

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The development of any country depends upon economics development of the country and economic development is supported by financial infrastructure of the country. Bank plays vital role of economics growth of the country. Every well-organized financial institution including finance companies, commercial bank, joint venture banks and other financial institution plays signification role for the development of the country. They collect scattered financial resources from the public and invest them among those who are associated with the economic commercial and social activities of the country. It has been well established fact that the economics activities of any country can hardly be carried forward without the assistance and support of financial institution.

Banks constitute an imported segment of financial infrastructure of any country. When banking properly organized aids and facilities the growth of trade and industry and enhances national economy. In the liberal economy banks are considered as leaders of developments. Besides contribution in overall development of the country, the commercial banks render numerous services to their customer in view of facilitating their economic and social life.

Main objective of the joint venture is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry etc. that means they are required to mobilize their resources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country.

The word bank was originated from the Italian word ‘banco’ which means ‘bench’. In the earlier stage, bank was the place for keeping and lending money. But with the evolution of transaction and globalization, the meaning and function of bank is gradually changed.

Therefore, Bank is a financial institution that collects idle funds, mobilizing them into productive sector. This in return turns out to be an overall development of the country depending on the performance of the bank.

Bank, a financial institution, is playing a vital role in the economic development of the country. The functions of banks are not only accepting deposit and granting loans but also, including wide range of services to the different sector of society, to facilitate the growth of trade, commerce, industry and agriculture of the national economy. In the absence and insufficiency of banking and financial facilities, the growth of the economic development becomes slow. However, bank is a resource for the economic development, which maintains the self-confidence of various segments and advances credit to the people.

Therefore, bank is the financial institution that deals with the financial situation of the society. It accepts deposits and invests those deposits as loan for individuals, corporate, government and private organization to earn profit as interest. So, bank works as a lively body of the country which helps in economic and social development of a country. The function of bank is not only depositing and lending money but also remittance of money, providing letter of credit, bank guarantee etc. Bank has also developed credit money such as Visa card, Debit card, and Credit card etc. to facilitate the general public. ATM (Automatic Teller Machine) is the latest form of credit money issued by bank. So, bank can be considered as the backbone of overall economic development of a country.

Source: wikipedia.org/wiki/Nepal

1.2 Origin of Bank in Nepal

Like other countries, landlords, moneylenders, merchant, goldsmith etc are the ancient bankers of Nepal. Though establishment of banking industry was very recent, some bank

operations were in practice even in the ancient times. In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadhar, a Sudra merchant of Kantipur in 880 A.D. after having paid all the outstanding debt in the country. This shows the basic of money lending practice in ancient Nepal. The establishment of “Tejarath Adda” during the year 1877 A.D. was the first step in institutional development of banking sector in Nepal. Tejarath Adda did not collect deposit from public but granted loans to public against the collateral of gold and silver. Consequently the major parts of the country remain untouched from these limited banking activities. The development of trade with India and other countries increase the necessity of the institutional banker, which can act more widely to enhance the trade and commerce and touch the remote non-banking sector in the economy. Reviewing these situations, the “UdyogParishad” was constituted in 1936 A.D. One year after its formulation, it formulated the “Company Act” and “Nepal Bank Act” in 1937 A.D. Nepal Bank Limited was established under Nepal Bank Act in 1937 A.D. as a first commercial Bank of Nepal with 10 million authorized capital. Being a commercial bank, it was natural that Nepal Bank Limited paid more attention to profit generating business. But, it is the responsibility of the government to look into neglected sectors too.

Having felt need of development of banking sector and to help the government in formulating monetary policies, Nepal Rastra Bank was set up in 1956 A.D. [2013-01-14 B.S.] as a central bank under Nepal Rastra Bank Act 1956 A.D. [2012 B.S.]. Since then, it has been functioning as the government’s Bank and has contributed to the growth of financial sector.

Being the central bank, NRB had its own limitation and reluctance of NBL to go to the un-profitable sectors was not illogical. To cope with these difficulties, government set up Rastriya Banijya Bank in 1966 A.D. [2022-10-10 B.S.] as a fully government owned commercial bank. With the emergence of RBB, banking service spread to both urban and rural areas but customers failed to have taste of quality/competitive service because of excessive political and bureaucratic interference. For industrial development, Industrial Development Center was set up in 1956 A.D. [2013 B.S.] which was converted to Nepal

Industrial Development Corporation [NIDC] in 1959 A.D. [2016 B.S.]. Similarly, Agricultural Development Bank [ADB] was established in 1976 A.D. [2024 B.S.] with an objective to provide agricultural productivity could be enhanced through introduction of modern agricultural techniques.

After the restoration of democracy in Nepal, the government took liberal policy in banking sector. As an open policy of the NG's to get permission to invest in banking sector from private and foreign investor under commercial bank act 1974 A.D. [2013 B.S.], different private banks are getting permission to establish with the joint venture of other countries.

Source: nepalbankers.com

1.3 Meaning of Commercial Bank

Commercial banks are those financial institutions, which deal in accepting deposits of persons and institutions and in giving loans against securities. Moreover, these banks also provide technical and administrative assistance to industries. Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development. The main purpose of priority sector investment scheme is to uplift the backward sector of the economy.

Banking sector plays an important role in the economic development of the country. Commercial banks, in current year, present a new picture of innovation in practice of wider horizon and have new enterprises. The most remarkable diversification of banking function is the bank's increasing participation in medium and long term financing industries and other sector. So, they are not only financial institutions of finance, agriculture and industry, and other economic activities but are more than financial institution in the sense that they motivate saving, create deposit and make the subsequent distribution of such accumulated funds. Thus, commercial banks are the hearts of the financial system. It accepts deposits, grants loan, exchanges money and operates commercial transaction.

The major functions of commercial banks are:-

-) Receiving and handling deposits.
-) Handling payments for its clients.
-) Issue of Letter of Credit.
-) Making loans investments.
-) Operating safe deposits vaults.
-) Helps in foreign exchange.
-) Transfer of money from place to place.
-) Discounting of the bill.
-) Issue of Letter of Guarantee.
-) Hypothication loans investments.
-) Miscellaneous function.

1.4 Commercial Banks in Nepal

Commercial bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing the overall economic development. The concept of banking system was introduced in Nepal with the establishment of Nepal Bank Limited in 1937 A.D. The financial scenario has changed with the introduction of joint venture bank in 1984 A.D. The names, operation date, head offices of the commercial banks established and operated in Nepal are listed in the table as follows:

Table No. 1.1

List of Banks and Non-bank Financial Institutions

As of Dec 2013 (Licensed by NRB)

Class A: Commercial Banks

S.No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital (Rs. '000)
1	Nepal Bank Ltd.	1937/11/15	Kathmandu	37164443
2	Rastriya Banijya Bank Ltd.	1966/01/23	Kathmandu	8588972
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	9636800
4	Nabil Bank Ltd.	1984/07/16	Kathmandu	3046052

5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu	4144808
6	Standard Chartered Bank Nepal Ltd..	1987/01/30	Kathmandu	1853900
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu	2760000
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu	2355740
9	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu	2009400
10	Everest Bank Ltd.	1994/10/18	Kathmandu	1761130
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu	1684400
12	NIC Asia Bank Ltd.**	1996/10/14	Siddharthanagar, Rupandehi	2311600
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitawan	1601600
14	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski	2478790
15	Kumari Bank Ltd.	2001/04/03	Kathmandu	1603800
16	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa	1694080
17	Siddhartha Bank Ltd.	2002/12/24	Kathmandu	1619240
18	Global IME Bank Ltd*	2007/01/02	Birgunj, Parsa	2418140
19	Citizens Bank International Ltd.	2007/06/21	Kathmandu	2101840
20	Prime Commercial Bank Ltd	2007/09/24	Kathmandu	2342720
21	Sunrise Bank Ltd.	2007/10/12	Kathmandu	2015000
22	Grand Bank Ltd.	2008/05/25	Kamaladi, Kathmandu	2000000
24	NMB Bank Ltd.	2008/06/05	Babarmahal, Kathmandu	2000000
25	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu	2000000
26	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Kathmandu	2000000
27	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	2330000
28	Civil Bank Ltd.	2010/11/26	Kamaladi, Kathmandu	2000000
29	Century Commercial Bank Ltd.	2011/03/10	Putalisadak , Kathmandu	1080000
30	Sanima Bank	2004	Naxal, Kathmandu	2016000

*-Merger process of Global IME Bank & Commerz & Trust Bank ongoing

(Source: www.nrb.gov.org.)

1.5 Introduction of Concerned Bank

1.5.1 Nabil Bank Limited

The first joint venture bank, Nabil Bank Ltd, was established with technical service agreement in the country in 1984 under the management of Dubai bank Ltd., United Arab Emirates. Its ownership structure consists of 50% share from Dubai bank Ltd., 20% share from financial institutions of Nepal and rest 30% share from the general public. Its initial paid up capital was Rs 30 million pursuing its objective; Nepal provides a full range of commercial banking services through its 48 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Today Nabil stands in a position to claim that it is the 'Bank of first choice' to all its stakeholders. The Bank provides a complete range of consumer, retail, SME and corporate banking services through its offices spread across the country. On the technological front, the Bank has earned a reputation in providing an array of card products and internet Telebanking facilities besides ATMs and Any Branch Banking Service. The Banker, the publication of the Financial Times-London, has honored the Nabil Bank as '**Bank of the year 2004**' and it is the matter of prestige to be leading bank of the country.

Source: <http://nabilbank.com/>

1.5.2 Everest Bank Limited

Everest Bank Limited was registered on November 17, 1992 and came into operation on October 18, 1994 with joint venture of Punjab national bank of India .this bank is established with 50% of the shares are owned by the local promoters 20% by joint venture partner Punjab national bank India and 30% of the shares are owned by general public. It has Rs 2000 million authorized capital Rs. 1391.64 million of issued capital and Rs 1391.64 million of paid up capital .it has objective of extending professionalized and efficient banking services to various segments of the society. Today the bank has grown to become one of the leading banks in Nepal. We at EBL believe that the long term development of an organization

depends on how we build trust among our stakeholders. Our values are focused on the ethics at work place and outside. Thus we need to be as transparent as possible through proper corporate governance. We have built a code of conduct where by all employees working, needs to follow it stringently. The Bank has been honored with '**Bank of the year 2006, Nepal**' by Financial Times. The bank was bestowed with the NII excellence awarded twice in 1999 and 2003 by Nepal India chamber of commerce for its spectacular performance under finance sector.

The main vision of the Bank is to evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial & related services, Integrating frontiers of technology & servicing various segments of society, Committed to excellence in serving the public & also excelling in corporate values.

The main mission of the Bank is to provide excellent professional services & improve its position as a leader in the field of financial related services, Build & maintain a team of motivated & committed workforce with high work ethos, Use latest technology aimed at customer satisfaction & act as an effective catalyst for socioeconomic development.

Source: <http://everestbankltd.com/>

1.5.3 Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint venture operation. Today the bank is an integral part of standard chartered group having an ownership of 75% in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal.

Standard chartered has a history of over 150 years in banking and operated in many of the world's fastest-growing markets with an extensive global network of over 1750 branches (including subsidiaries, associates and joint venture) in over 70 countries in the Asia pacific region, south Asia the middle east Africa the united kingdom and the Americas.

As one of the world's most international banks, Standard Chartered employs almost 75000 people, representing over 115 nationalities worldwide. This diversity lies at the heart of the bank's values and supports the bank's growth as the world increasingly becomes one market.

The Bank has been the pioneer in introducing 'Customer Focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first bank in Nepal that has implemented the Anti-money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts.

The Bank has also been honored with some awards. Some of them are: November 2009 – **"Bank of the year 2009 Nepal"** and **"Bank of the year 2012 Nepal"** by 'The Banker' of the financial Times, in March 2006 – **'Best Commercial Bank 2004-05'**- awarded by The Boss Magazine- Specialty Media Private Limited.

Source: <https://www.sc.com/np/en/>

1.6 Statement of the Problem

NABIL, EBL and **SCBNL** banks are the reputed joint venture commercial banks in the country. These banks are providing full fledged banking service to their customer. But in this present competitive market, there are growing several banks prevailing in the country. From 2010AD, Nepal Rastra Bank has provided permission to access the international bank in the country and Nepalese Commercial Banks would be competed with international banks. Therefore, their sustainability for long span is questionable in the market. What types of banking products and services International Banks will offer to the customers and that products and services can provide to its customers by Nepalese commercial banks at the same cost of International Banks? If Nepalese banks are not able to provide the best banking services to their valued customers, then their existence in the market would be questionable. These banks are also facing problem of excessive market competition with other commercial banks. So, now they must be well prepared and have to strengthen competency to achieve productive output by financially strengthen and optimum utilization of resources. The

management must focus on implementation of effective and appropriate action plan, strategies and control mechanism.

Financial institutions play a major role in the proper functioning of an economy. These institutions act as an intermediary between the individuals who lend and who borrow. These institutions make the flow of investment easier. It pools the funds scattered in the economy and mobilize them to the productive sector. However, these institutions inherent a large amount of risk, which cannot be, denied either. If a bank behaves irresponsibility, the costs borne by the economy are enormous. A large amount of depositors' money is at stake. And the banks and financial institutions are competing among themselves to advance credit to limited opportunity sectors. Due to unhealthy competition among the banks, the recovery of the bank credit is going towards negative trends. Non-performing credits of the banks are increasing year by year. To control such type of state, the regulatory body of the banks and financial institutions NRB has renewed directives of the credit loss provision.

Therefore, this study had attempted to find out the answer of the questions such as:

1. Are these selected joint venture commercial banks maintaining adequate capital as directed by NRB or not?
2. To what extent these banks have been able to decline their non-performing loans?
3. How much provisions have been maintained by these banks to cover their non-performing loans?
4. How well are these banks managing its functions and activities to compete with International Banks in future?
5. Are the earning of these banks increasing?
6. What is the liquidity position of these banks?
7. Whether the depositors are positive towards these banks or not?
8. Products and services provided by these banks are satisfactory or not?

1.7 Objectives of the Study

In the present situation, there are so many banks and so many branches of every bank in a developing country like Nepal. Therefore, the competition is very tough between these banks. Hence, the main objective of the study is to find out individual and comparative financial position of three selected joint venture commercial banks (i.e. Nabil Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited).

The objectives of the study are:

1. To study the CAMEL analysis of selected banks.
2. To compare the financial performance of these three banks.
3. To suggest and recommend the major findings.

1.8 Importance of the Study

Importance of this study is financial performance analysis will help the management and owners of the selected banks. They will be able to analyze their strong and weak points. They can also speculate as to how to improve their position by some suggestions and recommendations provided in the report. Similarly, they will be able to trace the difference in their performances from their immediate competitors. Likewise, shareholders of the banks can also gain by the report. They are concerned with the banks' present and future profitability. They are interested in the banks' financial position to the extent it influences the banks' earning. They would like to make an analysis of the financial position to know how safe they are. Debenture holders will also be interested, up to the extent of the interest paying capability of the bank. Employees of the banks can gain from this report by knowing about profits, since it affects the bonuses and other incentives and they can evaluate if they are being treated approximately in the payment matters as compared to other banks. Depositors and customers as well as public can also benefit from it by having a choice between the three banks for their banking transactions.

1.9 Limitations of the Study

The limitations of the study are pointed out as follows:

1. The research is for the partial fulfillment of the requirement of the Master Degree of Business Studies, thus it may have limitations in terms of complete information needed to meet the research objectives fully.
2. Some of the information of the banks were confidential and thus could not be included in the report.
3. Study has considered only three banks namely Nabil Bank Limited, Everest Bank Limited and Standard Chartered Bank Nepal Limited.
4. Accuracy depends upon the data provided by the organization where the degree of faithfulness depends upon concerned authority.
5. Report is based on annual report published by the concerned banks.
6. Only few statistical methodologies are considering for computation and analysis of the data.
7. Unnecessary delay in getting appropriate information and data.

1.10 Organization of the Study

The study has been organized to five different chapters. They are briefly mentioned here:

Chapter-1 Introduction

This introduction chapter contains the background of the study, introduction of concerned banks, statement of the problem, objectives of the study, Importance of the study, Limitations of the study.

Chapter-2 Review of Literature

This chapter includes conceptual review, introduction of banks under review, their products and services offered in the market and review of related studies.

Chapter-3 Research Methodology

This chapter deals with research methodology used to evaluate the financial performance of banks under review. It includes research design, source of data, data collection procedure/method, population and sample, mathematical tools and financial ratio analysis.

Chapter-4 Data Presentation and Analysis

This chapter deals with presentation and analysis of data, this consists of financial and statistical tools. Financial tools consist of ratio analysis, which involves liquidity ratio, profitability ratio, asset management ratio and others. Statistical tools consist of trend analysis.

Chapter-5 Summary, Conclusion and Recommendations

This chapter covers summary, conclusion and recommendations and provides some valuable suggestions to the selected banks.

Bibliography

Appendix

Supporting reports of concerned banks

CHAPTER - II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature, relevant to the history of the commercial banks. Every study is very much based on the past knowledge. The past knowledge or previous studies can not be ignored as it provides foundation to the present study. Therefore, this chapter has its own importance in this study. This chapter is divided into the following parts:

2.1 Conceptual Review

Introduction to Bank:

Bank simply refers to an institution which deals with money by accepting various types of deposits, disbursing loan and rendering other financial services. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of the modern society.

As per banking regulation act of India- “Banking means the accepting for the purpose of lending or investment of deposits of money from the public repayable on demand or otherwise, and withdraw able by cheque, draft or otherwise.”

As per U.S. Law- “Any institution offering deposits subject to withdrawal on demand and making loans a commercial or business nature is a bank.”

Commercial Bank Act 2031 B.S. defined- “A commercial bank is one which exchange money, deposits money, accepts deposits, grants loans and performs. A commercial banking function which is not a bank meant for co-operatives, agriculture, industries or for such specific purpose.” But , recently, the Bank and Financial Institutions ordinance, 2060 has merged the five banking acts including the Commercial Bank Act, 2031 which defines the bank with respect to their transactions. This Act is trying to categorize the banking

institutions in two ways based on their transactions. According to this Act, “Bank is the institution which performs its transactions under the section 47 of this Act.”

Source: nrb.org.np

2.2 Nature and Importance of Banks

Banks are the principal source of credit to household: individuals and family, business: all forms and local unit of government. Furthermore, they are the source of financial information, planning and concealing as well.

Banks deal with money by accepting various types of deposits, disbursing loans and investing in productive sectors and rendering other financial services as the primary function. Banks are channels between surplus and deficit and thus, they are the bridge of unutilized scattered fund to productive sectors.

Commercial banks play an important role for economic development of a country as they provide capital for the development of industry, trade and business by investing the saving collected as deposits from public. They render various services to their customers facilitating their economic and their social life.

2.3 History and Evolution of Banking

Bank of Venice, set up in 1157 in Venice, Italy is considered to be the first modern bank. Subsequently other banks such as Bank of Barcelona and Bank of Genoa was established. Similarly, Bank of Hindustan is considered as the first bank in India.

In context of Nepal, jeweler, merchants, moneylenders were the ancient bankers of Nepal. However, in 1877 A.D., TejarathAdda was established during the Tenure of P.M. Ranoddip Singh. It was the first step towards the institutional development of banking in Nepal. It didn't collect deposits from the public but gave loans to employees and public against bullions.

However, the trend of modern banking started in Nepal in B.S. 1994 with the inception of Nepal Bank Limited. It had the Herculean responsibility of attracting people toward banking sector from pre- dominant money lenders net and of expanding banking services. Nepal Bank Limited was addressed by the Nepal Bank Limited Act. Nepal Rastra Bank was set up in B.S. 2013 as a Central Bank under Nepal Rastra Bank Act 2012 B.S. (now under NRB act 2058). The main function of NRB is to ensure a robust health of financial institution. Similarly, RastriyaBanijya Bank was established in B.S. 2022, as a fully government owned commercial bank to cope with the difficulties of NRB and NBL.

Despite all the efforts of the government, financial sector was found sluggish. However, the inception of Nepal Arab Bank Limited in 1984 A.D. as a first joint venture bank proved to be a milestone in the history of banking. Nabil Bank gave a new ray of hope to the sluggish financial sector. Nabil launched its operation with the concept of ‘Customer is the King’. The same marketing concept of Nabil forced the bank in operation to be more customers oriented and led the influx of commercial banks. Having observed the success of Nabil Bank based on the marketing concept and also because of liberal policies adopted by the governments, other commercial banks came in to existence.

In Nepal, though it’s been a long time since commercial banks have established, they are not being able to grow to a satisfactory level. The evolution and development of banking industry is relatively slower in Nepal as compared to other nations. Thus, we can say that modern banking practices began only before the Second World War with the establishment of the first banking institute, Nepal Bank Limited, which was establishment as a joint venture of government and private individuals.

Source: <http://www.investopedia.com/>

<http://wikipedia.org/>

2.4 Introduction of Banks under Review

A. Nabil Bank Limited

Nabil Bank, the first foreign joint venture bank set up in the nation with an objective to introduce modern banking services, commenced its operation on 12th July 1984 with Rs.28 million capitals and around 50 staff. Dubai Bank Limited, Dubai was the foreign joint venture partner which extended Nabil a technical service agreement in the initial period. Nepal Arab Bank Limited was used to be the name of Nabil Bank till December 31, 2001. Currently it is widely recognized as NABIL Bank since January 1, 2002. The Bank, through its quality customer service and innovative products, has today attained a distinguished recognition in the banking industry of Nepal. The promoters of the bank have owned 70% shares and remaining 30% share is owned by general public. It has total 650 permanent employees. Nabil has 48-branch network and a counter in all major cities. The corporate banking body, which is also the head office of this very prestigious bank, is in Kamaladi, Kathmandu. It has 78-ATMs.

Today Nabil stands in a position to claim that it is the 'Bank of first choice' to all its stakeholders. The Bank provides a complete range of consumer, retail, SME and corporate banking services through its offices spread across the country. On the technological front, the Bank has earned a reputation in providing an array of card products and internet Telebanking facilities besides ATMs and Any Branch Banking Service. The Banker, the publication of the Financial Times-London, has honored the Nabil Bank as '**Bank of the year 2004**' and it is the matter of prestige to be leading bank of the country.

Source: nabilbank.com

B. Everest Bank Limited

Everest Bank Limited was registered on November 17, 1992 and came into operation on October 18, 1994 with an objective of extending professionalized and efficient banking services to various segments of the society. The bank had an initial paid up capital of Rs.30

million. Today the bank has grown to become one of the leading banks in Nepal It has total 625 employees,48 branches,22 extention counters, 61 ATMs.

Punjab National Bank (PNB) joined hands with EBL, as a joint venture in 1997 and turned it around to a highly profitable bank. There has been no looking back since then. PNB provides top management support under the Technical Service Agreement. Punjab National Bank (PNB) is one of the largest nationalized banks in India having 114 years of banking history, holds 20% equity. 50% share is owned by Nepalese promoters and 30% share is owned by general public. The Bank has been honored with '**Bank of the year 2006, Nepal**' by Financial Times.

The main vision of the Bank is to evolve and position the bank as a progressive, cost effective and customer friendly institution providing comprehensive financial and related services, Integrating frontiers of technology and servicing various segments of society, committed to excellence in serving the public and also excelling in corporate values.

The main mission of the Bank is to provide excellent professional services and improve its position as a leader in the field of financial related services, build and maintain a team of motivated and committed workforce with high work ethos, use latest technology aimed at customer satisfaction and act as an effective catalyst for socioeconomic development.

Source: everestbankltd.com

C. Standard Chartered Bank Nepal Limited

Standard Chartered Bank Nepal Limited has been in operation in Nepal since 1987 when it was initially registered as a joint venture operation. It was established as a joint venture with Grindlays Bank of London in the year 1987 under commercial bank act 2031 B. S. The bank had changed its name from Grindlays Bank to Standard Chartered Bank Nepal Ltd. in July 2001. Today the bank is an integral part of Standard Chartered Group having an ownership of 75% in the company with 25% shares owned by the Nepalese public The Bank enjoys the status of the largest international bank currently operating in Nepal. Standard Chartered Bank Nepal Ltd. has its Head office at Naya Baneshwor, Kathmandu and strong network of

branches which provides a wide range of innovative products and services to Nepalese customers. With 19 points of representation, 23 ATMs across the country and with more than 425 local staff, Standard Chartered Bank Nepal Limited is in a position to serve its customer through an extensive domestic network. In addition, the global network of Standard Chartered Group gives the bank a unique opportunity to provide truly international banking services in Nepal.

The Bank has been the pioneer in introducing 'Customer Focused' products and services in the country and aspires to continue to be a leader in introducing new products in delivering superior services. It is the first bank in Nepal that has implemented the Anti-money Laundering policy and applied the 'Know Your Customer' procedure on all the customer accounts. The Bank has also been honored with some awards. Some of them are: "**Bank of the year 2009 Nepal**", "**Bank of the year 2012 Nepal**" by 'The Banker' of the Financial Times, in March 2006 –'**Best Commercial Bank 2004-05**'- awarded by The Boss Magazine- Specialty Media Private Limited.

Source: /www.sc.com/np/en/

2.5 CAMEL

Origin and Development of CAMEL Rating System

Federal regulator in the US developed the numerical CAMEL rating system in the early 1970's to help structure their bank examination process. It is an international bank-rating system where bank supervisory authorities rate institutions according to five factors. When examiner evaluate banks health, they develop an overall rating based on Capital adequacy, Assets Quality, Management Efficiency, Earning Ability and Liquidity Position. This rating is based on financial statements of the bank and on-site examination by regulators. These ratings are not released to the public but only to the top management of the banking company. The scale is from 1 to 5 with 1 being strongest and 5 being weakest. Bank supervisory authorities assign each bank a score on a scale of one (best) to five (worst) for each factor. If a bank has an average score less than two it is considered to be a high-quality

institution, while banks with scores greater than three are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

Since 1970's the use of CAMEL factors has become wide spread, due to its application by regulators around the globe and also because of its simplicity. The CAMEL rating system is formed as:

C = Capital Adequacy
A = Assets Quality
M = Management Efficiency
E = Earning Ability
L = Liquidity Position

Source: answers.com

2.5.1 Capital Adequacy

The inception of every business starts with the requirement of fund commonly known as capital. Generally the capital structure consists of equity and debt mix. Equity refers to the fund contributed by the promoters/shareholders whereas debt is temporary way of raising funds without further dilution of ownership. This is mainly done by issuing bonds and debentures of various maturities. To ensure adequate capital in the banking system, NRB has prescribed the Capital Adequacy Ratio parameters on which the capital of the need to be maintained as a percentage of its risk weighted assets such as loans it has provided and the securities it holds. It measures the ratio of total shareholder's fund to total risk weighted assets of the bank. Thus this parameter indicates whether a particular bank has enough capital to absorb unexpected losses. As per the NRB instruction commercial banks had to maintain 11% of capital Adequacy Ratio (total Capital), and 5.5% Core Capital in BASEL I in the FY 2006/07 and 2007/08. In BASEL II from the FY 2008/09, NRB requires 10% of Total Capital Adequacy Ratio and 5% of Core Capital Ratio. These ratios have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum percentage then it is considered as that the

interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share.

The main source of bank capital is equity capital of bank and the borrowed capital of bank.

The capital of a bank comprise of the amount raised from the following source:

-) Ordinary share
-) Preference share
-) Bonus share
-) Retained Earning
-) Reserve Fund
-) Undistributed Dividend

Capital collected from other source rather than equity is borrowed capital of bank. Under this title the source can be:

-) Sale of Debenture
-) All type of Deposit
-) Loan from Central Bank
-) Loan from Financial Institution
-) Loan from the Commercial bank
-) Loan from the Central Office and Branch Office

Source: NRB publications

2.5.2 Assets Quality

Assets are the most vital factors in determining the strength of the bank. Assets quality means the capacity of assets to create income as well as the re-cover ability of the principal amount. The major asset for the bank is loan and advances. This is the most risky assets item that needs crucial assessment. Banks collect fund in the form of capital, deposits, borrowing etc. It mobilizes these funds to generate certain returns by giving loans and advances to the users of money to invest in various alternatives. Bank gives loan and

advances in high volume from which higher interest is generated as well as there is high risk. A significant part of the banks income is generated from the lending activities. Basically there are two types of loans:

1. Performing Loan

Performing loan is the loan on which the interest is paid timely or overdue up to 90 days. It is also known as good loan or pass loan.

2. Non-Performing Loan

The loan which goes beyond the due date of 3 month falls under NPL. There are three types of Non Performing Loan

Ñ Sub-standard NPL: - Loans overdue by more than 3 months up to 6 months.

Ñ Doubtful NPL: - Loans overdue by more than 6 months up to 1 year.

Ñ Bad Loan: - Loans overdue by more than 1 year.

Table No. 2.1

Loan Classification and Provision as per NRB directives

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

Source: NRB directives, 2013

2.5.3 Management

Management is the pillar of an organization and is responsible for organizational growth and success. To meet the unlimited needs from limited resources, management is very essential. It has been said that an effective management can make the organization whereas an ineffective management can break. It is a set of activities like planning, organizing, leading, staffing, directing, communicating, motivating and controlling. Over the years, the Nepali financial sector has evolved strongly with robust management discipline. At the same time, we also have enough cases where due to poor management, banks have performed poorly. Human resource management is one of the key management issues; good or bad human resource management translates into efficient or inefficient staff performance.

We can safely conclude that management of these banks who have been able to increase their net profit in a constant and sustainable manner over a period are considered as efficient and successful. Where management of the bank who has not able to grow their earning in a sustainable manner can be considered as inefficient

The efficient functioning of management is a crucial part in the success of the organization. In fact, the management is essential to make suitable policy and business plans and implements them for the short term and the long term interests, which helps to achieve aimed objectives of bank and financial institutions. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and the officials, operating expenditure, customers relation with the officials and the institution, management information system, organization and working method, internal control system, power concentration, monitoring, decision making process, policies, etc. An institution can take a desired momentum only when the management is capable of projecting strong and long term vision.

In CAMEL analysis Management Efficiency Ratio is calculated in order to find out the contribution of each staff on the net profit of the organization. Management efficiency ratio measures the management quality and efficiency of per staff contribution to the earning of the organization.

Qualities for efficient and effective management, the bank should have:-

-) Proper structure of the management
-) Qualitative human resource management
-) Customer care department
-) Use of modern information technology
-) Adequate management of loan and advances
-) Fair decision making
-) Proper communication system
-) Working atmosphere and management

2.5.4 Earnings

In simple sense earning can be understood as profit. Profit is earned by the banks largely through financing activities, in the form of loans and advances to the customers, placements in other banks, investment in government securities etc. Revenue is earned through non-exposure functions by way of commissions and fees, but its contribution in the overall profit remains in the lowest side. Hence, banks earn major portion of their income through funding money, which it acquires through various means such as collecting deposits in various accounts, by issuing shares, debentures etc.

Without earning there is no possibility of survival of any organization. While talking about commercial banks we know that they are profit seekers and importance of earning for any commercial bank cannot be undermined. Earning shows the operation efficiency of any organization. Good earning builds the confidence of its stakeholders like creditors, depositors, shareholders, management, public etc.

Thus, it can be said that an analysis of earning helps the management, shareholders and depositors to know about the performance of the bank, sustainability of earnings, and to forecast the growth of the bank. The success of a bank relies heavily upon the efficiency of the management to drive it towards earning good profits.

2.5.5 Liquidity

Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. In other organizations too, liquidity is required for various purposes. Inadequate liquidity does damage credit-standing of those organizations but if banks fail to repay the deposits on demand, the bank loses the trust of the public. This leads to "runs" in the bank and probably bankruptcy thereof.

The biggest trust a bank has earned in the society is that the people put their money in the bank without obtaining security. In other words, the people are confident that the bank keeps their money safely and repays on demand or on agreed date, together with interest where applicable. In order to strengthen the public confidence, banks maintain liquidity- bank's ability to pay cash in exchange of deposits. This is why the people treat bank deposit as good as cash and show bank deposit in the first line of assets as "cash and bank balance". The moment people feel that the bank is not safe or the bank cannot repay money on demand, there will be "runs" in the bank. This may lead to the closure of any bank because the proportion of liquidity of any bank payable on demand is normally so high that it cannot be compared with any other organizations.

2.6 Review of Strategies

Growth strategy: Growth refers to an increase in some quantity over time. The quantity can be physical or abstract. It can also refer to mode of growth i.e. models for describing how much a particular quantity grows over time. For commercial banks growth can be: profitability growth, growth in balance sheet and profit and loss account growth, growth in branches, diversification or increase in number of products offered, so on.

Risk Management strategy: Risk management is a structured approach to manage uncertainty through risk assessment, developing strategies, to manage it, and mitigation of risk using managerial resources. The strategies include transferring the risk to another party,

avoiding the risk, reducing the negative effect of risk, and accepting some or all of the consequences of a particular risk.

Objective of risk management is to reduce different risks related to a pre selected domain to the level accepted by society. It may refer to numerous types of threats caused by environment, technology, humans, organizations and politics.

2.6.1 Types of Risks in Commercial Banking

The globalization has tremendous effects in the financial sectors because of extensive communication and awareness among public and business communities including commercial banks. Lot of innovation, new technologies, new products and services, new business models and different styles of business are immediately known to several parts of the world no matter from where it is originated. Hence not only customers want to have enhanced service and new products but also commercial banks are proactive to provide new services and products to its customers to stay competitive in business as well as wanted to become industry leader. Even in the developing countries like Nepal, banks are providing very good services with the help of various financial instruments by adopting latest innovations and technologies.

Systematic Risk: Systematic risk arises due to change in values of assets because of market dynamics and hence cannot be diversified completely by investing across the wide variety of assets, and is called non-diversifiable risk.

No. of external factors such as political turmoil, economic downturn, breakthrough in technology and so on are outside the banking sector, which may or may not cause problem for banking business. In this sense, the systematic risk is variability of individual assets return caused by economic-wide shocks rather than idiosyncratic or asset specific shocks.

Credit Risk: Risk of default by the borrower for meeting their commitment with the bank can be termed as credit risk, which affect severely into bank's profitability because of

various reasons such as deteriorating quality of assets, risk of nonpayment of loan, risk of payment for higher interest rate on deposits and risk of deterioration of banks image.

Credit risk for commercial banks may arise due to various reasons such as external and internal elements related to borrowers and improper regulation from concerned authorities, lack of transparency among banking sectors, lack of credit relating agency, inadequate mechanism of sharing of credit information among financial institutions etc. Diversification is the major tool for controlling or managing unsystematic credit risk that has been exemplified in the study of bank mergers.

Counterparty Risk: The counterparty arises due to non performance of a trading partner. The non performance may arise due to various reasons such as refusal for counterparty to perform as per the agreement because of adverse price movement caused by systematic factors, or from some principles. Diversification is one major instrument that minimizes non systematic counterparty risk.

Operational Risk: The risk associated with the problem of accurately processing the activities, setting, organizing and taking and delivery on trades in exchange for cash is known as operational risk.

Legal Risk: Legal risk is prevalent in financing contracting and is separate from the legal consequences of credit, counterparty and operational risk. There may be situation when the process and procedure followed and performed earlier may be into contention due to change in legal legislation, court opinions and new regulations.

Liquidity Risk: The liquidity risk is considered as major risk in commercial banks. A common meaning of liquidity risk is the assets liability mismatch, meaning short term assets (liquid assets) values are not sufficient to match short term liabilities or unexpected outflow of funds. It also means inability to raise fund or deposit at normal costs or at going market rate. In extreme case, it also means difficulty in raising funds. If a bank doesn't fulfill its

obligation, then bank's image will be at stake and consequently bank will be in serious trouble and there is possibility of banks run.

2.7 Review of Related Studies

2.7.1 Review of Journals/Articles

Under this heading, some related articles published in economic journals, magazines and newspaper has been examined and reviewed.

Kamal Subedi in "Growth in major commercial Banks" has compared between the first six month of fiscal year 2002/03 & 2003/04 which shows that there has been noticeable increase in credit outflow by commercial banks except of Nepal bank limited and RastriyaBanijya Bank. There has been increase in C/D ratio of all commercial banks except Nepal bank Ltd. and Rastriya Banijya Bank. It may be because their concentration was only one recovery of huge non-performing assets. (New Business Age, 2004: 47-48)

In an article published in the boss by KFA, titled "Banking at Boiling point", has analyzed loans position of commercial banks from 2002/03 to 2005/06. It shows that in period of three years of the study, total loans and advances of commercial banks has increased by 46%. Even though this period was hit by political uncertainty, conflict and unrest in the country, the overall banking sector has been able to increase its assets by significant percentage. (The Boss, 2006:78).

There has been substantial growth in the number of joint ventuer banks in Nepal since 1990s. The basic reason behind this is the government's deliberate policy of allowing foreign joint venture bank to operate in Nepal. Government's liberalization policy also encourage the traditionally run domestic commercial banks to enhance their efficiency and computerization and prompt customer services by setting them to the exposure of the joint venture banks. (Shrestha M.K., 1990:16)

According to Ex-President of Nepal Banker's Association Radhesh Pant "After 2010, there will be new international entrants in the market. We must remain very competitive. We have

to operate at international standard. However, I don't think we need to fear. I believe there are seventeen commercial banks, but all of their capital combined would not even equal to the capital of a small bank in developed countries. If somehow, Nepal is able to capitalize on the growth of China and India, there is no truing bank for the banking sector. There will be opportunities for all types of banks. So, we need to work together to address the challenges of the WTO".(Pant, Radhesh, Ex-President of Nepal Bankers Association)

Overview of the Nepali Financial Sector: During the last two and a half decades, the Nepali financial system has grown significantly. The banking environment has gone through a sea change. At the beginning of 1980, there were only two commercial banks and two development banks. After the adoption of the economic liberalization policy, particularly financial sector liberalization, new banks and non-banking financial institutions came into existence. Consequently, by the end of mid-july 2008, altogether 235 banks and non-banking financial institutions licensed by the NRB were in operation, constituting 25 "A" class commercial banks, 58 "B" class development banks, 78 "C" class financial companies, 12 "D" class micro-credit development banks, 16 saving and credit cooperatives and 46 NGOs. Furthermore, seven development banks and 12 finance companies are in the pipeline. But all these financial institutions are fighting a very unhealthy price war as a result of the 'pie' not growing due to the structural problems that existed for a long time in a conflict-driven economy. It is said that the banking sector mirrors the larger economy and has a direct relationship with all the other sectors which makes it a substitute to understand the dynamics of the economy as a whole. Indeed, the Nepali banking sector today is at a boiling point. Having said that, the fact that all commercial banks are making profits is not a myth. Despite the country struggling to prosper and the industrial sector not doing well, banks show large profits. Thanks to the strict norms prescribed by the regulators there is transparency in the banks. (The boss, 15 June – 14 July, 2009).

2.7.2 Review of Previous Thesis

Various research works have been done by the students of MBS in aspects of joint venture commercial banks. Some reviewed previous thesis is as follows;

Chand (2007) had conducted a research entitled “Financial Performance Analysis (CAMEL – Test) of selected commercial banks NABIL, NIBL and SCBNL”. With the objective of analysis capital adequacy requirement, assets quality, management quality, earning capacity, liquidity position of these banks concludes the findings such as;

-) CAR percentage of all selected banks found higher than NRB requirement except NIBL’s for the year 2003. In overall study SCBNL ranked in first position and NABIL in 2nd position.
-) In analysis of assets quality, the study found out that NABIL lies in first position with 1.32% NPL where as SCBNL lies in second with 2.68% and NIBL in third position.
-) In the analysis of earning components like EPS, MPS, P/E ratio and profit after tax, the study found out that SCBNL score highest position for the components EPS, MPS and profit after tax . Similarly NIBL score first position for P/R Ratio.
-) In analysis of liquidity, the study found out that CRR% of NIBL is found in lead position through out studies years while NABL and SCBNL are found inconsistent to maintain CRR.

Devkota(2006) had conducted a research entitled “Comparative SWOT Analysis of Nepalese Commercial Joint venture Banks with reference to SCBNL, NABIL and HBL”, with objective to evaluate the comparative financial strengths and weaknesses of these banks concludes the finding such as;

-) The investment of all these JVBs is found to be more or less volatile.
-) HBL has been seen to adopt the aggressive lending policy during the period.
-) Financial indicators like EPS, DPS and Book value per share of SCBNL is found in the better position as compared to that of NABI and HBL.

With the analysis and evaluation of various statistical tools, he recommended these JVBs to assess the risk, assess portfolio cautiously before accepting higher volume of deposits. Moreover, he also suggested NABIL and HBL to evaluate the financial position of their borrowers in a more proficient way thereby, identifying possibilities of risks prior granting the loan.

Shakya(2008) had conducted a research entitled “CAMEL Study on Financial Performance of Commercial Banks in Nepal with reference to SCBNL, NABIL and NIBL”, with objective to evaluate and analyze the financial performance of these banks on the basis of CAMEL concludes the findings such as;

-) From study CAR ratio of all three selected banks are found to be higher than that of NRB’s standard. Among three banks SCBNL has the highest CAR of 15.25%. The conclusion is that all the selected banks are able to give their depositors safe feeling that their deposited amount is safe. And SCBNL’s depositors feel safer than of other two banks NABIL and EBL.
-) From the study NPL of all three banks are found to be least and are decreasing. The conclusion is that all three selected banks are effective and efficient in utilizing their assets and are success in decreasing their NPL ratio satisfactorily.
-) From study management efficiency ratio of SCBNL is highest among other two banks NABIL and NIBL. Conclusion is that SCBNL has good management quality than other two banks under study.
-) Earning per share of all the selected banks seem to be decreasing, it is sign that earning capacity of selected banks are in decreasing trend. And SCBNL has highest earning capacity than other two banks.

) From the study all three selected banks are found to have higher CRR than that of NRB's standard and SCBNL and NIBL have their CRR above the NRB's standard where as NABIL fails to meet NRB's regulation in year 2004/05 and 2005/06.

On the basis of above conclusion the following suggestions and recommendation are given by him to improve the performance of selected banks.

) SCBNL should invest its resources in productive sectors as its CAR is higher than requirement and it should perform its activities efficiently to increase EPS.

) NABIL must maintain its CRR as per NRB directive.

) NIBL should utilize its assets in productive sector and improve its credit management to minimize its non performing loan. It should maximize it's per employee contribution on profit.

Baniya(2009) had conducted a research entitled "CAMEL Analysis of Kumari bank limited, Machhapuchchhre Bank limited and Siddhartha Bank Limited" with objective to evaluate the financial performances and financial analysis of selected commercial banks through CAMEL. He has concluded that all the selected banks are performing well under the NRB regulations despite of having unstable political situation of the country. After going through the overall study and findings plus the financial reports, he found that all the three banks are well- managed with good capital structure and sound performance. The banks do have an encouraging financial trend of the fiscal year generating profit, providing dividends to shareholders and incentive bonus to the staffs.

Mandal(1998) had conducted a research entitled "Comparative Financial Performance Appraisal of Joint Venture Banks", has studied mainly three banks i. e. NABIL, SCBNL and NIBL. His main finding is that both SCBNL and NABIL have mobilized the debt funds in proper way for generating more return but NIBL couldn't do as good as NABIL and SCBNL. HE has recommended enhancing banking facilities in rural areas by encouraging small

entrepreneurs' development programmers, to play merchant banking role, to mobilize the deposit funds in productive sectors and to grant more priority to the local manpower.

Neupane (2010) has conducted a research entitled "A Study on Financial Performance Analysis of Joint Venture Banks of Nepal" with the objective of analysis of financial performance of joint venture banks of Nepal concludes the findings such as:

-) EBL failed to maintain cash reserve ratio as per the directives of NRB.
-) EBL and HBL have been getting lower net profit in comparison to all the banks. EBL comparatively fails to maintain operating ratio on total assets whereas SCBNL did best. HBL and EBL have been suffering from ineffectively using the total fund. So, they are getting lower return than SCBNL and NABIL. All top four joint venture banks have been earning sufficient interest income on loan and advances. It means they have been high utilizing the loan and advances.
-) Except SCBNL, all remaining bank have been maintaining lower capital adequacy ratio as per the directive of central bank.

On the basis of above conclusion the following suggestions and recommendations are given by her to improve the performance of selected banks.

-) To meet short-term obligations, it is strongly recommended to EBL to maintain CRR as per the directives of central bank.
-) Except SCBNL, it is strongly recommended to all banks to maintain capital adequacy ratio as per the directives of central bank.
-) It is recommended to HBL and EBL to effective utilization of total fund (assets) so as to make more profitability, interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.

Thapa (2012) has conducted a research entitled "Credit Risk Management in Nepalese Joint Venture Banks" with the objective of credit management position of joint venture banks of Nepal concludes the findings such as:

-) Average CRR of NABIL, SCBNL and NSBL are near NRB directives and CRR of NIBL and EBL are higher than NRB directives.

-) SCBNL has higher debt equity mean ratio and NSBL has lower mean ratio among sample banks.
-) NIBL has higher loan and advance to total deposit mean ratio and SCBNL has lower mean ratio among sample banks. All sample banks have better mobilize their collected funds.
-) NSBL has higher non performing loan to total loan and advance mean ratio and EBL has lower mean ratio among sample banks.
-) NABIL has good quality of assets in total volume of loan and advances and NSBL has more risky assets in total volume of loan & advances.

On the basis of above conclusion the following suggestions and recommendations are given by her to improve the performance of selected banks.

-) Banks should regularly follow of the credit customers.If the customers have utilized their credit for same purpose or not committed of the time of taking credit from the bank.
-) Banks efficiency should be increased to satisfy the demand of deposit or at low level of cash and bank balance does not provide return to the bank. Therefore some percentage of the cash and bank balance should be invested in profitable sector.
-) The increase in loan loss provision of coomercial banks is reflecting the inefficiency of management. The bank needs to reduce its loan loss provion. This can be done by proper risk management, which includes
 - a. Carefully screening of loan application
 - b. Proper valuation of security
 - c. Proper appraisal of projects

2.8 Research Gap

Research gap is the difference between previous work done and the present work. Earlier works conducted by the previous researchers are very useful and appreciated by the personnel in various related field. The suggestions and recommendation given by the

previous researchers help to improve and increase the data for the related topic. In comparison to previous studies, I have tried my best to conduct this study to give some new perception in this topic by providing some primary information through personal observations and perception.

In this study, the researcher have analyzed management quality and used management efficiency ratio as financial analysis tool and ranking of selected banks on the basis of customer handling as a subjective analysis tool. And also I have used more financial ratios which help to analyze the liquidity position, assets quality and many more of the concerned banks. I have also done trend analysis of profit of selected banks. I hope this research will definitely help the new researchers to study in the corresponding subject.

CHAPTER – III

RESEARCH METHODOLOGY

Research is to find out to gain knowledge about a phenomenon. Here, re means repeatedly or again and again, search means to investigate or to find. Methodology is the research method used to test hypothesis. Thus, research methodology is a systematic way to solve the research problems. Research Methodology describes the method and process applied in entire study. It sequentially refers to the various steps to be adopted by a researcher. Research methodology is the research method used to test hypothesis. The prime objective of this study is to evaluate analysis and assess the financial analysis of the selected banks. After the analysis, a package of suggestions will be offered if needed to improve the performance of the banks. The proper analysis of the study can be meaningful on the right choice of research tools that helps to come to meaningful conclusion. This study is focused on both primary and secondary data. While primary data are collected from the respective banks through questionnaire, secondary data required for the evaluation and obtained from the respective annual reports of the concerned banks especially from profits and loss accounts, balance sheet and other publications made by the banks. The following research procedure has been followed for the study:

3.1 Research Design

A research design is a plan for the collection and analysis of data. It includes definite procedures and techniques, which guide to sufficient way for analyzing and evaluating the study. In order to achieve the predetermined objectives of the study, both primary and secondary data have been used. This study tries to make comparison and establish relationship between two or more variables. So the research design of the study is based on descriptive and analytical study.

Analysis of questionnaire covering customers, staffs and individual academicians.

Table No.2.2
Total Number of Respondent

S.No.	Designation	Number
1.	Staffs of the selected banks.	18
2.	Interested customers.	9
3.	Individual academicians.	5
Total		32

Table No. 2.2 shows the number of respondents. All together 32 respondents were participated in this part, among them 18 were the staffs of joint venture commercial banks, 6 each from the selected joint venture commercial banks. 9 were those customers who are interested in financial analysis of bank's performance and 5 were those academicians who have knowledge about financial analysis of banks financial performance.

3.2 Population and Sample

The population is the entire group of individuals that we want information about. Furthermore, set of data consisting of all conceivable observations of a certain phenomenon. A sample contains only part of these observations. Sampling is an essential part of any research investigation. Almost all research studies involve sampling. The study is related to CAMEL analysis of joint venture commercial banks. There are 31 commercial banks currently operating in the country. Among them NABIL, EBL and SCBNL have been chosen for research purposes as sample in this project work.

3.3 Nature and Sources of Data

Without any data, nothing can be studied. So for any statistical investigation, the collection of data is most important. The study is mainly based on both primary and secondary data in nature. The required information has been collected through discussion with the key personal

and employee. The supplementary data and information obtained from published and unpublished official records of concerned banks, annual reports of concerned banks, booklets, journals, thesis and other organization like website of NRB and many other websites.

3.4 Data Collection Techniques

Collection of data is the method, which is used to obtain the necessary information for the purpose of investigation. The data can be obtained either from primary source or from secondary source. In the process of collecting the data to complete this research, I used both primary and secondary data.

This study is mainly based on secondary data. However the analysis is done on the basis of primary data also. Published materials are viewed; books of by different authors, unpublished thesis reports, journals, magazines, internet website, AGM reports of selected banks, bulletins published by NRB are major sources of the secondary data. To collect these secondary data, the researchers visited campus library of Central Department of Management, TU central library. Different web sites were searched to collect necessary information for the study.

For collection of the primary data, the schedules of questionnaires were developed and asked to the employees, customers of the banks. The personal interview was also conducted to know their opinion.

3.5 Data Analysis Tools

Tools are those instrument and technique which help in analysis of collected data. The data collected from different sources are recorded systematically as necessary. Only useful and related data are grouped as per need of the research work. Data are presented in appropriate forms of tables, graphs and charts. Various financial as well as statistical tools have been used in the research study which helps to indicate the position of the banks as targeted in the objective of the study.

3.5.1 Financial Tools

For proper financial analysis of data, ratio analysis is the best tool. Ratio analysis is the most important tool of analysis of financial statement. It is widely used tools for financial analysis, which establish the numerical or quantitative relationship between two items i.e. variable of the financial statement. It helps to assess financial health of the company. Financial tools are used to examine the financial strength and weaknesses of the concerned banks. This research study involves ratio analysis for judging capital adequacy, return on assets, management efficiency, earning capacity and liquidity position of the banks. Under ratio analysis, following ratios related to bank are analyzed:

A. Capital Adequacy Ratio (CAR)

According to the directive issued by NRB, the bank capital has been categorized into two parts:

-) Core capital
-) Supplementary capital

The total of these two capitals is considered for calculating capital adequacy ratio. The capital adequacy ratio is based on total risk-weighted assets. The sum of core and supplementary capital is measured to be total capital fund. For the purpose of calculation of capital fund, the risk-weighted assets have been classified into two parts- On-Balance sheet Risk-weighted Assets and Off-Balance sheet Risk-weighted Items. The capital adequacy ratio would measure the total capital fund on the basis of total risk-weighted assets. The capital adequacy ratio shall be determined as follows:

$$\text{CAR} = \frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}} \times 100$$

According to NRB directives, commercial bank should maintain their CAR more than 10%, core capital 6% and supplementary capital 4%. All commercial banks should maintain CAR; this is created to protect the interest of the depositors. In the event of non-fulfillment of CAR in any quarter, the bank shall fulfill the shortfall amount within next six month. If, any bank does not fulfill the minimum CAR within the specified period, NRB may initiate any of the following action:

-) Restriction on accepting new deposits.
-) Suspension of opening new branch.
-) Suspension of distribution of dividends.
-) Restriction for getting loans from other banks.

B. Core Capital Ratio (CCR)

The capital which is kept in the reserve for general purpose is known as core capital. It is the ratio which is used to measure the relationship of core capital fund and total risk weighted assets. As per the rule of NRB all commercial banks had to maintain core capital ratio of minimum 5.5% of total risk weighted assets during BASEL-I implementation in the FY 2006/07 and 2007/08. According to BASEL-II from the FY 2008/09 all commercial banks have to maintain 6% of Core Capital Ratio. Core capital consists of paid up equity share capital, share premium, non redeemable preference share, general reserve, cumulative profit and loss (up to previous fiscal year) and current year profit and losses per balance sheet. It is calculated by:

$$\text{CCR} = \frac{\text{Total Core Capital}}{\text{Total Risk Weighted Assets}} \times 100$$

C. Performing Loan Ratio (PL Ratio)

All good and overdue loans below 90 days are performing loans. This ratio shows how much the banks are successful in utilizing their assets for profit generating purpose. Higher ratio indicates efficiency in utilizing the good loans.

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

D. Non-performing Loan Ratio (NPL Ratio)

It shows the percentage of non-performing loan in relation to the total loan and advances. Lower ratio indicates the robust and sound credit management where as higher ratio indicates poor credit management. Hence, lower ratio is preferred. It is calculated by the following formula:

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

E. Loan Loss Provision Ratio (LLP Ratio)

This is the provision set aside by the banks in order to cover the probable loss caused due to the default of the loan amount. This ratio shows how much the bank needs to set the provision to cover the loss of default loan in the future from the loan released by the bank. Lower LLP ratio signifies that the bank has higher volume of good loan and the provision is less required and vice versa. LLP to TL is always less than LLP to NPL as NPL is the part of TL. If the LLP to TL is lower than we can say that the quality of loan is better. But if the LLP to TL is higher than we can say that the quality of loan is not nice but at least we can feel safe as it has more provision for losses from loan.

This ratio is calculated by dividing the total provision made by the bank by its Total Loans & Advances. This can be presented as:

$$\text{LLP Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loans \& Advances}} \times 100$$

F. Loan Loss Coverage Ratio (LLC Ratio)

Loan loss coverage ratio is mandatory that for every loan bank need to keep some provision. It indicates the provision made by bank for exposure of loan loss in terms of non-performing loans. Higher the loan loss coverage ratio better is the financial condition and vice-versa. Loan Loss Coverage Ratio can be calculated as:

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

G. Management Efficiency Ratio (ME Ratio)

Management Efficiency Ratio is the ratio of net income of any bank to its number of working employees. This ratio shows the contribution of each employee in generating total net income. A good management always has sufficient number of efficient, motivated, responsible and dedicated manpower in the team. It is always confident at its system. The higher ratio indicates existence of efficient management and vice versa. It can be calculated by using following formula:

$$\text{Management Efficiency Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total No. of Staff}}$$

H. Earning Per Share (EPS)

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

$$\text{EPS} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{Total No. of Shares}}$$

I. Price Earning Ratio (P/E Ratio)

This ratio reflects the price currently being paid by the market for each rupee of currently reported EPS. This ratio helps security analysts to assess a bank's performance as expected by the investors. Higher ratio indicates better place for the investment and vice versa. It can be calculated by using following formula:

$$\text{P/E Ratio} = \frac{\text{Market Price per Share}}{\text{Earning Per Share}}$$

J. Return on Assets (ROA)

This ratio indicates how efficient a bank is utilizing and mobilizing its assets to generate profit. Higher the ratio the better it is as it shows higher turnover of assets. It measures a company's success in earning a return for the common stockholders. Higher ROA indicates better utilization of total assets. The return on assets is derived by dividing net profit after tax by total assets. Mathematically:

$$\text{ROA} = \frac{\text{Net profit after Tax (NPAT)}}{\text{Total Assets (TA)}} \times 100$$

K. Return on Equity (ROE)

This is one of the important ratios to judge whether the firm has earned a satisfactory return for its equity-holders or not. This ratio reveals how well the firm has used the resources of the owners to earn profit. So, the higher the ratio, the more favorable it is for the stock holders which represent the sound management and efficient mobilization of the owner's equity. The return on equity ratio can be calculated by using the following formula:

$$\text{ROE} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{Shareholder's Fund}} \times 100$$

L. Cash Reserve Ratio (CRR)

As per the rule of NRB all commercial banks are required to maintain 6% of their total deposit of Nepalese currency as CRR in their account with NRB for maintaining adequate liquidity. NRB has prescribed this mandatory requirement in order to save the commercial banks from the liquidity risk. CRR can be computed as follows:

$$\text{CRR} = \frac{\text{NRB Balance (LCY)}}{\text{LCY Deposits – Margin Deposits}}$$

M. Cash and Bank Balance Ratio

This ratio is designed to measure the Bank's ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower ratio indicates that banks might face liquidity crunch while paying its obligations whereas very high ratio indicates that the bank has kept idle funds and not deploying them properly. Cash and bank balance ratio is derived by dividing the cash and bank balance by total deposits. Symbolically:

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

N. Investment in Government Securities Ratio

Banks around the world invest significant portion of their deposits in government securities because merely maintaining adequate CRR and C&B Balance cannot be considered sufficient for liquidity maintenance. Government securities are those securities which are risk free and can be easily converted into cash anytime. Banks can utilize their fund investing into government securities which are liquid in nature. And whenever they need cash they can easily manage because government securities are easily accepted by any investing organization. Investment in government securities ratio depicts ratio of total deposits invested in government securities. Mathematically:

$$\text{Investment in Gov. Securities} = \frac{\text{Investment in Gov. Securities}}{\text{Total Deposits}} \times 100$$

3.5.2 Statistical tools

In this study, statistical tools i.e. Trend Analysis is used to find the trend of profit over the passage of time. A trend is a series of situation that follows a sequence. A widely and most commonly used method to describe the trend is the method of least square. Under this; a trend line is fitted to the data satisfying the condition. It is used to describe the trend of any variable whether it increases or decreases with the passage of time.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Financial Analysis

The financial analysis is undertaken to assess the financial strengths and weaknesses of the firm. The analysis is usually based on financial statements prepared by the firm. The analysis can be performed by insiders or by outsiders. One of the outsiders is financial institution considering the extension of credit to the firm. Financial analysis can serve as the basis for decision-making. The loan officer of the bank needs to decide whether or not to extend the loan to the firm. The insiders wanted to make financial analysis to an assessment of the performance of the firm or its various divisions. The analysis is also made to find out whether to use debt or equity funds to finance a planned plant expansion. Financial analysis uses data contained in the firm's financial statement. The financial statement are used the balance sheet and income statements, supplemented by the statement of cash flows. The primary tools are financial ratios. This chapter is devoted to definition and calculation of a set of commonly used financial ratios and an integrated model for analyzing financial performance.

Financial ratios are powerful tools of financial analysis. They provide a good technique for assessing financial performance of the firm. The particular ratio to be computed depends upon purpose in view. We have devoted to study and calculate a set of commonly used financial ratios in the aspect of bank through CAMEL approach where:

C = Capital Adequacy

A = Assets Quality

M = Management

E = Earning

L = Liquidity

4.2 Capital Adequacy

The inception of every business requires funds commonly known as capital. Normally, the capital structure consists of an equity and debt mix. Equity refers to the funds contributed by the promoters/shareholders, whereas debt is a temporary way of raising funds without further dilution of ownership. This is mainly done by issuing bonds and debentures of various maturities.

4.2.1 Capital Adequacy Ratio

The capital adequacy ratio is based on total risk-weighted assets. The sum of core and supplementary capital is measured to be total capital fund. For the purpose of calculation of capital fund, the risk-weighted assets have been classified in to two parts- On-Balance sheet Risk-weighted Assets and Off-Balance sheet Risk-weighted Items. The capital adequacy ratio would measure the total capital fund on the basis of total risk-weighted assets. According to NRB directives, commercial bank should maintain their CAR 11% according to BASEL-I up to fiscal year 2007/8 and 10% according to BASEL-II. All commercial banks should maintain CAR. This is created to protect the interest of the depositors. In the event of non-fulfillment of CAR in any quarter, the bank shall fulfill the shortfall amount within next six month. The capital adequacy ratio shall be determined as follows:

$$\text{CAR} = \frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}} \times 100$$

Computation of Capital Adequacy Ratio:

Capital Adequacy Ratio of NABIL Bank Limited

Year	Total Capital Fund	Total Risk-weighted Assets	Ratio (in %)
2007/08	2998730164	2701564315	11.10
2008/09	3727082787	34816500849	10.70
2009/10	4390228607	41822660075	10.49
2010/11	5173399192	48884969486	10.58
2011/12	6086741000	55273316000	11.01

Capital Adequacy Ratio of Everest Bank Limited

Year	Total Capital Fund	Total Risk-weighted Assets	Ratio (in %)
2007/08	2406056000	210398979000	11.44
2008/09	2703870000	25619753000	10.55
2009/10	3257141000	30240428000	10.77
2010/11	3605840000	34583547000	10.42
2011/12	4574751000	41525347000	11.02

Capital Adequacy Ratio of Standard Chartered Bank Nepal Limited

Year	Total Capital Fund	Total Risk-weighted Assets	Ratio (in %)
2007/08	2655277000	18969853751	14.00
2008/09	3190367000	21703164000	14.70
2009/10	3498973000	24106648000	14.51
2010/11	3835592000	26974342000	14.22
2011/12	4295167000	30837799000	13.93

The above three table showing Capital Adequacy Ratio of NABIL, EBL and SCBNL are summarized in the following table:

Table No. 4.1

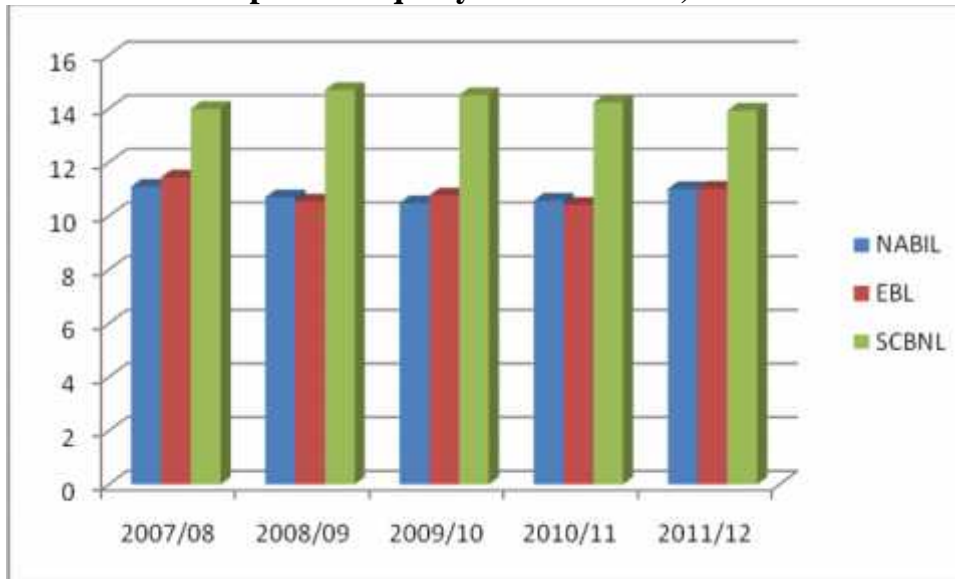
Capital Adequacy Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	11.10	11.44	14.00
2008/09	10.70	10.55	14.70
2009/10	10.49	10.77	14.51
2010/11	10.58	10.42	14.22
2011/12	11.01	11.02	13.93
Average in %	10.78	10.84	14.27

The above table shows the CAR of NABIL, EBL and SCBNL from fiscal year 2007/08 to 2011/12. All the three banks have maintained CAR as per the NRB's standard. Among three banks SCBNL has highest average ratio of 14.27% which shows that the SCBNL has high degree of strength of capital sufficiency in comparison to NABIL and EBL. But the CAR of NABIL and EBL is also satisfactory level.

Figure No. 4.1

Capital Adequacy Ratio of NBL, EBL and SCBNL



The above figure shows that all three banks have CAR above the NRB's standard i.e. 11% up to fiscal year 2008/09 according to BASEL – I and 10% from fiscal year 2009/10 according to BASEL – II. However, SCBNL has the highest average ratio of 14.63% the average ratio of NABIL and EBL are 10.98% and 10.87 %.

After this study, we conclude that in comparison to two banks NABIL and EBL, SCBNL has high degree of strength of capital sufficiency that means better liquidity position and lending capacity of bank but more of its fund seems to be tied up. The trend of NABIL is in decreasing, it shows that NABIL just want CAR as NRB's requirement. The trend of EBL and SCBNL is not consistent.

4.2.2 Core Capital Ratio

The capital which is kept in the reserve for general purpose is known as core capital. It is the ratio which is used to measure the relationship of core capital fund and total risk weighted assets. As per the rule of NRB all commercial banks had to maintain core capital ratio of minimum 5.5% of total risk weighted assets during BASEL-I implementation in the FY 2007/08 and 2008/09. According to BASEL-II from the FY 2009/10 all commercial banks have to maintain 6% of Core Capital Ratio. Core capital consists of paid up equity share capital, share premium, non redeemable preference share, general reserve, cumulative profit and loss (up to previous fiscal year) and current year profit and losses per balance sheet. It is calculated by:

$$\text{CCR} = \frac{\text{Total Core Capital}}{\text{Total Risk Weighted Assets}} \times 100$$

Computation of Core Capital Ratio:

Core Capital Ratio of NABIL Bank Limited

Year	Total Core Capital	Total Risk Weighted Assets	Ratio (in %)
2007/08	2363598989	27010564315	8.75
2008/09	3044340637	34816500849	8.74
2009/10	3667854525	41822660075	8.77
2010/11	4318697617	48884969486	8.33
2011/12	5139280000	55273316000	9.30

Core Capital Ratio of Everest Bank Limited

Year	Total Core capital	Total Risk Weighted Assets	Ratio (in %)
2007/08	1900859000	21039879000	9.03
2008/09	1981579000	25619753000	7.73

2009/10	2537093000	30240428000	8.38
2010/11	2927168000	34583547000	8.46
2011/12	3990924000	41525347000	9.61

Core Capital Ratio of Standard Chartered Bank Nepal limited

Year	Total Core capital	Total Risk Weighted Assets	Ratio (in %)
2007/08	1951117000	18969853751	10.28
2008/09	2304758000	21703164000	10.61
2009/10	3019192000	24106648000	12.52
2010/11	3263248000	26974342000	12.09
2011/12	3707010000	30837799000	12.02

The above three tables showing Core Capital Ratio of NABIL, EBL and SCBNL are summarized in the following table:

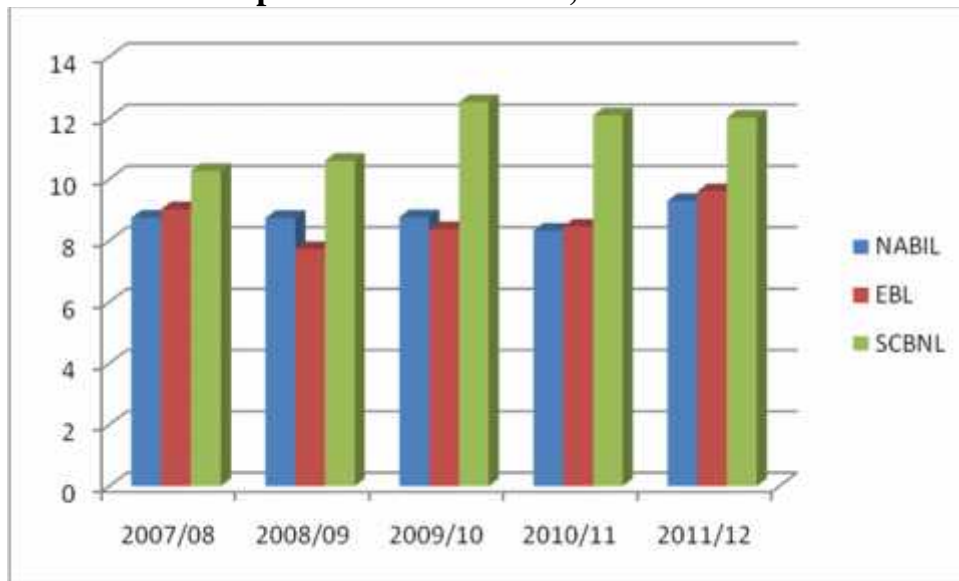
Table No. 4.2
Core Capital Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	8.75	9.03	10.28
2008/09	8.74	7.73	10.61
2009/10	8.77	8.38	12.52
2010/11	8.33	8.46	12.09
2011/12	9.30	9.61	12.02
Average in %	8.78	8.64	11.50

The above table shows the CCR of NABIL, EBL and SCBNL from fiscal year 2007/08 to 2011/12. From the above table we can see that the SCBNL has maintained highest average ratio of 11.50% which explains that it is doing better in terms of safeguarding the interest of depositors than the other two bank. Similarly, NABIL and EBL have ranked 2nd and 3rd respectively in terms of maintaining core capital ratio.

Figure No. 4.2

Core Capital Ratio of NABIL, EBL and SCBNL



The above figure shows that all three banks have CCR above the NRB's standard i.e. 5.5% up to fiscal year 2008/09 according to BASEL-I and 6% from fiscal year 2009/10 according to BASEL-II. Among three bank, SCBNL has ranked 1st every time by having highest CCR whereas NABIL and EBL is ranked as 2nd and 3rd respectively. SCBNL has found maintaining higher CCR and even double the NRB's regulation.

Conclusion

The conclusion is that it is doing well in terms of safeguarding the interest of depositors than the other two bank whereas EBL is doing better job in term of shareholders earning as it has maintained comparatively lower CCR. The above figure shows that the trend of CCR of EBL and SCBNL is inconsistent and fluctuating whereas NABIL has decreasing trend of CCR.

4.3 Assets Quality

Assets are the most vital factors in the determining the strength of the bank. Assets quality means the capacity of assets to create income as well as the re-cover ability of the principal amount. The major asset for the bank is loan and advances. This is the most risky assets item that needs crucial assessment. Banks collect fund in the form of capital, deposits, borrowing

etc. It mobilizes these funds to generate certain returns by giving loans and advances to the users of money to invest in various alternatives. Bank gives loan and advances in high volume from which higher interest is generated as well as there is high risk. A significant part of the banks income is generated from the lending activities. Basically there are two types of loan, performing loan and Non-performing loan. Under this following ratios are calculated:

4.3.1 Performing Loan Ratio

All good and overdue loans below 90 days are performing loans. This ratio shows how much the banks are successful in utilizing their assets for profit generating purpose. Higher ratio indicates efficiency in utilizing the good loans.

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

Computation of Performing Loan Ratio:

Performing Loan Ratio of NABIL Bank Limited

Year	Performing Loan	Total Loan	Ratio (in %)
2007/08	21598374339	21759460334	99.26
2008/09	27774194658	27999012071	99.20
2009/10	32544687167	33030968688	98.53
2010/11	38215636116	38905487889	98.23
2011/12	41867708655	42867767793	97.68

Performing Loan Ratio of Everest Bank Limited

Year	Performing Loan	Total Loan	Ratio (in %)
2007/08	18709121394	18836431762	99.32
2008/09	24351570294	24469555526	99.52
2009/10	28112693861	28156399843	99.84
2010/11	31553441194	31661842757	99.66
2011/12	36309338831	36616831527	99.16

Performing Loan Ratio of Standard Chartered Bank Nepal Limited

Year	Performing Loan	Total Loan	Ratio (in %)
2007/08	13835263970	13963983752	99.08
2008/09	13789661419	13880703075	99.34
2009/10	16078447031	16176582758	99.39
2010/11	18546673934	18662477835	99.38
2011/12	19674023265	19828509313	99.22

The above three tables showing Performing Loan Ratio of NABIL, EBL and SCBNL are summarized in the following table:

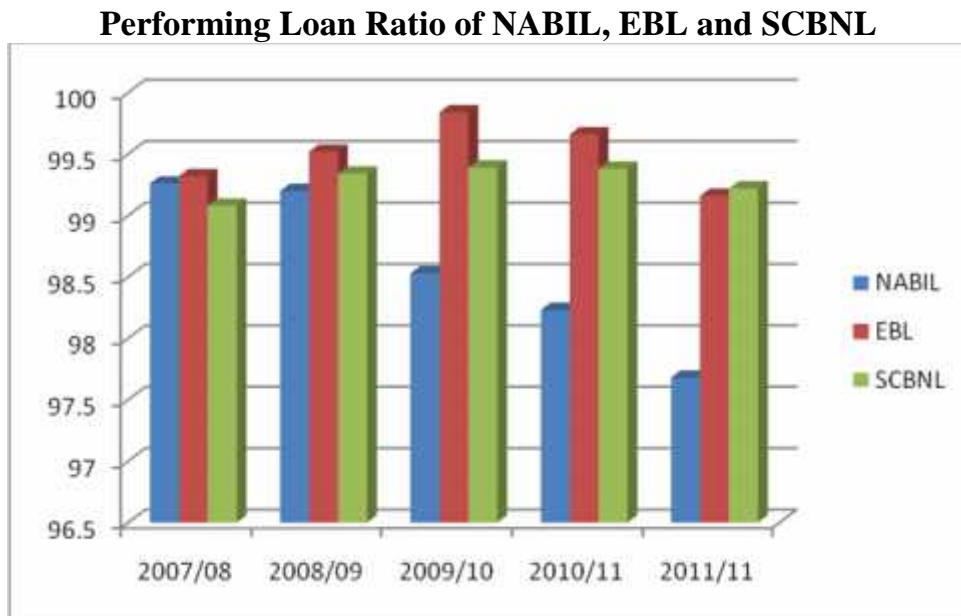
Table No. 4.3

Performing Loan Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	99.26	99.32	99.08
2008/09	99.20	99.52	99.34
2009/10	98.53	99.84	99.39
2010/11	98.23	99.66	99.38
2011/11	97.68	99.16	99.22
Average in %	98.58	99.50	99.28

The above table shows the Performing Loan Ratio of NABIL, EBL and SCBNL from fiscal year 2007/08 to 2011/12. Among three banks EBL has highest average ratio of 99.50% which explains that the bank has invested its fund in proper way. All the banks have looking increasing trend of performing loan ratio.

Figure No. 4.3



The above figure shows the performing loan ratio of NABIL, EBL and SCBNL. The performing loan of EBL and SCBNL is in increasing trend from fiscal year 2007/08 to 2011/12 which shows that the bank has invested its funds in proper way. The performing loan ratio of NABIL is also not bad. Before providing the loan the bank has to investigate properly to maximize the performing loan. Performing loans are paid within 3 months. Higher performing loan means that the bank invested properly.

Conclusion

All the peer three banks flowed loan in the better level of performing loans between the study period, therefore resulting higher level income with interest income

4.3.2 Non Performing Loan Ratio

It shows the percentage of non-performing loan in relation to the total loan and advances. Lower ratio indicates the robust and sound credit management where as higher ratio indicates poor credit management. Hence, lower ratio is preferred. It is calculated by the following formula:

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

Computation of None performing Loan Ratio:

Non Performing Loan Ratio of NABIL Bank limited

Year	Non-performing Loan	Total Loan	Ratio (in %)
2007/08	161085995	21759460334	0.74
2008/09	224817413	27999012071	0.80
2009/10	487541602	33030968688	1.47
2010/11	689851773	38905487889	1.77
2011/12	1000059138	42867767793	2.33

Non-Performing Loan Ratio of Everest Bank Limited

Year	Non-performing Loan	Total Loan	Ratio (in %)
2007/08	127310368	18836431762	0.68
2008/09	117985232	24469555526	0.48
2009/10	125560472	28156399843	0.44
2010/11	108401563	31661842757	0.34
2011/12	307492696	36616831527	0.84

Non Performing Loan Ratio of Standard Chartered Bank Limited

Year	Non-performing Loan	Total Loan	Ratio (in %)
2007/08	197071153	13963983752	1.83
2008/09	128719782	13880703075	0.92
2009/10	98135727	16176582758	0.60
2010/11	115803901	18662477835	0.62
2011/12	154486048	19828509313	0.78

The above three tables showing Non Performing Loan Ratio of NABIL, EBL and SCBNL are summarized in the following table:

Table No. 4.4

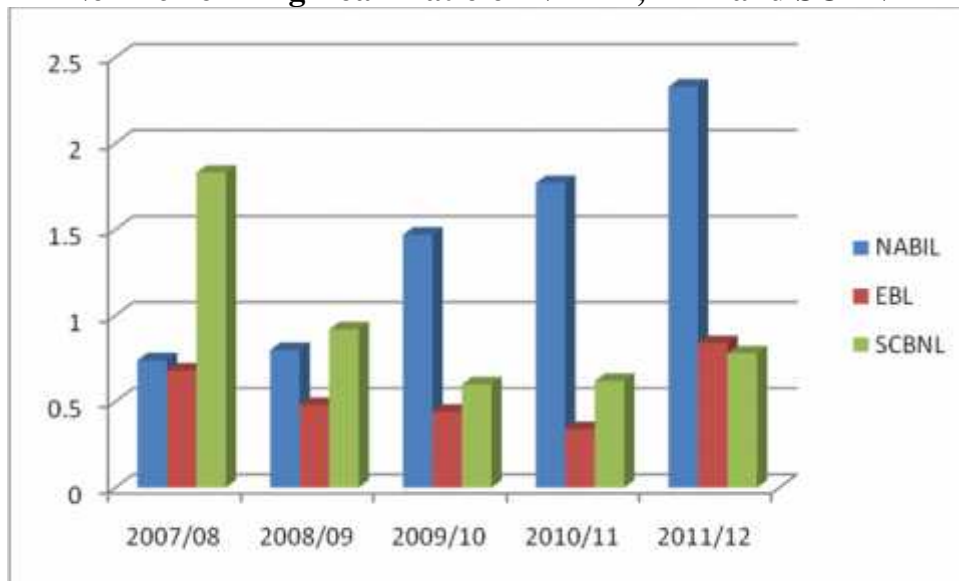
Non Performing Loan Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	0.74	0.68	1.83
2008/09	0.80	0.48	0.92
2009/10	1.47	0.44	0.60
2010/11	1.77	0.34	0.62
2011/12	2.33	0.84	0.78
Average in %	1.42	0.56	0.95

The above table shows the Non Performing Loan Ratio of NABIL, EBL and SCBNL from fiscal year 2007/08 to 2011/12. Among three banks, EBL has lowest average ratio of 0.56% which shows that EBL is able to manage its loan and advances in comparison to NABIL and SCBNL. NABIL and SCBNL should focus on managing its loan and advances and try to reduce NPL ratio.

Figure No. 4.4

Non Performing Loan Ratio of NABIL, EBL and SCBNL



The above figure shows that the NABIL bank has increasing trend of non-performing loan ratio. So NABIL should focus on managing its loan & advances. The NPL ratio of EBL and SCBNL is in decreasing trend from fiscal year 2007/08 to 2010/11, this implies that management of both bank are trying to reduce NPL ratio, which is very good for these two banks but in fiscal year 2011/12 the both bank has increased their non-performing loans which is not favouring in their good banking.

4.3.3 Loan Loss Provision Ratio (LLP Ratio)

This is the provision set aside by the banks in order to cover the probable loss caused due to the default of the loan amount. This ratio shows how much the bank needs to set the provision to cover the loss of default loan in the future from the loan released by the bank. Lower LLP ratio signifies that the bank has higher volume of good loan and the provision is less required and vice versa. LLP to TL is always less than LLP to NPL as NPL is the part of TL. If the LLP to TL is lower then we can say that the quality of loan is better. But if the LLP to TL is higher then we can say that the quality of loan is not nice but at least we can feel safe as it has more provision for losses from loan.

This ratio is calculated by dividing the total provision made by the bank by its Total Loans & Advances. This can be presented as:

$$\text{LLP Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Loans \& Advances}} \times 100$$

Computation of Loan Loss Provision Ratio:

Loan Loss Provision Ratio of NABIL Bank Limited

Year	Total Loan Loss Provision	Total Loan & Advances	Ratio (in %)
2007/08	394407016	21759460334	1.81
2008/09	409079030	27999012071	1.46
2009/10	762095405	32268873283	2.36
2010/11	871390335	38034097554	2.29
2011/12	1262085159	42867767793	2.94

Loan Loss Provision Ratio of Everest Bank Limited

Year	Total Loan Loss Provision	Total loan & Advances	Ratio (in %)
2007/08	497346200	18836431762	2.64
2008/09	584881910	24469555526	2.39
2009/10	600043812	28156399843	2.13
2010/11	604151295	31661842757	1.91
2011/12	705856854	36616831527	1.93

Loan Loss Provision Ratio of Standard Chartered Bank Nepal Limited

Year	Total Loan Loss Provision	Total Loan & Advances	Ratio (in %)
2007/08	245386620	13963983752	1.76
2008/09	235207344	13679756990	1.72
2009/10	219627490	15956955268	1.78
2010/11	200946085	18427270491	1.09
2011/12	252540983	19828509313	1.27

The above three tables showing Loan Loss Provision Ratio of NABIL, EBL and SCBNL are summarized in the following table:

Table No. 4.5

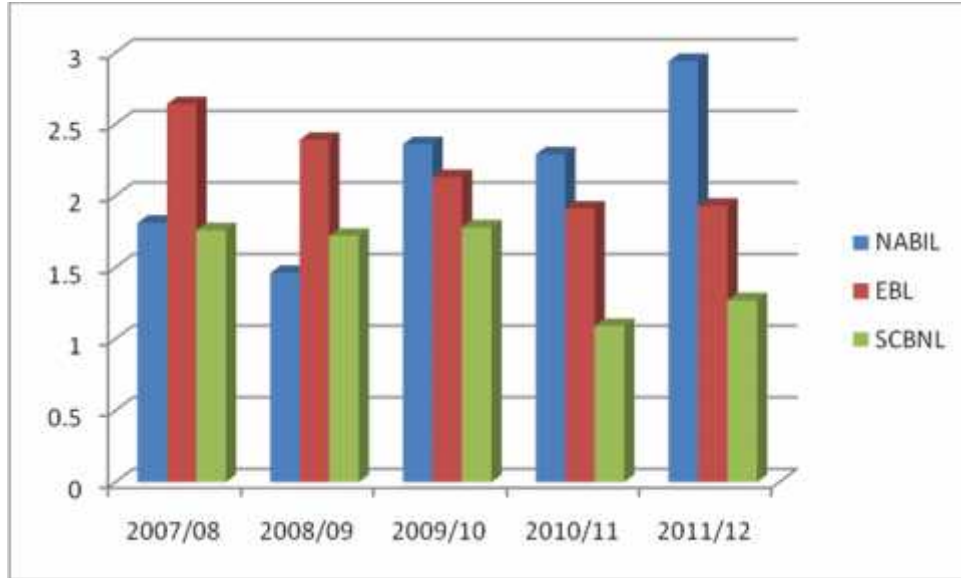
Loan Loss Provision Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	1.81	2.64	1.76
2008/09	1.46	2.39	1.72
2009/10	2.36	2.13	1.78
2010/11	2.29	1.91	1.09
2011/12	2.94	1.93	1.27
Average in %	2.17	2.20	1.52

The above table shows the Loan Loss Provision Ratio of NABIL, EBL and SCBNL from fiscal year 2007/08 to 2011/12. From the table we come to know that all the three banks have decreasing rate of LLP ratio which shows that all banks are able to reduce their non performing loan by following robust credit management.

Figure No. 4.5

Loan Loss Provision Ratio of NABIL, EBL and SCBNL



The above figure shows that the LLPR of all the three banks are in decreasing trend from fiscal year 2007/08 to 2011/12. It clearly indicates the sound credit management system followed by the banks under study. NBL has the highest LLPR (i.e. 2.94%) in the fiscal year 2011/12 whereas SCBNL has the lowest LLPR (i.e. 1.09%) in the fiscal year 2010/11.

4.3.4 Loan Loss Coverage Ratio (LLC Ratio)

Loan loss coverage ratio is mandatory that for every loan bank needs to keep some provision. It indicates the provision made by bank for exposure of loan loss in terms of non-performing loans. Higher the loan loss coverage ratio better is the financial condition and vice-versa. Loan Loss Coverage Ratio can be calculated as:

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

Computation of Loan Loss Coverage Ratio:

Loan Loss Coverage Ratio of NABIL Bank Limited

Year	Total Loan Loss Provision	Total Non-performing Loan	Ratio (in %)
2007/08	394407016	178293983	200.37
2008/09	409079030	161085995	244.84
2009/10	762095405	487541602	156.31
2010/11	871390335	689851773	126.32
2011/12	1262085159	1000059138	126.20

Loan Loss Coverage Ratio of Everest Bank Limited

Year	Total Loan Loss Provision	Total Non Performing Loan	Ratio (in %)
2007/08	497346200	127310368	390.66
2008/09	584881910	117985232	495.72
2009/10	600043812	125560472	477.89
2010/11	604151295	108401563	557.38
2011/12	705856854	307492696	229.55

Loan Loss Coverage ratio of Standard Chartered Bank Nepal Limited

Year	Total Loan Loss Provision	Total Non Performing Loan	Ratio (in %)
2007/08	245386620	128719782	190.64
2008/09	235207344	91041656	220.72
2009/10	219627490	98135727	223.80
2010/11	200946085	115803901	173.52
2011/12	252540983	154486048	163.47

The above three tables showing Loan Loss Coverage Ratio of NABIL, EBL and SCBNL are summarized in the following table:

Table No. 4.6
Loan Loss Coverage Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	200.37	390.66	190.64
2008/09	244.84	495.72	220.72
2009/10	156.31	477.89	223.80
2010/11	126.32	557.38	173.52
2011/12	126.20	229.55	163.47
Average in %	170.81	430.24	194.43

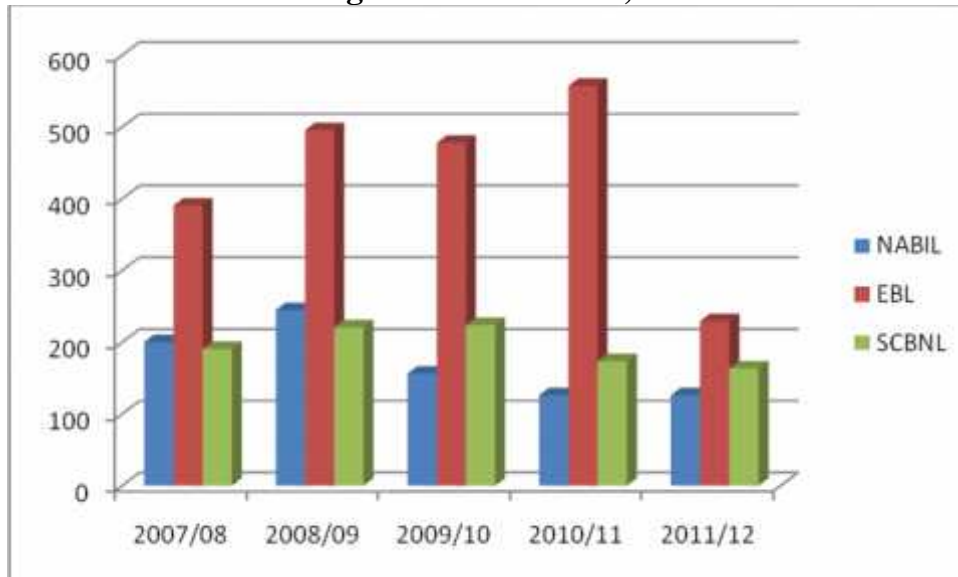
The above table shows that the Loan Loss Coverage ratio of NABIL, EBL and SCBNL from fiscal year 2007/08 to 2011/12. From the above table, the average LLC ratio between our study period starting from NABIL, EBL and SCBNL is 170.81%, 430.24% and 194.43 respectively.

Conclusion

Among three bank EBL has the highest average ratio of 430.24% which shows that EBL can recover their non performing loan loss in case of any fault made by loan taker in comparison to NABIL and SCBNL.

Figure No. 4.6

Loan Loss Coverage Ratio of NABIL, EBL and SCBNL



The above figure shows that all banks have maintained sufficient provision to cover future loan loss. Nabil has the highest LLCR (i.e. 244.84%) in the fiscal year 2007/08 whereas SCBNL has the lowest LLCR (i.e. 163.47%) in the fiscal year 2011/12. Among three bank EBL has the highest LLCR in every year which shows that EBL can recover their non performing loan loss. The data shows the LLCR more than 1500% it is due to the fact that there is a provision of 1% for good loan also which is not added in non-performing loan.

4.4 Management

Management is the pillar of an organization and is responsible for organizational growth and success. To meet the unlimited needs from limited resources, management is very essential. It has been said that an effective management can make the organization whereas an ineffective management can break. It is a set of activities like planning, organizing, leading, staffing, directing, communicating, motivating and controlling. Over the years, the Nepali financial sector has evolved strongly with robust management discipline. At the same time, we also have enough cases where due to poor management, banks have performed poorly. Human resource management is one of the key management issues; good or bad human resource management translates into efficient or inefficient staff performance.

In CAMEL analysis Management Efficiency Ratio is calculated in order to find out the contribution of each staff on the net profit of the organization. Management efficiency ratio measures the management quality and efficiency of per staff contribution to the earning of the organization.

4.4.1 Management Efficiency Ratio (ME Ratio)

Management Efficiency Ratio is the ratio of net income of any bank to its number of working employees. This ratio shows the contribution of each employee in generating total net income. A good management always has sufficient number of efficient, motivated, responsible and dedicated manpower in the team. It is always confident at its system. The higher ratio indicates existence of efficient management and vice versa. It can be calculated by using following formula:

$$\text{Management Efficiency Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total No. of staff}}$$

Computation of Management Efficiency Ratio:

Management Efficiency Ratio of NABIL Bank Limited

Year	Net Profit After Tax	No. of Staff	MER
2007/08	746468394	416	1794395
2008/09	1031053098	505	2041689
2009/10	1141051430	557	2048566
2010/11	1337745485	657	2036142
2011/12	1696276110	750	2261701

Management Efficiency Ratio of Everest Bank Limited

Year	Net Profit After Tax	No. of Staff	MER
2007/08	451218613	449	1004941
2008/09	638732757	521	1225974
2009/10	831765632	568	1464376
2010/11	931303628	586	1589255
2011/12	1090564222	625	1744903

Management Efficiency Ratio of Standard Chartered Bank Nepal limited

Year	Net Profit After Tax	No. of Staff	MER
2007/08	818921008	377	2172204
2008/09	1025114536	392	2615088
2009/10	1085871694	429	2531169
2010/11	1119171286	429	2608790
2011/12	1168967497	424	2756999

The above three tables showing Management Efficiency Ratio of NABIL, EBL and SCBNL are summarized in the following table:

Table No. 4.7

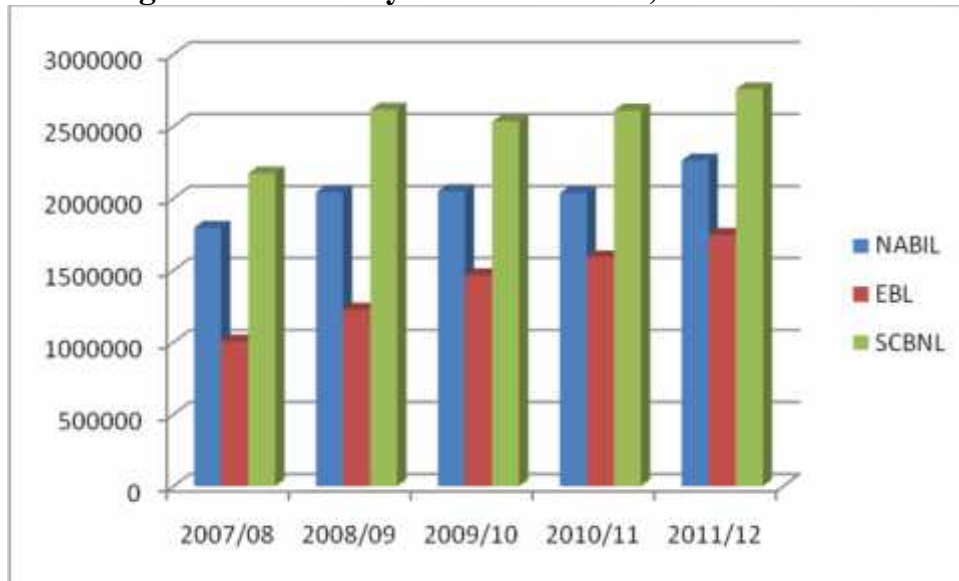
Management Efficiency Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	1794395	1004941	2172204
2008/09	2041689	1225974	2615088
2009/10	2048566	1464376	2531169
2010/11	2036142	1589255	2608790
2011/12	2261701	1744903	2756999
Average	2036498.60	1405889.80	2536850.00

The above table shows the Management Efficiency Ratio of NABIL, EBL and SCBNL from fiscal year 2007/08 to 2011/12. Among three banks SCBNL has the highest MER than NABIL and EBL which shows that the SCBNL's per employee contribution to net profit is high and it is successful to manage its employee efficiency than other two banks.

Figure No. 4.7

Management Efficiency Ratio of NABIL, EBL and SCBNL



The above figure shows that SCBNL has highest management efficiency ratio than NABIL and EBL. NABIL has highest management efficiency ratio than EBL. This explains that SCBNL's per employee contribution to net profit is high and it is successful to manage its employee efficiency than other two banks. As effectively the human resources are mobilized the better earning the bank gain. So, the remedy would be either to reduce no. of staffs or to increase efficiency or to increase profit volume.

4.4.2 Subjective Analysis of Management Quality

The quality of management is reflected from its service that it provides to its customer. For this I made a personal visit to selected bank's office and rate them on the basis of service and outlay of banks rating is done from 1 to 5 in which 5 is rated to best where as 1 is rated to poor quality of bank's service. The rating is shown on the table below

Table No. 4.8

Rating of NABIL, EBL and SCBNL

Basis of Rating	NABIL	EBL	SCBNL
Brand Position	4	4	5
Parking Space	5	5	5
Customer Service	4	4	4
Securities	5	5	5
Space for Customer	4	4	4
Relation with Customer	5	5	4
Lighting	5	5	5
ATM's	5	4	3
International Status	4	4	5
Office Environment	4	4	5
No. of Branches	5	4	3
Ranking	1st	3rd	2nd

From the above table, we can say that brand position of SCBNL is stronger than that of NABIL and EBL. Parking space, customer service, securities, lighting of all the three banks are satisfactory. According to above table, NABIL ranked 1st, SCBNL ranked 2nd and EBL ranked 3rd.

4.5 Earning Capacity

In simple sense earning can be understood as profit. Profit is earned by the banks largely through financing activities, in the form of loans and advances to the customers, placements in other banks, investment in government securities etc. Revenue is earned through non-exposure functions by way of commissions and fees, but its contribution in the overall profit remains in the lowest side. Hence, banks earn major portion of their income through funding money, which it acquires through various means such as collecting deposits in various accounts, by issuing shares, debentures etc.

Thus, it can be said that an analysis of earning helps the management, shareholders and depositors to know about the performance of the bank, sustainability of earnings, and to forecast the growth of the bank. The success of a bank relies heavily upon the efficiency of the management to drive it towards earning good profits. The following ratios have been analyzed to test earning capacity of the bank.

4.5.1 Earning Per Share (EPS)

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

$$\text{EPS} = \frac{\text{Net profit after Tax (NPAT)}}{\text{Total No. of Shares}}$$

Computation of Earning Per Share (EPS):

Earning Per Share of NABIL Bank Limited

Year	Net Profit After Tax	No. of Shares	EPS (Npr)
2007/08	746468394	6442848	115.86
2008/09	1031053098	9088973	113.44
2009/10	1141051430	13614741	83.81
2010/11	1337745485	18929468	70.67
2011/12	1696276110	20297694	83.57

Earning Per Share of Everest Bank Limited

Year	Net Profit After Tax	No. of Shares	EPS (Npr)
2007/08	451218613	4914000	91.82
2008/09	638732757	6388210	99.99
2009/10	831765632	8304673	100.16
2010/11	931303628	11196095	83.18
2011/12	1090564222	12316357	88.55

Earning Per Share of Standard Chartered Bank Nepal Limited

Year	Net profit After tax	No. of Shares	EPS (Npr)
2007/08	818921008	6207840	131.92
2008/09	1025114536	9319664	109.99
2009/10	1085871694	13984836	77.65
2010/11	1119171286	16101680	69.51
2011/12	1168967497	16101680	72.60

The above three tables showing Earning per Share of NABIL, EBL and SCBNL are summarized in the following table:

Table No. 4.9

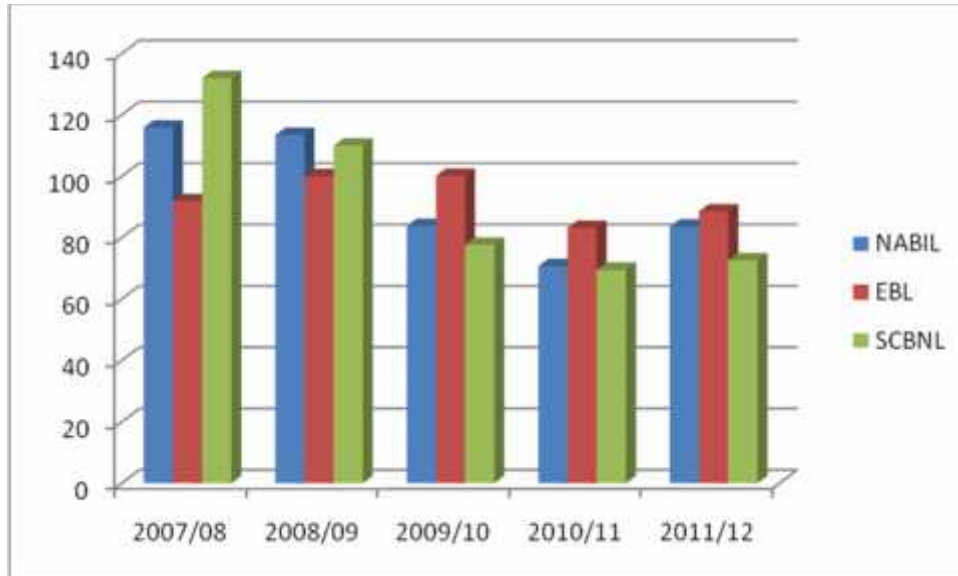
Earning Per Share of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	115.86	91.82	131.92
2008/09	113.44	99.99	109.99
2009/10	83.81	100.16	77.65
2010/11	70.67	83.18	69.51
2011/12	83.57	88.55	72.60
Average	93.47	92.74	92.33

The above table shows the Earning per Share of NABIL, EBL and SCBNL from fiscal year 2007/08 to 2011/12. Among three banks NABIL has the highest EPS of Rs.93.47 than SCBNL and EBL. There is no standard value prescribed for EPS but higher value is preferable. So, the banks need to increase profit volume.

Figure No. 4.8

Earning Per Share of NABIL, EBL and SCBNL



The above figure shows that the average EPS of NABIL is the highest which is Rs. 93.47 where as the average EPS of SCBNL is the lowest which is Rs.92.33. NABIL has the decreasing trend of EPS from fiscal year 2007/08 to 2010/11. EBL has the increasing trend of EPS from fiscal year 2007/08 to 2009/10 but it is decreasing to 83.18 in 2010/11. . Similarly SCBNL has increasing trend in initial two year then after it starts to decrease. There is no standard value prescribed for EPS but higher value is preferable. Higher volume of profit is required to have higher level of EPS. So, the banks need to increase profit volume.

4.5.2 Price Earning Ratio (P/E Ratio)

This ratio reflects the price currently being paid by the market for each rupee of currently reported EPS. This ratio helps security analysts to assess a bank's performance as expected by the investors. Higher ratio indicates better place for the investment and vice versa. It can be calculated by using following formula:

$$\text{P/E Ratio} = \frac{\text{Market Price per Share}}{\text{Earning Per Share}}$$

Computation of Price Earning Ratio:

Price Earning Ratio of NABIL Bank Limited

Year	Market Price Per Share	Earning Per Share	P/E Ratio
2007/08	5275	115.86	45.53
2008/09	4899	113.44	43.18
2009/10	2384	83.81	28.44
2010/11	1252	70.67	17.71
2011/12	1355	83.57	16.21

Price Earning Ratio of Everest Bank Limited

Year	Market Price Per Share	Earning Per Share	P/E Ratio
2007/08	3132	91.82	34.11
2008/09	2455	99.99	24.55
2009/10	1630	100.16	16.29
2010/11	1094	83.18	13.15
2011/12	1033	88.55	11.67

Price Earning Ratio of Standard Chartered Bank Nepal limited

Year	Market Price Per Share	Earning Per Share	P/E Ratio
2007/08	6830	131.92	51.77
2008/09	6010	109.99	54.64
2009/10	3279	77.65	42.23
2010/11	1800	69.51	25.90
2011/12	1799	72.60	24.78

The above three tables showing Price Earning Ratio of NABIL, EBL and SCBNL are summarized in the following table

Table No. 4.10

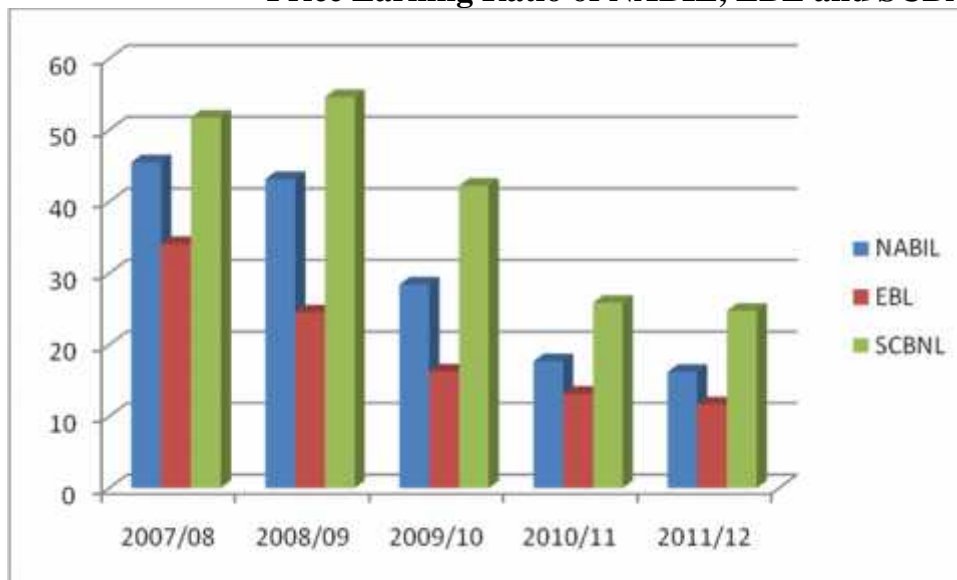
Price Earning Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	45.53	34.11	51.77
2008/09	43.18	24.55	54.64
2009/10	28.44	16.29	42.23
2010/11	17.71	13.15	25.90
2011/12	16.21	11.67	24.78
Average	30.21	19.95	39.86

The above table shows the Price Earning Ratio of NABIL, EBL and SCBNL from the fiscal year 2007/08 to 2011/12. The SCBNL has the highest value of average ratio of 39.86 times where as EBL has the lowest value of average ratio of 19.95 times. SCBNL has the highest P/E ratio of 54.64 times in year 2008/09 which signifies that the public have more trust on the bank's earning as well as its performance.

Figure No. 4.9

Price Earning Ratio of NABIL, EBL and SCBNL



The above figure shows that SCBNL has the highest value of average ratio which is 41.96 times where as EBL has the lowest value of average ratio which is 23.19 times. SCBNL has

the highest P/E ratio of 54.64 times in year 2008/09 which signifies that the public have more trust on the bank's earning as well as its performance. SCBNL has the increasing trend of P/E ratio from year 2007/08 to 2008/09. Similarly NABIL and EBL have increasing trend of P/E ratio from year 2007/08 to 2007/08 but both banks have decreased value of P/E ratio in year 2008/09.

4.5.3 Return on Assets (ROA)

This ratio indicates how efficient a bank is utilizing and mobilizing its assets to generate profit. Higher the ratio the better it is as it shows higher turnover of assets. It measures a company's success in earning a return for the common stockholders. Higher ROA indicates better utilization of total assets. The return on assets is derived by dividing net profit after tax by total assets. Mathematically:

$$\text{ROA} = \frac{\text{Net profit after Tax (NPAT)}}{\text{Total Assets (TA)}} \times 100$$

Computation of Return on Assets:

Return on Assets of NABIL Bank Limited

Year	Net Profit After Tax	Total Assets	ROA (in %)
2007/08	746468394	37132759149	2.01
2008/09	1031053098	43867397504	2.35
2009/10	1141051430	52150237343	2.19
2010/11	1337745485	58141437401	2.30
2011/12	1696276110	63200298255	2.68

Return on Assets of Everest Bank Limited

Year	Net Profit After Tax	Total Assets	ROA (in %)
2007/08	451218613	27149342884	1.38
2008/09	638732757	36916848654	1.66
2009/10	831765632	41382760711	2.00
2010/11	931303628	46236212262	2.01
2011/12	1090564222	55813129057	1.95

Return on Assets of Standard Chartered Bank Nepal Limited

Year	Net Profit After Tax	Total Assets	ROA (in %)
2007/08	818921008	28596689451	2.42
2008/09	1025114536	33335788326	2.46
2009/10	1085871694	40213319926	2.70
2010/11	1119171286	43810519664	2.55
2011/12	1168967497	41677052360	2.80

The above three tables showing Return on Assets of NABIL, EBL and SCBNL are summarized in the following table:

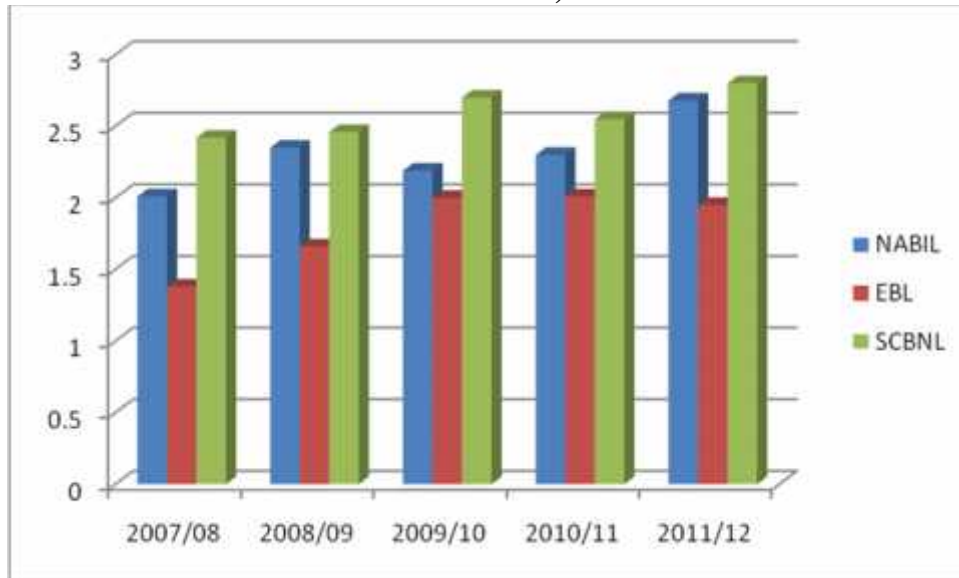
Table No. 4.11

Return on Assets of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	2.01	1.38	2.42
2008/09	2.35	1.66	2.46
2009/10	2.19	2.00	2.70
2010/11	2.30	2.01	2.55
2011/12	2.68	1.95	2.80
Average in %	2.31	1.80	2.59

The above table shows the Return on Assets of NABIL, EBL and SCBNL from the fiscal year 2007/08 to 2011/12. In the above table the average ROA ratio of SBNL is highest which 2.59 % is where as the average ROA ratio of EBL is the lowest which is 1.80%. SCBNL has higher ROA in comparison to NABIL & EBL. Maximum ROA ratio shows that the bank is successful in utilizing its assets properly.

Figure No. 4.10
Return on Assets of NABIL, EBL and SCBNL



The above figure shows that the average ROA ratio of SCBNL is highest which 2.53 % is, whereas the average ROA ratio of EBL is lowest which is 1.80%. The ratio of SCBNL in the fiscal year 2011/12 is the highest among all the ratio which indicates the bank was most successful in mobilizing its assets to yield highest return. The average ROA ratio of SCBNL is higher than NABIL & EBL which shows that the SCBNL is able to utilize its assets more in comparison to NABIL & EBL. The movement of ratio of all the banks is in zigzag trend through out the study period. Maximum ROA ratio shows that the bank is successful in utilizing its assets properly.

4.5.4 Return on Equity (ROE)

This is one of the important ratios to judge whether the firm has earned a satisfactory return for its equity-holders or not. This ratio reveals how well the firm has used the resources of the owners to earn profit. So, the higher the ratio, the more favorable it is for the stock holders which represent the sound management and efficient mobilization of the owner's equity. The return on equity ratio can be calculated by using the following formula:

$$\text{ROE} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{Shareholder's Fund}} \times 100$$

Computation of Return on Equity:

Return on Equity of NABIL Bank Limited

Year	Net Profit After Tax	Shareholder's Fund	ROE (in %)
2007/08	746468394	2437198989	30.63
2008/09	1031053098	3130240637	32.94
2009/10	1141051430	3835123456	29.75
2010/11	1337745485	4566517777	29.29
2011/12	1696276110	5607524331	30.25

Return on Equity of Everest Bank Limited

Year	Net Profit After Tax	Shareholder's Fund	ROE (in %)
2007/08	451218613	2921237580	23.48
2008/09	638732757	2203625055	28.98
2009/10	831765632	3169100000	26.24
2010/11	931303628	3531300000	26.37
2011/12	1090564222	4177302887	26.11

Return on Equity of Standard Chartered Bank Nepal Limited

Year	Net Profit After Tax	Shareholder's Fund	ROE (in %)
2007/08	818921008	2492547996	32.85
2008/09	1025114536	3052469731	33.58
2009/10	1085871694	3369709733	32.22
2010/11	1119171286	3677777330	30.43
2011/12	1168967497	4122168959	28.36

The above three tables showing Return on Equity of NABIL, EBL and SCBNL are summarized in the following table:

Table No. 4.12
Return on Equity of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	30.63	23.48	32.85
2008/09	32.94	28.98	33.58
2009/10	29.75	26.24	32.22
2010/11	29.29	26.37	30.43
2011/12	30.25	26.11	28.36
Average in %	30.57	26.24	31.49

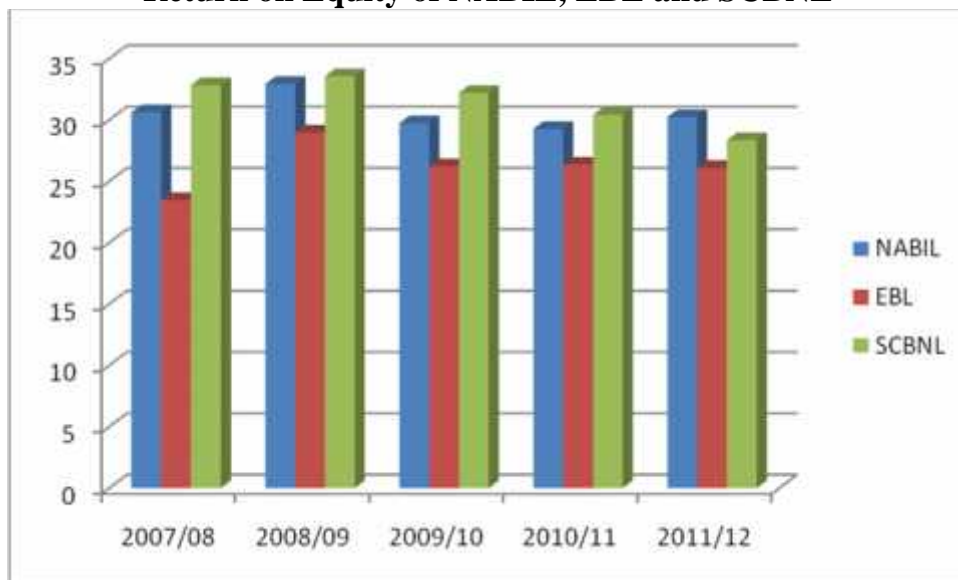
The above table shows the Return on Equity of NABIL, EBL and SCBNL from the fiscal year 2007/08 to 2011/10. Among three banks, SCBNL has the highest average ROE in comparison to NABIL and EBL with 31.49% in average.

Conclusion

The figure of 31.49% shows the SCBNL has utilized its shareholder’s fund maximum. Higher ROE ratio indicates the bank is utilizing its fund in a proper way. Nevertheless, EBL & NABIL are not far behind.

Figure No. 4.11

Return on Equity of NABIL, EBL and SCBNL



The above table shows that the average ROE ratio of SCBNL is the highest which is 31.49% where as the average ROE ratio of EBL is the lowest which is 26.24%. NABIL and EBL both have inconsistent and fluctuating trend of ROE ratio where as SCBNL has decreasing trend of ROE from fiscal year 2008/09 to fiscal year 2010/11 it is highest in 2008/09 which is 33.58. Higher ROE ratio indicates the bank is utilizing its fund in a proper way.

4.6 Liquidity

Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. In other organizations too, liquidity is required for various purposes. Inadequate liquidity does damage credit-standing of those organizations but if banks fail to repay the deposits on demand, the bank loses the trust of the public. This leads to "runs" in the bank and probably bankruptcy thereof. The following ratios have been analyzed to test Liquidity Position of the bank:

4.6.1 Cash Reserve Ratio (CRR)

As per the rule of NRB all commercial banks are required to maintain 5.5% of their total deposit of Nepalese currency as CRR in their account with NRB for maintaining adequate liquidity. NRB has prescribed this mandatory requirement in order to save the commercial banks from the liquidity risk. CRR can be computed as follows:

$$\text{CRR} = \frac{\text{NRB Balance (LCY)}}{\text{LCY Deposits – Margin Deposits}}$$

Computation of Cash Reserve Ratio:

Table No. 4.13

Cash Reserve Ratio of NABIL, EBL and SCBNL

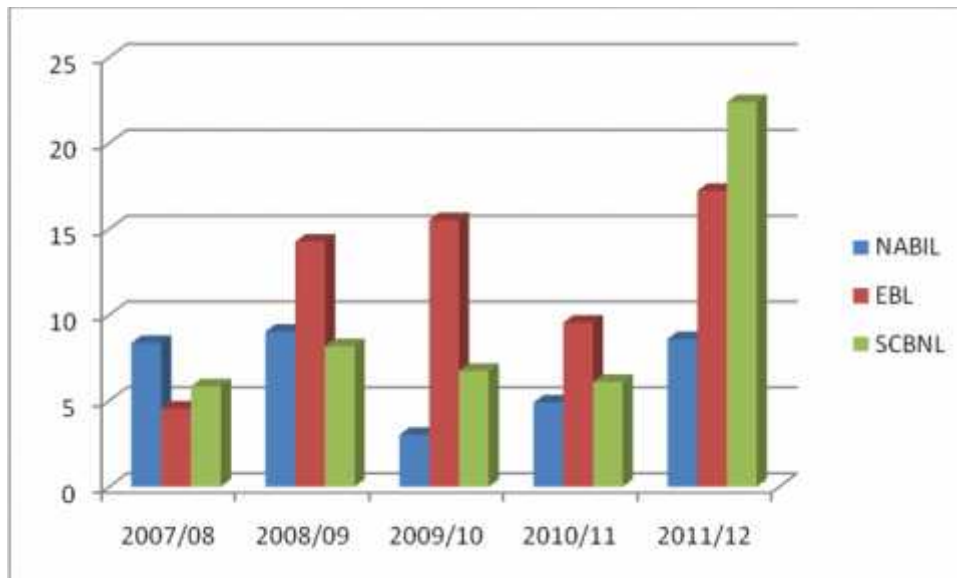
Year	NABIL	EBL	SCBNL
2007/08	8.37	4.56	5.84
2008/09	9.03	14.26	8.18
2009/10	3.02	15.53	6.74
2010/11	4.90	9.55	6.10
2011/12	8.60	17.22	22.40
Average in %	6.78	12.22	9.85

Source: Annual Report of NABIL, EBL and SCBNL

The above table shows the Cash Reserve Ratio of NABIL, EBL and SCBNL from fiscal year 2007/08 to 2011/12. NABIL bank has failed to maintain CRR in the initial two years i.e.2009/10 and 2010/11 and thereafter it maintains in the remaining three year. EBL has failed to maintain CRR in FY 2007/08. SCBNL is able to maintain CRR in all the years.

Figure No. 4.12

Cash Reserve Ratio of NABIL, EBL and SCBNL



As prescribed by NRB the commercial banks have to maintain a reserve of 5% against their deposits up to fiscal year 2008/09 according to BASEL-I & from fiscal year 2009/10 they have to maintain a reserve of 5.5% against their deposits according to BASEL-II. The above figure shows that, NABIL bank fails to maintain CRR in fiscal year 2009/10 & 2010/11, it has maintained CRR. Everest bank has to maintain CRR in every year except 2007/08 which may have bad impact on their customer. SCBNL is able to maintain CRR in every year which is very good for bank to be safe from liquidity problem. As NRB wants bank to maintain CRR on weekly basis, the above shown CRR may not reflect actual position of banks.

Conclusion

Between the above all three banks, EBL has the higher average CRR ratio over the study period. Therefore, EBL is stronger in liquidity position than NABIL and SCBNL. Deposit customer feel more secure because of having higher liquidity position than that of other banks.

4.6.2 Cash and Bank Balance Ratio

This ratio is designed to measure the Bank’s ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower ratio indicates that banks might face liquidity crunch while paying its obligations whereas very high ratio indicates that the bank has kept idle funds and not deploying them properly. Cash and bank balance ratio is derived by dividing the cash and bank balance by total deposits. Symbolically:

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

Computation of Cash & Bank Balance Ratio:

Cash & Bank Balance Ratio of NABIL Bank Limited

Year	Cash & Bank Balance	Total Deposits	Ratio (in %)
2007/08	2671141055	31915047467	8.38
2008/09	3372512471	37348255840	9.04
2009/10	4518241804	46410700628	9.74
2010/11	4889061362	49696112934	9.84
2011/12	4275822050	55023695253	7.77

Cash & Bank Balance Ratio of Everest Bank Limited

Year	Cash & Bank Balance	Total Deposits	Ratio (in %)
2007/08	2667971830	23976298535	11.13
2008/09	6164371163	33322946246	18.50
2009/10	7818815003	3632310008	21.17
2010/11	6122862952	41127914339	14.89
2011/12	10363306307	50006100272	20.72

Cash & Bank Balance Ratio of Standard Chartered Bank Nepal Limited

Year	Cash & Bank Balance	Total Deposits	Ratio (in %)
2007/08	2050243214	29743998794	6.90
2008/09	3137163535	35871721127	8.75
2009/10	1929306520	35182721454	5.48
2010/11	2975795278	37999242310	7.83
2011/12	6366233069	35965630744	17.70

The above three tables showing Cash & Bank Balance Ratio of NABIL, EBL and SCBNL are summarized in the following table:

Table No. 4.14

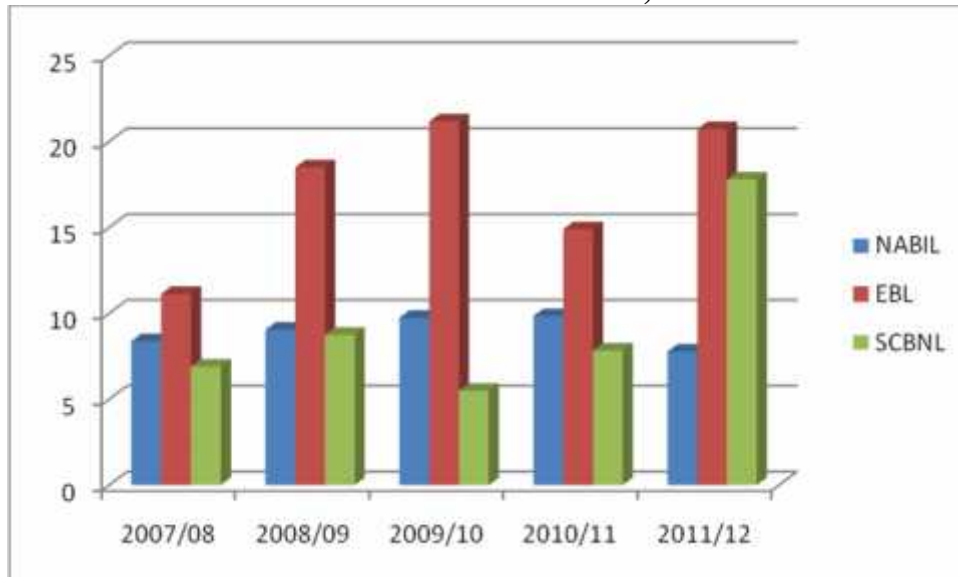
Cash & Bank Balance Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	8.38	11.13	6.90
2008/09	9.04	18.50	8.75
2009/10	9.74	21.17	5.48
2010/11	9.84	14.89	7.83
2011/12	7.77	20.72	17.79
Average in %	8.95	17.28	9.35

The above table shows the Cash & Bank Balance Ratio of NABIL, EBL and SCBNL from the fiscal 2007/08 to 2011/12. EBL has the highest average ratio of 17.28% in comparison to NABIL and SCBNL. NABIL and SCBNL have the average ratio of 8.95% & 9.35% respectively.

Figure No. 4.13

Cash & bank Balance Ratio of NABIL, Ebl and SCBNL



This ratio reflects the banks' ability to pay short term and immediate obligation to the average customers. The above figure shows that the Everest bank has the highest average ratio of 17.28% among the three banks where as NABIL has the lowest average ratio of

8.95%. The ratio of NABIL is more fluctuating in comparison to EBL and SCBNL which shows that the banks need to manage their cash effectively so that there won't be extra idle cash and the obligation should also meet.

4.6.3 Investment in Government Securities Ratio

Banks around the world invest significant portion of their deposits in government securities because merely maintaining adequate CRR and C&B Balance cannot be considered sufficient for liquidity maintenance. Government securities are those securities which are risk free and can be easily converted into cash anytime. Banks can utilize their fund investing into government securities which are liquid in nature. And whenever they need cash they can easily manage because government securities are easily accepted by any investing organization. Investment in government securities ratio depicts ratio of total deposits invested in government securities. Mathematically:

$$\text{Investment in Gov. Securities} = \frac{\text{Investment in Gov. Securities}}{\text{Total Deposits}} \times 100$$

Computation of Investment in Government Securities Ratio:

Investment in Government Securities Ratio of NABIL

Year	Total Investment in govt. Securities	Total Deposits	Ratio (in %)
2007/08	4646883136	31915047467	14.56
2008/09	3706102662	37348255840	9.92
2009/10	7973664007	46410700628	17.18
2010/11	8745230498	49696112934	17.60
2011/12	7999977303	55023695253	14.54

Investment in Government Securities Ratio of EBL

Year	Total Investment in govt. Securities	Total Deposits	Ratio (in %)
2007/08	4821604744	23976298535	20.11
2008/09	5146045773	33322946246	15.44
2009/10	4354353089	36932310008	11.79
2010/11	7145017521	41127914339	17.37
2011/12	6068876365	50006100272	12.14

Investment in Government Securities Ratio of SCBNL

Year	Total Investment in govt. Securities	Total Deposits	Ratio (in %)
2007/08	8137615178	29743998794	27.36
2008/09	9998753558	35871721127	27.87
2009/10	853151925	3518721454	24.25
2010/11	995760572	37999242310	26.20
2011/12	7862717274	35965630744	21.86

The above three tables showing Investment in Government Securities Ratio of NABI, EBL and SCBNL are summarized in the following table:

Table No. 4.15

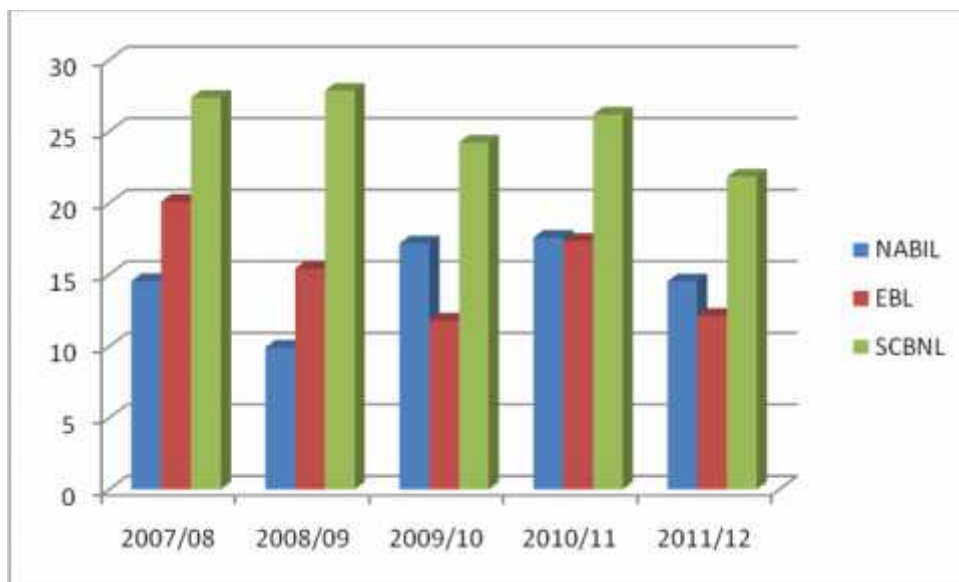
Investment in Government Securities Ratio of NABIL, EBL and SCBNL

Year	NABIL	EBL	SCBNL
2007/08	14.56	20.11	27.36
2008/09	9.92	15.44	27.87
2009/10	17.18	11.79	24.25
2010/11	17.60	17.37	26.20
2011/12	14.54	12.14	21.86
Average in %	14.76	15.37	25.51

The above table shows the Investment in Government Securities Ratio of NABIL, EBL and SCBNL from the fiscal year 2007/08 to 2011/12. SCBNL has the highest average ratio of 25.51% than NABIL & EBL which shows it has invested the highest proportion of its deposits in the government securities. Similarly, EBL has greater investment in government securities than NABIL. The higher ratio shows the better liquidity position of the bank.

Figure No. 4.14

Investment in Government Securities Ratio of NABIL, EBL and SCBNL



The above figure shows that SCBNL has invested the highest proportion of its deposit in the government securities i.e. 25.51%. All three banks have fluctuating trend of investment in government securities ratio. Generally the investment depends on the combination of deposits the bank has. The more the percentage of fixed deposits higher the investment in government securities. The higher percentage shows the better liquidity position of the bank.

4.7 Trend Analysis

A trend is a series of situation that follows a sequence. A widely and most commonly used method to describe the trend is the method of least square. Under this, a trend line is fitted to the data satisfying the conditions. It is used to describe the trend of any variable whether it

Increases or decreases with the passage of time. The trend analysis of profit of different banks, have been presented as below:

4.7.1 Profit Analysis

Profit is the return for taking risk on certain assets. Investors may buy and sell financial assets in order to earn return on them. They expect certain rate of return from the investment capital which is its profit. Its sources are interest spread between loans and deposits, commissions, investment and other earnings.

Table No. 4.16

Actual and Estimated Profit of NABIL, EBL and SCBNL (Rs. in million)

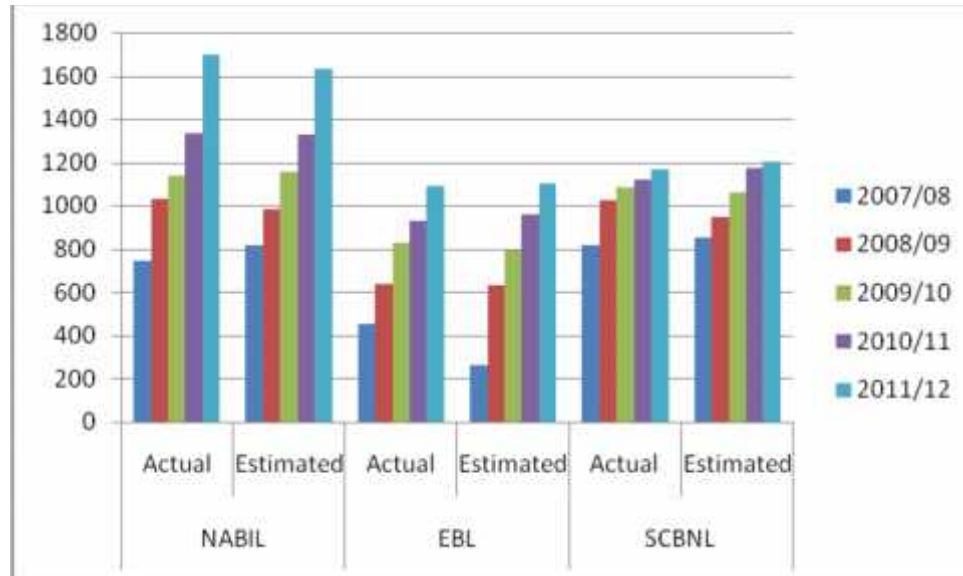
Year	NABIL		EBL		SCBNL	
	Actual	Estimated	Actual	Estimated	Actual	Estimated
2007/08	746	813.7	451	264.4	819	853.6
2008/09	1031	985.8	638	629.4	1025	947.8
2009/10	1141	1157.90	831	794.5	1086	1060
2010/11	1337	1330	931	959.4	1119	1172.2
2011/12	1696	1631.4	1090	1102.4	1168	1201.6

Source: Annex II

The above table shows the Actual profit & estimated profit of NABIL, EBL and SCBNL from the fiscal year 2007/08 to 2011/12. All the three banks have increasing trend of profit from beginning to ending. NABIL bank has highest profit in year 2011/12 than EBL and SCBNL. The estimated profits of all banks are less or more very close to its actual profit which shows the trend equation of profit of all banks is reliable. On the basis of above table, the actual profit of all the three banks is shown in graph below:

Figure No. 4.15

Actual Profit of NABIL, EBL and SCBNL



The above figure shows that all the three banks have increasing trend of profit from fiscal year 2007/08 to 2011/12. NABIL bank has highest profit in the fiscal year 2011/12. Though EBL has lower profit than NABIL and SCBNL in all the fiscal year but the trend of profit is in increasing. In conclusion, we can say that profit earning trend of all the banks is appreciable and hope that the future of all the banks is bright.

Estimated profit of all the banks are calculated by using least square method which is shown in annex II. All the banks should keep continue of growth rate of their profit for the better future of the bank. According to the least square method, the estimated profit of NABIL is higher than that of EBL and SCBNL with Rs. 1631.4 millions. EBL and SBL has Rs. 1102.4 & 1231 million respectively.

4.8 Analysis of Primary Data

To meet the objective of the study, primary data have been taken, analyzed and then conclusion drawn on the basis of the findings. Primary data are collected from listed joint venture commercial banks and investors or depositors as well as individual academicians. More than one respondent have been included from the same organization as possible. The respondent of the data covers customers, commercial bank's officers available within banking hour at main branch of each joint venture commercial banks under study. NABIL Newbaneshwor, EBL Newbaneshwor and SCBNL Newbaneshwor and also individual academicians.

Table No. 4.17
List of answer given by Respondent

S. No.	Statement	Option		
		a	b	c
1.	Are the commercial banks implementing the directives issued by NRB?	25	2	5
2.	Who will be benefited most by maintaining capital adequacy requirement?	18	10	4
3.	Is CAR set by NRB fit for regulation and supervision of commercial bank?	25	6	1
4.	Whether loan and advance are reviewed on periodic basis?	20	8	4
5.	Are you satisfied with existing requirement for the loan and loan loss provision?	24	2	6
6.	Do you that contributions per staff on profit are appropriate to analyses management quality?	22	7	3
7.	Incremental EPS has positive impact on every stakeholder of the bank, to whom do you think the impact is more?	24	2	6
8.	Does the increment in CRR from 5% to 5.5% have	26	4	2

	decrease lending capacity of bank?			
9.	NRB intend to increase interest rate on deposit by increasing CRR, do bank increase their interest rate on deposit?	19	9	4

Above mention table the 1st query that, are the commercial banks implementing the directives issued by NRB, 25 respondent opinions that ‘yes’, 2 respondent opinions that ‘No’ and 5 respondent’s opinions that they don’t know. Most of the respondent agrees that the commercial banks are implementing the NRB directives regularly and minority respondents don’t know about the NRB directives.

The above table query that, which will be benefited most by maintaining capital adequacy requirement, 18 respondents agree that the depositors would be benefited by maintaining capital adequacy requirement. 10 respondents agree with the shareholders also be benefited and 4 respondents agreed that the others benefited, who are relating to the commercial banks.

Third query that, is capital adequacy requirement set by NRB fit for regulation and supervision of commercial banks, 25 respondent agreed that it’s all right to setting capital adequacy requirement by NRB fit for effective regulation and supervision of commercial bank and 6 respondent did not agree to setting capital adequacy requirement by NRB.

Fourth query that, whether loan and advance are reviewed on periodic basis, 20 respondents showed their opinion to review the loan and advances on periodic basis regularly, 8 respondent showed their opinion that don’t review the loan and advance on periodic basis, it is enough to loan and loan loss provision.

Above mentioned table 5th query that, are you satisfied with existing requirement for the loan and loan loss provision, 24 respondents showed their opinion that the loan and loan loss provision of present ratio is adequate to commercial banks. More than 50% respondent satisfied with the NRB loan loss provision directives, only 2 respondents would not be

satisfied with the present provision in NRB and 6 respondents did not know about the question.

Above survey 6th query that, do you agree that contribution per staff on profit are appropriate to analysis management quality, 22 respondents showed their opinion that contribution per staff on profit is appropriate to analyse management quality, 2 respondents would not satisfy that contribution per staff on profit is appropriate measure and 3 respondents did not know about the question.

Above table 7th query that, incremental EPS has positive impact on every stakeholders of the banks, to whom do you think the impact is more, 24 respondents showed their opinion that the impact on shareholders is more, 2 respondents showed their opinion that the impact on depositors is more and 6 respondents showed their opinion that impact on bank is more.

The table 8th query that, does the incremental CRR from 5% to 5.5% decrease lending capacity of bank, 26 respondents showed their opinion that the incremental CRR has decreased lending capacity of banks, 4 respondents showed their opinion that the incremental CRR has not decreased lending capacity of banks and 2 respondents did not know about the question.

The above table 9th query that, NRB intends to increase interest rate on deposit by increasing CRR, do banks increase their interest rate on deposit, 19 respondents showed their opinion that the bank will increase their interest rate due to increment on CRR, 9 respondents showed their opinion that the bank will not increase their interest rate and 4 respondents did not know about the question.

4.9 Major Findings of the Study

The major findings of the study are derived on the basis of analyzing financial data of the relevant banks which can be enlisted as follows:

-) The capital adequacy ratio of all three banks is more than the prescribed values of NRB, which is 11% & 10% according to BASEL-I & BASEL-II respectively. BASEL-II is implemented from the year 2009/10. Among three banks, SCBNL has the highest average ratio of 14.27%, the average ratio of NABIL & EBL are 10.78% & 10.84% respectively. This explains that SCBNL has high degree of strength of capital sufficiency that means better liquidity position and lending capacity of bank but more of its fund seems to be tied up.
-) The core capital ratio of all the banks has more than the prescribed values of NRB which is 5% upto fiscal year 2008/09, 5.5% from fiscal year 2009/10 & 6% from 2011/12 according to BASEL-I & BASEL-II respectively. Among three banks, SCBNL has ranked 1st every time by having highest CCR where as NABIL & EBL is ranked as 2nd & 3rd respectively.
-) The performing loan ratio of EBL and SCBNL is in increasing trend where as NABIL has fluctuating trend of performing loan ratio. The increasing trend of performing loan ratio of EBL and SCBNL shows that the bank has invested their funds in proper way. But the decreasing trend of NABIL shows that the bank should improve their credit management system.
-) The non-performing loan ratio of EBL and SCBNL is in decreasing trend from fiscal year 2007/08 to 2010/11 which indicates that the credit and risk management of both the bank is good. NABIL bank has inconsistent and fluctuating trend of non-performing loan ratio which shows NABIL should focus on managing its loan and advances. The non-Performing loan ratio of all three banks in fiscal year 2011/12 has increased than earlier fiscal year trend.
-) The loan loss provision ratio of all the banks is in decreasing trend from fiscal year 2007/08 to 2011/12 which shows the banks are reducing their non-performing loan and that's why the amount of provision made for non-performing loan is decreasing. EBL has highest average ratio of 2.20% which shows EBL has good capacity to bear

the non-performing loan loss. Currently, Nabil has improved their LLP ratio which was in decreasing trend up to last year in study period.

-) The loan loss coverage ratio of all three banks has fluctuating trend of LLCR. The loan loss coverage ratio shows the capacity of the bank to cover loan loss in case of any default made by loan taker in the future. The data shows the LLCR more than 100% and in some cases it is even more than 400%. It is due to the fact that there is a provision of 1% for good loan also which is not added in non-performing loan.
-) The management efficiency ratio of the entire bank is in increasing trend which shows the banks are able to mobilize their employees. Though EBL has increasing trend of management efficiency ratio, it has lower ratio in comparison to NABIL & SCBNL. So EBL should improve its MER.
-) The earning per share of NABIL is in decreasing trend from fiscal year 2007/08 to 2010/11 but in last fiscal year 2011/12 of this study has increased in EPS. EBL has increasing trend of EPS from fiscal year 2007/08 to 2009/10 but in fiscal year 2010/11 EPS has decreased and again in fiscal year 2011/12 has increased. SCBNL has decreasing trend of EPS from year 2007/08 to 2010/11 but in fiscal year 2011/12 EPS has increased. Even there is not any standard value prescribed for EPS but higher value is preferable. So, all the banks need to be increased their profit volume.
-) Price earnings ratio (P/E ratio) of SCBNL is the highest value of average ratio which is 39.8 6 as well as highest P/E ratio in latest fiscal year. It shows the public have more trust on the bank's earning as well as its performance. Similarly, SCBNL has increasing trend of P/E ratio from fiscal year 2007/08 to 2008/09. EBL and NABIL both banks has decreasing trend in P/E ratio which shows both banks need to be increased P/E ratio.
-) Average ROA of SCBNL is highest than EBL and NABIL which shows the bank is utilizing its assets more efficiently than other banks. The trend of ROA ratio of all

the banks is in fluctuating trend throughout the study period. Maximum ROA ratio shows that the bank is successful in utilizing its assets properly.

-) The average ROE ratio of SCBNL is the highest which is 31.49% where as the average ROE ratio of EBL is the lowest which is 26.24%. All three sample banks have fluctuating trend of ROE ratio where as SCBNL has decreasing trend of ROE from fiscal year 2008/09 to 2011/12.
-) NABIL fails to maintain CRR in fiscal year 2009/10 to 2010/11. But in fiscal year 2007/08, 2008/09 and 2011/12, it has maintained CRR. EBL has maintained CRR in every year except 2007/08. SCBNL is able to maintain CRR in every year which is very good for bank to be safe from liquidity problem. As NRB wants bank to maintain CRR on weekly basis, the above shown CRR may not reflect actual position of banks.
-) Cash and bank balance ratio reflects the bank's ability to pay short term and immediate obligation to the average customers. EBL has the highest average cash and bank balance ratio than other two banks. This shows that the EBL has enough liquidity. NABIL has the lowest ratio and SCBNL has fluctuating trend of ratio.
-) The average investment in government securities ratio of SCBNL is the highest than other two banks. NABIL Bank has fluctuating trend of investment in government securities ratio. SCBNL and EBL have decreasing trend. The higher percentage shows the better liquidity position of the bank. But it might lose opportunities to earn more interest than from that of government securities.

Major Findings from Primary Data

From the analysis of primary data collected from customers, staffs of banks and academicians, we found that maximum of respondents agree on following opinion:

-) Commercial banks are implementing the directives issued by NRB.
-) Depositors will be benefited most by maintaining CAR ratio.
-) CAR set by NRB fit for the regulation and supervision of the banks.

-) Banks review loan and advances in periodic basis regularly.
-) Loan and loan loss provision of present ratio is adequate to commercial banks.
-) Contribution per staff on profit is appropriate to analyze management quality.
-) Incremental EPS has positive impact more on shareholders.
-) Incremental CRR from 5.5% to 6% decreases lending capacity of commercial banks.
-) Commercial banks will increase interest on deposit as intended by NRB by increasing CRR.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The preceding chapters have discussed and explored the facts and matters required for the various parts of the study. Analytical part, which is the heart of the study, financial comparative analysis of various aspects of commercial banks is done by using some important financial as well as statistical tools.

Having completed the basic analysis required for the study, the final and most important task for the research is to enlist findings of the study and recommend for further improvement. This would be meaningful to the top management of the banks to initiate action and achieve the desired result. The objective of the research is not only to point out errors and mistakes but also to correct them and directions for further growth and improvement.

Banking is one of the most important economic drivers of the country. Unless the sector is well developed the economy of any country cannot be uplifted. It is the sector which mobilizes money from surplus sector to deficit sector. The surplus money has to be utilized in productive sector. Banks are one of the authorized sectors to collect surplus money as deposit and mobilize the collected money as loan and advances. They also finance different scales projects, business houses, retail banking, technological innovations, small sector business, remit money, issue letter of credit etc for overall development of economy. Therefore there are different factors also which influence the functioning of the banks namely internal and external factors.

The internal factors are controllable where as the external factors are beyond the grip of control. To ensure the control of external as well as internal factors and to ensure the smooth functioning of the banks, there are different bodies in the country viz. Nepal Rastra Bank in Nepal. The government is another body to regulate. For this purpose, NRB and government have made different regulatory policies in Nepal.

Technological innovation, adoption of the technology, efficiency of the man power is the other factors which influence the functioning of the banks. Even though Nepal is not having stable government, perfect regulatory statement of NRB, secured investment environment banking sector in Nepal is growing. Despite of their capability to adopt with recently innovated technologies they are generating profits. Though the level of profit is not too high seeing the adverse environmental factors, it is satisfactory.

5.1 Summary

The study “CAMEL Analysis of Joint Venture Commercial Banks” with reference to NABIL Bank Limited, Everest bank Limited and Standard Chartered Bank Nepal Limited has been prepared to fulfill the requirement of Master’s of Business Studies (MBS) program. This study is mainly based on the annual report provided by the concerned Banks. While sampling the Banks for study, three joint venture commercial banks working in same field and similar nature have been taken as sample.

For this work various tools are used to study and this study is primary based on secondary data. However the analysis is done on the basis of primary data also. For secondary data the most important tool used is financial tool where different types of ratios are used for the findings. Similarly statistical method is used to find out mean, trend analysis. The secondary data is abstracted from the annual report of three selected joint venture commercial banks. The study covers the periods of five year from 2007/08 to 2011/12. For collection of the primary data, the schedules of questionnaires were developed and asked to the employees and customers of the banks. The personal interview was also conducted to know their opinion.

To conclude this study, the whole study has been divided into five chapters of the different aspects. The summary of each chapter can be presented in each paragraph.

First Chapter “Introduction” provides the brief introduction of the study, where I have described the background of the study, origin of the bank in Nepal, concept of commercial bank and its functions. In this chapter, the objectives of the study are to observe the financial performance, analysis and compare financial performance of NABIL, EBL and SCBNL.

In the second chapter, literature related to the financial performance has been reviewed. By reviewing some previous studies, many inputs can be taken for the study and other researcher can also take advantages from this section.

Third chapter explains about the methodology of the study. I have mostly used the secondary data. This study covers the five years data of the bank and financial and statistical tools are used, which included ratio analysis, mean, trend analysis.

Fourth chapter is data presentation and analysis. Data analysis tools mentioned in the third chapter is used to analyze the data in this chapter. Various ratios that are related to financial performance of the bank have been used to analyze the financial performance of the NABIL, EBL and SCBNL. I have followed the CAMEL approach for the performance analysis of the banks and which has been done through ratio analysis, trend analysis and graphical presentation. Capital, Assets, Management, Earning and Liquidity position of the banks have been analyzed and compared to get the idea about the financial position of these banks.

5.2 Conclusion

The study shows that all the selected banks are performing well under the NRB regulations despite of having unstable political situation of the country. After going through the overall study and findings plus the financial reports, I found that all the three banks are well managed with good capital structure and sound performance. The banks do have an encouraging financial trend of the fiscal year generating profit.

-) The study shows that the capital adequacy ratio is more than 11% & 10% as prescribed by NRB according to BASEL-I & BASEL-II respectively. BASEL-II is implemented from the year 2009/10. Among three banks, SCBNL has the highest average ratio comparison between two banks. This explains that SCBNL has high degree of strength of capital sufficiency that means better liquidity position and lending capacity of bank but more of its fund seems to be tied up.
-) The study shows that the performing loan ratio of EBL & SCBNL is in increasing trend NABIL bank has fluctuating trend of performing loan ratio. The increasing trend of performing loan ratio of EBL & SCBNL shows that the bank has invested their funds in proper way. But the decreasing trend of NABIL shows that the bank should improve their credit managements system.
-) For effective and efficient management, management efficiency ratio has to be high. From the study, management efficiency ratio of all banks is well. Though EBL has increasing trend of management efficiency ratio, it has lower ratio in comparison to NABIL & SBNL. So EBL should improve its MER.
-) Higher the earning higher the banks is rated as successful and efficient. It is not only important to bank but also equally important to shareholders and depositors. From the study, NABIL is in increasing trend for the years there after but is in decreasing trend. EBL has increasing trend of EPS from beginning to ending during the study period. SCBNL has decreasing trend of EPS from year 2007/08 to 2011/12, though it has highest average EPS than other banks but it is not satisfactory level of EPS. Even there is not any standard value prescribed for EPS but higher value is preferable. So all the banks need to be increased their profit volume.
-) As prescribed by NRB the commercial banks to maintain a reserve of 5% against their deposits up to fiscal year 2008/09 according to BASEL-I & from fiscal year 2009/10

they have to maintain a reserve of 5.5% against their deposits according to BASEL – II. NABIL Bank fails to maintain CRR in fiscal year 2009/10 & 2010/11, but in fiscal year 2007/08, 2008/09 and 2011/12 NABIL has been able to maintain CRR. EBL has maintained CRR in every year except 2007/08. SCBNL has maintained CRR in every year which is very good for bank to be safe from liquidity problem. As NRB wants bank to maintain CRR on weekly basis, the above shown CRR may not reflect actual position of banks.

-) The trend of the profit of all the banks is in increasing trend, which encourages the bank to perform better than current situation in future to earn more and more profit by satisfying their customer.
-) NRB as the bank of the bank is a regulating body of all the commercial banks. It has established various standards such as CAR, CCR, and CRR for the protection of depositor and investors. From the study, all selected banks found to maintain NRB's regulation except in case of CRR, NABIL has failed to maintain CRR in fiscal year 2009/10 and 2010/11 and EBL has failed to maintain CRR in first year in the study period.
-) Concludes the CAMEL study the highly effective to compare the financial performance of the banks.

5.3 Recommendations

On the basis of analysis made and conclusion drawn above, some important recommendations have been made here which will be beneficial for the banks to overcome their problems and inefficiencies if applied. They will help the banks to improve their future performances.

Recommendations to NABIL Bank Limited

-) NABIL has fluctuating trend of performing loan and non-performing loan. So it is better for NABIL to have increasing trend of performing loan and decreasing trend of non-performing loan.
-) Management efficiency ratio of NABIL is in increasing trend which is good for the bank and to keep it continue, the bank should adopt new technology as per the change and train their employees accordingly.
-) EPS of NABIL is in decreasing trend. So it should perform its activities more efficiently to increase EPS in future. NABIL's return on assets and return on equity is in fluctuating trend, it is better to have increasing trend of return on assets and return on equity.
-) From the liquidity management perspective NABIL could incur liquidity risk in year 2009/10 & 2010/11 because its CRR was below 5%. So it must maintain its CRR as per NRB directive.

Recommendations to Everest Bank Limited

-) EBL has increasing trend of performing loan and decreasing trend of non-performing loan which is very good for the bank and the same trend should be continued in the future also. But in last fiscal year during the study period EBL has decreased on their performing loan and increased in non-performing loan which is not good for the bank.
-) Management efficiency ratio of EBL is in increasing trend which is good for the bank but in comparison to other bank it is lower. Therefore, the bank should adopt new technology and innovations as per the change and train their employees accordingly, to maximize per employee contribution.
-) Though EBL has increasing trend of EPS, but in comparison to other banks it is lower. So it should perform its activities more efficiently to increase EPS in future. EBL has lowest ROA; it explains that EBL has not effectively utilized its assets to increase profit, so EBL must effectively utilize its assets.

-) From the liquidity management perspective EBL could maintain their CRR in respective condition. It has good CRR except 2007/08, which was below than prescribed by NRB directive.

Recommendations to Standard Chartered Bank Nepal Limited

-) High capital adequacy ratio in excess to statutory requirement indicates bank's inability to invest its resources, possibly limiting its future earning. SCBNL should strive their best to invest their resources in productive sector as their CAR is higher than requirement.
-) SCBNL has increasing trend of performing loan ratio and decreasing trend of non-performing loan ratio which is very good for the bank and should be continued in future. Similarly loan loss provision ratio is in decreasing trend and loan loss coverage ratio is in increasing trend which indicates the better credit management system applied by the bank for their better future.
-) Management efficiency ratio of SCBNL is in increasing trend which shows that the bank is able to mobilize its human resources efficiently. The bank should train their employees as per the change in new technology and innovations for better contribution from them.
-) EPS of SCBNL is in decreasing trend so it should perform its activities more efficiently to increase EPS in future. Similarly, ROA and ROE of SCBNL are in fluctuating trend, it is better to have increasing trend.
-) Investment in government securities of SCBNL is very high, it is good for its depositors but it might lose opportunities to earn more interest than from that of government securities.

Furthermore,

-) The banks should improve their customer's service so the customers are motivated to deposit their surplus resulting in incremental profit.
-) The bank should not only copy the product such as Credit Cards ATM Machine, Master Cards etc of international marketing but also should launch the product that suits the requirements of the common public in Nepal.
-) The bank should give emphasis to all its customers equally to increase its deposits. The bank should not only focus the high income earners and provide service in and around urban areas, but also should provide service to people living in rural areas because large number of Nepalese population live in rural areas.
-) In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing functions as it is an effective tool of attracting and retaining customers. For this, the bank should formulate new strategies of serving customers in a more convenient and satisfactory way.
-) The bank should not escape from its overall social responsibilities.
-) The bank should provide incentive to the employee in order to motivate them in their performance which leads to improve the overall bank performance.
-) The project oriented approach has to be encouraged in lending business of the bank in which security is not necessary, risk is high but the project is important from the point of view of national economy. This gives rise to the bank and economy as a whole.
-) The bank is recommended to open its branches not only in the urban areas, but also in the rural areas of the country for boosting up the lower level people.

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ANNEX I

Questionnaire

Dear respondent,

I would like to request you to fill up the following questionnaires prepared for collection of your views as valuable resources for my research work. This research is conducted for partial fulfillment of the requirements for the degree of MBS. It would be of great value should you help in this project work by filling the following questionnaire:

Please tick () an option which you favor most.

1. Are the commercial banks implementing the directives issued by NRB?
 - (a) Yes ()
 - (b) No ()
 - (c) Don't Know ()
2. Who will be benefited most by maintaining capital adequacy requirement?
 - (a) Depositors ()
 - (b) Shareholders ()
 - (c) Don't Know ()
3. Is CAR set by NRB fit for regulation and supervision of commercial bank?
 - (a) Fit ()
 - (b) Unfit ()
 - (c) Don't Know ()
4. Whether loan and advance are reviewed on periodic basis?
 - (a) Yes ()
 - (b) No ()
 - (c) Don't Know ()

5. Are you satisfied with existing requirement for the loan and loan loss provision?
- (a) Yes ()
 - (b) No ()
 - (c) Don't Know ()
6. Do you agree that contributions per staff on profit are appropriate to analyze management quality?
- (a) Yes ()
 - (b) No ()
 - (c) Don't Know ()
7. Incremental EPS has positive impact on every stakeholders of the bank. To whom do you think the impact is more?
- (a) Shareholders ()
 - (b) Depositors ()
 - (c) Don't Know ()
8. Does the increment in CRR from 5% to 5.5% decrease lending capacity of banks?
- (a) Yes ()
 - (b) No ()
 - (c) Don't Know ()
9. NRB intend to increase interest rate on deposit by increasing CRR. Do banks increase their interest rate on deposit?
- (a) Yes ()
 - (b) No ()
 - (c) Don't Know ()

ANNEX II

Trend Analysis of Profit of NABIL, EBL and SCBNL (Rs. in million)

Year	X	NABIL (Y)	EBL (Y ₁)	SCBNL (Y ₂)	x = (X-3)	x ²	xY	xY ₁	xY ₂
2007/08	1	746	451	819	-2	4	-1492	-902	-1638
2008/09	2	1031	638	1025	-1	1	-1031	-638	-1025
2009/10	3	1141	831	1085	0	0	0	0	0
2010/11	4	1337	931	1119	1	1	1337	931	1119
2011/12	5	1696	1090	1168	2	4	3392	2180	2336
Total	n= 5	Y= 5951	Y ₁ = 3941	Y ₂ = 5216	x=0	x ² = 10	xY= 2206	xY ₁ = 1571	xY ₂ = 792

Year 2009/10 is taken as base year

For NABIL Bank Limited:

$$a = Y/n = 5951/5 = 1190.2$$

we have the least square trend is $y = a + bx$

$$y = 1190.2 + 220.6x$$

$$b = xY / x^2 = 2206/10 = 220.6$$

For Everest Bank Limited:

$$a = Y_1/n = 3941/5 = 788.20$$

we have the least square trend is $y = a + bx$

$$y = 788.20 + 157.10x$$

$$b = xY_1 / x^2 = 1571/10 = 157.10$$

For Standard Chartered Bank:

$$a = Y_2/n = 5216/5 = 1043.20$$

we have the least square trend is $y = a + bx$

$$y = 1043.20 + 79.20x$$

$$b = xY_2 / x^2 = 792/10 = 79.20$$

Calculation of Estimated Profit of NABIL, EBL and SCBNL (Rs. in million)

Bank	Trend Equation of Profit	2007/8	2008/9	2009/10	2010/11	2011/12
NABIL	$y = 1190.2 + 220.6x$	749	969.6	1190.2	1410.8	1631.4
EBL	$y = 788.20 + 157.1x$	474	631.1	788.2	945.3	1102.4
SCBNL	$y = 1043.20 + 79.2x$	884.8	964	1043.2	1122.4	1201.6