CHAPTER 1

INTRODUCTION

1.1 GENERAL BACKGROUND

Banks are such financial institutions which play an important role to collect scattered insufficient saving and use them into predictive channels. Most people like to save little money when they have a chance. They may save because they have no urgent need for the money later time. When they do need the money, they may not have saved enough many people who save money deposit it in some kind of bank. The borrowers pay interest (price for the use of the money) to the bank and the bank pays interest to the people, who have deposited their savings. The banks make a profit by charging more for tending money that it pays for holding money. Thus banking is the business of receiving, safeguarding and lending money.

In fact banks played a pioneering role in the enhancement of economy of the country and hence, it is the life-blood of the modern commerce and can be said that modern commerce is so much dependent upon banking that any cessation of banking activities, even for a couple of day will completely paralyze the modern business and economic life of a nature. Modern bank had gained paramount trust in the public.

Banking sector plays an important role in the economic development of the country. Commercials Banks are one of the vital aspects of this sector which deals in the process of the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development.

Commercial banks came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The banks have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy, intermediation, and maturity transformation, facilitating payments flows, credit allocation and maintaining financial discipline among borrowers. Banks gathers savings, allocates resources providers the liquidity and payment services.

In year 1934 AD, the establishment of Nepal Bank Ltd. came into existence under Nepal Bank Act, 1937 as the first commercial bank of Nepal, inaugurated by King Tribhuvan on November 1937. Rastriya Banijya Bank, the second commercial bank was established in the year 1966. On the long run Commercial Bank Act was felt. Accordingly, it was established in 1974 AD. According to section 2 (a) of Commercial Bank Act, 1974 the commercial bank is the heart of economic system. it exchanges money, accepts deposits, grants loan and operates commercial transaction. With the opening of NABIL Bank in 1985, the door of opening commercial bank was opened to the private sector. The list below illustrates commercial banks in Nepal.

Profile of the Selected Banks

(A) STANDARD CHARTERED BANK NEPAL Ltd

It was the third joint venture bank in Nepalese banking history. It established as a joint venture with Grindlays bank of London in the year 1987 under commercial bank act 2031 B.S. The bank had changed its name from Grindlays Bank to Standard Chartered Bank Nepal Ltd. in July 2001. 75% share of SCBNL is owned by Standard Chartered group itself and 25% share is owned by Nepalese public. SCBNL has its head office at New baneswor, Kathmandu and strong network of branches which is caters to a wide range of innovative products and services to Nepalese customers. It has total 17 branches, three in Kathmandu valley and eight outside Kathmandu valley. It also has four extension counters and it is providing services through sixteen ATMs. The main objective in the near term would be to protect revenue lines by providing solutions to the customers through value added and structured products at competitive pricing. Bank has also been honored with some awards and trophy. Some of them are: March 2006- **'Best Commercial Bank 2004-05'**- awarded by The Boss Magazine- Specialty Media Private Limited ,in March 2005 - **Best Commercial Bank for the year 2003-2004**, awarded by The Boss Magazine- Specialty Media Private Limited., in September

2002 **"Bank of the Year 2002 and 2009 Nepal"** by 'The Banker' of the Financial Times.

Table 1.1
Capital Structure of SCBNL

Share Capital	Amount (NPR)
Authorized Capital	1 billion
Issued equity capital	1 billion
Paid up equity capital	931.97 million

Source: Annual report of SCBNL 2008-09

Table 1.2
Share Holding Pattern of SCBNL

S. No.	Owners	Shares (%)
1.	Standard Chartered Bank, UK	75
2.	Nepalese Public Shareholders	25
Total		100

Source: Annual report of SCBNL 2008-09

Table 1.3
Board Director of SCBNL

Board of Director of Standard Chartered Bank consists of following personnel.

S.N	Names	Designation
1.	Mr. Neeraj Swaroop	Chairman
2.	Mr. Sujit Mundul	Director/CEO
3.	Mr. Sushen Jhingan	Director
4.	Mr. Anuraj Adlakha	Director
5.	Mr. Arjun Bandhu Regmi	Public Director
6.	Mr. Ram Bahadur Aryal	Independent Director

Source: Annual report of SCBNL 2008-09

(B) NABIL BANK LTD

Nabil Bank Limited, the first joint venture bank of Nepal, commenced its operation on 2041/03/29 (July 12, 1984). Dubai Bank Limited, Dubai was the first joint venture partner of NABIL Bank with 50% equity investment. Currently, NB (International) Limited, Ireland is the foreign partner. Nepal Arab Bank limited was used to be the name of Nabil Bank till December 31, 2001. Currently it is widely recognized as NABIL Bank since January 1, 2002. NABIL has 39 -branch network and a counter in all major cities. The corporate banking body, which is also the head office of this very prestigious bank, is in Kamaladi, Kathmandu. It is known by the name NABIL House. Its number of outlets in the country is the highest among the joint venture and private banks operating in Nepal. By this, it becomes the largest bank among the privately owned banks in Nepal. The main objective of NABIL Bank is to be a *bank of the first choice*. The Banker, the publication of the Financial Times-London, has honored the NABIL Bank as Bank of the Year 2004 and it is a matter of prestige to be leading bank of the country.

SHARE CAPITAL AND OWNERSHIP

NABIL Bank is established with the contribution of following Capital Structures:

Table 1.4

Share Capital

Authorized Capital	Rs 1600,000,000
Issued Capital	Rs 689,216,000
Paid Up Capital	Rs 689,216,000

Source: Annual report of NABIL 2008-09

The share holding of NABIL Bank Ltd is as follows:

Table 1.5

N.B. (International) Limited, Ireland	50%
Nepalese Public	30%
Other entities	11.08%
Other liscensed institutions *	6.15%
Individuals	2.77%
Total	**100%**

Source: Annual report of NABIL 2008-09

Nepal Industrial Development Corporation, one of the promoters of the Bank, sold 3.85% shared to the general public through auction in FY 2007\08. Though the new shareholders are classified under promoter group, their shares, unlike other promoters are freely traded in the NEPSE.

BOARD OF DIRECTORS

NABIL's governing Board has Nine members on which four members are nominated from Group 'A' shareholders i.e. N.B. (International) Ltd, one from Group 'B' shareholders i.e. financial institution and two from Group 'C' shareholders i.e. general shareholders.

Table 1.6
Board of Directors of NABIL

Mr. Satyendra Pyara Shrestha	Chairman
Mr. Shambhu Prasad Poudyal	Director
Mr. Dayaram Gopal Agrawal	Director
Mr. Achyut Prasad Bazgain	Independent/ Professional Director
Mr. Mohiuddin Ahmed	Director
Mr. Tabith Awaal	Director
Mr. Shyamalendu Chatterjee	Director
Mr. Megha Raj Pokhrel	Alternate to Director Shyamalendu Chatterjee
Mr. Nirvan Kumar Chaudhary	Alternate to Director Tabith Awal
Mr. Jagadish Prasad Kanoria	Alternate to Director Mohiuddin Ahmed

Source: Annual report of NABIL 2008-09

(C) NEPAL INVESTMENT BANK LTD

Nepal investment bank ltd (NIBL) is the 2nd joint venture bank opened in the country, it was previously known by the name Nepal Indosuez Bank Ltd. And established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez ltd.The name of the bank has been changed to Nepal Investment Bank Ltd. Upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Register's office. NIBL has its head office at Darbar marg,kathmandu and it has 38 branches spread over the country. NIBL has 41 Automated teller machine for the effective service to the customer in its different branches as well as in the commercial area open for 24 hours a day. 'The Banker', the publication of the Financial Times, London has honored the Nepal Investment Bank as "Bank of the Year 2003, 2005 and 2008" and it is a matter of prestige to be a leading bank of the country.

Share Capital and Ownership

Table 1.7

Capital Structure of NIBL

Share Capital & Reserves	**Amount in NPR**
Authorized Capital	4,000,000,000
Issued equity capital	2,409,097,700
Paid up equity Capital	2,407,068,900

Source: Annual report of NIBL 2008-09

Table 1.8

Share ownership Pattern [In Percent]

1.	Organized Institution	50%
2.	Financial Institutions	15%
3.	Commercial Bank	15%
4.	General Public	20%
	Total	100%

Source: Annual report of NIBL 2008-09

Table 1.9
Board of Directors of NIBL

S.N.	Name	Designation
1	Mr. Prithivi Bahadur Pande	Chairman and CEO
2	Mr. Prajanya Rajbhandari	Director
3	Mr. Deepak Man Serchan	Director
4	Mr. Krishna Prasad sharma	Director
5	Mr. Shiva Hari Shrestha	Director
6	Mr. Surendra Bahadur Singh	Public director
7	Mr.Damodar Prasad Sharma pande	Professional Director

Source: Annual report of NIBL 2008-09

1.2 Statement of Problem

Financial analysis is the major tool of financial institution. Financial institution should prepare proper investment policy so that they can reach their target. Investment policy is an important asset for them but they are unable to estimate the future, prepare the investment policy, and evaluate them properly. The implementation of policy is also not effective. Joint venture banks has played vital role model in improvement of fund mobilization activity in 1984 AD, the first joint venture bank, a foreign collaborated joint venture bank, Nepal Arab Bank Limited, was established In Nepal. Several other joint venture banks and banking institutions are providing crucial services in Nepalese financial markets. The problem, however, is to find a proper project or investment opportunities getting profits seems persistent.

Some financial institution has lack of proper knowledge about various types of risk such as management risk, liquidity risk, purchasing power risk, business risk, interest rate risk, financial risk, etc., while providing loans and advances. They are unable to invest the deposit collections on profitable sectors or opportunities. They have always feared of high degree of risk and uncertainty. Due to lack of profitable sectors for their investment or utilization of their deposit collection, commercial banks and financial institutions surrender to liquidation and finally leave an adverse effect in national economy. Commercial bank's investment has been found to have lower productivity due to lack of supervision regarding whether there is proper utilization of their investment or not. Lack of farsightedness in policy formulation and absence of strong commitment towards its proper implementation has caused many problems to commercial banks.

The study is directed to resolve the following issues.

1. What is existing financing situation of sample commercial banks in Nepal?
2. What is position of non-performing assets of commercial banks?
3. How is the deposit of commercial banks utilized?
4. What is the relationship of deposit with other assets?

1.3 Objective of the Study

The main objectives of this study will be as follows;

1. To examine the financial performances of SCBNL, NIBL and NABIL on the basis of CAMEL.
2. To indicate the Non Performing Assets position of the bank.
3. To analyze deposit utilization of sample banks.
4. To evaluate the relationship of deposit with different assets.

1.4 Limitation of the Study

The study has assumed the following limitations.

1) Though a commercial bank has several function to be analyses but this study will concentrates only on the CAMEL i.e. (Capital adequacy, Assets quality, Management, Earning, Liquidity) function of selected bank, other functions of the banks aren’t covered in this research.
2) The period of study will covers only five years (2004/05 to 2008/09)
3) The data used in the study will be both primary and secondary and based on the information provided by the bank. The truth of the research will be based upon the data available from the bank.
4) This study will be limited to three commercial banks.

1.5 Plan of the Work

This study will be divided into five chapters.

Chapter 1: Introduction

It deals with introduction of the main topic of the study like general background, statement of the problems, objective of the study and organization of the study and other introductory framework.

Chapter 2: Review of literature

It includes with the review of available relevant studies. It includes the conceptual review of the related books, journals, articles and the published and unpublished research works as well as thesis. It also includes security act.

Chapter 3: Research methodology

It describes research methodology employed in this study i.e. research carried out in this size and shape. For the purpose various financial and statistical tools and techniques are defined which is used for the analysis of the presented data.

Chapter 4: Presentation and Analysis of data

This chapter is the major part of the whole study in which all collected relevant data are analyzed and interpreted by the help of different financial & statistical tools. In this chapter we explained the major findings of the study.

Chapter 5: Summary, Conclusion and Recommendation

It contains the summary of the study, conclusion recommendation and suggestion on the basis of the study.

CHAPTER 2
REVIEW OF LITERATURE

2.1 Conceptual Framework

History tells us that it was the merchant who first evolved the system of banking by trading in commodities than money. Reviewing the history we can find that present day banker has three ancestor of particular note. These are merchant, lender, and the goldsmith. Lending and borrowing are almost as old as money itself but modern banking showed its seed in medieval Italy. The history of banking development, we can't forget the Bank of Casa de San Giorgio in Genoa, which was established in 1148, Bank of Venice was established in 1157 and the Bank of Genoa was established in 1148. In 1401, the Bank of Barcelona was established in Barcelona. In fact modern bank started to take rapid speed in forming & functioning from 17th century. During this period Bank of Milan, Bank of Florence and Bank of St.George were established in Genoa. In 1609, the Bank of Amsterdam was established in Holland, like wise in 1610, Bank of Hamburg was established in Germany and the Bank of England was established in England.

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. Banking history of Nepal is about decade. The concept of banking system was introduced in Nepal with the establishment of Nepal bank Ltd. in 1937 A.D. It was established to help government's policy to develop economic and business activities in the country. After realizing the need of another bank, later in 1956, the central bank named as the Nepal Rastra Bank was set up with an objective of supervising, protecting and directing the functions of commercial banking activities and to carry out central banking activities. After realizing the need of another bank, Rastriya Banijya Bank was set up in 1966 AD to spread banking services to both rural and urban areas. As the country moved towards economic liberalization in 1980 A.D. foreign banks were invited to operate in Nepal. The financial scenario has changed with the introduction of joint venture Banks in 1984. The number of commercial Banks has been increasing. Since then, various financial institutions Like, JVBs, Domestic commercial banks, development banks, finance companies, co-operative banks, Credit Guarantee Corporation, Employee Provident

Fund, National Insurance Corporation, Nepal Stock Exchange have come into existence to cater the financial needs of the country thereby assisting financial development of the country.

After restoration of democracy in the country in 1990, government highlighted the agenda of economic liberalization. Liberalization policies were announced and emphasized to invite FDI in banking sector of Nepal. Therefore the development of commercial banks in Nepal is categorized in three phases on the basis of financial institutions policies adopted by the country from time to time.

They are Commercial banks prior to 1980's, Commercial banks of 1980's, Commercial banks of 1990's. There are only two commercial banks prior to 1980's they are Nepal Bank Ltd and Rastriya Banijya Bank. All the three commercial banks of 1980's were established as JVBs. Similarly six commercial banks of past 1990's were also come into operation as JVBs. Latest six banks were established by the private sector of Nepal. Consequently the names of some banks are also changed. Nepal Arab Bank Ltd. is now known as Nabil Bank Ltd. Similarly Nepal Grindlays Bank Ltd., Nepal Indosuez Bank Ltd. and Nepal Bank of Ceylon Ltd. are now known as Standard Chartered Bank Nepal Ltd., Nepal Investment Bank Ltd., and Nepal Credit and commerce Bank Ltd. respectively.

Taking an overview of financial institutions providing banking facility in Nepal, there are 26 commercial banks, 73 development banks, 17 Micro Credit Development Bank, 16 saving and credit co-operative societies, 78 finance companies and 45 Non-Government Organization [NGOs] licensed by NRB.

2.1.1 Commercial Banks in Nepal

Commercial bank refers to a bank or a division of a bank primarily dealing with deposits and loans from corporations or large businesses. The concept of banking system was introduced in Nepal with the establishment of Nepal Bank Ltd in 1937. The financial scenario has changed with introduction of joint venture banks in 1984. The domestic banks of Nepal, Nepal Bank Ltd. and Rastriya Banijya Bank could no longer hold monopoly. The number of commercial banks has been increasing so is the investment volume and opportunity in various sectors that extends to agriculture, industry, commercial and social sectors. No matter what name we give to bank, like Business banks, Retail banks, clearing banks, Joint venture banks, Merchant Banks etc, they all perform to same basic function. Like other organization, the main objective of the banking industries will be profit maximization and wealth.

The name, operation date, head office and paid-up capital of the commercial banks established and operated in Nepal till mid July, 2009 are listed in table as follows:

Table 2.1

List of Commercial Bank in Nepal

S.No.	**Names**	**Operation Date (A.D.)**	**Head Office**	**Paid up Capital** *(Rs. In Million)*
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	10777.50
4	Nabil Bank Limited	1984/07/16	Kathmandu	14491.00
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2407.10
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	1398.50
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1600.00
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	874.50
9	Nepal Bangladesh Bank Limited	1994/06/05	Kathmandu	1860.30
10	Everest Bank Limited	1994/10/18	Kathmandu	8305.00
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	11822.00
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar,Rupendehi	1399.60
13	Lumbini Bank Limited	1998/07/17	Narayangadh,Chitawan	1288.00
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar,Morang	1391.80
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1700.00
16	Kumari Bank Limited	2001/04/03	Kathmandu	1304.90
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1533.70
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	1230.00
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1325.10
20	Citizens Bank International Ltd.	2007/06/21	Kathmandu	1159.10
21	Prime Commercial Bank Ltd	2007/9/24	Kathmandu	1163.80
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1419.40
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1053.20
24	Development Credit Bank Ltd.	2008/05/25	Kamaladi, Kathmandu	1655.3
25	NMB Bank Ltd.	2008/06/05	Babarmahal, Kathmandu	1430.00

26	Kist Bank Ltd.	2003/02/21	Anamnagar, Kathmandu	2000.0

Source: www.nrb.org,np

2.2 Origin and Development of CAMELS Rating System

Federal regulator in the US developed the numerical CAMELS rating system in the early 1970's to help structure their bank examination process. When examiner evaluate banks health, they develop a overall rating based on capital adequacy, Assets Quality, Management Quality, Earning Ability, Liquidity Position, and Sensitivity to risk.

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

C=Capital Adequacy Requirement

A=Assets Quality

M=management Quality

E= Earning ability

L=Liquidity position

2.2.1 Concept of Capital Adequacy Requirement

Bank Capital is money needed to establish and operate a bank. Capital adequacy ratio reflects the overall financial condition of the banks and also the ability of the management to meet additional capital requirement. It defines relationship between capital fund and total risk weighted assets of the bank. According to NRB's guidelines, banks in Nepal should maintain 11% capital adequacy ratio and 5.5% core capital ratio. These ratios have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum percentage then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share.

2.2.1.1 Source of Bank Capital

The main source of bank capital is Equity capital of bank and the borrowed capital of bank. The capital of a bank comprise of the amount raised from the following sourced:

1. Ordinary Share

From this source bank gets its capital from the promoter shareholders and the ordinary share holders by selling the share to the public.

2. Preference Share

This source gets preference over the ordinary share, while distributing the dividend and in dissolving the bank.

3. Bonus Share

From this source bank gets capital by issuing share by capitalizing the saving fund from the profitability of company.

4. Retain Earning

This source is simply a earning that is returned after paid-up of regular expenses.

5. Reserve Fund

This source is through the fund that bank must keep as a part of its income for banking transaction as a reserve fund.

6. Undistributed Dividend

Bank gets this capital when it keeps and reinvests some part of dividend in spite of distributing to shareholders.

Capital collected from other source rather than Equity is Borrowed Capital of bank under this title the following type of source can be described.

1. Sale of debenture

The debenture means debenture bond issued by the company against pledge or guarantee of its assets.

2. All Type of Deposit

This bank capital is an amount deposited in a bank by depositors opening deposit account such as current, saving, and fixed account.

3. Loan from central bank

This bank capital is the amount received by commercial bank from the central bank as a loan.

4. Loan from financial institution

This bank capital is the loan taken by commercial bank from other financial institution.

5. Loan from the commercial bank

This bank capital is the amount taken as a loan by one commercial bank from another commercial bank. During the economic crisis the commercial banks solve the problem by taking the loan borrowed internally.

6. Loan from the central office and branch office

This bank capital is the amount taken as a loan by central office from its branch or by branch office from central office or from another branch.

2.2.1.2 Bank Capital Adequacy System

Banking transaction directly affected by adequacy and inadequacy of bank capital. If there is inadequate 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. It is not good for a bank to collect borrowed capital in the bank so it has to reduce the amount of borrowed capital as far as possible. The adequacy of the bank capital is necessary for the following function:

1. **For the payment of all types of deposit**

Deposit is liability for a bank so to payback it adequacy of bank capital is necessary for a bank. Hence the adequacy of bank capital is needed to gain trust from its customers.

2. **To meet the demand of all types of cash reserve funds**

Bank has legal obligation to deposit the amount in different types of funds in the Nepal Rastra Bank and its own bank. This legal obligation occur in two ways, one way is by the provision of law and another is take place due to circulars, policy and directives issued by NRB. Therefore to meet this legal obligation bank needs an adequate bank capital.

3. **Investment for banking transaction and business**

Bank cannot be operates unless it perform its function of meeting its daily administrative expenditure and the investment in different sector to gain profit. So to perform the above function the bank needs an adequate bank capital.

2.2.2 Concept of Assets

Assets are the most vital factors in determining the strength of the bank. The major asset for the bank is loan and advances. This is the most riskiest assets item that needs crucial assessment. Banks collect funds in the form of capital, deposits, borrowing, etc. It mobilizes these funds to generate certain returns by giving loans and advances to the users of money to invest in various alternatives. Bank gives loan and advances in high volume from which higher interest is generated as well as there is high risk. A significant part of the banks income is generated from the lending activities. Basically there are two types of loan:

1. **Performing Loan**

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

2. **Non Performing Loan.**

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

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

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

   III. Bad Loan: Loans overdue by more than 1 year.

Table 2.2

Loan Classification and Provision as Per NRB Directives:

Classification of loans	Category	Duration overdue	Loan Loss Provision
Performing loan	Standard Pass/ good	Up to1 to 3 months	1%
Non-performing Loan	Sub-standard	3 to 6 months	25%
	Doubtful	6 months to 1 year	50%
	Bad Loans	More than 1 year	100%

Source:www.nrb.org.np

2.2.2.1 Criteria for Lending

For the survival and enlargement of the bank, it must follows well set up established criteria for providing loan to the borrowers. According to the Dahal B & S the bank has to consider application 5Cs while screening a loan that 5Cs are as follows:

(1) Character

Character refers to the personal traits of the borrowers which are very important for lending decision. Good character is indicated by the honesty of the borrower. It is analysis of the applicant as to his ability to meet the obligation put forth by the lending institution. So the character of the borrower must be studied to know the intention to pay loan, their practice to repay loan, creditworthiness, habit to use acquire funds, past trend regarding the receipt and payment of loan are to be reviewed, this C is the most important Cs of the loan because dishonest borrower always finds a way to avoid the restrictions imposed through the loan agreement.

(2) Capacity

capacity of the borrower means his business acumen and managerial ability to deal with men and matters so that he that he would make effective and profitable use of funds and thereby able to repay the loans. His legal capacity to borrow money and the quality of management must analyze to grant loan. Qualification, experience, past dealing of the part in bank and enquires the capacity of the borrower which must be checked out.

(3) Capital

Capital refers the funds invested in the business by the borrower. More capital means most of the assets are acquired from own funds and the more of their stake which is the safe part for the bank. The business started with negligible capital lacks efficient management. The bank provides loan only if the borrower has enough capital.

(4) Condition

Condition refers to the general economic condition beyond the control of the borrower that affects the borrower's business. It is security, political and social conditions under which the business has to run. Bank grants loan only if the lending official feels the conditions are favorable.

(5) Collateral

Another provision for granting loan is the government security paper. By offering the fixed deposit receipt, the depositor can collect loan up to 90% of its receipt value. The bank also provides loan against the security of shares of various recognized financial institution such as public enterprises, companies etc.

2.2.3 Concept of Management

The word Management is widely used in various areas and time periods. Human needs are unlimited, so limited resource should meet these need. To meet the unlimited needs from limited resources, management is very essential. Without management people, organization and government undertaking cannot meet their objectives. Therefore, everyone has different opinions about the term management. Management has been defined in several meanings, depending on their needs, context and purpose. Therefore, there is no universally accepted definition of management. It is also very difficult and practically impossible to give single definition covering all aspects of management because it is concerned with human beings. Their behaviors are highly uncertain and unpredictable (Fago, Dahal and Poudle,2004).

The concept of management is the simplest and the most pragmatic. It highlights the universal nature of management. However, it does not take into account the social and human aspects of management. Management involves judicious deployment of resources for the achievement of certain goals. It is a creative process. In this process, ideas, things and people are vital inputs.

2.2.3.1 Function of Management

There is no universally acceptable list of management functions. Luther Cullick gives keyword POSDCORB that stands for Planning, Organizing, Staffing, Directing, Co-ordination, reporting and Budgeting. George R. Terry described management functions as planning, organizing, actuating and controlling. Knootz and O' Donnell have given very convenient classification of management functions which are explain below:

I. Planning

Planning makes deciding in advance what to do, when to do it, how to do it, and who is to do it. It is based on scientific estimate of future. There is a saying, "look before you leap". So, planning is thinking before doing. It helps to face the risk and uncertainty in the future. This planning is looking ahead and program for the future. It bridges the gap between where we are and where we want to go. It involves choices of best alternatives through decision making. It includes formulation of objectives as well as the strategies, policies, programmers etc.

II. Organizing

Organizing means bringing together men, money, materials, machine and things or services properly to execute the plans. Structure of relationship among the employees is created, which ensures authority-responsibility relationship. Proper organization plays very important role to increase productivity by avoiding duplication of efforts, friction among employees, and delays in operations.

III. Staffing

Staffing means the function of managing and also keeping people at the position need in the organization structure. The process of staffing ensures right man for the right job in the right time. It is very important and challenging function of management. Employees play very important role for the success of organization. It consists of following activities:

- Manpower Planning
- Recruit, Selection and Placement
- Training and development employee remuneration
- Appraisal, Promotion, Transfer, Discharge, Retirement

IV. Directing

Directing means influencing, guiding and motivating the sub-ordinates for the achievement of organizational goals. It is also known as management in action because it sets enterprise into motion just like what electric power does to a bulb. It involves working with people directly. Without directing, management cannot get the things done through and with other people be.

V. Communication

Communication means exchange of news, views, ideas, feelings, problems, solution etc between persons and departments. Directing is impossible without effective system of communication. A manager issues orders, instructions to the subordinates and receives reports of jobs by means of communication.

VI. Leadership

Leadership means the process of influencing people to following the achievement of common goals. The person is as a leader, who guides and influences the behavior and performance of sub-ordinates to achieve organizational goal.

VII. Motivation

It is the process to inspire sub-ordinates to work efficiently and effectively to achieve the goal of organization. Motivation may be positive such as rewards, promotion etc.

and negative such as, threats, punishment etc. Positive motivation is desirable in an organization.

VIII. Controlling

Controlling means the process of ensuring the things in accordance with predetermined plans. Controlling keeps the organization on the right track. So, controlling is the process of measuring accrual results with some standards, finding reasons of deviations and taking corrective action where necessary.

2.2.4 Concept of Earning Capacity

Profit earning capacity is also called profitability of the organization. Profit earning is a measure of efficiency and the search for it provides an incentive to achieve efficiency. Profit earning ability also indicates public acceptance of the product and shows that the firm can produce competitively. Moreover, profits provide the money for repaying the debt incurred to finance the project and the resources for the internal financing of expansion. The earning of a firm can be measured by its earnings ratios. In other words, the earnings ratios are designed to provide answers to questions such as (a) is the profit earned by the firm adequate? (b) What rate of return does it represent? (c) What is the rate of profit for various divisions and segments of the firm? (d) What is the earning per share? (e) What amount was paid in dividends? (f) What is the rate of return to equity-holders?

Profit earnings ratio indicates the degree of success in achieving desired profit. It furnishes answers to how efficiently the bank is being managed. Although profit earnings ratio mainly studies the earning power of the bank, it depicts almost entire performance of the bank.

Commercial banks are established to earn profit. Without profit, they cannot survive for the long period of time. All the stakeholders of the bank put pressure on the bank management to earn profit for their own sake. Without profit these stakeholders cannot be satisfied and without them bank cannot exists. So, bank wants to invest all of its funds in those sectors which ensure higher return. Furthermore, there is always positive attitude of depositors and other lenders towards the highly profitable banks. As a result, bank can acquire easily can spend their transactions.

2.2.4.1 Principle of Profitability / Earning

Commercial banks are the profit-oriented business organization. They are established by issue of shares to general public, who purchase share to earn profit in terms of dividend. Therefore, earning should be the cardinal principle for making investment. According to principle of profit earning, banks should invest their funds in such sectors, which ensures higher rate of return. Bank must earn sufficient profit to meet all expenses for daily administration, expansion and growth as well as payment of dividend to shareholders. That's why it should invest in profitable sectors, which assure a fair and stable return on the funds invested.

Bank can either invest their funds in securities or advance loans to productive sectors to generate profit. The earning capacity of securities and share depends upon the interest rate, the dividend rate, and the tax benefits they carry. It is largely, the government securities that carry the exemption of taxes. The bank should invest more in such tax-free securities. New companies also carry tax exemption. This is because shares of new companies are not considered as safe investments.

In loan sectors, bank should grant loans to those sectors generating high rate of return. Still they cannot neglect the risk and liquidity factors. Higher return involves higher risk thus there should be a proper check and balance between risk and return for investment. Bank should select the loan proposal bearing high return with proportionately low risk.

2.2.5 Concept of Liquidity

Liquidity means allocation of funds in close relation to their respective source. Liquidity is the status and part of the assets which can be used to meet the obligation. Liquidity can be viewed in term of liquidity store in the balance sheet and in terms of liquidity available through purchase funds. The degree of liquidity depends upon the relationship between cash assets plus those assets which can be quickly turned into cash and the liability awaiting payment. Generally, the definition of liquidity can’t be found in the same way, in the countries of whole world. Because it is known as much as the development of the monetary sector take place or the use of monetary devices increases, so much the definition of it goes wider. Liquidity means the whole money stock of money.

Liquidity is the availability of cash in the amount and at the time needed at a reasonable cost. One of the most important tasks faced by the management of any bank is insuring adequate liquidity. A bank is considered to be liquid if it has ready access to immediately spend able funds at reasonable cost of precisely the time those funds are needed. This suggests that a liquid bank either has the right amount of immediately spend able funds on hand when they are required or can quickly raise liquid funds by borrowing or by selling assets.

The liquidity position of a firm would be satisfactory if it is able to meet its current obligations when they become due. A firm can be said to have the ability to meet it's shortly-term liabilities if it has sufficiently liquids funds to pay the interest on its short-maturing debt usually within a year as well as to repay the principal. This ability is reflected UN the liquidity ratios of a firm. The liquidity ratios are particularly useful in credit analysis by banks and other suppliers of short-term loans.

2.2.5.1 Criterion for Measuring Bank Liquidity

It is very important to study criteria for measuring bank liquidity. The bank liquidity is the most important aspect of a bank. If there is less bank liquidity, the bank can't be run. If there is much liquidity, the bank should bear great loss economically. Both high liquidity and low liquidity are not good omen for the bank. The bank should be able to keep the liquidity in balance. This is very difficult task. However the bank liquidity can be measured by the following criterion:

1. Deposit investment ratio

Liquidity can be measured by the deposit investment ratio. The depositors deposit the cash in the current, saving and fixed accounts. The bank receives the most liquidity as deposit. The bank invests the capital collected by much profit from it, the bank can get a lot of amount from the depositors and taking higher interest from the place it invested. And the bank doesn't invest all the cash as loan. Apart from the deposit invested, the bank also has other cash. Thus the criteria of liquidity can be found from it.

2. Investment in assets

The criteria of measuring liquidity in a bank, depends on the type if asset which the bank has made investment. The bank doesn't waste cash stock received from different source of capital. The bank can invest the money, it possesses in different types of assets. In such condition, the bank has low liquidity because the investment made in such nature of assets need much cash. And the bank gains income very low from such nature of assets. But in contrast to it, if the bank has invested in the share of various companies, the investment in government securities and treasury bills and in the debentures of different business instruction, bank liquidity is abundant. In this way, the investment that can be used as the criteria of measuring liquidity.

3. Cash reserve ratio

The cash reserve ratio too can be taken as criteria of measuring bank liquidity. The commercial bank should maintain the cash reserve ratio as fixed by the central bank by opening an account in central bank and also should maintain the statutory liquidity ratio, in its own treasury. It changes from time to time. Thus, bank liquidity can be measured from this too.

4. Profitability

The bank should be able to earn income from the medium of investment because if is a legal person. The objective of the bank is intensified with the concept of gaining profit. The bank should invest its money to gain the profit. The banks can invest in various ways. A great deal of cash is deposited in a bank from different accounts as deposit. The bank invests as loan, the cash fund and the cash collected from various other sources. In addition to it, the bank spreads its investments in various profitable sectors. The bank provides various banking services to its customers. The bank becomes successful if it generates income from such all investments and functions. But the bank certainly provides little interest to the account holders who deposit the money in the bank. Thus, the liquidity can be guessed from the profit of which a bank has gained.

5.Investment in loan

The bank distributes loans in different sectors. The source of loan investment is important for the various sources of income of the bank. It is an important to know what sort of loan and how much loans the bank has distributed, while the bank distributes the loan. If the bank is intensified with the concept of gaining profit, the bank flows loans on a long term and mid-term basis. If it has paid its attention to the safety, it invests in short term loan. If a great deal of amount is investment too can be the criteria of measuring the liquidity.

6. Structure of bank

The organizational structure of a bank too gives speculation of bank liquidity. If the structure of the bank is in single nature, there is higher liquidity in the bank. If the banks have many branches, liquidity is lower because the liquidity remains scattered in different branches and sub-branches. In this way, the bank liquidity can be found out from the organization structure of a bank.

7. Position of business

If the business environment of the bank is good, then liquidity remains low. On the contrary, if the business environment is not good then liquidity remains high in the bank. In this way, the position of the business can be the medium to guess the criteria of measuring liquidity.

2.3 Review of NRB's Directives

Nepal Rastra Bank (NRB) is the central bank, which has a responsibility of making fiscal policy, monetary policy, and rules regarding the commercials banks to maintain the sustainable economic growth of the nation. So that, it formulate the policy, and rules time to time according to domestic and international economic and social environment. To mobilize the banks deposit in different sectors of thee different parts of the nation and to prevent them from the financial problem, Nepal Rastra Bank makes various rules and regulation in term of capital fund, cash reserve requirement provision for priority sector, loan loss provision and interest spread etc. A commercial bank are directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and counters, how much, flexible and helpful the NRB rules are also important. Here we discuss only those, which are related to investment function, some rules and regulation.

1. Provision for credit to the priority sector

NRB requires commercial banks to extend loan and advances at least 12% of their total outstanding credit to the priority sector. Commercial bank's credit it the deprived sector is also a part of priority sector credit. Under priority sector, credit to agriculture, credit to the cottage and small industries and credit to service are counted. Commercial bank's loan to the cooperative institution licensed by the NRB is also to be computed as the priority sector credit. But according to NRB's directives in fiscal rear 2002/03, commercial banks are required to invest their capital to the priority sector. The provision for credit to priority sector is depicted in table 2.3.

Table 2.3

Provision for Credit to the Priority Sectors

After fiscal year of 2006/07, commercial banks will not oblige to invest in priority

Fiscal Year	Percentage (%)
2002/03	7
2003/04	6
2004/05	4
2005/06	2
2006/07	2

sector.

2. Provision for investment in the deprived sector

In order to enhance the living standard of deprived sector, NRB has formulated some rules, which affect areas of credit and investment of commercial banks. According to the provision with affect from F.Y. 1998/99, investment in share of the rural development bank investment in rural area for employment income sources, credit to the cooperative institution, NGO, and small agricultural cooperative institution which are registered and operating under NRB are counter as the deprived sector lending. In this provision, Nepal Bank Ltd (NBL), Rastriya Banijya Bank (RBB), NABIL bank ltd.(NABIL), Standard Chartered Bank Ltd.(SCBNL), Nepal Investment Bank ltd. (NIBL) are required to invest 3%, Himalaya Bank Ltd.(HBL), Nepal SBI bank ltd.(NSBI), Nepal Bangladesh Bank Ltd.(NBBL), Everest Bank Ltd.(EBL), are required to invest 2%, Bank Of Kathmandu (BOK), is required to investment 1.75%, Nepal Credit And Commerce bank Ltd(NCC)L is required to invest 0.75%, which new commercial bank are required to invest 0.25% of their total loan and advances to the deprived sector.

3. Provision for the single borrower credit limit

With the objective of minimizing the risk of over concentration of bank loans to a few big borrowers and also to increase the access of small and middle size borrower to the bank loans, NRB directed commercial banks to ser an upper limit on the amount of loans financed to an individual, firm, company or group of companies. According to this, commercial banks are required not to exceed the single borrower limit of 25% in the case of fund-based credit and 50% in the case non-fund based credit of core capital.

4. Regarding capital fund

The commercial bank under operation and having low capital base have been directed to raise their capital funds at a minimum level of Rs. 500 million by the end of F.Y2000/01 . The latest directive of NRB is that commercial bank which are going to be opened, required Rs. 1 billion paid up capital in Nepal. This rule is effective from F.Y. 2000/03. Commercial banks are not allowed to distribute the dividends until the minimum capital are maintained.

NRB has directed commercial banks to maintain its capital adequacy ratio as follows:

Table 2.4

Require Capital on the Basis of Risk Weighted Asset in Percentage

Fiscal Year	Core Capital (%)	Capital Fund (%)
2002/03	4.5	9
2003/04	5	10
2004/05	5.5	11
2005/06	5.5	11
2006/07	5.5	11
2007/08	5.5	11
2008/09	5.5	11

In this way, NRB has changed time to time its directive regarding the capital adequacy ratio according to the national and international financial situation.

5. Provision for cash reserve requirement ratio(CRR)

The cash reserve requirement is the most important to control the commercial banks credit. This ratio is not only the means of credit control but influence the investment portfolio of the commercial banks. How much should be kept in NRB and what amount of cash are to be deposits is determined by NRB. Cash reserve ratio has been changed again and again by the central bank (NRB).

Table 2.5

Provision for Cash Reserve Requirement (CRR)

Fiscal Year	With NRB (%)	Vault Cash (%)
From 1998/99 to 2000/01	7	3
2001/02	6	3
2002/03	6	2
2003/04	6	0
2004/05	5	0
2005/06 to2006/07	5	0
2007/08	5	0
2008/09	5.5	0

6. **Loan and loan loss provision (LLP)**

With a view of improving the quality of assets of commercial banks. NRB has directed commercial banks to classify their outstanding loan and advances and investment into four categories. The classification is done on the basis of repayment situation, financial conditions of borrowers. Management efficiency, quality of collateral and maturity period. LLP has affected banks capability to extend loans and make them risk avert in issuing newer loans, particularly to the private sector and priority sector where the loan default rare is high. NRB has directed commercial banks to maintain certain reserve for loan loss provision, which is as follows:

Table 2.6

Loan Loss Provision (LLP) in %

Source:www.nrb.org.np

Loan Classification	Loan Loss Provision In %
Good	1
Substandard	25
Doubtful	50
Bad	100

7. **Interest spread rate**

Since commercial banks where free to interest spread rate they could not success to achieve the expected result by the NRB. That's why NRB imposed the rules to maintain 5% interest spread rate, which was being effected from F.Y1998/99. Again NRB had changed some rules in F.Y. 2000/01. In the new provision interest spread rate should be flexible between 4.5 to 5% on the mutual understanding between lenders and borrower. But NRB had cancelled the provision of interest spread rate of commercial banks from the F.Y. 2002/03. So that commercial banks were become free to implement the interest spread rate regulation from fiscal year 2002/03 onwards.

2.4 Review of Related Studies

2.4.1 Review of related thesis and dissertation

Khim Kumari Kutal in 2007 had conducted a research entitled "*CAMEL Study on joint Venture Banks with Special Reference to SCB, NABIL and HBL*" with the objective to analyze the financial strength and weakness of these banks concludes the findings such as:

- Employee's job satisfaction reflects efficiency in servicing which is found very well in average for each bank.
- Awareness program conducted by SCB which score highest whereas, NABIL score seventy two percent and HBL score sixty eight percent stands in second and there position respectively.

Bipul Devkota in 2007 had conducted a research entitled "*Comparative SWOT Analysis of Nepalese Commercial Joint Venture Banks*" with reference to SCB, NABIL and HBL with the objective to evaluate the comparative financial strengths and weakness of these banks concludes the finding such as:

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

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

Makar Bahadur Tamang in 2005 had conducted a research entitled "*Financial Performance Analysis of Commercial Banks of Nepal*" with reference to NIB and NABIL, with the objective to measure the operating efficiency, stability and profitability of these banks concludes the finding as:

- The liquidity position of NIB is better than that of NABIL.
- NABIL has utilized more debt than NIB.
- The profitability ratio of NABIL is better than that of NIB in terms of ROA.

- The EPS and DPS of NABIL are better than that of NIB.
- There is positive correlation between total debt and net profit for both the banks.

On the basis of his findings, he recommended that both the banks should review their overall capital structure and investment portfolio to make better mix in capital structure. Moreover, he also suggested that both the banks should also give due consideration in improving their liquidity position.

Binod Kunwar in 2007 had conducted a research entitled *"SWOT Analysis of Nepalese Joint Venture Commercial Banks with reference to NABIL, HBL and SCBNL"* with the objective to spot, examine and assess the financial strength and weakness of these banks concludes the findings such as:

- The total deposit trend of NABIL explains that its deposit is declining each rear. The loan and deposits trend of HBL shows that the trend line almost fits with the actual total deposits which have been increasing each year.
- The investments of all these joint venture banks are found to be more or less volatile.
- The loans and advances of HBL have always been greater as compared to SCB and NABIL during the period under analysis.

On the basis of analysis and evaluation of various financial and statistical tools, he suggested that NABIL and HBL to evaluate the financials of their borrowers in a more proficient way thereby, identifying possibilities of risks prior granting the loans. SCB should try to increase its credit portfolio by exploring the productive sectors.

Kamal Bahadur Chand in 2007 had conducted a research entitled "*Financial performance analysis (CAMEL –Test) of selected commercial banks NABIL, NIBL and SCBL*." With the objective of analysis capital adequacy requirement, assets quality, Management quality, earning ability, Liquidity of these banks concludes the findings such as:

- CAR percentage of all selected banks found higher than NRB requirement except NIBL's for the year 2003. In overall study SCBNL ranked in first position and NABIL in 2nd position.

- In analysis of assets quality, the study found out that NABIL lies in first position with 1.32% NPL where as SCBNL lies in second with 2.68% and NIBL in third position.
- In the analysis of earning components like EPS, MPS, P/E ratio and profit after tax, the study found out that SCBNL score highest position for the components EPS, MPS and profit after tax. Similarly, NIBL score first position for P/E Ratio.
- In analysis of liquidity , the study found out that CRR% of NIBL is found in lead position throughout studies years while NABIL and SCBL is found inconsistent to maintain CRR .

Mahandra Mandal in 1998 had conducted a research entitled "*Comparative financial performance appraisal of joint venture banks"* has studied mainly three banks i.e. NABIL, SCBNL and NIBL. His main finding is that both SCBNL and NABIL have mobilized the debt funds in proper way for generating more return but NIBL couldn't do as good as NABIL and SCBNL. He has recommended enhancing banking facilities in rural areas by encouraging small entrepreneurs' development programmers, to play merchant banking role, to mobilize the deposit funds in productive sectors and to grant more priority to the local manpower.

Bhoj Raj Bohara in 1992 had conducted a research entitled "*A comparative study of the financial performance of NABIL and NIBL*" with the objective to highlight the functions and policies of JVBs and to evaluate the comparative financial performance of selected banks. In terms of liquidity, activity and profitability of along with other various indicators including some suggestive frame work. With regard to the finding to the study "NABIL is better in case of liquidity, regarding the turnover and capital adequacy position. NABIL is more aggressive in liquidity, investment and borrowing policy to generate profit out of the all other indicators. D/P ratio and P/E ratio, MVPS, EPS, Cash DPS, TPS, except EPS indicate the better performance of NIBL than that of NABIL (Bohara Bhojraj,1992).

2.4.2 Review of related articles

Nepal's financial sector has attained ascertain level of complexity in that are just the beginning years of twenty-first century. Financial sector in general and banking sector in particular has been flipped with liquidity in the last few years owing to the high level of deposits from remittances–despite historically low rates and lack of demand from genuine credit in the market. The mushrooming financial sector and phenomenal growth in stock market, however, do not have a strong positive correlation vis-à-vis feedback effect, as in common elsewhere around the world, with economic growth, thereby casting doubts on the efficiency of the financial instrument, Nepali policymakers will have to take into account such interrelationships while further expanding financial sector.

Within the structure of established liberal and open policy regime, it is difficult to control the number of banks and financial institutions springing up in urban centers across the country. However, people's expectation in establishing new banks and financial institution does not seem to be linked with economic viability and financial institution even while the promoters self-finance makes people even more surprised. The takeover by the regulator in case of misuse of funds by promoter groups amounts to doing virtually nothing to punish the wrongdoers, who could otherwise have been made to walk a straight path with strict measure in place.

Since, the interest rates in Indian financial market are higher. It is but natural for the capital to flow into India from Nepal. There in co denying the fact that investing in Nepal even by borrowing from the Nepali banks offers higher returns than investing in Nepal itself, it is however a matter of concern for those who easily offer easy personal /corporate accessibility for investment in India and other markets. Similarly, it is obvious that big fishes in Nepali financial market have been opportune enough to put money into not only the Indian market but third countries with structural loopholes.

According to President of Nepal Bankers' Association Radhesh Pant "After 2010, there will be new international entrants in the market. We must remain very competitive. We have to operate at international standard. However, I don't think we need to fear. I believe there are seventeen commercial banks, but all of their capital combined would not even equal to the capital of a small bank in developed countries. If somehow, Nepal is able to capitalize on the growth of china and India, there is no truing bank for the banking sector. There will be opportunities for all types of banks. So, we need to work together to address the challenges of the WTO,"(Pant,Radesh, President of Nepal Bankers Association and CEO of Bank of Kathmandu).

Narayan Prasad Poudle have said that, the users of the financial statement of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions, Bank regulating bodies, stock analysis banks, shareholders, directors and government have needs of different users of financial statements, the purpose of the analysis of financial statements depends on the needs of the user. The bank regulators seek to analyze the financial statements from safety and stability point of view and thereby protecting the economic interest of depositor and general public whereas the bank analyses from shareholders point of view(Poudle Narayan pd).

Manohar Krishna Shrestha, in his article, commercial banks comparative performance evaluation "concludes that JVBs are new, operationally more efficient, having superior performance comprisals with local banks. Better performance of JVBs is due to their performance comprisals with local banks. Better performance of JVBs is due to their sophisticated technology, modern banking method, and skill. Their better performance is also due to the government's branching policy is rural areas and financing pees. Local banks are efficient in rural sector. Despite having number of deficiencies, local banks have to face growing constraints of JVBs commanding significant banking business of other spectrum (Shrestha M.K, 2047).

Mr. Himalaya Shamsher JBR, in his interview to Business age said that in short they have threats, all the banks are operating efficiently and earning a lot of money and paying handsome dividends to shareholders. Hence, the price of their share has gone up in near future. In near future it depends on peace and security situation in the country. If the situation doesn't improve in the next two or three years, then only the top layer bank will survive while the other bank and finance companies will find it very hard.

2.5 Concluding Remark

The previous studies conducted by various researchers have basically focused on the secondary sources. They have analyze and presented the study on the basis of secondary data i.e. from the Annual Report of the banks. The most interesting point of that most of the in formations supplied and analyzed by them are already in the annual report of the respective banks. In today's context, mostly all the banks have prepared their annual report in such a way that most of the ratios are calculated and mentioned as financial indicators. This study is to give some new perception in this topic by providing some primary information through personal observations and perception.

These studies have attempted to analyze the management quality of selected banks. In the previous studies management quality is not analyzed, might be because it is the internal matter of that organization. The Management Efficiency Ratio has been calculated as financial analysis tool. More financial indicator is used in the study. The trend analysis has been done to analysis their past, present and future move.

CHAPTER 3
RESEARCH METHODOLOGY

3.1 Introduction

Research is to find out to gain knowledge about a phenomenon. Here, "re" means repeatedly or again and again, "search" says to investigate or to find. Thus, combine researching repeatedly is called research, which includes searching new facts, knowledge, principles and theories in scientific way. Likewise, research needs various methodologies, tools, techniques etc.

Methodology is the research method used to test the hypothesis. Research methodology is a systematic way to solve the research problems. It describes the methods and process applied in the entire aspects of the study. It refers to the various sequential steps (along with a rational of each step) to be adopted by a researcher in studying a problem with certain objectives in view (Kothari, 1994).

Thus the overall approach to the research is presented in this chapter. This chapter contains the research design, population and sample size, sample selection procedure, data collection procedure, data processing, use of tools and techniques etc.

3.2 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions, and to control variance, the plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the paradigm of the diagrams that outline the variables and their relation and juxtaposition we build structural schemes for accomplishing operational research purposes. Strategy as used here is also more specific than plan. In other words, strategy implies how the research objectives will be reaches and how the problem encountered in the research will be tackled (kerlinger, 2004).

So, Research design is an overall plan or framework for the collection and analysis of data. It provides the framework “for the study” guidelines, “for the collection and analysis of data”. This research study attempts to analyze the financial performance of joint venture banks by using CAMEL rating analysis. Thus, to fulfill the objective of the study, both primary as well as secondary data are used. Furthermore, descriptive as well as analytical and quantitative approaches are used to examine the financial performance of the joint venture banks.

3.3 Population and Sample

The population refers to the organizing of the same nature on its services and product in general and for this study all twenty-five commercial banks including two governments owned commercial banks operating in the Nepal are the total population. To fulfill objective of the study the first three joint venture bank established in Nepal were selected for the study.

First three commercial banks are:

1. Nabil Bank Ltd.
2. Nepal Investment Bank Ltd.
3. Standard Chartered Bank Ltd.

3.4 Nature and Source of Data

Without any data, nothing can be studied. So for any statistical investigation, the collection of data is most important. The importance of data collections lies is the fact that the collected numerical facts can be utilized to examine the problems concerning a field enquiry in their true perspective to find out the causes of change and to estimate their probable effect. This report writing is based on secondary data as well as primary data. One thing is to be mentioned here is that this report writing is heavily based on secondary data. These data will be collected from annual report and website of Standard Chartered Bank Limited, Nepal Investment Bank Limited and Nepal Arab Bank Limited, Annual report of SEBON, Website of Nepal Stock Exchange Ltd, Nepal Rastra Bank and other official and unofficial publications.

3.5 Data Collection Techniques

The study is mainly based on secondary data. To collect necessary data, published materials are viewed in various spots. Books of by different authors, unpublished thesis reports, journals, magazines, Internet web sites, AGM reports of commercial banks, bulletins published by NRB are major sources of the data. To collect these secondary data, the researchers visited campus library of Nepal Commerce Campus including online library, TU central library, SEBON library and NRB library. Different web sites were searched to collect necessary information for the study.

3.6 Data Analysis Tool

The data collected from different sources are recorded systematically as necessary. Only useful and related data are grouped as per need of the research work. Data are presented in appropriate forms of tables; graphs and charts for analysis of appropriate mathematical, financial as well as statistical tools are used. Some of them are:

3.6.1 Financial Tools

For proper financial analysis of data ratio analysis is the best tool. It is very simple analyzing tools under which ratios are taken to express the relation between two or more data. Through ratio analysis we can establish the relationship among the data and research into conclusion. Under ratio analysis following ratio related to bank are analyzed.

1) Capital Adequacy Requirement Ratio (CAR)

The term used to describe or measure of a bank's capital fund. It is expressed as a percentage of a bank's risk weighted credit exposures. Capital adequacy ratio is calculated on the basis of core capital supplementary capital and total risk weighted assets of the bank. This ratio is used to protect depositors and promote the stability and efficiency of financial system around the world and to examine adequacy of the total capital fund and core capital, which is yielded by the following formulas:

$$CAR = \frac{\text{Total capital fund}}{\text{Total risk weigh t assets}} \times 100\,\%$$

Where,

Total capital fund = Core capital + supplementary capital

Total risk weighted assets = On balance Sheet Risk Weighted Item + Off Balance Sheet Item.

2) Core Capital Ratio (CCR)

Core capital is the capital of owners which is not used for specific purpose. More core capital fund indicates more owners' fund being utilized by the bank. CCR can be computed as follows:

$$\text{CRR=} \frac{\text{Total core capital}}{\text{Total risk weigh ted assets}} \times 100\,\%$$

3) Non performing Loan to Ratio (NPL)

This ratio is used for find out the portion of non-performing loan is the portfolio of total loan and advances. Higher ratio shows that bank has bad quality of assets in the form of loan and advances. Hence, lower ratio is preferred. There is no fixed ratio to be maintained but as per international standard only 5% is allowed. It is calculated as follows:

$$\text{NPL ratio} = \frac{\text{Non Performing Loan}}{\text{Total Loan and Advances}} \times 100\%$$

4) Loan Loss Provision Ratio (LLP)

Loan loss provision signifies the cushion against future contingencies created by the default of the borrowers in the payment of loans and ensures the continued solvency of the banks. Since low ratio reflects the good quality of assets in the volume of total loan and advances, low ratio is preferred. It indicates how efficiently it manages loan and advances and makes efforts to cope with probable loan loss, since, high provision has to be made for non-performing loans, higher ratio implies, higher portion of NPL in the total loan portfolio. It is calculated as follows:

$$\text{Loan loss provision ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Loan \& Advances}} \times 100\%$$

5) Management Efficiency Ratio

In effective management environment employees are the most valuable assets of organization because they are the one who control other resources. The training and other opportunities for growth motivate employees to perform better. Thus by calculating the contribution of each employee in bank, management efficiency can be judged. The management efficiency of any bank can be calculated using the formula given below:

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

6) **Earning Per Share (EPS)**

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

$$\text{Earning per share (EPS)} = \frac{\text{Net Profit After Tax}}{\text{Total No. of Share}}$$

7) Return on Assets (ROA)

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

$$\text{Return on Assets (ROA)} = \frac{\text{Net profit after tax}}{\text{Total Assets}} \times 100\,\%$$

8) Price Earning Ratio (P/E ratio)

Price earning ratio relates the price currently paid by the market for each rupee of currently reported earning per share .it is calculated by dividing the market price per share by earning per share .it can be calculated as below:

$$\text{P/E ratio} = \frac{\text{Market price Per Share}}{\text{Earning Per Share}}$$

9) Cash Reserve Ratio (CRR)

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

$$\text{Cash Reserve Ratio} = \frac{\text{NRB Balance(LY C)}}{\text{Liquidity deposit - Margin Deposits}} \times 100\,\%$$

10) Investment in Government Securities Ratio

Government security is a risk free security. The banks instead of keeping their funds idle invest in various government securities such as Treasury bill and Bonds that are liquid in nature as they are easily convertible into cash anytime. This ratio measures how much of the total deposit is utilized in investing in government securities:

$$\text{Investment in Gov. Securities Ratio} = \frac{\text{Total Investment in Gov.Securities}}{\text{Total Deposit}}$$

11) Cash and Bank Balance Ratio (C&B Ratio)

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

It is calculated as:

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

3.6.2 Statistical Tools

I. Arithmetic Mean ($\overline{X}$)

Arithmetic Mean or Simply a 'mean' of a set of observation is the sum of the entire observation dividend by the number of observation. It is also known as the arithmetic average. It is the sum of total value of dividend by number of value .It is calculated as:

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

Where,

Xi = Value of Variable i

N = Number of Items

II. Standard Deviation (δ)

Standard Deviation is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. The standard Deviation is the absolute in other measure of dispersion are removed. It is said to be the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion .it is calculated as:

$$\text{Standard Deviation } (\delta) = \sqrt{\frac{\sum (X - \overline{X})^2}{N}}$$

III. Coefficient of Variation (CV)

The coefficient of dispersion based on standard deviation multiply by 100 is known as the coefficient of variation (CV). It is independent of unit. So, two distributions can bitterly be compared with the help of C.V for their variability. Less the C.V more will be the uniformity, consistency and more than C.V less will be the uniformity, consistency. It is calculated as:

$$\text{C.V} = \frac{\delta}{\overline{\overline{X}}} \times 100$$

3.6.3 Analysis of Primary Data

To meet the objective of the study primary data have been taken, analyze and then conclusion drawn on the basis of the finding. Primary data are collected form listed commercial banks and investors or depositors as well as individual academicians. More than one respondent have been included form the same organization as possible.

The respondent of the data cover Customers, Commercial bank officers who where available within banking hour at main branch of each CBs, under study. SCBNL, New Baneswor, NABIL, Kantipath and NIBL, Darbarmarg and also individual academicians. Data generate through question arise and personal interview of commercial bank's bank officials, academicians and Depositors are analyzed using descriptive method and are presented in table wherever necessary.

The study is confined in limited banks considering the time constraint. The findings should not be generalized. The study is only focused on commercial banks which have been relating to the NRB directives. Since data of the study is of non-experimental type; chance of observation errors may take place. Similarly, primary data are based on survey of personal interview and questionnaire; there can be selective bias because of non- response error. So this study is just to fulfill the partial requirement of the MBS of Tribhuvan University.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

This part of the chapter deals with the analysis of collected data and presentation and the result obtained from the analysis. This study will be focused on the comparative financial performances of these three banks (SCBNL, NABIL and NIBL) with the help of their annual reports of the FY 2004-05 to FY 2008-09 to perform its CAMEL analysis through ratio analysis and also using primary data for primary analysis.

4.1 Presentation and Analysis of Secondary Data

4.1.1 Analysis of Capital Adequacy

I. Capital Adequacy Requirement Ratio (CAR in %)

The result of capital adequacy requirement is depicted in table 4.1.

Table 4.1

Capital Adequacy Requirement Ratio (CAR in %)

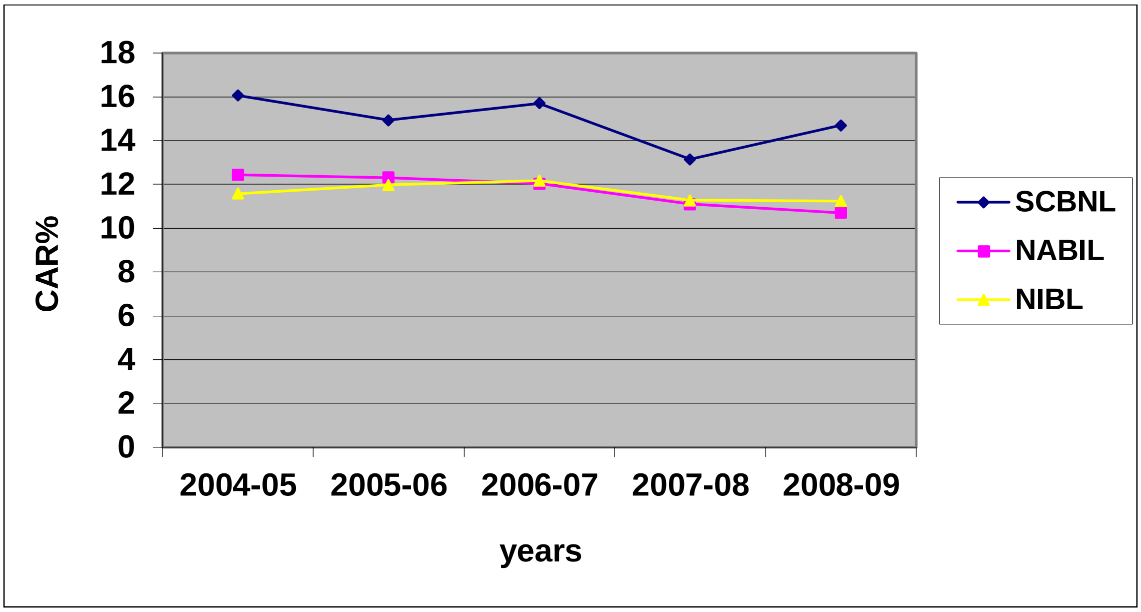
Year	SCBNL			NABIL			NIBL		
	CAR	**Diff**	**Rank**	**CAR**	**Diff**	**Rank**	**CAR**	**Diff**	**Rank**
2004-05	16.06	5.06	1st	12.44	1.44	2nd	11.58	0.58	3rd
2005-06	14.93	3.93	1st	12.31	1.31	2nd	11.97	0.98	3rd
2006-07	15.71	4.71	1st	12.04	1.04	3rd	12.17	1.17	2rd
2007-08	13.15	3	1st	11.10	0.10	3rd	11.28	0.28	2rd
2008-09	14.70	3.70	1st	10.70	-0.30	3rd	11.24	0.24	2rd
Average	14.91			11.72			12.61		

Source: Annual Report and Annex 1

Table 4.1 shows the CAR ratio of CBs from year 2004-05 to 2008-09, different (Diff) of CAR from NRB'S standard ratio i.e. 11%, ranking of CBs in term of highest CAR and average CAR.

Figure 4.1

A Figure of Capital Adequacy Requirement Ratio



From Figure 4.1 shows the ray diagram of CAR's trend of CB's. Table 4.1 shows that all three CBs have CAR above the NRB's standard i.e. 11%. SCBNL is rank first every time, where as NABIL bank ranked 2nd for 2004-05 to 2005-06 and NIBL 2nd for 2006-07 to 2008-09. This explains that in comparison to two banks NABIL and NIBL, SCBNL has high degree of strength of capital sufficiency.

In fact, SCBNL has the highest percent of Average CAR of 14.91% whereas NABIL has the lowest one of 11.72%. Since higher CAR indicates higher amount of capital fund contributed by promoter that means better liquidity position and lending capacity of bank. NABIL may face problem with depositors due to maintenance of minimum CAR.

Figure 4.1 shows that the trend of SCBNL is not consistent, it has increasing and decreasing trend from year 2004-05 to 2008-09. The trend of NABIL is in decreasing, it seems that NABIL just want CAR as NRB's requirement but in 2008-09 it seems below requirement. The trend of NIBL is in increasing trend from year 2004-05 to 2006-07 but it has decreasing trend in year 2007-08 to 2008-09. In 2008-09 NABIL has below NRB's standard i.e. 10.70%.

II. Core Capital Requirement Ratio (CCR in %)

Table 4.2

Core Capital Requirement Ratio (CCR in %)

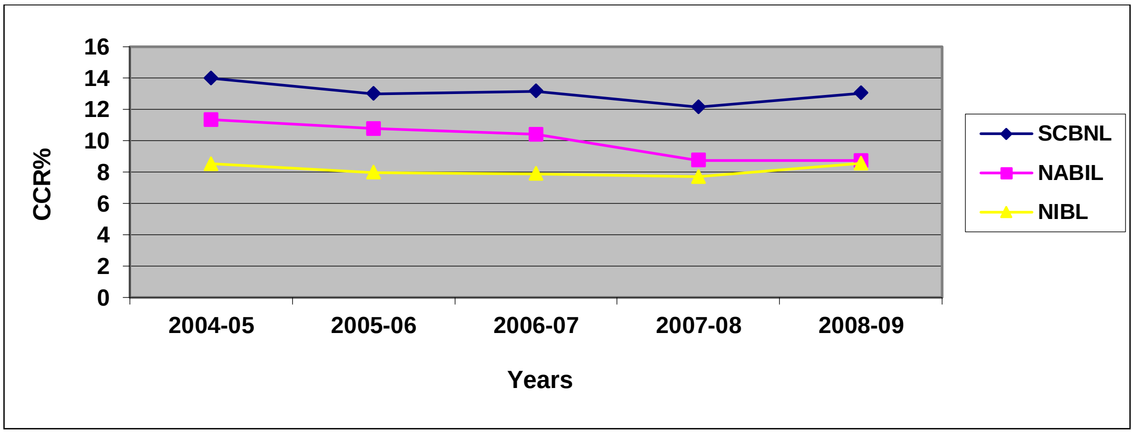
year	SCBNL			NABIL			NIBL		
	CCR	Diff	Rank	CCR	Diff	Rank	CCR	Diff	Rank
2004-05	13.99	8.49	1st	11.35	5.85	2nd	8.52	3.02	3rd
2005-06	12.99	7.49	1st	10.78	5.28	2nd	7.97	2.47	3rd
2006-07	13.17	7.67	1st	10.40	4.9	2nd	7.90	2.4	3rd
2007-08	12.15	6.65	1st	8.75	3.25	2nd	7.71	2.21	3rd
2008-09	13.05	7.55	1st	8.74	3.24	2nd	8.56	3.06	3rd

Source: Annual report

Table 4.2 shows the CCR of CBs from year 2004-05 to 2008-09, different of CCR from NRB's standard i.e. 5.5%, ranking of CBs on the basis of highest CCR .

Figure 4.2

A Figure of Core Capital Requirement Ratio



The figure 4.2 shows ray diagram of CCR of SCBNL, NABIL and NIBL during year 2004-05 to 2008-09. Table 4.2 reveals that all the three CBs have CCR above the NRB's standards i.e. 5.5%. Among three CB's SCBNL has ranked 1st every time by having highest CCR, where as NABIL and NIBL is ranked as 2nd and 3rd respectively. SCBNL has found maintaining higher CCR and even double the NRB's regulation it explain that it is doing well in terms of safeguarding interest of depositors than the other two bank whereas NIBL is doing better job in term of shareholders earning as it has maintained comparatively lower CCR.

The figure 4.2 shows that the trend of CCR of SCBNL is inconsistent and fluctuating. NABIL has decreasing trend of CRR whereas NIBL has decreasing trend in last four year (2004-05 to 2007-08) but it has increasing trend in year 2008-09.

4.1.2 Analysis of Assets

4.1.2.1 Analysis of Non- performing Loan (NPL in %)

Table 4.3

Schedule of Non-Performing Loan (%)

Years	SCBNL		NABIL		NIBL	
	NPL%	Rank	NPL%	Rank	NPL%	Rank
2004-05	2.69	3rd	1.32	1st	2.67	2nd
2005-06	2.13	3rd	1.38	1st	2.07	2nd
2006-07	1.83	2nd	1.12	1st	2.37	3rd
2007-08	0.92	2nd	0.74	1st	1.12	3rd
2008-09	0.67	2nd	0.80	3rd	0.58	1st

Source: Annual Report

Table 4.3 shows the NPL % of SCBNL, NABIL and NIBL from year 2004-05 to 2008-09 and ranking of CBs on the basis of lowest NPL

Figure 4.3

A Figure of Non-Performing Loan

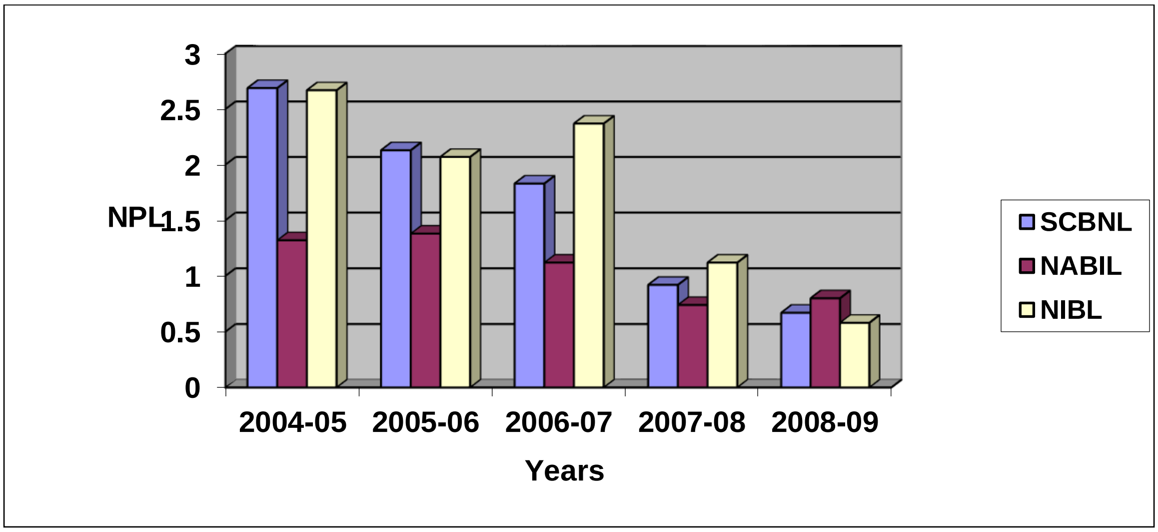


Figure 4.3 shows the bar diagram of non performing loan ratio of SCBL, NABIL and

NIBL during year 2004-05 to 2008-09.

Table 4.3 and figure 4.3 reveals that NABIL bank has ranked 1st from year 2004-05 to 2007-08 although it rank 3rd in 2008-09 so NABIL bank is much more successful in efficiently utilization of its assets then other two banks. All three banks are able to reduce its NPL drastically in comparison to year 2004-05 to 2008-09. SCBNL has been able to reduce its NPL from 2.69% to 0.67%, NABIL has been able to reduce its NPL from 1.32% to 0.80% and NIBL has been able to reduce its NPL from 2.67% to 0.58%. From figure shows that the trend is in decreasing order, it shows that NIBL & SCBNL are also maintaining their loan & advances effectively. If NPL increases net profit will decrease and vice versa. So to have high profit banks should lower their NPL.

4.1.2.2 Analysis of Loan Loss Provision Ratio (LLP in %)

Table 4.4

Analysis of Loan Loss Provision Ratio (LLP in %)

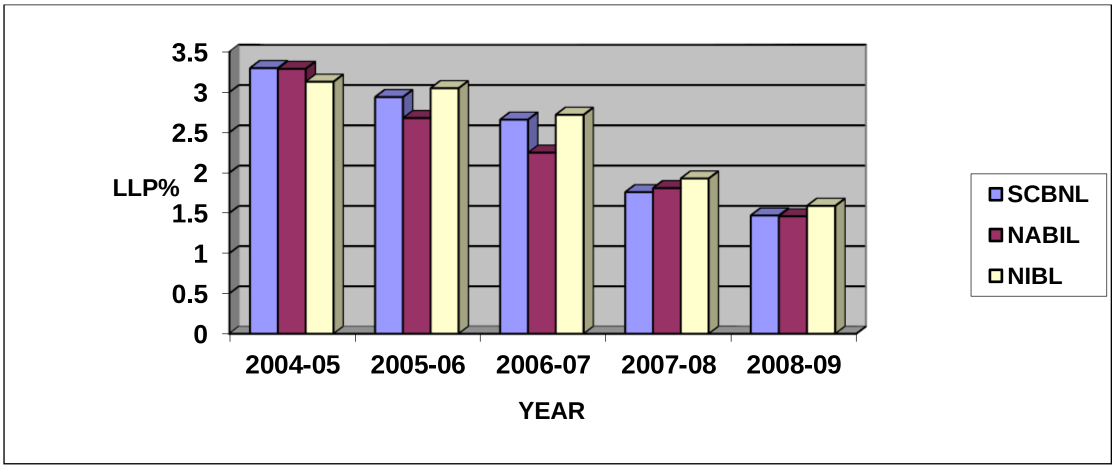
Year	SCBL	NABIL	NIBL
2004-05	3.30	3.29	3.13
2005-06	2.94	2.68	3.05
2006-07	2.66	2.25	2.72
2007-08	1.76	1.81	1.93
2008-09	1.47	1.46	1.59

Source: Annex 2

Table 4.4 shows Loan Loss Provision ratio of SCBNL, NABIL and NIBL from year 2004-05 to 2008-09.

Figure 4.4

A Figure of Loan Loss Provision



The Figure 4.4 showing the Bar diagram of Loan Loss Provision % of SCBNL,NABIL and NIBL from 2004-05 to 2008-09 .From tables 4.4 and figure 4.4 shows that LLPR of all the three CBs are in decreasing ratio. In year 2004-05 NIBL has lowest LLPR and 2005-06 and 2006-07 NABIL has lowest LLPR, in year 2007-08 SCBNL has lowest LLPR. In year 2008-09 NABIL has lowest LLPR of 1.46% than that of SCBNL and NIBL having 1.47% and 1.59% LLPR respectively. The loan loss provision to total loan of NIBL is higher which means the quality of loan is not good but it has more provisions for losses from loan which makes it feel safe.

4.1.2.3 Relativity Analysis of NPL Ratio to LLP Ratio (in %)

Table 4.5

Ratio of NPL to LLP Ratio (%)

Year	NPL %	LLP %	Diff	NPL %	LLP %	Diff	NPL %	LLP %	Diff
2004-05	2.69	3.30	0.61	1.32	3.29	1.97	2.67	3.13	0.46
2005-06	2.13	2.94	0.81	1.38	2.68	1.3	2.07	3.05	0.98
2006-07	1.83	2.66	0.83	1.12	2.25	1.13	2.37	2.72	0.35
2007-08	0.92	1.76	0.84	0.74	1.81	1.07	1.12	1.93	0.81
2008-09	0.67	1.47	0.80	0.80	1.46	0.66	0.58	1.59	1.01

Table 4.5 shows NPL%, LLP% during year 2004-05 and different of NPL from LLP ratio. From this table we come to know that all the different of LLP and NPL is not

negative it mean that all the banks make provision that is enough to meet the Non-performing loan loss.

4.1.3 Analysis of Management Quality

4.1.3.1 Analysis of Management Efficiency Ratio (in %)

Table 4.6
Analysis of Management Efficiency Ratio (in %)

Year	SCBNL	NABIL	NIBL
2004-05	1775645.32	1220925.08	657640.50
2005-06	1909437.34	1440504.19	898811.32
2006-07	1970564.29	1578359.95	975484.15
2007-08	2172204.27	1794395.18	1120147.13
2008-09	2615088.10	2041689.30	1175742.91

Source: Annex 3

The table 4.6 shows Management Efficiency Ratio of SCBNL, NABIL and NIBL.

Figure 4.5

A Figure of Management Efficiency Ratio

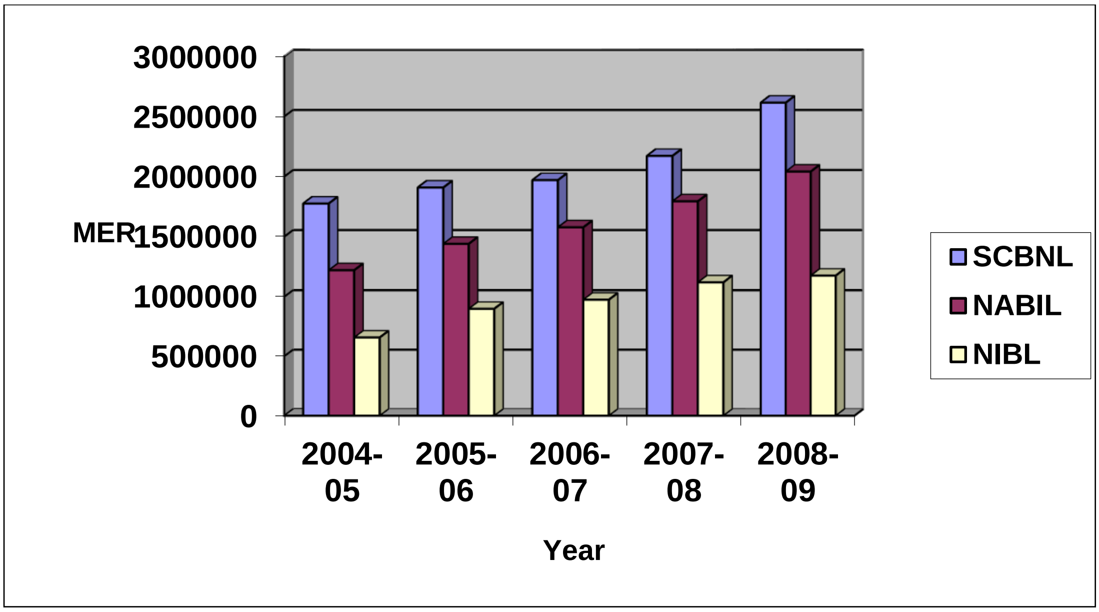


Figure 4.5 shows Bar diagram of Management Efficiency Ratio of SCBNL, NABIL and NIBL from year 2004-05 to 2008-09.

Table 4.6 and figure 4.5 reveal that SCBNL has highest management efficiency ratio than NABIL and NIBL. Nabil has highest management ratio than NIBL. This explain that SCBNL's per employee contribution to net profit is high it successful to manage its employee efficiently than other two banks.

4.1.3.2 Subjective Analysis of Management Quality

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

Table 4.7

Subjective Analysis of Management Quality

Basis of Rating	SCBL	NABIL	NIBL
Brand position	5	5	3
Location	4	5	5
Parking Space	4	5	5
Customer Service	4	4	4
Securities	5	5	5
Space for customer	4	4	4
Inquiry facility	3	4	5
Relation with customer	3	4	5

Table 4.7 shows the rating of Selected Bank as per the Customer Service. Table 4.7 reveals that Brand position of SCBNL and NABIL is stronger than that of NIBL. Location and parking of NABIL and NIBL is more appropriate than SCBNL. Customer service, space for customer and Security of all three banks are satisfactory. The inquiry facility and customer relation of NIBL is much better than that of SCBNL and NABIL.

4.1.4 Analysis of Earning

4.1.4.1 Analysis of Earning Per Share (EPS)

Table 4.8

Analysis of Earning Per Share (EPS)

Year	SCBL	NABIL	NIBL
2004-05	143.14	105.61	39.50
2005-06	175.84	129.21	59.35
2006-07	167.37	137.08	62.57
2007-08	131.92	108.31	57.87
2008-09	109.99	106.67	37.42
Average	145.65	117.37	51.34
S.D	23.87	13.15	10.65
C.V	16.39	11.20	20.70

Source: Annual report and Annex 4

The table 4.8 shows the Earning per share of SCBNL, NABIL and NIBL from year 2004-05 to 2008-09 and Average, Standard Deviation and Co-efficient of Variation of EPS of each CBs.

Figure 4.6

A Figure of Earning Per Share (EPS)

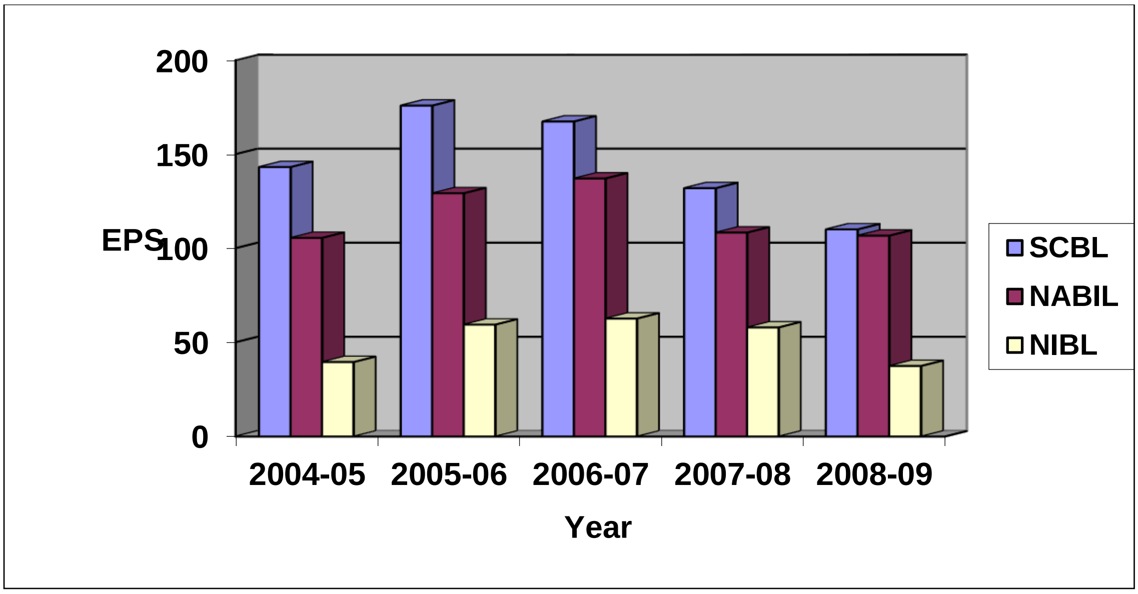


Figure 4.6 shows the Bar Diagram of Earning Per Share of SCBNL, NABIL and NIBL from year 2004-05 to 2008-09 is as follows:

Table 4.8 and figure 4.6 reveals that in each year SCBNL has the highest EPS than that of two other banks NABIL and NIBL. SCBNL has increase EPS in 2004-05 to 2005-06 and decrease in 2006-07 where as NABIL and NIBL has increased EPS from 2004-05 to 2006-07. In year 2007-08 all three CBs has decreased EPS.

In average EPS, SCBNL has highest of Rs 145.65 than that of NABIL Rs 117.37 and NIBL's Rs 51.34. The calculation of Co-efficient of Variation suggests that the EPS of NABIL is more constant than that of other two banks.

4.1.4.2 Analysis of Price Earning Ratio (P/E in %)

Table 4.9
Analysis of Price Earning Ratio (P/E in %)

Year	SCBNL	NABIL	NIBL
2004-05	16.38	14.27	20.25
2005-06	21.47	17.34	21.23
2006-07	35.25	36.84	27.63
2007-08	51.77	48.70	42.31
2008-09	54.64	45.89	37.10
Average	35.90	32.61	29.70
S.D	15.44	14.30	8.71
C.V	43.01	43.85	48.15

Source: Annual Report and Annex 5

The table 4.9 shows the Price Earning Ratio (P/E ratio) of SCBNL, NABIL and NIBL from year 2004-05 to 2008-09 and Average, Standard deviation and Co-efficient of variation of P/E ratio of each bank.

Figure 4.7

A figure of Price Earning Ratio

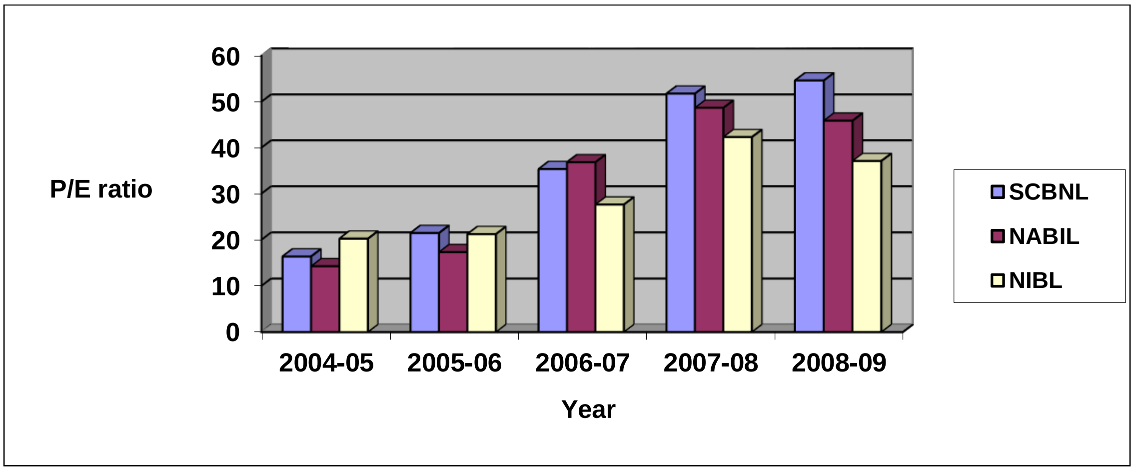


Figure 4.7 shows Bar Diagram of the P/E ratio of SCBNL, NABIL and NIBL. Table 4.9 and figure 4.7 reveals that in year 2004-05 NIBL has highest P/E ratio of 20.25 times than other two banks. In year 2004-05 P/E ratio of SCBNL decrease from 20.25 times to 16.38 times. So, NIBL lead as highest P/E ratio of 20.25 times. In year 2005-06 SCBL lead where NIBL is on second position and NABIL is on third position. In year 2006-07 NABIL has highest P/E ratio of 36.84 times where as in year 2007-08 and 2008-09 SCBNL has highest P/E ratio.

In average P/E ratio, SCBNL has the highest P/E ratio of 35.90 times where as NABIL and NIBL have 32.61 times and 29.70 time respectively. The calculation of co-efficient of Variation suggests that the P/E ratio of NIBL is more constant than that of two banks where as NABIL has fluctuating P/E ratio.

4.1.4.3 Analysis of Return on Assets (ROA in %)

Table 4.10

Analysis of Return on Assets (ROA in %)

Year	SCBNL	NABIL	NIBL
2004-05	2.46	3.06	1.42
2005-06	2.56	3.23	1.61
2006-07	2.42	2.72	1.79
2007-08	2.46	2.32	1.77
2008-09	2.53	2.55	1.68
Average	2.49	2.78	1.65
S.D	0.0514	0.3314	0.1337
C.V	2.06	11.92	8.10

Source: Annual Report and Annex 6

The table 4.10 shows Return on Assets of SCBNL, NABIL and NIBL from year 2004-05 to 2008-09 and average, standard deviation and coefficient of variation of ROA of each CBs.

Figure 4.8

A Figure of Return on Assets

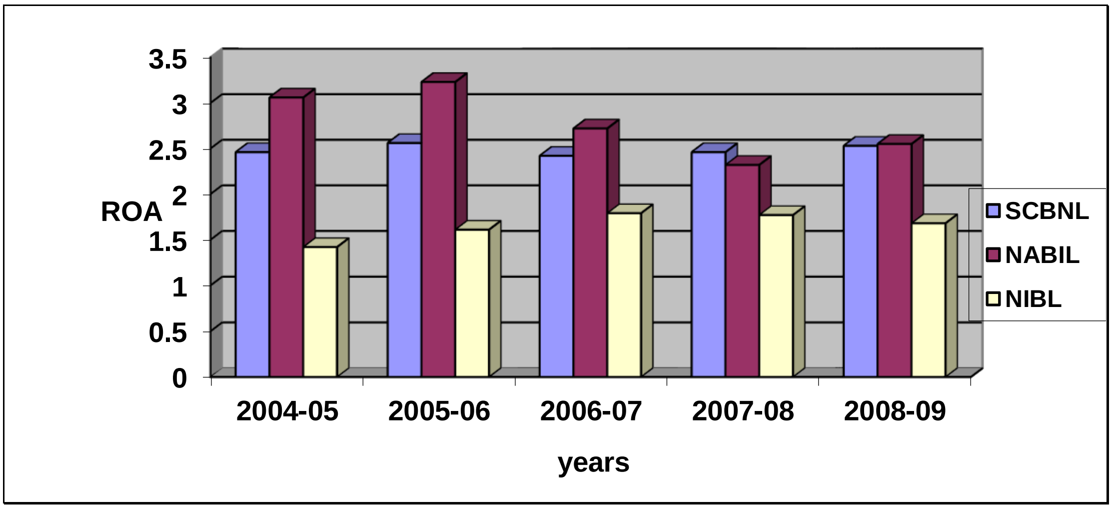


Figure 4.8 shows the bar diagram of Return on Assets. Table 4.10 and figure 4.8 reveals that ROA of NABIL is maximum than SCBNL and NIBL except in year 2007-08 in which SCBNL has highest ROA. Whereas NIBL has lowest ROA than two other banks. In average ROA, NABIL has the highest average ROA of 2.78 times where as SCBNL and NIBL has 2.49 times and 1.65 times respectively. The

calculation of coefficient of variation suggests that ROA of SCBL is more constant than that of two other banks whereas NIBL has fluctuating ROA.

4.1.5 Analysis of Liquidity

4.1.5.1 Analysis of Cash Reserve Ratio (CRR in %)

Table 4.11

Analysis of Cash Reserve Ratio (CRR in %)

Year	SCBL	NABIL	NIBL	NRB'S
2004-05	8.77	3.83	9.78	5
2005-06	6.86	3.26	13.61	5
2006-07	5.46	6	10.47	5
2007-08	5.84	8.37	10.91	5
2008-09	8.18	9.03	10.32	5.5
Average	7.02	6.10	11.02	
S.D	1.29	2.24	1.35	
C.V	18.38	36.72	12.25	

Source: Annual Report and Annex 7

Table 4.11 shows cash reserve ratio, NRB's standard CRR, average CRR, standard deviation and Co-efficient of variation of CRR of each bank.

Figure 4.9

A Figure of Cash Reserve Ratio

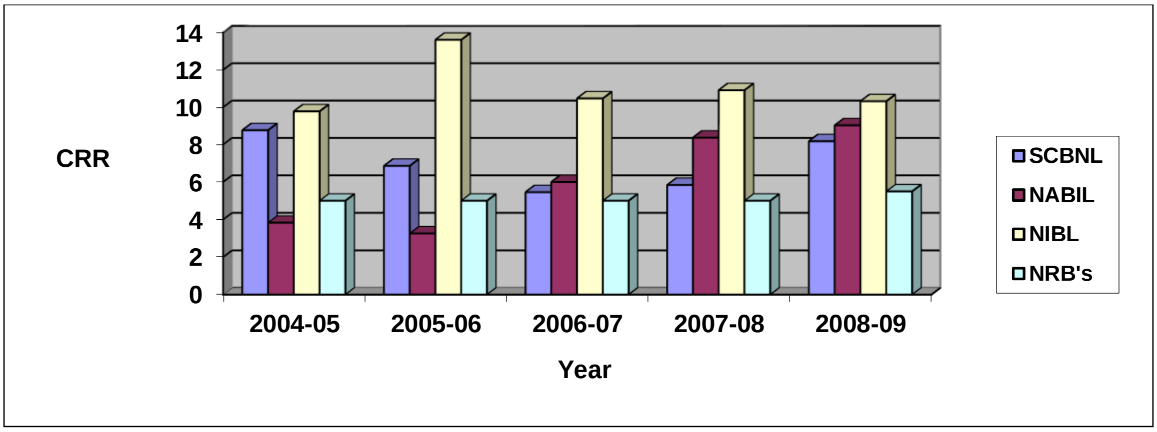


Figure 4.9 shows Bar Diagram of CRR of SCBNL, NABIL, NIBL and NRB's standard from year 2004-05 to 2008-09.

Table 4.11 and figure 4.9 reveals that SCBNL and NIBL has its CRR above the

NRB's standard from 2006-07 where as NABIL fail to meet NRB's regulation in year 2004-05 and 2005-06.

In average CRR, NIBL has the highest average CRR of 11.02% where as SCBNL and NABIL has 7.02% and 6.10% CRR respectively. The calculation of co-efficient of variation suggests that CRR of NIBL is more constant than that of other two banks where as NIBL has fluctuating CRR.

4.1.5.2 Analysis of Cash and Bank Balance Ratio (in %)

Table 4.12

Analysis of Cash and Bank Balance Ratio (in %)

Year	SCBNL	NABIL	NIBL
2004-05	5.75	3.83	9.40
2005-06	5.53	3.26	13.35
2006-07	8.20	6	9.97
2007-08	6.89	8.37	10.9
2008-09	8.75	9.03	16.96

Source: Annex 8

Table 4.12 shows cash and bank balance ratio of SCBNL, NABIL and NIBL from year 2004-05 to 2008-09.

Figure 4.10

A Figure of Cash and Bank Balance Ratio

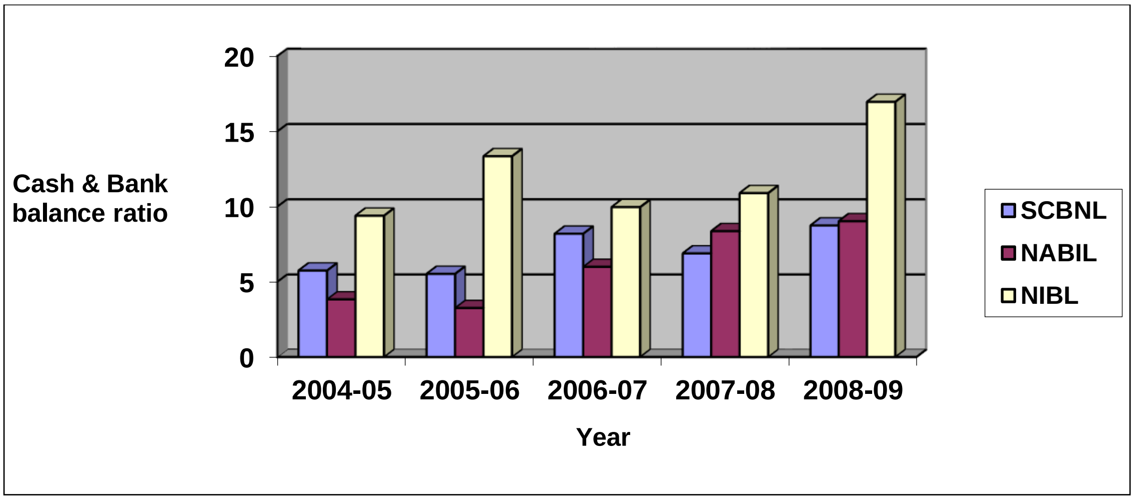


Figure 4.10 shows bar diagram of Cash and bank balance ratio of SCBNL, NABIL,

NIBL and NRB's standard from year 2004-05 to 2008-09.

Table 4.12 and figure 4.10 reveals that NIBL has highest cash and bank balance ratio than SCBNL and NABIL. It explains that NIBL has more liquidity in term of cash and bank balance and it make more balance out of its total deposit. In comparison SCBNL has highest balance than NABIL except in year 2007-08 and 2008-09 in this NABIL has highest.

4.1.5.3 Analysis of Investment in Government Securities Ratio (in %)

Table 4.13

Analysis of Investment in Government Securities Ratio (in %)

Year	SCBNL	NABIL	NIBL
2004-05	37.25	16.58	13.67
2005-06	37.45	11.40	13.23
2006-07	28.84	20.60	13.30
2007-08	27.36	14.56	9.16
2008-09	27.87	23.55	5.42

Source: Annex 9

Table 4.13 shows Investment in Government Securities ratio of SCBNL, NABIL and NIBL from year 2004-05 to 2008-09.

Figure 4.11

A Figure of Investment in Government Securities Ratio

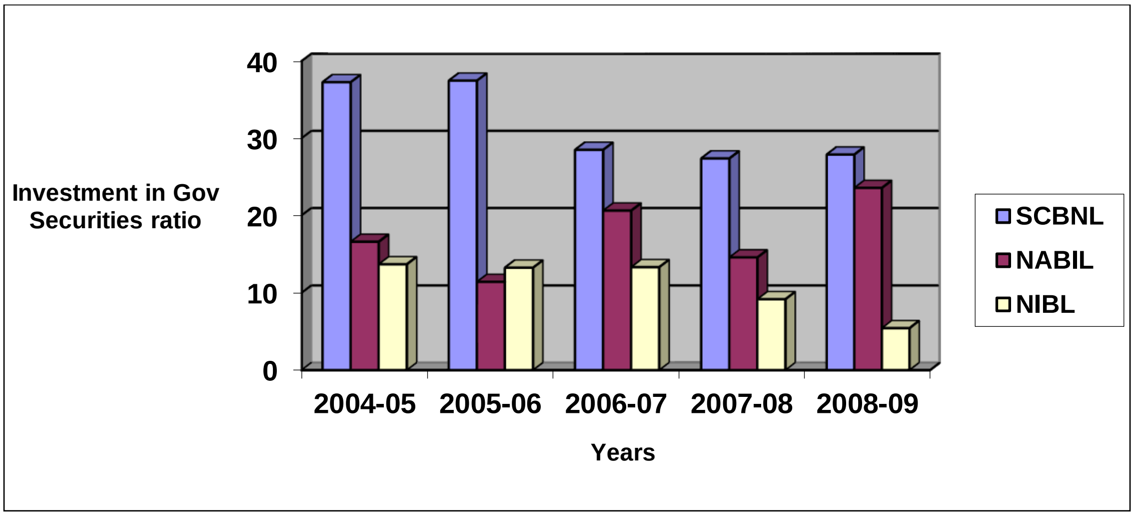


Figure 4.13 shows Investment in Government Securities ratio of SCBNL, NABIL, NIBL and NRB's standard from year 2004-05 to 2008-09.

From Table 4.13 and figure 4.11 reveals that SCBNL has highest investment in Government Securities ratio than NABIL and NIBL. It explains that SCBNL has invested more in Government securities out of its total Deposit than NABIL and NIBL.

4.2 Presentation and Analysis of Primary Data

Analysis of primary data is done in two part, first part is done by covering respond from the customers of selected commercial bank and second part is done by covering Customers, Commercial bank officers who where available with in banking hour at main branch of each CBs, under study, and individual academicians.

Part 1: Analysis Questioners Covering Customers Only

The sample of questionnaire is given under Annex 10

1. To which type of customer do you belong to?

Table 4.14

Types of customers

Bank / Option	SCBNL	NABIL	NIBL
A	28	32	35
B	12	9	7
C	20	19	18
Total	60	60	60

Table 4.14 shows NIBL has maximum actual customer where as SCBNL has minimum and in case of Non customer SCBNL has maximum non customer where as NIBL has least. NABIL lies in average.

From this can say that out of total number of customer asked the maximum number of customer are belong to option A i.e. Actual customer where as number of user are in second place and Non customer are in third place.

2. If you are actual customer i.e. having account at this bank, why you select this bank to open an account?

Table 4.15

Account Holders

Banks / Option	SCBNL		NABIL		NIBL	
	N	%	N	%	N	%
Marker Brand	20	71.43%	18	56.25%	11	31.43%
Minimum Balance	-	-	3	9.36%	12	34.29%
Location	4	14.29%	5	15.62%	6	17.14%
ATM facilities	2	7.14%	5	15.62%	5	14.29%
Other	2	7.14%	1	3.13%	1	2.86%
Total N	28	100%	32	100%	35	100%

Table 4.15 reveals that customer of SCBNL has opened account because of SCBNL's market brand where as customer of NIBL has opened account because of minimum balance. Location and ATM facilities of NABIL and NIBL is also another reason that customer of NABIL and NIBL has opened the account.

3. As a banks regular actual customer do you used to analyze financial performance of your bank?

Table 4.16

Customers used to analyze financial statements

Banks / Option	SCBNL		NABIL		NIBL	
	N	%	N	%	N	%
YES	18	64.29%	20	62.5%	16	45.7%
NO	10	35.71%	12	37.5%	19	52.29%
Total	28	100%	32	100%	35	100%

From above table 4.16 reveals that actual customer of SCBNL and NABIL used to analysis financial performance of their bank more than 50% where as NIBL's customer used to analysis less than 50%.

4. It is important to analyze financial performance, why don't you used to do so?

Table 4.17

Importance for analyzing financial performance

Option \ Banks	SCBNL		NABIL		NIBL	
	N	%	N	%	N	%
Deposit amount is low	-	-	1	8.33%	4	21%
No knowledge of analysis	1	10%	2	16.67%	3	15.79%
Have confident on bank	9	90%	9	75%	12	63.16%
Total N	10	100%	12	100%	19	100%

Table 4.17 reveals that among actual customer who does not used to analysis financial performance, more than 50% reason given by SCBNL, NIBL and NABIL's customer is that they are full confident on their bank so they think no important to analysis where as 21% of NIBL and 8.33% of NABIL think that the amount of deposit is not much so they does not give important to analysis.

Part 2: Analysis of Questionnaire covering Customers, staff and individual academicians.

The sample of questionnaire is given under Annex 11

Table 4.18

Respondents' Profile

S.N	Designation	Number
1	Staffs of the commercial banks	18
2	Interested Customers	9
3	Academicians	5
Total	Total	32

Table 4.18 shows the number of respondents. All together 32 respondents are analyzed in this part among them 18 were the staffs of commercial, 6 each from the

selected commercial banks. 9 were those customers who are interested in financial analysis of banks performance and 5 were those academicians who have knowledge about financial analysis of banks financial performance.

Table 4.19

Implementation of NRB directives and loan loss provision

S.N	Statement	Options		
		A	B	C
1	Are the commercial banks implementing the directives issued by NRB?	25	2	5
2	Who will be benefited most by maintaining capital adequacy requirement?	18	10	4
3	Is CAR set by NRB fit for regulation and supervision of commercial bank?	25	6	1
4	Whether loan and advance are reviewed on periodic basis?	20	8	4
5	Are you satisfied that with existing requirement for the loan and loan loss provision?	24	2	6
6	Are you agreeing that contributions per staff on profit are appropriate to analysis management quality?	22	7	3
7	Incremental EPS has positive impact on every stakeholder of the bank, to whom do you think the impact is more?	24	2	6
8	Does the increment in CRR from 5% to 5.5% have decrease lending capacity of banks?	26	4	2
9	NRB intend to increase interest rate on deposit by increasing CRR, Do bank increase their interest rate on deposit.	19	9	4

1st query, are the commercial banks implementing the directives issued by NRB; 25 respondent opinions that “yes” 2 respondents showed their, “No” and 5 respondents showed they don’t know. Most of the respondent agree with the commercial banks were implementing the NRB directives regularly and minority respondent don’t know about the NRB directives.

2nd query that who will be benefited most by maintaining capital adequacy requirement; 18 respondents agree that the depositors would be benefited by maintaining capital adequacy requirement. 10 respondents agree with the shareholder also be benefited and 4 respondent agreed that the others benefited, who are relating to the commercial banks.

3rd query that is capital adequacy requirement set by NRB fit for regulation and supervision of commercial bank; 25 respondent agreed that the it's all right to setting capital adequacy requirement by NRB fit for effective regulation and supervision of commercial bank and 6 respondent did not agree to setting capital adequacy requirement by NRB and 1 respondent didn't know about it.

4th query that whether loan and advance are reviewed on periodic basis; 20 respondents showed their opinion to review the loan & advances on periodic basis regularly, 8 respondent showed their opinion don't review the loan & advance on periodic basis, it is enough to loan and loan loss provision and 4 respondent shows don't know.

5th query that, are you satisfied that with existing requirement for the loan and loan loss provision; 24 respondents showed their opinion that the loan and loan loss provision of present ratio is adequate to commercial banks. More than 50% respondent satisfied that the NRB loan loss provision directives, only 2 respondents would not satisfied that the present provision in NRB and 6 respondents did not about the question.

6th query that, Are you agree that contribution per staff on profit are appropriate to analysis management quality; 22 respondents showed their opinion that contribution per staff on profit is appropriate to analysis management quality. 7 respondents would not satisfy that contribution per staff on profit is appropriate measure and 3 respondents did not know about the question.

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

8th query that, Does the incremental CRR from 5% to 5.5% have decrease lending capacity of bank; 26 respondents showed their opinion that the incremental CRR has decrease lending capacity of banks. 4 respondents showed their opinion that the incremental CRR has not decrease lending capacity of banks and 2 respondents did not know about Question.

9th query that, NRB intend to increase to increase interest rate on deposit by increasing CRR, Do bank increase their interest rate on deposit; 19 respondents showed their opinion that the bank will increase their interest rate due to increment on CRR. 9 respondents showed their opinion that the bank will not increase their interest rate and 4 did not know about question.

4.3 Major Finding of the Study

Major finding of the study are divided into two parts.

(a) Major finding of Secondary Data

(b) Major finding of Primary data

4.3.1 Major Finding of Secondary Data

The major finding in this study based on the result of comparative analysis of required data for CAMEL analysis which are taken from published annual report of each selected CBs for fiscal year 2004-05 to 2008-09. They are:

(1) Capital

I. From CAR analysis we found that all three CBs have CAR above NRB's regulation. SCBNL has the highest percent of Average CAR of 14.91% whereas NABIL has the lowest one of 11.72% and NIBL has 12.61%.the trend of CAR of NABIL is decreasing where as SCBNL and NIBL has fluctuating trend.

II. From CCR analysis we found that all the three CBs has CCR above the NRB's regulation i.e. 5.5% .SCBNL has found maintaining higher CCR, it is ranked 1st every time, NABIL ranked 2nd and NIBL ranked 3rd every time from 2004-05 to 2008-09. The trend of CCR of SCBNL is fluctuating. NABIL has decreasing trend whereas NIBL has decreasing trend in last four years but it has increasing trend in year 2008-09.

(2) Assets Quality

I. From NPL ratio analysis shows NPL ratio of all the three CBs is decreasing and at satisfactory level. SCBNL, NABIL and NIBL has decreased NPL ratio from 2.69% to 0.67%, 1.38% to 0.74% and 2.67% to 0.58% from year 2004-05 to 2008-09 respectively. On the basis of ranking NIBL is found more successful in maintaining NPL at minimum level of 0.58%.

II. From LLP ratio analysis shows that LLP ratio is decreased from 2004-05 to 2008-09 of all CBs. From relativity of NPL ratio to LLP ratio we found that all the three CBs maintain LLP enough to cover NPL.

(3) Management Quality

I. From analysis of management efficiency ratio shows that per employee contribution to net profit after tax of SCBNL is higher than that of NABIL and NIBL. Where as NABIL and NIBL stood 2^{nd} and 3^{rd} in management efficiency ratio.

II. From management quality subjective analysis shows that Brand position of SCBNL and NABIL is stronger than that of NIBL. Location and parking of NABIL and NIBL is more appropriate than SCBNL. Customer service, space for customer and Security of all three banks are satisfactory. The inquiry facility and customer relation of NIBL is much better than that of SCBNL and NABIL.

(4) Earning Capacity

I. From EPS analysis found that in each year SCBNL has the highest EPS than that of two other banks NABIL and NIBL. In average EPS, SCBNL has highest of Rs 145.65 than that of NABIL Rs 117.37 and NIBL’s Rs 51.34. EPS of SCBNL is more constant than that of other two banks where as EPS of NIBL is more fluctuating.

II. From analysis of P/E ratio shows that In average P/E ratio, SCBNL has the highest P/E ratio of 35.90 times where as NABIL and NIBL have 32.61 times and 29.70 time respectively. The P/E ratio of NIBL is more constant than that of two banks where as NABIL has fluctuating P/E ratio.

III. From Analysis of ROA shows that ROA of NABIL is highest than SCBNL and NIBL except in year 2007-08 in which SCBNL has highest. In average ROA, NABIL has the highest average ROA of 2.78 times where as SCBNL and NIBL has 2.49 times and 1.65 times respectively.

(5) Liquidity

I. From analysis of CRR shows that SCBNL and NIBL has its CRR above the NRB's standard where as NABIL fail to meet NRB's regulation in year 2004-05 and 2005-06 NIBL has the highest average CRR of 11.02% where as SCBNL and NABIL has 7.02% and 6.10% CRR respectively. CRR of NIBL is more constant than that of other two banks where as NABIL has fluctuating CRR.

Table 4.12 and figure 4.10 shows know that NIBL has highest cash and bank balance ratio than SCBNL and NABIL. It explains that NIBL has more liquidity in term of cash and bank balance and it make more balance out of its total deposit. In comparison SCBNL has highest balance than NABIL except in year 2007-08 and 2008-09 in this NABIL highest.

II. From analysis of Cash and Bank balance ratio we found that NIBL has highest cash and bank balance ratio than SCBNL and NABIL.

III. From analysis of Investment in government security ratio shows that SCBNL has highest investment in government securities than NABIL and NIBL.

4.3.2 Major Findings of Primary Data

Part 1 covers the primary data collected from customer of selected commercial banks only. From the analysis of primary data collected from customers only the researcher found that maximum customers visiting banks are actual customers. The main reason of selecting banks for opening account is market brand but in case of NIBL minimum balance is the reason. More than 50% of actual customer used to analysis financial performance of banks but in case of NIBL it is less than 50%. The reason given for not analysis of financial performance is that they have full confident on their banks.

Part 2 covers the primary data collected from customers, staff of banks and academicians. From analysis of primary data from them researcher found that maximum of respondent are agree on following opinion:

1) Commercial banks implements the directives issued by NRB
2) Depositors will be benefited most by maintaining CAR ratio.
3) CAR set by NRB fit for the regulation and supervision of the banks.
4) Banks reviews loan and advance in periodic basis regularly.
5) Loan and loan loss provision of present ratio is adequate to commercial banks.
6) Contribution per staff on profit is appropriate to analysis management quality.
7) Incremental earning per share has positive impact more on shareholders.
8) Incremental CRR from 5% to 5.5% have decrease lending capacity of commercial banks.
9) Commercial banks will increase interest on deposit as intended by NRB by increasing CRR.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter summarizes the overall study into three sections i.e. summary, conclusion, and some recommendations provided to the concerned government bodies, general investors and corporate sector for the systematic development of Nepalese corporate debt market. Before arriving to summary, conclusion and recommendations, the researcher has prepared plan, reviewed literatures and analyzed primary and secondary data using different statistical methods.

5.1 Summary

Financial sector has undergone a signified evolution in the past two decades. Commercial banking activities in Nepal started in 1973 with the establishment of Nepal Bank Ltd in the public sector. At present there are 26 commercial banks in operation and lots of new commercial banks are on the list to be come on operation.
In such a competitive environment it is necessary to analysis financial performance of commercial bank. So analysis of financial performance shows the strength and weakness of bank. Although there are a lot of tools available to analysis the financial performance the most used and appropriate tools is CAMEL- rating analysis it analysis all the aspects of banks such as capital, Assets, managements, Earning and liquidity and market risk also. Since 1970’s the use of CAMEL factors has become wide spread due to its application by regulators around the global and also because of its simplicity.

This study *“CAMEL Study On Financial Performance Of Standard Chartered Bank, Nabil Bank and Nepal Investment Bank”* is primarily prepaid for the partial fulfillment of the requirements of master of business studies (MBS).This study is mainly focused to analysis financial performance of selected commercial banks by CAMEL–rating .

Its specific objectives are:

5. To calculate the financial performances of SCBNL, NIBL and NABIL on the basis of CAMEL
6. To drag out problems, propose and advise to the related banks regarding different nooks and corner of management.
7. To find out the Non Performing Assets position of the bank
8. To analyze deposit utilization and relationship of deposit with other assets.
9. To suggest measures to improve the financial assessment of the bank

Most of the listed commercial banks are similar nature and taken to the sample similar nature banks all are providing same types of service to the customers. Information is collected during the period 2004/05 to 2008/09. The collected information is presented, analyzed and conclusion is drawn from the study.

Chapter one is concerned with the introduction of the whole study. It explained about the selected banks, concentration of the study objectives, statement and organization of the study, which provides guideline for entire study.

Chapter two is concerned with the review of study as well as the review of related previous studies, journals and article etc.

Chapter third is specifies the guidelines, tools and research design to achieve the objectives of the study. Mainly descriptive and analytical research methods are used for financial performance analysis by CAMEL-test.

Chapter four for the analysis of data some financial and statistical tools are used, Ratio analysis are the main financial tools used in this study mean ($\bar{x}$), Standard deviation (∂), Co-efficient of Variation (CV) as the main statistical tools in this study.

Data are collected through different sector and annual report of related banks. The primary data are generated through questioner survey of Customers and staff of selected commercial banks and also academies. All these work are presented in the 4th chapter.

5.2 Conclusion

Economical development plays the significant role for the countries overall development. In the Nepalese prospective since the establishment of financial institution have played progressive role for the economical development of the country. So far commercial banks have been proved as prime movers of the economical development in Nepalese scenario. But as a developing country Nepal need to strengthen its economical structure to achieve rapid overall development and Nepalese bank lack development due to the problems of fund mobilization and investment. Similarly Nepalese banks are still stuck to traditional approaches for the fund utilization and management. So they need to revitalize their role which requires encouraging environment to be innovative & diversify their business to their projected areas. Also the present condition of Nepalese market is not good due to various reason like unstable political situation, terrorist activities is being increased. In spite of such conditions and intense competition among existing financial institution, banks are performing their functions and providing services to their customers even though they are in risk.

Capital Adequacy ratio requirement is simply the ratio in which the loan and services are provides by bank either by the capital fund of bank or through deposit of its customers. The basic need for it is to secure the deposit of the customers. NRB has established CAR ratio of 11% for regulation of commercial bank. From the study, all banks selected for study has found to be have higher CAR than as stated by NRB. So, as the intention of CAR the depositors are seems to have safe feeling.

The efficiency of banks lies on how efficiently the banks mobilize and utilize its assets. If banks fail to mobilize assets effectively then it turns to non performing assets, eventually into bad debt which is completely loss to a bank. Even for non performing assets loan loss provision has to be made it also reduce profit of bank. So NPL has to be minimizing as possible. From the study, all bank selected for the study has found to be at minimum level and is decreasing. Decreased NPL leads to decrease loan loss provision.

Success of banks lies on it proper management of its all functions. Management quality can be seemed from its service that it provides to its customers, its employees performance on its duties. From the study, SCBNL's per employee contribution to net profit is high it successful to manage its employee efficiently than other two banks.

Earning is the main objective of bank to do all its function. Higher the earning higher the banks is rated as successful and efficient. It is not only important to bank but also equally important to share investors and depositors. From the study, SCBNL has the highest EPS and P/E Ratio than that of two other banks NABIL and NIBL. In year 2007-08 all three CBs has decreased EPS and also till 2008-09 as compare to 2007-08.

Although liquidity hinders the earning capacity of banks ,it has to be maintain as per the NRB's regulation.NRB has increased the Cash reserve ratio from 5% to 5.5% in fiscal year 2008-2009.the liquidity is mainly maintain to ensure depositors that their deposited amount is safe and will get when he demand. Maintaining liquidity is also equally important to bank because it will protect the goodwill of bank. From the study, SCBNL and NIBL have its CRR above the NRB's standard where as NABIL fail to meet NRB's regulation in year 2004-05 and 2005-06.

NRB as a bank of the banks is a regulating body of all the commercial banks. It established various standards such as CAR, CCR CRR for the protection of depositors and investors. From the study all selected banks found to maintain NRB's regulations, this make depositor and investor of selected banks safe and secure. Although depositor has to be aware of financial performance of their bank, from study maximum of them are not giving important to analysis financial performance of their banks. They are fully satisfied and have complete faith on their bank.

5.3 Recommendation

Base on the study that the following suggestions are recommended to improve the performance of selected banks.

Recommendation to Actual Customers

- Although it is good to have faith on their banks performance but it is better to self analysis of bank financial performance by studying their annual reports.
- Although customers may lack the knowledge of detail analysis of bank performance, it is better to analysis just CAR, NPL, LLP and CAR. Because this ratio is meant for depositors protection.

Recommendation for Selected Banks

After highlighting on the performance of these three commercial banks in Nepal, some recommendation and suggestions are given below:

<u>For Standard Chartered Bank Ltd</u>

- High capital ratio in excess to statutory requirement indicates bank's inability to invest its resources, possibly limiting its future earning. SCBNL should strive their best to invest their resources in productive sectors as their CAR is higher than requirement.
- EPS of SCBNL is in decreasing trend so it should perform its activities more efficiently to increase EPS in future.
- Investment in Government securities of SCBNL is very high, it is good for its depositor but it might loss opportunities to earn more interest than from that of government securities.

<u>For NABIL Bank Ltd</u>

- From the liquidity management perspective NABIL could incur liquidity risk in year 2004/05 & 2005/06 because its CRR was below 5%. So it must maintain its CRR as per NRB directive.
- NABIL Return on assets is more fluctuating, it is better to have increasing return on assets.

<u>For Nepal Investment Bank Ltd</u>

- NIBL should utilize its assets to the productive areas and improve its credit management to minimize its non performing loan.
- NIBL has lowest per employee contribution on profit, the reason is that it has maximum number of staff so it has to minimize its staff numbers as possible.
- NIBL has lowest Earning per share, the reason is that it has maximum number of share, so to increase EPS it has to distribute Cash dividend inspite of giving bonus share and not to issue right share.
- NIBL has lowest ROA, it explain that NIBL has not effectively utilize its Assets to increase profit, so NIBL must effectively utilized its assets.
- NIBL has maximum CRR, it is good for its depositor but it might loss opportunities to earn more interest than from that of government securities. So NIBL has to minimize CRR to increase profit.
- NIBL has more cash and bank balance than investment in government securities ,NIBL has to increase investment in government securities by decreasing cash and bank balance because government securities is risk free investment.

Finally it is universal truth that banks are the heart of financial system. Because of global integration and liberalization of the economy banking sector out of various sector of the economy is likely to face various challenges. So it is high time to Nepalese banks and financial institutions to strengthen their competitiveness by introducing innovative, value-added products along with plain vanilla products. Therefore, these banks are adapting new technologies which make them compete enough to race in global market. They have to follow the guidelines issued by NRB that controls their operations. Some other points to improve the performance of commercial banks:

- Increase deposit and investment in government securities
- Invest on deprived & priority sectors
- Liberal lending policy & sound credit allocation policy
- Loan recovery act

- Innovative approach to bank marketing
- Expansion of branches
- Focus on employee motivation, maintenance & utilization.

ANNEX

Annex 1

Capital Adequacy Requirement Ratio$= \dfrac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}} \times 100\%$

Core Capital Adequacy Requirement Ratio = $\dfrac{\text{Total Core Capital}}{\text{Total Risk Weighted Assets}} \times 100\%$

Total Capital Fund= Core Capital + Supplementary Capital

Calculation of Average CAR%

For SCBNL

Average CAR = $\dfrac{16.06 + 14.93 + 15.71 + 13.15 + 14.70}{5}$ = 14.91 %

For NABIL

Average CAR = $\dfrac{12.44 + 12.31 + 12.04 + 11.10 + 10.70}{5}$ = 11.72 %

For NIBL

Average CAR = $\dfrac{11.58 + 11.97 + 12.17 + 11.28 + 11.24}{5}$ = 12.61 %

Table 1.1; Core Capital of SCBNL, NABIL, and NIBL

Year	SCBNL	NABIL	NIBL
2004-05	1471727766	1610510308	1161477520
2005-06	1609420624	1830794417	1393273570
2006-07	1951117000	1992849715	1852197400
2007-08	2281331994	2363598989	3080786860
2008-09	2832761000	3044340637	4498491616

Table1.2 Supplementary Capital of SCBNL, NABIL, NIBL

Year	SCBNL	NABIL	NIBL
2004-05	214175837	155562222	417290910
2005-06	237344000	258529605	700926080
2006-07	274167000	314782680	999421610
2007-08	350519000	635131175	1232320570

2008-09	357606000	682742150	1215385000

Table1.3 Total Capital Fund of SCBNL, NABIL, NIBL

Year	SCBNL	NABIL	NIBL
2004-05	1685903603	1766072530	1578768430
2005-06	1846764624	2089324022	2094199650
2006-07	2225284000	2307632395	2851619010
2007-08	2631850994	2998730164	4313107430
2008-09	3190367000	3727082787	5713876616

Table 1.4; Total Risk Weighted Assets of SCBNL, NABIL and NIBL

Year	SCBNL	NABIL	NIBL
2004-05	10497531776	14193071630	13632906760
2005-06	12369488438	16976368425	17491787670
2006-07	14168420035	19166766033	23435634330
2007-08	20014076000	27010564315	38236768000
2008-09	21703164000	34816500849	45312265000

Table1.5; Capital adequacy Requirement Ratio **(%)** of SCBNL, NABIL, NIBL

Year	SCBNL	NABIL	NIBL
2004-05	16.06	12.44	11.58
2005-06	14.93	12.31`	11.97
2006-07	15.71	12.04	12.17
2007-08	13.15	11.10	11.28
2008-09	14.70	10.70	12.61

Annex 2

Calculation of loan loss provision ratio

Non Performing Loan Ratio = $\frac{\text{Non}-\text{Performing Loan}}{\text{Total Loan \& } Advances} \times 100\%$

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

Table 2.1: Loan Loss Provision of SCBNL

Year	2004-05	2005-06	2006-07	2007-08	2008-09
LLP	277661010	270862401	287511222	245386620	200946085

Total loan	8420868793	9206280211	10790148357	13963983752	13679756990
LLP%	3.30	2.94	2.66	1.76	1.47

Table 2.2: Loan Loss Provision of NABIL

Year	2004-05	2005-06	2006-07	2007-08	2008-09
LLP	360566575	356239106	357245035	394407016	409079030
Total loan	10946736577	13278782259	15903023765	21759460334	27999012071
LLP%	3.29	2.68	2.25	1.81	1.46

Table 2.3: Loan Loss Provision of NIBL

Year	2004-05	2005-06	2006-07	2007-08	2008-09
LLP	327108374	401943787	482672514	532652478	585950852
Total loan	10453163997	13178151824	17769099903	27529304736	36827157409
LLP%	3.13	3.05	2.72	1.93	1.59

Table 2.4; Non Performing Loan Loss of SCBNL, NABIL and NIBL

Year	SCBNL	NABIL	NIBL
2004-05	226308403	144506893	280874131
2005-06	195932315	182624480	272493041
2006-07	197017153	178293983	421971549
2007-08	128197820	161085995	309470983
2008-09	91041656	224817413	213907394

Table 2.5: Non Performing Loan Ratio **(%)** of SCBNL, NABIL and NIBL

Year	SCBNL	NABIL	NIBL
2004-05	2.69	1.32	2.67
2005-06	2.13	1.38	2.07
2006-07	1.83	1.12	2.37
2007-08	0.92	0.74	1.12
2008-09	0.67	0.80	0.58

Annex 3

Management Efficiency Ratio=$\frac{\textbf{Total Net Profit After Tax}}{\textbf{Total No.of Staffs}}$ $\times$**100%**

Table 3.1 Net Profit After Tax of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	536244885	658755881	691668064	818921008	1025114536
NABIL	520114085	635262349	673959698	746468394	1031053098
NIBL	232147098	350536413	501398852	696731516	900619072

Table 3.2 No. of Staffs of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	302	345	351	377	392
NABIL	426	441	427	416	505
NIBL	353	390	514	622	766

Table 3.3 Management Efficiency Ratio of SCBNL, NABIL and NIBL

Year	**SCBNL**	**NABIL**	**NIBL**
2004-05	1775645.32	1220925.08	657640.50
2005-06	1909437.34	1440504.19	898811.32
2006-07	1970564.29	1578359.95	975484.15
2007-08	2172204.27	1794395.18	1120147.13
2008-09	2615088.10	2041689.30	1175742.91

Annex 4

Earning Per Share = $\frac{\textbf{Net Profit After Tax}}{\textbf{Total No.of Share}}$

Table 4.1 Net Profit After Tax of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	536244885	658755881	691668064	818921008	1025114536
NABIL	518646226	635262349	673959698	746468394	1031053098
NIBL	232147098	350536413	501398852	696731516	900619072

Table 4.2 No. of Share Outstanding of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	3746404	3746404	4132548	6207840	9319664
NABIL	4916544	4916544	4916544	6892160	9657470
NIBL	5877385	5905860	8013526	12039154	24070689

Table 4.3 Earning Per share of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	143.14	175.84	167.37	131.92	109.99
NABIL	105.49	129.21	137.08	108.31	106.76
NIBL	39.50	59.35	62.57	57.87	37.42

Calculation of Average EPS

For SCBNL Average EPS = $\frac{143.14+175.84+167.37+131.92+109.99}{5}$ = 145.65

For NABIL Average EPS = $\frac{105.49+129.21+137.08+108.31+106.76}{5}$ = 117.37

For NIBL Average EPS = $\frac{39.50+59.35+62.57+57.87+37.42}{5}$ = 51.34

Calculation of standard Deviation (S.D)

S.D of SCBNL=

$$\sqrt{\frac{(143.14-145.65)^2+(175.84-145.65)^2+(167.37-145.65)^2+(131.92-145.65)^2+(109.99-145.65)^2}{5}} = \sqrt{\frac{2849.64}{5}} = 23.87$$

S.D of NABIL=

$$\sqrt{\frac{(105.49-117.37)^2+(129.21-117.37)^2+(137.08-117.37)^2+(108.31-117.37)^2+(106.76-117.37)^2}{5}}=\sqrt{\frac{864.45}{5}}=13.15$$

S.D of NIBL=

$$\sqrt{\frac{(39.50-51.34)^2+(59.35-51.34)^2+(62.57-51.34)^2+(57.87-51.34)^2+(37.42-51.34)^2}{5}}=\sqrt{\frac{566.87}{5}}=10.65$$

Calculation of CO-efficient of Variation

For SCBNL C.V= $\frac{23.87}{145.65}\times 100$ =16.39%

For NABIL C.V= $\frac{13.15}{117.37}\times 100$ =11.20%

For NIBL C.V= $\frac{10.65}{51.34}\times 100$ =20.70%

Table 4.4 Mean, Standard Deviation and Co-efficient of Variation

Banks	SCBNL	NABIL	NIBL
Mean	145.65	117.37	51.34
Standard Deviation	23.87	13.15	10.65
C.V	16.39	11.20	20.70

Annex 5

Price Earning Ratio = $\frac{\textbf{Market Price Per Share}}{\textbf{Earning Per Share}}$

Table 5.1 Market Price Per Share of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	2345	3775	5900	6830	6010
NABIL	1505	2240	5050	5275	4899
NIBL	800	1260	1729	2450	1388

Table 5.2 Earning Per share of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09

SCBNL	143.14	175.84	167.37	131.92	109.99
NABIL	105.49	129.21	137.08	108.31	106.76
NIBL	39.50	59.35	62.57	57.87	37.42

Table 5.3 Price Earning Ratio of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	16.38	21.47	35.25	51.77	54.64
NABIL	14.27	17.34	36.84	48.70	45.89
NIBL	20.25	21.23	27.63	42.31	37.10

Calculation of Average P/E ratio

For SCBNL Average P/E ratio $= \frac{16.38 + 21.47 + 35.25 + 51.77 + 54.64}{5} = \frac{179.51}{5}$

=35.90

For NABIL Average P/E ratio= $\frac{14.27 + 17.34 + 36.84 + 48.70 + 45.89}{5} = \frac{163.04}{5}$ =32.61

For NIBL Average P/E ratio= $\frac{20.25 + 21.23 + 27.63 + 42.31 + 37.10}{5} = \frac{148.52}{5}$ =29.70

Calculation of Standard deviation

S.D of SCBNL

$$\sqrt{\frac{(16.38-35.90)^2+(21.47-35.90)^2+(35.25-35.90)^2+(51.77-35.90)^2+(54.64-35.90)^2}{5}}$$

$= \sqrt{\frac{1192.72}{5}} = \sqrt{238.54}$ =15.44

S.D of NABIL

$$\sqrt{\frac{(14.27-32.61)^2+(17.34-32.61)^2+(36.84-32.61)^2+(48.70-32.61)^2+(45.89-32.61)^2}{5}}$$

$= \sqrt{\frac{1022.67}{5}} = \sqrt{204.53}$ =14.30

S.D of NIBL

$$\sqrt{\frac{(20.25-29.70)^2+(21.23-29.70)^2+(27.63-29.70)^2+(42.31-29.70)^2+(37.10-29.70)}{5}}^2$$

$= \sqrt{\frac{379.10}{5}} = \sqrt{75.82} = 8.71$

Calculation of C.V

For SCBNL= $\frac{15.44}{35.90} \times 100 = 43.01$

For NABIL= $\frac{14.30}{32.61} \times 100 = 43.85$

For NIBL= $\frac{14.30}{29.70} \times 100 = 48.15$

Table 5.4 Mean, Standard Deviation and Co-efficient of Variation

Banks	SCBNL	NABIL	NIBL
Mean	35.90	32.61	29.70
Standard Deviation	15.44	14.30	8.71
C.V	43.01	43.85	48.15

Annex 6

Calculation of Average ROA

Return on Assets= $\frac{\textbf{Net Profit After Tax}}{\textbf{Total Assets}} \times \mathbf{100}\%$

Profit after tax is calculated in Annex 4

Table 6.1 Total Assets of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	21893578211	25776332320	28596689451	33335788326	40587468009
NABIL	17064082093	22329971078	27253393008	37132759149	43867397504
NIBL	16063543148	21330137542	27590844761	38873306084	53010803126

Table 6.2 Return on Assets **(%)** of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	2.46	2.56	2.42	2.46	2.53
NABIL	3.06	3.23	2.72	2.32	2.55
NIBL	1.42	1.61	1.79	1.77	1.68

For SCBNL = $\frac{2.46 + 2.56 + 2.42 + 2.46 + 2.53}{5} = 2.49$

For NABIL= $\frac{3.06 + 3.23 + 2.72 + 2.32 + 2.55}{5}$ =2.78

For NIBL= $\frac{1.42 + 1.61 + 1.79 + 1.77 + 1.68}{5}$ =1.65

Calculation of S.D

S.D of SCBNL

$$\sqrt{\frac{(2.46 - 2.49)^2 + (2.56 - 2.49)^2 + (2.42 - 2.49)^2 + (2.46 - 2.49)^2 + (2.53 - 2.49)^2}{5}}$$

=0.0514

S.D of NABIL

$$\sqrt{\frac{(3.06 - 2.78)^2 + (3.23 - 2.78)^2 + (2.72 - 2.78)^2 + (2.32 + 2.78)^2 + (2.55 - 2.78)^2}{5}}$$

=0.3314

S.D of NIBL

$$\sqrt{\frac{(1.42 - 1.65)^2 + (1.61 - 1.65)^2 + (1.79 - 1.65)^2 + (1.77 - 1.65)^2 + (1.68 - 1.65)}{5}}^2$$

=0.1337

Calculation of C.V

For SCBNL= $\frac{0.0514}{2.49} \times 100$ =2.06

For NABIL= $\frac{0.3314}{2.78} \times 100$ =11.92

For NIBL= $\frac{0.1337}{1.65} \times 100$ =8.10

Table 6.3 Mean, Standard Deviation and Co-efficient of Variation

Banks	SCBNL	NABIL	NIBL
Mean	2.49	2.78	1.65
Standard Deviation	0.0514	0.1334	0.3317
C.V	2.06	11.92	8.10

Annex 7

Table 7.1 Cash Reserve Ratio **(%)** of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	8.77	6.86	5.46	5.84	8.18

NABIL	3.83	3.26	6	8.37	9.03
NIBL	9.78	13.61	10.47	10.91	10.32

Source; Annual Report's Financial key indicator Summary

Calculation of Average CRR

For SCBNL Average CRR = $\frac{8.77+6.86+5.46+5.84+8.18}{5}=\frac{35.11}{5}$ =7.02

For NABIL Average CRR= $\frac{3.83+3.26+6+8.37+9.03}{5}=\frac{30.49}{5}$ =6.10

For NIBL Average CRR= $\frac{9.78+13.61+10.47+10.91+10.32}{5}=\frac{55.09}{5}$ =11.02

Calculation of Standard deviation

S.D of SCBNL

$$\sqrt{\frac{(8.77-7.02)^2+(6.86-7.02)^2+(5.46-7.02)^2+(5.84-7.02)^2+(8.18-7.02)^2}{5}}$$

$$=\sqrt{\frac{8.2597}{5}}=\sqrt{1.65}=1.29$$

S.D of NABIL

$$\sqrt{\frac{(3.83-6.10)^2+(3.62-6.10)^2+(6-6.10)^2+(8.37-6.10)^2+(9.03-6.10)^2}{5}}=$$

$$\sqrt{\frac{25.05}{5}}=\sqrt{5.01}=2.24$$

S.D of NIBL

$$\sqrt{\frac{(9.78-11.02)^2+(13.61-11.02)^2+(10.47-11.02)^2+(10.91-11.02)^2+(10.32-11.02)}{5}}^2$$

$$=\sqrt{\frac{9.0526}{5}}=\sqrt{1.81}=1.35$$

Calculation of C.V

For SCBNL= $\frac{1.29}{7.02}\times 100$ =18.38

For NABIL= $\frac{2.24}{6.10}\times 100$ =36.72

For NIBL= $\frac{1.35}{11.02} \times 100 = 12.25$

Annex 8

Cash and Bank Balance Ratio = $\frac{\textbf{Cash and Bank Balance}}{\textbf{Total Deposit}} \times \mathbf{100\%}$

Table 8.1; Total Deposit of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	19335094726	23061032081	24647020755	29743998794	35871721127
NABIL	14586608707	19347399440	23342285327	31915047467	37348255840
NIBL	14254573663	18927305974	24488855696	34451726191	46698100065

Cash and Bank balance

For SCBNL

Balance	2004-05	2005-6	2006-07	2007-08	2008-09
Cash	195458711	279511285	378422542	414875467	463345996
With NRB	692191592	749740866	1613757788	1266273524	1851132637
other Bank	223466591	246989272	28840738	369094223	822684902
Total	1111116894	1276241423	2021021068	2050243214	3137163535

For NABIL

Balance	2004-05	2005-6	2006-07	2007-08	2008-09
Cash	146352555	237818512	270406987	511426584	674395434
With NRB	389705047	318358771	1113415436	1829470769	2648596348
other Bank	23323012	74061305	16003428	330243702	49520689
Total	559380614	630238588	1399825851	2671141055	3372512471

For NIBL

Balance	2004-05	2005-6	2006-07	2007-08	2008-09
Cash	374265663	562560620	763984320	1464482719	1833462494
With NRB	780243636	1526066660	1381351556	1820006035	4411133083
other Bank	185971546	247894116	296178324	470452814	1673408313
Total	1340480845	2336521396	2441514200	3754941568	7918003890

Table 8.2; Cash and Bank Balance Ratio **(%)** of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09

SCBNL	5.75	5.53	8.20	6.89	8.75
NABIL	3.83	3.26	6	8.37	9.03
NIBL	9.40	13.35	9.97	10.9	16.96

Annex 9

Investment in Govt. Securities Ratio = $\frac{\textbf{Total Investment Govt.Securities}}{\textbf{Total Deposit}} \times \mathbf{100}\%$

Investment in Government Securities

For SCBNL

Investment in	2004-05	2005-6	2006-07	2007-08	2008-09
Treasury bills	5089367847	7210500501	5995101329	7157731943	9050988434
Saving Bond	1982041000	1296536000	1046076000	917150000	917150000
Other band	223466591	246989272	28840738	369094223	30615124
Total	7203066250	128838939	66759974	62733235	9998753558

For NABIL

Investment in	2004-05	2005-6	2006-07	2007-08	2008-09
Treasury bills	664627668	1222468660	4085835004	37888386842	1838819440
Saving Bond	-	-	-	858496294	1867283222
Other band	1749311702	1078994678	722513499	-	-
Total	2393939370	2301463338	4808348502	4646883136	7948217402

For NIBL

Investment in	2004-05	2005-6	2006-07	2007-08	2008-09
Treasury bills	1948500000	2522300000	3256400000	3155000000	2531300000
Saving Bond	-	-	-	-	-
Other band	-	-	-	-	-
Total	1948500000	2522300000	3256400000	3155000000	2531300000

Table 9.1; Investment in Govt. Securities Ratio **(%)** of SCBNL, NABIL and NIBL

Banks	2004-05	2005-6	2006-07	2007-08	2008-09
SCBNL	37.25	35.45	28.84	27.36	27.87
NABIL	16.58	11.40	20.60	14.56	23.55
NIBL	13.67	13.23	13.30	10.9	5.42

Annex 10

<u>Part 1</u>

Sample Questionnaire

Please tick (√) an option which you favors most.

1) **Which type of customer do you belong to?**
    A. Actual Customer
    -who have contractual relationship with a bank by opening account.
    B. Non Customer
    -who come to bank and get any kind of service with paying certain charge.
    C. User
    -who come to bank as third party of the account holders.

2) **If you are actual customer i.e. having account at this bank, why you select this bank to open an account?**
    A. Market brand
    B. Minimum Balance
    C. Location
    D. ATM facilities
    E. Others

3) **As a banks regular actual customer do you used to analysis financial performance of your bank?**
    A. Yes
    B. No

4) **It is important to analysis financial performance, why don't you used to do so?**
    A. Deposited amount is low
    B. No knowledge of analysis
    C. Have confident on bank

Annex 11
<u>Part 2</u>

Sample Questionnaire

Please tick (√) an option which you favor most.

1) **Are the commercial banks implementing the directives issued by NRB?**
   (A) Yes (B) No (C) Don't know

2) **Who will be benefited most by maintaining capital adequacy requirement?**
   (A) Depositor (B) Shareholders (C) Don't know

3) **Is CAR set by NRB fit for regulation and supervision of commercial bank?**
   (A) Fit (B) unfit (C) Don't know

4) **Whether loan and advance are reviewed on periodic basis?**
   (A) Yes (B) No (C) Don't know

5) **Are you satisfied that with existing requirement for the loan and loan loss provision**?
   (A) Yes (B) No (C) Don't know

6) **Are you agree that contributions per staff on profit are appropriate to analysis management Quality?**
   (A) Yes (B) No (C) Don't know

7) **Incremental EPS has positive impact on every stakeholder of the bank, to whom do you think the impact is more?**
   (A) Shareholders (B) Depositors (C) Banks

8) Does the increment in CRR from 5% to 5.5% have decrease lending capacity of banks?

(A) Yes (B) No (C) Don’t know

9) NRB intend to increase interest rate on deposit by increasing CRR, Do bank increases their interest rate on deposit?

(A) Yes (B) No (C) Don’t know

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