

CHAPTER-1

INTRODUCTION

1.1 Background of the Study

Bank can be defined as a financial intermediary between depositor and entrepreneurs. The intermediation takes place when they accept deposit from general public corporation bodies and private organization and deploy that the deposit for profitable purpose in the form of loans and advances. Bank is a financial service institution. Therefore, in between this intermediation, banks get some earning.

A bank or banker is a company or person carrying on the business of receiving money and collecting drafts for customer, subject to the obligation of honoring cheques drawn upon them from time to time by the customer to extent of the amount available to their current accounts.

When the bankers accept deposits on any account, he incurs an obligation to honour all cheques drawn by customers against him no long as there is enough money to be credit to the customer. Bank is an establishment, which was to be credit to the customer. Bank is an establishment, which was to individuals such as an advance of the money as may be requested and safety made to and to which individuals entrust money when required by them for use.

The functions of modern banking system are multifarious in nature and owing to the shift in emphasis of the function of bank at different stages of development. Different economists have defined banking in different ways.

Prof. R.S. Sayers says, "Bank is an institution whose debts are widely accepted in statement of others."

According to Prof. Kinly, "Bank is an establishment which makes to individuals such as advances of money as required and safety made to and to which individuals entrust money when not required by them for use."

Geoffery Crowther gives a more comprehensive definition of bank. He says, "A Bank is an institution, which collects money from those who have it spare or who are saving it out of their income and lends it out those requires it.

Thus bank are those institution whose function are related with certain of money and credit, acceptance of deposits from the people forwarding of loan, transfer of money, agency function to customer, etc. The exclusive function of bank of credit has earned them the title of "Factor of Credit."

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

The word Banking is very commonly used by different countries and it has given different definitions by different writers. To know the precise meaning of bank, some definitions are as following:

A bank is an" establishment for keeping money, valuables, etc safely, the money being paid out on the customer's order (by means of Cheque)".

"Banking means the accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawal by Cheque, drafts, order or otherwise"

"A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure."

Bank is an institution which collects money from those who have it to spare and who are saving it out of their income and lends this money out to those who require it."

From the above definitions, it is clear that the bank is a financial institution, which accepts deposits from the public in different accounts and grants loans to individuals and corporations against their securities. The difference in interest rate on lending and deposit, interest rate spread, is the major source of income for the bank. Interest on lending is higher than the deposits. It is an agent of its clients, which remits money, collects incomes and pays expenses on behalf of them. It performs the wide variety of functions, which provide utility to the individual, corporation and general public.

The growth of financial sector in Nepal is much better as compare to other sectors. Despite of conflict and political insurgency, banking and financial sector continued growing. Numbers of banks and financial institutions are increasing day by day. Similarly banking habit of people is also in increasing trend.

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. Among them commercial bank is one.

Commercial bank is a kind of bank where public will deposit the money and provides loans and credits to individuals or firms and all other institution including government offices. It also transfers money from one place to another. They provide the working capital required by trade and industry in their day-to-day transactions. They grant loan in the form of cash, credits and overdrafts. The commercial bank plays an important role in mobilizing the resources and to convert them into active capital, which is very important for the rapid growth and development of the economy. Commercial banks in general, are the banks established to support the country's commercial sector.

1.1.1 Banking Evolution in Nepal

Through the modern banking history is not long in Nepal, many historical events that resemble banking activities can be found in Nepalese history. In the ancient times, the money lending and fund dealing activities was mainly confined within landlords, rich merchants, goldsmiths and other well-off people. Sankhadhar Sakhwa, a merchant has paid all the outstanding debt of Nepal in 880 AD is a part of Nepalese history. To memorize this event, Nepal Sambat was introduced. This was a huge money mobilization for public welfare sake.

Trade with Tibet and India was the main economic activity in Malla regime. To manage these trade activities, money lending practice for foreign trade was there nevertheless the rate of interest was very high. Being a personal lending the loan recovery was also low. To mitigate such financial unhealthy practices, Prime Minister Ranoddeep Singh has started "Tejarath Adda" in 1877 AD in Kathmandu. This was a fully government employees against mortgaging gold, silver. The rate of interest was comparatively very low i.e. 5%. Branches to Tejarath Adda were spread all over the country. However, despite of providing loans to public for their welfare, it failed to mobilize the public money by accepting deposits.

Trade activities expanded over time and thus the nation felt a need of professional banking. To meet this need as well as for reconstruction of 1934 earthquake damages, there was a strong felt need to address the financial crisis of nation at that time. Reviewing these situations, Udhog Parishad (Industrial council) formed in 1936 AD that formulated company Act 1973. Nepal Bank Limited came into emergence in 1973AD from the legal base of Nepal Bank Act 1937 which is first commercial bank of Nepal. Rastriya Banijya Bank (RBB) established in 1965 AD which was second commercial bank of Nepal. Commercial Bank Act came in 1974 AD.

Gradually from 1980s, Nepal Government adopted liberal policies in financial sector adopting mixed economy that injected features of free market in Nepalese economy. This helped to invite foreign banks joint venture initiatives. In 1984 AD, Nepal Arab Bank Ltd. (Now NABIL Bank Limited.) established as a first joint venture bank of Nepal. Economic growth further demanded participation of all level business entity's access into the banking system which was not possible through mere three banks at the time. Therefore, finance companies begun to establish from 1986 AD that had main target of creating customer intake of middle class business houses in banking activities.

At present, many commercial banks, development banks, finance companies are playing with the sense of competition in Nepalese banking sector. Globalization of economic activities and technology boom has supported a lot for introducing international level banking products in Nepal. Banks are keen to demonstrate professionalism and excellent customer services so that they can survive and grow.

Nepal's entry in world Trade organization (WTO) has created new challenge to Nepalese banking sector that is entry of foreign giant banks in Nepal from 2009 AD. Despite of several challenges ahead, Nepalese banking sector seems preparing themselves to face the future as well as keeping their fingers crossed for lasting peace in country that will open infinite economic growth in the nation.

1.1.2 Main Functions of Commercial Banks

Although the bank can be categorized in to different types on the basis of its functions, objectives, the World Bank will always be synonymous with the commercial bank all over the world. Commercial Bank occupies a very important place in the modern economic world. These banks accept deposit from people, give loan, functions agent and perform a host of other general utility function. Commercial bank increases the study of the money and boost economic activities

in the economy by means of creating credit. Commercial bank also have important role play in foreign trade and industrialization of a country, there by they are greatly responsible for economic development of a country is simply not possible without properly organized banking system. Commercial banks in Nepal are running under commercial Act 2031.

As pre Commercial bank Act 2031, " A Commercial Bank means bank which deal in exchanging currency, accepting deposit, granting loan and doing commercial transactions."

The primary functions of commercial bank are concentrated on accepting deposit from general public and advancing loan to industrialist businessmen needy individuals for expenditures. Besides that it also executes banking activities. All commercial banks are authorized to various businesses, which are considered as the main function of commercial bank. Commercial bank has significant role in transferring idle money of general public to industrialists or businessman who generally use such amounts in productive sectors. This major function of commercial bank plays a vital role in the overall development of economy and the nation too. Deposit that commercial bank provides wide range of agencies and other miscellaneous services by means of branch expansion at different parts of the country, which can be listed as follows.

1.1.2.1 Accepting Deposits

Normally commercial bank used to collect following deposits from public. Depending upon the nature of the account and chances the float money, banks use to provide interest in different rates in the different types of accounts.

- **Fixed Deposits:** - A fixed deposit is such type of account where the customer is required to keep the amount with the bank for long period of time. Those who don't need money for stipulated time open such as account. The bank on such amount provides a high rate of interest. The

customers are not allowed to withdraw money before matured period. Increase of urgent need of money the customers are permitted to borrow money from the bank on security of fixed deposit.

- **Saving Deposits:** - It is one of deposit generally collected from people, having low level of income. The bank usually pays a small rate of interest to the depositors against their deposit. The main purpose of this account is to increase saving habit of general public. Under this account the depositors is allowed to withdraw money by cheques up to the amount prescribed by bank. Amount collecting under this accounts should be invested in purchasing marketable securities and short investment.
- **Current Deposits:** - Another account provided by commercial bank to deposit amount of traders and businessman is current deposit. The bank should make payment on demand of the clients therefore; it is called as demand deposit. There are no restrictions regarding the number of deposit and withdrawals. The bank does not pay any interest on such amount.

1.1.2.2 Providing Loan

Loan providing is one of the main function of commercial bank. Banks target to flow loans in different sectors like energy, agriculture, industry, trade, rural sectors. Banks use to take interests from the borrowers of the loan which is higher than the interest provided by the bank to the depositors. The loan could be in the different forms as below.

- Overdraft Loan
- Mortgage Loan
- Short term and long term industry Loan
- Cash credit
- Discounting bill of exchange and securities

- Retail loans

1.1.2.3 Utility facilitation functions

- Issuance of travelers cheques
- Issuance of letter of credit
- Cheques collection and its payment, dealing with bill of exchange
- Remittance of money
- Locker services
- Management of trading and banking information
- Dealing in foreign exchange
- issuance of debit or credit cards

1.1.2.4 Agency functions

On the top of the above stated functions bank also deals with some agency works. The agency will means the bank act as an agent of its client and performs the designated works on behalf of its customers. Some of the examples of as agency function as below.

- Clearing of customers cheques from the other banks via its Nostro account.
- Collection of dividends on behalf of its customer and deposit into their accounts.
- Payment of utility bills like telephone and electricity bills of customers.
- Financial consultancy services as and when required and requested by the customers.
- Underwriting of securities after getting permission from the competent authority.
- Issuing bank guarantees.

1.1.3 Legal provision of commercial Banks in Nepal

Being a part of society, commercial bank should operate under the existing rules and regulation of Government of Nepal. It should operate under the strict control and supervision of NRB. It should be legally liable to implement the directions, plans, and policies formulated by central bank regarding the operations of commercial bank. In Nepal commercial banks are operating under Commercial Bank Act 2031.

- Commercial bank can be established under the company act. In the form of company having limited liabilities with the acceptance of NRB. It is essential for commercial bank to submit the prescribed documents and the company act. Only the approval of NRB the bank is legally liable to follow the term and condition determined by NRB before issuing approval letter. Taking approval of NRB it has fully fight to determine the place of central office and it can expand its branches and other offices.
- The all functions of commercial bank including planning, decision making and strategies formulating etc are carried on by the board of director. In optimum, there are nine member of board of directors who are appointed by meeting of shareholders. The president is chairing the meeting of board of director.
- Who is elected by the member of director on the basis of the majority among themselves? In case of the bank having fully government ownership, all board of director including the president is appointed directly by the government. If the government holds more than 50% in the commercial bank then government will appoint more than 50% of member of directors. In other commercial bank, the government can appoint two members of directors, that authority of Government of Nepal can be delegated to NRB.

- Besides the two works to be performed by the general meeting of shareholders all the works of commercial bank under CBA. The board of director, can delegated its whole or partial authority of the president, managing director and subcommittee of directors, general manager of other staff ob bank perform under Act 2031.
- The chairman can call the meeting on the predetermined place and the time. Such meeting should be called at least once with in two months and at least 12 times in a year.
- In case of bank established by issuing of share to general public the president of the bank should call the general meeting of shareholders with in 12 months of its establishment and then the general meeting of shareholders to be called within 180 days after ending of its closing data at the place where the central office is.
- The bank should prepare the statement of balance sheet and profit and loss account in the prescribed from NRB and the work of authority to be completed with in five months of its closing date. The chief executive, chief account officer and more than 50% of board of director should sign the statement properly and to be published in main newspaper for the public information.
- NRB can inspect or supervise any branch or office of commercial bank at any time. This is the responsibility of the staff of bank to submit the statement of an account and information regarding to the bank demanded by the supervisor of NRB.
- The commercial bank can collaborate with other commercial bank in foreign country or it can be collaborate with other foreign country with the approval of NRB.

1.2 Focus of the Study

This research study is focused on comparing the financial condition and performance of NABIL, Himalayan and Nepal Investment Bank in the frame work of CAMEL by using descriptive and analytical research design. Here we assess the bank effectiveness, efficiency and soundness through CAMEL.

CAMEL focuses the capital, assets, management, earnings and liquidity of the bank.

1.3 Introduction of Banks under Study

NABIL bank limited, Himalayan Bank Limited and Nepal Investment Bank limited are taken under studies.

Nabil Bank Limited

Nabil Bank Limited broke the monopoly of government banking sector and become the 1st joint venture bank establishing in 29th Ashad 2041 (i.e. 12th July 1984). Before 1st January 2002 Nabil Bank Limited recognized as Nepal Arab bank limited and then after it is known as Nabil Bank Limited. With 50% equity investment Dubai Bank Limited, Dubai was the foreign joint venture partner who extended Nabil a technical service agreement in the initial period. Now NB (International) limited, Ireland is the foreign partner of Nabil bank who hold 50% of equity investment.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele banking system. Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil Bank Limited believes stakeholders are at the core of everything and takes a slogan "your bank at our service" and stands in a position to claim "Bank of 1st choice". It's C.R.I.S.P. culture i.e. Customer focused, Result orientation, Innovative, Synergistic and professional culture with Quality service helps to set the distinguish image and genuine recognition.

Nabil bank has authorized capital of 1.6 billion. It has issued capital of Rs.689 million which is equal to its paid up capital. Different kinds of deposits, loans, Remittance, Cards and ATMs, E-banking, clean Bills etc are the product of this banks. It operates all over the country with 39 branches having head office in Kamaladi, Kathmandu. Now a day, Student EDUSAVE and Nabil remit is focus product of this bank. This bank is handled by the manager Mr. Amrit Charan Shrestha (Officiating Chief Executive Officer), and former NRB governor chairman MR. Satendra Pyara Shrestha. Nabil is fulfilling its corporate social responsibility through three pillar of the nation i.e. health, education and sports. Glaucoma center of "Tilganga Eye Hospital", sponsor of Nabil Three Star Club and help for 'Mary Ward School' is basic CSR of Nabil. It gets many more national and international awards including "Bank of the Year 2004".

Himalayan Bank Limited

Himalayan Bank was established in 1993AD in joint venture with Habib Bank Limited (Pakistan) having the mission of "To become a leading bank of the country". Habib bank limited hold 20% shares of HBL Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Having head office on Karmachari Sanchaya Kosh Building,tredevi marg, Thamel, Kathmandu HBL has 24 branches all over the country.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This

has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. HBL serves with Different kinds of deposits and loan products. Card service, Himalayan SMS & SMS banking, Himal Remit, International Banking (LC), safe deposit Locker etc. are other important products of HBL. It is handled by CEO Mr. Ashok Rana and Chairman Mr. Manoj Bd. Shrestha. HBL is operating with authorized capital 2 billion and 1013512500 issued and paid up capital. It is awarded by lots of national and international awards. It becomes number one bank of Nepal in 2003 and 2006.

Himalayan Bank Limited believes in Corporate Social Responsibility (CSR) and has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society at large.

Nepal Investment Bank Limited

Nepal investment Bank formerly known as Nepal Indosuez Bank limited was established in 1985 with a French joint venture partner named Credit Agricole Indosuez, which held 50% of the shares. Now, it has no foreign investment, so it is fully Nepalese owned institution.

Now a day, it is operating with Rs.1203915400 issued and paid up capital. It has 2 billion authorized capitals which meets the minimum authorized capital amount for the "A" class bank as NRB rules and regulation.

NIBL is operating with the guidance of Mr. Prithivi B. Pande Chairman and chief Executive Director of NIBL. NIBL believes that their prosperity is directly linked with the well-being of the society in which they work. Being a responsible corporate entity, they are very aware of their social responsibility. Bank frequently

donate huge amount to Bal Mandir and Pashupati Bridhashram. Likewise it donated lots of money to Hospital and Rehabilitation Center for Disabled Children. It also contribute to United Nations High Commission for Refugees (UNHCR's) Nepal programme. Not only that it equally shown interest in extending its support for the gevelopment and promotion of various sports and sporting activities in the country.

Having the head office on Durbar Marg, Kathmandu it is operating with 40 branches in the country. Different kinds of deposits and loans, e-banking, ATMs, safe deposit lockers etc. are its main product.

In the case of prizes and awards, NIBL is ahead in the competition by getting different national and international awards. It is the bank which wins three times, the title of "Number one Bank" of the country. It is the "Bank of the year 2003, 2005 and 2008".

1.4 Statement of the Problem

The main objective of a Financial Institution (FI) is to increase its return for their owner which often comes, however, at the cost of various increased risk: Credit risk, Liquidity Risk, Interest Rate Risk, Interest, Market Risk, Off-Balance sheet Risk, Foreign Exchange Risk, Country Risk, Technology Risk, Operational Risk and Insolvency Risk. The Government owned banks in Nepal are almost running in loss. It is also very difficult to call the private sector banks sound though they are earning profit since they may be exposed to aforesaid risks. Questions are being raised over the validity of their balance sheet and profit and loss account. Should the suspicion come true, it will prove very costly to the depositors, creditors and national economy as a whole. In view of this point it is important that FIs manage these risks and have appropriate policies, process, or practice in place that management follows and uses.

The elementary problem of this research is to scrutinize the financial condition of NABIL, Himalayan and NIBL in the framework of CAMEL and is an attempt to come back with the following research questions:

- How NABIL, Himalayan & NIBL managing its Capital Adequacy? Is it in line with the regulated minimum capital requirement?
- What is the level, trend of Asset Composition and Risk Weighted Assets of NABIL, HBL & NIBL and what is the bank's quality of Loans and Loan provision mix?
- What are the level, trend and stability of NABIL, HBL and NIBL earnings?

1.5 Objectives of the Study

The main objective of the study is to examine the financial performance through CAMELS test of selected commercial banks and compare each other.

To accomplish the main objective, specific objective of the study are:

- To analyze the capital adequacy of selected commercial banks & to check CAR & CCR are set according to NRB rules or not.
- To check the assets quality, management quality and earning capability of selected banks.
- To analyse quality of assets and evaluate Risk Weighted Assets of NABIL, HBL and NIBL.
- To evaluate the level, trend and stability of NABIL, HBL and NIBL.
- To asses the organization investments, social corporate responsibility and services provided by selected commercial banks.

1.6 Significance of the Study

This research and study is much more significant for the customers, employees and owner of the related banks to know banks strength, weakness and management of assets, capital and liquidity of selected CBs. It might be highly significant for other competitive financial institution and banks to make policy for throat cut competition. It may be fruit full for those students, researchers, teachers and others who are interested to gain knowledge and who want to prepare thesis regarding commercial banks. Banking is the field which is related to all the economy activities of the nation. A small farmer to huge trader are keeping a touch with banks, so financial performance of banks directly or indirectly effects the economy of the country and also affected by the country economy. So it is significant for the government and economy system of the nation.

1.7 Limitation of the Study

- Out of twenty Seven commercial banks here we only consider three banks and five FY for the comparative analysis of CBs. So this thesis shows the trend of CBs but not become whole mirror of all CBs.
- In this tough competition, there can be other factors beside the financial factor which effects the overall position of the bank, but all factors are not consider in this research.
- The evaluation made herein is taken of only three samples.
- The Study covers the data of five years only.
- The study mostly and mainly based on the secondary sources of data and information and the accuracy of the study is based on the data available from the annual report published by the respective banks.

1.8 Organization of the Study

The whole study is divided into five chapters.

Chapter-I, the first chapter is the introductory one. Back ground of the study and Introduction of selected commercial banks are described in this chapter. Objectives, limitation and significance of the study are also presented in this chapter.

Chapter - II, this chapter mainly described with theoretical aspect of the CAMEL. "What others have done?" and "what others have said or written?" Regarding our study and research are examined in this section. This chapter is divided into three parts theoretical review, review of legislature provisions and review of previous studies.

Chapter - III, research methodology an important aspect of any research is presented separately in the third chapter. It shows what kinds of data are used for the study. How the data are collected. Sample and population of the study and adopted tools of analysis is also presented in this chapter.

Chapter -IV, Data collected from different sources is presented in a meaning full manner as per the demand and need of the study. The data is analyzed by using CAMEL approach. Detailed tabulation of the data is separately presented in this annexure. Finding of the study are also presented in this fourth chapter.

Chapter - V, The whole study concluded in the fifth chapter with summary conclusion and the meaningful suggestion made to improve the selected banks and banking sectors. Here recommendation is also given for the government and the NRB for better rules and regulation on banking sector. In the last appendices and bibliography are presented.

CHAPTER-2

REVIEW OF LITERATURE

Review is the combination of dual words, re plus view, which means again see or repeat the things. So to find out new things from the past experience, we should check and balance the previous statement, experiment and conclusion. "What others have done?" and "what others have said or written?" Regarding our study and research are examined in this section. This chapter is divided into three parts theoretical review, review of legislature provisions and review of previous studies. Basic terms used in this research are presented in theoretical review. Similarly NRB rules and others legal rules and provision are mentioned on review of legislature provisions. National and international journals, exports views, review of previous research and study are covered in research review.

2.1 Theoretical Review

2.1.1 CAMEL Approaches

Financial performance analysis is the process of determining the strength and weakness of an organization. Analysis is done through strategic relation between the figures of the financial statement (Balance sheet and income statement). There are various indicators like ratio analysis to measure the financial efficiency. Ratio helps to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance. Relationship can be expressed as percentage, fractions and proportion of numbers. It is widely used tool in analyzing financial status of an organization. Logical and meaningful relationship between difference financial figures can be established by constructing ratio on the basis of which various conclusions can be drawn.

2.1.1.1 C= Capital Adequacy

Capital is the life blood of every business without which no one can imagine the business.

Capital is the fund raised to finance different assets. Sources may be either short-term or long-term, capital fund is shareholder's total claim on the bank that can be categorized into two parts: -

- ◆ Core Capital
- ◆ Supplementary Capital

Core Capital

The key element of capital on which the main emphasis should be placed is the Tier 1 (core) capital, which comprises of equity capital and disclosed reserves. This key element of capital is the basis on which most market judgments of capital adequacy are made; and it has a crucial bearing on profit margins and a bank's ability to compete. Core capital is the capital which is kept in reserve for nonspecific purpose and includes following items:

- ◆ Paid up capital
- ◆ Share premium
- ◆ Non-redeemable preference share
- ◆ General reserve fund
- ◆ Cumulative profit/loss (up to previous FY)
- ◆ Current year profit/loss (as per B/S)
- ◆ Capital Redemption Reserve
- ◆ Capital Adjustment Fund

Supplementary Capital

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

Supplementary capital is that capital which is kept in reserve for specific purpose to cover loss which includes the following items:

- ◆ General loan loss provision
- ◆ Exchange fluctuation reserve
- ◆ Assets revaluation reserve
- ◆ Hybrid capital instrument
- ◆ Unsecured subordinates term debt
- ◆ Interest spread reserve
- ◆ Other free reserve
- ◆ Provision for loss on investment
- ◆ Investment Adjustment Reserve

The NRB has announced that the Basel II accord on Capital Adequacy be implemented in Nepal from July 2007. It has issued draft guidelines on Basel II frame work that would be applied in Nepal. In the first phase, it is mandatory for 'A' category financial institution i.e. commercial banks.

Risk weighted assets is the key factor which influence the capital adequacy ratio. Banks all transactions are not equally risky. Risks of the assets are differing according to its nature and transactions.

2.1.1.2A = Assets Quality

Loan is treated as assets in the bank. Assets quality is most important factor for the bank. Appropriate utilization of loan management opens the door of success, while miss management of loan brings worst condition. This is the most risky assets item that needs crucial assessment. Banks collect funds in the form of capital, deposits, borrowings, etc. It mobilizes these funds to generate certain returns by giving loans and advances to the users of money to invest in various alternatives. Bank gives loan & advance in high volume from which higher interest is generated as well as there is high risk Today world's crisis is the cause of improper management of loan. Bank granted loan to public without appropriate

securities and it become the main cause for bankrupt of Lehman brothers from where, this world economic crisis started. Major problem of City bank is also caused by this improper loan management.

Loan is basically divided by two groups.

- Performing Loan
- Non Performing Loan

Performing loan are those loans which are timely paid or paid with in three month after the date. Performing Loan is also known by Pass Loan. If the loan is not paid after three months of paying date then it becomes Non performing Loan. NPL is further classified into substandard loan, doubtful Loan and Loss loan.

According to the NRB unified directives for Banks and Non-Bank FIs, finance company has to classify Loan into following four categories.

Pass Loan: Loans and advances whose principle amount is not past due over for three months included in this category.

Substandard Loan: Loan and Advances that are past due for a period of three months to six months are listed in this category.

Doubtful Loan: those loan and advances which are past due for a period of six months to one year is known as Doubtful Loan.

Loss Loan or Bad loan: Those Loans and advances which are past due for more than one year are categorized in this group.

Sum of substandard loan, Doubtful Loan and Loss or Bad Loan is non performing loan.

To save whole effect of bad loan at once, NRB make the rule for provision on loan according to category of Loan and advances which is known as Loan Loss Provision.

2.1.1.3 M = Management Quality

Management is the core part of any business or organization. The success

of any institution depends on the competency of its management. It is a set of activities including planning, organization, and leading, staffing and controlling human resources, physical information with the aim of achieving an organizational goal, efficiently and effectively in a changing environment. It is evaluated by checking the effectiveness of the board of directives, the management, manpower, and the official operating expenditure, customer relation with the officials and institution management information system, organization and working method, internal control system, power concentration, monitoring, decision making process policies etc.

As a sound management is crucial for the success of any institution, management quality is generally accorded greater weighting in the assessment of the overall CAMEL analysis. Sound management is the key to bank performance but it is difficult to measure.

An institution can take a desired momentum only when the management is capable of strong and long term vision. For the proper and efficient management, the banks have to possess the following qualities:

- ◆ Structure of management team should be sound and perfect.
- ◆ Efficient & qualitative manpower and its productivity
- ◆ Healthy relationship between customers and organization
- ◆ Adequate management expenses
- ◆ Internal management should be effective
- ◆ Fair decision making capability
- ◆ Proper communication system
- ◆ Working environment should be cozy

2.1.1.4 E = Earnings

The earning quality component (E) reflects not only the quantity and trend in earnings, but also the factors that may affect the sustainability or quality or earnings (Koch and Macdonald, 2004).

Earnings capacity evaluates how efficiently the bank is performing in each and every sector. Proper use of available funds and duly recovery of the capital and interest on loan, profitability on investment etc. can give the position of earning. It means the bank's whole action reflects from its earnings. An analysis of the earnings ratio helps the management, investors and creditors to know the performance of the bank and can get information regarding their interest. To stay in the competition earning factor should be strong than others. Generally banks earning shows the success or failure of the bank. Meal survives the human and earning survives the organization. The purpose of the earnings measure in CAMEL is to provide a ratio representative of management's level of effectiveness in utilization of assets to earn profits. It is used as yardstick to measure the economic efficiency of the bank.

If earning of the banks are good than investors as well as the customers belief will increase. Similarly bank can increase its operations and expand its business with the increase volume of the earnings. Earning is not only need for survive of the bank but it is the key of progress.

Table No: 2.1
Impact of Earnings

Earnings view	Point of view		
	Shareholders	Depositor	Bank
Increases	<ul style="list-style-type: none"> ♣ It is positive. ♣ Value of shares will increase. ♣ The risk involved in reducing value of share decreases. ♣ Can be sold at high price value. 	<ul style="list-style-type: none"> ♣ It is positive. ♣ Increment in interest % may be expected. 	<ul style="list-style-type: none"> ♣ It is positive. ♣ Creates goodwill. ♣ Probability of good income in future.
Decreases	<ul style="list-style-type: none"> ♣ Market value per share will decrease. 	<ul style="list-style-type: none"> ♣ The attitude towards bank will be changed. 	<ul style="list-style-type: none"> ♣ Bad impact on its goodwill. ♣ Shareholder equity ownership transfer may be possible. ♣ Deposit might be decrease i.e. withdrawal possibility might be high.

2.1.1.5 L = Liquidity

Liquidity refers to the speed and ease with which an asset can be converted to cash without significant loss of value. In banking term, liquidity means availability of bank to satisfy one's liability on demand of customer. As we know that the banks are profit oriented. They believe on optimum disbursement of deposits in loans and advances. So that more and more income can be generated. Meanwhile, to invest in the profitable venture prevalent in the market and at the same time maintain confidence among the customers, they should have a stand by position of liquid funds, sufficient cover the likely demand. It is not true that the

bank cannot keep all deposits in the form of cash. The deposits are honored to allocate in various uses in order to generate income. Only the certain percent of deposit should be kept in the bank in the form of cash. If the bank will keep greater deposit in cash it losses the opportunity cost. Similarly if the bank keeps low amount in deposits it will face the liquidity crisis of it will not able to pay depositors on the time of requirement.

Table No: 2.2

Impact of Liquidity Aspect:

Liquidity position at different stage	High	Medium	Low
Bank	This position is not good because idle money will be burden to bank	It shows that they are performing well and are maintaining liquidity position well.	It shows bank is not maintaining CRR ration by NRB and may be panelized.
Depositors	This is good because the money will be available in bank.	This position is also good because banks are maintaining good position of liquidity.	It shows bad condition because they can't withdraw money.

Banks have to show their extra energy to managing the liquidity, because it is the key of success. Idle liquidity only increases the cost and less liquidity opens the door of bankrupt. How much the liquidity is appropriate? It should be well answered and managed by the bank if they want to become leader in such a tough competitive market. How much the money should be kept in the bank? It is differing from bank to bank. It depends on the deposit structure and nature of the customer. So bank have to manage it self. Government rules of CRR should be maintained by all banks. Through CAMEL we examine banks are following

government rules or not. How much, they are investing upon government securities. How much, they have the idle liquidity etc.

2.1.1.6 S = Sensitivity to market Risk

Risk that occurs due to changes in the market conditions could adversely impact earning and capital of the bank refers as sensitivity to market risk. This reflects the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect commercial banks earnings or economic capital. It is assessed for determination of bank's ability to monitor and manage its exposure to market risk. It checks to management's ability to identify measure, monitor and control market risk.

2.2 Review of Legislature provisions

To make commercial banks and financial institutions more responsible and transparent, NRB supervises commercial banks and other financial institutions. NRB is the banker of the banks and financial institutions so it regulates, coordinates, controls and supervises other banks and financial institutions. NRB makes the monetary policy for the government. NRB is the legislative body which makes certain rules to control the monetary and fiscal environment of the nation. It formulates the policy to control inflation or deflation. CAMEL is fully affected by the NRB policy. NRB makes the standard for CAR, CCR and CRR. It determines what percentage should be kept as provision for the different kinds on Loan. It standards the weight for different kinds of assets according to assets risk.

The NRB has announced that the Basel ii accord on Capital Adequacy is implemented in Nepal from July 2007. now commercial banks have to maintain minimum 5.5% CCR and 10% CAR. Minimum CCR and CAR set by the NRB is revised time to time. On FY 2059/60 CCR and CAR were 4.5% and 9% respectively, on FY 2060/61 CCR and CAR were 5.5% and 11% respectively, on

FY 2065/66 CCR and CAR were 5.50% and 10% respectively. Following table show the fluctuating rules of NRB regarding it.

Table No: 2.3

NRB directives regarding CCR and CAR

Fiscal Year (B.S.)	CCR	CAR
2059/60	4.50%	9%
2060/61	5.50%	11%
2065/66	5.50%	10%

(Source: "*Frox General Banking Course*")

Risk weighted assets is the key factor which influence the capital adequacy ratio. Banks all transactions are not equally risky. NRB rate the risk of assets to calculate total risk weighted assets which are as follows:

Table no: 2.4

Risk Weighted Assets

Table of Risk Weighted Assets	
On Balance Sheet Assets	Risk Weight
Cash Balance	-
Gold (tradable)	-
Balance with Nepal Rastra Bank	-
in government securities	-
Investment in NRB bonds	-
Fully secured loan against own fixed deposit	-
Fully secured loan against government securities	-
Balance with Domestic bank and financial institution	0.2
Fully secured FDR loan against Fixed Deposit receipt of other banks	0.2
Balance with foreign banks	0.2
Money at call	0.2
Loan against the guarantee of internationally rated banks	0.2
Other investment with internationally rated banks	0.2
Investment in Share, Debenture and Bonds	1
Other Investments	1
Loan, advance and bills purchased/Discounted	1
Fixed Assets	1

All Other assets	1
Off Balance Sheet Items	
Bills collection	-
Forward Foreign Exchange Contract	0.1
Letters of credit with Maturity of less than ½ year (full value)	0.2
Guarantee provided against counter guarantee of internationally rated foreign banks	0.2
Letter of Credit with Maturity more than 6 months (full value)	0.5
Bid bond	0.5
Performance Bond	0.5
Advance payment Guarantee	1
Financial Guarantee	1
Other Guarantee	1
Irrevocable Loan commitment	1
Contingent Liability in respect of income tax	1
Loan under repurchase guarantee	0.5
All other contingent liabilities	1

(Source: "*Frox General Banking Course*"; course materials, 2009)

Granting loan is one of the basic functions of the banks. Banks earn interest from loan but if loan amount is not recovered or if loan become bad debts or non performing loan than banks have to bear a huge loss. If loan is not recovered in time, banks have to face the liquidity crises. To prevent from such a disaster NRB makes rules for provision according to nature of the loan. NRB categories the loan in four grounds according to duration of overdue. That is presented as bellow.

Table No: 2.5

Loan classification and provision as per NRB directives

Classification of loans	Category	Duration overdue	Loan Loss Provision
Performing Loan	Standard /Pass/Good	1 to 3 months	1%
	Sub-standard	3 to 6 months	25%
Non-performing Loan	Doubtful	6 months to 1 year	50%
	Bad or Loss	More than 1 year	100%

Source:- Nepal Rastra Bank Economic Report 2009.

In case of loan is given on a personal guarantee basis only, additional provision of 20% needs to be provided in three categories i.e. goods, substandard and Doubtful.

If loan is given to the shareholders or promoters who are holding 1% or more shares of the same bank , the provision percentage needs to be made double in three categories i.e. goods, substandard and Doubtful. In case of loan is restructured or rescheduled, provision of 12.5% needs to be provided instead of 1% for good loan category. The other provisions will remain the same.

NRB gives full authority to the commercial banks to make their own deposit interest rate and loan interest rate. Therefore interest rate differs from bank to bank.

2.3 Review of Previous Studies

National and international journals, exports views, review of previous research and study are covered in research review.

2.3.1 Review of Journals and Articles

Berger and Davies evaluated the impact of CAMEL rating changes on the parent holding company's stock price. They separated stock price changes into two components: a 'private information' effect (which identified the public's awareness of new information discovered by examiners), and a 'regulatory discipline' effect (which valued a regulator's presumed ability to force a bank to change its behavior). Berger and Davies' empirical results provided only weak evidence of a regulatory discipline effect, but they found a strong private information effect. However, the information effect applied only to CAMEL downgrades, which tend to precede stock price declines. Berger and Davies found no movement in the stock price following a CAMEL upgrade.

Hirtle and Lopez examine the usefulness of the past CAMEL rating in assessing banks' current conditions. They find that, conditional on current public information, the private supervisory information contained in the past CAMEL rating provides further insight into bank current conditions as summarized by current CAMEL ratings. The authors find that, over the period from 1989 to 1995, the private supervisory information during the last on-site exam remains useful with respect to the current condition of the bank for up to 6 to 12 quarters. The overall conclusion drawn from academic studies is that private supervisory information, as summarized by CAMEL ratings, is clearly useful in the supervisory monitoring of bank conditions.

Dhungana Bhisma argues the CAMEL rating system plays a key role for bank supervision. According to him, the NRB as a central bank has the important task of regulating & supervising the banking system of Nepal. The NRB assesses the overall strength of the banking system as well as the safety and soundness of each individual bank and financial institution, in order to discharge this role. To help in this endeavor, a uniform rating system for all banks and financial institutions has been used. Under this modality, supervisors assign individual numerical ratings to

the key areas of Capital, Assets, Management, Earnings, liquidity and sensitivity to the market risk (CAMELS) as well as assigning an overall composite rating to each banking institution. In this way, the NRB has been able to categorized banks and financial institutions into group based on their overall strength, quality and operating soundness. The rating system known as CAMEL has served as a supervisory tool to help identify those banks that are having problems and require increased supervision. To date, early warning signals are drawn are drawn & monitored from the CAMEL rating through on-site inspection and CAMEL rating through offsite supervision.

Pant Radish argued that after 2010, there will be new international entrants in the market, we must remain very competitive, and we have to operate at international standards. However, he does not think we need to fear. He believed combined capital of all Nepalese commercial banks would not even equal to the capital of a small bank in developed countries. It somehow, Nepal is able to capitalize on the growth of China and India, there is no turning back for the banking sector. There will be opportunities for all types of banks. So, we need to work together to address the challenges of that WTO."

2008 was an extraordinarily tumultuous year, full of shocks & surprises. None of us have even quite seen the scale of dislocation & disruption in financial market that we have experienced this year. To put things in perspective, there has been more volatility in the US equity market in the three month since Lehman went bankrupt in the mid- September, than in the previous 45 years put together,. Moreover, with the disappearance or effective nationalization of several major players, and the demise of the US broke, dealer model, the global industry has changed fundamentally & irreversibly.

2.3.2 Review of Thesis

Bhandari (2006) conduct a study on "Financial performance Analysis of Himalayan Bank Limited in the Framework of CAMEL". The basic objective of

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

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

K.K. Kotal (2007) conducted "CAMEL STUDY On Joint Venture Banks with Special Reference to SCBL, NABIL AND HBL, A THESIS". The main objective of the study was to analyze the financial strength, weakness and performance of competitive 1st generation banks, taking the sample of Standard Chartered, Nabil and Himalayan banks. She did her study covering three FY (2003/04 to 2005/06) on the basis primary as well as secondary data. Some financial and statistical tools and techniques are applied to evaluate the performance of selected joint venture banks. She found SCBL and Nabil were

maintaining CAR according to NRB rules but HBL became failure to maintain in previous FY. Regarding assets quality Nabil lead other two banks. In terms of NPL, LLPR and performing Loan Nabil shows its sound performance and management SCBL follow Nabil, HBL follows there after. HBL should put either extra effort to decrease NPL or increase LLP further. Kutal saw mgmt of SCBL is much better than others where Nabil show extra care to its employee by providing high bonus; here also HBL was behind of these two. Study show HBL cash and bank balance was highest despite of high volume of lending which means there's still lot of fund lying idle. Nabil was taking risk as compare to other and investing few in government securities where as SCBL investing huge portion o investment in government securities. In overall analysis SCBL becomes first in position and Nabil and HBL comes thereafter. But Nabil was following more competitively. HBL have to do lots of homework for the tough competition.

Sanjel (2007) carried out a research study on "Comparative Analysis of Financial Status and Performance Evaluation of HBL and Nabil bank limited" in the frame of CAMEL rating system. Research was conducted for the period 200/01 to 2004/05 based on primary as well as secondary data. By using descriptive and analytical research design, financial ratios, and simple mathematical and statistical tools study was done. In his study, he got capital adequacy in case of Nabil is meting the standard of NRB where HBL became failure to meet in all FY. The LLP of Nabil is decreasing continuously in each year where as the LLP of HBL is in increasing trend but bellow the industrial average. The non performing loan to loan ratios are in bellow the industrial average and the standard. To total expenses to revenue ratio are in decreasing trend and the EPS are in increasing trend which indicate effective management of Nabil. But in the case of HBL both are decreasing. The earning quality ratio like return on equity , return on assets, net interest margin, EPS are generally above the bench mark prescribed by the World Bank and in increasing trend , but comparison to these

two Nabil is in favorable condition as compare to HBL. Overall liquidity position Nabil leads HBL. Nabil has good management of risk adjustment which is shown by its investment in risky assets and profit generation.

Chand Kamal Bd. (2007 Feb.) conducted "financial Performance Analysis (CAMEL - Test) of Selected CBs (Nabil, NIBL & SCBL)" the main objective of the study is comparative analysis of commercial banks through the frame work of CAMEL. He did her study covering five FY (2001 to 2005) on the basis primary as well as secondary data. Some financial and statistical tools and techniques are applied to evaluate the performance of selected joint venture banks. On his study, except 2001, SCBL had highest CAR among these selected CBs where Nabil is moderate in all time. In the case of NIBL in 2001 it had highest CAR among them and then after it went behind and getting second and some year third position in CAR. Here Chand gave first rank to SCBL for maintain highest CAR. In case of Assets quality in average study show the Nabil performance is much better than other and SCBL and NIBL follows Nabil respectively. Chand study shows the factors affecting the management efficiency and effectiveness. Bank management quality model was also presented in his study. As per earning concern SCBL leads other two banks and tough fight between Nabil and NIBL. For comparative analysis of liquidity part which compare, it is found that NIBL secures first position for percentage of cash balance and percentage of balance with bank and SCBL scores first position for investment in government securities. Nabil is a little bit take risk and invest less in government securities as compare to other two banks. All banks are maintaining the benchmark of the NRB on case of CRR.

Manisha Bhusal (2008 march) carried out a research study on " Financial Performance Analysis of commercial banks In Nepal the Frame work of CAMEL (A Comparative Study of Kumari Bank and Machhapuchchhre Bank", with the fundamental objective to analyze and compare the financial performance of KBL and MBL in the frame work of CAMEL from FY 2058/59 to 2062/63. with the

help of both secondary as well as primary data, she conducted her study by applying Some financial and statistical tools and techniques. Her study shows both banks are maintaining CAR as per rule of NRB and the trend of CAR is decreasing. Both banks are in much satisfactory level in the case of assets management. Increasing profit of both banks shows the good sign but it is not enough to compete with other established banks. According to her study, Profits are also not enough to meet benchmark set by the World Bank. In the case of liquidity both banks are not properly maintaining the rule of NRB. In her overall analysis there is tough competition between KBL and MBL and both are in the phase of improvement.

CHAPTER-3

RESEARCH METHODOLOGY

3.1 Introduction

This research methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objective in view. In other words research methodology describes the method and the process applied in the entire aspect of the study and focus is given to research objectives, the model definition of variables and sources of the data used in the study.

Research is the systematic enquire for seeking facts and methodology in the method of doing research in well manner. So research methodology means the analysis of specific topic by using proper method. Research methodology is away to a systematically solve the problem.

The research for gaining the knowledge about method of goal achievement which we desire is known as research methodology.

3.2 Research Design

Research design is the plan, structure and strategy of investigation concerned so as to obtain answer to research questions and to control variance. The plan is the overall scheme or program of the research. It includes of what the investor will do from writing the hypothesis and their operational implications to the final analysis of the data.

Research is designed to fulfillment of the objective of this study. It is designed to know the view of the genuine person related to banks, financial institutions and the economy of the nation on the behalf of CAMELS and NRB rules which affects the financial performance of the banks. *Depending upon nature of data descriptive & analytical type of research method is applied.*

Shakespeare Vaidya, "Banking and Insurance Management", Taleju Prakashan, 2001 April p. 28

3.3 Population and Sample:

At present there are 26 commercial banks are operating in Nepal. Due to time lack and resource constrain it is not possible to study all of them regarding the study topic. Therefore sampling will be done selected from population. The populations are as follows.

Table no. 3.1
Commercial Banks

No.	Commercial Banks	Established in (B.S)	Head Office
1	Nepal Bank Limited	1994/07/30	Kathmandu
2	Rastra Baniyya Bank	2022/10/10	Kathmandu
3	Agricultural Development Bank Limited	2024/11/07	Kathmandu
4	Nepal Arab Bank Limited	2041/03/29	Kathmandu
5	Nepal Investment Bank Limited	2042/11/26	Kathmandu
6	Standard Chartered Bank Limited	2043/10/16	Kathmandu
7	Himalayan Bank Limited	2049/10/05	Kathmandu
8	Nepal Bangladesh Bank Limited	2050/02/23	Kathmandu
9	Nepal SBI Bank Limited	2050/03/23	Kathmandu
10	Everest Bank Limited	2051/07/01	Kathmandu
11	Bank of Kathmandu Limited	2051/11/28	Kathmandu
12	Nepal Credit and Commerce Bank Limited	2053/06/28	Siddharthanagar
13	Lumbani Bank Limited	2055/04/01	Narayangadh
14	Nepal Industrial and Commerce Bank Limited	2055/04/05	Biratnagar
15	Development Credit Bank Limited	2057/04/06	Kathmandu
16	Machhapuchhre Bank Limited	2057/06/17	Pokhara
17	Kumari Bank Limited	2057/06/17	Kathmandu
18	Laxmi Bank Limited	2058/12/21	Birgunj
19	Siddhartha Bank Limited	2059/09/09	Kathmandu
20	NMB Bank Limited	2062/01/20	Kathmandu
21	Global Bank Limited	2063/09/18	Kathmandu

22	Citizen Bank International Limited	2064/01/07	Kathmandu
23	Prime Commercial Bank Limited	2064/06/10	Kathmandu
24	Bank of Asia Nepal Limited	2064/06/25	Kathmandu
25	Sunrise Bank Limited	2064/06/25	Kathmandu
26	Kist Bank Limited	2066/01/24	Kathmandu
27	Janta Bank Nepal Limited	2066/12/23	Kathmandu

Sample of this studies are listed three commercial banks.

Table no: 3.2
Sample of the Study

No	Name of bank	Established	Head- Office
1	Nabil bank	1984/7/16	Kathmandu
2	Himalayan bank	1993/1/18	Kathmandu
3	Nepal Investment Bank	1986/2/87	Kathmandu

Base of selection

Nabil, Himalayan and Nepal Investment banks are first generation banks. They are established as joint venture banks later NIBL becomes fully Nepalese bank. These banks are leading banks of the country so these banks are selected for the study. We can see the over view of all Nepalese commercial leading banks through these banks analysis, so these banks are selected. These banks activities affect the whole banking environment of Nepal, they are introducing new products time to time so these banks are taken for the study. Easily available of annual reports and other data makes to take these banks for the study.

3.4 Nature and Source of Data

Basically the research is based on Secondary information data. The annual reports of the banks from the major sources of data. The regulatory data were collected from NRB directives and reports. The basic conceptual information was

collected through financial report, bank prospectors, banking reports, bank website, NRB publications, and magazine related with banks etc.

3.5 Data Collection procedure:

For the purpose of this research and study, the different data are obtained from different sources. These data's are scanned and tabulated under different heads. After tabulating these data's are examined and analyzed through CAMEL test.

3.6 Data Analysis Tools

3.6.1 Financial Tools

Financial performance analysis is the process of determining the strength and weakness of an organization. Analysis is done through strategic relation between the figures of the financial statement (Balance sheet and income statement). There are various indicators like ratio analysis to measure the financial efficiency. Ratio helps to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance. Relationship can be expressed as percentage, fractions and proportion of numbers. It is widely used tool in analyzing financial status of an organization. Logical and meaningful relationship between difference financial figures can be established by constructing ratio on the basis of which various conclusions can be drawn.

On the regard of CAMEL analysis, here we analyze the financial performance and trend analysis of selected commercial banks. Here we asses the efficiency, effectiveness and quality among Nabil, Himalayan and Nepal Investment Bank on the base of CAMEL.

CAMEL stands for,

C: - Capital Adequacy

- A: - Assets Quality
- M: - Management Quality
- E: - Earning
- L: - Liquidity

3.6.1.1 C=Capital Adequacy

CAR = Capital adequacy ratio

Capital adequacy ratio reflects the overall capital of the banks and also the ability of the management to meet additional capital requirement. It defines relationship between capital fund and total risk weighted assets of the bank.

According to NRB guidelines, banks in Nepal should maintain 10% capital adequacy ratio and 5.5% core capital ratio. These ratios have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum requirement then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share.

$$CAR = \frac{\text{core capital} + \text{supplementary capital}}{\text{Total Risk Weighted Assets}} \times 100$$

CCR = Core Capital Ratio

Core Capital is the capital of owners which is not used for specific purpose. More core capital fund indicates more owners' fund being utilized by the bank. It is calculated as follows.

$$CCR = \frac{\text{core capital}}{\text{total riskweighted capital}} \times 100$$

CCR indicates how much owners or promoters capitals are used on risk weighted assets.

3.6.1.2 A= Assets Quality

LLPR = Loan Loss Provision Ratio

It indicates to percentage of loan loss provision in terms of total loan value. In other words, how much provision a bank has created for the given loan? The LLPR shows how much efficiently the company manages its loan & advances and makes effort for the loan recovery. More delay the company gets to collect the loan more provision has to make and ratio will be higher. Lower ratio is better the financial position and vice-versa.

Lower the ratio is better the financial position and vice-versa. It is calculated as follows.

$$\text{loan loss provision Ratio} = \frac{\text{total loss provision}}{\text{total loan}} \times 100$$

LLCR = Loan Loss Coverage Ratio

It is mandatory that for every bank need to keep some provision for the loan they providing. It indicates the provision made by bank for exposure of loan losses in terms of non-performing loan. Higher the LLCR better the financial position and vice-versa. It is computed as follows.

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Total Loan Loss provision}}{\text{Total NPL}} \times 100$$

NPLR = Non Performing Loan Ratio

Non-performing loan consists of sub-standard, doubtful and bad loans. Higher NPL ratio shows bad management of assets. If the ratio is low it indicates a favorable credit management position. NPL ratio is calculated as follows.

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

3.6.1.3M=Management Quality

MER = Management Efficiency Ratio

Management efficiency ratio indicates the efficiency of the staff in the bank or organization. How effectively and efficiently staff works and contribute on total net profit after tax is shown by MER. It is the indicator which indicates how effectively banks are managed? The management efficiency ratio of any bank can be calculated as follows:

$$MER = \frac{\text{Total Net Profit After Tax}}{\text{Total Number of Staffs}} \times 100$$

3.6.1.4 E = Earning Capability

EPS = Earning Per share

It measures the profit available to the equity shareholders as per share basis i.e. the amount that they can get on each share hold. In other words, this ratio measures the earning available to equity shareholders on a per share basis. It is calculated as follows.

$$EPS = \frac{\text{Net Profit after Tax}}{\text{Number of shares}} \times 100$$

It is mandatory that for every bank need to keep some provision for the loan they providing. It indicates the provision made by bank for exposure of loan losses in terms of non-performing loan. Higher the LLCR better the financial position and vice-versa.

It is mandatory that for every bank need to keep some provision for the loan they providing. It indicates the provision made by bank for exposure of loan losses in terms of non-performing loan. Higher the LLCR better the financial position and vice-versa.

ROE = Return On Equity

Generally when shareholders invest their capital in bank they can get some additional benefit from bank which is known as Return on Equity. ROE is the bank's net income after tax to total equity capital or net worth. It indicates how much profit is getting from the equity. It is calculated as follows:

$$ROE = \frac{\text{Net Profit after Tax}}{\text{Total Shareholders Fund}} \times 100$$

ROA = Return On Assets

Every financial institute has their own assets and ROA shows the productivity of these assets. It measures how efficiently the assets are utilized in the financial organization. This ratio analyzes the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in bank thereby indicating effective use of the resources available and vice-versa. It is calculated in terms of relationship between net profit and assets

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

3.6.1.5 L= Liquidity

CRR = Cash Reserve Ratio

According to NRB directives all commercial banks are required to maintain 5% of their deposits as CRR in their 'NOSTRO' accounts maintained with NRB. NRB has issued this guideline to the bank maintain their adequate liquidity. NRB has prescribed this mandatory requirement because all commercial banks can face unexpected liquidity risk.

It is calculated as:

$$CRR = \frac{\text{NRB Balance Lcyonly}}{(\text{Lcy Deposits} - \text{margin Deposits})} \times 100$$

Cash and Bank Balance Ratio:

The bank must be able to meet its immediate obligation of customers. Cash & bank balance ratio shows the percent of deposit maintained as liquid assets. A higher ratio represents a greater ability to meet any unexpected demand made by the customers. If the bank cannot keep adequate amount of deposit it cannot operate its daily transaction. But maintaining very high ratio also indicates the losses of opportunity cost. So the bank should manage C&B ratio properly. It is calculated as:

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

Investment in government Securities Ratio

Government securities are those securities which are risk free and can be easily converted in cash at anytime. The banks instead of keeping their funds idle invest in various government securities which are liquid in nature as they can be traded anytime. And this investment in government securities ratio shows how much fund is invested in government securities. Only maintaining Cash Reserve Ratio and Cash & Bank Balance Ratio cannot be considered sufficient for immediate liquidity obligation. It is calculated as:

$$\text{Investment in Govt. securities ratio} = \frac{\text{Investment in Govt. securities}}{\text{Total Deposit}} \times 100$$

Data are further tabulated and presented wherever required. Five year trend of Three CBs are presented and analyzed to know the trend of Nepalese commercial banks. On this regard different ratios are calculated and analyzed. To know the view of genuine persons related to banks, financial institutions and economy regarding the CAMELS & NRB rules and regulations which affect the CAMELS test, different questions are set in this research and study.

3.6.2 Statistical Tools

3.6.2.1 Mean

The most popular and widely used measure of representing the entire data by one value is what most laymen call an average and what the statisticians call the mathematic mean. Its value is obtaining by adding together all items and by dividing this tool by the number of items. In this study, arithmetic mean of CAMEL parameters calculated. Mean helps to analyze the average ratio of CAMEL parameters of the bank. It shows the banks efficiency and effectiveness.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

3.6.2.2 Standard Deviation

The standard deviation measures the absolute dispersion (of variability of the dispersion, the greater the amount of dispersion of variability) the greater of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of series; A large standard deviation means just the opposite. Thus, if we have two or more nearly identical means, it is the distribution with the smallest standard deviation that has the most representative mean, Hence, standard deviation extremely useful for judging the representative of the mean.

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N - 1}}$$

3.6.2.3 Coefficient of Variation

Standard deviation is only an absolute measure of dispersion, depending upon the units of the measurement. The relative measure of dispersion based on standard deviation is called the coefficient of standard deviation. This is a pure number independent of the units of measurement and thus, is suitable for comparing the variability, homogeneity or uniformity of two or more distributions.

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\bar{X}}$$

CHAPTER- 4

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the presentation and analysis of data collected from different sources with the focus on the camel components. The data collection from annual Reports of NABIL, NIBL, and HBL banks have been analyzed with the application of camel.

4.1 Secondary Data Analysis

4.1.1 Capital adequacy ratio

Capital adequacy ratio reflects the overall financial condition of the banks and also the ability of the management to meet additional capital requirement. It defines relationship between capital fund and total risk weighted assets of the bank.

According to NRB guidelines, banks in Nepal should maintain 10% capital adequacy ratio and 5.5% core capital ratio. These ratios have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum requirement then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share.

4.1.1.1 Core Capital Ratio

Core Capital is the capital of owners which is not used for specific purpose. More core capital fund indicates more owners' fund being utilized by the bank. High CCR gives better protection to depositors and creditors. But this higher CCR inversely affect the profit of the bank. CCR can be computed as follows:

$$CCR = \frac{\text{core capital}}{\text{total riskweighted capital}} \times 100$$

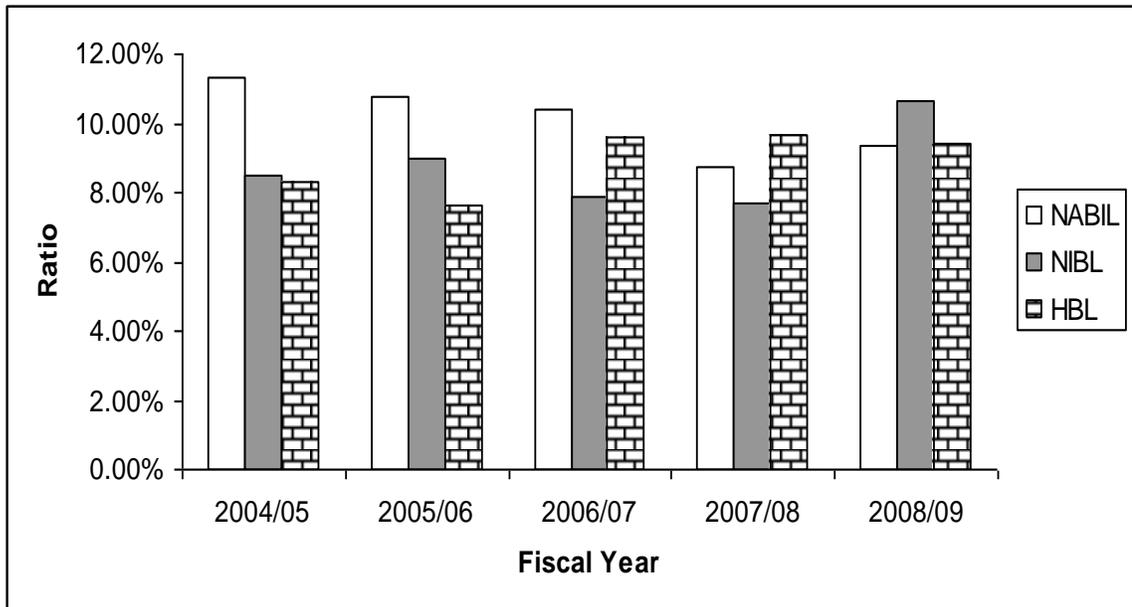
Table no. 4.1

Computation of Core Capital Ratio

Years	Banks		
	NABIL	NIBL	HBL
2004/05	11.35%	8.52%	8.33%
2005/06	10.74%	7.97%	8.65%
2006/07	10.40%	7.90%	9.61%
2007/08	8.75%	7.71%	9.64%
2008/09	9.38%	10.62%	9.42%
Mean	10.12%	8.54%	9.13%
STDEV	0.010488	0.011989	0.00601
C.V.	0.103636	0.140386	0.065827

Source: - Annex 2

Figure No. 4.1
Core Capital Ratio



Above table and chart clearly shows that CCR of Nabil is highest as compare to others. Only in final year Nabil has less CCR as compare to HBL but still more than NIBL. NRB provision of minimum CCR is 5% and all selected banks have more than it in any year. It means all bank are following the rules and regulation regarding the CCR. Core capital is permanent capital of the bank. More Core Capital Ratio means more responsible management on the eye of investor.

Investors and depositors can feel more safety but for the bank, having more CCR means less return. It hampers the profit. In average NIBL has the least CCR, which shows that NIBL is performing well by maintaining bench mark of the NRB and keeping the least CCR. Its C.V. is also least which shows less fluctuation. But depositors and the creditors of NIBL have more risk as compare to others. HBL has moderate CCR among three banks and its C.V. is also in-between the C.V. of Nabil and NIBL. Which clarify, although HBL is adopting increasing trend on CCR, its CCR is still moderate. Nabil's average CCR is highest among selected banks; this CCR is hampering the profit of Nabil. On other side, Highest CCR also indicates that Nabil's depositors and customers are getting more protection. But, if Nabil maintains the least CCR its profit can goes up. Highest C.V. of Nabil clarify that there is highest fluctuations on CCR among studied banks.

4.1.1.2 Capital Adequacy Ratio

Total capital divided by the total risk weighted assets is the capital adequacy ratio.

High CAR means better protection to its depositors and creditors but it has negative relation with the net profit of the bank.

$$CAR = \frac{\text{core capital} + \text{supplementary capital}}{\text{Total Risk Weighted Assets}} \times 100$$

Where,

Total capital fund=Core capital+ Supplementary capital

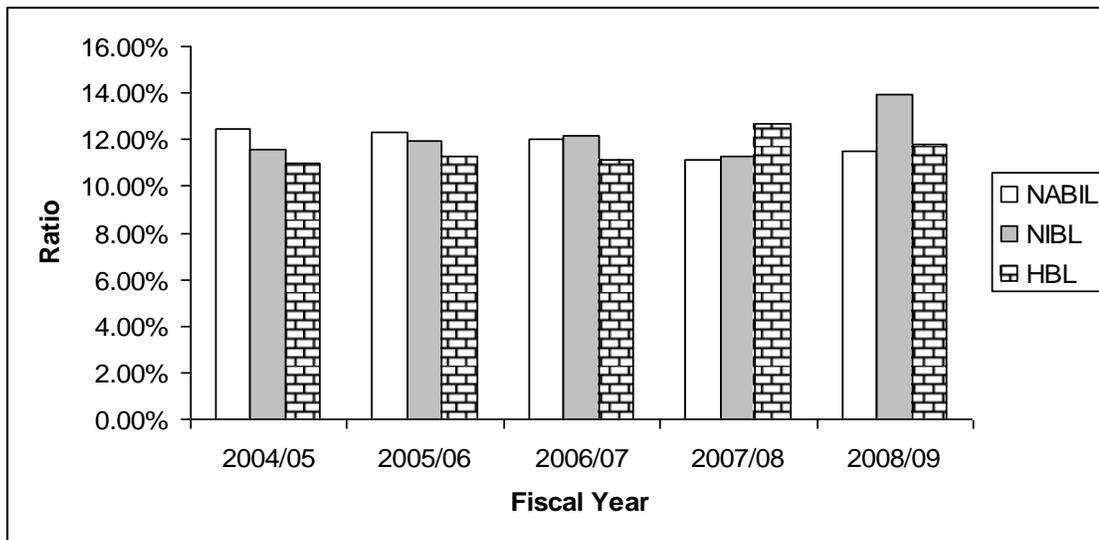
Total risk weighted assets=On Balance Sheet Risk Weighted Item+ off Balance Sheet Risk Weighted Item

Table no: 4.2
Computation of Capital Adequacy Ratio

Years	Banks		
	NABIL	NIBL	HBL
2004/05	12.44%	11.58%	11.01%
2005/06	12.31%	11.97%	11.26%
2006/07	12.04%	12.17%	11.13%
2007/08	11.10%	11.28%	12.70%
2008/09	11.47%	13.95%	11.78%
Mean	11.87%	12.19%	11.58%
STDEV	0.005701	0.010424	0.006936
C.V.	0.048028	0.085513	0.059896

Source: - Annex 3

Figure No. 4.2
Capital Adequacy Ratio



In respect of Nabil bank limited its CAR is slowly and gradually decreasing. As we all know that CAR hampers the profit and it is better for the bank to keep minimum CAR. But in the view of depositors and creditors higher CAR ratio is more favorable. High CAR gives better protection to its depositors and creditors. Nabil is maintaining the NRB mandatory regarding CAR. Yearly decreasing CAR shows that slowly and gradually Nabil only maintain minimum CAR as described by the NRB, to increase its profit. But till now, its Mean CAR is

highest which shows that it gives best protection to its customers and creditors among three selected banks. On the other hand this high CAR is hampering its profit more than others. Similarly having the highest C.V. Nabil shows the high per unit fluctuation regarding the CAR. Nabil CAR is in decreasing year by year which may better from its profit perspective but it is still on the behind in the competition.

Mean CAR of the HBL is the least which shows the mgmt of appropriate capital adequacy. But its C.V. is in between NIBL and Nabil which shows per unit fluctuation of the CAR is between NIBL and Nabil. On the other hand with the Lowest Mean CAR, HBL indicates its protection to depositors and creditors is least.

Having least C.V. among three comparative banks, NIBL shows its least per unit fluctuation on CAR but its Mean CAR is little bit more than HBL. So it is not able to be best on the aspect of CAR. It is giving more protection to its depositors and creditors as compare to HBL but on the other hand its profit is more negatively affected by its CAR as compare to HBL.

4.1.2 Assets

4.1.2.1 Non-performing Loan Ratio (NPLR):

Non-performing loan consists of sub-standard, doubtful and bad loans. Higher NPL ratio shows bad management of assets. If the ratio is low it indicates a favorable credit management position.

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

Table no: 4.3

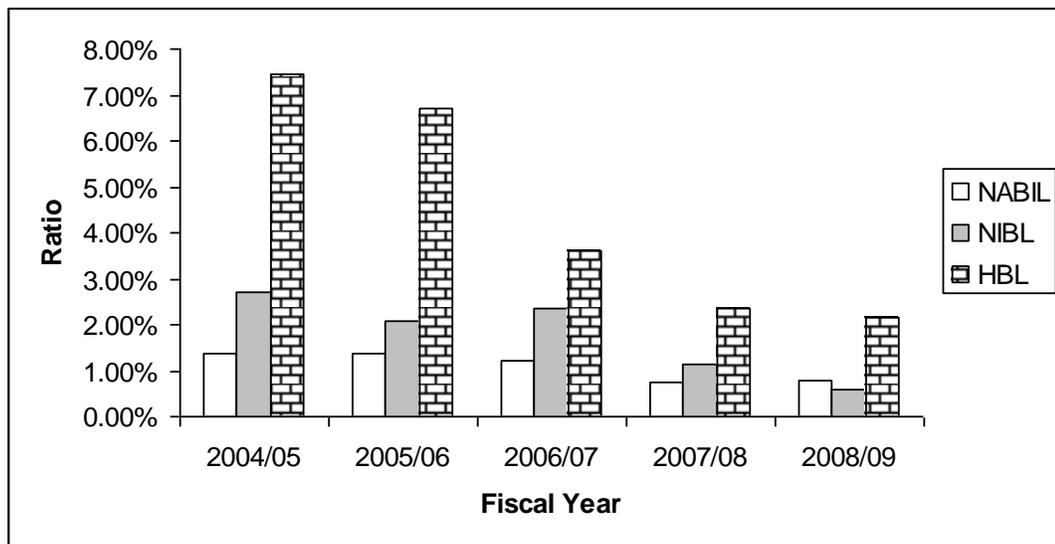
Computation of Non-Performing Loan Ratio

Years	Banks		
	NABIL	NIBL	HBL
2004/05	1.36%	2.69%	7.44%
2005/06	1.38%	2.07%	6.71%
2006/07	1.21%	2.37%	3.61%
2007/08	0.74%	1.12%	2.36%
2008/09	0.80%	0.58%	2.16%
Mean	1.098%	1.77%	4.46%
STDEV	0.0030725	0.008853	0.024681
C.V.	0.279827	0.500169	0.553386

Source: - Annex 4

Figure No 4.3

Non Performing Loan Ratio



Nabil Mean NPL least is least, it is only 1.098% which is too good and it shows Nabil performing loan is best as compare to others. While granting the loan Nabil is done appropriate analysis. Nabil reducers its 1.36% NPL of FY 2004/05 to 1.38% on FY 2005/06 which is great achievement although on 2006/07 NPLR slightly decreased but than after it doesn't have to look behind. Here its standard deviation is moderate which overall shows moderate fluctuation among three banks. But C.V. of NPL is highest which proved that per unit fluctuation of NPL is

highest on Nabil. HBL Mean NPL is highest which shows the inefficiency of bank while granting the loan. Highest Mean NPL indicates, as compare to other banks HBL is not rightly judged the loan proposal. HBL becomes not more success to provide good and pass loan. HBL standard deviation of NPL is also the highest, which mean overall there is highest fluctuation on NPL. High fluctuation is not good for the bank but here HBL is able to decrease its NPL year by year. So this fluctuation is positive. It shows that year by year HBL is reducing its NPL in large quantity. According to its C.V. which lies in between NIBL and Nabil, per unit fluctuation is moderate. Mean NPL of NIBL is moderate it is not too far from Nabil so it is also good management of loan. Per unit fluctuation of the NIBL NPL is least which is justified by its least C.V. NIBL is not able to maintain decreasing trend on NPL. Some Fiscal Years its NPL goes up and on some Fiscal years it reduces, so least per unit fluctuation is better for the NIBL.

4.1.2.2 Loan Loss Coverage Ratio (LLCR):

It is mandatory that for every bank need to keep some provision for the loan they providing. It indicates the provision made by bank for exposure of loan losses in terms of non-performing loan. Higher the LLCR better the financial position and vice-versa.

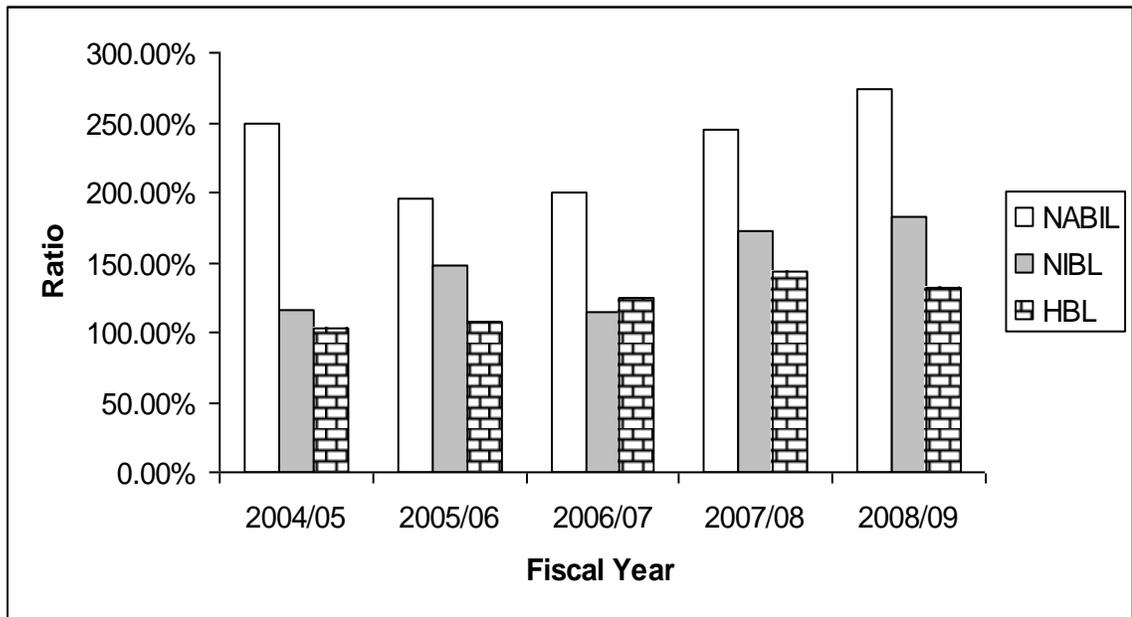
$$\text{Loan Loss Coverage Ratio} = \frac{\text{Total Loan Loss provision}}{\text{Total NPL}} \times 100$$

Table no: 4.4
Computation of Loan Loss Coverage Ratio

Years	Banks		
	NABIL	NIBL	HBL
2004/05	249.52%	116.46%	102.53%
2005/06	195.07%	147.51%	107.56%
2006/07	200.37%	114.39%	124.02%
2007/08	244.84%	172.12%	142.93%
2008/09	273.93%	181.96%	131.75%
Mean	232.75%	146.49%	121.76%
STDEV	0.336951	0.310172	0.167669
C.V.	0.144769	0.211736	0.137705

Source: - Annex 5

Figure No. 4.4
Loan loss coverage ratio



From the above table and the diagram we can clearly see that loan loss coverage ratio of Nabil bank is the highest in all Fiscal Year. Having the highest loan loss coverage ratio Nabil shows its best quality of assets among these three selected banks. Mean LLCR of Nabil is significantly high in comparison to others. NIBL and HBL are following the respectively. Some year Nabil's LLCR

goes up and in another year it goes down. Per unit Fluctuation of LLCR on Nabil is highest which is shown by its C.V. Having the least mean LLCR, HBL shows its poor position but in average it is more than 100%. C.V. of HBL shows medium per unit fluctuation on LLCR. Year by year its LLCR is increasing but it has still least mean LLCR. Except FY 2007/08, HBL has least LLCR in each year. NIBL Mean LLCR is in between Nabil and HBL which indicates the moderate position. Having least C.V of LLCR, NIBL proves its least per unit fluctuation.

4.1.2.3 Loan Loss Provision Ratio

It indicates to percentage of loan loss provision in terms of total loan value. In other words, how much provision a bank has created for the given loan? The LLPR shows how much efficiently the company manages its loan & advances and makes effort for the loan recovery. More delay the company gets to collect the loan more provision has to make and ratio will be higher. Lower ratio is better the financial position and vice-versa.

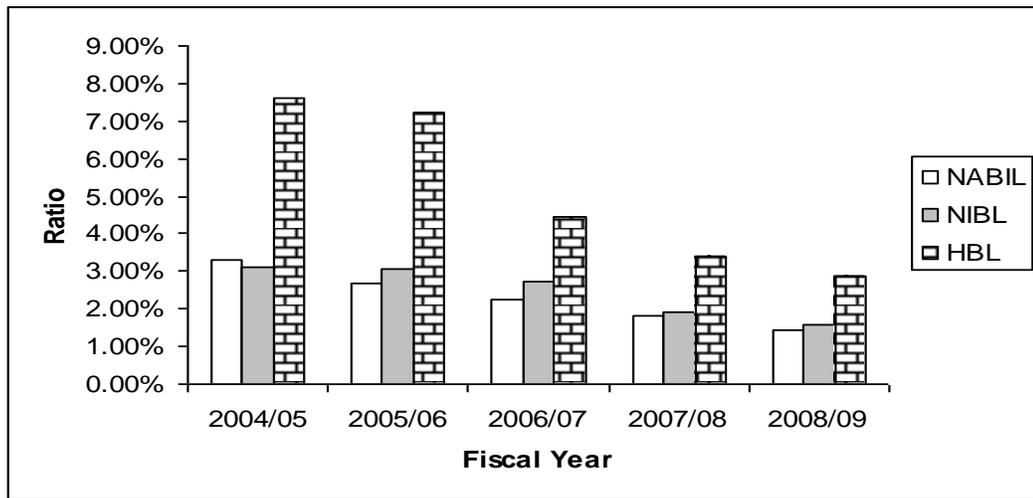
$$\text{loan loss provision Ratio} = \frac{\text{Total Loan Loss provision}}{\text{total loan}} \times 100$$

Table no: 4.5
Computation of Loan Loss Provision Ratio

Years	Banks		
	NABIL	NIBL	HBL
2004/05	3.29%	3.13%	7.63%
2005/06	2.68%	3.05%	7.22%
2006/07	2.25%	2.72%	4.47%
2007/08	1.81%	1.93%	3.38%
2008/09	1.46%	1.59%	2.85%
Mean	2.30%	2.48%	5.11%
STDEV	0.00719844	0.006891	0.021973
C.V.	0.312976	0.277863	0.430000

Source: - Annex 6

Chart No. 4.5
Loan Loss Provision ratio



Through the calculation and diagram, we can clearly see that in case of another assets quality measurement element, HBL is again weak in the competition. Where as there is very tough competition in between NIBL & Nabil. Mean LLPR of the NIBL is the least which indicates that its loan loss provision which is kept for the total loan is least among the studied banks. Since FY 2006/07, Nabil has the least LLPR but in average of five studied period, NIBL grabs the position. Per unit fluctuation of NIBL is also least in the competition. HBL highest C.V. indicates the highest per unit fluctuation among the selected banks. Since FY 2005/06 HBL LLPR is decreasing year by year but it is still too far from the Nabil and NIBL. Mean LLPR of HBL is more than double of both banks, which is not good sign in such a tough market.

4.1.3 Management Quality

Management is the core part of any business or organization. The success of any institution depends on the competency of its management. It is a set of activities including planning, organization, and leading, staffing and controlling human resources, physical information with the aim of achieving an organizational goal, efficiently and effectively in a changing environment. It is evaluated by checking the effectiveness of the board of directives, the management, manpower,

and the official operating expenditure, customer relation with the officials and institution management information system, organization and working method, internal control system, power concentration, monitoring, decision making process policies etc.

4.1.3.1 Management Efficiency Ratio

Human force is mainly responsible to set direction of the institution that plays vital role to turn as profit making organization. MER is fairly indicator that how efficiently the staffs contributed in institution. How effectively and efficiently organization is utilizing its staffs are indicated by this ratio. The management efficiency ratio of any bank can be calculated as follows:

$$MER = \frac{\text{Total Net Profit After Tax}}{\text{Total Number of Staffs}} \times 100$$

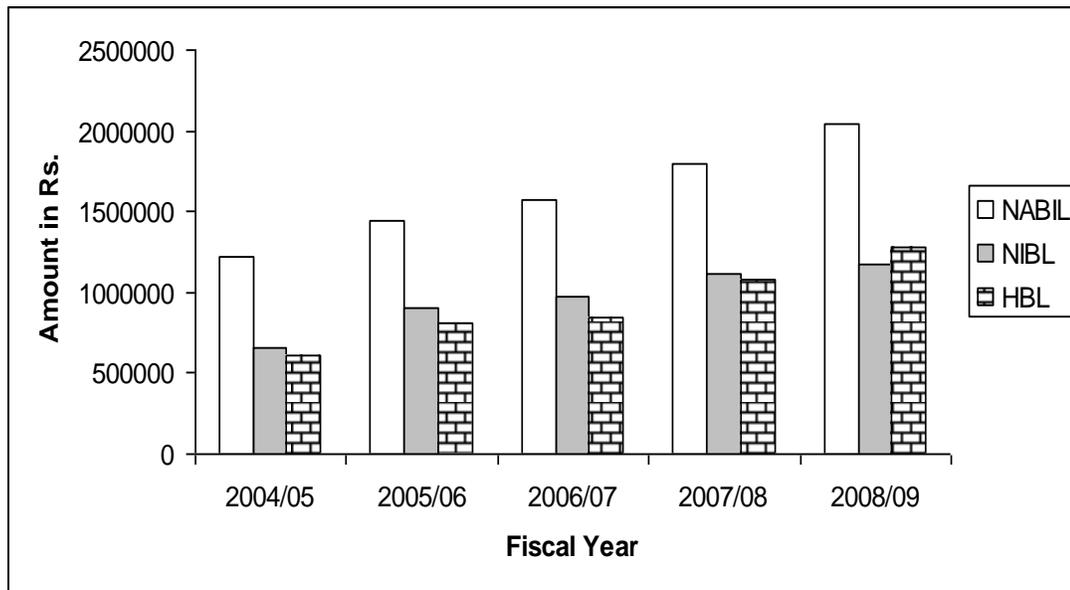
Table no: 4.6

Computation of Management Efficiency Ratio

Years	Banks		
	NABIL (Rs.)	NIBL (Rs.)	HBL (Rs.)
2004/05	1220925.08	657640.504	615319.703
2005/06	1440504.19	898811.315	815432.613
2006/07	1578359.95	975484.15	842162.509
2007/08	1794395.18	1120147.13	1075919.66
2008/09	2041689.30	1175742.91	1273832.04
Mean	1615174.74	965565.202	924533.305
STDEV	316272.337	204598.586	254572.384
C.V.	0.19581308	0.21189515	0.27535231

Source: - Annex 7

Figure No. 4.6
Management Efficiency Ratio



From the above table and the chart it is cleared that NABIL has highest management efficiency ratio in all studied period among studied banks. Mean MER of Nabil is near about to double than others. MER of NABIL is in increasing rate which indicates the sound management. Nabil is efficiently and effectively utilizes its staffs. Having the least C.V. of MER Nabil again proves the least fluctuation on efficiency. Optimal number of staff and high volume of profit lead to Nabil on number one position on the regard of staff utilization or management efficiency ratio among the studied banks.

Management Efficiency Ratio of HBL is also in increasing year by year. On F.Y. 2004/05 it had only Rs.615319.703 which increased to Rs.1273832.04 on F.Y. 2008/09. But its improvement is not still enough. According to its Mean MER it is the last in the competition of selected banks. HBL net profit as well a numbers of staff is increasing year by year. It had the highest numbers of staff from 2004/05 to 2007/08 among the studied period and banks. C.V. of MER shows HBL per unit fluctuation is greater than Nabil and smaller than NIBL.

NIBL is also become able to maintain increasing trend on MER. Having the highest C.V. it is showing its rapid increment on MER. Although it was last on the

competition on FY 2004/05 but it has already changed the history and becomes second in the competition with second highest Mean MER.

4.1.4 Earnings

Earnings capacity evaluates how efficiently the bank is performing in each and every sector. Proper use of available funds and duly recovery of the capital and interest on loan, profitability on investment etc. can give the position of earning. It means the bank's whole action reflects from its earnings. An analysis of the earnings ratio helps the management, investors and creditors to know the performance of the bank and can get information regarding their interest. The following ratios help the management and other stakeholders to know about earning policy of the respective banks.

- ◆ Earning per Share (EPS)
- ◆ Return on Equity (ROE)
- ◆ Return in Assets (ROA)

4.1.4.1 Earnings per Share (EPS):

It measures the profit available to the equity shareholders as per share basis i.e. the amount that they can get on each share hold. In other words, this ratio measures the earning available to equity shareholders on a per share basis.

Earning per Share (EPS) is calculated as follows:

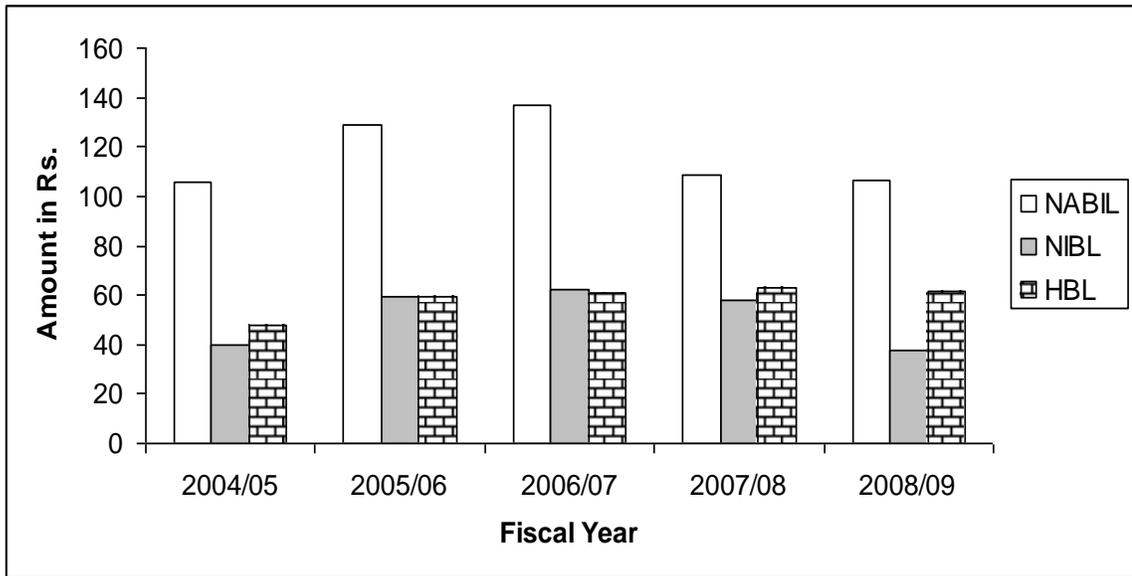
$$EPS = \frac{\text{Net Profit after Tax}}{\text{Number of shares}} \times 100$$

Table no: 4. 7
Computation of Earning per Share

Years	Banks		
	NABIL	NIBL	HBL
2004/05	105.79	39.5	47.91
2005/06	129.21	59.35	59.24
2006/07	137.08	62.57	60.66
2007/08	108.3	57.87	62.74
2008/09	106.76	37.42	61.89
Mean	117.428	51.342	58.488
STDEV	14.64229	11.904473	6.058677
C.V.	0.124692	0.231866	0.103588

Source: - Annex 8

Figure No.4.7
Earning Per Share



Nabil has the highest EPS in all studied period among the studied commercial banks. Mean EPS of Nabil is more than double of other banks Mean EPS, which indicates the earning ability and capacity of the bank. EPS of Nabil had increased up to 2006/07 but it is significantly reduced on F.Y 2007/08. Numbers of share is the main reason behind it. Nabil had 6892160 numbers of shares from 2004/05 to 2007/08 but on F.Y. 2008/09 it has 9657470 numbers of

shares. Calculated EPS C.V of Nabil lies in between HBL and NIBL. So per unit return fluctuation of Nabil EPS is in between HBL and NIBL. It is near about the least C.V.

Having more Mean EPS than NIBL, HBL proves its earning ability is stronger than the NIBL. Although HBL is not able to meet half average EPS of Nabil, it stands on second position in the competition. Having the least C.V.; HBL shows that, there is not much more fluctuation on EPS. HBL per unit EPS fluctuation is the least. Net profit of the HBL is increasing year by year. On F.Y. 2004/05 HBL had Rs. 308275171 net profit after tax that is increased to Rs. 752834735 on F.Y. 2008/09. Its numbers of share are also increased year by year. So, HBL EPS is not increasing in all studied year.

NIBL was the last among the studied banks in previous year on comparison of EPS. But it led HBL on F.Y. 2005/06 and 2006/07. Its EPS again goes bellow than HBL on F.Y. 2008/09. NIBL total net profits after tax as well as numbers of share are also increasing year by year. Least Mean EPS indicates Nabil earning power is weak among three banks. NIBL C.V. is highest among three banks which indicate high fluctuation on return.

4.1.4.2 Return on Equity

Generally when shareholders invest their capital in bank they can get some additional benefit from bank which is known as Return on Equity. ROE is the bank's net income after tax to total equity capital or net worth. It can be calculated as follows:

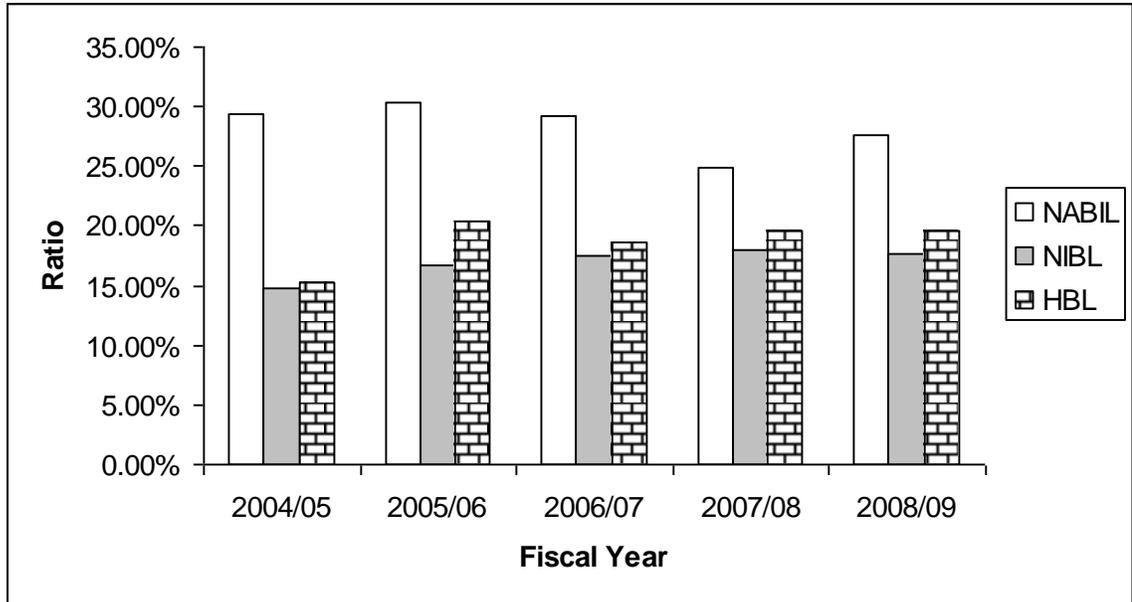
$$ROE = \frac{\text{Net Profit after Tax}}{\text{Total Shareholders Fund}} \times 100$$

Table no: 4.8
Computation of Return on Equity

Years	Banks		
	NABIL	NIBL	HBL
2004/05	29.45%	14.70%	15.28%
2005/06	30.41%	16.74%	20.39%
2006/07	29.21%	17.58%	18.55%
2007/08	24.89%	17.91%	19.54%
2008/09	27.66%	17.68%	19.58%
Mean	28.32%	16.92%	18.67%
STDEV	0.021586	0.013185	0.020031
C.V.	0.076222	0.077926	0.107290

Source: - Annex 9

Figure No. 4.8
Return on Equity



According to the above data, Nabil is again on the top position. Mean ROE of Nabil is significantly high. Highest ROE of Nabil indicates investors/ shareholders funds are generating highest profit as compare to NIBL and HBL. Among the selected banks Nabil shareholders funds are most effectively used. Having the lowest C.V., Nabil also show its least per unit fluctuation on return on shareholders fund. Nabil becomes able to show its supremacy regarding ROE by

maintaining the highest ROE among the selected banks during the whole studied period. HBL stands on second position with second mean ROE. HBL is also able to lead NIBL in each year during the studied period. But having the highest C.V. HBL shows it's highest per unit fluctuation on ROE. Lowest Mean ROE of NIBL compel to stand as third bank among the competition of three banks. During the whole studied period NIBL has the least ROE in each year, but its ROE is in increasing trend. Year by year, NIBL ROE is increasing, which is of course good sign for the bank. NIBL C.V. lies in between Nabil and HBL. So, it's per unit fluctuation of return on share holders' fund is more than Nabil and less than HBL.

4.1.4.3 Return on Assets

Every financial institute has their own assets and ROA shows the productivity of these assets. It measures how efficiently the assets are utilized in the financial organization. This ratio analyzes the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in bank thereby indicating effective use of the resources available and vice-versa. It is calculated in terms of relationship between net profit and assets.

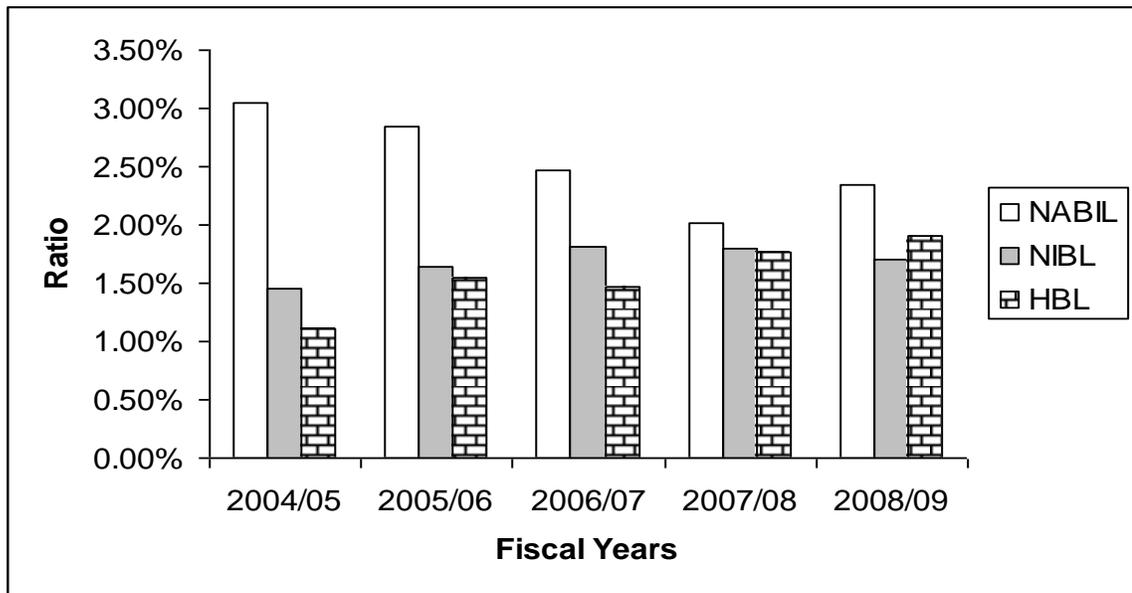
$$ROA = \frac{\text{Net Profit after Tax}}{\text{Total Assets}} \times 100$$

Table No. 4.9
Return on Assets

Years	Banks		
	NABIL	NIBL	HBL
2004/05	3.05%	1.45%	1.11%
2005/06	2.84%	1.64%	1.55%
2006/07	2.47%	1.82%	1.47%
2007/08	2.01%	1.79%	1.76%
2008/09	2.35%	1.70%	1.91%
Mean	2.54%	1.68%	1.56%
STDEV	0.004099	0.0014265	0.003076
C.V.	0.161378	0.084911	0.197179

Source: - Annex 10

Figure No. 4.9
Return on Assets



From the above data and the diagram, we can clearly see the Nabil soundness regarding the ROA. Nabil becomes able to dominate both HBL and NIBL during the whole study having highest ROA in each year. Its Mean ROA is significantly higher than others. Similarly per unit ROA fluctuation of Nabil is also the least among the selected banks, which is shown by its lowest C.V. among Nabil, HBL and NIBL. Here is tough competition between NIBL and HBL regarding the ROA. In some year HBL leads the NIBL and in some year NIBL beats the HBL. But in average NIBL leads the HBL. Mean ROA of NIBL is more than the HBL. So, NIBL secures the second position on the competition, where as HBL stands at last. NIBL C.V. lies in between Nabil and HBL. It's per unit ROA fluctuation is more than Nabil but less than HBL. Having the highest ROA C.V., HBL shows it's highest per unit fluctuation of ROA among three banks.

4.1.5 Liquidity

Liquidity refers to the speed and ease with which an asset can be converted to cash without significant loss of value. In banking term, liquidity means availability of bank to satisfy one's liability on demand of customer. As we know

that the banks are profit oriented. They believe on optimum disbursement of deposits in loans and advances. So that more and more income can be generated. Meanwhile, to invest in the profitable venture prevalent in the market and at the same time maintain confidence among the customers, they should have a stand by position of liquid funds, sufficient cover the likely demand. It is not true that the bank cannot keep all deposits in the form of cash. The deposits are honored to allocate in various uses in order to generate income. Only the certain percent of deposit should be kept in the bank in the form of cash. If the bank will keep greater deposit in cash it losses the opportunity cost. Similarly if the bank keeps low amount in deposits it will face the liquidity crisis of it will not able to pay depositors on the time of requirement.

Liquidity can be measured in the following ways:

1. Cash Reserve Ratio (CRR)
2. Cash & Bank Balance Ratio
3. Investment in Government Securities Ratios

4.1.5.1 Cash Reserve Ratio (CRR):

According to NRB directives all commercial banks are required to maintain 5% of their deposits as CRR in their 'NOSTRO' accounts maintained with NRB. NRB has issued this guideline to the bank maintain their adequate liquidity. NRB has prescribed this mandatory requirement because all commercial banks can face unexpected liquidity risk.

CRR is calculated as bellow.

$$CRR = \frac{NRB \text{ Balance } Lcyonly}{(Lcy \text{ Deposits} - \text{margin Deposits})} \times 100$$

Table no: 4.10

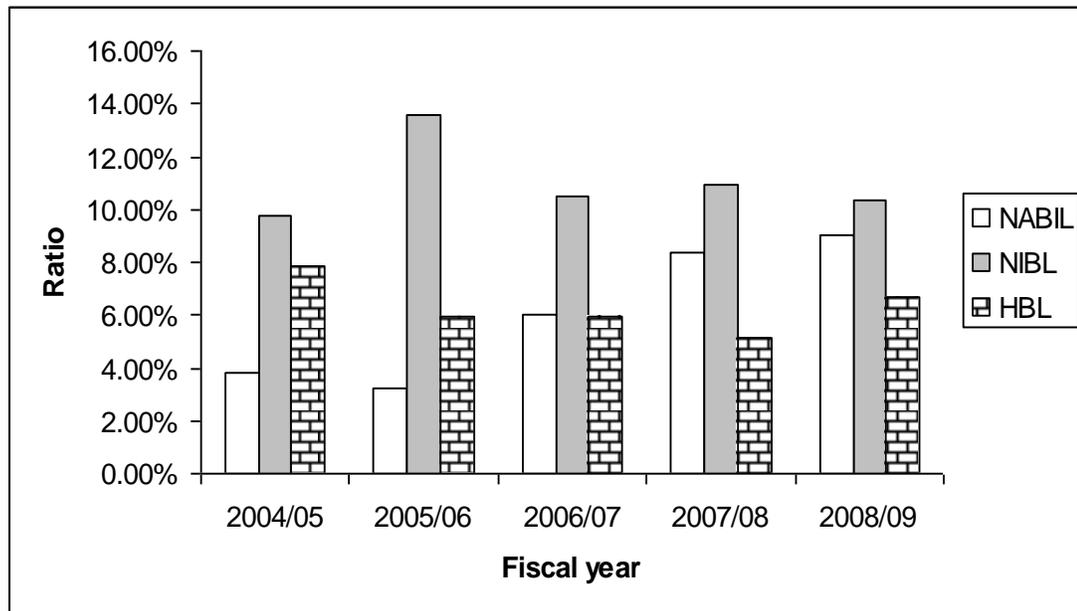
Computation of Cash Reserve Ratio

Years	Banks		
	NABIL	NIBL	HBL
2004/05	3.83%	9.78%	7.86%
2005/06	3.26%	13.61%	5.92%
2006/07	6.00%	10.47%	5.92%
2007/08	8.37%	10.91%	5.13%
2008/09	9.03%	10.32%	6.67%
Mean	6.10%	11.04%	6.32%
STDEV	0.025965	0.015044	0.010370
C.V.	0.425656	0.136268	0.164082

Source: - Annex 11

Figure No. 4.10

Cash Reserve Ratio



According to the data, all selected banks are maintaining the minimum benchmark of the NRB. Nabil bank has the least Mean CRR. Its Mean average CRR is only 6.10 % above than the NRB benchmark. Nabil CRR C.V. is the highest among the selected banks which shows the per unit liquidity fluctuation of the bank is highest among three banks. This minimum CRR and high C.V. of Nabil indicates the high liquidity risk among studied banks. HBL mean CRR is

higher than Nabil but lower than NIBL. Similarly its C.V. lies in between Nabil and NIBL, which indicates its per unit fluctuation of the CRR, is more than NIBL and less than Nabil. Among three banks its liquidity risk is higher than NIBL and lower than Nabil. NIBL Mean CRR is highest. Its Mean CRR is more than twice of bench mark. Having the lowest C.V., NIBL shows its less fluctuation on reserve. Through the huge CRR and less fluctuation in one hand NIBL is reducing the liquidity risk but on the other hand having such a huge idle money it is hampering the market profit.

4.1.5.2 Cash and Bank Ratio (C&B Ratio):

The bank must be able to meet its immediate obligation of customers. Cash & bank balance ratio shows the percent of deposit maintained as liquid assets. A higher ratio represents a greater ability to meet any unexpected demand made by the customers. If the bank cannot keep adequate amount of deposit it cannot operate its daily transaction. But maintaining very high ratio also indicates the losses of opportunity cost. So the bank should manage C&B ratio properly. It can be calculated as:

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

Table no: 4.11

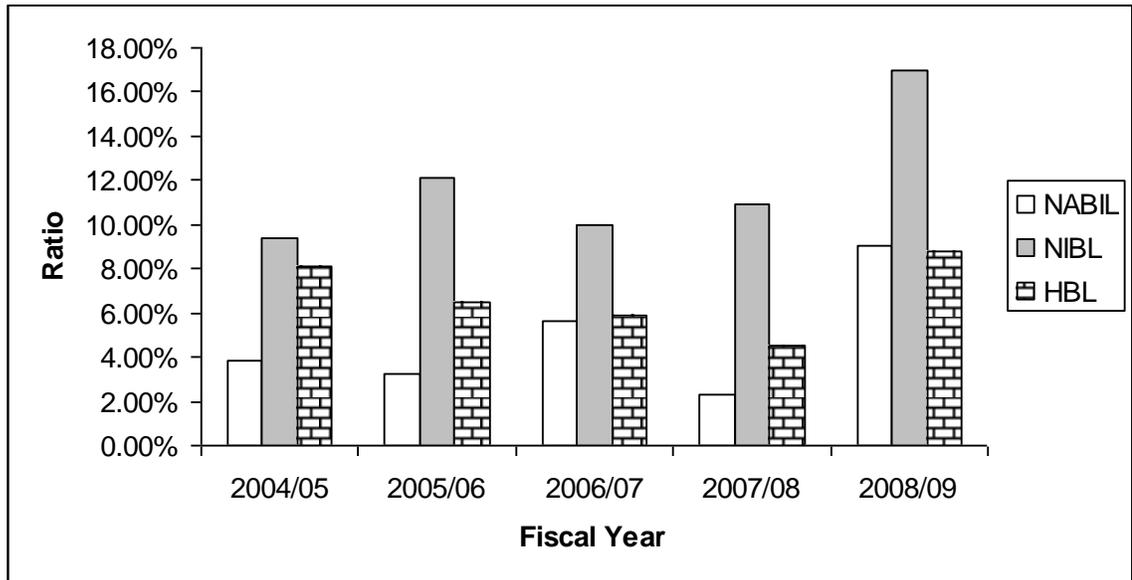
Computation of Cash and Bank Balance Ratio

Years	Banks		
	NABIL	NIBL	HBL
2004/05	3.83%	9.40%	8.12%
2005/06	3.26%	12.15%	6.48%
2006/07	5.60%	9.97%	5.85%
2007/08	2.34%	10.90%	4.55%
2008/09	9.03%	16.96%	8.79%
Mean	4.82%	11.88%	6.76%
STDEV	0.026409	0.045236	0.017147
C.V.	0.547905	0.380774	0.253654

Source: - Annex 12

Figure No.4.11

Cash and Bank Balance ratio



Cash and bank balance shows the current liquidity of the bank. It is the ability to pay the obligation. More cash and bank balance means more idle money which can not generate any return for the bank. But few or less cash rang the alarm of bankrupt. If consumer returns without getting its claim Cheque amount than bank goodwill will down which open the door of bankrupt.

Nabil is maintaining huge cash and bank balance ratio. Nabil cash and bank balance on FY 2004/05 was 3.83% but now it is 9.03%. Nabil Mean cash and bank balance ratio is lowest in the competition with highest per unit fluctuation measured by its highest C.V. Nabil is maintaining fewer C&B balance ratio and use the huge deposit for generating earning. Till now it is successful to satisfy its customer by timely payment. But in comparison to others Nabil has huge risk of liquidity which is shown by its least Cash and bank balance ratio and highest C.V.

HBL cash and bank balance ratio in FY 2004/05 to 2007/08 is decreasing trend but FY 2008/09 is increased i.e. 8.79%. Mean C&B balance ratio of HBL is also higher than NIBL and lower than Nabil. Both moderate C&B balance ratio and C.V., show the moderate risk for the bank. It is riskier than the NIBL but less risky than the Nabil.

NIBL is also maintaining huge cash and bank balance ratio. Mean C&B balance ratio of NIBL more than double of Nabil. Similarly, its C.V. is also least, which indicates least liquidity risk for the bank. But having such huge C&B balance, NIBL is reducing its profit by avoiding other risky but profitable investment. Keeping the large portion of money as a liquidity means go far from the market opportunity or less involvement in market investment.

4.1.5.3 Investment in Government Securities Ratio:

Government securities are those securities which are risk free and can be easily converted in cash at anytime. The banks instead of keeping their funds idle invest in various government securities which are liquid in nature as they can be traded anytime. And this investment in government securities ratio shows how much fund is invested in government securities. Only maintaining Cash Reserve Ratio and Cash & Bank Balance Ratio cannot be considered sufficient for immediate liquidity obligation. It is calculated as:

$$\text{Investment in Govt. securities ratio} = \frac{\text{Investment in Govt. securities}}{\text{Total Deposit}} \times 100$$

Table no: 4.12

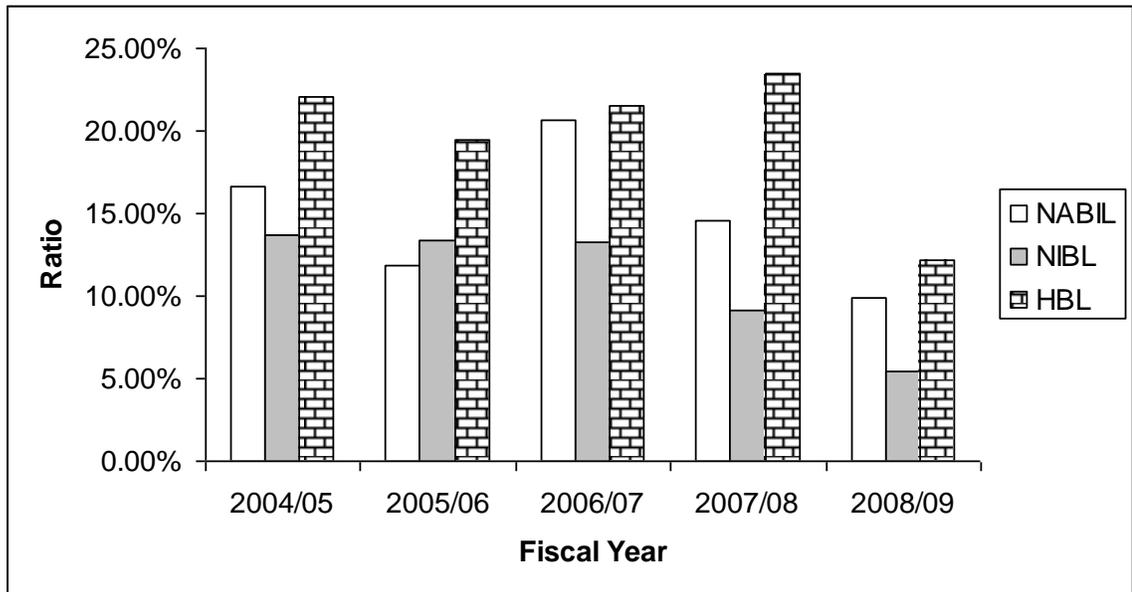
Computation of Investment in Government Securities Ratio

Years	Banks		
	NABIL	NIBL	HBL
2004/05	16.58%	13.67%	22.04%
2005/06	11.90%	13.33%	19.42%
2006/07	20.60%	13.30%	21.48%
2007/08	14.56%	9.16%	23.46%
2008/09	9.92%	5.42%	12.15%
Mean	14.71%	10.98%	19.71%
STDEV	0.041549	0.036183	0.044683
C.V.	0.282454	0.329536	0.226702

Source: - Annex 13

Figure No.4.12

Investment in Government Securities



According to the data, Nabil average investment in government securities is 14.71%, which is good enough. But the C.V. of investment in government securities is too high it is highest among three banks. This huge per unit fluctuation introduce the liquidity risk. Many countries follow the 25% of statutory liquidity ratio so this approximate 18% can not be bad for our context. Return is

always associated with risk and obviously high risk high return and low risk is for low return. Investment in huge portion of amount in government securities means missing the market opportunity because its huge portion of investment amount is used for government securities. Nabil wants more return so it is investing fewer portions in government securities. It's less investment in government securities shows that it is risk seeker.

NIBL becomes more risky investor by investing least portion in government securities.

NIBL further follows the decreasing trend in investment in government securities. Year by year its investment on government securities declines. But per unit decline rate is less than the per unit fluctuation of Nabil. NIBL has lower investment on government securities C.V. as compare to Nabil, but this C.V. is more than HBL.

Mean investment in government securities is highest on HBL. HBL is also able to make lowest C.V. among three banks, which indicates least fluctuation on investment in government securities. It also shows the least risk of liquidity.

4.2 Major Finding From The Study

Major findings of this studied based on CAMEL analysis through secondary data as well as primary data are as follows.

Capital Adequacy

- Core Capital Ratios of all three banks are more than the minimum criteria set by the NRB. All three banks are not going against the NRB rule in any year.
- Core capital ratio of Nabil is decreasing year by year. In year 2004/05 it was 11.35% and it became 9.38% in FY 2008/09.
- Nabil Mean CCR is highest. It's per unit fluctuation is also highest which is proved by its highest C.V. among the selected banks.

- HBL core capital ratio is increasing in FY 2004/05 to FY 2007/08, but FY 2008/09 Core capital Ratio is decreasing i.e. 9.42%. In FY 2004/05 it was 8.33% which increased to 9.64% in FY 2007/08. Its Mean CCR and C.V. both are greater than NIBL and less than Nabil.
- Although NIBL is not adopting any fixed increasing or decreasing trend on CCR, having lowest Mean CCR and C.V. it shows best performance regarding CCR.
- Capital Adequacy ratio of Nabil is decreasing year by year in FY 2004/05 it was 12.44% which decreased to 11.47% in FY 2008/09. But Mean CAR of Nabil is still highest among the studied competitor. Having the highest C.V. Nabil shows highest per unit fluctuation on CAR.
- Although HBL Capital Adequacy Ratio is increasing year by year, its Mean CAR is lowest among the studied competitors. Per unit fluctuation of HBL CAR is greater than NIBL and lower than the Nabil.
- NIBL becomes able to maintain least per unit fluctuation on CAR with lowest C.V. Among three banks but its Mean CAR is lower than HBL.
- On CCR NIBL has the least Mean CCR but On Mean CAR HBL gets the position, which shows that in average NIBL use more supplementary capital ratio as compare to HBL.

Assets Quality

- Non performing loan is major problem of the commercial banks. Most of the business man and economist argue that in our contest political protection to the borrowers is the main reason behind it.
- Non performing loan of all selected three banks are fluctuating year by year. HBL NPL is more than others. At 2008/09 Nabil's NPL was more than NIBL.
- In case of total loan and advances HBL is in first position. All bank's total loan is increasing year and year. Higher NPL along with higher total loan

and advances indicates HBL loan management is not sharp as compare to NIBL and Nabil. From FY 2004/05 to 2008/09 Nabil lead the NIBL incase of total loan and advances but than after NIBL goes ahead.

- NPL ratio of Nabil bank is least among three selected banks during whole studied period. Its Mean NPLR is only 1.098% which shows sound assets quality. But having the highest C.V., Nabil shows the highest per unit fluctuation on NPLR.
- HBL NPLR is not favorable NPLR of HBL is always highest among three selected banks. Although there is hope because NPLR is decreasing year by year, but its Mean NPLR is significantly higher than others. Having the fluctuate trend in NPL ratio, NIBL stand in second position in the competition.
- Loan loss coverage ratio of Nabil bank limited is fluctuating, but it is able to maintain highest LLCR for whole the studied period and showing its assets quality.
- HBL is maintaining increasing trend on LLCR. Year by year its LLCR is increasing but its LLCR is still least among three banks in all studied period.
- NIBL is in between HBL and Nabil in case of LLCR. Its LLCR is also fluctuating like Nabil.
- Loan loss provision ratios of Nabil are decreasing year by year. Its LLPR at FY 2004/05 was 3.29% which reduced to 1.46% in FY 2008/09 which show better assets quality.
- HBL Loan Loss Provision Ratios are up and down and it has highest LLPR at all FY among studied banks.
- On respect of LLPR, NIBL assets quality is best among three banks. it has lowest LLPR in all studied period despite of having fluctuating trend on it.

Management Quality

- Through the primary as well as secondary data management of Nabil bank is best among these three banks. Nabil's management efficiency ratio is more than others.
- HBL numbers of staff are more than others up to 2007/08 but NIBL lead others at 2008/09. But both banks are not too keen at managing their staff to generate large profit as compare to Nabil.
- According to the above financial performance Nabil at number one then NIBL and HBL are at second and third respectively.

Earnings

- Net profit of the Nabil bank is highest in all studied period among selected commercial banks and its net profit is also in increasing trend.
- HBL becomes second in aggregate. In FY 2005/06 its EPS was decreased and than after its EPS is increasing year by year.
- NIBL secured third position in accordance of EPS. In FY 2006/07 and 2007/08 its EPS were little bit more than HBL. NIBL becomes unable to keep increasing trend on EPS at last (FY 2008/09).
- Nabil bank has highest ROE in all studied year among studied banks. Up to FY 2006/07 its ROE was increasing but thereafter ROE starts to decrease year by year.
- HBL ROE was increasing up to 2005/06 and it starts to decrease from 2006/07.
- ROE of NIBL is increasing year by year but F/Y 2008/09 NIBL ROE is decrease i.e. 17.68%. NIBL has least ROE in all studied period and among studied banks.
- Total assets of all three banks are increasing year by year.
- Despite of decreasing trend on ROA, Nabil has highest ROA among selected banks in all studied year.

- NIBL is in second position up to 2007/08 with increasing trend on ROA but it becomes unable to maintain it in FY 2008/09.
- HBL ROA is increasing year by year. Up to 2006/07 it was last in competition among studied banks.

Liquidity

- All three banks are maintaining weekly CRR. But on the day of annual report Nabil CRR was not equals to more than the weekly benchmark on FY 2004/05 and 2005/06.
- Total cash and bank balance of NIBL is the highest which is respectively followed by HBL and Nabil.
- Investment in government securities of Nabil bank is less as compare to HBL which shows Nabil is taking more risk and investing in other risky sectors. Where as, HBL is investing more and more on government securities. NIBL is investing least among these three banks.

CHAPTER-5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The CAMEL parameters are applied on three selected commercial banks, Nabil bank, HBL and NIBL for the comparative analysis. The main objective of this study is to examine the financial performance through CAMELS test of selected commercial banks and compare each CBs. The whole study is divided into five chapters. First chapter is the introductory one. Back ground of the study and Introduction of selected commercial banks are described in this chapter. Objectives, limitation and significance of the study are also presented in this chapter. Study is based on the performance of the bank from FY 2004/05 to 2008/09. Review of literature is described in second chapter. Mainly theoretical aspect of CAMEL is described in this chapter. "What others have done?" and "what others have said or written?", regarding our study and research are examined in this section. This chapter is divided into three parts theoretical review, review of legislature provisions and review of previous studies. Theoretical review describes the CAMEL components where as legal provisions regarding the CAMEL are described in review of legislature. Some journals and articles also describe the CAMEL and its component which is presented in review of previous studies. Main themes of some previous thesis are also mentioned in it. Third chapter of this research is research methodology which is an important aspect of any research. It shows what kinds of data are used for the study. How the data are collected. Sample and population of the study and adopted tools of analysis is also presented in this chapter. Basically the research is based on secondary information data. The annual Reports of Banks are the main sources of data. The regulatory data were collected form NRB descriptive, reports and its official web site. Other basic conceptual information are collected from different

journals, previous conducted research work, relative websites of banks and formal and informal discussion with the senior staff of the banks, colleague etc. Out of twenty six commercial banks only three banks are selected and compare each others according to their five fiscal year's financial performances. The data is analyzed by using CAMEL approach. Detailed tabulation of the data is separately presented in this annexure. After data presentation and analysis of the data what major facts are found, these are concluded in major findings. The whole study concluded in the fifth chapter with summary conclusion and the meaningful suggestion made to improve the selected banks and banking sectors. Here recommendation is also given for the government and the NRB for better rules and regulation on banking sector. In the last appendices and bibliography are presented.

5.2 Conclusion

Although Nepal does not have to much long history of bank, but here banks are mushrooming. Banking habit of people is slowly and gradually increasing. In urban area bank is a part of life while lots of people of rural are have no idea about the function and performance about the bank.

Study of selected commercial banks under CAMEL analysis compares Capital, Assets, Management, Earning and Liquidity of Nabil, Himalayan and Nepal Investment banks. Study is performed through secondary data.

Study clearly shows that Nabil is performing very well. CCR and CAR of Nabil bank is decreasing year by year. Its trend shows that it only wants to maintain the benchmark of NRB. It doesn't want to keep more than that. In case of Assets, Management and Earning, Nabil is too sound. NPL of Nabil is least in all studied period among studied banks. ROA, ROE and EPS of Nabil is still sound but it is fluctuating. Some FY it increases and in another it decreases. Investing

less on government securities Nabil shows that it want to take risk and return by investing in risky field. It is keeping less ideal money and maintaining liquidity adequate. Lots of customers are satisfied with its service.

HBL stands on last among studied commercial banks. Its CAR and CCR are increasing year by year which is hampering its net profit. HBL had least CCR only on FY 2005/06 and now in FY 2008/09 it has highest CCR. HBL has highest CAR in FY 2008/09. Year by Year NPL ratio of HBL is decreasing which is good sign but it is not enough, because having the decreasing rate it has the highest NPL ratio among the studied period and studied banks. Total Loan and advances of all selected banks are rising year by year where as none performing loan is decreasing which becomes the reason for decreasing. But inconstant rate of increasing or decreasing is differing from bank to bank. Loan Loss provision of HBL is least where as loan Loss provision ratio is highest. Study shows, there is progress on HBL management year by year. Its MER is lifting up but it is still behind in competition of Nabil and NIBL. EPS of HBL is good from the beginning of the studied period. There is a little bit ups and down but EPS is till satisfactory. It can earn more than that. There is flexibility on ROA and ROE of HBL but going good. Only on FY 2007/08 both ratios decreased. Later on Bank gets its position. CCR of HBL is just little bit above than NRB benchmark From 2006/07 previously it had huge CCR. Cash and Bank balance of HBL is in decreasing trend where as investment on government a security is fluctuating, some year goes up and some year goes down, but in average, percentage of investment in government securities is highest among three banks.

NIBL has least CCR in average but it followed decreasing trend up to 2007/08. F/Y 2008/09 NIBL CCR is increased i.e. 10.62% NIBL accepts decreasing trend on CAR. NPL of NIBL is fluctuating but it is able to keep low percentage. In both LLCR and LLPR of NIBL is moderate among three banks. Both are at satisfactory level. NIBL management is progressive its MER is

increasing year by year. NIBL EPS on FY 2004/05 was only Rs. 39.50 which catches the increasing trend and became Rs. 57.87 on FY 2007/08 but on 2008/09 it is restricted on Rs. 37.42 which gives some bad message but it is still good and it can generate more EPS on further Fiscal Years. Both ROA and ROE of NIBL is in increasing trend which show the capability of earning for NIBL. CCR of NIBL is too high but it is investing few in government securities and taking high risk for high gain.

To conclude the result of this study, these banks are ranked according to studied parameter. Rank I is for best bank and so on. 'Rank I' doesn't mean that it is for higher value or ratio but it is for the most favorable and we all know that in some cases least value of ratio is favorable.

Table No: 5.1
Rank of the banks regarding CAMEL parameters

Parameters	Ranking I	Ranking II	Ranking III
CCR	NIBL	HBL	Nabil
CAR	HBL	NIBL	Nabil
NPLR	Nabil	NIBL	HBL
LLPR	NIBL	Nabil	HBL
LLCR	Nabil	NIBL	HBL
MER	Nabil	NIBL	HBL
EPS	Nabil	HBL	NIBL
ROE	Nabil	HBL	NIBL
ROA	Nabil	NIBL	HBL
Liquidity	Nabil	HBL	NIBL

Above table is prepared according to average result of parameters from fiscal years 2004/05 to 2008/09.

5.3 Recommendations

Recommendations for Nabil Bank

- Nabil total Loans are less than NIBL so it should be find new sector to grant the loan.
- ROA of Nabil is constantly decreased from FY 2005/06. On 2008/09 it doesn't have sound lead in respect of ROA. So management should have aware of this because if the trend goes like this than next year Nabil will lose its position.
- Nabil should try to maintain its MER in such an increasing trend.
- EPS and ROE of Nabil are not satisfactory now a day, it should search immediate why this is going on and take corrective action.
- Assets of Nabil are not giving much return as compare to previous years

Recommendations for HBL

- HBL CCR and CAR is in increasing rate which is not necessary in present market conditions. There is inverse relation between net profit and CCR and CAR. So HBL also the decreasing trend on CCR and CAR but should always meet the benchmark of NRB.
- HBL NPL is in alarming condition. It should give extra care for on it. KYC should be carefully followed by this bank.
- HBL should study the effort and efficiency of Nabil's staff and do better than that.
- HBL should maintain increasing trend on EPS and try to get rapid increasing trend.
- Its customers are not as happy as Nabil's and NIBL's. So give more focus towards service delivery.

Recommendations for NIBL

- Its NPL is not least so it should give extra care while granting the loan.
- Numbers of staffs of the bank are now highest among the selected banks but MER is not. So, bank should properly utilize the staff to generate more and more. Staff efficiency should be increased.
- Its EPS and ROA are decreased in FY 2008/09. So BOD of NIBL should focus on earnings.

Other Recommendations

- NRB should temporarily reduce the benchmark of CAR, CCR and CRR in present world economic crises.
- Government takes some action against blacklisted company and persons.
- Political pressure should be totally eliminated, which become the main cause of NPL.
- Each bank has to maintain the benchmark of the NRB.
- Banks have to open their branches on rural area and should focus on remittance and introduce new product to attract the depositors.

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Annex: 1**Five Years Financial Summary of Nabil**

	2004/05	2005/06	2006/07	2007/08	2008/09
Total Core Capital	1610510308	1823044417	1992849715	2363598989	3044340637
Total Capital Fund	1766072530	2089324022	2307632395	2998730164	3727082787
Total RWA	14193071630	16976368425	19166766033	27010564315	32500502288
Total NPL	144506893	182624480	178293983	161085995	224817413
Total Loan & Advances	10946736577	13278782259	15903023765	21759460334	27999012071
Total Loan loss Provision	360566575	356239106	357245035	394407016	409079030
NPAT	520114085	635262349	673959698	746468394	1031053098
Number of Staff	426	441	427	416	505
number of Shares	4916544	4916544	4916544	6892160	9657470
Total Assets	17064082093	22329971078	27253393008	37132759149	43867397504
Total C&B balance	559380614	630238588	1399825851	2671141055	3372512471
Total Deposit	14586608707	19347399440	23342285327	31915047467	37348255840
Investment in Govt. security	2418431378	2301463338	4808348503	4646883136	3706102662

(Source: Annual Reports of Nabil from FY 2004/05 to 2008/09)

Five Years Financial Summary of NIBL

	2004/05	2005/06	2006/07	2007/08	2008/09
Total Core Capital	1161480000	1393273570	1852197400	2658914900	3879969000
Total Capital Fund	1578770000	2094199650	2851619010	3891235470	5095353000
Total RWA	13632906760	17491787660	23435634330	34484541420	36518503000
Total NPL	280874131	272493041	421971550	309470983	213907394
Total Loan & Advances	10453163997	13178151824	17769099903	27529304736	36827157409
Total Loan loss Provision	327108374	401943787	482672514	532652478	585950852
NPAT	232147098	350536413	501398853	696731516	900619072
Number of Staff	353	390	514	622	766
number of Shares	5877385	5905860	8012526	12039154	24070689
Total Assets	16063543146	21330137542	27590844761	38873306084	53010803126
Total C&B balance	1340480845	2300521396	2441514200	3754941568	7918003890
Total Deposit	14254573663	18927305974	24488855696	34451726191	46698100065
Investment in Govt. security	1948500000	2522300000	3256400000	3155000000	2531300000

(Source: Annual Reports of NIBL from FY 2004/05 to 2008/09)

Five Years Financial Summary of HBL

	2004/05	2005/06	2006/07	2007/08	2008/09
Total Core Capital	1525773390	1721940400	2104595598	2469785092	3074436960
Total Capital Fund	2017063712	2242843009	2435368976	3253515981	3845211300
Total RWA	18321719590	19918325323	21889713128	25624467393	32628846005
Total NPL	1001347320	1040757823	641615306	477229223	551309634
Total Loan & Advances	13451168267	15761976082	17793723863	20179613169	25519519081
Total Loan loss Provision	1026647621	1119416527	795726817	682092687	726363812
NPAT	308275171	457457696	491822905	635868519	752834735
Number of Staff	501	561	584	591	591
number of Shares	6435000	7722000	8108100	10135125	12162150
Total Assets	27418157873	29460389672	33519141111	36175531637	39320322069
Total C&B balance	2014470957	1717352336	1757341252	1448182890	3048526788
Total Deposit	24814011984	26490851640	30048417756	31842789356	34681345179
Investment in Govt. security	5469728940	5144313000	6454873471	7471667904	4212300379

(Source: Annual Reports of HBL from FY 2004/05 to 2008/09)

Annex: 2

**Computation of Core Capital Ratio
NABIL**

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	11.35	10.12	1.5129
2005/06	10.74	10.12	0.3844
2006/07	10.40	10.12	0.0784
2007/08	8.75	10.12	1.8769
2008/09	9.38	10.12	0.5476
Total	$\sum X = 50.62$		$\sum (X - \bar{X})^2 = 4.4002$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	8.52	8.54	0.0004
2005/06	7.97	8.54	0.3249
2006/07	7.90	8.54	0.4096
2007/08	7.71	8.54	0.6889
2008/09	10.62	8.54	4.3264
Total	$\sum X = 42.72$		$\sum (X - \bar{X})^2 = 5.7502$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	8.33	9.13	0.64
2005/06	7.65	9.13	0.2304
2006/07	9.61	9.13	0.2304
2007/08	9.64	9.13	0.2601
2008/09	9.42	9.13	0.0841
Total	$\sum X = 45.65$		$\sum (X - \bar{X})^2 = 1.445$

	NABIL	NIBL	HBL
$Mean (\bar{X}) = \frac{\sum X}{N}$	$\frac{50.62}{5} = 10.12$	$\frac{42.72}{5} = 8.54$	$\frac{45.65}{5} = 9.13$
$Standard\ deviation\ (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N - 1}}$	$\sqrt{\frac{4.4002}{5 - 1}} = 0.010488$	$\sqrt{\frac{5.7502}{5 - 1}} = 0.011989$	$\sqrt{\frac{1.445}{5 - 1}} = 0.00601$
$Coefficient\ of\ Variation\ (C.V.) = \frac{\sigma}{\bar{X}}$	$\frac{0.010488}{10.12} = 0.103636$	$\frac{0.011989}{8.54} = 0.140386$	$\frac{0.00601}{9.13} = 0.140386$

Annex: 3

Computation of Capital Adequacy Ratio NABIL

Years	x	\bar{X}	$(X - \bar{X})^2$
2004/05	12.44	11.87	0.3249
2005/06	12.31	11.87	0.1936
2006/07	12.04	11.87	0.0289
2007/08	11.10	11.87	0.5929
2008/09	11.47	11.87	0.16
Total	$\sum X = 59.36$		$\sum (X - \bar{X})^2 = 1.3003$

NIBL

Years	x	\bar{X}	$(X - \bar{X})^2$
2004/05	11.58	12.19	0.3721
2005/06	11.97	12.19	0.0484
2006/07	12.17	12.19	0.0004
2007/08	11.28	12.19	0.8281
2008/09	13.95	12.19	3.0976
Total	$\sum X = 60.95$		$\sum (X - \bar{X})^2 = 4.3466$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	11.01	11.58	0.3249
2005/06	11.26	11.58	0.1024
2006/07	11.13	11.58	0.2025
2007/08	12.70	11.58	1.2544
2008/09	11.78	11.58	0.04
Total	$\sum X = 57.88$		$\sum (X - \bar{X})^2 = 1.9242$

	NABIL	NIBL	HBL
Mean (\bar{X}) = $\frac{\sum X}{N}$	$\frac{59.36}{5} = 11.87$	$\frac{60.95}{5} = 12.19$	$\frac{57.88}{5} = 11.58$
Standard deviation (σ) = $\sqrt{\frac{\sum (X - \bar{X})^2}{N - 1}}$	$\sqrt{\frac{1.3003}{5 - 1}} = 0.005701$	$\sqrt{\frac{4.3466}{5 - 1}} = 0.010424$	$\sqrt{\frac{1.9242}{5 - 1}} = 0.006936$
Coefficient of Variation (C.V.) = $\frac{\sigma}{\bar{X}}$	$\frac{0.005701}{11.87} = 0.048028$	$\frac{0.010424}{12.19} = 0.085513$	$\frac{0.006936}{11.58} = 0.059896$

Annex: 4

Computation of Non-Performing Loan Ratio

NABIL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	1.36	1.098	0.0686
2005/06	1.38	1.098	0.0795
2006/07	1.21	1.098	0.0125
2007/08	0.74	1.098	0.1282
2008/09	0.80	1.098	0.0888
Total	$\sum X = 5.49$		$\sum (X - \bar{X})^2 = 0.3736$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	2.69	1.77	0.8464
2005/06	2.07	1.77	0.09
2006/07	2.37	1.77	0.36
2007/08	1.12	1.77	0.4225
2008/09	0.58	1.77	1.4161
Total	$\sum X = 8.83$		$\sum (X - \bar{X})^2 = 3.135$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	7.44	4.46	8.8804
2005/06	6.71	4.46	5.0625
2006/07	3.61	4.46	0.7225
2007/08	2.36	4.46	4.41
2008/09	2.16	4.46	5.29
Total	$\sum X = 22.28$		$\sum (X - \bar{X})^2 = 24.3654$

	NABIL	NIBL	HBL
Mean (\bar{X}) = $\frac{\sum X}{N}$	$\frac{5.49}{5} = 1.098$	$\frac{8.83}{5} = 1.77$	$\frac{22.28}{5} = 4.46$
Standard deviation (σ) = $\sqrt{\frac{\sum (X - \bar{X})^2}{N - 1}}$	$\sqrt{\frac{0.3736}{5 - 1}} = 0.0030725$	$\sqrt{\frac{3.135}{5 - 1}} = 0.008853$	$\sqrt{\frac{24.3654}{5 - 1}} = 0.024681$
Coefficient of Variation (C.V.) = $\frac{\sigma}{\bar{X}}$	$\frac{0.0030725}{1.098} = 0.279827$	$\frac{0.008853}{1.77} = 0.500169$	$\frac{0.024681}{4.46} = 0.553386$

Annex: 5

**Computation of Loan Loss Coverage Ratio
NABIL**

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	249.52	232.75	281.2329
2005/06	195.07	232.75	1419.7824
2006/07	200.37	232.75	1048.4644
2007/08	244.84	232.75	146.1681
2008/09	273.93	232.75	1695.7924
Total	$\sum X = 1163.73$		$\sum (X - \bar{X})^2 = 4541.4402$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	116.46	146.49	901.8009
2005/06	147.51	146.49	1.0404
2006/07	114.39	146.49	1030.41
2007/08	172.12	146.49	656.8969
2008/09	181.96	146.49	1258.1209
Total	$\sum X = 732.44$		$\sum (X - \bar{X})^2 = 3848.2691$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	102.53	121.76	369.7929
2005/06	107.56	121.76	201.64
2006/07	124.02	121.76	5.1076
2007/08	142.93	121.76	448.1689
2008/09	131.75	121.76	99.8001
Total	$\sum X = 608.79$		$\sum (X - \bar{X})^2 = 1124.51$

	NABIL	NIBL	HBL
$Mean (\bar{X}) = \frac{\sum X}{N}$	$\frac{1163.73}{5}$ = 232.75	$\frac{732.44}{5}$ = 146.49	$\frac{608.79}{5}$ = 121.76
$Standard deviation (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N-1}}$	$\sqrt{\frac{4541.4402}{5-1}}$ = 0.336951	$\sqrt{\frac{3848.2691}{5-1}}$ = 0.310172	$\sqrt{\frac{1124.51}{5-1}}$ = 0.167669
$Coefficient of Variation (C.V.) = \frac{\sigma}{\bar{X}}$	$\frac{0.336951}{232.75}$ = 0.144769	$\frac{0.310172}{146.49}$ = 0.211736	$\frac{0.167669}{121.76}$ = 0.137705

Annex: 6

Computation of Loan Loss Provision Ratio NABIL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	3.29	2.30	0.9801
2005/06	2.68	2.30	0.1444
2006/07	2.25	2.30	0.0025
2007/08	1.81	2.30	0.2401
2008/09	1.46	2.30	0.7056
Total	$\sum X = 11.49$		$\sum (X - \bar{X})^2 = 2.0727$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	3.13	2.48	0.4225
2005/06	3.05	2.48	0.3249
2006/07	2.72	2.48	0.0576
2007/08	1.93	2.48	0.3025
2008/09	1.59	2.48	0.7921
Total	$\sum X = 12.42$		$\sum (X - \bar{X})^2 = 1.8996$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	7.63	5.11	6.3504
2005/06	7.22	5.11	4.4521
2006/07	4.47	5.11	0.4096
2007/08	3.38	5.11	2.9929
2008/09	2.85	5.11	5.1076
Total	$\sum X = 25.55$		$\sum (X - \bar{X})^2 = 19.3126$

	NABIL	NIBL	HBL
Mean (\bar{X}) = $\frac{\sum X}{N}$	$\frac{11.49}{5}$ = 2.30	$\frac{12.42}{5}$ = 2.48	$\frac{25.55}{5}$ = 5.11
Standard deviation (σ) = $\sqrt{\frac{\sum (X - \bar{X})^2}{N-1}}$	$\sqrt{\frac{2.0727}{5-1}}$ = 0.00719844	$\sqrt{\frac{1.8996}{5-1}}$ = 0.006891	$\sqrt{\frac{19.3162}{5-1}}$ = 0.021973
Coefficient of Variation (C.V.) = $\frac{\sigma}{\bar{X}}$	$\frac{0.00719844}{2.30}$ = 0.312976	$\frac{0.006891}{2.48}$ = 0.277863	$\frac{0.021973}{5.11}$ = 0.430000

Annex: 7

**Computation of Management Efficiency Ratio
NABIL**

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	1220925.08	1615174.74	$(1.554327944)^{11}$
2005/06	1440504.19	1615174.74	$(3.050980104)^{10}$
2006/07	1578359.95	1615174.74	135532876.3
2007/08	1794395.18	1615174.74	$(3.211996611)^{10}$
2008/09	2041689.30	1615174.74	$(1.819146699)^{11}$

Total $\sum X = 8075873.7$ $\sum (X - \bar{X})^2 = (4.001127643)^{11}$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	657640.504	965565.202	$(9.481761964)^{10}$
2005/06	898811.315	965565.202	4456081430
2006/07	975484.15	965565.202	98385529.43
2007/08	1120147.13	965565.202	$(2.389557246)^{10}$
2008/09	1175742.91	965565.202	$(4.417466894)^{10}$
Total	$\sum X = 4827826.009$		$\sum (X - \bar{X})^2 = (1.67442328)^{11}$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	615319.703	924533.305	$(9.561305166)^{10}$
2005/06	815432.613	924533.305	$(1.190296099)^{10}$
2006/07	842162.509	924533.305	6784948034
2007/08	1075919.66	924533.305	$(2.291782848)^{10}$
2008/09	1273832.04	924533.305	$(1.220096063)^{11}$
Total	$\sum X = 4622666.525$		$\sum (X - \bar{X})^2 = (2.592283954)^{11}$

	NABIL	NIBL	HBL
$Mean (\bar{X}) = \frac{\sum X}{N}$	1615174.74	965565.202	924533.305
$S\ tan\ dard\ deviation (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N - 1}}$	316272.337	204598.586	254572.384
$Coefficient\ of\ Variation (C.V.) = \frac{\sigma}{\bar{X}}$	0.19581308	0.21189515	0.27535231

Annex: 8

**Computation of Earning Per Share
NABIL**

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	105.79	117.428	135.443044
2005/06	129.21	117.428	138.815524
2006/07	137.08	117.428	386.201104
2007/08	108.3	117.428	83.320384
2008/09	106.76	117.428	113.806224
Total	$\sum X = 587.14$		$\sum (X - \bar{X})^2 = 857.58628$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	39.5	51.342	140.232964
2005/06	59.35	51.342	64.128064
2006/07	62.57	51.342	126.067984
2007/08	57.87	51.342	42.614784
2008/09	37.42	51.342	193.822084
Total	$\sum X = 256.71$		$\sum (X - \bar{X})^2 = 566.86588$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	47.91	58.488	11.894084
2005/06	59.24	58.488	0.565504
2006/07	60.66	58.488	4.717584
2007/08	62.74	58.488	18.079504
2008/09	61.89	58.488	11.573604
Total	$\sum X = 292.44$		$\sum (X - \bar{X})^2 = 146.83028$

	NABIL	NIBL	HBL
$Mean (\bar{X}) = \frac{\sum X}{N}$	$\frac{587.14}{5}$ = 117.428	$\frac{256.71}{5}$ = 51.342	$\frac{292.44}{5}$ = 58.488
$Standard deviation (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N-1}}$	$\sqrt{\frac{857.58628}{5-1}}$ = 14.64229	$\sqrt{\frac{566.86588}{5-1}}$ = 11.904473	$\sqrt{\frac{146.83028}{5-1}}$ = 6.058677
$Coefficient of Variation (C.V.) = \frac{\sigma}{\bar{X}}$	$\frac{14.64229}{117.428}$ = 0.124692	$\frac{11.904473}{51.342}$ = 0.231866	$\frac{6.058677}{58.488}$ = 0.103588

Annex: 9

**Computation of Return on Equity
NABIL**

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	29.45	28.32	1.2769
2005/06	30.41	28.32	4.3681
2006/07	29.21	28.32	0.7921
2007/08	24.89	28.32	11.7649
2008/09	27.66	28.32	0.4356
Total	$\sum X = 141.62$		$\sum (X - \bar{X})^2 = 18.7649$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	14.70	16.92	4.9284
2005/06	16.74	16.92	0.0324
2006/07	17.58	16.92	0.4356
2007/08	17.91	16.92	0.9801
2008/09	17.68	16.92	0.5776
Total	$\sum X = 84.61$		$\sum (X - \bar{X})^2 = 6.9541$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	15.28	18.67	11.4921
2005/06	20.39	18.67	2.9584
2006/07	18.55	18.67	0.0144
2007/08	19.54	18.67	0.7569
2008/09	19.58	18.67	0.8281
Total	$\sum X = 93.34$		$\sum (X - \bar{X})^2 = 16.0499$

	NABIL	NIBL	HBL
Mean (\bar{X}) = $\frac{\sum X}{N}$	$\frac{141.62}{5}$ = 28.32	$\frac{84.61}{5}$ = 16.92	$\frac{93.54}{5}$ = 18.67
Standard deviation (σ) = $\sqrt{\frac{\sum (X - \bar{X})^2}{N - 1}}$	$\sqrt{\frac{18.6376}{5 - 1}}$ = 0.021586	$\sqrt{\frac{6.9541}{5 - 1}}$ = 0.013185	$\sqrt{\frac{16.0499}{5 - 1}}$ = 0.020031
Coefficient of Variation (C.V.) = $\frac{\sigma}{\bar{X}}$	$\frac{0.021586}{28.32}$ = 0.076222	$\frac{0.013185}{16.92}$ = 0.077926	$\frac{0.020031}{18.67}$ = 0.107290

Annex: 10

Computation of Return on Assets

NABIL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	3.05	2.54	0.2601
2005/06	2.84	2.54	0.09
2006/07	2.47	2.54	0.0049
2007/08	2.01	2.54	0.2809
2008/09	2.35	2.54	0.0361
Total	$\sum X = 12.72$		$\sum (X - \bar{X})^2 = 0.672$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	1.45	1.68	0.0529
2005/06	1.64	1.68	0.0016
2006/07	1.82	1.68	0.0144
2007/08	1.79	1.68	0.0121
2008/09	1.70	1.68	0.0004
Total	$\sum X = 8.40$		$\sum (X - \bar{X})^2 = 0.0814$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	1.11	1.56	0.2025
2005/06	1.55	1.56	0.0001
2006/07	1.47	1.56	0.0049
2007/08	1.76	1.56	0.0484
2008/09	1.91	1.56	0.1225
Total	$\sum X = 7.80$		$\sum (X - \bar{X})^2 = 0.3784$

	NABIL	NIBL	HBL
$Mean (\bar{X}) = \frac{\sum X}{N}$	$\frac{12.72}{5}$ = 2.54	$\frac{8.40}{5}$ = 1.68	$\frac{7.80}{5}$ = 1.56
$Standard deviation (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N - 1}}$	$\sqrt{\frac{0.672}{5 - 1}}$ = 0.004099	$\sqrt{\frac{0.0814}{5 - 1}}$ = 0.0014265	$\sqrt{\frac{0.3784}{5 - 1}}$ = 0.003076
$Coefficient of Variation (C.V.) = \frac{\sigma}{\bar{X}}$	$\frac{0.004099}{2.54}$ = 0.161378	$\frac{0.0014265}{1.68}$ = 0.084911	$\frac{0.003076}{1.56}$ = 0.197179

Annex: 11

**Computation of Cash Reserve Ratio
NABIL**

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	3.83	6.10	5.1529
2005/06	3.26	6.10	8.0656
2006/07	6.00	6.10	0.01
2007/08	8.37	6.10	5.1529
2008/09	9.03	6.10	8.5849
Total	$\sum X = 30.49$		$\sum (X - \bar{X})^2 = 26.9663$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	9.78	11.04	1.5876
2005/06	13.61	11.04	6.6049
2006/07	10.47	11.04	0.3249
2007/08	10.91	11.04	0.0169
2008/09	10.32	11.04	0.5184
Total	$\sum X = 55.09$		$\sum (X - \bar{X})^2 = 9.0527$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	7.86	6.32	2.3716
2005/06	5.92	6.32	0.16
2006/07	5.92	6.32	0.16
2007/08	5.13	6.32	1.4161
2008/09	6.67	6.32	0.1936
Total	$\sum X = 31.50$		$\sum (X - \bar{X})^2 = 4.3013$

	NABIL	NIBL	HBL
$Mean (\bar{X}) = \frac{\sum X}{N}$	$\frac{30.49}{5}$ = 6.10	$\frac{55.09}{5}$ = 11.04	$\frac{31.50}{5}$ = 6.32
$Standard deviation (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N-1}}$	$\sqrt{\frac{26.9663}{5-1}}$ = 0.025965	$\sqrt{\frac{9.0527}{5-1}}$ = 0.015044	$\sqrt{\frac{4.3013}{5-1}}$ = 0.010370
$Coefficient of Variation (C.V.) = \frac{\sigma}{\bar{X}}$	$\frac{0.025965}{6.10}$ = 0.425656	$\frac{0.015044}{11.04}$ = 0.136268	$\frac{0.010370}{6.32}$ = 0.164082

Annex: 12

Computation of Cash and Bank Balance Ratio

NABIL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	3.83	4.82	0.9801
2005/06	3.26	4.82	2.4336
2006/07	5.60	4.82	0.6084
2007/08	2.34	4.82	6.1504
2008/09	9.03	4.82	17.7241
Total	$\sum X = 24.06$		$\sum (X - \bar{X})^2 = 27.8966$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	9.40	11.88	6.1504
2005/06	12.15	11.88	0.0729
2006/07	9.97	11.88	48.8601
2007/08	10.90	11.88	0.9604
2008/09	16.96	11.88	25.8064
Total	$\sum X = 59.38$		$\sum (X - \bar{X})^2 = 81.8511$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	8.12	6.76	1.8496
2005/06	6.48	6.76	0.0784
2006/07	5.85	6.76	0.8281
2007/08	4.55	6.76	4.8841
2008/09	8.79	6.76	4.1209
Total	$\sum X = 33.79$		$\sum (X - \bar{X})^2 = 11.7611$

	NABIL	NIBL	HBL
Mean (\bar{X}) = $\frac{\sum X}{N}$	$\frac{24.06}{5}$ = 4.82	$\frac{59.38}{5}$ = 11.88	$\frac{33.79}{5}$ = 6.76
Standard deviation (σ) = $\sqrt{\frac{\sum (X - \bar{X})^2}{N-1}}$	$\sqrt{\frac{27.8966}{5-1}}$ = 0.026409	$\sqrt{\frac{81.8511}{5-1}}$ = 0.045236	$\sqrt{\frac{11.7611}{5-1}}$ = 0.017147
Coefficient of Variation (C.V.) = $\frac{\sigma}{\bar{X}}$	$\frac{0.026409}{4.82}$ = 0.547905	$\frac{0.045236}{11.88}$ = 0.380774	$\frac{0.017147}{6.67}$ = 0.253654

Annex: 13**Computation of Investment in Government Securities Ratio****NABIL**

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	16.58	14.71	3.4969
2005/06	11.90	14.71	7.8961
2006/07	20.60	14.71	34.6921
2007/08	14.56	14.71	0.0225
2008/09	9.92	14.71	22.9441
Total	$\sum X = 73.56$		$\sum (X - \bar{X})^2 = 69.0517$

NIBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	13.67	10.98	7.2361
2005/06	13.33	10.98	5.5225
2006/07	13.30	10.98	5.3824
2007/08	9.16	10.98	3.3134
2008/09	5.42	10.98	30.9136
Total	$\sum X = 54.88$		$\sum (X - \bar{X})^2 = 52.367$

HBL

Years	X	\bar{X}	$(X - \bar{X})^2$
2004/05	22.04	19.71	5.4289
2005/06	19.42	19.71	0.0841
2006/07	21.48	19.71	3.1329
2007/08	23.46	19.71	14.0625
2008/09	12.15	19.71	57.1536
Total	$\sum X = 98.55$		$\sum (X - \bar{X})^2 = 79.862$

	NABIL	NIBL	HBL
$Mean (\bar{X}) = \frac{\sum X}{N}$	$\frac{73.56}{5}$ = 14.71	$\frac{54.88}{5}$ = 10.98	$\frac{98.55}{5}$ = 19.71
$Standard deviation (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N - 1}}$	$\sqrt{\frac{69.0517}{5 - 1}}$ = 0.041549	$\sqrt{\frac{52.367}{5 - 1}}$ = 0.036183	$\sqrt{\frac{79.862}{5 - 1}}$ = 0.044683
$Coefficient of Variation (C.V.) = \frac{\sigma}{\bar{X}}$	$\frac{0.041549}{14.71}$ = 0.282454	$\frac{0.036183}{10.98}$ = 0.329536	$\frac{0.044683}{19.71}$ = 0.226702