CHAPTER – ONE
INTRODUCTION

1.1 General Background

Overall developments of the country depend upon the development of economic activities. Banks and financial institutions play significant role for development of the economy. They are considered as the main sources of economy. They do the several economic and financial activities but in our context most of them are not operating well. They are suffering from various problems directly and indirectly. Organized banks are not the pioneers of financial transaction. There was lot of actors who contributed to this field. Even before the establishment of banking system in Nepal, financial transaction was in proactive as under taken by some money lenders like goldsmith, Sahu-mahajan and Jamindars. The transactions that help during those days were not in an organized manner. Such unorganized way of financial affairs could not direct the nation towards the economic development. Hence, to fulfill the growing need of economy; Nepal bank limited came into existence in 1973 as the first commercial bank of Nepal even before the establishment of central bank i.e. Nepal Rastra Bank. (Nepal Rastra Bank Act, 1995)

Nepal Bank Ltd. started the art of consolidating the scattered capital since its establishment in order to mobilize in productive sector. It developed a systematic tradition and culture of modern banking system in Nepal. Such system could able to establish a strong base for the uplifted the National economy. In 1955, Nepal Rasta Bank has been established under Nepal Rastra Bank Act, 1995. It has been playing the significant role in following aspects; "to insure proper management for the issue of Nepalese currency notes to make proper arrangement for the circulation of Nepalese currency throughout the kingdom and to stabilize the exchange rates of the Nepalese currency in order

to ensure the convenience and economic interests of the general public" (Nepal Rastra Bank Act, 1995).

Nepal Rastra Bank also plays most important role in different sectors. It helps to mobilize capital or fund for development and encourages trade and industrial sector for enhancement. It provides financial security as well as valuable instructions to commercial banks and other related sectors. Therefore it is more essential to the development of banking system and regulation of financial activities in the government of Nepal. Through by this study I want to compare and analyze the financial performance of Nepalese commercial banks. The selected institutions are Himalayan Bank Limited, Nepal Bank Limited, Everest Bank Limited, Rastriya Banijya Bank Limited, Nabil Bank Limited, NCC Bank Limited, Nepal Investment Bank Limited, Standard Chartered Bank Nepal Limited, Lumbini Bank Limited and Bank of Kathmandu Limited which are operating its business into the Nepalese financial market.

In 1974, commercial bank Act has been enacted and enforce in Nepal. This act has helped to emerge numbers of commercial banks with a view "to maintain the economic interest and comfort of the public in general, facilitate to provide loan for agriculture, industry and trade, and make available banking services to the country and the people". (Commercial Bank Act. 2031 B.S) Now commercial banks are operated under the directive of NRB and NRB act 2058. There is also existence of Bank and Financial institution Act (BAFIA) to operate commercial bank on the new climate. After the liberalization in the decade of 2050 various commercial banks started to provide the service in the field of financial sector of the country. Number of finance companies and saving and credit co-operative institutions have been established to provide financial service to the country. After the restoration of multiparty system in Nepal, government has adopted to implement the policy of economic liberalization. The economy is based on mixed economy. In 2042(1985), finance companies Act has been formulated "to incorporate finance companies

for non-banking business having about dynamism in the economic development of the country in order to promote the economic benefit of the people in general through institutionalized investment consolidating the scattered capital in the country." (Finance Company Act, 2042 B.S) this statement clarifies that finance company Act has been introduced in Nepal to enhance the speed of economic growth by the use of accumulated fund for the peoples economic benefit.

1.2 Statement of the Problems

In spite of full-fledge liberalization process conducted in Nepal, financial system faces a number of problems and challenges. Negative net worth and huge accumulated losses, higher proportions of NPA, high interest rate differential, and large interest rate spread are the major ones. Poor management, weak internal governance and fragile financial position, non compliance of prudential regulations, poor accounting and auditing practices excessive government interference and uneven legal frameworks are the major weaknesses of the Nepalese banking sectors but nowadays some improvements are seen. Besides these those weakness are the major problems of financial performance of Nepalese commercial banks. Performance of a company can be measured using financial ratios. These ratios are used for comparison which is better performer. Ratios can be developed with the help of past balance sheet and profit and loss account. The developments must be in according to the change the market price of the share. A financially sound and better performing firm should have adequate liquidity, and the firm should lead the price and trade volume in stock market. Does this situation prevail in the Nepal?

Another thing of consideration in case of Nepal is industry wise, firms differ in performance, there is too much of difference in profit between firms in same industry. The market value per share determines the rate of return to investors representing the profit of the company.

With consideration to above discussion few questions emerge that needs to be researched.

- What are the variables that reflect the performance of the commercial banks?
- How is the financial performance of the selected banks on the basis of capital adequacy, efficiency management and profitability?
- What is the level of capital adequacy of selected commercial banks?
- What is the position of efficiency management of selected commercial banks?
- What is the situation of profitability of selected commercial banks?

1.3 Significance of the Study

Lots of study has been conducted previously to measure the performance of the company listed in the security market. Separately some studies have also been conducted to study rate of return to investor. Investors do not make investments without knowing what the company is doing and performing in terms of various fundamental indicators like earning, dividends, growth, sales, size of assets, etc. Investigation before investment is the starting point of financial analysis regarding performance of common stock. However, in the context of Nepalese Capital Market, there are often irrational investors undertaking investment activities without proper investigation of pros and cons of securities. Hence, the thesis understudy outlines the importance of financial performance and its relevancy in the stock market.

Financial analysis provides insight about what company has done in terms of liquidity, profitability, turnover, assets growth, capital structure, dividend payments, and so on. As such, any investors while taking investment decision has to be fully informed about the financial performance of the company. Therefore, this study is focused on the financial analysis of company, which helps investors to understand a company's current situation, where it may be

going, what factors affect it, and how those factors affect it. Besides these this study is mainly concerned with the financial performances of selected five commercial banks for the recent five years duration on the basis of capital adequacy, efficiency management of those commercial banks and their industry as well as profitability of them. The study helps to all the interested parties to know the financial position especially on the matter of capital risk and adequacy measurement, efficiency management and profitability of Himalayan Bank Limited, Nepal Bank Limited, Everest Bank Limited, Nepal Investment Bank Limited, and Bank of Kathmandu Limited.

The significance of this study also can be point out in the following ways:

- It is also useful to interested parties, creditors, shareholders, depositors and other stakeholders etc.
- The study will compare the management of Himalayan Bank Limited, Nepal Bank Limited, Everest Bank Limited, Nepal Investment Bank Limited, and Bank of Kathmandu Limited for self assessment of what they have done in the past and provide guidance for the future plans and program for betterment on the sector of capital risk and adequacy measurement, efficiency management and profitability.
- This study will may useful to take some corrective actions to related stakeholders and banks' management too as this study suggested and lighted out into the matter of capital management, efficiency handling and management into banks operation and managing profitability and earning capacity of them.

1.4 Objectives of the Study

Financial performance has become vital and important tools in the field of financial management in all organization. The study is basically confined to provide a detailed analysis such as practical, usable and valuable and the financial performance currently facing the selected listed commercial banks.

The general objective of the study is to generalize the financial performance of the selected commercial banks and the capital structure positions. To achieve this basic objective, the specific objectives are as follows.

1. To analyze the financial performance of the commercial banks on the basis of capital adequacy, efficiency and profitability with the help of financial ratios.
2. To study relationship of the capital adequacy level, efficiency and profitability among selected commercial banks.
3. To examine and compare the trends of capital management, efficiency management and profitability management of selected commercial banks.

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1.5 Limitations of the Study

The study will have some limitations; basically the study is done for the partial fulfillment of Masters of Business Studies. Time constraints, financial problem and lack of research experience will be the primary limitations and other limitations are as follows;

- The study has been designed to concentrate on banking sector, which is part of total capital market, so the conclusion can't be generalized on the total capital market.
- Time and financial constraint are also major limitation of the study. The report has to be submitted within certain time period so this hinders the study to cover a large area.
- The researcher being a beginner in this area, this report cannot remain without flaws. But effort will be made to make the report with minimum error.
- Being almost impossible to draw the final product error is also a major limitation of the study.
- The recent five years data are taken on this research study.

- ❖ Study being based on the secondary data the result of this study resides on the accuracy of the sources.

1.6 Organization of the Study

This study has been organized over altogether five chapters. Starting from Introduction, Review of Literature, Research methodology, Presentation & Analysis of data and summary, to conclusion & Recommendation as get of the entire study. A brief outline of this chapter has been outlined as under.

The first chapter entitled Introduction deals the subject matter of study with general background, the research problem, reason for studying, objective of the study, along with limitation and organization of study. Similarly, the second chapter entitled "Review of Literature" concerned with the study of financial performance in the matter of capital adequacy, efficiency and profitability measurement. This chapter consists of review of conceptual framework about the study, review of related studies taken over different period of times in the past in the national and international context and finally it also deals with previous studies of various scholars related are relevant this study. At the last of this chapter it also includes the concluding remarks which focused into the research gap. The third chapter discussed the "Research Methodology" used in the study. It comprises research design, nature & source of data, data gathering method and analytical tools used.

The fourth chapter deals with the "Presentation & Analysis" of data & scoring the empirical finding out the study through definite course of research methodology. The last chapter i.e. "Summary" of the study, which is followed by the basic conclusion of the study based in the fourth chapter on the basis of these conclusion. Hence, as per this process of organization this research work be completed.

CHAPTER – TWO
REVIEW OF LITERATRE

Review of literature is an essential part of any research work. In this part, the research reviewed various books, articles and previous researches' publications of related subjects. This chapter consists of three sections: conceptual review, review of previous research work and research gap.

2.1 Conceptual Reviews

Before presenting future performance highlights of the banks, it would be pertinent to have an overview on the general concept and banking scenario of the country and analytical techniques used to present and analysis of data for conceptual review point of view.

2.1.1 Banking: An Introduction

Banking in general means an institution that deals with money. A bank performs several financial monetary and economic activities which are essential for the economic development of a country. It facilitates the growth of trade and industry and other sector of the national economy. Bank performs the task of intermediating between depositors and entrepreneurs in order to raise funds and then loaning those funds to individuals or institutions to earn profit. A bank is business organizations that receives and holds deposit of funds from others to make loans or extends credits and transfer funds vu written orders of depositors (Encyclopedia, 1984)

A bank is a government regulated, profit making business that operates in competition with other banks and financial institutions to serve the saving and credit needs of its customers. The primary business of banks is accepting deposit and lending money. Bank accepts deposits from customers who want the safety and convenience of deposit service and the opportunity to earn interest on their excess funds. Banks put their depositors fund to other

individuals, to business and to federal, state and local government (Halter1999:2).

Commercial banks are financial institutions, which deals in accepting deposits from persons and institutions and giving loans against securities. They provide working capital needs to trade, industry an agricultural sectors as well. Commercial banks also provide technical and administrative assistance to industries, trade and business enterprises. American Institute of Banking has defined commercial banks as a corporation which accepts demand deposit subject to repeated and short term loans to business enterprise regardless of the scope of its other services.

The Commercial Bank Act 2031B.S. of Nepal has stated, "A Commercial Bank means bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions".(Ministry of law and justice, 2031:4)

2.1.3 Modern Banking in Nepal

Nepal Bank Ltd. is the first modern bank of Nepal. It is taken as the milestone of modern banking of country. This was established in 1973 A.D. Until mid 1940s, only metallic coins were used as medium of exchange. So the Government of Nepal felt the need of separate institution of body to issues national currencies and promote financial organization in the country. Hence the NRB Act 1955 was formulated. Accordingly, Nepal Rastra Bank was established in 1956 A.D. as a central bank of Nepal. Rastriya Banijya Bank as established in 1856 A.D., as the second commercial bank of Nepal. The financial shapes of these two commercial banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad position. As the agriculture is the basic occupation of major Nepalese, the development of this sector plays the prime role in the economy. So, separate Agriculture development Bank as established in 1968 A.D. This is the first institution of agricultural financing. For more to decades, no more banks have been established in the country. After declaring free economy and privatization policy, Government of Nepal encouraged the foreign banks for joint venture in

Nepal. As a result, Nepal Arab Bank Ltd. (NABIL) was established in 1984. This is the first modern bank with latest banking technology.

Then lots of commercial banks have been opened in the country. Nepal Indosuez Bank was established in 1987 A.D. as a private joint venture bank. Nepal Grindlays Bank as established as a joint venture between ANZ Grindlays and Nepal Bank Ltd. This bank is now known as Standard Chartered Bank since July 2001. After the opening of Nepal Indosuez Bank and Neal Grindlays Bank, Nepalese really saw modern banking. Himalayan Bank Ltd. is a joint venture with Habib Bank of Pakistan. It started its operation in 1993. Nepal SBI Bank Ltd. is a joint venture between Employee Provident Fund and a State Bank of India, where Indian Banks holds 50% of the equity. Nepal Bangladesh Bank as established in 1994 in technical collaboration with IFIC Bank Ltd. of Bangladesh. Everest Bank Ltd started its operation in 1994B.S. It entered into joint venture with Panjab National Bank of India (PNB). PNB holds 20% equity stakes in the banks. Banks of Kathmandu was established in the year 1995 a joint venture with Syan Bank of Thailand. NCC as established in 1996. Lumbini Bank was established in the year 1998 in Narayanghat. This is the first regional Bank of Nepal. Nepal industrial and Commercial Bank as established in the same year. It does not have any joint venture yet. But it has employed senior managers from India to handle its operation. Machhapuchre Bank started its operation from 2000 with its head office in Kathmandu. This bank has introduced Internet banking which is a Hi-Tech Banking system of the world. Kumari Bank was established in 21001. Laxmi Bank was established in 2002. Its head office is situated in Kathmandu. Siddhartha Bank also established in the same year. In year 2007 five banks started operation. They were Global, Citizen, Prime Commercial, Sunrise and Bank of Asia. This was the year when large number of banks started their operation. The main reason behind this is peace agreement between Nepalese government and Maoist. Again in year 2008 two banks namely DCBL and NMB had started operation. Kist Bank as established in 2009. In year 2010 three large commercial banks came into

existence. They were Janta , Mega and Commerz & Trust Bank. Commerz and Trust Bank was 29th commercial bank of Nepal. Civil and Century Bank were the latest commercial banks of Nepal. Altogether there are thirty one commercial banks operation in Nepal. The Sanima Bikas Bank is the latest commercial bank on this period.

2.1.4 Need and Role of Bank in the Economy

As well developed banking system plays an important role in the economic development of the country. The banking system is one of most important inventions of modern society. Its primary task is to move scarce loan able funs from those who save those who borrow to buy goods and services and to make investments in new plant and equipments and facilities so that the global economy can grow an increase the standard of living enjoyed by its citizens. Without the global banking system and the loan able funds it supplies, each of us would lead a much less enjoyable existence. Thus the banking services have become pre condition for overall development in the modern economy. A country needs wide distributed banking services for fast industrialization. In the developing country like Nepal, not only the banking facilities are limited. To a few urban areas, but also the banking activities are limited mostly to trade and commerce. Therefore, a well developed and diversified banking system is needed giving adequate attention to industry and agriculture. Mainly commercial banks are essential for overall development of a country in the following ways:

1. **Capital Formation**

   Capital Formation is the most important determinants of economic development. Capital formation has two well defined stages. The first one is generation of saving and then after mobilization of saving funds. Banks stimulate saving to providing a number of incentives such as interest safe custody to deposits. On another hand, they mobilize the

funds by providing loan to those who have the opportunity of productive investment.

2. **Economic Development**

   A certain rate of inflation and sound financial atmosphere is essential for the overall economic development of a country. Banks can directly influence these sectors through the rate of interest and availability of credit. It is the business of banks to control over interest rate as well as credit.

3. **Price Stability**

   Banks can control and create the credit in the monetary market. According to the financial policy of government, banks regulate the interest rate in deposits and loan. They also provide different types of banking services for industrialization. Ultimately, this will increase the supply of price. In another hand, it will increase the employment and public earning. All these are the factor for helping to control market price.

4. **Monetization of economy**

   Monetization of the economy is essential for accelerating trade and economic activities. Banks are the creator and distributors of money. Bank accepts currencies as deposits and exchanges. It helps to use money as the means of payment in business transaction. Businessman does not hesitate to accept money as payment, because it is widely accepted by banks. Banks spread their branches in the rural areas, which convert the non-monetized sectors of the economy into monetize sectors.

5. **Implementation of Monetary Policy**

   An appropriate monetary policy is the infrastructure of the economy of a country. However, a well developed banking system is the backbone of the economy. In this way, a proper banking system is a necessary precondition for the effective implementation of the monetary policy. Credit control and regulation by the government and central banks is not

possible without the active co-operative of the banking system in the country.

6. **Promotion of Trade and Industry**

   Industrialization could not have been made possible without the development of banking system. Bank provides the facility of cheque, draft and bill of exchange, which revolutionize the trade and industry. Banks provide different types of banking services, which play important roles in internal and international trade. This encourages the specialization and accelerates the pace of industrialization.

7. **Regional Balance**

   Banks can also play important roles in achieving development in different regions of country. They can transfer surplus capital from the developed regions to the less developed region, where it is scarce and most needed. The canalization of resources from urban sector to rural sector will promote economic development in underdeveloped areas of the country.

2.1.5 Financial Soundness Indicators of Banks

2.1.5.1 CAMALS Methodology

The variety of risk to which banks are exposed justifies looking at aspects of bank operations that can be categorized under the CAMELS framework. This involves the analysis of six grounds of indictors of indicators of bank soundness. The capital account o a commercial bank play several vital roles in supporting its daily operations an insuring its long-run viability. In the CAMEL analysis there are five pillars in the commercial banks performance.

First: in the first place, capital provides a cushion against the risk of failure by absorbing financial and operating losses until management can address the bank's problems and restore the institution's profitability.

Second: capital provides the funds needed to bet the bank chartered, organized and operating before deposits come lowing in. A new bank needs starting up

funding to acquire land, build a new structure or lease space, equip its facilities, and hire offers and staff even before opening day.

Third: capital promotes public confidence in a bank and reassures its creditors (including the depositors) of the bank's financial strength. Capital also must be strong enough to reassure borrowers that the bank will be able to meet their credit needs even if the economy turns down.

Fourth: capital provides funds for the organization's growth and the developments of new service, programs, and facilities. When a bank grows, it needs additional capital to support that growth and to accept the risks that come with offering new services and building new facilities. Most banks eventually outgrow the facilities they start with. An infusion of additional capital will permit a bank to expand into larger quarters or building additional branch office in order to keep pace with its expanding market area and follow its customers with convenient service offerings.

Finally: capital serves as a regulator of bank growth, helping to ensure that individual bank's growth is held to a pace that is sustainable in the long run. Both the regulatory authorities and the financial markets require that bank capital increase roughly in line with the growth of loans and other risky bank assets. Thus, the cushion to absorb losses is supposed to increase along with a banking institution's growing risk exposure. A bank that expands its loans and deposits too fast will start receiving signals from a market and the regulatory community that its growth must v slowed or additional capital must be acquired. Capital regulation by regulatory agencies has become an increasingly important policy tool to limit how much risk exposure banks can accept, thereby promoting public confidence and protecting the government's deposit insurance system form massive losses.

The followings are the tools of CAMELS Methodology.

Capital Adequacy,

Asset Quality,

Management Soundness,

Earnings,

Liquidity,
Sensitivity to Market Risk

A. Capital Adequacy

Capital adequacy and availability ultimately determine the robustness o financial institutions to shocks to their balance sheet. Aggregate risk-based capital ratios (the ratio of regulatory capital to risk weighted assets) are the most common indicators o capital adequacy, based on the methodology agreed to by the Basel Committee on Banking Supervision in 1988. Simple ratios of capital to assets without differential risk weights often complement this measure. An adverse trend in these ratios may signal increased risk exposure and possible capital adequacy problem. In addition to the amount of capital quality, in many countries, bank capital consists of different elements that have varying availability and capability to absorb losses, even within the broad categories of tire 1, and tire 2 capitals. If these capital elements can be reported separately, they can serve as more reliable indicators of the ability of banks to withstand losses, and help to our overall capital ratios. The Basel Committee's minimum standards for risk weighted capital adequacy were originally intended to apply only to internationally active banks, but are now used in most countries industrial, emerging and developing and for most banks. Banks have to make decision about the amount of capital they need to hold for three reasons. First, bank capital helps prevent bank failure, a situation in which the bank cannot satisfy its obligation to pay its depositors and other creditor and so goes out of business. Second, the amount of capital affects, returns for the equity holders of the bank. And third, a minimum amount of bank capital (bank capital requirements) is required by regulatory authorities. Commercial banks have faced two different capital requirements: a capital assets (leverage) ratio and a risk based capital ratio that is in turn subdivided into a Tire 1 capital risk based ratio and a total capital (Tire 1 plus Tire II) risk based ratio.

Types of Capital in Use

Several different types of capital are use in the industry today. The commercial banks also use the following types of capital in general.

1. Common Stock: measured by the par (face) value of common equity share outstanding, which pay a variable return depending on whether the issuing institution's board of directors votes to pay a dividends?
2. Preferred Stock: measures by the par value of any shares outstanding that promise to pay a fixed rate of return (dividend rate); preferred stock may be perpetual, have only limited life, or he issued as trust preferred stock.
3. Surplus: representing the excess amount above each share of stock's par value paid in by the institutions shareholders.
4. Undivided profits: representing the met earnings that have been retained in the business rather than being paid out as dividends.
5. Equity Reserve: representing funds set aside for contingencies, such as legal action against the institution, as well as providing a reserve for dividends expected to be paid but not yet declared and a sinking fund to retire stock of debt in the future.
6. Subordinate Debentures: representing the long-term debt capital contributed by outside investors, whose claims legally follow (i.e., are subordinated to) the claims of depositors; these debt instruments may carry a convertibility feature, permitting their future exchange for share of stock.
7. Minority interest in consolidated subordinate: where the financial firm holds ownership shares in other business.
8. Equity commitments notes: These are debt securities repayable from the sale of stock.

The Capital Assets Ratio or Leverage Ratio

The capital assets or leverage ratio measures the ratio of a stock of a bank's book value of primary or core capital to its assets. The lower this ratio is, the

more leveraged the bank is. Primary or core capital is a bank's common equity (book value) plus qualifying cumulative perpetual preferred stock plus minority interest in equity accounts of consolidated subsidiaries. The leverage ratio is

Leverage Ratio = Core Capital / Assets

If a bank's leverage ratio is greater than 5 percent, it is well capitalized. If it is 4 percent or more it is adequately capitalized; under 4 percent, it is undercapitalized.

Regulatory Approach to Evaluating Capital Needs

How much capital a bank should have has been one of the most controversial issues in the history of the industry? Much of the controversy has evolved around two questions: Who should set capital standards for banks, the market or the regulatory agencies? What is a reasonable standard for bank capital? Banks must meet minimum capital requirements before they can charter, and they must hold at least the minimum requirement level of capital throughout their corporate life. Regulatory agencies also indicate the forms of capital that are acceptable. As Wall (7) notes, the fundamental purpose of regulating bank capital are threefold:

1. To limit the risk of bank failures.
2. To preserve public confidence in banks.
3. To limit losses to the federal government arising from deposit insurance claims.

There is an underlying assumption that the private marketplace cannot accomplish all these of these objectives simultaneously, because the market does not correctly price the impact of bank failures on the banking system's stability. Banks are unique in that they hold short-term liabilities (especially demand deposit) that can be withdrawn immediately when public confidence falls. Few banks are in a position to liquidate their loan portfolios immediately when threatened with massive deposit withdrawals. Moreover, the managers of

individual banks do not consider the possible external effects of their risk taking on other banks, which may be dragged down by the collapse of neighboring institutions. Large banks failures are a special problem, as Wall (7) observes. The failure of a big bank attracts significant media attention, causing depositors to raise questions about the soundness of their banks. Moreover, the largest banking organizations generally have a high proportion of non-deposit liabilities and large denomination deposits that are not adequately covered by insurance. The failure of a large bank can have a greater impact on the government's deposit insurance fund that the failures of a considerable number of small banks. One of the damaging side effects of government funded deposit insurance is that it lowers the normal level of vigilance amount depositors over bank safety and risk taking. Feeling fully protected, most deposit do not assess the risk of banks they use, nor do they penalize those banks that take on excessive risk by moving their funds to lower risk banks. This features of government sponsored insurance plans encourages banks to drive their capital to deposit ratios lower, thus exposing government insurance funds to even greater risk of loss.

The Basel Agreement

The Basel Agreement on international Capital Standards, In 1987 the federal Reserve Board, representing the United State , and representative from 111 other leading industrialized countries (Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, and Luxembourg) announced preliminary agreement on new capital standards – often referred to as the Basel Agreement – that would be uniformly applied to all banking institutions in their re specie jurisdiction. Formally approved in July 1988, those new requirements are designed to encourage leading banks to strengthen their capital positions, reduce inequality in the regulatory rules of different nations, and consider the risk to banks of the off –balance –sheet commitments they have made in recent years. The new capital requirements

were phased in gradually over time and became full enforceable beginning January 1, 1993.

Basel Accord I

The original Basel capital standards are known today as Basel I. Under the term of Basel I, the various sources of capital are divided into two tiers.

Tier 1 (core) capital includes common stock and surplus, undivided profits (retained earnings), qualifying non –cumulative perpetual preferred stock, minority interest in the equity accounts of consolidated subsidiaries, and selected identifiable intangible assets less goodwill and other intangible assets.

Tier 1 Capital Ratio = Tire 1 Capital / Total Risk Weighted Assets
Tier 2 Capital Ratio = Tire 2 capital / Total Risk Weighted Assets

Tier 1 capital includes: Common Stock, Surplus, Paid up Capital, Undivided Profit, Non Cumulative Preferred Stock, Minority Interest in the Equity Account, and Identifiable Intangible Assets less Goodwill. Tier 2 (Supplemental) capitals includes the allowance (reserves) for loan and lease losses, subordinated debt capital instruments, mandatory convertible debt, intermediate-term preferred stock, cumulative perpetual preferred stock with unpaid dividends, and equity notes and other long-term capital instruments that combine both debt and equity features.

To determine each bank's total regulatory capital, regulators must divide the sum of Tire 1 and Tier 2 capital by the total assets value hold by that related bank.

Finding the risk weighted assets under Basel I

There are the different types of assets used by the commercial bank into the formation process of portfolio. Cash treasury securities investment is known as the risk free assets but the other investment and lending are categorized on

different risk classes according to their nature. To understand about the risk position of assets, we need to know the Basel agreement.

Therefore,

$$\text{Risk Weighted Assets} = \sum (\text{Assets Amount} \times \text{weight of Risk})$$

Basel I stipulated that for a bank to qualify as adequately capitalized it must have.

1. A ratio of core capital (Tire 1) to total risk-weighted assets of at least 4 percent.
2. A ratio of total capital (the sum of Tire 1 and Tier 2 capital) to total risk-weighted assets of at least 8 percent, with the amount of Tier 2 capital limited to 100 percent of Tire 1capital.

Basel Accord II

Soon after the first Basal Agreement was adopted, work began on the next edition of the international bank capital accord, known today as Basel II. Of special concern to banker, regulatory agencies, and industry analysts was how to correct the obvious weakness of Basle I, particularly its insensitivity to innovation in the financial marketplace, something that is happening all the time. Smart bankers have found ways around many of Basel I's resection. For example many of the largest banks have used capital arbitrage to increase their profitability and minimize their required levels of capital. These banking firms discovered that the broad asset risk categories in Basel I actually encompass many different levels of risk exposure. Thus, instead of making bank less risky, some parts of Basel I seemed to be encouraging them to become more risky.

Basel II sets up a system in which capital requirement are more sensitive to risk and protect against more types of risk than has been true under Basel I. Under Basel II attempts to ensure that, consistently, low-risk assets require less capital than high –risk assets, where the reverse was often the case with Basel I.

There are three Pillars in Basel II.

The First Pillar – Minimum Capital Requirement

Minimum capital requirements for each bank are based on its own estimated risk exposure from credit, market and operational risks.

1. **Credit risk**

   Credit risk is the major risk that banks are exposed to during the normal course of lending and a credit underwriting. When Basel II, there is two approaches for credit risk measurements: the standardized approach and the internal rating based (IRB) approach. Due to various inherent constraints of the Nepalese banking system, the standardized approach in its simplified form, simplified standardized approach (SSA), has been prescribed in the initial approach.

2. **Operational risk**

   One of the key innovations associated with Basel II is requiring bank to hold capital to deal with operational risk in addition to credit and market risks. This type of risk exposure includes losses from employee fraud, product flaws, accounting errors, computer break, downs, terrorism and natural disaster (such as storms and earthquakes) that may damage a bank's physical assets and reduce its ability to communicate with customer. To lower their capital requirement, bankers most demonstrate they are using effective measures to reduce operational risk, including adequate insurance coverage, backup service capability, and effective management information systems. Bank subject to Basel II will be asked to estimate the probability of adverse operating event and the potential losses theses may generate.

3. **Market risk**

   Market risk is defined as the risk of losses in on-balance sheet and off-balance position arising from adverse movements in market prices. The major constituents of market risk are:

   a. The risk pertaining to interest rate related instruments.
   b. Foreign exchange risk(including gold position) throughout the banks and
   c. The risk pertaining to investment in equities and commodities.

The Second Pillar – Supervisory Review Process

While the first pillar of the new accord is specification of minimum capital requirement for credit, market and operational risk, the second pillar I a supervisory review process. The objectives of thee supervisory review processes are to ensure that bank have adequate capital to support all their risk and encourage banks to develop and use better risk management techniques.

The four principle of supervisory review lay down in the second pillar to guide supervisors in their review process are as follows:

1. Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and strategy for maintaining their capital levels.
2. Supervisors should review and evaluate bank's internal capital adequacy assessment and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the results of process.
3. Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require bank to hold capital in excess o the minimum.
4. Supervisors should seek the intervene at an early stage to prevent capital from failing below the minimum level required to support the risk characteristics of a particular banks and should require rapid remedial action if capital is not maintain or restored.

The implementation of the second pillar by the supervisors should give special emphasis to the four areas: Risk covered by capital requirements under pillar I but not captured fully by pillar I, i.e. shortcoming in credit, market and operational capital charge calculation. Risk not covered by capital requirements under pillar I, for example, interest rate risk in the banking book and liquidity risk. Risk internal to the bank not covered by the capital requirements under

pillar I. Compliance by bank with minimum standard laid down for adoption of the advanced capital calculation approaches laid down under pillar I.

The Third Pillar - Market Discipline

The third pillar focuses on qualitative and quantitative disclosures by banks to complement the first and second pillars. The aim of the disclosures is to enhance market discipline on the banks by providing information to market participants on the scope of application of the accord, capital adequacy, risk exposures, and risk assessment processes of the institutions. The third pillar does not impose any additional capital requirements on banks. In some of the advanced methodologies prescribed under pillar I. disclosures requirements from the part the minimum requirements to be met in order to implement the advanced methodologies. Non-compliance with disclosures requirements can be basis for disqualification from use of these advanced methodologies. This is true for the IRB approach for credit risk and the advanced measurement approach for operational risk. The third pillar disclosures are not required to be audited externally and need not to form part of the annual statements or submission to regulators unless required by accounting standard or regulatory authorities of a country. These disclosures should normally be made semi-annually. However, disclosure of capital adequacy should be made quarterly by large bank and qualitative disclosures that provide summary information can be made annually by banks.

The disclosures requirements encompass broad areas of: Scope of the application of the accord, Capital structure of bank, Capital adequacy of bank, Credit risk adequacy including credit risk, Counterparty credit risk disclosures, Disclosures for securitized exposures, Market risk disclosures, Operational risk disclosures, Disclosures or equity risk in the banking book, Disclosures for interest rate risk in the banking book.

According to NRB Directive No. 1 the risk weight ratios, standard core capital ratio and total capital fund ratio are given as follow:

Table 2.1 Minimum Level of Capital

Institutions	Core Capital	Capital Fund
'A' class	6.0%	10.0%
'B' and 'C' class	5.5%	11%
'D' class	4.0%	8.0%

Core capital: the amounts under the heads of core capital are: Paid up capital, Share premium, Irredeemable preference shares, General reserve fund, Accumulated profit and loss a/c, Capital redemption reserve, Capital equalization reserve, and other free reserve. Whereas those items that are deducted while computing core capital are: Goodwill, Excess amount o investment in share and debenture of organized institution than prescribed by NRB, Entire amount of investment made in share & debenture of organized institution having financial interest, and Fictitious assets.

Supplementary capital: General loan provision, Hybrid capital instruments, Unsecured subordinated term debt, Exchange equalization fund maintained by the licensed institutions authorized to deals in foreign exchange transactions, Additional amount of loan loss provision maintained in the excess of the requirement, and Provision for Possible Loss on Investment and Investment Adjustment Funds are included into the supplementary capital, which must not exceed one hundred per cent of the core capital.

B. Asset Quality

Risks to the solvency of financial institutions most often derived from impairment of assets. This section looks at indicators that directly reflect the current state of bank credit portfolios, including information on loan diversification, repayment performance and capacity to pay, and currency composition. Indicators of assets quality need to take into account credit risk

assumed off- balance-sheet via a guarantee, contingent leading arrangement, and derivative a subject cover at the end of the section. The quality of financial institution loan portfolios is also directly dependent upon the financial health and profitability of the institutions, borrowers, especially the non financial enterprises sectors. The ratio of nonperforming loan (NPLs) to Net loan is often used as a proxy for assets quality of a particular bank or financial system. Cortavarria, Dziobek, Kanaya and Song (2000) note that in many countries, including most G- 10 countries assets are considered to be non performing when

1. principal or interest is due and unpaid for 90 days or more or
2. Interest payment equal to 90 days or more have been capitalized, refinanced, or rolled over.

Some countries used forward-looking classification criteria which focus on repayment capacity and cash flow of the borrower and mirror more accurately the current economic value of a loan, therefore providing better quality indicators. For countries that are using the usual classification criteria, which focus on repayment capacity and cash flow of the borrowers, and a mirror more accurately the current economic value of a loan, therefore providing better quality indicators. For countries that are using the usual classification system, which includes five categories: standard, special mention, substandard, doubtful and loss, NPLs are often defined as loans in the three lowest categories. Nevertheless, the classification criteria vary across countries; hence, available measures of NPLs are not always comparable across countries and not even over time. In addition, some countries count only the unpaid portion of the loan, rather than the entire loan, as nonperforming.

A notion of asset quality geared toward the capacity of a bank to withstand stress should also consider the level of provisions. Provisions can be general for possible losses not yet identified or specific for identified losses (loan-loss

reserves). The definition and rules concerning general and specific provisions vary across countries, although standardized levels seems to gravitate toward 20 percent, 50 percent and 100 percent for standard doubtful and loss categories. In some countries banks are also required to hold a general provision, sometimes calculated as 1 percent of standard quality loans. The coverage ratio the ratio of provision to NPLs provides a measure of the share of bad loans for which funds have already been set aside. An important indicator o the capacity of banking capital to withstand NPL related losses is the ratio of NPLs net of provisions to capital.

Lack of diversification in the loan portfolio signals an important vulnerability of the financial system. Loan concentration in a specific economic sector or activity (measured as a share of Net loans) makes banks vulnerable to adverse developments in that sector or activity. This is particularly true for exposures to the real estate sector. Exposure to country risk can also be important in countries that are actively participating in the international financial markets. Data on the geographical distribution of loans and credit allow the monitoring of risk arising from exposures to particular (groups of) countries, and an assessment of the impact of adverse events in these countries on the domestic financial system through contagions.

Concentration of credit risk in a small number of borrowers may also result from connected lending and large exposures. Monitoring of connected lending is particularly important in the presence of mixed activity conglomerates in which industrial firms control financial institution. The assessment of large exposures, usually calculated as a share of capital, aims at capturing the potential negative effect on a financial institution if a single borrower experiences difficulties in servicing its obligations. Daldwin and Kourelis (forthcoming) note that is important to monitor this indicator at the level not only of individual banks and the aggregate financial sector, but also o financial groups. If a number of affiliates have dealing with the same borrower, the

group's credit risk exposure could well be underestimated if take on a solo basis. Thus it is concluded that indicator highlighted in this section as important in assessing bank assets quality include NPLs to net loans. NPLs net of provisions to capital, sector-wise distribution of loans to net loans, connected lending to capital, large exposures to capital and where applicable foreign currency denominated loans to net loans are the ideally indicators should be constructed using figures of exposures (on and off-balance-sheet) rather than just loans.

C. Earnings and Profitability

Accounting data on bank margins and expenses are widely used indicators of bank profitability. Common operating ratios are net income to average net assets also known as return on assets (ROA) and net income to average equity also known as return on equity (ROE). Vittas (1991) notes that three types of operating ratios may be used in analyzing the performance of banks: operating assets ratios, operating income ratios and operating equity ratios. The first relates all income and expenses to average net assets, the second to gross income and third to average equity. Differences in capital structure, business mix and accounting practices across countries, among individual banks, and over time must be considered in analyzing bank performance and highlight the need to look at several operating ratios simultaneously. Differences in capital structure refer to differences in bank leverage. Banks with lower leverage (high equity) will generally report higher operating assets ratios (such as ROA), but lower operating equity ratios. Hence an analysis of profitability based on operating equity ratio (such as ROE) disregards the greater risks normally associated with high leverage. Operating income ratios may also be affected by leverage; notably the interest margin and net income ratios will be higher, which the non-interest income and non-interest expense ratio will be lower for banks with lower leverage (high equity). The reason for this is that banks with higher equity need to borrow less to support a given level of assets and thus have lower interest expenses, which results in higher net interest and net

income. Differences in business mix derive from differing combinations of high and low margin business for example; retail banking, which is associated with higher lending rates, lower deposit rates, and higher operating costs, and wholesale corporate banking. In this case, an analysis based on interest margin and gross income only may be misleading, since two banks may show wide differences in these ratio and still have equal ROA and ROE. Such an analysis disregards the facts that high margin business involves high operating cost. In the same vein, banks that offer a wider range o services, such as investment banks, will have much higher operating costs but also higher non-interest income. Accounting practices that distort operating ratios cover such issues as the valuation (and revaluation, in the presence of inflation) of assets, the treatment of reserves for depreciation, employees pensions, loan-loss provision, and the use of hidden reserve. The possible impact of the factors must be taken into account in interpreting.

Thus, in sum up, relying too heavily on just a few indicators of bank profitability can be miss-leading. While ROA, ROE and interest margin (and non-interest expenses) to gross income remain the key measures, they should ideally be supplemented by the analysis of other operating ratios.

D. Liquidity

The level of liquidity influences the ability of banking system to withstand shocks. Common measure of liquidity includes liquid assets to Net assets (liquid assets ratios), liquid assets to short-term liabilities, or loan to assets as a crude measure. The definition of liquid assets differs across countries but, in general terms, it refers to cash and its equivalents any assets that I readily convertible to cash without significant loss. These indicators reflect the maturity structure of the assets portfolio and can highlight excessive maturity mismatches and a need for more careful liquidity management. Loan to deposit ratios (excluding inter-bank deposit) are also sometimes used to detect problems a high ratio indicating potential liquidity stress in the banking system.

These ratios may be also reflects loss of depositor and investors confidence in the long-term viability of the institution. As the bank liquidity depends on the level of liquidity of the overall system, it is important to monitor measures of market liquidity. The focus may be on the Treasury bill or central bank bill market, or on other market on that are most relevant to the liquidity of bank assets. Market liquidity can be captured by indicators of the tightness, indicates the general cost incurred in a transaction irrespective of the level of market prices and can be measured by the bid ask spread (the difference between prices at which a market participate at willing to buy and sell of security). Where foreign currency transactions are relevant, liquidity management can be complicated if the availability of foreign currency is limited and inter-bank foreign exchange lines are vulnerable to disruption. In these cases, it is also important to measure the liquidity of foreign exchange market and monitor its determinants. Foreign exchange liquidity will also depend on development in the external sectors, which I subject to the risk of reversal of capital flows or to the adequacy of foreign exchange reserve.

Standing central bank facilities, which are accessed at the initiative of bank, provide liquidity to bank (usually against collateral) and are an essential component of the liquidity infrastructures. On the other hand, a large increase in central bank credit to banks and other financial institutions as a proportion of their capital or their liabilities often reflects severe liquidity (and frequently also solvency) problems in the financial system. The dispersion in inter-bank rates is a highly relevant indictor of liquidity problems and bank distress. Very often banks themselves first detects problems as they are exposed, or potentiality exposed to troubled institution in the inter-bank market, high dispersion in inter-bank rates measured, or instance by the spread between highest and lowest rates in the market may signal that one institution are perceived a risk by their peers. As supplying banks can control their inter-bank positions through price and quantitative controls, high-risk institutions may be forced to engage in aggressive bidding for deposits. Change in inter-bank credit

limits or an unwillingness of some institution to lend to other may indicates serious concern. Thus, in conclusion, liquid assets to Net assets (the liquid assets ratio) and liquid asset to liquid liabilities remain the main indicators.

2.2 Review of Journals and Articles

Poudel, (2003) in his study said that the balance sheet, profit and loss account and accompanying notes are the most useful aspects of the bank. The major concern is to manage and understand the bank's balance-sheet and income statement. The income statement of the bank is the measurement of operation and the balance-sheet is composed of financial claims as liabilities in the form of deposit and assets in the form of loans. The part of the fixed assets account of the bank is in small portion of total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. The major components of profit and loss account are the interest income and the returns from investment where as other sources of income are also included as fee, commission discount and service charge. The user of the financial statements of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. Commercial Bank Act 2031 B.S. develop the act for commercial banks that is the audited balance-sheet and profit and loss account to be published in the leading newspaper for the information to the general public.

Sharma, (2005) explained in his research work that, it would be definitely be unwise for Nepal not to let the JVBs to operate in the country and not to take advantages f them as additional means of resources mobilization as well harbinger of new era in banking. But it will certainly be unfortunate for the country to develop the JVBs. And the most of the cost of the domestic bank so far, one should admit frankly, n different treatment has been extended to the domestic and JVBs; at least from the government side, which is commendable. If Government keeps on the stance of treating the domestic and JVBs also

show their alacrity to come forward to share the trials and the trials and the tribulations of this poor country. Both domestic banks and JVBs will coalesce and co-exist, complimenting each other and contributing or the nation accelerates developments. On the contrary, if the JVBs use their straight against trading in to the cumbersome path of the development along with the domestic banks and government.

K.C., (2008) concluded that: The financial sector has a direct impact in the national economy. It is oblivious that any slight change in the financial sector triggers a significant impact in the economy. Following the implementation of the financial sector reform policy, the country's economy has experienced a sea change.

Ristriya Banijaya Bank, (2003) issued several directives tightening its earlier blacklisting procedures in order to check the growing non-performing asset problems of commercial banks and financial institutions and to maintain the financial health of these institutions by preventing risky investments. As per the new provisions, all financial institutions are required to disclose the name of the loan defaulters every six months; financial institutions have been barred from lending any amount to the blacklisted defaulter or any off his family member. Credit Information Bureau (CIB) can blacklist the firm, company or an individual who fails to clear the debt within the stipulated period. If they fail to clear the debt amount in time, or are found misusing the loans, among other, the creditor can be blacklisted. The proprietor along with the proprietorship firms, and partner would also be blacklisted. Furthermore, the shareholders holding 10 percentage or more shares would also be blacklisted, if the public limited company fail to clear the dues.

Business Age International, (2007) said that maintaining the health of financial sector is the first priority of the government, as crisis in the sector will push the country decade back and increase poverty. It has been said that the central bank

would stand strong, against willful defaulters who cite circumstantial reason for their failure in settling loans, but does not compromise on other aspects of business and livelihood. The major problem in the Nepalese banking sector is the bad practice of Nepalese business firms for not repaying the loans that is taken from the banks. These bad practices create the hurdles in the healthy and free growth of the Nepalese financial sector. It is the responsibility of the government to strictly discourage such unhealthy practices to safeguard the entire financial sector from any mishaps.

The world seems to be continually beset by banking crises of one short or another. Indeed, the problems of the 1980s and 1990s have been described as more several than at any time before. In 1996 the International Monetary Fund estimated that about 130 countries had experienced banking crises since 1980. The cost to government budgets of resolving these crises has been highly significance. The cumulative cots, expressed as a percentage of one year's gross domestic product for the country in question at 2 – 3 % in the case of the US crisis affecting saving and loans institution and small banks during the 1980s and into the early 1990s; between 2% and 8% for the Nordic countries; 17% for the Spanish crises (1977-85) 10% in Hungary; 40% in Bulgaria; 12 – 15% in Mexico (through official Mexican figures have been lower); 13 – 18% in Venezuela and Over 25% in several other cases, including Argentina and Chile.(World Bank, 1996)

The subsequent research work by the same Word Bank found that cause of banking crises are: Macroeconomic circumstances, Microeconomic policies, Banking strategies and operations, Fraud, and Corruption. Where under the macroeconomic circumstances consist of: collapse of assets price, especially in real estate, sharp increase in interest rates or fall in the exchange rate, and the onset of recession. Microeconomic policies included the common perception that every bank failure represents a supervisory failure, inadequate infrastructure in matters of accounting, laws, etc., shortcomings in accounting

or auditing may disguise, or delay realization of, problems of illiquidity or insolvency, shortcoming in the legal infrastructure may, for example, inhibit the exercise of property rights or the pledging and realization of collateral in support of bank loans, deregulation in the financial sector has occasionally encouraged rash behavior, leading to subsequent problems, deregulation of activities may require more attentive supervision in order to ensure that those activities are carried out and managed prudently, some banking problems have arisen or been exacerbated because supervision has not kept pace, and government interference. Government interference in a bank's business exampled as: Directives or pressure to lend to particular customers, possibly at preferential interest rates, or Maintain or extend uneconomic branch networks. As well as those is deal above Moral Hazard and Lack of Transparency other major problems of banks becoming failure. If there is a general expectation that no bank will be allowed to fail, or if financial support in troubled time is too readily available to either banks or their depositors, moral hazard arises. Banks may be tempted into behavior which exacerbates rather than ameliorate their position. Depositors may not bother to discriminate between "Good" and "Bad" banks. Thereby possibly prolonging survival, but magnifying a crisis when it eventually breaks. As a result of: An inadequate legal or regulatory framework, or Perhaps simply as a matter of culture also banks are being failure.(2001)

Due to the banking strategy and operation like: Poor credit assessment of an accurate assessment of credit risk and to price accordingly I perhaps still the single most common cause of bank's problem, Concentration o lending and connected lending, etc. Interest rate or exchange rate exposures sharp hit in macroeconomics policies or circumstances my provoke losses on this account beyond usual tolerance of regulatory limits. In some countries individual bank either have long-standing links to particular customer or economic sector or have been established in the more recent pat specifically with such close links in mind. Such concentrations have been shown historically to be source of

problem and steps should be taken where possible to reduce any such dependence. New activities, such as the trading of derivatives, may be imperfectly understood by senior management especially in countries where expertise I thinly speed. This indicates a need to proceed only step by step into new areas, but doesn't necessarily constitute a case or indefinite prohibition. Unauthorized trading or position-taking, associate with a failure of internal controls also created banking sector's failure. This appears to have become increasingly worrying sources of bank losses or ultimate failure. In each of case the region of $3 billion in the copper market, revealed in 1996 by the Sumitomo corporation and apparently incurred by one trader, are another illustration o this danger although Sumitomo corporation is not a bank , there could have been knock-on effects to financial institutions.

Besides these other operational failures of banking are: Poor quality of staff, Deficient management structure, Inability or reluctance to control cost, Reward structure for staff that encourages excessive risk-taking, Inadequate documentation, recording and audit trail, Over- reliance on IT systems, without adequate back-up, Absence of contingency plans. At last this research works also found that fraud, and corruption is also the major problems that create banking sector being failure. (World Bank Report, 2009)

2.3 Review of Thesis and Dissertations

There are some theses that are found on the related studies. It has found that there are limited studies are conduct on the relevant topic. However there are some which is related to this topic conducted for the partial fulfillment of Mater' Degree in Tribhuvan University.

Bhandari, (2001) has conducted a research on financial performance with objectives to highlights role of joint ventures bank in the liberalized Nepalese economy. Remarkable findings of this thesis are: They need to increase operational profit by concentrating in consistent earnings rather than

fluctuating earnings. They need to maintain liquidity in the form of CRR as per as regulation of NRB. He also added that in they should also emphasize in small entrepreneur developments program, branch expansion and mobilization of deposits in the productive sectors.

Luitel, (2003) has conducted a study financial performance of Nepal Bank Limited and he found that bank is unable to collect interest and matured loan due to which it has suffered from continuous loss. Banks is no making through analysis of loan proposal. Securities against which loan is provided are not valued fairly and properly. He has recommended that the bank shall place independent, professional bankers in key management position.

Saud, (2006) conducted a research to meet objectives of evaluating the trends and growth of loan, investment and total deposit patterns, and he find out that sample banks have gain normal position of different financial ratio. It is found that due to the lower liquidity position and highly leveraged capital structure the profitability is in more risky position. In the study it is found that all of these three sample banks are able to earn above one percentage on total assets and to mobilize deposit properly. It is found that the dividend payment pattern and EPS are not in the level of previous years.

Maharjan (2007) conducted research about the same financial performance and found that the bank has been able to mobilize its Net deposits in loan and advances adequately. Debt equity ratio analysis indicated that the bank has the high debt ratio, which means the creditors have invested more money than owners. Earnings per share are good in overall years but DPS is low and shareholders are being compensated slowly.

Maharjan, (2009) had found that: Both the banks Rastriya Banijya bank and Nepal Bank Limited have been able to recover the heavy loss; the Net profit margin of both bank were not consistent. ROE and ROCE of both bank were

negative due to high amount of negative reserves maintained by banks till the five periods of study. RBB and NBL had very low net interest margin (NIM). Between them RBB has higher Net interest margin. RRB and NBL had very high interest payout ratio of 102.78%and 72.09% respectively. The main reason was due to high volume of NPAs and high cost deposits. The net operating margin of RBB was better than NBL but the ratio of RBB was very inconsistent in comparison to NBL .Although the banks had negatives ratio in FY 2059/60, both the banks have been able to improve ratio. Both the banks had very high staff expenses ratio. The staff expenses ratio of NBL was higher than RBB throughout study period except for the FY 2059/60.

Prajapati, (2010) made a research about the financial performance of various Nepalese commercial banks and found that: Review of ROA indicates SCBNL and NABIL have higher ROA that they have been able to effectively using the net funds supplied by the creditors and thee owners. Review of interest income on loan and advance indicate all the given banks earned high rate of interest income on lo0an and advances. Review of operating ratio indicates that NIBL is more successful to minimize the operating cost whereas SCBNL has holds the second position. Review of EPS indicates that SCBNL and NABIL had higher ratio whereas NIBL had least. Review of cash dividend ratio indicates SCBNL has higher value. It has been providing greater cash dividend on share to its shareholders. Review of interest expenses to Net deposit ratio indicates that SCBNL has ability to generate cheaper fund than other banks. Review of staff expenses to net operating expense indicates that NIBL has contributed more staff expenses. NABIL hold moderate value whereas SCBNL has least value. It means SCBNL has not been providing sound salary and other allowances in comparison to NIBL. Review o exchange income/gain indicates that CBNL has higher value than other banks. NABIL and NIBL have moderate average value. It means SCBNL has been gaining income from foreign exchange.

2.4 Concluding Remarks

There is a certain gap between the present research and past research. Previous research conducted generally on comparative financial analysis of minimum tow and maximum of five years. Very few researches have conducted research of more than five banks. As we all know every banks of world are using CAMELS Analysis for measuring of their performance. NRB is also strictly following CAMELS but only few researchers are only using its implication, whereas most researchers use the theoretical or fundamental performance analysis. I have chosen five commercial banks as sample on my research work which has more than ten years of operating periods. I have chosen some banks with negative retained earnings, some joint venture banks and some commercial banks established in the country. The main research gaps which make this research new than the previous research are point out as: The research has done the research on the data for the current periods. On this research five banks of different natures are taken. The research has been done through CAMELS Analysis. The research is focus on both financial performance and capital adequacy of the selected banks.

CHAPTER – THREE

RESEARCH METHODOLOGY

This chapter of the study contains the procedure and techniques adopted during the study. Research Methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. It includes the research design, population and sample, nature and sources of data, methods of data collection, data processing, data analysis tools and limitation of the methodology. This chapter describes research design, population & sampling, sources of data and analysis of the data.

3.1 Research Design

In order to fulfill the objectives of the study as much as possible, an adequate attention has been paid in the process of research design. The research is fully based on the secondary data. All the required data and essential information is collected from the concerned commercial bank and chartered accountants firm. In the study, the researcher has followed the descriptive cum analytical research design to analyze the financial performance of the selected financial institution companies, various financial parameters and an effective research technique are employed to especially indentify the weaknesses of these institutions.

3.2 Population and Sample

Currently there are 32 commercial banks operating their banking business in Nepal. In this study all the 32 commercial banks are covered as the population of this research work. Among them five commercial banks are selected as the sample size of the study through random sampling method. The sample banks included joint venture banks, domestic private banks, and public commercial banks. Those are: Everest Banks Limited, Himalayan Bank Limited, Nepal Investment Bank Limited, Bank of Kathmandu Limited and Nepal Bank

Limited are the selected sample banks of this current research work. This research work consists last five years research duration from 2063/64 to 2067/068 have been taken as sample data for the comparative analysis of financial performance on the basis of capital adequacy and efficiency measurements. The names of sample banks are presented into the following table 3.1.

Table 3.1 List of Sample Banks

S. N.	Names of Sample Banks	Nature of Bank
1.	Nepal Bank Limited	Public
2.	Everest Bank Limited	Joint Venture
3.	Himalayan Bank Limited	Joint Venture
4.	Nepal Investment Bank Limited	Domestic Private
5.	Bank of Kathmandu Limited	Domestic Private

3.3 Sources and Procedures of Data

The data employed in the study were from secondary sources. The audited Balance Sheet, profit & loss A/C and related schedules of the concerned commercial Banks were collected. Besides these, other essential data and information were collected from some published and unpublished documents. So far as data collection procedure was concerned annual reports of selected organization would be collected by making an access to the commercial Banks and Chartered Accountants firm. The researcher was consulted the library to gather necessary data and information during the course of study. In study report, the audited accounts of different years of all the concerned commercial banks were presented in two different separate sheets each for balance sheet & profit/loss account in order to depict the overall picture of different year's financial position of such banks.

Thus, in this study, data used in the research are secondary sources i.e. published /unpublished written document, e.g. books, journals and annual reports of selected banks, website of NRB as well as other banks websites and other related and relevant websites are the sources of data and information needed for conducting this study.

3.4 Tools of Data Analysis

All the data are presented and analyzed to fulfill the objectives developed in the introduction chapter to illustrate the research. Tables and figures have been used for the data presentation to evaluate financial performance of the selected sample banks. Here, for the purposes of data analysis broadly two kinds of tools: financial and statistical tools have been used. But, among these two tools financial tools are the majors which analyze and on the basis of which interpretation have been made. Categorically, the present study has used the following financial and statistical tools.

3.4.1 Financial tools

3.4.1.1 Ratio Analysis

The study is made on the basis of CAMEL analysis. Although, this study contains CAMEL analysis but the study has focused only two sectors among all. Those two are: Capital Adequacy Measurement and Efficiency Measurement of the selected commercial banks. Here, the following tools and techniques of ratio analysis have been used in this research work.

A. Total Capital Adequacy Ratio

The ratio which analyzes the relative proportion of total capital fund in the respect of total risk exposure of the institution can be defined as the total capital adequacy ratio. It defines how much the total capital is needed to be saved from the capital risk. The measurement of total capital adequacy is done by using the following financial ratio or equation.

$$\text{Total Capital Adequacy Ratio} = \frac{Total\ Capital\ Funds}{Total\ Assets\ of\ Risk\ Weighted\ Assets}$$

This ratio uses to measure the total capital risk of selected institution on the basis total assets value of them without and with the adjustment of risk

exposure of the market. To avoid such risk they have to maintain certain standard determined by the regulatory institutions of the nation.

B. Tier One or Core Capital Ratio

Tier one capital is permanently and freely available to absorb losses without the bank being obliged to cease trading. Tier one or core capital ratio measures the financial leverage of bank. The tier one capital can be presented as:

$$\text{Tier One or Core capital Ratio} = \frac{Tier\ One\ or\ Core\ Capital}{Total\ Assets\ of\ Risk\ Weighted\ Assets}$$

Where,

Core Capital

= Common Equity + Cumulative Perpetual Preferred Stock + Minority Interest in Equity Accounts

According to this tier one ratio, if the ratio becomes greater than 5%, it is well capitalized. If gets 4% it is adequately capitalized and if it is less than 4%, it is undercapitalized.

C. Tier Two or Supplementary Capital Ratio:

This ratio shows the pressure of debt capital into the total assets position. Thus, how much other capital is used than core capital is shown by this ratio and presents their claim on it. Tier two or Supplementary capital is shown by:

$$\text{Tier Two or Supplementary capital Ratio} = \frac{Tier\ Two\ or\ Supplementary\ Capital}{Total\ Assets\ of\ Risk\ Weighted\ Assets}$$

Where, tier two capital includes the allowances for loan and lease losses, Subordinated debt capital instruments, mandatory debt convertible, inter-

mediate term preferred stock, cumulative perpetual preferred stock with unpaid dividend, and equity notes and other long term capital instruments.

D. Assets Management Efficiency Ratio:

This ratio also called assets turnover ratio and assets utilization ratio. It measures the efficiency with which a bank uses its assets to generate profits. This ratio is calculated by using the following equation.

$$\text{Assets Management Efficiency Ratio} = \frac{Total\ Operating\ Revenues}{Total\ Assets}$$

The assets utilization ratio measures how productively the bank utilizes all of its assets. Increasing ratio shows the bank utilizes its assets efficiently.

E. Funds Management Efficiency Ratio: Funds management ratio is the financial leverage ratio. It can be defined as the rupee amount of assets for each rupees of equity capital used. It is also known as the equity multiplier. It can be expressed as:

$$\text{Funds Management Efficiency Ratio} = \frac{Total\ Assets}{\text{Equity Capital}}$$

F. Profit Margin (PM): The financial ratio which is used to measure the profitability of selected institutions or business organization by using variables of net income and total operating income or total assets value is defined as the profit margin. In case of performance evaluation of financial institutions along commercial banks it measures mainly relationship of net income with total operating revenue of selected banks. So, in short the proportional relationship of net revenue earned by the selected banks with their operating revenue can be defined as the profit margin. The following equation is used to calculate this ratio.

$$\text{Pfofit Margin (PM)} = \frac{Net\ Income}{\text{Total Operating Revenue}}$$

G. Return on Assets (ROA): The ratio of net income and the total assets is called return on assets. It measures the return on all the firm's assets after interest and taxes. The return on assets is given by:

$$\text{Return on Assets (ROA)} = \frac{Net\ Income}{\text{Total Assets}}$$

ROA is a measure of efficiency. It conveys information on how well the institution's resources are being used in order to generate income. More efficiently run banks tend to have higher ROAs. So, the higher return on assets means the firm is being able to earn more efficiency into the firm's operation.

H. Return on Equity (ROE): The ratio of net income to common equity is defined as the return on equity. It measures the rate of return on common stockholders' investment. ROE is a direct measure of return to the stockholders. Because rewards to the institution's owners are a key goal for the whole organization, ROE is generally superior to ROA as a measure of profit earning efficiency measurement. It can be expressed as the following equation:

$$\text{Return on Equity Capital (ROE)} = \frac{Net\ Income}{\text{Total Equity Capital Fund}}$$

I. Net Interest Margin: The net interest margin is the difference between revenue generated by interest bearing assets and the interest costs of the borrowed funds expressed as a percentage of either average total assets or, as some analysts prefer, average earning assets. It is defined as:

$$\text{Net Interest Margin (NIM)} = \frac{Net\ Interest\ Income}{\text{Total Assets}}$$

Where,

Net interest income = Total interest income – Total interest Expenses

The net interest margin measures the net return from the act of borrowing and lending money. The goal of the net interest margin is to protect risk or to maximize the net interest margin between revenues from interest bearing assets and the cost of interest bearing liabilities.

J. Operating Expenses Efficiency Ratio: The ratio between total operating expenses and total operating revenues of the bank is defined as the operating expenses efficiency ratio. It presents how much part of revenues gained from the operation is spent to their operating. It can be expressed as following:

$$\text{Operating Expenses Ratio} = \frac{Total\ Operating\ Expenses}{\text{Total Operating Revenues}}$$

Increasing operating expenses ratio shows the management is unable to control the operating expenses and vice versa. So, firm always prefer lower operating expenses ratio as much as possible which indicates the increased efficiency. Increased efficiency is indicated by how well expenses are controlled relative to revenues.

3.4.2 Statistical Tools

3.4.2.1 Average rate of return

Average rate of return is calculated by using the arithmetic mean instead of geometric mean. This statistical tool is used to get the average rate of return for the whole research duration and average of efficiency and capital adequacy too as per the need of calculation. Basically, it is used for the measurement of profitability. The equation of average rate of return is:

$$\text{Average rate of return } (\overline{RJ}) = \frac{\sum R_J}{N}$$

Where,

$\sum R_J$ = summation of all annual reports

N = number of the observation (year)

3.4.2.2 The standard deviation

It is quantitative measure of the total risk of assets. Risk is the deviation of return. So, measure deviation of return of selected commercial banks the absolute measure of risk. It provides more information about the risk of the assets. It is a measure of the dispersion of returns around the mean. The formula for calculating the standard deviation is,

$$\sigma_J = \left[\frac{\sum (R_J - \overline{R_J})^2}{N-1} \right]^{1/2}$$

Where,

σ_J = standard deviation of return on stock J during the time period N

R_J = expected rate of return

($\overline{RJ}$) = the average rate of return

3.4.2.3 The coefficient of variation (CV)

The coefficient of variation is the ratio of the standard deviation of a distribution to mean of the distribution. It is a measure of relative risk which measure the risk that have to bear to earn per unit of risk. The formula for calculating co-variation coefficient is,

$$CV = \frac{ó_J}{\overline{R_J}}$$

Where,

σ_J = standard deviation of return on stock J during the time period N

$\overline{R_J}$ = the average rate of return on stock J

3.4.2.4 Coefficient of Correlation

Correlation is a statistical tool, which studies the relationship between two variables, and correlation analysis involves methods techniques used for

studying and measuring the extent of the relationship between the two variables. Two or more variables are said to be correlated if change in the value of one variable appears to be related or linked with the change in the other variables. When the relationship is of a quantitative nature, the appropriate statistical tool for discovering and the relationship and expressing it in a brief formula is correlation analysis (Gupta, 2003)

Correlation coefficient $$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N\sum X^2 - (\sum X)2}\sqrt{N\sum Y^2 - (\sum Y)2}}$$

Correlation may be positive or negative and ranges from -1 to +1. When r = +1, there is perfect correlation; when r = -1, there is perfect negative correlation; when r=0, there is no correlation and when r <0.5 then there is low degree of correlation. When 'r' lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation. Simple correlation between interest rate and deposit, between interest rate, inflation rate and deposit rate and lending is examined in this study.

CHAPTER - FOUR
PRESENTATION AND ANALYSIS OF DATA

The main theme of this chapter is to analyze and interpret the data by using the relevant financial and statistical tools. In this chapter, the concern is given in the presentation and analysis part of data in detail. As data presentation and analysis is the crucial part of any research, the purpose is to organize the collected data so that it can be used for interpretation whereas analysis of the data is to convert it from a crude form to an easy and understandable presentation. It is so obvious that the presentation of the data and its analysis help us to draw valid conclusion. There are a number of methods which can be used to simplify the data. It is being felt that the easiest way to understand data is by examining it through charts, tables and graphs.

Necessary tables and figures are presented to achieve the objectives of the study as per need and to make the research work effective and efficient as much as possible. Here, all possible data are collected from the related sampled banks' annual reports as well as the reports and bulletin of NEPSE and SEBON as per the need. Similarly, some of the data are also collected from Internet, Journals and other concerned sources. Here, as per described in the chapter third i.e. in the research methodology those tools are used to present the analysis of the collected data for the research purpose. Capital adequacy analysis, efficiency analysis and the profitability of the all sampled banks have been analyzed here in this chapter.

4.1 Analysis of Capital Adequacy

The capital adequacy ratio is the measure of the amount of bank's capital in relation to the amount of its credit exposures. The purpose of having minimum capital ratio is to ensure that banks can absorb the reasonable level of losses before becoming insolvent, and before depositors funds are lost. Applying

minimum capital ratio serves to promote the stability and efficiency of the financial system by reducing the likelihood of banks becoming insolvent. When a bank becomes insolvent this may lead to a loss of confidence of financial system, causing financial problems for other banks and perhaps threatening the smooth functioning of financial markets nationally or even sometimes globally. Maintaining capital adequacy ratio gives some protection to depositors. In the event of winding-up, depositors' funds rank in priority before capital, so depositors would only lose money if the banks make loss which exceeds the amount of capital it has. The higher the capital adequacy ratio will provide the higher the level of protection available to depositors. Capital adequacy ratio can be classified into three major types; they are total capital adequacy ratio, tier one capital ratio and tier two capital ratios. The analysis of these ratios have been made following.

4.1.1 Total Capital Adequacy Ratio

The ratio which analyzes the relative proportion of total capital fund in the respect of total risk exposure of the institution can be defined as the total capital adequacy ratio. It defines how much the total capital is needed to be saved from the capital risk. According to the Basel Accord the total capital adequacy ratio should be at least 8% without being the supplementary capital exceed than the core capital fund. Although this NRB has made the provision of making 10% total capital fund to total risk weighted assets for the 'A' class institutions. Here, the total capital fund ratio of all sample banking institutions have been presented into the figure of percentage in the table 4.1 which shows their relative capital adequacy level.

While we evaluating the total capital adequacy level of whole commercial banking industry of Nepal on the basis of information obtained from these five selected banks, it is found that the capital adequacy level of Nepalese commercial bank is 5.22% on the average for the period of five years. It indicates that Nepalese commercial banks are just meet the target minimum

level set by Basel Accord but could not be able to reach the level determined by the Nepal Rastra Bank. It is due to the inefficiency of Nepalese public commercial banks whose management is handled by the government sector.

Table 4.1 Total Capital Adequacy Ratio (%)

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	-27.82	11.19	10.25	10.89	12.62	3.43
2007/08	-27.55	11.44	9.50	10.17	12.55	3.22
2008/09	-13.94	10.55	11.79	11.24	11.68	6.26
2009/10	-11.13	10.77	10.72	10.55	10.85	6.35
2010/11	-9.43	10.43	10.68	10.91	11.62	6.84
Average	-17.97	10.88	10.59	10.75	11.86	5.22

According to this table 4.1, on the average the total capital adequacy are -17.97% for Nepal bank limited, 10.88% for Everest bank, 10.59% for Himalayan bank, 10.75% for Nepal Investment bank and 11.86% for the Bank of Kathmandu Limited. So, from this we can conclude that only the public that have been operated by the government sector is facing the problem of capital risk. In each individual year for the all research period too all banks except one Nepal bank limited are well capitalized under the provision of Basel Accord but under the Nepal Rastra Bank provision Himalayan bank limited has faced the under capital standard for the fiscal year 2007/08 which is at 9.50%.

On the other hand, in case of analyzing average of total capital adequacy ratio of Nepalese commercial banks through these selected five commercial banks this industry has the capital adequacy of 5.22% of whole research period. The average ratio of this industry is found the below standard of Nepal Rastra bank's provision of capital adequacy level and as also of Basel Accord-I. All this is happened due to inefficiency of public banks. That's why this ratio of total capital adequacy has to be improved at least as per the provision determined by Nepal Rastra Bank. On the basis of this it can be concluded that

Nepalese commercial banks are under the capital risk as the total capital adequacy ratio represent for the period of five years from the fiscal year 2006/07 to the fiscal year 2010/11. All these information presented and analyzed are also converted as the form of index into table 4.2 for more analysis below.

Table 4.2 Index of Total Capital Adequacy Ratio

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	-100.00	100.00	100.00	100.00	100.00	100.00
2007/08	-99.03	102.23	92.68	93.39	99.45	93.88
2008/09	-50.11	94.28	115.02	103.21	92.55	182.51
2009/10	-40.01	96.25	104.59	96.88	85.98	185.13
2010/11	-33.90	93.21	104.20	100.18	92.08	199.42
Average	-64.59	97.23	103.32	98.71	93.98	152.19

As above table 4.2 shows Nepalese commercial banks are having index of total capital adequacy into increasing trend. At the fiscal year 2010/11 this index has been increased and become 199.42. This industry has the index of 152.19 on the average for the whole research duration. Nepal Bank has the index of capital adequacy in the negative value but it has become success to reduce at the level of -33.90 till the research end. At the fiscal year 2008/09 almost all banks have the highest index values. At the end of research duration i.e. at the fiscal year 2010/11 has the index values of -64.59, 97.23, 103.32, 98.71 and 93.98 on average for NBL, EBL, HBL, NIBL and BOK respectively. In case of Nepal bank limited it has all data of total capital adequacy ratio negative each and every year.

So, we can say that it has the facing the inefficiency in the capital fund mobilization and generating capital risk too. Hence all the selected banks have been found well capitalized except Nepal bank limited in the context of both Basel Accord and Nepal Rastra Bank's provision. In case of Nepalese

commercial banking industry the average index of five years presents some of improvement as the time passed but there is still the place to improve to meet minimum standard determined by the central bank. The correlation among selected banks' capital adequacy performance has been presented into the following table 4.3.

Table 4.3 Total Capital Adequacy Correlation of Selected Commercial Banks

Banks	NBL	EBL	HBL	NIBL	BOK
NBL	1.00	-	-	-	-
EBL	-0.93	1.00	-	-	-
HBL	0.676	-0.819	1.00	-	-
NIBL	0.420	-0.708	0.858	1.00	-
BOK	-0.897	0.715	-0.564	-0.183	1.00

According to the above table 4.3 there is we found that correlation between Nepal Bank limited and Everest Bank as well as with Bank of Kathmandu is also high degree of negative correlation at significant level when 5 degree of significance level is taken on t-test of two-tailed. At the same level of significance of the same t-test hypothesis of two-tailed correlations between EBL and HBL, EBL and NIBL, and HBL and BOK are found to be high degree of negatively related to each other standard of capital adequacy but BOK and NIBL are found low degree of negatively correlated into the same matter of maintaining standard of capital adequacy. Similarly, at the same test of hypothesis and same level of significance the relationships between other remaining variables are to be found that they are high degree of positively correlated.

4.1.2 Tier one or Core Capital Ratio

The core capital ratio indicates the capital adequacy ratio of the major and the primary capital fund in the respect of total risk exposure or total risk weighted

assets of the selected institutions. Hence, it expresses the core capital level at which the organization has been running. According to the Basel Accord the core capital ratio should be at least 4% of its total assets value after adjusting the risk factor. But as per the NRB provision it should be at least 6% for the commercial banks and all the 'a' class institutions. Below in the table 4.4 the percentages of core capital ratio of all selected commercial banks have been presented. On the aggregate average of this ratio Nepal bank limited, Everest bank limited, Himalayan bank limited, Nepal investment bank limited and Bank of Kathmandu limited have the tier one or core capital ratio of -10.39%, 8.29%, 8.61%, 8.14%, 9.72%, respectively. Hence if we compare these banks then it is found that BOK has been found more capitalized than other although all the banks are well capitalized. Hence, all of these information about the tier one or core capital have been indicated by the table 4.4.

Table 4.4 Tier One or Core Capital Ratio (%)

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	-32.46	7.82	7.87	7.90	9.43	0.112
2007/08	-27.55	9.03	8.21	6.95	9.57	1.24
2008/09	-13.94	7.73	9.42	8.56	9.81	4.32
2009/10	10.98	8.39	8.68	8.50	9.41	9.19
2010/11	11.03	8.46	8.87	8.77	10.37	9.50
Average	-10.39	8.29	8.61	8.14	9.72	4.87

According to the above table 4.4, it is indicated that Nepal bank has been suffering from the inefficiency of capital management as the core capital ratios of every year have been found negative. So, both total capital fund ratio and core capital ratio are same on direction of capital fund utilization by selected banks. Similarly, if we make judgment about Nepalese commercial banking industry then it seems average core capital level of this industry is found 4.87% for whole research duration of five years from fiscal year 2006/07 to the fiscal year 2010/11. It has got improvement than research has been started on the

fiscal year. On this process this ratio has been reached at 9.50% from 0.112% till the research has been ended in the fiscal year 2010/11.

In case of analyzing core capital level of Nepalese commercial banking industry on the basis of above five years data, this industry is maintaining 4.87% of level of core capital ratio although the minimum level of ratio is 6% to 'A' class institutions as per NRB. But there is improvement seen in case of maintaining standard by this industry for later years of research period. After the fiscal year 2009/10 the ratio is above the needed standard and reached at 10.37% at the fiscal year 2010/11. All these information presented and analyzed are also converted as the form of index into table 4.5 for more analysis below.

Table 4.5 Index of Core Capital Adequacy Ratio

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	-100.00	100.00	100.00	100.00	100.00	100.00
2007/08	-84.87	115.47	104.32	87.97	101.49	64.88
2008/09	-42.95	98.85	119.70	108.35	104.02	77.59
2009/10	33.83	107.29	110.29	107.60	99.79	91.76
2010/11	33.98	108.18	112.71	111.01	109.97	95.17
Average	-32.01	106.01	109.40	103.04	103.07	78.50

The table 4.5 presented that the average index values of selected commercial banks are -32.01, 106.01, 109.40, 103.04, and 103.07 for NBL, EBL, HBL, NIBL and BOK respectively for the whole research duration. The commercial banking industry has the average index value of 78.50. Nepal bank has the positive index after only fiscal year 2009/10 and at the end of research at the fiscal year 2010/11 index of 33.98. Similarly, other banks have the same index values of 108.18, 112.71, 111.01 and 109.97 at the last fiscal year of research by EBL, HBL, NIBL, and BOK respectively. As per this table shows except the public bank Nepal bank limited all the banks are have well capitalized

position during the all research period from fiscal year 2006/07 to 2010/11. The correlation between these selected commercial banks in case of maintaining core capital standard have been presented into the table 4.6.

Table 4.6 Core Capital or Tier-One Capital Adequacy Correlation of Selected Commercial Banks

Banks	NBL	EBL	HBL	NIBL	BOK
NBL	1.00	-	-	-	-
EBL	0.124	1.00	-	-	-
HBL	0.553	-0.276	1.00	-	-
NIBL	0.744	-0.556	0.669	1.00	-
BOK	0.485	0.065	0.519	0.497	1.00

According to the above table 4.6 there is we found that correlation between Nepal Bank limited and Himalayan Bank as well as with Nepal Investment Bank is also high degree of positive correlation at 5 degree of significance level is taken on t-test of two-tailed. At the same level of significance of the same t-test hypothesis of two-tailed correlations between EBL and NBL, HBL and BOK, EBL and BOK, and NBL and BOK are found to be low degree of positively correlated to each other standard of core capital adequacy into the same matter of maintaining standard of core capital adequacy. Similarly, at the same test of hypothesis and same level of significance the relationships between other remaining variables are to be found that they are negatively correlated.

4.1.3 Tier Two or Supplementary Capital Ratio

The ratio which has been expressed the proportional relationship in between the supplementary capital fund used by any organization and total assets value after adjustment of risk factors on their values i.e. total risk exposure value can be defined as the tier two capital ratio or supplementary capital ratio. In other words, it is the ratio of those capital values used by any business firm of

institutions those are supportive in nature to the core capital used by that business firm or institutions.

Hence, it shows the percentage of supplementary capital with respect to total risk exposure value of the firm. The tier two ratios of the selected five sample banks have been presented below for the research period of recent five years from the fiscal year 2006/07 to the fiscal year 2010/11 as well as the same ratio is also calculated for the Nepalese commercial banking industry too. Those banks are Nepal Bank Limited, Everest Bank Limited, Himalayan Bank Limited, Nepal Investment Bank Limited and Bank of Kathmandu Limited on whose basis of information the industry average is also obtained. Table 4.7 has been shown the percentage of supplementary capital with respect of total risk adjusted assets. In the table 4.7 the supplementary capital ratio of the all selected banks Nepal bank limited, Everest bank limited, Himalayan bank limited, Nepal Investment limited and Bank of Kathmandu limited have been presented for the whole research period.

Table 4.7 Tier Two or Supplementary Capital Ratio (%)

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	4.64	3.37	2.38	2.99	3.19	3.31
2007/08	3.10	2.40	1.29	3.22	2.98	2.60
2008/09	-	2.82	2.36	2.68	1.87	2.43
2009/10	1.33	2.38	2.04	2.05	1.44	1.85
2010/11	2.05	1.96	1.80	2.14	1.25	1.84
Average	2.22	2.59	1.98	2.61	2.14	2.31

According to the above table 4.7 the Nepalese commercial banking industry has the average ratio of supplementary capital ratio of 2.31% of the research period of five years. The trend of this ratio has been fluctuating during the research period which is creating some level of risk to this industry. As it shown the average supplementary capital fund ratio for the five years period

from fiscal year 2006/07 to 2010/11 are 2.22%, 2.59%, 1.98%, 2.61% and 2,14% for each bank respectively.

In case of industry the supplementary capital level is on the decreasing trend and it becomes 1.84% by reducing from 3.31% at the end of research. The average supplementary capital level of commercial banking industry is 2.31% which is found below the standard set by the both Basel Accord and Nepal Rastra Bank. So, it has indicated that there is need of improvement in this industry special to those institutions which are operated by public sector or by government of Nepal. Because these banks are facing inefficiency in management as well as into their operation too which have to be corrected. The index of tier-two capital of commercial banks on the basis of above tier-two ratio shown has been presented into table 4.8.

Table 4.8 Index of Tier Two or Supplementary Capital Ratio

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	100.00	100.00	100.00	100.00	100.00	100.00
2007/08	66.81	71.22	54.20	107.69	93.42	78.55
2008/09	-	83.68	99.16	89.63	58.62	73.41
2009/10	28.66	70.62	85.71	68.56	45.14	55.89
2010/11	44.18	58.16	75.63	71.57	39.18	55.59
Average	47.85	76.85	83.19	87.29	67.08	69.79

Above table 4.8 has presented the index values of tier two capital or supplementary capital for the recent five years period from the fiscal year 2006/07 to 2010/11 of selected five commercial banks. Among these banks Nepal Investment Bank Limited has the greatest index value of 87.29 on average and the year 2007/08 has the largest value of 78.55 after the base year of research. On the other hand, the last fiscal year 2010/11 has the smallest index of 55.59. In case of banks, Nepal Bank Limited has the lowest index value on average of 47.85 for whole research period. Thus, all these

information shows that the indexes of supplementary capital of Nepalese commercial banks are on decreasing trend and their values are reduced each year. The following table 4.9 has been presented the correlation of selected commercial banks for the five years research duration about the level of supplementary capital of them.

Table 4.9 Correlation of Supplementary Capital Adequacy of Selected Commercial Banks

Banks	NBL	EBL	HBL	NIBL	BOK
NBL	1.00	-	-	-	-
EBL	0.401	1.00	-	-	-
HBL	-0.159	0.655	1.00	-	-
NIBL	0.520	0.557	-0.206	1.00	-
BOK	0.744	0.688	-0.090	0.932	1.00

According to the above table 4.9 there is we found that correlation between Bank of Kathmandu limited and Himalayan Bank as well as with Nepal Investment Bank and Himalayan Bank and Nepal Bank is also low degree of negative correlation at 5 degree of significance level is taken on t-test of two-tailed. At the same level of significance of the same t-test hypothesis of two-tailed correlations between HBL and EBL, NIBL and NBL, EBL and BOK, and EBL and NIBL are found to be high degree of positively correlated to each other standard of capital adequacy of supplementary capital into the same matter of maintaining standards of tier- two capital adequacies. Similarly, at the same test of hypothesis and same level of significance the relationships between other remaining variables are to be found that they are positively correlated with low degree.

4.2 Analysis of Efficiency Management

Efficiency management ratio denotes the firm's capacity of operating its mechanism efficiently and from the effective manner. Hence, the firm's

capacity of performing its functions and managing them into such a manner which shows the any organization's specification of performing is defined by the efficiency management ratios. Into this efficiency ratio measurement of earning capacity, capacity of generating revenue and profit, efficiency of limiting excess expenditure and unnecessary wastages, and as a whole efficiency of operating the organization and its activities as per the need of the firm to fulfill the long term objectives and finally to get the organizational goals.

Here, among the various efficiency management ratios only the assets management efficiency ratio, funds management efficiency ratio, operating expenses management efficiency ratio, are obtained of the related selected banks for the research purpose fulfillment. Thus, any firm efficiency management denotes the capacity of that organization or management how well assets of available all mean is utilized and on what way they are performing their tasks.

4.2.1 Assets Management Efficiency Ratio

Assets management efficiency ratio also named as the assets utilization ratio. The ratio which measures the firm's efficiency on the function of utilizing its assets and taking the optimum level of benefits as much as possible is referred as the assets management efficiency ratio. It indicates the capability of any organization's management towards the handling and operating of the assets management and its utilization for achieving organizational goal.

Thus, it does the measurement of the selected commercial banks about the efficiency of them how they use their assets to generate profits. It is also known as the assets turnover ratio of the selected banks which is derived by dividing the total operating revenues of the selected institutions i.e. banks from their respective year's total value of assets. The assets management efficiency ratio

or assets utilization of the selected sampled banks has been presented for the analysis purpose of current research work into the table 4.10.

Table 4.10 Assets Management Efficiency Ratio (%)

Year/Banks	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	3.94	3.93	4.16	4.52	4.65	4.24
2007/08	4.35	4.46	4.42	4.24	4.87	4.47
2008/09	5.08	4.18	5.06	3.89	5.44	4.73
2009/10	6.17	4.66	5.05	4.77	5.74	5.28
2010/11	6.89	4.74	5.46	4.86	6.21	5.63
Average	5.29	4.39	4.83	4.46	5.38	4.87

The table 4.10 has shown that Nepalese commercial banking industry has been able to earn 4.87% on average of assets management efficiency ratio for the whole research period of five years. The level of generating assets management efficiency has been increasing each year as the above information shows. The funds management efficiency ratio was 4.24% at the fiscal year 2006/07 which has been reached at 5.63% at the end of research work on the fiscal year 2010/11. As this table indicates if the assets management efficiency ratio of Nepalese commercial banks is evaluated by the sample banks' ratios then it is found that the average assets management efficiency ratio for the recent five fiscal years duration is 4.87%.

Hence, it shows that the Nepalese commercial banks are become able to generate only 4.87% of their assets on a single fiscal year. This ratio for this industry is getting increasing trend into these years slowly. It is reached at 5.63% the last fiscal year 2010/11 from the ratio of 4.24% in the research beginning period of 2006/07. Thus, according to the table 4.10 among the selected sampled banks Bank of Kathmandu is found that the well assets manager, because of having the highest average percentage of assets management efficiency ratio. The bank BOK has the average ratio 5.38% for

the period of five years from the fiscal year 2006/07 to 2010/11. Similarly, other banks Nepal bank limited, Everest bank limited, Himalayan bank limited, and Nepal Investment bank limited are having the assets management efficiency ratio of 5.29%, 4.39%, 4.83%, and 4.46% respectively. Hence, it can be said that although there is no any vast different, bank of Kathmandu a private bank having the better strategy of utilizing its available assets to generate the profit or revenue.

And, all other banks do not have any differences among their average ratio of assets utilizing. But when we analyzed them individually Bank of Kathmandu, Himalayan bank limited, and Nepal bank limited have the increasing trend of their efficiency which is indicated by their increased ratios. In case of Everest bank limited and Nepal Investment bank limited they have fluctuation in their ratios although they have slightly increased in the fiscal year 2010/11 than fiscal year of 2006/07. Index of this assets management efficiency also has been presented below into the table 4.11.

Table 4.11 Index of Assets Management Efficiency Ratio

Year/Banks	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	100.00	100.00	100.00	100.00	100.00	100.00
2007/08	110.41	113.49	106.25	93.81	104.73	105.43
2008/09	128.93	106.36	121.64	86.06	116.99	111.56
2009/10	156.60	118.58	121.39	105.53	123.44	124.53
2010/11	174.87	120.61	131.25	107.52	133.55	132.78
Average	134.26	111.71	116.11	98.67	115.70	114.86

Above table 4.11 has presented the index values of assets management efficiency for the recent five years period from the fiscal year 2006/07 to 2010/11 of selected five commercial banks. Among these banks Nepal Bank Limited has the greatest index value of 134.26 on average and the year 2010/11 has the largest value of 132.78 after the base year of research. On the other

hand, Nepal Investment Bank Limited has the lowest index value on average of 98.67 for whole research period.

Thus, all these information shows that the indexes of assets management efficiency ratio of Nepalese commercial banks are on increasing trend and their values are improving each year during the whole research period. The Nepalese commercial banking industry has the average index of efficiency ratio of assets management of 114.86. into this same process of conducting analysis here below the correlation between selected five commercial banks for the five fiscal years has been analyzed which is presented into the table 4.12.

Table 4.12 Correlation of Assets Management Efficiency of Selected Commercial Banks

Banks	NBL	EBL	HBL	NIBL	BOK
NBL	1.00	-	-	-	-
EBL	0.839	1.00	-	-	-
HBL	0.938	0.717	1.00	-	-
NIBL	0.590	0.559	0.285	1.00	-
BOK	0.988	0.787	0.979	0.473	1.00

According to the above table 4.12 there is we found that correlations between Bank of Kathmandu limited and Nepal Bank Limited as well as Himalayan Bank and Nepal Bank are found high degree of positive correlations which are significant at significant level when 5 degree of significance level is taken on t-test of two-tailed. At the same level of significance of the same t-test hypothesis of two-tailed, correlations between HBL and EBL, NIBL and NBL, EBL and BOK, and EBL and NIBL are found to be high degree of positively correlated to each other value of assets management efficiency ratio into the same matter of maintaining standard of those assets management efficiency. Similarly, at the same test of hypothesis and same level of significance the

relationships between other remaining variables are to be found that they are positively correlated with low degree.

4.2.2 Funds Management Efficiency Ratio

Generally, the term funds management efficiency ratio indicates a kind of financial ratio. This ratio is used to measure the financial efficiency of any firm of business organization on the basis of evaluation of total value of assets of that firm of business organization with equity capital value of shareholders. Hence, it is the ratio which shows the proportional relation of total assets value of any business firm with shareholders' equity capital value. The financial leverage position of the selected institutions has been indicated by the financial tool of ratio analysis i.e. funds management efficiency ratio. Here, this ratio shows the value of the commercial banks' total assets in comparison of its total shareholders' equity capital value. So, the funds management efficiency ratio is referred as the equity multiplier.

That's why, it can be said that the financial ratio which lights out the how many times the commercial banks have been larger assets value with the respect of total shareholders' equity capital value. Thus, it expresses the multiplier effects of equity capital investment by the shareholders as the book value of assets earned by the commercial banks. Hence, the higher the funds management efficiency ratio is preferred by each and every bank. The funds management efficiency ratio of the selected five commercial banks as well as Nepalese commercial banking industry based on the value of those five banks has been presented into the table 4.13 and their comparison have been made below for the research purpose as well as their analysis also be made as per the need feels to draw the conclusion.

Table 4.13 Funds Management Efficiency Ratio (Times)

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	-	17.84	15.62	14.69	14.84	15.75
2007/08	-	14.13	14.40	14.47	13.21	14.05
2008/09	-	16.75	12.60	13.57	11.77	13.67
2009/10	-	15.00	12.42	12.50	11.28	12.80
2010/11	-	14.85	11.70	11.31	10.17	12.01
Average	-	15.71	13.35	13.31	10.00	10.09

Above table 4.13 shows, the funds management ratio of selected commercial banks for the period of five years from the fiscal year 2006/07 to the fiscal year of 2010/11 as well as for the industry too on the basis of data obtained from selected five commercial banks. Those data are presented in the individual form for each year and also concluded on the average too. The average ratio of funds management efficiency ratio of Nepalese commercial banking industry it has been found that 10.09 times which indicates that 10.09 times greater value of total assets is earned by this industry than is shareholders' equity funds value. This ratio of this industry has been declining in each fiscal year. While the research year is started at fiscal year 2006/07 it was 15.75 times but at the end period it has become 12.01times. So, during this period it has been decreased by 3.74 times (15.75 times - 12.01 times).

As per the table 4.13 shows, the funds management efficiency ratio of Nepal bank limited has not been calculated because of being its all shareholders' equity capital in the form of negative amount. So, this data may not drive to the right conclusion or it may lead to us towards wrong analysis too. The funds management ratio of the Everest bank limited has the highest 15.71 times among all and Bank of Kathmandu has the lowest ratio of only 10.00 times. Similarly, Nepal investment bank and Himalayan bank limited has the ratios of 13.31 times and 13.35 times respectively. Thus, it is indicated that the joint venture banks are more capable to utilize their funds to generate more revenue

or generating assets value in comparison of Nepalese domestic investment banks and the public fund invested banks. But all the selected banks have the decreasing trend of funds management efficiency ratio. All banks have lower ratio of funds utilization than the fiscal year 2006/07 till they are reached to the fiscal year 2010/11. Everest bank limited has the funds management efficiency ratio of 14. 85 times in the last year of 2010/11 declined from 17.84 times. And all other banks Himalayan bank limited, Nepal Investment bank, and Bank of Kathmandu limited have the same ratio of 11.70 times, 11.31 times and 10.17 times respectively at the last period of research 2010/11 which all are declined from the 15.62 times, 14.69 times and 14.84 times respectively than the research started year 2006/07. All these information about the funds management efficiency ratio indicates that with the changing context of time and competition as well as the market environment the capacity of banks generating more revenue and assembling wealth is being more difficult and changeling task than previous period of time as they can. Thus, all these information also have been shown as index of funds management efficiency ratio in the table 4.14.

Table 4.14 Index of Funds Management Efficiency Ratio

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	-	100.00	100.00	100.00	100.00	100.00
2007/08	-	79.20	92.19	98.50	89.02	89.21
2008/09	-	93.89	80.67	92.38	79.31	86.79
2009/10	-	84.08	79.51	85.09	76.01	81.27
2010/11	-	83.24	74.90	76.99	68.53	76.25
Average	-	88.06	85.47	90.61	67.38	64.06

Above table 4.14 has presented the index values of funds management efficiency ratio for the recent five years period from the fiscal year 2006/07 to 2010/11 of selected five commercial banks. Among these banks Nepal Investment Bank Limited has the greatest index value of 90.61 on average and

the year 2007/08 has the largest value of 89.21 after the base year of research. On the other hand, the last fiscal year 2010/11 has the smallest index of 76.25. In case of banks, Bank of Kathmandu Limited has the lowest index value on average of 67.38 for whole research period. Thus, all these information shows that the indexes of funds management efficiency ratio of Nepalese commercial banks are on decreasing trend and their values are reduced each year. Finally this industry has the average index value of funds management efficiency ratio of 64.06 for whole research duration which needs improvement in next period. The correlation between selected five commercial banks for the research has been analyzed with the help of the following table 4.15 in case of funds management efficiency ratio.

Table 4.15 Correlation of Funds Management Efficiency of Selected Commercial Banks

Banks	NBL	EBL	HBL	NIBL	BOK
NBL	-	-	-	-	-
EBL	-	1.00	-	-	-
HBL	-	0.454	1.00	-	-
NIBL	-	0.425	0.901	1.00	-
BOK	-	0.539	0.991	0.929	1.00

Here into the process of obtaining values of correlation of Nepal Bank Limited with other remaining selected commercial banks the researcher cannot calculate because of not being presence of funds management efficiency ratio values. According to the above table 4.15 the correlations between Bank of Kathmandu limited and Everest Bank Limited as well as Nepal Investment Bank and Everest Bank Limited, and Himalayan Bank and Everest Bank are found to be moderately correlated at 5 degree of significance level is taken on t-test of two-tailed. At the same level of significance of 5% the same t-test hypothesis of two-tailed correlations between HBL and NIBL, HBL and BOK, BOK and NIBL are found to be significant high degree of positively correlated

to each other values of funds management efficiency among selected banks into the same matter of maintaining efficiency of uses of funds.

4.2.3 Operating Expenses Efficiency Ratio

The ratio which indicates the proportional relationship in between operating expenses and the operating revenue of the selected institutions is defined as the operating expenses efficiency ratio. So, this operating ratio shows how much the percentage of total operating of the selected organization has been occupied or covered by the total operating expenses generated and compensated by the firm's operation. Here, the percentage of total operating expenses of the selected five commercial banks in the respect of total operating revenue generated by them is presented as the operating expenses efficiency ratio. It measures the total operating expenses in the context of total revenue so the lesser efficiency management ratio is preferred by the management of each and every commercial bank in this research context as well as other all institutions in case of other context too.

Table 4.16 Operating Expenses Management Efficiency Ratio (%)

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	102.39	42.00	50.56	41.61	42.84	55.88
2007/08	101.99	40.59	43.50	38.57	34.71	51.87
2008/09	93.98	37.02	41.65	36.49	37.13	49.25
2009/10	122.54	34.02	73.16	29.50	43.37	60.52
2010/11	107.63	35.32	60.75	37.05	41.27	56.40
Average	105.71	37.79	53.92	36.65	39.87	54.79

The table 4.16 has shown the percentage of operating expenses with respect of total operating income for the period of five years beginning from the fiscal year 2006/07 to the fiscal year 2010/11. At the last of the table 4.16 the average

operating expenses efficiency ratio also has been calculated which has been presented the total operating expenses ratio during the whole research period of five years of each bank. Into the above table 4.16 the operating expenses efficiency ratio of selected five commercial banks as well as same ratio for this commercial banking industry in Nepal has been presented for the recent five fiscal years from 2006/07 to 2010/11.

The average industry ratio is 54.79% which indicates among the total operating income of this industry is gone to the operating expenses paid. This ratio is reached into the highest level in the fiscal year of 2009/10 when this ratio became 60.52%. Hence, as per the result of this ratio more than half of the total earning is expensed on the direct expenses so as much as possible the banking sectors should make conscious them to minimize the operating expenses because as possible as the less this ratio is better for any institution and industry. On the other hand, when we make evaluation of individual bank, Nepal Bank Limited is facing problem of inefficiency because it has the more operating expenses than operating revenue generated by the same bank. It has the ratio of 105.71% on the average for the whole research duration. The least ratio of operating expenses is gained by Nepal Investment Bank Limited i.e. 36.65%.

Hence, this bank is being more efficient in comparison with other four selected banks. This position is secondly followed by Everest Bank Limited which has the ratio of 37.79%. Bank of Kathmandu Limited and Himalayan Bank Limited are having the same ratio of 39.87% and 53.92% respectively. From this, it has been seen that Himalayan Bank Limited has to reduce its operating expenses and other banks have to make effort to reduce it as much as possible and maintain the same level if reduction may not become possible. This information about operating expenses ratio has been converted into index as shown in the table 4.17. The increasing trend of operating expenses efficiency ratio and decreasing trend of index of operating ratio has shown the

management of that relative commercial bank is unable of control the operating expenses and the decreasing ratio indicates its efficiency and success to block or reduce operating expenses in comparison with total operating revenue.

Table 4.17 Index of Operating Expenses Efficiency Ratio

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	100.00	100.00	100.00	100.00	100.00	100.00
2007/08	99.61	96.64	86.04	92.69	81.02	92.82
2008/09	91.79	88.14	82.37	87.70	86.67	88.14
2009/10	119.68	81.00	144.70	70.90	101.24	108.30
2010/11	105.12	84.10	120.15	89.04	96.34	100.93
Average	103.24	89.98	106.65	88.07	93.05	98.04

Above table 4.17 has presented the index values of operating expenses efficiency ratio for the recent five years period from the fiscal year 2006/07 to 2010/11 of selected five commercial banks. Among these banks, Himalayan Bank Limited has the greatest index value of 106.65 on average and the year 2009/10 has the largest value of 108.30 after the base year of research. On the other hand, the fiscal year 2008/09 has the smallest index of 88.14. In case of banks, Nepal Investment Bank Limited has the lowest index value on average of 88.07 for whole research period. Thus, all these information shows that the indexes of operating expenses efficiency ratio of Nepalese commercial banks are on fluctuating trend and their values are become up and down each year. Hence, this information provides that increasing operating expenses of commercial banks is being one of the problems these days. The relationship of selected five commercial banks for operating expenses management efficiency during the research period the following table 4.18 has been presented as follows.

Table 4.18 Correlation of Operating Expenses Management Efficiency of Selected Commercial Banks

Banks	NBL	EBL	HBL	NIBL	BOK
NBL	1.00	-	-	-	-
EBL	-0.578	1.00	-	-	-
HBL	0.955	-0.690	1.00	-	-
NIBL	-0.747	0.861	-0.725	1.00	-
BOK	0.643	-0.320	0.779	-0.285	1.00

According to the above table 4.18 there is we found that correlation between Bank of Kathmandu limited and Himalayan Bank as well as with Nepal Bank and Bank of Kathmandu are found to be positively correlated to each other at 5 degree of significance level is taken on t-test of two-tailed. At the same level of significance of the same t-test hypothesis of two-tailed correlations between NBL and EBL, NIBL and HBL, EBL and HBL and NBL and NIBL are found to be high degree of negatively correlated to each other in case of operating expenses management efficiency and handling them. Similarly, at the same test of hypothesis and same level of significance the relationship between Everest Bank and Bank of Kathmandu has been found negatively correlated but with low degree of relationship. Remaining relationship between Nepal Bank Limited and Himalayan Bank Limited is being significant at two-tailed test of t-test hypothesis and found positively correlated.

4.3 Analysis of Profitability Ratio

Profitability ratios show the combined effects of liquidity, assets management, and debt management on operating results of selected institutions. So, here the measurement of profitability ratios are made for checking out the capability of earning profits of selected Nepalese commercial banks for the period of five years beginning from 2006/07 to the end of 2010/11. In short, it measures the earnings of selected institutions for a certain period of time. Thus, to be a successful in the market any firm should earn profits either they are business of

social organizations. Specially, for any business organization the profit is the major factor from which its efficiency, capability of performing as well as its regular existence into the market is also measured. So, in any firm profit plays vital role. That's why, the need of measurement of profitability is raised in any firm to be assured whether the business institution is being able to earn sufficient amount of profits to satisfy the investors, for giving pace to the growth as well as to fix the existence of that business firm into the market for future period of time too. Because, without generating sufficient amount of profits any firm could not sustain long period into this competitive market. Here, to measure the profitability of selected five Nepalese commercial banks for the five years of research time horizon from the fiscal year 2006/07 to 2010/11 profit margin, net interest margin, return on assets and return on shareholders' equity capital have been measured.

4.3.1 Profit Margin (PM)

The ratio which measures the mathematical relationship in between net income and operating revenue of selected commercial banks is defined as the profit margin (PM). In other words, profit margin (PM) is the ratio of net income to operating income of the firm. So, how much of the proportion of total operating revenue is covered by the net profits of net income is defined as the profit margin. For any business organization the higher the profit margin ratio is preferable. Here, the profit margin of selected five Nepalese commercial banks has been measured and making comparison among them as well as from the information obtained from sample banks the profit margin of whole commercial banks is also tried to measured. Into the following table 4.19 the profit margin of these selected institutions has been shown for the period of five years from the fiscal year 2006/07 to the fiscal year 2010/11.

In case of the whole Nepalese commercial banking industry it has the profit margin ratio of 34.88% with the coefficient variation value 25.90%. This figure of profit margin has provides information that the profit earning capacity of

Nepalese commercial banking industry has less consistent and it should reduce the risk level associated into this industry and should increase the level of profit in upcoming fiscal years and also has to maintain it.

Table 4.19 Percentage of Profit Margin (PM)

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average	S.D.	C. V.
2006/07	15.49	35.23	35.30	40.24	38.75	33.00	8.97	27.18
2007/08	12.41	37.29	39.80	42.24	41.89	34.73	11.30	32.53
2008/09	36.99	41.34	37.87	43.65	41.42	40.25	2.47	6.13
2009/10	9.04	43.14	23.58	46.29	37.93	32.00	13.88	43.34
2010/11	14.52	42.47	34.53	41.53	39.34	34.49	10.35	30.01
Average	17.69	39.84	34.22	42.79	39.87	34.88	9.03	25.90
S. D.	9.90	3.09	5.64	2.07	1.54			
C. V.	55.97	7.76	16.48	4.83	3.85			

Above table 4.19 presents the profit margins of selected five commercial banks as well as profit margin of Nepalese commercial banking industry for the period of five years from the fiscal year 2006/07 to the fiscal year 2010/11. According to the table, the performance of bank of Kathmandu is best among the five banks for the same period of time. It has the profit margin of 39.87% with the co-efficient of variation 3.85%. Although, the bank Nepal Investment has the greater ratio i.e, 42.79% but due to the larger value of coefficient of variation i.e, 4.83 it has got the second position. Other banks, Everest bank limited, Himalayan bank limited and Nepal bank limited are having the ratio of 39.84%, 34.22% and 17.69% with coefficient of variation 7.76%, 16.48% and 55.97%. Hence, these figures indicate that Nepal Bank limited has suffering from lower efficiency in management and other banks have to make margin ratio more consistent. Profit margin of selected five commercial for research duration has been converted into index to analyze into as per table 4.20.

Table 4.20 Index of Profit Margin (PM)

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	100.00	100.00	100.00	100.00	100.00	100.00
2007/08	80.12	105.85	112.75	104.97	108.10	105.24
2008/09	238.80	117.34	107.28	108.47	106.89	121.97
2009/10	58.36	122.45	66.80	115.03	97.88	96.97
2010/11	93.74	120.55	97.82	103.21	101.52	104.52
Average	114.21	113.09	96.94	106.34	102.89	105.70

Above table 4.20 has presented the index values of profit margin ratio for the recent five years period from the fiscal year 2006/07 to 2010/11 of selected five commercial banks. Among these banks, Nepal Bank Limited has the greatest index value of 114.21 on average and the year 2008/09 has the largest value of 121.97 after the base year of research. On the other hand, the fiscal year 2009/10 has the smallest index of 96.97. In case of selected commercial banks, Himalayan Bank Limited has the lowest index value on average of 96.94 for whole research period. Thus, all these information shows that indexes of profit margin ratio of Nepalese commercial banks are on fluctuating trend and their values are deviated and become up and down. Hence, these indexes are proved that there is no consistency on profit margin ratio of selected commercial banks during research period. Correlations of selected banks in case of profitability margin for research duration have been presented into table 4.21 below.

Table 4.21 Correlation of Profit Margin of Selected Commercial Banks

Banks	**NBL**	**EBL**	**HBL**	**NIBL**	**BOK**
NBL	1.00	-	-	-	-
EBL	0.102	1.00	-	-	-
HBL	0.465	-0.551	1.00	-	-
NIBL	-0.011	0.710	-0.692	1.00	-
BOK	0.529	-0.230	0.836	-0.192	1.00

According to the above table 4.21 there is we found that correlation of profit margin between Nepal Bank Limited and Everest Bank Limited as well as with Nepal Bank and Himalayan Bank are found to be low degree of positive correlation at 5 degree of significance level is taken on t-test of two-tailed. But the relationship in between Nepal Investment Bank and Nepal Bank, Everest Bank and Bank of Kathmandu and Bank of Kathmandu and Nepal Investment Bank are found be on low degree of negative correlated in case of profit margin. At the same level of significance of the same t-test hypothesis of two-tailed correlations between HBL and BOK and NBL and BOK, and EBL and NIBL are found to be high degree of positively correlated to generate profit margin into the same matter of maintaining profitability of their transactions. Similarly, at the same test of hypothesis and same level of significance the relationships between other remaining variables are to be found that they are negatively correlated with high degree.

4.3.2 Net Interest Margin

The net interest margin is the difference in between revenue generated by the interest earning assets i.e. loan, advances and investments and expenses for interest bearing liabilities or interest cost of the borrowed funds from the creditors i.e. deposits and borrowings which is expressed as the percentage of either total assets or, as average amount of total earnings assets. Here for our research purpose the net interest margin is defined as the proportional relationship of net interest income of selected commercial banks to the total assets value. The table 4.22 has presented the value of interest margin for the five years duration from fiscal year 2006/07 of selected five commercial banks as well as indicators of commercial banking industry.

Table 4.22 Net Interest Margin (%)

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average	S.D.	C. V.
2006/07	2.74	2.93	3.01	3.26	3.29	3.05	0.21	6.78
2007/08	3.14	3.38	3.15	3.09	3.48	3.25	0.15	4.72
2008/09	3.99	3.24	3.58	2.98	3.83	3.52	0.37	10.56
2009/10	4.82	3.70	3.74	3.67	4.14	4.01	0.44	10.91
2010/11	5.23	3.88	4.09	3.74	4.72	4.33	0.56	12.94
Average	3.98	3.43	3.51	3.35	3.89	3.63	0.25	7.00
S. D.	0.95	0.34	0.39	0.31	0.51			
C. V.	23.87	9.91	11.21	9.12	13.02			

According to the table 4.22, Nepalese commercial banking industry has the net interest margin ratio of 3.63% on average for the five years form 2006/07 to 2010/11 with standard deviation value and coefficient of variation value of 0.25% and 7.00% for the same duration. This value about the net interest margin is indicated that there is higher level of risk associated with the margin ratio than the level of net interest margin. That' why, the level of risk associated with this ratio should be minimized and the level of margin ratio should upgrade as much as possible.

In case of individual bank's performance evaluation there is not much vast different in between the net interest margin ratio of Bank of Kathmandu and Nepal bank limited but the level of risk associated with them is almost double of Nepal Bank Limited than Bank of Kathmandu Limited. These banks have the net interest margin of 3.89% and 3.98% respectively but coefficient of variation of Nepal bank limited is 23.87% but Bank of Kathmandu has the same value of 13.02%. The remaining three banks are having the net interest margin ratio of 3.43%, 3.51%, and 3.35% with the standard deviation value of 0.34%, 0.39%, and 0.31% as well as the value of coefficient of variation for these banks are 9.91%, 11.21% and 9.12% respectively for Everest Bank Limited, Himalayan Bank Limited and Nepal Investment Bank Limited. Thus,

while evaluating the net interest margin ratio of these selected five banks there could not be find the level of being much more satisfactory about the Nepalese commercial banking industry for the research period in between the fiscal year 2006/07 to the fiscal year 2010/11. As like this index of five years for net interest margin has been presented into table 4.23.

Table 4.23 Index of Net Interest Margin

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	100.00	100.00	100.00	100.00	100.00	100.00
2007/08	114.60	115.36	104.65	94.79	105.78	106.56
2008/09	145.62	110.58	118.94	91.41	116.41	115.41
2009/10	175.91	126.28	124.25	112.58	125.84	131.48
2010/11	190.88	132.42	135.88	114.73	143.47	141.97
Average	145.26	117.07	116.61	102.76	118.24	119.02

Above table 4.23 has presented the index values of net interest margin ratio for the recent five years period from the fiscal year 2006/07 to 2010/11 of selected five commercial banks. Among these banks Nepal Bank Limited has the greatest index value of 145.26 on average and the year 2010/11 has the largest value of 141.97 after the base year of research. On the other hand, the fiscal year 2007/08 has the smallest index of 106.56. In case of banks, Nepal Investment Bank Limited has the lowest index value on average of 102.76 for whole research period. Thus, all these information shows that the indexes of net interest margin ratio of Nepalese commercial banks are on fluctuating trend and their values are deviated and become up and down each year. Hence, these indexes are proved that there is not consistency on the net interest margin ratio of selected commercial banks during the research period. Into this matter the correlations among these selected five commercial banks are presented into the following table 4.24.

Table 4.24 Correlation of Net Interest Margin of Selected Commercial Banks

Banks	NBL	EBL	HBL	NIBL	BOK
NBL	1.00	-	-	-	-
EBL	0.909	1.00	-	-	-
HBL	0.986	0.875	1.00	-	-
NIBL	0.746	0.760	0.686	1.00	-
BOK	0.971	0.909	0.986	0.758	1.00

According to the above table 4.24 there is we found that correlation of net interest margin between Nepal Bank Limited and Everest Bank Limited as well as with Nepal Bank and Himalayan Bank are found to be significantly high degree of positive correlation at 5 degree of significance level is taken on t-test of two-tailed. Similarly, the correlation of Bank of Kathmandu with Nepal Bank and Himalayan Bank as well as relationship of Everest Bank and Bank of Kathmandu are also found significantly high degree of positive correlated. At the level of 5% of significance of the same t-test hypothesis of two-tailed correlations between all other remaining banks are to be found that they are positively correlated with high degree to each other in case of net interest margin. Correlations between Himalayan Bank and Nepal Bank, Nepal Bank and Bank of Kathmandu and Himalayan Bank and Bank of Kathmandu are also found significantly correlated with high degree at 1% level of significance too.

4.3.3 Return on Total Assets

The ratio of net income generated by any business organization to the total assets value of that business entity for a certain period is defined as the return on total assets (ROA). In short, the ratio which shows the proportion of total assets which is covered by the net income of business firm is defined as return on assets (ROA). This ratio measures the return on all the firm's assets after interest and taxes. The return on assets (ROA) is derived by dividing the net income value by total assets value of that business organization. Here, it is used

as the tool of profitability measurement of selected five Nepalese commercial banks as well as the whole Nepalese commercial banking industry based on the data obtained for the five recent fiscal years from 2006/07 to 2010/11. Below the data about the return on assets (ROA) of selected banks and industry too for the research duration is presented into the table 4.25.

Table 4.25 Return on Total Assets (%)

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average	S. D.	C. V.
2006/07	0.61	1.38	1.47	1.82	1.80	1.42	0.44	30.93
2007/08	0.54	1.66	1.76	1.79	2.04	1.56	0.53	33.60
2008/09	1.88	1.73	1.91	1.70	2.25	1.89	0.20	10.36
2009/10	0.56	2.01	1.19	2.21	2.18	1.63	0.65	39.89
2010/11	0.82	2.02	1.91	2.02	2.44	1.84	0.54	29.47
Average	0.88	1.76	1.65	1.91	2.14	1.67	0.43	25.56
S. D.	0.51	0.24	0.28	0.184	0.214			
C. V.	57.82	13.64	16.97	9.63	10.00			

The above table 4.25 has presented the value of return on total assets (ROA) of selected five sample commercial banks for the duration of five years from 2006/07 to 2010/11. As information shown into this table the average return on assets (ROA) of whole Nepalese commercial banking industry is 1.67% with the standard deviation value of 0.43%. Similarly, this industry has the co-efficient of variation of 25.56% which indicates per unit of risk associated to the return on assets of same industry. As this value about return on assets, we can find that this industry has the higher level of risk nowadays.

On the other hands, the sample banks, Nepal Bank Limited, Everest Bank Limited, Himalayan Bank Limited, Nepal Investment Bank Limited and Bank of Kathmandu Limited have the same ratio of return on assets for the same research duration are 0.88%,1.76%, 1.65%, 1.91% and 2.14% with the deviation values of 0.51%, 0.24%, 0.28%, 0.184%, and 0.214% respectively.

These banks are having the coefficient of variation value of 57.82%, 13.64%, 16.97%, 9.63%, and 10.00% respectively. All these information of return on total assets of selected commercial banks are also shown as index into table 4.26.

Table 4.26 Index of Return on Total Assets

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	100.00	100.00	100.00	100.00	100.00	100.00
2007/08	88.53	120.29	98.35	113.33	109.86	88.53
2008/09	308.20	125.36	93.41	125.00	133.10	133..01
2009/10	91.80	145.65	121.43	121.11	114.79	91.80
2010/11	134.43	129.93	110.99	135.56	129.58	134.43
Average	144.26	112.25	104.95	118.89	117.61	119.59

Above table 4.26 has presented the index values of return on total assets value for the recent five fiscal years from the fiscal year 2006/07 to 2010/11 of selected five commercial banks. Among these banks, Nepal Bank Limited has the greatest index value of 144.26 on average and the year 2010/11 has the largest value of 134.43 after the base year of research. On the other hand, the last fiscal year 2007/08 has the smallest index of 88.53. In case of banks, Himalayan Bank Limited has the lowest index value on average of 104.95 for whole research period. Thus, all these information shows that the indexes of return on total assets of Nepalese commercial banks are on fluctuating trend and their values are deviated and become up and down each year. Hence, these indexes are proved that there is not consistency on the return rate provided by these banks on total assets value hold by them during the research period.

From these all information obtained that Nepal Bank Limited has the lowest rate of return on assets on the average for the whole research duration with the highest level of per unit of risk. On the contrast, Bank of Kathmandu Limited has the highest rate of return on the assets value of that bank with the minimum

level of per unit risk to obtain that rate of return among other bank which level is nearly followed by the Nepal Investment Bank Limited. Correlation of all selected five commercial banks during the research period has been presented into the following table 4.27.

Table 4.27 Correlation of Return on Assets (ROA) of Selected Commercial Banks

Banks	NBL	EBL	HBL	NIBL	BOK
NBL	1.00	-	-	-	-
EBL	0.909	1.00	-	-	-
HBL	0.986	0.875	1.00	-	-
NIBL	0.746	0.760	0.686	1.00	-
BOK	0.971	0.909	0.986	0.758	1.00

According to the above table 4.27 there is we found that correlation of return on total assets value between Nepal Bank Limited and Everest Bank Limited as well as with Nepal Bank and Himalayan Bank are found to be significantly high degree of positive correlation at 5 degree of significance level is taken on t-test of two-tailed. Similarly, the correlation of Bank of Kathmandu with Nepal Bank and Himalayan Bank as well as relationship of Everest Bank and Bank of Kathmandu are also found significantly high degree of positive correlated. At the level of 5% of significance of the same t-test hypothesis of two-tailed correlations between all other remaining banks are to be found that they are positively correlated with high degree to each other in case of return on total assets value of selected commercial banks. Correlations between Himalayan Bank and Nepal Bank, Nepal Bank and Bank of Kathmandu and Himalayan Bank and Bank of Kathmandu are also found significantly correlated with high degree at 1% level of significance too in the matter of earning return on assets.

4.3.4 Return on Equity Capital (ROE)

Return on equity (ROE) is one financial ratio which is used to measure the profitability position of selected institutions for a certain period of time based on the value of shareholders' equity capital of that firm or entity. So, it is the ratio of net income generated by the firm to common equity capital value for certain period of time of any business organization. Here, the return on equity capital (ROE) is measured to identify the actual the firm's owners are earning how much for certain fiscal year or duration based on the equity capital value of them.

On the other hand, in case of performance of individual bank almost all banks are near to the rate of return of the Nepalese commercial banking industry. Due to being all equity capital values of Nepal Bank Limited negative due to suffering from accumulated losses of past the rate of return for this research duration is not calculated. This indicates the inefficiency of Nepalese public sector's management problem in case of commercial banking sector too as like other industry of Nepal. Below into the table 4.28 the return on equity capital (ROE) of different five commercial banks and industry as well is presented for analysis for the duration of five years.

Table 4.28 Return on Equity Capital (%)

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average	S.D.	C. V.
2006/07	-	24.67	22.91	26.70	26.72	25.25	1.59	6.29
2007/08	-	23.49	25.30	25.93	26.94	25.42	1.26	4.94
2008/09	-	28.99	24.13	23.05	26.51	25.67	2.29	8.92
2009/10	-	30.15	14.79	27.61	24.56	24.28	5.82	23.47
2010/11	-	29.91	22.35	22.80	24.85	24.98	3.00	12.01
Average	-	27.44	21.90	25.22	25.92	25.12	2.03	8.06
S. D.	-	2.78	3.70	1.95	1.00			
C. V.	-	10.13	16.90	7.73	3.86			

According to the table 4.28 the average rate of return based on equity capital of Nepalese commercial bank for five years from 2006/07 to 2010/11 is 25.12% with the deviation value of 2.03%. For the same period this industry has the co-efficient of variation is 8.06% which indicates the level of risk to earn per unit of rate of return during this period of time. Although the level of per unit of risk is a little bit higher the rate of return on the equity capital is somehow satisfactory. This rate of return during the whole research duration is mostly consistent.

In comparison of five selected commercial banks Everest Bank Limited has been able to earn and provide the highest rate of return on equity capital amount i.e. 27.44 on the average for the five years duration with the standard deviation value of 2.78% and the co-efficient of variation of 10.13%. On the other hand, Bank of Kathmandu Limited has the lowest level of per unit risk into this return which is represented by the co-efficient of variation value i.e. 3.86%. The rate of return generated by this financial institution during this period is 25.92% with the deviation value of one percent only which shows the more consistency level into the rate of return on equity capital.

Similarly, in case of other two banks, Himalayan Bank Limited has generated the return on equity capital to the period of research done is 21.90% with the standard deviation value of 3.70% and the co-efficient of variation value of 16.90%. And, Nepal Investment Bank Limited has being able to provide return of 25.22% on average during 2006/07 to 2010/11, to its shareholders on their equity capital value with the deviation of 1.95% and the co-efficient of variation. All these information also can be presented into indices of return capital too as shown into table 4.29.

Table 4.29 Index of Return on Equity Capital

Year/Bank	NBL	EBL	HBL	NIBL	BOK	Average
2006/07	-	100.00	100.00	100.00	100.00	100.00
2007/08	-	95.22	110.43	97.12	100.82	100.67
2008/09	-	117.51	105.33	86.33	99.21	101.66
2009/10	-	122.21	64.56	103.41	91.92	96.16
2010/11	-	121.24	97.56	85.39	93.00	98.93
Average	-	111.22	95.59	97.01	97.01	99.49

Above table 4.29 has presented the index values of return on equity capital for the recent five years period from the fiscal year 2006/07 to 2010/11 of selected five commercial banks. Among these banks Everest Bank Limited has the greatest index value of 111.22 on average and the year 2008/09 has the largest value of 101.66 after the base year of research. On the other hand, the last fiscal year 2009/10 has the smallest index of 96.16. In case of banks, Himalayan Bank Limited has the lowest index value on average of 95.59 for whole research period.

Thus, all these information shows that the indexes of return on equity capital of Nepalese commercial banks are on fluctuating trend and their values are deviated and become up and down each year. Hence, these indexes are proved that there is not consistency on the return rate provided by these banks on their equity capital funds value investment by shareholders of selected commercial banks during the research period. The correlation of return on equity capital generated by the selected commercial banks for the research period has been presented into the table 2.30 below.

Table 4.30 Correlation of Return on Equity (ROE) of Selected Commercial Banks

Banks	NBL	EBL	HBL	NIBL	BOK
NBL	-	-	-	-	-
EBL	-	1.00	-	-	-
HBL	-	-0.598	1.00	-	-
NIBL	-	-0.359	-0.528	1.00	-
BOK	-	-0.832	0.798	-0.003	1.00

Into this above table 4.30 the correlation of five selected commercial banks have been presented into the matter of return on equity capital which they have earned during the research period of five year from the fiscal year 2006/07 to the fiscal year 2010/11. In case of calculating correlation values related with Nepal Bank Limited are not presented due to the absence of data of return on equity capital of it. Except correlation of Himalayan Bank and Bank of Kathmandu all other correlation obtained are found to be negatively affected. The correlations between Nepal Investment Bank and Bank of Kathmandu and Everest Bank Limited and Nepal Investment Bank Limited are found negatively correlated but with low degree of affection. On the other remaining correlations calculated are found to be highly influenced with negative relationship.

4.4 Major Findings

After conducting this research work and analyzing all the collected data and information the following major findings are obtained.

1. The levels of total capital adequacy of all selected five commercial banks are above the minimum standard determined by Nepal Rastra Bank as well as Basel Accord I.

2. The level of core capital to total assets value after adjustment of risk exposure is categorized as the well capitalized as per the standard of Nepal Rastra Bank as well as Basel Accord.

3. The total capital adequacy level of commercial banking industry is 5.22% on average which is below the level of standard due to inefficiency of public institutions. The greatest value of 11.86% is the level of total capital adequacy and -17.97% is the lower level of capital adequacy of Nepal Bank Limited.

4. The highest level of core capital adequacy ratio is 9.72% which is gained by Bank of Kathmandu. On the contrast Nepal Bank Limited has the lowest ratio of core capital of -10.39% on average for research duration.

5. The total assets management efficiency ratio of Bank of Kathmandu is the highest of 5.38% on average. On the opposite side Everest Bank Limited has the lowest ratio of assets management ratio of 4.39% on average for whole research duration.

6. Among all selected commercial banks Bank of Kathmandu Limited has the smallest ratio of funds management efficiency 10.00% on average. But Everest Bank Limited has the highest ratio of same of 15.71%.

7. Nepal Bank Limited has been suffering from the inefficiency of managing operating expenses with the ratio of operating expenses management efficiency of 105.71% on average.

8. Nepalese commercial banking industry has value of 54.79% of operating expenses management efficiency ratio. Among selected five commercial banks Nepal Investment Bank Limited has the lowest ratio of 36.65% of operating expenses management efficiency which proves it is the most efficient bank to manage operating expenses.

9. The profit margin ratio of Nepalese commercial banking industry for the research duration is 34.88% on the average with the deviation value of 9.03% and with C.V. of 25.90%.

10. Among all selected five commercial banks Nepal Investment Bank Limited has the greatest ratio of profit margin of 42.79% with deviation of 2.07%. on the contrast Nepal Bank Limited has the lowest ratio of 17.69% with the standard deviation of 9.90%.

11. The range of net interest margin of all selected commercial banks for the research period is 3% to 4% for whole research period. The average net interest

margin of this industry of this industry is 3.63% with per unit of risk of 7.00% which is denoted by value of co-efficient of variation.

12. The greatest net interest margin is gained by Nepal Bank Limited on average for research period of 3.98% with deviation of 0.95%. And the lowest margin is gained by Nepal Investment Bank Limited of 3.35% with deviation of 0.31%.

13. Commercial banking industry of Nepal has the average rate of return of 1.67% for recent five years with deviation of 0.43%. Per unit risk of this industry to gain return on assets is 25.56%.

14. Rates of return on total assets value of selected banks for research duration are 0.88%, 1.76%, 1.65%, 1.91% and 2.14% with the deviation of 0.51%, 0.24%, 0.28% 0.184% and 0.214% for NBL, EBL, HBL, NIBL and BOK respectively.

15. The commercial banking industry of Nepal has been able to earn 25.12% return on equity capital invested into this sector of economy with deviation of 2.03%. This industry is suffered by 8.06% of unit of risk to earn per unit of return on equity capital funds.

16. Everest Bank Limited has earned 27.44% of return on equity capital investment into this bank with deviation of 2.78% which is the greatest ratio among all selected banks. The lowest ratio of return on equity capital is gained by Himalayan Bank Limited with deviations of 3.70%.

CHAPTER - FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

It is the last chapter for any research work. Into this chapter basically overview of the whole study has been mentioned in brief with the possible suggestions and recommendations if the researcher feels needed. So, this chapter is mainly classified into three different sections. The first section is summary which deals in short about the whole research work conducted and mentioned into previous three chapters. Similarly, the second one is conclusions which consists all those matters of analysis and findings from the research work completed. At last the final section is recommendations. It included all those suggestions and advices that are given by the researcher about the research. Recommendations are presented as the feedback to the related sector of research. Thus, in this way formally the research work is completed after the completions of this section with possible suggestions and feedbacks. So, this is the last chapter of study. Into this chapter summary, conclusions, and recommendations are attached.

Summary

This research work has been conducted into the matter of assessment of capital adequacy, efficiency and profitability of selected Nepalese commercial banks. For the research purpose sample size of five Nepalese commercial banks are selected among 32 commercial banks have performed in Nepal. These sample banks are selected on the basis of nature of capital funds investment into commercial banks. Two banks are taken from joint venture banks, two from only domestic funds investment, and one from the public sector. This has been done to analysis overall and actual representation of commercial banking analysis. Into the process of making assessment of performance of Nepalese commercial banks these analyses of capital requirement, efficiency measurement, and profitability appraisal is essential.

The measurement of capital requirement helps to find out the capital risk position of selected commercial banks in the prospect of international standard

determined by the Basel Accord-I and domestic context too. The minimum capital requirement determined by the central bank of Nepal i.e. Nepal Rastra Bank is at least 10% for the total capital funds and 6% to the core capital funds of risk adjusted total assets value of commercial bank. This standard is valid to all 'A' class institutions operating within the boundary of Nepal. And as per international standard the minimum capital adequacy level is 8% to total capital funds and 4% to tier one capital of total risk adjusted assets value of related commercial bank. As per these both standards except public bank all banks are maintaining the requirement level. So, they are being able to avoid capital risk.

In case of efficiency measurement of Nepalese commercial banks assets management efficiency ratio, funds management efficiency ratio, and operating expenses management efficiency ratio are measured. These ratios are used here to test the capability of Nepalese commercial banks and ability of their operation performing. It helps to find out how much commercial banks are able to struggle in changing business environment. Similarly, profitability of Nepalese commercial banking industry as well as individual bank which has been selected is measured.

In case of this research work it has been made on the measurement of capital adequacy, profitability and efficiency level of Nepalese commercial banks. On the basis of data of selected five commercial banks the measurement of above topics of the whole commercial banking industry is also made. This research identifies the different factors that are affecting the financial position and performances of any organization with the help of different literature reviewed which are done in the past by various scholars. Weak financial return and high risk on the unstable business environment in Nepal is the major problem during this era of time on which how the Nepalese financial sector is performing to check out and how they are being able of earn desire profit level or not to find out this fact is the major objective of this research work. To check out the capital adequacy level of selected banks total capital to risk weighted assets

value ratio, core capital fund to total risk adjusted assets value ratio, tier two or supplementary capital fund ratio are calculated and their detail analysis under Basel Accord-I and Nepal Rastra Bank provision have been analyzed. From this the capital position and capital risk of Nepalese commercial banks and their industry have been measured as per international standard fixed by Basel Accord and in case of domestic region standard of central bank and determined their capital position as they are whether they are under-capitalized, adequately capitalized, and well capitalized.

Similarly, to measure the profitability position and return provided by these banks profit margin ratio, net interest margin ratio, return on total assets value ratio, and return on equity capital fund ratio have been used. With these ratios the holding period of return i.e. average rate of return of research duration is also made. In the process of measurement of profitability of selected commercial banks and industry the arithmetic mean of rate of return is calculated to find out return level of these banks and their outcome to investors. On the other hand, to measure risk associated to the return is measured by the means of statistical tool standard deviation which is used to find out the absolute level of total risk which is also known as the market risk. Similarly, the tool of measuring relative level of risk i.e. co-efficient of variation is also used to determine per unit risk of commercial banks and industry which should be faced by the investors as well as management to get a single rate of return.

Conclusions

Into this section of the research work the researcher has been tried to conclude all his efforts which have been conducted by him while the study has been running. The research has been trying to focus out the performance of selected financial institutions i.e. Nepalese commercial banks for the period of recent five fiscal years. This thesis work is done to check out the financial position of five commercial banks, Nepal Bank Limited, Everest Bank Limited, Himalayan Bank Limited, Nepal Investment Bank Limited, and Bank of Kathmandu

Limited for the research duration beginning from the fiscal year 2006/07 to the end of fiscal year 2010/11. To analysis the financial positions of these banks here mainly the measurement of profitability as well as efficiency measurement and capital adequacies have been conducted. The tool of measuring financial performance is CAMEL analysis. Where 'C' refers to the capital adequacy measurement, 'A' denotes the measures of assets management of selected institutions; 'M' refers the measurement of market sensitivity analysis. The remaining terms 'E' denotes the measurement of efficiency level of those institutions which are being observed, finally, the last alphabet of CAMEL analysis i.e. 'L' defines the analysis and measuring the liquidity position and capacity of liquidity management.

Into the same process of conducting the research work the capability of Nepalese commercial bank and same industry is evaluated with the help of using efficiency management ratios. To check out the efficiency of Nepalese commercial banks into their performance and handling their operation the total assets management efficiency ratio, funds management efficiency ratio and operating expenses management efficiency ratio are measured. The total assets management efficiency ratio is used for analyzing the capability of Nepalese commercial banks in case of how the total assets value and their uses are being able to produce sufficient operating revenue. So, this ratio identifies the assets utilization of commercial banks. The ratio funds management efficiency measures how much a time of equity capital value is generated as the assets value of the banks. It indentifies the multiplier effects of equity capital investment done by the investors. Lastly, the operating expenses management efficiency ratio is used by the researcher to identify the relationship in between operating expenses and operating revenue as well as to evaluate how the banks are being able to manage operating expenses in comparison with operating revenue and to find out which firm is being able to generated more operating revenue from minimum operating expenses. So, this ratio measures bank's ability of earning revenue and limiting expenditures.

Hence, this study is conducted to indentify the actual financial position and performance of selected Nepalese commercial banks for the period of five years from the fiscal year 2006/07 to 2010/11. The researcher into this study always tries to light out the actual financial position of those banks which are taken as the sample into this research work. The accuracy of this research is mainly based on the data provided by the sources and their accuracy. But this research can be used to understand the current financial performance and position of commercial banks and related industry.

According to the Basel Accord the total capital adequacy ratio should be at least 8% without being the supplementary capital exceed than the core capital fund. Although this NRB has made the provision of making 10% total capital fund to total risk weighted assets for the 'A' class institutions. While we evaluating the total capital adequacy level of whole commercial banking industry of Nepal on the basis of information obtained from these five selected banks, it is found that the capital adequacy level of Nepalese commercial bank is 5.22% on the average for the period of five years. It indicates that Nepalese commercial banks are just meet the target minimum level set by Basel Accord but could not be able to reach the level determined by the Nepal Rastra Bank. It is due to the inefficiency of Nepalese public commercial banks whose management is handled by the government sector. According to the Basel Accord the core capital ratio should be at least 4% of its total assets value after adjusting the risk factor. But as per the NRB provision it should be at least 6% for the commercial banks and all the 'a' class institutions. On the aggregate average of this ratio Nepal bank limited, Everest bank limited, Himalayan bank limited, Nepal investment bank limited and Bank of Kathmandu limited have the tier one or core capital ratio of -10.39%, 8.29%, 8.61%, 8.14%, 9.72%, respectively. Hence if we compare these banks then it is found that BOK has been found more capitalized than other although all the banks are well capitalized.

Nepalese commercial banking industry has the average ratio of supplementary capital ratio of 2.31% of the research period of five years. The trend of this ratio has been fluctuating during the research period which is creating some level of risk to this industry. As it shown the average supplementary capital fund ratio for the five years period from fiscal year 2006/07 to 2010/11 are 2.22%, 2.59%, 1.98%, 2.61% and 2,14% for each bank respectively. In case of industry the supplementary capital level is on the decreasing trend and it becomes 1.84% by reducing from 3.31% at the end of research. The average supplementary capital level of commercial banking industry is 2.31% which is found below the standard set by the both Basel Accord and Nepal Rastra Bank. So, it has indicated that there is need of improvement in this industry special to those institutions which are operated by public sector or by government of Nepal. Because these banks are facing inefficiency in management as well as into their operation too which have to be corrected.

The financial leverage position of the selected institutions has been indicated by the financial tool of ratio analysis i.e. funds management efficiency ratio. Here, this ratio shows the value of the commercial banks' total assets in comparison of its total shareholders' equity capital value. So, the funds management efficiency ratio is referred as the equity multiplier. That's why, it can be said that the financial ratio which lights out the how many times the commercial banks have been larger assets value with the respect of total shareholders' equity capital value. Thus, it expresses the multiplier effects of equity capital investment by the shareholders as the book value of assets earned by the commercial banks. Hence, the higher the funds management efficiency ratio is preferred by each and every bank. The funds management ratio of selected commercial banks for the period of five years from the fiscal year 2006/07 to the fiscal year of 2010/11 as well as for the industry too on the basis of data obtained from selected five commercial banks. Those data are presented in the individual form for each year and also concluded on the average too. The

average ratio of funds management efficiency ratio of Nepalese commercial banking industry it has been found that 10.09 times which indicates that 10.09 times greater value of total assets is earned by this industry than is shareholders' equity funds value. This ratio of this industry has been declining in each fiscal year. While the research year is started at fiscal year 2006/07 it was 15.75 times but at the end period it has become 12.01times. So, during this period it has been decreased by 3.74 times (15.75 times - 12.01 times).

In case of the whole Nepalese commercial banking industry it has the profit margin ratio of 34.88% with the coefficient variation value 25.90%. This figure of profit margin has provides information that the profit earning capacity of Nepalese commercial banking industry has less consistent and it should reduce the risk level associated into this industry and should increase the level of profit in upcoming fiscal years and also has to maintain it. The performance of bank of Kathmandu is best among the five banks for the same period of time. It has the profit margin of 39.87% with the co-efficient of variation 3.85%. Although, the bank Nepal Investment has the greater ratio i.e, 42.79% but due to the larger value of coefficient of variation i.e, 4.83 it has got the second position. Other banks, Everest bank limited, Himalayan bank limited and Nepal bank limited are having the ratio of 39.84%, 34.22% and 17.69% with coefficient of variation 7.76%, 16.48% and 55.97%. Hence, these figures indicate that Nepal Bank limited has suffering from lower efficiency in management and other banks have to make margin ratio more consistent. In case of individual bank's performance evaluation there is not much vast different in between the net interest margin ratio of Bank of Kathmandu and Nepal bank limited but the level of risk associated with them is almost double of Nepal Bank Limited than Bank of Kathmandu Limited. These banks have the net interest margin of 3.89% and 3.98% respectively but coefficient of variation of Nepal bank limited is 23.87% but Bank of Kathmandu has the same value of 13.02%. The remaining three banks are having the net interest margin ratio of 3.43%, 3.51%, and 3.35% with the standard deviation value of 0.34%, 0.39%, and 0.31% as

well as the value of coefficient of variation for these banks are 9.91%, 11.21% and 9.12% respectively for Everest Bank Limited, Himalayan Bank Limited and Nepal Investment Bank Limited. Thus, while evaluating the net interest margin ratio of these selected five banks there could not be find the level of being much more satisfactory about the Nepalese commercial banking industry for the research period in between the fiscal year 2006/07 to the fiscal year 2010/11. the average return on assets (ROA) of whole Nepalese commercial banking industry is 1.67% with the standard deviation value of 0.43%. Similarly, this industry has the co-efficient of variation of 25.56% which indicates per unit of risk associated to the return on assets of same industry. As this value about return on assets, we can find that this industry has the higher level of risk nowadays.

On the other hands, the sample banks, Nepal Bank Limited, Everest Bank Limited, Himalayan Bank Limited, Nepal Investment Bank Limited and Bank of Kathmandu Limited have the same ratio of return on assets for the same research duration are 0.88%,1.76%, 1.65%, 1.91% and 2.14% with the deviation values of 0.51%, 0.24%, 0.28%, 0.184%, and 0.214% respectively. These banks are having the coefficient of variation value of 57.82%, 13.64%, 16.97%, 9.63%, and 10.00% respectively. The average rate of return based on equity capital of Nepalese commercial bank for five years from 2006/07 to 2010/11 is 25.12% with the deviation value of 2.03%. For the same period this industry has the co-efficient of variation is 8.06% which indicates the level of risk to earn per unit of rate of return during this period of time. Although the level of per unit of risk is a little bit higher the rate of return on the equity capital is somehow satisfactory. This rate of return during the whole research duration is mostly consistent.

In comparison of five selected commercial banks Everest Bank Limited has been able to earn and provide the highest rate of return on equity capital amount i.e. 27.44 on the average for the five years duration with the standard

deviation value of 2.78% and the co-efficient of variation of 10.13%. On the other hand, Bank of Kathmandu Limited has the lowest level of per unit risk into this return which is represented by the co-efficient of variation value i.e. 3.86%. The rate of return generated by this financial institution during this period is 25.92% with the deviation value of one percent only which shows the more consistency level into the rate of return on equity capital. Similarly, in case of other two banks, Himalayan Bank Limited has generated the return on equity capital to the period of research done is 21.90% with the standard deviation value of 3.70% and the co-efficient of variation value of 16.90%. And, Nepal Investment Bank Limited has being able to provide return of 25.22% on average during 2006/07 to 2010/11, to its shareholders on their equity capital value with the deviation of 1.95% and the co-efficient of variation.

Thus, in conclusion, the levels of total capital adequacy of all selected five commercial banks are above the minimum standard determined by Nepal Rastra Bank as well as Basel Accord I. The level of core capital to total assets value after adjustment of risk exposure is categorized as the well capitalized as per the standard of Nepal Rastra Bank as well as Basel Accord. The total capital adequacy level of commercial banking industry is 5.22% on average which is below the level of standard due to inefficiency of public institutions. The greatest value of 11.86% is the level of total capital adequacy and -17.97% is the lower level of capital adequacy of Nepal Bank Limited. The highest level of core capital adequacy ratio is 9.72% which is gained by Bank of Kathmandu. On the contrast Nepal Bank Limited has the lowest ratio of core capital of -10.39% on average for research duration. The total assets management efficiency ratio of Bank of Kathmandu is the highest of 5.38% on average. On the opposite side Everest Bank Limited has the lowest ratio of assets management ratio of 4.39% on average for whole research duration.

Among all selected commercial banks Bank of Kathmandu Limited has the smallest ratio of funds management efficiency 10.00% on average. But Everest Bank Limited has the highest ratio of same of 15.71%. Nepal Bank Limited has been suffering from the inefficiency of managing operating expenses with the ratio of operating expenses management efficiency of 105.71% on average. Nepalese commercial banking industry has value of 54.79% of operating expenses management efficiency ratio. Among selected five commercial banks Nepal Investment Bank Limited has the lowest ratio of 36.65% of operating expenses management efficiency which proves it is the most efficient bank to manage operating expenses. The profit margin ratio of Nepalese commercial banking industry for the research duration is 34.88% on the average with the deviation value of 9.03% and with C.V. of 25.90%. Among all selected five commercial banks Nepal Investment Bank Limited has the greatest ratio of profit margin of 42.79% with deviation of 2.07%. On the contrast Nepal Bank Limited has the lowest ratio of 17.69% with the standard deviation of 9.90%. The range of net interest margin of all selected commercial banks for the research period is 3% to 4% for whole research period. The average net interest margin of this industry of this industry is 3.63% with per unit of risk of 7.00% which is denoted by value of co-efficient of variation. The greatest net interest margin is gained by Nepal Bank Limited on average for research period of 3.98% with deviation of 0.95%. And the lowest margin is gained by Nepal Investment Bank Limited of 3.35% with deviation of 0.31%.

Commercial banking industry of Nepal has the average rate of return of 1.67% for recent five years with deviation of 0.43%. Per unit risk of this industry to gain return on assets is 25.56%. Rates of return on total assets value of selected banks for research duration are 0.88%, 1.76%, 1.65%, 1.91% and 2.14% with the deviation of 0.51%, 0.24%, 0.28% 0.184% and 0.214% for NBL, EBL, HBL, NIBL and BOK respectively. The commercial banking industry of Nepal has been able to earn 25.12% return on equity capital invested into this sector of economy with deviation of 2.03%. This industry is suffered by 8.06% of unit

of risk to earn per unit of return on equity capital funds. Everest Bank Limited has earned 27.44% of return on equity capital investment into this bank with deviation of 2.78% which is the greatest ratio among all selected banks. The lowest ratio of return on equity capital is gained by Himalayan Bank Limited with deviations of 3.70%.

Hence this research work has been lighted out that the commercial banks which are under the operation of government are performing with inefficiency and producing lower rate of return than other banks in comparison for the research duration of five years. Private commercial banks and joint venture banks are being on competition into the real financial markets. So, sometime on sector is being more competence to another and vice versa on the other sectors.

Recommendations

This is last and third section of this chapter on which the researcher has presented those possible suggestions and advices where is needed and seen by him. On the basis of research conducted by the researcher he is being able to find out those weaknesses, leakages, and limitations as well as can also provide some feedbacks to those selected institutions which are under the span of research area. In the process of performing this researcher has been evaluate the three aspects of selected five commercial banks for the five fiscal years from the fiscal year 2006/07 to the fiscal year 2010/11 and on which he presented some of his views for betterment into those sectors of them. Those three sectors are capital adequacy, efficiency and profitability.

Nepalese commercial banks are performing their functions as per the rules and regulation determined by Nepal Rastra Bank. As the Nepal Rastra Bank's standard joint venture banks and pure private investment banks are being able to maintain the capital adequacy as well as per international provision of Basel Accord first too. But there is lack of the maintenance of such standard and performance of public commercial banks in case of capital adequacy. So, they

have to improve their standard as well as their functions in case of this and should take some corrective actions soon as much as possible. Those joint venture banks and pure private commercial banks that are performing within the span of country Nepal are being able to generate sufficient level of total capital and core capital management but some of weaknesses are seen while maintaining supplementary capital. Those weaknesses should be eradicated. Due to the accumulated losses of public commercial banks they are not being able to maintain such capital standard by the provision of central bank and international capital risk rated institutions or committees like Basel Accord. That's why; they have to take some actions to reduce such losses into upcoming years into the future.

In case of efficiency management of Nepalese commercial banks here are also some places of making adjustment. Nepalese commercial banking operating expenses management efficiency are being reduced. They are facing problems of increasing ratios of operating expenses ratios into the later years. So, they have to management those operating expenses by applying some costs reductions functions as like employees' effective management, motivating to high work performance, and adaptations of some short methods and process of work performance with advance technology. In case of improving Nepalese public commercial banks' operating expenses management efficiency those are should reduce the level of overstaffing, should give retirements to old and unskilled labour force of them and should also use advance tools and methods of banking operations with adaptations of modern banking software.

In case of managing profitability and earning profits from their performances of Nepalese commercial banks somehow they are being able to efficient. But the trends of earning margin by these commercial banks are much fluctuated rather than the past history of them. In case of profit margin and net interest margin earning by those banks they are being some capable but into them also they are facing high level of risk. On the other hand, in case of earning return

on assets they are earning lower rate of rate of return in comparison of risk born by them. And, into the matter of return of equity capital fund those commercial banks are got return on fluctuated trend so the level of risk is higher than other as the time has been passed.

Thus, although the performance of Nepalese commercial banks are far better rather than other sectors of Nepalese economy in the present condition there is some chances and places to correct. As like the other sectors this sectors are also facing challenges from external and internal environment. That's why, managing them is one major function of this industry for which they have to become more conscious.

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APPENDICES

Appendix 1
Data of Bank of Kathmandu Limited

					RS IN MILLIONS
Descriptions	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Equity Capital	981.98	1342.07	1741.59	2073.53	2435.19
Total Assets	14570.09	17721.93	20496.01	23396.19	24757.75
Net Interest Income	479.82	616.62	784.64	967.92	1167.99
Net Income	262.39	361.50	461.74	509.26	605.15
Core Capital	964.56	1310.85	1683.59	2021.09	2377.73
Supplementary Capital	325.56	324.38	322.11	308.98	284.34
Total Capital Fund	1290.12	1635.23	2005.70	2330.07	2662.07
Total Risk Weighted Assets	10266.19	13702.37	17167.52	21471.66	22918.30
Total Operating Expenses	290.06	299.52	413.91	582.38	602.59
Total Operating Income	677.08	862.96	1114.82	1342.70	1538.32

Appendix 2
Data of Nepal Investment Bank Limited

RS IN MILLIONS

Descriptions	2006/07	2007/08	2008/09	2009/10	2010/11
Equity Capital	1878.12	2686.79	3907.84	4585.4	5159.76
Total Assets	27590.84	38873.31	53010.80	57305.41	58356.83
Net Interest Income	899.46	1202.12	1580.97	2099.67	2183.10
Net Income	501.40	696.73	900.62	1265.95	1176.64
Core Capital	1852.20	2658.91	3880.00	4554.09	5083.62
Supplementary Capital	999.42	1232.32	1215.39	1096.95	1241.01
Total Capital Fund	2851.62	3891.23	5095.39	5651.04	6324.63
Total Risk Weighted Assets	23435.63	34484.54	45132.27	53553.87	57993.93
Total Operating Expenses	518.52	636.29	752.46	806.50	1050.22
Total Operating Income	1246.03	1649.62	2063.31	2734.93	2833.59

Appendix 3
Data of Himalayan Bank Limited

					RS IN MILLIONS
Descriptions	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Equity Capital	2146.50	2512.99	3119.89	3439.21	3995.48
Total Assets	33519.14	36175.53	39320.32	42717.12	46736.20
Net Interest Income	1008.17	1139.90	1407.42	1595.07	1911.33
Net Income	491.82	635.87	752.83	508.80	893.12
Core Capital	1721.94	2104.60	3074.44	3414.64	3916.97
Supplementary Capital	520.90	330.77	770.77	803.72	794.27
Total Capital Fund	2242.84	2435.37	3845.21	4218.36	4711.24
Total Risk Weighted Assets	21889.71	25624.47	32628.85	39357.09	44124.52
Total Operating Expenses	704.47	694.97	828.10	1578.73	1571.53
Total Operating Income	1393.36	1597.50	1988.05	2157.96	2586.74

Appendix 4
Data of Everest Bank Limited

					RS IN MILLIONS
Descriptions	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Equity Capital	1201.52	1921.24	2203.62	2759.14	3113.55
Total Assets	21432.58	27149.34	36916.85	41382.76	4623.62
Net Interest Income	627.24	916.05	1173.94	1529.66	1795.15
Net Income	296.40	451.22	638.73	831.77	931.30
Core Capital	1171.13	1900.86	1981.58	2537.09	2927.17
Supplementary Capital	504.98	505.20	722.29	720.05	678.67
Total Capital Fund	1676.11	2406.06	2703.87	3257.14	3605.84
Total Risk Weighted Assets	14976.74	21039.88	25619.75	30240.43	34583.55
Total Operating Expenses	353.36	491.07	572.02	655.89	774.54
Total Operating Income	841.33	1209.90	1544.97	1927.98	2192.94

Appendix 5
Data of Nepal Bank Limited

					RS IN MILLIONS
Descriptions	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Equity Capital	-6008.30	-6247.52	-4854.32	-4604.93	-4387.51
Total Assets	39258.79	42053.44	47559.11	44736.65	48532.48
Net Interest Income	1075.97	1322.25	1898.35	2157.56	23864.92
Net Income	239.21	226.95	894.25	249.38	376.34
Core Capital	-6334.74	-6325.87	-5061.44	-48070.51	-46821.39
Supplementary Capital	905.43	710.53	-	579.55	542.28
Total Capital Fund	-5429.31	-5615.34	-5061.44	-4749.10	-46279.11
Total Risk Weighted Assets	19511.27	22957.43	36306.75	437026.25	49834.57
Total Operating Expenses	1581.48	1865.18	2271.89	3380.97	29674.96
Total Operating Income	1544.64	1828.81	2417.42	2758.99	31057.64