

Financial Performance of Finance Companies in Nepal Using CAMEL Framework

A dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

by

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Financial Performance of Finance Companies in Nepal Using CAMEL Framework**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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February, 2021

Report of Research Committee

Mr Pashupati Bhattarai has defended research proposal entitled "**Financial Performance of Finance Companies in Nepal Using CAMEL Framework**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Asso. Prof. Gyan Mani Adhakari and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We have examined the desertation entitled Financial Performance of Finance Companies in Nepal using CAMEL Framework presented by Pashupati Bhattarai for the degree of **Master of Business Studies** (MBS). We hereby certify that the dissertation is acceptable for the award of degree.

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ABBREVIATIONS

ADB	:	Asian Development Bank
AIB	:	Awash International Bank
AIA	:	American Insurance Association
BAFIA	:	Banking and Financial Institutions Act
BIS	:	Bank of International Settlement
CAEL	:	Capital Adequacy, Assets Quality, Efficiency, & Liquidity
CAMEL	:	Capital Adequacy, Assets Quality, Management Efficiency, Earnings & Liquidity
CAR	:	Capital Adequacy Ratio
CV	:	Coefficient of Variation
EPS	:	Earning Per Share
FIs	:	Financial Institutions
FY	:	Fiscal Year
LTD	:	Limited
MER	:	Management Efficiency Ratio
NPA	:	Non-Performing Assets
NPL	:	Non-Performing Loan
NRB	:	Nepal Rastra Bank
ROA	:	Return on Assets
ROE	:	Return on Equity
UK	:	United Kingdom

Abstract

This study aimed at examining the camel rating system of Nepalese Finance companies. The Descriptive research design has been adopted for the study. The study used a secondary data for five finance companies. The pooled data of five Nepalese finance companies for the period 2015/16 to 2019/20 B.S. have been analyzed using different financial ratios and statistical tools. Data is obtained from banks annual report and Nepal Rastra banks annual supervision report. Capital adequacy ratio (CAR), Assets quality ratios, Management efficiency ratios, Earning ratios and liquidity ratios have been taken as camel rating indicators. The overall criteria to evaluate the banks rating consider the banking performance as a whole. It doesn't only consider the best part of the performance but it assumes what is the best to be the best in all criteria and evaluate the banking performance in term of quality as a whole.

Based on the finding, it is recommended that the banks should increase their Management Efficiency by decrease expenses because it gives the life to the institutions for the coming days. They should also focus on their assets quality to ensure their existence in long run. The liquidity position of the sample Finance Companies should meet its current and contingent obligations.

CHAPTER I: INTRODUCTION

1.1 Background of the study

The financial system is complex, comprising many different types of private-sector financial institutions including banks, insurance companies, mutual funds, finance companies, and investment banks. These sectors have a great influence on the country's economy. For the sustainability, growth of the economy there is always a need for regulation. The present deregulation, innovation, competition, and globalization in the financial system especially in the banking sector have contributed to making the banking business more complex and potentially riskier. This has presented new challenges for the supervisor body for a supervisor. In response, supervisors have developed new methods and processes for monitoring and assessing banks on an ongoing basis. The main purpose of regulation towards the financial institution is to stabilize growth and increase public confidence in the economy. Many techniques and methods have been taken or are being taken for the improvement on the performance of banks also of the underlying risk profile and risk management capabilities of the individual institution. In the general context, the financial soundness and stability of the financial institutions are measured by themselves and also by the regulatory body. Generally, the government body is the most effective body for supervisors and measurement. The macro-prudential indicators enhance the disclosure of key financial information to the market. Also, these macroprudential indicators and methods for analyzing indicators are moreover same at national and global levels, but the level of capital interpretation is different according to the risk level of the financial institution (Reddy & Prasad, 2011).

The CAMEL methodology was originally adopted by North American bank regulators to evaluate the financial and managerial soundness 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. These agencies adopted the CAMEL in 1979. CAMEL is an acronym for five measurements of a financial institution: Capital adequacy, Asset quality, and Management, Earnings, and Liquidity management. In 1996, the CAMEL was revised to

include an 'S' for Sensitivity to market risk (Nimalathasan, 2008). CAMEL'S are standard tools to measure the soundness and overall performances in the banking industry. The overall national economy, competition among the financial players in existing markets, government policy towards the financial institutions, overall riskiness factors, etc. are affected by the financial soundness of the financial institutions. Financial soundness indicators are indicators of the current financial health and soundness of the financial institution in a country as well as of their corporate and households' counterparts. Financial soundness indicators play a crucial role in financial stability. It includes both aggregate individual institutions and representatives of the markets in which the financial institutions operate (Poudel, 2012). It is a composite rating system, in which banks and financial institutions are rated according to their performance. CAMEL composite rating system is based on the managerial, operational, financial, and compliance performance of the individual bank. The rating scale ranges from 1 to 5. Rating of 1 indicates the strongest performance in all aspects whereas 5 indicates the most critically inefficient with others in performance and management practice which requires more supervision (Gull & Haseeb, 2011). As being a member of the World trade organization, Nepal has to open its financial sectors globally. To compete with international banks - from the decade Nepal has been implementing various programs and methods for the improvement of the financial sector. Thus, the Nepal government and Nepal Rasta Bank, the central bank and regulatory authority of bank and financial instruction in Nepal, had implemented a regulatory concept in bank supervision from 2001. In which CAMEL is the best approach and method for evaluating the Banks and other financial institution's performance and soundness (BIS, 2008). Nepal Rasta Bank (NRB) as a regulator and supervisor of the banking sector has been effortful to ensure health and efficiency by improving regulators on par with international standards. Bank supervision department NRB bases its evaluation of the financial performance of commercial banks on a CAMEL rating system. An effective performance measurement system presents both the financial result and operating data on a responsibility basis. The study focuses on the financial performance of commercial banks by using descriptive and analytical research design. Many countries are applying CAMEL monitoring tools, which are design by UFIRS to supervisory controls in the commercial bank's operations and help to find the critical deficiencies faced by such banks. More especially the study focuses on the trend of capital adequacy ratio and non-performing loan ratio and other necessary ratios relative to NRB standard and industrial average respectively.

With the introduction of mergers By law, the number of financial institutions (BFIs) has gradually declined in Nepal. Until now 187 institutions mergers with each other to form 45 BFIs. The total number of banks and financial institutions stood at 79 at the end of Ashad 2077. The 'B' class development banks and 'c' finance companies are in danger of extinction. The Central Bank initiative to induce a big merger is likely to bring the number of financial institutions further down. In the last fiscal year 2076/77 a total of 3.25 crore bank account opened. This number will be higher if the MFI account is also induced.

Until mid-July 2020, 27 commercial banks have the highest number of branches of 4436 while 20 development banks and 21 finance companies have 1029 and 243 branches respectively. Similarly, 85 microfinance institutions have 4057 total branches in Nepal.

A single institution cannot fulfill all the services demanded by the customers. So, different types of banks also emerged in the banking industry specializing in different functions areas. There are different types of banks and financial institutions. Among them, the finance company is one. Finance Companies are licensed by Nepal Rastra Bank in 'Class C'. Finance Companies in Nepal are also playing vital roles in the development of the economic status of Nepal. Nepal has many nationalized and private finance companies. There are 79 finance companies licensed by NRB in Nepal. The history of financial institutions is not very old. When the banking sector started carrying out current activities of the finance company, a large number of finance companies was established and they expanded at a rapid pace in the developed countries, UK and USA in the 1960s. Their growth was very rapid in comparison to commercial banks as they used to offer higher interest rates on deposits, lower interest rates on loans, and swifter than commercial banks.

In the context of Nepal, few insurance companies and Karmachari Sanchaya Kosh were working as non-banking financial institutions before the enactment of the Finance Company Act, 2042. The need for the Finance Company Act was felt because the unauthorized sector was collecting savings from the common public in the name of Upahar and Dhukuti programs. People showed great interest and enthusiasm in these programs but they were created by most of the organizers of these programs. Considering peoples' interest in such programs, the benefit of mobilizing such savings in the productive sector, banking sectors' inability to carry out capital market activities and to meet consumers' need for credit, the government felt the need for finance companies and introduced the Finance Company Act,

2042. However, no finance company was set up till 2049 because the act came into being only in 2049 with some amendments. A wave of establishing finance companies began only when NRB authorized co-operative institutions set up under Co-operative Act, 2048 to accept deposits and give credit. “Nepal Awash Bikash Bitta Company Ltd” is the first finance company established in 2049, promoted by Rastriya Beema Sansthan, Nepal Bank Limited, Rashtriya Baniya Bank, Agriculture Development Bank, and Nepal Arab Bank Limited. In the event year, Nepal Finance and Savings Company Limited were established from the private sector.

In a short span, several non-banking financial institutions have drastically grown up. The number of insurance companies, co-operative institutions, NGOs authorized for limited banking activities, postal saving banks are also growing. The reason for their speedy growth is the higher interest rate on deposits, low administration cost, swift service, swift decision, less liquidity, and high demand for consumer credit. Moreover, they have curtailed Dhukuti and Upahar programs and have removed demerits.

However, the collapse of the banking sector, especially finance companies in South East Asia has adversely affected finance companies in Nepal. They have not yet earned public confidence. People have started judging the safety of their deposit instead of the interest rate. Most of their finance companies are running at profit because of excess liquidity with banks which they borrowed at a lower rate and purchase National Savings Bonds yielding higher interest rate. Nepal Rastra Bank has decided not to allow finance companies to purchase national savings bonds which will adversely affect their profitability. They are required to increase their fee-based activities because banks have almost neglected this sector. If they concentrate only on credit-deposit, they will find a hard time ahead. Moreover, NRB’s regulation regarding the period of deposit and loan is inconsistent. Though large numbers of non-banking financial institutions are in operation, most of them are in urban areas. Unhealthy competitions, lack of loan diversification, disputes among promoters are other areas where these companies should pay attention to. Nepal Rastra Bank (NRB) as an apex monetary authority of the country started to monitor and control the finance industry especially at the end of the 1990s by issuing directives to the financial institutions. It initiated the offside and onside supervision of financial institutions to maintain their sound financial health and to build up the confidence of the private sector in the liberalized financial system and protect the interest of the investors. It has adopted the CAEL (capital adequacy, asset

quality, earnings, and liquidity) system to check up the health of financial institutions. It has yet to use the CAMELS to evaluate the financial performance and checkup the financial health of financial institutions in Nepal due to all full disclosures of required financial information to outsiders. NRB dictated financial institutions to disclose the financial information uniformly only in the fiscal year 2001/02. There are National and 1-3 district type Finance companies. There have been changes in the capital base requirement for Finance companies operating at the National level and regional level requirements like in other financial institutions. Initially the new paid-up capital base of NRs. 200 million and Rs. 100 million respectively. Some Finance companies were also operating with merchant banking function and these companies require Paid-up Capital NRs. 300 million. The new capital base requirement for finance companies operating at the national level and small level are NRs 800million and NRs. 400 million respectively. In this paper, an attempt has been made to check up the financial health and performance of finance companies in the framework CAMEL.

Profile of the sample finance institutions

Pokhara Finance Limited

Pokhara Finance Limited (PFL) was established in 2053 B.S. According to PFL's annual reports (2020), the company has an Authorized Capital of NPR 1500 million, Paid-up Capital NPR 917.28 million, and Issued Capital of NPR 917.28 million. Its head office is situated at New road, Pokhara-9, Kaski. The company has an ownership of 51% with 49% shares owned by the general public. The company is amongst the oldest finance companies currently operating in Nepal.

The prime objective of this company is to render banking services to the different sectors like industries, traders, businessmen, priority sector, small entrepreneurs, a deprived section of the society, and every other people who need banking services. During 22 years of its operation, it has accommodated a large number of clients and has been able to provide excellent services to its customers. Also, it makes sure that protect the rights of our shareholders and help people to uplift their economic condition.

Goodwill Finance Limited

Goodwill Finance Limited (GFL) is a leading provider of financial solutions with a unique mix of dedication and perfect execution. With the vision of providing the best financial services for success, Goodwill Finance Limited started its operation as a financial institution under the license from Nepal Rastra Bank in 1995. It is a public limited company established under the financial company act 2042, on 2051 BS. According to GFL's annual reports (2020) the Authorized Capital of the company is Rupees 1,000,000,000, Issued Capital is 800,000,000 and the paid-up capital is 800,000,000. While 51% percent of the Paid-Up Capital is held by the promoter and the remaining 49% is held by the general public. The shares of the Company are listed at Nepal Stock Exchange Limited (NEPSE). The objective of this company is to uplift the economic status of Nepal by investing in different economic sectors under economic liberalization policy, understanding diverse customer needs, and providing a broad mix of financial services to businesses and individuals.

Reliance Finance Limited

Reliance Finance Limited (RFL) is a 'C' Class Financial institution, incorporated in 2066 B.S, licensed by Nepal Rastra Bank, to undertake financial services in the country. It started its operations in 18th Mangshir 2066 as 83rd Finance Company of Nepal under the Bank and Financial Institution (BAFIA) Act 2063. The registered office of the Company is located in Province-3, Kathmandu Metropolitan City, Ward No. 28, at Pradarsani Marg, BJ Bhawan. According to RFL annual reports (2020) the Authorized Capital of the company is rupees 1,000,000,000, Paid-up capital 832,416,063 and the Issued Capital is 832,416,063. While 51% percent of the Paid-up Capital is held by the promoter and the remaining 49% is held by the general public. The shares of the Company are listed at Nepal Stock Exchange Limited (NEPSE).

United Finance Limited

United Finance Limited (UFL) is promoted by prominent and dynamic businessmen of Nepal, commenced its operation in 2051 as a National Level Finance Company with its registered office at Durbarmarga, Kathmandu. The Company has emerged as one of the leading Finance Companies by providing the best financial solution to the different customer segments and thriving healthy growth with consistency in profit. The Company is dedicated

to maintaining the highest level of ethical standards, professional integrity, corporate governance, and regulatory compliance. As a result, United Finance is perceived as a strong financial institution and player in the Nepalese banking industry. United Finance is committed to meet the customers' expectations by offering a wide range of banking products and financial services in all areas of its business along with continuous improvement in its service. According to UFL's annual reports (2020) the Authorized Capital of the company is Rs. 105 crores and the Issued Capital is Rs. 104.08 crores and Paid-up capital Rs. 104.08 crores. 61.18% percent of the Paid-Up Capital is held by the promoter and the remaining 31.82% is held by the general public.

Central Finance Limited

Central Finance Limited (CFL), was incorporated as a public limited company, on April 14, 1996. It has been established as per the Finance Company Act 2042 B.S. and Company Act 2053. It commenced operations on April 14, 1997, upon obtaining the operating license from Nepal Rastra Bank. Central Finance Limited envisions becoming a strong and reputed institution in the financial sector of Nepal by providing preferred products and services and ensuring attractive and substantial returns for shareholders with the help of well-experienced staff. As envisaged by the stated mission, Central Finance Limited [CFL] has been actively participating to cater to the demand of small, medium, and long-term finance for the industrial, commercial, agricultural, service, tourism, and infrastructure sectors and other services by offering various banking facilities. It mobilizes its sources in the form of fixed, saving, and other short-term deposits with competitive interest rates. According to CFL's annual reports (2020) the Authorized Capital of the company is Rupees 1,040,000,000, Issued Capital is Rs. 823,397,859 and Paid-up capital is 823,397,859. 51.24% of the Paid-Up Capital is held by the promoter and the remaining 48.76% is held by the general public.

1.2 Problem statement

In Financial institutions have mushroomed in the country. The size of our financial system, the number of BFIs looks more than normal. NRB had introduced Merger Bylaws 2011 to improve the condition of financial institutions. The reasons of mergers among banks and financial institution are grown up. There are 79 finance companies licensed by NRB in 2017 due to Merger Bylaws it comes to 21 in mid-Jan 2021. Throughout this period up to this period what is the performance of finance companies? Do they meet the regulations of NRB?

A financial institution's soundness is judged based on capital adequacy, asset quality, management, earnings, and liquidity (CAMEL). Some financial institution has very low capital adequacy ratio while some have piled of non-performing assets. Similarly, it appears that financial institutions do not have a proper system managing the correctness of credit classification and provision of some finance companies. The profitability position of a firm is generally known through financial statements but a major question emerges whether there are adequate to reflect the overall performance of the company. The fundamentals problem of this study is to check up the financial health of finance companies in the framework of CAMEL. The main questions addressed in this study are as follows:

1. What is the trend of variables used in the CAMEL analysis of sample finance companies?
2. What is the financial performance of sample finance companies?

1.3 The objective of the study

The research aims to analyze the overall efficiency of the selected finance companies, of which the CAMEL framework is the main measure to evaluate the overall safety and soundness of the financial institutions. More precisely the objective of the study is as follows:

1. To analyze the trend of variables used in CAMEL analysis of sample finance companies.
2. To examine the financial performance of sampled finance companies.

1.4 Significance of the study

This study is the financial performance of selected finance companies in Nepal in the framework of the CAMEL. The CAMEL rating system will crucial and convenient technique to assess the financial performance of any financial institution and provide a framework for the supervisory authority. It helps to know the existing problem of financial institutions and give recommendations for their sound financial health and also formulate the policy and strategies to maintain activities effectively.

Also, policy makers will find study very useful science it will analyze how the banks are complying with various polices and legislation regulating the financial sector. The study is

also hoped to provide useful information for stakeholders make better investment decisions and to help banks to mark and re-evaluate their performance based on the performance measurement used in the study.

Customer of the financial institutions who have become the focal point of attraction will be added by this study to know who should keep their money for them in terms of banks offering best customers series satisfaction. Businessman who are always condemning bank for the astronomical rise in their interest rates and slow pace in granting credit facilities to them can decide effectively which banks will best serve their interest through this study.

The study is important for finance companies, researchers, scholars, investors, students, government, and many other parties. So, this study will be helpful to those who want to study in further detail and widely in this field. At last, it is expected that the study will add a drop of literature to the field of the finance company and their financial performance analysis.

1.5 Limitations of the study

As every study is conducted within certain limitations the present study is not exceptional. The study is based on a case study of five finance companies, which may not represent the overall scenario of all finance companies. The study is limited to the following factors.

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 2015/16 to 2019/20.
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

The proposed study divided into five chapters, each devoted to same aspect of the Financial Performance and CAMEL framework. The titles of these chapters are as follows:

Chapter: I Introduction

This chapter deals with the subject matter consisting background, focus of the Study, problem statement, objectives of the study, rationale of the study, limitation of the study of the Pokhara finance limited, Goodwill finance limited, Reliance finance limited, United finance limited, Central finance limited.

Chapter: II Review of Literature

The second chapter, the review of literature deals with the review of some work analysis and discussion already made in CAMEL Analysis.

Chapter: III Research Methodology

This chapter includes the research methodology adopted in carrying out the present research. It deals with research design, sources of data, data collection procedure, data processing, data analysis tools, and limitation of the methodology.

Chapter: IV Presentation and Analysis of Data

The fourth chapter is concerned with analytical frameworks. It includes the analysis of the financial statement of finance companies under the framework of CAMEL and comparing it with the guidelines set by Nepal Rastra Bank and also to each other and overall findings of all five finance companies.

Chapter: V Summary, Conclusion, and Recommendations

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

CHAPTER II: REVIEW OF LITERATURE

In this chapter, the review of various articles, research studies, and books has been made to have a clear understanding of the financial performance analysis of Nepalese finance companies. This chapter will help us to recall the theories and previous studies made by various researchers in a different part of the world literature review is a stock-taking work of available literature. So, it provides a required depth of knowledge for conducting research. The purpose of literature is that to find out what principles are established and research studies have been conducted in the field of study and what remains to be done.

2.1 Theoretical review

The CELS ratings or CAMELS rating is a supervisory rating system originally developed in the U.S. to classify a bank's overall condition. It is applied to every bank and credit union in the U.S. Also, in 1995 the Federal Reserve and OCC replaced CAMEL with CAMELS adding the 'S' which stands for (S) sensitivity to market risk. Additionally, in 1997, the Uniform Financial Institutions Rating System (UFIRS) was implemented in U.S. banking institutions and later globally following recommended by the U.S. Federal Reserve. The system became internationally known with the abbreviation CAMEL, reflecting five assessment areas: capital, asset quality, management, earning, and liquidity which is used to reflect the financial performance, financial position, operating soundness, and regularity compliance of the banking institution. A sixth component relating to sensitivity to market risk has been added to the CAMEL rating to make the rating system more focused. Each of the component factors is rated on a scale of 1 (best) to 5 (worst). A composite rating is assigned as an abridgment of the component rating is taken as the prime indicator of a bank's current financial condition. The composite rating ranges between 1(best) and 5 (worst) and also involves a certain amount of subjectivity based on the examiner's overall assessment of the institution given the individual component assessments. During, on-site bank supervisors gathering private information Such as details on problem loans, with which to evaluate banks financial conditions and to monitors its compliance with laws and regulatory policies. A key product of such an exam is a supervisory rating of banks' overall conditions commonly referred to as a CAMELS rating. In Nepal, the NRB plays the supervisory role in evaluating banks' financial condition through rating the banks in accordance to CAMELS is still a myth (NRB 2015).

Lopez (1999) defined CAMELS rating, as summary measures of the private supervisory information gathered during on-site bank exams, do contain information useful to both the supervisory and public monitoring of commercial banks. Which could be beneficial to improving the pricing of the bank securities and increasing the efficiency of the market discipline brought to bear on banks.

Aspal and Dhawan (2016) suggested that the CAMELS model is an important tool to evaluate the relative financial strength of a banking system and to suggest suitable remedies to improve the deficiencies. CAMELS model is a ratio-based model to appraise the performance of banks. The above study is a humble effort to describe the various ratios which are helpful for the assessment of the financial performance of the banking sector.

CAMEL is an acronym for five components of bank safety and soundness.

2.1.1 Capital adequacy (C)

Gunsel (2007) defined capital adequacy as the ratio of total capital equity to total assets (capital/asset). The ratio of total capital equity to total assets is expected to be negatively related to the probability of failure. The higher ratio indicates that there is sufficient capital to absorb unexpected losses (such as unexpected customer default on loans), hence the lower the probability that the bank will fail. The second variable of capital adequacy is the ratio of total loans to total equity capital. The capital equity of a bank can decline as a result of continuous losses. As loans are the riskiest assets, any increase in the value of non-performing loans may lead to a decline in bank capital.

K.K. (2013) stressed that capital adequacy represents the relationship between equity and risk-weighted assets and can be viewed as the key indicator of finance companies' financial soundness. It is seen as a cushion to promote the stability and efficiency of the financial system and also indicates whether the finance company has enough capital to absorb losses.

2.1.2 Assets quality (A)

Grier (2007) defined that poor asset quality is the major cause of most bank failures. The most important asset category is the loan portfolio; the greatest risk facing the bank is the risk of loan losses derived from the delinquent loans. The credit analysis should carry out the asset quality assessment by performing the credit risk management and evaluating the quality

of the loan portfolio using trend analysis and peer comparison. Measuring the asset quality is difficult because it is mostly derived from the analyst's subjectivity.

K.K. (2013) examined asset quality as one of the most important elements of the CAMELS framework to rate a financial institution/bank. (Jerome,2008). The decision regarding allocation of the deposited amount of the bank in the loan portfolio, investments, owed real estate, and securities, and off-balance sheet transaction determines the quality of its assets. Quality of assets indicates the future losses to the bank and its ability to overcome these unanticipated losses.

Frost (2004) defined asset quality indicators use of nonperforming loans ratios (NPLs) which are the proxy of asset quality, and the allowance or provision to loan losses reserve. As defined in the usual classification system, loans include five categories: standard, special mention, substandard, doubtful, and loss. NPLs are regarded as the three lowest categories which are past due or for which interest has not been paid for the international norm of 90 days. In some country's regulators allow a longer period, typically 180 days. The bank is regulated to back up the bad debts by providing adequate provisions to the loan loss reserve account. The allowance for the loan loss to total loans and the provision for the loan loss to total loans should also be taken into account to estimate thoroughly the quality of the loan portfolio.

Each of the components in the CAMEL rating system is scored from 1 to 5. In the context of asset quality, a rating of 1 indicates a strong asset quality and minimal portfolio risks. On the other hand, a rating of 5 reflects a critically deficient asset quality that presents an imminent threat to the institution's viability.

2.1.3 Management efficiency (M)

AIA (1996) emphasized that the management has clear strategies and goals in directing the banks' domestic and international business, and monitors the collection of financial ratios consistent with the management strategies. The top management with the good quality and experience has preferably excellent reputation in the local communication. The management requirements are taken into AIA's CAMEL approach to bank analysis.

Neito and Cinca (2007) defined that management efficiency is a crucial aspect of every financial institution, which implies the rational use of inputs and outputs. Management

efficiency is the way to survival. The banking industry has developed its indicators relating different internal measures such as operating expenses, margins, revenues, etc. to obtain production and from or can be based on the micro economy theory of production function.

Misra and Aspal (2013) analyzed that management quality states how the management is effectively and efficiently performing on the banks. Management efficiency means adherence to set norms, ability and respond to changing environments, leadership, and administrative capability of the bank.

2.1.4 Earning ability (E)

Majumder and Rahman (2016) defined earning ability as reflects the quality of a bank's profitability and its ability to earn consistently. It determines the profitability of the bank and explains its sustainability and growth in earnings in the future. Higher earning shows that banks' performance is healthy. To stay in the market for a long-term bank are dependent upon the generation of adequate earnings.

Bothra and Purohit (2018) defined that the earning ability determines the ability of a bank to earn consistently, going into the future. This parameter explains the sustainability and growth in earnings in the future and how a bank earning profits. Banks can increase their growth and productivity by advances to the borrowers and receive interest on it.

Chaudhuri (2018) examined that earning quality represents the sustainability and growth of future earning of an institution as well as its competency to maintaining quality and retain competitiveness. Earning quality is determined by assessing profitability, growth, stability, net interest margin, net worth level, and quality of the institution's existing assets.

2.1.5 Liquidity (L)

Majumder and Rahman (2016) defined that liquidity parameter ascertains a bank's ability to meet its financial obligations. An adequate liquidity position means a situation where the organization can obtain sufficient liquid funds, either by increasing liabilities or by converting its assets quickly into cash. A high liquidity ratio indicates that the bank is more efficient. Rudolf (2009), cited in Dang (2011) emphasized that "The liquidity expresses the degree to which a bank is capable of fulfilling its obligations". Banks make money by mobilizing short-term deposits at the lower interest rate, and lending or investing these funds

in long term at the highest rates so, it is hazardous for banks to mismatch their lending interest rate.

Bothra and Purohit (2018) analyzed that liquidity is an important aspect of any organization dealing with money which measures the capacity of banks to meet their financial obligation. Among assets, cash and investments are the most liquid of bank assets. If liquidity is too much low, then banks are not in a position to meet their current financial liabilities. On the other hand, if liquidity is too high then banks are not utilizing their cash properly. Thus, a proper balance is necessary for liquidity so that banks can generate high profits while at the same time provide liquidity to the depositors. The ratios suggested measuring liquidity under the CAMEL model.

Chaudhuri (2018) revealed that liquidity is the measure of an institution's short-term solvency which enables it to procure sufficient funds either by increasing liabilities or by converting its assets to cash quickly at a reasonable cost. It is determined by assessing interest rate risk sensitivity dependence on short-term volatile resources and ALM technical competence.

2.2 Review of empirical studies

This section is developed to the review of major-related literature concerning measuring banks' performance based on the CAMEL method in different countries. But in Nepal, there are very few studies found in the Finance companies. For this study, various books, journals, articles, and past thesis are reviewed. It is reviewed from an international and Nepalese context.

2.2.1 Review of previous studies

Tanko (2006) examined the financial performance of a bank to find the relative weights of importance in all the factors in CAMEL and lastly to inform on the best ratios to always adopt by banks regulators in evaluating bank's efficiency. The data for the research work is secondary and was collected from the annual reports of eleven commercial banks in Nigeria over nine years (1997-2005). The purposive sampling technique was used. The finding revealed the inability of each factor in CAMEL to capture the holistic performance of the bank. Also revealed was the relative weight of importance of the factors in CAMEL which resulted in a call for a change in the acronym of CAMEL to CLEAM. Also, the best ratio in each of the factors in CAMEL suffices to depict the overall performance of a bank. Among

other recommendations, bank's regulators are called upon to revert to the best-identified ratios in CAMEL when evaluating banks' performance.

Dhakal (2009) examined the financial performance of EBL in terms of liquidity, activity, profitability, leverage, and capital adequacy ratio. The study covers five fiscal years from 2003/04 to 2008/09 based on primary as well as secondary data. The major findings of the study were deposit and net profit, total deposit, and loan and advances, total deposit and investment are found to be strongly positively correlated at a significant level. Net profit earned in comparison to the total deposit was relatively low. The bank has a high debt-equity ratio, which means the creditors, have invested more in the bank than the owners.

Liu (2011) analyzed the performance of Chinese banks from the CAMEL model. The study covers five fiscal years from 2008 to 2013 based on secondary data. The independent variables from the CAMEL model include capital adequacy, asset quality, management, earnings, and liquidity. The sample size for the research was the 13 Chinese banks listed in Shanghai Stock Exchange and Shenzhen Stock Exchange. The study adopted fixed effects multiple linear regression model his study to measure the relationship between internal determinants from the CAMEL model and bank performance. The study found that return on assets can be influenced by shareholder's risk-weighted capital adequacy ratio, NPL to total loans ratio, the cost to income ratio, net interest rates margins, and loans to deposit ratio. this study indices that return on equity can be influences by costs to income ratio, operating expenses to assets ratio, and loans to deposit ratio.

Dahal (2011) analyzed the financial performance analysis of NIC bank Ltd in the Framework of CAMEL. The study covered the five years from FY 2005/06 to FY 2010/11. The study applied some financial and statistical tools and techniques by using secondary data. The major findings of the study were: NIC bank met the requirement as prescribed by the NRB during the entire study period. The bank maintained adequate provision in the entire loan category. The earning per employee was increased except in the year 2009/10. The financial Position of NIC bank was satisfactory.

Gabriel (2012) analyzed the performance of local and foreign banks using the CAMEL rating system with data from the bank's annual report. For generalization, twelve banks made of six foreign banks and six local banks were selected based on their years of operation, market

share, bank size, and nature of business. The performance of the banks was then analyzed using the CAMEL rating system with ROA and ROE dependent variables and selected accounting ratios as independent variables. A multiple regression analysis was employed to draw inference for the results of the study and also to establish the relationship between the variables.

The results of this study showed that foreign banks perform better on capital adequacy, asset quality, and management efficiency. The local banks on the other hand performed better than their foreign counterparts on the earnings ability and are also more liquid than their foreign counterparts. A model developed for this study revealed that not all the CAMEL variables impacted significantly the performance of commercial banks in Ghana. The results from the study showed that there is a positive relationship between ROA, OPTR, and NIM.

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 the CAMEL model. Eighteen commercial banks for the period 2005 to 2010 were financially analyzed. Also, the econometric model (multivariate regression analysis) by formulating two regression models used to estimate the impact of capital adequacy ratio, non-performing loan ratio on the financial profitability namely return on assets and return on equity of these banks. The result showed that public sector banks are significantly less efficient than their counterpart however domestic private banks are equally efficient to foreign-owned banks. Furthermore, the estimation results revealed that return on assets was significantly influenced by capital adequacy ratio, interest expenses to total loan, and net interest margin, capital adequacy ratio had a considerable effect on the return of equity.

Joshi (2012) analyzed the financial performance of commercial banks reference to Everest Bank Ltd., Bank of Kathmandu, And Nepal Industrial and Commercial Bank Ltd. The study was based on secondary data. EBL, BOK, and NIC are used as the major sources of data out of 30 commercial banks. The study showed that the banks were successful to maintained capital Adequacy Ratio as per NRB standard, i.e., 11% as per current data. BOK has the highest CAR than the other two banks loan loss Provision Ratio of EBL has lower than other two banks which are better than other banks. MER, Liquidity Position, Earnings of EBL are also higher than other two banks.

Azizi and Sarkani (2014) examined the financial performance of Mellat Bank using the CAMEL model and each of the model dimensions was examined using the trend analysis method and both mean and standard deviation statistics. The study was taken under the period 2009 to 2010. In the inferential statistics section, gain the relationship between model variables and the financial performance of Mellat Bank was studied and examined using two linear and multiple regression as well as the OLS method. Results of the study indicate that there is a positive significant relationship between the indices of liquidity, quality of management, and earnings with financial performance. The study showed, no relationship was seen between capital adequacy and asset quality with the bank's financial performance and the multiple regression test showed only a positive significant relationship with financial performance in the quality section. As a result, Mellat Bank has better financial performance in the management quality section.

Rostami (2015) analyzed the performance of the banking industry with the CAMEL framework with the objectives to make an analysis and anticipate the future and relative risk. The study was based on secondary data and covered five fiscal years 2009 to 2013. CAMEL ratios are calculated to focus on the financial reports of selected banks. And concluded that the CAMEL model can help managers to control and analyze financial data and organization position in the industry. Banks can use this method to calculate and discuss ratios and focus on some crises and find the best solution when there is a competitive problem and try to challenge and get a new and better position between the others. The important aspect of CAMEL is to compare an organization with the others in the internal and external industry.

Getahun (2015) analyzed the financial performance of Ethiopian Commercial Banks using the CAMEL approach and rank the banks based on their performance as well as to test the existence of the relationship between the selected CAMEL factor measurements with the profitability measures. The financial performance of 14 commercial banks was examined by using panel data. The study used a quantitative research approach and secondary financial data are analyzed by using multiple linear regression models for two profitability measures: ROE and ROA. The fixed effect regression model was applied to investigate the impact & relationship of CAMEL factors: capital adequacy, asset quality, management, efficiency, and liquidity with bank profitability measures separately. The empirical result shows that capital adequacy, asset quality, and management efficiency have negative relation whereas earning and liquidity show a positive relationship with both profitability measures with strong

statistical significance except capital adequacy which was significant for ROA was asset quality for ROE. The study suggests focusing and reengineering the bank internally.

Heltel (2015) compared the financial performance of foreign and domestic banks in Georgia. The study applied secondary data and out of 21 commercial banks, the study applied 6 domestic and 9 foreign commercial banks as samples. The research was based on data between 2009 and 2013. The methodology used profitability ratios along the dimensions ROA, ROE, NIM, and PEM. Through this study, the researcher found out there were no significant differences in profitability between foreign and domestic banks in terms of ROA, ROE, and NIM but not in terms of PEM.

Desta (2016) analyzed the financial performance of the best African banks and out of 30 African best banks, only seven were carried. The study was based on data between 2012 to 2014. The study applied the CAMEL composite and component rating. Even if all the banks are compositely rated as fair, they have differences when each component and their aggregate average is considered. This variation helps to compare and rank banks based on their financial performance apart from triggering regulatory, supervisory, and administrative concerns that must be addressed.

Adhan (2016) examined the performance of Pakistan commercial banks on the application of the CAMEL model and the impact of CAMEL model parameters on bank Performance. The sample size of this research is the 10 commercial banks operating in Pakistan. Secondary data was used to conduct the research. CAMEL model plays a significant impact on banks' performance. The result concluded the satisfactory performance of sampled banks. The research was helpful for the management of the banks in the banking industry of Pakistan.

Singh and Pawan (2016) analyzed the performance of Indian private sector banking using the CAMEL approach. The study was based on secondary data and covered FY 2013 to 2016. Financial tools are used to carry out the research. The study reveals that the overall performance of HDFC Bank is excellent and HDFC Bank got 1st among its rival banks. It also concluded that Indusland and Axis Bank's performance on the CAMEL component is good.

Ahsan (2016) examined the financial performance of three selected Islamic banks among eight Islamic banks in Bangladesh during 2007-2014. This study was based on measuring the performance of banks concerned with the CAMEL model and showed that all selected

Islamic banks (IBBL, EXIM Bank, and SJIBL) financial performance under CAMEL rating is strong in every aspect.

This study concluded that to uplift the economy of the country financial sector is required to be developed. The banking sector must be given priority to attain sustainability in the financial sector. So, the smooth and efficient operation of the banking sector helps to reduce the risk of failure of an economy. The performance of the banking sector has always been a source of interest for researchers to judge the economic condition of a country. Regulators of the banking sector always monitor the performance of the banks to ensure an efficient financial system based on the CAMEL model.

Zedan and Daas (2017) examined the performance and financial soundness of Palestinian commercial banks for the year 2015 using the CAMEL rating model. The study was limited to five sample banks and was not generalized for the whole bank operates in Palestine. Banks were sustained rating based on the performance in five years. Capital adequacy, Asset Quality, Management, Efficiency, and Liquidity. They applied CAR to analyze capital adequacy parameter, NPLs to total loans to analyze earning ability and total loans to total deposits ratio to analyze liquidity management results obtained from the analysis of different ratios shows that the bank of Palestine is the best ranked with total components score of 16.

Kaur and Priya (2017) analyzed the performance of public sector banks in Baroda and Punjab National Bank under CAMEL. This study was based on secondary data by covering the period of five years from the year 2011-12 to 2015-2016. This was analyzed by calculating six ratios related to the CAMEL model. Statistical tool t-test had used for the evaluation of the financial performance of these two selected banks. Data was analyzed manually without using any software. The study concluded that the financial performance of the Bank of Baroda was better than Punjab National Bank.

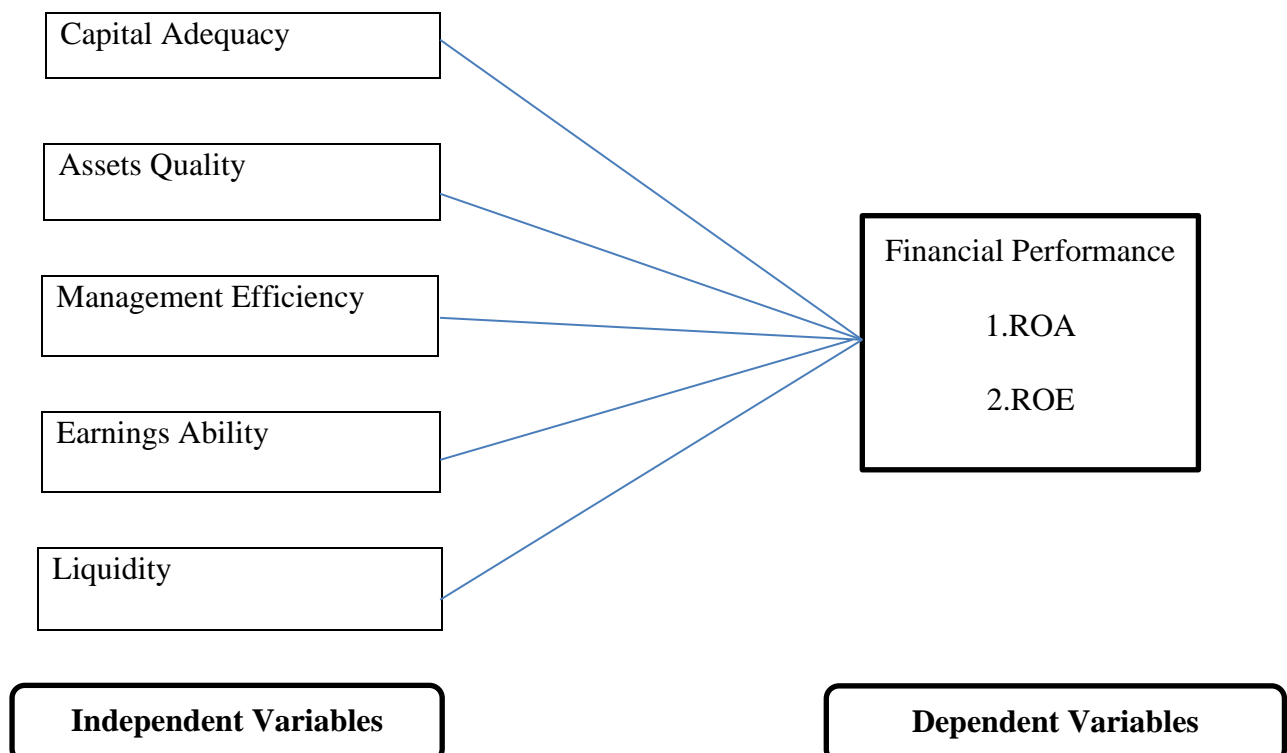
Gautam (2017) measured the performance of banks using the CAMEL Framework. This study was based on secondary data by covering the period of five years from the year 2010-11 to 2014-2015. This was analyzed by calculating five ratios related to the CAMEL model. SPSS 16.0 software was used to collect the data. Analyze data using various ratio analysis, correlation, and regression analysis techniques. ROE showed a positive relation with earning and management efficiency but a negative relationship with assets quality, liquidity, and

capital adequacy. Earning of past five years is decrease due to banks loan amount as well as loan interest was decreased annually which has declined bank earnings.

Wagle (2019) compared the financial analysis of NIC ASIA and Agriculture Development Bank in the framework of CAMEL. The data used for the research is secondary and was collected from annual reports of commercials bank over five periods (2012/13 to 2016/17). The purposive sampling technique is used. The study carried lots of variables under CAMEL analysis. Both the banks have met the standards of CRR as prescribed by NRB. Here NIC ASIA has a higher CRR and cash and bank balance to total assets ratio in an average over a study period. The EPS depicts that both the banks have managed to provide a reasonable return to their owners. However, ADBL has been providing the best returns than that of NIC ASIA.

2.3 Conceptual framework of the study

Based on insights reviewed the following conceptual framework showing the relationship between dependent and independent variables is developed.



Source: Gatahun (2015)

Figure 2.1: Conceptual Framework of the Study

Definition of variables

Certain variables are used during the research which is as follows:

Return on asset (ROA): The ROA reflects the ability of a bank's management to generate profits from the bank's assets. It shows the profits earned per rupees of assets and indicates how effectively the bank's assets are managed to generate revenues, although it might be biased due to off-balance sheet activities. Average assets were used in this study, to capture any differences that occurred in assets during the fiscal year. ROA can be calculated as:

$$\text{ROA} = \text{Net Income} / \text{Total Assets}$$

This is probably the most important single ratio in comparing the efficiency and operating performance of banks as it indicates the returns generated from the assets bank owns.

Return on equity (ROE): The return of equity measures the profitability of equity funds invested in the bank shows the profit earned per Rs. of capital invested. It is regarded as a very important measure because it reflects the productivity of the ownership (or risk) capital employed in the bank. ROE can be calculated as:

$$\text{ROE} = \text{Net Income} / \text{Shareholder's Equity}.$$

Capital adequacy: Capital adequacy is the capital expected to maintain balance with the risk's exposure of the financial institution such as credit risk, market risk, and operational risk, to absorb the potential losses and protect the financial institution's debt holder. "Meeting statutory minimum capital requirement is the key factor in deciding the capital adequacy, and maintaining an adequate level of capital is a critical element." (The United States. Uniform Financial Institutions Rating System 1997, p.4)

The capital adequacy is estimated based upon the following key financial ratios:

$$\text{CAR} = (\text{Tier 1 Capital} + \text{Tier 2 Capital}) / \text{Risk - Weighted Asset}$$

$$\text{Capital adequacy ratio (CAR)} = \frac{\text{Total capital fund}}{\text{Total risk weighted assets}} \times 100$$

$$\text{Core capital ratio (CCR)} = \frac{\text{Total core capital fund}}{\text{Total risk weighted assets}} \times 100$$

Where,

Total capital fund = Core capital + Supplementary capital

Total risk-weighted assets = on balance sheet risk-weighted items + off balance
sheet risk-weighted items

This capital is required to meet a minimum of 8% set by the Bank for International Settlement (BIS). However, it is important to note that in some countries the required minimum capital may vary depending on the local regulators; and the bank might like to have as high a capital ratio as possible.

In the context of Nepal, the regulatory bank NRB set the provisions to meet CAR 11% and Tier 1 Capital 6% according to NRB Unified Directive (2077). The failure on part of the banks to meet the provisions of this framework shall be considered as a violation of the NRB directives and shall attract stipulated actions. The nature of the enforcement action largely depends on degree of the capital adequacy of the bank.

Tier 1 Capital (core capital) is shareholder equity capital. Tier 2 capitals (supplementary capital) are the bank's loan loss reserves plus subordinated debt which consists of bonds sold to raise funds. Risk-weighted assets are the weighted total of each class of assets and off-balance sheet asset exposures, with weights related to the risk associated with the type of assets.

Asset quality: According to Grier (2007), "poor asset quality is the major cause of most bank failures". The most important asset category is the loan portfolio; the greatest risk facing the bank is the risk of loan losses derived from the delinquent loans. The credit analyst should carry out the asset quality assessment by performing the credit risk management and evaluating the quality loan portfolio using trend analysis and peer comparison. Measuring the asset quality is difficult because it is mostly derived from the analyst's subjectivity.

Frost (2004) stresses that the asset quality indicators highlight the use of non-performing loan ratios (NPLs) which are the proxy of asset quality and the allowance of provision to loan losses reserve. According to NRB unified directives (2077), loans include five categories:

According to new requirements, a lender has to classify loans which have not overdue or not been serviced for one month as 'Pass' loans. 'Watch List' also includes loans which have not been serviced for three months. But 'Watch List' includes loans whose principal and interest have not been paid within the repayment period.

Non-performing loans not serviced for three to six months will have to be classified as 'Sub-standard' loans. Similarly, loans not serviced for six months to one year will have to be classified as 'Doubtful' loans. The 'Loss' loans are those whose interest and/or installment of principal has not been paid for more than one year.

Classification of loans	Provision required
Pass loan	1%
Watch-list	5%
Sub-standard	25%
Doubtful	50%
Bad loans	100%

(Source NRB web site)

$$\text{Non-performing loan ratio} = \frac{\text{Total nonperforming loan}}{\text{Total loan \& advances}} \times 100$$

Where,

Total nonperforming loan (NPL) = sub-standard loan + doubtful loan + bad loan

Total loan & advances = total performing loan + total nonperforming loan

$$\text{Loan loss coverage ratio} = \frac{\text{Total loan loss provision (LLP)}}{\text{Total nonperforming loan}} \times 100$$

Where,

Total loan loss provision (LLP) = provision on (pass loan + restructured loan + substandard loan + doubtful loan + bad loan)

Total nonperforming loan (NPL) = substandard loan + doubtful loan + bad loan

$$\text{Loan loss provision ratio} = \frac{\text{Total loan loss provision (LLP)}}{\text{Total loan \& advances}} \times 100$$

Where,

Total loan loss provision (LLP) = provision on (pass loan + restructured loan + substandard loan + doubtful loan + bad loan)

Total loan & advances = total performing loan + total nonperforming loan

Management quality: Management quality is the capability of the board of directors and management to identify, measures, and control the risks of an institution's activities and to ensure the safe, sound, and efficient operation in compliance with applicable laws and regulations (Uniform Financial Institutions Rating System 1997, p.6)

Two ratios are representing the management in the previous studies, operating costs to net operating income ratio, and operating expenses to assets ratio. The operating costs to net operating income ratio indicate the percentage of a bank's income that is being used to pay operational costs. It offers information on the management efficiency regarding costs relative to the income it generates. Olweny (2011) adopted the ratio of operating costs to net operating income to indicate the operating efficiency for the commercial banks in Kenya, and he found that the operational costs efficiency leads to poor profitability.

The operating expenses to assets ratio indicate expenses with the size of a bank. It was similar to the cost to income ratio but it was not affected by the assets by the changes in interest.

Atikogullari (2009) examined the management quality situation of the Northern Cyprus banking sector for the period of 2001 to 2007 by using the operating expenses to assets ratio. For the achievement of the goal of the bank within a certain period proper and efficient management is required, for which the banks should have the following qualities:

- Qualitative Human resource management
- Adequate management expenses
- Perfect structure of management team.
- Fair decision-making capability.
- Use of modern Information Technology and proper communication system
- Perfect working environment
- Internal management system and the relationship between customer and organization.

Management Quality can be measured by the following ratios.

Management Quality Ratios= Operating Cost/ Total Assets

Earning ability: This rating reflects not only the quantity and trend in earning but also the factors that may affect the sustainability of earnings. Inadequate management may result in loan losses and returns that require higher loan allowance or pose a high level of market risks.

The future performance in earning should be given equal or greater value than past and present performance. (Uniform Financial Institutions Rating System, p.7).

Under Grier's (2007) opinion, a consistent profit not only builds the public confidence in the bank but absorbs loan losses and provides sufficient provisions. It is also necessary for a balanced financial structure and helps provide shareholder reward. Thus, consistently healthy earning is essential to the sustainability of banking institutions. Profitability ratios measure the ability of a company to generate profits from revenue and assets. There is a requirement that is used to evaluate Earning like:

1. The majority of earning is an annuity in nature (low volatility).
2. The growth trend of the past years is consistent with or better than the industry norm and there are multiple sources of income (both interest and non-interest income).

The Earnings is estimated based upon the following key financial ratios,

Net Interest Income Margin (NIM) = Net Interest Income / Total Loan & Advance

Liquidity: There should be the adequacy of liquidity sources compared to present and future needs, and availability of assets readily convertible to cash without undue loss. The fund management practices should ensure an institution can maintain a level of liquidity sufficient to meet its financial obligations on time; and capable of quickly liquidating assets with minimal loss.

The liquidity ratio expresses the degree to which a bank is capable of fulfilling its respective obligations. Banks make money by mobilizing short-term deposits at the lower interest rate, and lending or investing these funds in long run at higher rates, so it is hazardous for banks to mismatch their lending interest rate.

According to monetary policy (2077/78) the CDC ratio has been raised from 80% to 85%, that means the banks are allowed to issue the loans and advances up to 85%. This boosts BFIs capacity to invest. The liquidity is estimated based upon the following key financial ratios.

CDC Ratio = Total Credit / Total Customer Deposits & Capital

2.4 Research gap

Various studies have been conducted in the past on the financial analysis of commercial banks. The research paper is done in the context of Nepal mainly emphasized on liquidity, profitability, and leverage of the commercial banks. These studies found applying traditional analysis of financial performance. In the context of the Nepalese banking environment, there are few academic researchers found conducted in the framework of CAMEL.

In this research, the financial performance of Finance companies is evaluated which was rarely done in the earlier thesis. CAMEL approach is the most reliable test for analyzing and evaluating the financial performance of any bank which has been recommended by the Basel Committee on banking supervision of international settlement (BIS). NRB also recommended this approach for evaluating the financial soundness of financial institutions. Even though plenty of studies had been done in the past, those studies are not sufficient to point out the significance and importance of financial performance. Everybody had done in the field of profitability and liquidity. However, other fields such as capital adequacy, asset quality, and most importantly in the field of management efficiency are being left.

In this research, the researcher tested every aspect of the CAMEL framework from capital adequacy, assets quality, management efficiency, earning performance to liquidity as guidance by NRB. These five elements of CAMEL have been sufficient to check the soundness of any financial institution. The study analyzed whether all studied banks have performed as per NRB directives or not.

This thesis helps not only for the financial institution's management for their strong and weak points but also for investor, shareholders, customers, or creditors, and every concerned person of the banks can also take benefit from it because it covers all those areas which provide sufficient information about finance companies financial performance for decision making.

CHAPTER III: RESEARCH METHODOLOGY

3.1 Research design

This study analyzed the CAMEL model in the banking sector of Nepal from the fiscal year 2014/15 to 2019/20. The research design following the study is descriptive. Descriptive research design helps to describe characteristics of variables and involves the evaluation of facts and information. Various analytical tools such as standard deviation and average are used to examine the performance of the financial intuitions.

3.2 Population and sample

The total number of financial institutions represents the population of the study. The convenience sampling technique is use for the analysis. According to NRB website (2021 mid-Jan) 21 finance companies in operation in Nepal with their branches located in different parts of the country. out of the population, 5 national finance companies are to be selected as samples which comprise 23.80% of the total finance companies in Nepal. The sample finance companies' studies for this research are as follows:

1. Pokhara finance limited
2. United finance limited
3. Central finance limited
4. Goodwill finance limited
5. Reliance finance limited

3.3 Sources of data

The data was collected from a secondary source. The required financial statement for this study such as balance sheet, profit & loss account, etc. were collected from the published annual reports and accounts of the five finance companies from 2015/16 to 2019/20. The data collected arranged and managed in MS Word and MS Excel so that it can be further use for analyzing data. The data in MS Excel were presented in percentage or ratio form and analyzed using various ratio analyses. Followings are the source of data:

- Library research study
- Internet, home pages and related links visit.
- Directives of NRB

- Annual reports of the Banks.
- The other sources are articles, previous study on related topic, published articles of different authors and journals.

3.4 Reliability and validity of data

By reviewing the works of literature of CAMEL analysis of respective finance companies, I come to know that independent variables in this study are fixed five variables, i.e., capital adequacy, assets quality, management efficiency, earning, and liquidity. so, that these five independent variables are valid data.

The data needed for conducting this study includes the data already refined and published by the respective finance companies taken under study. the degree of reliability and validity of data used for this study depends on the degree of accuracy of the data maintained by the finance companies in their respective annual reports or accounts. However, the data are used in this study are taken from the published annual report of respective banks, so that there is a high reliability of data in the study.

3.5 Data analysis tools

3.5.1 Financial tools

The financial analysis tools are used to determine the performance of the finance companies in the framework CAMEL components. These Ratios are categorized following the CAMEL components. The following categories of the key ratios are used to analyze the relevant components in terms of CAMEL.

- Capital adequacy ratio (CAR)
- Non-performing loan ratio (NPLs)
- Efficiency Ratios (ER)
- Net Interest Income Margin Ratio (NIM)
- CDC Ratio
- Return on Asset (ROA)
- Return on Equity (ROE)

3.5.2 Statistical tools

Some important statistical tools have been used to achieve the objective of this study. In this study statistical tools such as mean, Coefficient of variation, and trend analysis will be used.

i) Mean:

A mean is an average value or the sum of all the observation divided by the number of observations and it is given by the following formula:

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

Where,

$\sum X$ = Sum of all variables of the observations

N = No. of observations

X = Value of observations.

ii) Coefficient of variation (CV)

The relative measure of dispersion based on the standard deviation is called the coefficient of variation. A series or distribution having less CV is said to be more homogeneous, less variable, more consistent, more stationary, and more equitable than other series and vice-versa. Risk is defined as the variability of the returns of a period. It can be calculated using this equation.

$$\text{Coefficient of variation (CV)} = \frac{\sigma}{X}$$

Where,

σ = Standard deviation

X = Mean value of observations

CHAPTER IV: RESULTS

This chapter organized to present the result, analyze and interpret them accordingly. The secondary data are collected in unprocessed form. Such collected data are presented in systemic formats and analyzed using different appropriate tools and techniques in this chapter. The secondary data are collected from different sources are presented in an understandable presentation and analyzed separately using quantitative measures whenever are appropriate.

4.1 Descriptive analysis

The CAMEL model implements in analyzing the investigated finance companies' overall performance from 2015/16 to 2019/20 on Capital Adequacy, Assets Quality, Management Efficiency, Earning, and Liquidity. After assigning the composite rating, an investment decision is made.

1.6.1 Capital adequacy requirement

Capital Adequacy is the reflection of the inner strength of financial companies, which would stand it in good stead during times of crisis. Capital adequacy is the capital to maintain the balance with the risk exposure of the financial institution such as credit risk, market risk, and operational risk, to absorb the potential loss and protect the financial institution's debt holder in addition to this meeting a minimum level of statutory requirement is also the key factor. The capital adequacy ratio is measured by the ratio of the total capital fund to total risk-weighted assets.

Table 4.1*Capital Adequacy Requirement Ratios*

	2015/16	2016/17	2017/18	2018/19	2019/20	Mean	S D	C V
Goodwill	14.90	15.78	16.39	19.35	15.05	16.30	1.81	11.12
Central	19.40	19.84	24.11	26.83	26.90	23.416	3.65	15.58
Pokhara	20.78	22.66	20.70	23.78	22.14	22.012	1.31	5.93
Reliance	23.55	23.45	21.62	23.90	25.55	23.61	5.46	21.10
United	14.78	15.51	18.80	18.91	22.18	18.036	2.98	16.51

Source: Annual Reports of selected finance companies from 2015/16 to 2019/20

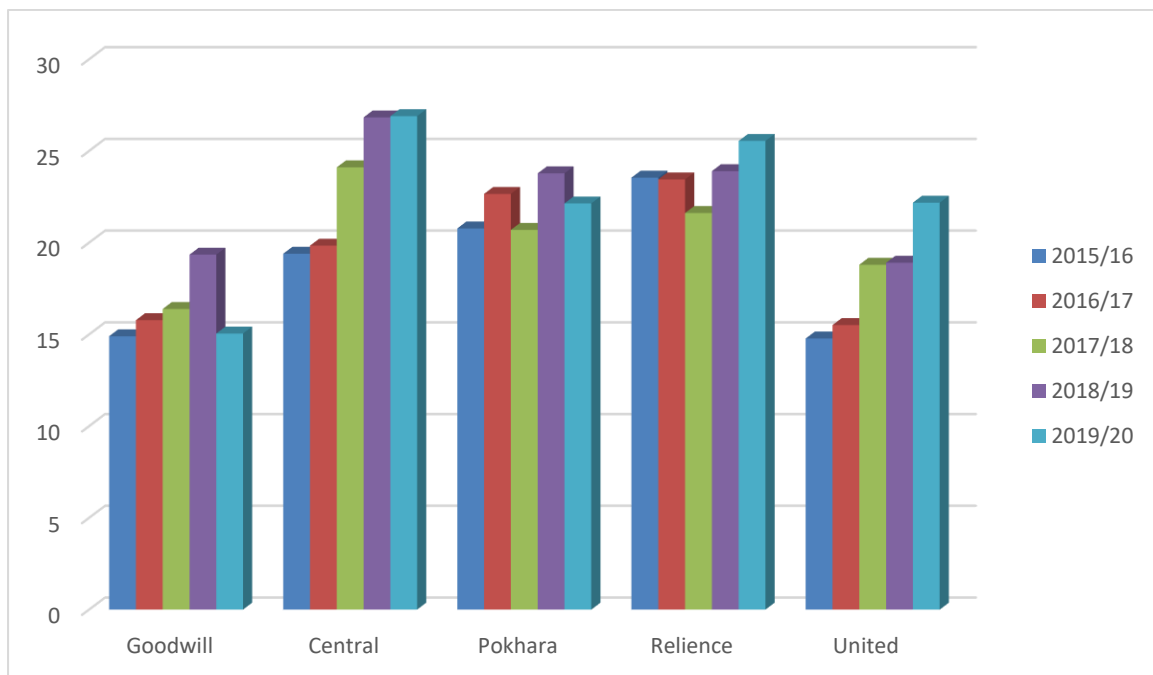


Figure 4.1: Capital Adequacy Requirement Ratio

Figure 4.1 and table 4.1 show that CAR is above 14% and up to 26% of sample finance companies which indicates all finance companies meet the regulations of NRB directives (2077) i.e.11%. Reliance Finance Company shows the highest average CAR i.e.23.61 and Goodwill Finance company shows the lowest CAR i.e.16.30. Reliance shows the higher risk. However, Pokhara Finance Company shows more consistent CAR over the period and Reliance shows inconsistent over the period. The study shows that all the finance companies hold higher amount of capital idle which shows that they were not utilizing their capital on optimum ways.

1.6.2 Asset's quality ratios

Asset's quality determines the healthiness of financial institutions against loss of the value of assets impairment risks the solvency of financial institutions. The asset quality indicators highlight the use of non-performing loans ratios (NPLS) which are the proxy of asset quality and the allowances and provision to loan loss reserve. The financial institution is regulated to back up the bad debts by providing adequate provisions for loan loss. The ratio of provision for loan loss to total loan takes into account to measure the quality of the loan portfolio. With this framework, the quality of the assets assessed by taking the ratio of loan loss provision to total loan. The lower the loan loss provision to the total loan indicates the quality of assets of the finance companies is relatively better than the other finance companies.

Table 4.2

Assets Quality Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	Average	S D	C V
Goodwill	2.76	2.39	2.07	2.67	1.65	2.308	0.45	19.75
Central	4.11	2.47	1.89	0.87	1.14	2.096	1.29	61.54
Pokhara	2.22	1.67	1.41	1.11	0.79	1.44	0.55	37.93
Reliance	3.80	2.50	1.70	1.25	2.17	2.284	0.97	42.50
United	0.59	0.43	0.38	0.64	0.57	0.522	0.11	21.31

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

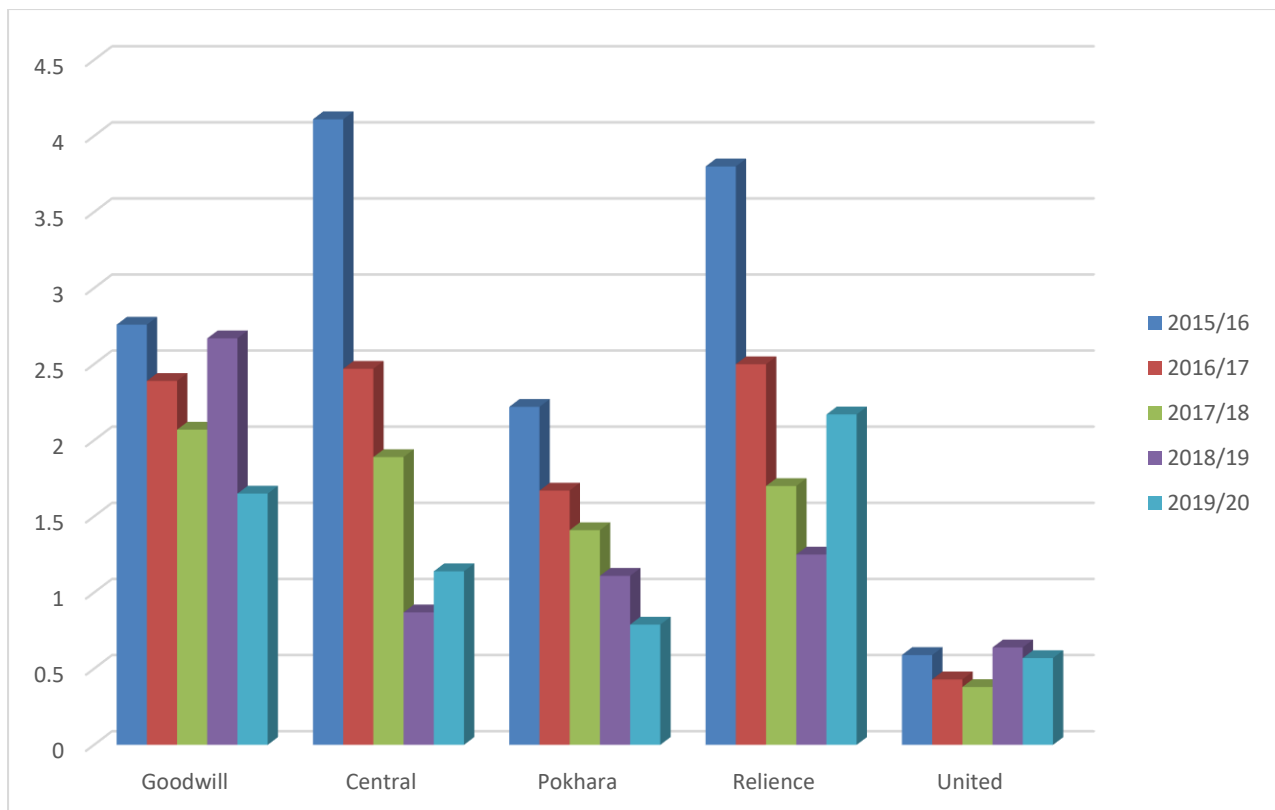


Figure 4.2: Assets Quality Ratio

Figure 4.2 and Table 4.2 show that Nepalese financial companies' Assets Quality Ratio has been decreasing over the past five years except for Central and Reliance due to the increment in bad quality of loans. The assets quality Ratios are below 5 percent which reflects the strong quality of assets. Goodwill Finance Company shows the highest average of NPLs to total loan and United Finance Company shows the lowest average i.e.0.522. However, Goodwill shows the lowest variability, and Central shows the highest variability over the period.

4.1.3 Management efficiency

Management Efficiency is the capability of the board of directors and management to identify, measure, and controls the risks of an institution's activities and to ensure the safe, sound, and efficient operation in compliance with applicable laws and regulations. The performance of Management Efficiency is usually qualitative and can be understood through the subjective evaluation of management systems, organization culture and control mechanisms, and so on. However, the capacity of the management of the financial institution can also be gauged with the help of certain ratios of off-site evaluation of finance companies.

Such can include the ability of the management to deploy its resources, aggressively to maximize the income, utilize the facilities in the financial institution productively and reduce costs, etc.

In this research, the management efficiency is measured by taking the ratio of total operating expenses to total assets. The lower this ratio indicates the management capability to control or minimize cost per asset is relatively better than other banks.

Table 4.3

Management Efficiency Ratio

	2015/16	2016/17	2017/18	2018/19	2019/20	Mean	S D	C V
Goodwill	2.26	1.94	1.85	1.82	2.11	1.99	0.18	9.31
Central	8.67	5.10	6.33	8.07	8.66	7.37	1.59	21.55
Pokhara	7.03	6.27	6.54	7.86	8.24	7.19	0.84	11.73
Reliance	1.98	1.64	1.65	1.79	1.86	1.78	0.14	8.07
United	2.06	1.87	1.83	2.17	2.27	2.04	0.19	9.28

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

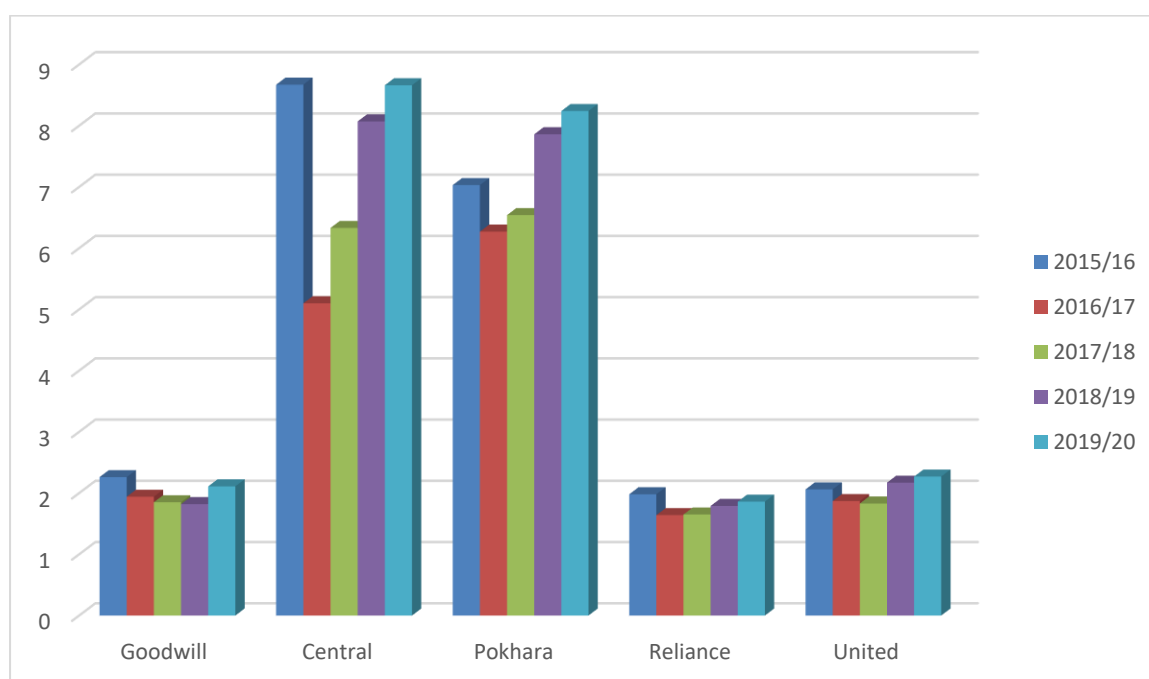


Figure 4.3: Management Efficiency Ratio

Figure 4.3 and Table 4.3 show that the Nepalese Finance companies' total operating expenses to total assets ratio fluctuates, which indicates the management efficiency to control or minimize cost is not so far good. However, Goodwill, Reliance, United has good control over operating expenses but Pokhara and Central finance limited show higher operating expenses to total assets. Central Finance Company shows the highest average operating expenses to total assets ratio i.e7.37% and Reliance Finance Limited shows the lowest average i.e1.78%. Likewise, Central shows more inconsistency and Reliance shows the highest consistent ratio over the period. The study suggests to optimization on operating cost through reduce marketing costs, speed up loan approvals and diversified portfolio.

4.1.4 Earnings ratio

Earning is the conventional parameter of measuring financial performance. The quality of earning represents the sustainability and growth of future earnings, the value of financial institutions' creativeness, and its competency to maintain quality consistently. In the present study, the earnings ratios calculated for earnings analysis is Net Interest to Loan and advance of the finance companies are depicted in table 4.4 and figure 4.4.

Table 4.4

Earnings Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	Mean	S D	C V
Goodwill	14.53	13.20	12.50	13.05	13.77	13.41	0.77	5.76
Central	14.43	8.64	11.79	15.58	15.54	13.20	2.98	22.56
Pokhara	13.51	11.22	10.79	12.63	13.08	12.25	1.18	9.67
Reliance	13.94	11.57	13.42	16.48	16.48	14.38	2.11	14.69
United	11.46	11.66	11.74	13.20	13.49	12.31	0.95	7.76

Source: Annual Reports of Selected finance companies from 2015/16 to 2019/20

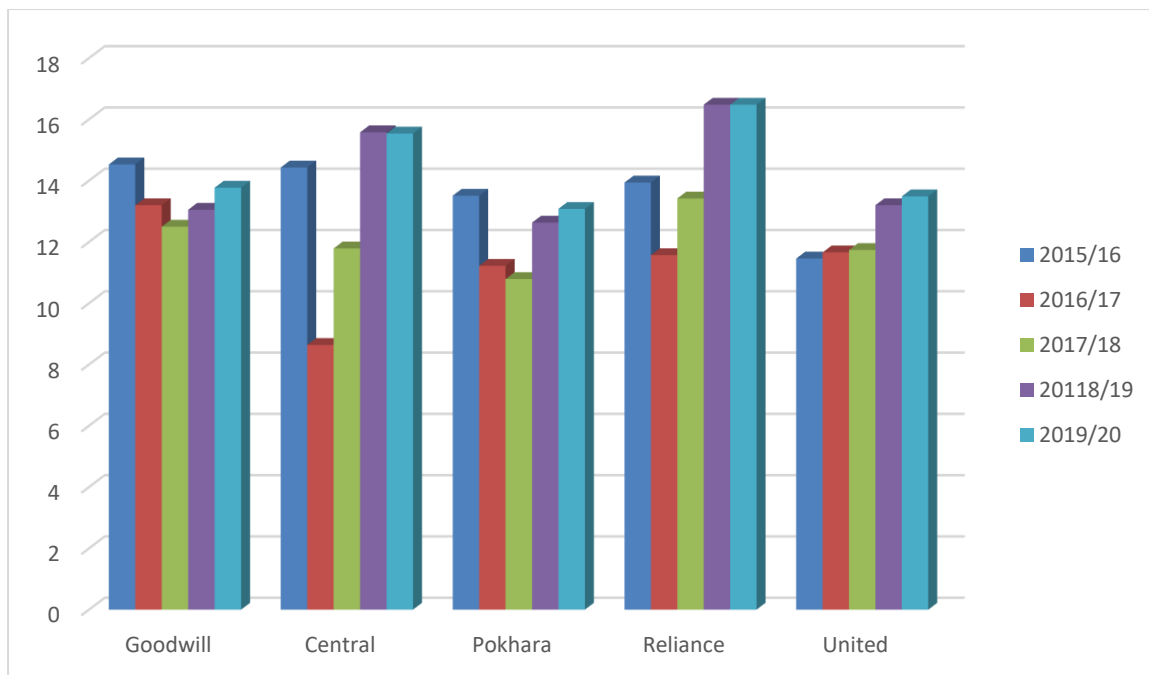


Figure 4.4: Earnings Ratios

Table 4.4 and Figure 4.4 show, the finance companies Net Interest to Loan and Advance ratio has increased for the past five years. It is due to the financial loan amount as well as loan interest has been increasing annually which has increased finance companies Earnings. However, it has been decreasing to some extent in middle years but it trends up to the further years. Which shows the good earnings of finance companies. Reliance Finance Company shows the highest average net interest income to total loan and advances ratio i.e14.38% and Pokhara Finance Limited shows the lowest average i.e12.25%. However Central shows more inconsistency and Goodwill shows the highest consistent ratio over the period. The study shows that the trend of investment in same pattern, to achieve better performance the investment should be diversified.

4.1.5 Liquidity ratio

Liquidity management is one of the most important functions of financial institutions. If funds tapped are not properly utilized, the institution will be suffering a loss. The idle cash balance in hand has no Yield. On the other hand, if the financial institutions do not keep balance liquid cash in hand, they cannot be able to pay the demand withdrawal of depositors, as well as, installment of creditors and ultimately payment of other contingent liabilities. These will lead over the trading position to the institution and create problems to borrow

funds at a high rate. Proper balance liquidity should be by avoiding inadequate cash position, or excess cash position.

The liquidity position of the institutions was evaluated by a credit to deposits and capital ratio. A higher ratio indicates that the institution has a relatively better liquidity position than other competitors' institutions. As per NRB Provision, finance companies need to maintain a CDC ratio of up to 80 percent, a CDC ratio above 80 percent indicates pressure on Resources.

Table 4.5

Liquidity Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	Mean	S D	C V
Goodwill	69.13	73	70	75	71.96	71.818	2.35	3.27
Central	69.14	63.05	72.69	66.93	72.18	68.798	3.97	5.77
Pokhara	73.16	72.69	79.65	77.43	72.99	75.184	3.17	4.21
Reliance	80	80	59.70	70.20	73.99	72.860	8.51	11.68
United	76.95	78.92	77.63	78.73	76.39	77.724	1.1	1.41

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

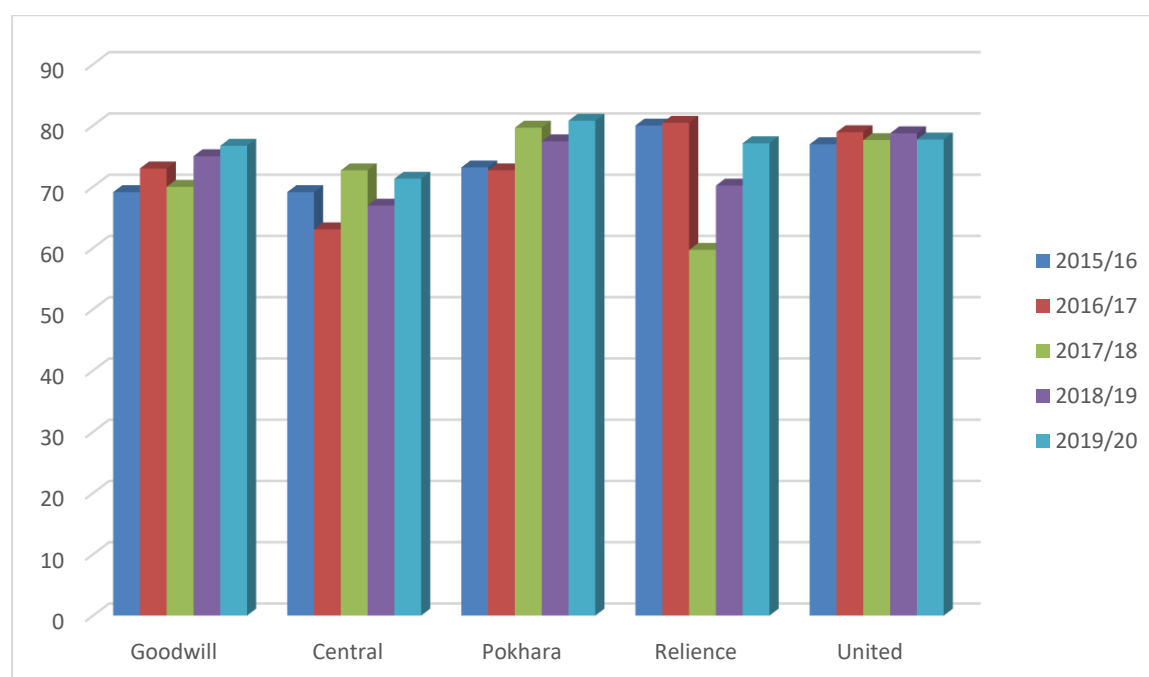


Figure 4.5: Liquidity Ratios

Figure 4.5 and Table 4.5 shows that all finance companies able to maintain their liquidity ratios as prescribed by NRB directives (2077). During FY 2015/16 Reliance finance limited was not able to maintain liquidity position slightly but after 2018/19 seems to have the better position. All the finance companies can maintain liquidity position as per the NRB Provision. All finance companies can increment of deposits and credit respectively. Pokhara Finance Limited shows the highest average CDC ratio i.e75.184% and Central Finance Limited shows the lowest average i.e68.798%. Goodwill Finance Limited shows more consistency and Reliance shows an inconsistent ratio over the period. However, study shows access liquidity which reduces the profitability of institutions and also reduce return on assets so, the liquidity should be optimum.

4.1.6 Return on assets

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

$$\text{Return on equity (ROE)} = \frac{\text{Net income after tax}}{\text{Total shareholders fund}} \times 100$$

Table No.4.6

Return on Assets Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	Average	S D	C V
Goodwill	1.33	2.85	1.67	0.88	1.69	1.68	0.73	43.35
Central	2.02	2.31	2.25	1.77	1.84	2.10	0.32	15.61
Pokhara	4.6	2.31	1.92	1.57	1.32	2.34	1.31	56.11
Reliance	2.06	2.82	2.69	1.44	1.21	2.04	0.72	35.28
United	1.78	2.60	1.83	1.21	1.21	1.72	1.72	33.15

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

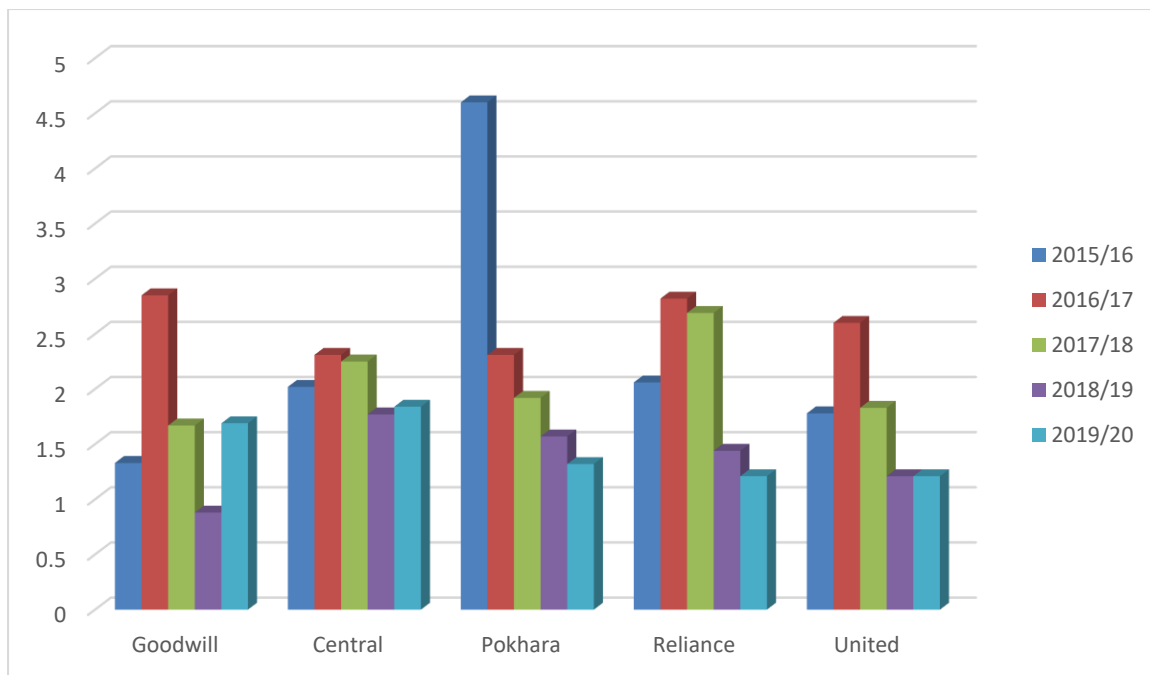


Figure 4.6: Return on Assets

Figure no. 4.6 and Table no.4.6 show, the finance companies return on assets ratio has decreased for the past five years. It is due to a decrease in net profit or extension of the branch. However, central finance was limited and goodwill showed some increment. Pokhara Finance Limited showed the highest average i.e.2.34% and Goodwill shows the lowest i.e.1.68%. Central Finance Limited showed the highest consistency on income to assets and Pokhara shows the lowest over the period. The result shows decrease in return on assets due to hold higher amount of liquidity which causes negative impact on ROA.

4.1.7 Return on equity

This ratio denotes how much of the shareholders' fund is mobilized towards earning profit.

The higher the ratio the better it is for the bank. It is calculated as follows:

$$\text{Return on equity (ROE)} = \frac{\text{Net income after tax}}{\text{Total shareholders fund}} \times 100$$

Table 4.7*Return on Equity Ratios*

	2015/16	2016/17	2017/18	2018/19	2019/20	Average	S D	C V
Goodwill	10	24.70	12.52	5.7	12.34	13.05	7.10	54.15
Central	22.60	29.69	15	10.15	10.57	17.60	8.40	47.77
Pokhara	25.85	12.92	10.72	7.58	8.41	13.10	7.43	56.72
Reliance	10.47	15.11	14.97	7.06	6.00	10.72	4.27	39.86
United	15.36	20.75	12.36	8.11	6.55	12.62	5.72	45.30

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

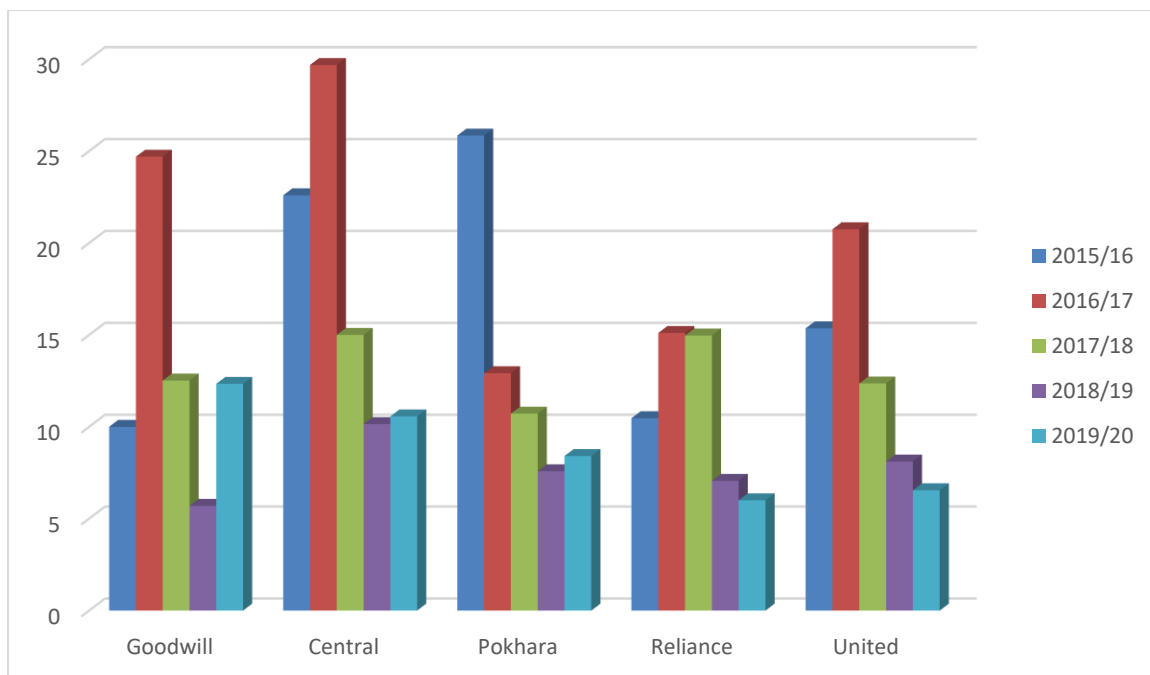
*Figure 4.7: Return on Equity Ratios*

Figure no. 4.7 and Table no.4.7 show, the finance companies return on equity ratio has decreased for the past five years. It is due to a decrease in net profit or increment in shareholder equity. However, Central Finance limited, Goodwill Finance Limited, and Pokhara Finance Limited showed some increment. Central Finance Limited showed the highest average i.e17.60% and Reliance showed the lowest i.e10.72%. Reliance Finance

Limited showed the highest consistency on income to assets and Pokhara finance limited shows the lowest over the period. The higher operating costs results in negative impact on return on equity.

4.6 Major findings

We analyze CAMEL, the above-given data, chart, and some technical tools and techniques were used so the following finding appeared.

1. CAR of central finance limited in FY 2019/20 is highest having 26.90% and united finance limited had the lowest CAR 14.78% in FY 2015/16. The average highest CAR was 23.61% of RFL and the lowest average CAR is 16.30% of Goodwill Finance Limited. Comparatively, Pokhara finance limited shows more consistent CAR, and CFL and RFL shows inconsistent CAR over the last five years. This certifies that all financial institutions are well concerned about the importance of Capital Adequacy. However, study shows that all the finance companies hold higher amount of capital idle which shows that they were not utilized their capital on optimum ways.
2. NPLs to Total Loan ratio of Reliance Finance Limited showed highest in FY 2015/16 is 4.11% and the ratio of Pokhara Finance Limited has the lowest 0.38% in FY 2017/18. In aggregate UFL had the lowest NPLs to Total loan ratio and RFL had the highest. CFL shows a more inconsistent ratio but Goodwill and United Finance Limited show more consistency over the last five years. It shows that all finance companies show concern about the quality of assets because the NPLs of all five companies had decreased over the period.
3. Central Finance Limited showed the highest Operating cost to Total Assets ratio i.e.7.03% in FY 2015/16 and Reliance Finance Limited had the lowest i.e.1.64% in FY 2016/17. CFL deficit the highest average operating cost to total assets and Reliance showed the lowest i.e.1.78%. Reliance shows the highest consistent, however, Central shows a more inconsistent ratio over the period. Its deficit that all finance companies show concern towards stakeholder or Shareholders by minimizing Operating Cost through the Management Efficiency.
4. Net Interest Income Margin (NIM) of Central Finance Limited was lowest in FY 2016/17 i. e.8.46% and Reliance had highest in FY 2019/20 i.e.16.48%. Reliance shows the highest

average earning i.e14.38% and Pokhara has the lowest average earning i.e12.25%. Goodwill shows more consistency and Central shows inconsistency in interest-earning over the period. It shows that all the finance companies are concerned about healthy and sustainable banking.

5. United Finance Limited has the highest CDC ratio i.e81.15% in FY 2019/20 and Central had the lowest CDC ratio i.e63.05% in FY 2016/17. United maintains the highest average CDC ratio i.e78.68 %and Central had the lowest average i.e68.625%. Reliance Finance Limited shows the highest inconsistent CDC ratio and United shows more consistent. United and Reliance show a little bit of pressure on the resource. All the finance companies utilized their resources in the best way and maintain liquidity as per their fulfilling respective obligations and operations. However, study shows access liquidity which reduces the profitability of institutions and also reduce return on assets so, the liquidity should be optimum.

6. ROA of Pokhara Finance Limited showed highest in FY 2015/16 i.e4.6% and Goodwill had the lowest in FY 2018/19 i.e0.88%. Pokhara shows the highest income to assets i.e2.34% and Goodwill had the lowest average i.e1.68. Central Finance Limited showed the highest consistency on income to assets and Pokhara shows the lowest over the period. All the finance companies utilized their assets to generate profit however, their returns are comparatively low due to hold higher amount of liquidity which causes negative impact on ROA.

7. ROE of Central Finance Limited was highest in FY 2016/17 i.e26.96% and Reliance had the lowest in FY 2019/20 i.e6%. Central Finance Limited showed the highest average i.e17.60% and Reliance showed the lowest i.e10.72%. Reliance Finance Limited showed the highest consistency on income to assets and Pokhara shows the lowest over the period. The return on equity was gradually fallen for all the finance companies over the period due to NPLs and operating costs.

4.7 Discussion

The study was set out to measure the performance of Nepalese commercial finance companies to find out the financial performance using CAMEL Framework/the study was conducted with an attempt of examining whether the determinations of CAMEL ratio are standard towards the directives of Nepal Rastra Bank regulation. The data used in this study are all from secondary sources. The required data have been extracted from annual reports and websites of respective finance companies. This study obtained secondary data from the five respective institutions from FY 2015/16 to 2019/20 period. For convenience, five national-level finance companies were taken into consideration.

As analyzed by Getaun (2015) specific five ratios of CAMEL are calculated to conduct this study. The descriptive method is used to analyze the quantitative data. As specified by NRB Directive all finance companies can maintain minimum CAR which implies finance institutions were following the rule or directives of NRB. The QAR has been decreasing over the past five years which indicates finance companies are maintaining a good quality of loans. The operating cost to total assets ratio of finance institutions indicate there are some issues on management efficiency due to uncontrol of costs. The earnings ratio of the past five years has been increasing annually which has increase finance companies' earnings. All finance companies are currently maintaining CDC ratio as per NRB i.e below 80% and have a better liquidity position.

The study shows as quite similar to Zedan and Dass (2017). Their studies are also limited to five sample financial institutions and were not generalized for the all institutions operate in the industry. Both are based on performance in five years. They also applied CAR to analyzed capital adequacy parameters, NPLs to total loans to analyzed earning ability, total loans to total deposits ratio to analyzed liquidity. As mentioned by Ashan (2016) all the finance institutions deficit smooth and efficient operations as guided by regulatory institutions.

CHAPTER V: CONCLUSION

This chapter contains a summary, conclusion and recommendation. The brief introduction of all chapters is defined in the summary. Findings and conclusions are the analysis of relevant data by using various financial and statistical tools. The recommendation obtains suggestions based on major findings and conclusions.

5.1 Summary

The study was set out to measure the performance of Nepalese finance companies to find out the performance of finance companies using the CAMEL framework. CAMEL is a common method for analyzing the health of the individual institution, to quantify the performance and the financial condition of the firm. It was designed by regulatory authorities and this study scrutinizes the financial performance of Finance companies as regards CAMEL i.e capital adequacy, assets quality, management efficiency, earning, and liquidity. The analysis of the financial statement is done to obtain a better sight into the institution's position and performance. The various financial and statistical tools have been used in this study to get meaningful results and to meet the research objectives.

The data used in the study are all from secondary sources. The required data have been extracted from the annual report and financial statement of the finance companies available in the NRB database and from the respective financial companies' annual reports and websites. This study obtained secondary data from five sample finance companies from the fiscal year 2015/16 to 2019/20 period. All the finance companies are national level. Based on the table and figure all financial companies maintain the minimum CAR specified by NRB and the liquidity ratio of all institution maintain below 80 percent also their capital requirement fulfilled. Earnings ratio of all finance companies are increasing trend but almost all finance companies need to show their concern on control cost for management efficiency.

According to financial tools and statistical tools used to conduct this research based on CAMEL analysis used as specific variable shows that Reliance finance company shows the better financial performance and Central finance company shows satisfactory although able to meet the minimum standard specified in NRB provisions. However, ROA and ROE study showed that finance companies able to control operating costs deficit the higher income.

5.2 Conclusion

The study concluded that all five financial institutions have maintained the capital adequacy ratio as prescribed by NRB in each study year. The average CAR over a five years study period is also higher than NRB requirements. Similarly, all the finance companies have focused on their core capital to meet the overall CAR requirements.

The decreasing trends of non-performing loan ratio show that all finance companies are aware of the impact of NPA and they have adopted appropriate credit policy to increase the quality of their assets. Similarly, the decreasing trends of loan loss provision ratio of all institutions show that they have improved the quality of the loans year by year.

The management efficiency ratio depicts efficiency and productivity as a result of well-managed human resources. However, Pokhara Finance Limited and Central Finance Limited losing their management efficiency through the last years but other finance limited have satisfactory results.

The earnings ratio of the past five years is in increasing trend it is due to higher amount of loan investment and increment of interest income. Although it seems to be decreasing in the middle FY it overcomes and shows better results.

All the finance companies are maintaining the CDC ratio as per the provision of Nepal Rastra Bank however, Reliance and United should little bit concerned about liquidity otherwise it pressures resources.

However, all the finance companies show that ROE and ROA ratios are declining over the period. All the measures of CAMEL variables are satisfactory although management efficiency shows that finance companies were at risk on cost control which shows the result on the income of institutions. The study carried out the result that focused on all the variables only produced the better performance or result of bank and financial institutions.

5.3 Implications

Based on the finding of the research the following recommendations were given:

To the Stakeholders

The study revealed that as per data reliability on annual reports of respective financial institutions all the ratios are calculated therefore respective managers of these institutions are advised to give due attention to those variables to improve profitability.

This study suggests better management efficiency by controlling operating costs or by cost control for this firm.

The CAMEL model is a useful rating tool for all sectors like microfinance institutions and insurance companies.

To the Policymakers/Regulators

Policymaker needs to formulate similar format for calculation of CAMEL terms for all finance companies.

Policymakers should update on NRB regulations for the good assessment of results because the provision changes as per the economic environment.

To the Future Researcher

The current study uses only some representative financial ratios from the factor of CAMEL model, the financial ratio included in the research is not enough to evaluate the performance of finance companies' capital adequacy, assets quality, management efficiency, earning ability, and liquidity.

Therefore, the further researcher is recommended to consider additional financial ratios.

The study has been conducted in the context of Nepalese Finance companies, with 5 years of data and with only five finance companies as a sample. Further studies may deal with the maximum numbers of banks and with a long period.

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APPENDICES

Assets Quality Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	Average	S D	C V
Goodwill	2.76	2.39	2.07	2.67	1.65	2.308	0.46	19.76
Central	4.11	2.47	1.89	0.87	1.14	2.096	1.29	61.54
Pokhara	2.22	1.67	1.41	1.11	0.79	1.44	0.55	37.93
Reliance	3.8	2.5	1.7	1.25	2.17	2.284	0.97	42.49
United	0.59	0.43	0.38	0.64	0.57	0.522	0.11	21.30

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

Capital Adequacy Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	Average	S D	C V
Goodwill	14.9	15.78	16.39	19.35	15.05	16.294	1.81	11.11
Central	19.4	19.84	24.11	26.83	26.9	23.416	3.65	15.57
Pokhara	20.78	22.66	20.7	23.78	22.14	22.012	1.31	5.92
Reliance	23.55	23.45	21.62	35.35	25.55	25.904	5.46	21.07
United	14.78	15.51	18.8	18.91	22.18	18.036	2.98	16.52

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

Management Efficiency Ratios

	2015/16	2016/17	2017/8	2018/19	2019/20	Average	S D	C V
Goodwill	2.26	1.94	1.85	1.82	2.11	1.996	0.19	9.31
Central	8.67	5.1	6.33	8.07	8.66	7.366	1.59	21.55
Pokhara	7.03	6.27	6.54	7.86	8.24	7.188	0.84	11.73
Reliance	1.98	1.64	1.65	1.79	1.86	1.784	0.14	8.07
United	2.06	1.87	1.83	2.17	2.27	2.04	0.19	9.27

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

Earnings Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	Average	S D	C V
Goodwill	14.53	13.2	12.5	13.05	13.77	13.41	0.77	5.76
Central	14.43	8.64	11.79	15.58	15.54	13.196	2.98	22.55
Pokhara	13.51	11.22	10.79	12.63	13.08	12.246	1.18	9.67
Reliance	13.94	11.57	13.42	16.48	16.48	14.378	2.11	14.68
United	11.46	11.66	11.74	13.2	13.49	12.31	0.95	7.76

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

Liquidity Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	Average	S D	CV
Goodwill	69.13	73	70	75	71.96	71.818	2.35	3.27
Central	69.14	63.05	72.69	66.93	72.18	68.798	3.97	5.78
Pokhara	73.16	72.69	79.65	77.43	72.99	75.184	3.16	4.21
Reliance	80	80	59.7	70.2	73.99	72.778	8.42	11.57
United	76.95	78.92	77.63	78.73	76.39	77.724	1.098	1.41

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

Return on Assets Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	Average	S D	C V
Goodwill	1.33	2.85	1.67	0.88	1.69	1.68	0.73	43.35
Central	2.02	2.31	2.25	1.77	1.84	2.10	0.32	15.61
Pokhara	4.6	2.31	1.92	1.57	1.32	2.34	1.31	56.11
Reliance	2.06	2.82	2.69	1.44	1.21	2.04	0.72	35.28
United	1.78	2.60	1.83	1.21	1.21	1.72	1.72	33.15

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20

Return on Equity Ratios

	2015/16	2016/17	2017/18	2018/19	2019/20	Average	S D	C V
Goodwill	10	24.70	12.52	5.7	12.34	13.05	7.10	54.15
Central	22.60	29.69	15	10.15	10.57	17.60	8.40	47.77
Pokhara	25.85	12.92	10.72	7.58	8.41	13.10	7.43	56.72
Reliance	10.47	15.11	14.97	7.06	6.00	10.72	4.27	39.86
United	15.36	20.75	12.36	8.11	6.55	12.62	5.72	45.30

Source: Annual Reports of Selected Finance Companies from 2015/16 to 2019/20