FINANCIAL PERFORMANCE OF FINANCE COMPANIES IN NEPAL USING CAMEL FRAMEWORK

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RECOMMENDATION

This is to certify that the thesis

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Financial Performance of Finance Companies in Nepal Using Camel Framework

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

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DECLARATION

I hereby declare that this thesis work entitled **Financial Performance of Finance Companies in Nepal Using Camel Framework** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Masters of Business Studies which is prepared under the supervision of respected supervisor Srijana Khadka of Shanker Dev Campus, T.U.

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Kalpana Gaihre Neupane
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CHAPTER 1
INTRODUCTION

1.1 Background of the Study

The financial system is complicated and made up of numerous varieties of financial institutions from the private sector, such as investment banks, mutual funds, banks, insurance firms, and financing companies. The economy of the nation is greatly impacted by these industries. Regulation is always necessary for the economy's growth and survival. The financial system is currently deregulated, which has led to innovation, competition, globalization, and increased complexity and possible danger in the banking industry.

For a supervisor, this has meant additional difficulties for the supervisor body. Supervisors have responded by creating new procedures and ways for continuously observing and evaluating banks. The major goals of financial institution regulation are to boost public confidence in the economy and stabilize growth. Numerous strategies and tactics have been employed, or are now being employed, to enhance not just the overall risk profile and the specific institution's capacity for risk management, but also the performance of banks. In general, both the regulatory body and the financial institutions themselves gauge the stability and soundness of their finances. The government agency is typically the most efficient agency for measurement and monitoring. The market is better informed about important financial information thanks to the macro-prudential indicators. Furthermore, these macroprudential indicators and the analysis techniques for them are the same at the national and international levels; however, the interpretation of capital varies based on the risk profile of the financial institution (Reddy & Prasad, 2011).

North American bank regulators first used the CAMEL approach to assess the managerial and financial stability of U.S. commercial lending institutions. In 1978 the Federal Financial Institutions Examination Council, which includes senior management officials from several U.S. regulatory agencies the Office of the Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Association decided to design a standardized rating system. In 1979, these organizations embraced the CAMEL. The abbreviation CAMEL stands for capital adequacy, asset quality, management, earnings, and liquidity

management—the five metrics used to evaluate a financial organization. Sensitivity to market risk was given a "S" in the 1996 revision of the CAMEL (Nimalathasan, 2008). CAMELs are widely used instruments in the banking sector to assess overall performance and soundness. The financial soundness of the financial institutions has an impact on the entire national economy, the competitiveness between financial players in the current markets, government policy toward the financial institutions, general riskiness considerations, etc. Financial soundness indicators show the state of a nation's financial institutions' current health and soundness as well as that of their corporate and household equivalents. Indicators of financial soundness are essential to maintaining financial stability. According to Poudel (2012), it consists of both the total number of individual institutions and the representatives of the markets that the financial institutions serve.

Banks and other financial institutions are graded using a composite grading system based on their performance. The managerial, operational, financial, and compliance performance of each individual bank forms the basis of the CAMEL composite rating system. The rating system has a range of 1 to 5. According to Gull and Haseeb (2011), a rating of 1 denotes the best performance overall, while a rating of 5 denotes the performance and management practices that are most severely inefficient with others and need for greater supervision. As a World Trade Organization member, Nepal must expand its finance industry worldwide. Since the beginning of the decade, Nepal has been putting numerous plans and strategies into place to enhance the financial industry in an effort to compete with foreign institutions. As a result, starting in 2001, the Nepali government and Nepal Rasta Bank—Nepal's central bank and the country's regulatory body for banks and financial education—implemented a regulatory framework for bank oversight. Whereby CAMEL is the most effective strategy and technique for assessing the performance and soundness of banks and other financial institutions (BIS, 2018).

As the watchdog and regulator over the banking industry, Nepal Rasta Bank (NRB) has worked hard to improve regulators to meet international standards in order to guarantee the industry's health and effectiveness. The NRB's bank supervision section uses the CAMEL rating methodology to assess the financial performance of commercial banks. Both the operating data and the financial result are presented on a responsibility basis by an efficient performance assessment system. The study combines an analytical and descriptive research design and focuses on the financial performance of commercial

banks. The CAMEL monitoring tools, designed by UFIRS, are being used in several countries to identify serious weaknesses that commercial banks confront in their supervisory procedures. The study primarily focuses on the trends in the capital adequacy ratio, non-performing loan ratio, and other essential ratios in relation to the industrial average and NRB norm, respectively.

When mergers were first introduced, As mandated by law, Nepal's financial institution (BFI) count has been steadily falling. Up until now, 187 institutions have merged to create 45 BFIs. By the conclusion of Ashad 2077, there were 79 banks and other financial institutions in existence. There is a risk of extinction for the "B" class development banks and "c" class financing businesses. The Central Bank's effort to force a significant merger will probably result in even fewer financial firms. During the most recent fiscal year, 2076–2077, 3.25 crore bank accounts were opened. This figure will increase in the event that the MFI account is also induced.

20 commercial banks will have the most branches, 4436 until mid-July 2020, followed by 17 development banks and 17 financing businesses, with 1029 and 243 branches, respectively. In a similar vein, there are 4057 branches of 57 microfinance organizations in Nepal.

A single organization is unable to provide all of the services that clients require. As a result, various bank types with specialized areas of operation also arose in the banking sector. Financial institutions and banks come in a variety of forms. The financial company is one of them. Class C licenses for finance companies are issued by Nepal Rastra Bank. Nepal's finance companies have been instrumental in elevating the country's economic standing. Both commercial and nationalized banks are widely available in Nepal. In Nepal, NRB has granted licenses to 17 finance enterprises. Financial institutions have a relatively recent history. Many finance businesses were founded and rapidly expanded in the industrialized nations of the UK and USA in the 1960s when the banking sector began to handle the finance company's current operations. Because they used to give faster loans, cheaper interest rates on deposits, and greater interest rates on deposits than commercial banks, they grew far more quickly than the latter.

Prior to the Finance Company Act of 2042 being passed, a small number of insurance companies and Karmachari Sanchaya Kosh operated as non-banking financial organizations in Nepal. The public's savings were being embezzled by the unlicensed sector under the guise of Upahar and Dhukuti schemes, which made the Finance Company Act necessary. Although the majority of the program organizers designed them, people exhibited a lot of interest and passion in them. The government felt the need for finance companies and introduced the Finance Company Act, 2042, taking into account the interest that people had in these programs, the advantages of deploying such savings in the productive sector, the incapacity of the banking sector to carry out capital market activities, and the need to meet consumers' credit needs. However, since the statute only became operative in 2049 after certain revisions, no financing business was established until that year. It wasn't until the NRB granted permission for co-ops established under the Co-operative Act, 2048, to take deposits and extend loans that a wave of finance businesses started to emerge. The first finance firm, "Nepal Awash Bikash Bitta Company Ltd," was founded in 2049 and is supported by Nepal Bank Limited, Rashtriya Banijya Bank, Agriculture Development Bank, and Nepal Arab Bank Limited. Nepal Finance and Savings Company Limited was founded by the private sector in the event year.

A number of non-banking financial institutions have developed significantly in a short period of time. The number of insurance providers, cooperatives, non-governmental organizations permitted to engage in some banking operations, and postal savings banks is also increasing. Their rapid expansion can be attributed to a number of factors, including a higher interest rate on deposits, lower administrative costs, quick decision-making and service, less liquidity, and a high demand for consumer loans. Additionally, they have eliminated demerits and reduced the scope of the Dhukuti and Upahar programs.

However, the demise of the banking industry has negatively impacted finance companies in Nepal, particularly those in South East Asia. The public's trust in them has not yet been gained. Rather than focusing on the interest rate, people are now evaluating the security of their deposit. Due to excess liquidity with banks that they borrowed at a lower interest rate and used to buy National Savings Bonds with higher yields, the majority of their financing companies are profitable. In order to protect their profits, Nepal Rastra Bank

has decided to forbid financial corporations from buying national savings bonds. Banks have mostly ignored this industry, thus they must expand their fee-based operations. They will face difficulties if they focus just on credit-deposit. Furthermore, there are inconsistencies in the NRB's regulations governing the loan and deposit periods. Despite the fact that there are many non-banking financial institutions, the majority of them are located in cities. Other areas that these companies should be aware of are unhealthy competitions, a lack of loan diversification, and disputes among promoters.

As the nation's highest monetary authority, Nepal Rastra Bank (NRB) began to oversee and regulate the finance sector, particularly towards the close of the 1990s, by giving financial institutions instructions. In order to preserve the financial stability of these institutions, increase private sector trust in the liberalized financial system, and safeguard investor interests, it started the practice of offside and onside supervision of financial institutions. In order to assess the health of financial institutions, it has implemented the CAEL (capital adequacy, asset quality, earnings, and liquidity) system. Due to complete disclosure of all necessary financial information, it has not yet used the CAMELS to assess the financial performance and examine the financial health of financial institutions in Nepal. Only during the 2001–2002 fiscal year did the NRB order banking firms to publish financial data consistently. There are finance corporations of the national and 1-3 district types. The capital base requirements for finance businesses operating at the national and regional levels, as well as those of other financial institutions, have changed. the initial NRs. 200 million and NRs. 100 million, respectively, of the new paid-up capital base. Paid-up Capital of NRs. 300 million is required by certain finance organizations that also serve as merchant banks. For finance businesses operating at the national and small levels, the new capital base requirements are NRs. 800 million and NRs. 400 million, respectively.

This article aims to evaluate the performance and financial health of finance companies within the CAMEL framework.

1.1.1 Introduction of Sample Organizations under Study

Goodwill Finance Limited

As a top supplier of financial solutions, Goodwill Finance Limited (GFL) stands out for its special blend of commitment and flawless execution. In 1995, Goodwill Finance Limited was licensed by Nepal Rastra Bank to operate as a financial institution, with the

goal of offering the greatest financial services for success. It was founded on 2051 BS as a public limited company under the Financial Company Act 2042. GFL's 2020 annual reports state that the business has Rupees 1,000,000,000 in authorized capital, 800,000,000 in issued capital, and 800,000,000 in paid-up capital. However, the promoter owns 51% of the Paid-Up Capital, with the public holding the other 49% (www.goodwillfinance.com.np).

The Nepal Stock Exchange Limited (NEPSE) is where the company's shares are listed. This company's goal is to improve Nepal's economic situation through recognizing the various demands of its clientele, investing in various economic sectors under the framework of economic liberalization policies, and offering a wide range of financial services to both individuals and businesses (www.goodwillfinance.com.np).

ICFC Finance Limited

Renowned for its precise and committed delivery of outstanding financial solutions, ICFC Finance Limited (ICFC) is a well-known financial organization. Since its founding, ICFC has made a commitment to offering excellent financial services that promote wealth and success. With the goal of becoming a major force in the financial industry, ICFC began operations as a financial institution regulated by the Nepal Rastra Bank. On 2052 BS, the corporation was founded as a public limited company in accordance with the Financial Corporation Act 2042 (www.icfcbank.com).

The firm has an Authorized Capital of Rupees 2,000,000,000, an Issued Capital of 1,500,000,000, and a Paid-Up Capital of 1,500,000,000. These figures are based on the most recent data available from ICFC's annual reports (2020). The remaining 40% of the Paid-Up Capital is owned by the general public, with the promoter owning 60% of it. The Nepal Stock Exchange Limited (NEPSE) is the platform where ICFC's shares are listed and exchanged, a notable indication of the company's dedication to accountability and transparency (www.icfcbank.com).

The goal of ICFC Finance Limited's operations is to strategically invest in a variety of economic sectors in accordance with the principles of economic liberalization, thereby substantially contributing to Nepal's economic growth and development. The company takes great satisfaction in its capacity to understand the specific needs of its wide range of

clientele and provide both people and businesses with a full range of financial services. Through innovation and a customer-first mentality, ICFC seeks to strengthen the nation's economy and improve the financial security of its citizens (www.icfcbank.com).

Reliance Finance Limited

With a license from Nepal Rastra Bank to provide financial services throughout the nation, Reliance Finance Limited (RFL) is a 'C' Class financial company that was founded in 2066 B.S. As the 83rd Finance Company of Nepal, it was established on the 18th of Mangshir 2066 in accordance with the Bank and Financial Institution (BAFIA) Act 2063. The Company's registered office is situated at Pradarsani Marg, BJ Bhawan, Ward No. 28, Province-3, Kathmandu Metropolitan City. The company's authorized capital is 1,000,000,000 rupees, its paid-up capital is 832,416,063 and its issued capital is 832,416,063, as per the RFL annual reports for 2020. While the promoter owns 51% of the Paid-up Capital, the general public owns the remaining 49% (www.reliancenepal.com.np).

Pokhara Finance Limited

In 2053 B.S., Pokhara Finance Limited (PFL) was founded. PFL's 2020 annual reports state that the business has NPR 1500 million in authorized capital, NPR 917.28 million in paid-up capital, and NPR 917.28 million in issued capital. Its headquarters are located at Pokhara-9, Kaski's New Road. The public owns 49% of the company's shares, making up 51% of the total ownership. Among the oldest financing companies in operation in Nepal at the moment is this one (www.pokharafinance.com.np).

Providing financial services to a diverse range of clients, including small business owners, merchants, priority sector participants, underprivileged members of the public, and industries, is the company's main goal. It has been able to serve a big number of clients and deliver top-notch services during the course of its 22-year existence. Additionally, it ensures that our shareholders' rights are upheld and that people are assisted in improving their economic circumstances (www.pokharafinance.com.np).

Progressive Finance Limited

Respected financial company Progressive Finance Limited (PROFL) is well-known for its constant commitment to offering outstanding financial solutions with the highest level of

accuracy and care. Since its founding, PROFL has been motivated by a steadfast dedication to providing top-notch financial services with the goal of promoting the success and prosperity of its clients. With the ambitious objective of becoming a major player in the financial industry, PROFL began operations as a regulated financial institution governed by the Nepal Rastra Bank. The company was founded on 2055 BS as a public limited company under the Financial Company Act 2042. Its solid foundation is based on good governance and customer satisfaction practices (www.pfltd.com.np).

Based on the most recent information available from PROFL's annual reports (2020), the firm is proud of its remarkable Rupees 2,500,000,000 Authorized Capital, 1,800,000,000 Issued Capital, and 1,800,000,000 Paid-Up Capital. The promoters' unwavering devotion is demonstrated by their ownership of 55% of the Paid-Up Capital, with the public owning the remaining 45%. PROFL's involvement in the Nepal Stock Exchange Limited (NEPSE) is noteworthy as it demonstrates the company's transparency and accountability towards its stakeholders. PROFL is unwavering in its commitment to making a substantial and positive impact on Nepal's economic development. The business aligns its operations with the ideas of economic liberalization by making strategic investments in a variety of economic sectors (www.pfltd.com.np).

1.2 Statement of Problem

In the nation, financial institutions have proliferated. Given the magnitude of our financial system, there appear to be more BFIs than usual. The 2011 Merger Bylaws were issued by the NRB with the goal of enhancing financial institution conditions. The rationale behind bank and financial institution mergers has matured. Due to merger bylaws, the number of financial businesses licensed by the NRB increased from 17 in 2017 to 21 in mid-January 2023. What has been the performance of finance companies over this time frame? Do they adhere to NRB regulations?

The soundness of a financial institution is evaluated using the following criteria: earnings, liquidity, asset quality, management, and capital adequacy (CAMEL). While some financial institutions have a mountain of non-performing assets, others have very low capital adequacy ratios. In a similar vein, it seems that financial institutions lack an appropriate mechanism for ensuring that certain financing companies' credit

classifications and offerings are accurate. Financial statements are typically used to determine a company's profitability status, but it is important to consider whether or not they accurately depict the company's entire performance. The primary goal of this study is to evaluate the financial stability of financing companies under the CAMEL framework. The following are the primary queries this study attempts to answer:

1. What is the position of financial performance of commercial banks in Nepal?
2. What is the relationship between non-performing loan ratio, capital adequacy ratio, employee to operating expenses, interest to loan and advance, cash reserve ratio, return on assets and earnings per share of commercial banks in Nepal?
3. Does non-performing loan ratio, capital adequacy ratio, employee to operating expenses, interest to loan and advance, cash reserve ratio and return on assets effect on earnings per share of commercial banks in Nepal?

1.3 Objectives of the study

The main objective of this study is to evaluate the comparative analysis of the financial performance of the five finance organizations using financial ratio analysis and other statistical methods. To strengthen the examination of the sample banks' comparative financial performance, the following objectives are also included:

1. To access the position of financial performance of commercial banks.
2. To examine relationship between non-performing loan ratio, capital adequacy ratio, employee to operating expenses, interest to loan and advance, cash reserve ratio, return on assets and earnings per share of commercial banks.
3. To analyze the impact of non-performing loan ratio, capital adequacy ratio, employee to operating expenses, interest to loan and advance, cash reserve ratio and return on assets on earnings per share.

1.4 Significance of the Study

The financial performance of a few chosen financing companies in Nepal is examined in this study within the CAMEL framework. The CAMEL rating system will be an essential and practical tool for evaluating any financial institution's financial performance and will give the supervisory body a framework. Understanding the current issues facing financial institutions, making recommendations for their solid financial health, and developing strategies and policies to keep things running smoothly all help.

This report will also be highly helpful to policy makers because it examines how banks are adhering to laws and policies that regulate the financial industry. In addition, it is intended that the study will enable stakeholders make more informed investment decisions and that banks would be able to mark and reassess their success using the performance measurement employed in the research.

This survey will also include clients of financial institutions, which have been the center of attention, in order to determine which banks should handle their money in order to provide the highest level of customer satisfaction. Through this study, businessmen that are constantly criticizing banks for the ridiculous increases in their interest rates and the glacial pace at which credit facilities are extended to them can make an informed decision about which banks will best serve their interests.

The government, academics, investors, finance businesses, researchers, students, and many other stakeholders value the study. As a result, people who wish to research this topic more thoroughly and broadly will find this study to be beneficial. Finally, it is anticipated that the study will provide a little bit of literature to the field of financial performance analysis and finance companies.

1.5 Limitations of the Study

The current study is not unique because all research is done within specific parameters. The case study of five finance companies, on which the report is based, might not accurately depict the general situation of all finance companies. These factors are the only ones covered by the study.

1. The study is only confined to financial performance analysis of five national finance companies, so all the activities and intended to analyze the financial performance.
2. The study covers the period from 2069/70 to 2078/79 (2012/13 to 2021/22).
3. The evaluation is made through the available financial data published and presented by the organizations so the outcome is based on the reliability of available data.
4. The study is mainly focused on CAMEL framework to evaluate financial performance of the selected banks.

1.6 Chapter Plan

Each of the five chapters in the proposed study would focus on a different facet of the Financial Performance and CAMEL framework. These chapters go by the following titles:

Chapter: 1 Introduction

The background, study focus, problem statement, study objectives, study justification, and study limitations of Goodwill Finance Limited, ICFC Finance Limited, Reliance Finance Limited, Pokhara Finance Limited, and Progressive Finance Limited are all covered in this chapter.

Chapter: 2 Review of Literature

The second chapter covers a review of the literature as well as an examination and discussion of some of the work that was previously done in CAMEL examination.

Chapter: 3 Research Methodology

The research technique used to conduct the current study is included in this chapter. It covers research design, data sources, data gathering methods, data processing, data analysis tools, and technique limitations.

Chapter: 4 Presentation and Analysis of Data

The topic of analytical frameworks is covered in the fourth chapter. It comprises analyzing the financial statements of the five finance businesses operating under the CAMEL framework, comparing them to the rules established by Nepal Rastra Bank, as well as to one another and the general conclusions of the five finance companies.

Chapter: 5 Summary, Conclusion, and Recommendations

This concludes the chapter, which includes the study's suggestions, conclusion, and suggestive framework comprising the problems and gaps.

Finally, the appendix and reference are provided.

CHAPTER 2
REVIEW OF LITERATURE

2.1 Theoretical Review

A theoretical review aims to define existing theories and their connections as well as point out areas in need of further research. As a result, new theories are generated that need further research. It is not an application study, but a study of theory.

2.1.1 The capital buffering theory

In order to reduce the regulatory penalties that would arise from a capital requirements violation, banks that are approaching the regulatory minimum capital ratio may be incentivized to enhance capital and decrease risk, as per Jokipi and Miline's (2011) buffer theory of capital. Banks would prefer to keep a buffer of surplus capital in order to reduce the possibility of not having enough capital, especially if their capital adequacy ratio is extremely variable. The capital adequacy criteria were measured in the study using deposits from clients, total assets, loans and advances, and shareholder funds. Nonetheless, profit after taxes and earnings per share were utilized to assess banks' performance. Using OLS estimating techniques, the study discovered that capital sufficiency standards significantly impact bank performance.

Capital sufficiency is a key factor to consider while examining the financial 8 performance of deposit money banks in Nigeria. One of the numerous purposes of sufficient capital is to provide protection against losses that are not compensated by current earnings. It also increases the trust of depositors, the public, and Nigeria's regulatory agencies. The empirical results of the study show that deposit money banks with high capital ratios are perceived as safer and have more access to capital. The enhanced financial performance of the banks can be interpreted as this benefit. Therefore, the higher their capital ratio, the better off Nigerian deposit money banks financially are Given that this study has shown that capital sufficiency has a positive effect on these banks' performance, it may be emphasized that it is essential for improving the safety and soundness of deposit money institutions in Nigeria. This implies that appropriate and sound bank capital management can promote and result in improved financial performance of deposit money institutions through efficient deposit management. (2019, Akinleye & Fajuyagbe).

2.1.2 Trade-off theory

The trade-off theory of capital structure states that before choosing how much debt and equity to use, a company must consider the costs and 12 benefits of different financing methods. The classic version of the theory was developed by Kraus and Litzenberer (1973), who looked at how to measure the benefits of debt repayment against the deadweight costs of bankruptcy. It claims there are advantages—like tax benefits—and disadvantages—like the costs of financial hardship connected with financing debt. The classic trade-off hypothesis helps to explain some of the leverage development among companies listed on the Swedish Stock Exchange. After inter-industry leverage differences are confirmed, an industry-comparing approach is employed to examine the explanatory power of the trade-off hypothesis across industries. A partial adjustment model is used to quantify the firm's progress toward optimal leverage targets. To assess target advantage, two approaches are employed. First, characteristics particular to every company explain why firms have the best leverage. Second, the industry standard approximates the optimal capital structure. The study comes to the conclusion that there are significant differences in leverage between industries and that the increase in leverage in large and midcap companies can be explained by the trade-off theory. However, the tradeoff framework is not comprehensive enough to provide an industry-level rationale for companies' desired leverage (Persson & Ridderström, 2014).

2.1.3 Contingency approach to management

The contingency approach to management is based on the assumption that there isn't a single best way to manage. "Contingency" refers to the existing contingent circumstances. Effective organizations must modify their planning, organizing, leading, and regulating tactics to suit the particular requirements of their surroundings. Put another way, managers should understand the elements of a work, the requirements of the management position, and the parties involved as parts of a whole management scenario. The next step for the leaders is to put all of these components together into a solution that makes the most sense in the particular circumstance. Given the dynamic and ever-changing nature of people, organizations, and events, the contingency approach to management is predicated on the idea that there are no universal solutions to many problems. There is often more than one proper answer when managers ask, "What is the right thing to do?" Which kind of structure is preferable for study, biological or mechanical? A functioning structure or one that is divided? Do managers have long or short horizons? Are hierarchical structures

tall or flat? Are the coordination and control mechanisms straightforward or intricate? Which type of study—centralized or decentralized—is preferable? Is it better for researchers to use task- or people-oriented leadership styles? Which reward programs and strategies for motivation should researchers use? Thus, the response is influenced by a multitude of complex internal and external factors.

2.1.4 Theory of liquidity and risk management

Theories are applied to formulate a dynamic financial contracting problem with hazardous inalienable human capital. In theory, risky human capital—which includes retained earnings, potential credit drawdowns, and hedging through futures and insurance contracts—leads to both endogenous liquidity limits and dynamic liquidity as well as risk management policies through standard securities that businesses regularly pursue in practice (Yang, Bolton, & Wang, 2015).

2.1.5 Theory of enterprises risk management

It is now essential for business risk management to be incorporated into contemporary corporate governance changes, which include a wide range of concepts, policies, and practices. This report provides empirical data on the current maturity level of ERM, presenting it as a field that is still developing based on our own field research and an analysis of academic literature. More and more academics are examining the adoption and effects of enterprise risk management, or ERM; yet, the research is inconsistent and noncommittal because the study claims that the practical implementation of ERM is not adequately described. The study proposed a potential design component that could account for observable variety in the ERM mix that firms used, and it offered a contingency theory of ERM using three extensive case studies, over 250 interviews with senior risk officers, and a ten-year field project. An additional dependent variable that has been added to the study is the type of risk that a certain ERM strategy manages (Mikes & Kaplan, 2013).Among the ideas of risk management are financial economics, agency theory, stakeholder theory, and new institutional economics. The results show that the agency theory and financial economics hypotheses are not well supported by the evidence, but the two more modern approaches—stakeholder and NEI—may offer new insights into the variables influencing risk management. The disappointing results clearly show that more significant variables are required that are not addressed by the existing hypotheses. Further research is necessary to identify these factors and then incorporate

them into an extensive theoretical model in order to better understand how firms manage risk (Marek & Carol, 2011).

2.2 Empirical review

2.2.1 Review of International Articles and Journals

Kouser, Muhammad, Mehvish and Azeem (2011) investigated regarding the financial system based on Islamic rules of financing. These days, this idea is really popular. There are a wide variety of model types based on Islamic financing approaches available these days. One of the main requirements for Islamic banks and financial institutions is adherence to shariah. This study looked at normal banks that are similar to Islamic banks as well. In this study, the performance of conventional banks and fully Islamic banks is compared using the CAMEL model. This approach is appropriate and useful for evaluating the managerial and financial assessment of financial institutions. CAMEL stands for capital adequacy, asset quality, management, earnings, and liquidity, as was previously mentioned in earlier sections. Panels 1 and 2 present data analysis and empirical findings that suggest Islamic banks' financial performance is not significantly better than that of conventional banks. In all cases, the p-value is less than the selected significance level of 5%. It contradicts our theory that it is better than that of Islamic banks because the loan loss ratio is the only situation in which it matters. The statistical data obtained from the t-test and Mann-Whitney tests suggest that there is not enough evidence to substantiate the assertion that Islamic banks outperform conventional banks. The one tail test, which compares means, establishes whether there is no appreciable difference between the ratios of the two types of banks, or whether a particular ratio is higher for Islamic banks. Every study hypothesis is refuted in this way. There isn't a better ratio between Islamic and regular banks.

Jha and Hui (2012) compared the financial performance of different ownership structured commercial banks in Nepal based on their financial characteristics and identify the determinants of performance exposed by the financial ratios, which were based on CAMEL Model. From 2005 to 2010, the financial information of eighteen commercial banks was examined. Additionally, an econometric model (multivariate regression analysis) was created to estimate the effects of the capital adequacy ratio, non-performing loan ratio, interest expenses to total loan, net interest margin ratio, and credit to deposit

ratio on these banks' financial profitability, or return on assets and return on equity. The results show that public sector banks are significantly less efficient than private sector banks, even while local private banks are just as efficient as foreign-owned (joint venture) banks. Furthermore, the estimation results demonstrate that while the capital adequacy ratio had little effect on return on assets, it had a significant impact on return on equity. The net interest margin and interest costs on the entire loan also had a big effect.

Mishra and Aspal (2012) evaluated the financial performance of banking and financial sector the researchers, academicians and policy makers have investigated several studies in different perspectives and in different time periods. This article claims that the Reserve Bank of India could use these ratings to determine whether banks' operations require closer oversight. The main objectives of the CAMEL system are to ascertain the problems that the banks are having, compare the performance of various banks, and carry out an empirical test to ascertain whether the CAMEL norms can be implemented and if so, how that would impact the performance of SBI Groups. The study's conclusions state that annual CAMEL scanning helps commercial banks evaluate their financial standing and advises them of steps they should take to guarantee their sustainability.

Roman and Alina (2013) focused on 15 banking institutions that operate in Romania, for which aimed to highlight their soundness through certain representative indicators that express the main content of the six parameters of the CAMEL framework. Based on a significant range of measures that represent the financial health and soundness of the banks, our research shows that the distribution of the banks in our sample is rather varied. As a result, BancaCamercialaRomana, one of the largest banks in the sample and among the top five banks overall, was limited to the top five rankings in terms of profitability and management quality. Instead, the aforementioned bank did poorly in terms of the liquidity measures. The selected banks all appear to have sufficient capital and are more resilient to any losses that might result from the action that was done. In particular, our analysis shows that Piraeus Bank has the lowest asset quality among the three criteria analyzed. The information about profitability and earnings shows that OTP Bank Romania and MKB Romexterra have had the lowest financial outcomes. Liquidity study raises questions, especially in relation to ProCredit Bank. But when it comes to being more vulnerable to market risk, MKB Romexterra and ProCredit Bank stand out in particular. Because their research has emphasized both the advantages and disadvantages

of the selected banks, it has contributed value. This has made it easier to pinpoint the crucial facets of the banking sector that the entities in charge of making decisions about the banking system ought to focus on in order to enhance and reinforce the soundness of the banks. As a starting point for future research, the study intends to objectively assess the impact of important macro- and micro-level factors on the financial soundness of banks operating in Romania and other EU nations.

Ferrouhi (2014) aimed to evaluate Moroccan financial institutions' capital adequacy, asset quality, management, earnings and liquidity and then determine financial performance, operating soundness and regulatory compliance of Moroccan financial institutions. Using the CAMEL model on major Moroccan financial institutions from 2001 to 2011, we are able to create a list of banks. The study used the debt-to-equity ratio to analyze the capital adequacy parameter; the return on equity was used to analyze the management quality parameter; the return on assets was used to analyze the earnings ability; and the deposits on total assets ratio was used to analyze the liquidity ability. Using the CAMEL model on major Moroccan financial institutions from 2001 to 2011, we are able to create a list of banks. The study used the debt-to-equity ratio to analyze the capital adequacy parameter; the return on equity was used to analyze the management quality parameter; the return on assets was used to analyze the earnings ability; and the deposits on total assets ratio was used to analyze the liquidity ability.

Mikail, Yusufazari and Aykut (2014) conducted to find out about economic growth of countries is highly depended on growth of banking system of that country. Their study's objective was to assess fifteen Turkish banks—both state-owned and private—for their performance between 2005 and 2012. Fifteen banks are ranked in this study according to how well they performed on the CAMEL ratio. This analysis shows that all the banks that we examined are in a higher tier of the Basel committee. When it came to capital adequacy, Ada Bank was ranked #1 as well. In terms of asset quality, Zirrat Bank came in first place. Ak Bank came in top when it comes to management caliber. Halk Bank ranked highest in terms of earning quality, whereas Ziraat Bank ranked first in terms of liquidity. In the CAMEL method examination, Ziraat Bank outperformed all other banks. Garanti Bank, Is Bank, Vakif Bank, and Ak Bank were the other banks that performed the best. The weakest bank out of fifteen banks had the lowest efficacy, followed by Tekstil, Yapıkerdi, Seker, and Ada banks.

Anojan and Nimalathasan (2014) aimed to evaluate performance is much needed for every firm as well as banks. Financial performance essentially takes into account every component of the company from a financial standpoint, including capital, liquidity, earnings, risk, and the firm's managerial stability. The CAMEL grading system is among the most effective ways to compare the financial performance of banks. Numerous countries use the CAMEL grading method, which is a widely used quantitative technique. The pace at which a country's banking industry is growing affects that country's economic progress. The aim of this study was to use the CAMEL grading system to compare the financial performance of public and private sector banks in Sri Lanka. The findings suggest that private sector banks perform better than state banks in terms of profitability, liquidity, and enough capital. Private banks do better in Sri Lanka, according to their excellent asset quality and management. In the end, one could argue that private banks outperform state banks in Sri Lanka in terms of financial performance. The commercial banks in Ceylon are performing well financially, followed by BOC, HNB, and People's Bank, which is performing mediocrely. Based on the study's findings, researchers can suggest strategies for Sri Lanka's commercial banking sector to help the growth of the banking sector and the nation's economy.

Rostami (2015) investigated of assessing to the performance of the bank is necessary to prepare the financial reports usually consists of a balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the financial statement. You can utilize certain ratios to show the organizational structure of industry and society. To help managers and other stakeholders understand where you stand and what makes you stand out, a ranking system has been put in place. An organization can identify its areas of strength and improvement by using the CAMEL grading process. Using the CAMEL rating system, important and practical indicators are chosen for each area in this study, and the calculated ratios are then contrasted with the banking industry average. Using the "CAMEL" model, managers can control and evaluate financial data as well as the organization's standing within an industry.

Trivedi, Rehman and Elahi (2015) conducted to inspect and distinguish the performance of four banks of India i.e. from private sector banks, Axis Bank and Kotak Mahindra Bank and from the public sector banks, Bank of Baroda and State Bank of India. The asset quality can be determined by dividing the total number of bank-approved loans by

the ratio of non-performing 16 loans. Compared to the four banks previously mentioned, Axis Bank has the fewest non-performing loans. This demonstrates that for every loan that is accepted, Axis Bank sets and maintains reasonable guidelines. The bank has excellent asset quality and little portfolio risk. With regard to non-performing assets, the State Bank of India holds the highest percentage. There may need to be more efficient portfolio monitoring for the consumers prior to loan acceptance. The standard of management is the most important factor. For the other five CAMEL components to work correctly, it is required. The board and management of Kotak Mahindra Bank are based on the four banks' ratio research. Nonetheless, the Axis bank was subject to appallingly poor management. It can be necessary to replace or fortify if safe and sound operations are sought. The CAMEL rating approach, although extensively used, is not a perfect way to evaluate banks' financial health because it depends on the subjective evaluations of onsite examiners, which are invariably qualitative in character.

Ahsan (2016) observed that the evaluation of banking functions, many of the developed countries are now following uniform financial rating system (CAMEL.RATING) along with other procedures and techniques. The CAMEL rating approach, although extensively used, is not a perfect way to evaluate banks' financial health because it depends on the subjective evaluations of onsite examiners, which are invariably qualitative in character. Although it was not made apparent which factor was employed, the study concluded that the neural network approach outperforms the multiple linear regression method. Furthermore, despite certain limitations, multiple linear regressions have been found to be a helpful method for analyzing the linear relationship between the independent and dependent variables.

Srinivasan and Saminathan (2016) aimed to analyze the significant tool to assess the relative financial strength of a bank and to suggest necessary measures to improve weaknesses of a bank. In India, the RBI implemented this strategy in 1996 based on the suggestions made by the Padmanabham Working Group (1995). In the current study, an attempt has been made to rank the various commercial banks that are active in India. Foreign banks, private banks, and public banks make up the three segments of the Indian banking business. The sample of selected banks consists of twenty-five public sector banks, eight foreign banks, and eight private banks. A number of important characteristics, including capital adequacy, asset quality, management effectiveness,

earnings quality, and liquidity, have been taken into consideration while ranking using the CAMEL MODEL approach. In terms of their financial performance over the research period, public sector banks State Bank of Bikaner and Jaipur, Andhra Bank, Bank of Baroda, Allahabad 17 Bank, Punjab National Bank, IDBI Bank, and UCO Bank were ranked in the top five. Private sector banks, including Tamilnad Merchantile Bank, Kotak Mahindra Bank, HDFC Bank, Axis Bank, KarurVysya Bank, ICICI Bank, Citi Union Bank, and IndusInd Bank, shared the top five positions. Foreign banks that achieved the top five rankings during the study period were Deutsche Bank, Citi Bank, DBS Bank, HSBC Bank, The Royal Bank of Scotland, Bank of Bahrain & Kuwait, and CTBS Bank.

Syed (2017) analyzed the performance measurement of a bank has been carried out using traditional measures such as CAMEL rating techniques. A popular technique for evaluating Bangladeshi banks' performance is the CAMEL rating system. First, most Bangladeshi banks are not actively involved in management; second, banks' overall liquidity management is good; third, banks should use liquid cash for more investments; and fourth, banks should pay more attention to the issue of quality assets management, according to the study's analysis of the CAMEL rating system. During the evaluation process, the performance of the banks revealed that different establishments had obtained different CAMEL ratings. The management may find the study's findings helpful in formulating CAMEL-based policy and in making decisions about how to enhance PCBs in Bangladesh. In the end, the writers hope that this book will attract a wider audience for this topic.

Rahman and Islam (2017) conducted to indicate as an important tool for identifying the financial strengths and weaknesses of a bank. This research aids in locating such weaknesses and provides crucial remediation suggestions to address them and improve a bank's overall performance. This study aims to assess the performance of 17 specific private commercial banks in Bangladesh in terms of the CAMEL ratio between 2010 and 2016. The average capital adequacy ratio of every bank is found to be substantially higher than Bangladesh Bank's 10% aim. With an average CAR of 12.90%, City Bank has the highest of all the banks. Bangladesh Bank needs to look after City Bank because its non-performing loan (NPL) ratio (6.94%) is much greater than other banks'. It should also suggest remedial measures to minimize any potential losses brought on by the increase in NPLs. With the highest profit per employee (PPE) among the banks, Eastern Bank

appears to be significantly more efficient than the rest. One Bank's long-term profitability is remarkable when compared to other banks, as can be seen by measuring the profitability ratios. Although an excessive amount of liquidity could negatively impact profitability, Jamuna Bank has been able to sustain a sound level of liquidity. However, the study's findings might be helpful to these specific institutions' management in creating policies that will improve their overall effectiveness and financial viability.

Kumari (2017) conducted for every firm as well as banks. Basically, financial performance considers all the aspects of the firm as capital, liquidity, earnings, risk and management soundness of the firm. The CAMEL grading system is among the most effective ways to compare the financial performance of banks. Numerous countries use the CAMEL grading method, which is a widely used quantitative technique. The pace at which a country's banking industry is growing affects that country's economic progress. This study used the CAMEL grading system to compare the post-war financial performance of foreign commercial banks in Sri Lanka. The findings show that foreign sector banks do better in terms of earnings and capital adequacy when compared to the other variables.

Robin, Salim and Bloch (2018) published an article on financial performance of commercial banks in the post-reform era: Further evidence from Bangladesh. This study examines the profitability indicators of Bangladesh's commercial banks before, during, and after a phase of financial liberalization. The study uses a panel data regression framework and bank-level annual data from major commercial banks in Bangladesh for the years 1983–2012. Empirical results show that while financial reform has increased banks' net interest margin (NIM), it has not substantially affected the banks' return on equity (ROE) or return on asset (ROA). The results also demonstrate that capital strength and asset quality are the main factors influencing profitability. Thus, an appropriate banking strategy that attempts to strengthen capital base and asset quality is crucial to guaranteeing the sustainability of Bangladesh's banking sector.

Akanbi and Adewoye (2018) published an article on effects of accounting information system adoption on the financial performance of commercial bank in Nigeria. Considering how much of an influence commercial banks have on people's everyday lives, it is crucial to examine the various innovations that have been put in place to

enhance these services' financial performance. Therefore, this study evaluated the use of Accounting Information Systems (AIS) by commercial banks in Nigeria and the effect that this adoption had on financial performance. The study was conducted in Lagos State, Nigeria's Lekki Peninsula Area. Seventy-five percent of Nigeria's commercial banks have branches here. For the examination, 80 individuals were selected at random from each of the 16 commercial banks in the study area. In order to get additional information about the level of AIS use at these banks, questionnaires were distributed to the respondents. Financial reports of the selected commercial banks provided information on Return on Capital Equity (ROCE), Return on Total Asset (ROTA), Net Operating Profit (NOP), and Gross Profit Margin (GPM) during the 10 years after the implementation of AIS (2007–2017). A simple linear regression test and the Cronbach's alpha test were used to evaluate the stability of the evaluation tool as well as the impact of AIS on bank performance. The analysis indicates that commercial banks in Nigeria have embraced and are employing AIS to offer their clients services at a comparatively high degree. The findings demonstrated that there are positive and significant connections between AIS adoption and all performance indicators with α (ROCE, ROTA, GPM, and NOP).

Yusuf and Surjaatmadja (2018) published an article on analysis of financial performance on profitability with non-performance financing as variable moderation (Study at Sharia commercial bank in Indonesia period 2012–2016). Researchers define banks' profitability as their ability to make money in an economical and efficient way. This study aims to determine the effect of the financing to deposit ratio (FDR) and capital adequacy ratio (CAR) on profitability (proxied using return on assets [ROA]), with non-performing financing (NPF) serving as a moderating variable. Twelve sharia-compliant commercial banks that were active in Indonesia between 2012 and 2016 make up the study's sample. This study collected samples from up to 11 banks using a purposeful sampling technique that chooses samples according to predefined standards. Secondary data were used in this study's data collecting. The technique used for data analysis is multiple linear regression analysis. To investigate how the moderating variable influences the relationship between the independent and dependent variables in the interim, employ moderated regression analysis. The results showed that whereas CAR and FDR had a significant positive influence on profitability, BOPO had a significant negative impact. The NPF has a little effect on the link between BOPO and profitability, but it has a major negative influence on the relationship between FDR and profitability and the relationship between CAR and

profitability. NPF influences the FDR relationship to ROA as well as the moderating variable's considerable negative effect (which it can moderate). However, the moderating variable has very little effect (it cannot moderate) on the CAR relationship to ROA. BOPO link to sharia-offering Indonesian state bank during the period of 2012 to 2016.

Parikh (2018) conducted for the study of the impact of CAMEL model parameters on analysis of bank performance. Our analysis showed that different institutions have obtained different rankings in terms of CAMEL ratios. Our analysis revealed that ICICI was placed 19th out of all corporations when considering the capital adequacy ratio (CAR) criterion. The company's outstanding debt-to-equity and advances to asset performance could have contributed to this. The bank needs to keep the right amount of liquid assets on hand and endeavor to draw in new deposits in order to increase its liquidity. Banks need to streamline their procedures for monitoring credit risk, asset quality screening, and client credit. This is a critical indication because the banks have previously experienced difficult issues with nonperforming loans, which have resulted in the failure of several banks. Nonetheless, banks should concentrate on increasing their capital levels in order to enhance their financial execution. Because of this, the banks are better equipped to withstand external shocks, seize business opportunities, and improve budget execution.

Ab-Rahim, Kardin, Ee-Ling and Dee (2018) measured the performance of public listed banks in five major ASEAN countries: Malaysia, Singapore, Indonesia, Thailand and the Philippines. The capital adequacy, asset quality, earning quality, management effectiveness, and liquidity are the five components that comprise the CAMEL analysis. These factors are employed to evaluate the bank's performance. Annual data is used to compute banks' performance over the research years. To evaluate the bank's performance, two perspectives are used. First, the performance of the banking industry in ASEAN is evaluated. Second, the performance of the banking sector in each ASEAN country is examined. The survey indicates that international banks have strong capital and are more profitable. However, the presence of foreign banks in Malaysia affects the standard of financial services since, in a robust market, all banks provide their customers better, more reasonably priced banking services. Moreover, local banks have an overall ROA that is 11% greater than that of foreign banks.

Mirie and Mwangi (2018) published an article on the effect of size on financial performance of commercial banks in Kenya. The idea that commercial banks' financial success is influenced by their size is currently unsupported by strong empirical data. Thus, the purpose of the study was to ascertain how size affected the profitability of Kenya's commercial banks. For the ten-year period from 2007 to 2016, an unbalanced panel of all Kenyan commercial banks (numbers ranging from 39 to 43) was used in the study. Regression analysis was used to look at the association between size (measured by the log of total assets) and financial performance (return on equity and return on assets). It was shown that the size of Kenyan commercial banks had a beneficial effect on their financial performance. Additionally, the influence grew as the commercial bank's size did. The research recommends that policy initiatives targeted at increasing the size of commercial banks be considered, and that expansion plans (internally developed, fund raising, or mergers and acquisitions) be implemented by shareholders and managers.

Ganyam and Ivungu (2019) published an article on effect of accounting information system on financial performance of firms: a review of literature. For managers trying to stay ahead of the competition in the face of accelerating technological breakthroughs, growing demands from customers and business owners, and more awareness, the accounting information system is an essential tool. This review looks into how accounting information systems affect the financial success of businesses. The main objective is to examine the theoretical and philosophical foundations as well as empirical study on the connection between accounting information systems and the financial performance of businesses. The review's conclusions demonstrate that the financial performance of firms' costs related to their accounting information systems only partially matched the findings of earlier studies on the impact of accounting information on financial performance. According to this research, survey study designs were also used in the majority of studies carried out in industrialized nations, where computerized accounting system approaches have been widely embraced, to evaluate this association. Thus, this review recommends further research in this area to fill the vacuum in the literature.

Bashatweh (2020) analyze on financial performance evaluation of the commercial banks in Jordan: based on the CAMELS Framework. This study set out to investigate and evaluate the financial performance of Jordanian banks. To achieve the aim of the study, bank financial performance was evaluated and analyzed using the CAMELS framework.

The study sample consisted of 13 commercial banks during the years 2014–2018. The results of the study showed that most Jordanian commercial banks fit into the CAMELS framework for acceptable classification. Furthermore, a convergence of the institutions' adopted policies and procedures is shown by their rating. A number of recommendations were made by the report, one of which was that the banks reduce and better manage their operating expenses. Additionally, it recommended that Jordan's commercial bank management review their policies, facility provisioning plans, amount of necessary guarantees, and debt collection protocols. The report also recommended that bank managers develop specific and well-organized liquidity policies and allocate money to transferable to liquid accounts in order to achieve maturity consistency between liabilities and assets.

Pandian and Narendran (2020) studied on impact of financial indicators on profitability. This essay examined how financial performance metrics affect the textile industry's profitability. The hypothesis-t test and linear multiple regression analysis were used as statistical tools in this study. Financial analysts often assess a company's production and productivity performance, profitability, liquidity, working capital, fixed asset, fund flow, and social performance. Because of the accurate correlation between the balance sheet and profit and loss account parts, the financial performance analysis can identify the firm's financial strengths and shortcomings. Most organizations utilize financial data to allocate resources among various departments. Therefore, in order to assess the financial health of a business, it becomes imperative to study financial data and financial performance indicators.

Kori, Muathe and Maina (2020) published an article on financial and non-financial measures in evaluating performance: the function of strategic intelligence in Kenya's commercial bank environment. This study provides a comprehensive analysis of the role of strategic intelligence in commercial banks in Kenya. Evaluating commercial banks' performance using financial and non-financial performance criteria was the primary objective. Return on equity (ROE) was one of the financial measurements, and internal processes, learning and growth, and customer happiness were non-financial factors. This inquiry was built upon the resource-based view and balanced scorecard paradigm. The target group consisted of forty commercial banks. Additionally, the sample size of 181 was chosen proportionately using the stratified sampling approach. Data were gathered

using both closed- and open-ended questionnaires as well as online reviews. In this study, primary and secondary data were also employed. The head offices of Kenyan commercial banks provided the primary data, and the annual reports of the Kenyan central bank covering the years 2016 to 2018 provided the secondary data. The data analysis procedure involved the application of linear multiple regression analysis and descriptive statistics. The study's findings indicate a statistically significant correlation between the performance of Kenya's commercial banks and strategic intelligence. Furthermore, the use of financial and non-financial performance metrics benefits both the banking sector and the growth of the Kenyan economy. The report recommends that Kenyan commercial banks align their plan implementation and training focus with the goals of investors, based on a balanced score.

Ndungu and Bosire (2020) published an article on determinants of financial performance of commercial banks listed in Kenya". This study aimed to identify the factors that influence the financial performance of Kenyan commercial banks that are listed on the NSE. The descriptive study design employed an approach to a census that focused on Kenya's eleven listed commercial banks. Secondary data from the audited financial records of the relevant banks was used by the research to create a relationship between the study variables. To obtain statistics regarding the financial impact of the listed banks, a grid was utilized. SPSS was used to analyze the data, and statistical elements like means and standard deviations were utilized to display the findings in tables. Conclusions: Financial performance and government securities were found to have a significant and positive relationship (r = 0.680). Financial success was shown to have a comparable, mildly positive correlation with real estate (r = 0.738), loans (r = 0.922), and stocks (r =.469).

According to the study's findings, loans (p=0.000) were the most important factor, followed by investments in stocks (p=.850) and government securities (p=0.149). Real estate finance was shown to be the least significant, with a 95% confidence level. The distribution of funds among various assets and the financial performance of commercial banks were found to have a significant positive correlation (r=0.926). This means that the distribution of funds among various assets could account for 85.7% of the commercial banks' financial performance. If we add another variable, x5, for example, the model's strength will drop from 85.7% to 84.6%. Novel contribution to theory, practice, and

policy: the study suggests listed commercial banks diversify their real estate loan schemes to attract a larger clientele, since real estate plays a significant role in their financial success. It's important to research additional variables such exchange rates, inflation, and changes in interest rates. Research should also look into the poor yield of loan investments in comparison to investments in government securities.

Nalianya, and Miroga (2020) published an article on determinants of financial performance of commercial banks in Kenya: Case of listed banks on the Nairobi Securities Exchange (NSE)". According to the experts, the rise in merger and acquisition activity in recent years is concrete evidence of Kenya's banking industry's consolidation. Financial inclusion in Kenya has been steadily rising. In 2013, 59.0% of the population resided three kilometers or less from a financial services access point; by 2016, that figure had increased to 77.0%. Commercial banks, for all their notable achievements, have faced challenging times in the past. The aim of this research was to examine the variables that affect the financial performance of commercial banks listed in Kenya, with a particular emphasis on the effects of leverage, operational costs, liquidity, and capital sufficiency.
The research methodology employed in the study was a descriptive research design. As of December 31, 2016, the study's population consisted of 244 bank workers working in the operations and finance divisions of 11 listed commercial banks licensed to operate in Kenya. A representative sample of 71 respondents was chosen from the total population. All commercial banks that were listed comprised the sampling frame. The census approach was used since the population was so tiny.

Regression analysis, correlation analysis, and descriptive analysis were used to analyze the data. The research findings indicate that there was a substantial correlation between the financial performance of Kenya's listed commercial banks and the independent variables of liquidity, capital adequacy, operating expense, and leverage. Leverage had the most significant and positive effect on the financial performance of commercial banks. As a result, the study recommended that management of publicly traded commercial banks use an aggressive lending policy to maximize the use of debt in capital expenditure operations and improve the financial performance of the organization. It is also important to consider other macroeconomic and external factors that have an impact on financial performance, such as taxation and prudential regulation, which includes GDP growth, inflation, and interest rate caps.

Wisdom (2021) conducted a study on risk management and financial performance of deposit money banks in Nigeria. The goal of the study was to investigate how credit and liquidity risk management affects the financial performance of money deposit banks in Nigeria. The study employed panel methodology in addition to standard econometric techniques like the Hausman test and descriptive statistics. The results of the panel regression show a positive relationship between risk management and the financial performance of money deposit institutions. The study found a significant positive relationship between banks' asset returns and risk management. Better risk management techniques will therefore lead to higher bank returns, which will improve deposit money institutions' performance. In evaluating Nigerian deposit money banks, a number of risk indicators were crucial. A bank's performance will be erratic if it is unable to control its risks. It was shown that policies aimed at Nigerian banks had an impact on bank credit risk and liquidity risk. The study's conclusions include that banks in Nigeria should improve their capacities for credit analysis, liquidity risk assessment, and loan administration, and that regulatory agencies should concentrate more on how well banks follow the prudential norms set forth by other financial institutions as well as by themselves.

Bochaberi and Job (2021) published an article on mobile banking and financial performance of selected commercial banks in Kenya Despite the importance of financial inclusion in developing economies, financial inclusion is still experiencing a slow growth. In an attempt to increase the number of account openings, deposits, and withdrawals from their customer base, commercial banks have adopted mobile banking. Due to the fact that mobile banking transactions are substantially less expensive than those conducted at a traditional teller, banks can gain by managing even little money transfers and payments. However, the performance of commercial banks has been declining despite their use of mobile banking.

This study set out to find out how the performance of commercial banks is impacted by mobile banking. The research was conducted in July 2016 and concentrated on a select group of commercial banks: Family Bank Kenya Limited, KCB Bank Kenya Limited, Co-operative Bank of Kenya Limited, and Equity Bank Kenya Limited. The researcher used a descriptive study design. The study employed purposive sampling, which means that information was provided by respondents who were explicitly targeted. For the

investigation, both primary and secondary data were used. Primary data was collected using a questionnaire, and secondary data was obtained over a five-year period (2011–2015) from audited financial records. For the analysis, the Statistical Package for Social Sciences (SPSS) version 22 was used.

The data were analyzed using regression analysis and descriptive statistics (means, percentages, and standard deviation). The report indicates that mobile banking has an effect on the financial performance of Kenya's four major banks. The poll also found that mobile banking increases the number of transactions in commercial banks and is effective, safe, and economical. It facilitates the bank's outreach to the unbanked population as well. Thus, mobile banking should be used by commercial banks to enhance transaction volume, reduce the cost of providing services, and eventually raise profits and income. The paper suggests that policy makers consider mobile banking when formulating rules due to the expected change from physical branch networks to digitally enabled financial services and technological improvements.

Islam (2021) examined a study on performance evaluation using camel’s model: a comparative study on private commercial banks in Bangladesh. An enduring institution, banks are essential to the service industry of the modern world and support the expansion and advancement of every country's economy. The banking sector is the backbone of any economy. The current study compares and measures the performance of the banking industry using the CAMELS Rating System. To achieve the goals of the study, thirteen conventional private commercial banks have been chosen as study participants. Data has been collected from the banks' 2016–2018 annual reports and the market disclosure. The investigation's findings showed that NCC Bank has the highest rating among all the sample banks according to the CAMEL grading system. The average capital adequacy ratio of every bank is found to be substantially higher than Bangladesh Bank's 10% aim. When compared to other banks, Meghna Bank has the highest average Capital Adequacy Ratio (CAR), profit per employee (PPE), and overall efficiency. Once more, compared to other banks, Uttara Bank has higher non-performing loans (NPLs; 6.33%). It is possible to estimate the profitability metrics and observe that Uttara Bank has outstanding long-term profitability when compared to other banks.

Yeasin (2022) conducted a research on Impact of credit risk management on financial performance: A study of commercial banks in Bangladesh. The study intends to examine the effect of credit risk management on the financial performance of commercial banks because credit risk is having an impact on Bangladesh's banking sector. The study focused on six commercial banks in Bangladesh and employed a deductive research methodology. All of the secondary data from 2010 to 2019 were analyzed using panel regression analysis. We selected and looked at four factors that affect the financial performance of commercial banks in Bangladesh. The study measures bank performance using return on asset (ROA) and employs loan to deposit ratio (LDR), capital adequacy ratio (CAR), and non-performing loan (NPL) as indicators of credit risk. The Capital Adequacy Ratio (CAR) and Non-performing Loan (NPL) had a statistically significant negative impact on the financial performance of commercial banks, according to a panel data regression analysis. Conversely, the financial performance of the commercial banks was positively and statistically significantly impacted by the Loan to Deposit Ratio (LDR). Credit risk thus has a negative effect on the financial performance of commercial banks.

Agaba and Eton (2022) conducted a research credit risk management practices and loan performance of commercial banks in Uganda. The study examined the relationship between the credit risk management tactics and loan performance of the commercial banks in Mbarara City. There were nineteen commercial banks in the survey. Using a correlational approach, the relationship between different credit risk management techniques and loan performance in a subset of the city's commercial banks was ascertained. Using a standardized questionnaire, the credit staff and management of 19 commercial banks submitted numerical data for the study. Regression and correlation analysis are used to examine the relationships and effects between credit risk management and the loan performance of commercial banks in Mbarara City. The study's findings showed a strong relationship between loan performance and the discovery, assessment, monitoring, and control of credit risk. The investigation also found that a number of commercial banks lacked the experts required to evaluate the decisions made by loan officers or accurately forecast credit risks.

Magoma (2022) studied on financial performance of listed commercial banks in Tanzania: a CAMEL model approach. Examining the financial performance of seven commercial banks that were listed and traded on the Dar es Salaam Stock Exchange (DSE) throughout a five-year period, from 2016 to 2020, was the primary goal of the study. The CAMEL model was used to assess these listed banks' financial stability in-depth. The acronym representing capital adequacy, asset quality, earning quality, management efficiency, and liquidity is CAMEL. An explanatory study approach was used to completely explore the response variable (bank performance) and the explanatory variables (capital sufficiency, asset quality, management efficiency, earning quality, and liquidity) of Tanzanian commercial banks listed at the DSE.

Secondary data came from audited financial statements and annual reports. We used multicollinearity and Durbin-Watson tests for pre-regression analysis. Lastly, correlation and linear regression analysis were carried out. The findings indicate that Tanzanian commercial banks listed on the DSE are primarily impacted by capital sufficiency and managerial effectiveness. Limitations on Research and Their Effects: This study used CAMEL analysis to examine only seven listed commercial banks at Tanzania's DSE between 2016 and 2020.

Table 1

Summary of Empirical Review

Date	Writer	Title	Methodology	Objectives	Findings
2022	Yeasin	Impact of Credit management on financial performance	The study applied a deductive research design and regression analysis of panel data.	To analyze the impact of credit risk management on financial performance	Non-performing loans (NPL) and the capital adequacy ratio (CAR) have a negative and statistically significant effect on the financial performance of commercial banks. Conversely, the financial performance of the commercial banks was positively and statistically

					significantly impacted by the Loan to Deposit Ratio (LDR).
2022	Agaba and Eton	Credit risk management practices and loan performance of commercial banks in Uganda	Correlation and regression tests to analyze the relationships	examined the relationship between Credit Risk Management Practices and Loan Performance	The study's findings showed a strong relationship between loan performance and the discovery, assessment, monitoring, and control of credit risk.
2021	Bochaberi and Job	Mobile banking and financial performance of selected commercial banks in Kenya	Descriptive research design	To examine the role of mobile banking on performance of commercial banks	Mobile banking has an effect on the financial performance of the four commercial banks in Kenya. that mobile banking is affordable, safe, efficient, and increases the amount of transactions in commercial banks. It also helps the bank access the largest number of unbanked customers.
2020	Kori, Muathe, and Maina,	Financial and Non-Financial Measures in Evaluating Performance: The Role of Strategic Intelligence	Descriptive statistics and linear multiple regression analysis	To provides comprehensive discussion on role of strategic intelligence in commercial banks, in Kenyan context	Kenyan commercial banks ought to employ balanced scorecards in order to match investor interests with training goals and strategy implementation.

		in the Context of Commercial Banks in Kenya			
2020	Ndungu and Bosire	Determinants of financial performance of commercial banks listed at nse in Kenya.	Descriptive study design	The purpose of this study was to establish the determinants of financial performance of NSE listed commercial banks in Kenya	It is necessary to conduct research on additional factors including inflation, interest rate variations, and currency rates. The financial performance of commercial banks and the allocation of money showed a substantial positive association (r=0.926). The findings demonstrated that the distribution of funds among different assets accounted for 85.7% of the commercial banks' financial performance.
2020	Naliaya, and Miroga	Determinants of financial performance of commercial banks in Kenya: Case of listed banks on the Nairobi Securities	Descriptive research design	To examine the determinants affecting financial performance of listed commercial banks in Kenya with specific objectives on the effect of liquidity, capital adequacy,	In order to enhance the financial performance of their organization, managers of commercial banks that are publicly traded ought to implement a strict credit policy that optimizes the utilization of debt for capital expenditure initiatives. The liquidity, capital adequacy, operational expense, and leverage of Kenya's listed commercial banks all

		Exchange (NSE)		operational expense and leverage on performance of banks in Kenya	significantly impacted their financial performance.
2020	Gautam	Financial Performance Analysis of Nepalese Financial Institutions in the Framework of CAMEL	Descriptive cum casual research design	To detect financial health of finance companies, development banks and commercial banks as a whole is a less explored research in Nepalese context to examine the financial performance and factors influencing financial performance of Nepalese financial depositary institutions in the framework of CAMEL	The return on assets, or ROA, is highly positively correlated with ROE and capital sufficiency and negatively correlated with asset quality. Conversely, there is a significant positive correlation between return on assets (ROA) and asset quality, but a large negative correlation between capital adequacy and return on equity (ROE). The primary determinants of financial institutions' ROA, ROE, and NPM are asset quality and capital sufficiency.

2019	Ganyam and Ivungu	Effect of Accounting Information System on Financial Performance of Firms: A Review of Literature	Empirical literature relating	To review conceptual and theoretical foundations as well as empirical literature relating to accounting information system and financial performance of firms	Previous studies on the relationship between accounting information and financial performance have mostly examined the cost implications of accounting information systems. Survey study design was employed to examine this association in the bulk of studies carried out in developed economies where computerized accounting system approaches have been widely embraced.
2018	Miriemwangi	The Effect of Size on Financial Performance of Commercial Banks in Kenya	Regression analysis is used	Therefore to establish the effect size has on the profitability of commercial banks in Kenya.	that steps to increase the size of commercial banks be taken into account, and that shareholders and managers may also decide to use internal production, fund raising, or mergers and acquisitions as ways of expansion.
2018	Akanbi and Adewoye	Effects of Accounting Information System Adoption on the Financial Performance of	Cronbach's alpha test	Germane to examine various innovations to which their services are been performance effectively with financial improvement.	Nigerian commercial banks have embraced and are employing AIS to provide their customers quite advanced services. With α, there is a positive and substantial association between the use of AIS and all performance indicators,

		Commercial Bank in Nigeria			including ROCE, ROTA, GPM, and NOP.
2018	Yusuf and Surjaatmadja	Analysis of Financial Performance on Profitability with Non Performance Financing as Variable Moderation (Study at Sharia Commercial Bank in Indonesia Period 2012–2016)	multiple linear regression analysis	To determine the effect of capital adequacy ratio (CAR) and financing to deposit ratio (FDR) on profitability (proxies with return on assets [ROA]) with non performing financing (NPF) as a moderation variable	While CAR and FDR have a significant positive impact on profitability, BoPO has a significant negative impact. The NPF has a little effect on the link between BOPO and profitability, but it has a major negative influence on the relationship between FDR and profitability and the relationship between CAR and profitability.
2018	Robin, Salim and Bloch	Financial performance of commercial banks in the post-reform era: Further evidence from Bangladesh	Employing a panel data regression framework, the study uses bank-level annual	Examines the financial performance of the commercial banks in Bangladesh in terms of profitability measures before, during and after a period of financial	Financial reform has not substantially altered the banks' return on equity (ROE) or return on asset (ROA); nonetheless, the net interest margin (NIM) has increased, suggesting that asset quality and capital strength are the main factors influencing profitability. Thus, an appropriate banking strategy that attempts to

	data from major commercial banks in Bangladesh for the period 1983–2012	liberalization	strengthen capital base and asset quality is crucial to guaranteeing the sustainability of Bangladesh's banking sector.

2.2.2 Review in Nepalese Context

Sharma (2018) compared financial performance of NIBL, NABIL, SCBNL and EBL. The study attempted to examine manufacturing companies' financial performance. Examining the current state of four joint venture banks and comparing their financial performance in terms of profitability, liquidity, efficiency, and capital structure were the main objectives. The study revealed that favorable performance outcomes are largely dependent on elements like well-intentioned oversight, strong management, and diligent monitoring. While EBL failed to use its assets for profitable initiatives, NABIL showed the lowest ratio among the studied banks, suggesting areas for improvement. It turned out that SCBNL was successful in increasing net profits by using its assets wisely. With the highest ratio, EBL was able to generate more interest from its assets, and when compared to other manufacturing firms, both EBL and NABIL seemed to have more cash and bank balances.

Acharya (2019) administered a study on improving corporate governance in Nepalese financial institutions to promote growth and performance. This research is primarily focused on improving corporate governance in Nepal because of its potential advantages. The importance of the banking sector to the efficient allocation of capital in the economy is emphasized in the report. Nepal's robust capital market may attract both global and domestic investors, and the country has a lot of unrealized potential. The impact of corporate governance on a firm's success varies depending on national institutional differences. The study demonstrates that the financial performance of Nepalese manufacturing enterprises is influenced by corporate governance. Specifically, the

performance of banks is negatively impacted by the number of external directors, while performance is positively correlated with other characteristics such as board size, the presence of a CFO, and the ratio of female and minority directors.

Shrestha (2020) conducted research on the determinants of financial performance of nepalese commercial banks: evidence from panel data approach. The goal of the study was to find out how various characteristics unique to banks impact these businesses' financial success, which was measured by return on assets (net profit). As indicators, bank-specific parameters such asset quality (AQ), credit risk (CR), liquidity (LIQ), managerial efficiency (ME), and operational efficiency (OE) were used. Using the Fixed Effect model, the study came to the conclusion that bank-specific characteristics do, in fact, have a major influence on Nepalese manufacturing enterprises' financial performance. In particular, it was discovered that whereas CR has a negative impact on financial performance, ME, AQ, and OE all have beneficial effects.

Thapa (2020) conducted a study examining the financial performance of banks and their returns to investors. The study's objectives were to evaluate these banks' liquidity positions, compare and contrast their financial results, look at their relative positions, and make recommendations for improving financial performance. The results showed that retaining a steady DP Ratio is essential to winning over shareholders. SCBNL reported the highest net income during the study period, while BOK recorded the lowest. In addition, SCBNL had the greatest EPS while BOK had the lowest. NABIL and EBL both continuously distributed dividends and kept their DP Ratios higher. EBL produced the highest return on equity in the manufacturing sector out of all the companies that were examined.

Gautam (2021) explored on financial performance analysis of Nepalese financial institutions in the framework of CAMEL. Thus, the purpose of this study is to examine the financial performance of Nepalese financial depositary institutions and the factors influencing their financial performance, utilizing the CAMEL framework as a framework. This study's descriptive cum casual research design serves as its foundation. A range of Nepal Rastra Bank publications, including studies on financial stability, bank supervision, and banking and financial statistics, provided the secondary data for this study. The population under investigation include all commercial banks, development banks, and

financing companies. This study examines the financial performance of the entire population throughout the five years from 2014–15 to 2018–19. A number of variables are taken into consideration while analyzing financial performance, including earnings, liquidity, asset quality, management effectiveness, and capital sufficiency.

We used both pooled regression analysis and descriptive regression analysis. Descriptive analysis indicates that financial institutions in each category meet the NRB's capital adequacy requirements. When it comes to capital adequacy and profitability, development banks lead; when it comes to asset quality, commercial banks lead; and when it comes to management effectiveness, finance firms lead. Finance businesses hold a lot more liquidity than other financial organizations in their class. According to regression research, ROA significantly positively correlates with capital adequacy and ROE, while it has a large negative correlation with asset quality. Conversely, there is a significant positive correlation between return on assets (ROA) and asset quality, but a large negative correlation between capital adequacy and return on equity (ROE). It is primarily capital sufficiency and asset quality that allow financial businesses to optimize their ROA and ROE.

Gauttam (2022) researched on relationship between non-performing assets (NPAs) and the profitability of Rastriya Banijya Bank Ltd. The study's objectives were to evaluate the non-performing assets (NPAs) at different banks, which have presented difficulties for manufacturing firms operating in Nepal's banking industry, and to examine the connection between these firms' NPAs and profitability. The study also aimed to determine the external and internal variables impacting the conversion of performing assets into non-performing ones. The ratio of total lending to total deposits and net profit to total assets fluctuated, however the NPA-to-total lending ratio decreased, according to the empirical investigation. In addition to a declining trend in non-performing assets (NPAs), Rastriya Banijya Bank Ltd. showed an improving trend in total assets, total deposits, total lending, and net profit. The results of the correlation analysis showed a negative correlation but no statistically significant association between the amount of non-performing assets and net profit. Furthermore, it became out that Rastriya Banijya Bank Ltd. was better at controlling loans to optimize interest revenue.

Panthi, Dahal, and Thapa (2022) conducted an analysis on the performance of Rastriya Banijya Bank Limited in Nepal. The purpose of their study was to evaluate the bank's capabilities and performance and to talk about how it fits into Nepal's banking industry. Based on the PBM theory, the study emphasized the important functions that RBBL plays in a number of areas, including market control, crisis management, employment creation, social welfare, tax collection, and social and economic growth.

Pradhan (2023) conducted a study examining the financial performance of insurance companies in Nepal. They examined the relationships between important measures such insurance premium, company size, current ratio, and solvency ratio, with a particular focus on return on assets and earnings per share. They chose 21 insurance providers, 8 of which were life insurance and 13 of which were non-life, for a total of 105 observations covering the fiscal years 2070–2071 and 2074–2075. Information was obtained from the insurance and financial data of Beema Samiti as well as the annual reports of the selected Nepalese insurance companies. They evaluated the effect that liquidity management has on the financial performance of these organizations using regression analysis and correlation coefficient. Higher insurance premiums were associated with higher returns and earnings, according to their research, which also showed a positive association between insurance premium and earnings per share and return on assets.

They also discovered that larger businesses typically had higher earnings and returns. They did find, however, a negative correlation between return on assets and current ratio, indicating that a rise in this ratio was associated with a decline in returns. Similarly, lower returns were linked to a larger solvency ratio. Conversely, a greater solvency ratio also resulted in higher earnings per share, and a higher current ratio had a favorable impact on earnings per share.

2.3 Research gap

The CAMEL model employed financial statements and financial computations to assess the degree of performance exhibited by financial institutions. The majority of the study's contents were authored by foreign authors since camel models are utilized more frequently in countries other than Nepal, including the United States, the United Kingdom, India, and Africa. Thus, this thesis examines and evaluates the bank's

management, performance, and risk. This thesis uses both exploratory and descriptive approaches to analyze the literature on the relationship between bank performance and CAMEL ratios in an effort to clarify the measurement debate. Recent publications are not included in the research because they are not available in any source. In conclusion, anybody interested in this topic can view the study. Therefore, in order to support authors in our nation, this thesis examines publications from different nations.

CHAPTER 3

RESEARCH METHODOLOGY

The phrase "research methodology" refers to the numerous steps that a researcher must take in order to examine a subject with a particular objective, along with the reasoning behind each step. It can be seen as a discipline of science that examines the methods used to conduct scientific research as well as a means of methodically solving the research topic. This chapter covers the research strategy that was employed in this study to meet its goals. The general research approach is presented in this chapter. This chapter covers research design, sample size, sample selection, data collection techniques, data processing, and tools and strategies for presentation.

3.1 Research Design

The financial performance of Nepal's finance companies is examined in this study. To achieve the goal of the study, both descriptive and analytical research designs have been used. The research design is actually the conceptual framework that the study is carried out inside. The time series data used in this analysis came from annual reports that went back to 2012/13 and ended in 2021–2022. The data have been examined using trend analysis and descriptive statistics to determine the kind and strength of the link.

3.2 Population and Sample

The entire number of commercial banks is equal to the total population for the purposes of this study. Every commercial bank, then, makes up the population. Out of the total population, a sample of five finance businesses has been selected: Goodwill Finance Limited (GFL), ICFC Finance Limited (ICFC), Reliance Finance Limited (RFL), Pokhara Finance Limited (PFL), and Progressive Finance Limited (PROFL). The ten-year annual reports from the participating banks, which are made public by the institutions as an annual report after an audit, are used in this study. It runs from the 2012–13 fiscal year to 2021–2022.

3.3 Sources of Data

Secondary sources of data are used in the current examination, which was conducted to evaluate the bank's performance. The Nepal Rastra Bank, the Nepal Stock Exchange, the Ministry of Finance's Economic Survey, and the annual reports and financial statements

of GFL, ICFC, RFL, PFL, and PROFL are the main sources from which secondary data is gathered.

3.4 Data Analysis Tools

Financial instruments are used in the course of research and study operations. The primary focus is on ratio analysis since it is regarded as a very useful instrument for financial analysis that highlights a firm unit's financial and economic situation so that it may be investigated. This study examined data based on financial tools using statistical techniques including the mean, standard deviation, and coefficient of variation.

Statistical tools

Statistical approaches aid in the planning, design, data collecting, analysis, meaningful interpretation, and publication of study results.

Means

Statistical approaches aid in the planning, design, data collecting, analysis, meaningful interpretation, and publication of study results.

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

Where,

$\bar{X}$= Sum of the variables 'x'

N = No. of Observation

Standard Deviation (S.D)

The square root of a set of numbers' variance, or the square root of all square deviations between a set of values and their arithmetic mean, is the most widely used dispersion metric. It is commonly represented by the tiny Greek letter σ, which can be obtained as follows (read as sigma).

$$\text{Standard Deviation (SD)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}}$$

Coefficient of Variation (C.V)

The coefficient of variation, which is used to measure spread, is the ratio of the standard deviation to the mean for a given sample. It can also be conceptualized as the relative risk metric. The coefficient of variance and risk are intimately connected with each other.

$$C.V = \frac{SD}{Mean}$$

3.5 Research Framework and definition of variables

The accurate depiction of the structure of study variables is known as a research framework. You can identify the crucial study areas with the help of this structure. It also enables you to establish pertinent study goals and queries. The following is a discussion of the CAMEL analysis's dependent and independent variables:

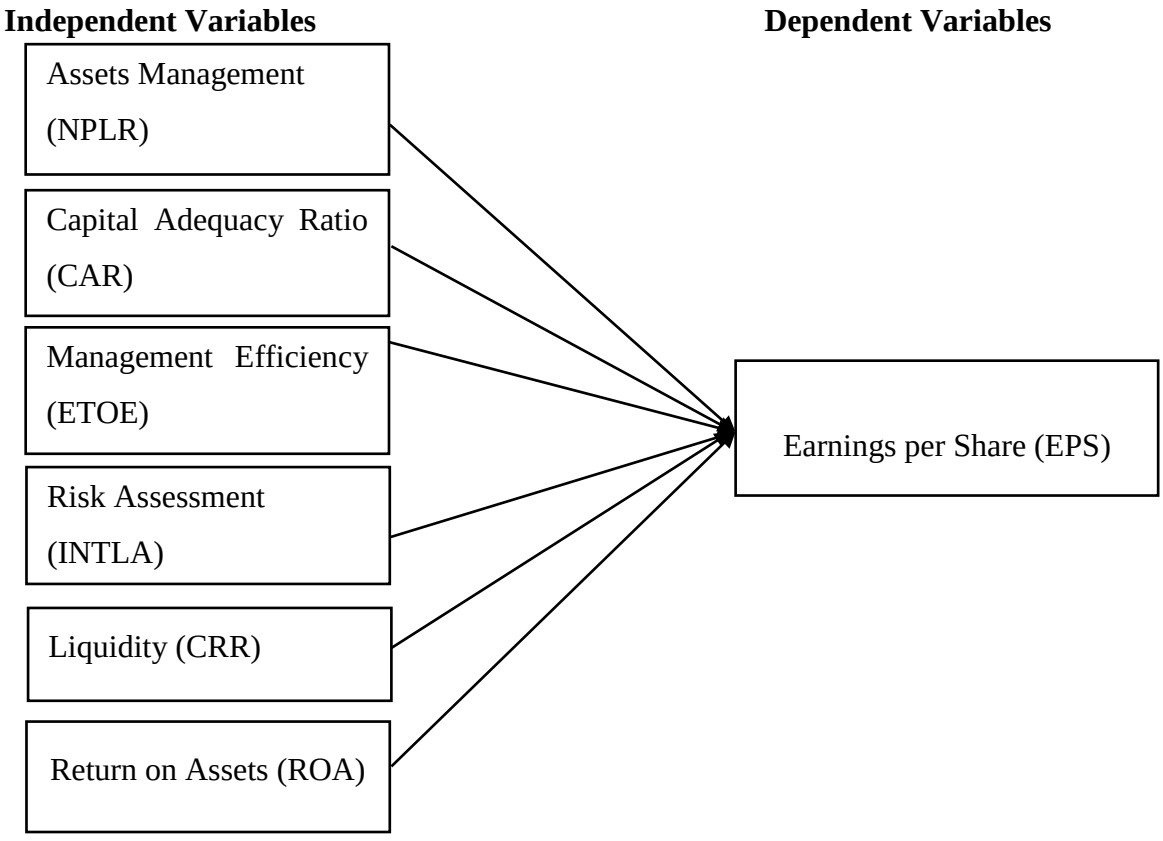

Figure 1

Research Framework

This study has defined the bank performance of two banks in comparison to an analysis of risk and management evaluation, based on the research methodology mentioned above.

A rating method for any financial assessment is CAMEL analysis. The following is a discussion of each variable's definition:

Earnings per Share (EPS)

The amount of a company's profit allotted to each outstanding share of common stock is known as earnings per share. It is among the elements that influences a business's profitability. Greater profitability and improved money mobilization by financial institutions are indicated by higher earnings, and vice versa. The study's independent variable is EPS.

Capital Adequacy

Ultimately, the ability of financial organizations to withstand shocks to their balance sheets is determined by their capital sufficiency. For the purpose of determining capital sufficiency, bank capital can be divided into two categories: Tier I and Tier II. Tier I capital is core capital, and Tier II capital is additional capital, according to Baral (2005). The purpose of minimum capital adequacy ratios is to protect banks from going bankrupt and losing depositor money by ensuring that they have enough capital to sustain a reasonable amount of losses.

Employee to Operating Expenses (ETOE)

Operating expenses include salaries paid to staff, rent for buildings and utilities, office supplies, tools, materials and equipment, and marketing costs. Three types of operating expenses can be distinguished: compensation-related expenses, office- or workplace-related expenses, and sales and marketing-related expenses.

Interest to Loan and Advance (INTLA)

Since loans are longer-term and have a clear repayment schedule than advances, they carry less risk for the lender and, as a result, usually have lower interest rates. On the other hand, because advances are usually unsecured and have a short term, which increases the lender's risk, they come with a higher interest rate.

Return on Assets (ROA)

Return on assets, or ROA, is a financial term that describes how well a business utilizes its assets to generate revenue. It shows how effectively a business uses its resources to

generate revenue. Using ROA, creditors, analysts, and investors can assess a company's profitability and operational efficiency relative to its assets. While a lower ROA may indicate inefficiencies or insufficient resource use, a higher return on assets (ROA) indicates that a company is maximizing its resources to generate income.

Cash Reserve ratio (CRR)

The Cash Reserve Ratio (CRR) is the proportion of a bank's total deposits that Nepal Rastra Bank (NRB) must be maintained as liquid cash reserves. The cash reserve ratio (CRR) is a crucial component of the NRB's monetary policy, which regulates the country's money supply, inflation rate, and liquidity. As the CRR increases, there is less liquidity with the banks, and vice versa. When inflation is high, steps are taken to reduce the amount of money flowing through the economy.

Non-Performing Loan Ratio (NPLR

The non-performing loan (NPL) ratio is used to determine the level of credit risk and quality of the bank's outstanding loans. A high ratio denotes a higher risk of loss for the bank in the event that it is unable to collect the outstanding amounts, whilst a low ratio denotes a reduced risk related to the current loans.

CHAPTER 4

PRESENTATION AND ANALYSIS OF DATA

In a research investigation, the observation and analysis stage is critical. Observation is the process of arranging the available facts in a logical manner and tabulating it. An analysis is conducted to present the financial data in tabular or graphical form with the goal of providing a corrective action. This chapter will discuss the various aspects of employee satisfaction and how financial performance is impacted in order to offer suggestions for remedial measures.

4.1 Descriptive Statistics

The descriptive statistics of all the variables utilized in the study are shown together in Table 2. It displays the descriptive statistics for each of the analysis's variables. The standard deviation, mean, maximum, and minimum values.

Table 2

Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
EPS	50	11.03	78.83	31.581	14.858
NPLR	50	.68	8.98	3.146	1.868
CAR	50	2.94	20.37	13.426	3.444
ETOE	50	18.92	67.34	44.116	12.829
INTLA	50	6.99	15.47	10.491	2.110
CRR	50	3.10	36.65	19.810	11.006
ROA	50	.58	3.22	1.705	.6299

Source: Appendix – I

The descriptive statistics table for the financial performance of finance organizations is displayed in Table 2 and provides an overview of the salient features of each variable in the dataset. Seven variables are included in the table: return on assets (ROA), employee to operational costs (ETOE), cash reserve ratio (CRR), employee to non-performing loan ratio (NPLR), employee to employee (EPS), and interest to loan and advance (INTLA).

The average value of every variable is denoted by the term "Mean". As an illustration, the average return on assets for the chosen finance companies under study is 1.705, or the mean return on assets. The corresponding mean values are 31.581, 3.146, 13.426, 44.116, 10.491 and 19.810 for earnings per share, non-performing loan ratio, capital adequacy ratio, employee to operating expenses, and interest to loan and advance. The maximum

value recorded for every variable is indicated by the term "Maximum". For instance, the highest return on assets among the ten fiscal years of the individual banks is 3.22, which is the maximum return on assets. For every variable, the "Minimum" displays the lowest value that has been seen. For example, the lowest ROA among the ten is indicated by the minimal return on assets of 0.58.

The dispersion or spread of data points around the mean is measured by the "Std. Dev." (Standard Deviation). It offers details regarding the data's variability. For instance, the return on asset standard deviation is 0.6299, indicating that the values of the return on asset fluctuate somewhat near to the mean value.

4.2 Correlation Analysis

Table 3 displays the correlation between the variables that were used in the study. It is reasonable to believe that at least one variable influences the other if there is correlation between the variables. The Karl-Pearson correlation coefficient between the variables used in the analysis is shown in this table. The P-value is shown between parenthesis. The following is the presentation of variables.

Table 3

Correlation Coefficients

Variables	EPS	NPLR	CAR	ETOE	INTLA	CRR	ROA
EPS	1						
NPLR	.382*	1					
	0.015						
CAR	0.231	-0.092	1				
	0.152	0.574					
ETOE	-.353*	-0.224	-0.292	1			
	0.025	0.164	0.068				
INTLA	0.158	0.312	.472**	-0.015	1		
	0.329	0.05	0.002	0.926			
CRR	-0.171	0.196	0.312	-0.052	.628**	1	
	0.292	0.224	0.05	0.751	0		
ROA	.522**	0.165	0.262	-0.06	0.295	0.006	1
	0.001	0.308	0.102	0.714	0.064	0.969	

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Appendix II, SPSS Output

At the 0.01 level of significance, the correlation between return on assets and earnings per share is substantial, with a high degree of positive correlation of 0.522. In a similar vein, the correlation coefficient between the non-performing loan ratio and return on assets is 0.165, indicating a weak positive link and lack of significance. Similarly, with 0.262 coefficients, the capital adequacy ratio has a negligible association and a modest degree of positive correlation with return on assets. With a -0.06 coefficient, the association between employee to operating expenses and return on assets is not significant and shows less negative correlation. Additionally, there is little relationship between return on assets and the interest to loan and advance ratios, and there is a minimal degree of positive correlation between the cash reserve ratio and the non-performing loan ratio.

4.3 Regression Analysis

The main purpose of regression analysis was to determine how the study's independent factors affected the dependent variable. The purpose of the analysis was to test the hypotheses and examine how various factors affected earnings per share (EPS), including the non-performing loan ratio (NPLR), capital adequacy ratio (CAR), employee to operating expenses (ETOE), interest to loan and advance (INTLA), cash reserve ratio (CRR), and return on assets (ROA).

Table 4

Model Summary of EPS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.426a	.181	.067	2.83240

a. Predictors: (Constant), ROA, CRR, ETOE, NPLR, CAR, INTLA

Source: SPSS Output

The factors that account for 18.10% of the variation in earnings per share (EPS) are the non-performing loan ratio, capital adequacy ratio, employee to operating expenses, interest to loan and advance, cash reserve ratio, and return on assets. The value of the r^2 coefficient of determination is 0.181.

Table 5

ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	76.473	6	12.745	3.589	.004b
	Residual	344.967	43	8.022		
	Total	421.440	49			

a. Dependent Variable: EPS
b. Predictors: (Constant), ROA, CRR, ETOE, NPLR, CAR, INTLA

Source: SPSS Output

The overall summary and significance of the independent and dependent variables are displayed in the ANOVA table. The table presents the statistical significance of the relationship between the dependent variable (EPS) and the independent variables (non-performing loan ratio, capital adequacy ratio, employee to operating expenses, interest to loan and advance, cash reserve ratio, and return on assets) at the significance level of 0.05. Since P-value is 0.004 less than 0.05.

Table 6

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			Remarks
		B	Std. Error	Beta	t	Sig.	
1	(Constant)	10.510	2.534		4.147	.000	Sig
	NPLR	.061	.039	.236	1.581	.121	Insig
	CAR	-.126	.110	-.183	-1.143	.259	Insig
	ETOE	.163	.125	.198	1.312	.006	Sig
	INTLA	.087	.073	.173	1.183	.043	Sig
	CRR	.412	.028	.009	.762	.091	Insig
	ROA	-.104	.064	-.233	-1.630	.077	Insig

a. Dependent Variable: EPS
Source: Appendix III, SPSS Output

Regression analysis output: coefficient

The linear equation of this model is,

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + e$

$EPS = 10.510 + 0.061X_1 – 0.126X_2 + 0.163X_3 - 0.087X_4 + 0.412X_5 - 0.104X_6 + e$

Table 6 show the regression coefficient of non-performing loan ratio, return on assets, cash reserve ratio, and capital adequacy ratio all have p-values larger than 0.05, indicating a insignificant effect on earnings per share. Constant term, employee to operating expense, and interest to loan and advance have p-values that are, respectively, 0.000,

0.006, and 0.043 less than the significance level of 0.05. It demonstrates that earnings per share are significantly impacted by constant term, employee to operating expenses, and interest to loan and advance.

The beta coefficient of constant is 10.510 which shows the value of EPS is 10.510 when all variables are equal to zero. Likewise the beta coefficients of ETOE and INTLA are 0.163 and 0.087 respectively which shows for a unit increment in the value of ETOE, the value of EPS increases by 0.163 unit and for a unit increment in the value of INTLA, the value of EPS increases by 0.087 units.

4.4 Major Findings and Discussion

- In this study, capital sufficiency, asset quality, management, earnings, and liquidity are the independent variables. The study has measured and compared risk and management performance using statistical and financial methodologies.
- It states that the capital market in Nepal is extremely erratic. Regarding this, the average value of every variable is represented by the "Mean". The maximum value recorded for every variable is indicated by the term "Maximum". For every variable, the "Minimum" displays the lowest value that has been seen. The dispersion or spread of data points around the mean is measured by the "Std. Dev." (Standard Deviation).
- There is a strong positive association and statistical significance at the 0.01 significance level between return on assets and earnings per share.
- Similarly, there is little to no significant link and a modest degree of positive correlation between the non-performing loan ratio and return on assets. Similarly, there is little to no positive association and a negligible relationship between capital adequacy ratio and return on assets.
- There is no substantial association between employee to operating expenses and return on assets, and there is less of a negative correlation. Additionally, there is a strong positive link between interest on loans and advances and NEPSE, while there is little association between the cash reserve ratio and return on assets.
- The non-performing loan ratio, cash reserve ratio, return on assets, and capital adequacy ratio all have p-values larger than 0.05, indicating a negligible effect on earnings per share. It demonstrates how earnings per share are significantly

impacted by constant term, employee to operating expenses, and interest to loan and advance. The non-performing loan ratio, employee to operating expenses, interest to loan and advance, and cash reserve ratio all have a positive effect on earnings per share; the capital adequacy ratio and return on assets have a negative effect on earnings per share.

CHAPTER 5
SUMMARY, CONCLUSION AND RECOMMENDATION N

This chapter presents a concise synopsis of the entire investigation and elucidates the principal findings. Furthermore, the main findings are covered in a different portion of this chapter, which is followed by some implications for the banks' financial results. The goal of the study was to use CAMEL analysis to assess the financial performance of finance companies operating in Nepal.

5.1 Summary

This study aims to do a financial analysis of Nepal's finance companies. Additionally, it will look at the average performance of the banks using secondary data that includes a range of financial indicators and selected samples. The financial sector, which makes up a sizeable amount of the national market, has long been Nepal's economic engine.

The study's background and topic matter are covered in this chapter. It includes the research introduction, which provides an explanation of the study's history, problem description, aims, justification, and limitations. In the second chapter, the relevant material has been reviewed with regard to the theoretical foundations of banking principles, as well as journals, papers, and previous theses. The research techniques utilised to evaluate the profitability and liquidity of the development banks under examination are covered in the third chapter. The fourth chapter presents, assesses, and interprets the data using statistical and financial techniques. Ultimately, the study's summary, conclusion, and recommendations are provided in the fifth and final chapter.

This study's primary goal is to examine the variables influencing financial performance of finance companies. The remaining particular goals are To examine relationship between non-performing loan ratio, capital adequacy ratio, employee to operating expenses, interest to loan and advance, cash reserve ratio, return on assets and earnings per share of commercial banks and to analyze the impact of non-performing loan ratio, capital adequacy ratio, employee to operating expenses, interest to loan and advance, cash reserve ratio and return on assets on earnings per share. Therefore, it is crucial to keep in mind that the majority of bank failures worldwide are caused by the decline in the value of advances and loans.

The majority of the secondary material used in this study came from public records, books that were published, unpublished reports, essays written by various authors, yearly reports from the chosen companies, and so on. Out of the seventeen finance companies, five sample have been included in this study. The data and information used in this study span just a decade. Five samples were employed in my research: one was a purposive sample, while the other researcher used cluster sampling. This statistical tool analyses data from the fiscal years 2012/13 to 2021–2022.

Descriptive research design has been used to carry out the methodology; however, prior researchers employed generalized methodology. Lastly, this analysis demonstrates the substantial correlation between the dependent and independent variable of selected development banks. Moreover, NPLR, CAR, ETOE, INTLA, CRR and ROA have a large effect on EPS. Similarly, there is little difference in performance compared to NPLR, CAR, ETOE, INTLA, CRR and ROA.

Research using both descriptive and causal comparison methods has been conducted in order to meet the specific goal of the study. To examine the trends and current state of financial performance, descriptive design is employed. To calculate the effect of NPLR, CAR, ETOE, INTLA, CRR and ROA on earnings per share (EPS) of Nepal's finance companies, a causal study design is employed. Secondary data were employed in this investigation.

5.2 Conclusion

The following conclusion has been reached based on the examination and interpretation of the data.

The results of the correlation analysis showed that there is a strong positive connection and that the link is significant at the 0.01 level of significance between ROA and EPS. In a similar vein, there is a strong positive correlation but no statistically significant association between NPLR and ROA. Similarly, CAR exhibits a strong positive association and a negligible relationship with ROA. With a -0.06 coefficient, the association between ETOE and ROA is not significant and shows less negative correlation. Additionally, INTLA and CRR have a negligible link with ROA and a high

degree of positive correlation and low degree of positive correlation with NPLR, respectively.

The regression's final result illustrates how risk assessment, liquidity, return on assets, capital adequacy ratio, management effectiveness, and asset management all affect earnings per share. It demonstrates the statistically insignificant relationship between loan and advance, non-performing loan, and loan loss provision and ROA. Additionally, it demonstrates the statistical insignificance of the individual p-values for loan and advance, non-performing loan, and loan loss provision. According to the aforementioned interpretation of the regression model, there is a positive correlation between loan and advance and loan loss provision and non-performing loans, and a negative correlation between the two. On the other hand, the mean ROE drops as independent factors increase and vice versa.

5.3 Recommendation

In an effort to investigate the Financial Performance of Nepalese finance firms, this study has been able to document the significant influence of several variables, as mentioned above. The study's findings should be valuable to regulators, depositors, bank promoters, and many others because banks manage other people's money. As a result, the following list of suggestions is given while considering the findings and conclusions of this research:

The research indicates that there are three key factors that impact the financial organizations in Nepal: loan mobilization, liquidity, and profitability. Nepalese financial organizations place more emphasis on lending parameters, like credit rating and loan purpose that help them avoid or lower credit risk. Because of their overall deposits, banks are able to make investments in industries with high yields. As a result, several incentive schemes must be implemented to enhance the deposit quantity. Because of their overall deposits, banks are able to make investments in industries with high yields. As a result, several incentive schemes must be implemented to enhance the deposit quantity.

The financial performance analysis of the study highlights the creditworthiness and weaknesses of the institutions. Additionally, it offers a thorough overview of the financial

status of the sample banks, which interested parties can utilize to gain additional knowledge. Another way banks can ensure better financial performance is by growing their business, which has a significant impact on their financial performance.

Banks should be more cautious in ensuring high asset quality in order to sustain lower levels of non-performing loans within their institutions and enhance financial performance. Further research can be carried out utilizing this study as a reference to validate the study's findings. The study's conclusions can be tested in diverse settings and applied to all business domains by utilizing a range of research tools and methodologies, as well as applying the same strategies to a different population the manufacturing and public sectors. The turnover ratio provides information about the banks' revenue-generating data. Banks can reduce their provisions for loan loss by directing their money into less risky assets. In addition to increasing bank earnings, low loan loss provisions also help banks become more reputable, which increases their market value.

The study's findings will help members and the boards of directors of the sample banks analyze how loans and advances impact the banks' bottom lines. This study will provide significant information about the bank's financial performance, which will be helpful to scholars, researchers, and students as well as the general public. As such, this work will be helpful to anyone who want to conduct in-depth and comprehensive research in this field.

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CHAPTER 1

INTRODUCTION 1.1 Background of the Study The financial system is

complicated and made up of numerous varieties of financial institutions from the private sector, such as investment banks, mutual funds, banks, insurance firms, and financing companies. The economy of the nation is greatly impacted by these industries. Regulation is always necessary for the economy's growth and survival. The financial system is currently deregulated, which has led to innovation, competition, globalization, and increased complexity and possible danger in the banking industry. For a supervisor, this has meant additional difficulties for the supervisor body. Supervisors have responded by creating new procedures and ways for continuously observing and evaluating banks. The major goals of financial institution regulation are to boost public confidence in the economy and stabilize growth. Numerous strategies and tactics have been employed, or are now being employed, to enhance not just the overall risk profile and the specific institution's capacity for risk management, but also the performance of banks. In general, both the regulatory body and the financial institutions themselves gauge the stability and soundness of their finances. The government agency is typically the most efficient agency for measurement and monitoring. The market is better informed about important