

**FINANCIAL PERFORMANCE ANALYSIS OF COMMERCIAL  
BANKS OF NEPAL IN THE FRAMEWORK OF  
CAMEL**

**A Thesis**

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## **RECOMMENDATION**

This is to certify that the thesis

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled “**FINANCIAL PERFORMANCE ANALYSIS OF COMMERCIAL BANKS IN THE FRAMEWORK OF CAMEL**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work conducted in the form of partial fulfillment of the requirement for the Master Degree of Business Studies (M.B.S) under the supervision of **Keshar Singh Khati** of Shanker Dev Campus, T.U.

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## ABBREVIATIONS

A. D	:	Anno Domini
FY	:	Fiscal Year
BFI	:	Bank and Financial Institutions
BS	:	Bikram Sambat
CAMEL	:	Capital, Assets Quality, Management, Earnings and Liquidity
EBL	:	Everest Bank Limited
NABIL	:	Nabil Bank Limited
CAR	:	Capital Adequacy Ratio
CCR	:	Core Capital Ratio
CRR	:	Cash Reserve Ratio
EPS	:	Earning per Shares
MQR	:	Management Quality Ratio
NPL	:	Non-performing Loan
SPSS	:	Statistical Package for the Social Sciences
LR	:	Liquidity Ratio
NRB	:	Nepal Rastra Bank
ROA	:	Return on Assets
ROE	:	Return on Equity
TU	:	Tribhuvan University

## **CHAPTER-I**

### **INTRODUCTION**

#### **1.1 Background of the Study**

The term 'Performance' encompasses actions such as doing, carrying out, delivering or rendering tasks. It pertains to the act of performing, which includes execution, accomplishment, and fulfillment. Broadly, performance signifies accomplishment of targeted outcome under the preplanned quality of task finalization which should ensure the efficiency, fulfillment, budget friendly, time saving and precise. In simple term it means the targeted task has been achieved with preliminary plan. Frich Kohlar defined the performance is extensive concept which is adopted to all department of an organization's activities within timeframe link with earlier defined planed objective, budget, outcome and efficiency of work. Management is liable to all performance outcome and consequences.

Therefore, performance not only involves the act of presenting but also emphasizes the quality of the results achieved. It also symbolize the organization's overall analysis like strength, weakness, situation, possibilities for success, threat of failure. Further, it also indicates that organization have achieve it's predefined goal or not. In the part of organization's performance financial performance also plays important role; It explains to the stakeholders about implementation of financial activities. In broader sense, it indicates the extent to which financial objectives have been or are being achieved. This involves evaluating the outcomes of a business organization as per it's defined goal with the reference of performed activities in financial term. Financial performance is useful to assess the business organization's monetary well being during the specific timeframe. It is the basis for regulator to justify if organization have meet the endorsed benchmark or not in monetary terms. In addition, financial performance report also use to compare the organization with similar categories business firm or different business firm to study the economic status analysis of nation as a whole.

Financial statements do not disclose all details regarding a firm's financial operations, but they provide crucial information that emphasizes two key aspects: profitability and financial soundness. Therefore, analyzing financial statements is a vital tool for

evaluating financial performance. Financial performance analysis involves examining and interpreting financial statements to thoroughly assess the business's profitability and financial health.

This analysis process comprises assessment of the relationship between the various variables from firm's accounting statement for the purpose to reflect the overall financial position and status of business firm during the specific period.

Any country's economic growth heavily relies on development of banking sector. Banking and financial institutions particularly depository institutions accept the deposit from the depositors and release loan to the needed firms and individual. So, banking sector is the foundation aspect of the financial industry (Arif, & Anees, 2012). Since 1980s, as a result of financial liberalization policy many joint venture banks were established. Since then, significant number of local investors also began to investing in the banking sector. Following the implementation of merger and acquisition policy compulsion mandatory and the banks and financial institutions need to enhance the paid-up capital the number of banks and financial institutions decreased (NRB, 2018).

The process of evaluating a company's financial accounts using different approaches in order to determine the firm's strengths and weaknesses in terms of finances is known as financial analysis. Kochhal (2008). Consequently, financial performance analysis is frequently called an organization's financial health check. The interests of depositors, lenders, shareholders, and other stakeholders must be preserved and protected, and this requires frequent financial health assessments of any financial organization. In an effort to reform the financial system, international monetary authorities—most notably the World Bank and the International Monetary Fund—have instructed their member countries to regularly assess the financial soundness of financial institutions. The World Bank periodically provides Nepal Rastra Bank (NRB) with financial and technical support in an effort to enhance the financial system (Gautam, 2020).

Commercial banks are essential to economic growth because they serve as middlemen, bringing capital to the table via judicious portfolio management, particularly in developed nations. As a developing nation, Nepal still needs to recognize the importance of joint venture banks as a means of promoting domestic savings through a variety of banking

initiatives. These banks may also be used to gather capital among other necessary resources.

In Nepal's national economy, the banking sector plays a pivotal role, facilitating financial intermediation, mobilizing savings, and providing credit across diverse sectors. Commercial banks are the principal entities in this sector, tasked with maintaining financial stability, fostering economic development, and aligning with the developmental objectives of Nepal. Given the crucial role of the commercial banking sector, a meticulous evaluation of the health, stability, and efficacy of these banks is crucial (Shah & Tiwari, 2023).

### **1.1.1 Brief profile of sample banks**

Banking history in Nepal can be defined as a part of the country's progressive and systematic economic and financial growth. In the banking history of Nepal, Nepal bank was the first foundation bank which was founded in the year of 1937 AD. Not only as the first bank of Nepal but also as the first commercial semi-autonomy bank. After establishment Nepal Bank Limited firstly endorsed the metal money as value of NPR.10,000,000 which was the bank's authorized capital value as well.

Afterwards, many development milestone have faced in banking sector in Nepal there was the lack of regulation guideline and supervision authority and Nepal also observed practices in international level to develop the banking sector. This way the government sensitized to need of regulation policy and after 58 year later of establishment of Nepal bank Nepal Rastra Bank Act was endorsed in 1995. On the basis of this Act Nepal Rastra Bank also established after one year as a supervision body of Nepal delegated for development of banking sector in Nepal. Since the 1945 Nepal Rastra Bank is issuing paper money to the nation bearing its signature of head ; governor. Until the year 1980 banking industry was solely govern by the government. At that period there were 3 banks were operating in Nepal under the government of Nepal namely; Agriculture Development Bank, Rastriya Banijya Bank and Nepal Bank and Nepal Rastra Bank as a regulatory and foundation of banking industry (Khalti,2018).

Then after many progressive initiations in the industry liberation has induced in banking sector in Nepal as well. As a result, in 1984 Nabil bank was founded as a first entry of

private sector in Nepalese banking industry with the name of Nepal Arab Bank. At the beginning foreign investor leading to invest in Nabil Bank. As of Mid- April 2024; there are 20 'A' class commercial banks, 17 development banks, 17 finance companies, 55 Micro finance financial institutions in Nepal (NRB, 2024). Most of these financial institutions have upgraded their services as advance banking transaction and offer customer latest banking technologies like; remittance, bank guarantee, accept deposit, lending loans, e banking, interbank services, ATM service etc. For this study two leading banks of Nepal has been selected and brief profile is as following;

### **Nabil Bank**

Nabil Bank was the foundation of private sector entry at Nepal. Since 1984 AD it's serving it's services in Nepalese industry. Nabil bank has earned popularity in Nepalese banking industry and maintaining it till the date. It has focused customer friendly approach launch their product offer. The bank is also positive and aware about technology innovation so it has updated and adopted the digitalization in service as well. It has obtained the Nepal Rastra Bank's standard compliance as well. ([www.nabilbank.com](http://www.nabilbank.com)).

Nabil Bank runs its operations through a vast nationwide network that includes 268 branch offices, 317 ATMs, several POS terminals, 20,000+ sub-agents and remittance agents. The bank also succeed to establish international banking networks above 200 connection channels. These days customers are being aware and sensitized on possible investment in stock market so understanding the customer's need the bank has also extended it's service through nabil investment banking service. In advance and developed business world a business motive is not only earn the profit but also they have responsibility towards society and community which is called corporate social responsibility. In this part as well Nabil is supporting the society by advocating and facilitating regarding financial literacy in needed areas of country. The bank is also supporting to access banking transaction over the all possible areas of nation which support financial inclusion of vulnerable groups of Nepal.

Key areas that characterize the Bank's commitment to the nation's development plan include funding priority industries including agriculture, renewable energy, and tourism, as well as providing credit to underprivileged segments of society through microlending. In order to address the economically disadvantaged people and raise financial literacy

there, Nabil Bank has also opened branch offices in a number of remote localities in the western and far-western highlands.

The bank's issued capital is NPR. 27,056,996,729, while its authorized capital is NPR. 28 billion and Paid-up Capital of NPR 27,056,996,729. Out of Paid-up Capital Domestic ownership is 52.35% and remaining 47.65% ownership is foreign ownership (Annual Reports of Nabil 2022/23 FY 2079-080 BS).

Major services that Nabil Bank currently providing are;

- a) Deposit: The primary deposit account types that Nabil offers include call accounts, savings accounts, recurring deposit accounts, current accounts, and fixed-term accounts.
- b) Loans: The main loan products that Nabil provides include term loans, working capital loans, SME loans, and loans to importers and exporters, among others.
- c) ATM/Cards services: Debit cards and credit cards
- d) Investment banking service, etc.

In addition to these Nabil Bank also provide E-services through digital platforms like; nbank.

### **Everest Bank**

Everest Bank Ltd. is among the top leading commercial banks in Nepal. It was established in 1994 with the aim of providing quality banking services to the Nepalese people. The bank is also offering advance feature's banking service through it's services like accept deposit , lending the loans, exchange foreign currencies, plastic cards service which support POS and ATM machines, internet banking and so on. Under the terms of the Technical Service Agreement, Everest Bank Limited has received senior managerial support from Punjab National Bank (PNB), its joint venture partner, which owns 20% of the bank. Over the PNB's lengthy history, nine banks have combined to form the organization that currently manages 39,167 delivery channels through a network that includes 15,719 business correspondents. The bank has extended it's services all over the nation by establishing over ten thousand branches and 2 international branches, 13,350 ATM machines. Bank has focused on customer friendly services so it is actively providing service through ABBS channel allowing users to do business from any branch.

Everest is a very effective and accessible bank for its clients, anytime, anywhere, with 128 Branches, 164 ATM , 32 tax collection counter for Nepal government spread around the nation ([www.everestbankltd.com](http://www.everestbankltd.com)).

The bank's issued capital is Rs. 10,698,094,436, hold 15 billion NPR worth authorized capital and Paid-up Capital of NPR. 10,698,094,436. Out of Paid-up Capital Domestic ownership is 79.98% and remaining 20.02% ownership is foreign ownership (Annual Reports of EBL 20122/23 FY 2079-080 BS).

Major services that EBL currently providing are;

- a) Deposit: The primary types of deposit accounts that EBL offers are: various feature's saving account (like; fixed deposit, recurring fixed deposit, saving, call accounts etc.).
- b) Lending: Among the main loan types that EBL offers are SME, retail, corporate, and agricultural loans, among others.
- c) ATM/Cards services: Debit cards and credit cards
- d) Government Business: Tax collection of government through E-tax and physical tax.
- e) Remittance: Inward Remittance, Outward Remittance service
- f) Investment services: The bank has extended investment services like' depository Participant service, ASBA, C-ASBA, and shares
- g) Support services: The bank also provide locker facility to the customers
- h) Branchless Banking: The bank provides branchless banking services through online remittance portals, integrated tab banking, etc.

In addition to these EBL also provide E-services like; Corporate pay, M banking, retail internet banking, corporate internet banking etc.

## **1.2 Statement of the Problem**

The primary function of the A class banks are to accept the deposits from saver and mobilize the fund by lending the loans at vibrant and needy sector. So, it is very important aspect of any nation's development because during the fund collects banks motivate the individuals to save from their earning and also provide funds to needy individuals and institutions which facilitate the moving of fund and facilitate at nation's economic growth.

On the other hand; due to rapid development in financial market banks are facing intense competition. Due to technology evolution and globalization all sectors in economy has impacted. Alike other sector banking sector also effected by it due to this opportunity and challenge both emerged in the banking sector. So, it became challenge to bank managers to create opportunity to the business environment and earn profit in competitive market.

Financial statements may not accurately represent the total performance evaluation of the financial institutions, raising the important question of whether they are sufficient to do so. Therefore, it is necessary to determine the bank's financial situation, including its opportunities, threats, weaknesses, and strengths. To understand the financial progress report and check up the financial health of banking sectors various techniques and method has been launched by regulator bodies around the globe. Among the many techniques CAMEL model is very renowned and feasible adopted in many countries. So, for this study CAMEL model has been selected to assess the financial performance of sample banks Nabil Bank Limited and Everest Bank Limited. Also, this study will compare the financial performance of selected banks with statistical tools analysis. This study will answer the following research questions;

- How is the CAR position of Nabil and Everest , do they meet the compliance of NRB?
- What is the asset quality of selected commercial banks in Nepal, and what is the level of non-performing loans (NPLs)?
- How is the management quality of selected commercial banks in Nepal?
- What are the earnings and profitability levels of selected commercial banks in Nepal?
- What is the liquidity position of selected commercial banks in Nepal?

### **1.3 Objectives of the Study**

The primary goal of this study is to evaluate and analyze the financial performance of selected two sample banks Nabil and Everest in CAMEL framework and provide appropriate recommendations for enhancement in coming days. The major objectives of the study are as follows:

- i. To describe financial performance indicator of sample banks Nabil and EBL during the study period on the basis of CAMEL model

- ii. To determine the comparative financial performance of Nabil and EBL by using CAMEL analysis.
- iii. To evaluate and contrast Nabil and EBL's financial performance during the period
- iv. To provide recommendations for improvement based on findings.

#### **1.4 Rationale of the Study**

Major focus of this study is to assess the financial status of two sample banks Nabil and Everest with reference to sample banks. And to examine which bank is more identical in its performance. The study has also focus on the diversification of the risk by the commercial banks. Finally; this study evaluates the past performance of selected banks and to carry out the risk return analysis with the help of some selected variables.

#### **1.5 Significance of the Study**

The research centers on the banks' financial sustainability as well as financial performance and its indicators. The study's key contribution to importance is its identification and comparison of banks' financial health under the CAMEL framework. Furthermore, the research provides the management with the essential information on the performance capabilities of their banks. It gives a true image of performance concerning risk return and money utilization that is helpful to both current and prospective shareholders. Depositors, merchant bankers, and other bank stakeholders can also benefit from this since it allows them to compare the banks' overall performance. In addition; this study serves as a future reference it will be beneficial for the researchers who may research on the same or similar field.

#### **1.6 Limitations of the Study**

The study's shortcomings are as follows:

- This study only focuses on comparing the financial report of two sample banks Nabil and EBL so, the findings may not be generalized.
- The data used to analyzed this study is secondary data so, findings of the study will be greatly depends on genuineness of secondary data available
- This study covers related data of the banks since FY 2018/19 (FY 2074/75) to FY 2022/23 (FY 2079/80) (i.e.5 years historical data will be taken from annual reports)

- Only selected financial model; CAMEL and limited descriptive statistical tools has been used to this research
- Due to time constraints, the study was limited to a commercial bank and may not be generalizable to other all types of banks.

## **1.7 Organization of the Study**

### **Chapter 1- Introduction**

The chapter explains general background on the topic, problem statement, rationale of study, significance of study, objective of study and limitation of the study.

### **Chapter 2- Review of Literature**

The chapter illustrates conceptual review on topic, current scenario of the topic review of previous journal, article and research on similar topic and also explains the research gap

### **Chapter 3- Research Methodology**

The research approach used to plan the research activities is covered in this chapter. It includes the population and sampling techniques, data presentation, study design, and data sources.

### **Chapter 4- Presentation and Analysis of Data**

This chapter illustrates the analytical framework. It presents the available data in various technique of financial and statistical tools

### **Chapter 5- Summary, Conclusion, Recommendation**

In this chapter overall summary, conclusion and some appropriate recommendation on the basis of result will be elaborate.

## **CHAPTER II**

### **LITERATURE REVIEW**

The chapter reviews related literature and establishes the theoretical basis for the study. To accomplish the study's goal the chapter will discuss conceptual framework and review of related previous studies, highlighting conclusions and suggestion. It will also discuss on variables as well as research gap at the last in this chapter. Hence this chapter includes conceptual review, review of related studies and research gap.

#### **2.1 Conceptual Review**

In this section conceptual aspect of the study which are earlier discussed and accepted by subject expert and practitioner will be explain. Various important aspect of commercial bank and CAMEL rating system are included in this part.

##### **2.1.1 History of Banking in Nepal**

Till 1937 Nepal was lacking advance banking industries then during the year Nepal Bank limited was established as a cornerstone. Till 1956 Nepal Bank Limited was the one and only banking channel and then Nepal Rastra Bank was founded as Central bank of Nepal on the basis of Nepal Bank Act of 1955. With the establishment of Nepal Rastra Bank it is expected to enhance of banking industry in Nepal. Later on; various types of financial institutions were established under Government of Nepal. Nepal Industrial Development Corporation, Rastriya Banijya Bank, Agricultural Development Bank Nepal. The objectives of these institutions were: capital mobilization facilitate in economic development, provide financial assistance to agricultural sector etc. In Nepal, until in the year 1980s all financial institutions (RBB,ADBL,NBL and NRB) were under the full ownership of government. Although the growth of the banking sector was not as satisfactory.

With the pace of the socio-economic development around the world and Nepal also connected with globalization, the need of economic liberalization was emerged in the beginning of 1980s. During the period participation of private sector was significantly increased in Nepal. In 1984 the first joint venture banking business Nepal Arab Bank Limited currently operating as Nabil bank was established. Later on, Nepal Indosuez

bank and Nepal Grindlays bank were followed to Nabil bank in 1986 and 1987 respectively. Currently they are operating as Nepal Investment Bank and Standard Chartered Bank Nepal. As banking industry of Nepal was taking pace of development over the period another development milestone has reached by endorsing three major acts namely; the Finance Company Act of 1985, the Company Act of 1964 and the Development Bank Act of 1996. After the endorsement of these Acts many banking and financial institutions like development banks, Co-operatives, various modality's non-government organization founded and were doing their business till then. Nevertheless, the need of uniformity and umbrella acts which monitor and provide guidance with consistency to the nation was still need in Nepal. As a result, all these different acts merged in single act Bank and Financial Institutions Act (BAFIA), endorsed in the year 2006. BAFIA classified the banking and financial institutions in different 4 categories namely; class A, class B, class C and Class D. Over the period 1985 to 2012 the number of financial institutions rose dramatically started as 2 commercial banks and reached 220. But these number significantly declined after the NRB introduced the policy regarding acquisition in 2011 and defined mandatory capital acquisition requirement. (NRB Annual Bank Super Vision Report 2023). The number of banking and financial institutions during the last five years is presented in the following table:

**Table 2.1**

*Overview on BFIs Number during the past 5 years (As on July 2023)*

<b>Institutions</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Commercial Banks	28	27	27	26	20
Development banks	29	20	18	17	17
Finance Companies	23	22	17	17	17
Microfinance Financial Institutions	90	85	70	65	57
Infrastructure Development Bank	1	1	1	1	1

*(Source: NRB Bank Supervision Report 2023).*

### **2.1.2 Concept of Commercial Bank**

Commercial banks are the largest financial institutions classified as A class banking institution in Nepal. Compare to the other financial institutions it has large amount of

assets, transaction, operating channels and the bank also influence on countries economy. Generally commercial banks in Nepal have local people investment though some also have Government of Nepal and other foreign firms funding too. Commercial banks are classified into two categories in Nepal on the basis of its controlling and investment namely; public and private banks. Public banks have state ownership and private banks do not have state ownership. Till the study period there are 17 private commercial banks and 3 public commercial banks operating in Nepal. Government of Nepal (GoN) have ownership of 99.97, 51, and 51 percent of shares on equity capital of Rastriya Banijya Bank Limited, Nepal Bank Limited and Agricultural Development Bank Limited respectively. Foreign ownership of private banks could be re-structure as domestically owned banks. BAFIA, 2073, section 9, subsection 1 has insured general public's shares. It states provision to issue 30% shares to the general public by banks. The NRB has implemented requirement of capital benchmark introduced merger policy impacted number of decreasing commercial banks in Nepal. Till the study period there are 20 commercial banks operating in Nepal which could be present in table as following;

**Table 2.2***Commercial Banks in Nepal (As on July 2023)*

S. N.	Name
1	Nepal Bank Ltd.
2	Agricultural Development Bank Ltd.
3	Nabil Bank Ltd.
4	Nepal Investment Mega Bank Ltd.
5	Standard Chartered Bank Nepal Ltd.
6	Himalayan Bank Ltd.
7	Nepal SBI Bank Ltd.
8	Everest Bank Ltd.
9	Kumari Bank Ltd.
10	Laxmi Sunrise Bank Ltd.
11	Citizens Bank International Ltd.
12	Prime Commercial Bank Ltd.
13	Sanima Bank Ltd.
14	Machhapuchhre Bank Ltd.
15	NIC Asia Bank Ltd.
16	Global IME Bank Ltd.
17	NMB Bank Ltd.
18	Prabhu Bank Ltd.
19	Siddhartha Bank Ltd.
20	Rastriya Banijya Bank Ltd.

*(Source: NRB Bank Supervision Report-2023)***2.1.3 Concept of Bank Supervision**

Bank supervision involves the act of monitoring the financial performance and operations of banks in order to ensure that they are operating safely, soundly and adhere rules and regulations. This regulatory oversight is carried out by governmental authorities to mitigate the risk of bank failures. Any nation has structured certain regulatory bodies to monitor and guide the banking system. Banking system is an important aspect of economic sector of nation. The regulator bodies regularly provide support to the banks to avoid from certain risk may arise from the business environment. The channel of supervision, guidance level and flexibility are defined by specified acts and policies.

#### **2.1.4 Role of Nepal Rastra Bank in Bank Supervision**

In the context of Nepal Nepal Rastra Bank is the responsible regulatory body to guide the banking and financial institutions. Some Acts like, The Nepal Rastra Bank Act,2002 and Bank and Financial Institution Act,2017 assigned and delegated the authority to monitor and supervise of financial institutions within the nation. Since the establishment NRB is dedicated to enhance Nepalese banking industry by indorsing required policies and guidelines to the financial institution, responsible to issue license, improve nation's economic status and follow the international good practices learning. Monitoring and guiding the nation's overall economy is a huge responsibility to NRB so, to specify and divide the accountability dedicated department Financial Institutions Regulation Department (BFIRD) is liable towards banking and financial industry.

On the basis of endorsed legal provision and guidance NRB oversee the operations of BFIs. To strengthen the regulation channel specific committee named Basel Committee on Banking Supervision is on place. Inside the BFIRD there is also division of four departments Bank Supervision Department, Financial Institution Supervision Department and Micro Finance Supervision Department these department supervises their concerned institute smoothly. Further non-banking financial activities like foreign exchange transaction, investment on companies, transaction about buying and lease firms and co-operative bank also supervise by NRB via the department Non-Bank Financial Institutions Supervision Department.

While guiding the financial institutions NRB applies diverse approach to supervise the different level's BFIs. The capacity , transaction volume and risk is different as per the classification. Same rules and guidelines for example commercial banks and co-operative would be not valid. So, to maintain the equity and develop the financial institutions simultaneously NRB has focused on risk basis approach to monitor the commercial and national level development banks. Though NRB planning to apply this mechanism to other existing BFIs as well progressively. Under this approach NRB has defined major scope of banks which need to be examined and monitor on the basis of quantity and quality of risk assessment. After analyzing and evaluating the risk portfolio and profile if the significant level of risk arises of any particular bank NRB takes initiation to mitigate that type of risk and support and facilitate the concerned bank to take action against the

raised issues and NRB also support those banks to be aware to avoid these kinds of risky situation in future. The main objective of the NRB is to ensure general public's investment and play an important role to economic development of the nation through banking and financial institutions development.

Digitalization has impacted all sector of the world. Any sector could not avoid the invention of digitalization so, NRB has also launched Supervisory Information System(SIS) where all the banking related information could store from all the BFIs operating in the nation. SIS facilitate to observe offsite and also provide clues for onsite supervision. SIS has enhanced the monitoring channel of NRB gradually. Currently, information could be gathered instantly through this platform without taking much time and resources. NRB is also planning to input onsite observation generating different types of modules and monitoring channel. (Bank Supervision Report-NRB 2023).

### **2.1.5 Concept of CAMEL Banks Rating System**

The CAMELS rating is a supervisory rating system originally developed in the U.S. to classify a bank's overall condition. Primarily the CAMEL rating system was only followed by U.S. based financial institutions but later on due to its effectiveness it was adopted by many nation's banking monitoring bodies all over the world. To maintain the uniformity around the globe CAMEL was advocate by regulatory body of U.S in 1979. The model consists of five crucial areas of banking industry they are; capital adequacy, asset quality, management efficiency, earning and liquidity which is compressed as CAMEL model. Later after decades (1979) practitioners also felt another important component has missed in this model so they suggested to add sensitivity to Market risk. ([https://en.wikipedia.org/wiki/CAMELS\\_rating\\_system](https://en.wikipedia.org/wiki/CAMELS_rating_system)).

The CAMEL rating system offers subjective benchmarks for each component, serving as foundational guidelines upon which the composite rating is formulated. These benchmarks do not exclude consideration of other pertinent factors by the examiner. The standardized rating system establishes the basis for necessary supervisory responses and facilitates the comparative evaluation of institutions supervised by all three US supervisors. Ratings are assigned to each component as well as an overall rating reflecting a bank's financial health, scored on the basis of rating system 1 to 5. It is widely regarded method to assess and supervise of private banking industry through data collected by

experts. Nepal is also developing and upgrading the banking system and NRB is designated to play the role of banking supervisor and monitor. NRB also evaluate the banking sector via ratio analysis capital adequacy, assets quality, earnings, liquidity and sensitivity to market risk (CAELS) (Annual Bank Supervision Report NRB-2023).

### **2.1.6 CAMEL's Components**

The CAMEL rating system is a widely used framework for evaluating the financial condition of banks. It assesses banks based on five key components, each represented by a letter in the acronym CAMEL. Each component is evaluated individually, and the ratings contribute to an overall assessment of the bank's financial health. The CAMEL rating system provides a structured approach for regulators and supervisors to monitor banks and ensure they operate soundly and safely within the financial system. It helps identify potential weaknesses and areas requiring corrective action to maintain stability and protect depositors and stakeholders.

#### **A. Capital Adequacy Ratio**

Capital adequacy is a critical component within the CAMEL model, assessing a bank's ability to absorb operational losses and maintain financial stability. It serves to safeguard against bankruptcy and uphold depositor confidence in the bank. A robust capital base enables banks to optimize profitability, whereas insufficient capital can lead to various vulnerabilities (Bhandari, 2003; Kleff & Weber, 2008).

Under the Capital Adequacy Framework, 2015, commercial banks (Class A) are required to maintain a Capital Adequacy Ratio (CAR) of 11%. Similarly, Development banks and Finance companies (Class B and Class C) must maintain a CAR of 10% based on the Capital Adequacy Framework, 2007 (Updated July 2008).

Key ratios such as Core Capital Ratio (CCR) and CAR are used to assess capital adequacy. CAR, specifically, measures total capital as a percentage of risk-weighted assets, providing insights into the capital adequacy position of banks under scrutiny in this study.

## **B. Assets Quality**

Many researcher like Young,(1997), Whalen (1991) have mentioned the asset quality is the significant aspect of CAMEL. It explains a bank's stability and condition. Weak asset ratio can lead to financial difficulties and weaken a bank's capital base. Loans and advances typically constitute a substantial portion of a bank's asset side on the balance sheet, and the earnings generated from these loans and advances form a significant part of the income statement for financial institutions. Defaulted loans adversely impact a bank's earnings as they do not generate income. Banks with a high proportion of non-performing assets are often vulnerable to significant losses.

Regulations set limits on fund-based loans to a single borrower, capped at 25 percent of the bank's primary capital. Similarly, non-fund-based loans can be extended up to 50 percent of the bank's core capital (NRB, 2019). These regulations aim to manage risk exposure and maintain sound asset quality within banks, thereby promoting financial stability and prudent lending practices.

The Nepal Rastra Bank (NRB) has instructed Banks and Financial Institutions (BFIs) to classify loans into two categories: performing loans and non-performing loans. Performing loans include both pass loans and watch list loans. Pass loans are those not past due or past due for up to three months, while watch list loans are past due for the same period. Non-performing loans consist of three categories: substandard, doubtful, and bad debt/loss. Substandard loans require a 25 percent provision, doubtful loans need a 50 percent provision, and bad debt/loss requires a 100 percent provision.

Financial institutions must set aside provisions of one percent for pass loans and five percent for watch list loans. These are classified as general loan loss provisions. Specific loan loss provisions are required for non-performing loans. To meet the research objectives nonperforming loan ratio over the total loans would be assess to evaluate the assets quality of sample banks.

## **C. Management Quality**

To be success in the business world the management performance towards the organizational goal is very essential. Hence, accepting the importance of management function CAMEL components has included management as the one of crucial component

for bank's performance analysis. Many experts like William, Looney, and Wansley have suggested to assess the management quality through expenses ratio, per employee earning etc. A dynamic management could cope with the any business challenges and mitigate the risk of being failure. Obviously, today's world is full of competition and innovation so, management should always be aware to surrounding environment threat. Bank's management should take the business opportunity and avoid the threat. Management should try their best on minimizing the operation cost and maximize the earning. In this study expenses ratio is used to assess the management quality. There are some characteristics to be a successful management team they are; team member should be right person on right place, smart and dynamic human resource, well relation with customers and stakeholders, suitable operating cost, right and correct decision-making channel, friendly working environment with good communication channel.

#### **D. Earnings**

Any business' obvious expected outcome is revenue generation or profit making. Alike another business firms banking industry also expect to earn from their business. Earnings are the ultimate goal of investment so earning ratio represent the financial status of particular bank. So, CAMEL has indicated earning as important components of its model. After analyzing the income ratio of the banks could help the management, investors and creditors to know the performance of the bank and provide relevant information to them. The following ratios are useful for understanding the earning policy of banks:

1. Return on Equity (ROE)
2. Return on Assets (ROA)
3. Earnings per Share (EPS)

EPS measures the profit available to equity shareholders on a per-share basis, indicating the amount they can receive for each share held. In this study, ROA, EPS, and ROE are used to assess the earnings of the sample banks.

#### **E. Liquidity**

Banks collects the funds from ordinary savers who saves the fund and lend the creditor who need fund as loan. So, the bank's funds are not the bank's own sometimes the depositors will need their fund back to fulfill their financial need. As a result bank should arrange to release depositor's fund short time frame. For this purpose bank has not lend all the collected deposit towards loan , some percentage of collected fund should keep as

provision for short-term obligations. Hence liquidity proportion should be optimum neither too much nor too low. Various measurements are suggested by experts to maintain reasonable liquidity of the bank some of them are cash reserve ratio, cash and bank balance ratio and investment government securities. In this study Cash Reserve Ratio (CRR) is used to assess liquidity.

## **2.2 Review of Related Studies**

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

### **2.2.1 Review of Journals and Articles**

Jha and Hui (2012), conducted a study titled "*A Comparison of Financial Performance of Commercial Banks: A Case Study of Nepal.*" The objective of this study was to compare the financial performance of commercial banks in Nepal with different ownership structures, based on their financial characteristics, and to identify the determinants of performance using financial ratios derived from the CAMEL analysis. They took eighteen commercial banks from Nepal as a sampling. Various techniques financial and statistical were used to analyze financial performance of commercial banks for the study. Important components of CAMEL has been analyzed at the study. The research concluded that as per CAMEL component public sector's commercial banks are less effective than private sector's commercial banks in Nepal. In addition, it is also found that ROA has direct relationship with CAR, NPLR, NIM. On the other hand; return on equity was considerably affected by capital adequacy ratio.

Karki and Rajbhandari (2020), published a journal article titled "*CAMELS Analysis and Market Stress Testing of Top Nepalese Banks.*" The study illustrates the assessment of Nepalese commercial bank's financial sustainability and resiliencies through CAMELS model. In addition the study also assessed the impact of CAMELS components towards bank's performance. Out of 28 commercial banks as of 2020, the study employed purposive sampling to focus on the financial performance of three top-performing banks: Nepal Investment Bank Ltd, NIC Asia Bank Ltd, and Nabil Bank Ltd. The data analyzed spanned five years, from 2013/14 to 2017/18. The study concluded that CAMELS's components significantly impact the bank's performance.

Gautam (2020), conducted a study titled "*Financial Performance Analysis of Nepalese Financial Institutions in the Framework of CAMEL*" to evaluate the financial performance and the factors influencing it among Nepalese financial depository institutions using the CAMEL framework. The research employs a descriptive and causal design, relying on secondary data was used to analyze the study. The study concluded that all categories of BFIs comply with the NRB standards for capital adequacy. Among the all BFIs operating in Nepal finance companies ranked at highest in capital adequacy and earnings and the statistical tools indicates ROA positively correlated with capital adequacy and return on equity (ROE), but significantly negatively correlated with asset quality. Conversely, ROE has a significant positive correlation with asset quality and ROA, but a significant negative correlation with capital adequacy. Overall, capital adequacy and asset quality are crucial in maximizing the ROA and ROE of financial institutions.

Shah and Tiwari (2023), conducted a study titled "*CAMEL Analysis of Commercial Banks in Nepal: An Assessment of Financial Soundness*". The objective of the study was broadly examining the financial performance of Nepalese commercial banks via CAMELS analysis framework. The CAMEL framework, which includes Capital adequacy, Asset quality, Management quality, Earnings capability, and Liquidity position, serves as a structured approach to assess the overall health and resilience of financial institutions. By applying this framework to Nepalese commercial banks, the study provides critical insights into the strengths and weaknesses of the banking sector in the country. The research employs a quantitative, descriptive, and analytical design to perform the CAMEL analysis, relying on secondary data from published financial reports, annual statements, and regulatory submissions of commercial banks in Nepal. A purposive sampling technique was used to select a representative sample of these banks. The CAMEL analysis results suggest a generally positive evaluation of the financial stability of Nepalese commercial banks. Most banks have sufficient capital reserves to absorb potential losses, contributing to their stability during economic downturns. However, concerns about asset quality were noted, particularly for Nepal Bank Limited, which underscores the importance of prudent credit risk management practices for ensuring long-term stability. The management quality of the banks was found to be satisfactory, with effective leadership making strategic decisions and implementing sound policies. While most banks reported positive earnings, some smaller banks faced

challenges due to higher operating costs and lower revenue generation. To enhance overall financial performance, improving operational efficiency and diversifying income sources are essential. Furthermore, although most banks maintained adequate liquidity levels, some smaller banks exhibited signs of liquidity stress, indicating the need for better liquidity management and contingency planning.

### **2.2.2 Review of Thesis**

Thapa (2018) conducted a research study titled “*A Comparative Study on Financial Performance of Selected Commercial Banks in Nepal: A CAMEL Model Analysis.*” She emphasized that a bank's sound financial health is crucial not only for its depositors but also for its shareholders, employees, and the overall economy. To ensure robust financial health, various efforts have been made to assess and manage the financial position of each bank effectively. The study aimed to evaluate and compare the financial performance of selected commercial banks in Nepal over the period from 2013 to 2017 using the CAMEL rating system, a widely recognized quantitative supervisory technique. For this purpose, Thapa selected one private bank, Nepal Investment Bank Limited (NIBL), and one commercial bank, Rastriya Banijya Bank Limited (RBBL), as samples. The study relied on secondary data from the annual reports of these banks, as well as information from the official websites of the Nepal Rastra Bank (NRB) and the Securities Board of Nepal (SEBON). Descriptive analysis tools were employed to derive meaningful results from the collected data and achieve the research objectives. The results indicated that both banks have met NRB's benchmark on CCR ratio and comparatively NIBL showed declining NPLR ratio indicating good asset quality during the study period. Additionally, the total expenses to total income ratio decreased, demonstrating efficient management at RBBL, which had a significant positive gap between income per employee and expenses. Interest income constituted the major portion of total income for both NIBL and RBBL. The average return on assets (ROA) was higher for NIBL compared to RBBL, suggesting better productivity at NIBL. While the return on equity (ROE) for both banks was satisfactory, it was recommended that NIBL improve this ratio. The net income to total loan and advance ratio for both banks fluctuated since the first fiscal year, indicating weak earning power and suggesting the need for improvement. The liquidity ratios of both NIBL and RBBL were good and met the NRB's standard levels.

Bhandari (2018) conducted a study titled *"Assessment of Financial Performance of Commercial Banks Under the Framework of CAMEL."* This research evaluated the financial performance of ten selected commercial banks in Nepal during the latest five years study period 2013 to 2017. Data were collected from secondary source and both financial and statistical technique were employed to conclude the study. The study revealed that the bank's CAMEL components are fluctuating over the study period. Among the sampling banks Everest bank ranked highest and Nepal bank ranked lowest in the components of CAMEL.

Joshi (2021) conducted a study titled *"Financial Performance Measurement Through CAMEL Model in ADBL and RBBL."* The research aimed to evaluate financial performance of Agricultural Development Bank Limited (ADBL) and Rastriya Banijya Bank Limited (RBBL) in Nepal during the study period 2071/72 to 2075/76 using the CAMEL rating system, a widely recognized quantitative supervisory technique, the study assessed the Functionality of public banks in Nepal. Data sourced for the study were from the annual reports of ADBL and RBBL, as well as data from the official websites of the Nepal Rastra Bank (NRB) and the Securities Board of Nepal (SEBON). Descriptive analysis tools were used to derive meaningful results from the collected data and achieve the research objectives. The data were organized under various headings, analyzed using financial and statistical tools, and compared through various figures. Joshi reported that both banks complied with NRB benchmark regarding CCR and declining ratio for NPLR indicating good asset quality during the study period. The average return on assets (ROA) for ADBL was higher than for RBBL, suggesting better productivity at ADBL. Both banks had satisfactory return on equity (ROE), and their liquidity ratios were good, meeting the NRB's standard levels.

Pokhrel (2022) conducted a study titled *"Financial Performance Analysis of Joint Venture Commercial Banks of Nepal in the Framework of CAMEL."* The research aimed to evaluate the financial performance of commercial banks using the CAMEL framework. Pokhrel stated that for the study ROA and ROE representing the performance of the bank set as dependent variable and CAR, NPLR, MER, ROA and CRR were defined as independent variable. Study was based on secondary data source and financial and statistical tools were used to evaluate the study. The study revealed that the CAMEL components of Nepalese joint venture companies are good ranking and there is significant

relationship between CAMEL components and financial performance of a financial institutions.

Basnet (2023) conducted study titled "*CAMEL Analysis of Commercial Banks in Nepal: A Comparative Study of Himalayan Bank Limited and Nepal SBI Bank Limited.*" The primary objective was to analyze the financial performance of two joint venture commercial banks namely; Himalayan Bank and Nepal SBI Bank using five years fiscal years data from 2011/12 to 2019/20. The study aimed to demonstrate the impact of the crucial financial ratios on bank evaluation on the basis of CAMEL component. In the context of a rapidly growing banking sector where substantial funds are invested, the CAMEL model evaluates bank performance based on Capital adequacy, Asset quality, Management, Earnings, and Liquidity. The study utilized data published in the banks' annual reports and the Nepal Rastra Bank's (NRB) supervision annual report. The analysis, based on publicly available financial data, concluded that both sampled banks exhibit strong composite ratings. This comparative study of Himalayan Bank Limited and Nepal SBI Bank Limited covered aspects such as ownership, management, financial performance, and customer satisfaction. The findings indicated that Himalayan Bank Limited outperformed Nepal SBI Bank Limited, demonstrating soundness in capital adequacy, asset quality, management, earnings capacity, and liquidity position

### **2.3 Research Gap**

Banking sector is the significant indicator for any nation's economic growth. To analyze the nation's development ranking banking sector's growth plays vital role. Hence numerous researches have been carried out in Nepal to evaluate the financial health of the banks. As per the review of several studies it is found that most of the studies were conducted to describe the trend of financial ratio analysis. However, after analyzing via standard model suitable recommendation toward the stakeholders are lacking. In addition, after the COVID-19 pandemic the business cycle of every sector affected world widely. So, this research would use the latest current five years data to analyze the top ranking two banks namely; Nabil bank and Everest bank limited using CAMEL components. It will present the current performance of two sample banks and the study will also provide suitable recommendations to the concerned stakeholders.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter details the techniques and processes implemented during the research. It serves as a systematic approach to addressing and objectively exploring a research problem. The chapter also explains about the all the process, techniques, data sources and information collection.

#### **3.2 Research Design**

This section involves specifying the methods and procedures for obtaining the necessary information. It addresses what information will be collected, from which sources, and through which procedures. If the research design is good, it ensures that the information obtained is relevant to the research questions and collect by objective and economic procedures. To achieve the specific objective of the study, descriptive and analytical research design have been applied to analyze the financial performance of commercial bank in Nepal.

#### **3.3 Population and Data sample**

All commercial banks operating in Nepal consider as population for the study. So, the total population for the data study is 20 commercial banks of Nepal which is population for this study. Due to time and resource's limitation Among the twenty population two commercial banks are presented as sampling banks, by using convenience sampling method. Convenience sampling method is a non-probability sampling method used when researcher selects sample from a population which is conveniently accessible. The sample banks are: Everest bank Limited and Nabil Bank Limited.

#### **3.4 Data sampling period:**

To perform the study sample bank's latest five years' of 2018/19 to 2022/23 (FY 2074/75 to FY 2079/80) annual progress report has been extracted from concerned bank's websites.

### 3.5 Source of Data

The study is relied on available secondary data sources. As today's world is significantly influenced by digitalization most of the needed data is collected from various sources of internet. In addition to the digital data sources various informal interviews and review is taken from related stakeholders. Periodic(annual) progress report sample banks. Further, various studies, articles and publications associated with the study's topic has been analyzed.

### 3.6 Data Analysis method

#### 3.6.1 Financial tools

To assess the financial performance of the sample banks, renowned CAMEL framework has been applied in the study. Financial significant ratios have been analyzed on the basis of sample bank's annual report. The ratios have been defined as per the CAMEL model. Following financial indicators are analyzed in this study:

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

A class banks should retain the sufficient amount of capital on the basis their particular needs. CAR is the indicator of the bank 's capital proportion which balance the optimum level of it's risk, assets and liabilities. As per the NRBs guideline; CAR of A class bank should be 11% where; 6% of CCR should be assured. Numerically CAR can be present as following:

$$\text{Capital Adequacy Ratio (CAR)} = \frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Assets}} \times 100 \%$$

*(As per the NRB's guideline it is mandatory to keep 10% CAR however, currently commercial banks in Nepal have to maintain CAR of 11 percent to be able to distribute dividend among shareholders where 6% CCR ratio maintain is compulsory)[Source: [www.nrb.org.np](http://www.nrb.org.np) -New Capital Adequacy Framework (NCAF)]*

$$\text{Core Capital Ratio (CCR)} = \frac{\text{Total Core Capital Fund}}{\text{Total Risk Weighted Assets}} \times 100 \%$$

##### 3.6.1.2 Assets Quality

A class banks play a crucial role in the financial system by mobilizing funds from various sources such as capital and deposits, and then using these funds to generate returns

through lending activities. The lending activities of banks are a primary source of their income. Banks offer a variety of loans and advances, but they can be broadly categorized into two main types based on their repayment status and the likelihood of the borrower meeting their financial obligations. This classification helps banks in managing their risk and ensuring financial stability. The two primary categories are:

### **1. Performing Loans**

Principal and interest amount of any loan which is not due during the last 90 days is known as performing loans.

### **2. Non-Performing Loans (NPL)**

Principal and interest amount of particular loan which is overdue since 90 days or more is known as non-performing loan. The non-performing loan ratio plays vital role to assess the asset quality of the commercial banks. The equation form of non-performing loan ratio could be expressed as :

$$\text{Non-performing Loan Ratio (NPLR)} = \frac{\text{Total Non-Performing Loan}}{\text{Total Loan and Advances}} \times 100 \%$$

#### **3.6.1.3 Management Quality**

The term management involves organizing various elements systematically to achieve organizational goals. An institution can reach its desired objectives only when it has capable management with a strong and long-term vision. To accomplish the bank's goals within a specific timeframe, proper and efficient management is essential. Management Quality assesses the efficacy of a bank's management in decision-making and strategy implementation. The efficiency ratio is a common metric for management efficiency, calculated by dividing a bank's operating expenses by its total assets, as shown below:

$$\text{Management Efficiency Ratio} = \frac{\text{Total Operating Expenses}}{\text{Total Assets}} \times 100 \%$$

A lower efficiency ratio signifies superior management efficiency.

### 3.6.1.4 Earning

Earning is the output of revenue wins against the operating cost. Any business set goal to earn the profit. Typically, significant revenue and profit is the indicator of successful investment. Overall, greater earning ratio signify a stronger financial status of any business. Likewise; a bank's aggregate performance is evidence of good earning. In this study following ratios are presented to examined the financial performance of sample banks Nabil and Everest.

$$\text{Earning per Shares (EPS)} = \frac{\text{NPAT}}{\text{No. of outstanding shares}}$$

Where,

NPAT= Net profit after tax

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income after Tax}}{\text{Total Shareholders fund}} \times 100 \%$$

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income after Tax}}{\text{Total Assets}} \times 100 \%$$

### 3.6.1.5 Liquidity

Liquidation refers to the possession of assets that can be readily converted into cash. It signifies an organization's capacity to fulfill its depositor's obligations or certain liabilities in a timely manner. For this purpose, banks maintain certain liquid assets which is liquid as cash and could transform into cash beyond incurring losses, through the maintenance of specific reserves and provisions. Liquidity indicates a bank's short-term financial strength. Banks do not allocate all their deposits to loans and advances; instead, they retain a certain percentage as liquidity as provision to meet the urgent needs. Generally, bank indicate liquidation measurement via various techniques. One of the general standard methods is as follow:

#### 3.6.1.5.1 Cash Reserve Ratio (CRR)

It is the minimum reserves a bank must maintain as an account balance with the NRB ensure a benchmark portion of front-line defender which ensures fulfilling certain depositors' liabilities. It is the compulsory compliance provision held in cash in the bank's NRB account, guarantees depositor assurance and bank safety, also reflecting the bank's loyalty and assurance. As per the NRB's monetary policy 2022/23 the cash reserve ratio

to be maintained by BFIs are 4% on average of total deposits of bank on weekly basis. In equation it could be expressed as ;

$$\text{Cash Reserve Ratio} = \frac{\text{Cash Balance in NRB}}{\text{Local Currency Deposit-Margin Deposit}} \times 100 \%$$

It is not possible to present daily deposit amounts in the annual report and cannot be accessed, we cannot accurately calculate the cash reserve ratio or compare it to the NRB's mandatory 4% average of total deposits on a weekly basis. Calculating the ratio using the year-end Balance Sheet figures would provide false information or be misleading.

### **3.6.2 Statistical Tools:**

Statistical tools are essential for analyzing data, making inferences and supporting decision making processes across various field. It arranges the huge information in systematic way and facilitate on interpretation. Majorly statistical tools support the research designing, data interpretation, conclude the findings. Here are explanations of some statistical tools utilized in this study:

#### **3.6.2.1 Mean**

The mean is the arithmetic average of a set of values, providing a measure of central tendency. It is calculated by summing all the values in the dataset and dividing by the number of values.

$$\text{Mean } (\bar{X}) = \frac{\Sigma X}{n}$$

Where  $\Sigma X$  = Sum size of the variables

n= Number of variables

In this study, mean will be calculated as average value of all variables which is derived from financial CAMEL components analysis. The secondary data source is analyzed through simple descriptive statistical analysis.

#### **3.6.2.2 Standard Deviation (S.D)**

Standard deviation measures the dispersion of data relative to the mean. It allows us to compare data sets with the mean value but varying ranges. Lower standard deviation points that data points are grouped near by the mean. Likewise higher standard deviation

represent that data points are extensively dispersed. The equation of it could be expressed as;

$$\sigma = \sqrt{\frac{\sum(X - \bar{X})^2}{n}}$$

Where,

$\sigma$  = Standard deviation

$\sqrt{\sum(X - \bar{X})^2}$  = Sum square of the square mean

n = Number of variables

## **CHAPTER – IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter focuses on presenting and analyzing data gathered from various sources, emphasizing the components of the CAMEL. As stated in the chapter III secondary data which are gathered from annual reports of sample banks will be assessed with the application of CAMEL model. As financial tools analysis five components will be analyzed in this chapter namely; Capital Adequacy, Assets Quality, Management Quality, Earning ratio and Liquidity.

#### **4.1 Data Presentation and Analysis**

The data source for this study is secondary data which are extracted majorly through annual reports of sample banks. Firstly, the collected data were presented in tables and extracted the needed major variables from the overall data as per the CAMEL framework. Every single comparative component analysis has been presented in tables to make it easier to comparison and analysis has been also presented in every single component of Nabil and Everest during the study period. Simple descriptive statistical tools have been analyzed with the help of SPSS software.

##### **4.1.1 Financial Tools**

###### **4.1.1.1 Capital Adequacy**

A financial institution's capital adequacy is an index of its strength, especially its capacity to absorb abnormal and operational losses. The purpose of minimum capital adequacy ratios is to guarantee that banks can withstand a certain amount of loss before going bankrupt. The amount of unanticipated losses a bank may withstand before going bankrupt increases with its capital adequacy ratio. According to the structure of the risk-weighted capital ratio, a financial institution (FI) must possess sufficient capital to sustain its risky assets. The relationship between capital adequacy and asset structure is now understood to be more suitable than the volume of liabilities. The three main components used to compute the capital adequacy ratio are risk-weighted assets, core capital, and supplemental capital.

In the context of Nepal, NRB has categorized bank's assets on the basis of its weightage. Majorly they are as following;

#### **0% Risk Weight Asset**

The assets which are very liquidate and equivalent to cash is classified under this category. It could be converted into the cash beyond the any other cost associated. Numerous examples fall under 0 % risk weight asset they are; loan against fixed deposit, cash at vault, tradable gold, balance certificate with NRB, investment in government and NRB bonds, receivable interest on government bills etc.

#### **10% Risk Weight Asset**

Foreign exchange agreement is the example to 10% risk weight asset.

#### **20% Risk Weight Asset**

Some portion of the bank's assets falls under this category. NRB has categorized balance with local BFIS, loan against domestic bank's fixed deposit, bank balance and loan guarantee with international banks etc. under 20% risk weight assets.

#### **50% Risk Weight Asset**

L/C which have 6 month's maturity , various types of bonds like; Bid , performance assets of a bank's assets categorized as 50% weight asset by NRB in Nepal.

#### **100% Risk Weight Asset**

Investments on Share, Debenture & Bonds, Other Investments, Loan, Advances & Bills Purchase/Discount, Fixed Assets, Other Assets, Net Other Interest Receivable (Gross Int. Receivable – Interest receivable on Govt. Bonds - Interest Suspense) , Financial Guarantee, Other Guarantee, Irrevocable Loan Commitment, Contingent Liability for Tax and various potential obligation fall under this category of asset of the bank.

##### **4.1.1.1 Capital Adequacy Ratio (CAR)**

A class banks should retain the sufficient amount of capital on the basis their particular needs. CAR is the indicator of the bank 's capital proportion which balance the optimum level of it's risk, assets and liabilities. Thus, the capital adequacy ratio is a measure of a bank's available capital represented as a proportion of its risk-weighted credit exposures.

CAR is also known as capital to risk weighted credit exposures. The capital adequacy ratio, is also known as capital to risk weighted assets ratio (CRAR), which is provision to insured ordinary saver's fund while simultaneously promoting global financial system stability and efficiency. CAR is essential for ensuring particular banking and financial institution have adequate level of back up planned fund to defend when critical situation arises and save from becoming bankrupt. It is very crucial component to analyze the bank's financial performance. Banking regulating bodies indicate the CAR benchmark to run the banking industry smoothly. NRB has recommended to ensure two types of capital provision for the commercial banks running in Nepal. They are; tier-1 and tier-2 capital. Tier-1 capital bear the certain financial deficit beyond the closing of bank's operating transaction and tier-2 capital utilize to settle the closing loss bearing capacity of the bank. Tier-2 capital gives few portion of safeguarding to the depositors. Regulators use it to assess bank's capital sufficiency and stress assessment.

The CAR ratio of sample banks Nabil and Everest over the study period has been presented on table as follows:

**Table 4.1**

*Capital Adequacy Ratio*

<b>Fiscal Year</b>	<b>CAR Ratio % (Nabil)</b>	<b>CAR Ratio % (EBL)</b>
2018/19	12.50	13.74
2019/20	13.07	13.38
2020/21	12.77	12.48
2021/22	13.09	11.89
2022/23	12.54	13.30

*Source: Annual Reports of sample banks.*

The table 4.1 shows Capital Adequacy Ratio of two sample banks form fiscal year 2018/19 to 2022/23. As per the tabulated data presentation year 2021/22 has significant outcome as Nabil Bank Limited scored its highest Capital Adequacy Ratio (CAR) 13.09 % and the Everest Bank Limited scored lowest as 11.89% in the same fiscal year. The highest CAR of Nabil is 13.09 in FY2021/22 and EBL 13.74 in 2018/19. So, both banks

have maintained NRB minimum standard ration over the study which is 11 %. Hence in the aspect of CAR both banks are performing well during the study period.

#### 4.1.1.1.2 Core Capital Ratio (CCR)

Another crucial aspect of capital adequacy is measured by Core Capital Ratio. As per the regulatory bodies' viewpoint it assesses the financial soundness of banking and financial institutions. The Core Capital Ratio status over the study period is tabulated in the following table:

**Table 4.2**

*Core Capital Ratio*

<b>Fiscal Year</b>	<b>CCR Ratio % (Nabil)</b>	<b>CCR Ratio % (EBL)</b>
2018/19	11.40	12.38
2019/20	10.67	11.92
2020/21	10.67	11.24
2021/22	10.77	10.78
2022/23	10.22	11.17

*Source: Annual Reports of sample banks.*

Above table 4.2 shows that Nabil bank and EBL bank's CCR ratio over the five years period FY 2018/19 to 2022/23. CCR of Nabil bank 11.40 is the highest in 2018/19 and lowest at 10.22 at FY 2022/23. Likewise, EBL maintained highest ratio as 12.38 in FY 2018/19 and lowest at FY 2021/22 as 10.77. Both banks have maintained NRB's benchmark of 6% during the study period.

#### 4.1.1.2 Assets Quality

A class banks owns the liquidate assets for example and cash and bank balance and investment towards short run. Commercial bank's major focus is accepting the deposits from depositors and lend the loans to the needy individuals and organization. So, bank has kept some percentage difference in saving and loan and during this process bank yields interest revenue. Assets quality ratio also popular for activity ration and it could be

transferred into cash or equivalent in the short timeframe. The bank's profit index significantly depends upon asset quality of the bank.

#### 4.1.1.2.1 Non-Performing loan ratio

Every business have some kind of risk to be failure. Likewise banking industry also have threat from the loan takers who are expected to repay the principal and interest amount within the defined timeframe but sometimes the borrower does not repay the payable amount to the bank. So, if the borrower does not pay its payable amount which includes principal and loan amount more than 90 days it is considered as non-performing loan. Non-performing loan also has its subcategories like sub-standard loan, doubtful loan and bad loans. The non-performing loan ratio represent the relationship between the non-performing loan and the total issued loans and advance. Hence, in this regard lower ranking ratio is better than higher ranking ratio. So, in comparison study definitely lower ratio of nonperforming loan ratio holder banks would be superior than the high ranked NPLR holder banks. The data observation of non-performing loan ratio over the study period is tabulated as below:

**Table 4.3**

*Non-performing loan ratio*

<b>Fiscal Year</b>	<b>NPLR Ratio % (Nabil)</b>	<b>NPLR Ratio % (EBL)</b>
2018/19	0.74	0.16
2019/20	0.98	0.22
2020/21	0.84	0.12
2021/22	1.62	0.12
2022/23	3.39	0.79

*Source: Annual Reports of sample banks.*

The table 4.3 illustrates the NPLR ratio Nabil and Everest bank limited for the period FY2018/19 to 2022/23. The highest NPLR for Nabil bank is 3.39 and lowest is 0.74 for the year FY2022/23 and FY2018/19. Likewise, highest NPLR of EBL bank is 0.79 in FY 2022/23 and lowest NPLR is 0.12 in 2020/21 and 2021/22. Hence on the basis of NPLR ratio analysis EBL is performing better than Nabil during the study period.

### 4.1.1.3 Management Quality Ratio (MQR)

Management quality ratio(MQR) represent the relationship between bank operating expenses towards the total assets. Human resources are the major crucial asset of any business. The goal of the efficient management channel is to stay focused on the organization's goal to be achieved. Management should assure the optimum utilization of available resources and need to mobilize the all resources in effective way. The MQR ratio gives some hint to the shareholders whether investor are getting reasonable return from their investment. For any organization like profit-oriented business firm or not for profit social and government organization management plays vital role to achieve the organizational goal. Management consists of setting organizational goal, planning the procedure to implementation, coordinating with concern stakeholders, sales of the product and services. In the banking sector management is always accountable to its stakeholders' investment. They are responsible to pay back the shareholder's fund with profit top up. All shareholders are curious to know about their earning portfolio. So, to generate the profit every manager should always be aware on minimizing it's cost while effort to maximize the rate of return. The management team should utilize the organization's available resources at optimum level. To analyze the management quality MQ ratio has been used at this study. The operating cost over the total assets is studied in this research as the ratio of management quality. The MQ ratio of two sample banks during the study periods is tabulated in the following table:

**Table 4.4**

*Management Quality Ratio*

<b>Fiscal Year</b>	<b>MQ Ratio % (Nabil)</b>	<b>MQ Ratio % (EBL)</b>
2018/19	5.49	5.86
2019/20	5.80	6.14
2020/21	5.22	4.85
2021/22	5.33	5.98
2022/23	7.93	7.37

*Source: Annual Reports of sample banks.*

In the above table 4.4 explains about the management efficiency ratio for the study period FY 2018/19 to FY 2022/23. Both banks have highest MQ ratio in FY 2022/23 as 7.93 for Nabil and 7.37 for EBL. The lowest ratio for Nabil is 5.22 in the year 2020/21 and 4.85 for EBL in the same year. As per the study period data the ratio of EBL is more fluctuating annually in comparison to Nabil.

#### **4.1.1.4 Earnings**

Earnings refer to the surplus of revenue over costs, in other word the additional revenue generated by an organization during its operations. Any business or shareholders who invest his fund to the business expect for the higher rate of return. In overview high earning generating organizations are taken as successful business. Alike other business banking sector's shareholders interest is also gaining the profit. So, earning is also an important indicator of bank's financial performance assessment. The bank's overall performance is likewise reviewed in its earnings. The following ratios illustrate the earnings position.

##### **4.1.1.4.1 Earning per Shares**

Earning per share (EPS) is the most important factor to define the share's market price. It is derived from a business firm's total earned profit allocated to outstanding shares of shareholders. Higher EPS represent the well financial position of the company. Higher EPS holder company also have higher price at share market. Because investor will pay the high price if the bank's earning is growing gradually. Another factor of EPS is it provides the information about how much money needed to earn the specified revenue. If other influencing factors remained constant and two company's from the same industry having same EPS also may not require equal fund to earn the same amount of capital. So, in this case lower capital needed firm ranked as superior company among them. So, considering the importance of EPS , it is also analyzed in comparison in this study. The EPS of two sampling banks over the study period is illustrated in table as below:

**Table 4.5***Earning Per Shares*

<b>Fiscal Year</b>	<b>EPS (Nabil)</b>	<b>EPS (EBL)</b>
2018/19	50.57	38.05
2019/20	36.16	29.71
2020/21	33.57	19.91
2021/22	18.64	26.30
2022/23	23.67	31.43

*Source: Annual Reports of sample banks.*

Above given table 4.5 explain the contrasting position of EPS of Nabil and EBL during the study period. The highest EPS of Nabil is Rs.50.57 in the FY 2018/19 and lowest is Rs.18.64 in 2021/22. Similarly, EBL has highest EPS Rs.38.05 and lowest Rs. 19.91 in FY 2020/21. Both bank's EPS amount is fluctuating annually.

#### **4.1.1.4.2 Return on Equity (ROE)**

Generally, ROE measures a company's net income relative to its shareholders' equity. It serves as an indicator of a corporation's profitability and the efficiency with which it generates profits. A higher ROE signifies that the company is more effective at converting its equity financing into profits. The ratio illustrates how much of the shareholders' fund is mobilized towards earning profit. The higher the ratio the better it is for the bank. Considering the importance of ROE to examine the financial performance of the bank it is also included in this study. The two-sample bank's Nabil and Everest Bank Limited's ROE is tabulated on the following table for comparison study:

**Table 4.6***Return On Equity*

<b>Fiscal Year</b>	<b>ROE (Nabil)</b>	<b>ROE (EBL)</b>
2018/19	17.76	17.32
2019/20	13.61	13.50
2020/21	15.19	8.56
2021/22	9.78	10.76
2022/23	11.66	13.25

*Source: Annual Reports of sample banks.*

The given table 4.6 depicts the comparative presentation of the sample bank's ROE for the year 2018/19 to 2022/23. The rate of ROE was 17.16 and 17.32 for Nabil and EBL respectively in the first year. Both banks have highest rate of ROE in the first year. In the year 2018/19 to 2020/21 Nabil has maintain better ROE ratio in comparison to EBL. But in the recent two years FY2021/22 and 2022/23 EBL has maintained better ROE ratio comparing with Nabil. The recent FY 2022/23 ROE ratio is 11.66 and 13.25 for Nabil and EBL respectively.

#### **4.1.1.4.3 Return on Assets**

The Return on Assets is derived from total earning divided by the total assets the banks holds. In other work ROA explain about how much of total assets a bank has mobilized to earn the existing profit. The bank's preliminary assets are released loan and advances and accrual interest and commission on it. In the financial sector ROA plays vital role to compare the two or more companies in the same sector. Higher ROA represent the superior company comparison study. In this study ROA defined how effectively the bank is financing it's available asset to earn the particular profit in the particular fiscal year. The return on asset ratio of two sample banks Nabil and Everest over the study period is illustrated in the following table:

**Table 4.7***Return On Assets*

<b>Fiscal Year</b>	<b>ROA(Nabil)</b>	<b>ROA (EBL)</b>
2018/19	2.11	1.94
2019/20	1.58	1.42
2020/21	1.71	0.89
2021/22	1.20	1.13
2022/23	1.42	1.41

*Source: Annual Reports of sample banks.*

The above given table 4.7 illustrates ROA of fiscal year 2018/19 to 2022/23 as 2.11,1.58,1.71,1.20 and 1.42 ; for Nabil. Similarly, 1.94,1.42,0.89,1.13 and 1.41 for EBL. The trend of ROA of both banks are fluctuating trend. Both banks have highest ROA in the first year as 2018/19. The lowest ROA of Nabil is 1.20 the FY2021/22 and EBL 0.89 in the FY2020/21.

#### **4.1.1.5 Liquidity**

Liquidity refers to a firm's short-term capacity to fulfill the short-term accountability towards its depositors. In general overview ,All the funds the bank holds are belongs to its depositors and bank should not lend out all holding funds as loan to it's borrower because it to do so bank may not able to provide the depositor's fund when they needed back. So, as per the guideline issued by NRB banks should maintain some provision to hold the minimum specific percentage of deposit as cash to fulfill the short run accountability.If a bank holds too much of its deposits in cash, it incurs opportunity costs. Conversely, if a bank keeps too little in reserve, it may not be able to meet depositor demands promptly. In this study, the Cash Reserve Ratio is used to compare the liquidity of two sample banks.

**Table 4.8***Cash Reserve Ratio*

<b>Fiscal Year</b>	<b>CRR (Nabil)</b>	<b>CRR (EBL)</b>
2018/19	4.78	18.56
2019/20	11.20	14.43
2020/21	3.66	18.15
2021/22	4.13	6.50
2022/23	6.89	7.11

*Source: Annual Reports of sample banks.*

In the above given table 4.8 CRR of two sampling banks Nabil and EBL during the study period FY 2018/19 to FY 2022/23 is illustrated. Nabil Bank has 4.78,11.20,3.66,4.13 and 6.89 CRR ration for the five-year study period. Similarly, EBL has 18.56,14.43,18.15,6.50 and 7.11 during the period. EBL has a higher CRR than Nabil during the study period. By the above table we found that both bank's CRR ratios are fluctuating in the different years and it is logical that any bank could not stay at a constant level of CRR, it is affected by various environmental factors in some cases NRB revises the benchmark percentage as per its monetary policy. Both banks have maintained NRB's standard level over the study period.

#### **4.1.2 Statistical Tools**

Statistical tools are techniques and methods used to collect, analyze, interpret, present, and organize data. These tools are essential for making informed decisions and deriving insights from data. Descriptive statistical technique has been used to interpret the collecting data of sample banks.

**Table 4.9***Descriptive Statistics analysis of Nabil Bank*

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Standard deviation</b>
CAR	5	12.50	13.09	12.7940	.28077
CCR	5	10.22	11.40	10.7460	.42324
NPLR	5	.74	3.39	1.5140	1.10330
MQ	5	5.22	7.93	5.9540	1.12602
EPS	5	18.64	50.57	32.5220	12.36054
ROE	5	9.78	17.76	13.6000	3.08989
ROA	5	1.20	2.11	1.6040	.34093
CRR	5	3.66	11.20	6.1320	3.09055

*Source: IBM SPSS 26.***Table 4.10***Descriptive Statistics analysis of Everest Bank*

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Standard deviation</b>
CAR	5	11.89	13.74	12.9580	.75427
CCR	5	10.78	12.38	11.4980	.64142
NPLR	5	.12	.79	.2820	.28691
MQ	5	4.85	7.37	6.0400	.89875
EPS	5	19.91	38.05	29.0800	6.67453
ROE	5	8.56	17.32	12.6780	3.28587
ROA	5	.89	1.94	1.3580	.39252
CRR	5	6.50	18.56	12.9500	5.83975

*Source: IBM SPSS 26.*

The above table 4.9 and 4.10 explains the descriptive statistics analysis of sample banks Nabil and EBL. At the table 4.9 CAR variable's mean score is 12.79 for Nabil and 12.95 for EBL so, comparing on the basis of CAR ratio EBL is performing better. Likewise, the standard deviation Of Nabil is 0.28 and EBL is 0.75 so on the basis of standard deviation EBL is less risky than Nabil. In addition, another variable analysis the average mean score of CCR of Nabil is 10.74 and EBL is 11.49 and standard deviation is 0.42 and 0.64

respectively. So, comparing with the study period's available data EBL has maintained higher CCR ratio than Nabil. Likewise, NPLR ratio's mean score of both banks are 1.51 and 0.28 for Nabil and EBL respectively. And standard deviation of Nabil is 1.10 and EBL 0.28 so, on the basis of comparative NPLR ratio analysis Everest Bank is performing better than Nabil during the study period.

Another variable management efficiency is analyzed by MQ ratio in this study mean score of MQ is 5.95 and 6.04 for Nabil and Everest respectively and standard deviation is 1.12 for Nabil and .89 for EBL. Hence in the aspect of MQ Nabil is performing better than EBL in the study period. Earning wise three variable has been analyzed in this study ie; EPS, ROE and ROA so for Nabil bank the mean score are 32.52,13.60 and 1.60 respectively likewise; for EBL 29.08,12.67 and 1.35. So, on the basis of average mean Nabil Bank is performing better than EBL. Furthermore, to evaluate the liquidity of the two sample banks CRR ratio has been analyzed and mean score for CRR are 6.13 and 12.95, and standard deviation of 3.09 and 5.83 for Nabil and Everest Bank respectively. Hence, on the basis of CRR analysis both banks have maintained the NRB's standard level and comparatively EBL has higher average CRR than Nabil.

#### **4.2 Major Findings**

The major findings of the study of CAMEL Analysis of Nabil bank and Everest Bank are as follows:

- Nabil banks' CAR ratios are, 12.50,13.07,12.77,13.09 and 12.54 in the fiscal years 2018/19,2019/20,2020/21,2021/22 and 2022/23 respectively. So, the ratios of Nabil bank were fluctuating trend. During the study period maximum ratio was 13.07 in 2019/20 and minimum was in the first year FY2018/19.Likewise; the Everest bank maintained the CAR ratio as 13.74,13.38,12.48,11.89 and 13.30 in the observation period FY 2018/19,2019/20,2020/21,2021/22 and 2022/23 respectively. The maximum CAR ratio of Everest bank during the period was 13.74 in FY2018/19 and minimum as 11.89 in the year 2021/22. Both banks have maintained adequate level of capital ratio asper benchmark provided by the NRB over the study period which is 10%. 11% in order to distribute dividend to its shareholders. In this regard, both banks have successfully maintained minimum CAR requirement to distribute dividend.

- Both bank Nabil and Everest have decreasing fluctuated trend for CCR ratio. Nabil bank has highest CRR ratio in 2021/22 as 10.77 and EBL has it's maximum CRR ratio during the FY 2018/19 as 12.38. Likewise, the minimum ratio for both banks are 10.22 and 10.78 for Nabil in FY 2022/23 and Everest in FY 2021/22 respectively. During the observation period it is found that the CRR ratio of both banks are above the NRB's prescribed standard which is 6%.
- In average non-performing loan ratio of both banks are increasing trend over the observation period. It means that it is being challenging to banks to recover the debts in today's competitive market. But in the year 2020/21 both banks have succeeded to decline the ratio. In the two-year FY2020/21 and FY 2021/22 Everest bank maintained the stable NPLR ratio as 0.12. on the other hand, NPLR of Nabil Bank has increased drastically and reached the point of 3.39 in FY 2022/23. Overall, both banks have maintained asset quality efficiently during the study period.
- Management quality ratios (MQR) of Nabil are 5.49,5.80,5.22,5.33 and 7.93 during the study period FY 2018/19,2019/20,2020/21,2021/22 and 2022/23 respectively. On the other hand; Everest bank has 5.86 in beginning year 2028/19 and fluctuated over the different year period and reached the maximum point at 7.37 in the latest fiscal year 2022/23. As per the comparison analysis Nabil bank have slightly greater ratio than Everest bank during the observation period.
- Another important factor of financial health checkup is earning analysis the earning of financial institutions or any business depend on net profit of the business. If the profit of the bank increases obviously the EPS will also increases and vice versa. Greater EPS represent the strong financial status of the banks. From the year 2018/19 to 2021/22 Nabil bank has decreasing EPS , in the last year 2022/23 only EPS increased for Nabil bank. Similarly, Everest bank also experienced decreasing EPS till 2020/21 regularly and started to increase by the year 2021/22. In average both banks have fluctuating trend regarding the EPS and tries to improve in different year. At the latest FY2022/23 EBL has highest EPS than Nabil.
- Return on Equity (ROE) also measures the business firm's earning status. It is derived from Net profit after tax divided by equity.Similar to the EPS, ROE also fluctuating trend over the examine period. Bothe banks have maximum ROE in the

first year 2018/19 and it fluctuated over the five years study period. Nabil's maximum ROE is 17.76 in the first year and minimum ratio in FY2021/22 as 9.78. Likewise, the highest ROE ratio of Everest bank during the study period is 17.31 in FY 2018/19 and lowest of 9.78 om FY 2021/22.

- The bank's another variable to measure the earning is Return on Assets (ROA) which is derived from Net Profit divided by the total assets. It explains about the how much the Banks mobilized their available resources to earn the existing revenue. ROA of Nabil bank is decreasing trend till the FY2021/22 and increased at the latest FY2022/23 AS 1.42. Similarly; ROA of EBL is decreasing trend till 2020/21 and gradually increased at the two years FY 2021/22 and 2022/23.
- The Cash Reserve Ratio (CRR) of both banks fluctuated over the period. In the first year the CRR of Nabil was 4.78 and increased in the year 2019/20 and reached to 11.20 and fluctuating till 2022/23 and reached 6.89 at the recent year 2022/23. Similarly, CRR of EBL was 18.56 the highest of study period in FY 2018/19 and fluctuated over the study period and reached 7.11 at the recent year 2022/23.

## **CHAPTER – V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

In this chapter overall study is summarized, concluded and submit suitable recommendations. In the first part brief overview is listed and secondly the study's conclusions are mentioned. As last part of this chapter some appropriate recommendations is provided to the sample bank's stakeholders.

#### **5.1 Summary**

It is very difficult for research to measure the financial performance of banks in such a dynamic environment, where everything is changing at rapidly rate. A bank performance affected by various types of factors like monetary policies of central bank, fiscal policies of government, inflation rate, attitude of management, employee's efficiency from time to time. The study is conducted with the objective to analyze and compare the financial performances of Nabil Bank Ltd. (Nabil) and Everest Bank Ltd. (EBL) with the support of CAMEL model. To obtain the research objective latest five years data during FY 2018/19 to 2022/23 has been analyzed. There is total 20 commercial banks operating in Nepal during the study period among them, Nabil and Everest is selected as sample to obtain data sources. Further, to valid the comparative performance of the two sample banks simple statistical tools also used during the study. For the banking sector's financial performance analysis CAMEL model is a renowned method applied all over the world. It gives metric observation report of banking and financial institutions on the basis of its crucial quantitative data analysis.

The CAMEL model was introduced by banking and financial regulatory bodies in the U.S and later on it was applied at many other countries to regulate the banking industries. In this study all components of CAMEL model ; capital adequacy ratio, asset quality, management quality, earning ratio and liquidity ratio of sample banks has been analyzed thoroughly. The study firstly introduced the banking history in Nepal and emerging process of Nepalese economy and foundation of commercial banks is interpreted. The brief overview on commercial bank's roles in the nation and summary of listed

commercial banks in Nepal till the date is also illustrated. The NRB's roles and responsibility towards banking sector's monitoring and supervision is also stated. In addition, number of research studies, journal and articles were also reviewed and listed in literature review chapter. On the basis of CAMEL model and statistical tools analysis comparative study has been conducted between two sample banks. Comparison analysis also done with the NRB's specific benchmark and international practices.

As per the capital adequacy ratio analysis both banks have maintained the NRB's guideline. On the basis of CAR ratio comparison EBL have slightly strong ratio than Nabil Bank Limited. The CCR ratio of both banks are also in track as per NRB's prescription. Likewise asset quality also evaluated with the help of non-performing loan ratio. Lower NPLR ratio is favorable than higher NPLR. Comparatively Nabil bank has significant NPLR ratio increment in the last few years so, on the basis of asset quality Everest Bank is better than Nabil bank.

The Management Quality Ratio (MQR) indicates the better operation of the bank and better profitability. Lower the MQ ratio better the management quality. Both banks' MQ ratios are fluctuating. Comparatively Nabil has high MQ ratio than EBL in the recent year 2022/23. EPS of both banks are fluctuating over the study period, but Nabil has highest EPS than EBL. Both banks have increased EPS in the recent year 2022/23.

Overall return on equity of Nabil and Everest is decreasing and in some years it is fluctuating trend. Though, in the final year both banks have increased the ratio. Likewise, both bank's ROA is also decreasing and fluctuating trend. The Cash Reserve Ratio (CRR) is also fluctuating trend. In comparison, Nabil has lower CRR than EBL. Both banks have maintained liquidity as per prescribed by NRB.

## **5.2 Conclusion**

On the basis of data analysis and result obtained from the research some conclusions have listed as below:

- Capital Adequacy Ratio indicates that both banks have maintained standard ratio as per prescribed by the NRB's guideline that means both banks have sound capital ratio and the banking operation is doing efficiently over the observation period.

- Core Capital Ratio (CCR) of both banks have maintained over the NRB's benchmark guideline during the study period. It means that both banks are utilizing their capital in optimum level and the banks financial capability is strong and sound.
- To analyze the asset quality non-performing loan ratio has been analyzed and it is found that both banks NPLR ratios are fluctuating trend. It means that the both bank's managers are very aware to limit the non-performing loan ratio. Although it also affected by external environment factors. Its comparison the Everest bank have sound performance on it than Nabil bank over the observation period.
- Management quality ratio is a common metric for management efficiency. A lower efficiency ratio signifies superior management quality. So, during the study period, both banks have fluctuating ratios, it indicates that the banks are aware in this point and trying to improve it. Though both banks have highest MQ ratio in the year 2022/23.
- The earning per share of both banks have decreasing trend over the study period. Although in some latest last years both banks have improved and succeed to increase the EPS. For this fluctuating trend of EPS increasing trend of total number of shares is the main reason. Net profit of the both banks are increasing but EPS is decreasing due to total number of shares. The decreasing trend of EPS is temporary, it is started to increase from FY 2022/23.
- On the basis of ROE trend analysis, we conclude that the shareholder's rate of return is fluctuating during the study because the ROE ratio also fluctuating. But in the last observation fiscal year both banks have improved on it. So, it is assumed that after some years the ROE will also increase according to EPS.
- On the basis of ROA trend analysis, we conclude that asset mobilization to earn the exist revenue is also decreasing fluctuating trend during the study period. Alike EPS and ROE trend ROA trend is also improving in the last fiscal years so we assume that with the pace of time the ROA ratio will also improve by the sample banks.
- CRR of both banks is in fluctuating trend with overall increasing trend. It is due to the change in NRB's prescribed standard for CRR. Comparatively EBL has higher CRR than Nabil during the study period.

### 5.3 Recommendation

After analyzing the sampling data on the basis of CAMEL model and statistical technique the study resulted some findings and suggested some recommendation to bank's stakeholders. Some rational recommendations are listed as below:

- On the basis of CAMEL's first component capital adequacy ratio and Core capital ratio of both banks have maintained NRB's stated over the benchmark. So, on the basis of this variable both banks are financially strong though the ratios were fluctuating and decreasing trend over the observation period so, it is recommended to maintain stable as possible.
- The Assets Quality Ratio of both banks is in increasing trend in some fiscal years. Comparatively, Nabil has higher NPLR ratio than EBL over the study period and also Nabil has reached maximum point at last year so, Nabil bank's loan department is recommended to maintain the NPLR ratio as possible.
- The Management Quality Ratio of both banks is increasing every year. So, the recommendation is that both banks should try to lower the operating expenses as possible.
- To study the earning status of Nabil and Everest three important variables EPS, ROE and ROA has been analyzed. On the basis of earning ratio analysis all three ratios are decreasing trend in average over the different study period. So, management of both banks are recommended to optimum utilization of available resources and increase the revenue in coming years.
- Liquidity ratio plays a vital role in defining the financial performance of the bank. The role of liquid asset is to obtain the operating daily short-run accountability. In case the banks do not manage their liquid assets properly, there is a significant risk of them facing lacking of liquidation or loss of opportunity. The liquidity ratio of both banks seems strong with satisfactory level. Both banks should try to maintain liquidity position as study period.

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## APPENDIXES

## Appendix-1

## 5.15. COVID –19 related disclosures

NFR

As of Asatkh and 2020		
PARTICULARS	NO. OF CUSTOMERS	AMOUNT (NPR)
Accrued Interest (revised after Asatkh) end 2020 (il IS shown) 2020	18,068	616,510,459.83
Additional 0.2% Loan Loss Provision created on New Loan Portfolio	-	-
Extension of moratorium period of loan provided to Industry or Project under construction	-	-
Restructured/Reclassified Loan with 5% Loan Loss Provision	670	4,198,776,525.84
Enhancement of Working Capital Loan by 20% to COVID affected borrowers	-	-
Enhancement of Term Loan by 10% to COVID affected borrowers	-	-
Early Date of Activated 20% Working Capital Loan (COVID Loans) extended for upto 1 year with 5% provisioning	-	-
Early Date of Activated 10% Term Loan (COVID Loan) extended for upto 1 year with 5% provisioning	-	-
Term Extension provided for repayment of Principal and Interest for upto two years as per clause 41 of NBS Directives 2	110	609,185,082.27

NFR

As of Asatkh end 2020		
PARTICULARS	NO. OF CUSTOMERS	AMOUNT (NPR)
Reference Loan	-	-
Business Continuity Loan	-	-

NFR

As of Asatkh end 2020		
PARTICULARS	NO. OF CUSTOMERS	AMOUNT (NPR)
Subsided Loans	8,820	11,341,562,448.47

## 5.16. Major financial indicators

S.N.	PARTICULARS	INDICATORS	2018/19	2019/20	2020/21	2021/22	2022/23
1	Net Profit / Gross Income	%	24.25	18.55	21.72	16.15	12.65
2	Earnings Per Share	NPR	50.87	36.16	33.67	18.64	23.67
3	Market Value per Share	NPR	800	755	1,259	854	899
4	Price Earning Ratio	Times	15.82	21.15	40.48	44.21	25.21
5	Dividend (including bonus) on share capital	%	34.00	35.26	38.00	30.00	11.00
6	Cash Dividend on Share Capital	%	22.00	1.78	4.40	11.50	11.00
7	Interest Income / Loans and Advances	%	11.41	10.98	9.27	10.28	13.89
8	Employee Expense / Total Operating Expense	%	17.65	15.80	24.73	14.02	12.67
9	Interest Expense on Total Deposit and Borrowings	%	4.96	5.39	4.33	5.77	7.84
10	Exchange Gain / Total Income	%	4.66	4.14	3.68	2.84	1.24
11	Staff Bonus / Total Employee Expenses	%	34.43	28.17	20.37	26.27	22.79
12	Net Profit / Loans and Advances	%	3.38	2.33	2.49	1.88	1.94
13	Net Profit / Total Assets	%	2.11	1.58	1.71	1.20	1.42
14	Total Credit / Deposit	%	81.96	79.72	89.84	92.45	84.19
15	Total Operating Expenses / Total Assets	%	5.09	5.80	5.22	5.33	7.93
16	Adequacy of Capital Fund on Risk Weighted Assets						
	a. Core Capital	%	11.40	10.67	10.67	10.77	10.22
	b. Supplementary Capital	%	1.10	2.40	2.09	2.32	2.32
	c. Total Capital Fund	%	12.50	13.07	12.77	13.09	12.54
17	Liquidity (CR)	%	4.78	11.20	9.66	4.13	6.89
18	Non Performing Loans / Total Loans	%	0.74	0.90	0.81	1.62	3.39
19	Base Rate	%	8.09	7.32	6.86	8.77	9.32
20	Weighted Average Interest Rate Spread	%	4.19	3.51	3.31	2.75	3.80
21	Book Net Worth per Share	NPR	237	256	251	232	210
22	Total Shares Outstanding	Number	90,118,454	100,974,974	138,444,312	228,325,086	270,589,967
23	Total Permanent Employees	Number	1,080	1,128	1,271	2,130	2,233
24	Return on Equity	%	17.76	13.61	15.10	9.78	11.66
25	Return on Assets	%	2.11	1.58	1.71	1.20	1.42
26	Dividend Payout Ratio	%	67.24	97.51	113.10	180.95	46.17
27	Earnings Yield	%	4.37	4.73	2.47	2.26	3.05
28	Dividend Yield	%	4.25	4.61	2.80	3.44	1.84
29	Cost to Income Ratio	%	63.00	68.13	64.17	71.92	70.51
30	Total Assets to Shareholders' Fund	Times	8.67	9.19	8.60	7.92	8.46
31	Shareholders' Fund to Liability including Contingent Liability	%	9.80	9.07	9.88	9.94	8.56
32	Number of Offices	Number	89	118	133	231	265
33	Number of ATMs	Number	136	185	185	250	298

## Appendix-2



## Main Indicators of last 5 years

S.No.	Particulars	Indicator	Financial Years				
			2018/19	2019/20	2020/21	2021/22	2022/23
1	Net Profit/Total Income	%	21.13	16.25	13.54	14.29	13.99
2	Per share Earning (after tax income)	Rs.	38.05	29.71	19.91	26.30	31.43
3	Market price per share	Rs.	666	675	738	439	563
4	Price/Earning Ratio		17.50	22.72	37.06	16.69	17.91
5	Dividend on share- Bonus share	%	5.00	5.00	6.00	13.00	10
6	Cash Dividend	%	20.00	5.53	4.32	7.68	10.53
7	Interest Income/Loans & advances	%	10.66	10.51	7.37	8.62	11.45
8	Employee expenses/Total operating expenses	%	16.60	14.50	15.69	15.17	11.55
9	Interest expenses on deposit & borrowing	%	5.53	5.93	4.62	5.79	7.39
10	Exchange Income/total Income	%	2.12	1.81	3.26	1.50	0.25
11	Staff bonus/total employee expenses	%	41.28	31.87	21.32	31.29	33.54
12	Net Profit/Loans & advances	%	2.70	2.08	1.29	1.57	1.97
13	Net Profit/Total Assets	%	1.94	1.42	0.89	1.13	1.41
14	Total Loans & advances/Total Deposits	%	87.01	83.52	85.30	90.77	85.70
15	Total operating expenses/total Assets	%	5.86	6.14	4.85	5.98	7.37
16	Capital Adequacy Ratio:						
	a) Core Capital	%	12.38	11.92	11.24	10.78	11.17
	b) Supplementary Capital	%	1.36	1.46	1.24	1.11	2.13
	c) Total Capital Funds	%	13.74	13.38	12.48	11.89	13.30
17	Cash Reserve Ratio (CRR)	%	18.56	14.43	18.15	6.50	7.11
18	NPAs/Total Loans & advances	%	0.16	0.22	0.12	0.12	0.79
19	Base Rate	%	8.12	8.05	5.99	8.82	9.47
20	Weighted Average Interest Rate Spread	%	4.29	3.59	3.24	4.06	3.97
21	Book Networth (Rs. in Lakh)	Rs.	175451	185974	206436	227546	253717
	Total Shares	Number	80268633	84702068	88937172	94273402	106980944
	Total Employee	Number	885	868	945	1057	1097
22	Others						
23	Per Employee Business (Rs. in Lakh)	Rs.	2751	3060	3129	3131	3372
24	Employee expenses/Total Income	%	11.44	10.63	12.32	11.79	8.87

Note : i) CRR have been calculated on the basis of year end figures.

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CHAPTER-I INTRODUCTION 1.1 Background of the Study The term 'Performance' encompasses actions such as doing, carrying out, delivering or rendering tasks. It pertains to the act of performing, which includes execution, accomplishment, and fulfillment. Broadly, performance signifies accomplishment of targeted outcome under the preplanned quality of task finalization which should ensure the efficiency, fulfillment, budget friendly, time saving and precise. In simple term it means the targeted task has been achieved with preliminary plan. Frich Kohlar defined the performance is extensive concept which is adopted to all department of an organization's activities within timeframe link with earlier defined planed objective, budget, outcome and efficiency of work. Management is liable to all performance outcome and consequences. Therefore, performance not only involves the act of presenting but also emphasizes the quality of the results achieved. It also symbolize the organization's overall analysis like strength, weakness, situation, possibilities for success, threat of failure. Further, it also indicates that organization have achieve it's predefined goal or not. In the part of organization's performance financial performance also plays important role; It explains to the stakeholders about implementation of financial activities. In broader sense, it indicates the extent to which financial objectives have been or are being achieved. This involves evaluating the outcomes of a business organization as per it's defined goal with the reference of performed activities in financial term. Financial performance is useful to assess the business organization's monetary well being during the specific timeframe. It is the basis for regulator to justify if organization have meet the endorsed benchmark or not in monetary terms. In addition, financial performance report also use to compare the organization with similar categories business firm or different business firm to study the economic status analysis of nation as a whole. Financial statements do not disclose all details regarding a firm's financial operations, but they provide crucial information that emphasizes two key aspects: profitability and financial soundness. Therefore, analyzing financial statements is a vital tool for evaluating financial performance. Financial performance analysis involves examining and interpreting financial statements to thoroughly assess the business's profitability and financial health. This analysis process comprises assessment of the relationship between the various variables from firm's accounting statement for the purpose to reflect the overall financial position and status of business firm during the specific period. Any country's economic growth heavily relies on development of banking sector. Banking and financial institutions particularly depository institutions accept the deposit from the depositors and release loan to the needed firms and individual. So, banking sector is the foundation aspect of the financial industry (Arif, & Anees, 2012). Since 1980s, as a result of financial liberalization policy many joint venture banks were established. Since then, significant number of local investors also began to investing in the banking sector. Following the implementation of merger and acquisition policy compulsion mandatory and the banks and financial institutions need