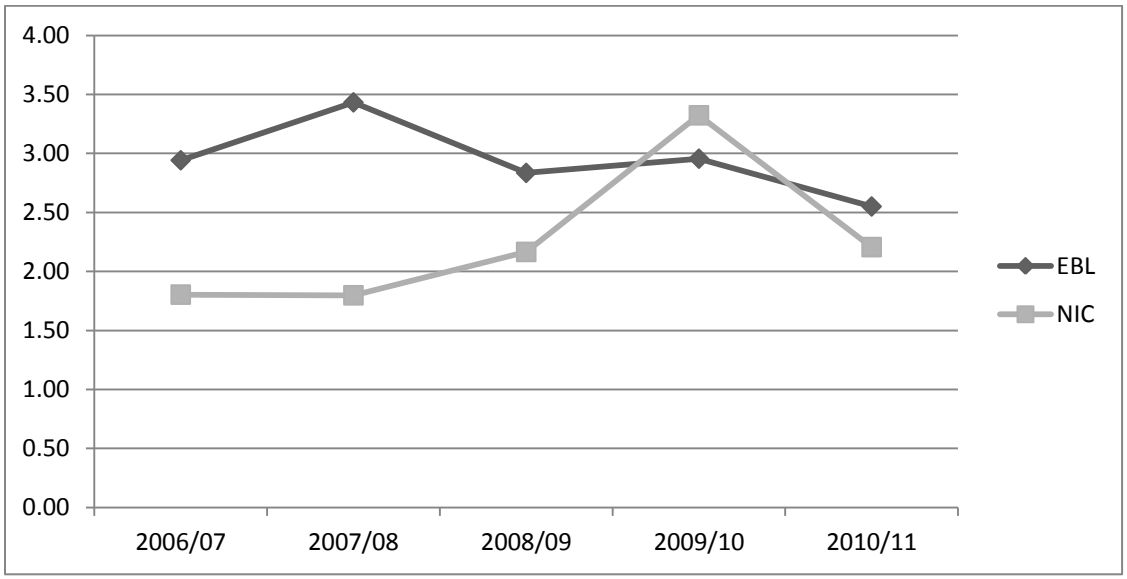


Figure 4.28 is a trend analysis of cash in vault to total deposit ratio among two banks over the five years study period.

Figure 4.28

Cash in Vault to Total Deposits Ratio



As shown in above Figure 4.27 and Figure 4.248, cash in vault to total deposit ratio of EBL is highest in FY 2007/08 (i.e. 3.43)& of NIC is in FY 2009/10(i.e.3.32).and, the lowest of EBL is in FY 2010/11(i.e.2.55) & of NIC is in FY 2006/07 and FY 2007/08(i.e. 1.80).The trend line of cash in vault to total deposit ratio of EBL is sloping upward at first and later it starts sloping downward in low rate but the cash in vault to total deposit ratio of NIC is sloping upward at first and later on it starts sloping downward at high rate.

4.5.3 Cash Reserve Ratio (CRR):

This ratio shows whether bank is holding the balance as required to NRB. NRB has put the directives to maintain certain percent of total deposit in NRB by the commercial Banks in order to ensure adequate in the commercial banks, to meet the depositors demand for cash at any time and to inject confidence in depositors regarding the safety of their deposited funds.

According to NRB directives all commercial banks are require to maintain 5 % of their deposits as their NOSTRO account mention with NRB. NRB has issued this guideline to

the bank to ensure that the banks maintain their adequate liquidity. NRB has prescribed these mandatory requirements because all commercial bank can face unexpected liquidity risk.

$$CRR = \frac{\text{Cash Balance in NRB}}{\text{Total Deposits}} \times 100$$

Table 4.15 is the observed cash reserve ratio during the study period in numerical terms which is presented below:

Table 4.15

Cash Reserve Ratio

Banks	**EBL**			**NIC**		
Fiscal Year	**Cash Balance in NRB**	**Total deposits**	**Cash Reserve Ratio**	**Cash Balance in NRB**	**Total deposits**	**Cash Reserve Ratio**
2006/07	1178198197	18186253541	6.48	262735366	10068230869	2.61
2007/08	1080914554	23976298535	4.51	634114316	13084688672	4.85
2008/09	4787163541	33322946246	14.37	970981465	15579930904	6.23
2009/10	5625113849	36932310008	15.23	589322223	15968917926	3.69
2010/11	4706320590	41127914339	11.44	817946591	18394435547	4.45

Figure 4.29 is a bar diagram which represents the above tabulated numerical data which help to compare cash reserve ratio among two banks.

Figure 4.29

Cash Reserve Ratio

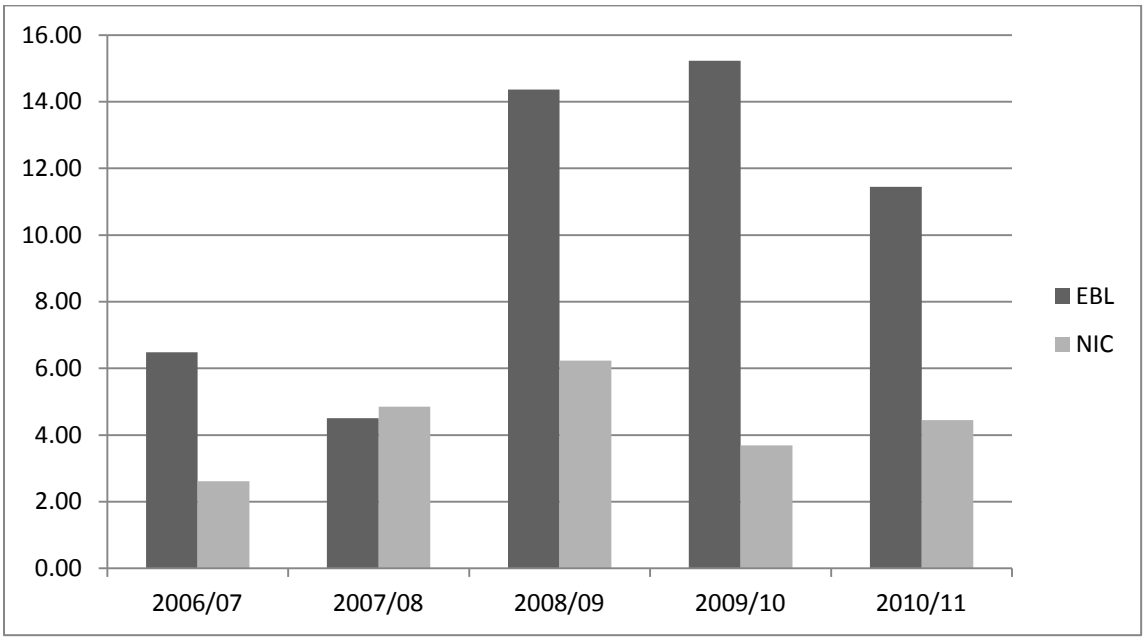
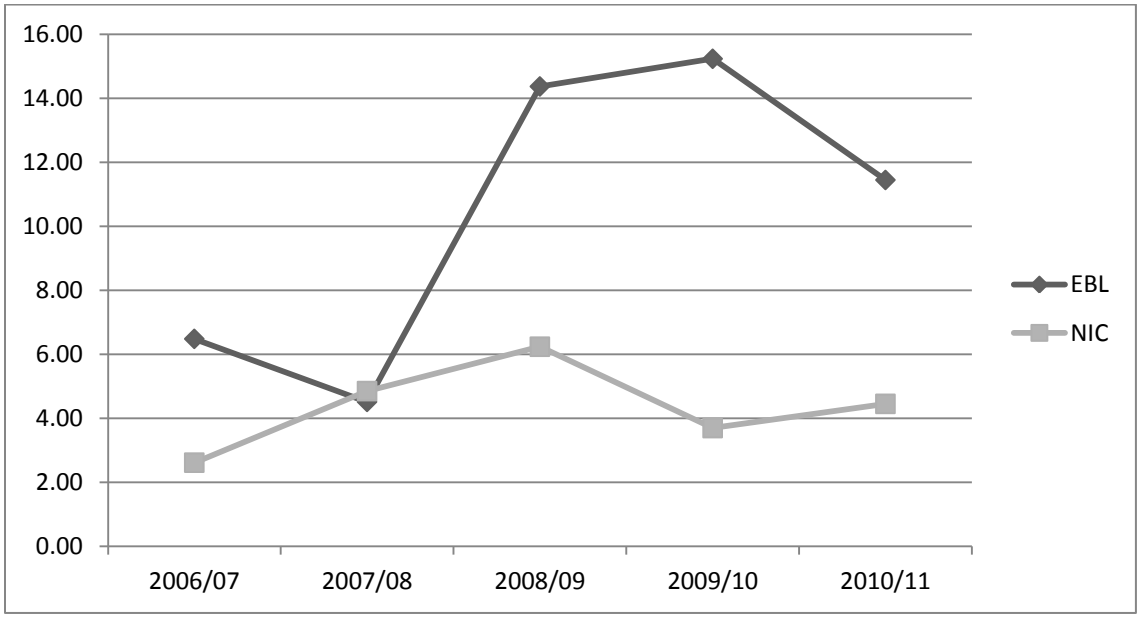


Figure 4.30 is a trend analysis of cash reserve ratio among two banks over the five years study period.

Figure 4.30

Cash Reserve Ratio



As shown in above Figure 4.29 and Figure 4.30, cash reserve ratio of EBL is highest in FY 2009/10 (i.e., 15.23) & lowest is in FY 2007/08(i.e. 4.51). The CRR ratio of NIC is highest in FY 2008/09 (i.e.6.23).The trend line of CRR ratio of EBL highly fluctuates. At first the trend line of EBL decrease at low point which intersects with NIC trend line and starts to increase and again it slowly slopes downward. But in case of NIC trend line, it increases at first and slowly it starts decrease and again starts to slope upward. As per NRB directives CRR should be 5% of the deposits made 15 days ago. NIC couldn't maintain its CRR because the deposit shown in the balance sheet was of the same day.

4.5.4 Investment in Government Securities (IGS):

This is also referred as SLR i.e. Statutory Liquidity Ratio. The latest policy of NRB says that banks should maintain at least 6-8% SLR. Government securities are those securities which are risk free and can easily converted into cash at any time. The bank instead of keeping their funds idle, invest in various government securities which are liquid in nature. They can be traded at anytime. And this investment in government securities ratio shows how much fund is invested in government securities. Only maintaining cash reserve ratio and cash in vault ratio cannot be considered sufficient for immediate liquidity obligation. So, investment in government securities is required. This also protects depositors.

$$\text{Investment in Government Securities} = \frac{\text{Total investment in government securities}}{\text{Total Deposits}} \times 100$$

Table 4.16 is the observed investment in government securities ratio during the study period in numerical terms which is presented below:

Table 4.16

Investment in Government Securities Ratio

Banks	EBL			NIC		
Fiscal Year	Investment in Government Securities	Total deposits	Investment in Government Securities ratio	Investment in Government Securities	Total deposits	Investment in Government Securities ratio
2006/07	4704632426	18186253541	25.87	1104060515	10068230869	10.97
2007/08	4821604740	23976298535	20.11	1545375347	13084688672	11.81
2008/09	5146045773	33322946246	15.44	2195003685	15579930904	14.09
2009/10	4354353089	36932310008	11.79	3978900635	15968917926	24.92
2010/11	7145017521	41127914339	17.37	3865142537	18394435547	21.01

Figure 4.31 is a bar diagram which represents the above tabulated numerical data which help to compare investment in government securities ratio among two banks.

Figure 4.31

Investment in Government Securities Ratio

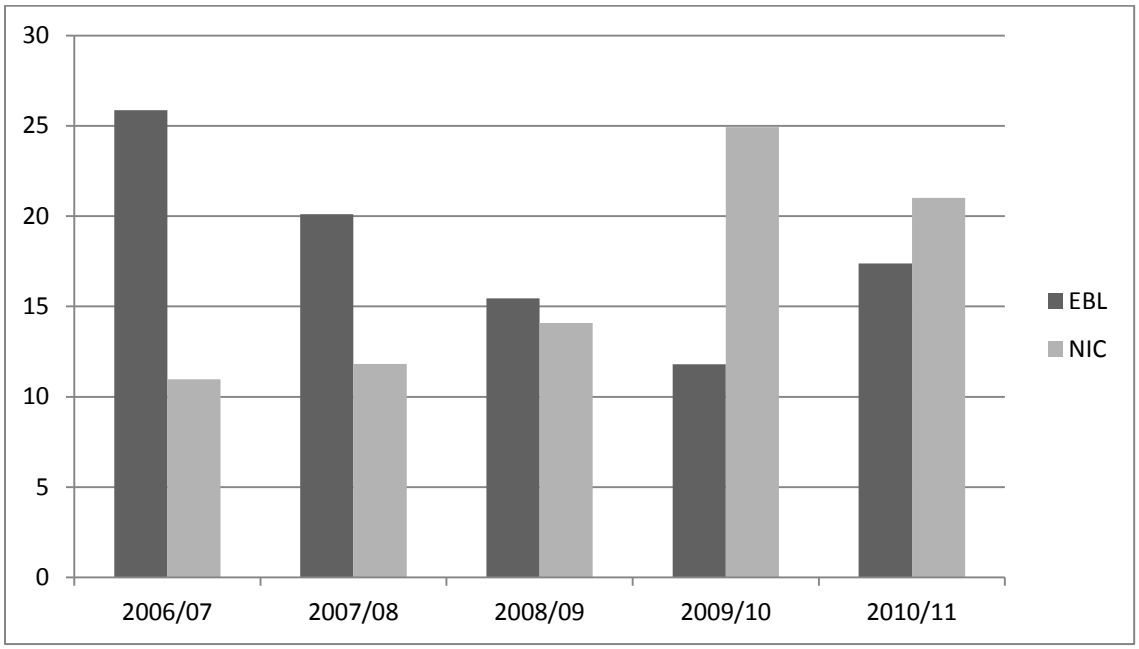
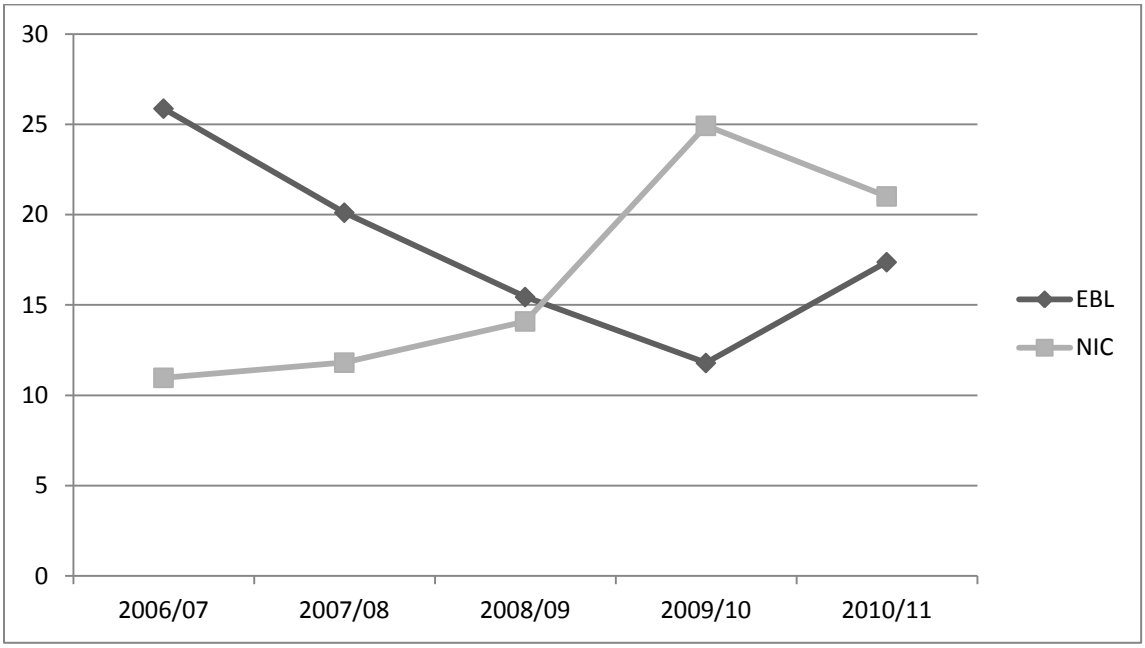


Figure 4.32 is a trend analysis of investment in government securities ratio among two banks over the five years study period.

Figure 4.32

Investment in Government Securities Ratio



As shown in above Figure 4.31 and Figure 4.32,the investment in government ratio of EBL is highest in FY 2006/07(i.e., 25.87) & lowest in FY 2009/10 (i.e.11.79).exactly opposite to EBL, NIC IGS ratio is highest in FY 2009/10(i.e., 24.92) & lowest in FY 2006/07(i.e., 10.97). The trend line of EBL is sloping downward at high rate upto FY 2009/10 and after that it starts to slope down ward at low rate. But in case of NIC at first the IGS ratio is sloping upward upto FY 2009/10 but after the year it starts sloping upward.

Major Findings:

- A core capital adequacy ratio of NIC is in increasing trend than the core capital of EBL. Both bank has maintain CCAR as per the NRB regulations that is 5.5%. Among the two banks we can see that NIC has maintained highest percentage of CCAR, which indicates that the bank is highly effective in protecting the interest of the depositor.

- Capital adequacy ratio of EBL is in decreasing trend over the year. It is because of significant increase in total risk weighted assets. The CAR of NIC is in fluctuating trend. However, CAR of NIC is increased in the year 2009/10 because of significant increase in total capital fund and CAR decrease in 2010/11. Due to greater percentage of increase in risk weighted assets than the percentage increase in total capital fund. Thus, both banks have maintained the CAR as per the NRB standard i.e., 11%.
- Banks are being able to decrease NPL ratio over the years, it signifies that banks are applying robust credit management system focusing on recovery of bad loans and improvement in standard of lending policies.
- It is observed that bank loan loss provision over the years has been decreasing of both banks EBL & NIC. This indicates that banks credit department is being effective. In the year 2009/10, the LLP of EBL has increased by 1.2 percent but it has again decreased to 1.91 in the year 2010/11. NPL of EBL is higher than NIC bank so it has been maintaining higher loan loss provision ratio.
- The Loan loss coverage ratio of EBL and NIC has been increasing over the years. The figure showed that the ratio of both banks in the year 2008/09 has been decreased to 192.24 & 183.05 respectively. As EBL has maintained higher loan loss coverage ratio than NIC. It means that EBL is safer than NIC in term of loan default risk. The most interesting thing about this ratio is that this ratio is always higher than 100%.
- Credit deposit ratio is fluctuating over the years. NIC has higher C/D ratio than EBL, it means it is aggressive in lending. Lower C/D ratio of EBL reflects there positive and defensive strategy. High c/d ratio pushes to high profitability but there is risk too.
- EBL has highest earning per employee so it is most effective and efficient bank. However NIC also have done quite well but EBL has better management efficiency pattern.
- ROA of NIC is higher than EBL over the year. So, NIC is utilizing their total assets than EBL. It is shown that EBL is under utilizing their available assets.

- Earning per share of NIC is increasing from the year 2006/07 to 2010/11. Earning per share of EBL has increase up to the year 2009/10 and increase in the year 2010/11. The EPS of NIC has increased over the year because of their increasing net profit after tax than the total number of shares.
- EBL has highest ROE, it means they are utilizing their shareholders money properly. It means people prefer to invest in EBL. However NIC has lowest ROE than EBL. So, NIC needs to utilize their shareholders fund effectively.
- The total liquid fund to total deposit ratio of both banks are increasing trend. However, the total liquid fund to total deposit ratio of EBL is higher than NIC which indicates that EBL has better liquidity position than NIC.
- The cash in vault to total deposit ratio of both bank has increased over the year and decreased in the year 2010/11.the cash in vault to total deposit of EBL is higher than NIC which indicates that bank has greater ability to meet any unexpected demand made by the deposit/customers.
- EBL has maintained the cash reserve ratio through the year where NIC has not meet its cash reserve ratio as per the regulation of NRB i.e. 5%. EBL CRR ratio is slightly higher than the regulation, it means EBL's treasury department is quiet weak. The money above that regulation line would have been invested in short term instruments. That keeps liquidity strong and even money is not idle.
- Higher the liquidity ratio, better will be the liquidity position. NIC has invested highest amount of deposit in government securities than EBL in the year 2009/10 and 2010/11 which shows that the liquidity position of NIC is good. If banks have high amount of deposit in current and fixed deposit account than saving account, they have to maintain high IGS ratio for adequate liquidity.

CHAPTER – V

SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

"CAMEL" is an international bank-rating system with which bank supervisory authorities rate institutions according to five factors. The five areas examined are represented by the acronym "CAMEL" .

The five factors examined are as follows:

C - Capital Adequacy

A - Asset Quality

M - Management Quality

E - Earnings Quality

L - Liquidity Quality

By using this CAMEL rating, anyone can make the framework about the performance of the bank. The rating here shows the attempt of evaluating the commercial banks as a whole in terms of Capital Adequacy, Assets Quality, Management Quality, Earnings Quality and Liquidity Quality.

The research study is focused on assessing the financial performance of the selected commercial banks comparatively in the framework of CAMEL as prescribed by NRB directives and in accordance to BASEL accord. The study scrutinizes the financial performance of the sampled commercial banks as regards to their capital adequacy, level and trend of risk weighted assets, asset composition and quality of loan assets, management of revenues and expenses, level and trend of earnings, liquidity position. Various materials were reviewed in order to build up the conceptual foundation and reach to the clear destination of research. During the research the areas that formed part of the research review were; Functions of Commercial Bank, Concept of Bank Supervision, Concept of CAMEL rating system and component evaluation system, Basel Capital Accord, NRB guidelines. Besides these, review of research papers, work papers, dissertations and related reports were conducted.

The study was conducted with the objective to analyze and compare the financial performance of Everest Bank Ltd. (EBL) & Nepal Industrial & Commercial Bank Ltd. (NIC) in the framework of CAMEL over the five years period from FY 2006/07 to FY 2010/11. The study is based on the secondary data. For the analysis of EBL & NIC are used as the major sources of data out of 32 commercial banks. CAMEL is a common method for analyzing the health of individual institution, to qualify the performance and the financial condition of an organization. The various financial & statistical tools have been used in this study to get meaningful result and to meet research objectives.

5.2 Conclusion

Based on the findings, following conclusion have been drawn as a concluding framework for the study on CAMEL analysis of EBL & NIC over the five period from FY 2006/07 to FY 2010/11.

i) Core capital ratio measured in terms of core capital to risk weighted assets is as per NRB standard. It means the bank is using adequate amount of internal sources of core capital in past five years. In this point of view, the bank is financially sound and strong.

ii) Capital adequacy ratio reveals that the bank is running with the adequate capital and capital fund of bank is sufficient to meet the banking operation as per NRB standard.

iii) The decreasing trend of non-performing loans ratio helps to conclude that the bank is aware of non-performing loans and adopting the appropriate policies to manage the problems and to increase the quality of assets. This also shows that bank is focusing on recovery of bad loans and improvement in standard of lending policies.

iv) It is observed that loan loss provision over the years have been decreasing. This indicates banks credit department is being effective. It seems that amount of non-performing loan and possibility of default in future is decreasing.

v) Loan loss coverage of both bank have been increasing over the years. The increasing trend of loan loss coverage ratio shows that the banks are taking

appropriate recovery policy. As EBL loan loss coverage ratio is higher than NIC, EBL is safer than NIC bank in terms of loan default risk.

vi) Highest earning per employee, enhance effectiveness and efficiency of the bank. The earning per employee depicts efficiencies and productivity as a result of well human resources in terms of profitability.

vii) Credit deposit ratio is fluctuating over the years. However, NIC has higher CD ratio than EBL which means NIC is aggressive in lending. Higher CD ratio pushes to high profitability but there is risk too. Lower CD ratio reflects the positive and defensive strategy.

viii) Return on assets of both banks is in increasing trend which concludes that the net income for each unit of assets of the bank is increasing. This shows that the capability of the management to converting bank's assets into net earnings. Here, NIC is utilizing their total available assets properly.

ix) Earning per share of EBL is higher than earning per share of NIC. The increasing trend of EPS depicts that the return flowing to the bank is increasing. The tendency reflects the strength of the share in the market is also increasing. EPS is increasing due to decrease in no. of shares.

x) The increasing trend of return on equity shows that the rate of return flowing to banks shareholder is upgrading year by year. ROE of EBL is higher than ROE of NIC. It means EBL is utilizing share holders money properly than NIC.

xi) Cash reserve ratio of EBL is higher than CRR of NIC which shows that EBL has weakness in treasury department. As per NRB, all commercial bank and finances should have maintain CRR of 5% of their deposit.

xii) EBL has highest cash in vault to deposit ratio. It means EBL has ability to meet any unexpected demand made by depositors.

xiii) Investment in government securities of NIC is in increasing trend but IGS of EBL is in decreasing trend. EBL has highest IGS ratio which shows the good liquidity position of bank. If bank have high amount of fixed deposit than saving, then they have to maintain high IGS ratio for adequate liquidity.

5.3 Recommendations

After analyzing on assets and liability management of NIC & EBL on the basis of CAMEL analysis, following suggestions are forwarded to overcome inefficiency and weakness to improve assets and liability management.

i) CAR of NIC & EBL is higher than minimum requirement of NRB, it should invest funds to different productive sector and diversify its portfolio which helps to earn higher profit.

ii) The assets quality ratio of EBL & NIC are in satisfactory level and being better in each year. But, the banks should maintain non-performing loan ratio as lower than as possible and try to give additional attention in recovering the doubtful and loan loss provision in future and try to increase its performing loan ratio.

iii) The earning per employee of EBL is higher than NIC. So, NIC bank should provide training programme reward system and other motivational tools to increase level of performance of employee. EBL should increase net profit after tax and should not appoint extra employee in organization.

iv) The earning quality ratio of EBL & NIC are in increasing trend. So, both banks need to increase more profit of the bank and should minimize its operating cost by increasing operating efficiency of its employee.

v) Liquid ratio of EBL & NIC is fluctuating over the years. EBL has higher liquidity ratio than NIC. So, NIC should be careful and try to increase liquidity position by increasing in cash in vault ratio & investment in government securities.

BIBLOGRAPHY

Books

Adhakari, Nanda K. and Prakash Shrestha .(2063). A text Book on Corporate Finance Kathmandu: Khushbu Prakashan Pvt.Ltd.

Bajracharya, shilu & Bhattarai, Rabindra (2006). Corporate Financial Management, Theory & Practice, Kathmandu. Buddha Academic Publishers and Distributers Pvt. Ltd.

Barely, R. & Stewart M. (2000). Principle of Corporate Finance. India: Tata McGraw-Hill Publishing Company Limited.

Bhattarai, R.(2006). Investments Theory & Practice, 3rd edition. Kathmandu. Buddha academic publishers and distributors pvt. Ltd.

Brigham, E. & Houston J. (2000). Fundamental of Financial Management, 3rd edition. Nework : Harcourt College Publishers.

Gup, Benton E. and James W. Kolari.(2005).Commercial Banking ,The Management of Risk .3rd ed. Singapore , John Wiley and Sons Pvt.Ltd.

Jain, S.P. and Narang,K.L. (1989).Financial and Management Accountancy. Bombay:Kalyani Publishers.

Khan, M.Y. and Jain,P.K.(1999).Financial Management,3rd Edition.New Delhi:Tata McGraw Hill Publishing Company Limited.

Koch, Timothy W.and S. Scott Macdonald.(2004).Bank Management .5th ed.First Reprint Singapore, John Wiley and sons Pvt.Ltd.

Kothari,(2004).Research Methodology Methods and Techniques. Revised 2nd ed. New Delhi, New Age International Pvt.Ltd.

Lynch, R.M. and Williamson,R.W. (1983).Accounting For Management 3rd Edition New Delhi: Tata McGraw Hill Publishing Company Limited.

Madura, Jeff, (2001).Financial Markets and Institutions. 5th ed South Westernn College Publishing .

Miskins, Frederic S. and Stanely G. Eakins.(2008). Financial Markets and Institutions 6th ed .New Delhi, Dorling Kindersely Pvt.Ltd.

Moer, J.N.(1961). Financial Statement Analysis :Eagle wood Cliffs: Prentice Hall

Needles, B.E. (1989).Financial Accounting .Boston,Houghton Mifflin Company.

Pandey, I.M.(1999).Financial Management,8th Edition :India,Vikash Publishing House Private Limited.

Pandey,I.M.(2005).Financial Management 9th ed. New Delhi, Vikas Publishing House

Pvt.Ltd.

Poudel, Rajan.(2006). Fundamental of Corporate Finance, Kathmandu, Asmita Books and Stationery.

Saunders,Anothony and marica m.Cornett.(2004).Financial Markets and Institutions 2nd ed. New Delhi,Tata Mc Graw -Hill Publishing Company Ltd.

Singh, Hriday B. (2062). Banking & Insurance, 1st edition. Kathmandu. Asia Publication P. Ltd.

Shrestha, Monohar K. and Dipak B.Bhandari (2004).Financial Markets and Institutions. Kathmandu, Asmita Books Publishers and Distributors.

Srivastava, R.M.(1993),Financial Management. India:Pragati Prakashan.

Sthapit, A.B.,Gautam,H.Joshi,P.R.and Dangol,P.M.(2006).Statistical Methods,4th Edition Kathmandu: Buddha Acedemic Publishers and Distributors Private Limited.

Thapa, K. (2060). Corporate Financial Management, Theory & Practice. Kathmandu. Khanal Books & Stationery.

Weston, J.F. and Brigham, E.F.(1987).Essentials of Managerial Finance,8th Edition. USA:The Dryden Press.

Weston, J.F. & Copeland, J.F.(1992). Managerial Finance, Chicago: The Dryden Press.

Wolf H.K. and Panta, P.R. (2005).Social Science Research and Thesis writing,4th Edition, Kathmandu; Buddha Academic Enterprises Private Limited .

Journals & Publications

A Comparison of on and off Site Monitoring Systems. Journal of Financial Services Research, 13: 103-117.

Atikoğulları, M. (2009), An Analysis of the Northern Cyprus Banking Sector in the Post 2001 Period Through the CAMELS Approach, "International Research Journal of Finance and Economics". Gazimağusa: Euro Journals Publishing Inc. II (2): 1-21.

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

Basel Committee on Banking Supervision (1988), "International Convergence of Capital Measurement and Capital Standards",Basel:Bank for International Settlement.

Cantor, R. (2001), A New Capital Adequacy Framework, "Journal of Banking and Finance", 25:171-185

Cole, R.A. and Gunther, J.W. (2008). Predicting Bank Failures: A Comparison of On- and Off-Site Monitoring Systems. Journal of Financial Services Research. Boston: Kluwer Academic Publishers. XIII (2): 102-105.

Derviz, A. & Jiri, P. (2004), "Predicting Bank CAMELS and S & P Ratings", The Case of the Czech Republic, Working Paper Series No. 1.

Dziobek, C., Hobbs, J.K. & Marston, D. (2000), "Toward a Framework for Systematic Liquidity Policy; IMF Working Paper 00/34", Washington: (International Monetary Fund).

Everest Bank Limited (2006/07 to 2009/10), "Annual Report" Kathmandu.

Glivert, R.A., & Vaughan, M.D. (2004), Does the Publication of Enforcement Actions Enhance Market Discipline? "Manuscript, Research Department, Federal Reserve Bank of St. Lousis".

Gytan, P. & Johnson, J. (2001), "The Work Paper on a review of alternative Methodologies: For Early Detection of Banking Distress".

Hirtle, B.J., & Lopez, J. A. (1999), Supervisory Information and Frequency of Bank Examinations. "Federal Reserve Bank of New York Economic Policy Review" 5,pp.1-20.

Hirtle, B.J. & Lopez, J.A. (1999). Supervisory Information and the Frequency of Bank Examinations. "Economic Policy Review". New York: Federal Reserve Bank of NewYork. V (1): 38-65.

Hlbers, P., Kruegar, R., and Moretti, M. (2000), "New Tools for Assessing Financial System", Finance and Development, vol. 37, No 3.

Kolari et al., (2000) .Developed Models & Predicted Bank Failure.

Martin, D. (1997). Early Warning of Bank Failure: A Logit Regression Approach."Journal of Banking and Finance", 1:249-276.

Nepal Industrial and Commercial Bank (2006/07 to 2009/10), "Annual Report", Kathmandu.

Nepal Ministry of Finance (2061). Banking and Financial Institution Ordinance. Nepal Gazette,Kathmandu.

Securities Board. (2004, September), Corporate Governance Practices in Nepal. Kathmandu: SEBO Nepal.

Van Den Bergh, S. (2000), Supervisory Risk Assessment and Early Warning System, "Basel Committee on Banking Supervision Working Paper"

Thesis

Dahal, suman (2009). Financial Performance Analysis of NIC Bank Ltd. in the framework of CAMEL. An Unpublished Master Degree Thesis submitted to Faculty of Management, T. U.

Baral,Bishnu P. (2010). Financial Performance Analysis of Annapurna Finance Company Limited in the framework of CAMEL. An Unpublished Master Degree Thesis submitted to Faculty of Management, T. U.

Shrestha, Sanjeev (2010). Evaluation & Comparison of the Financial Position of the Sample Banks Using CAMEL Rating System. An Unpublished Master Degree Thesis submitted to Faculty of Management, T. U.

Sainju, Neeraj M. (2009). A case study of Positioning Commercial Banks on the basis of CAMEL Rating. . An Unpublished Master Degree Thesis submitted to Faculty of Management, T. U.

Paudel Bimal (2010). Comparative Financial Performance Analysis of Nepal Industrial and Commercial Bank and Everest Bank Limited in the framework of CAMEL. An Unpublished Master Degree Thesis submitted to Faculty of Management, T. U.

Yadjav Bijay K. (2009), A comparative study on Financial Performance Analysis of Commercial Banks of Nepal(with reference to SCBNL, NABIL AND NIBL). An Unpublished Master Degree Thesis submitted to Faculty of Management, T. U.

Baidya, Shailu (2010). Evaluation of the Financial Performance of Commercial Banks of Nepal. An Unpublished Master Degree Thesis submitted to Faculty of Management, T. U.

Annex-1

List of commercial banks in Nepal

Nepal Bank Limited (NBL)	1937 AD
Rastriya Banjiya Bank(RBB)	1966 AD
Nabil Bank Ltd.	1984 AD
Nepal Investment Bank Ltd.(NIB)	1986 AD
Standard Chartered Bank	1987 AD
Himalayan Bank Ltd.(HBL)	1993 AD
Nepal SBI Bank Ltd.	1993 AD
Nepal Bangladesh Bank(NBB)	1993 AD
Everest Bank Ltd.(EBL)	1994 AD
Bank of Kathmandu(BOK)	1995 AD
Nepal Credit & Commerce Bank Ltd.(NCC)	1996 AD
Lumbini Bank Ltd.	1998 AD
Nepal Investment & Commercial Bank Ltd.(NIC)	1998 AD
Machhapuchhre Bank Ltd.	2000 AD
Kumari Bank Ltd.	2001 AD
Laxmi Bank Ltd.	2002 AD
Siddhartha Bank Ltd.	2002 AD
Agricultural Development bank ltd.(ADB)	2006 AD
Global Bank Ltd.	2007 AD
Citizens Bank Ltd.	2007 AD
Prime Commercial Bank Ltd.	2007 AD
Bank of Asia Nepal Ltd.(BOA)	2007 AD
Sunrise Bank Ltd.	2007 AD
Development & Credit Bank Ltd.(DCBL)	2008 AD
NMB Bank	2008 AD
KIST Bank	2009 AD
Janata Bank Ltd.	2010 AD
Mega Bank Ltd.	2010 AD
Commerz & Trust Bank Ltd.	2010 AD
Civil Bank Ltd.	2011 AD
Century Commerical Bank Ltd.	2011 AD
Sanima Bank Ltd.	2012 AD

Annex-2

Balance Sheet of EBL from FY 2006/07 to 2010/11

Liabilities	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Share Capital	518000000	831400000	838821000	1279607490	1391570439
Reserve & Surplus	683515266	1089837580	1364804055	1479530365	1721975617
Debenture & Bonds	300000000	300000000	300000000	300000000	300000000
Loan & Borrowings	–	–	312000000	404600000	482000000
Deposit Liabilities	18186253541	23976298535	33322946246	36932310008	41127914339
Bills Payable	26776480	49429700	148655592	145514679	49716572
Proposed & Un paid Dividend	68146323	140790370	230524766	276252832	576897427
Income Tax Liablities	15278110	41143107	20522280	-1136458	26900414
Other Liabilities	1634604580	720443592	378574715	566081795	559237454
Total Share Capital & Liablities	**21432574300**	**27149342884**	**36916848654**	**41382760711**	**46236212262**
Assets	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Cash in Hand	534996791	822989425	944695793	1091500407	1048998721
Balance with NRB	1178198197	1080914554	4787163541	5625113849	4706320590
Balance with other Banks & Financial Institutuons	678225606	764067851	432511829	1102200747	367543641
Money at Call & Short Notice	–	346000000	–	–	–
Investments	4984314586	5059557544	5948480273	5008307589	7743928321
Loan, Advance & Bills Purchased	13664081664	18339085562	23884673616	27556356032	31057691462
Fixed Assets	170097452	360512480	427157451	463094391	460258735
Non- Banking Assets	–	–	–	–	–
Other Assets	222660004	376215468	492166151	536187696	851470792
Total Assets	**21432574300**	**27149342884**	**36916848654**	**41382760711**	**46236212262**

Annex-3

Balance Sheet of NIC from FY 2006/07 to 2010/11

Liabilities	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Share Capital	660000000	943877100	1140480000	1311552000	1311552000
Reserve & Surplus	257990162	359549800	519773729	453400168	686793444
Debenture & Bonds	200000000	200000000	200000000	200000000	200000000
Borrowings	352128714	335000000	660405000	1723250000	773300000
Deposit Liabilities	10068230869	13084688672	15579930904	15968917926	18394435547
Bills Payable	31691544	32564394	265106722	17542684	17535607
Proposed & Un paid Dividend	11380066	12474904	10999772	345145263	262310400
Income Tax Liablities	404997	13927060	10892640	32571596	4827321
Other Liabilities	97007703	256654384	363044430	256950979	439621999
Total Share Capital & Liablities	**11678834055**	**15238736314**	**18750633197**	**20309330616**	**22090376318**
Assets	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Cash in Hand	181606909	235246176	337349455	530610696	405796475
Balance with NRB	262735366	634114316	970981465	589322223	817946591
Balance with other Banks & Financial Institutuons	155416357	322988294	152819629	966197190	453314171
Money at Call & Short Notice	163009044	160000000	–	100000000	–
Investments	1599481050	2311468317	3026022185	4946777670	4868914975
Loan, Advance & Bills Purchased	8941397651	11264678096	13679393779	12732014319	14933939901
Fixed Assets	153679315	194500407	259324965	297191956	354781618
Non- Banking Assets	1163750	674375	703250	–	–
Other Assets	220344613	115066333	324038469	147216562	255682587
Total Assets	**11678834055**	**15238736314**	**18750633197**	**20309330616**	**22090376318**

Annex-4

Profit & Loss of NIC from FY 2006/07 to 2010/11

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Interest Income	725819040	931400562	1283520711	1777165668	2321406123
Interest Expenses	421374951	505995879	767196816	1031474076	1446635376
Net Interest Income	**30444089**	**425404683**	**516323895**	**745691592**	**874770747**
Commission & Discount	36017034	43373395	61895316	76064466	99646603
Other Operating Income	26174612	37905045	44028178	49345027	81233145
Exchange Fluctuation Income	44276889	39657785	97673440	90908819	68027889
Total Operating Income	**410912624**	**546340908**	**719920829**	**962009904**	**1123678384**
Staff Expenses	54920384	72073510	84544834	118858070	139900484
Other Operating Expenses	64631218	81203334	109784146	137749539	187988313
Exchange Fluctuation Loss	–	–	–	–	–
Operating Profit before Provision for Possible Losses	**291361022**	**393064064**	**525591849**	**705402295**	**795789587**
Provision for Possible Losses	37770737	25414298	39509378	17740842	349011480
Operating Profit	**253590285**	**367649766**	**486082471**	**687661453**	**760888107**
Non- Operating Income/(Expenses)	409114	10649150	2489084	11458240	16909824
Loss Provision Written Back	94457231	18450568	3913125	56204075	740000
Profit from Regular Activities	**348456630**	**396749484**	**492484680**	**755323768**	**778537931**
Income/ (Expenses) from Extra-ordinary Activities	-94457231	-6037521	7617108	-46204075	10820
Profit from All Activities	**253999399**	**390711963**	**500101788**	**709119693**	**778548751**
Provision for Staff Bonus	23090854	35519269	45463799	64465427	70777159
Provision for Income Tax	72433494	112134654	137203851	194810564	212067916
Current Year's	72680135	113989604	137910184	194485541	214971020
Deferred Tax	–	-1854950	-739281	325023	-3016781
Previous Year's	-246641	–	32948	–	113677
Net profit/(Loss)	**158475051**	**243058040**	**317434138**	**449843702**	**495703676**

Annex-5

Profit & Loss of EBL from FY 2006/07 to 2010/11

Particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Interest Income	1144408308	1548657132	2186814992	3102451484	4331026087
Interest Expenses	-517166241	632609264	1012874353	1572790306	2535875552
Net Interest Income	**627242067**	**916047868**	**1173940639**	**1529661178**	**1795150535**
Commission & Discount	117718162	150264074	202094446	208123481	203468424
Other Operating Income	67967525	79133767	106403694	142311427	148061979
Exchange Fluctuation Income	28404544	64452378	62526819	47879967	46259065
Total Operating Income	**841332298**	**1209898087**	**1544965598**	**1927976053**	**2192940003**
Staff Expenses	-86118226	157957084	186919870	226364009	293130567
Other Operating Expenses	-177545649	233766645	292010522	352511231	383112054
Exchange Loss					
Operating Profit before Provision for Possible Losses	**577668423**	**818174358**	**1066035206**	**1349100814**	**1516697382**
Provision for Possible Losses	-89695764	-99340505	-93084880	-77010625	-98299482
Operating Profit	**487972659**	**718833853**	**972950326**	**1272090189**	**1418397900**
Non- Operating Income/(Expenses)	1315211	4519287	5005256	12338972	1433385
Loss Provision Written Back	11686657	20201067	8044170	83553461	56337478
Profit from Regular Activities	**500974527**	**743554208**	**985999752**	**1367982622**	**1476168763**
Income/ (Expenses) from Extra-ordinary Activities	-795224	-18998727	-5549170	-61192476	-12051522
Profit from All Activities	**500179303**	**724555481**	**980450582**	**1306790146**	**1464117241**
Provision for Staff Bonus	-45470846	65868681	89131871	118799104	133101567
Provision for Income Tax					
Current Year's	-144368164	216913302	276864301	357020130	427531909
Deferred Tax	-13931012	-9445115	-24278347	-794721	-28380110
Previous Year's					560246
Net profit/(Loss)	**296409281**	**451218613**	**638732757**	**831765632**	**931303628**

Annex-6

Calculation of Total Capital Fund of EBL from FY 2006/07 to 2010/11

Year	Core Capital Fund	Supplemtary Capital Fund	Total Capital Fund
2006/07	1171133000	504982000	1676115000
2007/08	1900859000	787531000	2688390000
2008/09	1981579000	722291000	2703870000
2009/10	2537093000	720049000	3257142000
2010/11	2927168000	678673000	3605841000

Annex-7

Calculation of Total Capital Fund of NIC from FY 2006/07 to 2010/11

Year	Core Capital Fund	Supplemtary Capital Fund	Total Capital Fund
2006/07	911806552	296801251	1208607803
2007/08	1293750759	319880079	1613630838
2008/09	1649007425	305927368	1954934793
2009/10	1750459218	260102281	2010561499
2010/11	1956125429	267647038	2223772467

Annex-8

Calculation of Total Expences of NIC from FY 2006/07 to 2010/11

Year	Interest Expenses	Other Operating Expenses	Staff Expenses	Total Expenses
2006/07	421374951	64631218	54920384	540926553
2007/08	505995879	81203334	72073510	659272723
2008/09	767196816	109784146	84544834	961525796
2009/10	1031474076	137749539	137749539	1306973154
2010/11	1446635376	187988313	139900484	1774524173

Annex-9

Calculation of Total Income of NIC from FY 2006/07 to 2010/11

Year	Interest Income	Other Operating Income	Exchange Fluctuation Income	Total Non-operating Income	Total Income
2006/07	725819040	26174612	44276889	409114	796679655
2007/08	931400562	37905045	39657785	10649150	1019612542
2008/09	1283520711	44028178	97673440	2489084	1427711413
2009/10	1777165668	49345027	90908819	11458240	1928877754
2010/11	2321406123	81233145	68027889	16909824	2487576981

Annex-10

Calculation of Total Expences of EBL from FY 2006/07 to 2010/11

Year	Interest Expenses	Other Operating Expenses	Staff Expenses	Total Expenses
2006/07	517166241	177545649	86118226	780830116
2007/08	632609264	233766645	157957084	1024332993
2008/09	1012874353	292010522	186919870	1491804745
2009/10	1572790306	352511231	226364009	2151665546
2010/11	2535875552	383112054	293130567	3212118173

Annex-11

Calculation of Total Income of EBL from FY 2006/07 to 2010/11

Year	Interest Income	Other Operating Income	Exchange Fluctuation Income	Total Non-operating Income	Total Income
2006/07	1144408308	67967525	28404544	1315211	1242095588
2007/08	1548657132	79133767	64452378	4519287	1696762564
2008/09	2186814992	106403694	62526819	5005256	2360750761
2009/10	3102451484	142311427	47879967	12338972	3304981850
2010/11	4331026087	148061979	46259065	1433385	4526780516

Annex-12

Calculation of Total Liquid Fund of EBL from FY 2006/07 to 2010/11

Year	Cash	Total NRB balance	Total Other Bank Balance	Call Deposit	Total Liquid fund
2006/07	534996791	1178198197	678225606		2391420594
2007/08	822989425	1080914554	764067851	346000000	3013971830
2008/09	944695793	4787163541	432511829		6164371163
2009/10	1091500407	5625113849	1102200747		7818815003
2010/11	1048998721	4706320590	367543641		6122862952

Annex-13

Calculation of Total Liquid Fund of NIC from FY 2006/07 to 2010/11

Year	Cash	Total NRB balance	Total Other Bank Balance	Call Deposit	Total Liquid fund
2006/07	181606909	262735366	155416357	163009044	762767676
2007/08	235246176	634114316	322988294		1192348786
2008/09	337349455	970981465	152819629		1461150549
2009/10	530610696	589322223	966197190	100000000	2186130109
2010/11	405796475	81794659	453314171		940905305