CHAPTER I

INTRODUCTION

1.1 Background of the Study

The unified and speedy development of the country is possible only when competitive banking service reaches nooks and corner of the country. It is not possible to develop the entire sector by the investment of government fund. So financial system is difficult and many different types of private sector's financial institutions including banks, insurance companies, mutual funds, finance companies and investment banks comprise. These sectors have great influence in the country's economy.

The present deregulation, innovation, competition and globalization in the financial system especially in the banking sector have contributed to making banking business more complex and potentially riskier has presented new challenges and difficulties for supervisor's body for supervision. In response, supervisors have innovates new methods and techniques for monitoring and assessing banks and other financial institutions.

The main objective of regulation towards the financial institution is to stabilize growth and increase the public confidence in the economy. Many techniques and methods have been taken or are being taken for the improvement on the performance of banks also of the underlying risk profile and risk management capabilities of individual institution.

In the general context, financial soundness and stability of the financial institutions are measured by themselves or also by the regulatory body. Especially the government body is the most effective body for supervision and measurement. The macro prudential indicators enhance disclosure of key financial information to the market. In addition, these macro prudential indicators and methods for analyzing indicators are more over same in national and global levels, but level of capital interpretation is different according to risk level of the financial institution.

The CAMEL methodology was originally adopted by North American bank regulators to evaluate the financial and managerial soundness of U.S. commercial lending institutions. In 1978 the Federal Financial Institutions Examination Council, which includes senior management officials from several U.S. regulatory agencies the Office of the

Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Association decided to design a standardized rating system. These agencies adopted the CAMEL in 1979. CAMEL is an acronym for five measurements of a financial institution: Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity Position. This technique works smoothly to 1995 but in 1996, It was revised to CAMELS by including an "S" for Sensitivity to market risk.

CAMELS are standard tools to measure the soundness and overall performances in banking industry. The overall national economy, competition among the financial players in existing markets, government policy towards the financial institutions, overall riskiness factors etc are affects the financial soundness of the financial institutions. Financial soundness indicators are indicators or the current financial health and soundness of the financial institution in a country as well as of their corporate and households counterparts. Financial soundness indicators play a vital role in financial stability. It includes both aggregate individual institution and representatives of the markets in which the financial institutions operates.

It is amalgamated rating system, in which banks and financial institution are rated according to their performance. Basically, CAMELS composite rating system based on managerial, operational, financial and compliance performance of individual bank. The rating scale ranges 1 to 5. Rating of 1 indicates the strongest performance in all aspects where as 5 indicate the most critically inefficient with other in performance and management practice which requires more supervision.

As the result of globalization, Nepal can't bounded it's activity locally so it has opened all activity to globally. As the result, it has to open its financial sectors globally. To compete with international banks - from the decade Nepal has been implementing various programs and methods for the improvement of financial sector. Thus Nepal government and Nepal Rastra Bank, the central bank and regulatory authority of banks and financial institution in Nepal, had implemented regulatory concept in bank supervision from 2001. In which CAMELS is the best approach and methods for evaluating the Banks and other financial institution's performance and soundness?

1.2 Focus of the study

Nepal Rasta Bank (NRB) as a regulator and supervisor of the banking sector has been effortful to ensure healthy and efficient by improving regulator on par with international standard. Bank supervision department NRB bases its evaluation of financial performance of commercial banks on a CAMELS rating system. An effective performance measurement system presents both financial result and operating data of a responsibility basis. The study focuses on the financial performance of commercial bank by using descriptive cum analytical research design. Many countries are applying CAMELS monitoring tools, which is design by UFIRS to supervisory controls in the commercial banks operations and help to find the critical deficiencies faced by such banks. More especially the study focus on the trend of capital adequacy ra tio and non-performing loan ratio and other necessary ratios relative to NRB standard and industrial average respectively. This study basically focuses on the five years past financial performance (from fiscal year 2006/07 through 2010/11) of joint venture commercial bank (NABIL Bank Limited, Standard Chartered Bank Nepal Limited, Everest Bank Limited, Nepal SBI Bank Limited, Himalayan Bank Limited, Nepal Bangladesh Bank Limited, Nepal Merchant and Banking Bank Limited – NABIL, SCBNL, EBL, SBI, HBL, NBBL and NMB) in the framework of CAMELS.

1.3 Statement of the problem

As the present context, many banks and other financial institutions are mushrooming, cause increase more competition and needs to grow productivity for the bank it selves and needs profitability to investors too. To meet such challenges bank innovates different techniques and methods for higher productivity at minimum cost. But this may lead to deregulation and risk. As a regulator, central bank should regulate, monitor and control activities of FI to save the public and the economy. In view of this it is important to FI's for managing risk from appropriate policies, process and practices in place that management follows and uses.

The elementary problem of this research is to scrutinize the financial condition of selected joint venture commercial banks in the framework of CAMELS and is an attempt to come back with the following research question:

1. How joint venture banks are maintaining capital adequacy? Is it sufficient as per prescribed?

2. What is the level of assets quality? Is it reflecting the safety margin for bank against NPL?
3. Is the management is able to manage expenses with respect to revenues?
4. What are the levels, trend and stability of selected bank's earning?
5. Is the liquidity position of selected banks is sufficient?
6. How changes in interest rates affect earning of joint venture banks?

1.4 Objectives of the study

The current global economic crisis and recession has hits the world's largest economy like UK, USA and Japan. Nepal also has been facing its impacts on its economy. To skip from the crisis, it has become important to review the banking industry and its business strategies.

In line with the problem statement, the main objectives of this study are to analyze condition of selected JVBs and following are the objectives on specific terms.

1. To evaluate the capital adequacy of selected JVBs in references of NRB directives.
2. To analyze the ratio of loan loss provision to non performing loan or safety margin.
3. To evaluate the management efficiency in regard to bank total revenues, expenses and other established controlling and monitoring mechanism.
4. To evaluate the level, trend and stability of earnings.
5. To evaluate the selected bank's liquidity position over the past five years.
6. To see the sensitivity of market risk.

1.5 Significance of the study

This study is the financial performance of selected JVBs in Nepal in the framework of the CAMELS. It will help to know the existing problem of banks and give recommendation their sound financial health. This research would help to manage to evaluate performance of their banks. CAMELS rating system will crucial and convenient technique to assess the financial performance of any financial institution and it will provide a framework for the supervisory authority. On the other hands the study is an important for the commercial banks,

researcher, scholars, schools student and many other partners. At last if will add little worth to those who want conduct a research work in their related topic.

1.6 Limitation of the Study

Every study has its own limitations. The following are the main limitation of the study. The study is carried out on the basis of published financial documents such as balance sheet, income statements, related journals, magazines and books. These published documents have their own limitations.

- The study considers only five year data of selected JVBs (NABIL, SCBNL, EBL, SBI, HBL, NBBL and NMB) from 2006/07 to 2010/11.
- The study has been conducted to fulfill for the partial requirements for MBS programmed.
- The study is mainly focused on CAMELS framework to evaluate financial performance of the selected banks.
- The study based only on the secondary data.

1.7 Organization of the study

The study is integrated form of all the activities involved in research work. To make research more effective and easy the whole research will be divided into five chapters. The contents of each of the chapter of this study will be as follows:

Chapter I – Introduction

In this section, we are explained our study in surface. Different heading of general background, focus of the study, statement of the problem, objectives of the study, significance of the study, limitation of the study, organization of the study are presented in this chapter. We can understand our mission, objective and our direction of this chapter.

Chapter II - Review of Literature

Review of literature is important tasks for thesis writing. Literature gives a attractive, readable and simplicity report, the possible spot of literature is library, different books, past thesis and dissertations, journal website, class discussion etc.

Chapter III - Research Methodology

In this chapter, we are focusing the research design, nature and sources of data and tools employed. It is an important chapter because in the financial analysis of a firm we

should need the various data and different statistical tools. Data sources are also considerable subjects in the research methodology tools. Research methodology is directed in the area, limitation, probable error, tools and technique of research analysis for preparing and completing of the thesis.

Chapter IV - Presentation and Analysis of Data

It is a body of report. Data presentation and analysis is started with various data. In this section we are alteration data, synthesizing of data and forwarded for the clear cut situation. The process of data presentation is stated with the input the data's and finally give a clear solution. It is a process of input-process-output system. Collection and presentation of data is input, analysis of data is process and summary and conclusion is output.

Chapter V - Summary, Conclusion and Recommendation

This is the end section of report. In this section, we are presented the concluded study; all of our study is depend on the presentation of this chapter. In the bibliography section, we are presented the different books and author whose valuable contribution pleasing to thesis completing. Summary and conclusion is the main theme of this report. In this section we are going to present the conclusion about findings.

CHAPTER II

LITERATURE REVIEW

This chapter is basically concerned with review of literature relevant to the financial performance analysis of commercial banks. It is divided into two sections: one is conceptual review and another is research review. Conceptual review deals with various components to financial performance of commercial bank. Research review presents the different books, articles, journals, reports, research studies published by various institutions; unpublished dissertations submitted by master levels students and, other related published and unpublished materials.

2.1 Conceptual Review

This section presents the conceptual aspect of the study. It includes the concept of commercial banks, function of commercial banks, historical development of commercial bank in Nepal, short description about selected joint venture banks, supervision system of NRB, method of financial performance analysis.

2.1.1 Concept of Commercial Bank

The concept of commercial bank evolved from the concept of commerce. The name commercial implies that banks devote most of their resources to meeting the financial needs of business firms. The commercial sector development of a country is largely depends upon services of commercial banks. The commercial bank is that financial institution which deals in accepting deposits of persons and institution, and provides them loans against securities. These banks also provides technical and administrative advice to business, trade and industries as well as developing newer and more innovative services, such as investment advice security underwriting and financial planning. The commercial banks accept the deposit from unproductive sectors and channelize them in the productive sectors. They provide the working capital required by trade and industry in their day to day transactions. Besides this they also provide services like collection of bills and cheques, safe keeping of valuables, finance advising etc. to their customers. In recent years, however, commercial banks have significantly extended their offerings and services to consumers and units of government. Commercial banks "borrow money" with one hand at a low rate of interest and lend it with other at a higher rate is the margin or profit of the bank. Although the banks are

really inspired with the objective of gaining profit, these commercial banks are established to accelerate common people's economic welfare and facility to provide the banking services to the public and the state. The success of such a bank depends upon the belief and confidence increase in the minds of the general public to the banks.

In this context, commercial bank is established with a view of providing short-term debt necessary for trade and commerce of the country along with other ordinary banking business such as collecting the surplus in the forms of deposit lending debts by discounting valuable goods in security acting an agent of the client etc. In the same way, principally commercial banks deposits and provide loans primarily to business firm. According to the Bank and Financial Institutional Act 2006, the banks and financial institutions are classified under four categories according to paid up capital. The "A" classes financial institutions are called bank which should have to hundred cores paid up capital for national level and other "B", "C", and "D" classes of financial institution are called non-bank financial institution such as development banks respectively. They also should maintain the paid up capital by doubling for existing capital provision.

Commercial banks have played a very significant role in creating banking habit among the people, widening area and business communities and the government in varies ways. These banks are controlled and regulated by central bank of the nation. In Nepal, Nepal Rastra Bank as a central bank, control and regulated all the commercial banks in the country.

2.1.2 Historical Development of Banking Industry in Nepal

The growth of banking in the Nepal is not so long. In Comparison with other developing or developed country, the institutional development in banking system of Nepal is far behind. Nepal had to wait for a long time to come to this present banking position. Now, the banking system is still in the evolutionary phase. Even though, the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the regine of different king, the evidence of minted gold and silver coins. Landlord, merchant and other individual moneylender have acted as lender in the un-organized money market.

At the beginning of 8^{th} century Gunakamadev had borrowed money to rebuild the Kathmandu valley and at the end of the same century, a merchant named, Shankhaghar, has started the "New year" Nepal Sambat after releasing all the people of Kathmandu from the debt. This record proves the existence of money lender function at that time. In 11^{th} century,

during Malla regine, there were an evidence of professional money lenders and bankers. In 12th century, Sadashiva Dev introduced silver coins. However, due to the absences of regulatory bodies, the moneylenders charged high rate of interest and other extra dues to loan extended.

During the course of development of borrowing, we further come across the term "Tanka Dhari" at the ends of the 14th century, meaning moneylenders, which is one of the sixty four castes classified in the basis of occupation. In 1877 A.D. "Tejarath Adda" was established by than government. The main purpose of this institution was to provide credit facilities to the general public at minimum interest rate of five percent. The establishment of this institution marked the beginning of organized financial institution in Nepal.

The modern banking system was established after the establishment of Nepal Bank Ltd at1937 which was the first commercial bank in Nepal. Nepal Rastra bank was established at 1957 which was the central bank or regulatory body of financial institution in Nepal. After establishment of NRB, a number of financial institutions were established. In 1957 A.D, Industrial Development Bank was establish to promote the industrialization in Nepal, which was latter converted into Nepal Industrial Development Corporation (NIDC) in 1959 A.D. Rastriya Banijya Bank was established in 1966 A.D. as 'the second commercial bank of Nepal' which fully owned by government. Agriculture is the main occupation of Nepalese people, the development of this sector plays the vital role in the economy. So, Agricultural Development Bank was established in 1968 A.D. this is the first institution in agriculture as financing; it was established with the objectives of providing facilities and financial support to the public by bringing about dynamism in agricultural development of the nation and to provide the capital and loan to the agricultural field. It also gives the technological advice to the formers.

The process of the development of banking system in Nepal was not satisfactory up to 1980s. The country cannot change its status by using only its own capital in the country without importing the new technology from foreign country. So, in mid 1980s, the financial liberalization policy introduce by the government. After declaring free economy and privatization policy, HMG encouraged the establishment of private banks including the foreign joint ventures. From this, the real from to the development of the banking system is stated in Nepal. The banks began to offer their valuable services to the people through new technologies. This was the great significant event. Thus, Nepal Arab Bank Limited (NABIL)

established in 1984 A.D. This is the first modern bank with latest banking technology, and than one after another several joint venture banks were established in the country. Thereafter, local national and regional level banks also came into the country. As a result, thirty two commercial banks, 79 development banks, 79 finance companies 18 micro finance development banks and several saving and co-operatives are in operation. The Commercial banks which are operating is shown in the following table.

Table 2.1

List of commercial banks

S.N	Name	Established Date	Head office
1	Nepal Bank Limited	15 Nov,1937	Kathmandu
2	Rastriya Banijya Bank	23 Jan,1966	Kathmandu
3	Agricultural Development bank	19 feb,1968	Kathmandu
4	Nabil Bank Ltd	16 July 1984	Kathmandu
5	Nepal Investment bank	27 Feb,1986	Kathmandu
6	Standard Chartered bank Nepal	30 Ja,1987	Kathmandu
7	Himalayan Bank Ltd	18 Jan,1993	Kathmandu
8	Nepal SBI Bank Ltd	7 July,1993	Kathmandu
9	Nepal Bangladesh bank	5 June,1993	Kathmandu
10	Everest Bank Ltd	18 oct,1994	Kathmandu
11	Nepal Credit and Commerce Bank Ltd	14 oct,1996	Siddharthanagar, Rupendehi
12	Bank of Kathmandu	12 March,2005	Kathmandu

13	NIC Bank Ltd	21 June,1998	Biratnagar, Moring
14	Lumbini Bank ltd	17 July 1998	Narayanghat, Chitwan
15	Machhapuchre Bank Ltd	3 Dec,2000	Pokhara, Kaski
16	Development credit bank Ltd	23 Jan,2001	Kathmandu
17	Kumari Bank Ltd	3 April,2001	Kathmandu
18	Laxmi Bank Ltd	3 April,2002	Birgung
19	Siddhartha Bank Ltd	24 Dec,2002	Kathmandu
20	Global Bank Ltd	2 Jan,2007	Kathmandu
21	Citizens Bank Ltd	21 June,2007	Kathmandu
22	Prime commercial Bank Ltd	24 Sept,207	Kathmandu
23	Bank of Asia Nepal Ltd	12 Oct,2007	Kathmandu
24	Sunrise Bank Ltd	12 Oct,2007	Kathmandu
25	Nepal Merchant Bank Ltd	26 Nov,1996	Kathmandu
26	Kist Bank Ltd	7 May,2009	Kathmandu
27	Janata Bank Ltd	28 Apr,2010	Kathmandu
28	Mega Bank Ltd	July,2010	Kathmandu
29	Commerz and Trust Bank Ltd	July,2010	Kathmandu
30	Civil Bank Ltd	20 Feb,2011	Kathmandu
31	Century Bank Ltd	19 Feb,2011	Kathmandu
32	Sanima Bank Ltd	2011	Kathmandu

2.1.3 Introduction of selected bank

2.1.3.1 NABIL Bank

NABIL bank is the first private and joint venture bank after adopting the financial liberalization policy in 1980's.It was established on 12th July 1984 with joint venture of National Bank Ltd, Bangladesh and Nepali investor with paid of capital of 689.2 million rupees. It has 50% ownership of National Bank Ltd, Bangladesh and 50% ownership of Nepalese investor. Its head office is located in Kathmandu. It is the first modern bank in Nepal. It had providing different services such as business banking, privilege banking, bank assurance, personal ban king, remittance services, trade finance, clean bills, e-banking and different card services such as ATM, Debit card, Credit card. It has providing services to its customer from 50 branches and 74 ATM booths.

Table 2.2

Current Capital Structure of NABIL Bank

Share capital	Amount (Rs)
Authorized capital	Rs.2100,000,000
Issued capital	Rs.2029,769,400
Paid up capital	Rs.2029,769,400

Source: Annual report of NABIL bank ltd (July, 2011)

2.1.3.2 Standard chartered Bank Nepal Ltd

Standard chartered Bank Nepal Ltd was established as a joint venture with Grind Lays bank of Australia &UK in 1987 under commercial act 2031 B.S. the bank has changed its name Grindlays Bank to Standard Charter Bank Nepal ltd. In july 2001. Today the bank is an integral part of Standard Charter Group having an ownership of 75% in the company with 25%shares owned by Nepalese public. Its head office is at new Baneshor Kathmandu. It has providing different services such as Deposit, Loans, Personal banking, SME banking, Wholesale banking, Online banking, Remittance and different cards like ATM, Debit cards,

Credit cards etc. It is providing services from its 15 branches, 4 extension counters and 20 ATM booths.

Table 2.3

Current Capital Structure of SCBNL

Share capital	Amount(Rs)
Authorized capital	Rs.2000,000,000
Issued capital	Rs.1610,168,000
Paid up capital	Rs.1610,168,00

Source: Annual report of SCBNL (July, 2011)

2.1.3.3 Everest Bank Ltd

Everest Bank Ltd was registered on 17 Nov, 1992 as joint venture bank with Punjab national bank; India and came in to operation from 18 Oct, 1994 with an objective of extending professionalized and efficient banking services to different sector of country. It has 20% shares of Punjab national bank and 80% shares of Nepalese investors. It is operating from Lazimpart where the head office is located. It is providing modern and efficient services like Deposits, loans, remittance, e-banking, Debit card and ATM service from 45 branches and 55 ATM booths.

Table 2.4

Current Capital Structure of EBL

Share capital	Amount(Rs)
Authorized capital	Rs.2000,000,000
Issued capital	Rs.1281,406,500
Paid up capital	Rs.1279,609,490

Source: Annual report of Everest Bank Ltd (July, 2011)

2.1.3.4 Nepal SBI Bank Ltd

Nepal SBI Bank Ltd was established in 7 July, 1992 in joint venture with State Bank of India with an initial paid up capital of 877.4 million rupees. It has 50% shares of State Bank of India and 50% shares of Nepalese investors. It has providing various services like deposit and account, loan and advance, remittance sewa, auxiliary services and different card services such as ATM, Debit card and Visa card etc from 50 branches and 73 ATM booths. Nepal SBI Bank Ltd is one of the succeed bank in Nepal.

Table 2.6

Current Capital Structure of NSBI Bank

Share capital	Amount(Rs)
Authorized capital	Rs.2000,000,000
Issued capital	Rs.1869,303,258
Paid up capital	Rs.1869303258

Source: Annual report of Nepal SBI Bank Ltd (July, 2011)

2.1.3.5 Himalayan Bank Ltd

Himalayan Bank Ltd was established in 1993 in joint venture with Habib Bank Limited of Pakistan with an initial paid up capital of 1013.5 million rupees. It has 20% shares of Habib Bank Ltd Pakistan and 80% shares of Nepalese investors .It has providing different services such as deposits, loans, international banking, SMS banking, internet banking, remittance sewa, safe deposit locker and different card service like ATM, Debit card, credit card etc from 38 branches and 56 ATM booths. It was the first banks which apply modern service such as ATM and Tele-banking service.HBL is most leading bank in Nepal now.

Table 2.5

Current Capital Structure of HBL

Share capital	Amount(Rs)
Authorized capital	Rs.3000,000,000
Issued capital	Rs.2000,000,000
Paid up capital	Rs.2000,000,000

Source: Annual report of Himalayan Bank Ltd (July, 2011)

2.1.3.6 Nepal Bangladesh Bank Ltd

Nepal Bangladesh Bank Ltd was established in 1994 in joint venture with IFIC Bank of Bangladesh with an initial paid up capital of 744.1 million rupees. It has 25% shares of IFIC Bank of Bangladesh and 75%of Nepalese investors. Its head office is located at New Baneshwor, Kathmandu. NBBL is providing different services such as SMS banking, E-banking, deposit, Loans, Locker service, NTC utility payment service, remittance and various card service like ATM, Debit card etc from 20 branches and 18 ATM booths.

Table 2.7

Current Capital Structure of NBBL

Share capital	Amount(Rs)
Authorized capital	Rs.3000,000,000
Issued capital	Rs.2000,000,000
Paid up capital	Rs.1880,315,000

Source: Annual report of Nepal Bangladesh Bank Ltd (July, 2011)

2.1.3.7 Nepal Merchant Banking Bank Ltd

Nepal Merchant Banking Bank Ltd was established in May, 2008 in joint venture with SDNBHD Malaysia with an initial paid up capital of 1000 million rupees. It is the latest joint venture bank of Nepal. It has 15% shares of SDNBHD Bank Malaysia and 85%of Nepalese investors. It is operating from Babarmahal, Kathmandu where the head office is located. It has providing different services such as personal banking, corporate business banking, transaction banking, mobile banking, deposit, loan and different card services like ATM to its clients from 21 branches and 23 ATM booths.

Table 2.8

Current Capital Structure of NMB Bank

Share capital	Amount(Rs)
Authorized capital	Rs.2000,000,000
Issued capital	Rs.2000,000,000
Paid up capital	Rs.2000,000,000

Source: Annual report of NMB Bank Ltd (July, 2011)

2.1.4 Function of Commercial Banks

Commercial banks are directly related with the people and institutions. In the past, banks only used to collect deposit from savers and provide loans to the individual person, business firms and others. Now the service provided by bank have been extended to many areas as human wants and the development of technology such as SMS banking, E-banking, On-line banking, ATM cards, Debit cards and Credit cards . In Nepal, the commercial banks perform the following functions:

1. Deposit collection

Collecting deposit is the primary function of the commercial banks. They collect deposit from individuals, business, government sectors and other institutions where the fund is idle or

utilized in non profitable sector. Commercial banks collect the deposits by different techniques some of them are as follows:

- **Current deposit or current account**

  Current deposit is also known as demand deposit. These deposits generally maintain by the business man or business institution that have to make a number of payments frequently or regularly. No interest is paid on such account but sometimes depositors may have to pay certain charges to the bank for service rendered.

- **Saving deposit or saving account**

  These deposits are longer time than current deposit but shorter time than fixed deposit. Banks may create some restrictions to the depositors regarding the number of withdrawal and the amount to be deposited in a given period. Low rate of interest is paid. However these deposits are more stable than current deposit but less stable than fixed deposit.

- **Fixed deposit**

  The amount deposited for a certain time period is called fixed deposit. It is called permanent or term deposit. The rate of interest on this deposit is higher than other deposit. The amount deposited in fixed account cannot withdrawal before the time period. The fixed deposit is the time obligation of banks.

- **Call deposit**

  It is the hybrid deposit or combined deposit of current deposit and fixed deposit. The term Call Deposit refers to a specific type of interest bearing investment account that allows a person to withdraw their money from the account without a penalty. So it is a special service provided by the bank to their customer.

- **Margin deposit**

  This account or deposit is meant for holding margin money of the customers' deposits (non interest bearing) to available different facilities from the bank. Customers are not allowed to withdraw any amount from these accounts until the expiry of available

facilities. Margin deposits are required for facilities like LC, Guarantee, Remittance and some other facilities.

2. Advancing Loans

The most important function of commercial bank is providing loans to the individuals, business firms and other institutions. Commercial banks offered different types of loans to their customers some of them are as follows;

- **Making loans:** Commercial bank is a profit oriented business organization. So banks have to provide loans to public or institutions and generate interest from them as profit. After keeping certain cash reserves, banks provide short, medium and long term loans to needy borrowers. For security, banks generally provide loan on mortgage. Now-a-days, banking business is also facing sharp competitions. So, bankers, sometimes, provide loans without mortgage too. Such loans are advanced on the basis of goodwill and relationship with the party. The loan proposal is very good if the probability of success of proposed business is very high, than bank may sometimes advance loans for such business without any security. Sometimes it may very short period or sometimes it may longer time, it depends upon the reliability of Clint.

- **Cash Credit:** Banks advance loan as cash credit to businessman against certain specific securities. The amount of the loan is created to the customer for the lump sum and he can withdraw money according to his requirement. Interest is charged only the amount is withdrawn from the account.

- **Overdraft:** Normally, business men and institutions open current account in bank. They deposit all receipts in the account and pay all dues through cheque. Bank provides overdraft facilities to such account holders to withdraw more than their deposit. The account holders have to go in a special contract with bank to get such facility.

- **Money at Call:** It is a very short term loan provided by bank at a very short notice. Generally, loan under money at call has time duration of only one day. It is also called overnight loan. After that period, the money should be refunded. Such loan is useful especially for other financial institutions traders.

- **Discounting Bills of Exchange:** If a creditor holding a bill of exchange wants money immediately the bank provides him money by discounting bills of exchange. It deposits the amount of the bill in the current account of the bill holder after deducting its rate of interest for the periods of loan. The length is generally 90 days. When the bills of exchange mature the bank received its payment from the banker of the debtor who accepted the bill.

- **Credit Creation:** Credit Creation is one of the most important functions of the commercial banks. By the credit creation commercial banks become able to grant more loan than it has own capacity. Banks accept deposit in the different forms and advance loans on credit to customers. When a banks advices loan, it does not pay the amount in cash. However, it opens a current account in his name and allows him to withdraw by cheques. Thus the granted loan again deposited in the bank. for another customer also it is repeated by the similar process in which advance loan on credit to customers however open current account to their name and allows him to withdraw by cheques. Thus the granted loan on credit to customers however open current account to their name maintaining small cash in reserve and allows him to withdraw the required sum by cheques. This process is continued to other customer also because there is numerous transitions from taken place. Bank is also creating credits or deposits by deposits. Therefore, the loans make of increase in the total amount of deposits.

3. Other functions

Besides above function the commercial banks provide other many different functions which are as follows:

- **Financing Foreign Trade:** Commercial banks financed foreign trade to its customer by accepting foreign bills of exchange and collecting them from foreign bank. It also transacts other foreign exchange business buying and selling of foreign currency.

- **Agency Services:** Bank is an mediator of its customers while collecting and paying cheque, bills of exchange, drafts dividends etc, it also buys and sells shares, debentures etc. for its customers. Further, it pays subscription, insurance premium customer bills and other similar charges on behalf of its clients. It also acts as a trustee and executer of the property and will of its customers. More ever, the bank acts all

consultants to its clients. For these services, the bank charges a normal fee while its renders others free of charges.

- **Miscellaneous Services:** Besides the above noticed services, the commercial bank performs a number of other services; it acts as the custodian of the valuables of its customers by providing these lockers where they can keep their jewelry and valuable documents. It issues various form of credit instruments such as cheque, drafts and travelers cheque etc which facilitate their transactions. It renders underwriting services to companies and helps in the collection of funds from the public.

- **E-banking:** Online banking (or Internet banking or E-banking) allows customers of a financial institution to conduct financial transactions on a secure website operated by the institution, which can be a retail or virtual bank, credit union or society. For the convenient of customers the commercial banks have provided different cards like ATM cards, Debit cards, Credit cards etc. The common features fall broadly into several categories

A bank customer can perform some non-transactional tasks through online banking, including - viewing account balances, viewing recent transactions, downloading bank statements, for example in PDF format, viewing images of paid cheques, ordering cheque books etc. Similarly, Bank customers can transact banking tasks through online banking, including, Funds transfers between the customer's linked accounts, Paying third parties, including bill payments and telegraphic/wire transfers, Investment purchase or sale, Loan applications and transactions, such as repayments of enrollments.

2.1.5 Supervisory and Monitoring System of the Nepal Rastra Bank

Nepal Rastra Bank, the central bank of Nepal is the regulator of bank and financial institutions in Nepal.. Its' main responsibility is to promote and maintain the safety, soundness and integrity of the financial system. An important function of a central bank is supervision and monitoring of banks and financial institutions to find out the solvency position and take corrective action in time when needed. Monitoring system is a check and follow-up system. It conform that suggestion and direction given while supervision are properly conducted or not. Central bank monitors commercial banks and financial institutions after supervision and inspection. There is a separate monitoring department in Nepal Rastra

Bank. Based on the findings of supervision, the supervision and inspection department gives advice and instructions to the banks and financial institution to regulate their performances. In order to see whether these advices and instructors have been properly followed or not by bank. This is conducted through monitoring departments of NRB.

Before the establishment of the Nepal Rastra Bank, the function of the inspection and supervision used to be carried out by the officials of His Majesty government of auditor general office. With liberalization of financial sector in mid 1980s, a number of banks and financial institutions have been established. These institutions provides various services by using advance technologies, in this situation, supervisory function of the Nepal Rastra Bank has become more challenging. As a result, separate supervision department of financial intuition was established in 1984 A.D. Supervision and monitoring of banks and financial institutions is made under the Nepal Rastra Bank Act 2002 and Bank and Financial Institution Act 2006. At the present there is separate departments for supervision of banks and financial institutions namely supervision department.

Bank supervision department is responsible for executing the supervisory policies to ensure effective supervision of commercial bank of the country. Trained examiners and analyses in the bank supervision department supervise and monitor the activities of commercial banks. In addition to monitoring the financial condition of the financial institutions, examiners also review compliance with applicable laws and regulations and seek corrective measures where necessary. The obvious and seek corrective measures where necessary. The obvious key objective of supervision thus becomes to ensure the long run safety of the banking industry through promotion and consolidation of a strong economic environment. The task of supervision is to ensure that banks operate in a safe and sound manner and they hold capital and reserves sufficient to support the risk that arise in their business. A weak regulatory framework and poor supervision provide grants for inefficient and unsafe banking practices which increase the risk of bank failure.

However, the nature of the supervision and its detailed application varies greatly from country to country depending upon principally, the characters of its size and complexity and the objectives and priorities. In general, every central bank has a separate supervision department. Recently, supervision department adopts a modern method of supervision and inspection, newly developed by Bank for International Settlement (BIS). CAMELS Rating method is found more effective in comparison to the tradition systems.

Nepal Rastra Bank (NRB) has adopted two approaches to monitor and supervise the financial health of the financial institution through off-site and on-site supervision. CAMELS rating system of the commercial bank should be done after completion of on-site institution and same should be used for internal purpose for further monitoring and necessary action in the areas of problems. In the case of Nepal, NRB has also introduced the system for rating all the banks every year on the basis of CAMELS rating system.

2.1.6 Need for Supervision and Monitoring

The world of finance has undergone profound changes as evidenced by the rapid technological development for processing and transmitting data, the growing internationalization of financial system, the increasing phenomenon of financial innovations coupled with competition and deregulation. The new financial environment has necessitated the development of new and the adaptation of existing supervisory policies, practices and procedures. The difficult economic environment has reduced earnings capacity of many sectors in the economy, there by affecting the overall performance of commercial banks. These challenges are deals with through effective banking supervision.

The banks and financial institution are established with the permission of the central bank. When the central banks permit to carry out transaction, it fixes various terms and conditions. In addition it issues necessary directions about loan, deposits, liquidity, re-finance, capital fund, rate of interest and spread etc. It is very necessary to inspect their activities to find out whether their activities are moving or not in to the directed track by the central bank. The common people, the central bank and the government do have deep interest in the well running of them because the banks and the financial institution collect the amount from the public as deposits. Therefore, to secure the interest of the depositors and the investors to manage the strong and competent financial system regulation, inspection, supervision and monitoring can be described as follows:

1. To investigate whether the banks and financial institutions have performed the functions within the limitation of the present laws and direction or not.
2. To evaluate whether the present laws and regulation are sufficient or not.
3. To maintain stability and increase the level of confidence of depositors and other stakeholders to the financial system by reducing level of risk.
4. To aware of whether the management information system is efficient or not.

5. To ensure that they have appropriate resources or not to undertake risks, including adequate capital, sound management capabilities and effective control system and accounting records.
6. To ensure that banks operate in a safe and sound manner and they hold capital and reserve sufficient to support the risk that arise in their business.
7. To decide whether the strategy of risk management has been followed or not, to lessen the possible risk in the banking and financial business.
8. To give necessary information to the concerned parties.

There are also the key objectives behind the supervision of banks in Nepal. The basic objectives of supervision of NRS is to conduct a direct assessment of the overall condition of the institutions based on off-site and on-site evaluation of the institutions capital, assets, man agent, earnings, liquidity, risk and a review of their records, systems and internal control and to determine whether the institutions has complied with relevant mandatory and regulatory requirements.

2.1.7 Method of Bank Supervision and Monitoring System

There are different tools and techniques used to monitor the financial institutions. The most common supervisory tools used by the regulatory agencies in promoting, safety and soundness are on-site examination and off site-examinations approach. Each serves a unique purpose. The ideal approach could varry for supervisors operating in different environment. However, the optimal approach lies somewhere between the two approaches would appear to yield the best result. Bank supervision department has been using a combination of these various approaches to supplement its supervision process. Generally, the supervision can be made in the following ways:

On-site Examinations: On-site examination is such type of examination, where the supervisors visit the banks and monitors their activities. It is the effective method to evaluate safety and soundness of the financial institutions and weather they are operating in line with prudential banking practice and complying the applicable laws and regulations. It is effective for those which cannot be covered in off-site supervision.

There are four fundamental reasons for on-site examinations. First, to determine the financial position of commercial bank, equality of its portfolio and operations so as to ensure that it is operating or not against the interest of the depositors. Second, periodic on-site

examinations provide the best means of determining banks adherence to laws and regulations. Third, the examinations, process can help prevent problem situation from remaining uncorrected and unhealthy to the point. Finally, examinations supply supervisors with an understanding of the nature relative seriousness and ultimate cause of banks problems and thus provide a sound factual foundation on which to base corrective measures recommendations and instructions.

Although, on-site examination is the most effective tool for sporting safety and soundness problem, it is costly and has some burdens. On-site examination is costly to supervisors because the examiner should reach individual institutions and sufficient resources are needed which burdensome to bankers because of the intrusion into daily operations in the course of supervision and inspection. In fact, physical inspection of banks books is often the only way to detect irregularities in the operation of the bank that may indicate illegal or ill-advised actions by bank employees.

In sum, on site examinations are the best way to supervisors to track the condition of banks, however, examinations cannot be continuously on-site and regulators also use off-site supervision to help span the gap between regulatory scheduled on-site examinations.

Off-Site Supervision: Bank supervisors support on-site examinations with off-site supervision. Off-Site supervision is performed by studying the documents provided by commercial banks. An inspection carried out without visiting the places of the banks. The function includes the analysis of financial statement other necessary documents, annual report, and information received from the commercial banks. Generally, documents and reports are received on a weekly, monthly, quarterly, annually basis. The off-site supervision is continuous process. From it we can get true picture to the problems of the bank. It makes it easy to objective of off-site supervision is to quickly identify negative trends so serious that they could negatively effect of commercial banks. Moreover, as the cost and complexity of examine banks have risen it has become increasingly more difficult for the banks regulators to attract and retain quality bank examiners. On the other hand, advances in computer technology give bank regulators the ability to monitor the condition of banks without conducting an on-site examination. Therefore, off-site monitoring of banks has become an important part of the regulatory examination umbrella. Use of off-site supervision is not a substitute for periodic on site examination, it is a valuable complement to the examination process. Off-site supervision has several advantages. For instance, it is far less intrusive and

uses fewer personnel than on-site examinations and since off-site supervision can identify banks that show sign of every credit and deposit market traditionally served by banks. In this way banks financial statements are increasingly being examined by investors and by the public. All the trends have placed management under great pressure to set and meet bank performance.

Financial analysis is the process of determining the financial strength and weakness of the firm. Banking institutions are evaluated for the strength and returns involved in serving the needs of the public. Banks performance must be directed toward specific objectives. A fair evaluation of any bank's performance should start by evaluating whether it has been able to achieve the objective of its management and stockholders have chosen.

There are different methods to assess the banks financial performance. The most popular methods are Risk-Adjustment Return on Capital (RAROC), Economic Value Added (EVA), Return on Assets (ROA), Return on Equity (ROE), and CAMELS. Among them CAMELS approach has been taken in this study.

2.1.7.1 Financial Performance Analysis under the Framework of RAROC

Risk-adjusted return on capital (RAROC) is an effective tool for measuring risk-adjusted financial performance. It was developed in the late 1970s by a group of bankers trust for the purpose of internal performance evaluation. RAROC allocates equity capital depending on risk of loss, calculates a required rate of return and then uses this information in pricing of loans to make sure that they are profitability to the bank. It also quantify the amount of equity capital necessary to support all of their operating activates.

RAROC measure the risk of the banks' credit portfolio as well as the amount of equity capital necessary to limit the exposure of the banks deposition and other debt holders to a specified probability of loss. It means that expected system allocates capital for two basic reasons; i) Risk management ii) performance evaluation. For risk management purpose the overriding goal of allocating capital to individual determine how much the risk of each business unit contribute to the total risk of the bank and hence to the bank's over all capital requirements. For performance evaluation purposes, RAROC system assign capital to business units as part of a process of determining the risk adjusted rate of return.

RAROC refers the return on risk-adjusted capital which also evaluates banks profitability and risk. It represents a maximum potential loss based on the profitability of future returns necessary to cover loss associated with the volatility of earnings. It is calculated by dividing the income by allocated risk capital. RAROC framework address whether specific loan of business generate acceptable risk-adjusted returns on allocated capital.

2.1.7.2 Financial Performance Analysis under the framework of ROA

Return on assets (ROA) is the technique to evaluate the financial performance analysis of commercial bank. It measures the ability of management to utilize the real and financial resources of the firm to generate earning. Further it measures the relationship between earning and assets employed in the firm. It shows the effectiveness utilization of the assets. It is primarily an indicator of managerial efficiency; it indicates how capably the management of the firm has been utilizing the institution's assets to earning the profit. The return on assets provides information on how efficient a firm is operating. Higher the return on assets shows the better utilization of its assets and vice versa.

2.1.7.3 Financial Performance Analysis in the framework of ROE

Return on Equity (ROE) is also one of the popular performance measurements of financial institutions. It was introduced by David Cole in1970. It is calculated by dividing the company's net income by its shareholders equity or book value. It measures how much earning a company can generate from their equity investment. ROE offers a useful signal of financial success since it might indicate whether the company is growing profits without pouring new equity capital into the business. Equity capital is the sum of common and preferred stock, paid in surplus, retained earnings, and reserve for future contingencies.

ROE helps investors determine if a company is profitability or inefficiency. It is useful to determine a company to other firms in same industry. The profitability of two banks was analyzed using a return on equity framework. If the ROE is relatively low compared with other banks it will not prefer for the new investors.

2.1.7.4 Financial Performance Analysis in the Framework of EVA

Economic Value Added (EVA) is an internal bank performance metric computer as adjusted earnings (or net income after taxes) minus the opportunity cost of capital. EVA is useful in evaluating loans and other investments to determine if shareholders wealth would increase. It measures of corporate performance which reveals whether a company is earning more or less than the amount which its capital is costing. If its value is being added to the enterprises which is good news for shareholders, if it is not, shareholders have cause for grievance because their capital would be better employed in a bank account earning interest.

The consulting firm Stern Stewart developed EVA to help managers incorporate two basic principle of finance into their decision making. The first is that the wealth of its shareholders. The sound is that the value of a company depends on the extent to which investors expect future profits to exceed or fall short of the cost of capital.

EVA is a measurement tool designed to strengthen companies return on capital investment. A study of best practices in EVA reveals that the metric can help to reduce capital costs and improve gross revenues. Some analysts have called EVA the key to creating corporate wealth. The metric, which measures on earning a target rate of return ever and above the cost of capital. This target is what the business considers the minimum amount of return necessary to generate positive value form a capital investment so; EVA is the financial performance measure that comes closer than any other to capturing the true economic profit of an enterprise and also measure most directly linked to the creation of shareholders wealth over time.

2.1.7.5 Financial Performance Analysis in the Framework of CAMELS Bank Rating System

The CAMEL rating system is an internal supervisory tool for evaluating the safety and soundness of financial institution. CAMEL is an acronym for five measurements of a financial institution: Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity Position. It was originally adopted by North American bank in 1970's. But it was revised to CAMELS by including an "S" for Sensitivity to market risk in January, 1997 by Uniform Financial Institutions Examination Council (UFIEC).

CAMELS rating system is used three federal banking supervisors (Federal Reserve, the FDIC, the office of the comptroller of the currency) and other financial supervisory agencies to supervision and examination time of bank. The CAMELS rating range lies from 1 to 5, where 1 represents the better or strongest position and 5 represents the weakest or worst position. If a bank has an average less than 3 they are considered to be a high quality institution and if an average score is greater than 3 they are considered as worst institutions. These rating are not release to the public but only to the top management and the appropriate supervisory staff. This rating system is common method for analyzing the health of financial institution. CAMELS are an ideal rating system practiced worldwide by central banks and rating agencies to evaluate and analysis safety and soundness of financial institutions. In Nepal CAMELS rating system is still in its initial phase.

2.1.7.5.1 Composite Ratings

Composite ratings are based on a careful evaluation of an institution's managerial, operational, financial and compliance performance. The financial institutions are rated according to six factors. The six factors are represented by the acronym 'CAMELS'. The six key components used to assess an institution's financial condition and operations are: Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability, Liquidity Position and Sensitivity to market risk. The rating scale's range lies from 1 to 5, where 1 represents the better or strongest position and 5 represents the weakest or worst position. If a bank has an average less than 3 they are considered to be a high quality institution and if an average score is greater than 3 they are considered as worst or critically institutions.

2.1.7.5.2 Component of CAMELS

a. Capital Adequacy (C)

The first component of the CAMELS rating is capital adequacy. A key principle in bank supervision capital as the cornerstone of a bank' strength. Bank capital is a source of financial support to protect institution losses out of the unexpected risks. Commercial bank should have adequate capital to support the stability and sustainability of its operation. Adequate capital helps to gain faith of the depositors, investors and loan donors to increase the loan investment capacity to make the defective property bearable and to raise the credit of the bank. Bank capital serves three basic roles. The first and most obvious is that it is a source of fund. A new bank requires fund to internal investment. Established bank require capital to

finance their growth, as well as to maintain and modernize operations. The second function of capital is to serve as a cushion to absorb unexpected operating losses. The third function of bank capital bears the question of adequate capital bank regulators established minimum requirement to promote safety and soundness in banking system.

Nepal Rastra Bank has ultimate power of right to decided how much capital is needed for a bank or non bank financial institutions. Adequacy and inadequacy of bank capital directly affects the banking transactions. The adequacy of bank is the most important aspect of a bank. If there is inadequacy of capital, the bank should take step for the adequacy of capital as per legal requirement. The bank should remove the inadequacy of bank capital through the medium of collecting of ownership and borrowed capital. If the bank cannot maintain the adequacy capital, it may give many defects. So, special attention should be given to capital adequacy system of the bank capital. The adequacy of the bank capital is necessary for the following function.

For the payment of all types of deposits: Adequacy of bank capital is necessary for a bank, to give the payment of the amount of all types of deposits to its customers. Hence the adequacy of bank capital is needed to gain trust for its customers.

To meet the demand of all types of cash reserve funds: A bank should deposit the amount in different funds, in the Nepal Rastra Bank and in its own bank. The commercial bank should deposit cash in such funds. This is a legal obligation, which is created in two ways. One obligation occurs by the provision of law and another obligation takes place due to circulars, policy and directive issued by the Nepal Rastra Bank. A bank cannot reject both of these obligations. Therefore, there is a need of an adequate capital for the deposit of cash in all funds created.

Investment for banking transaction and business: With the lack of an adequate bank capital, the bank cannot meet daily administrative expenditure and the investment in different sectors to earn profit. So to perform the above given functions the bank needs an adequate capital.

Directing Relating to Capital Adequacy Norms by NRB

A bank capital is divided into tier 1 and tier 2 for the propose of capital adequacy measurement. Tier 1 capital is primary or core capital and Tier 2 capital is supplementary

capital. The total capital that the bank holds is defined as the sum of Tier 1 and Tier 2 capital. In Nepalese context, Tier 1 capital includes paid up capital, share premium, non-redeemable performance share, general reserve, capital adjustment fund and other free reserve. Tier 2 capital includes general loan loss provision, exchange fluctuation reserve, assets revaluation reserve, hybrid capital instruments, unsecured subordinated term debt exchange equalization reserve, excess loan loss provision, and investment adjusted reserve. On the basic of risk weighted assets the bank should maintain the prescribed proportion of minimum capital funds. Under Nepal Rastra Bank Act 2002 the mandatory level of core capital and total capital are 4.5% and 9% of risk weighted assets of commercial bank and under Bank and Financial Institution Act 2006 the mandatory levels of core capital and total capital are 6 percent and 12 percent of risk weighted assets of commercial banks.

According to Bank and Financial Institution Act 2006 the bank and financial institution are classified to A, B, C, D and they should be maintained the paid up capital by doubling for existing capital provision. Commercial banks have minimum paid up capital requirement for national level. All existing operation of commercial bank are required to be raise paid up capital until ending as had 2070. From the base year 2064/65, they can raise 80% paid up capital increment every year under going licensing process but not permitted, bank should raise paid up capital 2000 million until ending 2067.

BASEL Capital Accord

The Basel is the committee of banking supervision (BSBC) which is established in 1975 by the central bank governors of G-10 countries. In consists of senior representatives of bank supervisory and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The committee's secretariat is located at Switzerland. Basel committee on bank supervision adopted the Capital Accord, which is known as Basel I in1988 to align the capital adequacy requirements applicably especially to banks. BSBC revised its capital adequacy framework from 1996 to 2004 but in 2004 it bring a new concept of Basel II by replacing Basel I.

The Basel Committee on Banking supervision (BCBS) released the "International Convergence of Capital Measurement and Capital Standards: Revised framework", popularly

known as Basel II, on June 26, 2004. This frame work was updated in November 2005 and a comprehensive version of the frame work was issued in June 2006.Basel II builds significantly on Basel I by increasing the sensitivity of capital to key banks risks. In addition, Basel II recognize that banks can face a multitude of risks, ranging from the traditional risks associated with financial intermediation to the day-to-day risks of operating a business as well as the risks associated with the ups and downs of the local and international economics. As a result, the new framework more explicitly associated capital requirement with the particular categories of major risks that banks face. In developing the new framework, the Basel Committee wanted to incorporate many elements that help promote a sound and efficient financial system over and above the setting of minimum capital requirements. The Basel II incorporates three basic pillars which contribute for safety and soundness of financial system. The first pillar is more closely with bank actual underlying risks like credit risk, operational risk, and market risk. In concept, the first pillar is similar to the existing capital framework, in that, it provides a measure of capital relative to risk. The second pillar allows supervisors to evaluate a banks assessment of its own risk and determine whether that assessment seems reasonable. Supervisors need to ensure that the regulators are adhered to and the internal measurement systems are standardized and validated. The pillar third provides a comprehensive menu of public and regulatory disclosures which ensures safe and sound banking practice. The Basel II framework describes a more comprehensive measure and minimum standard for national supervisory authorities. It is probably greatest challenging task as well as opportunity for financial institutions. Now the Basel II is replaced by the Basel III but it has not implemented.

b. Assets Quality (A)

This is one of the most critical factors in determining overall condensation of any bank. Primary factor that can be considered are the quality of loan portfolio, mix of risk assets and credit administration system. The assets quality means the capacity of assets to generate income as well as the recover ability of the principal amount.

This component is based on an assessment of both the quality of the current portfolio and the quality of the associated management process that substantially impact of quality of assets. An assessment of assets relies on many factor such as loan portfolio management, investment portfolio trends, risk identification process, and other factor that affect the quality performance, income producing capacity and stability of assets. Examiner judgment is to the

quality of each borrower's and his ability to repay the loan. It is necessary to study the quality of assets to maintain the sound economic condition of the financial institutions. For this propose, it should be checked up whatever the risk found, which is fixed by the NRB is maintained or not by the commercial banks and FIs. For this provision it helps the FIs to save for losing three various types of financial risk with the provision of keeping the risk found according to the quality of the assets as per the rules regulation and policy of the central bank. Loans are usually the largest of the assets items and can also carry the greatest amount of potential risk to the bank's capital account.

Non-Performing Assets / loan (NPA)

Non-performing loan means an outstanding loan not repaid, i.e. neither payment of interest or principal are made. In case of the banks the loans and advances are the assets as the bank flow loans for the funds generated through shareholders equity, money deposit by the people and fund having through the borrows. Hence the term NPA means the loans and advance that are not performing well. Thus all the irregular loans can be term as NPA. Generally non-performing loans/assets include all loans in the portfolio more than 90 days overdue on interest or principle payments. The definition of NPA differs with countries of the Asia Pacific Economic Co-operation (APEC) forum: loan is classified as non-performing only after it has been due for at least six months. In India, after three month from there date of deemed commercial production to release interest income, any default or reschedule was considered as an NPA on the book of accounts.

Directives Relating to Assets Quality by NRB

NRB classified of loan and advances and provision for loan losses on the basis of its time period.

Table 2.9

Loan classification and Provision as per NRB directives

Classification of loan	Duration overdue	Loan loss provisions
Standard/Pass/Good	Up to 3 months	1%
Sub standard	3 month to 6month	25%
Doubtful	6 month to 1 year	50%
Loss	More than 1 year	100%

Loans are classified as performing and non performing loans. According to NRB directives, performing loan means standard or pass or good loan, remaining sub standard, doubtful and loss loan are non performing loan.

c. Management Efficiency (M)

The quality of management is another component of CAMELS analysis which indicates the success and failure of a bank. Management includes both the board of directors and executive officers. Board of director is elected by the shareholders and executive officers who are appointed to their position by the board. It is evaluated by checking the effectiveness of the board of directors, the quality and qualification of the manpower or officials, management operation expenditure, customer relationship between the official and institution, management information system, organization and working method, control system, power decision process, policy, rules etc. Sound management is the key to success of bank performance but is difficult to measure. It is primarily a quality and efficiency of the organization which is measured by subjective judgment and very difficult to prescribe with any specific ratings parameter. The management rating is based on the examiners perception of the quality of the banks officers and the efficiency of the management structure. Management is responsible to mobilize the securities of the bank and to create a sound control environment of and risk management practice. Thus this review is focused on appraising the competence. Involvement and integration of is management in day to day administration of the banks involvement in formulating. Implementing, controlling and insuring the banks complaisance with applicable rules, policies, laws and regulations. The success and failure of the organization is depends on the management efficiency.

d. Earnings Quality (E)

The most important parameter of the financial performance of the bank and the financial institution is earning. It is known as profit. Profit is earned by the banks through financing activities, in term of loans and advances to the customers, placement in other banks, investment in government securities etc. revenue is earned through non exposure functions by way of commission and fee, but its contribution in the overall profit is very low. The banks earn major portion of their income through funding money to different sectors, which it acquire through various means such as collecting deposits in various account, by issuing

shares, debenture etc. The main source of income of commercial bank is interest income which is the different between interest income and interest expenditure.

Earning is the best parameter of sustainability and growth of any organization. Without earning there is no probability of survival of any organization. The commercial banks are profit seeker and they are always running to invest in profitable sector. Earning shows the operating efficiency of any organization. Good earning builds the confidence of its stakeholders like creditors, depositors, shareholders, management, public etc.

Earning quality is evaluated under of quantitative, qualitative techniques and it shows the sustainability of the bank's performance. While evaluating earning quality there should be consider various factors such as composition and quality of net income, stability of earnings performance, relationship to portfolio risk and quality of earning management etc. Return on assets, return on equity, interest spread ratio, gross margin, operating profit margin and net profit margin are commonly used for profitability measure.

e. Liquidity (L)

Liquidity management is a critical factor influencing the financial health of the banks. It is the extent which the bank has funds available to meet cash demands for loan and deposit withdraws. This is an important area of risk facing of banks because a liquidity crisis may carry many results in the failure of a bank solvent. Examiners look at the banks funding sources as well as the liquidity of assets in determining the rating.

Banks must able to manage demand and supply of funds. Cash balance, bank balance and investment in short term government bonds are the most liquid assets. Banks must manage liquidity but not be too high because there is opportunity cost in the sense of excessive cash that could be earn higher rates of return if funds were invested in other area. Thus, the bank must trade off the cost of maintaining excessive liquidity and the cost of insufficient liquidity.

Banks are also concerned about the danger of not having sufficient cash to meet deposit withdraw, loan demand and other cash need for day to day activities. Liquidity risk is danger of having insufficient cash to meet a banks obligation when due. It affects the health and profitability of commercial bank and financial institutions. NRB had issued directive to the liquidity on the basis of maturity period.

NRB Directives Related to Liquidity

Under Nepal Rastra Bank Act 2002, the mandatory level of liquidity for "A" class banks is 5%, "B" and "C" class institution (Development bank and Finance company) is 5.5% and "D" class institution (Micro-banking institution) is 2% of their total deposit liabilities. The mandatory level strictly followed by any institution. If the institution does maintain the efficient level of liquidity NRB has provision for penalty which is as follows.

a) If there is first time insufficient balance the penalty is existing interest rate.
b) If there is a second time of under balance the penalty is double of interest rate.
c) If there is third times or thereafter of under balance the penalty is triple of interest rate.

f. Sensitivity to Market Risk (S)

Market risk is the current and potential risk to earning and stockholders equity resulting from adverse movements in market rates or prices. The three area of market risk are interest rate risk, foreign exchange risk and commodity or equity price risk. For most FIs, market risk primarily reflects exposing to change in interest rates. The sensitivity to market risk components focuses on an institutions ability to identify, monitor, manage and control its market risk and provides FIs management with a clear and focused indication of supervisory concerns in this area.

The sensitivity to market risk is assessed to determine the bank's ability to monitor and manage its exposure to market risk, it reflects the degree to which changes in the interest rates, foreign exchange rate and equity prices can adversely affect a bank's earnings and capital. For most FIs market risk primarily reflects exposing to change in interest rates. The sensitivity to market risk components focuses on an institutional ability to identify, monitor, manage and controls market risk and provides FIs management with a clear and focused indication of supervisory concern in this area.

Equity price risk examines how changes in market prices, interest rate and foreign exchange rates affect the market values of any equities, fixed income securities, foreign exchange currency holdings, and associated derivative and other off-balance sheet contracts. Foreign exchange risk arises from changes in foreign exchange rates that affect the values of assets liabilities and off-balance sheet activities denominated currencies different from the banks domestic currency. Interest rate risk analysis compares the sensitivity of interest

income to change in assets yields with the sensitivity of interest expense to changes in the interest lost of liabilities.

Dollar gap, duration gap and simulation are three techniques of measuring interest rate risk. The dollar gap is the oldest technique. The most commonly used measure of the interest sensitivity position of a financial institution is duration gap analysis. Duration is defined as the elasticity measure that indicates the relative price sensitivity of different securities. The duration gap is the difference between the duration of a bank's assets and liabilities. It helps to explain how changed in interest rate affect the market value of a bank assets and liabilities. Thus, the focus of gap analysis is on net interest income or net worth the number of years of the duration of assets and liabilities.

Net worth = assets – liabilities.

If duration gap is positive line, the duration of assets exceeds the duration of liabilities then increases in interest rate will reduce the value of net worth and decrease in interest rates will increase the value of net worth. Conversely the duration gap is negative with the duration of assets less than the duration of liabilities; raising interest rate will increase the value of net worth, whereas falling interest rates will lead to a reduction in it.

An aggressive interest rate risk management strategy would alter the duration gap in anticipation of changes in interest rates. If interest rate were expected to increase management would want to shift from positive to a negative gap position. It could do this by reducing the duration of assets or increasing the duration of liabilities.

Simulation analysis determines the effect of interest rate changes on short-term net interest income. It also measure risk presented by non-parallel yield curve shift. Simulation models are often not "user friendly" and may require more data and expertise than other interest rate risk measurement system. For the purpose of monitoring the risks relating to banking and financial activities by licensed institutes, the risks have been classified into the following groups according to NRB directive: (a) Liquidity risks (b) Interest Rate risks

(c) Foreign Exchange risks (d) Credit and Investment risks

2.1.7.6 CAMEL plus Corporate Governance

There are different approaches used worldwide to assess bank performance. CAMELS' framework is one of the common methods for evaluating financial performance of the bank. Banks are required to compare in the domestic market and in the international market in the context of liberalization and globalization. Adoption of corporate governance practices assumes greater importance in this context. A corporate governance system is expected to provide protection to shareholders and creditors and to assure them of getting return on their investment.

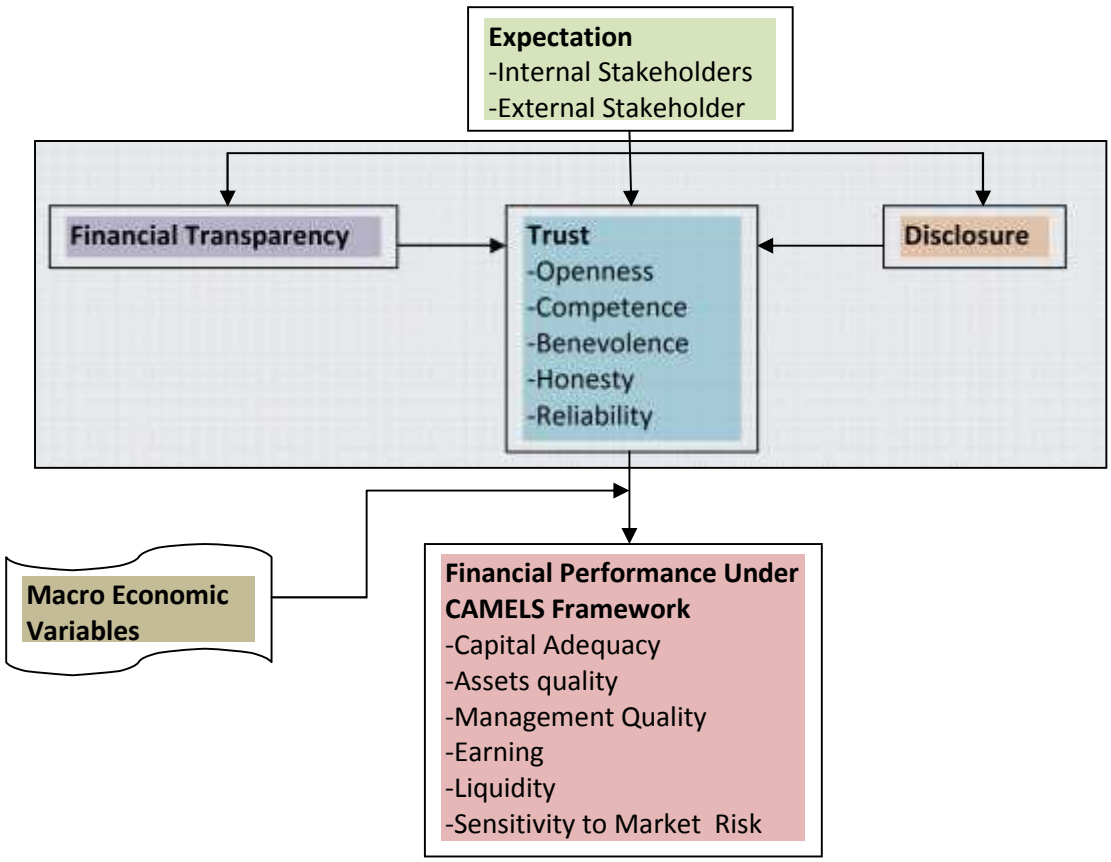
Corporate governance is defined as a set of rules and the relationship between a company's management and its board of directors, shareholders and other stockholders. These rule help to setup mechanisms of attaining good governance. Globalization and liberalization policies also play a decisive role increasing the demand for good governance. Effective corporate governance may be described as reconciliation between the power and obligation of the board of directors to ensure good performance awareness of the right and duties of stockholders and the expectation of the society. Good corporate governance feather such as transparency, accountability, information disclosures, and stringent ethics. It helps ensure the business corporations undertake their operation to maximize shareholders value, which will eventually bring benefits to other stockholders from a long term perspective. The poor governance practices including inadequate disclosures, lack of independent over right directors and weak minority shareholders tend to discourage investment and weaken incentives for efficient management. Good corporate governance will enhance the company's image. It helps to introduced good practice in corporate behavior with a view to rebuilding and maintaining public trust in company.

In Nepalese banking industry, lack of proper corporate governance, we had also faced lots of problem and loss of public faith on banking system in past days. But we can see a ray of hope with the stringent supervision system adoption by NRB on banking supervision with the implementation of Basel II framework recommended by Basel Committee of Banking Supervision (BCBS). Basel II framework has recommended various suggestions policies to address corporate governance in banking institution would be the great help for the commercial banks operation in Nepal. Effective corporate governance practices are essential to achieving and maintaining public truth and confidence in the banking system. Poor

corporate governance can lead market to lose confidence in the ability of a bank to properly manage its assets and liability, including deposit which could in turn leads to liquidity crises.

To understand corporate governance and financial performance variables in relations commercial banks, the major corporate governance pillars i.e. financial transparency, discloser, and trust are dissected. Financial performance especially relating to commercial banks is also reviewed based in the performance dimensions comprising capital adequacy, assets quality, earning, liquidity, and sensitivity to market risk. The significance of stockholders in commercial banks is also highlighted.

Figure: 2.1Corporate Governance and Financial Performance Conceptual Framework



Numerous stakeholders (internal and external) exist in any business enterprises some of these include, customers, stakeholders, government among others. Internal stakeholders are the employees and external stakeholders are stockholders, customers, tax authorities, bank supervisors, media and pressure groups. Transparency, disclosure and trust, which constitute the integral part of corporate governance, can provide pressure for improved financial performance. Macro economic variables through factors such as inflation and change in

interest rates may either enhance or distress commercial banks financial performance. Awareness of the importance of corporate governance is growing. The NRB has introduced higher corporate governance standards for bank and other financial companies as part of a wider program of financial sector reform. Effective control system and strong corporate governance are the basic foundation of a sound and stable bank. Realizing the importance of the fact NRB has issued a directive on corporate governance of director and employees.

Basic Principle of Corporate Governance in Banking Organization

There are some major principles formulated and evolved by BCBS for enhancing corporate governance of banking institutions. Committee's principles address fundamental deficiencies in bank corporate governance that became apparent during the financial crisis. The principles cover:

- The role of the board, which includes approving and overseeing the implementation of the bank's risk strategy taking account of the bank's long-term financial interests and safety;

- The board's qualifications. For example, the board should have adequate knowledge and experience relevant to each of the material financial activities the bank intends to pursue to enable effective governance and oversight of the bank;

- The importance of an independent risk management function, including a chief risk officer or equivalent with sufficient authority, stature, independence, resources and access to the board;

- The need to identify, monitor and manage risks on an ongoing firm-wide and individual entity basis. This should be based on risk management systems and internal control infrastructures that are appropriate for the external risk landscape and the bank's risk profile; and

- The board's active oversight of the compensation system's design and operation, including careful alignment of employee compensation with prudent risk-taking, consistent with the Financial Stability Board's principles.

The principles also emphasize the importance of supervisors regularly evaluating the bank's corporate governance policies and practices as well as its implementation of the Committee's

principles. These principles if practiced honestly, banking institution could be run vary efficiently and effectively with controlled management resulting good financial health of the organization practicing of these principles is very much essential for the banking industry of the developing country like Nepal. These principles have briefly discussed below in the Nepalese perspectives.

a. Board members should be qualified of their positions, have a clear understanding of their positions.

b. The board of directors should approve and oversee the bank strategic objectives and corporate values that the communicated throughout the banking organization.

c. The board of director should set and enforce clear lines of responsibility and accountability through the organization.

d. The board should ensure that there is appropriate oversight by senior management consistent with board policy.

e. The board and senior management should effectively utilize the work conducted by the internal audit function, external auditors and internal control functions.

f. The bank should be governed in a transparent manner.

g. The board should ensure that compensation policies and practices are consistent with the banks corporate culture, long term objectives and strategy and control environment.

h. The board of senior management should understand the banks operational structure including where the bank operates in jurisdictions.

Hence, for enhancement of the corporate governance in banking organization above 8 basic principles formulated and recommended by the Basel committee for banking supervision could be of great help especially in the context of Nepalese culture of managing banking organization.

2.2 Research Review

This section deals with the review of various Nepalese and international journals, books and published and unpublished Master's dissertations. International journals have been assessed through the different websites and Nepali journals and Mater's dissertations have

been assessed from Central library of T.U, Shanker Dev Campus and Nepal Commerce Campus with the financial performance analysis of commercial bank and other related area of study.

2.2.1 Review of research and working Papers

Several academic studies have examined whether and to what extent private supervisory information is useful in the supervisory monitoring of bank failure prediction models. It is very crucial for such analysis to identify variables that reliably predict the future bank failure. The Most of the studies carries different variables like capital adequacy, assets quality, liquidity position, management efficiency, earning quality, sensitivity to market risk and investments to assess the performance of bank and financial institution.

Jackson (1975, conducted a study on commercial bank regulation bank structure and performance. The study was carried out to identify the determinants of commercial banks allocation efficiency. Both theoretical and macroeconomic analysis was done to examine the comparative effects of banking influences. For empirical purpose, 1644 data of 1644 banks from 1969 to 1971 were collected. Regression analysis was used to measure the relationship among variables. He concluded that the relatively desirable banking performance is associated with several traits including bank assets size, non bank competition, low cash holdings, low labor cost, bank legislation, low time deposit and low equity capitalization. Furthermore, the study showed that the commercial banks regulation, structure, and performance are interrelation with each other.

Martins (1977), study set the standard for discrete models of bank failure prediction. Whereas most other research focused on a small sample of banks over two or three years, Martin used all Fed-supervised institution during a seven year's period in the 1970s, yielding over 33000 observations. In the search of standard approach, he confronted the data agnostically with 25 financial ratios, liquidity measures, and profitability were the most significant determinants of bank failure over his sample period. Although Martin did not employ direct measures of asset quality, his indirect measures-provision for expenses and loan concentration turned out to be significant.

West (1985, developed a model to predict bank failure, which differed from the majority of research by utilizing FDIC generated information rather than from the financial statements. The stepwise legit analysis was carried out to derive the conclusion. Some

evidence resulted to support the argument that a loan quality factors i. e .non-performing loan has a predictive value regarding the bank failure.

Tam and kiang (1992), utilized stepwise legit analysis. The researcher examined a small sample of Texas banks, where return indicated two measures of loan default risk were significant in there prediction of bank failure. Provision for loan losses to average loans and net charge-offs to average loans exhibited no predictive value.

Banker and Holdswort (1993), conducted a research in respect to predicting bank failure, found evidence that the CAMEL rating are useful, even after controlling for a wide range of publicly available information about the condition and performance of banks.

Berger and Davies (1994), evaluate the impact of CAMEL rating changes on the parent holding company's stock price. They had separated stock price changes into two components- a private information effect and regulatory discipline effect. There empirical result provides only weak evidence of regulatory discipline effect but they found a strong private information effect. However, the information effect applies only to CAMEL downgrades, which tends to precede stock price decline. Consistent with the finding of Hand, Holthausen and eftwich (1992), Berger and Davies found no movement in stock price following a CAMEL upgrade.

Cole and Gunther (1995, 1998), examined a similar question and found that through the CAMEL rating contain useful information, it decays quickly. They examined the data from 1986 to 1992 and concluded that the statistical model using publicly available financial data is a better indicator of bank failure then CAMEL rating that is more than two quarters old. These two studies address the issue of information decay directly; however, the primary purpose of CAMEL rating is not to identify future bank failures but to provide an assessment of bank's overall condition at the time of examination.

De young (1998), examined whether private supervisory information would be useful in pricing the subordinated debt of large BHCs. He uses an econometric technique to estimate the private information component of the CAMEL rating and regression is carried out with subordination bond prices. He concluded that the CAMEL rating adds significant explanatory power to the regression after controlling for publicly available financial information. Furthermore, they found that supervisor were more likely to uncover unfavorable private

information, which is consistent with managers incentive to publicize positive information while de-emphasizing negative information.

Berger and Davies (1998), used event study methodology to examine the behavior of BHC stock prices in the eight-week period following examination of its leading bank. They concluded that CAMEL downgrades reveal unfavorable private information about bank condition to the stock market. This information may reach to the public in several ways such as through banks financial statement made after a downgrade. The bank management reveals favorable private information on advance while supervisors in effect force the release of unfavorable information.

Gilbert, Meyer, and Vaughan (1999), investigated banks with CAMELS downgrades form a safe level i.e. 1 or 2 rating to watch list level i.e. 3,4,or 5. Using legit analysis they found the ratio of total equity to total assets was one of the most important predictors of CAMELS downgrades. Also closely related to the present study, Wheelock and Wilson (2000) applied competing risk hazards to examine the determinants of several bank capital efficiency defined as total equity to total assets ratio below 2 percent. Bank with this level of capital are classified as critically undercapitalization by regulators and may be taken over the FDIC under the FDIC improvement Act of 1991. Their result indicated that measures of operating efficiency, asset quality, earning size, and organizational structure are significantly related to severe financial distress among banking institutions.

The direct public beneficiaries of private supervisory information i.e. CAMELS rating would be depositor and shareholders of the banks. Small depositors are protected from possible bank default by FDIC insurance. Gilbert and Vaughn (1998) fund that public announcement of supervisory enforcement action such as prohibition on paying dividends, did not cause deposit runoffs or dramatic increases in the rate paid in deposits. However, uninsured depositors could be expected to respond more strongly to such information.

Hirtle and Lopez (1999), examined the usefulness of past CAMEL rating is assessing banks current conditions. They reach in conclusion after analyzing CAMEL rating and the current condition (6 to 12 quarter) of bank from 1989 to 1995. They found that the private supervisory information contained in past CAMEL rating provides future insight into bank current conditions.

Dziobek, Hpbbs and Marston (2000), analyzed the determinants of bank liquidity-defined as the degree to which a financial institution is able to meet its obligations under normal business conditions. They concluded that volatility in the depositors was based on type of depositor, insurance coverage, and the maturity. Banks having narrow or highly volatile funding are more prone to liquidity squeezes. Household deposits were found more stable than the deposits of institution investors or corporate entities.

Derviz and Podpiera (2004, investigated the determinants of the movements in thee long-term standard and poor's CAMELS bank ratings in the Czech Republic during the period of 1988 to 2001. The same list of explanatory variables corresponding to the CAMELS rating inputs employed by the Czech National Bank's banking sector regulators was examined for both rating in order to significant predictors among them. They have employed another response logic model to analyze the monthly long run S&P rating and panel data framework for the analysis of quarterly CAMELS rating. The predictors for which they found significant explanatory power are Capital Adequacy, Credit Spread, the ratio of Total loan to Total Assets and Total assets Value at Risk. Models based on these predictors exhibited a predictive accuracy of 70%. Additionally, they found that the verified variables satisfactory predict the S&P rating one month ahead.

Baral (2005), has published his paper abstract in the Journal of Nepalese Business Studies using the annual report data and NRB supervision report. The paper examined the financial health of joint ventures banks in the CAMEL framework for a period ranging from FY 2001 to FY 2004.The health check up was conducted on the basis of publicly available financial data. He concluded that health of joint venture banks was better than that of the other commercial banks. The study further indicated that the CAMEL components indicator of joint venture banks were not much encouraging managing the possible risks.

2.2.2 Review of Dissertations

Prior to this several thesis works have been conducted by various researcher regarding different aspects of commercial banks. Much the topic includes financial performance, capital structure, investment policy, interest rate structure, resource mobilization etc. The experts from the finding of some of these research works related to this study are presented below.

Bohara (1992, has done a study on financial performance of Nepal Arab Bank Ltd. and Nepal Indosuez Bank Ltd. The basic objectives of this study were to highlight on the

functions and policies of joint ventures banks and to evaluate the comparative financial performance of NABIL and NTBL. The study has covered the five fiscal years 1986/87 through 1990/01. Various financial tools along with statistical tools have been used. Different ratios- liquidity, activity, coverage, leverage, profitability and other indicators like earning per share, dividend per share, market to book value ratio, have been calculated and interpreted to evaluate the performance of NABIL and NIBL. He concluded that the performance of NABIL is better than that of NIBL. He further concluded that bank performance cannot be judged solely in term of profit as it may have earned profit by maintaining adequate liquidity and safety position. He has recommended to NIBL to extend their banking facilities even in the rule areas by opening up branches beside the improvement in maintaining the adequate capital structure by increasing equity base.

Joshi (1993), conducted a study on commercial bank in Nepal with reference to financial analysis of Rastriaya Banijya Bank. The objective of the study was to provide conceptual framework of commercial banks, and to analyze and interpret the financial performance of Rastriya Banijaya Bank on qualitative and quantitative performance basis. The study was based on the financial data of FY 1985/86 to 1991/92. She has used various financial ratios like current ratio, liquidity ratio, funded debt to total capitalization ratio, and funded debt to equity ratio in the study. She has drawn the conclusion that the performance of RBB was not satisfactory during the study period. Further, she concluded that the bank had not been managed in true professional approach but had managed in bureaucratic approach to sustain with political environment rather than commercial environment.

Shakya (1995), conducted a research study on financial analysis of joint venture banks of Nepal. The objective of this the study was to carry out the comparative financial performance evaluation of Nepal Arab Bank Ltd. and Nepal Grind lays Bank Ltd. (Standard Charter Bank). The study has covered the time span of FY 1988/89 to FY 1993/94. In the study he has used different financial ratios viz liquidity ratios, leverage ratios, activity ratios, profitability ratios, growth ratios and statistical tools viz. Karl Parsons Correlation Coefficient, student t-test, simple average and the index methods. The researcher has found that in spite of the increase in loans and deposits of the both banks, their performance measured in terms of deposit utilization rate is not satisfactory. Furthermore, the study showed that financial performance of Nepal Arab Bank Ltd. was better that of Nepal Grind lays Bank Ltd. (Standard Charter Bank Nepal Limited).

Shakya, (2000), has conducted the research study entitled "Comperative Analysis of Financial performance of selected Joint Venture Banks, A case study of Nepal Gryindlays Bank and Himalayan bank", an unpublished master's degree thesis, T.U,2000 and found Himalayan bank is more efficient in case of liquidity. Her finding also shows that Capital adequacy, operational activity and profitability ratio were also better than Nepal Gryindlays Bank but while analysis the trend, profit before tax of Nepal Gryindlays Bank has been at the higher rate than that of Himalayan Bank.

Deoja (2001), conducted study entitled "A Comparative Study of the Financial Performance between Nepal State Bank of India Limited (Everest bank Ltd.) and Nepal Bangladesh Bank Limited". The research's main objective of the study was to evaluate the trend of deposit and loan and advanced of NSBL and evaluated the liquidity, profitability, capital structure, turnover and capital adequacy position of NSBIL, and NBBL. He found that the cash and bank balance to current assets, saving deposit to total deposit of NSBI was higher than NBBL while fixed deposit to total deposits, loans and advances to current assets of NBBL were higher than NSBI. He concluded that overall financial performance of NBBL was better than NSBIL.

Bhandari (2006), used descriptive analysis in evaluating the financial performance of Himalayan Bank limited in the framework of CAMEL. The study covered the year 1999 through 2004. The study revealed the adequate capital of the bank. The non performing loans through in decreasing trend were still a matter of concern. The ROE was in decreasing trend though desirable during the study period. The decreasing trend of net interest margin showed management slack monitoring over the banks earning assets. The liquid funds to total deposit were above the industrial average ratio. NRB balance and cash in vault to total deposit ratios, were below the industrial average ratio during the study.

Chand (2006), has conducted a study of on topic "Financial performance Analysis of NABIL bank in frame work of CAMEL. He has carefully analyzed and interpreted all ratios that fall under CAMELS framework. He has found the NABIL has sound financial health and has maintained all NRB mandatory rules.

Gurung (2007), conducted the research study entitled "Financial Performance Analysis of Annapurna Finance Company Ltd. in the framework of CAMELS". The study covered five years period from FY 2058/059 to FY2062/063. The capital adequacy ratios of

the company were found to be generally above the NRB standards in all the study years. The non performing loan ratio of the company was found fluctuating through the ratios were below the international standards. The loan loss ratios was found fluctuating but in increasing trend during the period. The management quality proxy ratios-the total expenses to total income ratios were in fluctuating trend were as earning per employee ratio were in increasing trend. The earning quality ratio were in fluctuating trend but were above the World Bank standard. The net interest margin was in increasing trend. Earnings per share were in decreasing trend. The liquid assets to total deposit ratio of the company was as per NRB standard.

Koirala (2007), conducted a research study entitled "Diagnosis of Financial Health of Nepal Investment Bank Ltd. in the framework of CAMELS" with the objective to assess the financial performance of the bank in CAMELS framework. The study covers 6 years period from FY 2001 to FY 2006. The capital adequacy ratios of the bank were generally above the NRB standard in all the year expect in the year 2003. The assets mainly composed of loans and advance investment. The non performing loans to loans ratios were quite below the industrial average and international standard. The loans loss provision ratio of the bank was fluctuated continuously in each year. The total expenses to revenue ratio were is decreasing trend and the earning per employee was is increasing trend. The earning quality ratios were generally above the benchmark prescribed by World Bank and were in increasing trend. The bank was not able to follow the NRB directive strictly. The banks short-term net financial assets are highly sensitive to interest rate risk. Conversely, the bank hasn't been able to match the risk sensitive assets to risk sensitive liabilities' in long term maturity bucked and therefore interest rate changes has affect on them.

Sharma (2007), carried out the research study entitled "Financial performance Analysis of Nepal SBI Bank ltd. in the framework of CAMELS" with the basic objective of analyzing the financial performance of Nepal SBI Bank Ltd. (NSBI) in the CAMELS framework. The study was based on secondary data covering the period of six years from 2001 to 2006 AD. He used only the financial tools in his study. The researcher concluded that NSBI was well capitalized and complies with the NRB directives. The bank has maintained satisfactory level of past due loan on total loan except on 2001. Earning per employees ratio of the bank was found quite high. Net interest margin of the bank was found satisfactory furthermore, the liquidity position of the bank was found sound.

Shakya (2008), has conducted a research entitled "CAMEL study on financial performance of Commercial Banks in Nepal with reference to SCBNL, NABIL and NIBL", with the objective to evaluate and analyze the financial performance of these banks on the basis of CAMEL and found Capital Adequacy ratio of all the three banks are higher than that of NRB's standard and SCBNL has the highest CAR among them.NPL of selected bank are found least and that is at decreasing trend which shows that these banks are efficient and effective utilizing their assets and resources. Management efficiency ratio of SCBNL is highest than other two banks which shows that management quality of SCBNL is better than other two banks. Earnings per share of SCBNL is higher than NABIL and NIBL show SCBNL is better than other banks but earning per share is in decreasing trend. CCR (Core Capital Ratio) of SCBNL and NIBL is higher than NRB's standard but NABIL fails to meet the NRB's standard.

Dawadi (2009), conducted "A Comparative Study on Financial Performance of Commercial Banks under CAMELS framework" with reference to Nabil Bank Ltd. and Himalayan Bank Ltd. The basic objective of the study was to compeer the financial performance of the banks each other in CAMELS framework. The researcher concluded that the bank's core capital ratio varieties positively NRB standard during the review period. The loan loss provision ratio has decreased and the quality of assets has been increased over the years. Earning per employee and operating expenses ratio shows that the management of bank are performing well enough to maximize the shareholders wealth. The liquidity indicators showed the average during the study period.

Gurung (2009), conducted a research study entitled "Financial Performance Analysis of Domestic Private commercial Banks in Nepal in the framework of CAMEL", with the objective of analysis the financial performance of selected commercial banks in CAMELS framework. The study was based on secondary data covering the six years period from 2001/02 to 2006/07 A.D. The conclusions of the study are, well capitalized and they are complying with the NRB directives on capital adequacy ratio. The ratio of nonperforming loans to total loans is in decreasing trend with some fluctuations over the year, the loan loss reserve ratio is at satisfactory level. Earning per-employees was found in average, the selected banks showed better result in case of EPS ratio.

Dhakal (2010), conducted a research study entitled "Financial Performance Analysis of Machhapuchre bank and Kumari bank based on CAMEL". The study was based on

secondary data covering the six years period from 2004/05 to 2008/079 A.D. She found that CAR and CCR of both bank are maintaining NRB directives. The ratio of NPL of kumara bank is lower than Machhapuchre bank which shows the better position on NPL. Loan Loss Provision Ratio of MBL is higher than KBL which shows the strong credit risk management system. Management efficiency ratio of KBL is higher than MBL which indicates the effective management system. EPS of KBL is in increasing trend and EPS of MBL is in decreasing trend which reflects the KBL is more profitability than MBL. ROA of KBL is higher than MBL which indicates that KBL is successfully mobilizing its assets; However KBBL is better performing in any aspect of CAMEL.

Baral (2010), carried out a research study entitled "Financial Performance Analysis of Annapurna Finance Company Limited in the framework of CAMEL". The objective of the study is to analyze the capital adequacy to assess the quality of assets, to evaluate managing its expenses with response to income and to analyze the position of earning per employees, to study the trend of earning, to measure the liquidity position and found that CAR and CCR is above the NRB's standard and followed its directives. NPL is fluctuating and which is below than International and NRB's standard. Earning per share is fluctuating or decreasing trend it shows that poor management efficiency. ROE of AFCL is increasing trend which indicates the profitability or earning quality. However financial performance of AFCL is satisfactory level under CAMEL framework.

Tripathi (2011), conducted a research study entitled "Comparative Study on Financial Performance Analysis of commercial Banks under CAMELS Framework" with reference to Laxmi bank, BOK, NIC, NIBL, SBI, NABIL, SCBNL. The study was based on secondary data covering the ten years period from 2001/02 to 2009/10 A.D. The conclusions of the study are: All the selected banks have maintained the adequate level of Capital as per the NRB's standard and SCBNL is the strong than other according to capital adequacy, the Performing loan of selected commercial bank is increasing steadily and conversely the Non Performing loans are decreasing trend with some fluctuating during the review period. Since the loan loss provision ratio of all selected bank has decreased and the quality of assets has been increased over the years, Earning per Employee of all selected banks are in increasing trend and Operating expenses ratio of all bank is decreasing trend which shows the better management efficiency but BOK has better management efficiency than other, ROA and

ROE of all the bank is fluctuating and NABIL has highest and Laxmi has the lowest ROA and ROE than other bank.

Chapagain (2011), carried out a research study entitled "CAMEL Analysis of Joint Venture Commercial Bank", with reference to NABIL, EBL and SCBNL. The study was based on secondary data covering the five years period from 2005/06 to 2009/10 A.D. She found that CAR and CCR of the entire bank are above NRB's standard and SCBNL has the highest than other two banks. NPL of EBL and SCBNL is in increasing trend from 2005/06 to 2009/10 but NPL of NABIL is in decreasing trend but all banks are at satisfactory level. Management efficiency level of SCBNL is higher than other two banks. EPS of SCBNL is in decreasing trend but P/E ratio is in increasing trend rather than other two bank but both are higher than others bank. However, SCBNL is more profitability than other two banks. The financial performances of the entire selected bank are at satisfactory level.

2.3 Research Gap

Various studies have been conducted in the past of financial analysis of commercial bank in the US and other area was found. The research paper done in the context of Nepal mainly emphasized on liquidity, profitability, and leverage ratio of the commercial banks. These studies lack micro-level analysis and found applying traditional analysis of financial performance. In the context of Nepalese banking environment, there are few academic researchers found conducted in the framework of CAMEL. However, these research analyses have lake of the sixth component, sensitivity to Market risk of CAMELS framework. This study incorporates sixth component (Sensitivity to Market Risk) of CAMELS to evaluate the financial health and soundness of selected joint venture commercial bank of Nepal. So there is a certain gap between previous research and this analysis. Sensitivity measures how often banks assets and profit is affected by change in interest rate, exchange rate, commodity price, derivatives prices etc. Among them, interest rate, largely affects the bank's balance items.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology describes the methods and process applied in the entire study. It is a way to systematically solve the research problem. This chapter includes the research design, nature and sources of data, data collection models, data analysis tools, and limitation of the study.

3.1 Research Design

The main purpose of this research is to compare and evaluate the performance of selected Joint venture commercial banks in Nepal. In this regard, descriptive and comparative research methodology has been used to meet the objectives of the study.

3.2 Nature and Sources of Data

Basically the research is based on the secondary sources of data. The annual reports of the selective banks and annual supervision reports of NRB are the major sources of data. Regulatory data are collected from NRB directives and UFIRS rating system. The information related to the past and current studies in the research fields were collected from the following sources.

- NRB supervision report 2010
- NRB capital adequacy framework (updated 2010)
- Annual reports of selected joint venture commercial banks (5 year's data)
- Financial information from Nepal sharemarkets.com
- Reference from New business age
- Official website of banks
- Various research papers and journals articles.

3.3 Population and Sampling

There are all together 32 commercial banks operating in Nepal. Out of total commercial banks only seven joint venture banks (NABIL, SCBNL, EBL, SBI, HBL, NBBL and NMB) have been selected as sample using stratified convenience sampling method.

3.4 Data Collection Method

The required information was collected from the annual reports of each banks by visiting their head office, website, various publication reports of the Central bank of Nepal-Nepal Rastra Bank from the official website of Nepal Rastra Bank. Moreover, extensive internet surfing is carried out to collect the related article, journal, research papers. The subject matters of literature review were collected from various research papers placed in Central library Tribhuvan University, library of Shanker Dev Campus and various websites. Moreover, all related information and data are secondary.

3.5 Data Analysis Tools

Ratios analysis is the major tool for this study. Various Financial ratios are used for the descriptive and comparative analysis of the bank. In addition, simple mathematical tools are used to analyze and interpret the data that are extracted from the annual reports, banks statistical reports and annual supervision report.

3.5.1 Financial Ratio Analysis Tools

Financial ratio analysis tools are used to compare the performance of the banks in the CAMELS framework. The ratios are used as per the CAMELS component's requirements.

- Capital adequacy Ratio:

  Capital adequacy Ratio is the numerical relationship between total capital fund and total risk weighted asset. Capital Adequacy Ratio is calculated by using risk weighted assets and total capital fund (including Tier 1 or core capital and Tire 2 or supplementary capital). Due the constraints of the data, we have taken the capital adequacy ratio directly from the annual supervision report for easiness of our research. Although capital adequacy ratio is calculated by using the following formula:

$$CAR = \frac{\text{Tire1 + Tire 2 capital}}{\text{Total Risk weighted assets}}$$

CAR = Capital Adequacy Ratio

Total Capital Fund = Core capital + supplementary capital

❖ Core Capital Adequacy Ratio

Core Capital Adequacy Ratio shows the relationship between the total core capital or internal sources and total risk adjusted assets. It is calculated by using the following formula:

$$\text{Core Capital adequacy Ratio} = \frac{\text{Core capital}}{\text{Total risk Adjustment Assets}}$$

❖ Non-performing Loan ratio:

The non performing ratio indicates the relationship of the proportions of NPL in total loan and advances. Non-performing loan is those loans which have been past due as per the NRB directives. This ratio is used to analyze the assets quality of the banks and determined by using following formula:

$$\text{Non-performing assets ratio} = \frac{\text{Non-performing Loan}}{\text{Total Gross Loan}}$$

❖ Loan loss provision to total loan ratio:

Loan loss provision to total loan ratio is the numerical relationship between loan loss provision and total loan. This ratio indicates the total weight of loan loss provision of the total weight of total loan. This ratio is used to analyze the assets quality of the banks and determined by using following formula:

$$\text{Loan loss provision ratio} = \frac{\text{Loan Loss Provision}}{\text{Total loan and advances}}$$

❖

❖ Operating expenses ratio:

Operating expenses ratio is the relationship between the operating income and operating expenses of the selective banks. It measures the proportion of total expenses to the total revenues. A high or increasing ratio indicates low operating efficiency of bank and vice versa. This is calculated by:

$$\text{Operating expenses ratio} = \frac{\text{Total Operating Expenses}}{\text{Total Operating Income}}$$

- Earning per Employee:

Earning per employee reflects the contribution of employee on the company's earning or profits in monetary value. It shows the efficiency of the employee working in the organization. Low or decreasing earning per employee reflects inefficiencies in mobilizing the employees or overstaffing and vice versa. Earning per employee directly affect the profitability of any organization. It is calculated as:

$$\text{Earning per employee} = \frac{\text{Net Profit after Tax}}{\text{Total number of Employee}}$$

- Return on Equity (ROE)

ROE indicates the relationship between net profit after taxes and the total equity capital. It measures the rate of return flowing to the bank's shareholders. Shareholders wants to increase ROE to increase their wealth in the organization.ROE is calculated by using the following formula.

$$\text{Return of equity (ROE)} = \frac{\text{Net profit after Tax}}{\text{Total Shareholder Equity}}$$

- Return on assets (ROA)

ROA (Return on Assets) is a popular tool to measure how well the banks are utilizing its assets to generate profit. It measures the profit earning capacity by utilizing available resources i.e. total assets. Therefore return will be higher if the banks resources are well managed and efficiently utilized. It is calculated by:

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

- Earning Per Share(EPS)

It is the relationship between net profit after tax and total no of shares outstanding. It is the profit generated by per share. It measures the earning capacity of each organization. Higher EPS indicates the better performance of bank and vice versa. It is calculated by:

$$\text{Earning per share (EPS)} = \frac{\text{Net Income after Tax}}{\text{Total no of shares}}$$

- Liquid Assets to Total Deposits Ratio:

It shows the relationship between the total liquid assets and total deposit of a bank. The total liquid asset comprises cash in hand, NRB balance, various reserve fund, other balance and investment in short term Government securities. The higher ratio implies better liquidity position and vice versa.. It is calculated by:

$$\text{Liquid Assets to Total Deposit Ratio} = \frac{\text{Total liquid assets}}{\text{Total deposits}}$$

- Liquid Assets to Total Assets Ratio:

This ratio is computed by dividing the liquid assets by total assets of the banks. The main purpose of analyzing ratio is to find out liquidity position of the selected bank with its total assets. It reflects the capability, measurement and portion of liquidity with its assets composition. It is calculated as:

$$\text{Liquid assets to total assets ratio} = \frac{\text{Total Liquid Assets}}{\text{Total Assets}}$$

- Credit to Deposit ratio(CD)

Credit to Deposit (CD) ratio is an index of the health of banking system in terms of demand for credit in proportion to total deposit growth in the banking sector. It is calculated through dividing total credit by total deposit. A declining CD ratio implies that banking sector was flush with funds without any corresponding demand for credit affecting the bank's profitability in the long run as they have to pay interest to depositors without corresponding income from the credit outflow. It measures the risky position of its deposit on lending of loan. It is calculated as follows.

$$\text{Credit to Deposit ratio} = \frac{\text{Total credit amount}}{\text{Total Deposit amount}}$$

3.5.2 Statistical Tools Analysis

This study is mainly based on trend analysis so only one statistical tool i.e. average is used to reach the meaningful result, which is described below.

Average (Mean):

A simple arithmetic average is used to summarize the data as a representation of mass data. A simple arithmetic average is a value obtained by dividing the sum of the values by their number (Kothare, 2004). Thus, the average is expressed as:

$$\overline{X} = \frac{\Sigma X}{N}$$

Where

$\bar{x}$ = Simple arithmetic mean

X = Individual value

$\sum$ = Symbol for summation

N = Total no of observation

During the analysis of the data average (mean) is calculated through the statistical formula “Average” on excel data sheet on computer.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

Presentation and analysis of data is the important aspects of research study. The main purpose of this chapter is to convert all the raw data into understandable form. It is the process of collecting, organizing, summarizing, tabulating and presenting data into various charts, table and other forms. That makes easier for readers to understand the interpreted data and their related sources.

4.1 Data Presentation and Analysis

Mainly the data for this research study is based on the annual report of each banks and the NRB's annual bank supervision report. The data are extracted and processed within the framework of CAMELS to evaluate the financial performance of selected banks. Different financial ratios are calculated under sub-component of CAMELS and different diagrams and tables are presented which are as follows:

4.1.1 Capital Adequacy

Capital adequacy is the first and most important component of CAMELS analysis. It focuses to the level of capital that bank should maintained for safety and smoothly operation. Every bank should maintain the appropriate level of capital for three purposes. First, bank capital helps to meet their obligation to pay its depositors and other creditors which makes bank failure. So, adequate level of capital prevents the bank from insolvent. Second, to meet the daily activities and earn profit from the profitable sector which satisfy the equity holders or owners. And third, to meet a required minimum level of capital which is determined by the regulatory body (In Nepal, NRB).

According to Basel II, Basel Committee for Bank Supervision (BCBS), Bank for International Settlement has determined the minimum capital adequacy ratio of 10% of total risk weighted assets. In Nepal, under Bank and Financial Institution Act 2006 and NRB's Directive 2068 has determined the minimum level of 10% for commercial bank and 11% for development bank and finance companies f total risk weighted assets. Capital Adequacy Ratio is calculated by two techniques:

4.1.1.1 Total Capital Adequacy Ratio

Total capital adequacy ratio is the relationship of total capital and total risk weighted assets. Total capital consist Tier 1 capital (core capital) and Tier 2 capital (supplementary capital). According to the NRB's supervision report 2010, minimum level of capital to its total risk weighted assets is 10%. Total Capital Adequacy ratio of selected banks for five years period is presented in following table.

Table 4.1: Total Capital Adequacy Ratios

(In percent)

Bank	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	Tire1+Tire2/ TRWA	Tire1+Tire2/ TRWA	Tire1+Tire2/ TRWA	Tire1+Tire2/ TRWA	Tire1+Tire2/ TRWA	
NABIL	12.04	11.10	10.70	10.50	10.58	10.98
SCBNL	15.71	13.15	14.70	14.51	14.22	14.46
EBL	11.20	11.44	11.34	10.77	10.43	11.04
SBI	13.29	12.32	11.92	12.25	11.52	12.26
HBL	11.13	12.42	11.02	10.72	10.68	11.19
NBBL	-23.55	-18.17	5.55	12.63	10.63	-2.58
NMB	13.31	33.96	20.41	18.44	16.39	20.50

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

The table 4.1 presents the total capital adequacy ratio (TCAR) of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2006/07 i.e. 12.04 % and lowest in 2009/10 i.e. 10.50 %. SCBNL bank has highest in 2006/07 i.e. 15.71 % and lowest in 2007/08 i.e. 13.15 %. EBL has highest in 2007/08 i.e. 11.44 % and lowest in 2010/11 i.e. 10.43 %. SBI has highest in 2006/07 i.e. 13.29 % and lowest in 2010/11 i.e. 11.52 %. HBL has highest in 2007/08 i.e. 12.42 % and lowest in 2010/11 i.e. 10.68 %. NBBL has highest in 2009/10 i.e. 12.63 % and lowest in 2006/07 i.e. -23.55 %. NMB has highest in 2007/08 i.e. 33.96 % and lowest in 2006/07 i.e. 13.31 %. All selected joint venture commercial banks except NBBL has maintained their total adequacy capital ratio on the basic of NRB directive. It seems that total capital adequacy ratio of selected banks except NBBL are at satisfactory level.

4.1.1.2 Core Capital Adequacy Ratio

Core capital adequacy ratio is the ratio of core capital (primary capital) and total risk weighted assets. Core capital consist paid-up capital, share premium, non-redeemable preference share, general reserve, accumulated profit and loss amount. Core capital is kept in reserve for absorb from different losses. According to the NRB's supervision report 2010, minimum level of core capital to its total risk weighted assets is 6%. Core Capital Adequacy ratio of selected banks for five years period is as follows:

Table 4.2: Core Capital Adequacy Ratio

(In percent)

Banks	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	Tire1Cap/ TRWA	Tire1Cap/ TRWA	Tire1Cap/ TRWA	Tire1Cap/ TRWA	Tire1Cap/ TRWA	
NABIL	10.40	8.75	8.74	8.77	8.83	9.10
SCBNL	13.77	11.52	13.05	12.52	12.10	12.59
EBL	7.82	9.04	8.52	8.39	8.46	8.45
SBI	10.53	9.97	10.03	10.89	10.32	10.35
HBL	9.61	9.36	8.81	8.68	8.88	9.07
NBBL	-23.55	-18.17	4.42	11.73	9.73	-3.17
NMB	11.76	32.66	19.75	17.61	15.51	19.46

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

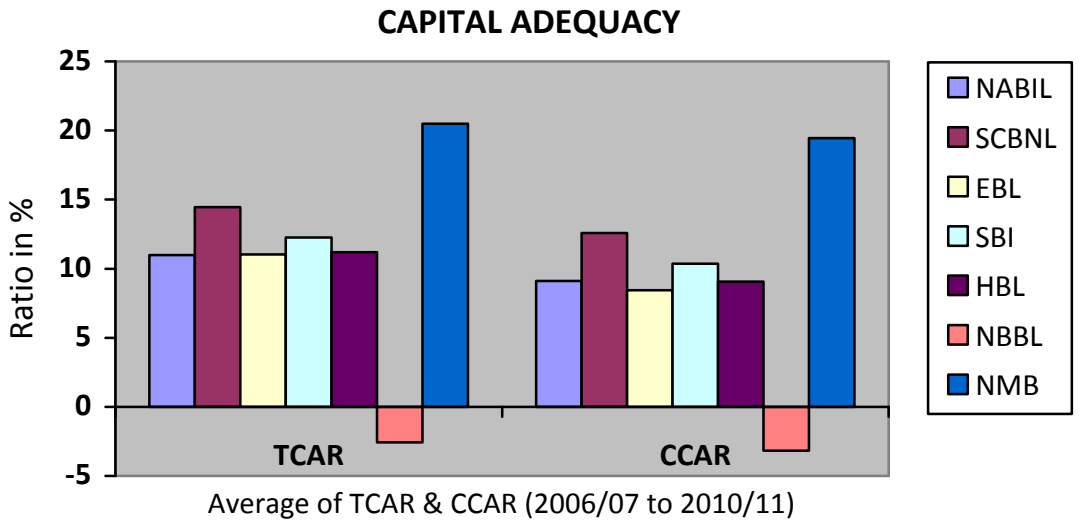
As shown in table 4.2, Core capital adequacy ratio (CCAR) of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2006/07 i.e. 10.40 % and lowest in 2008/09 i.e. 8.74 %. The SCBNL bank has highest in 2006/07 i.e. 13.77 % and lowest in 2007/08 i.e. 11.52 %. EBL has highest in 2007/08 i.e. 9.04 % and lowest in 2006/07 i.e. 7.82 %. SBI has highest in 2009/10 i.e. 10.89 % and lowest in 2007/08 i.e. 9.97 %. HBL has highest in 2006/07 i.e. 9.61 % and lowest in 2009/10 i.e. 8.81 %. NBBL has highest in 2009/10 i.e. 11.73 % and lowest in 2006/07 i.e. -23.55 %. NMB has highest in 2007/08 i.e. 32.66 % and lowest in 2006/07 i.e. 11.76 %. Core capital adequacy ratio (CCAR) of selected joint venture commercial banks except NBBL has maintained their core adequacy capital ratio on the basic of NRB directive i.e. 6%. It seems that all banks are maintaining their core capital to their risk weighted assets.

It is difficult to ranking them according to individual annual data so average method is used for ranking. The average of capital adequacy ratio [Total Capital Adequacy Ratio (TCAR) and Core Capital Adequacy Ratio (CCAR)] of selected banks for the study period is presented below.

Table 4.3: Average of capital adequacy ratio and ranking them

Bank	TCAR	Rank	CCAR	Rank
NABIL	10.98	6	9.10	4
SCBNL	14.46	2	12.59	2
EBL	11.04	5	8.45	6
SBI	12.26	3	10.35	3
HBL	11.19	4	9.07	5
NBBL	-2.58	7	-3.17	7
NMB	20.50	1	19.46	1

Figure 4.1: Position of Capital Adequacy



The above table and diagram represents the average of total capital adequacy ratio and core capital adequacy ratio for the study period. The average both total capital adequacy ratio and core capital adequacy ratio of NMB has highest i.e. 20.50% and 19.46% and ranked on 1st position and NBBL has lowest i.e. -2.58% and -3.17% and ranked on last or 7th position. It

seems that all selected bank except NBBL has maintain their capital adequacy as per NRB directives.

4.1.2. Assets Quality

Assets quality is the one of the most important factor while measuring the effectiveness of any institution. It means the capacity of assets to create income as well as the re-cover ability of the principle amount. There are different techniques used to measure the assets quality of financial institution. But, only non-performing loan ratio and loan loss provision ratio are used to measure the assets quality of selected banks in this study.

4.1.2.1 Non-performing Loan Ratio

It is the ratio of non- performing loan to total loan and advances. Loans are classified in performing loan and non-performing loan by NRB. The interest amount and principle payment made by the borrowers in time is called performing loan and due for that amount payment is called non-performing loan. As per NRB directive, all non-performing loan are classified in three categories they are sub-standard loan, Doubtful loan and loss loan. The ratio of NPL to total loan and advances shows the percentage of NPL in total loan. The lower the ratio is the better proportion of performing loans and low risk of default. The increasing trend of these ratios shows the deteriorating quality of banks assets. An Internationally recognized non-performing loan benchmark is less than 8%. In general, 5 percent to 10 percent of NPL is considered as satisfactory level of quality of assets.

Table 4.4: Non-performing Loan Ratio

(In percent)

Banks	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	NPL/ Total loan	NPL/ Total loan	NPL/ Total loan	NPL/ Total loan	NPL/ Total loan	
NABIL	1.12	0.74	0.80	1.48	1.77	1.18
SCBNL	1.83	0.92	0.66	0.61	0.62	0.93
EBL	0.80	0.68	0.48	0.44	0.34	0.55
SBI	4.56	3.83	2.02	1.48	1.10	2.60
HBL	3.61	2.36	2.16	3.52	4.22	3.17
NBBL	39.76	31.73	19.80	6.47	19.18	23.39
NMB	1.73	1.52	0.51	0.70	0.27	0.95

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

The above table 4.4 represents the non- performing loan (NPL) ratio of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2010/11 i.e. 1.77 % and lowest in 2007/08 i.e. 0.74 %. SCBNL bank has highest in 2006/07 i.e. 1.83 % and lowest in 2009/10 i.e. 0.61 %. EBL has highest in 2006/07 i.e. 0.80 % and lowest in 2010/11 i.e. 0.34 %. SBI has highest in 2006/07 i.e. 4.56 % and lowest in 2010/11 i.e. 1.10 %. HBL has highest in 2010/11 i.e. 4.22 % and lowest in 2008/09 i.e. 2.16 %. NBBL has highest in 2006/07 i.e. 39.76 % and lowest in 2009/10 i.e. 6.47 %. NMB has highest in 2006/07 i.e. 1.73 % and lowest in 2010/11 i.e. 0.27 %. All selected joint venture commercial banks except NBBL has maintain their total NPL ratio on basic of NRB directive and an internationally benchmark. The NPL of all bank is at decreasing trend so we can say that loan of all bank is well performing.

4.1.2.2 Loan Loss Provision Ratio

Loan loss provision ratio is the ratio of loan loss provision to total loan and advances. Loan loss provision is an expenses set aside as an allowances for bad loan. It protect from the possible loss cause due to the default of the loan amount. This ratio indicates the position of non-performing loan of total loan and advances. Higher loan loss provision ratio implies higher position of non-performing loan from loan portfolio and vice versa. The high ratio signifies the relatively more risky assets in the volume of loans and advances.

Table 4.5: Loan Loss Provision Ratio

(In percent)

Banks	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	LLP/Total loan	LLP/Total loan	LLP/Total loan	LLP/Total loan	LLP/Total loan	
NABIL	2.25	1.81	1.46	2.31	2.24	2.01
SCBNL	2.66	1.76	1.45	1.36	1.26	1.70
EBL	2.97	2.64	2.39	2.13	1.91	2.41
SBI	6.01	4.96	3.08	2.69	1.63	3.67
HBL	4.47	3.38	2.86	3.93	4.25	3.78
NBBL	51.92	42.37	26.57	14.36	17.43	30.52
NMB	3.88	3.48	1.65	1.55	1.19	2.35

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

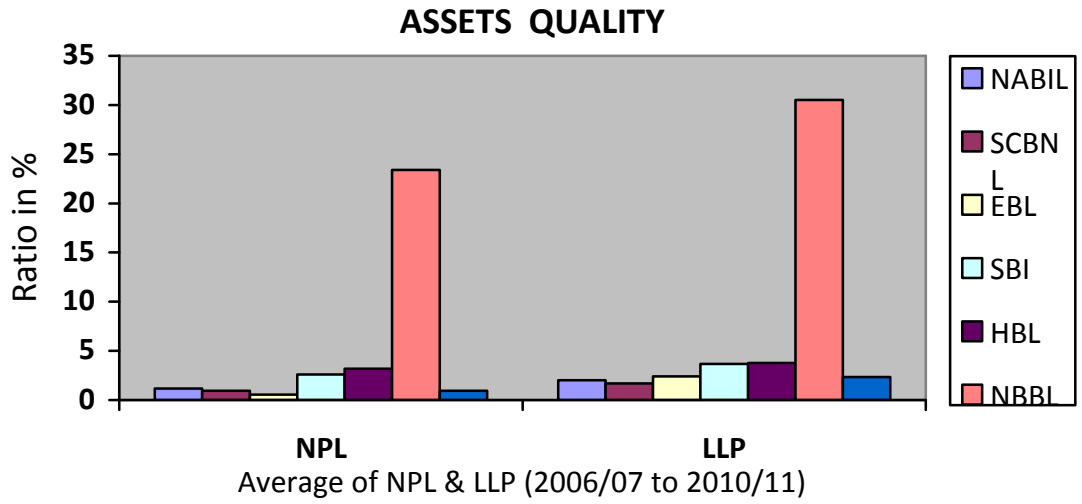
The above table 4.5 shows the loan loss provision(LLP) ratio of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2006/07 i.e. 2.25 % and lowest in 2007/08 i.e. 1.81 %. SCBNL bank has highest in 2006/07 i.e. 2.66 % and lowest in 2010/11 i.e. 1.26 %. EBL has highest in 2006/07 i.e. 2.97 % and lowest in 2010/11 i.e. 1.91 %. SBI has highest in 2006/07 i.e. 6.01 % and lowest in 2010/11 i.e. 1.63 %. HBL has highest in 2006/07 i.e. 4.47 % and lowest in 2008/09 i.e. 2.86 %. NBBL has highest in 2006/07 i.e. 51.92 % and lowest in 2009/10 i.e. 14.36 %. NMB has highest in 2006/07 i.e. 3.88 % and lowest in 2010/11 i.e. 1.19 %. Loan loss provision(LLP) ratio of all selected joint venture commercial banks is at decreasing trend so we can say that bad loan of all bank is decreasing.

Assets quality of bank is the capacity of assets to create income for recover the principle amount. Total assets of banks was composed of cash and bank balance, investments, money at call, loan and advances, fixed assets, and other assets. The average of Non-performing Loan ratio and Loan Loss Provision ratio of selected banks for the study period is presented below.

Table 4.6: Average of NPL and LL ratio and ranking them

Bnaks	NPL	Rank	LLP	Rank
NABIL	1.18	4	2.01	2
SCBNL	0.93	2	1.70	1
EBL	0.55	1	2.41	4
SBI	2.60	5	3.67	5
HBL	3.17	6	3.78	6
NBBL	23.39	7	30.52	7
NMB	0.95	3	2.35	3

Figure 4.2: Position of assets Quality



The above table and diagram represents the average of non-performing loan ratio and loan loss provision for the study period. The Non-performing loan of EBL is lowest i.e. 0.55% and ranked on 1st position and NBBL has highest i.e. 26.99% and ranked on 7th or last position. We can say that EBL has better performing its loan and has low risk for recovering of loan and NBBL has bad performing it's loan and has high risk for recovering of loan. On the other hand loan loss provision ratio of SCBNL is lowest i.e. 1.70 % and ranked on 1st position and NBBL has highest i.e. 30.52 % and ranked on 7th position. So we can say that proportion of bad loan of SCBNL is lower and NBBL is higher than other.

4.1.3 Management Efficiency

Management efficiency is the one of the most important factor for success of any organization. Success and failure of any organization depends upon their management but it is difficult to measure. Only the subjective analysis is used for measuring the efficiency of the management. There is no any specific technique to measure the management quality, different qualitative factor are applicable to individual institution. But here only two techniques: operating expenses ratio and Earning per Employee are used to proxy measure the efficiency of the management quality.

4.1.3.1 Operating Expenses Ratio

Operating expenses ratio is one technique which measure the management quality. It is the relationship of total operating expenses and total operating income. Operating incomes and operating expenses are that income and expenses comes from the bank's ongoing operations.

Banks operating income includes incomes from investment on loans and advances, commissions, fees and discounts and other miscellaneous income and operating expenses includes interest on deposit, staff salary, provision for staff and other operating expenses, audit fee expenses, management expenses and other expense directly related to the operation.

It is the ratio of operating expense and operating income. A high or increasing operating expenses ratio indicates the poor management and inefficient operation and a low or decreasing operating ratio indicates the better management and efficient operation.

Table 4.7: Operating Expenses Ratio

(In percent)

Banks	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	Ope.exp./ Ope Income	Ope.exp./ Ope Income	Ope.exp./ Ope Income	Ope.exp./ Ope Income	Ope.exp./ Ope Income	
NABIL	53.60	57.13	57.27	64.61	67.92	60.11
SCBNL	48.75	48.11	47.30	47.83	54.24	49.25
EBL	65.12	62.54	64.14	66.32	72.24	66.07
SBI	69.95	69.24	75.32	79.24	82.46	75.24
HBL	70.19	65.82	63.09	82.77	80.32	72.44
NBBL	238.14	88.24	65.86	68.97	88.24	109.89
NMB	62.00	70.41	86.47	77.32	81.67	75.57

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

As shown in the table 4.7 Total Operating Expenses Ratio (TOER) of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2010/11 i.e. 67.92 % and lowest in 2006/07 i.e. 53.60 %. SCBNL bank has highest in 2010/11 i.e. 54.24 % and lowest in 2008/09 i.e. 47.30 %. EBL has highest in 2010/11 i.e. 72.24 % and lowest in 2007/08 i.e. 62.54 %. SBI has highest in 2010/11 i.e. 82.46 % and lowest in 200/08 i.e. 69.24 %. HBL has highest in 2010/11 i.e. 80.32 % and lowest in 2008/09 i.e. 63.09 %. NBBL has highest in 2006/07 i.e. 238.14 % and lowest in 2008/09 i.e. 65.86 %. NMB has highest in 2008/09 i.e. 86.47 % and lowest in 2006/07 i.e. 62.00 %. The TOER of all banks is at increasing trend so we can say that management quality of all banks is at detorating.

4.1.3.2 Earning per Employee

Earning per employee is another technique which measures the management quality. It is calculated by dividing net profit after taxes by number of employee. A high or increasing earning per employee indicates the better or efficient management. On the other hand a low or decreasing earning per employee can reflect inefficiencies as a result of over staffing with similar repercussion in term of profitability.

Table 4.8: Earning Per Employee

(Amount in Millions)

Bank	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	Net income/ no of employee	Net income/ no of employee	Net income/ no of employee	Net income/ no of employee	Net income/ no of employee	
NABIL	1.58	1.79	2.04	2.05	2.10	1.91
SCBNL	1.97	2.17	2.62	2.53	2.61	2.38
EBL	0.75	1.01	1.20	1.46	1.59	1.20
SBI	1.35	1.00	0.98	0.84	0.92	1.02
HBL	0.84	1.08	1.27	0.88	1.38	1.09
NBBL	-2.68	1.48	5.88	2.85	1.01	0.00
NMB	2.21	1.35	0.50	1.01	1.17	1.25

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

The above table 4.8 shows the Earning Per Employee(EPE) ratio of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2009/10 i.e. Rs 2.05 million and lowest in 2006/07 i.e. Rs 1.58 million. SCBNL bank has bank has highest in 2008/09 i.e. Rs 2.62 million and lowest in 2006/07 i.e. Rs 1.97 million. EBL has highest in 2010/11 i.e. Rs 1.59 million and lowest in 2006/07 i.e. Rs 0.75 million. SBI bank has highest in 2006/07 i.e. Rs 1.35 million and lowest in 2009/10 i.e. Rs 0.84 million. HBL has highest in 2010/11 i.e. Rs 1.38 million and lowest in 2006/07 i.e. Rs 0.84 million. NBBL has highest in 2008/09 i.e. Rs 5.88 million and lowest in 2006/07 i.e. Rs -2.68. NMB bank has highest in 2006/07 i.e. Rs 2.21 million and lowest in 2008/09 i.e. Rs 0.50 million. EPE ratio of all selected joint venture commercial banks except NMB is at decreasing and NMB has decreasing to 2008/09 and increasing then after. It seems that all banks have better management performance.

Management efficiency of any organization depends upon how properly their resources are mobilizing for generating profit. Operating expenses ratio (OER) and earning per employee (EPE) ratio are used to measure the management efficiency of this research. The average of operating expenses ratio (OER) and earning per employee (EPE) ratio of selected banks for the study period is presented below.

Table 4.9: The average of OER and EPE and ranking them

Banks	OER	Rank	E.P.E	Rank
NABIL	60.11	2	1.91	2
SCBNL	49.25	1	2.38	1
EBL	66.07	3	1.20	5
SBI	75.24	5	1.02	7
HBL	72.44	4	1.09	6
NBBL	109.89	7	1.71	3
NMB	75.57	6	1.25	4

Figure 4.3: Position of Operating Expenses Ratio

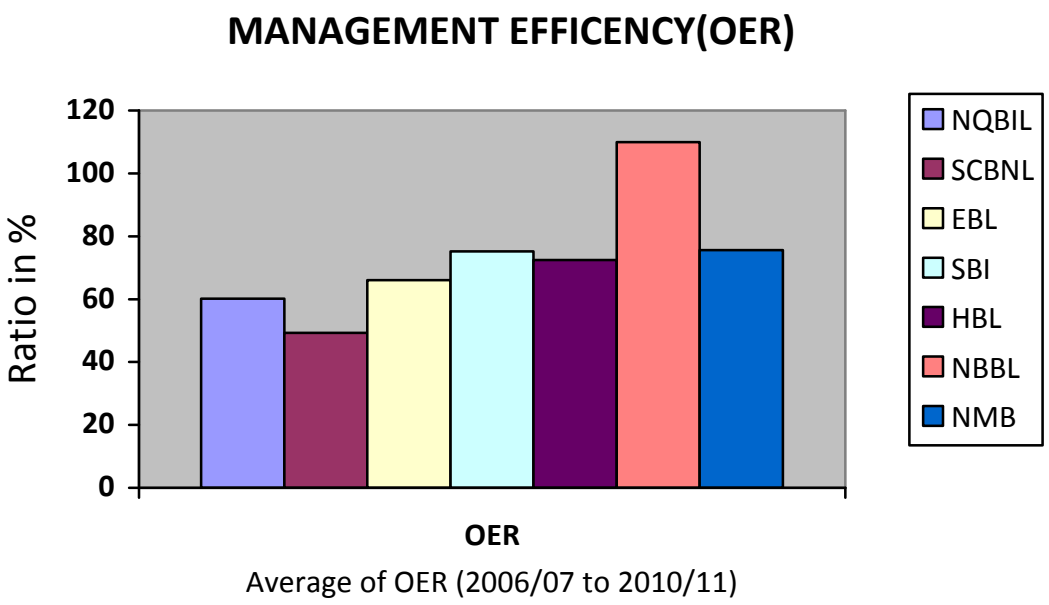
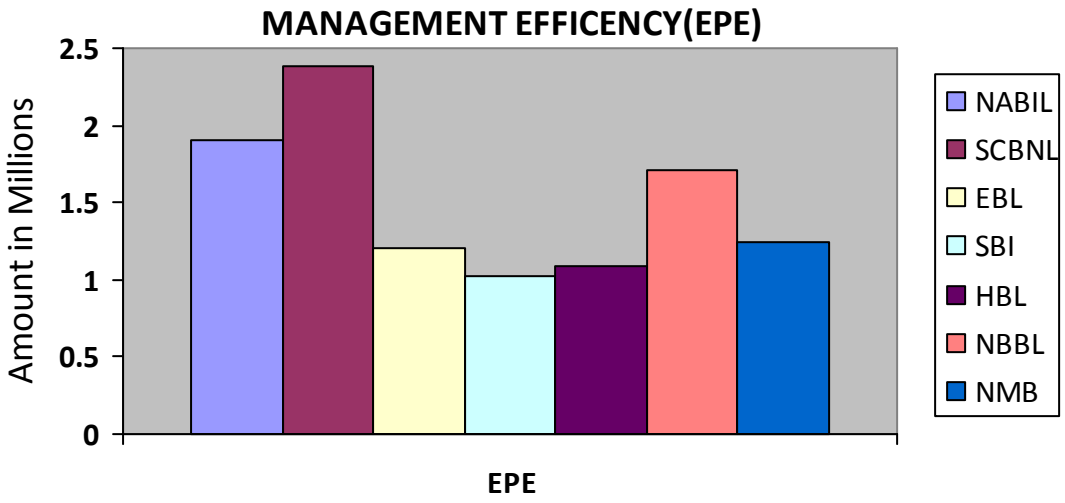


Figure 4.4: Position of Earning Per Employee



Average of EPE (2006/07 to 2010/11)

The above table and diagram represents the average of operating expenses ratio and earning per employee for the study period. According to Operating expenses ratio SCBNL is at 1st position i.e. 49.25 % and NBBL is at 7th position i.e.109.89%. We can say that SCNBL has better management performance and efficient operation NBBL has poor management performance and inefficient operation. On the other hand Earning per employee of SCBNL is highest i.e. Rs 2.38 million and ranked on 1st position and SBI has lowest i.e. Rs 1.02 million and ranked on 7th. So we can say that SCBNL has efficient management for mobilizing employee to generating profit and NBBL has inefficient management for mobilizing employee to generating profit. It seems that aggregate management efficiency of SCBNL is better than other.

4.1.4 Earning Quality Analysis

Earning Quality of every bank depends upon how effectively their resources are utilizing. Earning profit is the main objectives of every bank. Earning quality is one of most important parameter for measuring the performance of every bank. It is measured by different profitability ratios. The calculated ratios measure the efficiency of banks. Higher the ratio indicates the higher efficiency of banks in terms of earning quality and vice versa. Return on Equity (ROE), Return on Asset (ROA) and Earning Per Share (EPS) are the major indicators, among various profitability ratios, for evaluating the earning quality of banks.

4.1.4.1. Return on Equity (ROE)

Return on Equity (ROE) is one of the most important parameter while measuring the earning quality. It is the proportion of net income after tax to shareholders equity. It measures how well the shareholders equity is utilizing for generating the profit. The higher the ratio represents sound management and efficient mobilization of the owner's equity to generate profit and vice versa. So, owner prescribes higher level of ratio. The standard level of ROE prescribes by World Bank for banking industry is 15% and every commercial bank should maintain higher than this standard ratio. ROE of selected bank for five years period is presented below.

Table 4.10: Return on Equity

(In percent)

Bank	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	NPAT / Shareholder's Equity	NPAT / Shareholder's Equity	NPAT / Shareholder's Equity	NPAT / Shareholder's Equity	NPAT / Shareholder's Equity	
NABIL	32.76	30.63	32.94	29.76	30.13	31.24
SCBNL	32.68	32.85	33.58	34.36	30.43	32.78
EBL	27.24	23.49	28.99	30.15	29.91	27.96
SBI	21.91	17.51	18.47	15.99	16.13	18.00
HBL	22.91	25.30	24.13	14.79	22.35	21.90
NBBL	40.45	-27.22	194.03	47.87	22.51	55.53
NMB	26.41	6.00	3.95	8.83	10.02	11.04

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

The above table 4.10 shows Return on Equity (ROE) ratio of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2008/09 i.e. 32.94 % and lowest in 2010/11 i.e. 30.13 %. SCBNL bank has highest in 2009/10 i.e. 34.36 % and lowest in 2010/11 i.e. 30.43 %. EBL has highest in 2009/10 i.e. 30.15 % and lowest in 2007/08 i.e. 23.49 %. SBI has highest in 2006/07 i.e. 21.91 % and lowest in 2009/10 i.e. 15.99 %. HBL has highest in 2008/09 i.e. 24.13 % and lowest in 2009/10 i.e. 14.79 %. NBBL has highest in 2006/07 i.e. 194.03 % and lowest in 2007/08 i.e. -27.22 %. NMB has highest in 2006/07 i.e. 26.41 % and lowest in 2008/09 i.e. 3.95 %. All selected joint venture commercial

banks except NMB is maintaining their Return on Equity (ROE) of world banks standard i.e. 15%. It seems that all banks except NMB has higher return to shareholders equity.

4.1.4.2 Return on Assets (ROA)

Return on Asset (ROA) is another major indicator for measuring the Earning quality of the banks. It is calculated through dividing net profit after tax by total assets. It determines the net income produced per dollar of assets. It is a popular tool to measure how well an institution's assets are being used while generating profit. It measures the profit earning capacity by utilizing available resources i.e. total assets. The higher the ROA is better for any institution and vice versa. The bench marking of ROA is 1% designed by World Bank and the higher ratio is desired to the banking industry.

Table 4.11: Return on Assets (ROA)

(In percent)

Bank	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	Net income after tax / Total assets	Net income after tax / Total assets	Net income after tax / Total assets	Net income after tax / Total assets	Net income after tax / Total assets	
NABIL	2.72	2.32	2.55	2.38	2.43	2.48
SCBNL	2.42	2.46	2.56	2.70	2.55	2.54
EBL	1.38	1.65	1.73	2.09	2.10	1.79
SBI	1.83	1.44	1.05	1.03	1.01	1.27
HBL	1.17	1.76	1.91	1.19	1.91	1.59
NBBL	-	6.35	18.04	8.15	2.61	7.03
NMB	1.70	0.82	0.40	1.21	1.39	1.10

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

The above table 4.11 represents Return on Asset (ROA) ratio of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2006/07 i.e. 2.72 % and lowest in 2007/08 i.e. 2.32 %. SCBNL bank has highest in 2009/10 i.e. 2.70 % and lowest in 2006/07 i.e. 2.42 %. EBL has highest in 2010/11 i.e. 2.10 % and lowest in 2006/07 i.e. 1.38 %. SBI has highest in 2006/07 i.e. 1.83 % and lowest in 2010/11 i.e. 1.01 %. HBL has highest in 2008/09 and 2010/11 i.e. 1.91 % and lowest in 2009/10 i.e. 1.19 %. NBBL has highest in 2008/09 i.e. 18.04 % and lowest in 2006/07 i.e. 0.00 %. NMB has

highest in 2006/07 i.e. 1.70 % and lowest in 2008/09 i.e. 0.40 %. All selected joint venture commercial banks except NMB is maintaining their Return on Asset (ROA) of 1% of world banks benchmark standard. But NBBL has highest and NMB has lowest for the study period.

4.1.4.3 Earning Per Share (EPS)

Earning Per Share (EPS) is another important indicator to measure the earning quality. EPS is calculated by dividing net profit after tax through no of shares outstanding. It measures the profit available to the equity shareholders on per share basis. It reflects the earning power of a company. Higher EPS indicates greater net profit and vice versa. EPS of selected banks for five years period is presented below.

Table 4.12: Earning Per Share (EPS)

(Rs in millions)

Bank	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	Net income after tax / no. of shares	Net income after tax / no. of shares	Net income after tax / no. of shares	Net income after tax / no. of shares	Net income after tax / no. of shares	
NABIL	137.08	115.86	113.44	83.81	70.76	104.19
SCBNL	167.37	131.92	109.99	77.65	69.51	111.29
EBL	78.42	91.82	99.99	100.16	83.14	90.71
SBI	39.35	28.33	36.18	23.69	24.85	30.48
HBL	60.66	62.74	61.90	31.80	44.66	52.35
NBBL	0	80.16	116.01	54.90	20.68	54.35
NMB	37.57	7.28	4.42	10.65	11.08	14.20

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

The above table 4.12 shows the Earning Per Share (EPS**)** of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2006/07 i.e. Rs 137.08 and lowest in 2010/11 i.e. Rs 70.76. SCBNL has highest in 2006/07 i.e. Rs 167.37 and lowest in 2010/11 i.e. Rs 69.51. EBL has highest in 2009/10 i.e. Rs 100.16 and lowest in 2010/11 i.e. Rs 83.14. SBI bank has highest in 2006/07 i.e. Rs 39.35 and lowest in 2009/10 i.e. Rs 23.69. HBL has highest in 2007/08 i.e. Rs 62.74 and lowest in 2009/10 i.e. Rs 31.80. NBBL has highest in 2008/09 i.e. Rs 116.01and lowest in 2006/07 i.e. Rs 0.00. NMB bank has highest in 2006/07 i.e. Rs 37.57 and lowest in 2008/09 i.e. Rs 4.42. EPS of all selected

joint venture commercial banks is at decreasing so we can say that earning power of each bank is decreasing.

Earning Quality of every bank depends upon how effectively their resources are utilizing. The average of Return on Equity (ROE), Return on Asset (ROA) and Earning Per Share (EPS) of selected banks for the study period is presented below.

Table 4.13: Average of ROE, ROA and EPS and ranking them

Banks	ROE	Rank	ROA	Rank	EPS	Rank
NABIL	31.24	3	2.48	3	104.19	2
SCBNL	32.78	2	2.54	2	111.29	1
EBL	27.96	4	1.79	4	90.71	3
SBI	18.00	6	1.27	6	30.48	6
HBL	21.90	5	1.59	5	52.35	5
NBBL	55.53	1	7.03	1	54.35	4
NMB	11.04	7	1.10	7	14.20	7

Figure 4.5: Position of Return on Equity and Return on Assets

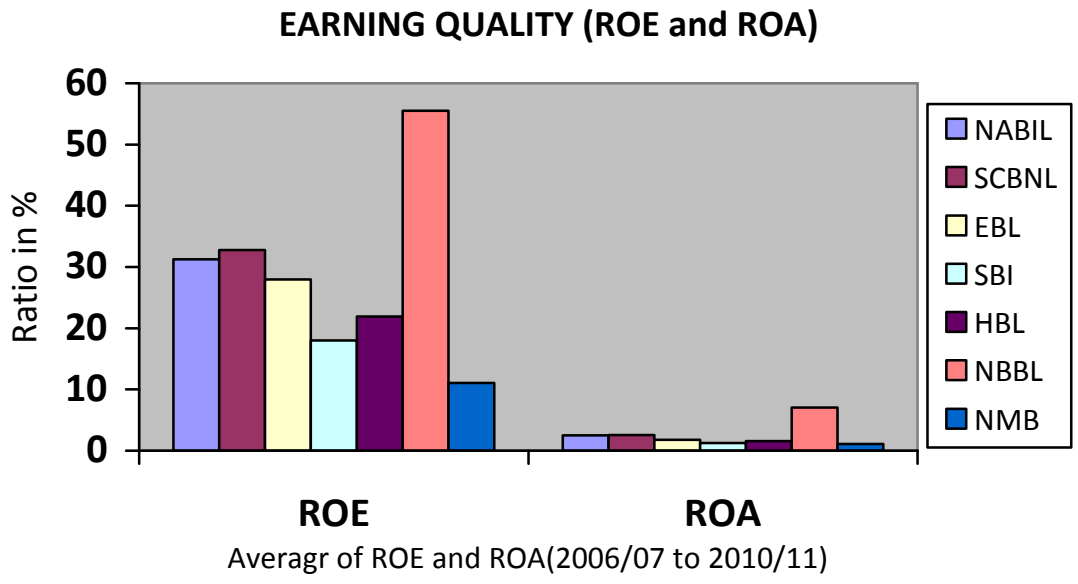
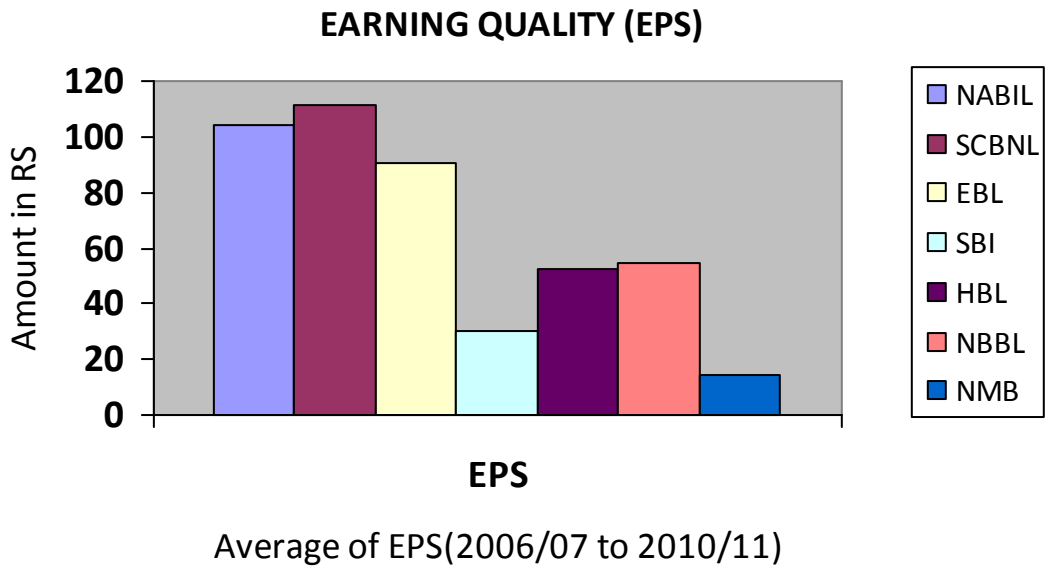


Figure 4.6: Position of Earning Per Share



The above table and diagram represents the average of Return on Equity (ROE), Return on Asset (ROA) and Earning Per Share (EPS) of selected banks for the study period. According to Return on Equity (ROE) and Return on Asset (ROA) NBBL is ranked at 1st position i.e. 55.53 % and 7.03% and NMB is ranked at 7th position i.e.11.04 % and 1.10 %. It seems that equity capital and assets of NBBL is effectively used to generating profit than other bank. On the other hand Earning per Share of SCBNL is highest than other i.e. Rs 111.29 and ranked on 1st position and NMB is at least position i.e. Rs 14.20 and ranked on 7th position. So we conclude that whole earning quality of SCBNL is at 1st position and NMB is at last position.

4.1.5 Liquidity Analysis

The banks liquidity capacity means to meet the demand for payment of cash which is offered by depositors. So it is called shirt term solvency of firm. Every bank should keep a certain level of liquid assets based on the size and volume of their business operation and the probability of withdrawals by depositors (NRB supervision report 2010). Cash, NRB deposit money at call & short notice, balance at other bank & financial institutions and short term investment in government security are the forms of liquid assets. Among them cash is the most liquid assets which is use to meet the demand of liability holders or creditors. Banks should maintain the adequate level of liquidity for efficient operation. A high level of

liquidity decreases the profit and a low level of liquidity creates a crisis for the payment of depositors demand. So, the adequate level of liquidity is necessary for the efficient operation of bank. Various liquidity ratios are used to analyze the liquidity position of bank.

4.1.5.1 Liquid Assets to Total Deposits Ratio:

Liquid Assets to Total Deposits Ratio is one of the most important ratio for measuring the liquidity position of bank. This ratio is computed through dividing total liquid assets by total deposits. It measures the proportion of total liquid assets in total deposit. It measures overall liquidity position of the banks. Higher the ratio indicates the better liquidity position of the bank and vice versa. So every bank should always maintain efficient and appropriate level of liquid fund to meet their current obligation. As per the NRB's directives 2068 and Nepal Rastra Bank Act 2002 every commercial bank should maintain liquidity ratio of its total deposit is 15%. Liquidity ratio of selected banks for five years period is presented in the following table.

Table 4.14: Liquid Assets to Total Deposit Ratio

(In percent)

Bank	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	LA/TD	LA/TD	LA/TD	LA/TD	LA/TD	
NABIL	8.41	14.49	10.51	9.74	9.84	10.60
SCBNL	15.35	14.28	14.48	10.23	19.10	14.69
EBL	46.71	12.57	18.50	21.17	14.89	22.77
SBI	10.11	12.01	6.81	9.86	11.50	10.06
HBL	11.54	6.18	12.17	11.10	9.04	10.01
NBBL	12.93	17.68	25.73	20.48	21.50	19.66
NMB	155.01	333.64	121.49	22.87	13.63	129.33

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

The above table 4.14 represents the Liquid Assets to Total Deposits Ratio of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2007/08 i.e. 14.49 % and lowest in 2006/07 i.e. 8.41 %. SCBNL bank has highest in 2010/11 i.e. 19.10 % and lowest in 2009/10 i.e. 10.23 %. EBL has highest in 2006/07 i.e. 46.71 % and

lowest in 2007/08 i.e. 12.57 %. SBI has highest in 2007/08 i.e. 12.01 % and lowest in 2008/09 i.e. 6.81 %. HBL has highest in 2008/09 i.e. 12.17 % and lowest in 2007/08 i.e. 6.18 %. NBBL has highest in 2008/09 i.e. 25.73 % and lowest in 2006/07 i.e. 12.93 %. NMB has highest in 2007/08 i.e. 333.64 % and lowest in 2010/11 i.e. 13.63 %. All selected joint venture commercial banks except NABIL and HBL has maintaining their Total liquid assets to Total deposit ratio as per NRB directives. That shows the satisfactory level of liquidity position.

4.1.5.2 Liquid Assets to Total Assets ratio

Liquid Assets to Total Assets ratio is another ratio for measuring the liquidity position of bank. This ratio is computed through dividing the liquid assets by total assets of the banks. It measures the proportion of total liquid assets in total assets and liquidity position of the banks. Higher the ratio indicates the better liquidity position of the bank and vice versa. It reflects the capability, measurement and portion of liquidity with its assets. Liquid asset to Total Assets ratio of selected banks for five years period is presented in the following table.

Table 4.15: Liquid Assets to Total Assets Ratio

(In percent)

Bank	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	LA/TA	LA/TA	LA/TA	LA/TA	LA/TA	
NABIL	7.20	12.45	8.95	8.66	8.41	9.13
SCBNL	13.23	12.74	12.79	8.95	16.56	12.85
EBL	39.64	11.10	16.70	18.89	13.24	19.91
SBI	8.33	9.58	6.16	9.04	10.58	8.74
HBL	10.34	5.44	10.73	9.77	7.91	8.84
NBBL	16.74	20.49	21.50	16.43	15.53	18.14
NMB	45.46	62.10	52.70	17.48	10.99	37.75

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

The above table 4.15 shows the Liquid Assets to Total Assets Ratio of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2007/08 i.e. 12.45 % and lowest in 2006/07 i.e. 7.20 %. SCBNL bank has highest in 2010/11 i.e. 16.56 % and lowest in 2009/10 i.e. 8.95 %. EBL has highest in 2006/07 i.e. 39.64 % and lowest in 2007/08 i.e. 11.10 %. SBI has highest in 2010/11 i.e. 10.58 % and lowest in 2008/09 i.e. 6.16 %. HBL has highest in 2008/09 i.e. 10.73 % and lowest in 2007/08 i.e. 5.44

%. NBBL has highest in 2008/09 i.e. 21.50% and lowest in 2010/11 i.e. 15.53 %. NMB has highest in 2007/08 i.e. 62.10% and lowest in 2010/11 i.e. 10.99 %. Liquid Assets to Total Assets Ratio of all selected joint venture commercial banks except NMB is at average but NMB has decreasing trend decreasing so we can say that liquidity position of NMB is decreasing.

4.1.5.3 Credit to Deposit (CD) Ratio

Credit to Deposit ratio is another parameter for measuring the liquidity position of bank. This ratio is computed through dividing the total credit by total deposit. It measures the proportion of total loan and advances (credit) to its deposit and liquidity position of the banks. Higher the ratio indicates the higher risky position of loan and advances of the bank and vice versa. As per the NRB's directives 2068 and Bank and Financial Institution Act 2006 every commercial bank should maintain its highest CD ratio of 80%. CD ratio of less than 80% is preferable for every commercial bank. Credit to Deposit ratio of selected banks for five years period is presented in the following table.

Table 4.16: Credit Deposit Ratio

(In percent)

Bank	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	Credit/ Deposit	Credit/ Deposit	Credit/ Deposit	Credit/ Deposit	Credit/ Deposit	
NABIL	68.13	68.18	73.87	71.17	78.29	71.93
SCBNL	43.78	46.95	39.27	45.98	49.11	45.02
EBL	77.44	78.56	73.43	76.24	76.98	76.53
SBI	82.66	88.32	55.84	51.48	51.20	65.90
HBL	59.22	63.37	73.58	77.43	80.57	70.83
NBBL	87.01	87.01	91.33	78.26	79.36	84.59
NMB	112.02	120.96	76.78	78.44	88.16	95.27

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

The above table 4.16 represents the Credit to Deposit (CD) ratio of selected joint venture banks for the study period (2006/07 to 2010/11). NABIL bank has highest in 2010/11 i.e. 78.29 % and lowest in 2006/07 i.e. 68.13 %. SCBNL bank has highest in 2010/11 i.e. 49.11 % and lowest in 2008/09 i.e. 39.27 %. EBL has highest in 2007/08 i.e. 78.56 % and lowest in 2008/09 i.e. 73.43 %. SBI has highest in 2007/08 i.e. 88.32 % and lowest in 2010/11 i.e. 51.20 %. HBL has highest in 2010/11 i.e. 80.57 % and lowest in 2006/07 i.e.

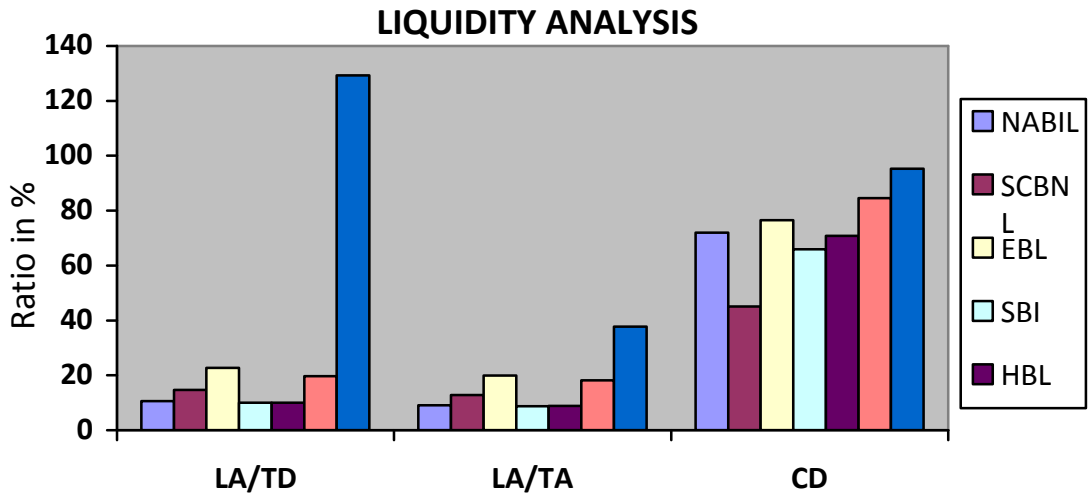
59.22 %. NBBL has highest in 2008/09 i.e. 91.33 % and lowest in 2009/10 i.e. 78.26 %. NMB has highest in 2006/07 i.e. 112.02 % and lowest in 2008/09 i.e. 76.78 %. Credit to Deposit (CD) of NABIL, SCBNL, EBL, SBI at 2008/09 to 2010/11 is less than 80% and other is higher than 80%. This indicates that NBBL and NMB have higher liquidity risk than other.

Liquidity analysis is concern with the short term solvency position of bank.. The average of Liquid Assets to Total Deposit (LA/TD) ratio, Liquid Assets to Total Assets (LA/TA) ratio and Credit to Deposit (CD) of selected banks for the study period is presented below.

Table 4.17: Average of LA/TD, LA/TA and CD ratio ranking them

Banks	LA/TD	Rank	LA/TA	Rank	CD	Rank
NABIL	10.60	5	9.13	5	71.93	4
SCBNL	14.69	4	12.85	4	45.02	1
EBL	22.77	2	19.91	2	76.53	5
SBI	10.06	6	8.74	7	65.90	2
HBL	10.01	7	8.84	6	70.83	3
NBBL	19.66	3	18.14	3	84.59	6
NMB	129.33	1	37.75	1	95.27	7

Figure 4.7: Liquidity Position (LA/TD, LA/TA and CD)



Average of LA/TD, LA/TA and CD ratio (2006/07 to 2010/11)

The above table and diagram represents the Liquid Assets to Total Deposit (LA/TD) ratio, Liquid Assets to Total Assets (LA/TA) ratio and Credit to Deposit (CD) of selected banks for the study period. The Liquid Assets to Total Deposit ratio and Liquid Assets to Total Assets ratio of NMB has highest and ranked at 1st position i.e. 129.33 % and 37.75 % and HBL has least than other and ranked at 7th position i.e.10.01 % and 8.84 %. Which shows unnecessary liquid assets of NMB is idle and there is scarcity of liquid assets on HBL. On the other hand CD ratio of SCBNL has lowest than other and ranked on 1st position i.e. 45.02 % and NMB has greater than other and ranked at 7th position i.e. 95.27 %. Finally we can say that aggregate liquidity position of SCBNL is better and NBBL and NMB is at worst position.

4.1.6 Sensitivity to Market Risk

Sensitivity to Market Risk is another most important parameter for measuring the financial performance of commercial bank. It is generally described as the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect earnings and/or capital. Market risk for a bank involved in credit card lending frequently reflects capital and earnings exposures that stem from changes in interest rates. These lenders sometimes exhibit rapid loan growth, a lessening or low reliance on core deposits, or high volumes of residual interests in credit card securitizations, any of which often signal potential elevation of the interest rate risk (IRR) profile. Management is responsible for understanding the nature and level of IRR being taken by the bank, including from credit card lending activities, and how that risk fits within the bank's overall business

strategies. The adequacy and effectiveness of the IRR management process and the level of IRR exposure are also critical factors in evaluating capital and earnings.

Calculating IRR is so difficult and time consuming so exchange rate risk is taken in this research study. Every bank has separated some amount for reducing the foreign exchange risk from 2008 entitle market rate risk. Market risk of selected joint venture banks for the study period is presented in the following table.

Table 4.18: Amount of Market Risk

(Amount in millions)

Bank	2006/07	2007/08	2008/09	2009/10	2010/11	Average
	Rs	Rs	Rs	Rs	Rs	
NABIL	-	-	51.76	99.72	74.44	75.31
SCBNL	-	-	254.12	345.86	111.03	237.00
EBL	-	-	114.84	343.34	119.22	192.47
SBI	-	-	36.95	322.96	724.92	361.61
HBL	-	-	124.30	56.45	185.01	121.92
NBBL	-	-	118.36	51.59	25.62	65.19
NMB	-	-	15.27	44.83	13.74	24.61

Source: Annual reports of selected banks from mid July (2006/07 - 2010/11)

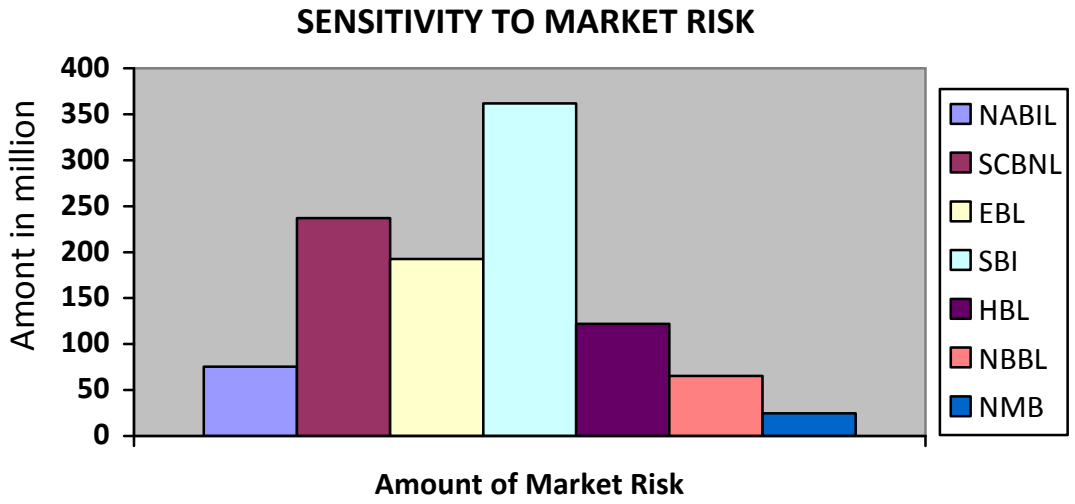
The Table 4.18 shows the Amount if Market risk (Rupees in million) during the study period (2006/07 to 2010/11). NABIL bank has highest in 2009/10 i.e. Rs 99.72 million and lowest in 2008/09 i.e. Rs51.76 million. SCBNL has highest in 2009/10 i.e. Rs 0.35 million and lowest in 2010/11 i.e. Rs 0.11 million. EBL has highest in 2009/10 i.e. Rs 0.34 million and lowest in 2010/11 i.e. Rs 0.12 million. SBI has highest in 2010/11 i.e. Rs 724.92 million and lowest in 2008/09 i.e. Rs 36.95 million. HBL has highest in 2010/11 i.e. Rs 185.01 million and lowest in 2009/10 i.e. Rs 56.45 million. NBBL has highest in 2008/09 i.e. Rs 118.36 million and lowest in 2008/09 i.e. Rs 25.62 million. NMB has highest in 2009/10 i.e. Rs 44.83 million and lowest in 2010/11 i.e. Rs 13.74 million. The SBI has separated maximum amount and EBL has separated minimum amount to reducing for reducing the foreign exchange risk. Which indicates that SBI has high market risk and EBL has low market risk.

Sensitivity to Market Risk reflects that how riskily the banks are operating. The average amount separated for market risk by selected banks for the study period is presented below.

Table 4.19: Average of LA/TD, LA/TA and CD ratio ranking them

Banks	Amount of Market Risk	Rank
NABIL	75.31	3
SCBNL	237.00	6
EBL	192.47	5
SBI	361.61	7
HBL	121.92	4
NBBL	65.19	2
NMB	24.61	1

Figure 4.9: Position of Market risk



Average amount of Market Risk (2006/07 to 2010/11)

The above table and diagram represents the Market Risk of selected banks for the study period. The market risk of NMB is lowest than other and ranked on 1st position i.e. Rs 4.61 SBI has highest i.e. Rs 361.61 million and ranked at 7th position. So we can say that exchange rate risk of SBI is highest than other selected bank.

4.2 Major Findings

The major findings of this research study "A Comparative Study on Financial Performance Analysis of Joint Venture commercial Bank under CAMELS Framework" is presented in following table and diagram.

4.2.1 Findings under individual component

- Capital Adequacy: The average both Total Capital Adequacy Ratio (TCAR) and Core Capital Adequacy Ratio (CCAR) of NMB has highest i.e. 20.50% and 19.46% and ranked on 1st position and NBBL has lowest i.e. -2.58% and -3.17% and ranked on last or 7th position. It seems that all selected bank except NBBL has maintain their capital adequacy as per NRB directives.

- Assets quality: The Non-performing loan of EBL is lowest i.e. 0.55% and ranked on 1st position and NBBL has highest i.e. 26.99% and ranked on 7th or last position. We can say that EBL has better performing its loan and has low risk for recovering of

loan and NBBL has bad performing its loan and has high risk for recovering of loan. On the other hand loan loss provision ratio of SCBNL is lowest i.e. 1.70 % and ranked on 1st position and NBBL has highest i.e. 30.52 % and ranked on 7th position. So we can say that proportion of bad loan of SCBNL is lower and NBBL is higher than other.

- Management efficiency: According to Operating expenses ratio SCBNL is at 1st position i.e. 49.25 % and NBBL is at 7th position i.e.109.89%. We can say that SCNBL has better management performance and efficient operation NBBL has poor management performance and inefficient operation. On the other hand Earning per employee of SCBNL is highest i.e. Rs 2.38 million and ranked on 1st position and SBI has lowest i.e. Rs 1.02 million and ranked on 7th. So we can say that SCBNL has efficient management for mobilizing employee to generating profit and NBBL has inefficient management for mobilizing employee to generating profit. It seems that aggregate management efficiency of SCBNL is better than other.

- Earning quality: According to Return on Equity (ROE) and Return on Asset (ROA) NBBL is ranked at 1st position i.e. 55.53 % and 7.03% and NMB is ranked at 7th position i.e.11.04 % and 1.10 %. It seems that equity capital and assets of NBBL is effectively used to generating profit than other bank. On the other hand Earning per Share of SCBNL is highest than other i.e. Rs 111.29 and ranked on 1st position and NMB is at least position i.e. Rs 14.20 and ranked on 7th position. So we conclude that whole earning quality of SCBNL is at 1st position and NMB is at last position.

- Liquidity Analysis: The Liquid Assets to Total Deposit ratio and Liquid Assets to Total Assets ratio of NMB has highest and ranked at 1st position i.e. 129.33 % and 37.75 % and HBL has least than other and ranked at 7th position i.e.10.01 % and 8.84 %. Which shows unnecessary liquid assets of NMB is idle and there is scarcity of liquid assets on HBL. On the other hand CD ratio of SCBNL has lowest than other and ranked on 1st position i.e. 45.02 % and NMB has greater than other and ranked at 7th position i.e. 95.27 %. Finally we can say that aggregate liquidity position of SCBNL is better and NBBL and NMB is at worst position.

- The market risk of NMB is lowest than other and ranked on 1st position i.e. Rs 4.61 SBI has highest i.e. Rs 361.61 million and ranked at 7th position. So we can say that exchange rate risk of SBI is highest than other selected bank.

4.2.2 Ranking based on composite average:

Different bank are better performing in CAMELS individual component. However it is difficult to conclude which bank is better performing in aggregate of CAMELS rating system. So we used total average method to find out which bank is better performing among them. The aggregate average of all banks is presented below.

Table 4.20: Composite average and ranking them

Banks	TCAR	CCAR	NPL	LLP	OER	EPE	ROE	ROA	EPS	LA/ TD	LA/ TA	CD	MR	Total	Rank
NABIL	6	4	4	2	2	2	3	3	2	5	5	4	3	45	2
SCBNL	2	2	2	1	1	1	2	2	1	4	4	1	6	29	1
EBL	5	6	1	4	3	5	4	4	3	2	2	5	5	49	3
SBI	3	3	5	5	5	7	6	6	6	6	7	2	7	68	7
HBL	4	5	6	6	4	6	5	5	5	7	6	3	4	66	6
NBBL	7	7	7	7	7	3	1	1	4	3	3	6	2	58	5
NMB	1	1	3	3	6	4	7	7	7	1	1	7	1	49	4

CAMELS' model is one of the most popular techniques to measure the financial performance of commercial banks in the world. It is applied by central bank of every country. In Nepal, Nepal Rastra bank also adopted this technique to measure the financial performance of commercial banks. The above table presents the composite average of CAMELS component for the study period. According to composite average SCBNL banks is ranked as the first position in all aspect of CAMELS components where as NAIBL is ranked as the 2nd position and SBI is ranked as 7th position. It means the SCBNL is better performing and SBI is bad performing under CAMELS component.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter highlights the results of the research study of "A Comparative study on Financial Performance of Joint Venture Banks under CAMELS Framework". This chapter is divided in to three sub section - Summary, Conclusions and Recommendation. The first section summarizes the whole study, the second section draws the conclusion and the last or third section forwards the recommendations for the concern bank.

5.1 Summary

This study is conducted with the objective to analyze the financial performance of commercial bank (Joint Venture) in the fame work of CAMELS over five years period from F.Y 2063/064 to 2067/068 (2006/07 to 2010/11). CAMELS' technique is one of the most popular technique for measuring the health and soundness of financial institution. It is an international bank rating system used by their supervisory body or central bank. CAMEL methodology was originally adopted by North American bank regulators to evaluate the financial and managerial soundness of U.S. commercial lending institutions 1978. It is an acronym for five measurements of a financial institution: Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality and Liquidity Position. This technique was revised to CAMELS by including an "S" for Sensitivity to market risk in 1996. It has rating scale of 1 to 5. Where 1 indicates the strongest performance in all aspect and 5 indicates the most critically or worst performance in each factor. If a bank has an average score less than 2, it is consider as a high quality institution while banks score than 3 are consider as satisfactory level.

After adopting the liberalization of the financial sector in mid eighties so many financial institutions' are established and bring many opportunities and challenges in financial sector. To achieve those opportunities and overcome challenges monitoring their activities is necessary. Central bank of Nepal, Nepal Rastra Bank adopted this technique since 2001 to bring financial soundness in banking sector. Nepal Rastra Bank monitors financial institution through on site and off site inspection of the banking and non banking activities.

In this regard, efforts are being made for strengthening supervisory capability by reviewing the CAMELS rating system. It is a mnemonic device for the factors by which regulators determine banks riskiness. The rating system goes on a scale from “1” to “5”, with “1” showing the better performance and least risk and with “5” shows the worst performance and highest risk. The measuring area of this examined are represented by the acronym of “CAMELS”.

The six factors examined are as follows:

C – Capital adequacy

A – Assets quality

M – Management Efficiency

E – Earning quality

L – Liquidity Analysis

S – Sensitivity to Market Risk

This research study is done for the selected joint venture banks namely NABIL Bank Limited, Standard Chartered Bank Nepal Limited, Everest Bank Limited, Nepal SBI Bank Limited, Himalayan Bank Limited, Nepal Bangladesh Bank Limited, Nepal Merchant and Banking Bank Limited during the period 2006/07 to 2010/11 for the study.

The study has scrutinized the adoption and direction of NRB related to the CAMELS rating system and has compared the financial performance of selected joint venture banks on the ground of CAMELS rating system. This research has conducted with help of selected bank’s annual reports, banking and financial statistics 2010 and NRB's bank supervision report 2010, in the regard of CAMELS framework. Beside this, related journals, articles, thesis paper are studied and reviewed for the purpose of making research study authentic and useful.

The principle objective of this study is to evaluate the financial performance of selected joint venture commercial bank of Nepal in the framework of CAMELS and ranking them during the period 2006/07 to 2010/11. The analysis has been made comparing bank's ratio with NRB standard, World Bank standard and the trend of ratios.

Capital adequacy ratios of the all banks except NBBL are above than NRB's standard in all years of the study period which leads to conclude that all banks except NBBL are running with adequate capital. The ratio above NRB's standard shows additional protection and security to stakeholders and financial soundness of the bank. Capital Adequacy ratio of NMB is highest than other and performing better than other.

Assets of the all banks are composed of cash and bank balance, NRB balance, investment, money at call, loan and advances, fixed assets, and other assets. Non-Performing Loan and Loan Loss Provision ratio are used to measure the assets quality of banks in this study. NPL and LLP of all bank is at decreasing trend so we can say that of all bank are well performing. But NBBL has highest and worst performance of assets quality among them.

To analyze the management efficiency, total operating ratio and earning per employee is calculated. Total operating ratio of SCBNL is minimum than other and efficient management team but NBBL has highest and ineffective management team. On the other hand earning per employee of SCBNL is highest and SBI has lowest than other. Which indicates that the employees of SCBNL are more productive and efficient than other bank's employee.

Return on Equity, Return on Asset and Earning Per Share are used to measure the earning quality of selected banks in this research study. The average of earning quality ratio ROA, ROE of all banks except NMB are above NRB directive and internationally benchmarking standard prescribed by World Bank. On the other hand EPS of SCBNL is highest than other and NMB has lowest. EPS of all banks is at decreasing trend. It shows that the earning quality of all banks is at decreasing

To analyze the liquidity position, Liquid Assets to Total Deposit ratio, Liquid Assets to Total Assets ratio and Credit to Deposit ratio are used in this research study. LA/TD of NABIL and HBL is lower than NRB directives but other banks are maintaining NRB directives. LA/TA of NMB is highest and SBI is lowest. CD ratio of SCBNL is lowest and NMB is highest. Liquidity position of SCBNL is at better position with low liquidity risk and NMB bank is at worst position with high liquidity risk.

The separated amount by each bank for minimizing the exchange rate risk is used to measure the sensitivity of market risk in this research study. The amount of market risk of SBI is highest and NMB is lowest. It seems that sensitivity of market risk of SBI than other.

5.2 Conclusions

Based on the findings, the following conclusions are derived from the study "A Comparative Study on Financial Performance of Joint Venture Bank under CAMELS Framework":

- Capital Adequacy - All the selected banks except NBBL (from 2006/07 to 2008/09) have maintained the adequate level of Capital as per the NRB's standard for the study period. This means the selected joint venture commercial bank have maintained their internal sources during the past five years. The all banks are operating with adequate capital and the capital funds of the banks are sound and sufficient to meet the banking operations as per NRB guidelines. But, capital adequacy of NMB is at first position, SCBNL is at second position and NBBL is at last position. In an overall of Capital adequacy, all selected commercial banks maintain NRB directive.

- Assets Quality - The non performing loan of SCBNL, EBL, SBI, NBBL and NMB is at decreasing trend but NABIL and HBL has decreasing up to 2008/09 and increasing then after. It shows that proportion of performing loan is increasing. Since the loan loss provision ratio of all selected bank has decreased and the quality of assets has been increased over the study period. The decreasing trend of this ratio implies that the banks are aware of the non performing loans and has placed efficient credit management and recovery efforts. However assets quality of SCBNL is at best position and NBBL is at worst position but other banks are at satisfactory level.

- Management Efficiency - Earning per employee and operating expenses ratio shows that the management efficiency to maximize the shareholders wealth. The operating expenses ratio of all banks is at increasing trend which shows the decreasing management efficiency. OER of NBBL is highest than other and SCBNL has minimum. On the other hand earning per employee of all banks except NBBL is in increasing trend which indicates the effective management team and productivity of employee is increased. The overall management efficiency of SCBNL is better than other. The management efficiency depends on no of branches and no of employees.

- Earning Quality - Return on equity and Return on assets of all selected except NBBL and NMB is fluctuating at average. But NBBL is decreasing for the whole study period and NMB is decreasing up to 2008/09 and increasing then after. The Earning

per share of all banks is at decreasing trend which shows the decreasing earning quality. According to ROE and ROA the earning quality of NBBL is better other but on the basis of EPS, SCBNL is better than other. The ROE and ROA of NBBL is higher than other but it is decreasing trend but ROE and ROA of SCBNL is stable, so aggregate earning quality of SCBNL is better than other selected bank.

- Liquidity Position - The liquidity indicators - Liquid assets to total deposit ratio, Liquid assets to total assets ratio and Credit to deposit ratio of all bank is fluctuating during the study period. LA/TD of NABIL, SBI and HBL is under the NRB standard and other are maintaining it. LA/TD and LA/TA of NMB is highest and HBL has lowest. The CD ratio of NMB is also highest and SCBNL is lowest. According to LA/TD and LA/TA, NMB seems better performing but according to CD ratio NMB is worst performing. UN necessary liquid assets are frizzing in NMB which increase the liquidity cost. However overall liquidity position of SCBNL is better than other bank.

- Sensitivity to Market Risk – Amount separated for reducing the exchange rate risk of all bank is fluctuating for the study period. The amount of market risk of SBI is greater than other and NMB has lower. Therefore, SBI is more risky than other selected bank.

5.3 Recommendations

On the basic of the analysis made in the fourth chapter and the conclusion drawn in this chapter, the following recommendations have been made for the enhancement of selected bank or banking industry in Nepal.

- The NBBL should maintain the adequate level of capital adequacy as per NRB standard in coming days.

- The NBBL should decrease its non performing loan by investing in secure area.

- NBBL should decrease the operating expense ratio by reducing operating expense through effective mobilization of employees.

- The earning quality of all banks is at decreasing trend so they should break this trend by investing in different productive sector, by effectively mobilizing their resources and by decrease different types of unnecessary expenses.

- NMB bank should decrease its unnecessary liquid assets by investing in different productive sector and should maintain the CD ratio as per NRB directives.

- The market risk of SBI is greater than other so it should be able to reduce the amount of market risk in future.

- NRB or regulatory and supervisory authorities should develop appropriate legal framework for controlling, guiding and supervising the commercial banking sector.

- The science has discovered different new technologies which brings difficulties and complexities in financial sector. So the supervisory role of Nepal Rastra Bank is made more challenging. To cope up with such challenges improvement in supervision capacity both in terms of quantity and quality is necessary. Proper organization structure, well qualified and trained manpower, necessary infrastructure and equipments are prerequisite for effective supervision system.

- The onsite supervision of NRB should be made more than once in a year, if NRB seems essential. NRB should strictly adopt fines and penalties to those banks who fail to, meet the direction.

- Well-qualified and trained manpower is prerequisite and there should be regular trainings, seminars, interaction programs, workshops and other kinds of skill development programs conducted to update and upgrade their manpower for effective supervision.

- Supervision work is to be carried out in regular and planned manner. The supervision plan, authorities, duties and responsibility of supervisor should be clearly defined at beginning of each financial year. Inspection report is to be submitted to office of governor within prescribed time.

BIBLOGRAPHY

Books and Journals

Abrol, P.N. and O.P. Gupta (2002). *Commercial Dictionary.* New Delhi: Anmol Publication.

Baral, Keshar J. (2005). "Health check-up Commercial Banks in the Framework of CAMEL: A Case Study of Joint Venture Banks in Nepal." *Journal of Nepalese Business Studies.* Faculty of Management Prithivi Naryan Campus, Vol. 2.

Basel II: Revised International Capital Framework- 2006, the free dictionary "Bank for International Settlement". (http://www.bis.org/publ/bcbsca.htm)

Basel III: A Global regulatory framework for more resilient banks and banking system- Dec 2010 (Revised june 2011), the free dictionary "Bank for International Settlement". (http://www.bis.org/publ/bcbsca.htm)

Brigham, E.F & Ehrhardt M.C. (2004). *Financial Management.* 10th Ed. Singapore: Thompson Asia Ltd.

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

Cooper, D.R. & Schindler, P.S. (2003) *Business Research method*. 8th Ed. New Delhi: Tata McGraw Hill Publishing company Ltd.

Gup, B.E. & Kolari, J.W. (2004). *Commercial Banking.* 3rd Ed. Singapore: John Wiley & Sons (Asia) Pte Ltd.

Hilbers, P. Kruegar, R. & Moretti, M. (2000). *New Tools for Assessing Financial System.* Finance & Department, 3 (37): 22-30

International Monetary Fund (2001). *Financial Soundness Indicator.* Washington IMF Policy Paper

Kohn, M. (2004). *Financial Institution and Markets.* 2nd Ed. New York: Oxford University Press Inc.

Lopez, Jose A. "Using CAMELS Rating to Monitor Banks Conditions." FRBSF Economic letter 99-19. The Federal reserve bank of San Francisco, June 11, 1999. April 14, 2007.<http://www.frbsf,org/econrsrch/wklyltr/wklyltr99/ e199=19.html>

Meyer, P.A. & Piffer H.W. (1970). Prediction of Bank Failures. *The Journal of Finance,* 25: 835-868.

New Business Age. (2007). *Banks on CAMEL. Rating of Commercial Banks based on the Q4 results for FY 2009-10*, 42-45

Pandey, I.M. (1999). *Financial Management.* 8th Ed. New Delhi: Tata McGraw Hill Publishing Company Ltd.

Rose, P.S. (2003). *Money and Capital Markets.* 8th Ed. New York: McGraw Hill Publishing Company Ltd.

Saunders, A. & Corenett M.M. (2004). *Financial Institution Management.* 4th Ed. New York: McGraw Hill Publishing Company Ltd.

Van Horne, J.C. (2002). *Financial management and Policy.* 12th Ed. New Delhi: Prentice Hall of India Pvt. Ltd.

Weston, J.F. & Copeland, T.E.(1992). *Managerial Finance.* 9th Ed. New York: The Dryden Press.

Wolf, H.K. & Panta, P.R. (2005). *Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic publication.

Master Dissertations

Baral B. P. (2010). Financial Performance Analysis of Annapurna Finance Company Limited in the framework of CAMEL. An Unpublished Master's Thesis, Shanker Dev Campus, Tribhuvan University.

Bhandari, K. (2006). The Financial Performance of Himalayan Bank Ltd. in the framework of CAMEL. An Unpublished Master's Thesis, Tribhuvan University.

Chand, D. (2006). Financial Performance Analysis of NABIL Bank in Framework of CAMELS. An Unpublished Master's Thesis, Prithivi Narayan Campus Tribhuvan University.

Chapagain, N. (2011) CAMEL Analysis of Joint Venture Commercial Bank, with reference to NABIL, EBL and SCBNL. An Unpublished Master's Thesis, Shanker Dev Campus, Tribhuvan University.

Dhakal, A.(2010). Financial Performance Analysis of Machhapuchre bank and Kumari bank based on CAMEL Framework. An Unpublished Master's Thesis, Shanker Dev Campus, Tribhuvan University.

Dawadi, D. (2009) A Comparative Study on Financial Performance of Commercial Banks under CAMELS Framework. An Unpublished Master's Thesis, Center Department of Business Administration, Pokhara University.

Deoja, S. (2001) A Comparative Study of The Financial Performance between Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd. An Unpublished Master's Thesis, Center Department of Management, Tribhuvan University.

Gurung, A. (2009) Financial Performance Analysis of Domestic Private Commercial Banks in Nepal in the framework of CAMEL. An Unpublished Master's Thesis, Center Department of Management, Tribhuvan University.

Shakya, B. (2008). Financial Analysis of Joint Ventture Banks in Nepal. Unpublished Master's Thesis, Tribhuvan University. An Unpublished Master's Thesis, Shanker Dev Campus, Tribhuvan University.

Tripathi, P. (2011). Comparative Study on Financial Performance Analysis of commercial Banks under CAMELS Framework. An Unpublished Master's Thesis, Center Department of Management, Tribhuvan University.

Anual Reports

Everest Bank Limited, *Annual Reports.* (FY2006/07 to 2010/11) Kathmandu.

Himalayan Bank Limited, *Annual Reports*. (FY2006/07 to 2010/11) Kathmandu.

Nabil Bank Limited, *Annual Reports*. (FY2006/07 to 2010/11) Kathmandu.

Nepal Bangladesh Bank, *Annual Reports*. (FY2006/07 to 2010/11) Kathmandu.

Nepal Merchant and Banking Bank Limited, *Annual Reports*. (FY2006/07 to 2010/11) Kathmandu.

Nepal Rastra Bank, *Annual Reports* – FY 2010/11.

Nepal SBI Bank, *Annual Reports*. (FY2006/07 to 2010/11) Kathmandu.

Standard Chartered Bank Nepal Limited, *Annual Reports*. (FY2006/07 to 2010/11).

Annual Report, Bank Supervision Department (Nepal Rastra Bank) – FY 2010/11.

Nepal Rastra Bank, *Banking and Financial Statistics* – FY 2010/11.

Related Websites

www.nabilbank.com.np

www.scbnl.com.np

www.ebl.com.np

www.sbi.com.np

www.hbl.com.np

www.nbbl.com.np

www.nmb.com.np

www.fdic.gov/regulation/law/federal/UFIR.pdf

www.nrb.com.org

www.jv_bank.pdf

http://www.bis.org/publ/bcbsca.htm

www.bis.org/bcbs 189 pdf

www.fdic.gov/regulations

Www.wikipedia. org/wiki/CAMEL_rating_system

Appendix - I

Data From Annual Report

Nabil (Million)

Year	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Total Assets	27,253.39	37,132.76	43,867.40	52,151.68	58,141.44
Total Deposit	23,342.29	31,915.05	37,348.26	46,410.70	49,696.11
Equity	2,057.05	2,437.20	3,130.24	3,834.23	4,572.07
liquid assets					
Cash	270.41	511.43	674.4	635.99	744.59
NRB Deposit	1,113.42	1,829.47	2,648.60	549.45	1,473.99
Bank Deposit	16	330.24	49.52	214.66	217.97
money at call &short notice	563.53	1,952.36	552.89	3,118.14	2,452.51
Short term investment					
Total liquid assets	**1,963.36**	**4,623.50**	**3,925.40**	**4,518.24**	**4,889.06**
Net Income	673.96	746.47	1,031.05	1,141.05	1,377.75
Operating Profit	1,037.61	1,122.71	1,570.20	1,709.12	2,081.19
Total Operating Income	**2,021.66**	**2,364.81**	**3,328.54**	**4,370.36**	**5,892.09**
Operating Expenses					
Interest Expenses	555.71	758.44	1,153.28	1,960.11	2,955.43
Staff Expenses	240.16	262.91	339.9	366.94	454.04
Other Operating Expenses	188.18	220.75	265.16	334.19	401.43
Bonus	99.5	108.9	147.87	162.52	190.94
Total operating expenses	**1,083.56**	**1,350.99**	**1,906.20**	**2,823.75**	**4,001.84**
Total Loan	15,903.02	21,759.46	27,999.01	33,030.97	38,905.49
Loan Loss Provision	357.25	394.41	409.08	762.1	871.39
NPL	178.29	161.09	224.82	487.54	689.85
No. of Staff	427	416	505	557	657
LLP/Total Loan and Advances	**2.25**	**1.81**	**1.46**	**2.31**	**2.24**
Operating Expenses/ Operating Income	**53.60**	**57.13**	**57.27**	**64.61**	**67.92**
Earning Per Employee (Net Income/No. of Employees)	**1.58**	**1.79**	**2.04**	**2.05**	**2.1**
Liquid Assets/Total Assets	**7.20**	**12.45**	**8.95**	**8.66**	**8.41**
NPL/Total Loan and Advances	**1.12**	**0.74**	**0.80**	**1.48**	**1.77**
ROE (Net Income/ Equity)	**32.76**	**30.63**	**32.94**	**29.76**	**30.13**
Liquid Assets/Total Deposit	**8.41**	**14.49**	**10.51**	**9.74**	**9.84**
CD Ratio	**68.13**	**68.18**	**73.87**	**71.17**	**78.29**
Amount of market risk (in million)	**-**	**-**	**51.76**	**99.72**	**74.44**

Appendix -II

Data From Annual Report

Scbnl (Million)

Year	2006/07	2007/08	2008/09	2009/10	2010/11
Total Assets	28,596.69	33,335.79	40,587.47	40,213.32	43,810.52
Total Deposit	24,647.02	29,744.00	35,871.72	35,182.72	37,999.24
Equity	2,116.35	2,492.55	3,052.47	3,159.94	3,677.78
liquid assets					
Cash	378.42	414.88	463.35	509.03	610.69
NRB Deposit	1,613.76	1,266.27	1,851.13	819.51	1,638.28
Bank Deposit	28.84	369.09	822.68	600.77	726.83
money at call &short notice	1,761.15	2,197.54	2,055.55	1,669.46	4,280.89
Short term investment					
Total liquid assets	**3,782.17**	**4,247.78**	**5,192.71**	**3,598.77**	**7,256.68**
Net Income	691.67	818.92	1,025.11	1,085.87	1,119.17
Operating Profit	1,092.97	1,248.43	1,506.11	1,612.47	1,707.32
Total Operating Income	**1,934.25**	**2,175.99**	**2,579.28**	**2,796.48**	**3,381.62**
Operating Expenses					
Interest Expenses	413.06	471.73	543.79	575.74	1,003.10
Staff Expenses	199.78	225.26	253.06	312.96	365.99
Other Operating Expenses	228.45	230.57	276.33	295.3	305.22
Bonus	101.61	119.34	146.72	153.64	159.83
Total operating expenses	**942.89**	**1,046.89**	**1,219.89**	**1,337.65**	**1,834.13**
Total Loan	10,790.15	13,963.98	13,880.70	16,176.58	18,662.48
Loan Loss Provision	287.51	245.39	200.95	219.63	235.21
NPL	197.02	128.72	91.04	98.14	115.8
No. of Staff	351	377	392	429	429
LLP/Total Loan and Advances	**2.66**	**1.76**	**1.45**	**1.36**	**1.26**
Operating Expenses/ Operating Income	**48.75**	**48.11**	**47.30**	**47.83**	**54.24**
Earning Per Employee (Net Income/No. of Employees)	1.97	2.17	2.62	2.53	2.61
Liquid Assets/Total Assets	**13.23**	**12.74**	**12.79**	**8.95**	**16.56**
NPL/Total Loan and Advances	**1.83**	**0.92**	**0.66**	**0.61**	**0.62**
ROE (Net Income/ Equity)	**32.68**	**32.85**	**33.58**	**34.36**	**30.43**
Liquid Assets/Total Deposit	**15.35**	**14.28**	**14.48**	**10.23**	**19.10**
CD Ratio	**43.78**	**46.95**	**39.27**	**45.98**	**49.11**
Amount of market risk (in million)	**-**	**-**	**254.12**	**345.86**	**111.03**

Appendix -III

Data From Annual Report

EBL (Million)

Year	2006/07	2007/08	2008/09	2009/10	2010/11
Total Assets	21,432.57	27,149.34	36,916.85	41,382.76	46,236.21
Total Deposit	18,186.25	23,976.30	33,322.95	36,932.31	41,127.91
Equity	1,088.12	1,921.24	2,203.63	2,759.14	3,113.55
liquid assets					
Cash	535	822.99	944.7	1,091.50	1,049.00
NRB Deposit	1,178.20	1,080.91	4,787.16	5,625.11	4,706.32
Bank Deposit	6,782.26	764.07	432.51	1,102.20	367.54
money at call &short notice		346	-		-
Short term investment					
Total liquid assets	**8,495.45**	**3,013.97**	**6,164.37**	**7,818.82**	**6,122.86**
Net Income	296.41	451.22	638.73	831.77	931.3
Operating Profit	487.97	718.83	972.95	1,272.09	1,418.40
Total Operating Income	**1,268.80**	**1,743.17**	**2,464.76**	**3,423.76**	**4,630.52**
Operating Expenses					
Interest Expenses	517.17	632.61	1,012.87	1,572.79	2,535.88
Staff Expenses	86.12	157.96	186.92	226.36	293.13
Other Operating Expenses	177.55	233.77	292.01	352.51	383.11
Bonus	45.47	65.87	89.13	118.8	133.1
Total operating expenses	**826.3**	**1,090.20**	**1,580.94**	**2,270.46**	**3,345.22**
Total Loan	14,082.69	18,836.43	24,469.56	28,156.40	31,661.84
Loan Loss Provision	418.6	497.35	584.88	600.04	604.15
NPL	113.18	121	117.99	125.66	108.51
No. of Staff	393	449	534	568	586
LLP/Total Loan and Advances	**2.97**	**2.64**	**2.39**	**2.13**	**1.91**
Operating Expenses/ Operating Income	**65.12**	**62.54**	**64.14**	**66.31**	**72.24**
Earning Per Employee (Net Income/No. of Employees)	**0.75**	**1**	**1.2**	**1.46**	**1.59**
Liquid Assets/Total Assets	**39.64**	**11.10**	**16.70**	**18.89**	**13.24**
NPL/Total Loan and Advances	**0.80**	**0.64**	**0.48**	**0.45**	**0.34**
ROE (Net Income/ Equity)	**27.24**	**23.49**	**28.99**	**30.15**	**29.91**
Liquid Assets/Total Deposit	**46.71**	**12.57**	**18.50**	**21.17**	**14.89**
CD Ratio	**77.44**	**78.56**	**73.43**	**76.24**	**76.98**
Amount of market risk (in million)	**-**	**-**	**114.84**	**343.34**	**119.22**

Appendix –IV

Data from annual Teport

Nsbi (Million)

Year	2006/07	2007/08	2008/09	2009/10	2010/11
Total Assets	13,901.20	17,187.45	30,916.68	38,047.68	46,088.23
Total Deposit	11,445.29	13,715.39	27,957.22	34,896.42	42,415.44
Equity	1,163.29	1,414.64	1,712.61	2,450.55	2,879.29
liquid assets					
Cash	287.53	308.1	652.03	815.68	1,007.69
NRB Deposit	556.68	403.81	444.14	1,842.80	2,330.93
Bank Deposit	278.48	631.05	807.74	782.78	1,539.21
money at call &short notice	35	304.01			
Short term investment					
Total liquid assets	**1,157.69**	**1,646.97**	**1,903.91**	**3,441.26**	**4,877.83**
Net Income	254.91	247.77	316.37	391.74	464.56
Operating Profit	300.79	353.33	442.37	570.29	674.25
Total Operating Income	**886.4**	**1,035.51**	**1,613.02**	**2,488.17**	**3,470.79**
Operating Expenses					
Interest Expenses	412.26	454.92	824.7	1,443.69	2,096.04
Staff Expenses	53.23	74.89	121.99	130.34	255.43
Other Operating Expenses	120.11	152.38	223.97	343.85	445.07
Bonus	34.46	34.8	44.3	53.84	65.35
Total operating expenses	**620.06**	**716.99**	**1,214.96**	**1,971.72**	**2,861.89**
Total Loan	10,065.05	12,746.22	15,612.05	17,963.64	21,718.79
Loan Loss Provision	604.6	632.52	480.3	483.09	353.02
NPL	458.76	488.41	315.95	492.58	239.3
No. of Staff	189	249	323	465	505
LLP/Total Loan and Advances	**6.01**	**4.96**	**3.08**	**2.69**	**1.63**
Operating Expenses/Operating Income	**69.95**	**69.24**	**75.32**	**79.24**	**82.46**
Earning Per Employee (Net Income/No. of Employees)	**1.35**	**1**	**0.98**	**0.84**	**0.92**
Liquid Assets/Total Assets	**8.33**	**9.58**	**6.16**	**9.04**	**10.58**
NPL/Total Loan and Advances	**4.56**	**3.83**	**2.02**	**2.74**	**1.10**
ROE (Net Income/ Equity)	**21.91**	**17.51**	**18.47**	**15.99**	**16.13**
Liquid Assets/Total Deposit	**10.11**	**12.01**	**6.81**	**9.86**	**11.50**
CD Ratio	**82.66**	**88.32**	**55.84**	**51.48**	**51.20**
Amount of market risk (in million)	**-**	**-**	**36.95**	**322.96**	**724.92**

Appendix -V

Data From Annual Report

hbl (Million)

Year	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Total Assets	33,519.14	36,175.53	39,320.32	42,717.12	46,736.20
Total Deposit	30,048.42	31,842.79	34,681.35	37,611.20	40,920.63
Equity	2,146.50	2,512.99	3,119.88	3,439.21	3,995.48
liquid assets					
Cash	177.24	278.18	473.76	514.22	632.05
NRB Deposit	1,272.54	935.84	2,328.41	2,604.79	1,390.63
Bank Deposit	307.56	234.12	246.36	747.48	941.98
money at call &short notice	1,710.02	518.53	1,170.79	308.84	734
Short term investment					
Total liquid assets	**3,467.37**	**1,966.67**	**4,219.32**	**4,175.33**	**3,698.65**
Net Income	491.82	635.87	752.83	508.8	893.12
Operating Profit	688.89	902.53	1,159.95	599.23	1,015.21
Total Operating Income	**2,070.08**	**2,362.81**	**2,854.02**	**3,038.85**	**4,529.82**
Operating Expenses					
Interest Expenses	767.41	823.74	934.78	1,553.53	2,414.81
Staff Expenses	290.92	307.53	360.98	414.98	517.59
Other Operating Expenses	322.87	329.01	398.32	471.1	582.21
Bonus	71.74	94.88	106.66	75.57	123.77
Total operating expenses	**1,452.94**	**1,555.16**	**1,800.74**	**2,515.19**	**3,638.38**
Total Loan	17,793.72	20,179.61	25,234.17	29,123.75	32,968.27
Loan Loss Provision	795.73	682.09	721.52	1,143.13	1,401.29
NPL	641.62	477.23	549.29	1,208.12	1,391.75
No. of Staff	584	591	591	577	647
LLP/Total Loan and Advances	**4.47**	**3.38**	**2.86**	**3.93**	**4.25**
Operating Expenses/ Operating Income	**70.19**	**65.82**	**63.09**	**82.77**	**80.32**
Earning Per Employee (Net Income/No. of Employees)	**0.84**	**1.08**	**1.27**	**0.88**	**1.38**
Liquid Assets/Total Assets	**10.34**	**5.44**	**10.73**	**9.77**	**7.91**
NPL/Total Loan and Advances	**3.61**	**2.36**	**2.18**	**4.15**	**4.22**
ROE (Net Income/ Equity)	**22.91**	**25.30**	**24.13**	**14.79**	**22.35**
Liquid Assets/Total Deposit	**11.54**	**6.18**	**12.17**	**11.10**	**9.04**
CD Ratio	**59.22**	**63.37**	**73.58**	**77.43**	**80.57**
Amount of market risk (in million)	**-**	**-**	**124.3**	**56.45**	**185.01**

Appendix –VI
Data From Annual Report

nbbl (Million)

Year	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Total Assets	7,254.55	9,391.03	11,964.55	12,531.04	15,932.01
Total Deposit	9,385.95	10,883.65	9,997.70	10,052.18	11,511.70
Equity	-2,624.16	-2,191.45	1,112.24	2,133.57	1,845.70
liquid assets					
Cash	391.69	612.02	459.4	422.01	2,474.70
NRB Deposit	614.43	1,005.83	1,869.82	1,423.26	
Bank Deposit	157.94	304.99	242.2	213.03	
money at call &short notice	50	1	1		
Short term investment					
Total liquid assets	**1,214.05**	**1,923.85**	**2,572.42**	**2,058.30**	**2,474.70**
Net Income	-1,061.58	596.49	2,158.10	1,021.38	415.51
Operating Profit	-935.86	174.45	710.3	513.18	212.04
Total Operating Income	**-276.77**	**835.15**	**1,381.81**	**1,265.37**	**1,296.81**
Operating Expenses					
Interest Expenses	432.22	398	409.78	476.79	756.27
Staff Expenses	112.55	140.84	138.42	146.64	189.43
Other Operating Expenses	114.33	121.86	123.31	128.77	139.07
Bonus	-	76.2	238.56	120.56	59.55
Total operating expenses	**659.09**	**736.9**	**910.06**	**872.75**	**1,144.32**
Total Loan	9,169.44	9,469.63	9,130.51	9,119.09	10,237.50
Loan Loss Provision	4,760.43	4,011.82	2,425.56	1,309.55	1,784.72
NPL	3,645.77	3,004.71	1,807.39	589.97	1,841.72
No. of Staff	396	403	367	358	411
LLP/Total Loan and Advances	**51.92**	**42.37**	**26.57**	**14.36**	**17.43**
Operating Expenses/ Operating Income	**(238.14)**	**88.24**	**65.86**	**68.97**	**88.24**
Earning Per Employee (Net Income/No. of Employees)	**-2.68**	**1.48**	**5.88**	**2.85**	**1.01**
Liquid Assets/Total Assets	**16.74**	**20.49**	**21.50**	**16.43**	**15.53**
NPL/Total Loan and Advances	**39.76**	**31.73**	**19.80**	**6.47**	**17.99**
ROE (Net Income/ Equity)	**40.45**	**(27.22)**	**194.03**	**47.87**	**22.51**
Liquid Assets/Total Deposit	**12.93**	**17.68**	**25.73**	**20.48**	**21.50**
CD Ratio	**87.01**	**87.01**	**91.33**	**78.26**	**79.36**
ROA(Return on Assets)	**(14.63)**	**6.35**	**18.04**	**8.15**	**2.61**
Amount of market risk(in million)	**-**	**-**	**118.36**	**51.59**	**25.62**

Appendix –VII
Data From Annual Report

nmb (Million)

Year	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Total Assets	4,420.94	8,927.89	15,856.66	13,226.58	15,948.19
Total Deposit	1,296.39	1,661.60	6,877.91	10,110.69	12,866.22
Equity	284.47	1,213.48	1,592.05	1,811.53	2,211.46
liquid assets					
Cash	3.08	17.91	201.85	239.92	264.69
NRB Deposit	12.79	506.38	717.4	522.56	876.76
Bank Deposit	18.4	4,926.12	6,561.10	967.36	352.44
money at call &short notice	1,975.30	93.4	875.53	582.31	259.17
Short term investment					
Total liquid assets	**2,009.57**	**5,543.82**	**8,355.88**	**2,312.14**	**1,753.05**
Net Income	75.14	72.82	62.95	159.87	221.5
Operating Profit	121.02	95.82	68.39	241.57	325.04
Total Operating Income	**289.45**	**287.26**	**439.91**	**965.41**	**1,590.50**
Operating Expenses					
Interest Expenses	140.25	139.1	254.26	559.54	1,053.45
Staff Expenses	14.21	20.12	40.27	55.96	75.61
Other Operating Expenses	13.97	32.22	76.98	108.34	136.4
Bonus	11.02	10.81	8.88	22.6	33.54
Total operating expenses	**179.45**	**202.25**	**380.4**	**746.44**	**1,299.00**
Total Loan	1,452.23	2,009.93	5,281.11	7,931.14	11,343.09
Loan Loss Provision	56.35	69.97	86.9	123.02	134.52
NPL	25.07	30.51	25.75	69.16	30.16
No. of Staff	34	54	126	159	189
LLP/Total Loan and Advances	**3.88**	**3.48**	**1.65**	**1.55**	**1.19**
Operating Expenses/ Operating Income	**62.00**	**70.41**	**86.47**	**77.32**	**81.67**
Earning Per Employee (Net Income/No. of Employees)	**2.21**	**1.35**	**0.5**	**1.01**	**1.17**
Liquid Assets/Total Assets	**45.46**	**62.10**	**52.70**	**17.48**	**10.99**
NPL/Total Loan and Advances	**1.73**	**1.52**	**0.49**	**0.87**	**0.27**
ROE (Net Income/ Equity)	**26.41**	**6.00**	**3.95**	**8.83**	**10.02**
Liquid Assets/Total Deposit	**155.01**	**333.64**	**121.49**	**22.87**	**13.63**
CD Ratio	**112.02**	**120.96**	**76.78**	**78.44**	**88.16**
Amount of market risk(in million)	**-**	**-**	**15.27**	**44.83**	**13.74**