

**EVALUATING THE PERFORMANCE OF COMMERCIAL BANKS IN
NEPAL: AN APPLICATION OF CAMEL RATING SYSTEM**

Submitted by:

Ganga Prasad Regmi

Shanker Dev Campus

Campus Roll No.: 2059/070

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RECOMMENDATION

This is to certify that the thesis

Submitted by:

GANGA PRASAD REGMI

Entitled:

**EVALUATING THE PERFORMANCE OF COMMERCIAL BANKS IN
NEPAL: AN APPLICATION OF CAMEL RATING SYSTEM**

*Has been prepared as approved by this Department in the prescribed format of the
Faculty of Management. This thesis is forwarded for examination.*

.....
Prof. Dr. Keshav Raj Joshi
(Thesis Supervisor)

.....
Asso . Prof. Dr. Sajeeb Kumar Shrestha
(Head, Research Department)

.....
Asso. Prof. Dr. Krishna Prasad Acharya
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By:

GANGA PRASAD REGMI

Entitled:

EVALUATING THE PERFORMANCE OF COMMERCIAL BANKS IN NEPAL: AN APPLICATION OF CAMEL RATING SYSTEM

*And found the thesis to be the original work of the student and written
According to the prescribed format. We recommend the thesis to be
Accepted as partial fulfillment of the requirement for the degree of*

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled "**EVALUATING THE PERFORMANCE OF COMMERCIAL BANKS IN NEPAL: AN APPLICATION OF CAMEL RATING SYSTEM**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of Prof. Dr. Keshav Raj Joshi of Shanker Dev Campus, T.U.

.....
Ganga Prasad Regmi

Shanker Dev Campus

Campus Roll No.: 2059/070

T.U. Regd. No.:7-1-48-131-2008

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ABBREVIATIONS

1 million	10,00,000	
CAMEL	Capital Asset Management Earning Liquidity	
CAR	Capital Adequacy Ratio	
CCR	Core Capital Ratio	
CDR	Credit Deposit Ratio	
CRR	Cash Reserve Ratio	
CV	Coefficient of Variation	
CVR	Cash at Vault Ratio	
EBL	Everest Bank Ltd.	
EPE	Earning Per Employee	
EPS	Earning Per Share	
SCB	Standard Chartered Bank.	
GON	Government of Nepal	
IGSR	Investment in Government Securities Ratio	-
LADR	Liquid Assets to Deposit Ratio	
LDR	Loan to Deposit Ratio	
LLCR	Loan Loss Coverage Ratio	
LLP	Loan Loss Provision	
LLPR	Loan Loss Provision Ratio	
MER	Management Efficiency Ratio	

NBL	Nepal Bank Ltd.
NEPSE	Nepal Stock Exchange Limited.
NIC Asia	NIC Asia Bank Ltd.
NPAs	Non-Performing Assets
NPLR	Non-Performing Loan Ratio
NRB	Nepal Rastra Bank
ROA	Return on Asset
ROE	Return on Equity
Rs.	Rupee
SD	Standard Deviation
Std. Deviation	Standard Deviation
TU	Tribhuvan University

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The banking sector plays a significant role in the overall development of the economy in all countries. Thus, it is said that the banking sector is the backbone of the country's economy. Commercial banks are one of the vital aspects of the banking sector, which deals in the process of analyzing the available resources in the needed sector. The bank collects deposits from individuals and institutional sectors and provides such amount to the needed individuals and institutions. It performs as intermediary between the needed people and institutions. The bank earns interest on lending funds and pays interest on cash borrowed and deposited. When opposed to deposits and borrowed funds, banks often charge a greater interest rate on loans; this interest rate differential is known as the banks' margin. The bank would abide by all current laws, rules, and Nepal Rastra Bank guidelines and circulars. The Nepal Rastra Bank oversees and controls all of the country's financial and banking establishments. In spite of the 2015 earthquake, Covid-19, the banking and financial industry has continued to expand in terms of capital, profitability, deposits, loans, and consumer accessibility. The Nepal Rastra Bank's merger policy has resulted in a decline in the number of banks and financial organizations. Since the banking industry is a major economic indicator, Nepal Rastra Bank is focused on the stability and quality of the banking industry. Stability and improvement in the banking sector are essential for the nation's economy.

1.2 Statement of the Problem

A nation's industrial growth and development, modernization of the agricultural sector, innovation in the IT industry, infrastructure development, and growth of both domestic and international trade all contribute to its economic development. In emerging countries, the role and significance of the banking industry and the monetary system cannot be overstated. In order to support the development of entrepreneurs and the creation of jobs in Nepal, banks and other financial institutions may play a significant role by lending money to productive sectors such as the rural and agricultural industries, hydropower projects, and industrial plants.

A robust and dynamic economy cannot flourish without a strong financial system. The way the banking industry performs is thought to be a mirror image of the economy. Both locally and globally, a bank's profitability and solvency have been closely scrutinized as key performance indicators. The CAMEL system is also used by bank regulators to assess a bank's performance through the application of several financial ratios.

By examining financial statements like the statement of financial position and statement of financial performance, financial ratio analysis is a quantitative way to learn about a company's liquidity, operational effectiveness, and profitability.

Examining the chosen banks' financial standing within the parameters of the CAMEL is the fundamental challenge of this study, which aims to address the following research questions:

- How do Nepal's commercial banks fare in terms of capital adequacy?
- How do Nepal's commercial banks fare in terms of asset quality and management effectiveness?
- What is the current state of Nepal's commercial banks' earnings and liquidity?

1.3 Objectives of the Study

The following are the study's aims.

- To determine the chosen commercial banks' capital adequacy ratio.
- to determine the commercial banks' current state of asset quality and management effectiveness.
- To ascertain the Nepali commercial banks' current state of earning and liquidity?

1.4 Rationale of the Study

The report covers many financial performance metrics and the banks' financial sustainability. The key contribution of the study is the identification and comparison of banks' financial health within the CAMEL framework. It gives prospective and current shareholders an accurate image of a bank's performance, which helps them decide what to invest in. For individuals who wish to carry out additional research in this area, it is beneficial. The study's primary goal is to be significant from a review standpoint for academics, research groups, and researchers in the future.

The following highlights the study's significance:

- This study will support future investigations in this area.
- Scholars, students, and investors will all find this study interesting.
- Policy makers, brokers, managers, and investors will all benefit from this study. The management and policy makers can establish and create appropriate business policies with the aid of this study.
- Those who have a connection to financial institutions, either directly or indirectly, will also benefit from this study.

1.5 Limitations of the Study

There are certain limitations to this study that were noted during the research process.

They are as follows:

- The secondary data included in this study includes annual reports from the corporations, the NEPSE website, and relevant books, magazines, and journals. Therefore, the validity and correctness of secondary data determine how reliable the study's conclusion is.
- Only the data from the first five fiscal years—FY 2018–19 through FY 2022–2023—were analyzed.
- This study only looks at four listed commercial banks due to time and resource constraints.
- For CAMEL analysis, only a few ratios are analyzed.
- Because banks are required to adhere to specific rules and regulations in order to publish their annual reports, they only release a limited amount of information in their report.

1.6 Chapter Plan

An overview that assists us in arranging information in an understandable manner is called a chapter plan. There are five chapters in this work.

Chapter I: Introduction

An overview of the study will be provided in this first chapter, which serves as an introduction. This chapter will provide a quick overview of the topic of the study. The study encompasses several aspects such as the overall context, problem objectives, study restrictions, review of relevant literature, and research methodologies.

Chapter II: Review of Literature

A critical component of any research project is the literature review. This chapter covers the conceptual review, research gap, and reviews of earlier publications (such as journal article reviews and prior thesis).

Chapter III: Research Methodology

This chapter includes the procedures, data analysis methods, and methodology used to carry out the investigation. Research design, demographic, sample, data sources, data collection techniques, and statistical tools are also covered in this chapter.

Chapter IV: Data Presentation and Analysis

With an emphasis on the CAMEL components, this chapter presents and analyses data gathered from various sources. Everest Bank Limited, Kumari Bank Ltd., NIC Asia Bank Ltd., and Sanima Bank Ltd.'s financial situation and financial performance analysis are centered upon the five CAMEL components: capital adequacy, assets quality, management quality, earning quality, and liquidity. Camel has been used to analyze the data that was gathered from the annual reports of the relevant banks.

Chapter V: Summary, Conclusion and Recommendations

Three parts of the study are covered in this chapter: the summary, the conclusion, and the suggestions. The study's findings are summed up in the first section, which also includes recommendations for further reading and a conclusion.

The study concludes with appendices and references.

CHAPTER II

LITERATURE REVIEW

2.1 Commercial Banks in Nepal

With the founding of Nepal Bank Limited, the country's banking sector was established. The first commercial bank in Nepal was founded in 1937 and was called Nepal Bank Limited. NBL assumed the job of the central bank by carrying out its operations when it was not in existence. In 1956 A.D., Nepal Rastriya Bank was founded as the nation's central bank. The NRB regulates and keeps an eye on all banks and other financial organizations. In 1966 A.D., Rastriya Banijya Bank was founded, becoming Nepal's second commercial bank. The NBL and RBB commercial banks' financial situations have a significant effect on the economy. Because of this, some banks continue to operate despite their unfavorable circumstances. Since the majority of Nepalese people work in agriculture, the growth of this industry is essential to the country's economy. Thus, in 1968 A.D., a distinct Agricultural Development Bank was founded. This is the pioneering organization in funding for agriculture. The 1980s witnessed a significant structural shift in financial sector laws, rules, and institutional developments with regard to the development of banking. HMG/N highlighted the private sector's contribution to financial sector investment. Beginning with the liberalization of interest rates in the early 1980s, the financial sector underwent further deregulation of interest rates, a lowering of entry barriers for foreign and domestic banks, a restructuring of public sector commercial banks, and a removal of central bank supervision over the management of their portfolios (Acharya et al., 2003). These regulations made it possible for foreigners to form joint ventures and work in the banking industry. Consequently, Nepal Arab Bank Ltd (formerly known as Nabil Bank Ltd) was established in 1984 as the country's third commercial bank and the country's first foreign joint venture bank.

Following that, in 1986 and 1987, respectively, two foreign joint venture banks were founded: Nepal Indosuez Bank Ltd. (now known as Nepal Investment Bank) and Nepal Grindlays Bank Ltd. (now known as Standard Chartered Bank Nepal Ltd.). Twenty-five commercial banks were founded after that. Following the merging of several banks, Nepal now has 20 commercial banks.

The Nepal Rastra Bank Act, 2058 states that a "financial institution" is any organization that was created in accordance with the laws in effect with the intention of lending money for industrial, agricultural, or any other economic purpose, or to take deposits from the public. The government of Nepal may also designate an organization as a financial institution by publishing a notice in the Nepal Gazette. Nepal's "A" class financial institutions are its commercial banks. A "commercial bank" is defined by Black's Law Dictionary as a financial institution that is permitted to accept demand and time deposits, provide trust services, issue letters of credit, rent time-deposit boxes, and offer other related services.

2.2 Bank Supervision

Commercial banks are currently introducing sophisticated and cutting-edge banking products in line with the current globalization and growing economic activity in the nation. As the banks fall behind the competition, the likelihood of losing money becomes important. Public depositors and bank stockholders may suffer in the event of a bank's insolvency, which also has an impact on the nation's banking system. To determine the bank's overall solvency status and to take prompt corrective action, when necessary, supervision is crucial. Typically, supervision serves as a pre-control mechanism. The Basel Committee on Banking Supervision's 1997 publication, Core Principles for Effective Banking Supervision, provides an implicit framework for the regulation and oversight of banks. The structure can be understood as consisting of four different yet complementary configurations:

- Institutional and legal frameworks for the creation and execution of governmental policies pertaining to the banking industry and the financial sector in general.
- Regulations pertaining to the creation of laws, rules, guidelines, prescriptions, or instructions that apply to banking organizations (such as capital requirements, accounting and disclosure standards, risk management guidelines, and entry requirements).
- Arrangements for supervision pertaining to the monitoring and enforcement of the banking regulations' applicability as well as their implementation.

- Safety net arrangements, such as deposit insurance plans or winding up procedures, offer a framework for managing liquidity and solvency issues that may impact specific banking institutions or the banking system as a whole as well as for sharing any financial losses.

2.3 Objectives of Banking Supervision

With the respect of the supervisory arrangements the core principles describe what could be termed a "cradle to grave" approach covering potential problem that may emerge in the future on account of the current risk profile of the banking institution, overall, supervisory risk assessment and early warning systems assist in:

- Systematical assessment of banking institution within a formalized framework both at a time of on-site examination and in between examinations through off-site monitoring.
- Identification of institutions and areas within institutions where problems exist or are likely to emerge.
- Prioritization of bank examinations for optimal allocation of supervisory resources and pre-examination planning.
- Initiation of warranted and timely action by the supervisor.

2.4 Process of the Bank Supervision

Following the global norm for supervision, the Nepal Rastra Bank inspects and oversees Nepal's commercial banks. Prior to the founding of Nepal Rastra Bank, His Majesty the Government of Nepal was responsible for oversight and inspection. The Nepal Rastra Bank has the right to oversee, inspect, or order an inspection of a bank at any time. In Nepal, there are essentially three kinds of supervisory systems:

1. Off-site Supervision
2. On Site Supervision
3. Special Supervision

2.5 CAMEL Rating System

A supervisory rating system called CAMEL was created in the United States of America to categorize banks based on their overall health. A management tool called CAMEL assesses the financial institutions' capital sufficiency, asset quality, management effectiveness, earning quality, and liquidity. It is a standardized process that enables the evaluation of banks' quality based on predetermined standards, yielding a useful grade.

The United States of America's financial institutions began using the Uniform Financial Institutions Rating System (UFIRS) in 1979. The approach, which reflects five assessment areas (capital, asset quality, management, earnings, and liquidity), gained recognition on a global scale under the acronym CAMEL. Subsequently, the US Federal Reserve suggested that it be applied globally. The Federal Reserve Bank of New York (1997) first described the CAMEL component as a rating methodology that evaluates five components to generate a composite rating of an institution's overall performance and condition.

The goal of the CAMEL grading system is to identify the operational, managerial, and financial aspects of a commercial bank's strengths and weaknesses. When it comes to examining the financial stability of one of the fundamental elements of the money market—commercial banks—the use of CAMEL has grown significantly. It is utilized by the Federal Reserve System, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) and is based on examiner evaluation of a banking institution under specific supervisory criteria. This system evaluates each banking institution that is subject to an on-site audit based on five crucial aspects of its performance and operations; these aspects are called component elements. These five factors—capital, asset quality, management, earnings, and liquidity—are thought to be indicators of the banking institution's operating soundness, regulatory compliance, and financial performance. A scale of 1 (best) to 5 (worst) is used to rate each component factor. Based on the CAMEL model, it concentrated on the required components of solvency, liquidity, and financial and operational health. On a scale of one to five, the CAMEL rating system is to be assessed in ascending order.

Although the NRB in Nepal oversees the assessment of the banks' financial standing, the process of grading the banks in line with CAMEL is still in its early stages. Numerous

private organizations grade banks and other financial institutions according to their own rating criteria. These rating agencies offered ratings for debentures, initial public offerings, second public offers, and loans that exceeded borrowing limits. One of the first privately owned rating agencies to be founded in Nepal to offer this kind of instrument rating is ICRA Nepal.

2.6 Components of CAMEL

2.6.1 Capital Adequacy

An indicator of a bank's financial health is capital adequacy, which specifically refers to the bank's capacity to absorb abnormal and operational losses. The NRB has periodically mandated that banks maintain a minimum capital pool based on risk-weighted assets. Currently, commercial banks must maintain capital in accordance with the NRB's "Capital Adequacy Framework, 2015."

Capital Adequacy Requirement as per NRB Directive

Regulatory Capital	As % to RWAs
Minimum Common Equity Tier 1 Ratio	4.5
Capital Conservation Buffer (Comprised of Common Equity)	2.5
Minimum Common Equity Tier 1 Ratio plus Capital Conservation Buffer	7.0
Minimum Tier 1 Capital Ratio (Excluding Capital Conservation Buffer)	6.0
Minimum Total Capital Ratio (MTC) (Excluding Capital Conservation)	8.5
Minimum Total Capital Ratio plus Capital Conservation Buffer	11.0

Thus, the Tier 1 Capital Ratio for commercial banks should be at least 6% and it should be 11% (including Tier 2 Capital). It was established to safeguard depositors' interests. The NRB may take regulatory action against any commercial bank that does not maintain the required minimum capital adequacy ratio.

2.6.1.1 Rating of Capital Component

- **A score of 1** denotes a high level of capital compared to the risk of the institution.
- **A score of 2** denotes a suitable level of capital in relation to the risk profile of the financial institution.
- **A score of 3** denotes a capital level that falls short of expectations and does not adequately support the institution's risk profile. Even if the institution's capital level is higher than the statutory and regulatory minimum standards, the grade nevertheless shows room for improvement.
- **A score of 4** denotes a capital deficiency. The institution's sustainability could be in jeopardy given its risk profile. It might be necessary to seek assistance from shareholders or other outside financial sources.
- **A score of 5** denotes a seriously low amount of capital, endangering the institution's capacity to continue operating. Shareholders or other external sources of funding must provide immediate support.

It is expected of a financial institution to maintain capital in proportion to the kind and degree of risks to the company, as well as the ability of the management group to identify, measure, monitor, and reduce these risks. Consideration should be given to the effects of credit, market, and other risks on the institution's financial stability when evaluating the adequacy of capital. The types and quantities of risk inherent in the institution's operations will determine how much capital needs to be maintained at levels above legally required minimums in order to appropriately reflect the possible detrimental effects that these risks may have on the institution's capital.

2.6.2 Assets Quality

One of the most important factors in assessing a bank's overall health is asset quality, which also directly affects a bank's financial performance. The institution's risk management system would have a major impact on the quality of assets, especially loans and investments. While investment assets are determined by their market worth, loan assets are determined by the realizable value of the collateral. The liquid assets that commercial banks keep include cash and bank balances, short-term investments, loans, advances, and so on. The quality of assets is determined by several regulations and the lending policies of banks. The credit administration program and the quality of the loan portfolio have the most effects on total asset quality.

Loans are the largest asset kind and have the most potential risk to the bank's capital account. Securities frequently make up a sizable amount of the assets and have recognizable risks. Other real estate, other assets, off-balance sheet things, and, to a lesser degree, cash and due from accounts, premises and fixed assets, are other items that have an impact on a thorough examination of asset quality.

The loan portfolio receives a large amount of the time, effort, and resources spent by management on their asset portfolio. Issues with this portfolio may hinder their capacity to effectively and financially oversee other divisions of the organization. Given their significant influence over all other aspects of bank operations, examiners must be thorough and focused on their examination of the many asset quality areas.

2.6.2.2 Rating the Assets Quality Factor

The definitions of the Asset Quality Rating are applied after a careful assessment of current and future hazards, as well as their mitigation. The following are the definitions for each rating:

- **A score of 1** denotes strong credit administration procedures and asset quality. The vulnerabilities that have been identified are not very serious, and the risk exposure is minimal when considering capital protection and management's skill level. In these kinds of institutions, supervisory concerns about asset quality are negligible.
- **A score of 2** denotes acceptable credit administration procedures and asset quality. A restricted amount of supervisory attention is necessary due to the

intensity and level of categories as well as other deficiencies. Exposure to risk is correlated with capital protection and managerial skill.

- **A score of 3** denotes a when credit administration procedures or asset quality are not up to par. Trends could be steady or point to a decline in the quality of the assets. More supervisory concern is necessary due to the type and severity of classified assets, other vulnerabilities, and dangers.
- **A score of 4** denotes poor asset quality or credit management procedures of financial institution. Significant risk and problem assets that are not well managed expose the FI to possible losses that, if unchecked, could jeopardize its sustainability.
- **A score of 5** denotes that the institution's viability is immediately threatened by severely poor credit management or asset quality policies.

2.8.2.3 Non-Performing Assets

As decided upon between the parties at the time of loan disbursement, loans and advances made by FIS must be repaid with either the principal or the interest of the amount borrowed within the allotted time. For commercial banks, the NRB's unified directions for the fiscal year 2080-81 include a number of provisions pertaining to loans, loan loss provisions, collateral, single collateral limits, single borrower limits, loan classification, and loan loss provisions.

Loans and advances are classified as performing or non-performing based on the principal and interest payback terms, considering the due date from the repayment time. Non-performing loans are typically defined as advances and loans that do not meet loan covenants or repayment terms. For non-performing loans, both a general and a specific loan loss provision should be made. For loan loss provisioning, banks now use the incurred loss model. The NRB intends to switch to an expected loss approach for its loan loss provisioning. Therefore, how NPAs are handled varies each nation. Nothing seems to apply consistently.

2.8.2.5 NRB Directives Related to Assets Quality

For the FY 2080-81, Nepal Rastra Bank's unified directive mandates that loans be categorized according to the age of the outstanding balance. Loans and advances should be categorized in accordance with the guidelines listed below.

Table 2.2

Classification of Loans and Advances as per NRB Directives

Classification	Category	Overdue Period	Loan Loss Provision
Performing Loan	Pass	Upto 1 Month	1%
	Watch lists	1 to 3 Months	5%
Non- Performing Loan	Sub-Standard	3 to 6 Months	25%
	Doubtful	6 Months to 12 Months	50%
	Loss	More Than 12 Months	100%

12.5 % loan loss provision should be provided for Reclassification/ Rescheduled of performing loan.

2.6.3 Management Quality

The greatest predictive measure of a commercial bank's state and a major factor in determining its capacity to identify and address financial stress is its management. Examiners are given objective indicators by the management component, not only subjective ones. The evaluation of management is not only reliant on the present financial state of the bank and will not be a means of the ratings of the other constituent parts. The board of directors' and management's capacity to recognize, quantify, track, and manage the risks associated with the bank's operations, guarantee its safe and sound functioning, and guarantee adherence to relevant laws and regulations is reflected in this component rating. Risks related to credit, interest rates, liquidity, transactions, compliance, reputation, strategy, and other risks should all be taken into consideration by management procedures. Consequently, the following characteristics of banks should exist for their efficient and effective management:

- Proper structure of the management.
- Qualitative Human Resources Management.
- Customer care department
- Use of modern Information technology

- Effective complaint handling system.
- Compliance with corporate governance as per National and International benchmarks.
- Adequate management of loan and advances
- Fair Decision-Making system
- Proper Communication system
- Working Atmosphere and management

It is a universal truth that an organization can succeed or fail based on its management. Therefore, every organization that wants to achieve great results for itself must take management seriously and recruit professionals to boost management effectiveness and efficiency.

2.6.3.3 Rating the management factor

- **A score of 1** denotes strong performance by the board of directors and management as well as strong risk management techniques in relation to the institution's size, complexity, and risk profile. Every major risk is under control. Both the board and management have proven to be capable of acting quickly and effectively to handle risks and challenges, both current and future.
- **A score of 2** denotes acceptable performance from the board, management, and risk management procedures in relation to the size, complexity, and risk profile of the organization. Although they are being addressed, minor flaws might exist but are not significant to the institution's safety and soundness. Major risks and issues are often efficiently recognized, quantified, tracked, and managed.
- **A score of 3** denotes subpar risk management procedures considering the nature of the institution's operations or management and board performance that needs to be improved. The institution's nature, size, or state may require more than the management or board of directors can offer. It's possible that issues and major hazards aren't properly recognized, quantified, tracked, or managed.
- **A score of 4** denotes poor risk management methods, poor board performance, and inadequate management. There are too many issues and risks involved. Issues and noteworthy hazards are not properly recognized, quantified, observed, or

managed, necessitating prompt action from the board and administration to maintain the stability of the organization. It might be essential to strengthen the board or replace the management.

- **A score of 5** denotes extremely poor risk management, board performance, and management. The board of directors and management have not proven they are capable of making necessary adjustments and putting in place suitable risk management procedures. Issues and noteworthy hazards are insufficiently recognized, assessed, observed, or managed, hence endangering the institution's sustained existence. It is imperative to either reinforce or replace the board of directors or management.

2.6.4 Earning Quality

A bank's ability to generate a sufficient return on its assets, which allows it to finance growth, maintain its competitiveness, and replace or expand capital, is essential to the bank's continuous existence. The degree to which an institution's management effectively handles its assets and liabilities determines the quality and trajectory of the institution's earnings. For the financial institution to promote asset growth, accumulate sufficient reserves, and increase shareholder value, it must make a healthy profit. A strong earnings record would encourage the confidence of creditors, investors, depositors, and the general public. An examination of the bank's earnings enables management, shareholders, and depositors to assess the institution's overall performance, predict future growth, and assess the sustainability of the earnings. As a result, the bank's earning potential has been evaluated by analyzing the following ratios.

2.8.4.1 Evaluation of Earning Performance

The following list of crucial ratios is analyzed in the earnings quality analysis:

- Earnings Per Share (EPS) Ratio
- Return on Assets (ROA) Ratio
- Return on Equity (ROE) Ratio

2.6.4.2 Rating the Earnings Factor

- **A score of 1** denotes strong earnings that are more than sufficient to support operations and maintain acceptable capital and allowance levels. When consideration is given to asset quality, growth, and other aspects affecting the quality, quantity, and trend of profits.
- **A score of 2** denotes essentially stagnant or even slightly declining earnings as long as the institution's earnings level is sufficient when considering the previously mentioned assessment parameters. After considering asset quality, growth, and other factors affecting the quality, quantity, and trend of earnings, a grade of two denotes satisfactory earnings that are sufficient to fund operations and maintain adequate capital and allowance levels.
- **A score of 3** denotes when profits might need to be improved. In light of the institution's overall health, growth, and other factors influencing the quality, quantity, and trend of profits, earnings may not be sufficient to fund operations and allow for the accretion of capital and allowance levels.
- **A score of 4** denotes inadequate earnings. Profits are not high enough to sustain operations and keep capital and allowance levels reasonable. Institutions that receive this rating may exhibit anomalous swings in net income or net interest margin, the emergence of noteworthy negative patterns, nominal or unsustainable earnings, sporadic losses, or a notable decline in earnings relative to prior years.
- **A score of 5** denotes seriously inadequate earnings. A Financial Institution with an earnings rating of five is losing money at a rate that clearly puts its viability at risk due to capital erosion.

2.6.5 Liquidity

The power of the banks to demand payment from customers and other creditors is known as liquidity. Demands could be made for bank commitments and deposits. In the financial industry, it is a very delicate factor. Every financial institution in the world places a sizeable portion of its total deposit on government securities held by their various central banks in order to ensure that the banks would have enough liquidity in the event that there are large, unexpected withdrawals.

Because government securities have no risk and are just as good as liquid assets, banks are strongly urged to invest in them. Banks manage liquidity in a number of ways, including having available cash on hand, depositing a set amount at the central bank (NRB) per legal requirement, placing money in other banks, and investing a portion in government securities.

The ability of a bank to fulfil short-term obligations is assessed using liquidity ratios. It is the evaluation of the short-term resources available to fulfil short-term obligations. The level of present and future sources of liquidity in relation to financing demands, as well as the suitability of funds management procedures in light of the institution's size, complexity, and risk profile, should all be taken into account when assessing how adequate a financial institution's liquidity position is. Funds' management procedures should, in general, guarantee that an institution can keep up a level of liquidity high enough to satisfy its legal banking needs in the community as well as its financial commitments on time.

A rating of liquidity is determined by evaluating the following elements, among others:

- The ability of the institution to meet liquidity needs without negatively impacting its operations or condition, as well as the sufficiency of liquidity sources in relation to existing and future needs.
- The degree of financial source diversification, both off and on the balance sheet.
- The extent to which longer-term assets are financed by short-term, erratic sources of funding, such as loans and brokered deposits.
- The ability of management to accurately determine, quantify, track, and oversee the liquidity position of the organization, as well as its management information systems and backup finance arrangements.

Liquidity can be measured in following ways:

1. Cash Reserve Ratio (CRR)
2. Cash & Bank Balance Ratio
3. Statutory Liquidity Ratio (SLR)

2.6.5.1 Rating the Liquidity Factor

- **A score of 1** denotes strong liquidity levels and sophisticated money management procedures. The organization can consistently rely on enough funding sources with favorable conditions to cover its projected and actual liquidity needs.
- **A score of 2** denotes adequate funds management procedures and liquidity levels. The organization can obtain enough capital on reasonable terms from a variety of sources to cover its expected and actual liquidity needs. Practices for managing funds may include some minor flaws.
- **A score of 3** denotes inadequate finances management procedures or liquidity levels. Institutions with a rating of three might not have easy access to money on fair conditions or might have serious flaws in their money management procedures.
- **A score of 4** denotes insufficient financial management procedures or low levels of liquidity. It's possible that institutions with a rating of 4 lack the resources or are unable to acquire enough money on acceptable terms to meet their liquidity demands.
- **A score of 5** means that the institution's capacity to remain solvent is in jeopardy due to extremely low liquidity levels or inadequate money management procedures. Institutions with a rating of five need emergency outside funding to cover maturing debt or other liquidity requirements.

2.6.5.2 NRB Directives Related to Liquidity

According to the most recent unified directive for the fiscal year 2080–2081 banks must keep liquidity in order to meet the requirements for both the mandatory reserve ratio and the statutory liquidity ratio.

2.6.5.2.1 Compulsory Reserve in Nepal Rastra Bank

The BFIs are required to maintain a compulsory cash reserve ratio of three percent. The compulsory reserve will be calculated to the weekly average deposits of immediately preceding two weeks. If a week has all holidays, the average deposit from the week before will be considered. The weekly average of all deposits, liabilities, and balances kept with the bank will be calculated for the purpose of calculating compulsory reserve

by adding together all daily balances from Sunday through Saturday and dividing that total by seven. In doing so, the amount from the day before will be considered if there are any holidays in the week.

2.6.5.2.2 Statutory Reserve in Nepal Rastra Bank

Every bank must keep statutory reserves in the form of cash reserve ratios, cash vaults, and government-approved securities prior to extending credit to clients. The statutory liquidity ratio will be computed using the domestic deposit liability that was in place at the end of the previous month. The statutory liquidity ratio for commercial banks must remain at 10%. Any bank that disregards the instructions' requirements for maintaining CRR and SLR would be fined.

2.9 Review of Articles

Both domestically and globally, a great deal of emphasis has been focused on banks' performance, or more specifically, their solvency or insolvency. Various studies have been conducted at different times by researchers, educators, and policy makers to assess the financial performance of the banking sector. The financial performance of banks and other financial institutions across different nations is the subject of numerous studies that employ statistical techniques like Data Envelopment Analysis (DEA), Ratio Analysis, and the Stochastic Frontier Approach (SFA) to evaluate, compare, and rank the results.

Beaver (1966) was the first to predict bankruptcy using financial ratios. His research was restricted to examining a single ratio at a time. This was altered by Altman (1968) through the use of multiple discriminant analysis (MDA). His research created a single prediction model by combining data from multiple financial ratios. This multiple discriminant analysis produced Altman's z-score model, which has been widely used for many years due to its high accuracy and ease of use. However, there were criticisms of the MDA paradigm.

Financial ratios are frequently used to assess a bank's overall financial stability as well as the caliber of its management. For instance, as part of the CAMEL system, bank regulators assess a bank's performance using financial ratios (YUE, 1992). Opponents of ratio analysis continue to flourish even while regulators continue to utilise it to evaluate banks' performance. The use of financial ratios is relatively restricted; that is, basic

analyses are one-dimensional representations of a process, product, or service that do not take into account trade-offs, substitutes, or interactions between important variables (Siems and Barr, 1998).

Using a variety of criteria, studies by Saveeta and Verma (2001), Shravan Singh (2001), Kantawala S (2004), and Kusum et al. (2004) examine the profitability of banks' operations.

Sangmi and Nazi (2010) assessed the financial performance of two of the largest nationalized banks in northern India—Punjab National Bank, or PNB—and the largest private sector bank—Jammu and Kashmir Bank, or JKB. These two banks were chosen due to their significant influence on the economic landscape of northern India, particularly in regard to advances, deposits, employment of labour, branch network, and other factors. The primary source of secondary data for the study was the annual reports of the individual banks. Additionally, the data utilized spans five fiscal years, from 2001 to 2005. The findings demonstrated that the banks in question are in a healthy and satisfactory condition in terms of their capital adequacy, asset quality management capacity, and liquidity is implemented

In "Evaluation & Comparison of the Financial Position of the Sample Banks using CAMEL Rating System," NIC Asia Bank has been outperforming Siddharth Bank, Kumari Bank, Machhapuchhre Bank, and Laxmi Bank, according to Shrestha, S. (2010). He came to the conclusion that the NIC Asia bank performed better in terms of CAR, CCR, ROE, and EPS.

In his study "CAMEL Analysis of Commercial Banks (with reference to Everest Bank, Bank of Kathmandu & NIC Bank)," Rai, E. (2010) found that NIC Asia Bank and Everest Bank perform better than Bank of Kathmandu Limited, and that Everest Bank has a lower overall NPAs ratio.

Olweny and Shipo (2011) discovered that the two main reasons why banks fail are insufficient levels of liquidity and poor asset quality. In Kenya in the early 1980s, a number of bank failures were caused by poor asset quality.

Alabede (2012) came to the conclusion that the only factors that significantly affect the performance of Nigerian banks in the presence of the effects of the global financial

condition are market concentrations and asset quality. Financial ratios analysis, benchmarking, budgetary performance measurement, or a combination of these techniques have all been used to analyze the study's recommended reduction of nonperforming assets and implementation of a policy to promote fair competition inside the bank.

Comparative comparison of Indian commercial banks' financial performance was examined by Makkar (2013). The study found that, generally speaking, there is no statistically significant difference between the financial performance of public and private sector banks in India; however, public sector banks still need to improve overall if they are to maintain a strong competitive position. Misra (2013) evaluated the State Bank Group's performance and financial soundness using the CAMEL technique and came to the conclusion that it needed to strengthen its position with regard to capital adequacy and asset quality.

A study titled "Analysis of Financial Performance of Commercial Banks of Nepal Using CAMEL Approach" was conducted by Kandel (2019). Analysing commercial banks' capital sufficiency, asset quality, management calibre, earning capacity, and liquidity situation is the study's main goal. The ROA has been assessed using the CAMEL model. Financial ratios using secondary data and the CAMEL technique were used. The survey encompassed 63 publicly listed ASEAN banks as its population. Regression analysis and correlation have been used to examine the data. The analysis discovered that the primary determinants of both ROA and ROE are obtaining excellent earnings and sufficient capital. The moderating influence of asset quality and liquidity on bank performance is also observed. However, ROA was mostly unaffected by management effectiveness.

According to Hewaidy, Elshamy, and Kayed's (2020) report, conventional banks outperformed Islamic banks in terms of performance. The research findings are thought to be important for helping policymakers and other shareholders make better decisions. Ping and Kusairi (2020) came to the conclusion that, in order to improve bank performance oversight, the banking industry should concentrate more on CAMEL components.

A study on the "Impact of Bank Specific Variables on Financial Performance of Private Sector Banks in India" was conducted in 2022 by Solanki and Aggarwal. The study's goal

is to evaluate how private sector banks are impacted by elements unique to each banks. Multiple regression analysis was used in this investigation. In this study, ROA was considered the dependent variable. Capital sufficiency, cost control, liquidity risk, solvency, credit risk, growth rate, and efficiency were the independent factors. Over a 12-year span (2008–09 to 2019–20), secondary data was gathered from the financial statements of particular institutions. The study discovered that liquidity risk and expense management have an adverse effect, solvency has a positive effect, and capital adequacy has a positive impact on the financial performance of selected private sector banks in India.

Afroj (2022) conducted a study titled "A CAMEL Framework Analysis of the Financial Strength of the Banking Sector in Bangladesh." The analysis assessed 35 banks' strength between 2010 and 2015. Bank financial strength has been determined using the Additive Value Function with CAMEL rating (capital strength, asset quality, management efficiency, earning ability, liquidity). Regression analysis has been applied to the data. The analysis found that Bangladesh's Islamic banks generate better liquidity and are stronger financially. Comparing private banks to CAMEL metrics, the former has stronger finances.

Table 2.1: Summary of Literature Review

S. No.	Author	Title	Methodology	Objective	Results
1	Sangmi and Nazi (2010)	Evaluation the financial performance of two top major banks in the northern India.	Descriptive	To evaluate the financial performance of two top major banks in the northern India.	The results highlighted that the position of the banks under study is sound and satisfactory as far as their capital adequacy, asset quality management capability and liquidity is implicated.
2	Shrestha (2010)	Evaluation & Comparison of		To evaluate and compare the	NIC Asia Bank has been performing

		the Financial Position of the Sample Banks using CAMEL Rating System		financial position of sample banks using CAMEL approach	above the other sample banks; Siddharth Bank, Kumari Bank, Machhapuchhre Bank & Laxmi Bank. He concluded that NIC Asia bank has better performance in terms of CAR, CCR, ROE, EPS.
3	Rai (2010)	CAMEL Analysis of Commercial Banks (with reference to Everest Bank, Bank of Kathmandu & NIC Bank)		CAMEL analysis of Commercial Banks	Everest Bank has lower overall NPAs ratio and concluded that Everest Bank and NIC Asia Bank has better performance as compared to Bank of Kathmandu Limited.
4	Olweny and Shipo (2011)	Financial performance of commercial banks in Kenya		Applicability of CAMEL and its consequential impact on the performance of SBI Groups.	Poor asset quality and low levels of liquidity are the two major causes of bank failures.
5	Alabede (2012)	Determinants of the Nigerian banks' performance.		To identify the determinants of the Nigerian banks' performance.	The presence of the effect of global financial condition, only assets quality and market concentrations are significant determinants of the Nigerian banks'

					performance. The study suggested reducing nonperforming assets and introducing a policy to encourage fair competition among the bank has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies.
6	Makkar (2013)	comparative analysis of the financial performance of Indian commercial banks.		To analyze the financial performance of Indian commercial banks.	The study concluded that on an average, there is no statistically significant difference in the financial performance of the public and private sector banks in India, but still, there is a need for overall improvement in the public sector banks to make their position strong in the competitive market.

7	Mishra et.al (2013)	Analysis of the soundness and the efficiency of 12 public and private sector banks based on market capitalization.		To analyze the soundness and the efficiency of 12 public and private sector banks based on market capitalization.	Private sector banks are at the top of the list, with their performances in terms of soundness being the best.
8	Kandel (2019)	Analysis of Financial Performance of Commercial Banks of Nepal Using CAMEL Approach		To analyze the capital adequacy, assets quality, management quality, earning capability and liquidity position of commercial banks.	The study found that earning quality and adequate capital are the key factors determining both ROA and ROE. Asset quality and liquidity also have a moderating effect on bank performance. But the management efficiency had little effect on ROA.
9	Hewaidy, Elshamy and Kayed (2020)	Performance of Islamic banks using CAMEL approach.		To analyze the capital adequacy, assets quality, management quality, earning capability and liquidity position of commercial banks.	Conventional banks performed better than Islamic banks and research findings are assumed to be significant for policymakers and other shareholders to make better decisions.
10	Solanki and Aggarwal (2022)	Impact of Bank Specific Variables on Financial Performance of		To assess the effect of bank-specific variables on private sector banks.	The study discovered that liquidity risk and expense management have

		Private Sector Banks in India			an adverse effect, solvency has a positive effect, and capital adequacy has a positive impact on the financial performance of selected private sector banks in India.
11	Afroj (2022)	Financial Strength of Banking Sector in Bangladesh: A CAMEL Framework Analysis		To evaluate the strength over the years 2010–2015 on 35 banks.	The study discovered that the Islamic banks of Bangladesh are financially stronger and outperform higher liquidity. Private banks have more financial strength when measuring CAMEL parameters.

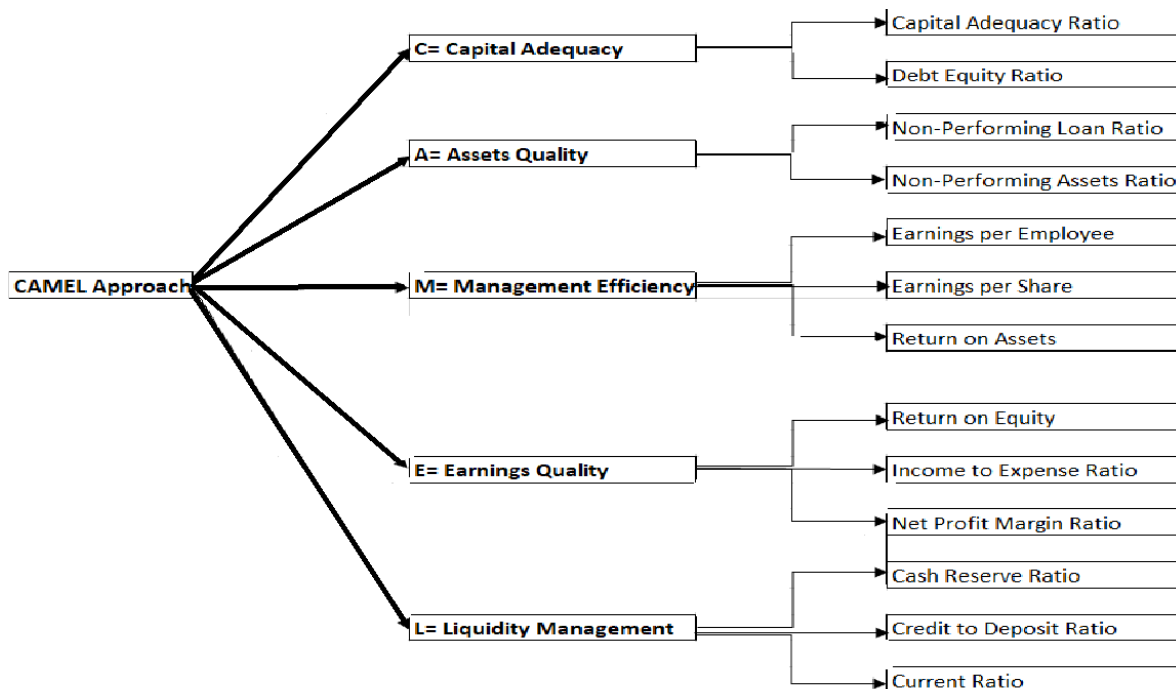
2.10 Research Gap

Prior to this, several thesis works have been conducted by various researchers regarding different aspects of commercial banks like financial performance and capital structure. Investment policy, interest rate structure, and resources mobilization. The excerpts from the findings of some of these research works are presented above which are relevant for this study.

The focus of the study conducted in Nepal was primarily on the commercial banks' leverage, profitability, and liquidity. These studies utilise typical financial performance analysis, although they lack micro-level evaluations. Relative to the banking environment in Nepal, there aren't many scholarly studies inside the CAMEL framework.

There are, nevertheless, some differences between the current study and the earlier research that was done. Some studies have conducted general comparisons, although these comparisons have only looked at the two banks. Using annual data from five consecutive years, this study attempts to assess the financial performance of four commercial banks within the framework of CAMEL.

2.11 Conceptual Framework



Source: Beaver (1966), Barr and Siems (1993), Saveeta and Verma (2001), Shrestha (2010) and Kandel (2019)

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The scientific discipline of research methodology deals with the systematic and sequential procedures that a researcher must adhere to when looking into and addressing problems with certain objectives in mind. It is the main and most important part of the research, outlining the steps and techniques taken across the entire subject. A researcher needs to know not just the methods and techniques of research, but also the approach. This entails creating indices or tests, assessing the importance of the research, computing the mean or mode, and figuring out which approaches or procedures are pertinent, and which are not, along with what they would suggest and why. The subsequent phases provide useful procedural guidance for the methodology of the study.

- Specifying a research problem and choosing a topic for a tentative study
- A thorough and preliminary literature review
- Defining the necessary information and/or creating the surveys
- Developing and evaluating information; carrying out a project and drawing broad conclusions.
- Report preparation.

The deliberate strategy used for the stated purpose includes the study design, data sources, data collection techniques, data processing procedures, population, sample method of analysis, processing, tabulating procedure, and methodology. The case study approach is used to compile the corpus of existing literature on the subject. The report includes a comparative financial analysis of specific commercial banks. Thus, the necessary simple and comprehensible research methodology is applied. The major objective is to compare and contrast the financial advantages and disadvantages of these specific commercial banks.

3.2 Research Method

It is a framework, strategy, and approach to inquiry intended to handle deviations and solve issues in research. It describes the steps and approaches taken in each area of the inquiry. It tackles the study issue in a logical manner." The major objective is to compare and contrast the financial strength and weakness of these specific commercial banks. Based on data, a range of tools are being used to achieve this objective.

3.3 Research Design

This study employs a quantitative, descriptive, and analytical research design to conduct a CAMEL analysis of Nepal's commercial banks. The process involves obtaining, classifying, assessing, and interpreting numerical data from multiple sources, such as financial statements and bank regulatory reports. By using preset criteria from the CAMEL framework, it permits an impartial and systematic assessment of the financial health of commercial banks. A comparative analysis of banks can be used to analyze the outcomes of four banks.

3.4 Population and Sample Size

Nepal now has twenty commercial banks. Every Nepalese commercial bank has been regarded as a population. Using the judgmental sampling approach, four commercial banks are chosen as samples for this study from the entire population. These banks were chosen because they share many characteristics with one another, including capital base, profit, deposit, loan, and banking institution reputation.

1. Everest Bank Limited
2. Standard Chartered Bank
3. NIC Asia Bank Limited
4. Nepal Bank Limited

3.5 Sources of Data

The data's primary sources are secondary in nature. The secondary data sources are as follows:

- The concerned banks' annual reports, newsletters, brochures, etc.
- Applicable laws, rules, and NRB instructions.

- Pieces that appear in periodicals, newspapers, magazines, etc.
- Published dissertations and thesis on the subject.
- Numerous reports from NEPSE, NRB, and other sources.

3.6 Data Collection Technique

The primary foundation of the research is secondary data gathered from other sources. The primary sources of materials are the Central Library of T.U., Kirtipur, the Library of the Central Department of Management of T.U., Kirtipur, annual reports, brochures, and bulletins obtained from the relevant banks. A useful search on the internet using the respective banks' URLs has also been conducted. In addition, statistics and information are gathered from a variety of sources, including public and unpublished materials.

3.7 Data Processing Procedure

The necessary items have been selected for analysis and interpretation, and the data has been stored, reorganized, and assembled into tables. Following tabulation, they are examined using statistical and financial instruments. To ensure accurate results, such data, information, facts, and statistics have been processed through editing, calculation, and tabulation before being analyzed. All required statements, ratios, percentages, etc., have been determined.

3.8 Analysis of Data

Ratios are the main emphasis of the study, which involves calculating and interpreting various ratios to evaluate and compare the financial performances of the participating banks. Making the right decisions is aided by the knowledge that these evaluations produce. The research is primarily concerned with the presentation and analysis of the data. To achieve the objectives of the study, the collected unprocessed data are initially methodically presented in tabular form. They are then analyzed using a variety of statistical and financial techniques, and the outcomes are shown for interpretation in the form of tables, graphs, and charts.

3.9 Method of Analysis of Data

The study uses a variety of instruments and appropriate descriptive analytic techniques. The main objective is to compare and contrast the relevant banks' financial performance. Once the data have been adjusted as needed, they are sorted, tabulated, and examined. Without financial tools, it is very difficult to make inferences and understand data using statistical approaches. Along with the fundamental analytical tools that primarily help in the interpretation of the data acquired and the financial strength and weaknesses in the investments, tables, bar graphs, and other vital mathematical tools are used.

3.10 Data Analysis Tools

The research makes use of a range of tools and suitable descriptive analytical methods. Comparing and contrasting the financial performance of the various banks is the primary goal. The data are sorted, tabulated, and inspected after being adjusted as necessary. It is quite difficult to draw conclusions and comprehend data using statistical methods without financial instruments. Tables, bar graphs, and other essential mathematical tools are employed in addition to the basic analytical tools, which are mostly used to aid in the interpretation of the data obtained and the financial strengths and weaknesses in the investments.

3.10.1 Financial Ratio Analysis Tools

The banks in the framework CAMEL components are evaluated for performance using Financial Ratio Analysis methods. These ratios are divided into the following categories based on the CAMEL components:

Capital Adequacy Ratio (CAR)

By comparing the equity to assets-at-risk ratio of an organization, the CAR indicator is obtained. By giving the institution's assets a risk weight, it accounts for the three biggest financial risks: interest rate, credit and foreign exchange. The NRB's directives states that the bank capital is divided into two sections.

- i. Core capital
- ii. Supplementary capital

The capital adequacy ratio is computed using the sum of these two capitals. The following are examples of supplemental capital: Unsecured Subordinated Term Debt, Exchange Equalization Reserve, Asset Revaluation Reserve, Hybrid Capital Instrument,

and General Loan Loss Provision. The total capital fund would be evaluated using the capital adequacy ratio based on the total risk-weighted assets. Above the NRB threshold, the capital adequacy ratio denotes adequate capital, higher internal sources, stronger depositor security, and a greater capacity to withstand operational and unforeseen losses. Conversely, a lower score denotes a weaker financial condition, fewer internal sources, and less protection for depositors. All risk-weighted assets would be used to calculate the capital adequacy ratio, which would calculate the total capital fund. The formula for calculating the capital adequacy ratio is as follows:

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

Where, Total Capital Fund = Core Capital + Supplementary Capital

Total Risk weighted assets = Total Assets x Weight of Assets

Debt Equity Ratio (DER)

A corporation's financial leverage is assessed using the debt-to-equity (D/E) ratio, which is computed by dividing the total liabilities of the company by the equity held by its shareholders. In corporate finance, the D/E ratio is a crucial indicator. It is a gauge of how much a business relies on debt rather than its own resources to fund its operations. One kind of gearing ratio is the debt-to-equity ratio.

$$\text{Debt Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Shareholders' Equity}}$$

Non-Performing Loan Ratio (NPLR)

Typically, loans make up the largest portion of asset items and pose the highest possible risk to the capital account of the bank. The quality of the loan portfolio and the credit management program are the main factors influencing the overall quality of the asset. The following categories apply to assets having intrinsic credit weaknesses: Standard, Watchlist, Substandard, Doubtful, and Loss. Provisioning of 1%, 5%, 25%, 50%, and 100% is required for these loans in order to protect the depositors' interests. The percentage of non-performing loans in total loans and advances is measured by non-performing loans. It is ascertained by utilizing the formula listed below.

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

Non-Performing Assets Ratio (NPAR)

A loan or advance that is past due or in default is classified as a nonperforming asset (NPA). When principal or interest payments are neglected or delayed, a debt is said to be in arrears. When a debtor is unable to fulfil their responsibilities and the lender believes that the terms of the loan have been broken, the loan is said to be in default. A bank's balance sheet displays nonperforming assets (NPAs) following an extended period of borrower non-payment. NPAs cost the lender financially, and if there are a lot of them over time, regulators may conclude that the bank's ability to remain solvent is in doubt.

Depending on the amount of time past due and the likelihood of repayment, non-performing assets (NPAs) can be categorized as loss, substandard, or doubtful assets. In order to recoup their losses, lenders may choose to seize any collateral or sell the loan to a collection agency for a steep discount.

Earning Per Employee (EPE)

It represents each employee's contribution per unit and gauges their level of productivity inside the company. Another name for it is the management efficiency ratio. It displays the bank's net profit per employee. It is computed using the model that follows.

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

Earnings per Share (EPS)

It calculates the value that shareholders receive from each share they own. Given its correlation with dividends and market price, this ratio is significant to investors. A greater return for the shareholders is indicated by a higher EPS. It displays the return on investment per share during the holding period for a specific fiscal year. The formula used to calculate it is as follows.

$$\text{EPS} = \frac{\text{Net Profit After Tax}}{\text{Number of Share}} \times 100$$

Return on Assets (ROA)

It guarantees that a business will be successful in providing a return to all capital providers. It primarily serves as a gauge of the institution's asset quality and the managerial effectiveness of converting those resources into net earnings. In general, the banking industry prefers a return on assets ratio of 1% or greater (World Bank, 1996). Greater asset quality and effective asset use are correlated with higher ROA. It is computed using the model that follows.

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

Return on Equity (ROE)

It gauges how well a business performs in generating a profit for its common investors. It represents the revenue generated from internal sources and is calculated as the ratio of net profit after tax to total equity. Return on equity indicates how well the bank manages owners' resources. According to the World Bank (1996), a return on equity (ROE) of 15% is considered typical, and the banking sector aims for a higher ROE. Greater ROE is a sign of increased shareholder investment and improved capital fund usage. The model that follows computes it.

$$\text{ROE} = \frac{\text{Net Profit After Tax}}{\text{Total Equities}} \times 100$$

Cash Reserve Ratio (CRR)

It is the bare minimum of reserves, expressed as account balance with NRB, that a bank is required to maintain. This percentage guarantees the first line of defense of the bank to a minimal degree in fulfilling depositor commitments. The NRB Balance, which is expressed as a proportion of total deposits, is the format in which commercial banks must maintain their cash reserve ratio. The term "total deposit" refers to certificates of deposit, current, savings, and fixed deposit accounts in addition to call account deposits. Employee guarantee amount, margin account, and deposits held in convertible foreign currency will not be included for this reason. The model that follows computes it.

$$\text{CRR} = \frac{\text{Cash Balance in NRB}}{\text{Total Deposits}} \times 100$$

Credit to Deposit Ratio (CD)

The most important metric for assessing the bank's liquidity situation is the loan to deposit ratio. It displays the amount of credit that the bank has taken out of the customer's deposit. In light of the current liquidity crisis, this ratio is the most crucial. NRB emphasizes pertinent ratios, although bankers favor higher CD ratios. The CD ratio in Nepal's banking industry is currently close to 90%. About 80% should be the case for the idle world. The formula that follows is used to compute

$$\text{CD Ratio} = \frac{\text{Total Credit}}{\text{Total Deposit}} \times 100$$

Income to Expense Ratio (IER)

All costs incurred by the bank during normal business operations are included in operating expenses. This could include salary for staff, rent, utilities, depreciation, amortization, and other operational expenditures in addition to administrative costs. It excludes exceptional and one-time expenses. Operating income is the money the bank makes from its main lines of operations. It often consists of non-interest revenue and net interest income, which is the difference between interest earned on liabilities and interest earned on assets (such fees from services such as wealth management, payment services, etc.). The formula that follows is used to compute it.

$$\text{OER} = \frac{\text{Total Operating Expenses}}{\text{Gross Revenue}}$$

Net Profit Margin Ratio (NPMR)

The amount of net income or profit produced as a percentage of revenue is expressed as net profit margin, or simply net margin. It is the proportion of a company's or business segment's net profits to revenues. Although it is most commonly written as a percentage, net profit margin can also be shown as a decimal. The amount of profit that a business makes from every dollar of revenue it receives is shown by its net profit margin. One of the most crucial measures of a company's financial health is its net profit margin. A business can determine if its present procedures are effective and project earnings based on revenues by monitoring changes in its net profit margin.

Because net profit margin is expressed as a percentage rather than a fixed sum by corporations, it is feasible to compare the profitability of two or more enterprises of any size. In terms of math,

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Total Revenue}}$$

Current Ratio (CR)

One liquidity ratio used to assess a company's capacity to meet short-term or one-year-due obligations is the current ratio. It provides guidance to analysts and investors on how a business might optimise its current assets on the balance sheet to pay down its current debt and other payables. It is widely accepted that a current ratio that is somewhat higher than the industry norm or on par with it is appropriate. A current ratio that is below the industry norm can be a sign of increased default or distress risk. In a similar vein, an excessively high current ratio for the company relative to its peer group suggests that management may not be making the best use of its resources.

Since it includes all current assets and liabilities—unlike some other liquidity ratios—the current ratio is named current. The working capital ratio is another name for the current ratio. In terms of math,

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

3.10.2 Statistical Tools

This study has been carried out using a variety of statistical methods in addition to financial ones. The analysis's outcome has been correctly tallied, contrasted, examined, and explained. The present investigation use statistical approaches to examine the correlation between dividend and other variables.

1. Arithmetic Mean or Average (\bar{X})

A mean is a number that denotes a collection of values. It illustrates the traits shared by the entire group. The average value, or the largest and smallest objects, usually falls between the two extremes. A collection of observations' average is calculated by

dividing their total by the total number of observations. In general, if $X_1, X_2, X_3, \dots, X_n$ are the given 'n' observations then their arithmetic mean, usually denoted by \bar{X} is given by,

$$\bar{X} = \frac{\sum X}{N}$$

Where,

$\sum X$ = Sum of Observations

N = Number of Observations

\bar{X} = Arithmetic Mean

2. Standard Deviation (σ)

In 1983, Karl Pearson presented the idea of standard deviation for the first time. The arithmetic average of the squares of all the deviations measured from the arithmetic average of the series is equal to the positive square root of the standard deviation. A distribution's absolute dispersion is measured by the standard deviation. The standard deviation increases with dispersion, meaning that the size of the values' divergence from the mean will also increase. A low standard deviation indicates both good observational uniformity and series homogeneity. The sample's standard deviation (S.D.), represented by the letter "S," is computed as follows:

$$S. D. (S) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

S.D. (S) = Standard Deviation

X = Variable

\bar{X} = Arithmetic Mean

$\sum (X - \bar{X})^2$ = Sum of Mean Deviation Squared

N = Total Number of Observations

3. Coefficient of Variation (C.V.)

Karl Pearson devised this measurement of relative dispersion. The variability of two or more series is compared using it. "The coefficient of variation, defined as the ratio of the standard deviation to mean expressed in percent, is the relative measure of dispersion, comparable across distribution." It is argued that a series with a larger coefficient of variation is less homogeneous, less uniform, less stable, and more changeable. Conversely, a series with a lower coefficient of variation is thought to be more homogeneous, stable, consistent, and uniform. It is calculated by dividing the arithmetic mean by the standard deviation, and is represented by the letter C.V. Consequently,

$$\text{C.V.} = \frac{S}{\bar{X}} \times 100\%$$

Where,

S = Standard Deviation of Sample

\bar{X} = Mean

C.V. = Coefficient of Variation

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Capital Adequacy

In order to maintain minimum risk-based Core & Total Capital Standard, which includes a definition for Risk Based Capital and a method for calculating Risk Weighted Assets (RWA) by allocating on and off-balance sheet items to broad risk categories, sample banks' capital adequacy analyses are conducted in accordance with NRB regulations and standards. Capital Adequacy Ratios apply risk weightings to the institution's assets in order to account for the most significant financial risks, including interest rate, credit, and foreign exchange risks.

4.1.1 Capital Adequacy Ratio

By comparing the equity to assets-at-risk ratio of an organization, the CAR indicator is obtained. By giving the institution's assets a risk weight, it accounts for the three biggest financial risks: interest rate, credit, and foreign exchange. All risk-weighted assets would be used to calculate the capital adequacy ratio, which would calculate the total capital fund. The observed Capital Adequacy Ratios, along with their mean, standard deviation, and coefficient of variation, are shown in Table 4.1 during the study period.

Table 4.1

Comparative Ratio of Capital Adequacy Ratio

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	13.74	19.69	13.32	16.8
2019/20	13.38	18.51	13.5	17.01
2020/21	12.48	17.17	12.47	16.8
2021/22	11.89	15.95	13.38	15.05
2022/23	13.3	17.09	13.36	13.74
Mean	12.96	17.68	13.21	15.88
S.D.	0.75	1.44	0.42	1.44
CV	0.06	0.08	0.03	0.09

Source: Appendix 2

According to the aforementioned data, every commercial bank was able to meet the NRB's minimum threshold of 11% for CAR during the study period. SCB has the highest

mean, followed by NBL, NICA, and EBL in order of preference. NICA has the lowest CV (0.03) and the highest CV (0.09).

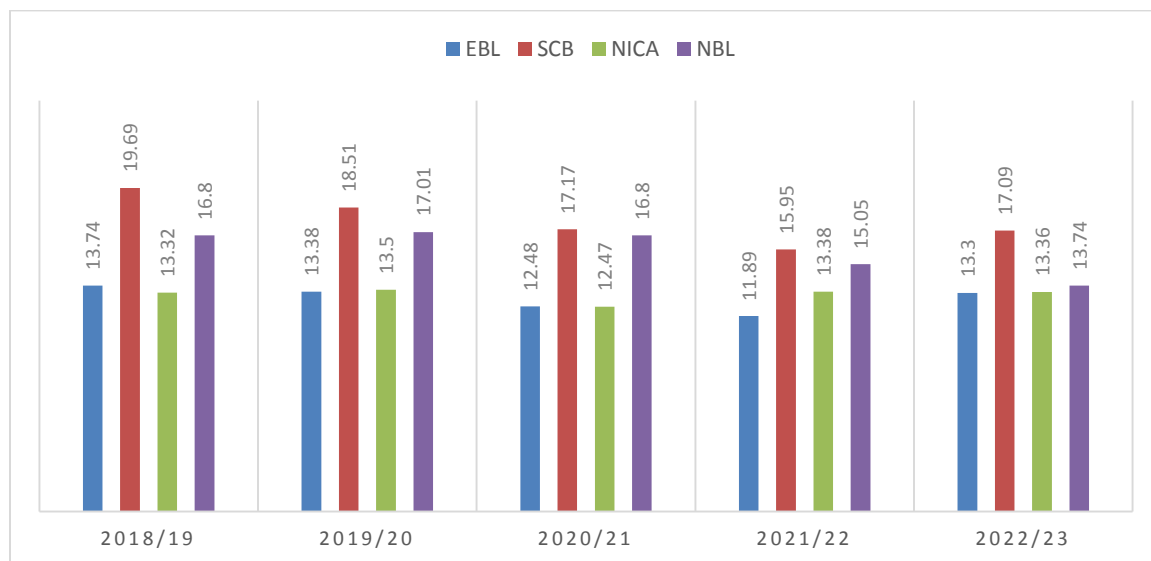


Figure 4.1: Capital Adequacy Ratio

The above chart depicts the comparative fluctuation of the CAR of the banks.

4.2 Debt Equity Ratio

A company's debt-to-equity ratio (D/E ratio) shows how much debt it has relative to its assets. It is computed by dividing the total debt of a business by the total equity held by shareholders. Keep in mind that a larger debt-to-equity ratio indicates that the business might find it harder to pay its debts. The formula for calculating a company's debt to equity ratio is to divide its total liabilities by its shareholders' equity. High danger is indicated by a high DE ratio. It indicates that the company's shortage of funds is the reason it is borrowing more to fund its activities. A low debt-to-equity ratio (DE) indicates that the company has a enough amount of shareholder equity and does not require borrowing money to fund its operations. The corporation is well-regarded since it has more owned capital than borrowed capital. We may thus conclude, by definition, that analysts see companies with high debt to equity ratios unfavorably and that they are bad for business. Manufacturing and other capital-intensive industries might have a larger DE ratio, whereas service and technology-oriented companies might have lower relative capital and growth needs, which would mean a lower DE.

Table 4.2
Comparative Review of Debt to Equity (DER)

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	8.65	7.64	9.62	7.52
2019/20	8.93	8.35	7.52	8.21
2020/21	9.23	8.74	8.21	9.32
2021/22	8.98	7.52	8.63	8.49
2022/23	8.86	8.2	9.2	8.53
Mean	8.93	8.09	8.636	8.414
S.D.	0.21	0.51	0.82	0.65
CV	0.02	0.06	0.09	0.08

Source: Appendix 2

According to the above figure, all banks have some sort of debt-to-equity ratio. When it comes to mean, SCB has the lowest DER of 8.09 while EBL has the highest mean, 8.93. EBL has the lowest CV of 0.02 and is the most constant in terms of CV. The relative CVs for SCB, NICA, and NBL are 0.06, 0.09, and 0.08. When it comes to CV, NICA is the most inconsistent.

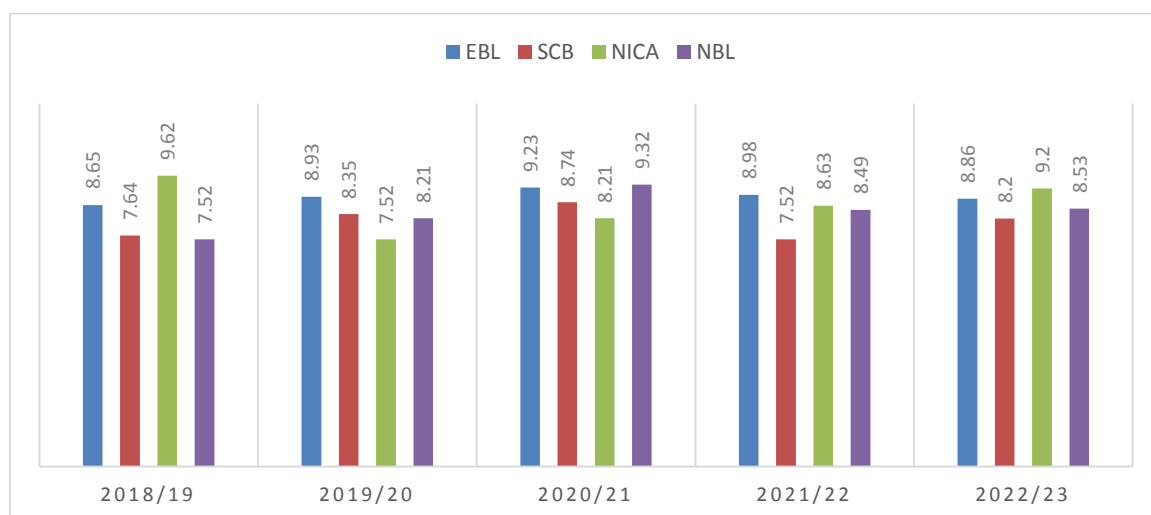


Figure 4.2: Debt-to-Equity Ratio

The above chart depicts the comparative fluctuation of the DER of the banks.

4.3 Assets Quality

One of the most important factors in assessing a bank's overall health is asset quality, which also directly affects a bank's financial performance. The institutions' risk

management system would have a major impact on the quality of their assets, especially their loans and investments. The liquid assets that commercial banks keep include cash and bank balances, as well as short-term investments, loans, advances, and other financial instruments. The credit administration program and the quality of the loan portfolio are the main elements influencing total asset quality. Generally speaking, loans are the largest asset kind and also have the most potential risk to the bank's capital account.

The non-performing loan ratio is one of the many measures of asset quality that is used to analyze sampled banks. The Non-Performing Loans (NPLs) to Total Loans ratio, which is used as a stand-in for asset quality, and loan classification are both examined in the loans and advances analysis.

Table 4.3

Comparative Review of Non-Performing Loan (NPLs)

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	0.16	0.15	0.23	2.64
2019/20	0.22	0.44	0.27	2.47
2020/21	0.12	0.96	0.24	2.05
2021/22	0.24	0.59	0.07	1.83
2022/23	0.79	1.18	0.11	2.84
Mean	0.306	0.664	0.184	2.366
S.D.	0.27	0.41	0.09	0.42
CV	0.88	0.62	0.49	0.18

Note. Appendix 2

The aforementioned figure illustrates the percentage of non-performing loans in all banks. A higher ratio should be maintained as low as feasible because it suggests danger to the bank's capital account. NBL has the highest mean (2.366), which suggests that its loans are riskier than others. SCB comes next, with an average NPL of 0.664. EBL and NICA have average NPLs of 0.306 and 0.184, respectively. NBL has the lowest CV of 0.18, making it the most constant in terms of CV. The respective CVs of SB, NICA, and EBL are 0.62, 0.49, and 0.88. When it comes to CV, EBL is the most erratic.

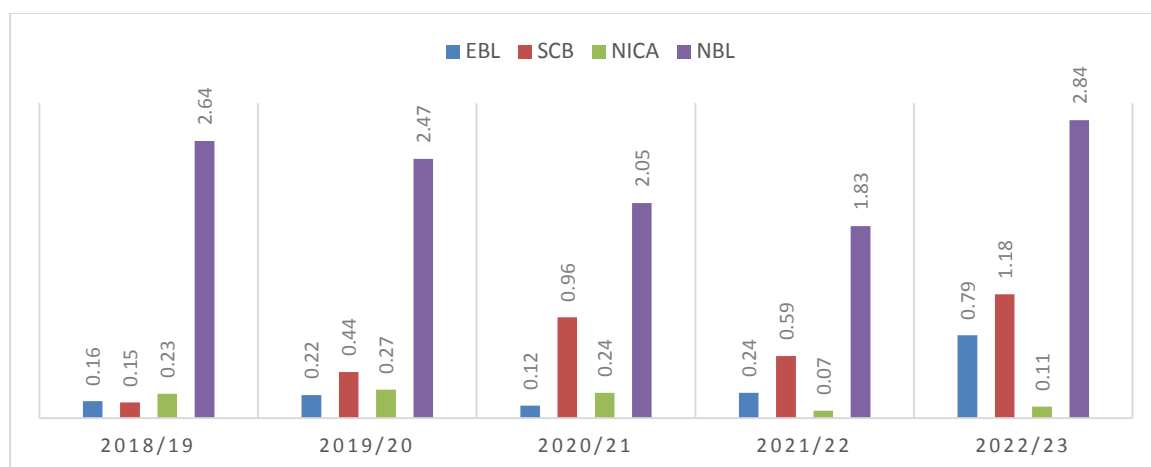


Figure 4.3: Non-Performing Loans (NPLs) Ratio

NBL has the most non-performing loans (NPLs) for the comparison period, whereas NICA has the least NPLs relative to other banks.

Table 4.4

Comparative Review of Non-Performing Assets (NPAs)

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	0.16	0.13	0.25	2.64
2019/20	0.22	0.37	0.3	2.47
2020/21	0.12	0.87	0.36	2.05
2021/22	0.12	0.62	0.77	1.83
2022/23	0.79	1.04	0.12	2.85
Mean	0.282	0.606	0.36	2.368
S.D.	0.29	0.37	0.25	0.42
CV	1.03	0.61	0.69	0.18

Note. Appendix 2

The aforementioned table illustrates the amount of non-performing assets that all banks have. A higher ratio should be maintained as low as feasible because it suggests danger to the bank's capital account. NBL has the highest mean (2.368) among all companies, indicating that its assets are high risk. SCB comes next, with an average NPL of 0.606. EBL and NICA had average NPLs of 0.282 and 0.360, respectively. NBL has the lowest CV of 0.18, making it the most constant in terms of CV. The respective CVs for EBL, SB, and NICA are 1.03, 0.61, and 0.69. When it comes to CV, EBL is the most erratic.

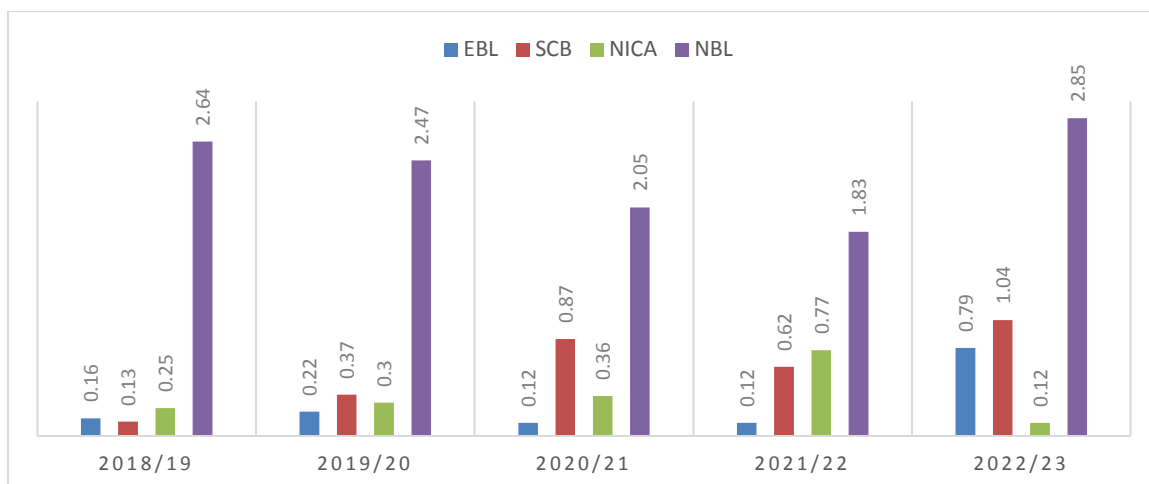


Figure 4.4: Non-Performing Assets (NPAs) Ratio

NBL has the most non-performing loans (NPLs) for the comparison period, whereas EBL has the fewest NPLs relative to other banks.

4.3 Management Quality

Effective administration is essential to every institution's success. It is a universal truth that an organization can succeed or fail based on its management. When determining the total CAMEL composite rating, the management quality is typically given a higher weighting. The financial institution's management's vision, capability, agility, professionalism, integrity, and competence will determine how well the other four CAMEL components work. In actuality, the management not only creates appropriate policies and business strategies, but also puts them into action with both short- and long-term goals in mind, aiding in the achievement of the banks' and financial institutions' intended goals.

Therefore, every organization that wants to achieve great results for itself must take management seriously and recruit professionals to boost management effectiveness and efficiency.

4.3.1 Earning Per Employee

The most useful financial statistic for assessing management quality is the earnings per employee ratio, which also serves as a stand-in for management quality. It provides information on the productivity levels of workers within the company and shows each worker's profit contribution per unit.

Table 4.5

Comparative Review of Earnings per Employee

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	2751	4585	871	924
2019/20	3060	3715	1066	1150
2020/21	3129	2775	849	12220
2021/22	3131	4467	961	1543
2022/23	3372	6876	1127	1577
Mean	3088.60	4483.6	974.8	3482.8
S.D.	222.79	1520.21	120.7	4891.91
CV	0.07	0.34	0.12	1.40

Note. Appendix 2

The period's earnings per employee are displayed in Table 4.5. When compared to other banks, SCB offers the highest return on average. The lowest mean per employee return is found in NICA. EBL has the highest return on CV, with a score of 0.07, while the other has the lowest. Comparably, SCB, NICA, and NBL had respective CVs of 0.34, 0.12, and 1.40.

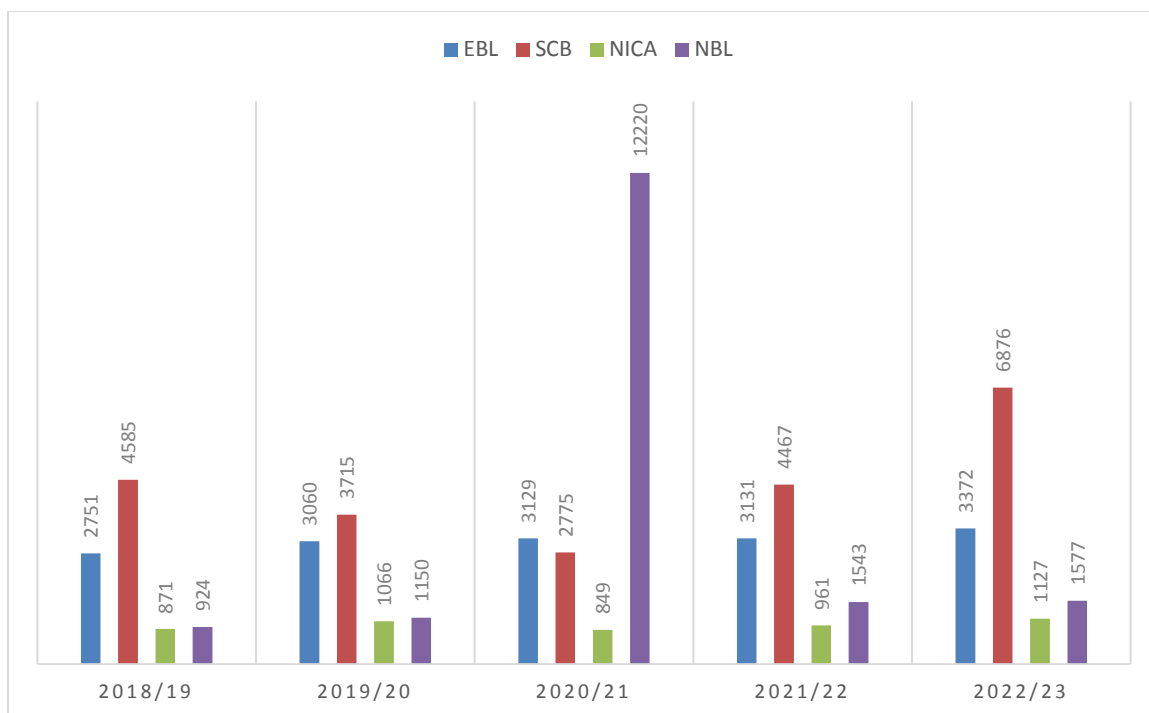


Figure 4.5: Earnings per Employee

Figure 4.5 shows earnings per employee during the study period.

4.4 Earning Quality

The first line of defense against capital depletion brought on by a decline in asset value is earnings. By supplying the resources, earning performance enables the bank to maintain its competitiveness. The bank's primary goal is to turn a profit, and the profitability ratios are used to gauge this level of success. Bank efficiency is gauged by profitability ratios; a greater ratio corresponds to increased efficiency and vice versa.

4.4.1 Earnings per Share (EPS)

A company's profitability is gauged by its earnings per share (EPS), which shows how much profit each outstanding share of common stock has made. It is computed by dividing net income by the total number of outstanding shares of the corporation. An organization is thought to be more lucrative if its EPS is higher. The balance sheet and income statement are used to determine the period-end number of common shares, net income or earnings, and any dividends paid on preferred stock (if any). This information are then used to compute a company's EPS. Given that the number of shares can fluctuate over time, using a weighted average number of common shares during the reporting term

is more appropriate. It is essential to comprehend how to calculate EPS in order to assess a company's profitability.

Table 4.6

Comparative Review of Earnings per Share

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	38.05	30.39	34.22	26.99
2019/20	29.1	24.81	31.89	20.68
2020/21	19.91	14.83	28.18	23.43
2021/22	26.3	23.92	36.45	20.29
2022/23	31.43	36.75	38.44	23.39
Mean	28.96	26.14	33.836	22.956
S.D.	6.67	8.14	4	2.69
CV	0.23	0.31	0.12	0.12

Note. Appendix 2

Earnings per share for the period are displayed in Table 4.6. NICA has the greatest EPS in terms of mean, at Rs 33.87, followed by EBL, SB, and NBL, at Rs 28.96, Rs 26.14, and Rs 22.96, in that order. NICA and NBL have similar CVs of 0.12, followed by EBL at 0.23 and SCB at 0.31 in terms of CV.

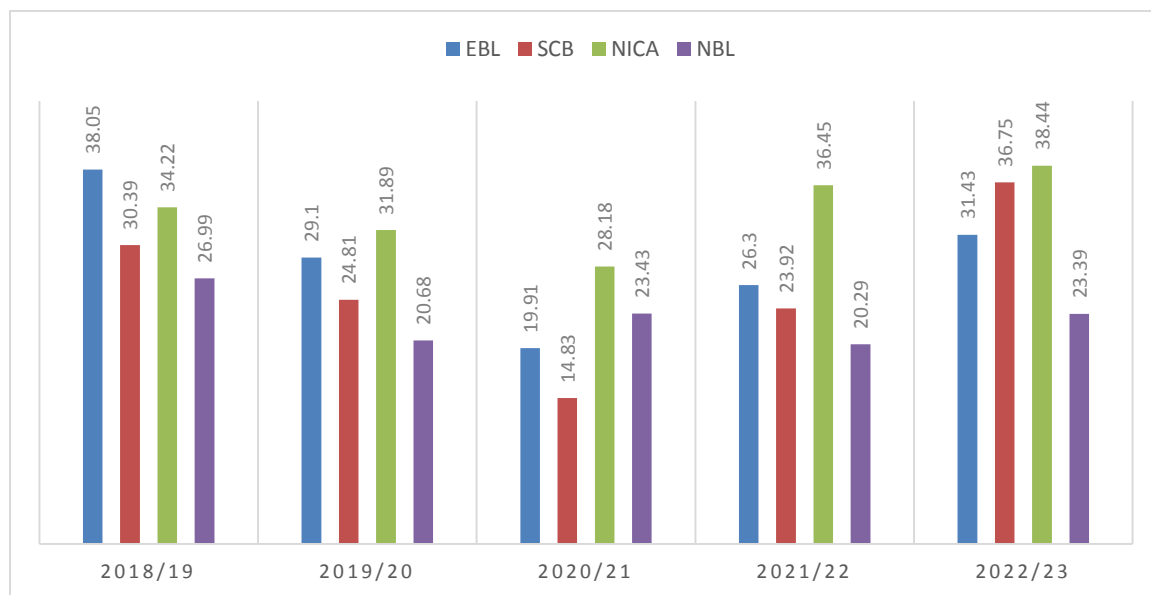


Figure 4.6: Earnings per Share

Figure 4.6 shows earnings per employee during the study period.

4.4.2 Return on Equity (ROE)

The rate of return to the bank's shareholders is measured by the ROE. ROE is the profit on an owner's interest expressed as a percentage of the business. A greater ratio is indicative of good management and effective owner equity mobilization, and vice versa. The observed Return on Equity over the equity study period, together with its mean, standard deviation, and coefficient of variation, are shown in Table 4.7.

Table 4.7

Comparative Review of Return on Equity (ROE)

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	17.59	19.49	22.73	9.95
2019/20	14.1	15.15	19.26	7.87
2020/21	12.09	9.44	17.09	9.36
2021/22	10.08	14.21	18.43	8.51
2022/23	13.94	20.78	16.39	9.55
Mean	13.56	15.814	18.78	9.048
S.D.	2.78	4.52	2.48	0.84
CV	0.21	0.29	0.13	0.09

Note: Appendix 2

The Return on Equity for the selected banks during the study period is shown in the above table. With the exception of a few fiscal years, sample banks have not been able to sustain ROE of 15% or more, indicating inefficient use of shareholder resources. NICA has the highest mean (18.78), followed by SCB, EBL, and NBL with respective means of 15.81, 13.56, and 9.05. NICA has a CV of 0.13, whereas NBL has the least CV of 0.09, suggesting that it is consistent in terms of CV. With its greatest CV of 0.29, SCB is the least reliable and most dangerous.

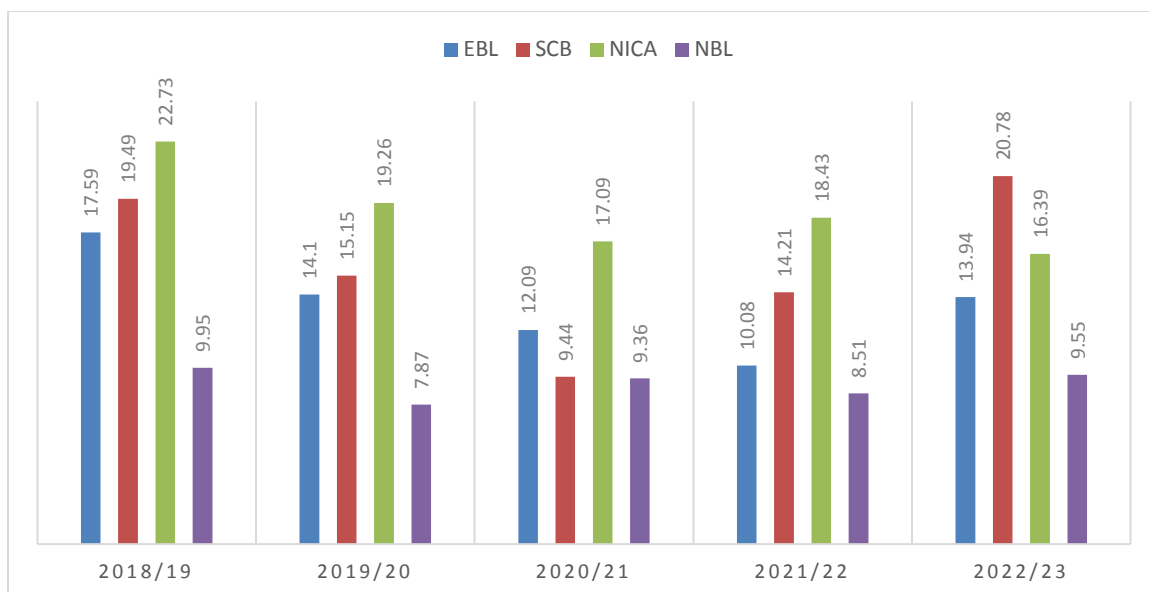


Figure 4.7: Comparative Return on Equity

ROE ratios of all banks seem fluctuating.

4.4.2 Return on Assets (ROA)

ROA is a widely used metric to assess how well an asset is used to produce profit. It calculates the potential for profit-making by utilizing the total assets, or accessible resources. It is essentially a measure of managerial effectiveness, showing how well the bank's management has been turning the institution's assets into net profits. If the bank's resources are effectively managed, the return will be higher.

Table 4.8

Comparative Review of Return on Assets (ROA)

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	1.94	2.61	1.56	1.51
2019/20	1.42	1.71	1.32	1.22
2020/21	0.89	1.22	1.09	1.33
2021/22	1.13	1.83	1.2	1.12
2022/23	1.41	2.29	1.23	1.81
Mean	1.36	1.932	1.28	1.398
S.D.	0.39	0.54	0.18	0.27
CV	0.29	0.28	0.14	0.19

Note. Appendix 2

The Return on Assets for the sample banks during the study period is shown in the above table. Throughout the research period, all banks were able to maintain a return on assets (ROA) of 1% or higher, indicating that their resources had been handled well. With a mean return of 1.93, SCB has the highest return, followed by NBL at 1.39. EBL and NICA had mean returns of 1.36 and 1.28, respectively. With a CV of 0.14, NICA has been shown to be the most consistent. The relative CV ratios for EBL, SCB, and NBL are 0.29, 0.28, and 0.19.

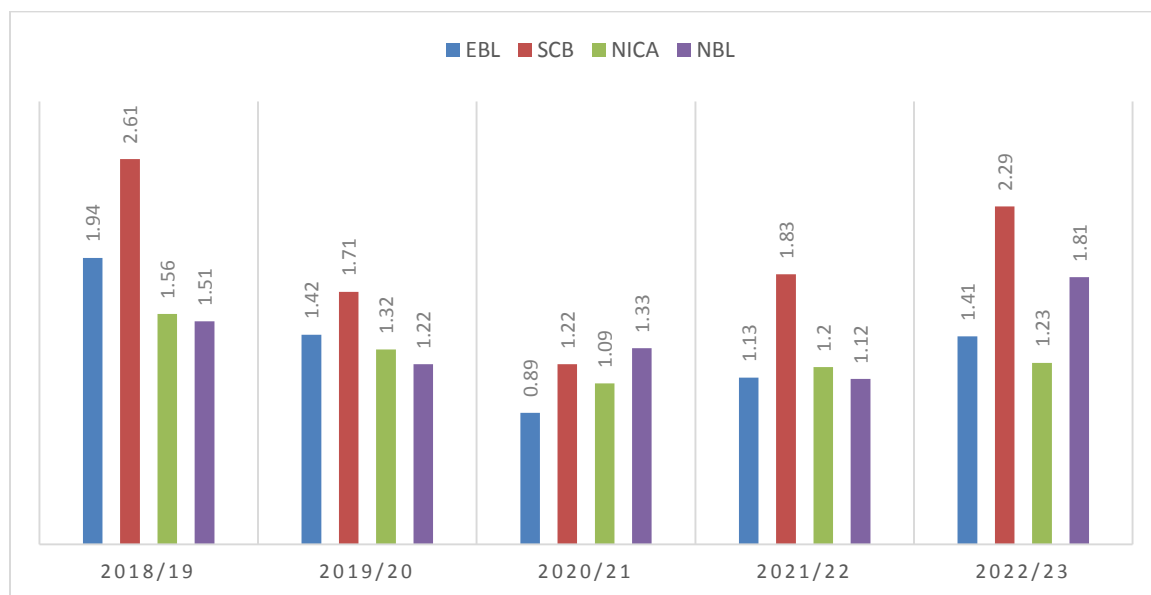


Figure 4.8: Return on Assets (ROA)

ROA ratios of the banks seem fluctuating during the period.

4.5 Liquidity

The degree of liquidity affects a banking system's resilience to shocks. When big depositors want quick cash for the financial claims they have on a bank, liquidity risk occurs. Cash is the most liquid asset that financial institutions may utilize right away to satisfy demands for withdrawals from liability holders. Liability holders' daily withdrawals are typically predictable, thus big financial institutions can anticipate having to borrow more money on the money and financial markets to cover any unforeseen cash shortages. FIs occasionally experience a liquidity crisis as a result of the obligation holder's bigger than usual withdrawal demand, which can be caused by a loss of trust in the FIs or an unforeseen need for cash. This changes the FI's liquidity issue to a solvency

issue.

4.5.1 Cash Reserve Ratio (CRR)

This ratio indicates if the bank is keeping the balance as much as the NRB requires. To guarantee sufficient liquidity in the commercial banks, to satisfy depositors' requests for cash at all times, and to instill confidence in depositors regarding the security of their deposited funds, NRB is mandated to retain a specific percentage of the total deposits made by commercial banks in NRB. In Nepal, commercial banks must retain a minimum of 3% of CRR.

Table 4.9

Comparative Review of Cash Reserve Ratio (CRR)

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	18.56	6.54	26.05	4.06
2019/20	14.43	7.53	27.09	4.53
2020/21	18.15	8.12	20.65	4.19
2021/22	6.5	9.21	20.3	3.49
2022/23	7.11	8.54	22.23	7.97
Mean	12.95	7.988	23.264	4.848
S.D.	5.84	1.02	3.13	1.79
CV	0.45	0.13	0.13	0.37

Note. Appendix 2

The sampled banks' cash reserve ratio for the duration of the study is displayed in Table 4.9. Ratios demonstrate that, in compliance with the regulation, the sampled banks are depositing a specific portion of their funds in the NRB to protect depositor interests. The average CRR for all banks exceeds the 3% NRB mandate. During the study period, SCB and NICA tied at 0.13 each in terms of CV, followed by NBL at 0.37 and EBL at 0.45.

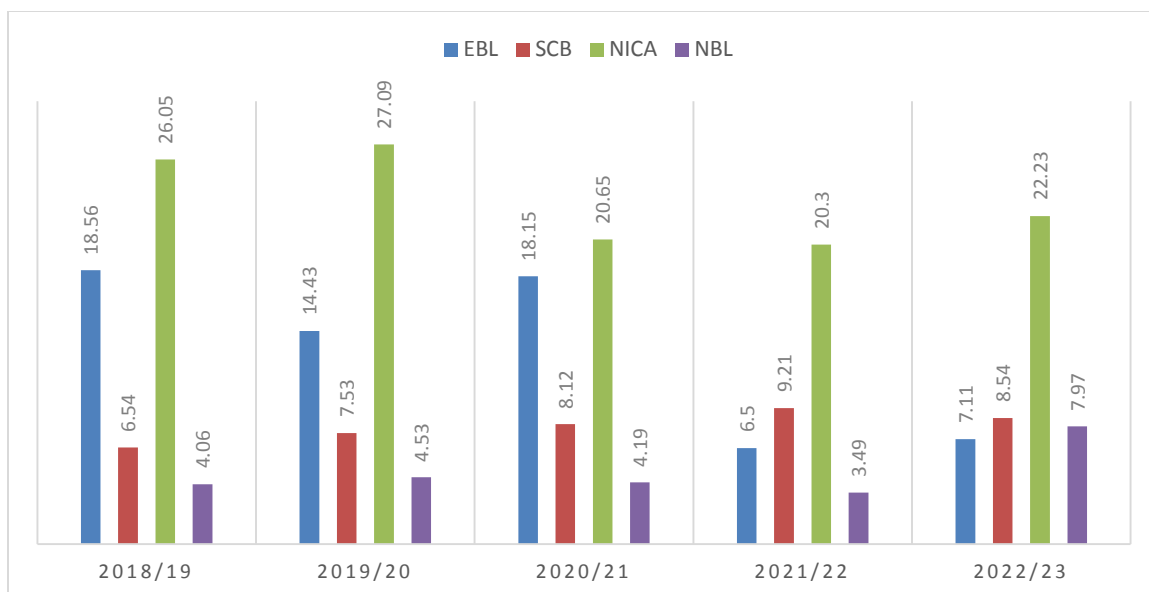


Figure 4.9: Cash Reserve Ratio (CRR)

It can be observed from the above figure that the CRR has been fluctuating during the study period.

4.5.2 Credit to Deposit Ratio

Credit is the term used to describe bank loans to borrowers. The Bank's assets are its credits. The money that banks receive as deposits from their clients is known as deposits. The bank is liable for deposits. Thus, in general, the ratio of the banks' assets to their liabilities is known as the credit-deposit ratio. A bank's liquidity can be determined by dividing the entire amount of loans it has disbursed by the total amount of deposits it has received. This ratio is known as the credit-to-deposit (CTD) or loan-to-deposit (LTD). It shows the percentage of a bank's core funds allocated to lending, the primary function of a bank. A bank's financial health and liquidity can be evaluated using the CD ratio. A greater ratio means that more loans have been disbursed than deposits, and vice versa.

Table 4.10

Comparative Review of Credit to Deposit Ratio

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	82.63	72.81	87.52	78.14
2019/20	86.24	57.45	88.62	72.25
2020/21	88.54	74.91	83.21	82.76
2021/22	84.12	87.91	86.52	86.97
2022/23	83.25	75.8	87.42	72.65
Mean	84.96	73.776	86.658	78.554
S.D.	2.42	10.87	2.07	6.39
CV	0.03	0.15	0.02	0.08

Note. Appendix 2

During the study period, the credit to deposit of the sample banks is shown in Table 4.10. When compared to other banks, NICA has the highest idle ratio on average. Compared to other banks, NICA has a more stable CV.

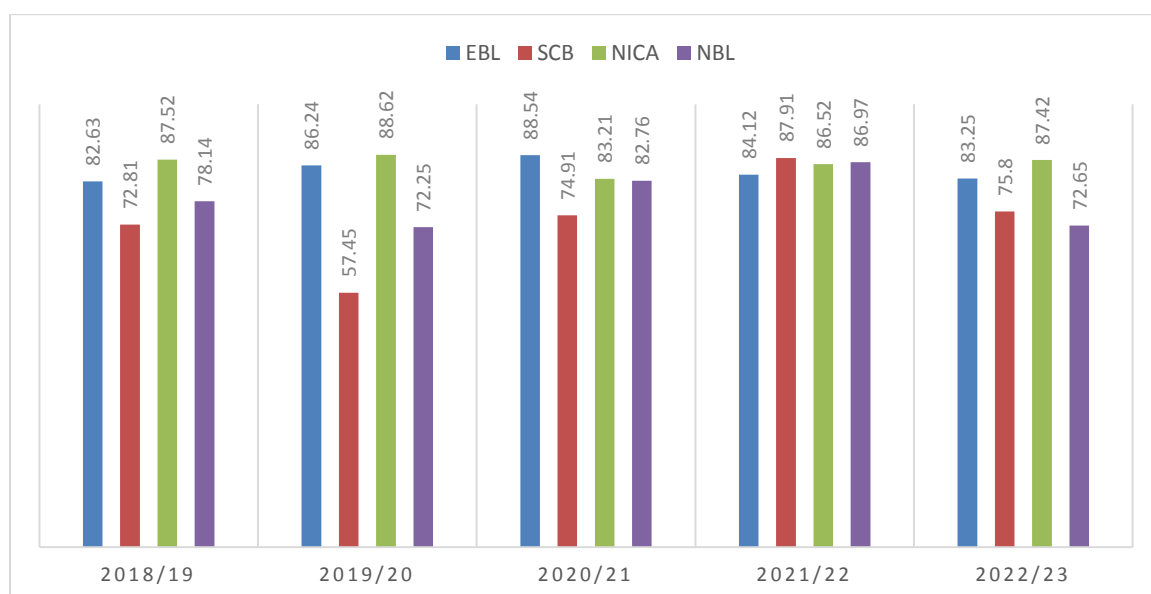


Figure 4.10: Credit to Deposit

Figure 4.10 shows the credit to deposit ratio during the study period.

4.5.3 Income to Expense Ratio (IER)

The income-to-expense ratio is a useful metric for gauging a bank's profitability (IER). This measure compares a bank's revenue and expenses to determine how efficient the bank is. It is essential to preserving financial stability and raising profitability.

Table 4.11

Comparative Review of Income to Expense Ratio

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	1.43	1.21	1.45	1.85
2019/20	1.30	1.32	1.85	1.45
2020/21	1.24	1.28	1.78	1.65
2021/22	1.26	1.2	1.62	1.23
2022/23	1.25	1.17	1.54	1.34
Mean	1.30	1.236	1.648	1.504
S.D.	0.08	0.06	0.17	0.25
CV	0.06	0.05	0.10	0.17

Note. Appendix 2

The income to expense ratio for the sample banks throughout the study period is shown in Table 4.11. When compared to other banks, NICA has the highest mean ratio. Compared to other banks, SCB has a more stable CV.

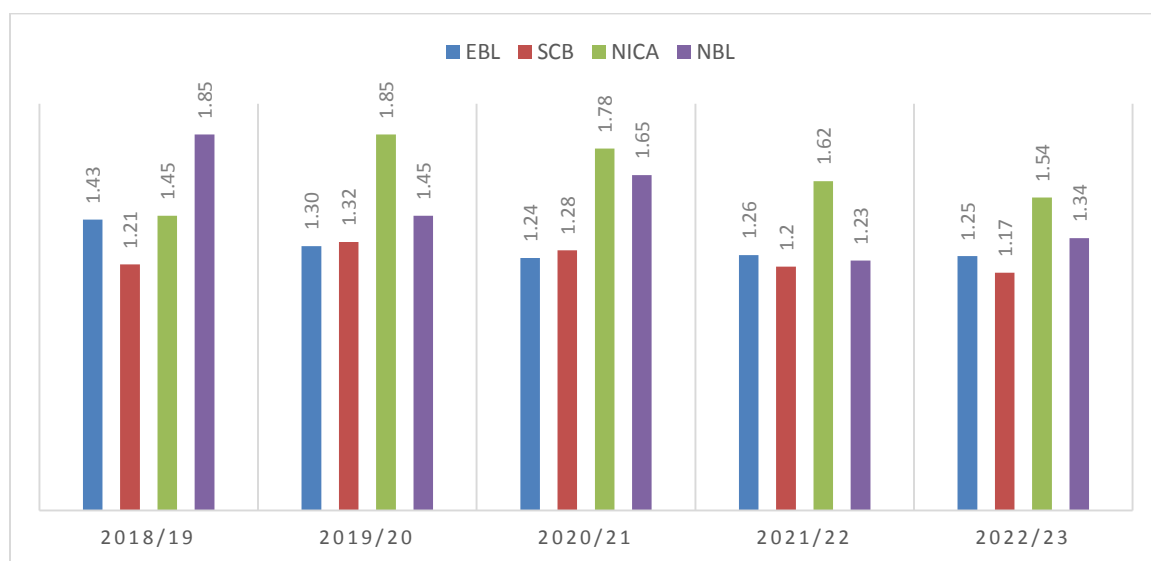


Figure 4.11: Income to Expense Ratio

Figure 4.11 depicts the income to expense ratio during the study period.

4.5.4 Net Profit Margin Ratio (NPR)

The financial ratio known as net profit margin, sometimes referred to as "profit margin" or "net profit margin ratio," is used to determine the proportion of profit an organization makes relative to its total revenue. It calculates how much net profit a business makes for every dollar of revenue. When net profit—also referred to as net income—is divided by total sales and stated as a percentage, the result is the net profit margin.

Table 4.12

Comparative Review of Net Profit Margin Ratio

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	21.13	46.72	31.8	21.51
2019/20	16.25	39.97	29	17.34
2020/21	13.54	34.42	28.79	21.23
2021/22	14.29	42.3	30.5	16.15
2022/23	13.99	44.19	29.58	20.21
Mean	15.84	41.52	29.934	19.288
S.D.	3.13	4.68	1.24	2.41
CV	0.20	0.11	0.04	0.12

Note. *Appendix 2*

The net profit ratio for the sample banks throughout the study period is shown in Table 4.12. When compared to other banks, SCB has the highest mean ratio. Compared to other banks, NICA has a more stable CV.

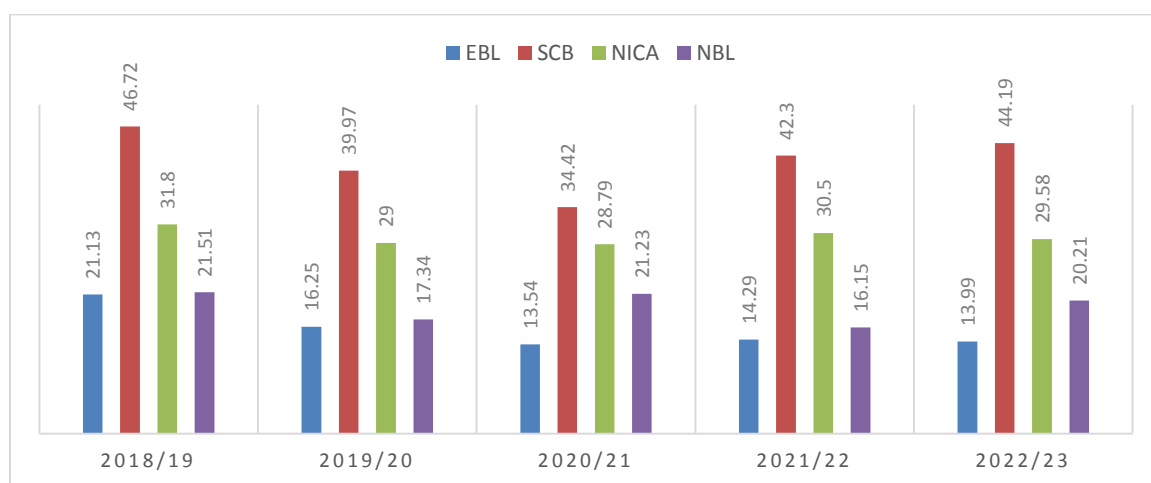


Figure 4.12: Net Profit Margin Ratio

Figure 4.12 depicts the net profit margin ratio during the study period.

4.5.5 Current Ratio (NPR)

A liquidity ratio called the current ratio assesses a company's capacity to settle short-term debt or bills that are due within a year. It explains to analysts and investors how a business might use as many current assets as possible on its balance sheet to pay down its current debt and other payables. Generally speaking, an appropriate current ratio is one that is either somewhat greater than the industry norm or in line with it. A lower-than-average current ratio in the industry could be a sign of impending trouble or default. In a similar vein, a company's management may not be making the best use of its resources if it has an extremely high current ratio in comparison to its peer group.

Table 4.13

Comparative Review of Current Ratio

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	2.82	3.36	2.56	2.87
2019/20	2.90	3.46	2.63	2.69
2020/21	2.63	3.14	2.39	2.26
2021/22	2.25	2.69	2.05	2.3
2022/23	3.27	3.91	2.97	3.34
Mean	2.77	3.312	2.52	2.692
S.D.	0.37	0.45	0.34	0.44
CV	0.13	0.14	0.13	0.16

Note. Appendix 2

The current ratio of the sample banks during the duration of the investigation is shown in Table 4.13. When compared to other banks, SCB has the highest mean ratio. Compared to other banks, EBL and NICA have more consistent CVs.

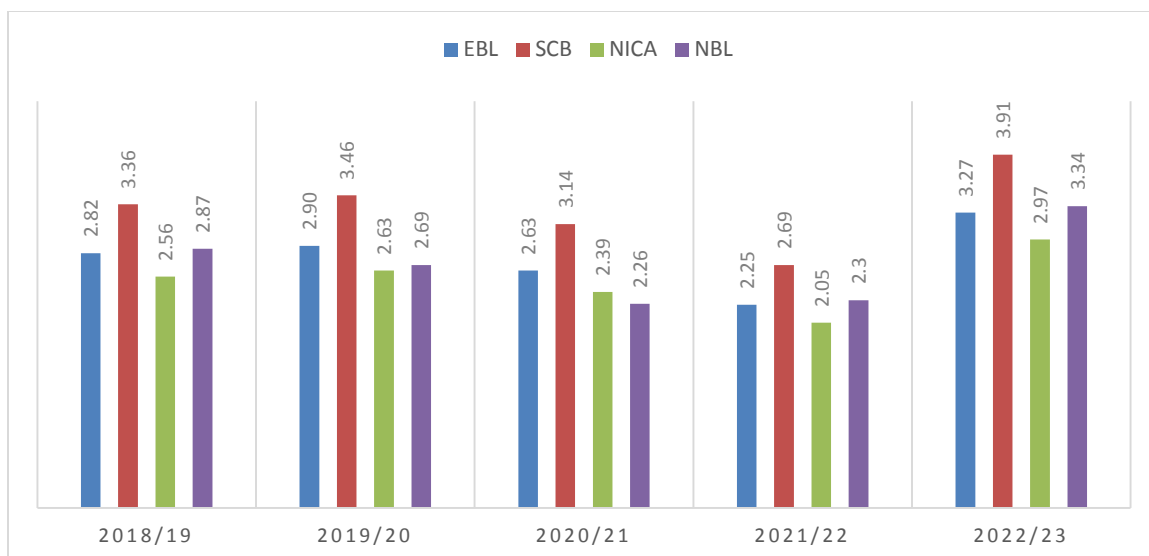


Figure 4.13: Current Ratio

Figure 4.13 depicts the current ratio during the study period.

4.6 Major Findings

- SCB has the greatest mean CAR, followed by NBL, NICA, and EBL in order of preference. NICA has the lowest CV (0.03) and the highest CV (0.09) based on the data.
- In terms of mean, EBL has the highest mean i.e., 8.93 whereas SCB has a lowest DER of 8.09. EBL has the lowest CV of 0.02 and is the most constant in terms of CV. The relative CVs for SCB, NICA, and NBL are 0.06, 0.09, and 0.08. When it comes to CV, NICA is the most inconsistent.
- NBL's loans are considered risky due to its highest mean of 2.366. SCB comes next, with an average NPL of 0.664. EBL and NICA have average NPLs of 0.306 and 0.184, respectively. NBL has the lowest CV of 0.18, making it the most constant in terms of CV. The respective CVs of SB, NICA, and EBL are 0.62, 0.49, and 0.88. When it comes to CV, EBL is the most erratic.
- A higher ratio should be maintained as low as feasible because it signals risk to the bank's capital account. NBL has the highest mean (2.368) among all companies, indicating that its assets are high risk. SCB comes next, with an average NPL of 0.606. EBL and NICA had average NPLs of 0.282 and 0.360, respectively. NBL has the lowest CV of 0.18, making it the most constant in

terms of CV. The respective CVs for EBL, SB, and NICA are 1.03, 0.61, and 0.69. When it comes to CV, EBL is the most erratic.

- The lowest mean per employee return is found in NICA. EBL has the highest return on CV, with a score of 0.07, while the other has the lowest. Comparably, SCB, NICA, and NBL had respective CVs of 0.34, 0.12, and 1.40.
- The highest EPS is Rs 33.87 for NICA, followed by Rs 28.96, Rs 26.14, and Rs 22.96 for EBL, SB, and NBL, in that order. NICA and NBL have similar CVs of 0.12, followed by EBL at 0.23 and SCB at 0.31 in terms of CV.
- The highest mean ROE is 18.78 for NICA, followed by 15.81, 13.56, and 9.05 for SCB, EBL, and NBL, in that order. NICA has a CV of 0.13, whereas NBL has the least CV of 0.09, suggesting that it is consistent in terms of CV. With its greatest CV of 0.29, SCB is the least reliable and most dangerous.
- In terms of CV, NICA has been the most constant with a value of 0.14; the CV ratios of EBL, SCB, and NBL are 0.29, 0.28, and 0.19, respectively. • SCB has the highest return, at 1.93, followed by NBL at 1.39. The mean returns of EBL and NICA are 1.36 and 1.28, respectively.
- The average CRR across all banks exceeds the 3% NRB mandate. During the study period, SCB and NICA tied at 0.13 in terms of CV, followed by NBL at 0.37 and EBL at 0.45.
- In comparison to other banks, NICA has the greatest idle ratio. Compared to other banks, NICA has a more stable CV.
- When compared to other banks, NICA has the highest income to expense ratio. Compared to other banks, SCB has a more stable CV.
- Compared to other banks, SCB has the highest mean NP ratio. Compared to other banks, NICA has a more stable CV.
- In comparison to other banks, SCB has the highest CR ratio. Compared to other banks, EBL and NICA have more consistent CVs.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The political upheaval of the 1990s and the structural adjustment program that was started in the 1980s have made room for a significant number of commercial banks, development banks, and co-ops to finance businesses. The banking industry is seeing the most intense competition in its history as a result of the VTO provision, which has allowed more international banks to operate in the nation since the 2010s. As the number of banks has increased during the 2010s, NRB's emphasis on quality banking has led to numerous bank mergers and acquisitions in the late 2010s and early 2020s. Commercial banks are constantly releasing new products due to the advancement of contemporary tools and techniques, which entails a high operational and credit risk. Commencing in 2023, commercial banks must install BASEL-III in phases. A crucial outcome of this kind of oversight is a rating, or CAMEL rating, that indicates the overall health of the bank. While there are numerous methods for evaluating the management effectiveness and financial performance of the banking industry, CAMEL is one of the most recent and well-liked approaches. The primary goal of the research project is to evaluate the chosen commercial banks' financial performance in relation to one another under the CAMEL framework, as required by NRB instructions and the BASEL agreement. The study closely examines the capital adequacy, level and trend of risk-weighted assets, asset composition and quality of loan assets, management of revenues and expenses, level and trend of earnings, and liquidity position of the sampled commercial banks.

A variety of sources were examined in order to strengthen the conceptual framework and arrive at the research's specific goal. The functions of commercial banks, the concept of bank supervision, the concept of the CAMEL rating system and component evaluation system, the Basel Capital Accord, and NRB recommendations were among the areas covered by the study review. In addition to these, reviews of dissertations, work papers, research papers, and related reports were carried out.

The study was carried out using an analytical and descriptive research design. The four commercial banks that the researcher chose are EBL, SCB, NICA, and NBL based on judging sampling methodologies. The key source of information and one that is regarded

as authentic is the banks' audited annual reports, which cover the period from FY 2018/19 to FY 2022/23 and provide data about these banks' financial performances. To assess these institutions' financial performance and get a meaningful conclusion from the data they gathered, researchers have employed a variety of financial ratios as well as basic mathematical and statistical techniques.

5.2 Conclusion

Since the 1980s, massive loan losses and bank collapses have raised concerns about bank supervision. In addition to the fact that the financial market has undergone significant change over time, a comprehensive bank examination is required, encompassing both on-site and off-site examinations. The supervisory procedure heavily relies on the CAMEL rating model. In order to determine if the CAMEL evaluation framework is a helpful tool for Nepalese banking supervision and how commercial banks in Nepal fit into the CAMEL rating system tool's requirements, I primarily concentrated on two primary themes. Nepal Rastra Bank can use a CAMEL rating tool to supervise the commercial bank's performance and compliance in Nepal.

We may conclude that all of the commercial banks included in the study are solid financially and commercially because the majority of them have passed the majority of the CAMEL standards. Our research indicates that banks with high-quality management yield higher profits, and that institutions that fully adhere to CAMEL and NRB standards would outperform other banks in terms of performance. However, the country already has a significant number of financial institutions operating in it, and our market is small, so the CAMEL indicators could not be the only way to reflect the banks' performance. We are unable to gauge our banking institution's financial soundness and health solely by looking at the CAMEL criteria, as major developed nation banks that adhere to it are going bankrupt. The banking corporation's future success may be largely dependent on a number of factors, including accurate socioeconomic information, competitive analysis, shifting public perceptions, customer-oriented quality service, transparency, and the fulfilment of corporate social responsibility. The banks of the twenty-first century should focus on building a customer-focused, energetic, and capable management team that can anticipate and solve new issues before their rivals do.

Particularly after COVID-19, banks are completing the majority of their tasks online. Therefore, in order for the bank to thrive in the cutthroat market, it must prioritize the following: enough internal control; sufficient and appropriate information technology software; concurrent auditing; professional and qualified staff; and utilization of cutting-edge technology.

5.3 Recommendations

Based on the findings, the following suggestions are offered to address the shortcomings with regard to the financial performance of EBL, SCB, NICA, and NBL.

1. All the sampled banks' CARs are greater than the NRB's guidelines, they can all cut these ratios and increase the amount of capital available for investment.
2. NICA's earnings per employee are significantly less than those of EBL, SCB, and NBL. NICA ought to prioritize staff retention as well as suitable training and development.
3. Since EBL and NBL have less than the minimum 15% rate of return on equity required by the worldwide benchmark, it is advised that they improve their equity utilization.
4. Loan Loss Provision is offered by all banks using the incurred Loss model. It excludes any projected future losses that could cause the bank to become insolvent. Thus, the bank must adhere to the Nepal Financial Reporting Standards' expected loss model (NFRS).
5. In order to survive in the long term, all banks should prioritize earnings because they have lower equity returns than foreign banks.

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APPENDICES

Appendix 1: Data of Sample Banks

Data of Everest Bank Limited

Year	CAR	DERatio	NPL Ratio	NPA Ratio	Earnings per Employee	EPS	ROA	ROE	CRR	Credit to Deposit Ratio	Income to Expense Ratio	NP Ratio	Current Ratio
2018/19	13.74	8.64975	0.16	0.16	2751	38.05	1.94	0.17597	18.56	82.63	1.430343162	21.13	28.16
2019/20	13.38	8.92754	0.22	0.22	3060	29.1	1.42	0.14103	14.43	86.24	1.30090302	16.25	28.95
2020/21	12.48	9.23275	0.12	0.12	3129	19.91	0.89	0.12089	18.15	88.54	1.242068468	13.54	26.27
2021/22	11.89	8.98197	0.24	0.12	3131	26.3	1.13	0.10084	6.5	84.12	1.256972559	14.29	22.52
2022/23	13.3	8.85708	0.79	0.79	3372	31.43	1.41	0.13942	7.11	83.25	1.250734039	13.99	32.72

Data of Standard Chartered Bank Limited

Year	CAR	DERatio	NPL Ratio	NPA Ratio	Earnings per Employee	EPS	ROA	ROE	CRR	Credit to Deposit Ratio	Income to Expense Ratio	NP Ratio	Current Ratio
2018/19	19.69	7.64	0.15	0.13	4585	30.39	2.61	19.49	6.54	72.81	1.21	46.72	33.61
2019/20	18.51	8.35	0.44	0.37	3715	24.81	1.71	15.15	7.53	57.45	1.32	39.97	34.56
2020/21	17.17	8.74	0.96	0.87	2775	14.83	1.22	9.44	8.12	74.91	1.28	34.42	31.37
2021/22	15.95	7.52	0.59	0.62	4467	23.92	1.83	14.21	9.21	87.91	1.2	42.3	26.89
2022/23	17.09	8.2	1.18	1.04	6876	36.75	2.29	20.78	8.54	75.8	1.17	44.19	39.07

Data of NIC Asia Bank Limited

Year	CAR	DERatio	NPL Ratio	NPA Ratio	Earnings per Employee	EPS	ROA	ROE	CRR	Credit to Deposit Ratio	Income to Expense Ratio	NP Ratio	Current Ratio
2018/19	13.32	9.62	0.23	0.25	871	34.22	1.56	22.73	26.05	87.52	1.45	31.8	25.57
2019/20	13.5	7.52	0.27	0.3	1066	31.89	1.32	19.26	27.09	88.62	1.85	29	26.29
2020/21	12.47	8.21	0.24	0.36	849	28.18	1.09	17.09	20.65	83.21	1.78	28.79	23.86
2021/22	13.38	8.63	0.07	0.77	961	36.45	1.2	18.43	20.3	86.52	1.62	30.5	20.45
2022/23	13.36	9.2	0.11	0.12	1127	38.44	1.23	16.39	22.23	87.42	1.54	29.58	29.72

Data of Nepal Bank Limited

Year	CAR	DE Ratio	NPL Ratio	NPA Ratio	Earnings per Employee	EPS	ROA	ROE	CRR	Credit to Deposit Ratio	Income to Expense Ratio	NP Ratio	Current Ratio
2018/19	16.8	7.52	2.64	2.64	924	26.99	1.51	9.95	4.06	78.14	1.85	21.51	28.73
2019/20	17.01	8.21	2.47	2.47	1150	20.68	1.22	7.87	4.53	72.25	1.45	17.34	29.54
2020/21	16.8	9.32	2.05	2.05	12220	23.43	1.33	9.36	4.19	82.76	1.65	21.23	26.81
2021/22	15.05	8.49	1.83	1.83	1543	20.29	1.12	8.51	3.49	86.97	1.23	16.15	22.98
2022/23	13.74	8.53	2.84	2.85	1577	23.39	1.81	9.55	7.97	72.65	1.34	20.21	33.39

Appendix 2: Calculations

CAR

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	13.74	19.69	13.32	16.8
2019/20	13.38	18.51	13.5	17.01
2020/21	12.48	17.17	12.47	16.8
2021/22	11.89	15.95	13.38	15.05
2022/23	13.3	17.09	13.36	13.74
Mean	12.96	17.68	13.21	15.88
S.D.	0.75	1.44	0.42	1.44
CV	0.06	0.08	0.03	0.09

NPL

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	0.16	0.15	0.23	2.64
2019/20	0.22	0.44	0.27	2.47
2020/21	0.12	0.96	0.24	2.05
2021/22	0.24	0.59	0.07	1.83
2022/23	0.79	1.18	0.11	2.84
Mean	0.306	0.664	0.184	2.366
S.D.	0.27	0.41	0.09	0.42
CV	0.88	0.62	0.49	0.18

NPA

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	0.16	0.13	0.25	2.64
2019/20	0.22	0.37	0.3	2.47
2020/21	0.12	0.87	0.36	2.05
2021/22	0.12	0.62	0.77	1.83
2022/23	0.79	1.04	0.12	2.85
Mean	0.282	0.606	0.36	2.368
S.D.	0.29	0.37	0.25	0.42
CV	1.03	0.61	0.69	0.18

DER

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	8.65	7.64	9.62	7.52
2019/20	8.93	8.35	7.52	8.21
2020/21	9.23	8.74	8.21	9.32
2021/22	8.98	7.52	8.63	8.49
2022/23	8.86	8.2	9.2	8.53
Mean	8.93	8.09	8.636	8.414
S.D.	0.21	0.51	0.82	0.65
CV	0.02	0.06	0.09	0.08

Earnings per Employee

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	2751	4585	871	924
2019/20	3060	3715	1066	1150
2020/21	3129	2775	849	12220
2021/22	3131	4467	961	1543
2022/23	3372	6876	1127	1577
Mean	3088.60	4483.6	974.8	3482.8
S.D.	222.79	1520.21	120.7	4891.91
CV	0.07	0.34	0.12	1.40

EPS

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	38.05	30.39	34.22	26.99
2019/20	29.1	24.81	31.89	20.68
2020/21	19.91	14.83	28.18	23.43
2021/22	26.3	23.92	36.45	20.29
2022/23	31.43	36.75	38.44	23.39
Mean	28.96	26.14	33.836	22.956
S.D.	6.67	8.14	4	2.69
CV	0.23	0.31	0.12	0.12

ROE

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	17.59	19.49	22.73	9.95
2019/20	14.1	15.15	19.26	7.87
2020/21	12.09	9.44	17.09	9.36
2021/22	10.08	14.21	18.43	8.51
2022/23	13.94	20.78	16.39	9.55
Mean	13.56	15.814	18.78	9.048
S.D.	2.78	4.52	2.48	0.84
CV	0.21	0.29	0.13	0.09

ROA

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	1.94	2.61	1.56	1.51
2019/20	1.42	1.71	1.32	1.22
2020/21	0.89	1.22	1.09	1.33
2021/22	1.13	1.83	1.2	1.12
2022/23	1.41	2.29	1.23	1.81
Mean	1.36	1.932	1.28	1.398
S.D.	0.39	0.54	0.18	0.27
CV	0.29	0.28	0.14	0.19

CRR

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	18.56	6.54	26.05	4.06
2019/20	14.43	7.53	27.09	4.53
2020/21	18.15	8.12	20.65	4.19
2021/22	6.5	9.21	20.3	3.49
2022/23	7.11	8.54	22.23	7.97
Mean	12.95	7.988	23.264	4.848
S.D.	5.84	1.02	3.13	1.79
CV	0.45	0.13	0.13	0.37

CDR

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	82.63	72.81	87.52	78.14
2019/20	86.24	57.45	88.62	72.25
2020/21	88.54	74.91	83.21	82.76
2021/22	84.12	87.91	86.52	86.97
2022/23	83.25	75.8	87.42	72.65
Mean	84.96	73.776	86.658	78.554
S.D.	2.42	10.87	2.07	6.39
CV	0.03	0.15	0.02	0.08

NP

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	21.13	46.72	31.8	21.51
2019/20	16.25	39.97	29	17.34
2020/21	13.54	34.42	28.79	21.23
2021/22	14.29	42.3	30.5	16.15
2022/23	13.99	44.19	29.58	20.21
Mean	15.84	41.52	29.934	19.288
S.D.	3.13	4.68	1.24	2.41
CV	0.20	0.11	0.04	0.12

CR

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	2.82	3.36	2.56	2.87
2019/20	2.90	3.46	2.63	2.69
2020/21	2.63	3.14	2.39	2.26
2021/22	2.25	2.69	2.05	2.3
2022/23	3.27	3.91	2.97	3.34
Mean	2.77	3.312	2.52	2.692
S.D.	0.37	0.45	0.34	0.44
CV	0.13	0.14	0.13	0.16

IER

Year	Banks			
	EBL	SCB	NICA	NBL
2018/19	1.43	1.21	1.45	1.85
2019/20	1.30	1.32	1.85	1.45
2020/21	1.24	1.28	1.78	1.65
2021/22	1.26	1.2	1.62	1.23
2022/23	1.25	1.17	1.54	1.34
Mean	1.30	1.236	1.648	1.504
S.D.	0.08	0.06	0.17	0.25
CV	0.06	0.05	0.10	0.17

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CHAPTER I INTRODUCTION 1.1 Background of the Study The

banking sector plays a significant role in the overall development of the economy in all countries. Thus, it is said that the banking sector is the

backbone of the country's economy.

Commercial banks are one of the vital aspects of the banking sector, which deals in the process of analyzing the available resources in the needed sector . The bank

collects deposits from individuals and institutional sectors and provides such amount to the needed individuals and institutions. It performs as intermediary between the needed people and institutions. The bank earns interest on lending funds and pays interest on