

CAMEL Study of Selected Commercial Banks
(With Reference to Nepal Industrial & Commercial Bank, Kumari Bank and
Machhapuchchhre Bank Limited)

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 "**CAMEL Study of Selected Commercial Banks (With Reference to Nepal Industrial & Commercial Bank, Kumari Bank and Machhapuchchhre Bank Limited)**" submitted to Reseach Department of Kabhre Multiple Campus, Budol, Banepa, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Masters of Business Studies under the supervision of **Mrs. Indra Laxmi Twayana** Lecturer of Kabhre Multiple Campus, T.U.

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ABBREVIATIONS

A. D.	:	Anno Domini
CAR	:	Capital Adequacy Ratio
CBBR	:	Cash and Bank Balance Ratio
CCR	:	Core Capital Ratio
CRR	:	Cash Reserve Ratio
EPS	:	Earning Per Share
FI	:	Financial Institution
FRS	:	Federal Reserve System
FY	:	Fiscal Year
IFC	:	International Finance Corporation
IGSR	:	Investment in Government Securities Ratio
KBL	:	Kumari Bank Limited
LLCR	:	Loan Loss Coverage Ratio
LLPR	:	Loan Loss Provision Ratio
MBL	:	Machhapuchchhre Bank Limited
ME	:	Management Efficiency
MER	:	Management Efficiency Ratio
NGO	:	Non-Government Organization
NIC	:	Nepal Industrial and Commercial Bank Limited
NPLR	:	Non Performing Loan Ratio
NRB	:	Nepal Rastra Bank
POS	:	Point of Sale
ROA	:	Return on Assets
ROE	:	Return on Equity
TQM	:	Total Quality Management

CHAPTER - I

INTRODUCTION

This chapter is concerned with introductory phenomenon of the study. It highlights the problems of NIC, KBL and MBL with respect to CAMEL. It also explains why the research is brought and what it aims, limitations and significance.

1.1 Background of the Study

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

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

The growth of financial sector in Nepal is much better as compare to other sectors. Despite of conflict and political insurgency, banking and financial sector continued growing. Numbers of banks and financial institutions are increasing day by day. Similarly banking habit of people is also in increasing trend.

A single institution cannot fulfill all the services demanded by the customers. So, different types of bank also emerged in the banking industry specializing in different functions areas. There are different types of banks. Among them commercial bank is one. Commercial banks represent a key financial intermediary because they serve all types of surplus and deficit units. They offer deposit accounts with the size and maturity characteristics desired by surplus units (Madura, 1999). They repackage the funds received from deposits to provide loans of the size and maturity desired by deficit units. They have the ability to assess the creditworthiness of deficit units that apply for loans; so that they can limit their exposure to credit (default) risk on the loans they provide.

The commercial bank has been a vital role for economic development. Banks are intermediaries, which mobilize funds through the prudential combination of investment portfolio in advanced countries. Now, Nepal is underdevelopment country so that commercial banks are still to be realizing as an essential mechanism of mobilizing interval saving through various Banking schemes in the economy they can accumulate and collect the capital among other prerequisite.

Commercial banks are suppliers of the finance for trade and industry as well as other Sector, which plays the vital role for economic and financial development of the country. They help in the formulation of capital by investing the savings in productive areas. Normally Banking facility is available in underdeveloped country (Like Nepal) is urban area. In almost of the countries banking facilities are concentrated into urban and semi-urban area, they wanted stay far from rural area due to lower rate of return or higher risk. But in fact, without it, other sector of economy cannot be flourished.

Banking often perceived on milestone of economy growth of any country. The banking history is very much old because the first systematic public banking history or institution goes to credit to Bank of Venice, Italy established in 1157 AD. About after 250 years of Bank of Venice establishment, other two bank founded name a as Bank of Barcelona and bank of Genoa in 1401 and 1407 A.D. Respectively then after Bank of Amsterdam is established in 1609 A.D. The Bank of England was established in 1694 A.D. But the modern banking is started only after introducing banking Act 1883 A.D. in USA. When the government has liberalized economy policy and democracy in the country then the growth of commercial bank is very much. In current situation (June 2011 A.D.) 30 commercial bank are operating

and providing their services to customers. Nepal Rastra Bank (NRB) is the monitoring and regulating body of financial institutions (Viz. Commercial banks, development banks and finance companies). NRB poses the directive of maintaining Rs.2000 million on a paid up capital within dated of 15 July 2009 AD which is the mandatory rule of NRB.

So, in order to cope with all these antagonistic factors CAMEL analysis can play the pivotal role. CAMEL analysis shows the financial strength and weakness of the firm. Balance sheet, profit and loss a/c, investment of bank assets shows the financial performance and condition of the bank. The analysis of CAMEL helps in measuring the overall financial performing of organization it is required to take managerial and financial decision. Here we assess the bank effectiveness, efficiency and soundness through CAMEL.

1.1.1 Concept of Commercial Bank

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy. They are the important source of institutional credit in the money market. It is a profit-seeking business firm, dealing in money or rather dealing in claims to money. It is a Financial Institution (FI) that creates deposits liabilities which circulates as money unlike the deposits of other FIs. In fact, the greater part of money supply is the direct consequence of the profit-seeking or money-crating activities of commercial banks.

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

Likewise Section 2(a) of the Commercial bank Act 2031 (1974) has defined that "Commercial Bank" means a bank which operates currency exchanges transactions, accepts deposits, provides loan; performs, dealing, relating of commerce except the banks which have been specified for the co-operatives, agricultural, industry of similar other specific objective.

Table 1.1
List of licensed Commercial Banks in Nepal

S. No.	Name of Banks	Established Date
1	Nepal Bank Limited	15 Nov.1937
2	Rastriya Banijya Bank	23 Jan,1996
3	Agriculture Development Bank Limited	19 Feb,1968
4	NABIL Bank Limited	16 July,1984
5	Nepal Investment Bank Limited	27 Feb,1986
6	Standard Chartered Bank Nepal Limited	30Jan,1987
7	Himalayan Bank Limited	18Jan,1993
8	Nepal SBI Bank Limited	7 July, 1993
9	Nepal Bangladesh Bank Limited	5 June,1993
10	Everest Bank Limited	18 Oct.,1996
11	Nepal Credit and Commerce Bank Limited	14 Oct,1996
12	Bank of Kathmandu	12, March 2005
13	NIC Bank Limited	21 June,1998
14	Lumbini Bank Limited	17 July,1998
15	Machhapuchchhre Bank Limited	3 Dec,2000
16	Development Credit Bank Limited	23 Jan,2001
17	Kumari Bank Limited	3 April,2001
18	Laxmi Bank Limited	3 April , 2002
19	Siddhartha Bank Limited	24 Dec,2002
20	Global Bank Limited	2 Jan,2007
21	Citizens Bank Limited	21 June, 2007
22	Prime Commercial Bank Limited	24 Sept,2007
23	Bank of Asia Nepal Limited	12Oct,2007
24	Sunrise Bank Limited	12 Oct,2007
25	Nepal Merchant Bank Limited	26 Nov,1996
26	Kist Bank Limited	7 May,2009
27	Janata Bank Limited	28 Apr,2010
28	Mega Bank Limited	July, 2010
29	Nepal commerz and Trust Bank Nepal Limited	20 Sep,2010
30	Civil Bank limited	15 Dec,2010

Source: www.nrb.org.np

1.1.2 Functions of Commercial Banks

Commercial banks receive deposits and lend it to those who need it after executing required document actions and after making the necessary provisions for reserves as per regulations. They are directly related with the people and institution. Although these banks are truly inspired with the objective of gaining profit, these commercial banks are also established to accelerate common people's economic welfare and facility, to make available loans to agriculture, industry and commerce and to provide the banking services to the public and the state. The commercial banks in Nepal provide the following main banking functions;

1. Receiving Deposits

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

i. Current Account or Demand Deposits

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

ii. Saving Account

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

iii. Fixed Deposit

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

2. Advancing Loans

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

i. Making Loans

There are three types of loans given to borrowers.

a. Short Term Loans

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

b. Medium Term Loans

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

c Long Term Loans

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

ii. Bank Overdraft

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

iii. Cash Credit

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

iv. Discounting of Bills

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

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

1.2 Profile of the Selected Banks

1.2.1 Nepal Industrial & Commercial Bank Limited (NIC)

Nepal Industrial & Commercial Bank Ltd. (NIC) commenced its operation on 21 July 1998 from Biratnagar with a vision to become one of the most respectable banks in Nepal based on honorable conduct and long-term financial performance. The Bank was promoted by some of the prominent business houses of the country. Within 10 years of commencing business, the Bank has grown rapidly with 26 branches throughout the country. All branches are interconnected through V-Sat and are capable of providing real time on-line transactions.

The Bank is the first commercial Bank in Nepal to have received ISO 9001:2000 certification for quality management system. Furthermore, NIC Bank became the 1st Bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted/ confirmed by more than 200 banks worldwide. The Bank has also been awarded the "Bank of the Year 2007-Nepal" by the world-renowned financial publication of The Financial Times, U.K.-The Banker. The Bank has a mission to become a leading bank in Nepal by providing complete financial solutions to their customers, superior value to their shareholders and promising growth opportunities to their employees. The Bank is committed towards providing financial services to its patrons by the means of efficient and cost effective service delivery through its Transaction Banking, Consumer Banking, Business Banking and Treasury divisions.

1.2.2 Kumari Bank Limited (KBL)

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs.750 million, of which 70 % is contributed from promoters and remaining from public.

Kumari Bank Ltd has been providing wide-range of modern banking services through 28 points of representations located in various urban and semi urban part of the country, 19 outside and 9 inside the valley. The bank is pioneer in providing some of the latest and lucrative banking services like E -Banking and SMS banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch.

Normally, general public are interested to invest their small saving amount in common stocks, mainly stocks of financial institutions such as commercial banks and finance companies rather than in stocks of industrial sector. But the main problem is general public cannot perfectly analyze which financial institution to invest and which to stay away from. The recent trend shows that investors are investing their entire funds in single equity rather than applying the concept of portfolio and Investing in different equities of different sectors. Without proper information and guidance, investors are suffering from huge losses and bearing high risk. Therefore, this thesis tries to evaluate and compare the soundness of selected three commercial banks through the CAMEL Analysis. The researcher hopes that this thesis somehow helps the investors to know the financial soundness of these institutions and help to make investment decisions.

Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 11 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customers. The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

1.2.3 Machhapuchchhre Bank Limited (MBL)

Machhapuchchhre bank boasts as the first commercial bank to be established in the western part of Nepal in Pokhara and commenced its operations as a regional bank from 2057/06/17(2000). The bank is catering its valuable services to its customers with utmost dedication and devotion to most part of the country with 39 branches. The credit goes to the bank for identifying huge business potential outside the valley.

Furthermore the bank is performing well according to its set goals and objectives. It has also opened a full-fledged banking branch in a remote place like Jomsom. The bank has introduced centralized providing 365 days banking facilities, extended banking hours till 7 PM in the evening, utility bill payment services, inward and outward remittance services, and various other banking services. Philosophy of the bank is “we value your time”. The philosophy conspicuously states its dedication and desire of the bank to be a service provider to its customers. Since its initiation eight years back, the bank has been consistently improving its financial status responsibilities towards its shareholders.

The bank is mainly focusing its policy for selective and consumer lending. It is interested to minimize its dependency on corporate deposits and encourage small and individual deposits to increase saving deposits and diversify its deposit structure. The Royale saving scheme has played a tremendous role in attracting individual account holders and it is giving fruitful results to its beneficiaries. Apart from this, the bank is providing various kinds of loan like educational loan, foreign employment loan, personal loans, housing loan. Since the increment in foreign employment the bank is playing a crucial role in focusing on international remittances and trying to strengthen its international relations.

1.3 Statement of the Problem

At present all the financial and non-financial sectors all around the globe are suffering from the global recession. In this situation how can Nepal remain untouched? Nepal is

also feeling the heat of global recession due to the effect on remittance, real estate, prices and an employment opportunity.

Adequate capital is necessary for all the financial sectors which provide loan for investors and creates the employment opportunities. Among the different financial institution; bank is the main source of deposit collection and investment. But no banks should go beyond the professional ethics and pass the loan in massive way. Hence loan passing procedure must be followed strictly.

It is crystal clear that the success and failure of any organization is directly dependent on its management skill. The same is the case with every bank. The effective management generates high return on investment, net profit and overall earning.

In Nepalese context, government banks are suffering from overstaffing, ineffective management, political influence, etc. which has shown the unsatisfactory result in the financial performance. Likewise, private commercial banks are not able to fulfill the needs of Nepalese people.

The commercial banks are not able to maintain different deposit scheme and loan procedures to lure the consumer, but they are excited to show the bogus earning and attract innocent public. This kind of attitude confuses the consumers and investors as they can easily differentiate the fluctuating performance and buttering schemes of the banks.

In this scenario, study of CAMEL can be one of the best tools for analyzing the financial statement prepared by banks. It measures in capital adequacy, assets quality, management efficiency, earning capacity and liquidity area. After this study no one can be cheated with the attractive advertisement and schemes. So, this study is focused on following research questions:

- a) Are the selected commercial banks able to maintain required capital adequacy ratio as NRB regulations?
- b) What is the position of its capital, profit, loan, liquidity and deposit over different periods?
- c) Is the liquidity position of the banks satisfactory?
- d) Is the firm utilizing its assets efficiently?
- e) Is the efficiency of management of the selected banks satisfactory?

1.4 Objectives of the Study

The main objective of the study is to analyze, examine and evaluate the overall financial performance and effectiveness of selected banks through CAMEL. To achieve this prime objective the following objectives are considered in the study:

- a) To examine the capital adequacy, assets quality, management efficiency, earning capability and liquidity position of the selected banks in different period.
- b) To evaluate the financial performance of the sample banks on the basis of CAMEL.
- c) To examine financial strength and weakness of the selected banks.
- d) To provide suggestions on the basis of major finding.

1.5 Significance of the Study

This study of CAMEL of the NIC, KBL and MBL provides the knowledge about capital adequacy, assets quality, management efficiency, earning capabilities and liquidity position of the NIC, KBL and MBL banks.

This study provides detail information about strength and weakness of the NIC, KBL and MBL banks based on CAMEL. This study is also beneficial for the concerned banks to make policies. This study may be important material for library. The study also supplies recommendation to make effective capital adequacy, assets quality, management efficiency, earning capabilities and liquidity position in future.

1.6 Limitations of the Study

This study is basically based on secondary data and has prepared to portray the accurate report of financial analysis of the commercial banks; however there exist some drawbacks as it ignores other commercial banks. Although the study aims to

achieve the objective mentioned earlier, few limitations are as follows:

- a) This study is based only on secondary data. Accuracy depends upon the data collected and provided by the bank.
- b) The period of study covers only five years From FY 2005/06 to FY 2009/10.
- c) This analysis is based on CAMEL.

1.7 Organization of the Study

This study has been divided into five chapters:

Chapter 1 – INTRODUCTION

This chapter consists of general background of the study, a brief introduction of NIC, KBL & MBL, statement of problem, objectives of the study, significance of the study, limitations of study and organization of the study.

Chapter 2 – REVIEW OF LITERATURE

This chapter includes review of theoretical/conceptual framework, related articles, previous related studies and research gap.

Chapter 3 – RESEARCH METHODOLOGY

This chapter consists of research design, population and sample, period covered, data collection procedure and tools & techniques of analysis.

Chapter 4 – DATA PRESENTATION & ANALYSIS

This chapter includes the presentation and analysis of collected data through tables, diagrams, graphs, formats, financial techniques and tools.

Chapter 5 – SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter deals with the summary of the study, conclusion, suggestions and recommendations.

Bibliography

Appendix

CHAPTER - II

REVIEW OF LITERATURE

In this chapter, the focus has been made on review of literature relevant to the problems, conceptual framework given by different authors, articles and also reviewed studies performed previously by thesis writer.

2.1 Introduction

Review of literature means reviewing research studies or other relevant propositions in the related area of the study. So that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research works. The main reason for a full review of research in the past is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully (Joshi, 2010).

A literature review is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Literature reviews are [secondary sources](#), and as such, do not report any new or original experimental work (www.wikipedia.org).

All the sources of secondary data are literature for every researcher. A literature review is a piece of discursive prose rather than describing or summarizing one piece of literature after another (Adhikari, 2010).

Review of Literature is the process of learning and understanding the concept of the related topic. After selecting the topic for the research, researcher should study different materials (like Books, Journals, Magazines, Newspapers, Articles etc.) to collect the information about the subject matter of the study. This process of studying different educational material, which is related with the selected topic of the research, is called "Review of Literature" (Silwal, 2005).

A literature review (or overview) is a summary and analysis of current knowledge about a particular topic or area of enquiry (Walliman, 2006).

A literature review is an account of what has been published on a topic by accredited scholars

and researchers (Hart, 1998).

A literature review is a classification and evaluation of what accredited scholars and researchers have written on a topic (Polonsky and Waller, 2005).

Review of Literature is basically a stock taking of available literature in the field of a research. It supports researchers to explore relevant and true facts for reporting purposes. In course of research review, existing literature can help to check chances of duplication. Thus, one can find what studies have been conducted and what remains to go with.

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

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

2.2 Theoretical Review

This section presents the theoretical aspect of the study i.e. concept of CAMEL rating system.

2.2.1. Concept of CAMEL Banks Rating System

Generally, every central bank has a separate supervision department. Recently supervision department adopts a modern method of supervision and inspection, newly developed by Bank for International settlement (BIS). This method is found more effective in comparison at the traditional systems. It is known as "CAMEL" method in short.

The full form of "CAMEL" is as follows:

C = Capital Adequacy

A = Assets Quality

M = Management

E = Earning and Profitability

L = Liquidity

In this method, banks or financial institutions are supervised upon above headings and evaluated the actual situation of the bank (Singh, 2007).

The quality of loans and other bank assets is only one dimension of a bank's performance that is rated under the Uniform Financial Institutions Rating System, which now encompasses six general categories of performance under the label CAMELS.

Each latter refers to a specific category, including:

C Capital adequacy

A Asset quality

M Management quality

E Earnings

L Liquidity

S Sensitivity to market risk

The capital component (C) signals the institution's ability to maintain capital commensurate with the nature and extent of all types of risk, and the ability of management to identify, measure, monitor, and control these risks.

Asset quality (A) reflects the amount of existing credit risk associated with the loan and investment portfolio, as well as off-balance sheet activities.

The management category (M) reflects the adequacy of the board of directors and senior management systems and procedures to identify, measure, monitor, and control risks. Regulators emphasize the existence and use of policies and processes to manage risks within targets.

Earnings (E) reflect not only the quantity and trend in earnings, but also the factors that may affect the sustainability or quality of earnings.

Liquidity (L) reflects the adequacy of the institution's current and prospective sources of liquidity and funds management practices.

Finally, the last category, sensitivity to market risk (S), reflects the degree to which changes in interest rates, foreign exchange rates, commodity prices, and equity prices and adversely affect earnings or economic capital (Thapa & Neupane, 2009).

Investopedia explains CAMELS Rating System. The six factors examined are as follows:

C - Capital adequacy

A - Asset quality

M - Management quality

E - Earnings

L - Liquidity

S - Sensitivity to Market Risk

Bank supervisory authorities assign each bank a score on a scale of one (best) to five (worst) for each factor. If a bank has an average score less than two it is considered to be a high-quality institution, while banks with scores greater than three are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention (Source: www.investopedia.com).

Banking supervisory agencies around the world have been utilizing CAMELS rating system (or variants) for many years. In this study, financial ratios were used to calculate

representative CAMELS ratings and components for 1996 - 2000. The financial ratios, which were used to calculate the CAMELS components, were utilized to predict the transfer of commercial banks in 2001 to the SDIF by the use of discriminate analysis, logistic regression and neural network models. Findings of the study presented that it was not possible to predict the transfer of a bank to SDIF by the use of CAMELS ratios (Source: www.ideas.repec.org).

CAMEL is an ideal rating system, practiced worldwide by central banks and rating agencies, to evaluate and analyze safety and soundness of the bank or financial institution.

The CAMEL rating system is a method of evaluating the health of credit unions by the National Credit Union Administration. The rating is based upon five critical elements of a credit union's operations: capital adequacy, asset quality, management, earnings and liquidity. This rating system is designed to take into account and reflect all significant financial and operational factors examiners assess in their evaluation of a credit union's performance. Credit unions are rated using a combination of financial ratios and examiner judgment.

2.2.2. Composite of Ratings

Composite ratings are based on a careful evaluation of an institution's managerial, operational and financial and compliance performance. The six key composites used to assess an institution's financial condition and operations are: Capital Adequacy Ratio, Assets Quality, Management Capability, Earning Quantity, Adequacy of Liquidity and Sensitivity to Market Risk. The rating scale ranges from 1 to 5 with a rating of 1 including; the strongest performance and risk management practices relative to the institution's size, complexity and risk profile; and the level of least supervisory concern. A 5 rating includes; the most critically deficient level of performance; inadequate risk management practices relative to the

institutions size, complexity and risk profile and the greatest supervisory concern (www.google.com).

2.2.3. CAMEL'S Components

Three sections are allocated to divide each of the components rating descriptions. They are introductory paragraph, a list of the principle evaluation factors that related to that components and a brief description of each numerical rating for the components. Some of the evaluation factors are restated under one or more of the other components to reinforce the interrelationship between components. The listing of evaluation factors for each component's rating is in no particular order of importance.

A. Capital Adequacy Ratio

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

Financial institution is expected to maintain capital commensurate with the nature and extents of risks to the institution and the ability of management to identify, measure, monitor and control these risks. The effect of credit, market and other risks on the institution's financial conditions should be considered when evaluating the adequacy of capital. The types and quantity of risk inherent in institution's activities will determine the extent to which it may be necessary to maintain capital at levels above required regulatory minimums to properly reflect the potentially adverse consequences that these risks may have on the institution's capital.

The capital adequacy of an institution's related based upon, but not limited to an assessment

of the following evaluation factors.

1. Size of the bank
2. Bank's growth experience, plan and prospects
3. Access to capital markets
4. Volume of inferior quality assets
5. Quality of capital retained earnings

B. Assets Quality

Assets Quality is one of the most critical factors for determining the strength of the bank and has direct impact on the financial performance of a bank. The major asset for the bank is loan and advances. This is the most risky assets item that needs crucial assessment. Commercial banks collect funds in the form of capital, deposit, borrowing etc. It mobilizes these funds to generate certain returns by giving loans to the users of money to invest in various alternatives. A significant part of the banks income is through its lending activities.

There are basically two types of loans - advances and loss provisions:

1. Performing loans: All good loans and overdue for below 90 days.
2. Non Performing loans:
 - Sub- standard loans: Overdue by more than 3 months up to 6 months.
 - Doubtful loans: Overdue by more than 6 months up to 1 year
 - Bad loans: Overdue by more than 1 year.

For the survival and enlargement of the bank it must follow well set up established criteria for providing loan to the borrowers. The bank has to consider application 5 Cs while screening a loan, they are: Character, Capital, Capacity, Condition and Collateral.

C. Management Efficiency

To meet the unlimited needs from limited resources, management is very essential. Without management people, Organization and government undertaking cannot meet their objective. The sound management is crucial for the success of any institution. There is a universal phenomenon that good management can make an organization and poor management can break it. The management quality is generally accorded greater weighting in the assessment

of the overall CAMEL composite rating.

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

An institution can take a desire momentum only when the management is capable of strong and long term vision.

For the proper and efficient management, the banks have to possess the following qualities:

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

D. Earnings Quality

The financial institutions must earn reasonable profit to support assets growth, build up adequate reserve and enhance shareholder's value. Good earning performance would inspire the confidence of depositor, creditors, investors and the public at large. Earnings ratio helps to understand the productivity degree of employees in the organization and also indicates per unit contribution of employee. Earnings are the ultimate result of any business. Generally, if the earnings are good then that business is running well. Similarly the aggregate performance of the bank reflects from its earnings. An analysis of the earnings ratio helps the management, investors and creditors to know the performance of the bank. They can get information regarding their interest.

The following ratios help the management and other stakeholders to know about the earning quality of the respective banks:

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

E. Liquidity

Liquidity is a sensitive factor for the banking sector. It is the status and part of the assets which can be used to meet the obligation. It is the availability of cash in the amount and at that time needed at a reasonable cost. In other word, liquidity means short - run solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances. The certain percentage of deposit should be kept in bank in the form of cash. If the bank will keep greater deposit in cash, it losses the opportunity cost. Similarly, if bank keeps low amount in deposit, it could not be able to pay depositors on the time of requirement.

Liquidity can be measured in following ways:

1. Cash Reserve Ratio
2. Cash & Bank Balance Ratio
3. Investment in Government Securities

2.3 Review of NRB's Directives

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

those, which are related to investment function, some rules and regulation;

2.3.1 Provision for Credit to the Priority Sector

Nepal Rastra Bank has need of commercial banks to expand loan and advances at least 12% of their total outstanding credit to the priority sector. Under priority sector, credit to agriculture, credit to the cottage and small industries and credit to service are counted. Commercial bank's loan to the cooperative institution licensed by the NRB is also to be computed as the priority sector credit. But according to NRB's directives in fiscal year 200/03, commercial banks are required to invest their capital to the priority sector are as below:

Table 2.1 Provision for Credit to the Priority Sector

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

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

2.3.2 Provision for Investment in the Deprived Sector

To improve the living standard of deprived sector, NPR has formulated some rules, which affect areas of credit and investment of commercial banks. According to the provision with affect from FY1998/99, investment in share of the rural development bank investment in rural area for employment income sources, credit to the cooperative institution, NGO and small agricultural cooperative institution which are registered and operating under NRB are counter as the deprived sector lending. In this provision, Nepal Bank Ltd.(NBL) , Rastriya Baniya Bank (RBB), NABIL bank Ltd.(NABIL), Standard Chartered Bank Ltd. (SCBNL), Nepal Investment Bank Ltd.(NIBL) are required to invest 3% ,Himalaya Bank Ltd.(HBL) , Nepal SBI bank Ltd(NSBL) , Nepal Bangladesh Bank Ltd.(NBBL),Everest Bank Ltd. (EBL), are required to invest 2% , Bank Of Kathmandu(BOK) , is required to invest 0.75%, which new commercial bank are required to invest 0.25% of their total loan and advances to the deprived sector.

2.3.3 Provision for the Single Borrower Credit Limit

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

2.3.4 Provision Regarding Capital Fund

The commercial bank under operation and having low capital base have been directed to raise their capital funds at a minimum level of Rs. 500 million by the end of FY2000/01. The latest directive of NRB is that commercial bank which are going to be opened, required Rs. 1billion paid up capital in Nepal. This rule is effective from FY 2002/03. Commercial banks are not allowed to distribute the dividends until the minimum capital are maintained.

NRB has directed commercial banks to maintain its Capital Adequacy Ratio as follows;

Table2.2 Provision Regarding Capital Fund (%)

Fiscal Year	1998/99- 2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Core	4	4.5	5	5.5	5.5	5.5	5.5
Capital	8	9	10	11	11	11	11

In this way, NRB has changed time to time its directives regarding the Capital Adequacy ratio according to the national and international financial situation.

2.3.5 Provision for Cash Reserve Requirement Ratio (CRR)

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

Table 2.3 Provision for Cash Reserve Requirement Ratio (CRR)(%)

Fiscal Year	1998/99-2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
With NRB Vault	7	6	6	6	5	5	5
	3	3	2	0	0	0	0

2.3.6 Loan Loss Provision (LLP)

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

Table 2.4 Loan Loss Provision (LLP) (%)

Loan Classification	LLP
Good	1
Substandard	25
Doubtful	50
Bad	100

2.3.7 Interest Spread Rate

Since commercial banks were free to interest spread rate they could not success to achieve the expected result by the NRB. That's why NRB imposed the rules to maintain 5% interest spread rate, which was being effected from FY 1998/99. Again NRB had changed some rules in FY 2000/01. In the new provision interest spread rate should be flexible between 4.5 to 5% on the mutual understanding between lenders and borrower. But NRB had cancelled the provision of interest spread rate of commercial banks from the FY 2002/03. So that commercial banks were free to implement the interest spread rate regulation from fiscal year

2002/03 onwards.

2.4 Review of Related Studies

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

2.4.1 Review of Journals and Articles

Pant, R (2006) argued that after 2010, there will be new international entrants in the market, we must remain very competitive, and we have to operate at international standards. However, he does not think we need to fear. He believed combined capital of all Nepalese commercial banks would not even equal to the capital of a small bank in developed countries. It somehow, Nepal is able to capitalize on the growth of China and India, there is no turning back for the banking sector. There will be opportunities for all types of banks. So, we need to work together to address the challenges of that WTO." 2008 was an extraordinarily tumultuous year, full of shocks & surprises. None of us have even quite seen the scale of dislocation & disruption in financial market that we have experienced this year. To put things in perspective, there has been more volatility in the US equity market in the three month since Lehman went bankrupt in the mid- September, than in the previous 45 years put together,. Moreover, with the disappearance or effective nationalization of several major players, and the demise of the US broke, dealer model, the global industry has changed fundamentally & irreversibly.

JBR, (2003) in his interview to Business Age said that in short they have threats, all the banks are operating efficiently and earning a lot of money and paying handsome dividends to shareholders. Hence, the price of their share has gone up in near future it depends on peace and security situation in the country. If the situation doesn't improve in the next two or three years, then only the top layer bank will survive while the other bank and finance companies will find it very hard.

Berger and Davies, (1994) has evaluated the impact of CAMEL rating changes on the parent holding company's stock price. They separated stock price changes into two component a 'private information' effect (which identified the public's awareness of new information

discovered by examiners), and a 'regulatory discipline' effect which valued a regulators' presumed ability to force a bank to change its behavior). Berger and Davies' empirical results provided only weak evidence of a regulatory discipline effect, but they found a strong private information effect. However, the information effect applied only to CAMEL downgrades, which tend to precede stock price declines. Berger and Davies found no movement in the stock price following a CAMEL upgrade.

Dhungana, B. (1999) argues CAMEL rating system plays key role for bank supervision. According to him, The NRB as a central bank has the important task of regulating & supervising the banking system of Nepal. NRB assess the overall strength of the banking system as well as the safety and soundness of each individual bank and financial institution, In order to discharge this role. To help in this endeavor, a uniform rating system for all banks and financial institution has been used. Under this modality, supervisors assign individual numerical rating to the key areas of Capital, Assets, Management, Earnings, liquidity and sensitivity to the market risk (CAMELS) as well as assigning an overall composite rating to each banking institution. In this way, the NRB has been able to categorized banks and financial institutions into group based on their overall strength, quality and operating soundness. The rating system known as CAMEL has served as a supervisory tool to help identify those banks that are having problems and require increased supervision. To date, early warning signals are drawn & monitored from the CAMEL rating through on-site inspection and CAMEL rating through offsite supervision.

Hirtle and Lopez, (1999) examine the usefulness of the past CAMEL rating in assessing banks current conditions. They find that, condition on current public information, the private supervisory information contained in the past CAMEL rating provides further insight into bank current conditions as summarized by current CAMEL ratings. The authors find that, over the period from 1989 to 1995 the private supervisory information during the last on-site exam remains useful with respect to the current condition of the bank for up to 6 to 12 quarters. The overall conclusion drawn from academic studies is that private supervisory information, as summarized by CAMEL ratings, is clearly useful in the supervisory monitoring of bank conditions.

2.4.2 Review of Previous Thesis

Shrestha, M. D. (2003) in his study of “Capital Adequacy Norms for Commercial Banks and its impact of Bank of Kathmandu and Himalayan Bank Ltd.” has concluded that BOK and HBL are found to be successful to comply with requirement of capital adequacy norms. The CD ratio of HBL is very much low which needs to be improved immediately and CD ratio of BOK is satisfactory.

Tamang, M. B. (2005) in his study of "Financial Performance Analysis of Commercial Banks of Nepal with reference to Nepal Investment Bank and NABIL." With the objective to measure the operating efficiency, stability and profitability of these banks concludes the finding as:

- The liquidation position of Nepal Investment Bank is better than that of NABIL.
- NABIL has utilized more debt than Nepal Investment Bank.
- The profitability ratio of NABIL is better than that of Nepal Investment Bank in terms of ROA.
- The EPS and DPS of NABIL are better than that of Nepal Investment Bank.
- There is positive correlation between total debt and net profit for both the banks.

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

Bhandari, K. R. (2006) has conducted a study on "Financial performance Analysis of Himalayan Bank Limited in the Framework of CAMEL". The basic objective of the study was to analyze the financial performance of Himalayan Bank Limited through CAMEL framework. He had used secondary data for the period of six years from 1999 to 2004. The study revealed the adequate capital of the bank. The non-performing loan was in decreasing trend, which shows the improvement of the bank. The bank is still with better return which is proved by its better ROE; however it is in decreasing trend. The decreasing trend of net interest margin shows management slack monitoring over the banks earning assets. The

liquid fund to total deposit ratio is above the industrial average ratio. NRB balance and cash in vault to total deposit ratios are below the industrial average ratio during the study period.

Sharma, S. (2007) has performed a study on "Financial Performance Analysis of Nepal SBI Bank Ltd., In the Frame work of CAMEL." The main objective of the study is to analyze the financial performance of Nepal SBI bank Ltd. Through CAMEL framework, the study was based on secondary data covering the six years from 2001 to 2006. The researcher conducts the financial tools to analyze the six years data. He concluded That Nepal SBI bank Ltd. Was well capitalized and complying with directives of NRB. The bank has maintained satisfactory level of past due loan on total loan except 2001. Earning per employees of the bank was found quite high. Net interest margin of the bank was found satisfactory. Further the liquidity position of the bank was found sound.

Bhusal, M. (2008) has carried out a research study on " Financial Performance Analysis of Commercial Banks in Nepal the Frame Work of CAMEL (A Comparative Study of Kumari Bank and Machhapuchchhre Bank", with the fundamental objective to analyze and compare the financial performance of KBL and MBL in the frame work of CAMEL from FY 2058/59 to 2062/63. with the help of both secondary as well as primary data, she conducted her study by applying Some financial and statistical tools and techniques. Her study shows both banks are maintaining CAR as per rule of NRB and the trend of CAR is decreasing. Both banks are in much satisfactory level in the case of assets management. Increasing profit of both banks shows the good sign but it is not enough to compete with other established banks. According to her study, Profits are also not enough to meet benchmark set by the World Bank. In the case of liquidity both banks are not properly maintaining the rule of NRB. In her overall analysis there is tough competition between KBL and MBL and both are in the phase of improvement.

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

Dahal, S. (2009) has conducted "Financial Performance Analysis of NIC Bank Ltd in the

Framework of CAMEL ". The main objective of the study was analyzed the financial performance of NIC Bank Ltd by in CAMEL. He conducted her study by applying some financial and statistical tools and techniques. The bank's financial soundness is judged being based on some factors-capital adequacy, asset quality, management soundness, earning quality, liquidity apposition and sensitivity to market risk. Analysis shows that NIC has met the requirement as prescribed by the NRB during the entire study period. The bank has maintained adequate provision in the entire loan category. The earning per employee is in increasing trend except in the year 2006. Financial Position of NIC bank is satisfactory.

Baral, B. P. (2010) has conducted "Financial Performance Analysis of Annapurna Finance Company Limited in the Framework of CAMEL". The objectives of the study were to analyze the capital adequacy, to assess the quality of assets, to evaluate managing its expenses with respect to incomes and to analyze the position of earning per employees, to study the trend of earning performance, to measure the liquidity position of AFCL. The study was conducted with the objective to analyze the financial performance of an Annapurna Finance Company Limited (AFCL) in the framework of CAMEL over the five year period from FY 2060/61 to 2064/65 following a descriptive and analytical research design. For the study purpose, AFCL is drawn as a study unit with applying convenience sampling method out of 78 finance companies till Mid-July. The study is based on secondary data. For the analysis of the study, annual reports and financial statements of AFCL are used as the major sources of the data. The analysis of financial statement is done to obtain a better insight into a firm's position and performance. Various financial and statistical tools have been used in this study to get the meaningful result to meet the research objectives.

Rai, E. (2010) has carried out a research study on "A Study of CAMEL Analysis of Commercial Banks (Reference to Everest Bank Ltd., Bank of Kathmandu and Nepal Industrial and Commercial Bank Ltd.). The objectives of the study were to check the Capital Adequacy, Assets Quality, Management Quality and Earning Capability and Liquidity Position of selected banks. The study was conducted with the objective to analyze and compare the financial performances of Everest Bank Limited (EBL), Bank of Kathmandu (BOK), and Nepal Industrial and Commercial Bank Ltd (NIC) in the framework of CAMEL over the five years period from FY 2004/05 to 2008/09. The study is based on the secondary data. For the analysis of EBL, BOK and NIC are used as the major sources of data out of 26 commercial banks. CAMEL is a common method for analyzing the health of individual

institution, to quantify the performance and the financial condition of the firm. The banks are successful to maintain Capital Adequacy Ratio as per NRB standard, i. e. 11% as per current data. BOK has highest CAR than other two banks. Loan loss Provision Ratio of EBL has lower than other two banks which is better than other banks. MER, Liquidity Position, Earning are also higher than other two banks.

Shrestha, S. (2010) has made the study on “Evaluation and Comparison of the Financial Position of the Sample Banks Using CAMEL Rating System”. The main objective of the researcher was to evaluate and compare the financial performances of the sample banks in CAMEL Rating. Mr. Shrestha concluded the thesis with the conclusion that all the banks are financially and commercially sound according to the CAMEL study and the study shows that banks having good management quality has good earnings and the banks which full comply with the CAMEL and NRB standard will sure to have good result than other banks. While going through the data analysis , he also reached to conclude that Proper socio-economic analysis, competitors analysis, changing perspective of the people, customer oriented quality service, transparency and fulfillment of corporate social responsibility might be key issues of 21st century are facing lots of challenges, their strategy should be developed to customer loyal, dynamic and competent management team who can foresee and address the emerging problems and challenges before their competitors.

2.5 Research Gap

It is said that rolling stone gathers no mosses. In the same way research in itself is the dynamic process which never has the word full stop in its dictionary. During different time period many researchers have put their great effort to research in different subject matter. Prior this, few studies have been carried out regarding financial performance, comparative study and analysis of commercial banks and financial institutions on the framework of CAMEL. So far in this researcher's knowledge, this study attempts to examine and evaluate the overall financial performance and effectiveness of Nepal Industrial and Commercial Bank Ltd., Kumari Bank Ltd. and Machhapuchhre Bank Ltd. through CAMEL study. There are many researches which had done general comparison between two banks and performance analysis of single bank but this study tries to evaluate the financial performance of three commercial banks in the frame work of CAMEL using annual reports of latest five consecutive years.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter refers to the overall approach to the research process, from the theoretical underpin to the collection and analysis of data

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and process applied in the entire subject of the study.

Research methodology is a way to systematically solve the research problem (Kothari, 1990). In the new, complex and competitive business scenario development banks have faced different challenges.

The research methodology is defined as the scientific, organized and systematic method (or technique) of solving the research problem. It helps to give the solution of the problems, like: how research is conducted scientifically (Silwal, 2005)?

Research is to find out gain knowledge about a phenomenon. Methodology is the research method used to test the hypothesis and research methodology is a systematic way to solve the research problems. In other words Research Methodology is a science that refers sequential and systematic steps to be adopted by a researcher in studying and solving problems with certain objectives in view. It describes the methods and process applied in the entire study.

In other words, research methodology is a systematic process to approach any research problem and explore it objectively. This chapter has prepared researchers with the inputs necessary for the study and help to make choice of research methodology to support the study in realistic terms with sound empirical analysis. "Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view." It also specifies the method and procedure for the acquiring the information needed to solve the research problems. The main objective of study is to analyze and evaluate financial performance of Nepal Industrial and Commercial Bank, Kumari Bank Limited and

Machhapuchchhre Bank Limited based on CAMEL. Hence this chapter includes research design, Source of Data, population and samples, Data collection tools and Data Analysis tools.

3.2 Research Design

Research design is a systematic and purposeful plan (or strategy) of study (or action) to be carried out, during the process of research, in order to find the solution of research problem. It is the plan (or strategy or scheme) for the collection, analysis and the interpretation of data. The collection and analysis of data are important aspects of research but research design covers other aspects of research like identification, selection and formulation of problem, testing of hypothesis and drawing logical conclusion (Silwal, 2005).

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance, the plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline of the scheme of the paradigm of the diagrams that outline the variables and their relation and juxtaposition. We build structural schemes for accomplishing operational research purposes. Strategy as used here is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problem encountered in the research will be tackled" (Kothari, 1994).

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework, of the project that stipulates what information is to be collected from which sources by what procedure. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it was collected by objective and economical procedures (Joshi, 2010).

Research Design is a plan outlining how information is to be gathered for an assessment or evaluation that includes identifying the data gathering method(s), the instruments to be used/ created, how the instruments will be administered, and how the information will be organized and analyzed. In short we can say that it is a plan for collecting and utilizing data so that desired information can be obtained with sufficient precision or so that a hypothesis can be tested properly (Adhikari, 2010).

A research design is the arrangement of conditions and analysis of data that aims to combine relevance to the research purpose with economy in procedure (Claire S. and et.al., 1962).

Research design is the plan structure and strategy of investigation conceived so as to obtain answers to research question and to control variance (Wolf and Pant, 1975).

Basically, the research design has two purposes. The first is to answer the research question and second is to control variance (Wolf and Pant, 1975).

"Research design constitutes the blueprint for the collection measurement and analysis of data." (Cooper & Schinder, 2006).

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. In other words a research design is a plan for the collection and analysis of data. A true research design is concern with various steps to collect data for analysis and consequently draw a relevant conclusion. For this study, certain research design based on the objectives of the study will be used for collection of data and their presentation, analysis and interpretation. To fulfill the objectives of the study certain research design in essential so the analysis of this study is based on the nature of data and tools for analysis. To fulfill the objectives of the study it emphasized on historical as well as descriptive and exploratory.

So, Research design is an overall plan or framework for the collection and analysis of data. It provides the framework for the collection and analysis of data. This research study attempts to analyze the financial performance of commercial banks using CAMEL rating analysis. Thus, to fulfill the objective of the study basically secondary data are used.

3.3 Population and Samples

The total number of commercial bank represent as the total population for the purpose of this study. Hence, the population consists of thirty commercial banks. Due to time and resource constraints, it is not possible to study all of them regarding the study topic. Out of the total population three private sector commercial banks are used as samples. These are:

- Nepal Industrial and Commercial Bank Limited (NIC).

- Kumari Bank Limited (KBL).
- Machhapuchchhre Bank Limited (MBL).

3.4 Periods Covered

To do this research work five years annual report have been taken of respective banks which are published by the bank after audit to the general public. It covers the fiscal year from 2005/06 to 2009/10.

3.5 Data Collection Procedure

Without any data, nothing can be studied. So for any investigation, the collection of data is most important. The importance of data collection lies in the fact that the collected numerical facts can be utilized to examine the problems concerning the field enquiry in their true perspective to find out the causes of change and to estimate their probable effect.

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

-) Directives of NRB, reports, bulletins and its website.
-) Library research study.
-) Internet, home pages and related links visit.
-) Annual reports of the Nepal Industrial & Commercial Bank Limited (NIC), Kumari Bank Limited (KBL), and Machhapuchchhre Bank Limited (MBL).
-) The other sources will be articles, previous study on related topic, published articles of different authors and journals.

The main sources of secondary information for the study is taken as the concerned personality of the topic of the study such as concerned teacher, students, financial advisors as well as senior staffs and managers of the concerned banks.

3.6 Data Analysis Tools and Methods

The ratio analysis system is an important financial tool to evaluate and compare the financial performance and position. It is very simple analyzing tools under which ratios are taken to express the relation between two or more than two variables. Various financial tools have been used in the study to get the meaningful result and to meet the research objective. Financial ratios are the major tools for analysis. In addition to the financial tools were also used. The major tools applied in the study are described in the following sections.

3.6.1 Financial ratio analysis tools

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

3.6.1.1 Capital Adequacy Ratio (CAR)

The CAR is derived by comparing the ratio of an entity's equity to its assets at risk. Commercial bank holds adequate capital depending on their requirement. The term used to describe or measure a bank's capital fund. It is expressed as a percentage of a bank's risk weighted credit exposures. Capital Adequacy Ratio is calculated on the basis of core capital, supplementary capital and total risk weighted assets of the bank.

Capital adequacy ratio is a measure of the amount of a bank's capital as a percentage of its risk weighted credit exposure. It takes in to account the most important financial risks-foreign exchange, credit and interest rate risks, by assigning risk weightings to the institution's assets. Nepal Rastra Bank (NRB) which recommends minimum CAR of 11% and 5.5% of Core Capital Ratio (CCR).

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

(Minimum requirement as per NRB Directive is 11%)

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

(Minimum requirement as per NRB Directive is 5.5%)

Where,

Total Capital Fund = Core Capital + Supplementary Capital

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

3.6.1.2 Assets Quality

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

a. Performing Loans

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

b. Non- Performing Loans (NPL)

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

) Sub Standard Loan

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

) **Doubtful Loan**

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

) **Bad/ Loss Loan**

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

Table 3.1 Classification of Loan

Loan	Term	Duration Overdue	LLP
Performing Loan	Standard/Pass/Good	1 to 3 months	1%
Non-Performing Loan	Sub-Standard	3 to 6 months	25%
	Doubtful	6 months to 1 year	50%
	Bad Loans	more than 1 year	100%

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

Where,

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

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

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Total Loan Loss Provision (LLP)}}{\text{Total Non- Performing loan}} \times 100\%$$

Where,

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

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

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

Where,

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

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

3.6.1.3 Management Efficiency

Human Resources Management (HRM) is one of the key management issues. Good or bad HRM translates in to efficient or inefficient staff performance. Management is the arrangement of various things in a systematic manner for the achievement of organizational goal. An institution can take a desired goal only when the management is capable, which is of strong and long-term vision.

For the achievement of the goal of the bank within certain period of time proper and efficient management is required.

Management Efficiency Ratio (MER) = $\frac{\text{Net Profit after Tax}}{\text{Total No. of Staffs}}$

3.6.1.4 Earning Quality

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

Following ratios depicts the earning position:

$$\text{Earning per Shares (EPS)} = \frac{\text{Net Profit after Tax}}{\text{No. of outstanding Shares}}$$

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

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

3.6.1.5 Liquidity

Liquidity is the availability of cash at the time needed at a reasonable cost. The capacity of banks to exchange cash for deposit is the liquidity. Liquidity is that part of the total assets, which can be paid immediately to meet the current obligation (Singh, 2007).

Liquidity ratio shows how well a financial institution has prepared for liquidity risk is the volume of liquid assets (particularly in the form of cash and government securities) that it holds relative to its total assets. Liquidity is the state of owning things of value that can easily be exchanged for cash. Liquidity is the term which denotes the ability of an organization to meet its financial obligation or debts in cash in time. Such an organization has assets which can be converted into cash and without any loss at their conversion through the maintenance of certain reserves and provision. Liquidity reflects the short term financial strength of the banks. Bank does not provide all its deposit at loans and advances, but certain percentage is kept as liquidity in the bank itself or elsewhere.

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

) Cash Reserve Ratio (CRR)

It is the minimum amount of reserves a bank must hold in the form account balance with NRB. This ratio ensures minimum level of the banks first line of defense in meeting depositor's obligations. It is the compulsory reserve that the commercial bank has to keep in the form of cash in their account in NRB for depositor's assurance and safety of bank which also reflects the bank's goodwill. As per the regulation made by NRB, Cash Reserve Ratio is

to be maintained 5.5% on average of total deposits of bank on weekly basis. It is calculated as

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

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

) **Cash and Bank Balance Ratio (CBBR)**

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

$$\text{Cash \& Bank Balance Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

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

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

$$\text{Investment in Govt. Security Ratio} = \frac{\text{Investment in Govt. Security}}{\text{Total Deposit}} \times 100\%$$

Among these three liquidity ratios, only two ratios are used under the study. They are CBBR and IGSR.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with analysis and presentation of available data as express in the research methodology. Necessary figure, table, various tools & techniques are also presented in this chapter to describe and analysis of the study. The researcher has analyzed and interpreted the relevant data of NIC, KBL & MBL by applying the following activities to judge the CAMEL of the banks.

4.1 Analysis of CAMEL Components

4.1.1 Capital Adequacy

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

0% Risk Weighted Assets

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

10% Risk Weighted Assets

Forward Foreign Exchange Contract.

20% Risk Weighted Assets

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

50% Risk Weighted Assets

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

100% Risk Weighted Assets

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

4.1.1.1 Capital Adequacy Ratio (CAR)

The CAR indicator is derived by comparing the ratio of an entity's equity to its assets-at-risk. It takes in to account the most important financial risks-foreign exchange, credit and interest rate risks, by assigning risk weightings to the institution's assets. The Capital Adequacy Ratio would measure the total capital fund on the basis of total risk weighted assets.

Capital Adequacy ratio is calculated using following formula:

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

Table 4.1 Shows the Capital Adequacy Ratio during the study period.

Table 4.1
Capital Adequacy Ratio (In %)

Fiscal Year	Banks	Total Capital Fund	Total Risk Weighted Assets	Capital Adequacy
2005/06	NIC	1036838663	7656131091	13.54
	KBL	940979000	7625050127	12.34
	MBL	976068000	7592529000	12.86
2006/07	NIC	1209113613	9905541822	12.21
	KBL	1115207000	9959911398	11.20
	MBL	1101726000	9200659000	11.97
2007/08	NIC	1615719466	12321131296	13.11
	KBL	1882926000	13070379231	14.41
	MBL	1279796000	10417064000	12.29
2008/09	NIC	1954934793	15741613929	12.42
	KBL	2050908000	17743239000	11.56
	MBL	1811869000	15298217000	11.84
2009/10	NIC	2010561500	15559349706	12.92
	KBL	2124625000	17220685330	12.34
	MBL	1979555000	17600705000	11.25

(Sources: Appendix 2, 3 & 4)

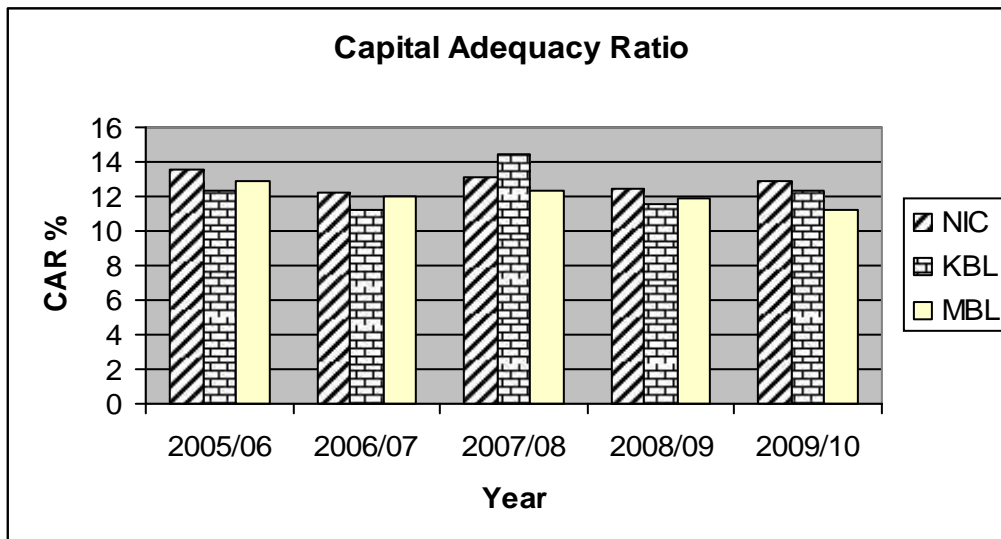


Figure 4.1: Year wise Multiple Bar Diagram of CAR

As shown in the table 4.1 and figure 4.1, the Capital Adequacy Ratio of NIC of 13.54% is the highest and KBL of 12.34% is the lowest in FY 2005/06; NIC of 12.21% is the highest and KBL of 11.20% is lowest in FY 2006/07; KBL of 14.41% is the highest and MBL of 12.29%

is lowest in FY 2007/08; NIC of 12.42% is in highest position and KBL of 11.56% is the lowest position in FY 2008/09; NIC of 12.92% is the highest and MBL of 11.25% is the lowest in the FY 2009/10 among three banks. Furthermore figure 4.2 helps to find out the trend of three banks Core Capital Ratio over the last five years period.

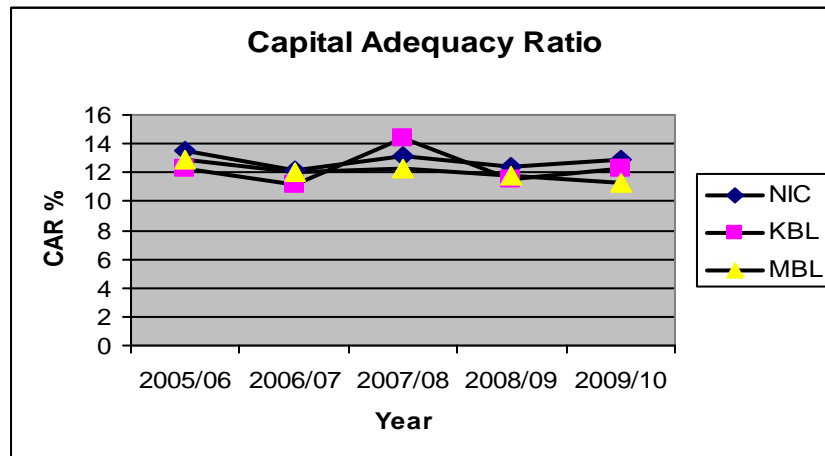


Figure 4.2: Trend Line of CAR

Figure 4.2 is the trend analysis of three banks over the five years study period. As shown in the figure Capital Adequacy Ratio of NIC started by 13.54% in 2005/06, decreased in FY 2006/07 and thereafter increased in 2007/08, decreased in 2008/09 and at last increased in FY 2009/10 and reached to 11.20% in FY 2009/10. Thus, Capital Adequacy Ratio of NIC is in decreasing trend.

Similarly, KBL is starting with 12.34% in FY 2005/06, and then decreases in 2006/07 after that increases in FY 2007/08 and decreases in 2008/09 but at the end increases and reached to 12.34% in FY 2009/10. Overall Capital Adequacy Ratio of KBL is in fluctuating trend.

Likewise, Capital Adequacy Ratio of MBL starts with 12.86% in FY 2005/06 and decreases in 2006/07 after that increases in FY 2007/08 and decreases in FY 2008/09 and 2009/10 and reached to 11.25%. This shows the decreasing trend of CAR.

4.1.1.2 Core Capital Ratio (CCR)

Core Capital measures a bank's financial strength from a regulator's point of view. In the context of Nepal Core or Primary Capital includes Paid- up Capital, Share Premium, Non

Redeemable Preference Share, General Reserve Fund, Cumulative Profit/loss, Capital Redemption Reserve, Capital Adjustment Fund/ Proposed Bonus Share and other Free Reserve. Amount of the goodwill, Fictitious Assets, Investment in excess of prescribe limit specified by NRB, and investment in security of companies with financial interest is deducted from the sum of all elements of the primary capital to arrive at the core capital. It is calculated as follows:

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

Core Capital Ratio of sample banks during the study period is shown table 4.2.

Table 4.2
Core Capital Ratio (in %)

Fiscal Year	Banks	Core Capital Fund	Total Risk Weighted Assets	Core Capital
2005/06	NIC	761128967	7656131091	9.94
	KBL	858520000	7625050127	11.26
	MBL	911543000	7592529000	12.01
2006/07	NIC	912312362	9905541822	9.21
	KBL	1019893000	9959911398	10.24
	MBL	982577000	9200659000	10.68
2007/08	NIC	1239750759	12321131296	10.06
	KBL	1359032000	13070379231	10.40
	MBL	1142970000	10417064000	10.97
2008/09	NIC	1649007425	15741613929	10.48
	KBL	1612799000	17743239000	9.09
	MBL	1676865000	15298217000	10.96
2009/10	NIC	1750459218	15559349706	11.25
	KBL	1772135057	17220685330	10.29
	MBL	1750353000	17600705000	9.95

Sources: Appendix 2, 3 & 4

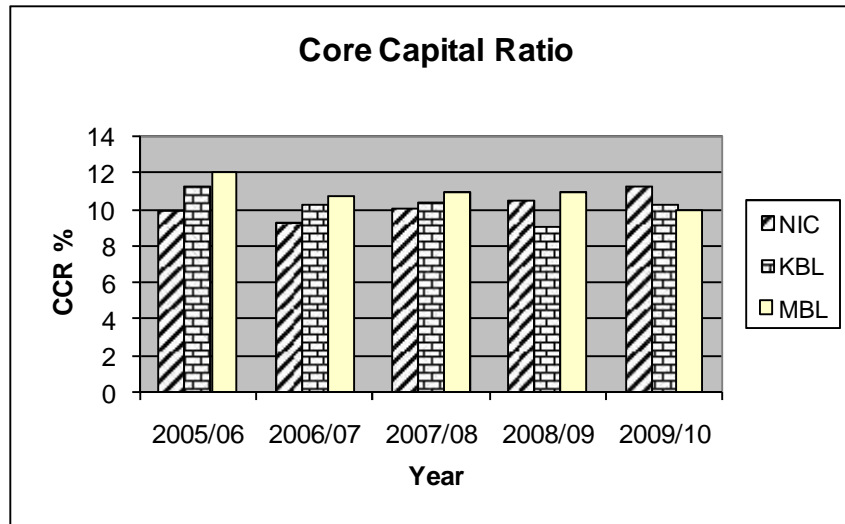


Figure 4.3: Year wise Multiple Bar Diagram of CCR.

As shown in the table 4.2 and Figure 4.3, the Core Capital Ratio of MBL of 12.01% is the highest and NIC of 9.94% is the lowest in FY 2005/06; MBL of 10.68% is the highest and NIC of 9.21% is lowest in FY 2006/07; MBL of 10.97% is the highest and NIC of 10.06% is lowest in FY 2007/08; MBL of 10.96% is highest and KBL of 9.09% is the lowest in FY 2008/09; NIC of 11.25% is the highest and MBL of 9.94% is the lowest in the FY 2009/10 among three banks.

Furthermore figure 4.4 helps to find out the trend of three banks Core Capital Ratio over the last five years period.

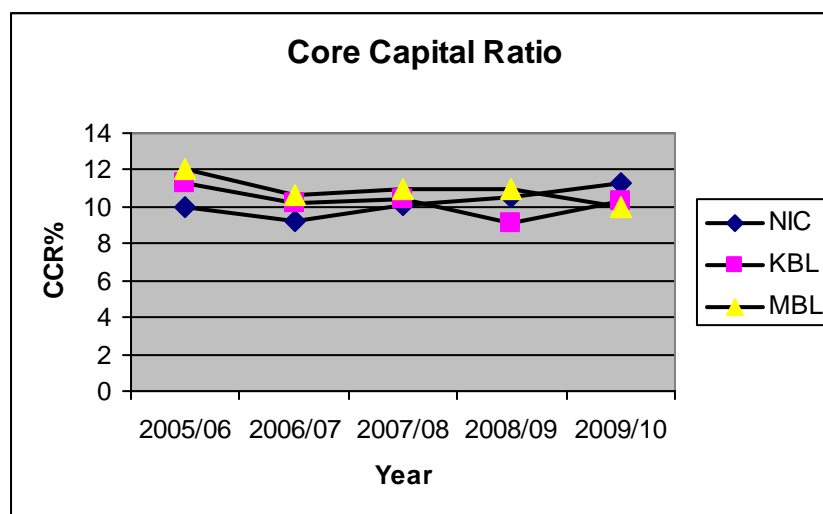


Figure 4.4: Trend Line of CCR

Figure 4.4 is the trend analysis of three banks over the five years study period. As shown in the figure Core Capital Ratio of NIC started by 9.94% in FY 2005/06, decreased thereafter in 2006/07 and increased in FY 2007/08, again increased in FY 2008/09 and 2009/10 and reached to 11.25% in FY 2009/10. Overall, Core Capital Ratio of NIC is in increasing trend.

Similarly, Core Capital Ratio of KBL started with 11.26% in FY 2005/06, and then decreased in 2006/07 after that increased in FY 2007/08, decreased. Thereafter in FY 2008/09 and finally reached to 10.29% in the FY 2009/10. Overall Core Capital Ratio of KBL is in decreasing trend.

Likewise, Core Capital Ratio of MBL started with 12.01% in FY 2005/06, decreased in FY 2006/07 and increases in 2007/08 after that decreased in FY 2008/09 and again decreased in FY 2009/10 and reached to 9.94%. This also shows the decreasing trend in overall.

4.1.2 Assets Quality

Assets quality refers to the capability of any institution in terms of financial strength. Commercial bank holds their assets in the form of liquid assets like cash and bank balance and short term investment etc. Through this lending bank generated interest. Assets quality ratio is also known as activity ratio as well as turnover ratio be converted in to cash and equivalent to cash. This is only profit if the bank is efficient enough to earn profit. Thus, the bank should be capable for classifying such assets under performing and non-performing loans. For identifying the assets quality we need to calculate three ratios. They are:

4.1.2.1 Non-Performing Loan Ratio (NPLR)

Non-Performing Loan refers to those loans which are not paying its Principle Interest in time or overdue more than three months. So, it consists of Sub-standard loan, Doubtful loan and Bad Loan. The Non-Performing Loan Ratio indicates the relationship between Non-Performing Loan and Total Loan. It measures the proportion of Non-Performing Loan in Total Loan and Advance. Higher Non-Performing Loan Ratio indicates that the bank's assets are not doing well or the loan department is not more conscious while passing loan. So, lower ratio will be preferred regarding Non-performing Loan Ratio. The ratio is determined by using the following formula:

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

Where,

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

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

The Non-Performing Loan Ratio of three banks during the study period is presented below:

Table 4.3
Non-Performing Loan Ratio (In %)

Fiscal Year	Banks	Non-Performing Loan	Total Loan and Advances	NPLR%
2005/06	NIC	179554435	6655964020	2.70
	KBL	64353706	6891855426	0.93
	MBL	16916597	6068427449	0.28
2006/07	NIC	101140201	8941397651	1.13
	KBL	66118868	8929013115	0.74
	MBL	85168239	7129891542	1.19
2007/08	NIC	98167144	11264678096	0.87
	KBL	152475600	11335087939	1.35
	MBL	92916079	8642323375	1.08
2008/09	NIC	129178432	13679393779	0.94
	KBL	64542683	14593346830	0.44
	MBL	302837300	12516012116	2.42
2009/10	NIC	92492646	12732014319	0.73
	KBL	75510176	14765912480	0.51
	MBL	347577740	14289792667	2.43

Sources: Appendix 2, 3 & 4

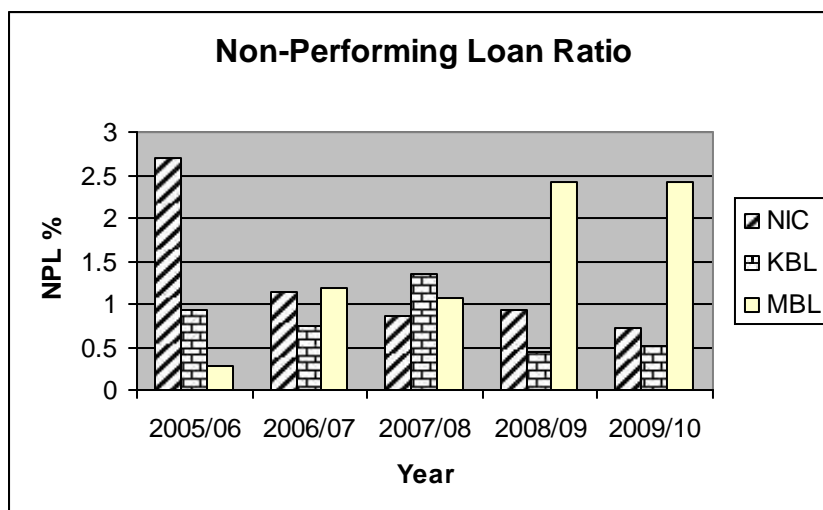


Figure 4.5: Year wise Multiple Bar Diagram of NPLR

The Non Performing Loan Ratio of NIC in FY 2005/06 is 2.70%. In 2006/07, 2007/08, 2008/09 and 2009/10, the Non Performing Loan Ratio of NIC is 1.13%, 0.87%, 0.94% and 0.73% respectively. Similarly, the Non Performing Loan Ratio of KBL in FY 2005/06 is 0.93%. In FY 2006/07, 2007/08, 2008/09 and 2009/10; Non Performing Loan Ratio is 0.74%, 0.87%, 0.94% and 0.72% respectively. Likewise, MBL shows 0.28% of its Non Performing Loan Ratio in FY 2005/06. 0.74%, 1.35%, 0.44% and 0.52% in FY 2006/07, 2007/08, 2008/09 and 2009/10 respectively.

The highest Non Performing Loan Ratio is 2.69% of NIC in FY 2005/06, and has progressively reached up to 0.73% in FY 2009/10, which shows the improving trend in case of Non Performing Loan Ratio. Also the highest Non Performing Loan Ratio of KBL is 0.93% in FY 2005/06 but has oscillated in the rest of the year from FY 2006/07 to FY 2009/10 and attained to 0.52% in FY 2009/10. Hence it confirms that the trend of Non Performing Loan Ratio is fluctuating.

MBL has shown its competency to attain the maximum Non Performing Loan Ratio of 2.43% in FY 2009/10. According to the study MBL has started to accelerate its Non Performing Loan Ratio percent from 0.28 in FY 2005/06. After this study, it is crystal clear that the bank's NPL ratio is in ascending tendency.

Furthermore figure 4.6 helps study the trend of three banks Non-Performing Loan Ratio over the last five years period.

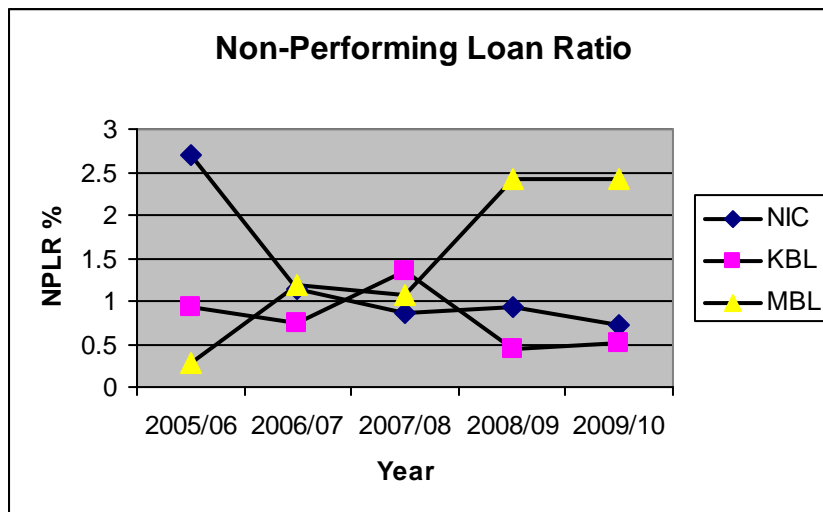


Figure 4.6: Trend Line of NPLR

Figure 4.6 is the trend analysis of Non Performing Loan Ratio of three banks over the five years study period. As shown in the figure Non-Performing Loan Ratio of NIC is 2.70% in FY 2005/06 and thereafter continuously decreased till FY 2007/08, increased in 2008/09, finally decreased and reached to 0.73% in 2009/10 . So, trend analysis shows that NIC is able to decrease its non performing loan continuously which is good sign of bank.

Similarly, Non-Performing Loan Ratio of KBL is 0.93% in FY 2005/06 and decreased in FY 2006/07 and increased in 2007/08 then decreased in 2008/09 and finally reached to 0.51% in 2009/10. It is obvious to be the good sign for KBL.

Finally, Non-Performing Loan Ratio of MBL is 0.28% in FY 2005/06. Non-Performing Loan Ratio of MBL is in increasing trend and reached to 2.43% in FY 2009/10. Hence, the trend is not satisfactory.

4.1.2.2 Loan Loss Coverage Ratio (LLCR)

Loan Loss Coverage Ratio is the relationship between Total Loan Loss Provision and Total Non-Performing Loan. It measures the proportion of Total Loan Los Provision in relation to Total Non Performing Loan. Out of the Total Non- Performing if some loans becomes bad or default then that loss to the bank is covered from the Loan Loss Provision Fund. So, from that point of view, higher the loan loss coverage ratio is better for the banks. The ratio is

determined by using the given model:

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Total Loan Loss Provision}}{\text{Total Non- Performing loan}} \times 100\%$$

Where,

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

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

The Loan Loss Coverage Ratio of three banks during the study period is presented below:

Table 4.4
Loan Loss Coverage Ratio (In %)

Fiscal Year	Banks	Loan Loss Provision	Non-Performing Loan	LLCR%
2005/06	NIC	246159924	179554435	137.10
	KBL	115932088	64353706	180.15
	MBL	78145507	16916597	461.95
2006/07	NIC	187251555	101140201	185.14
	KBL	133420366	66118868	201.79
	MBL	190047722	85168239	223.14
2007/08	NIC	200655909	98167144	204.40
	KBL	187292714	152475600	122.83
	MBL	321746918	92916079	346.28
2008/09	NIC	236456256	129178432	183.05
	KBL	201914411	64542683	312.84
	MBL	468447241	302837300	154.69
2009/10	NIC	197289772	92492646	213.30
	KBL	200167544	75510176	265.09
	MBL	682741699	347577740	196.43

Sources: Appendix 2, 3 & 4

Figure 4.7 is a bar diagram which represents the above tabulated numerical data which helps to compare the Loan Loss Coverage Ratio among three banks.

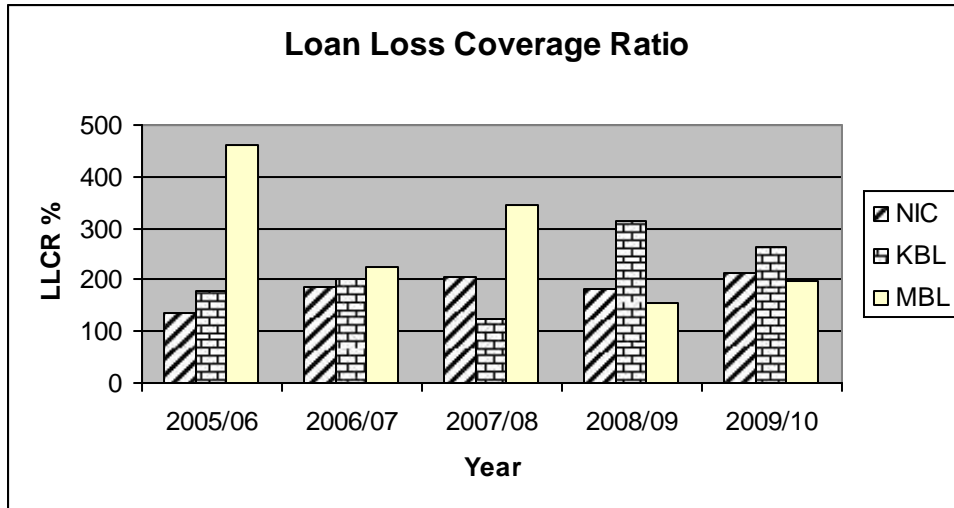


Figure 4.7 Year wise Multiple Bar Diagram of LLC Ratio

As shown in the table 4.4 and figure 4.7, the Loan Loss Coverage Ratio of MBL with 461.95% is the highest and NIC with 137.10% is the lowest in FY 2005/06; in FY 2006/07, MBL with 223.14% is the highest and NIC with 185.14% is the lowest. Similarly, MBL with 346.28% is the highest and KBL with 122.83% is the lowest in FY 2007/08; Likewise KBL with 312.84% is highest and MBL with 154.69% is the lowest in FY 2008/09; Finally KBL with 265.09% is the highest and MBL with 196.43% is the lowest in the FY 2009/10 among three banks.

Furthermore, figure 4.8 helps to find out the trend of three banks Loan Loss Coverage Ratio over the last five years period.

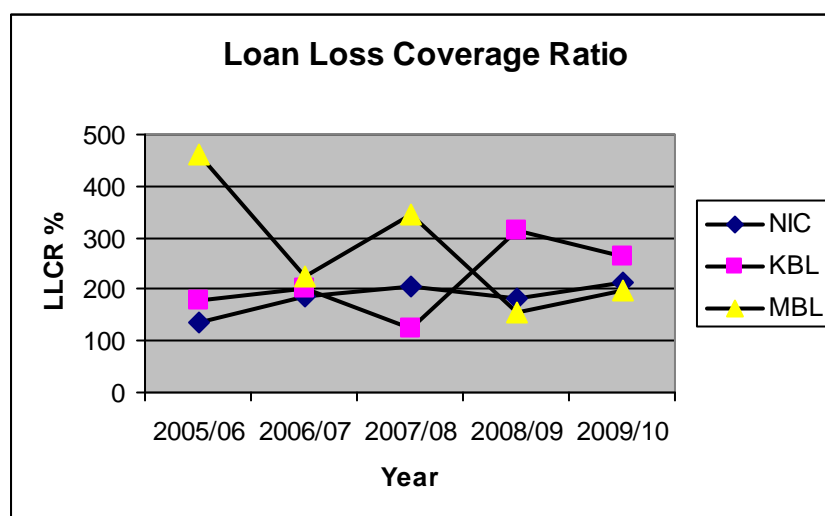


Figure 4.8: Trend Line of LLC Ratio

Figure 4.8 is the trend analysis of Loan Loss Coverage Ratio of three banks over the five years study period. As shown in the figure Loan Loss Coverage Ratio of NIC started by 137.09% in FY 2005/06 and after that continuously increased till 2007/08 and decreased to 183.05% in 2008/09 and finally increased and reached to 213.03% in FY 2009/10.

Similarly, Loan Loss Coverage Ratio of KBL started with 180.15% in FY 2005/06 and increased to 201.79% in FY 2006/07 after that decreased in 2007/08, increased in 2008/09 and finally decreases to 265.09% in FY 2009/10.

Likewise, Loan Loss Coverage Ratio of MBL started with 461.95.95% in FY 2005/06 after that decreased in 2006/07 then increased in 2007/08, decreased in 2008/09 and finally increases up to 196.43% in FY 2009/10.

4.1.2.3 Loan Loss Provision Ratio (LLPR)

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

LLP can calculate as follows:

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

Where,

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

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

The observed Loan Loss Coverage Ratio of three banks during the study period is presented below:

Table 4.5
Loan Loss Provision Ratio (in %)

Fiscal Year	Banks	Total Loan Loss Provision	Total Loan and Advances	LLPR
2005/06	NIC	246159924	6655964020	3.70
	KBL	115932088	6891855426	1.68
	MBL	78145507	6068427449	1.29
2006/07	NIC	187251555	8941397651	2.09
	KBL	133420366	8929013115	1.49
	MBL	190047722	7129891542	2.67
2007/08	NIC	200655909	11264678096	1.78
	KBL	187292714	11335087939	1.65
	MBL	321746918	8642323375	3.72
2008/09	NIC	236456256	13679393779	1.73
	KBL	201914411	14593346830	1.38
	MBL	468447241	12516012116	3.74
2009/10	NIC	197289772	12732014319	1.55
	KBL	200167544	14765912480	1.36
	MBL	682741699	14289792667	4.78

Sources: Appendix 2, 3 & 4

Figure 4.9 is a bar diagram which represents the above tabulated numerical data which helps to compare the Loan Loss Provision Ratio among three banks.

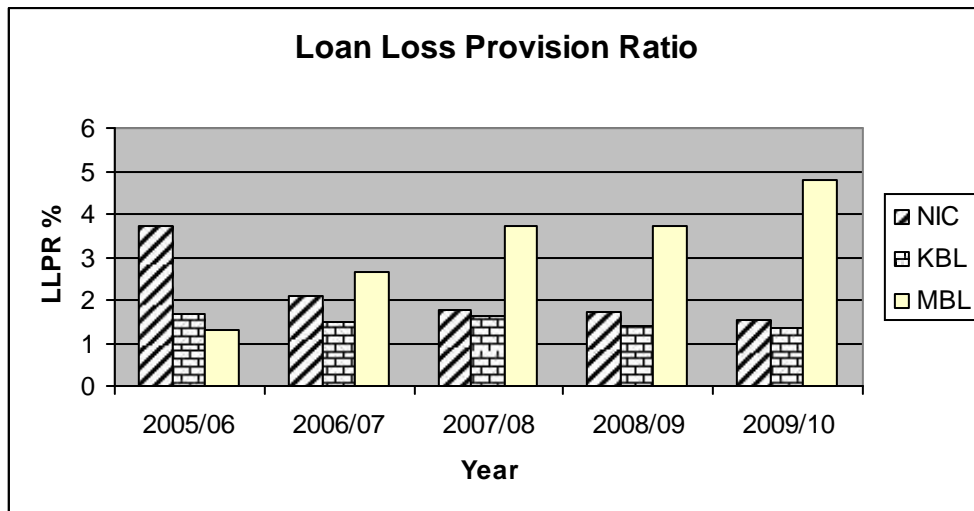


Figure 4.9: Year wise Multiple Bar Diagram of LLP Ratio

As shown in the table 4.5 and figure 4.9, the Loan Loss Provision Ratio of NIC of 3.70% is the highest and MBL of 1.29% is the lowest in FY 2005/06; MBL at 2.67% is the highest and KBL at 1.49% is lowest in FY 2006/07; MBL with 3.72% is the highest and KBL with 1.65% is lowest in FY 2007/08; in FY 2008/09, MBL has 3.74% as the highest and KBL has 1.38% as the lowest. Among three banks, MBL with 4.78% is the highest and KBL with 1.36% is the lowest in the FY 2009/10. Further more figure 4.10 helps to find out the trend of three banks Loan Loss Provision Ratio over the last five years period.

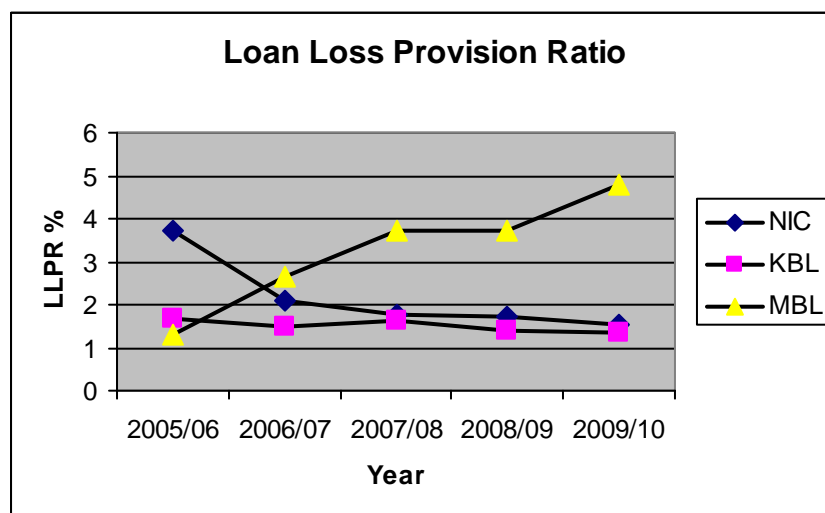


Figure 4.10: Trend Line of LLP Ratio

Figure 4.10 is the trend analysis of three banks over the five years study period. As shown in the figure Loan Loss Provision Ratio of NIC started from 3.70% in FY 2005/06 and after that

continuously decreasing trend till 2009/10 and reached to 1.55%.

Similarly, Loan Loss Provision Ratio of KBL started with 1.68% in FY 2005/06. KBL has also decreasing trend of LLP and its maintained 1.36% in FY 2009/10.

In the case of MBL, Loan Loss Provision Ratio of MBL started with 1.29% in FY 2005/06 and then increases till FY 2009/10. Then LLP of NIC decreased to 4.78% in FY 2009/10.

4.1.3 Management Efficiency

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

$$\text{Management Efficiency Ratio (MER)} = \frac{\text{Net Profit after Tax}}{\text{Total No. of Staffs}}$$

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

Table 4.6
Management Efficiency Ratio (In Rs.)

Fiscal Year	Banks	Net Profit After Tax	Total No of Staff	Management Efficiency
2005/06	NIC	96587674	166	581853.46
	KBL	103666767	177	585687.95
	MBL	133996709	196	683656.68
2006/07	NIC	158475051	189	838492.33
	KBL	170262909	212	803126.93
	MBL	76799259	234	328201.96
2007/08	NIC	243058040	232	1047663.97
	KBL	174930227	256	683321.20
	MBL	85016002	313	271616.62
2008/09	NIC	317434138	270	1175681.99
	KBL	261442589	260	1005548.42
	MBL	123251098	439	280754.21
2009/10	NIC	449843702	327	1375668.81
	KBL	316542342	364	869621.82
	MBL	73312799	492	149009.75

Sources: Appendix 2, 3 & 4

Figure 4.11 is a bar diagram which represents the above tabulated numerical data which helps to compare the Management Efficiency Ratio among three banks.

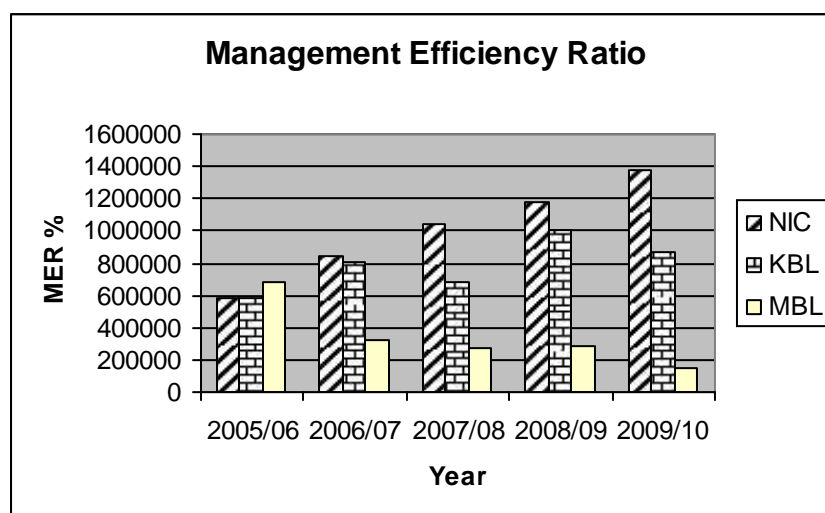


Figure 4.11: Year wise Multiple Bar Diagram of ME Ratio

As shown in the table 4.6 and figure 4.11, the Management Efficiency Ratio of MBL with Rs.683656.68 is the highest and NIC with Rs.581853.46 is the lowest in FY 2005/06; NIC with Rs.838492.33 is the highest and MBL with Rs.328201.96 is the lowest in FY 2006/07; likewise in FY 2007/08, NIC with Rs.1047633.97 is the highest and MBL with Rs.271616.62 is the lowest; NIC with Rs.1175681.99 is the highest and MBL with Rs.280754.21 is the lowest in FY 2008/09; similarly in the FY 2009/10, NIC with Rs.1375668.81 is the highest and MBL with Rs.149009.75 is the lowest among three banks.

Furthermore figure 4.12 helps to find out the trend of three banks Management Efficiency Ratio over the last five years period.

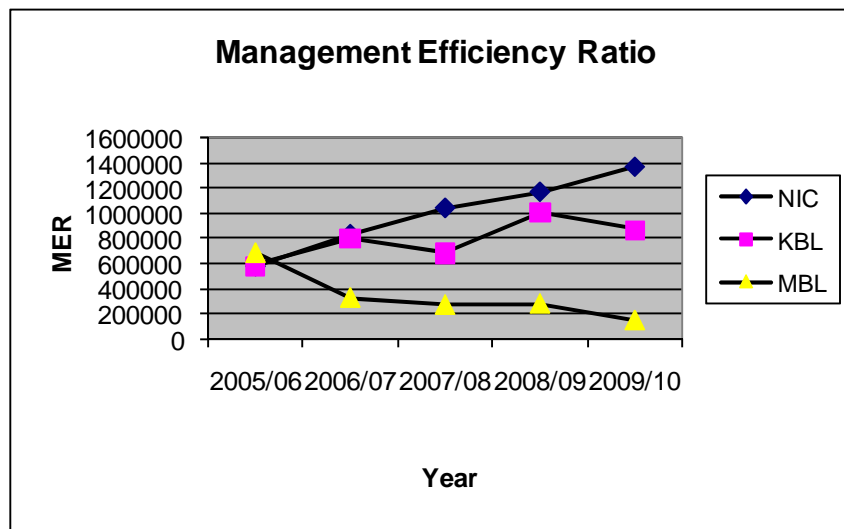


Figure 4.12: Trend line of ME Ratio

Chart 4.12 is the trend analysis of three banks over the five years study period. As shown in the figure Management Efficiency Ratio of NIC started by Rs.581853.46 in FY 2005/06, and continuously increased up to FY 2009/10 and reached to Rs.1375668.81. Overall, Management Efficiency Ratio of NIC is in increasing trend.

Similarly, Management Efficiency Ratio of KBL started with Rs.585687.95 in FY 2005/06, then increases in FY 2006/07 after that decreases in FY 2007/08 and again increased in FY 2008/09 and finally decreased and reached to Rs.869621.82 in FY 2009/10. Overall, Management Efficiency Ratio of KBL is in fluctuating trend.

At last, Management Efficiency Ratio of MBL started with Rs.683656.68 in FY 2005/06, and

continuously decreased up to FY 2007/08 after that increases in FY 2008/09. Finally decreased in FY 2009/10 and reached to 149009.75. This shows the decreasing trend in overall.

4.1.4 Earnings

Earning is the ultimate result of any organization. Earning is the amount of profit a company realizes after all costs, expenses and taxes have been paid. Earning means excess of revenue over cost, so excess revenue earned by any organization in the course of operation is known as profit. It is the ultimate result of any business. Generally, if the earnings are good then that business is running well. Similarly the aggregate performance of the bank reflects from its earnings. Earning is the ultimate result of any business. Generally, higher earnings reflect better financial position. Similarly the aggregate performance of the bank reflects from its earnings. Following ratios depicts the earning position.

4.1.4.1 Earning per Share (EPS)

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

$$\text{Earning per Shares (EPS)} = \frac{\text{Net Profit after Tax}}{\text{No. of outstanding Shares}}$$

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

Table 4.7
Earning Per Share (In Rs.)

Fiscal Year	Banks	Net Profit After Tax	No of Shares Outstanding	Earning Per Share
2005/06	NIC	96587674	6000000	16.10
	KBL	103666767	6250000	16.59
	MBL	133996709	7150000	18.74
2006/07	NIC	158475051	6600000	24.01
	KBL	170262909	7500000	22.70
	MBL	76799259	8216513	9.35
2007/08	NIC	243058040	9438771	25.75
	KBL	174930227	10700000	16.35
	MBL	85016002	8216513	10.35
2008/09	NIC	317434138	11404800	27.83
	KBL	261442589	11860992	22.04
	MBL	123251098	14792696	8.33
2009/10	NIC	449843702	13115520	34.30
	KBL	316542342	13060159	24.24
	MBL	73312799	14792696	4.96

Sources: Appendix 2, 3 & 4

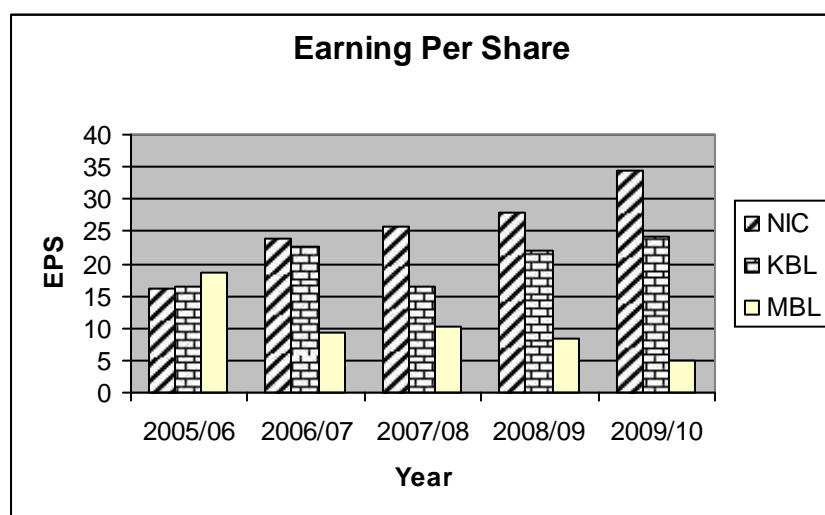


Figure 4.13 Year wise Multiple Bar Diagram of EPS

As shown in the table 4.7 and figure 4.13, the Earning per Shares of MBL of Rs.18.74 is the highest and NIC of Rs.16.10 is the lowest in FY 2005/06; NIC of Rs.24.01 is the highest and MBL of Rs.9.35 is lowest in FY 2006/07; NIC of Rs.25.75 is the highest and MBL of Rs.10.35 is lowest in FY 2007/08; NIC of Rs.27.83 is highest and MBL of Rs.8.33 is the

lowest in FY 2008/09; NIC of Rs.34.30 is the highest and MBL of Rs.4.96 is the lowest in the FY 2009/10 among three banks.

Furthermore, figure 4.14 helps to find out the trend of three banks Earning per Shares over the last five years period.

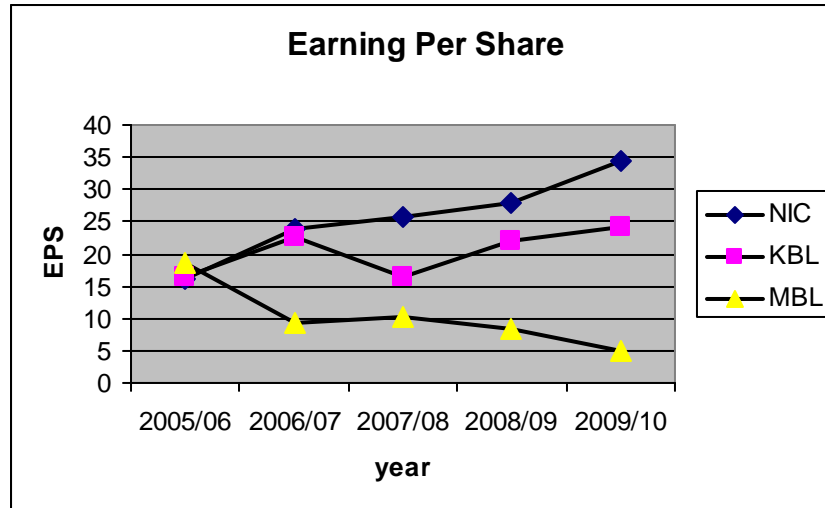


Figure 4.14 Trend Lines of EPS

Figure 4.14 is the trend analysis of three banks over the five years study period. As shown in the figure earning per Shares of NIC started by Rs.16.10 in FY 2005/06, increasing there after till FY 2009/10 and reached to Rs.34.30 in FY 2009/10. Overall earning per Shares of NIC is in increasing trend.

Similarly, Earning per Shares of KBL started with Rs.16.59 in FY 2005/06, then increases in FY 2006/07 after that decreases in FY 2007/08, increased There after till FY 2009/10 and reached to Rs.24.24 in the FY 2009/10. Overall earning per Shares of KBL also is in increasing trend.

Finally, earning per Shares of MBL started with Rs.18.74 in FY 2005/06, decreases in FY 2006/07 and after that increases in FY 2007/08 and decreases till FY 2009/10 and reached to Rs.4.96. This shows the decreasing trend in overall.

4.1.4.2 Return on Equity (ROE)

It is the amount of net income returned as a percentage of shareholder's equity. This ratio

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

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

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

Table 4.8
Return on Equity (%)

Fiscal Year	Banks	Net Profit After Tax	Total Shareholders Fund	Return on Equity
2005/06	NIC	96587674	766462479	12.60
	KBL	103666767	863850557	12.00
	MBL	133996709	931091357	14.39
2006/07	NIC	158475051	918495972	17.25
	KBL	170262909	1025630159	16.60
	MBL	76799259	1007291916	7.62
2007/08	NIC	243058040	1303426900	18.65
	KBL	174930227	1364885269	12.82
	MBL	85016002	1163346958	7.31
2008/09	NIC	317434138	1346422179	23.58
	KBL	261442589	1624952708	16.09
	MBL	123251098	1700198096	7.25
2009/10	NIC	449843702	1764952168	25.49
	KBL	316542342	1785759048	17.73
	MBL	73312799	1773510895	4.13

Sources: Appendix 2, 3 & 4

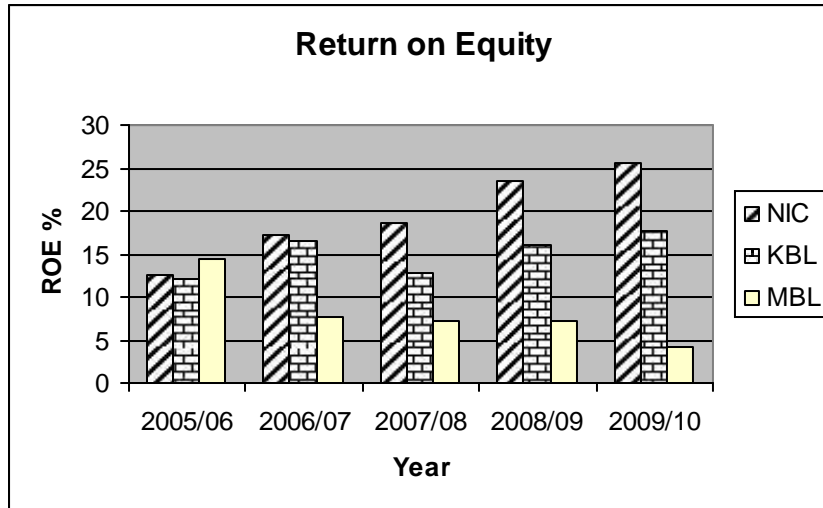


Figure 4.15: Year wise Multiple Bar Diagram of ROE

As shown in the table 4.8 and figure 4.15, the Return on Equity of MBL of 14.39% is the highest and KBL of 12% is the lowest in FY 2005/06; NIC of 17.25% is the highest and MBL of 7.62% is lowest in FY 2006/07; NIC of 18.65% is the highest and MBL of 7.31% is lowest in FY 2007/08; NIC of 23.58% is the highest and MBL of 7.25% is the lowest in FY 2008/09; NIC of 25.49% is the highest and MBL of 4.13% is the lowest in the FY 2009/10 among three banks.

Furthermore, figure 4.16 helps to find out the trend of three banks Return on Equity over the last five years period.

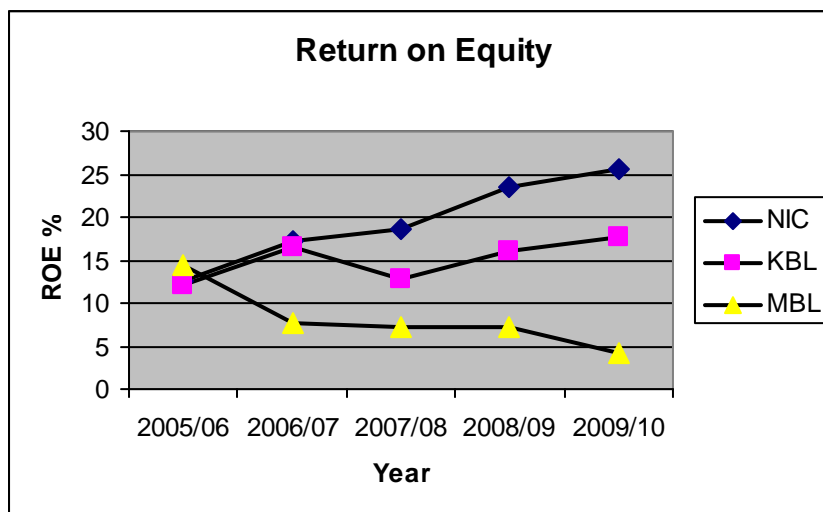


Figure 4.16: Trend Line of ROE

Figure 4.16 is the trend analysis of three banks over the five years study period. As shown in the figure Return on Equity of NIC started by 12.60% in FY 2005/06 and continuously increased up to FY 2009/10 and reached to 25.49% in FY 2009/10. Overall, Return on Equity of NIC is in increasing trend.

Similarly, Return on Equity of KBL started with 12% in FY 2005/06, then increases in FY 2006/07 and decreased in FY2007/08 then after increased up to 2009/10 and reached to 17.73% in the FY 2009/10. Overall, we can say that the Return on Equity of KBL also is in increasing trend.

At last, return on equity of MBL started with 14.39% in FY 2005/06 then after decreases up to FY 2009/10 and reached to 4.13%. This shows the decreasing trend in overall.

4.1.4.3 Return on Assets (ROA)

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

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

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

Table 4.9
Return on Assets (In %)

Fiscal Year	Banks	Net Profit After Tax	Total Assets	ROA
2005/06	NIC	96587674	10383601708	0.93
	KBL	103666767	9010276184	1.15
	MBL	133996709	9096830401	1.47
2006/07	NIC	158475051	11679339865	1.36
	KBL	170262909	11918311429	1.43
	MBL	76799259	10810330518	0.71
2007/08	NIC	243058040	15238736314	1.595
	KBL	174930227	15026599175	1.164
	MBL	85016002	12498548226	0.68
2008/09	NIC	317434138	18750633197	1.69
	KBL	261442589	18538565109	1.41
	MBL	123251098	17490782101	0.70
2009/10	NIC	449843702	20309330616	2.21
	KBL	316542342	20522474688	1.54
	MBL	73312799	20678790827	0.35

Sources: Appendix 2, 3 & 4

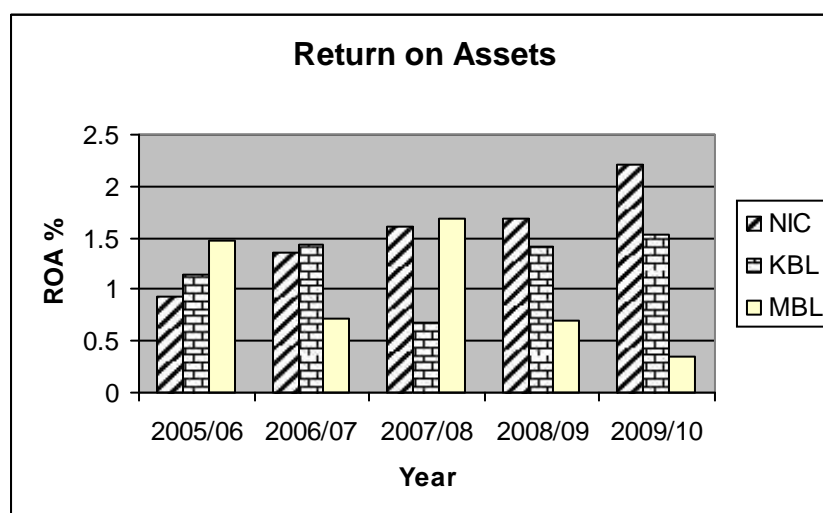


Figure 4.17: Multiple Bar Diagram of ROA

As shown in the table 4.9 and figure 4.17, the Return on Assets of MBL of 1.47% is the highest and NIC of 0.93% is the lowest in FY 2005/06; KBL of 1.43% is the highest and MBL of 0.71% is lowest in FY 2006/07; NIC of 1.60% is the highest and MBL of 0.68% is lowest in FY 2007/08; NIC of 1.69% is highest and MBL of 0.70% is the lowest in FY

2008/09; NIC of 2.21% is the highest and MBL of 0.35% is the lowest in the FY 2009/10 among three banks. Furthermore figure 4.18 helps to find out the trend of three banks Return on Assets over the last five years period.

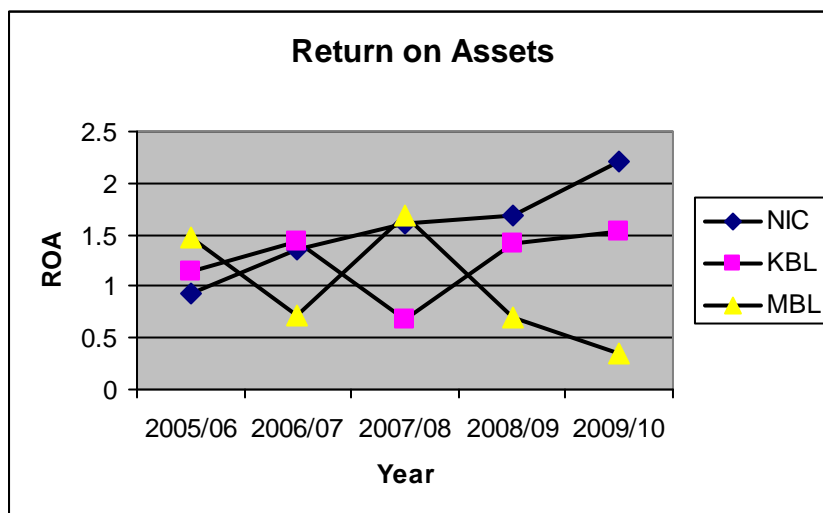


Figure 4.18: Trend Line of ROA

Figure 4.18 is the trend analysis of three banks over the five years study period. As shown in the figure Return on Assets of NIC started by 0.93% in FY 2005/06, continuously increased up to FY 2009/10 and reached to 2.21% in FY 2009/10. Overall, Return on Assets of NIC is in increasing trend.

Similarly, Return on Assets of KBL started with 1.15% in FY 2005/06, then increases till FY 2006/07, decreased in FY 2007/08 then after increased up to FY2009/10 and reached to 1.54% in the FY 2009/10. Overall, Return on Assets of KBL also is in increasing trend.

Likewise, Return on Assets of MBL started with 1.47% in FY 2005/06, decreases up to FY 2007/08 and increased in FY 2008/09 and after that decreased in FY 2009/10 and reached to 0.35%. This shows the decreasing trend in overall.

4.1.5 Liquidity

Simply, Liquidity is the availability of cash at the time of needed as a reasonable cost. In other word liquidity means short- run solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances. The certain percentage of deposit should be kept in bank in the form of cash. It the bank will keep greater

deposit in cash, it loses the opportunity cost. Similarly, if bank keeps low amount in deposit, it could not be able to pay depositors on the time of requirement. Liquidity of the bank should be maintained according to the standard. Liquidity can be measured in following ways:

4.1.5.1 Cash & Bank Balance Ratio (CBBR)

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

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

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

Table 4.10
Cash & Bank Balance Ratio (In %)

Fiscal Year	Banks	Cash & Bank Bal.	Total Deposit	CBBR %
2005/06	NIC	749139079	8765950638	8.55
	KBL	389629745	7768957276	5.02
	MBL	813923936	7893297672	10.31
2006/07	NIC	599758632	10068230869	5.96
	KBL	672112951	10557416461	6.37
	MBL	1248080185	9475451509	13.17
2007/08	NIC	1192348786	13084688672	9.11
	KBL	933841677	12774281014	7.31
	MBL	1500055497	11102242263	13.51
2008/09	NIC	1461150549	15579930904	9.38
	KBL	1776298800	15710395844	11.31
	MBL	2766649116	15596790845	17.74
2009/10	NIC	2086130109	15968917926	13.06
	KBL	2723829299	17432253032	15.63
	MBL	2459717417	18535917002	13.27

Sources: Appendix 2, 3 & 4

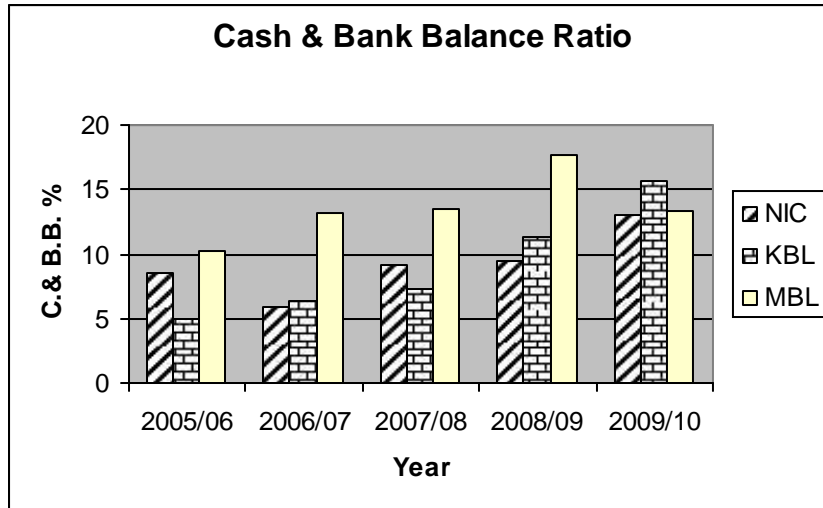


Figure 4.19: Multiple Bar Diagram of CBBR

As shown in the table 4.10 and figure 4.19, the Cash & Bank Balance Ratio of MBL of 10.31% is the highest and KBL of 5.02% is the lowest in FY 2005/06; MBL of 13.17% is the highest and NIC of 5.96% is lowest in FY 2006/07; MBL of 13.15% is the highest and KBL of 7.31% is lowest in FY 2007/08; MBL of 17.74% is highest and NIC of 9.38% is the lowest in FY 2008/09; KBL of 15.63% is the highest and NIC of 13.06% is the lowest in the FY 2009/10 among three banks.

Furthermore figure 4.20 helps to find out the trend of three banks Cash & Bank Balance Ratio over the last five years period.

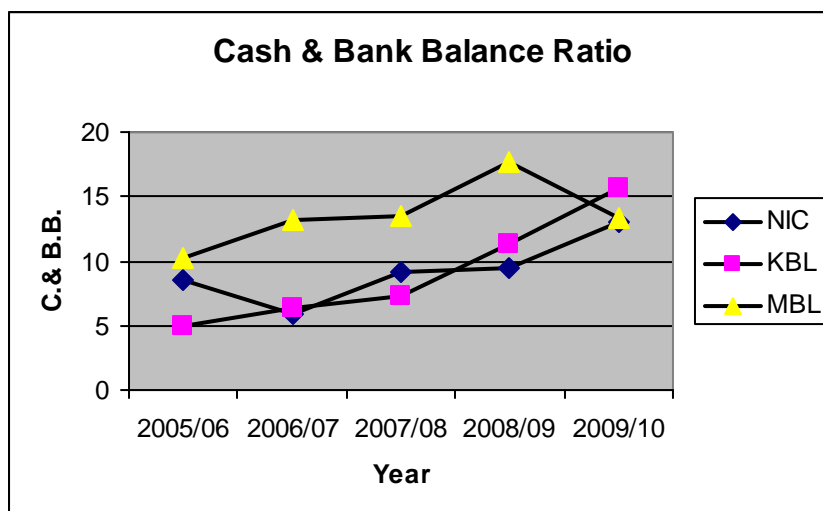


Figure 4.20: Trend Line of CBBR

Figure 4.20 is the trend analysis of three banks over the five years study period. As shown in

the figure Cash & Bank Balance Ratio of NIC started by 8.55% in FY 2005/06, decreased in FY 2006/07, increased there after till 2009/10 and reached to 13.06% in FY 2009/10. Overall, Cash & Bank Balance Ratio of NIC is in increasing trend.

Similarly, Cash & Bank Balance Ratio of KBL started with 5.02% in FY 2005/06, then continuously increased up to FY 2009/10 and reached to 15.63% in FY 2009/10. Overall Cash & Bank Balance Ratio of KBL is in increasing trend.

Likewise, Cash & Bank Balance Ratio of MBL started with 10.31% in FY 2005/06, after that continuously increased up to FY 2008/09 and finally decreased in FY 2009/10 and reached to 13.27%. This shows the increasing trend in overall.

4.1.5.2 Investment in Government Security Ratio (IGSR)

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

$$\text{Investment in Govt. Security Ratio} = \frac{\text{Investment in Govt. Security}}{\text{Total Deposit}} \times 100\%$$

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

Table 4.11**Investment in Government Security Ratio (In %)**

Fiscal Year	Banks	Investment in Govt. Securities	Total Deposit	IGSR %
2005/06	NIC	1756585150	8765950638	20.04
	KBL	1114319438	7768957276	14.34
	MBL	904471865	7893297672	11.46
2006/07	NIC	1104060515	10068230869	10.97
	KBL	1297867040	10557416461	12.29
	MBL	951272430	9475451509	10.04
2007/08	NIC	1545375347	13084688672	11.81
	KBL	1469095002	12774281014	11.50
	MBL	827351580	11102242263	7.45
2008/09	NIC	2195003685	15579930904	14.09
	KBL	1080094990	15710395844	6.88
	MBL	477814030	15596790845	3.06
2009/10	NIC	3978900635	15968917926	24.92
	KBL	1729916633	17432253032	9.92
	MBL	1896481708	18535917002	10.23

Sources: Appendix 2, 3 & 4

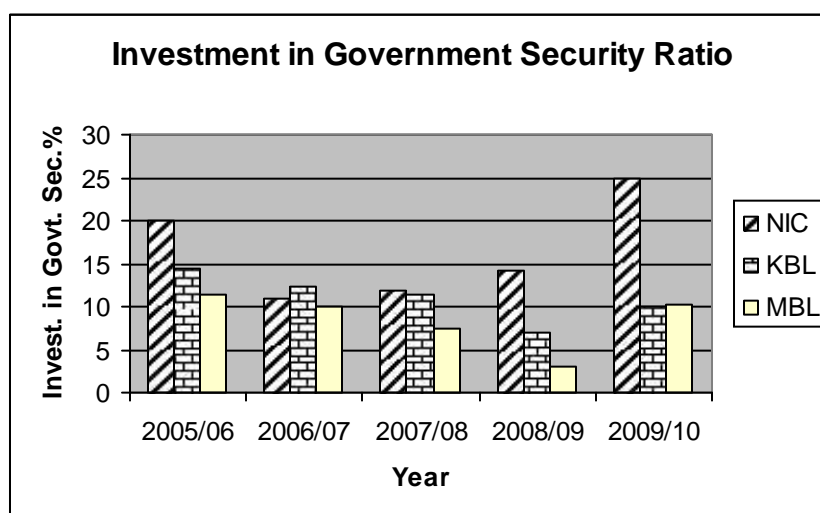


Figure 4.21: Year wise Multiple Bar Diagram of Invest. In Govt. Sec. Ratio

As shown in the table 4.11 and figure 4.21, the Investment in Government Security Ratio of NIC of 20.04% is the highest and MBL of 11.46% is the lowest in FY 2005/06; KBL of 12.29% is the highest and MBL of 10.04% is lowest in FY 2006/07; NIC of 11.81% is the highest and MBL of 7.45% is lowest in FY 2007/08; NIC of 14.09% is highest and MBL of

3.06% is the lowest in FY 2008/09; NIC of 24.92% is the highest and KBL of 9.92% is the lowest in the FY 2009/10 among three banks.

Furthermore figure 4.22 helps to find out the trend of three banks Investment in Government Security Ratio over the last five years period.

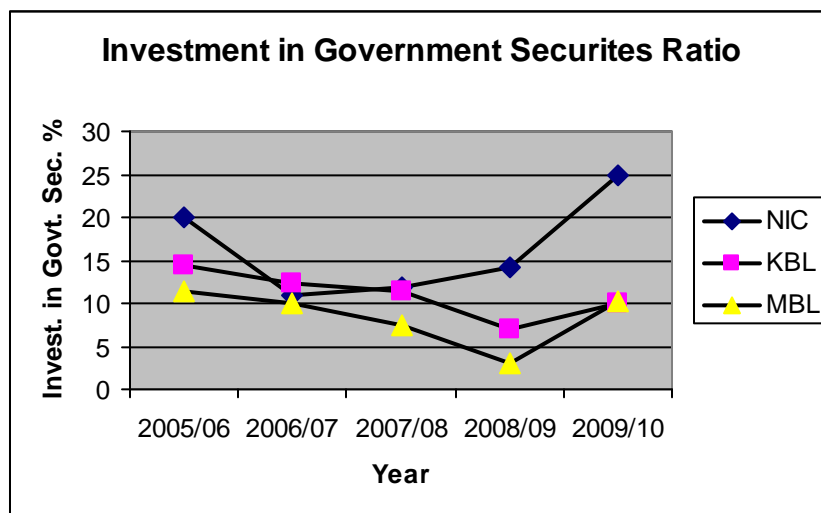


Figure 4.22: Trend Line of IGSR

Figure 4.22 is the trend analysis of three banks over the five years study period. As shown in the figure Investment in Government Security Ratio of NIC started by 20.04% in FY 2005/06, decreased in FY 2006/07 and continuously increased up to FY 2009/10 and reached to 24.92%. Overall, Investment in Government Security Ratio of NIC is in increasing trend.

In the case of KBL, Investment in Government Security Ratio of KBL started with 14.34% in FY 2005/06, then after continuously decreased up to FY 2008/09 and at last increases in FY 2009/10 and reached to 9.92% in the FY 2009/10. Overall Investment in Government Security Ratio of KBL is in decreasing trend.

Likewise, Investment in Government Security Ratio of MBL started with 11.46% in FY 2005/06, after that continuously decreased up to FY 2008/09 and finally increased in FY 2009/10 and reached to 10.23%. This is decreasing trend in overall.

4.2 Year wise CAMEL Analysis at a glance

Below are the summarized analysis tables and the description of tables regarding the study of CAMEL Analysis of:

-Nepal Industrial and Commercial Bank Ltd. (NIC)

-Kumari Bank Limited (KBL) and

-Machhapuchchhre Bank Ltd (MBL):

Table 4.12
CAMEL Analysis of NIC

Ratios	2005/06	2006/07	2007/08	2008/09	2009/10
CAR (%)	13.54	12.21	13.11	12.42	12.92
CCR (%)	9.94	9.21	10.06	10.48	11.25
NPLR (%)	2.7	1.13	0.87	0.94	0.73
LLCR (%)	137.09	185.14	204.4	183.05	213.3
LLPR (%)	3.7	2.09	1.78	1.73	1.55
MER (Rs.)	581853.5	838492.3	1047663.97	1175681.99	1375668.81
EPS (Rs.)	16.1	24.01	25.75	27.83	34.3
ROE (%)	12.6	17.25	18.65	23.58	25.49
ROA (%)	0.93	1.36	1.6	1.69	2.21
CBBR (%)	8.55	5.96	9.11	9.38	13.06
IGSR (%)	20.04	10.97	11.81	14.09	24.92

According to table 4.12 the NIC Bank has fluctuating trend of CAR and increasing trend of CCR but both ratios are more than the NRB's minimum standard i.e. 11% and 5.5% respectively. The NPLR is in decreasing trend which exhibits that the bank is enforcing to collect the loan in time which is a good sign such financial institution. The LLCR is in increasing trend except in FY 2008/09. This is also the good quality of NIC. The decreasing LLPR of NIC indicates the better risk management and healthy credit management system. This is the excellent result for NIC. The increasing trend of M ER represents the sound management practices in the bank. The increasing trend of EPS, ROE and ROA represents that the bank is gradually improving to utilize its equity and assets; this is a progressive indicator of this bank. In the final year of the whole study period, the CBBR and Investment in Govt. security ratio are the highest. This indicates that the liquidity position or liquidity management of NIC bank is satisfactory.

Table4.13
CAMEL Analysis of KBL

Ratios	2005/06	2006/07	2007/08	2008/09	2009/10
CAR (%)	12.34	11.2	14.41	11.56	12.34
CCR (%)	11.26	10.24	10.4	9.09	10.29
NPLR (%)	0.93	0.74	1.35	0.44	0.51
LLCR (%)	180.15	201.79	122.83	312.84	265.09
LLPR (%)	1.68	1.49	1.65	1.38	1.36
MER (Rs.)	585688	803126.9	683321.2	1005548.42	869621.82
EPS (Rs.)	16.59	22.7	16.35	22.04	24.24
ROE (%)	12	16.6	12.82	16.09	17.73
ROA (%)	1.15	1.43	1.16	1.41	1.54
CBBR (%)	5.02	6.37	7.31	11.31	15.63
IGSR (%)	14.34	12.29	11.5	6.88	9.92

According to table 4.13 the KBL Bank has the trend of fluctuation in CAR and decreasing trend of CCR except in FY2009/10 but both ratios are more than the NRB's minimum standard i.e. 11% and 5.5% respectively. The NPLR is in heterogeneous trend which exhibits that the bank is not paying much attention to collect the loan in time which is obviously not a good sign for specially this sort of bank, which bears too much obligations toward its shareholders. The LLCR is in increasing trend except in FY 2009/10. This can be treated as good quality of KBL. The decreasing LLPR of KBL indicates the better risk management and healthy credit management system. This is the excellent result for KBL. But the diversified trend of MER compels the researcher to infer that the management practice in the bank is really in the unstable form. The overall increasing trend of EPS, ROE and ROA represents that the bank is gradually improving to utilize its equity and assets; this shows the satisfactory level of management of this bank. In the final year of the whole study period, the CBBR is the highest. But the Investment in the Govt. security ratio is average, which indicates the liquidity position or liquidity management of KBL to be of satisfactory level but not of the exclusive standard.

Table 4.14
CAMEL Analysis of MBL

Ratios	2005/06	2006/07	2007/08	2008/09	2009/10
CAR (%)	12.86	11.97	12.29	11.84	11.25
CCR (%)	12	10.68	10.97	10.96	9.94
NPLR (%)	0.28	1.19	1.08	2.42	2.43
LLCR (%)	461.95	223.14	346.28	154.69	196.43
LLPR (%)	1.29	2.67	3.72	3.74	4.78
MER (Rs.)	683656.7	328202	271616.62	280754.21	149009.75
EPS (Rs.)	18.74	9.35	10.35	8.33	4.96
ROE (%)	14.39	7.62	7.31	7.25	4.13
ROA (%)	1.47	0.71	0.68	0.7	0.35
CBBR (%)	10.31	13.17	13.51	17.74	13.27
IGSR (%)	11.46	10.04	7.45	3.06	10.23

According to table 4.14 the MBL Bank has the trend of fluctuation in CAR and decreasing trend of CCR but both ratios are more than the NRB's minimum standard i.e. 11% and 5.5% respectively. The overall NPLR is in increasing trend which exhibits that the bank is not paying much attention to collect the loan in time which is obviously not a good sign for specially this sort of bank, which bears too much obligations toward its shareholders. The LLCR is in decreasing trend except in FY 2007/08. This at any cost cannot be treated as a good quality of MBL. The increasing trend of LLPR of MBL indicates the worse risk management and sick credit management system. This is the poor result for MBL. But the declining trend of MER compels the researcher to infer that the management practice in the bank doesn't reach up to the satisfactory level. The decreasing trend of EPS, ROE and ROA represents that the bank is gradually descending to utilize its equity and assets; this is really unfortunate state of management of this bank. In the final year of the whole study period, the CBBR and investment in Govt. securities ratio are limited in average level, which indicates the liquidity position or liquidity management of MBL to be of satisfactory level but not of the exclusive standard.

4.3 Major Findings

This section includes the key findings of the study obtained from the analysis of the data. Below are the description of the major findings of the study of CAMEL Analysis of Nepal

Industrial and Commercial Bank Ltd. (NIC), Kumari Bank Limited (KBL) and Machhapuchchhre Bank Ltd (MBL):

Total Capital Adequacy ratios (CAR) of NIC Bank are 13.54% to 12.21% during the review period. It is in decreasing trend. The ratio of 13.54% is maximum in FY 2005/06 and ratio of 12.21% is minimum in FY 2006/07. The Capital Adequacy ratios of KBL in the review period are 12.34%, 11.20% , 14.41%, 11.56% and 12.34%. The ratio of 14.41% is highest in FY 2007/08 and the ratio of 11.20% is lowest in 2006/07. In the same way, the capital adequacy ratios of MBL are 12.86%, 11.97%, 12.29%, 11.84% and 11.25%. The highest ratio is 12.86% in FY 2005/06 and lowest is 11.25% in FY 2009/10. In general, all three banks are able to maintain CAR as per NRB standard during the study period i.e. 11%.

The Core Capital Ratio (CCR) of NIC is in increasing trend. The highest CCR is 11.25% in FY 2009/10 and lowest ratio is 9.21% in 2006/07. However, the bank is able to maintain more than 5.5% above the NRB requirement during study period. The ratios of KBL are 11.26%, 10.24%, 10.40%, 9.09% and 10.29% and highest ratio is 11.26% in FY 2005/06 and lowest is 9.09% in FY 2008/09. The KBL also success to maintain NRB requirements. As same way, the maximum CCR of MBL is 12.01% in FY 2005/06 and minimum is 9.94% in FY 2009/10. However, it is judged that all banks are maintained more CCR than NRB has prescribed.

Non Performing Loan Ratios are in decreasing trend over the study period, it means the banks are able to collect the loans. The ratio of MBL is greater than other two banks i.e. 2.43% in FY 2009/10. It seems that MBL has high non-performing loan as compare to other banks. Where, the KBL has lowest non- per forming loan ratio i.e. 0.51% in FY 2009/10 which show that KBL has maintained its loan and advance most efficiently and effectively.

Loan loss coverage ratios of NIC is 137.09% in FY 2005/06 and it is increasing up to 204.40% in FY 2007/08 and then decreased to 183.05% in FY 2008/09 after that increased up to 213.03% in FY 2009/10. KBL has fluctuating trend of loan loss coverage ratio up to FY 2009/10. MBL has also fluctuating trend of loan loss coverage ratio from FY 2005/06 to 2009/10. Over all, NIC has lowest loan loss coverage ratio as compare to other two banks. And MBL has highest loan loss coverage ratio which shows the better financial position. The loan loss provision has been maintained for NPL and has been increasing which is good sign.

The loan loss provision ratios of NIC and KBL are in decreasing trend where as this ratio of MBL is in increasing trend. As per the FY 2009/10, KBL has the lowest loan loss provision ratio which indicates that the KBL has better quality loan and MBL has highest ratio which means MBL has not enough good loan the year as compare to other banks.

Total management efficiency ratios (MER) of NIC are Rs.1375668.81 to Rs.581853.46 during the review period. The ratio of Rs.1375668.81 is maximum in FY 2009/10 and ratio of Rs.581853.46 is minimum in FY 2005/06. The highest management efficiency ratio of KBL is Rs.1005548.419 and lowest is Rs.585687.95 in FY 2008/09 and FY 2005/06 respectively. In the same way, the management efficiency ratios of MBL are decreasing trend. The highest ratio is Rs.683656.68 in FY 2005/06 and lowest is Rs.149009.75 in FY 2009/10. As per the latest data i.e. 2009/10 NIC has the highest MER i.e. Rs.1375668.81.

When net profit of bank is high, the Earning per share (EPS) of the bank will also be high which shows the bank is in good condition. EPS of NIC is in increasing trend and in FY 2009/10 NIC has highest EPS which shows that the bank is in best position compare to other banks. This is the good sign to shareholders. EPS of KBL and MBL has fluctuating EPS during the study period. In overall, we can say that NIC Bank is in good position as per EPS.

The return on equity consists of ratio between net profit after tax and equity. The ratio of NIC is increasing trend. ROE of NIC is continuously increased from 2005/06 to 2009/10. ROE of KBL is also in increasing trend which is better for shareholders. MBL has decreasing ROE, which decreased continuously from FY 2005/06 to FY2009/10. A return on equity calculates to see the profitability of the owner's investment. Higher ratio shows that profitability of owner's investment is increasing. As compare to other banks NIC Bank has highest ROE in FY 2009/10 i.e.25.49%.

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

In overall the Cash and bank balance ratio of NIC increased over the period. In second year the cash and bank balance ratio decreased and then increased up to FY 2009/10 and reached

to 13.06%. KBL has also increased Cash and Bank balance ratio and maintained 15.63% in FY 2009/10. In the same way, MBL has also increasing Cash and Bank Balance Ratio. The ratio is increasing from FY 2005/06 to FY 2008/09 and after that the ratio is slightly decreasing in FY 2009/10 and reached to 13.27%.

The Investment in government security ratio (IGSR) of NIC is fluctuating in the course of the study period. NIC has maximum IGSR of 24.92% in FY 2009/10 and minimum IGSR of 10.97% in FY 2006/07. And KBL has highest IGSR of 14.34% in FY 2005/06 and lowest of 6.88% in FY 2008/09. In the same way, highest IGSR of MBL is 11.46% in FY 2005/06 and lowest of 3.06% in FY 2008/09. From comparative analysis of latest data i.e. 2009/10, we can see that NIC has maximum and KBL has minimum IGSR.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This preceding chapter have discussed and explored the facts and matters required for the various parts of the study. Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist findings issues and gaps of the study and give suggestions for further improvement.

This part is a complete suggestive package, which contains summary, conclusion and actionable plans. Summary gives the brief introduction of all the chapters of the study and shows the actual facts that have been taken from the analytical part. Findings are based on the consequences of the analysis of relevant data. Actionable plans are presented in terms of suggestions which are prepared on the basis of the findings.

5.1 Summary

The study is conducted with the objective to analyze and compare the financial performances of Nepal Industrial and Commercial Bank Ltd. (NIC), Kumari Bank Limited (KBL) and Machhapuchchhre Bank Ltd. (MBL) in the framework of CAMEL over the five years period from FY 2005/06 to 2009/10. The study is based on the secondary data. Out of latest 30 commercial banks running in Nepal, the researcher has taken only three commercial banks i.e. NIC, KBL and MBL. CAMEL is a common method for: analyzing the health of individual institution, to measure the performance and the financial condition of the firm. It is designed by regulatory authorities. This study analyzes the financial performance of NIC, KBL and MBL as regards to CAMEL i.e. Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality and Liquidity. The analysis of financial statement is done to obtain a better sight into the bank's position and performance. The various financial tools have been used in this study to get the meaningful result and to meet the research objectives.

During the research, the areas that formed part of the conceptual review and positively influenced the researcher are; the lectures attended by the researcher as a student, the various standard textbooks and periodicals, concept and components of CAMEL. Besides these, reviews of various concerned articles, journals, bulletins, prior thesis on the similar topic and NRB directives.

The analysis has been made to compare the Bank's ratios with NRB and international standard. The banks are successful to maintain Capital Adequacy Ratio as per NRB standard i.e. 11%. As per current data NIC has the highest CAR. It means, NIC has higher internal sources and comparatively stronger financial position and security to depositors as compare to others. In the same way NIC, KBL and MBL are able to maintain the Core Capital Ratio as per the prescription made by NRB i.e. 5.5%. The highest CCR shows the protection and security to creditors and depositors and financial soundness of the company.

The lower Non Performing Loan Ratio reflects the good performance of the banks in mobilizing loan and advance. KBL has lower NPL ratio, it indicates the better proportion of performing loans and risk of default (credit) than NIC and MBL. NPL ratio is in decreasing trend where, the Loan Loss Coverage Ratio of bank is in fluctuating trend.

Correspondingly overall Loan Loss Provision Ratio (LLP) is decreasing. KBL has lower LLP ratio as compare to NIC and MBL, which is assumed to be better for the banks

The Management Efficiency ratio (MER) indicates the better operation of the bank and better profitability. MER is irregular during the overall study period. NIC has the highest MER; it indicates the better operation management and better profitability of NIC Bank Ltd.

EPS of NIC and KBL is in increasing trend on the other hand MBL is suffering from the decreasing trend of EPS. From the overall study researcher has come to the conclusion that NIC has the highest EPS in comparison to other two banks.

The ROE of NIC and KBL is in increasing trend but the rate of increment is not so smooth, time and again the banks had to bear the parallel increasing and fluctuating trend. The case of MBL on the same side is found to be quite different i.e. ROE of MBL is in decreasing trend. Likewise, ROA of NIC and KBL are in increasing trend but MBL has once again suffered a bitter truth by finding its ROA in the path of declination.

Higher Cash and Bank Balance Ratio of KBL and Investment in Govt. Security Ratio of NIC Bank indicate that the liquidity position of these banks is stronger in comparison to other remaining banks, which come inside the bracket of the analysis.

5.2 Conclusion

It is said that "trust creates one's destiny", likewise the researcher of this thesis had the strong belief and trust on his work that his hard work will surely lead him to find his destiny, the destiny to find the nectar from his research work. And, this part of thesis is really a great boon for him that he has got his destiny. As based on the findings, following conclusions have been drawn as the concluding framework of the study on CAMEL analysis:

1. Capital Adequacy Ratio (CAR) reveals that all the sampled banks are running with the adequate capital and the capital fund of the banks are sound and sufficient to meet the banking operation as per the NRB standard. CAR of all banks is above the NRB standard.
2. Core Capital Ratio (CCR) measured in terms of core capital to risk weighted assets is as per NRB standard. It means the banks are using adequate amount of the internal sources or core capital in past five years i.e. during the study period of the researcher. In this point of view the banks are financially sound and strong.
3. The decreasing trend of Non-Performing Loans ratio helps to conclude that the banks are aware of Non-Performing Loans and adopting the appropriate policies to manage this problem and to increase the quality of assets.
4. The increasing trend of Loan Loss Coverage ratio exhibits that the banks are taking appropriate loan recovery policy.
5. The decreasing trend of Loan Loss Provision ratio indicates that the quality of loans are upgrading year by year. It seems that amount of Non Performing Loans and possibility of default in future is decreasing.
6. The Management Efficiency ratio depicts efficiencies and productivity as a result of well management of human resources in terms of profitability.
7. The increasing trend of EPS represents that the return flowing to the banks owner is increasing. This tendency reflects the strength of the share in the market is also

increasing.

8. The increasing trend of ROE shows that the rate of return flowing to the bank's shareholders is fostering year wise.
9. The increasing trend of ROA infers that the net income for each unit of assets of the bank is increasing. This shows that the capability of the management to convert the bank's assets into net profit is increasing.
10. The Cash and Bank Balance to Total Deposit Ratio of all banks are increasing with fluctuating trend and in this case KBL has the highest Cash and Bank Balance Ratio. Similarly, Investments in Government Security Ratio of all banks are also in fluctuating trend and in this case NIC Bank has the highest ratio, KBL and NIC presents as they are secured from the liquidation risk among other banks.

5.3 Recommendations

The following recommendations and suggestions are made on the basis of conclusion to overcome the weakness as regard to financial performance of Nepal Industrial and Commercial Bank (NIC), Kumari Bank Limited (KBL) and Machhapuchchhre Bank Limited (MBL):

1. Capital Adequacy Ratio and Core Capital Ratio of all banks are as per the NRB standard over the reviewed period but are in fluctuating trend. So, core capital fund should be increased to maintain the appropriate Capital Adequacy Ratio and Core Capital Ratio.
2. The assets quality ratio of all banks is in satisfactory level and emerging better each year. So, the banks should maintain Non Performing Loan Ratio as lower as possible and try to give additional attention in recovering the doubtful and loss loan in future and also try to increase its Performing Loan Ratio.
3. The Management Efficiency Ratio of NIC and KBL seems to be satisfactory as compared to MBL. So, MBL should increase Net Profit after Tax and should not

appoint unnecessary employees under nepotism and favoritism i.e. overstaffing should be dropped in the organization.

4. The Earning Quality ratios like EPS, ROE and ROA of NIC and KBL are in increasing trend. But these ratios of MBL is not satisfactory .So, all these banks should increase more profit and should minimize their operating cost by increasing the operating efficiency of their employees.
5. Liquid assets can play the role of alchemist as it can be easily translated into cash at the time or requirement. In addition liquid assets of the commercial banks play an important role to meet the day to day and short term obligations. If liquid assets of the banks are not maintained properly, then there is a high probability of banks to go on liquidation. The Liquidity Ratio of all three banks seems to be satisfactory. Furthermore they should be careful and try to increase liquidity position by increasing Cash and Bank Balance Ratio and Investment in Government Security Ratio.

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Share Capital of 2009/10

Capital	NIC	KBL	MBL
Authorized Capital	1600000000	1600000000	2000000000
Issued Capital	1311552000	1306015920	1479269600
Paid Up Capital	1311552000	1306015920	1479269600

Nepal Industrial and Commercial Bank Limited (NIC)

	2005/06	2006/07	2007/08	2008/09	2009/10
Total capital Fund	1036838663	1209113613	1615719466	1954934793	2010561500
Core Capital fund	761128967	912312362	1293750759	1649007425	1750459218
Total Risk Weighted Assets	7656131091	9905541822	12321131296	15741613929	15559349706
Total Non-Performing Loan	179554435	101140201	98167144	129178432	92492646
Total Loan And Advances	6655964020	8941397651	11264678096	13679393779	12732014319
Total Loan Loss Provision	246155524	187251555	200655909	236456256	197289772
Net Profit After Tax	96587674	158475051	243058040	317434138	449843702
Total Shareholders' Fund	766462479	918495972	1303426900	1346422179	1764952168
Total Assets	103862301708	11679339865	15238736314	18750633197	20309330616
Cash and Bank Balance	749139079	599758632	1192348786	1461150549	2086130109
Total Deposit	8765950638	10068230869	13084688672	15579930904	15968917926
Total Investment in Govt Securities	1756585150	1104060515	1545375347	2195003685	3978900635
No. of Shares	6000000	6600000	9438771	11404800	13115520

Outstanding					
Total No. of Staff	166	189	232	270	327

Kumari Bank Limited (KBL)

	2005/06	2006/07	2007/08	2008/09	2009/10
Total capital Fund	940979000	1115207000	1858207000	2050908000	2124625000
Core Capital fund	858520000	1019893000	1359032000	1612799000	1772135057
Total Risk Weighted Assets	7625050126	9959911398	14418707000	17743239000	172206685330
Total Non-Performing Loan	64353706	66118868	152475600	64542683	75510176
Total Loan And Advances	7007787514	9062433481	11335087939	14593346830	14765912480
Total Loan Loss Provision	115932088	133420366	187292714	201914411	200167544
Net Profit After Tax	103666767	170262909	174930227	261442589	316542342
Total Shareholders' Fund	863850557	1025630159	1364885269	1624952708	1785759048
Total Assets	9010276185	11918311429	15036249428	18538565109	20522474688
Cash and Bank Balance	389629745	672112951	933841677	1776298800	2723829299
Total Deposit	7768957276	10557416461	12780153444	15710395844	17432253032
Total Investment in	1114319438	1297867040	1469095002	1080094990	1729916633

Govt Securities					
No. of Shares Outstanding	6250000	7500000	10700000	11860992	13060159
Total No. of Staff	177	212	256	260	364

Machhapuchchhre Bank Limited (MBL)

	2005/06	2006/07	2007/08	2008/09	2009/10
Total capital Fund	976068000	1101726000	1279796000	1811869000	1979555000
Core Capital fund	911543000	982577000	1142970000	1676865000	1750353000
Total Risk Weighted Assets	7592529000	9200659000	10417064000	15298217000	17600705000
Total Non-Performing Loan	16916597	85168239	92916079	302837300	347577740
Total Loan And Advances	6068427449	7129891542	8642323375	12516012116	14289792667
Total Loan Loss Provision	78145507	190047722	321746918	468447241	682741699
Net Profit After Tax	133996709	76799259	85016002	12325098	73312799
Total Shareholders' Fund	931091357	1007291916	1163346958	1700198096	1773510895
Total Assets	9096830401	10810330518	12498548226	17490782101	20678790827
Cash and Bank Balance	813923936	1248080185	1500055497	2766649116	2459717417
Total Deposit	7893297672	94751505	11102242263	15596790845	18535917002

Total Investment in Govt Securities	904471865	951272430	827351580	477814030	1896481708
No. of Shares Outstanding	7150000	8216513	8216513	14792696	14792696
Total No. of Staff	196	234	313	439	492