

**CAMEL ANALYSIS OF SELECTED COMMERCIAL BANKS  
(WITH REFERENCE TO NABIL, HIMALAYAN & NEPAL  
INVESTMENT BANK LIMITED)**

**A THESIS**

**SUBMITTED BY:**

**Raman Niraula**

Nepal Commerce Campus  
TU Regd. No: 7-2-227-35-2000  
Campus Roll No. 767/061  
Exam Roll No. 1873/063

**SUBMITTED TO:**

Office of the Dean  
Faculty of Management  
Tribhuvan University

In the partial fulfillment of the requirements for the degree of  
Master of Business studies (MBS)

New Baneshwor, Kathmandu

June – 2009

## VIVA –VOCE SHEET

We have conducted the Viva-Voce examination of the Thesis

Presented by:

**Mr. Raman Niraula**

Entitled:

**“CAMEL Analysis of Selected Commercial Banks (With Reference to Nabil, Himalayan & Nepal Investment Bank Limited)”**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as the partial fulfillment of the requirement for Master’s degree in Business studies (M.B.S.)

### **Viva – Voce committee:**

Head of the Research Department.....

Member (Thesis Supervisor).....

Member (Thesis Supervisor).....

Member (External Expert) .....

Date

## RECOMMENDATION

This is to certify that the Thesis:

Submitted by:

**Raman Niraula**

Entitled:

**“CAMEL Analysis of Selected Commercial Banks (With Reference to Nabil, Himalayan & Nepal Investment Bank Limited)”**

has been prepared as approved by this department in the prescribed format of faculty of Management. This thesis is forwarded for examination.

.....  
(Prof. Dr. Bihari Binod Pokharel)  
Thesis Supervisor and Head of Department

.....  
(Mr. Diwakar Pokharel)  
Campus Chief

.....  
(Umesh Kumar Koirala)  
Supervisor

## DECLARATION

I hereby declare that the work reported in this thesis entitled “CAMEL Analysis of Selected Commercial Banks (With Reference to Nabil, Himalayan & Nepal Investment Bank Limited)” submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements of the Master’s Degree in Business Management under the supervision of Prof. Dr. Bihari Binod Pokharel and Umesh Kumar Koirala, Nepal Commerce Campus, Tribhuvan University.

.....

**Raman Niraula**

Researcher

Campus Roll No. 767/061

TU Regd. No: 7-2-227-35-2000

Exam Roll No. 1873/063

Date:

## ACKNOWLEDGEMENTS

In the long run I am going to complete my master's level. This is going to be a milestone of my life. This is the result of my parents' expectations and my hard work. I am, now, standing in a challenging stage, and I have to make my career crossing this stage.

I am grateful to Dr. Bihari Binod Pokharel, Head of the Research Department, Nepal Commerce Campus, Minbhawan and Mr. Umesh Kumar Koirala, Lecturer of Nepal Commerce Campus for guiding and suggesting me as supervisor for this thesis work. I am indebted to my teacher, without that guidance, it would not have been possible to complete this work.

My deepest gratitude goes to all those respondents who helped me with their valuable time, information and cooperation while collecting data. I am grateful to my colleagues, staffs of KFA general Banking training and research center, staffs of library and administration of Nepal Commerce Campus, Minbhawan, who helped me either directly or indirectly for completing this thesis.

Precious help and suggestions provided by my relatives and friends, especially Pawan Kumar Nepal and Bijaya Koirala who have been the source of encouragement for me and inspired me emotionally for the completion of the period of thesis work during my study life are appreciable forever.

Finally, I would like to thank all the individuals and institutions whose efforts I have used as reference for this study.

Raman Niraula  
Resercher

June 2009

# TABLE OF CONTENTS

Page No

Viva – Voce Sheet

Recommendation

Declaration

Acknowledgements

Table of Contents

List of Table

List of Figures

Abbreviations

## CHAPTER 1

### INTRODUCTION

1-7

1.1 Background of the Study

1

1.2 Focus of the Study

3

1.3 Introduction of Banks under Study

3

1.4 Statement of the Problem

5

1.5 Objectives of the Study

6

1.6 Significance of the Study

6

1.7 Limitation of the Study

6

1.8 Organization of the Study

7

## CHAPTER 2

### REVIEW OF LITERATURE

8-22

2.1 Theoretical Review

8

2.1.1 CAMEL Approaches

8

2.1.1.1 Capital Adequacy

8

2.1.1.2 Assets Quality

10

2.1.1.3 Management Quality

11

2.1.1.4 Earnings

12

2.1.1.5 Liquidity

13

2.1.1.6 Sensitivity to Market Risk

14

2.2 Review of Legislature Provisions

15

2.3 Review of Previous Studies

17

2.3.1 Review of Journals and Articles

17

2.3.2 Review of Thesis

19

## CHAPTER 3

### RESEARCH METHODOLOGY

23-30

3.1 Introduction

23

3.2 Research Design

23

3.3	Population and Sample	24
3.4	Nature and Source of Data	24
3.5	Data Collection Procedure	25
3.6	Data Analysis Tools	25
3.6.1	Financial Tools	25
3.6.1.1	C = Capital Adequacy	25
3.6.1.2	A = Assets Quality	26
3.6.1.3	M = Management Quality	27
3.6.1.4	E = Earning Capability	27
3.6.1.5	L = Liquidity	28
3.6.2	Statistical Tools	29
3.6.2.1	Mean	29
3.6.2.2	Standard Deviation	30
3.6.2.3	Coefficient of variation	30

## **CHAPTER 4**

### **PRESENTATION AND ANALYSIS OF DATA 31- 63**

4.1	Secondary Data Analysis	31
4.1.1	Capital Adequacy Ratio	31
4.1.1.1	Core Capital Ratio	31
4.1.1.2	Capital Adequacy Ratio	33
4.1.2	Assets	34
4.1.2.1	Non- performing Loan Ratio	34
4.1.2.2	Loan Loss Coverage Ratio	36
4.1.2.3	Loan Loss Provision Ratio	37
4.1.3	Management Quality	39
4.1.3.1	Management Quality Ratio	39
4.1.4.2	Earnings	41
4.1.4	Earning Per Share	41
4.1.4.2	Return on Equity	43
4.1.4.3	Return on Assets	44
4.1.5	Liquidity	46
4.1.5.1	Cash Reserve Ratio	46
4.1.5.2	Cash & Bank Balance Ratio	48
4.1.5.3	Investment in Government Securities ratio	50
4.2	Primary Data Analysis	52
4.3	Major Findings from the Study	60

## **CHAPTER 5**

### **SUMMARY, CONCLUSION AND RECOMMENDATION 64-68**

5.1	Summary	64
5.2	Conclusion	65
5.3	Recommendations	67

## **BIBLIOGRAPHY**

## **ANNEXES**

## LIST OF TABLES

Table No.	Title	Page No.
2.1	Impact of Earning	13
2.2	Impact of Liquidity	14
2.3	NRB Directives Regarding CCR and CAR	15
2.4	Risk Weighted Assets	16
2.5	Loan Classification and Provision as per NRB Directives	17
3.1	Table of the Study	24
4.1	Computation of Core Capital Ratio	31
4.2	Computation of Capital Adequacy Ratio	33
4.3	Computation of Non-performing Loan Ratio	35
4.4	Computation of Loan Loss Coverage Ratio	36
4.5	Computation of Loan Loss Provision Ratio	38
4.6	Computation of Management Efficiency Ratio	40
4.7	Computation of Earning Per Share	42
4.8	Computation of Return on Equity	43
4.9	Computation on Return on Assets	45
4.10	Computation of Cash Reserve Ratio	47
4.11	Computation of Cash & Bank Balance Ratio	48
4.12	Computation of Investment in Government Securities	50
4.13	Research Answer Regarding CAR & CCR	52
4.14	Research Answer Regarding huge NPL	53
4.15	Marks of Banks in Different Parameter for MER	55
4.16	Research Answer about Competency of Our Banks With Foreign Banks	56
4.17	Satisfaction Level of Customers	57
4.18	Satisfaction Level of consumers on Decoration of The Banks	57
4.19	Staffs Behavior on customers	58
4.20	Consumer Overall Mark for the Banks	59
4.21	Consumer Overall Rank to the Banks	60
5.1	Rank of the Bank Regarding CAMEL parameters	66

## LIST OF FIGURES

<b>Figure No.</b>	<b>Title</b>	<b>Page No.</b>
4.1	Core Capital Ratio	32
4.2	Capital Adequacy Ratio	33
4.3	Non Performing Loan Ratio	35
4.4	Loss Coverage Ratio	37
4.5	Loss Provision Ratio	38
4.6	Management Efficiency Ratio	40
4.7	Earning Per Share	42
4.8	Return on Equity	44
4.9	Return on Assets	45
4.10	Cash Reserve Ratio	47
4.11	Cash & Bank Balance Ratio	49
4.12	Investment in Government Securities	51
4.13	Research Answer Regarding CCR & CAR	52
4.14	Cause of Huge Non Performing Loan	54
4.15	Competency of our Banks with Foreign Banks	56
4.16	Satisfaction Level of Consumers on Infrastructure Of Banks	58
4.17	Staffs Behavior on Consumers	59

## ABBREVIATIONS

ATM	Automated Teller Machine
BOD	Board of Directors
B/S	Balance Sheet
CAR	Capital Adequacy Ratio
C&B	Cash and Bank
CBs	Commercial Banks
CCR	Core Capital Ratio
CEO	Chief Executive Officer
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
C.V.	Coefficient of Variation
EPS	Earning Per Share
FIs	Financial Institutions
FY	Fiscal Year
Govt.	Government
HBL	Himalayan Bank Limited
KBL	Kumari Bank Limited
KYC	Know Your Customers
Lcy Deposits	Local Currency Deposits
LLCR	Loan Loss Coverage Ratio
LLP	Loan Loss Provision
LLPR	Loan Loss Provision Ratio
MBL	Machhapuchchhre Bank Limited
MER	Management Efficiency Ratio
NIBL	Nepal Investment Bank Limited
No.	Number
NPL	Non Performing Loan
NPLR	Non Performing Loan Ratio
NRB	Nepal Rastra Bank
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk Weighted Assets
SCBL	Standard Chartered Bank Limited

STDEV

Standard Deviation

UNHCR

United Nations High Commission for Refugees

# CHAPTER-1

## 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 country. 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. After eight five-year plan of our country the speed of growing these kinds of institution is rapid. Commercial banks are one of the vital aspects of banking sector, which deals in process of canalizing 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 word Banking is very commonly used by different countries and it has given different definitions by different writers. To know the precise meaning of bank, some definitions are as following:

A bank is an" establishment for keeping money, valuables, etc safely, the money being paid out on the customer's order (by means of Cheque)"<sup>1</sup>

"Banking means the accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawal by Cheque, drafts, order or otherwise"<sup>2</sup>

---

<sup>1</sup> Oxford Advanced Learner's Dictionary, Oxford University Press sixth edition 1994, p. 80

<sup>2</sup> The Banking Regulation Act, India 1949,p.8

“A bank is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure.”<sup>3</sup>

Bank is an institution which collects money from those who have it to spare and who are saving it out of their income and lends this money out to those who require it.”<sup>4</sup>

From the above definitions, it is clear that the bank is a financial institution, which accepts deposits from the public in different accounts and grants loans to individuals and corporations against their securities. The difference in interest rate on lending and deposit, interest rate spread, is the major source of income for the bank. Interest on lending is higher than the deposits. It is an agent of its clients, which remits money, collects incomes and pays expenses on behalf of them. It performs the wide variety of functions, which provide utility to the individual, corporation and general public.

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 bank is a kind of bank where public will deposit the money and provides loans and credits to individuals or firms and all other institution including government offices. It also transfers money from one place to another. They provide the working capital required by trade and industry in their day-to-day transactions. They grant loan in the form of cash, credits and overdrafts. The commercial bank plays an important role in mobilizing the resources and to convert them into active capital, which is very important for the rapid growth and development of the economy. Commercial banks in general, are the banks established to support the country's commercial sector.

## **1.2 Focus of the Study**

This research study is focused on comparing the financial condition and performance of Nabil, Himalayan and Nepal Investment Bank in the frame work of CAMEL by using

---

<sup>3</sup> Shakespeare Vaidya, "*Banking and Insurance Management*", Taleju Prakashan, 2001 April p.29

<sup>4</sup> Shakespeare Vaidya, "*Banking and Insurance Management*", Taleju Prakashan, 2001 April p. 28

descriptive and analytical research design. Here we assess the bank effectiveness, efficiency and soundness through CAMEL.

CAMEL focuses the capital, assets, management, earnings and liquidity of the bank.

### **1.3 Introduction of Banks under Study**

Nabil bank limited, Himalayan Bank Limited and Nepal Investment Bank limited are taken under studies.

#### **Nabil Bank Limited**

Nabil Bank Limited broke the monopoly of government banking sector and become the 1<sup>st</sup> joint venture bank establishing in 29<sup>th</sup> Ashad 2041 ( i.e. 12<sup>th</sup> July 1984). Before 1<sup>st</sup> January 2002 Nabil Bank Limited recognized as Nepal Arab bank limited and then after it is known as Nabil Bank Limited. With 50% equity investment Dubai Bank Limited, Dubai was the foreign joint venture partner who extended Nabil a technical service agreement in the initial period. Now NB (International) limited, Ireland is the foreign partner of Nabil bank who hold 50% of equity investment.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele banking system. Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil Bank Limited believes stakeholders are at the core of everything and takes a slogan "your bank at our service" and stands in a position to claim "Bank of 1<sup>st</sup> choice". It's C.R.I.S.P. culture i.e. Customer focused, Result orientation, Innovative, Synergistic and professional culture with Quality service helps to set the distinguish image and genuine recognition.

Nabil bank has authorized capital of 1.6 billion. It has issued capital of Rs.689 million which is equal to its paid up capital. Different kinds of deposits, loans, Remittance, Cards and ATMs, E-banking, clean Bills etc are the product of this banks. It operates all over the country with 32 branches having head office in Kamaladi, Kathmandu. Now a day, Student EDUSAVE and Nabil remit are focus product of this bank. This bank is handled by best

manager of the country and Asian Idle Mr. Anil Shah CEO, and former NRB governor chairman MR. Satendra Pyara Shrestha. Nabil is fulfilling its corporate social responsibility through three pillars of the nation i.e. health, education and sports. Glaucoma center of "Tilganga Eye Hospital", sponsor of Nabil Three Star Club and help for 'Mary Ward School' is basic CSR of Nabil. It gets many more national and international awards including "Bank of the Year 2004".

### **Himalayan Bank Limited**

Himalayan Bank was established in 1993AD in joint venture with Habib Bank Limited (Pakistan) having the mission of "To become a leading bank of the country". Habib Bank Limited holds 20% shares of HBL. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Having head office on Karmachari Sanchaya Kosh Building, Tredevi Marg, Thamel, Kathmandu HBL has 24 branches all over the country.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. HBL serves with Different kinds of deposits and loan products. Card service, Himalayan SMS & SMS banking, Himal Remit, International Banking (LC), safe deposit Locker etc. are other important products of HBL. It is handled by CEO Mr. Ashok Rana and Chairman Mr. Manoj B. Shrestha. HBL is operating with authorized capital 2 billion and 1013512500 issued and paid up capital. It is awarded by lots of national and international awards. It becomes number one bank of Nepal in 2003 and 2006.

Himalayan Bank Limited believes in Corporate Social Responsibility (CSR) and has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society at large.

### **Nepal Investment Bank Limited**

Nepal Investment Bank formerly known as Nepal Indosuez Bank Limited was established in

1985 with a French joint venture partner named Credit Agricole Indosuez, which held 50% of the shares. Now, it has no foreign investment, so it is fully Nepalese owned institution.

Now a day, it is operating with rs.1203915400 issued and paid up capital. It has 2 billion authorized capitals which meets the minimum authorized capital amount for the "A" class bank as NRB rules and regulation.

NIBL is operating with the guidance of Mr. Prithivi B. Pande Chairman and chief Executive Director of NIBL. NIBL believes that their prosperity is directly linked with the well-being of the society in which they work. Being a responsible corporate entity, they are very aware of their social responsibility. Bank frequently donate huge amount to Bal Mandir and Pashupati Bridhashram. Likewise it donated lots of money to Hospital and Rehabilitation Center for Disabled Children. It also contribute to United Nations High Commission for Refugees (UNHCR's) Nepal programme. Not only that it equally shown interest in extending its support for the gevelopment and promotion of various sports and sporting activities in the country.

Having the head office on Durbar Marg, Kathmandu it is operating with 30 branches in the country. Different kinds of deposits and loans, e-banking, ATMs, safe deposit lockers etc. are its main product.

In the case of prizes and awards, NIBL is ahead in the competition by getting different national and international awards. It is the bank which wins three times, the title of "Number one Bank" of the country. It is the "Bank of the year 2008".

#### **1.4 Statement of the Problem**

This is the age of throat cut competition with quality, no quality no competition and no competition no business. Wants of each individual, business, group and organization is to be leader. But, how to become the leader is the problem. Why and how some are success and achieve their goal and some are not able to fulfill their wants is the question need to answer. In financial institutions and banking sector, they have their own type of equipments like focused products, service provided, credit policy, rate structure, operation management etc. with the help of such instrument they compete with each other. In this study we check the financial soundness and effectiveness of selected commercial banks with the help of CAMEL test.

## **1.5 Objectives of the Study**

The main objective of the study is to examine the financial performance through CAMELS test of selected commercial banks and compare each other.

To accomplish the main objective, specific objective of the study are:

- ) To analyze the capital adequacy of selected commercial banks & to check CAR & CCR are set according to NRB rules or not.
- ) To check the assets quality, management quality and earning capability of selected banks.
- ) To assess the organization investments, social corporate responsibility and services provided by selected commercial banks.
- ) On the basis of comparative analysis and conclusion drawn, recommend the related banks for the better improvement.

## **1.6 Significance of the Study**

This research and study is much more significant for the customers, employees and owner of the related banks to know banks strength, weakness and management of assets, capital and liquidity of selected CBs. It might be highly significant for other competitive financial institution and banks to make policy for throat cut competition. It may be fruit full for those students, researchers, teachers and others who are interested to gain knowledge and who want to prepare thesis regarding commercial banks. Banking is the field which is related to all the economy activities of the nation. A small farmer to huge trader are keeping a touch with banks, so financial performance of banks directly or indirectly effects the economy of the country and also affected by the country economy. So it is significant for the government and economy system of the nation.

## **1.7 Limitation of the Study**

- ) Out of twenty six commercial banks here we only consider three banks and five FY for the comparative analysis of CBs. So this thesis shows the trend of CBs but not become whole mirror of all CBs.
- ) 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.
- ) Determination & analysis of Management quality is also based on the direct interview of customer of banks, so in some extent it is also affected by knowledge & view of the banks customers who are chosen for the interview.

)

## **1.8 Organization of the Study**

The whole study is divided into five chapters.

**Chapter-I**, the first chapter is the introductory one. Back ground of the study and Introduction of selected commercial banks are described in this chapter. Objectives, limitation and significance of the study are also presented in this chapter.

**Chapter - II**, this chapter mainly described with theoretical aspect of the CAMEL. "What others have done?" and "what others have said or written?" Regarding our study and research are examined in this section. This chapter is divided into three parts theoretical review, review of legislature provisions and review of previous studies.

**Chapter - III**, research methodology an important aspect of any research is presented separately in the third chapter. It shows what kinds of data are used for the study. How the data are collected. Sample and population of the study and adopted tools of analysis is also presented in this chapter.

**Chapter -IV**, Data collected from different sources is presented in a meaning full manner as per the demand and need of the study. The data is analyzed by using CAMEL approach. Detailed tabulation of the data is separately presented in this annexure. Finding of the study are also presented in this fourth chapter.

**Chapter - V**, The whole study concluded in the fifth chapter with summary conclusion and the meaningful suggestion made to improve the selected banks and banking sectors. Here recommendation is also given for the government and the NRB for better rules and regulation on banking sector. In the last appendices and bibliography are presented.

## **CHAPER - II**

### **REVIEW OF LITERATURE**

Review is the combination of dual words, re plus view, which means again see or repeat the things. So to find out new things from the past experience, we should check and balance the previous statement, experiment and conclusion. "What others have done?" and "what others have said or written?" Regarding our study and research are examined in this section. This chapter is divided into three parts theoretical review, review of legislature provisions and review of previous studies. Basic terms used in this research are presented in theoretical review. Similarly NRB rules and others legal rules and provision are mentioned on review of legislature provisions. National and international journals, exports views, review of previous research and study are covered in research review.

#### **2.1 Theoretical Review**

##### **2.1.1 CAMEL Approaches**

Financial performance analysis is the process of determining the strength and weakness of an organization. Analysis is done through strategic relation between the figures of the financial statement (Balance sheet and income statement). There are various indicators like ratio analysis to measure the financial efficiency. Ratio helps to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance. Relationship can be expressed as percentage, fractions and proportion of numbers. It is widely used tool in analyzing financial status of an organization. Logical and meaningful relationship between difference financial figures can be established by constructing ratio on the basis of which various conclusions can be drawn.

##### **2.1.1.1 C= Capital Adequacy**

Capital is the life blood of every business without which no one can imagine the business. Capital is the fund raised to finance different assets. Sources may be either short-term or long-term, capital fund is shareholder's total claim on the bank that can be categorizes into two parts: -

- ◆ Core Capital
- ◆ Supplementary Capital

#### **Core Capital**

The key element of capital on which the main emphasis should be placed is the Tier 1 (core) capital, which comprises of equity capital and disclosed reserves. This key element of capital

is the basis on which most market judgments of capital adequacy are made; and it has a crucial bearing on profit margins and a bank's ability to compete.<sup>5</sup> Core capital is the capital which is kept in reserve for nonspecific purpose and includes following items:

- ◆ Paid up capital
- ◆ Share premium
- ◆ Non-redeemable preference share
- ◆ General reserve fund
- ◆ Cumulative profit/loss (up to previous FY)
- ◆ Current year profit/loss (as per B/S)
- ◆ Capital Redemption Reserve
- ◆ Capital Adjustment Fund

### **Supplementary Capital**

The Supplementary (Tier 2) Capital includes reserves which, though unpublished, have been passed through the profit and loss account and all other capital instruments eligible and acceptable for capital purposes. Elements of the Tier 2 capital will be reckoned as capital funds up to a maximum of 100 percent of Tier 1 capital arrived at, after making adjustments referred to in 2.4. In case, Where the Tier 1 capital of a bank is negative, the Tier 2 capital for regulatory Purposes shall be considered as zero and hence the capital fund, in such cases, shall be equal to the core capital.<sup>6</sup>

Supplementary capital is that capital which is kept in reserve for specific purpose to cover loss which includes the following items:

- ◆ General loan loss provision
- ◆ Exchange fluctuation reserve
- ◆ Assets revaluation reserve
- ◆ Hybrid capital instrument
- ◆ Unsecured subordinates term debt
- ◆ Interest spread reserve
- ◆ Other free reserve
- ◆ Provision for loss on investment
- ◆ Investment Adjustment Reserve

---

<sup>5</sup> Nepal Rastra Bank, Accord Implementation Group, "*Capital Adequacy Framework* " 2007 (updated July 2008) p.5

<sup>6</sup> Nepal Rastra Bank, Accord Implementation Group, "*Capital Adequacy Framework* " 2007 (updated July 2008) p.5

The NRB has announced that the Basel ii accord on Capital Adequacy be implemented in Nepal from July 2007. It has issued draft guidelines on Basel II frame work that would be applied in Nepal. In the first phase, it is mandatory for 'A' category financial institution i.e. commercial banks.

Risk weighted assets is the key factor which influence the capital adequacy ratio. Banks all transactions are not equally risky. Risks of the assets are differing according to its nature and transactions.

#### **2.1.1.2 A = Assets Quality**

Loan is treated as assets in the bank. Assets quality is most important factor for the bank. Appropriate utilization of loan management opens the door of success, while miss management of loan brings worst condition. This is the most risky assets item that needs crucial assessment. Banks collect funds in the form of capital, deposits, borrowings, etc. It mobilizes these funds to generate certain returns by giving loans and advances to the users of money to invest in various alternatives. Bank gives loan & advance in high volume from which higher interest is generated as well as there is high risk Today world's crisis is the cause of improper management of loan. Bank granted loan to public without appropriate securities and it become the main cause for bankrupt of Lehman brothers from where, this world economic crisis started. Major problem of City bank is also caused by this improper loan management.

Loan is basically divided by two groups.

- ) Performing Loan
- ) Non Performing Loan

Performing loan are those loans which are timely paid or paid with in three month after the date. Performing Loan is also known by Pass Loan. If the loan is not paid after three months of paying date then it becomes Non performing Loan. NPL is further classified into substandard loan, doubtful Loan and Loss loan.

According to the NRB unified directives for Banks and Non-Bank FIs, finance company has to classify Loan into following four categories.

**Pass Loan:** Loans and advances whose principle amount is not past due over for three months included in this category.

**Substandard Loan:** Loan and Advances that are past due for a period of three months to six months are listed in this category.

**Doubtful Loan:** those loan and advances which are past due for a period of six months to one year is known as Doubtful Loan.

**Loss Loan or Bad loan:** Those Loans and advances which are past due for more than one year are categorized in this group.

Sum of substandard loan, Doubtful Loan and Loss or Bad Loan is non performing loan.

To save whole effect of bad loan at once, NRB make the rule for provision on loan according to category of Loan and advances which is known as Loan Loss Provision.

### **2.1.1.3 M = Management Quality**

Management is the core part of any business or organization. The success of any institution depends on the competency of its management. It is a set of activities including planning, organization, and leading, staffing and controlling human resources, physical information with the aim of achieving an organizational goal, efficiently and effectively in a changing environment. It is evaluated by checking the effectiveness of the board of directives, the management, manpower, and the official operating expenditure, customer relation with the officials and institution management information system, organization and working method, internal control system, power concentration, monitoring, decision making process policies etc.

As a sound management is crucial for the success of any institution, management quality is generally accorded grater weighting in the assessment of the overall CAMEL analysis. Sound management is the key to bank performance but it is difficult to measure.

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 posses the following qualities:

- ◆ Structure of management team should be sound and perfect.
- ◆ Efficient & qualitative manpower and its productivity
- ◆ Healthy relationship between customers and organization
- ◆ Adequate management expenses
- ◆ Internal management should be effective
- ◆ Fair decision making capability
- ◆ Proper communication system
- ◆ Working environment should be cozy

#### 2.1.1.4 E = Earnings

The earning quality component (E) reflects not only the quantity and trend in earnings, but also the factors that may affect the sustainability or quality of earnings (Koch and Macdonald, 2004).

Earnings capacity evaluates how efficiently the bank is performing in each and every sector. Proper use of available funds and duly recovery of the capital and interest on loan, profitability on investment etc. can give the position of earning. It means the bank's whole action reflects from its earnings. An analysis of the earnings ratio helps the management, investors and creditors to know the performance of the bank and can get information regarding their interest. To stay in the competition earning factor should be strong than others. Generally banks earning shows the success or failure of the bank. Man survives the human and earning survives the organization. The purpose of the earnings measure in CAMEL is to provide a ratio representative of management's level of effectiveness in utilization of assets to earn profits. It is used as yardstick to measure the economic efficiency of the bank.

If earning of the banks are good than investors as well as the customers belief will increase. Similarly bank can increase its operations and expand its business with the increase volume of the earnings. Earning is not only need for survive of the bank but it is the key of progress.

**Table No: 2.1**  
**Impact of Earnings**

Earnings view	Point of view		
	Shareholders	Depositor	Bank
Increases	<ul style="list-style-type: none"> <li>Ⓜ It is positive.</li> <li>Ⓜ Value of shares will increase.</li> <li>Ⓜ The risk involved in reducing value of share decreases.</li> <li>Ⓜ Can be sold at high price value.</li> </ul>	<ul style="list-style-type: none"> <li>Ⓜ It is positive.</li> <li>Ⓜ Increment in interest % may be expected.</li> </ul>	<ul style="list-style-type: none"> <li>Ⓜ It is positive.</li> <li>Ⓜ Creates goodwill.</li> <li>Ⓜ Probability of good income in future.</li> </ul>

Decreases	Ⓜ Market value per share will decrease.	Ⓜ The attitude towards bank will be changed.	Ⓜ Bad impact on its goodwill. Ⓜ Shareholder equity ownership transfer may be possible. Ⓜ Deposit might be decrease i.e. withdrawal possibility might be high.
-----------	---	--	---

### 2.1.1.5 L = Liquidity

Liquidity refers to the speed and ease with which an asset can be converted to cash without significant loss of value. In banking term, liquidity means availability of bank to satisfy one's liability on demand of customer. As we know that the banks are profit oriented. They believe on optimum disbursement of deposits in loans and advances. So that more and more income can be generated. Meanwhile, to invest in the profitable venture prevalent in the market and at the same time maintain confidence among the customers, they should have a stand by position of liquid funds, sufficient cover the likely demand. It is not true that the bank cannot keep all deposits in the form of cash. The deposits are honored to allocate in various uses in order to generate income. Only the certain percent of deposit should be kept in the bank in the form of cash. If the bank will keep greater deposit in cash it losses the opportunity cost. Similarly if the bank keeps low amount in deposits it will face the liquidity crisis of it will not able to pay depositors on the time of requirement.

**Table No: 2.2**

#### **Impact of Liquidity Aspect:**

Liquidity position at different stage	High	Medium	Low
Bank	This position is not good because idle money will be burden to bank	It shows that they are performing well and are maintaining liquidity position well.	It shows bank is not maintaining CRR ration by NRB and may be panelized.
Depositors	This is good because the money will be available in bank.	This position is also good because banks are maintaining good position of liquidity.	It shows bad condition because they can't withdraw money.

Banks have to show their extra energy to managing the liquidity, because it is the key of success. Idle liquidity only increases the cost and less liquidity opens the door of bankrupt. How much the liquidity is appropriate? It should be well answered and managed by the bank if they want to become leader in such a tough competitive market. How much the money should be kept in the bank? It is differing from bank to bank. It depends on the deposit structure and nature of the customer. So bank have to manage it self. Government rules of CRR should be maintained by all banks. Through CAMEL we examine banks are following government rules or not. How much, they are investing upon government securities. How much, they have the idle liquidity etc.

#### **2.1.1.6 S = Sensitivity to market Risk**

Risk that occurs due to changes in the market conditions could adversely impact earning and capital of the bank refers as sensitivity to market risk. This reflects the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect commercial banks earnings or economic capital. It is assessed for determination of bank's ability to monitor and manage its exposure to market risk. It checks to management's ability to identify measure, monitor and control market risk.

## **2.2 Review of Legislature provisions**

To make commercial banks and financial institutions more responsible and transparent, NRB supervises commercial banks and other financial institutions. NRB is the banker of the banks and financial institutions so it regulates, coordinates, controls and supervises other banks and financial institutions. NRB makes the monetary policy for the government. NRB is the legislative body which makes certain rules to control the monetary and fiscal environment of the nation. It formulates the policy to control inflation or deflation. CAMEL is fully affected by the NRB policy. NRB makes the standard for CAR, CCR and CRR. It determines what percentage should be kept as provision for the different kinds on Loan. It standards the weight for different kinds of assets according to assets risk.

The NRB has announced that the Basel ii accord on Capital Adequacy is implemented in Nepal from July 2007.now commercial banks have to maintain minimum 5.5% CCR and 11% CAR. Minimum CCR and CAR set by the NRB is revised time to time. On FY 2059/60

CCR and CAR were 4.5% and 9% respectively which is increased from FY 2060/61. Following table show the fluctuating rules of NRB regarding it.

**Table No: 2.3**

**NRB directives regarding CCR and CAR**

Fiscal Year (B.S.)	CCR	CAR
2059/60	4.50%	9%
From 2060/61	5.50%	11%

Risk weighted assets is the key factor which influence the capital adequacy ratio. Banks all transactions are not equally risky. NRB rate the risk of assets to calculate total risk weighted assets which are as follows:

**Table no: 2.4**

**Risk Weighted Assets**

<b>Table of Risk Weighted Assets</b>	
<b>On Balance Sheet Assets</b>	<b>Risk Weight</b>
Cash Balance	-
Gold (tradable)	-
Balance with Nepal Rastra Bank	-
in government securities	-
Investment in NRB bonds	-
Fully secured loan against own fixed deposit	-
Fully secured loan against government securities	-
Balance with Domestic bank and financial institution	0.2
Fully secured FDR loan against Fixed Deposit receipt of other banks	0.2
Balance with foreign banks	0.2
Money at call	0.2
Loan against the guarantee of internationally rated banks	0.2
Other investment with internationally rated banks	0.2
Investment in Share, Debenture and Bonds	1
Other Investments	1
Loan, advance and bills purchased/Discounted	1
Fixed Assets	1
All Other assets	1
<b>Off Balance Sheet Items</b>	
Bills collection	-

Forward Foreign Exchange Contract	0.1
Letters of credit with Maturity of less than ½ year ( full value)	0.2
Guarantee provided against counter guarantee of internationally rated foreign banks	0.2
Letter of Credit with Maturity more than 6 months (full value)	0.5
Bid bond	0.5
Performance Bond	0.5
Advance payment Guarantee	1
Financial Guarantee	1
Other Guarantee	1
Irrevocable Loan commitment	1
Contingent Liability in respect of income tax	1
Loan under repurchase guarantee	0.5
All other contingent liabilities	1

(Source: "KFA General Banking Course"; course materials, 2008)

Granting loan is one of the basic functions of the banks. Banks earn interest from loan but if loan amount is not recovered or if loan become bad debts or non performing loan than banks have to bear a huge loss. If loan is not recovered in time, banks have to face the liquidity crises. To prevent from such a disaster NRB makes rules for provision according to nature of the loan. NRB categories the loan in four grounds according to duration of overdue. That is presented as bellow.

**Table No: 2.5**

**Loan classification and provision as per NRB directives**

<b>Classification of loans</b>	<b>Category</b>	<b>Duration overdue</b>	<b>Loan Loss Provision</b>
Performing Loan	Standard /Pass/Good	1 to 3 months	1%
Non-performing Loan	Sub-standard	3 to 6 months	25%
	Doubtful	6 months to 1 year	50%
	Bad or Loss	More than 1 year	100%

In case of loan is given on a personal guarantee basis only, additional provision of 20% needs to be provided in three categories i.e. goods, substandard and Doubtful.

If loan is given to the shareholders or promoters who are holding 1% or more shares of the same bank , the provision percentage needs to be made double in three categories i.e. goods, substandard and Doubtful. In case of loan is restructured or rescheduled, provision of 12.5%

needs to be provided instead of 1% for good loan category. The other provisions will remain the same.

NRB gives full authority to the commercial banks to make their own deposit interest rate and loan interest rate. Therefore interest rate differs from bank to bank. NRB

### **2.3 Review of Previous Studies**

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

#### **2.3.1 Review of Journals and 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 examiners), 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.<sup>7</sup>

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 supervisory 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.<sup>8</sup>

Dhungana Bhisma 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 &

---

<sup>7</sup> Berger, A.N., and S.M. Davies (1994), "The Information Content of bank examinations", journal of financial services Research 14 pp.117-144.

<sup>8</sup> Hirtle, B.J. and J.A. Lopez (1999), "Supervisory Information and the Frequency of Bank Examination" fFederal Reserve Bank of New York, Economic Policy Review 5, P 1-20

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.<sup>9</sup>

Pant Radish 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."<sup>10</sup>

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 years 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. <sup>11</sup>

### **2.3.2 Review of Thesis**

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

---

<sup>9</sup> Bhisma raj Dhungana, "*Problem Bank Identification, Correction & Resolution Mechanism in Nepal*" 53<sup>rd</sup> Anniversary Special Issue, p. 44

<sup>10</sup> Pant Radish, " Nepal Newbiz" Feb. 2006, p.5

<sup>11</sup> Resta jha "*Troubled global economy-cause and concern*", The boss 15 Feb. - 14 march 2009, p.58

secondary data for the period of six years 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. The researcher conducts the financial tools to analyze the six years 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.

K.K. Kutal (2007) conducted "CAMEL STUDY On Joint Venture Banks with Special Reference to SCBL, NABIL AND HBL, A THESIS". The main objective of the study was to analyze the financial strength, weakness and performance of competitive 1<sup>st</sup> generation banks, taking the sample of Standard Chartered, Nabil and Himalayan banks. She did her study covering three FY (2003/04 to 2005/06) 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. She found SCBL and Nabil were maintaining CAR according to NRB rules but HBL became failure to maintain in previous FY. Regarding assets quality Nabil lead other two banks. In terms of NPL, LLPR and performing Loan Nabil shows its sound performance and management SCBL follow Nabil, HBL follows there after. HBL should put either extra effort to decrease NPL or increase LLP further. Kutal saw mgmt of SCBL is much better than others where Nabil show extra care to its employee by providing high bonus; here also HBL was behind of these two. Study show HBL cash and bank balance was highest despite of high volume of lending which means there's still lot of fund lying idle. Nabil was taking risk as compare to other and investing few in government securities where as SCBL investing huge portion o investment in government securities. In overall analysis

SCBL becomes first in position and Nabil and HBL comes thereafter. But Nabil was following more competitively. HBL have to do lots of homework for the tough competition.

Sanjel (2007) carried out a research study on "Comparative Analysis of Financial Status and Performance Evaluation of HBL and Nabil bank limited" in the frame of CAMEL rating system. Research was conducted for the period 200/01 to 2004/05 based on primary as well as secondary data. By using descriptive and analytical research design, financial ratios, and simple mathematical and statistical tools study was done. In his study, he got capital adequacy in case of Nabil is meeting the standard of NRB where HBL became failure to meet in all FY. The LLP of Nabil is decreasing continuously in each year where as the LLP of HBL is in increasing trend but below the industrial average. The non performing loan to loan ratios are in below the industrial average and the standard. Total expenses to revenue ratio are in decreasing trend and the EPS are in increasing trend which indicate effective management of Nabil. But in the case of HBL both are decreasing. The earning quality ratio like return on equity, return on assets, net interest margin, EPS are generally above the benchmark prescribed by the World Bank and in increasing trend, but comparison to these two Nabil is in favorable condition as compare to HBL. Overall liquidity position Nabil leads HBL. Nabil has good management of risk adjustment which is shown by its investment in risky assets and profit generation.

Chand Kamal Bd. (2007 Feb.) 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.

Manisha Bhusal (2008 march) 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 liquidity 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.

## CHAPTER-3

# RESEARCH METHODOLOGY

### 3.1 Introduction

This research methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objective in view. In other words research methodology describes the method and the process applied in the entire aspect of the study and focus is given to research objectives, the model definition of variables and sources of the data used in the study.

Research is the systematic enquire for seeking facts and methodology in the method of doing research in well manner. So research methodology means the analysis of specific topic by using proper method. Research methodology is away to a systematically solve the problem.<sup>12</sup>

The research for gaining the knowledge about method of goal achievement which we desire is known as research methodology.<sup>13</sup>

### 3.2 Research Design

Research design is the plan, structure and strategy of investigation concerned so as to obtain answer to research questions and to control variance. The plan is the overall scheme or program of the research. It includes of what the investor will do from writing the hypothesis and their operational implications to the final analysis of the data.

Research is designed to fulfillment of the objective of this study. It is designed to know the view of the genuine person related to banks, financial institutions and the economy of the nation on the behalf of CAMELS and NRB rules which affects the financial performance of the banks. Depending upon nature of data descriptive & analytical type of research method is applied. However, as objectives of the study qualitative research method is also designed.

Shakespeare Vaidya, "Banking and Insurance Management", Taleju Prakashan, 2001 April p. 28

### 3.3 Population and Sample:

Population refers to whole sector and its element where as sample means selected elements from that whole. We take sample from the population to make our research easy. It takes the

---

<sup>12</sup> Kothari, C.R "Research Methodology: Methods and Techniques" New Delhi: Willey Eastern Limited, 1990 p. 4

<sup>13</sup> Joshi Pushpa Raj, "Reserch Methodology", Kathmandu, Buddha Academic Enterprises Pvt. Ltd. 2005 p. 5

much more time and become more critical and vast if we take whole population for the research. So for the research sampling method is more used.

Here are twenty five commercial banks in our country and we study selecting only three from them. So listed twenty five banks are the population of our study

Sample of this studies are listed three commercial banks.

**Table no: 3.01**

**Sample of the Study**

No	Name of bank	Established	Head- Office
1	Nabil bank	1984/7/16	Kathmandu
2	Himalayan bank	1993/1/18	Kathmandu
3	Nepal Investment Bank	1986/2/87	Kathmandu

**Base of selection**

Nabil, Himalayan and Nepal Investment banks are first generation banks. They are established as joint venture banks later NIBL becomes fully Nepalese bank. These banks are leading banks of the country so these banks are selected for the study. We can see the over view of all Nepalese commercial leading banks through these banks analysis, so these banks are selected. These banks activities affect the whole banking environment of Nepal, they are introducing new products time to time so these banks are taken for the study. Easily available of annual reports and other data makes to take these banks for the study.

**3.4 Nature of Source of Data**

This study has been studied on the basis of both primary and secondary data. As concern of secondary data, it is collected through financial report; bank prospectors; banking reports, bank website, magazine related with banking and economy like Boss magazine and so on. For the primary data, it is collected through questionnaire & direct interview with bankers, genuine person related to economy, customers and users of the bank. Visiting different people and related banks primary data's are collected.

**3.5 Data Collection procedure:**

For the purpose of this research and study, the different data are obtained from different sources. These data's are scanned and tabulated under different heads. After tabulating theses data's are examined and analyzed through CAMEL test.

## **3.6 Data Analysis Tools**

### **3.6.1 Financial Tools**

Financial performance analysis is the process of determining the strength and weakness of an organization. Analysis is done through strategic relation between the figures of the financial statement (Balance sheet and income statement). There are various indicators like ratio analysis to measure the financial efficiency. Ratio helps to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance. Relationship can be expressed as percentage, fractions and proportion of numbers. It is widely used tool in analyzing financial status of an organization. Logical and meaningful relationship between difference financial figures can be established by constructing ratio on the basis of which various conclusions can be drawn.

On the regard of CAMEL analysis, here we analyze the financial performance and trend analysis of selected commercial banks. Here we asses the efficiency, effectiveness and quality among Nabil, Himalayan and Nepal Investment Bank on the base of CAMEL.

CAMEL stands for,

C: - Capital Adequacy

A: - Assets Quality

M: - Management Quality

E: - Earning

L: - Liquidity

#### **3.6.1.1 C=Capital Adequacy**

##### **CAR = Capital adequacy ratio**

Capital adequacy ratio reflects the overall capital of the banks and also the ability of the management to meet additional capital requirement. It defines relationship between capital fund and total risk weighted assets of the bank.

According to NRB guidelines, banks in Nepal should maintain 11% capital adequacy ratio and 5.5% core capital ratio. These ratios have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum requirement then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share.

$$CAR \times \frac{\text{core capital} + \text{supplementary capital}}{\text{Total Risk Weighted Assets}} \times 100$$

### **CCR = Core Capital Ratio**

Core Capital is the capital of owners which is not used for specific purpose. More core capital fund indicates more owners' fund being utilized by the bank. It is calculated as follows.

$$CCR \times \frac{\text{core capital}}{\text{total riskweighted capital}} \times 100$$

CCR indicates how much owners or promoters capitals are used on risk weighted assets.

### **3.6.1.2 A= Assets Quality**

#### **LLPR = Loan Loss Provision Ratio**

It indicates to percentage of loan loss provision in terms of total loan value. In other words, how much provision a bank has created for the given loan? The LLPR shows how much efficiently the company manages its loan & advances and makes effort for the loan recovery. More delay the company gets to collect the loan more provision has to make and ratio will be higher. Lower ratio is better the financial position and vice-versa.

Lower the ratio is better the financial position and vice-versa. It is calculated as follows.

$$\text{loan loss provision Ratio} \times \frac{\text{total loss provision}}{\text{total loan}} \times 100$$

#### **LLCR = Loan Loss Coverage Ratio**

It is mandatory that for every bank need to keep some provision for the loan they providing. It indicates the provision made by bank for exposure of loan losses in terms of non-performing loan. Higher the LLCR better the financial position and vice-versa. It is computed as follows.

$$\text{Loan Loss Coverage Ratio} \times \frac{\text{Total Loan Loss provision}}{\text{Total NPL}} \times 100$$

#### **NPLR = Non Performing Loan Ratio**

Non-performing loan consists of sub-standard, doubtful and bad loans. Higher NPL ratio shows bad management of assets. If the ratio is low it indicates a favorable credit management position. NPL ratio is calculated as follows.

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

### **3.6.1.3 M=Management Quality**

#### **MER = Management Efficiency Ratio**

Management efficiency ratio indicates the efficiency of the staff in the bank or organization. How effectively and efficiently staff works and contribute on total net profit after tax is shown by MER. It is the indicator which indicates how effectively banks are managed? The management efficiency ratio of any bank can be calculated as follows:

$$MER \times \frac{\text{Total Net Profit After Tax}}{\text{Total Number of Staffs}} \times 100$$

### **3.6.1.4 E = Earning Capability**

#### **EPS = Earning Per share**

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

$$EPS \times \frac{\text{Net Profit after Tax}}{\text{Number of shares}} \times 100$$

It is mandatory that for every bank need to keep some provision for the loan they providing. It indicates the provision made by bank for exposure of loan losses in terms of non-performing loan. Higher the LLCR better the financial position and vice-versa.

It is mandatory that for every bank need to keep some provision for the loan they providing. It indicates the provision made by bank for exposure of loan losses in terms of non-performing loan. Higher the LLCR better the financial position and vice-versa.

#### **ROE = Return On Equity**

Generally when shareholders invest their capital in bank they can get some additional benefit from bank which in known as Return on Equity. ROE is the bank's net income after tax to total equity capital or net worth. It indicates how much profit is getting from the equity. It is calculated as follows:

$$ROE \times \frac{\text{Net Profit after Tax}}{\text{Total Shareholders Fund}} \times 100$$

## **ROA = Return On Assets**

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

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

### **3.6.1.5 L= Liquidity**

#### **CRR = Cash Reserve Ratio**

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

It is calculated as:

$$CRR \times \frac{\text{NRB Balance Lcyonly}}{(\text{Lcy Deposits Zmargin Deposits})} \times 100$$

#### **Cash and Bank Balance Ratio:**

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

$$\text{Cash and Bank Balance Ratio} \times \frac{\text{Total cash and Bank Balance}}{\text{Total Deposit}} \times 100$$

#### **Investment in government Securities Ratio**

Government securities are those securities which are risk free and can be easily converted in cash at anytime. The banks instead of keeping their funds idle invest in various government securities which are liquid in nature as they can be traded anytime. And this investment in government securities ratio shows how much fund is invested in government securities. Only

maintaining Cash Reserve Ratio and Cash & Bank Balance Ratio cannot be considered sufficient for immediate liquidity obligation. It is calculated as:

$$\text{Investment in Govt. securities ratio} = \frac{\text{Investment in Govt. securities}}{\text{Total Deposit}} \times 100$$

Data are further tabulated and presented wherever required. Five year trend of Three CBs are presented and analyzed to know the trend of Nepalese commercial banks. On this regard different ratios are calculated and analyzed. To know the view of genuine persons related to banks, financial institutions and economy regarding the CAMELS & NRB rules and regulations which affect the CAMELS test, different questions are set in this research and study.

### 3.6.2 Statistical Tools

#### 3.6.2.1 Mean

The most popular and widely used measure of representing the entire data by one value is what most laymen call an average and what the statisticians call the mathematic mean. Its value is obtained by adding together all items and by dividing this total by the number of items. In this study, arithmetic mean of CAMEL parameters is calculated. Mean helps to analyze the average ratio of CAMEL parameters of the bank. It shows the bank's efficiency and effectiveness.

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

#### 3.6.2.2 Standard Deviation

The standard deviation measures the absolute dispersion (of variability of the dispersion, the greater the amount of dispersion of variability) the greater of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of series; A large standard deviation means just the opposite. Thus, if we have two or more nearly identical means, it is the distribution with the smallest standard deviation that has the most representative mean. Hence, standard deviation is extremely useful for judging the representativeness of the mean.

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

### 3.6.2.3 Coefficient of Variation

Standard deviation is only an absolute measure of dispersion, depending upon the units of the measurement. The relative measure of dispersion based on standard deviation is called the coefficient of standard deviation. This is a pure number independent of the units of measurement and thus, is suitable for comparing the variability, homogeneity or uniformity of two or more distributions.

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\bar{X}}$$

## CHAPTER - 4

### PRESENTATION & ANALYSIS OF DATA

In this chapter data collected through secondary as well as primary data are presented and analyzed.

#### 4.1 Secondary Data Analysis

##### 4.1.1 Capital adequacy ratio

Capital adequacy ratio reflects the overall financial condition of the banks and also the ability of the management to meet additional capital requirement. It defines relationship between capital fund and total risk weighted assets of the bank.

According to NRB guidelines, banks in Nepal should maintain 11% capital adequacy ratio and 5.5% core capital ratio. These ratios have been maintained to make strong capital base which make banks to enjoy public confidence. If the CAR and CCR is higher than NRB minimum requirement then it is considered as that the interest of depositors is safe. But in concern to shareholders, the excess of CAR means less earning per share.

##### 4.1.1.1 Core Capital Ratio

Core Capital is the capital of owners which is not used for specific purpose. More core capital fund indicates more owners' fund being utilized by the bank. High CCR gives better protection to depositors and creditors. But this higher CCR inversely affect the profit of the bank. CCR can be computed as follows:

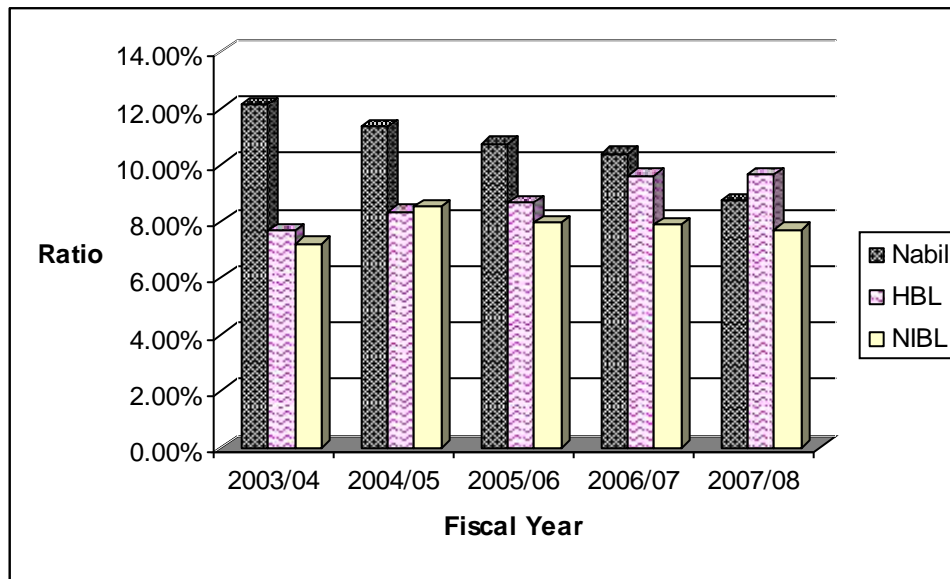
$$CCR = \frac{\text{core capital}}{\text{total riskweighted capital}} \times 100$$

**Table no. 4.1**  
**Computation of Core Capital Ratio**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	12.12%	7.69%	7.22%
2004/05	11.35%	8.33%	8.52%
2005/06	10.74%	8.65%	7.97%
2006/07	10.40%	9.61%	7.90%
2007/08	8.75%	9.64%	7.71%
Mean	10.67%	8.78%	7.86%
STDEV	0.012579	0.00842	0.004694
C.V.	0.117868	0.095857	0.059689

**Figure No. 4.1**

**Core Capital Ratio**



Above table and chart clearly shows that CCR of Nabil is highest as compare to others. Only in final year Nabil has less CCR as compare to HBL but still more than NIBL. NRB provision of minimum CCR is 5% and all selected banks have more than it in any year. It means all bank are following the rules and regulation regarding the CCR. Core capital is permanent capital of the bank. More Core Capital Ratio means more responsible management on the eye of investor. Investors and depositors can feel more safety but for the bank, having more CCR means less return. It hampers the profit. In average NIBL has the least CCR, which shows that NIBL is performing well by maintaining bench mark of the NRB and keeping the least CCR. Its C.V. is also least which shows less fluctuation. But depositors and the creditors of NIBL have more risk as compare to others. HBL has moderate CCR among three banks and its C.V. is also in-between the C.V. of Nabil and NIBL. Which clarify, although HBL is adopting increasing trend on CCR, its CCR is still moderate. Nabil's average CCR is highest among selected banks; this CCR is hampering the profit of Nabil. On other side, Highest CCR also indicates that Nabil's depositors and customers are getting more protection. But, if Nabil maintains the least CCR its profit can goes up. Highest C.V. of Nabil clarify that there is highest fluctuations on CCR among studied banks.

#### 4.1.1.2 Capital Adequacy Ratio

Total capital divided by the total risk weighted assets is the capital adequacy ratio.

High CAR means better protection to its depositors and creditors but it has negative relation with the net profit of the bank.

$$CAR = \frac{\text{core capital} + \text{supplementary capital}}{\text{Total Risk Weighted Assets}} \times 100$$

Where,

Total capital fund = Core capital + Supplementary capital

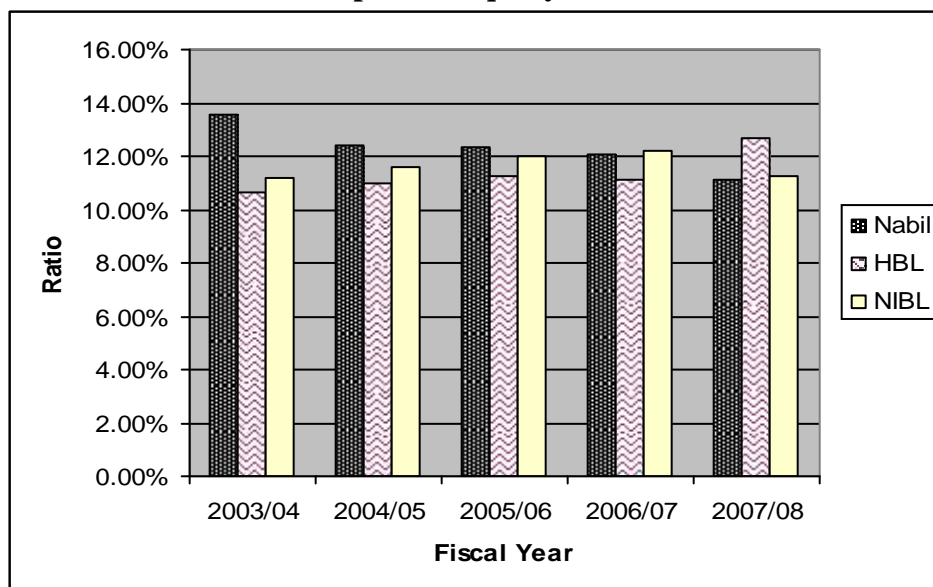
Total risk weighted assets = On Balance Sheet Risk Weighted Item + off Balance Sheet Risk Weighted Item

**Table no: 4.2**  
**Computation of Capital Adequacy Ratio**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	13.56%	10.65%	11.18%
2004/05	12.44%	11.01%	11.58%
2005/06	12.31%	11.26%	11.97%
2006/07	12.04%	11.13%	12.17%
2007/08	11.10%	12.70%	11.28%
Mean	12.29%	11.35%	11.64%
STDEV	0.008824	0.007881	0.004285
C.V.	0.071797	0.069439	0.036827

**Figure No. 4.02**

**Capital Adequacy Ratio**



In respect of Nabil bank limited its CAR is slowly and gradually decreasing. As we all know that CAR hampers the profit and it is better for the bank to keep minimum CAR. But in the view of depositors and creditors higher CAR ratio is more favorable. High CAR gives better protection to its depositors and creditors. Nabil is maintaining the NRB mandatory regarding CAR. Yearly decreasing CAR shows that slowly and gradually Nabil only maintain minimum CAR as described by the NRB, to increase its profit. But till now, its Mean CAR is highest which shows that it gives best protection to its customers and creditors among three selected banks. On the other hand this high CAR is hampering its profit more than others. Similarly having the highest C.V. Nabil shows the high per unit fluctuation regarding the CAR. Nabil CAR is in decreasing year by year which may better from its profit perspective but it is still on the behind in the competition.

Mean CAR of the HBL is the least which shows the mgmt of appropriate capital adequacy. But its C.V. is in between NIBL and Nabil which shows per unit fluctuation of the CAR is between NIBL and Nabil. On the other hand with the Lowest Mean CAR, HBL indicates its protection to depositors and creditors is least.

Having least C.V. among three comparative banks, NIBL shows its least per unit fluctuation on CAR but its Mean CAR is little bit more than HBL. So it is not able to be best on the aspect of CAR. It is giving more protection to its depositors and creditors as compare to HBL but on the other hand its profit is more negatively affected by its CAR as compare to HBL.

## **4.1.2 Assets**

### **4.1.2.1 Non-performing Loan Ratio (NPLR):**

Non-performing loan consists of sub-standard, doubtful and bad loans. Higher NPL ratio shows bad management of assets. If the ratio is low it indicates a favorable credit management position.

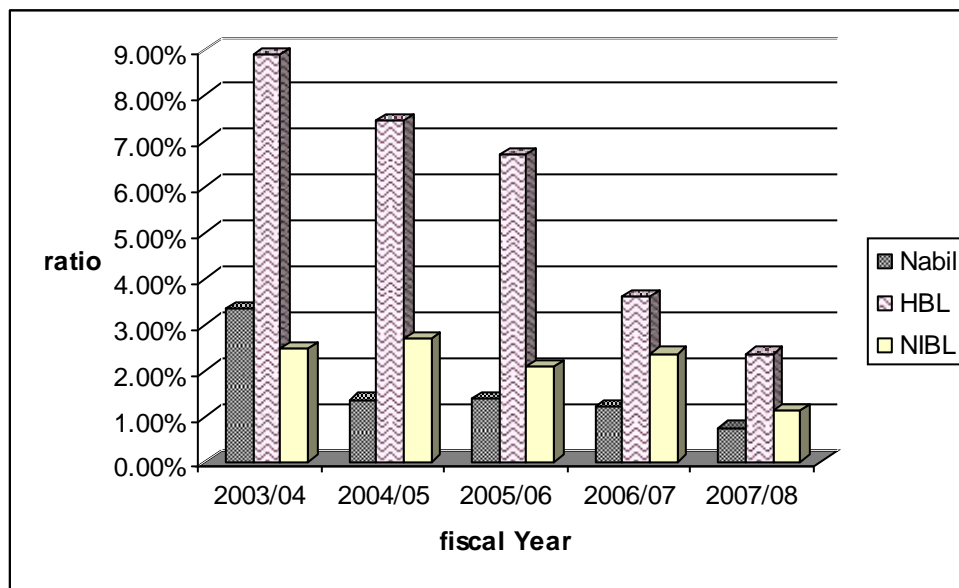
$$\text{Non Performing Loan Ratio} \times \frac{\text{Total Non Performing Loan}}{\text{Total Loan}} \times 100$$

**Table no: 4.3**

**Computation of Non-Performing Loan Ratio**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	3.35%	8.88%	2.47%
2004/05	1.36%	7.44%	2.69%
2005/06	1.38%	6.71%	2.07%
2006/07	1.21%	3.61%	2.37%
2007/08	0.74%	2.36%	1.12%
Average	1.61%	5.80%	2.14%
STDEV	0.010075	0.027218	0.006143
C.V.	0.626528	0.469284	0.286526

**Figure No 4.3  
Non Performing Loan Ratio**



Nabil Mean NPL least is least, it is only 1.61% which is too good and it shows Nabil performing loan is best as compare to others. While granting the loan Nabil is done appropriate analysis. Nabil reduces its 3.35% NPL of FY 2003/04 to 1.36% on FY 2004/05 which is great achievement although on 2005/06 NPLR slightly increased but than after it doesn't have to look behind. Here its standard deviation is moderate which overall shows moderate fluctuation among three banks. But C.V. of NPL is highest which proved that per unit fluctuation of NPL is highest on Nabil. HBL Mean NPL is highest which shows the inefficiency of bank while granting the loan. Highest Mean NPL indicates, as compare to

other banks HBL is not rightly judged the loan proposal. HBL becomes not more success to provide good and pass loan. HBL standard deviation of NPL is also the highest, which mean overall there is highest fluctuation on NPL. High fluctuation is not good for the bank but here HBL is able to decrease its NPL year by year. So this fluctuation is positive. It shows that year by year HBL is reducing its NPL in large quantity. According to its C.V. which lies in between NIBL and Nabil, per unit fluctuation is moderate. Mean NPL of NIBL is moderate it is not too far from Nabil so it is also good management of loan. Per unit fluctuation of the NIBL NPL is least which is justified by its least C.V. NIBL is not able to maintain decreasing trend on NPL. Some Fiscal Years its NPL goes up and on some Fiscal years it reduces, so least per unit fluctuation is better for the NIBL.

#### 4.1.2.2 Loan Loss Coverage Ratio (LLCR):

It is mandatory that for every bank need to keep some provision for the loan they providing. It indicates the provision made by bank for exposure of loan losses in terms of non-performing loan. Higher the LLCR better the financial position and vice-versa.

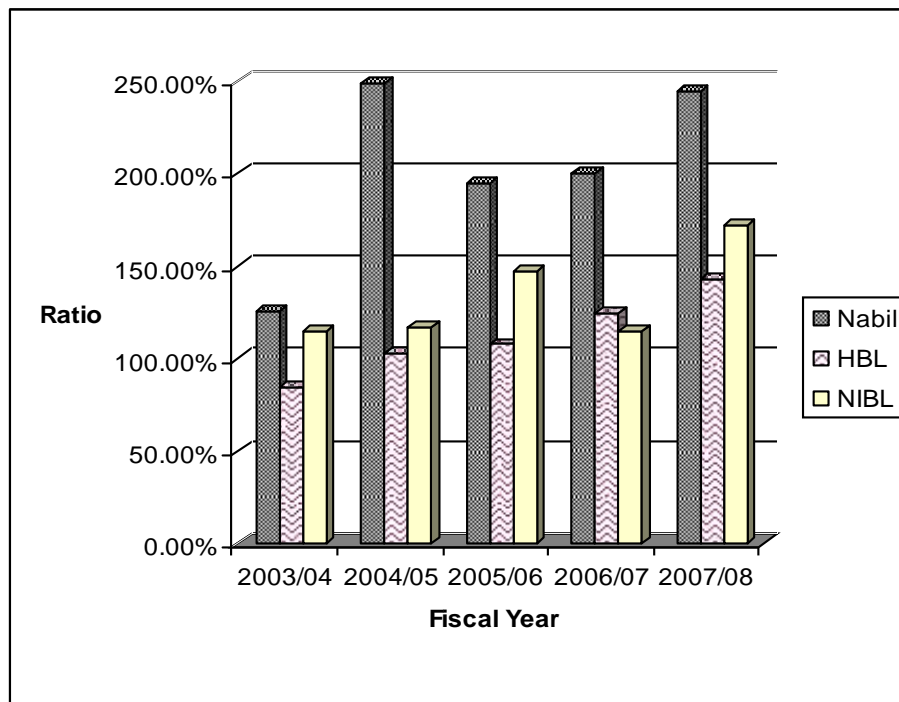
$$\text{Loan Loss Coverage Ratio} \times \frac{\text{Total Loan Loss provision}}{\text{Total NPL}} \times 100$$

**Table no: 4.4**

#### Computation of Loan Loss Coverage Ratio

Years	Banks		
	Nabil	HBL	NIBL
2003/04	125.11%	84.34%	114.88%
2004/05	249.52%	102.53%	116.46%
2005/06	195.07%	107.56%	147.51%
2006/07	200.37%	124.02%	114.39%
2007/08	244.84%	142.93%	172.12%
Mean	202.98%	112.28%	133.07%
STDEV	0.501282	0.222218	0.231911
C.V.	0.246959	0.197921	0.174275

**Figure No. 4.4**  
**Loan loss coverage ratio**



From the above table and the diagram we can clearly see that loan loss coverage ratio of Nabil bank is the highest in all Fiscal Year. Having the highest loan loss coverage ratio Nabil shows its best quality of assets among these three selected banks. Mean LLCR of Nabil is significantly high in comparison to others. NIBL and HBL are following the respectively. Some year Nabil's LLCR goes up and in another year it goes down. Per unit Fluctuation of LLCR on Nabil is highest which is shown by its C.V. Having the least mean LLCR, HBL shows its poor position but in average it is more than 100%. C.V. of HBL shows medium per unit fluctuation on LLCR. Year by year its LLCR is increasing but it has still least mean LLCR. Except FY 2006/07, HBL has least LLCR in each year. NIBL Mean LLCR is in between Nabil and HBL which indicates the moderate position. Having least C.V of LLCR, NIBL proves its least per unit fluctuation.

#### **4.1.2.3 Loan Loss Provision Ratio**

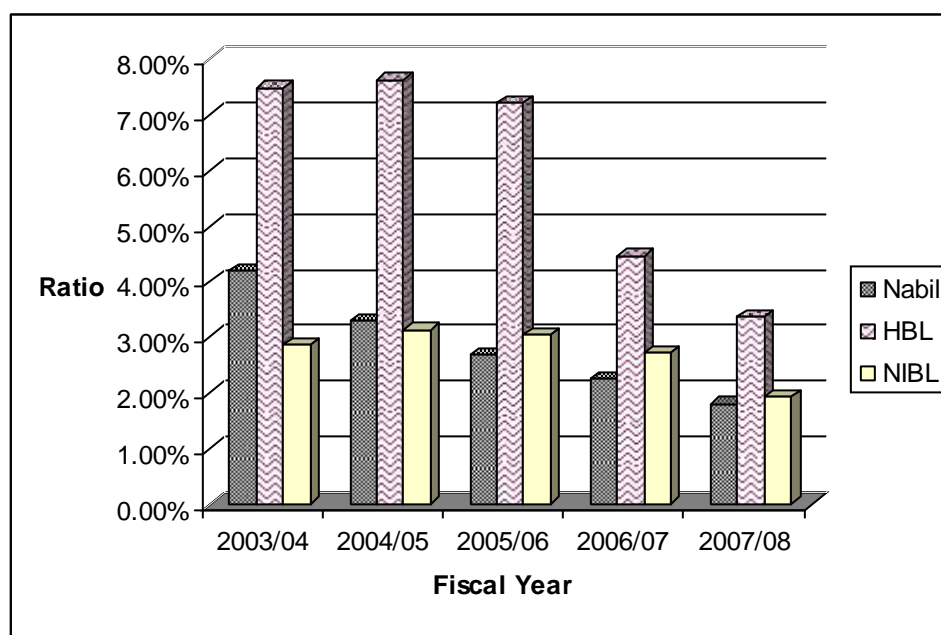
It indicates to percentage of loan loss provision in terms of total loan value. In other words, how much provision a bank has created for the given loan? The LLPR shows how much efficiently the company manages its loan & advances and makes effort for the loan recovery. More delay the company gets to collect the loan more provision has to make and ratio will be higher. Lower ratio is better the financial position and vice-versa.

$$\text{loan loss provision Ratio} = \frac{\text{Total Loan Loss provision}}{\text{total loan}} \times 100$$

**Table no: 4.5**  
**Computation of Loan Loss Provision Ratio**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	4.20%	7.49%	2.87%
2004/05	3.29%	7.63%	3.13%
2005/06	2.68%	7.22%	3.05%
2006/07	2.25%	4.47%	2.72%
2007/08	1.81%	3.38%	1.93%
Mean	2.85%	6.04%	2.74%
STDEV	0.009336	0.019725	0.0048
C.V.	0.328043	0.326686	0.175182

**Chart No. 4.5**  
**Loan Loss Provision ratio**



Through the calculation and diagram, we can clearly see that in case of another assets quality measurement element, HBL is again weak in the competition Where as there is very tough competition in between NIBL & Nabil. Mean LLPR of the NIBL is the least which indicates that its loan loss provision which is kept for the total loan is least among the studied banks.

Since FY 2005/06, Nabil has the least LLPR but in average of five studied period, NIBL grabs the position. Per unit fluctuation of NIBL is also least in the competition. Nabil highest C.V. indicates the highest per unit fluctuation among the selected banks. Since FY 2004/05 HBL LLPR is decreasing year by year but it is still too far from the Nabil and NIBL. Mean LLPR of HBL is more than double of both banks, which is not good sign in such a tough market.

#### **4.1.3 Management Quality**

Management is the core part of any business or organization. The success of any institution depends on the competency of its management. It is a set of activities including planning, organization, and leading, staffing and controlling human resources, physical information with the aim of achieving an organizational goal, efficiently and effectively in a changing environment. It is evaluated by checking the effectiveness of the board of directives, the management, manpower, and the official operating expenditure, customer relation with the officials and institution management information system, organization and working method, internal control system, power concentration, monitoring, decision making process policies etc.

##### **4.1.3.1 Management Efficiency Ratio**

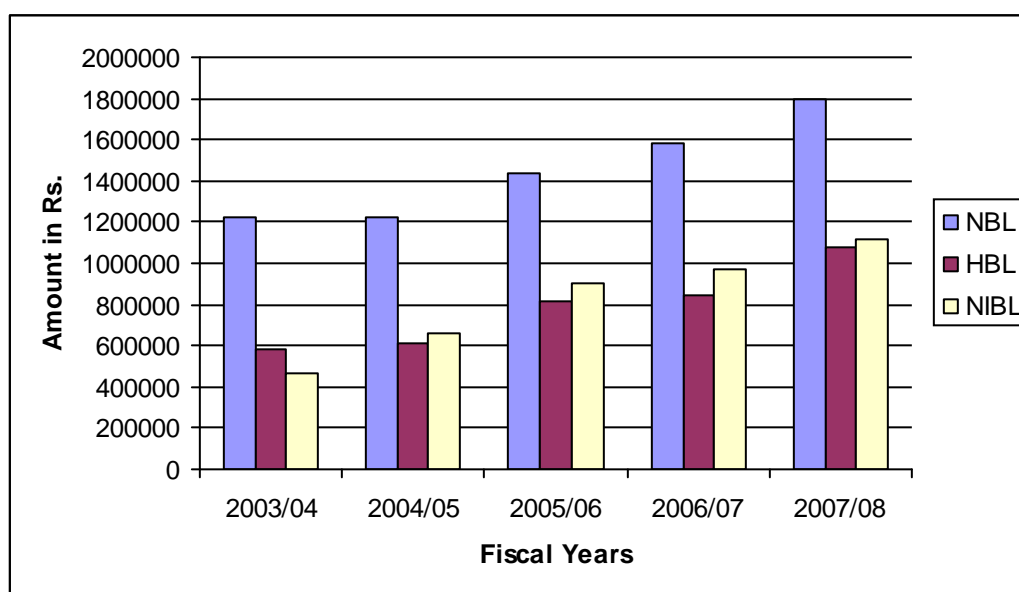
Human force is mainly responsible to set direction of the institution that plays vital role to turn as profit making organization. MER is fairly indicator that how efficiently the staffs contributed in institution. How effectively and efficiently organization is utilizing its staffs are indicated by this ratio. The management efficiency ratio of any bank can be calculated as follows:

$$MER X \frac{\text{Total Net Profit After Tax}}{\text{Total Number of Staffs}} x 100$$

**Table no: 4.6**  
**Computation of Management Efficiency Ratio**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	1223954.9	578139.549	469756.849
2004/05	1220925.08	615319.703	657640.504
2005/06	1440504.19	815432.613	898811.315
2006/07	1578359.95	842162.509	975484.15
2007/08	1794395.18	1075919.66	1120147.13
Mean	1451627.86	785394.807	824367.99
STDVE	244301.526	200255.97	259523.756
C.V.	0.16829487	0.25497491	0.31481542

**Figure No. 4.6**  
**Management Efficiency Ratio**



From the above table and the chart it is cleared that NBL has highest management efficiency ratio in all studied period among studied banks. Mean MER of Nabil is near about to double than others. MER of NBL is in increasing rate which indicates the sound management. Nabil is efficiently and effectively utilizes its staffs. Having the least C.V. of MER Nabil again proves the least fluctuation on efficiency. Optimal number of staff and high volume of profit

lead to Nabil on number one position on the regard of staff utilization or management efficiency ratio among the studied banks.

Management Efficiency Ratio of HBL is also in increasing year by year. On F.Y. 2003/04 it had only Rs.57813954.95 which increased to Rs.107591966.00 on F.Y. 2007/08. But its improvement is not still enough. According to its Mean MER it is the last in the competition of selected banks. HBL net profit as well a numbers of staff is increasing year by year. It had the highest numbers of staff from 2003/04 to 2006/07 among the studied period and banks. C.V. of MER shows HBL per unit fluctuation is greater than Nabil and smaller than NIBL. NIBL is also become able to maintain increasing trend on MER. Having the highest C.V. it is showing its rapid increment on MER. Although it was last on the competition on FY 2003/04 but it has already changed the history and becomes second in the competition with second highest Mean MER.

#### **4.1.4 Earnings**

Earnings capacity evaluates how efficiently the bank is performing in each and every sector. Proper use of available funds and duly recovery of the capital and interest on loan, profitability on investment etc. can give the position of earning. It means the bank's whole action reflects from its earnings. An analysis of the earnings ratio helps the management, investors and creditors to know the performance of the bank and can get information regarding their interest. The following ratios help the management and other stakeholders to know about earning policy of the respective banks.

- ◆ Earning per Share (EPS)
- ◆ Return on Equity (ROE)
- ◆ Return in Assets (ROA)

##### **4.1.4.1 Earnings per Share (EPS):**

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

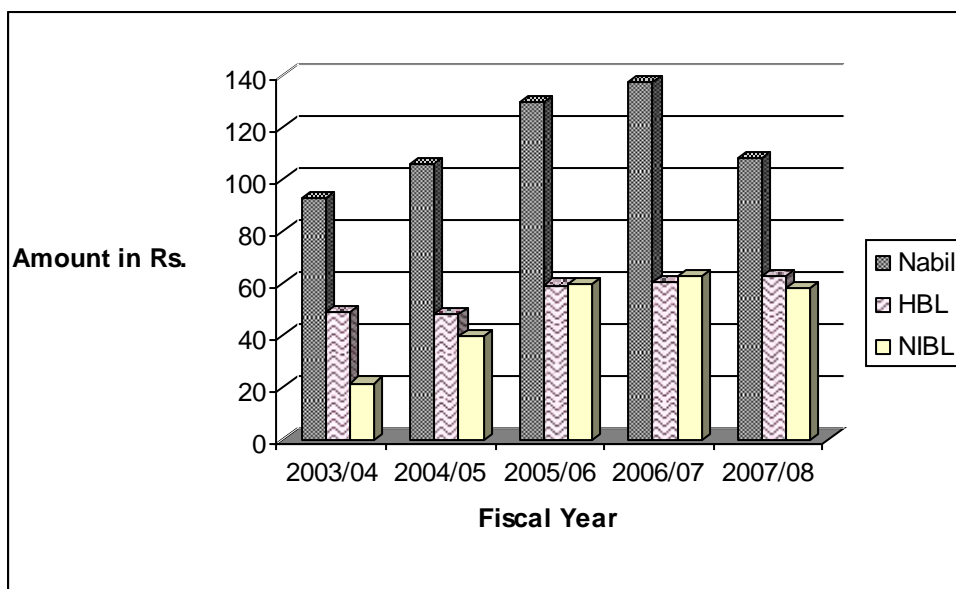
Earning per Share (EPS) is calculated as follows:

$$EPS \times \frac{\text{Net Profit after Tax}}{\text{Number of shares}} \times 100$$

**Table no: 4. 7**  
**Computation of Earning per Share**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	92.61	49.05	21.7
2004/05	105.79	47.91	39.5
2005/06	129.21	59.24	59.35
2006/07	137.08	60.66	62.57
2007/08	108.3	62.74	57.87
Mean	114.598	55.92	48.198
STDEV	18.16362	6.916636	17.33687
C.V.	0.158499	0.123688	0.359701

**Figure No.4.7**  
**Earning Per Share**



Nabil has the highest EPS in all studied period among the studied commercial banks. Mean EPS of Nabil is more than double of other banks Mean EPS, which indicates the earning ability and capacity of the bank. EPS of Nabil had increased up to 2006/07 but it is significantly reduced on F.Y 2007/08. Numbers of share is the main reason behind it. Nabil had 4916544 numbers of shares from 2003/04 to 2006/07 but on F.Y. 2007/08 it has 6892160 numbers of shares. Calculated EPS C.V of Nabil lies in between HBL and NIBL. So per unit return fluctuation of Nabil EPS is in between HBL and NIBL. It is near about the least C.V.

Having more Mean EPS than NIBL, HBL proves its earning ability is stronger than the NIBL. Although HBL is not able to meet half average EPS of Nabil, it stands on second position in the competition. Having the least C.V.; HBL shows that, there is not much more fluctuation on EPS. HBL per unit EPS fluctuation is the least. Net profit of the HBL is increasing year by year. On F.Y. 2003/04 HBL had Rs. 263053495 net profit after tax that is increased to Rs. 635868519 on F.Y. 2006/07. Its numbers of share are also increased year by year. So, HBL EPS is not increasing in all studied year.

NIBL was the last among the studied banks in previous year on comparison of EPS. But it led HBL on F.Y. 2005/06 and 2006/07. Its EPS again goes bellow than HBL on F.Y. 2007/08. NIBL total net profits after tax as well as numbers of share are also increasing year by year. Least Mean EPS indicates Nabil earning power is weak among three banks. NIBL C.V. is highest among three banks which indicate high fluctuation on return.

#### 4.1.4.2 Return on Equity

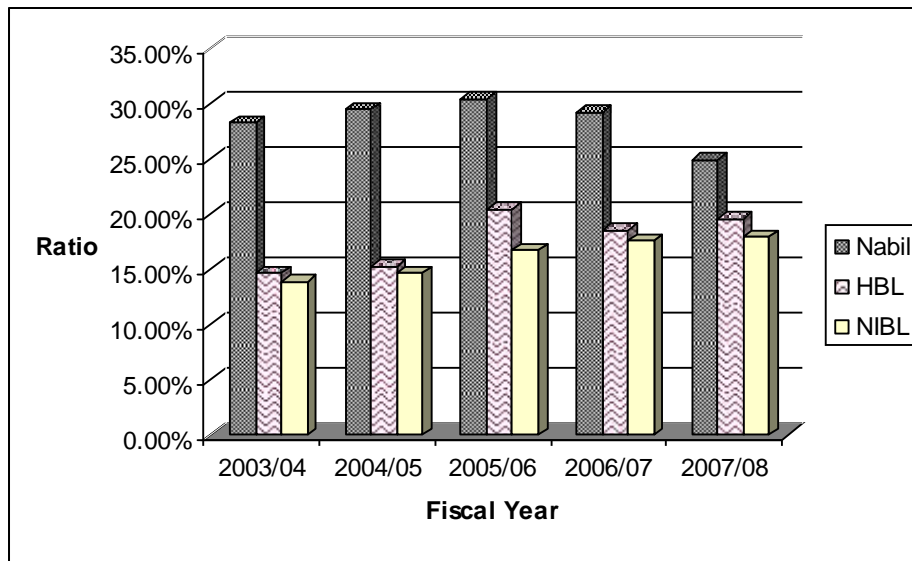
Generally when shareholders invest their capital in bank they can get some additional benefit from bank which is known as Return on Equity. ROE is the bank's net income after tax to total equity capital or net worth. It can be calculated as follows:

$$ROE = \frac{\text{Net Profit after Tax}}{\text{Total Shareholders Fund}} \times 100$$

**Table no: 4.8**  
**Computation of Return on Equity**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	28.29%	14.64%	13.89%
2004/05	29.45%	15.28%	14.70%
2005/06	30.41%	20.39%	16.74%
2006/07	29.21%	18.55%	17.58%
2007/08	24.89%	19.54%	17.91%
Mean	28.45%	17.68%	16.16%
STDEV	0.021283	0.025769	0.017818
C.V.	0.074808	0.145754	0.110235

**Figure No. 4.8**  
**Return on Equity**



According to the above data, Nabil is again on the top position. Mean ROE of Nabil is significantly high. Highest ROE of Nabil indicates investors/ shareholders funds are generating highest profit as compare to NIBL and HBL. Among the selected banks Nabil shareholders fund s are most effectively used. Having the lowest C.V., Nabil also show its least per unit fluctuation on return on shareholders fund. Nabil becomes able to show its supremacy regarding ROE by maintaining the highest ROE among the selected banks during the whole studied period. HBL stands on second position with second mean ROE. HBL is also able to lead NIBL in each year during the studied period. But having the highest C.V. HBL shows it's highest per unit fluctuation on ROE. Lowest Mean ROE of NIBL compel to stand as third bank among the competition of three banks. During the whole studied period NIBL has the least ROE in each year, but its ROE is in increasing trend. Year by year, NIBL ROE is increasing, which is of course good sign for the bank. NIBL C.V. lies in between Nabil and HBL. So, it's per unit fluctuation of return on share holders' fund is more than Nabil and less than HBL.

#### **4.1.4.3 Return on Assets**

Every financial institute has their own assets and ROA shows the productivity of these assets. It measures how efficiently the assets are utilized in the financial organization. This ratio analyzes the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in bank thereby indicating effective

use of the resources available and vice-versa. It is calculated in terms of relationship between net profit and assets.

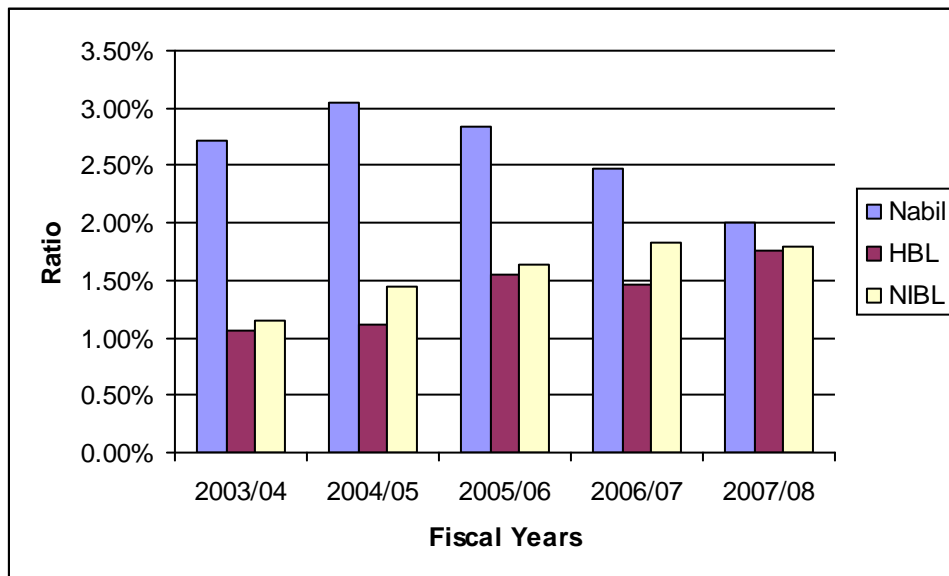
$$ROA \times \frac{\text{Net Profit after Tax}}{\text{Total Assets}} \times 100$$

**Table No. 4.9**  
**Return on Assets**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	2.72%	1.06%	1.15%
2004/05	3.05%	1.11%	1.45%
2005/06	2.84%	1.55%	1.64%
2006/07	2.47%	1.47%	1.82%
2007/08	2.01%	1.76%	1.79%
Average	2.62%	1.39%	1.57%
STDEV	0.003993	0.002984	0.002769
C.V.	0.152535	0.214685	0.176342

**Figure No. 4.9**

**Return on Assets**



From the above data and the diagram, we can clearly see the Nabil soundness regarding the ROA. Nabil becomes able to dominate both HBL and NIBL during the whole study having highest ROA in each year. Its Mean ROA is significantly higher than others. Similarly per unit ROA fluctuation of Nabil is also the least among the selected banks, which is shown by its lowest C.V. among Nabil, HBL and NIBL. Here is tough competition between NIBL and HBL regarding the ROA. In some year HBL leads the NIBL and in some year NIBL beats the

HBL. But in average NIBL leads the HBL. Mean ROA of NIBL is more than the HBL. So, NIBL secures the second position on the competition, where as HBL stands at last. NIBL C.V. lies in between Nabil and HBL. It's per unit ROA fluctuation is more than Nabil but less than HBL. Having the highest ROA C.V., HBL shows it's highest per unit fluctuation of ROA among three banks.

#### **4.1.5 Liquidity**

Liquidity refers to the speed and ease with which an asset can be converted to cash without significant loss of value. In banking term, liquidity means availability of bank to satisfy one's liability on demand of customer. As we know that the banks are profit oriented. They believe on optimum disbursement of deposits in loans and advances. So that more and more income can be generated. Meanwhile, to invest in the profitable venture prevalent in the market and at the same time maintain confidence among the customers, they should have a stand by position of liquid funds, sufficient cover the likely demand. It is not true that the bank cannot keep all deposits in the form of cash. The deposits are honored to allocate in various uses in order to generate income. Only the certain percent of deposit should be kept in the bank in the form of cash. If the bank will keep greater deposit in cash it losses the opportunity cost. Similarly if the bank keeps low amount in deposits it will face the liquidity crisis of it will not able to pay depositors on the time of requirement.

Liquidity can be measured in the following ways:

1. Cash Reserve Ratio (CRR)
2. Cash & Bank Balance Ratio
3. Investment in Government Securities Ratios

##### **4.1.5.1 Cash Reserve Ratio (CRR):**

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

CRR is calculated as bellow.

$$CRR = \frac{NRB\ Balance\ Lcy\ only}{(Lcy\ Deposits + M arg in\ Deposits)} \times 100$$

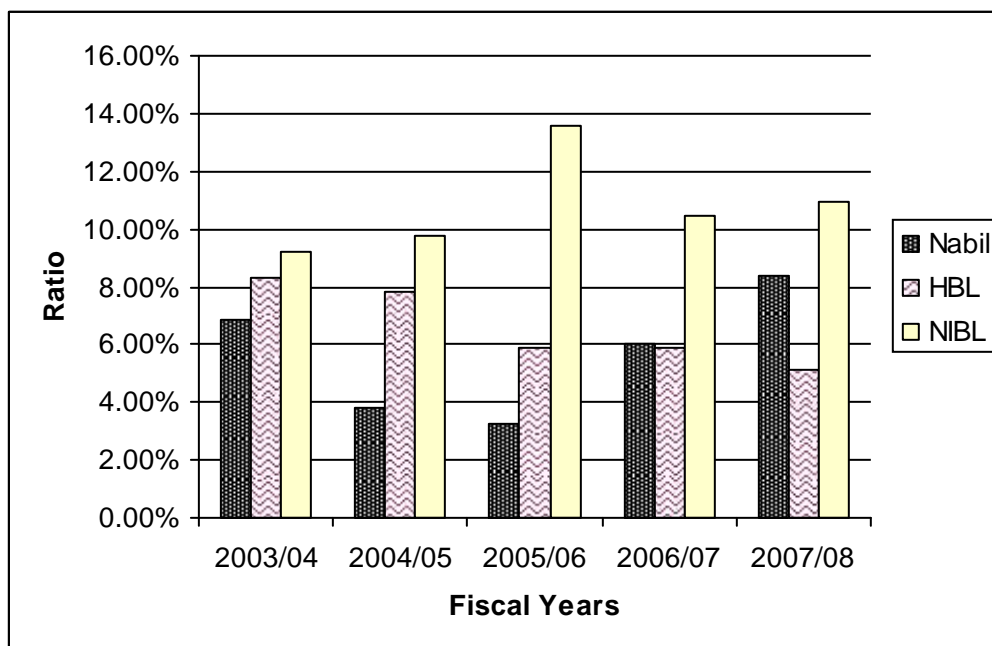
**Table no: 4.10**

**Computation of Cash Reserve Ratio**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	6.87%	8.28%	9.19%
2004/05	3.83%	7.86%	9.78%
2005/06	3.26%	5.92%	13.61%
2006/07	6.00%	5.92%	10.47%
2007/08	8.37%	5.13%	10.91%
Mean	5.67%	6.62%	10.79%
STDEV	0.021232357	0.013687	0.017066
C.V.	0.374732746	0.206689	0.158131

**Figure No. 4.10**

**Cash Reserve Ratio**



According to the data, all selected banks are maintaining the minimum benchmark of the NRB. Nabil bank has the least Mean CRR. Its Mean average CRR is only 0.67% above than the NRB benchmark. Nabil CRR C.V. is the highest among the selected banks which shows the per unit liquidity fluctuation of the bank is highest among three banks. This minimum CRR and high C.V. of Nabil indicates the high liquidity risk among studied banks. HBL mean CRR is higher than Nabil but lower than NIBL. Similarly its C.V. lies in between Nabil and NIBL, which indicates it's per unit fluctuation of the CRR, is more than NIBL and less than Nabil. Among three banks its liquidity risk is higher than NIBL and lower than Nabil.

NIBL Mean CRR is highest. Its Mean CRR is more than twice of bench mark. Having the lowest C.V., NIBL shows it's less fluctuation on reserve. Through the huge CRR and less fluctuation in one hand NIBL is reducing the liquidity risk but on the other hand having such a huge idle money it is hampering the market profit.

#### 4.1.5.2 Cash and Bank Ratio (C&B Ratio):

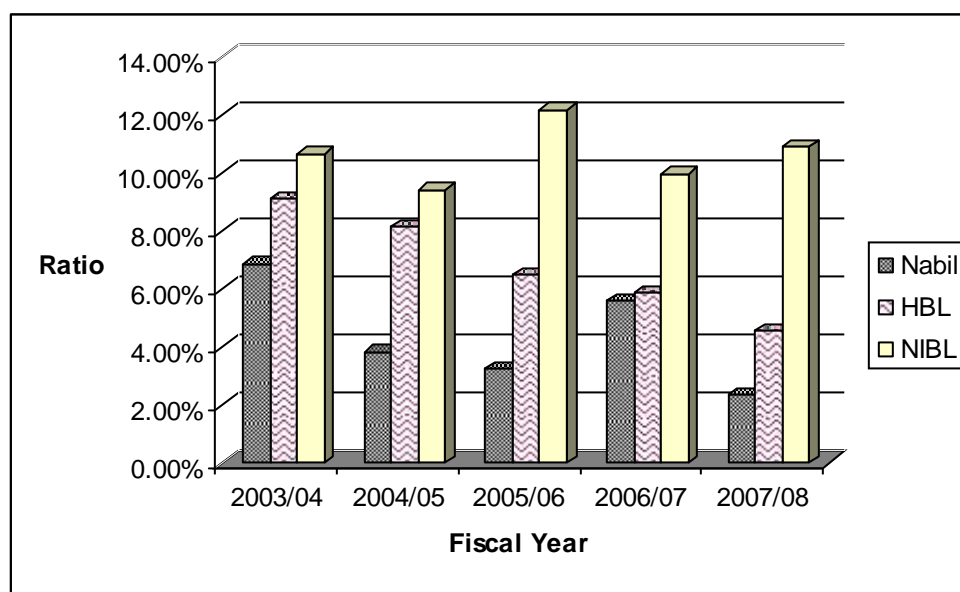
The bank must be able to meet its immediate obligation of customers. Cash & bank balance ratio shows the percent of deposit maintained as liquid assets. A higher ratio represents a greater ability to meet any unexpected demand made by the customers. If the bank cannot keep adequate amount of deposit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

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

**Table no: 4.11**  
**Computation of Cash and Bank Balance Ratio**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	6.87%	9.09%	10.65%
2004/05	3.83%	8.12%	9.40%
2005/06	3.26%	6.48%	12.15%
2006/07	5.60%	5.85%	9.97%
2007/08	2.34%	4.55%	10.90%
Mean	4.38%	6.82%	10.61%
STDEV	0.018308	0.016037	0.002022
C.V.	0.417986	0.235218	0.019053

**Figure No.4.11**  
**Cash and Bank Balance ratio**



Cash and bank balance shows the current liquidity of the bank. It is the ability to pay the obligation. More cash and bank balance means more idle money which can not generate any return for the bank. But few or less cash rang the alarm of bankrupt. If consumer returns without getting its claim Cheque amount than bank goodwill will down which open the door of bankrupt.

Nabil cash and bank balance ratio is in decreasing trend. It shows it is trying to find one optimum ratio from which it can earn more and more. Nabil cash and bank balance on FY was 6.87% but now it is only 2.34%. Nabil Mean cash and bank balance ratio is lowest in the competition with highest per unit fluctuation measured by its highest C.V. Nabil is maintaining fewer C&B balance ratio and use the huge deposit for generating earning. Till now it is successful to satisfy its customer by timely payment. But in comparison to others Nabil has huge risk of liquidity which is shown by its least Cash and bank balance ratio and highest C.V.

HBL is also following the decreasing trend of cash and bank balance as Nabil. But its fluctuation is less than Nabil, which is shown by its C.V. HBL C&B balance C.V., is lower than Nabil but higher than NIBL. Mean C&B balance ratio of HBL is also higher than NIBL and lower than Nabil. Both moderate C&B balance ratio and C.V., show the moderate risk for the bank. It is riskier than the NIBL but less risky than the Nabil.

NIBL is maintaining huge cash and bank balance ratio. Mean C&B balance ratio of NIBL more than double of Nabil. Similarly, its C.V. is also least, which indicates lest liquidity risk for the bank. But having such huge C&B balance, NIBL is reducing its profit by avoiding other risky but profitable investment. Keeping the large portion of money as a liquidity means go far from the market opportunity or less involvement in market investment.

#### 4.1.5.3 Investment in Government Securities Ratio:

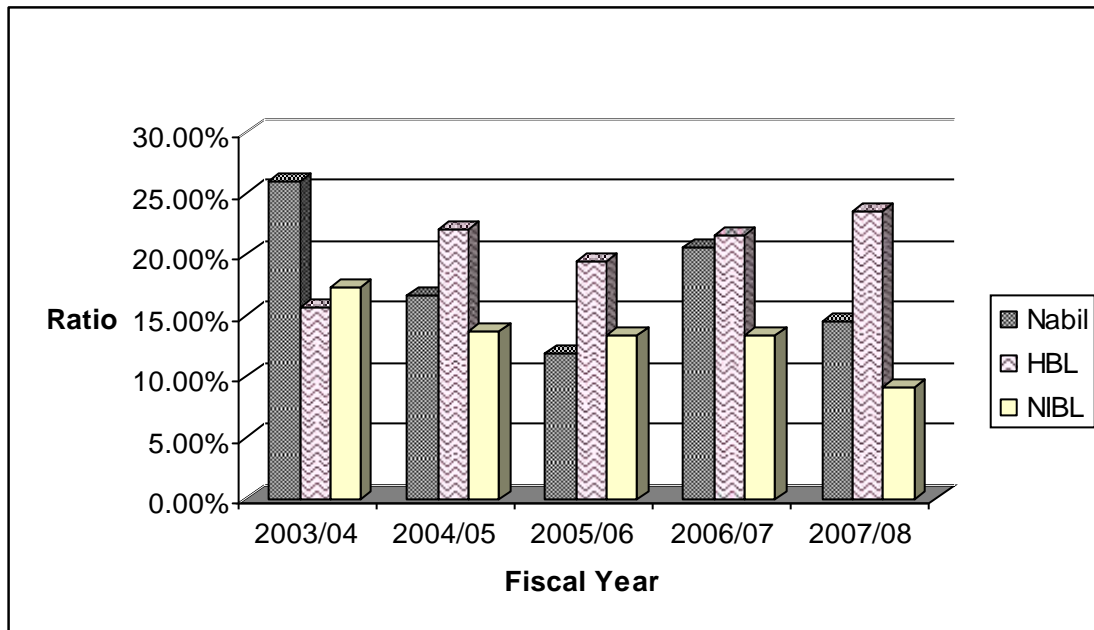
Government securities are those securities which are risk free and can be easily converted in cash at anytime. The banks instead of keeping their funds idle invest in various government securities which are liquid in nature as they can be traded anytime. And this investment in government securities ratio shows how much fund is invested in government securities. Only maintaining Cash Reserve Ratio and Cash & Bank Balance Ratio cannot be considered sufficient for immediate liquidity obligation. It is calculated as:

$$\text{Investment in Govt. securities ratio} = \frac{\text{Investment in Govt. securities}}{\text{Total Deposit}} \times 100$$

**Table no: 4.12**  
**Computation of Investment in Government Securities Ratio**

Years	Banks		
	Nabil	HBL	NIBL
2003/04	26.01%	15.59%	17.36%
2004/05	16.58%	22.04%	13.67%
2005/06	11.90%	19.42%	13.33%
2006/07	20.60%	21.48%	13.30%
2007/08	14.56%	23.46%	9.16%
Average	17.93%	20.40%	13.36%
STDEV	0.055217	0.030543	0.029043
C.V.	0.307957	0.149737	0.217325

**Figure No.4.12**  
**Investment in Government Securities**



According to the data, Nabil average investment in government securities is 17.93%, which is good enough. But the C.V. of investment in government securities is too high it is highest among three banks. This huge per unit fluctuation introduce the liquidity risk. Many countries follow the 25% of statutory liquidity ratio so this approximate 18% can not be bad for our context. Return is always associated with risk and obviously high risk high return and low risk is for low return. Investment in huge portion of amount in government securities means missing the market opportunity because its huge portion of investment amount is used for government securities. Nabil wants more return so it is investing fewer portions in government securities. It's less investment in government securities shows that it is risk seeker.

NIBL becomes more risky investor by investing least portion in government securities.

NIBL further follows the decreasing trend in investment in government securities. Year by year its investment on government securities declines. But per unit decline rate is less than the per unit fluctuation of Nabil. NIBL has lower investment on government securities C.V. as compare to Nabil, but this C.V. is more than HBL.

Mean investment in government securities is highest on HBL. HBL is also able to make lowest C.V. among three banks, which indicates least fluctuation on investment in government securities. It also shows the least risk of liquidity.

## 4.2 Primary Data Analysis

To make the thesis more meaningful some primary data are collected through questionnaire and direct interview. Numbers of questionnaire copies are filled by reputed bankers, economist and other persons related to bank and financial institutions. To know the core of the bank and satisfactions of the customers, I visit many customers of the banks also. CAMEL analysis of the selected banks become more meaningful and becomes more truthful with that primary data. It also help to know the view of genuine person regarding this CAMEL analysis as well as it gives the idea and safe way to struggle with present economic crises.

NRB provision of CAR and CCR are 11% and 5.5% respectively at present. It is revised time to time with the market condition and banking habit and necessity. Now whole world is facing economic crises. Nepal is also some how affected by this crises. So considering this crises and I asked the question, should NRB decrease the CAR and CCR rate, then most of all persons who fill up the questionnaire says yes. Result of this questionnaire is presented bellow.

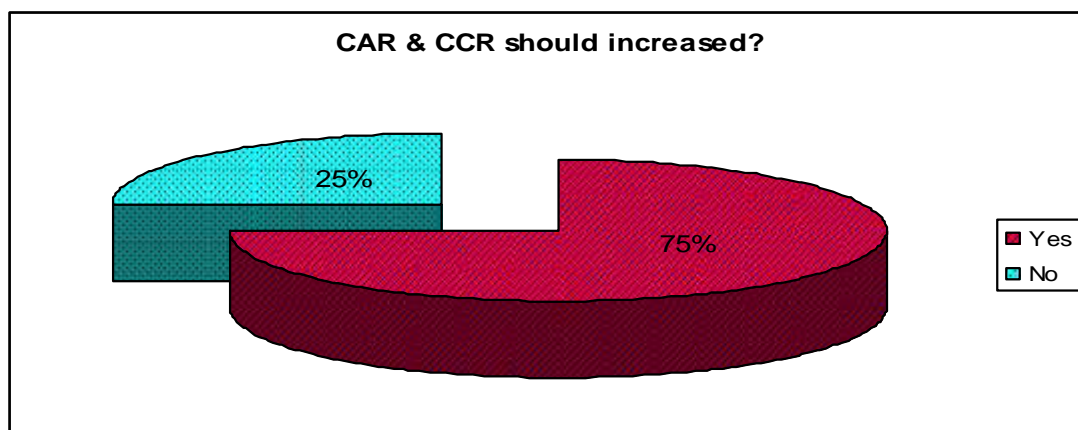
**Table No: 4.13**

**Research answer regarding CAR &CCR**

Yes	No
75%	25%

**Figure No: 4.13**

**Research answer regarding CAR &CCR**



Most of All genuine person view about the CAR and CCR is to decrease these ratios for certain period and should be increased again after this recession. 60% genuine people suggest 9% CAR while 25% is happy with current. 10% of them are suggesting in-between 7% to

8%. Regarding capital adequacy holiday, some banks are enjoying Capital adequacy holiday & other banks are suffered in such a tough competition. So, to know the view of genuine person regarding this capital, adequacy ratio question is set on questionnaire. 90% of banker are not supporting this capital adequacy holiday. They feel this holiday directly hamper the operation of other competitor in such a tough competitive market. 10% of them think that this is good idea of the NRB. These 10% believe that through the benefit of capital adequacy holiday, banks can use more funds at minimum cost, which become fruitful for banks and they can recover the position.

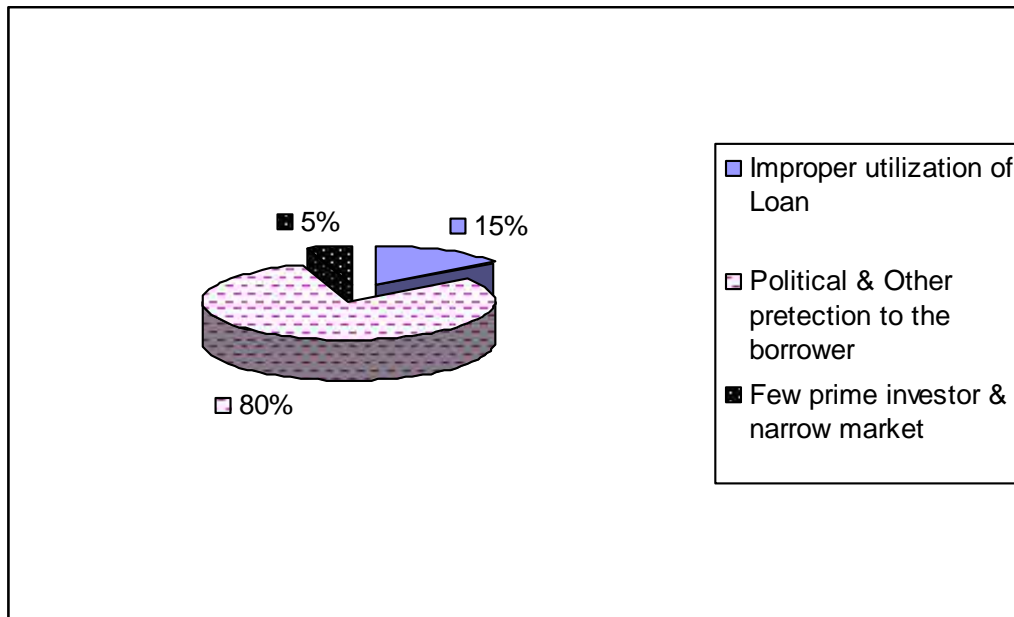
Non performing Loan is a huge problem of our banking sector. If that problem is solved then banking sector as well as our country will be developed. We can generate and utilize more and more capital if banks recover all the bad debt. To search the reason of this huge questionnaire is set with three possible reasons. One blank box is also set to know the different but no one fill that. 80% select the option "B" political protection or other protection to the borrower. 15% chose option "A", i.e. improper utilization of loan and 5% claimed "few prime investor and narrow market",

This is also presented by chat and diagram as follows:

**Table no: 4.14**  
**Research answer regarding cause of huge NPL**

Improper utilization of loan	Political & other protection to the borrower	Few prime investor & narrow market
15%	80%	5%

**Figure No. 4.14**  
**Cause of huge Non Performing Loan**



Most of people believe that politics is every where and banks are also not for from the impact. In their view our political environment effects is shown by the huge NPL. They believe that this range is more in government banks as compare to private and joint venture banks. About 70% of them hope that now this political pressure is little bit less than previous.

Similarly in case of management efficiency ratio, it is calculated by net profit after tax divided by the total number of the employee. Interns and contract employees are also works in the bank, so there performance also impacts the profit or loss of the bank. But they are not treated as the employee. In the answer of the questionnaire 70% do not agree to treat as employee while calculating the management efficiency ratio. They feel that this is very difficult to calculate because interns don't work whole year. Interns are not trend by the bank as compare to its employee. Similarly contract employee and interns can be future employee of the bank but they are not current employee. But 30% believe that they should be treated as employee.

Management efficiency also reflects on its brand, products, its location and infrastructure and so on. Here I made some criteria to rate the banks by visiting banks, rates and criteria are shown in the table. Here banks get the mark in out of ten.

**Table no: 4.15**

**Marks of Banks in different parameters for MER**

Parameters	Nabil	NIBL	HBL
Brand	9	9.5	8.5
Branches	9	8.5	8
Office location	9	9	9
Customer service quality and staff	9	8.5	8.5
ABBS, SMS Internet banking	9	8	8
ATM	9	8	8
Security arrangement	9	9	9
Office decorating, parking, rest rooms and others	8.5	9	8.5

Overall management efficiency, Nabil bank limited is strongest among these three commercial banks. Here is tough competition between NIBL and HBL.

Statutory liquidity ratio plays vital role in liquidity. In our country, here is no legal compulsion for investment in government security but other countries including India have compulsion for investment in government securities. So in the answer of question "Shouldn't we follow that international trend?" most of people say yes. 85% people argue to make legal provision for it. Although bank it self is making some investment on government to take less risk and become more liquid. Most of people suggest statutory liquidity in-between 15% to 20%. 10% people suggest 10% to 15% statutory liquidity ratio.

In case of open market for the bank and banking condition after 2010, some fear can be seen in the face of bankers. 40% people believe that small banks would be closed after international banks entrance. 30% people believe that our bank can compete with them. They think that our bank know the market and customer behavior better than other coming international banks. 30% people say our banks have no choice except competition them and they will compete with them although they become weak in competition. Table and diagram of that question is shown as bellow.

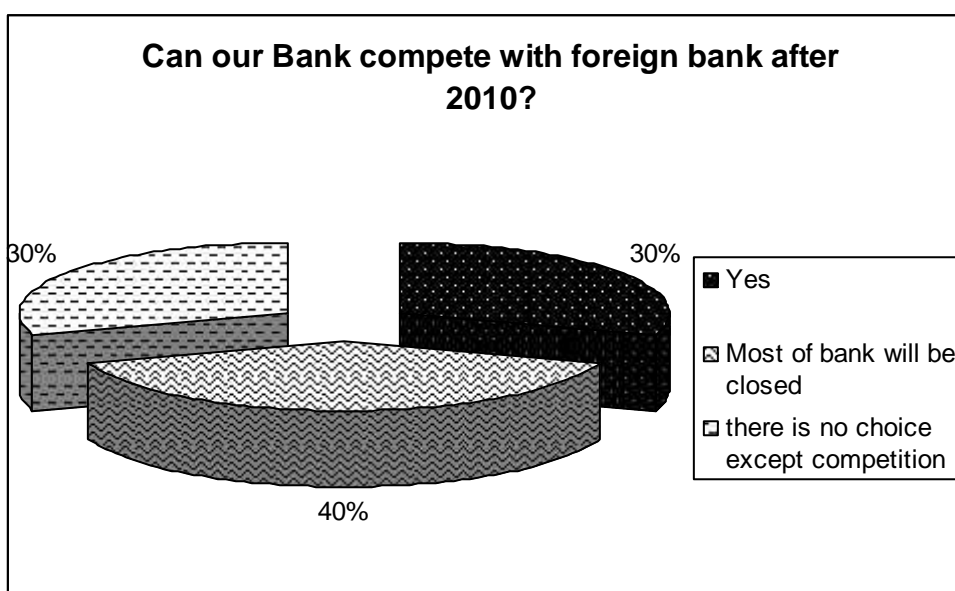
**Table no: 4.16**

**Research answer about competency of our bank with foreign banks**

Yes	Most of our bank will be closed	There is no choice except competing
30%	40%	30%

**Figure No. 4. 15**

**Competency of our Bank with foreign banks**



Through the direct interview, I found most of economist suggests some banks have to merge for the competition with international banks. International banks have huge capital and they can get advantage of that. So it is necessary to merge the banks. NIBL annual reports also agree with this suggestion.

Banks serve their customers and non customers. If bank services are better then, customers of bank will be increased. Service of the bank is one of the major components of bank management. To know the customer view about their bank service, four general options is given to them. Customer's answers are presented in following table

**Table no: 4.17**

**Satisfaction Level of customer**

	Excellent	Good	SO - so	Not satisfactory
NABIL	4%	86%	10%	-
NIBL	8%	80%	12%	-
HBL	4%	50%	46%	-

Question is asked to customers of related banks. Generally they feel their banking service is good and therefore they are the customer of that bank. Table clearly states that satisfaction level of customer is satisfactory. But I feel that they do not see aggregate service pattern. They only concern those services which are they getting. Most of the customers do not know the total services of the bank. I found only few customers who know the various function of the banks. Out of 50, only 10 customers become able to say 70% products of the banks.

During the study; I found one interesting fact that, decoration of the bank also affects the customers of the banks. Customers are comparing their banks with others according to banks decoration, furniture and other extra things like cleanness, drinking water etc. So giving them to four options, I examine the satisfaction level of the customers regarding decoration and furniture. Answers of 50 customers are tabulated as under.

**Table no: 4.18**

**Satisfaction Level of Consumers on Decoration of the Banks**

	Attractive	Good	SO - so	Not satisfactory
NABIL	12	30	8	-
NIBL	10	32	8	-
HBL	11	27	22	-

**Figure No. 4.16**

**Satisfaction Level of consumers on decoration of the banks**

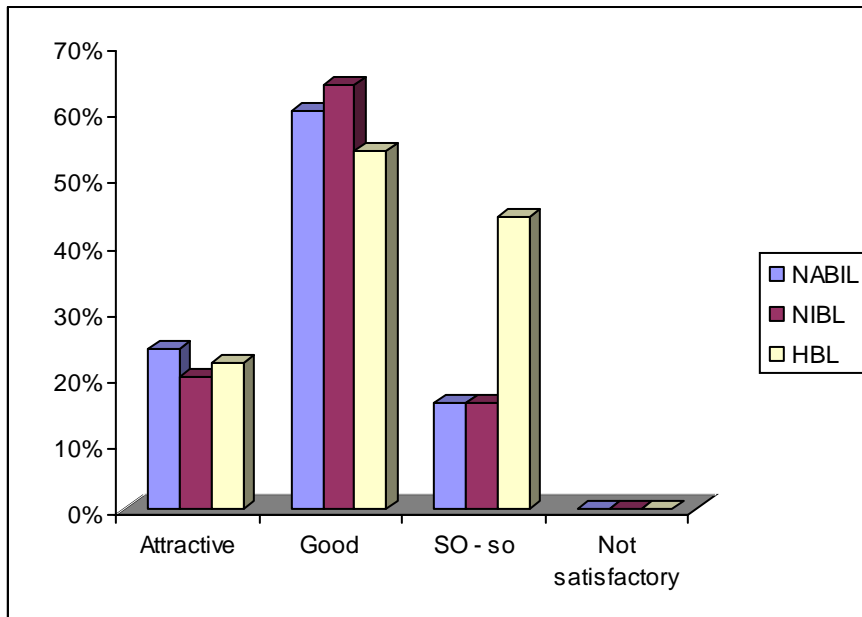


Table and chart clearly states that customer of the banks are satisfy with the furnishing and decoration of the bank.

Similarly research upon staff behavior on the eye of customers' shows that most of consumers like the staff behavior of the staff. They feel staffs are honest, hard worker having sweet voice. Consumers examine the banks according to staff behaviors. If staffs are well mannered, service oriented and polite than banks image will increase on the eyes of consumers. Answers of 50 consumers' of each bank are presented bellow.

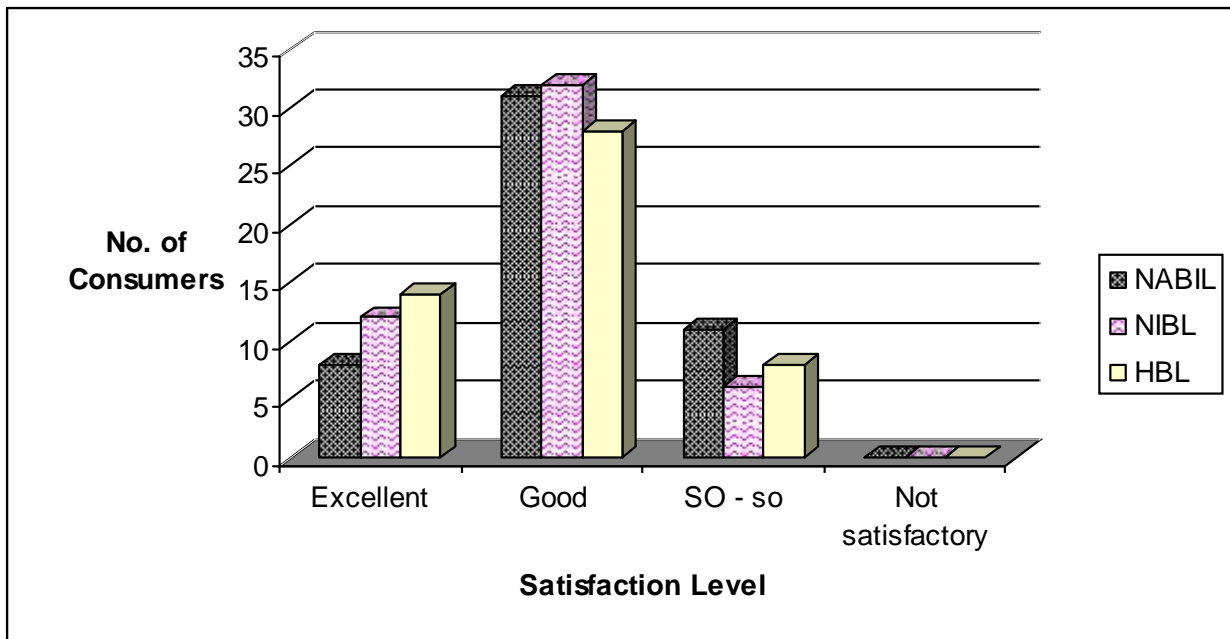
**Table no: 4.19**

**Staffs Behavior on Customers**

	Excellent	Good	SO - so	Not satisfactory
NABIL	8	31	11	-
NIBL	12	32	6	-
HBL	14	28	8	-

**Figure No. 4.17**

**Staffs Behavior on Consumers**



Customers are requested give rank to their bank so they give mark to their bank out of ten which is tabulated as bellow.

**Table no: 4.20**

**Consumers overall marks for the bank**

	9 to 10	8 to 9	6 to 8	4 to 6
NABIL	30	12	8	-
NIBL	29	10	11	-
HBL	10	32	8	-

Table shows that customer of the Nabil likes their bank most. Out of 50 nabil consumers, 30 persons give 90% above marks to their bank. No one gives less than 60% marks to any bank, which is good sign. These marks suggest that consumers are satisfied with their banks.

One question is asked to various people who are linked with different banks and financial institution similarly persons having account and operation with more than one bank. They are requested to rank three banks which one is the best. Out of 100 people answer comes like follow.

**Table no: 4.21**

**Consumers overall rank to the bank**

	1 <sup>st</sup> rank	2 <sup>nd</sup> rank	3 <sup>rd</sup> rank
NABIL	62	38	-
NIBL	30	46	24
HBL	8	16	76

Through the primary data in comparison with selected commercial banks Nabil bank is the most popular. Customers of Nabil are more satisfy with its service as compare to other banks. Brand name of Nabil also works to grab the attention of general public. Now a day, depositors are attracted through new schemes of the bank. NIBL KETAKETI BACHAT KHATA is becoming more successful. It shows that if bank can adopt the new idea and invention of the new products they can attract the attention of the depositors.

**4.3 Major Finding From The Study**

Major findings of this studied based on CAMEL analysis through secondary data as well as primary data are as follows.

**Capital Adequacy**

- ) Core Capital Ratios of all three banks are more than the minimum criteria set by the NRB. All three banks are not going against the NRB rule in any year.
- ) Core capital ratio of Nabil is decreasing year by year. In year 2003/04 it was 12.12% and it became 8.75% in FY 2007/08.
- ) Nabil Mean CCR is highest. It's per unit fluctuation is also highest which is proved by its highest C.V. among the selected banks.
- ) HBL core capital ratio is increasing year by year. In FY 2003/04 it was 7.69% which increased to 9.64% in FY 2007/08. Its Mean CCR and C.V. both are greater than NIBL and less than Nabil.
- ) Although NIBL is not adopting any fixed increasing or decreasing trend on CCR, having lowest Mean CCR and C.V. it shows best performance regarding CCR.
- ) Capital Adequacy ratio of Nabil is decreasing year by year in FY 2003/04 it was 13.56% which decreased to 11.10% in FY 2007/08. But Mean CAR of Nabil is still highest among the studied competitor. Having the highest C.V. Nabil shows highest per unit fluctuation on CAR.

- ) Although HBL Capital Adequacy Ratio is increasing year by year, its Mean CAR is lowest among the studied competitors. Per unit fluctuation of HBL CAR is greater than NIBL and lower than the Nabil.
- ) NIBL becomes able to maintain least per unit fluctuation on CAR with lowest C.V. Among three banks but its Mean CAR is lower than HBL.
- ) On CCR NIBL has the least Mean CCR but On Mean CAR HBL gets the position, which shows that in average NIBL use more supplementary capital ratio as compare to HBL.

### **Assets Quality**

- ) Non performing loan is major problem of the commercial banks. Most of the business man and economist argue that in our contest political protection to the borrowers is the main reason behind it.
- ) Non performing loan of all selected three banks are fluctuating year by year. HBL NPL is more than others. At 2003/04 Nabil's NPL was also more than NIBL but there after Nabil recovered and NPL of NIBL becomes more.
- ) In case of total loan and advances HBL is in first position. All bank's total loan is increasing year and year. Higher NPL along with higher total loan and advances indicates HBL loan management is not sharp as compare to NIBL and Nabil. From FY 2003/04 to 2005/06 Nabil lead the NIBL incase of total loan and advances but than after NIBL goes ahead.
- ) NPL ratio of Nabil bank is least among three selected banks during whole studied period. Its Mean NPLR is only 1.61% which shows sound assets quality. But having the highest C.V., Nabil shows the highest per unit fluctuation on NPLR.
- ) HBL NPLR is not favorable NPLR of HBL is always highest among three selected banks. Although there is hope because NPLR is decreasing year by year, but its Mean NPLR is significantly higher than others. Having the fluctuate trend in NPL ratio, NIBL stand in second position in the competition.
- ) Loan loss coverage ratio of Nabil bank limited is fluctuating, but it is able to maintain highest LLCR for whole the studied period and showing its assets quality.
- ) HBL is maintaining increasing trend on LLCR. Year by year its LLCR is increasing but its LLCR is still least among three banks in all studied period.

- ) NIBL is in between HBL and Nabil in case of LLCR. Its LLCR is also fluctuating like Nabil.
- ) Loan loss provision ratios of Nabil are decreasing year by year. Its LLPR at FY 2003/04 was 4.20% which reduced to 1.81% in FY 2007/08 which show better assets quality.
- ) HBL Loan Loss Provision Ratios are up and down and it has highest LLPR at all FY among studied banks.
- ) On respect of LLPR, NIBL assets quality is best among three banks. it has lowest LLPR in all studied period despite of having fluctuating trend on it.

### **Management Quality**

- ) Through the primary as well as secondary data management of Nabil bank is best among these three banks. Nabil's management efficiency ratio is more than others.
- ) HBL numbers of staff are more than others up to 2006/07 but NIBL lead others at 2007/08. But both banks are not too keen at managing their staff to generate large profit as compare to Nabil.
- ) Most of customer ranked Nabil at number one then NIBL and HBL are at second and third respectively.

### **Earnings**

- ) Net profit of the Nabil bank is highest in all studied period among selected commercial banks and its net profit is also in increasing trend.
- ) HBL becomes second in aggregate. In FY 2004/05 its EPS was decreased and than after its EPS is increasing year by year.
- ) NIBL secured third position in accordance of EPS. In FY 2005/06 and 2006/07 its EPS were little bit more than HBL. NIBL becomes unable to keep increasing trend on EPS at last (FY 2007/08).
- ) Nabil bank has highest ROE in all studied year among studied banks. Up to FY 2005/06 its ROE was increasing but thereafter ROE starts to decrease year by year.
- ) HBL ROE was increasing up to 2005/06 and it starts to decrease from 2006/07.
- ) ROE of NIBL is increasing year by year but it has least ROE in all studied period and among studied banks.
- ) Total assets of all three banks are increasing year by year.

- ) Despite of decreasing trend on ROA, Nabil has highest ROA among selected banks in all studied year.
- ) NIBL is in second position up to 2006/07 with increasing trend on ROA but it becomes unable to maintain it in FY 2007/08.
- ) HBL ROA is increasing year by year. Up to 2006/07 it was last in competition among studied banks.

### **Liquidity**

- ) All three banks are maintaining weekly CRR. But on the day of annual report Nabil CRR was not equals to more than the weekly benchmark on FY 2004/05 and 2005/06.
- ) Total cash and bank balance of NIBL is the highest which is respectively followed by HBL and Nabil.
- ) Investment in government securities of Nabil bank is less as compare to HBL which shows Nabil is taking more risk and investing in other risky sectors. Where as, HBL is investing more and more on government securities. NIBL is investing least among these three banks.

## CHAPTER: 5

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

The CAMEL parameters are applied on three selected commercial banks, Nabil bank, HBL and NIBL for the comparative analysis. The main objective of this study is to examine the financial performance through CAMELS test of selected commercial banks and compare each CBs. The whole study is divided into five chapters. First chapter is the introductory one. Back ground of the study and Introduction of selected commercial banks are described in this chapter. Objectives, limitation and significance of the study are also presented in this chapter. Study is based on the performance of the bank from FY 2003/04 to 2007/08. Review of literature is described in second chapter. Mainly theoretical aspect of CAMEL is described in this chapter. "What others have done?" and "what others have said or written?", regarding our study and research are examined in this section. This chapter is divided into three parts theoretical review, review of legislature provisions and review of previous studies. Theoretical review describes the CAMEL components where as legal provisions regarding the CAMEL are described in review of legislature. Some journals and articles also describe the CAMEL and its component which is presented in review of previous studies. Main themes of some previous thesis are also mentioned in it. Third chapter of this research is research methodology which is an important aspect of any research. It shows what kinds of data are used for the study. How the data are collected. Sample and population of the study and adopted tools of analysis is also presented in this chapter. This study is done through primary data collected through questionnaire and direct interview as well as secondary data from various books, annual reports, websites, and articles, magazine and so on. Out of twenty six commercial banks only three banks are selected and compare each others according t their five fiscal year's financial performances. After collecting the data from primary as well as secondary sources, collected data are presented in a meaning full manner as per the demand and need of the study. The data is analyzed by using CAMEL approach. Detailed tabulation of the data is separately presented in this annexure. After data presentation and analysis of the data what major facts are found, these are concluded in major findings. The whole study concluded in the fifth chapter with summary conclusion and the meaningful suggestion made to improve the selected banks and banking sectors. Here recommendation is also given for the government and the NRB for better rules and regulation on banking sector. In the last appendices and bibliography are presented.

## 5.2 Conclusion

Although Nepal does not have to much long history of bank, but here banks are mushrooming. Banking habit of people is slowly and gradually increasing. In urban area bank is a part of life while lots of people of rural are have no idea about the function and performance about the bank.

Study of selected commercial banks under CAMEL analysis compares Capital, Assets, Management, Earning and Liquidity of Nabil, Himalayan and Nepal Investment banks. Study is performed through the primary as well as secondary data.

Study clearly shows that Nabil is performing very well. CCR and CAR of Nabil bank is decreasing year by year. Its trend shows that it only wants to maintain the benchmark of NRB. It doesn't want to keep more than that. In case of Assets, Management and Earning, Nabil is too sound. NPL of Nabil is least in all studied period among studied banks. ROA, ROE and EPS of Nabil is still sound but it is fluctuating. Some FY it increases and in another it decreases. Investing less on government securities Nabil shows that it want to take risk and return by investing in risky field. It is keeping less ideal money and maintaining liquidity adequate. Lots of customers are satisfied with its service.

HBL stands on last among studied commercial banks. Its CAR and CCR are increasing year by year which is hampering its net profit. HBL had least CCR only on FY 2004/05 and now in FY 2007/08 it has highest CCR. HBL has highest CAR in FY 2007/08. Year by Year NPL ratio of HBL is decreasing which is good sign but it is not enough, because having the decreasing rate it has the highest NPL ratio among the studied period and studied banks. Total Loan and advances of all selected banks are rising year by year where as none performing loan is decreasing which becomes the reason for decreasing. But inconstant rate of increasing or decreasing is differing from bank to bank. Loan Loss provision of HBL is least where as loan Loss provision ratio is highest. Study shows, there is progress on HBL management year by year. Its MER is lifting up but it is still behind in competition of Nabil and NIBL. EPS of HBL is good from the beginning of the studied period. There is a little bit ups and down but EPS is till satisfactory. It can earn more than that. There is flexibility on ROA and ROE of HBL but going good. Only on FY 2006/07 both ratios decreased. Later on Bank gets its position. CCR of HBL is just little bit above than NRB benchmark From 2005/06 previously it had huge CCR. Cash and Bank balance of HBL is in decreasing trend where as investment on government a security is fluctuating, some year goes up and some

year goes down, but in average, percentage of investment in government securities is highest among three banks.

NIBL has least CCR in average but it followed increasing trend up to 2004/05. After that it changed its policy, and now it is following decreasing trend. NIBL accepts decreasing trend on CAR. NPL of NIBL is fluctuating but it is able to keep low percentage. In both LLCR and LLPR of NIBL is moderate among three banks. Both are at satisfactory level. NIBL management is progressive its MER is increasing year by year. NIBL EPS on FY 2003/04 was only Rs. 21.70 which catches the increasing trend and became Rs. 62.57 on FY 2006/07 but on 2007/08 it is restricted on Rs. 57.87 which gives some bad message but it is still good and it can generate more EPS on further Fiscal Years. Both ROA and ROE of NIBL is in increasing trend which show the capability of earning for NIBL. CCR of NIBL is too high but it is investing few in government securities and taking high risk for high gain.

To conclude the result of this study, hear banks are ranked according to studied parameter. Rank I is for best bank and so on. 'Rank I' doesn't mean that it is for higher value or ratio but it is for the most favorable and we all know that in some cases least value of ratio is favorable.

**Table No: 5.1**  
**Rank of the banks regarding CAMEL parameters**

Parameters	Ranking I	Ranking II	Ranking III	Remarks
CCR	NIBL	HBL	Nabil	All Banks are above than benchmark.
CAR	HBL	NIBL	Nabil	All Banks are above than benchmark.
NPLR	Nabil	NIBL	HBL	
LLPR	NIBL	Nabil	HBL	
LLCR	Nabil	NIBL	HBL	
MER	Nabil	NIBL	HBL	
EPS	Nabil	HBL	NIBL	
ROE	Nabil	HBL	NIBL	
ROA	Nabil	NIBL	HBL	
Liquidity	Nabil	HBL	NIBL	

Above table is prepared according to average result of parameters from fiscal years 2003/04 to 2007/08.

### **5.3 Recommendations**

#### **Recommendations for Nabil Bank**

- ) Nabil total Loans are less than NIBL so it should be find new sector to grant the loan.
- ) ROA of Nabil is constantly decreased from FY 2004/05. On 2007/08 it doesn't have sound lead in respect of ROA. So management should have aware of this because if the trend goes like this than next year Nabil will lose its position.
- ) Nabil should try to maintain its MER in such an increasing trend.
- ) EPS and ROE of Nabil are not satisfactory now a day, it should search immediate why this is going on and take corrective action.
- ) Assets of Nabil are not giving much return as compare to previous years

#### **Recommendations for HBL**

- ) HBL CCR and CAR is in increasing rate which is not necessary in present market conditions. There is inverse relation between net profit and CCR and CAR. So HBL also the decreasing trend on CCR and CAR but should always meet the benchmark of NRB.
- ) HBL NPL is in alarming condition. It should give extra care for on it. KYC should be carefully followed by this bank.
- ) HBL should study the effort and efficiency of Nabil's staff and do better than that.
- ) HBL should maintain increasing trend on EPS and try to get rapid increasing trend.
- ) Its customers are not as happy as Nabil's and NIBL's. So give more focus towards service delivery.

#### **Recommendations for NIBL**

- ) Its NPL is not lest so it should give extra care while granting the loan.
- ) Numbers of staffs of the bank are now highest among the selected banks but MER is not. So, bank should properly utilize the staff to generate more and more. Staff efficiency should be increased.
- ) Its EPS and ROA are decreased in FY 2007/08. So BOD of NIBL should focus on earnings.

### **Other Recommendations**

- ) NRB should temporarily reduce the benchmark of CAR, CCR and CRR in present world economic crises.
- ) Government takes some action against blacklisted company and persons.
- ) Political pressure should be totally eliminated, which become the main cause of NPL.
- ) Each bank has to maintain the benchmark of the NRB.
- ) Banks have to open their branches on rural area and should focus on remittance and introduce new product to attract the depositors.

## BIBLIOGRAPHY

### Books

- Adhikari, N.K. and P. Shrestha (2063), **A Text Book on Corporate Finance** Kathamandu: Khushbu Prakasan Pvt. Ltd.
- Barealy, Richard & Stewart Myers (2000), **Principle of Corporate Finance**, India: Tata Mc Graw - Hill Publishing Company Limited,
- Brigham, Eugene F. and Gaspenski, Luis C. (1985), **Financial Management, Theory and Practice**, (4<sup>th</sup> Edition) The Dryaen Press,
- Brigham E. & Houston, J. (2000), **Fundamental of Financial Management** (3<sup>rd</sup> edition). New York Harcourt College Publishers
- Cheney J.M. and Moses E.A. (1993), **Fundamental of investment**, (5<sup>th</sup> edition) St.Paul: West Publishing Co. Encyclopedia, **The World Book**, America: Grolier Incorporated, Vol. - 3, 1984.
- Esman Bhalla, V.K. (1983), **Investment Management**. New Delhi: Chand and Company Ltd.
- Gupta, S.C. (2001), **Fundamentals of Statistic**, Mumbai: Himalayan Publishing House
- Gupata S.P. (2000), **Statistical Method**, (29<sup>th</sup> edition) New Delhi: Sultan Chand & Son Co.
- Horne, J.C.V. & Wachowicz, and J.M. (1995) **Fundamentals of Financial Management**, (9<sup>th</sup> edition) New York: Prentice Hall.
- Kothari, C.R. (1990) **Research Methodology: Methods and Techniques**, New Delhi: Willey Eastern Limited
- Koch T.W. and S.S. Macdonald (2004), **Bank Management**, (5<sup>th</sup> edition), First reprint Singapore: Thomson Asia Pvt. Ltd.
- Sharma P.K. and Chaudhari A. K. (2058), **Statistical Methods**, (1<sup>st</sup> Edition), Kathmandu: Khanal Books Prakashan.
- Shrestha, K.N. & Manandhar, K.D.(1993), **Statistics and Quantitative techniques for management**, (2<sup>nd</sup> Ed) Kathmandu : Valley Publishers.
- Thapa Kiran (2060), **Corporate Financial Management, Theory and Practice**, Khanal Books and Stationary, Kathmandu.

Thapa, Kiran, Bhattraai, Rabindra and Basnet Dinesh (2006), **Investment: theory and Solution**, Asmita Books Publishers and Distributors, Kathmandu.

Weston, J.F. and Copeland, J.F. (1992) **Managerial Finance**, Chicago: The Dryden press.

Wolff, H.K. & P.R. Pant (2007), **Social Science Research & Thesis writing**, Kathmandu Buddha Academic Enterprise Pvt. Ltd.

### **Masters Dissertations**

Bhandari, K.R. (2006), **The Financial Performance of Himalayan Bank Ltd. in the Framework of CAMEL**, Master Degree, Tribhuvan University.

Sharma, S.R. (2007), **Financial Performance Analysis of Nepal SBI Bank Ltd. In the Frame work of CAMEL** Master Degree, Tribhuvan University.

Kutal K.K. (2007) conducted **CAMEL STUDY on Joint Venture Banks with Special Reference to SCBL, NABIL AND HBL, A THESIS"** Master Degree, Tribhuvan University.

Sanjel, R. (2007), **Comparative Analysis of Financial Status and Performance Evaluation of HBL and Nabil bank limited** Master Degree, Tribhuvan University.

Chand Kamal Bd. (2007), **Financial Performance Analysis (CAMEL - Test) of Selected CBs (Nabil, NIBL & SCBL)** Master Degree, Tribhuvan University.

Manisha Bhusal (2008), **Financial Performance Analysis of commercial banks In Nepal the Frame work of CAMEL ( A Comparative Study of Kumari Bank and Machhapuchchhre Bank**, Master Degree, Tribhuvan University.

### **Journals and Publications**

Berger, A.N., and S.M. Davies (1994), **The Information Content of bank examinations**, journal of financial services Research 14 pp.117-144.

Bhisma raj Dhungana, **Problem Bank Identification, Correction & Resolution Mechanism in Nepal**, 53<sup>rd</sup> Anniversary Special Issue, p. 44

Hirtle, B.J. and J.A. Lopez (1999), **Supervisory Information and the Frequency of Bank Examination** Federal Reserve Bank of New York, Economic Policy Review 5, P 1-20

Pant radish, **Nepal Newbiz**, Feb. 2006, p.5

Resta jha **Troubled global economy-cause and concern**, The boss 15 Feb. - 14 March 2009, p.58

### **Related Websites**

[www.bis.org](http://www.bis.org)

[www.ekantipur.com](http://www.ekantipur.com)

[www.google.com](http://www.google.com)

[www.google.com](http://www.google.com)

[www.himalayanbank.com](http://www.himalayanbank.com)

[www.nabilbank.com](http://www.nabilbank.com)

[www.nea.com.np](http://www.nea.com.np)

[www.nibl.com](http://www.nibl.com).

[www.nrb.org.np](http://www.nrb.org.np)

[www.springerlink.com](http://www.springerlink.com)

[www.solutionmatrix.com](http://www.solutionmatrix.com)

## Annex: 1

### Questionnaires

Dear Sir, I am Raman Niraula; student of Nepal Commerce Campus; going to do thesis on "FINANCIAL PERFORMANCE ANALYSIS (CAMELS-TEST) OF SELECTED COMMERCIAL BANKS-NABIL, HIMALAYAN & NEPAL INVESTMENT BANK".

To know the view of genuine persons related to banks, financial institutions and economy regarding the CAMELS & NRB rules and regulations which affect the CAMELS test, I set following questions and hope you will help me for my research. Here blank box is for your view if it is differ from mentioned options.

) Considering the global economic crises should NRB decrease the provision of CAR & CCR?

- a.  Yes      b.  No

) In your view what should be the appropriate capital adequacy ratio?

- a.  9%      b.  11%      c.  13%      d.

) Some banks are enjoying Capital adequacy holiday & other banks are suffered in such a tough competition. Is it good decision to give capital adequacy holiday to weak banks?

- a.  Good decision      b.  Bad decision

) What is the main reason behind the huge NPL?

- a.  Improper utilization of loan
- b.  Political protection or other protection to the borrower
- c.  Few prime investors and narrow market

d.

) Contract employees and interns performance affects the Net profit and company efficiency. Should they consider as staffs while calculating management efficiency ratio?

a.

Should consider

b.

Should not consider

) In our country, here is no legal compulsion for investment in government security but other countries including India have compulsion for investment in government securities. Shouldn't we follow that international trend?

a.

Should follow

b.

Should not follow

) If we should follow than what percentage investment is appropriate for government securities?

a.

10%

b.

15%

c.

25%

d.

) In case of CRR, CBs are maintaining weakly CRR & NRB is going to make it in daily basis. Will it be effective decision of NRB?

a.

Yes

b.

No

) Which bank leads others among these three banks in respect of social corporate responsibility?

a.

Nabil

b.

Himalayan

c.

Nepal Investment Bank

) After 2010, foreign banks can directly open their branch in Nepalese market. Can our CBs compete with them?

a.

Yes

b.

Most of our bank will be closed

c.

**Questionnaire for the users or customers of the selected banks**

- ) What is the satisfaction level of service of the bank?  
 a. excellent      b. good      c. So-so      d. not satisfactory
- ) How you feel about the infrastructure or decoration in side the bank?  
 a. attractive    b. good      c. So-so      d. not satisfactory
- ) How the staffs behave upon?  
 a. excellent    b. good      c. So-so      d. not satisfactory
- ) How much mark would you like to give your bank out of ten?  
 a. 10      b. 8      c. 6      d.
- ) Among these three bank which is the best? (Question for the user or customers who have any kind of relation with these three banks.)  
 a.       b.       c.

**Annex: 2**

**Nabil**

	2003/04	2004/05	2005/06	2006/07	2007/08
Total Core Capital	1439454303	1610510308	1823044417	1992849715	2363598989
Total Capital Fund	1609416292	1766072530	2089324022	2307632395	2998730164
Total RWA	11872009411	14193071630	16976368425	19166766033	27010564315
Total NPL	286678920	144506893	182624480	178293983	161085995

Total Loan & Advances	8548657038	10946736577	13278782259	15903023765	21759460334
Total Loan loss Provision	358664187	360566575	356239106	357245035	394407016
NPAT	455311222	520114085	635262349	673959698	746468394
Number of Staff	372	426	441	427	416
number of Shares	4916544	4916544	4916544	4916544	6892160
Total Assets	16745486638	17064082093	22329971078	27253393008	37132759149
Total C&B balance	970486543	559380614	630238588	1399825851	2671141055
Total Deposit	14119032115	14586608707	19347399440	23342285327	31915047467
Investment in Govt. security	3672626438	2418431378	2301463338	4808348503	4646883136

(Source: Annual Reports of Nabil from FY 2003/04 to 2007/08)

### HBL

	2003/04	2004/05	2005/06	2006/07	2007/08
Total Core Capital	1297384208	1525773390	1721940400	2104595598	2469785092
Total Capital Fund	1796218859	2017063712	2242843009	2435368976	3253515981
Total RWA	16560638296	18321719590	19918325323	21889713128	25624467393
Total NPL	1147462638	1001347320	1040757823	641615306	477229223
Total Loan & Advances	12919630994	13451168267	15761976082	17793723863	20179613169
Total Loan loss Provision	967761644	1026647621	1119416527	795726817	682092687
NPAT	263053495	308275171	457457696	491822905	635868519
Number of Staff	455	501	561	584	591
number of Shares	5362500	6435000	7722000	8108100	10135125
Total Assets	24817369870	27418157873	29460389672	33519141111	36175531637
Total C&B balance	2001184221	2014470957	1717352336	1757341252	1448182890
Total Deposit	22010332984	24814011984	26490851640	30048417756	31842789356
Investment in Govt. security	3431728940	5469728940	5144313000	6454873471	7471667904

(Source: Annual Reports of HBL from FY 2003/04 to 2007/08)

### NIBL

	2003/04	2004/05	2005/06	2006/07	2007/08
Total Core Capital	710610000	1161480000	1393273570	1852197400	2658914900
Total Capital Fund	1099380000	1578770000	2094199650	2851619010	3891235470
Total RWA	9836700000	13632906760	17491787660	23435634330	34484541420
Total NPL	181435008	280874131	272493041	421971550	309470983
Total Loan & Advances	7338566487	10453163997	13178151824	17769099903	27529304736
Total Loan loss Provision	208440985	327108374	401943787	482672514	532652478

NPAT	152670976	232147098	350536413	501398853	696731516
Number of Staff	325	353	390	514	622
number of Shares	2952930	5877385	5905860	8012526	12039154
Total Assets	13255496016	16063543146	21330137542	27590844761	38873306084
Total C&B balance	1226922910	1340480845	2300521396	2441514200	3754941568
Total Deposit	11524679645	14254573663	18927305974	24488855696	34451726191
Investment in Govt. security	2001100000	1948500000	2522300000	3256400000	3155000000