# CHAPTER-I

# INTRODUCTION

## 1.1 Background of the Study

In any economy, the important of financial sector in general and banking sector in particular cannot be undermined. Banking sector plays the significant role in overall development of the economy in all countries. Thus it is said that the banking sector mirrors the larger economy. It's linkage to all sectors makes it a proxy for what is happening in the economy as a whole. As this aspect various financial institutions are growing rapidly on last decades. Commercial banks are one of the vital aspects of banking sector, which deals in process of analyzing the available resources in the needed sector. Bank plays the intermediary role in-between surplus and deficit of financial sector. Banks motivate people to keep their surplus money as deposits in the bank then bank utilize that money by providing loan to these people who have deficit and need of that fund or by investing that fund in other profitable sector.

The word "Bank has been derived from the Italian word" Banco which means a place for keeping, lending and exchanging money. The bank is a financial institution, which deals with money. It accepts deposits from individuals and organizations and grants loans to them. It allows interest on the deposits made and charges interest on the loans granted. Since, it accepts deposits and grants loans, it is regarded as the trader of money. Further, it creates credit and supports for the formation of capital and hence it is regarded as "Manufacturer of Money".

The growth of financial sector in Nepal is much better as compare to other sectors. Despite of conflict and political insurgency, banking and financial sector continued growing. Numbers of banks and financial institutions are increasing day by day. Similarly banking habit of people is also in increasing trend. A single institution cannot fulfill all the services demanded by the customers. So, different types of bank also emerged in the banking industry specializing in different functions areas. There are different types of banks. Among them commercial bank is one.

Commercial banks represent a key financial intermediary because they serve all types of surplus and deficit units. They offer deposit accounts with the size and maturity characteristics desired by surplus units. They repackage the funds received from deposits to provide loans of the size and maturity desired by deficit units. They have the ability to assess the creditworthiness of deficit units that apply for loans , so that they can limit their exposure to credit (default) risk on the loans they provide (Madura., 1999: 506). The commercial bank has been a vital role for economic development. Banks are intermediaries, which mobilize funds through the prudential combination of investment portfolio in advanced countries.

## 1.2 Statement of the Problem

The overall performance of financial institutions may not reflect by financial statement, so that major question emerges whether these are adequate to reflect the overall performance of company. Hence, there is needed to identify the overall conditions strengths, weakness, opportunity and threats of the banks. For these purpose, several financial and statistical tools and techniques are developed by different experts and financial institutions all over the world, one of them is CAMEL. This study aims to assess the financial conditions and overall performance of sampled commercial banks in the framework of CAMEL.

- What are the capital Adequacy ratios of commercial banks?
- What are the qualities of assets of banks?
- What are the management qualities of the banks?
- What are the earning capacities of the banks?
- What is the liquidity position of commercial banks?

## 1.3 Objective of the Study

The main objective of the study is to examine the financial performance through CAMEL test of selected commercial banks and compare each other. To accomplish the main objective, specific objective of the study are:

- To study the capital adequacy ratios of commercial banks.

- To analyze the qualities of assets of banks
- To examine the earning capacities of the banks.
- To study the liquidity position of commercial banks.
- To suggest and recommend the major findings.

### 1.4 Significant of the Study

The study deals with different financial performance and its indicator as well as financial viability of the banks. The study also significance lies mainly in identifying and comparing the financial health of banks in the framework of CAMEL. This study also provides necessary information of performance capability of their banks to the management. It provide the real picture of performance which is beneficial to potential as well as existing shareholders, about risk return and utilizing fund. The study is also useful for depositors, merchant bankers as well as other stakeholders; they can identify the overall performance of the bank. It will be helpful to those who want to conduct further study in this field. Mainly, the purposed study will be significance for the researchers, research group and academicians for the future in the view of review.

### 1.5 Limitations of the Study

- Out of thirty one commercial banks here we only consider two banks and five fiscal years i.e. from 2007/08 to 2011/12 for the comparative analysis of commercial banks. So this thesis shows the trend of commercial banks but not become whole mirror of all commercial banks.
- In this tough competition, there can be other factors beside the financial factor which effects the overall position of the bank, but all factors are not consider in this research because off limited time.
- This Study will be based on secondary data and information and by review of relevant literatures. Thus it may bias to some extent.

## 1.6 Organization of the Study

The study has been organized into five chapters, each devoted to some aspect of the study on “Comparative CAMEL Analysis of Commercial Banks". The titles of these chapters are as follows:

**Chapter: I. Introduction**

This chapter deals with the subject matter consisting Background, Focus of the Study, Statement of Problem, Objectives of the Study, Significant of the Study, Limitation of the Study of Everest Bank Limited and Bank of Kathmandu Limited.

**Chapter: II. Review of Literature**

The Second Chapter, Review of literature deals with review some work analysis and discussion already made in CAMEL Analysis.

**Chapter: III. Research and Methodology**

This chapter includes the research methodology adopted in carrying out the present research. It deals with Research Design, Sources of Data, Data Collection Procedure, Data Processing, Data Analysis Tools and Limitation of the Methodology.

**Chapter: IV. Presentation and Analysis of Data**

The fourth chapter is concerned with analytical frameworks. It includes the analysis of Financial Statement of Everest Bank Limited and Bank of Kathmandu Limited under the framework of CAMEL and comparing it with the guidelines set by Nepal Rastra Bank and also to each other and overall findings of all two banks.

**Chapter: V. Summary, Conclusion and Recommendations**

This is the last chapter, which consists of the suggestive framework that consists with the issues and gaps, conclusion and recommendations of the study.

# CHAPTER-II

# REVIEW OF LITERATURE

## 2.1 Introduction

Review of literature is the most important part of the study. Without clear concept on the subject matter, the study might not be conducted with in its periphery. This section provides current stage of the research work and guidelines or further study and helps to avoid unnecessary duplication of research work. This chapter is focused on brief discussion about the abstract regarding the camel analysis. I n order to accomplish the objectives of the study, the chapter includes review of relevant concepts, assumption, books and journals as well as major findings of previous studies of the relevant field are included in precise manner.

The purpose of review of the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing a research design. Thus, the previous studies cannot be ignored, because they provide the foundation to the present study. In other words, these have to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. From this, it is clear that the purpose of literature review is to find out what researcher studies have been conducted in one's chosen field of study and what remains to be done.

The review of literature is a crucial aspect because it denotes planning of the study. The main purpose of literature review is to find out what works have been done in the areas of the research problem understudy being undertaken. For review study, the researcher uses different books, reports, journals and research studies published by various institutions, unpublished dissertations submitted by master level students have been reviewed.

## 2.2 Theoretical Review

This section presents the theoretical aspect of the study, which includes the concept of commercial bank, function of commercial bank, concept of CAMEL rating system.

### 2.2.1 History of Banking in Nepal

The history of modern commercial banking industry dates back to 1937 A.D. in which year Nepal Bank Limited was incorporated. Till 1984, financial sector was closed to private sector and foreign investors. Then the Government started to liberalize the financial sector in the first half of 1980s.But it speeded up this process only in early 1990s.Private Sector rushed into the finance industries especially after the restoration of democracy in 1990.Most of the commercial Banks came into operation during the decade of 1990s.Government of any countries highly monitor s and controls the finance industry even in the liberalized market economy. Government does so due to its high gravity in the national economy, and to build up the confidence of private sector in its financial system. Nepal Rastra Bank (NRB) as an apex monitory authority of the country started to monitor and control the finance industry especially at the end of the 1990s by issuing directives to the financial institutions (FIs).It initiated the offsite and onsite super vision of FIs to maintain their sound financial health and to build up the confidence of private sector in the liberalized financial system and protect the interest of the investors.

Even though the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the king Manadev, the coin "Manank" and "Gunank" during the reign of the king Gunakamadev were in use. Historically, we find the evidence of minted coin of Amshuverma in the $7^{th}$ century and later the coin of Jishnuth Gupta.In the beginning of eighth century, king Gunakamadev renovated the Kathmandu city by taking loan and at the end of the same century, a merchant named Shankhadhar had started the "New year" Nepal Sambat after freeing all the people of Kathmandu from the debt. Sadashiva Dev in $12^{th}$ century, introduced, Silver Coins, King jayasthiti Malla, had given the responsibility to a caste of society called "Tankadhari"while he had given the name of the castes and their professions for the purpose of transactions of money in the society. In the same century, copper coins were used by King Ratna Malla and the gold coins by the last Malla King of Kathmandu Jaya Prakash Malla.

After the unif ication of Nepal, Prithvi Narayan Shaha the great King had used coin Mohar in his name. An institution called "Taksar" was established in 1989 and it started to issue the coin scientifically. In his way, we see that the coins have been in

use from the ancient time, and there was practice of taking and giving loan for the purpose of trade and other various purposes. During the reign of Ranodip Singh, an office named "Tejarat" was established in Katmandu in 1933(B.S.) It used to provide loans to the government officials and the people against deposit of gold and silver. It had also extended its branches outside Katmandu valley for giving loan. However, this office had no right to accept deposit of public and it had no characteristics of modern banks. Nevertheless we can say that the institutional banking system had started from then. After having concluded a treaty with British India in 1980(B.S), Nepal could trade over Sea freely for the diversification of trade. As a result, in 1993(1936 the draft of the company act and banking act were prepared by forming industrial council "A Jute Mill" was established in Biratnagar under this act and both commercial and industrial development as well as institutional banking system had been started together at a time in Nepal.

After the establishment of Nepal Bank Limited on 30th Kartik, 1994( 1938), modern banking system started in Nepal. Nepal was influenced by the renaissance and the industrial growth brought about by First World War. Nepal established first legation in international level in London in 1934 for creating international relation with the various countries. The first secretary Gunjaman Singh was posted to the legation in his alertness, and under the international influence and the national necessity, Nepal Bank limited was established under the Nepal Bank Act 1994(1938).It has many important functions. The Nepal Bank Limited is the oldest bank of Nepal.

The economic and industrial development was stopped in Nepal from the Second World War After 2007; the banking activities of Nepal were not satisfactory due to political instability. At first, though this bank was given the authority and responsibility of central bank, but with the change of time, it was necessary to establish a Central Bank.

Nepal Rastra Bank was established in 2013(1957), Baisakh 14$^{th}$ in Nepal. This was established to replace the Indian Currency and to increase the usage of Nepalese notes, to stop duel monitory system, to apply monetarism in all part of the country, to provide issuance of notes, to bring Nepalese currency in use, to manage the monetary system well, to keep stability of the exchange rate of Nepalese currency, to encourage national industry by mobilizing the capital for development and to

develop the banking system in Nepal. This is the government bank. This is bank of banks.

After the establishment of Central bank other banks like Rastriya Banijya Bank, Agricultural Development Bank was established under the initiative of the Central Bank. After this phase, commercial banks started its operation. Those banks were opened with joint investment. After this Development Banks, Micro financing came into existence.

NABIL Bank is the first bank established in joint investment in 2041(1984) and then Nepal Investment Bank was established in 2042(1985). Standard Chartered Bank was established in 2043(1987)as a joint venture between ANZ Grindlays and Nepal Bank Limited. Himalayan bank was established as a joint venture with Habib Bank of Pakistan in 2049(1993). Nepal SBI Bank Limited was established as a joint venture between Employees Provident Fund and State Bank of India in 2050(1992).Nepal Bangladesh bank was established in 2050(1993) in technical collaboration with I.F.I.C. Bank Limited of Bangladesh. Everest Bank started its operation in 2051(1994) but it entered into joint venture with Punjab National Bank in 1997.Bank of Kathmandu was established in 2051(1994) under joint investment with syam Bank of Thailand. Nepal Credit and Commerce Bank was established as joint investment with leading Bank of Srilanka. Hence there are so many commercial Banks in operation in Nepal.

### 2.2.2 Concept of Commercial Bank

According to the Black's Law Dictionary "Commercial Bank" means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time-deposit boxes and to provide similar services.

Likewise **Section 2(a) of the Commercial bank Act 2031 (1974)** has defined that "Commercial Bank" means a bank which operates currency exchanges transactions, accepts deposits, provides loan; per for ms, dealing, relating of commerce except the banks which have been specified for the co-operatives, agricultural, industry of similar other specific objective. So, commercial banks are the important source of institutional credit in the money market. A commercial bank is a profit-seeking business firm, dealing in money or rather dealing in claims to money. It is a FI that

creates deposits liabilities which circulates as money unlike the deposits of other FIs. In fact, the greater part of money supply is the direct consequence of the profit-seeking or money-crating activities of commercial banks.

### 2.2.3 Functions of Commercial Banks

**C**ommercial banks are directly related whit the people and institution. Although these banks are truly inspired with the objective of gaining profit, these commercial banks are also established to, to accelerate common people's economic welfare and facility, to make available loans to agriculture, industry and commerce and to provide the banking services to the public and the state. The commercial banks in Nepal provide the following main banking functions;

**1. Receiving Deposits**

This is the main function of commercial banks to collect savings of individuals and firms. They offer different types of deposits for the facility of the customers.

**i. Current Account or Demand Deposits**

Any amount can be withdrawn from this account any time without any notice. No interest is allowed on this type of account.

**ii. Saving Account**

In this account the bank pays interest relatively at low rate to the depositors. Depositors are allowed to withdraw their money by cheque up to a limited amount.

**iii. Fixed Deposit**

A bank accepts fixed or time deposits from savers who do not need money for a stipulated period from 6 months to longer periods ranging up to 10 years or more. Amount cannot be withdrawn before the fixed future date in this type of deposit. High interest is allowed in fixed deposit which is different according to period.

**2. Advancing Loans**

This is the important function of the commercial bank. Credit is given to the people in different ways.

**a. Making Loans**

There are three types of loans given to borrowers.

**i. Short Term Loans**

These loans are advanced for the period of six months to one year. High Interest rate is charged on this type of accounts.

**ii. Medium Term Loans**

Loans from one to five years are called medium term loans.

**iii Long Term Loans**

Loans which are advanced for the period, more than ten years are long term loans.

**b. Bank Overdraft**

Banks allows their trustful customers to draw more than the deposit they have in the Bank. Bank charges interest on overdraft.

**c. Cash Credit**

Bank also gives credit against immovable property and interest is charged by the bank.

**d. Discounting of Bills**

This is income source of bank to discount bills of exchange. They charge nominal Interest and discount only reputed and clear bills of exchange.

### 2.2.4 Concept of Bank Supervision

There is no theoretically proven system or standard textbook blueprint for the structure and process of regulating and supervising financial institution, including banks. In fact, arrangements for banking regulation and supervision differ considerably from country to country. Apart from the differences in political

structure, the most important factors that account for the differences in regulatory and supervision approaches include the general complexity and state of development of the financial system, the number, size and concentration of banking instructions, the relative openness of the demotic financial system, the nature and extent of public discloser of bank, financial position and availability of technology and human recourses for regulation and supervision. However, an impact framework for the regulation and super vision of the banks can be found in the core principles for effective banking supervision issued by the Basel Committee on banking Supervision in 1977. The frame work can be interpreted as comprising four distinct yet complementary sets of arrangement.

### 2.2.5 Objectives of Bank 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 institution 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 supervisory.

### 2.2.6 Process of Bank Supervision

On going banking supervision consists of a differentiated mix of off- site monitoring procedures and on site examinations. Off site monitoring is the minimum tool for ongoing supervision. Supervisory authorities do not have the mandate or resources to carry out periodic on site examinations. The process involves analyzing and reviewing periodic financial and other information received by the supervisor

relating to banks activities. Supervisor typically subject regulated banks to reporting requirements covering, for insurance, balance sheet and profit and loss statement, business profile, loans and investments, liability, capital and liquidity levels. Loan loss provision, etc during on- site examination, supervision make an overall assignment of a banking institution on the promises of the organization.

### 2.2.7 Supervisory and Monitoring System of the Nepal Rastra Bank

Principally, the central bank has the liability and obligation to maintain fair and healthy environment of the economic activities of the nation. For it the necessary acts, rule and regulation are enacted and development. Thus, the act of checking weather the related officials and banks have honestly complied with the policy, regulation and super visions enacted by the controlled financial system, it self is called inspection. As a central bank, the Nepal Rastra Bank has been discharging such serious and sensitive task.

Before the establishment of Nepal Rastra Bank, the function of inspection and supervision used to be carried out by the officials by His Majesty of the Government of auditor general. This practiced was contributing until the enactment of the commercial bank act 2020BS. After the introduction of this act, the function of inspection and supervision for the commercial bank was given to the Nepal Rstra Bank and this right was more strengthened by the Nepal Rastra Bank act and the introducing of the commercial bank act 1974. The Nepal Rastra Bank has been discharging the task of inspection for the fiscal year 2025/26BS.

The system if inspection and super vision of the banking and the non banking financial institution is to be followed on a certain slandered norms. In this regards, the bank for international settlement has formulated an important standard, which is called CAMEL system. The evaluation of financial institutions is done on the basic of it. In the case of Nepal, the Nepal Rastra Bank adopting this system has made in the main basis of the one site and off site super vision.

### 2.2.8 Concept of CAMEL Banks Rating System

The acronym "CAMEL" is revised in January 1997, the uniform financial institution rating system, which is commonly referred at as that camel rating system. For

purpose of this rating system, the term financial institution refers those insured depository institution whose primary federal supervisory agency is represented on the FFIEC. The agency comprising the FFIEC the board of governors of the federal reserve system (FRB) the federal deposit insurance corporation, the national credit union administration the office of the controller of the currency and the office of the thrift supervision. The term financial institution includes federally supervised commercial banks, savings and loan associations, mutual savings banks and credit unions. Capital adequacy, Assets quality, Management efficiency, Earnings and Liquidity. A sixth component, a bank's sensitively to market risk was added in 1997; hence the acronym was changed to CAMEL.

The camel rating system is subjective beach marks for each component are provided, but they are guidelines only and presents essential foundations upon which the composite rating is based. They do not eliminate consideration of the other patient's factors by the examinant. The uniform rating system provides the ground work for necessary supervisory response and helps institutions supervised by all three us super visor s to be reasonably compared and evaluated. Rating are assigned for each component in addition to the over all rating of a banks financial condition. The ratings are assigned on a scale from 1 to 5. The camel ratings are commonly viewed as a summary measures of the private bank supervisor y information gathered by examiners regarding banks overall financial conditions, although they also reflect available public information.

During on site bank supervisor getting private information. Such as details on problem loans, with which to evaluate banks financial conditions and to monitors its compliance with laws and regulatory polices. A key product of such an exam in a supervisory rating of banks overall conditions commonly referred at as a CAMELS rating.

In Nepal, the NRB plays the super visor y role for evaluating banks financial condition through rating the banks in accordance to CAMELS is still a myth.

### 2.3 Composite of Ratings

Composite ratings are based on a careful evolution of an institution's managerial, operational, and financial and compliance performance. The six key composites

used to access an institution's financial condition and operations are: capital adequacy ratio, asset quality, management capability, earning quantity and quality, the adequacy of liquidity and sensitivity to market risk. The rating scale ranges from 1 to 5 with a rating of 1 including; the strangest performance and risk management practices relatives to the institutions size, complexity and risk profile; and the profile; and the level of least supervisory concern . A 5 rating includes; the most critically deficient level of performance; inadequate risk management practices relatives to the institutions size, complexity and risk profile and the greatest supervisor y concern.(www.google.com)

**2.4 Camels Components**

Each of the components rating descriptions is divided in the three sections; and introductory paragraph; a list of the principle evaluation factors that related to that components; and a brief description of each numerical rating for the components. Some of the evaluation factors are reiterated under one or more of the other components to reinforce the inter relationship between components. The listing of evaluation factors for each component's rating is in no particular order of importance.

**A. Capital Adequacy Ratio**

A financial institution is expected to maintain capital commensurate with the nature and extents of risks to the institution and the ability of management to identify, measure, monitor and control these risks. The effect of credit, market and other risks on the institution's financial conditions should be considered when evaluating the adequacy of capital. The types and quantity of risk inherent in institution's activities will determine the extent to which it may be necessary to maintain capital at levels above required regulatory minimums to properly reflect the potentially adverse consequences that these risks may have on the institution's capital. The capital adequacy of an institution's r elated based upon, but not limited to an assessment of the following evaluation factors.

1. Size of the bank

2. Volume of inferior quality assets

3. Bank’s growth experience, plan and prospects

4. Quality of capital retained earnings

5. Access to capital markets

Capital Adequacy Formula,

Capital Adequacy Ratio (CAR) = (Total Capital Fund/ Total Risk Weighted Assets) ×100% (Minimum requirement as per NRB Directive is 11%)

Core Capital Ratio (CCR) = (Tier-I Capital/Total Risk Weighted Assets)×100%

(Minimum requirement as per NRB Directive is 5.5%)

Where,

Total Capital Fund = Core Capital + Supplementary Capital

Total Risk Weighted Assets = On Balance Sheet Risk Weighted Items + Off Balance Sheet Risk Weighted Items

**B. Assets Quality**

Commercial banks collect funds in the form of capital, deposit etc. It mobilizes these funds to generate certain returns by giving loans to the users of money to invest in various alternatives. A significant part of the banks income is through its lending activities. There are basically two types of loans - advances and loss provisions:

1. Performing loans:

- All good loans and overdue for below 90 days.

2. Non Performing loans:

- Sub- standard- loans overdue by more than 3 months up to 6 months.
- Doubtful-loans overdue by more than 6 months up to 1 year
- Bad- loans overdue by more than 1 year.

**Classification of loans Provision required**

Good 1%

Sub-standard 25%

Doubtful 50%

Bad loans 100%

Non-performing Loan Ratio Formula,

Non-performing Loan Ratio = (Total Non-Performing Loan/Total Loan & Advances)×100%

Where,

Total Non-Performing loan (NPL) = Sub Standard Loan + Doubtful Loan + Bad Loan

Total Loan & Advances = Total Performing Loan + Total Non Performing Loan

Loan Loss Coverage Ratio = (Total LLP/ Total NPL) ×100%

Where,

Total Loan Loss Provision (LLP) = Provision on (Pass Loan + Restructured Loan + Sub Standard Loan + Doubtful Loan + Bad Loan)

Total Non-Performing loan (NPL) = Sub Standard Loan + Doubtful Loan + Bad Loan

Loan Loss Provision Ratio = Total Loan Loss Provision (LLP)/ Total Loan & Advances × 100%

Where,

Total Loan Loss Provision (LLP) = Provision on (Pass Loan + Restructured Loan + Sub Standard Loan + Doubtful Loan + Bad Loan)

Total Loan & Advances = Total Performing Loan + Total Non-Performing Loan

**C. Management**

The success of any institution depends on the competency of its management. In fact, the management not only makes suitable policy and the business plans but also implements them for the short term and the long term interests, which helps to achieve aimed objectives of bank and financial institution's. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and the officials, operating expenditure, customer's relation with the officials and institution, management information system, organization and working method, internal control system, power concentration, monitoring, decision making process, policies.

An institution can take a desire momentum only when the management is capable of strong and long term vision. For the proper and efficient management, the banks have to possess the following qualities:

1. Structure of management team should be perfect.
2. Qualitative manpower and its productivity.
3. Good relationship between customers and organization.
4. Adequate management expenses.
5. Internal management system should be per fect.
6. Fair decision making capability.
7. Proper communication system.
8. Working environment should be perfect.

- Management analysis can be done by using following formula;

Management Efficiency Ratio (MER) =Net Profit after Tax/Total No. of Staffs

**D. Earnings**

Earnings are the ultimate result of any business. Generally, if the earnings are good then that business is running well. Similarly the aggregate performance of the bank

reflects from its earnings. An analysis of the earnings ration helps the management, investors and creditors to know the performance of the bank. They can get information regarding their interest. The following ratios help the management and other stakeholders to know about the earning policy of the respective banks:

1. Return on Equity (ROE)

Return on Equity can be done by using following formula

Return on Equity (ROE) = (Net Income after Tax/ *Total Shareholders fund*) × 100%

2. Return on Assets (ROA)

Return on Assets can be done by using following formula

*Return on Assets (ROA) = (Net Income after Tax/ Total Asset) × 100%*

3. Earning per Share (EPS)

Earning per share can be done by using following formula

Earning per Shares (EPS) =Net Profit after Tax/No. of outstanding Shares

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

**E. Liquidity**

Simply, liquidity means short- run solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances. The certain percentage of deposit should be kept in bank in the form of cash. It the bank will keep greater deposit in cash, it losses the opportunity cost. Similarly, if bank keeps low amounting deposit, it could not be able to pay depositors on the time of requirement.

Liquidity can be measured in following ways:

1. Cash Reserve Ratio

Cash Reserve Ration can be done by using following formula

Cash Reserve Ratio = Cash Balance in NRB/ (Local Currency Deposit – Margin Deposit)

2. Cash & Bank Balance Ratio

Cash and Bank Balance can be done by using following formula

Cash & Bank Balance Ratio = Cash & Bank Balance/ Total Deposit

3. Investment Government Securities

Investment in Govt. Securities can be done by using following formula

Investment in Govt. Security Ratio = (Investment in Govt. Security/ Total Deposit) × 100%

## 2.5 Review of Previous Studies

National and international journals, exports views, review of previous research and study are covered in research review.

### 2.5.1 Review of Articles

**Berger and Davies** evaluated the impact of CAMEL rating changes on the parent holding company's stock price. They separated stock price changes into two component a 'private information' effect (which identified the public's awareness of new information discovered by examiner), and a 'regulatory discipline' effect which valued a regulators' presumed ability to force a bank to changes its behavior). Berger and Davies' empirical results provided only weak evidence of a regulatory discipline effect, but they found a strong private information effect. However, the information effect applied only to CAMEL downgrades, which tend to precede stock prices declines. Berger and Davies found no movement in the stock price following a CAMEL upgrade.

**Hirtle and Lopez** examine the usefulness of the past CAMEL rating in assessing banks current conditions. They find that, condition on current public information, the private supervisory information contained in the past CAMEL rating provides

further insight into bank current conditions as summarized by current CAMEL ratings. The authors find that, over the period from 1989 to 1995 the private supervisor y information during the last on-site exam remains useful with respect to the current condition of the bank for up to 6 to 12 quarters. The overall conclusion drawn from academic studies is that private supervisory information, as summarized by CAMELS ratings, is clearly useful in the supervisory monitoring of bank conditions.

**Dhungana B.** argues CAMEL rating system plays key role for bank supervision. According to him, The NRB as a central bank has the important task of regulating & supervising the banking system of Nepal. NRB assess the overall strength of the banking system as well as the safety and soundness of each individual bank and financial institution, In order to discharge this role. To help in this endeavor, a uniform rating system for all banks and financial institution has been used. Under this modality, supervisors assign individual numerical rating to the key areas of Capital, Assets, Management, Earnings, liquidity and sensitivity to the market risk (CAMELS) as well as assigning an overall composite rating to each banking institution. In this way, the NRB has been able to categorized banks and financial institutions into group based on their overall strength, quality and operating soundness. The rating system known as CAMEL has served as a supervisory tool to help identify those banks that are having problems and require increased supervision. To date, early warning signals are drawn are drawn & monitored from the CAMEL rating through on-site inspection and CAMEL rating through offsite supervision.

**Pant R** (2011) argued that after 2010, there will be new international entrants in the market, we must remain very competitive, and we have to operate at international standards. However, he does not think we need to fear. He believed combined capital of all Nepalese commercial banks would not even equal to the capital of a small bank in developed countries. It somehow, Nepal is able to capitalize on the growth of China and India, there is no turning back for the banking sector. There will be opportunities for all types of banks. So, we need to work together to address the challenges of that WTO." 2008 was an extraordinarily tumultuous year, full of shocks & surprises. None of us have even quite seen the scale of dislocation &

disruption in financial market that we have experienced this year. To put things in perspective, there has been more volatility in the US equity market in the three month since Lehman went bankrupt in the mid- September, than in the previous 45 year s put together,. Moreover, with the disappearance or effective nationalization of several major players, and the demise of the US broke, dealer model, the global industry has changed fundamentally & irreversibly.

### 2.5.2 Review of Thesis

**Shrestha** (2003), in his study of "Capital Adequacy Norms for Commercial Banks and its impact of Bank of Kathmandu and Himalayan Bank Ltd.", has concluded that BOK and HBL are found to be successful to comply with requirement of capital adequacy norms. The CD ratio of HBL is very much low which needs to be improved immediately and CD ratio of BOK is satisfactory. Although, the banks are successful to meet the capital adequacy requirement as per NRB directive.

**Bhandari** (2006) conduct a study on "Financial performance Analysis of Himalayan Bank Limited in the Framework of CAMEL". The basic objective of the study was to analyze the financial performance of Himalayan Bank Limited through CAMEL framework. He had used secondary data for the period of six year s from 1999 to 2004. The study revealed the adequate capital of the bank. The non-performing loan was in decreasing trend, which shows the improvement of the bank. The bank is still with better return which is proved by its better ROE; however it is in decreasing trend. The decreasing trend of net interest margin shows management slack monitoring over the banks earning assets. The liquid fund to total deposit ratio is above the industrial average ratio. NRB balance and cash in vault to total deposit ratios are below the industrial average ratio during the study period.

**Sharma** (2007) performed a study on "Financial Performance Analysis of Nepal SBI Bank Ltd., In the Frame work of CAMEL." The main objective of the study is to analyze the financial performance of Nepal SBI bank Ltd. Through CAMEL framework, the study was based on secondary data covering the six years from 2001 to 2006. There searcher conducts the financial tools to analyze the six year s data. He concluded That Nepal SBI bank Ltd. Was well capitalized and complying with directives of NRB. The bank has maintained satisfactory level of past due loan on

total loan except 2001. Earning per employees of the bank was found quite high. Net interest margin of the bank was found satisfactory. Further the liquidity position of the bank was found sound.

**Poudel** (2007) carried out "A study on comparative analysis of financial performance between Himalayan Bank and Standard Charted Bank" the basic objectives of that study was provided comparative financial performance of SBCNL and HBL. Only five fiscal years financial performance beginning from 1995/96 through 2000/2001were analyzed. In this study financial and statistical tools were used to evaluate the performance of banks. In financial tools liquidity, activity, profitability, structural and income and expenditures ratios. Further, the research used the method of least square to find our trend of different financial indicators he found that the performance of SCBNL is better than that of HBL.

**Chand** (2007) conducted "Financial Performance Analysis (CAMEL - Test) of Selected CBs (NABIL, NIBL &SCBL)" the main objective of the study is comparative analysis of commercial banks through the frame work of CAMEL. He did her study covering five FY (2001 to 2005) on the basis primary as well as secondary data. Some financial and statistical tools and techniques are applied to evaluate the performance of selected joint venture banks. On his study, except 2001, SCBL had highest CAR among these selected CBs where NABIL is moderate in all time. In the case of NIBL in 2001 it had highest CAR among them and then after it went behind and getting second and some year third position in CAR. Here Chand gave first rank to SCBL for maintain highest CAR. In case of Assets quality in average study show the NABIL performance is much better than other and SCBL and NIBL follows NABIL respectively. Chand study shows the factors affecting the management efficiency and effectiveness. Bank management quality model was also presented in his study. As per earning concern SCBL leads other two banks and tough fight between NABIL and NIBL. For comparative analysis of liquidity part which compare, it is found that NIBL secures first position for percentage of cash balance and percentage of balance with bank and SCBL scores first position for investment in government securities. NABIL is a little bit take risk and invest less in government securities as compare to other two banks. All banks are maintaining the benchmark of the NRB on case of CRR.

**Bhusal** (2008) carried out a research study on “Financial Performance Analysis of Commercial Banks in Nepal the Frame Work of CAMEL (A Comparative Study of Kumari Bank and Machhapuchchhre Bank ", with the fundamental objective to analyze and compare the financial performance of KBL and MBL in the frame work of CAMEL from FY 2058/59 to 2062/63. With the help of both secondary as well as primary data, she conducted her study by applying some financial and statistical tools and techniques. Her study shows both banks are maintaining CAR as per rule of NRB and the trend of CAR is decreasing. Both banks are in much satisfactory level in the case of assets management. Increasing profit of both banks shows the good sign but it

is not enough to compete with other established banks. According to her study, Profits are also not enough to meet benchmark set by the World Bank. In the case of liquidly both banks are not properly maintaining the rule of NRB. In her overall analysis there is tough competition between KBL and MBL and both are in the phase of improvement.

**Singh** (2008) conducted " A Study of CAMEL Analysis of Commercial Banks " i.e. SCBNL, HBL & NABIL Bank. The objective of that study was to evaluate the capital adequacy ratio, to analyze assets quality and to absorb the liquidity position of these banks. He used ration analysis and statistical tools to covered five years analysis. On the basis of Mr. Singh's analysis, SCBNL is on the top and NABI L followed by HBL.

# CHAPTER - III

# RESEARCH METHODOLOGY

## 3.1 Introduction

Research methodology describes the methods and process applied in the entire study. In other words, research methodology is a systematic process to approach any research problem and explore it objectively. Hence this chapter includes research design, Source of Data, population and samples, Data collection tools and Data Analysis tools.

## 3.2 Research Design

To fulfill the objectives of the study certain research design in essential so the analysis of this study is based on the nature of data and tools for analysis. To fulfill the objectives of the study it emphasized on historical as well as descriptive and exploratory.

## 3.3 Population and Sampling of Data

The total number of commercial bank represent as the total population for the purpose of this study. Hence, the population consists of thirty one commercial banks. Out of the total population two private sector commercial banks are used as samples. These are Everest bank Limited and Bank of Kathmandu.

## 3.4 Periods Covered

To do this research work Five Years Annual Report have been taken of respective banks which are published by the bank after audit to the general public. It covers the fiscal year of 2007/08 to 2011/12.

## 3.5 Source of Data

This research study is basically based on secondary data. The required data for the study will be collected in followings ways:

- Library research study

- Internet, home pages and related links visit.
- Directives of NRB
- Annual reports of the Everest bank Limited and Bank of Kathmandu.
- The other sources will be articles, previous study on related topic, published articles of different authors and journals.

### 3.6 Data Analysis Tools

#### 3.6.1 Financial ratio analysis tools

The financial analysis tools are used to determine the performance of the banks in the frame work CAMEL components. These ratios are categorized in accordance of the CAMEL components. Following categories of key ratio are used to analyze the relevant components in terms of CAMEL.

##### 3.6.1.1 Capital Adequacy Ratio (CAR)

Commercial bank holds adequate capital depending on their requirement. Capital adequacy ratio is a measure of the amount of a bank's capital as a percentage of its risk weighted credit exposure. Nepal Rastra Bank (NRB) which recommends minimum CAR of 11% and 5.5% of Core Capital Ratio (CCR).

##### 3.6.1.2 Assets Quality

Commercial banks collect funds in the form of capital, deposit etc. It mobilizes these funds to generate certain returns by giving loans to the users of money to invest in various alternatives. A significant part of the banks income is through its lending activities. There are basically two types of loans and advances.

**1 Performing Loans**

Loan on which payments of interest and principal are less than 90 days past due called performing loan.

**2 Non Performing Loans (NPL)**

A loan is non- performing when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full.

- **Sub Standard Loan**

  All loans and advances that are past due for a period of 3 months to 6 months shall be included in this category. Those are classified as non-performing loan.

- **Doubtful Loan**

  All loans and advances, which are past due for a period of 6 months to one year, shall be included in this category. Those are non performing loan.

- **Bad/ Loss Loan**

  All loans and advances, which are past due for a period of more than one year, shall be included in this category. Those are classified as nonperforming loan.

**3.6.1.3 Management**

Management is the arrangement of various things in a systematic manner for the achievement of organizational goal. An institution can take a desired goal only when the management is capable, which is of strong and long-term vision. For the achievement of the goal of the bank within certain period of time proper and efficient management is required, for which the banks should have the following qualities:

- Qualitative Human resource management
- Adequate management expenses
- Perfect structure of management team.
- Fair decision making capability.

- Use of modern Information Technology and proper communication system
- Perfect working environment
- Internal management system and relationship between customer and organization.

### 3.6.1.4 Earning

Earning means excess of revenue over cost, so excess revenue earned by any organization in the course of operation is known as profit. It is the ultimate result of any business. Generally, if the earnings are good then that business is running well. Similarly the aggregate performance of the bank reflects from its earnings. Earning is the ultimate result of any business. Generally, higher earnings reflect better financial position. Similarly the aggregate performance of the bank reflects from its earnings. Following ratios depicts the earning position of EBL& BOK.

### 3.6.1.5 Liquidity

Liquidity is the state of owning things of value that can easily be exchanged for cash. Liquidity is the term which denotes the ability of an organization to meet its financial obligation or debts in cash in time. Such an organization has assets which can be converted into cash and without any loss at their conversion through the maintenance of certain reserves and provision. Liquidity reflects the short term financial strength of the banks. Bank does not provide all its deposit at loans and advances, but certain percentage is kept as liquidity in the bank itself or elsewhere.

Basically bank measures liquidity through three methods. They are as follows;

- **Cash Reserve Ratio (CRR)**

It is the minimum amount of reserves a bank must hold in the form account balance with NRB. This ratio ensures minimum level of the bank s first line of defense in meeting depositor s obligations. It is the mandatory reserve that the commercial bank has to keep in the form of cash in their account in NRB for depositor's assurance and safety of bank which also reflects the bank s goodwill. As per the regulation made by NRB, Cash Reserve Ration is to be maintained 5.5% on average of total deposits of bank on weekly basis.

Since, we cannot find the daily deposit amount in annual report and also cannot access it, we cannot find cash reservation and compare it as mandatory set by NRB of 5.5% on average of total deposit of bank on weekly basis. So, it will give false information or mislead to others if we calculate it on the figure that is given on year ending Balance Sheet.

- **Cash and Bank Balance Ratio (CBR)**

The ratio measures the bank ability to meet immediate obligation. So, optimum balance should maintain in order to meet their paying obligation. Further, this ratio is employed to measure whether bank s cash balance is sufficient to cover unexpected demand made by the depositors.

- **Investment in Government Security Ratio (IGSR)**

Government securities are known as risk free assets, which are easily converted into cash to meet the short term obligation. That's why every commercial bank has to invest their certain amount in government securities.

# CHAPTER – IV

# DATA PRESENTATION AND ANALYSIS

## 4.1 Introduction

This chapter deals with the presentation and analysis of data collected from different sources with the focus on the camel components. As stated in the theoretical prescription, the financial performance analysis of Everest Bank Limited, Bank of Kathmandu and Nepal Industrial and Commercial Bank Limited are concentrated in the five components of camel i.e. Capital Adequacy, Assets Quality, Management Quality, Earning Quality and Liquidity. The data collected from annual reports of respective banks have bee analyzed with the application of camel.

## 4.2 Data Presentation and Analysis

The data collected from different sources has been defined and documented in Excel tables, which are further processed to analyze and arrived at the findings on the financial conditions of above mentioned banks inter ms of Camel Analysis. The major findings of the study on financial performance of EBL, BOK and NIC are also described on each section and part of CAMEL Analysis.

### 4.2.1 Capital Adequacy

Capital Adequacy is a measure of a FIs financial strength, in particular its ability to cushion operational and abnormal losses. Minimum capital adequacy ratios have been designed to ensure banks can absorb a reasonable level of losses before becoming insolvent. The higher the capital adequacy ratios a bank has, the greater the level of unexpected losses it can absorb before becoming insolvent. An FI should have adequate capital to support its risk assets in accordance with the risk-weighted capital ratio framework. It has become recognized that capital adequacy more appropriately relates to asset structure than to the volume of liabilities. Risk Weighted Assets, Core Capital and Supplementary Capital are major figures used to calculate Capital Adequacy Ratio. In the context of Nepal, NRB has assigned following weight for following Assets of Banks.

**0% Risk Weight Asset**

Cash in Hand, Gold (Tradable), Balance with Nepal Rastra Bank, Investment in Government Bonds, Investment in NRB Bonds, Loan against own Fixed Deposit Receipt, Loan against Government Bonds, accrued Interest on Government and Bills for Collection.

**10% Risk Weight Asset**

Forward Foreign Exchange Contract

**20% Risk Weight Asset**

Balance with domestic Licensed Banks & Financial Institutions, Loan against other Banks F.D. receipt, Balance with Foreign Banks, Money at Call, Loan against Guarantee of International Rated Banks, Investments on International Rated Banks, L/C (Below 6 month's maturity) and Guarantee against International Bank Guarantee

**50% Risk Weight Asset**

L/C (Over 6 month's maturity), Bid Bonds and Performance Bond

**100% Risk Weight Asset**

Investments on Share, Debenture & Bonds, Other Investments, Loan, Advances & Bills Purchase/Discount, Fixed Assets, Other Assets, Net Other Interest Receivable (Gross Int. Receivable – Interest receivable on Govt. Bonds - Interest Suspense) , Financial Guarantee, Other Guarantee, Irrevocable Loan Commitment, Contingent Liability for Tax and Other Contingent Liability.

Capital Adequacy ratio calculated as follows:

Capital Adequacy Ration (CAR) = Total Capital Fund/ Total Risk Weighted Assets 100%

Table 4.1 is the observed Capital Adequacy Ratio during the study period in numerical terms which is presented below.

**Table 4.1**

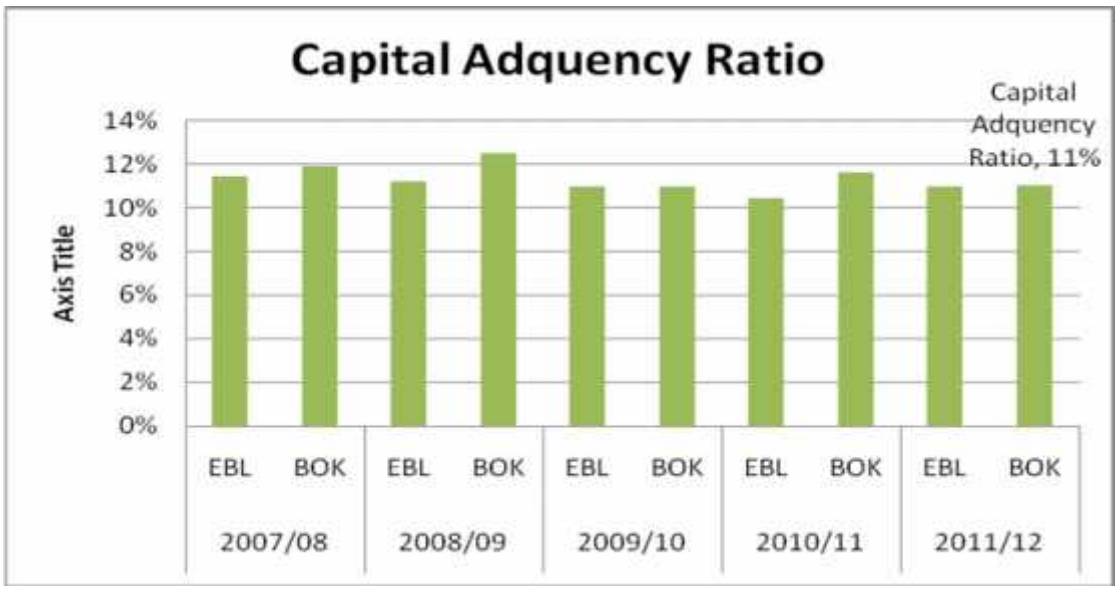
**Capital Adequacy Ratio Table**

| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Total Capital Fund** | **Total Risk Weighted Assets** | **Capital Adequacy Ratio** | **Total Capital Fund** | **Total Risk Weighted Assets** | **Capital Adequacy Ratio** |
| 2007/08 | 2,406,056,000 | 21,039,879,000 | 11.44 | 1,635,235,217 | 13,702,369,666 | 11.93 |
| 2008/09 | 2,703,870,000 | 24,131,922,000 | 11.34 | 2,005,695,528 | 16,025,037,210 | 11.68 |
| 2009/10 | 3,257,142,000 | 30,240,428,000 | 10.77 | 2,330,073,365 | 21,471,664,711 | 10.85 |
| 2010/11 | 3,605,840,000 | 34,583,548,000 | 10.43 | 2,662,069,068 | 22,918,299,788 | 11.62 |
| 2011/12 | 4,574,751,000 | 41,525,347,000 | 11.02 | 2,889,628,630 | 26,095,913,430 | 11.07 |

Figure 4.1 is a bar diagram which represents the tabulated numerical data which helps to compare the Capital adequacy Ratio among two banks.

**Figure 4.1**

**Capital Adequacy Ratio Table**



As shown in the Table 4.1 and Figure 4.1, the Capital Adequacy Ratio of BOK is is the highest and EBL is the lowest in FY 2007/08; BOK of 11.93% is the highest and EBL of 11.44% is lowest in FY 2008/09; BOK of 11.68% is the highest and EBL of 11.34% is lowest in FY 2009/10; BOK of 10..85% is in highest position and EBL of 10.77% is the lowest position in FY 2010/11;BOK of 11.62% is the highest and EBL of 10.43% is the lowest. Similarly in the FY 2011/12 BOK is 11.07 highest and EBL 11.02 lowest.. Further more Figure 4.2 helps to find out the trend of two banks Core Capital Ratio over the last five years period.

### 4.2.1 Core Capital Ratio (CCR)

Core Capital measures a bank s financial strength from a regulator's point of view. In the context of Nepal Core or Primary Capital includes Paid- up Capital, Share Premium, Non redeemable Preference Share, General Reserve Fund, Cumulative Profit/ loss, Capital Redemption Reserve, Capital Adjustment Fund/ Proposed Bonus Share and other Free Reserve. Amount of the goodwill, Fictitious Assets, Investment in excess of prescribe limit specified by NRB, and investment in security of companies with financial interest is deducted from the sum of all elements of the primary capital to arrive at the core capital.

It is calculated as follows:

Core Capital Ratio (CCR) =Total Core Capital Fund/ Total Risk Weighted Assets×100%

Table 4.2 is the observed Core Capital Ratio during the study period in numerical terms which is presented below

**Table 4.2**

**Core Capital Ratio**

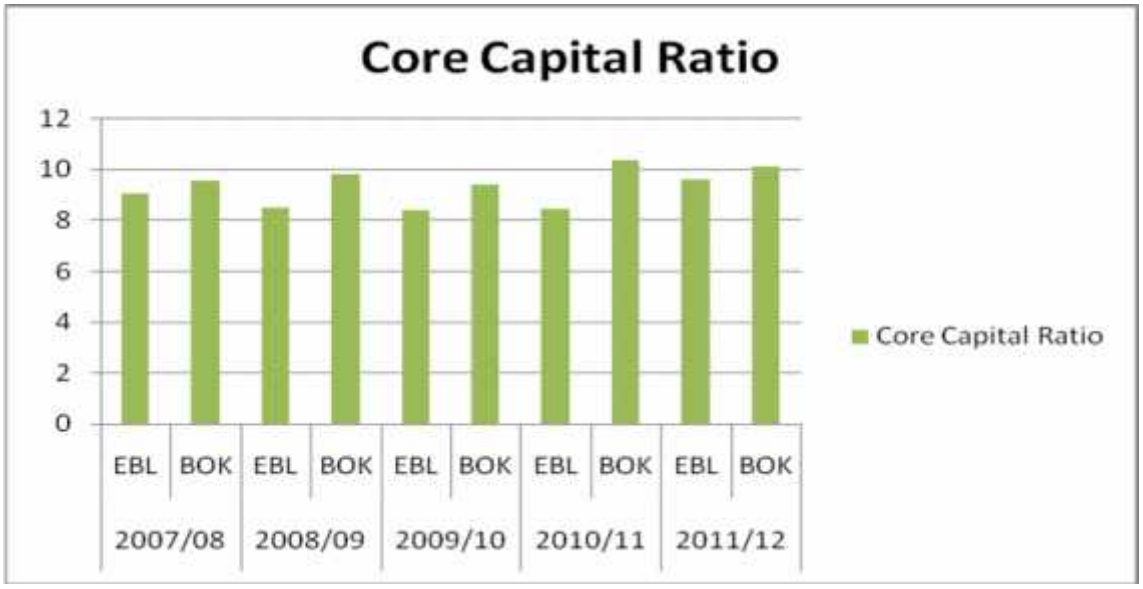
| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Core Capital** | **Total Risk Weighted Assets** | **Core Capital Ratio** | **Core Capital** | **Total Risk Weighted Assets** | **Core Capital Ratio** |
| 2007/08 | 1,900,859,000 | 21,039,879,000 | 9.04 | 1,310,851,552 | 13,702,369,666 | 9.57 |
| 2008/09 | 1,981,579,000 | 24,131,922,000 | 8.52 | 1,683,588,123 | 16,025,037,210 | 9.81 |
| 2009/10 | 2,537,093,000 | 30,240,428,000 | 8.39 | 2,021,092,627 | 21,471,664,711 | 9.41 |
| 2010/11 | 2,927,168,000 | 34,583,548,000 | 8.46 | 2,377,729,027 | 22,918,299,788 | 10.37 |
| 2011/12 | 3,990,924,000 | 41,525,347,000 | 9.61 | 2,639,371,152 | 26,095,913,430 | 10.11 |

*(Sources)*

Table 4.2 is a bar diagram which represents the above tabulated numerical data which helps to compare the Core Capital Ratio among two banks.

**Figure 4.2**

**Core Capital Ratio**



As shown in the Table 4.2 and Figure 4.2, the Core Capital Ratio of BOK 9.57% is the highest and EBL of 9.04% is the lowest in FY 2007/08; BOK of 9.81% is the highest and EBL of 8.52% is lowest in FY 2008/09; BOK of 9.41% is the highest and EBL of 8.39% is lowest in FY 2009/10; BOK of 10.37% & 10.11% is the highest and EBL of 8.46% & 9.61% in fiscal year 2010/11 &2011/12 respectively.

### 4.2.2 Assets Quality

Commercial bank holds their assets in the form of liquid assets like cash and bank balance and short term investment etc. Through this lending bank generated interest. Assets quality ratio is also known as activity ratio as well as turnover ratio be converted in to cash and equivalent to cash. This is only profit if the bank is efficient enough to earn profit. For identifying the assets quality we need to calculate three ratios. They are:

#### 4.2.2.1 Non-Performing loan

Non-Performing loan refers to those loans which are not paying its Principle + Interest in time or overdue more than three months. So, it consists of Sub-standard loan, Doubtful loan and Bad Loan. The non-performing loan ratio indicated the relationship between non-performing loan and total loan, it measures the proportion of non-per forming loan in total loan and advance. Higher non-performing loan ratio indicates that the bank s assets are not doing well or the loan department is not so conscious while passing loan. So, lower ratio will be preferred regarding Non-performing Loan Ratio. The ratio is determined by using the given model.

Non-performing Loan Ratio = Total Non-Performing loan/ Total Loan & Advances × 100%

Where,

Total Non-Performing loan (NPL) = Sub Standard Loan + Doubtful Loan + Bad Loan

Total Loan & Advances = Total Performing Loan + Total Non Performing Loan

Table 4.3 is the observed Non-Performing Loan Ratio of two banks during the study period in numerical terms which is presented below:

**Table 4.3**

**Non-Performing Loan Ratio**

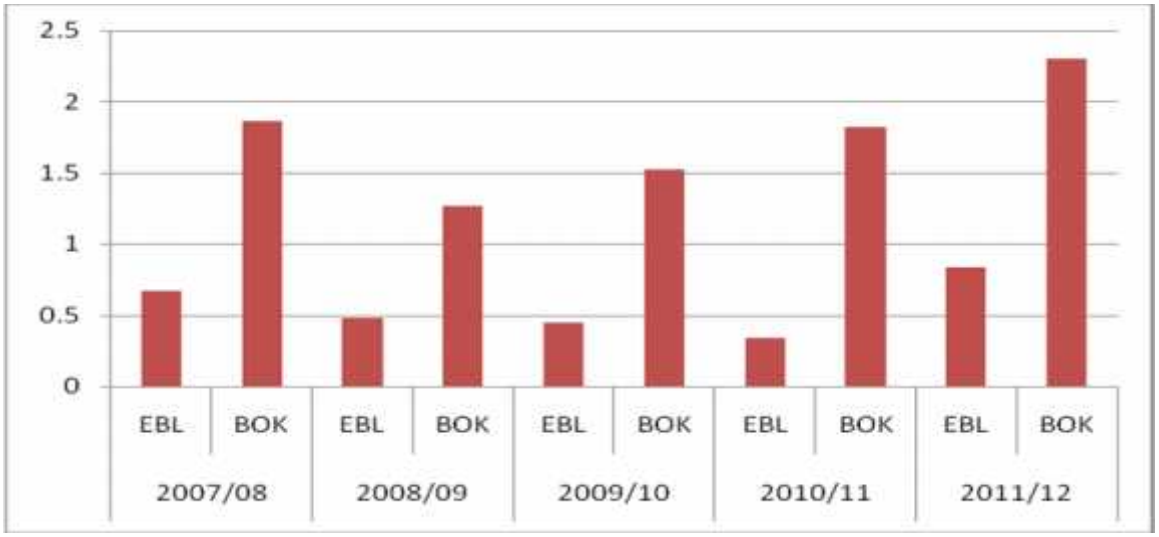
| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Total Non-Performing Loan** | **Total Loan & Advance** | **Non-Performing Loan Ratio** | **Total Non-Performing Loan** | **Total Loan & Advance** | **Non-Performing Loan Ratio** |
| 2007/08 | 126,639,038 | 18,836,431,762 | 0.67 | 236,898,850 | 12,747,721,603 | 1.86 |
| 2008/09 | 117,985,232 | 24,366,195,740 | 0.48 | 190,315,657 | 14,945,719,764 | 1.27 |
| 2009/10 | 125,560,472 | 28,156,399,843 | 0.45 | 259,523,588 | 17,044,299,398 | 1.52 |
| 2010/11 | 108,512,928 | 31,661,842,757 | 0.34 | 326,329,327 | 17,956,951,186 | 1.82 |
| 2011/12 | 307,492,696 | 36,616,831,527 | 0.84 | 443,392,481 | 19,319,137,238 | 2.30 |

*(Sources: Appendix )*

Figure 4.3 is a bar diagram which represents the above tabulated numerical data which helps to compare the Non- Per forming Ratio among two banks.

**Figure 4.3**

**Non- Performing Loan Ratio**




As shown in the table 4.3 and figure 4.3, the Non-Performing Loan

Ratio of BOK of 1.86.% is the highest and EBL of 0.67% is the lowest in FY 2007/08; BOK of 1.27% is the highest and EBL of 0.48% is lowest in FY 2008/09; BOK of 1.52% is the highest and EBL of 0.45% is lowest in FY 2009/10; BOK of 1.82% is highest and EBL of 0.34% is the lowest in FY 2010/11: BOK of 2.30% is the highest and EBL of 0.84% is the lowest in the FY 2011/12.

**Figure 4.3**

**Non-Performing Loan Ratio**

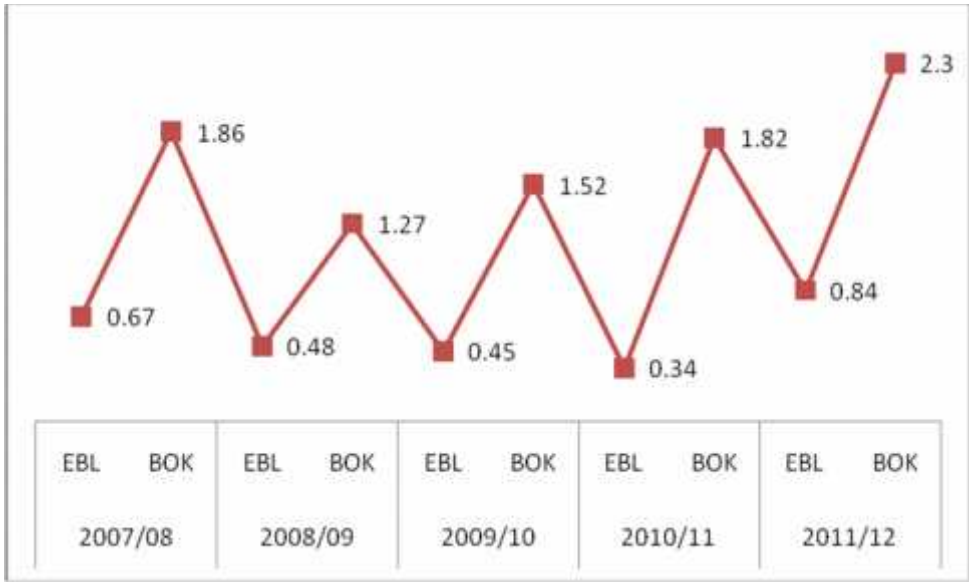



Figure 4.3 is the trend analysis of two banks over the five years study period. As shown in the figure Non-Performing Loan Ratio of EBL started by 0.67% in FY 2007/08 and there after continuously decreased till FY 2011/12 and reached to 0. 84%. So, trend analysis shows that EBL is able to decrease its non performing loan continuously which is good sign of bank.

Similarly, Non-Performing Loan Ratio of BOK started with 1.86. % in FY 2007/08 and continuously decreased till FY 2008/09 and reached to 1.27%. But after FY 2008/09 it continuously increased and reached 2.3 % in FY 2011/12. It is not good sign for BOK.

### 4.2.2.2 Loan Loss Coverage Ratio

Loan Loss Coverage Ratio is the relationship between Total Loan Loss Provision and Total Non Performing Loan. It measures the proportion of Total Loan Loss

Provision in relation to Total Non Performing Loan. Out of the Total non Performing if some loans becomes bad or default then that loss to the bank is covered from the Loan Loss Provision Fund. So, from that point of view, higher the loan loss coverage ratio is better for the banks. The ratio is determined by using the given model:

Loan Loss Cover age Ratio =Total Loan Loss Provision (LLP)/ Total Non-Performing loan X 100%

Where,

Total Loan Loss Provision (LLP) = Provision on (Pass Loan + Restructured Loan + Sub Standard Loan + Doubtful Loan + Bad Loan)

Total Non-Performing loan (NPL) = Sub Standard Loan + Doubtful Loan + Bad Loan

Table 4.4 is the observed Loan Loss Coverage Ratio of three banks during the study period in numerical terms which are presented below:

**Table 4.4**

**Loan Loss Coverage Ratio**

| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Total Loan Loss Provision** | **Total Non-Performing Loan** | **Loan Loss Coverage Ratio** | **Total Loan Loss Provision** | **Total Non-Performing Loan** | **Loan Loss Coverage Ratio** |
| 2007/08 | 497,346,200 | 126,639,038 | 392.73 | 285,084,062 | 236,898,850 | 120.34 |
| 2008/09 | 226,816,062 | 117,985,232 | 192.24 | 298,422,777 | 190,315,657 | 156.80 |
| 2009/10 | 600,043,812 | 125,560,472 | 477.89 | 379,368,543 | 259,523,588 | 146.18 |
| 2010/11 | 604,152,295 | 108,512,928 | 556.75 | 488,757,541 | 326,329,327 | 149.72 |
| 2011/12 | 705856854 | 307,492,696 | 229.56 | 505,199,899 | 443,392,481 | 113.94 |

*(Sources: Appendix )*

Chart 4.4 is a bar diagram which represents the above tabulated numerical data which helps to compare the Loan Loss Coverage Ratio among two banks.

**Figure 4.4**

**Loan Loss Coverage Ratio**


As shown in the table 4.4 and figure 4.4, the Loan Loss Coverage Ratio of EBL of 392.73% is the highest and BOK of 120.34% is the lowest in FY 2007/08; EBL of 192.24.% is the highest and BOK of 156.80% is lowest in FY 2008/09; EBL of 477.89% is the highest and BOK of lowest is 146.08.16% in FY 2009/10; EBL of 556.75% is highest and BOK of 149.72% is the lowest in FY 2010/11; EBL of 229.56.% is the highest and BOK of 113.94.8% is the lowest in the FY 2011/12.

### 4.2.2.3 Loan Loss Provision Ratio

Loan loss provision is the sum of amount that banks are required to set or kept for potential loan loss. Loan loss provision is deductible expenses. It is deducted from interest income. It is a provision set by a bank to cover unpredictable loss caused due to default of the loan amount. This ratio shows how much the bank needs to set the provision to cover the loss of default loan in the future from the loan released by the bank. Lower the loan loss provision significant that the bank has higher volume of good loan and higher non-performing loan. Loan loss provision is the whole amount of provision set aside to cover the loss then LLP to NPL as NPL is lower we can say that quality of loan is better. But if LLP to TL is higher then we can say that the quality of loan is good but at least we are in safe position as it has more provision for losses from loan.

LLP can calculate as follows:

Loan Loss Provision Ratio = Total Loan Loss Provision (LLP)/ Total Loan & Advances × 100%

Where,

Total Loan Loss Provision (LLP) = Provision on (Pass Loan + Restructured Loan + Sub Standard Loan + Doubtful Loan + Bad Loan)

Total Loan & Advances = Total Performing Loan + Total Non Performing Loan

Table 4.5 is the observed Loan Loss Coverage Ratio of three banks during the study period in numerical terms which is presented below:

**Table 4.5**

**Loan Loss Provision Ratio**

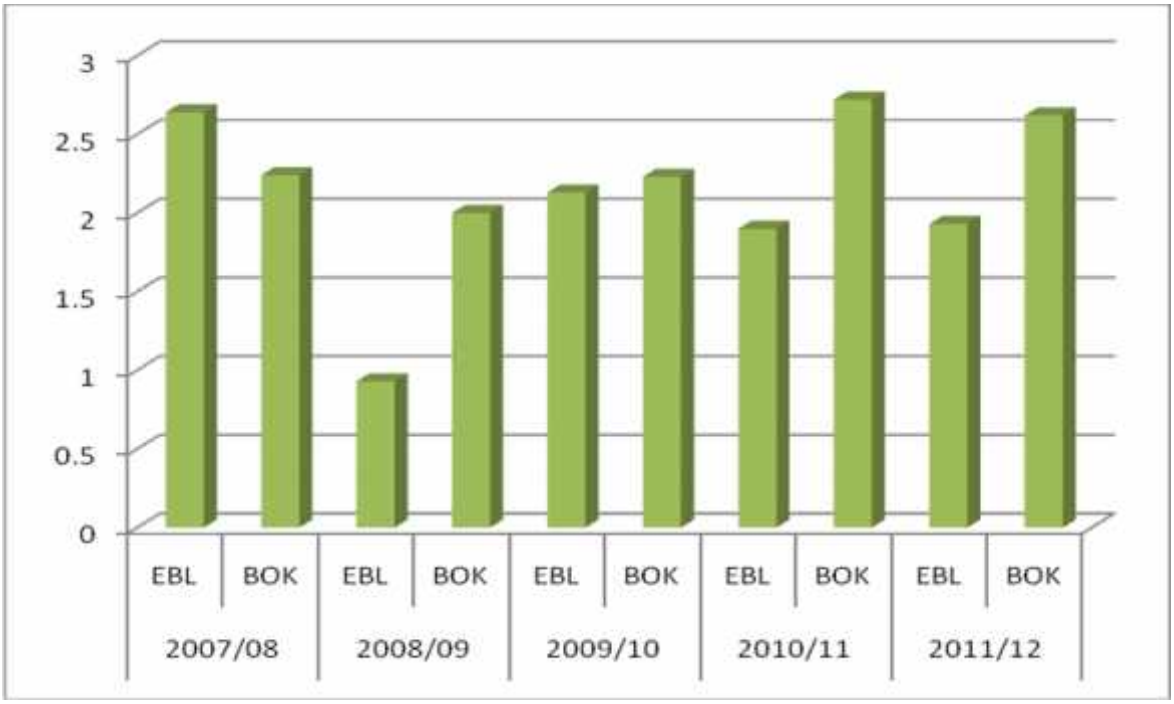
| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Total Loan Loss Provision** | **Total Loan & Advance** | **Loan Loss Provision Ratio** | **Total Loan Loss Provision** | **Total Loan & Advance** | **Loan Loss Provision Ratio** |
| 2007/08 | 497,346,200 | 18,836,431,762 | 2.64 | 285,084,062 | 12,747,721,603 | 2.24 |
| 2008/09 | 226,816,062 | 24,366,195,740 | 0.93 | 298,422,777 | 14,945,719,764 | 2 |
| 2009/10 | 600,043,812 | 28,156,399,843 | 2.13 | 379,368,543 | 17,044,299,398 | 2.23 |
| 2010/11 | 604,152,295 | 31,661,842,757 | 1.90 | 488,757,541 | 17,956,951,186 | 2.72 |
| 2011/12 | 705,856,854 | 36,616,831,527 | 1.93 | 505,199,899 | 19,319,137,238 | 2.62 |

*(Sources: Appendix )*

Chart 4.5 is a bar diagram which represents the above tabulated numerical data which helps to compare the Loan Loss Provision Ratio among two banks.

**Figure 4.5**

**Loan Loss Provision Ratio**




As shown in the table 4.5 and figure 4.5, the Loan Loss Provision Ratio of EBL of 2.64% is the highest and BOK of 2.24% is the lowest in FY 2007/08; BOK of 2% is the highest and EBL of 0.93% is lowest in FY 2008/09; BOK of 2.23% is the highest and EBL of 2.13% is lowest in FY 2009/10; BOK of 2.72% is highest and EBL of 1.93% is the lowest in FY 2010/11; BOK of 2.62% is the highest and EBL of 1.93% is the lowest in the FY 2011/12 among two banks.

### 4.2.3 Management

The success of any institution depends on the competency of its management. In fact, the management not only makes suitable policy and the business plans but also implements them for the short term and the long term interests, which helps to achieve aimed objectives of bank and financial institution's. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and the officials, operating expenditure, customer 's relation with the officials and institution, management information system, organization and working method, internal control system, power concentration, monitoring, decision making process, policies.

Management analysis can be done by using following formula;

Management Efficiency Ratio (MER) = Net Profit after Tax/ Total No. of Staffs

Table 4.6 is the observed Management Efficiency Ratio of three banks during the study period in numerical terms which is presented below:

**Table 4.6**

**Management Efficiency Ratio**

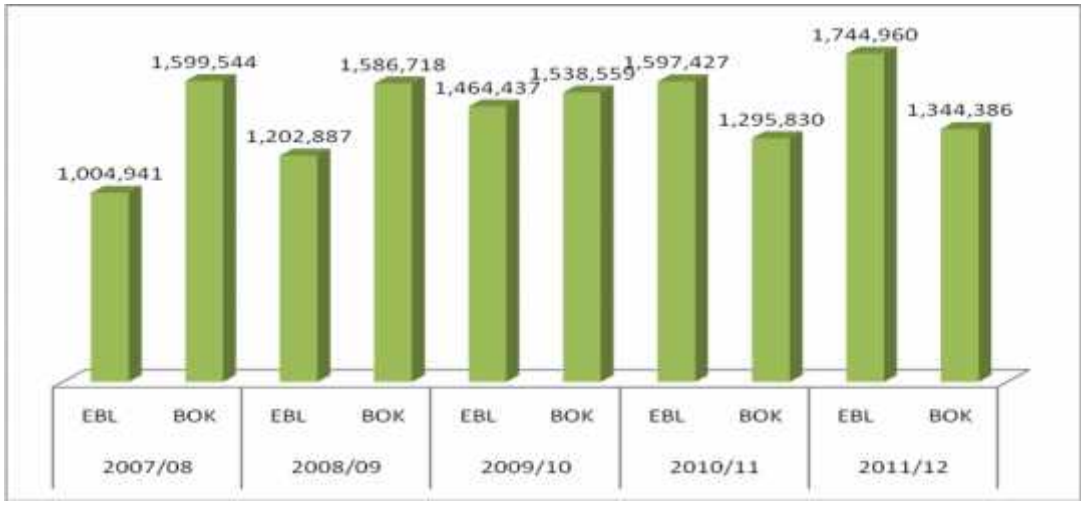
| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Net Profit after Tax** | **Total no. staff** | **Management Efficiency Ratio** | **Net Profit after Tax** | **Total no. staff** | **Management Efficiency Ratio** |
| 2007/08 | 451,218,613 | 449 | 1,004,941 | 361,496,879 | 226 | 1,599,544 |
| 2008/09 | 638,732,757 | 531 | 1,202,887 | 461,734,911 | 291 | 1,586,718 |
| 2009/10 | 831,800,000 | 568 | 1,464,437 | 509,263,141 | 331 | 1,538,559 |
| 2010/11 | 931,300,000 | 583 | 1,597,427 | 605,152,423 | 467 | 1,295,830 |
| 2011/12 | 1,090,600,000 | 625 | 1,744,960 | 607,662,263 | 452 | 1,344,386 |

*(Sources: Appendix )*

Figure 4.6 is a bar diagram which represents the above tabulated numerical data which helps to compare the Management Efficiency Ratio among two banks

**Figure 4.6**

**Management Efficiency Ratio**




As shown in the Table 4.6 and Figure 4.6, the Management Efficiency Ratio of BOK of Rs.1,599,544 is the highest and EBL of Rs.1,202,887 is the lowest in FY 2008/09; BOK of Rs.1,538,559 is the highest and EBL of Rs.1,464,437 is lowest in FY 2009/10; EBL of Rs.1,597,427 is the highest and BOK of Rs.1,295,830 is lowest in FY 2010/11; EBL of Rs.1,744,960 is highest and BOK of Rs.1,344,386 is the lowest in FY 2011/12;

### 4.2.4 Earnings

Earning means excess of revenue over cost, so excess revenue earned by any organization in the course of operation is known as profit. It is the ultimate result of any business. Generally, if the earnings are good then that business is running well. Similarly the aggregate performance of the bank reflects from its earnings. Earning is the ultimate result of any business. Generally, higher earnings reflect better financial position.

Similarly the aggregate performance of the bank reflects from its earnings. Following ratios depicts the earning position.

#### 4.2.4.1 Earning per Shares

Earning per share is generally considered to be the single most important variable in determining a shares price. It is the portion of a companys profit allocated to each outstanding share of common stock. An important aspect of EPS that is often ignored is the capital that is required to generate the earnings (net income) in the calculation. Two companies could generate the same EPS number, but one could do so with less equity (investment)-that company would be more efficient at using its capital to generate income and, all other things being equal would be a "better" company. Following is the expression of earning per share:

Earning per Shares (EPS) = Net Profit after Tax/ No. of outstanding Shares

Table 4.7 is the observed Earning per Shares of two banks during the study period in numerical terms which is presented below.

**Table 4.7**

**Earning per Shares**

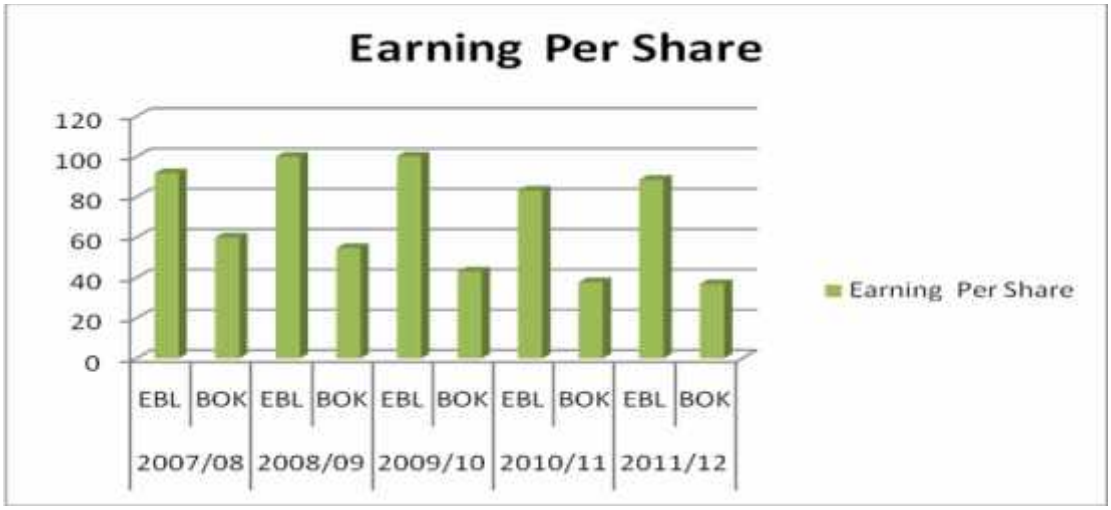
| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Net Profit after Tax** | **Total no. share outstanding** | **Earning Per Share** | **Net Profit after Tax** | **Total no. share outstanding** | **Earning Per Share** |
| 2007/08 | 451,218,613 | 4,914,000 | 91.82 | 361,496,879 | 6,030,000 | 59.95 |
| 2008/09 | 638,732,757 | 6,388,000 | 99.99 | 461,734,911 | 8,440,000 | 54.71 |
| 2009/10 | 831,800,000 | 8,305,000 | 100.16 | 509,263,141 | 11,820,000 | 43.09 |
| 2010/11 | 931,300,000 | 11,196,000 | 83.18 | 605,152,423 | 16,040,000 | 37.73 |
| 2011/12 | 1,090,600,000 | 12,316,000 | 88.55 | 607,662,263 | 16,480,000 | 36.87 |

*(Sources: Appendix )*

Chart 4.7 is a bar diagram which represents the above tabulated numerical data which helps to compare the Earning per Shares among two banks.

**Figure 4.7**

**Earning per Shares**




As shown in the Table 4.7 and figure 4.7, the Earning per Shares of EBL of Rs.91.82 is the highest and BOK of Rs.59.95 is the lowest in FY 2007/08; EBL of Rs.99.99 is the highest and BOK of Rs.54.71 is lowest in FY 2008/09; EBL of Rs.100.16 is the highest and BOK of Rs.43.09 is lowest in FY 2009/10; EBL of Rs.83.18 is highest and BOK of Rs37.73 is the lowest in FY 2010/11; EBL of Rs.88.55 is the highest and BOK of Rs.36.87 is the lowest in the FY 2011/12 among two banks..

### 4.2.4.2 Return on Equity

This ratio denotes how much of the shareholders' fund is mobilized towards earning profit. The higher the ratio the better it is for the bank. It is calculated as follows:

Return on Equity (ROE) = Net Income after Tax/ Total Shareholders fund X 100%

Table 4.8 is the observed Return on Equity of two banks during the study period in numerical terms which is presented below:

**Table 4.8**

**Return on Equity**

| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Net Profit after Tax** | **Total share holder's fund** | **Return on Equity %** | **Net Profit after Tax** | **Total share holder's fund** | **Return on Equity %** |
| 2007/08 | 451,218,613 | 2,406,056,000 | 18.75 | 361,496,879 | 1,635,235,217 | 22.11 |
| 2008/09 | 638,732,757 | 2,703,870,000 | 23.62 | 461,734,911 | 2,005,695,528 | 23.02 |
| 2009/10 | 831,800,000 | 3,618,200,000 | 22.99 | 509,263,141 | 2,635,599,625 | 19.32 |
| 2010/11 | 931,300,000 | 3,826,300,000 | 24.34 | 605,152,423 | 3,053,706,743 | 19.82 |
| 2011/12 | 1,090,600,000 | 4,774,600,000 | 22.84 | 607,662,263 | 3,348,887,750 | 18.15 |

*(Sources: Appendix 3 )*

Figure 4.8.a is a bar diagram which represents the tabulated numerical data which helps to compare the Return on Equity among two banks.

**Figure 4.8**

**Return on Equity**


As shown in the table 4.8 and figure 4.8, the Return on Equity of BOK of 22.11% is the highest and EBL of 18.75% is the lowest in FY 2007/08; EBL of 23.62% is the

highest and BOK of 23.02% is lowest in FY 2008/09; EBL of 22..99% is the highest and BOK of 19.32% is lowest in FY 2009/10; EBL of 24.34% is the highest and BOK of 19.82% is the lowest in FY 2010/11; EBL of 22.84% is the highest and BOK of 18.15% is the lowest in the FY 2011/12 among two banks.

#### 4.2.4.3 Return on Assets

The term ROA is return on total assets. Major assets of banks are loan and advances, ROA reveals how efficiently the total recourses have been utilized and measured the return on assets productive sectors that can generate profit for the banks. Higher ROA shows the better utilization and management on the assets and extend profit level. This ratio depicts how efficiently a bank is utilizing and mobilizing its assets to generate profit.

It is calculated as follows:

Return on Assets (ROA) = Net Income after Tax/ Total Asset× 100%

Table 4.9 is the observed Return on Assets of two banks during the study period in numerical terms which is presented below

**Table 4.9**

**Return on Assets**

| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Net Profit after Tax** | **Total Assets** | **Return on Asset%** | **Net Profit after Tax** | **Total Assets** | **Return on Asset%** |
| 2007/08 | 451,218,613 | 2,406,056,000 | 1.66 | 361,496,879 | 17,721,925,187 | 2.04 |
| 2008/09 | 638,732,757 | 36,916,848,654 | 1.73 | 461,734,911 | 20,496,005,483 | 2.25 |
| 2009/10 | 831,800,000 | 41,382,760,711 | 2.01 | 509,263,141 | 23,396,191,791 | 2.18 |
| 2010/11 | 931,300,000 | 46,236,212,262 | 2.02 | 605,152,423 | 24,757,750,426 | 2.44 |
| 2011/12 | 1,090,600,000 | 55,813,129,057 | 1.95 | 607,662,263 | 28,881,996,852 | 2.10 |

*(Sources: Appendix )*

Figure 4.9.a is a bar diagram which represents the tabulated numerical data which helps to compare the Return on Assets among two banks.

**Figure 4.9**

**Return on Assets%**


As shown in the table 4.9 and Figure 4.9, the Return on Assets of BOK of 2.04% is the highest and EBL of 1.66% is the lowest in FY 2007/08; BOK of 2.25% is the highest and EBL of 1.73% is lowest in FY 2008/09; BOK of 2.18% is the highest and EBL of 2.01% is lowest in FY 2009/10;BOK of 2.44% is highest and EBL of 2.02% is the lowest in FY 2010/11; BOK of 2.1% is the highest and EBL of 1.95% is the lowest in the FY 2011/12 among two banks.

### 4.2.5 Liquidity

Simply, liquidity means short- run solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances. The certain percentage of deposit should be kept in bank in the form of cash. It the bank will keep greater deposit in cash, it losses the opportunity cost. Similarly, if bank keeps low amount in deposit, it could not be able to pay depositors on the time of requirement.

Liquidity can be measured in following ways:

#### 4.2.5.1 Cash & Bank Balance Ratio

A Higher ratio shows higher liquidity and great ability of the bank to meet unexpected demand made by the depositor. On the country lower ratio indicates that banks might face liquidity crunch while paying its obligations. It is calculated as follows:

Cash & Bank Balance Ratio = Cash & Bank Balance/ Total Deposit×100%

Table 4.10 is the observed Return on Assets of two banks during the study period in numerical terms which is presented below:

**Table 4.10**

**Cash & Bank Balance Ratio**

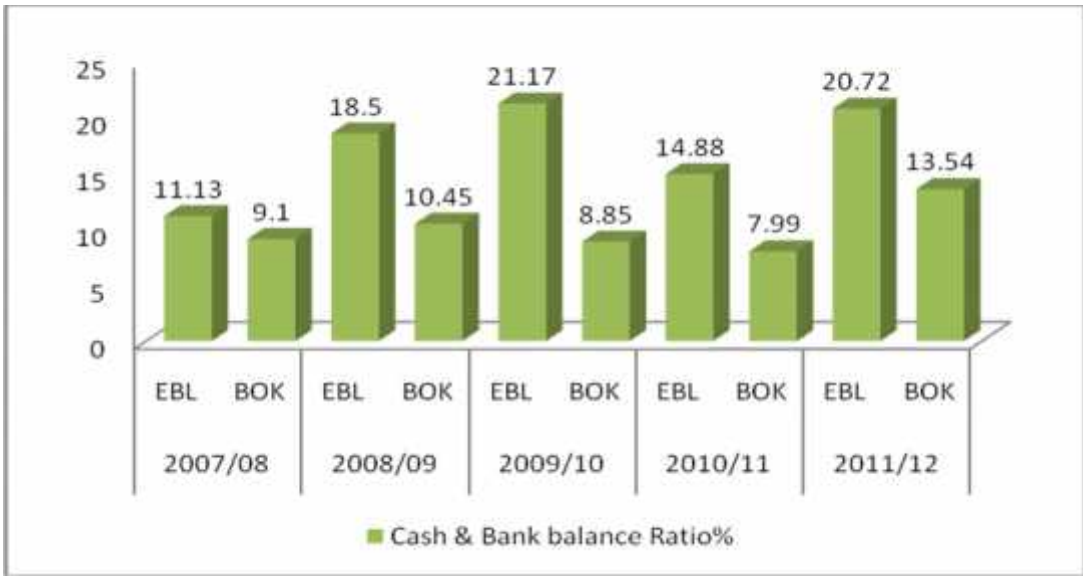
| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Cash & Bank Balance** | **Total Deposit** | **Cash & Bank balance Ratio%** | **Cash & Bank Balance** | **Total Deposit** | **Cash & Bank balance Ratio%** |
| 2007/08 | 2,667,971,831 | 23,976,298,535 | 11.13 | 1,440,466,943 | 15,883,737,799 | 9.10 |
| 2008/09 | 6,164,371,163 | 33,322,946,246 | 18.50 | 1,889,174,230 | 18,083,980,266 | 10.45 |
| 2009/10 | 7,818,800,000 | 36,932,300,000 | 21.17 | 1,798,367,396 | 20,315,834,405 | 8.85 |
| 2010/11 | 6,122,800,000 | 41,127,900,000 | 14.88 | 1,678,931,451 | 21,018,417,209 | 7.99 |
| 2011/12 | 10,363,306,307 | 50,006,100,000 | 20.72 | 3,382,710,093 | 24,991,448,841 | 13.54 |

*(Sources: Appendix )*

Figure 4.10 is a bar diagram which represents the tabulated numerical data which helps to compare the Cash & Bank Balance Ratio among two banks.

**Figure 4.10**

**Cash & Bank Balance Ratio**




As shown in the table 4.10 and figure 4.10, the Cash & Bank Balance Ratio of EBL of 11.13% is the highest and BOK of 9.10% is the lowest in FY 2007/08; EBL of 18.50% is the highest and BOK of 10.45% is lowest in FY 2008/09; EBL of 21.17% is the highest and BOK of 8.85% is lowest in FY 2009/10; EBL of 14.88% is highest and BOK of 7.99% is the lowest in FY 2010/11; EBL of 20.72% is the highest and BOK of 13.54% is the lowest in the FY 2011/12 among two banks.

### 4.2.5.2 Investment in Government Security Ratio (IGSR)

Government securities are known as risk free assets, which are easily converted into cash to meet the short term obligation. That's why every commercial bank has to invest their certain amount in government securities. This ratio calculated as:

Investment in Govt. Security Ratio = Investment in Govt. Security/ Total Deposit × 100%

Table 4.11 is the observed Investment in Government Security Ratio of two banks during the study period in numerical terms which is presented below:

**Table 4.11**

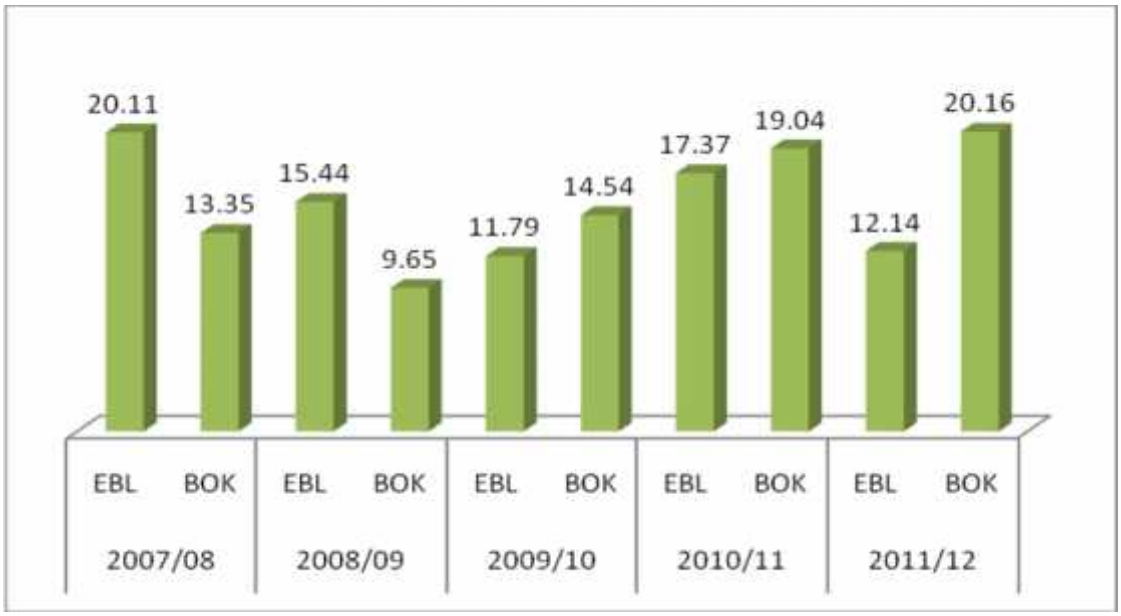
**Investment in Government Security Ratio**

| F.Y. | EBL | | | BOK | | |
|---|---|---|---|---|---|---|
| | **Investment in Govt. Securities** | **Total Deposit** | **Investment in govt. security Ratio** | **Cash & Bank Balance** | **Total Deposit** | **Investment in govt. security Ratio** |
| 2007/08 | 4,821,604,740 | 23,976,298,535 | 20.11 | 2,113,223,115 | 15,883,737,799 | 13.35 |
| 2008/09 | 5,146,045,773 | 33,322,946,246 | 15.44 | 1,744,976,571 | 18,083,980,266 | 9.65 |
| 2009/10 | 4,354,353,089 | 36,932,300,000 | 11.79 | 2,954,932,869 | 20,315,834,405 | 14.54 |
| 2010/11 | 7,145,017,521 | 41,127,900,000 | 17.37 | 4,002,137,963 | 21,018,417,209 | 19.04 |
| 2011/12 | 6,068,876,365 | 50,006,100,000 | 12.14 | 5,037,627,305 | 24,991,448,841 | 20.16 |

Figure 4.11 is a bar diagram which represents the tabulated numerical data which helps to compare the Investment in Government Security Ratio among two banks.

**Figure 4.11**

**Investment in Government Security Ratio**




As shown in the table 4.11 and figure 4.11, the Investment in Government Security Ratio of EBL of 20.11% is the highest and BOK of 13.35% is the lowest in FY 2007/08; EBL of 15.44% is the highest and BOK of 9.65% is lowest in FY 2008/09; BOK of 14.54% is the highest and EBL of 11.79 % is lowest in FY 2009/10; BOK of 19.04% is highest and EBL of 17.37% is the lowest in FY 2010/11; BOK of 20.16% is the highest and EBL of 12.14% is the lowest in the FY 2011/12 among two banks.

## 4.3 Major Findings

The major findings of the study of CAMEL Analysis of Everest Bank Ltd and Bank of Kathmandu Ltd are as follows:

- Total Capital Adequacy ratios (CAR) of EBL were 11.44% to 11.02% during the review period. It was in decreasing trend. The ratio of 11.44% was maximum in FY 2007/08 and ratio of 10.43% was minimum in FY 2010/11. The Capital Adequacy ratios of BOK in the review period were 11.93%, 11.68%, 10.85%, 11.62% and 11.07%. The ratio of 11.93% was highest in FY 2007/08 and the ratio of 11.07% was lowest in 2011/12. In general, all

two banks were able to maintain CAR as per NRB standard during the study period i.e. 11%.

- The Core Capital Ratio (CCR) of EBL in fluctuating trend. The highest CCR was 9.61% in FY 2007/08 and lowest ratio was 8.39% in 2009/10. However, the bank was able to maintain more then 5.5% above the NRB requirement during study period. The ratios of BOK were 9.57%, 9.81%. 9.41%, 10.37% and 10.11% and highest ratio were 10.11% in FY 2011/12 and lowest was 9.41% in FY 2009/10. The BOK also success to maintain NRB requirement. However, it is judged that all banks were maintained more CCR than NRB has Prescribed.

- Non Performing Loan Ratios were in decreasing over the study period, it means the banks were able to collect the loans. The ratio of BOK was greater than EBL banks i.e. 2.30% in FY 2011/12. It seems that BOK has high non performing loan as compare to other banks. Where, the EBL bank has lowest non per forming loan ratio i.e. 0.84% in FY 2011/12 which show that EBL has maintained its loan and advance most efficiently and effectively.

- Loan loss coverage ratios of EBL was 392.73% in FY 2007/08 and it was increasing up to 556.735% in FY 2010/11 and then decreased to 229.56% in FY 2011/12. BOK has also increasing trend of loan loss coverage ratio FY 2008/09 and slightly decreased in FY 2009/10 and again increased in FY 2010/11 and slightly decreased in FY 2011/12 and reached up to 113.94%. Over all, BOK has lowest loan loss coverage ratio as compare to other EBL, and EBL has highest loan loss coverage ratio which shows the better financial position.

- The loan loss provision has been maintained for NPL and has been decreased which is good sign. The loan loss provision ratios of two banks were in decreasing trend. As per the FY 2011/12, EBL has the lowest loan loss provision ratio which indicates that the EBL has better quality loan and BOK has highest ratio which means BOK has not enough good loan the year as compare to EBL.

- Total management efficiency ratios (MER) of EBL were Rs.1, 004,941 to Rs.1, 744,960 during the review period. The ratio of Rs. 1, 744,960 was maximum in FY 2011/12. The highest management efficiency ratio of BOK was Rs.1, 599,544 and lowest was Rs. 1,295,830 in FY 2010/11. As per the latest data i.e. 2011/12 EBL has the highest MER i.e. Rs.1, 744,960.

- When net profit of bank is high, the Earning per share (EPS) of the bank will also be high which shows the bank is in good condition. EPS of EBL is in increasing trend and in FY 2009/10 EBL has highest EPS which shows that the bank is in best position compare to BOK. This is the good sign to shareholders. EPS of BOK is in fluctuating trend. In over all, EBL is in good position as per EPS.

- The return on equity consists of ratio between net profit after tax and equity. The ratio of EBL is fluctuating trend. ROE of EBL was decreased in 2007/08 and then increasing. ROE of BOK is in increasing in FY 2008/09 trend which is better for shareholders but decreasing trend after FY 2008/09 which is not good sign for shareholders.

- Return on assets (ROA) comprises net profit after tax and total assets. It shows the percentage of return that a firm gets from the total assets. It shows how well the firm is doing. Here in the study EBL and BOK has increasing trend of ROA.

- The Cash and bank balance ratio of EBL fluctuated over the period. First three year the cash and bank balance ratio increased and then decreased in FY 2010/11.

- The Investment in government security ratio (IGSR) of EBL is fluctuating in the course of the study period. EBL has maximum IGSR of 20.11% in FY 2007/08 and minimum IGSR of 11.79% in FY 2009/10. Now, BOK has highest IGSR of 20.16% in FY 2011/12 and lowest of 9.65% in FY 2008/09.

# CHAPTER-V

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter includes three aspects of the study- summary, conclusion and recommendations. The first aspect summarizing the whole study, the second draws the conclusion and the last but not he least recommendations.

## 5.1 Summary

The study was conducted with the objective to analyze and compare the financial performances of Everest Bank Ltd. (EBL) and Bank of Kathmandu (BOK). In the framework of CAMEL over the five years period from FY 2007/08 to 2011/12. The study is based on the secondary data. For the analysis of EBL and BOK are used as the major sources of data out of 31 commercial banks. CAMEL is a common method for analyzing the health of individual institution, to quantify the performance and the financial condition of the firm. It was designed by regulatory authorities and this study scrutinizes the financial performance of EBL and BOK as regards to CAMEL i.e. Capital Adequacy, Assets Quality, Management Earning and Liquidity. The analysis of financial statement is done to obtain a better sight into the banks position and performance. The various financial and statistical tools have been used in this study to get the meaningful result and to meet the research objectives.

During the research the areas that formed part of the conceptual review were; historical development of financial system and evolution of commercial banks in Nepal, concept of commercial banks, function of commercial banks and components of CAMEL. Besides these, reviews of various theses were carried out under research review.

The analysis has been made to compare the company's ratios with NRB and international standard. The banks are successful to maintain Capital Adequacy Ratio as per NRB standard i.e. 11%. As per current data BOK has highest CAR. It means, BOK has higher internal sources and comparatively strong financial position and security to depositors as compare to others. Similarly EBL and BOK are able to

maintain the Core Capital Ratio as per prescribed by NRB of 5.5%. The highest CCR shows the protection and security to creditors and depositors and financial soundness of the company.

The lower non per forming loan ratio reflects the good performance of the banks in mobilizing loan and advance. EBL has lower NPL ratio, it indicates the better proportion of performing loans and risk of default (credit) than BOK.NPL ratio is in decreasing trend where is the loan loss coverage ratio of bank is increasing in each year. In the same way, loan loss provision ration is decreasing. Lower LLP ratio is better for the banks. EBL has lower LLP ratio as compare to BOK. .

The management efficiency ratio (MER) indicates the better operation of the bank and better profitability. MER is fluctuation over the study period. EBL has highest MER; it indicates the better operation management and better printability of EBL.

EPS of all two banks are in increasing trend but EBL has highest EPS than BOK. The ROE of two banks are in increasing trend with fluctuation. Similarly, ROA of EBL and BOK are in increasing trend with fluctuation.

The higher cash and bank balance ratio and Investment in Government Security ratio of EBL indicates that the liquidity position of EBL is strong than BOK.

## 5.2 Conclusion

Based on the findings, following conclusions have drawn as the concluding framework of the study on CAMEL analysis.

- Capital Adequacy Ratio (CAR) reveals that the bank is running with the adequate capital and the capital fund of the bank is sound and sufficient to meet the banking operation as per the NRB standard. CAR of two banks is above the NRB standard.

- Core Capital Ratio (CCR) measured in terms of core capital to risk weighted assets is as per NRB standard. It means the bank is using adequate amount of the internal sources or core capital is past five years. In this point of view the bank is financially sound and strong.

- The decreasing trend of non-per forming loans ratio helps to conclude that the bank is aware of non-performing loans and adopting the appropriate policies to manage this problem and to increase the quality of assets.
- The increasing trend of loan loss coverage ratio shows that the banks are taking appropriate recovery policy.
- The decreasing trend of loan loss provision ratio indicates that the quality of loans becoming upgrading year by year. It seems that amount of non performing loans and possibility of default in future is decreasing.
- The management efficiency ratio depicts efficiencies and productivity as a result of well managed of human resources in terms of profitability.
- The increasing trend of EPS depicts that the return flowing to the banks owner is increasing. This tendency reflects the strength of the share in the market is also increasing.
- The increasing trend of ROE shows that the rate of return flowing to the banks shareholders is upgrading year by year.
- The increasing trend of ROA concludes that the net income for each unit of assets of the bank is increasing. This shows that the capability of the management to converting the bank assets into net earning is increasing.
- The cash and bank balance to total deposit ratio of all banks are in fluctuating trend but EBL has the highest compare to BOK. Similarly, investment in government security ratio of all banks are also in fluctuating trend and in this case also, BOK has highest ratio, BOK presents itself as most secured from the liquidation risk.

### 5.3 Recommendations

The following recommendations are made based on the conclusions as suggestion to overcome the weakness as regard to financial performance of Everest Bank Limited (EBL), and Bank of Kathmandu (BOK).

- Capital Adequacy Ratio and Core Capital Ratio of banks are as per NRB standard over the review period but are in fluctuating trend. So recommendation is provided and maintain stable if possible increase core capital fund to increase Capital Adequacy Ratio and Core Capital Ratio.

- The assets quality ratio of all banks is in satisfactory level and being better each year. So, the recommendation is to maintain non performing loan ratio as lower as possible and try to give additional attention in recovering the doubtful and loss loan in future and try to increase its performing loan ratio.

- The management efficiency ratio of EBL and BOK seems to be satisfactory. So, the recommendation is that the BOK should increase Net Profit after Tax and should not appoint extra employee in organization.

- The earning quality ratios of banks like EPS, ROE and ROA are in increasing trend. So, all banks recommended that to increase more profit of the bank should minimized its operating cost by increasing the operating efficiency of its employees.

- Liquid assets of the commercial banks play an important role to meet the day to day and short term obligation. If liquid assets of the banks are not maintained properly then there is a high probability of banks going to liquidation. The liquidity ratio of EBL seems to be satisfactory compare to BOK. But BOK should be careful and try to increase liquidity position by increasing Cash and Bank Balance Ratio and Investment in Government Security Ratio

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