A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN NEPAL: A CAMEL MODEL ANALYSIS

A Thesis

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

Susmita Thapa

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Date: September, 2018

RECOMMENDATION LETTER

It is certified that thesis entitled "A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN NEPAL: A CAMEL MODEL ANALYSIS "submitted by Susmita Thapa is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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We, the undersigned, have examined the thesis entitled "A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN NEPAL: A CAMEL MODEL ANALYSIS" presented by Susmita Thapa candidate for the degree of **Master of Business Studies** (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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Abbreviations

BAFIA	Bank and Financial Institution Act
BBL	Branch less Banking
BIS	Bank of International Settlement
CAMEL	Capital Adequacy, Assets Quality, Management Efficiency, Earning Capacity, Liquidity Position
CAR	Capital Adequacy Ratio
CCAR	Core Capital Adequacy Ratio
CDR	Cash Deposit Ratio
CRR	Cash Reserve Ratio
CV	Coefficient of Variation
EBL	Everest Bank Limited
EPE	Earning per Employee
EPS	Earning per Share
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FI	Financial Institutions
FY	Fiscal Year
HBL	Himalayan Bank Limited
i.e.	That is
IMF	International Monetary Fund
NIBL	Nepal Investment Bank Ltd

NPL	Non-performing Loan
NPLR	Non-performing Loans to Total Loans Ratio
NRB	Nepal Rastra Bank
OCC	Office of the Comptroller of the currency
RBBL	Rastriya Banijya Bank Limited
ROA	Return on Assets
ROE	Return on Equity
SCAR	Supplementary Capital Adequacy Ratio
SD	Standard Deviation
SPSS	Statistical Package for the Social Sciences
TETIR	Total Expenses to Total Income Ratio
TU	Tribhuvan University

ABSTRACT

Sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees and whole economy as well. As sequel to this maxim, efforts have been made from time to time to measure the financial position of each bank and manage it efficiently and effectively.

The present study is an attempt to evaluate and compare the financial performance of selected commercial banks in Nepal for the period 2013-2017. One of the most effective supervisory techniques, CAMEL rating system (basically a quantitative technique) has been used to compare the banks based on their performances. In this study one private bank and one commercial bank have been chosen as a sample to meet the purpose of the study. The study used the secondary data sourced from the annual reports of selected banks. i.e. NIBL and RBBL.Data have also been obtained browsing the official website of NRB and SEBON. Only descriptive tool has used to obtain the meaningful result of the collected data and to meet the research objectives. Firstly, collected data are tabulated under various heading and then tabulated data are analyzed using various financial and statistical tools and compared these values with the help of different figure.

Results indicate that the selected banks had met the NRB standard of core capital ratio. The decreasing trend of non-performing loan to asset ratio showed that the assets quality of NIBL was good during the period of study. Total expenses to total income ratio was decreased which showed that the management efficient of all RBBL was good with large amount of positive gap between income per employee and expense. Major portion of total income of NIBL and RBBL has covered by interest income. Average ROA of NIBL was higher than RBBL. It indicates the better productivity of NIBL. The ROE of both banks was satisfactory but NIBL need to improve in that ratio. Net income to total loan and advance ratio of banks was fluctuating since first fiscal year which showed the week earning power of both banks and should improve it. Liquidity ratio of NIBL and RBBL were good and meet the standard level of NRB.

CHAPTER-I

INTRODUCTION

1.1 Background of the study

Bank is very old institution that is contributing towards the development of any economy and it's treated as an important service industry in modern world. Nowadays the function of bank is not limited to within the same geographical limit of any country. It is an important source of financing for most business (Nimalathasan, 2008). Also bank is a financial institution that require fund to carry out business. Fund may come from deposit and non deposit such as capital (AlMamun, 2013). Bank need to find best way to manage resources and assess its activities decisions of consumption of resources. Simply stated much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risks taken to earn this return (Hempel et al., 1986). A competitive banking system promotes the efficiency and therefore important for growth, but market power is necessary for stability in the banking system (Northcott, 2004)

Generally, financial performance of banks and other financial institution measured by using combination of financial ratio analysis, benchmarking, measuring performance against budget or mix of these methodologies (Avkiran, 1995). In simple accounting terms, performance of banks refers to the capacity in generating sustainable profitability (Rozzan & A.Rahman, 2013). Banks need a way to evaluate performance and consider some important financial ratios and find the strength and weaknesses.

In developing countries like Nepal, banks play a major role in financial development. The stability of commercial banks as whole in the economy depends on better financial performance. Better financial performance level has tendency to absorb risks and shocks that commercial banks can face. There are different stakeholders that have interest in evaluations of the performance of banks including depositors, investors, bank managers and regulators (Ibrahim, 2014). For instance central banks and bank

regulators may need to identify and call attention to banks that are experiencing chronic financial problems in order that they may fix them before they get out of control. On the other hand, Shareholders need to assess which banks they can deem suitable for financially invest in. The banks evaluate their performance over a given period so that they may determine the efficacy and long term viability of management decisions or goals so that they can alter the course and make changes whenever it is appropriate.

The study is motivated by the fact that, the measurement of financial performance of the banking sector is important for several reasons. First, financial performance is a vital factor for financial institutions wishing to carry out their business successfully, given the increasing competition in the financial markets. Second, in a rapidly changing and more globalized financial market place, governments, regulators, managers and investors are concerned about how efficiently banks transform their expensive inputs input various financial products and services. Third, the financial performance measures are critical aspects of banking sector that enable us to distinguish banks that has the capability to survive and prosper from those that may have problems with competitiveness. Performance evaluation is the most important approach for enterprises to give incentive and restraint to their operators and it is an important channel for enterprise stakeholders to get the performance information.

Banking institution are inevitable for the resources mobilization and the all round development of the country. They have resources for economic development and they maintain economic confidence of various segments and extend credit to people. Then the Nepal Rastra Bank (Central Bank of Nepal) in 2013 B.S. was a significant dimension in the development of banking sector. The second commercial bank is Rastriya Banijaya Bank Ltd., which has established in 2021 B.S., a fully wondered of government bank. Thenafter other banks were established gradually.

The stage of development of the banking industry is a good reflection of the development of the economy (Misra and Aspal, 2013). To sustain the development of the economy, the performance and health of the banks has to be checked and evaluated periodically. There are different approaches, used by different regulatory bodies. Among those approaches, most preferred parameters used by the regulators and different scholars are CAMEL (Capital adequacy, assets quality, management

efficiency, earnings and liquidity) rating criterion to assess and evaluate the performance and financial soundness of the activities of the bank. The CAMEL supervisory criterion in banking sector is a significant and considerable improvement over the earlier criterions in terms of frequency, check, spread over and concentration (Misra and Aspal, 2013;Basel, 2011). Hence this study intends to analyze the performance of one public and one private sector banks in Nepal by using CAMEL approach.

1.1.1 An Overview of Rastriya Banijya Bank Ltd.

Rastriya Banijya Bank Ltd was established on January, 1966with an paid up capital of Nrs 858.90 Crore. RBBL is one of the pioneer bank in the country with the history of nearly a half century. Earlier constituted under RBB act 2021 with the full ownership of the government of Nepal, the bank has been running under Bank and Financial Institute Act (BAFIA) and Company Act 2063 at present.

RBBL which has made glorious history of contributing for the monetization of the economy, eliminating dual currency in the market, initiating preliminary financial literacy, help flourish industrial, commercial and financial sector of the country has now emerged as a modern and strong financial institute of the country. The bank with 2600 hands has expanded its wings in the most part of the country through multiple distribution outlets of 192 branches, 17 counters, 93 branch less banking (BLB) 130 ATMs. The bank with the highest public confidence- reflected in the highest deposit base and growing demand for branch establishment in the various parts has stood as a pyramid in the financial arena of the country. (Official website of Rastriya Banijya Bank Ltd, www.rbb.com.np)

1.1.2 An Overview of Nepal Investment Bank Ltd.

Nepal Investment Bank Ltd, previously Nepal Indosuez Bank Ltd was established in March 09, 1986 as a joint venture between Nepalese and French partners with paid up capital Nrs 870.66. NIBL is one of Nepal's leading commercial bank. The bank was previously known as Nepal Indosuez Bank. It changed the name to Nepal Investment Bank Ltd in 2002, after the Nepalese investor bought all the 50% of the share that credit Agricole Indosuez own in 2001. NIBL is dedicated to provide world class

financial services and customer satisfaction. NIBL has 76 branches, 9 extension counters, 101 ATMs. The bank currently runs 8various deposit scheme; provide e-banking and SMS banking, Remittance and many other facilities that enhance the bank's corporate excellence.(Official website of Nepal Investment Bank Ltd, www.nibl.com.np)

1.2 Statement of the Problem

A financial institution's soundness is judged on the basis of capital adequacy, asset quality, management efficiency, earning, and liquidity (CAMEL). Some financial institution have very low capital adequacy ratio while some have piled of non-performing assets. Similarly, it appears that financial institutions do not have proper system managing the correctness of credit classification and provision of some commercial banks. 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 company. The fundamentals problem of this study is to check up the financial health of Rastriya Banijya Bank Ltd & Nepal Investment Bank Ltd in the framework of CAMEL. Based on the general problem the following specific problems are set in this study.

1. What is the financial performance of selected public sector and private sector banks by applying CAMEL Model?
2. What is the relationship of component of CAMEL model and ROE and ROAof selected public sector and private sector banks?
3. What is the difference between financial performance of the selected public sector and private sector banks by applying CAMEL Model?

1.3 Purpose of the study

The general objective of this study is to make comparative analysis of the financial performance of Rastriya Banijya Bank Ltd and Nepal Investment Bank Ltd by using CAMEL model and to give recommendations and suggestions for the improvement of performance and financial position of these two banks. The study is conducted to accomplish the following specific objectives:

1. To analyze the financial performance of selected public sector and private sector banks by applying CAMEL Model.

2. To examine the relationship of component of CAMEL model and ROA and ROEof selected public sector and private sector banks.
3. To compare the financial performance of selected public sector and private sector banks by applying CAMEL Model.

1.4 Significance of the Study

Research itself has own importance because it aims to gain knowledge and to add the new literature to the existing field. The significance of this study lies mainly in filling a research gap on the study of comparative financial performance analysis of with respect to Rastriya Banijya Bank Ltd and Nepal Investment Bank Ltd. This study will contribute significantly to solve the problem existing in the financial institution and to formulate the policy and strategies to maintain activities effectively. The following points justify the study:

1. The study will assist to specify the entire glory of these two banks by finding strength and weakness and helps to overcome from weakness.
2. The study will assist to fill a research gap on the study of comparative financial performance analysis of commercial banks under CAMEL rating.
3. The study will assist to show the financial position of the banks to the investors and concerned management.
4. The study will assist to find out the comparative performance of commercial banks in the economic growth of nation.
5. This study will assist to solve the problem existing in the financial institution especially for commercial banks and to formulate the policy and strategies to maintain their activities effectively.
6. The study is important for banks, Board of directors of respective banks, researchers, scholars, investors, students, government, customers, policy maker as well as other many other parties.

Limitations of the study

The study has been carried out subject to the following limitations.

1) This study is concerned with one public sector and one private sector bank which cannot be represent the entire banking sector and results of the study are

limited to these two particular banks only. Hence, the results may be not applicable to the entire banking sector.

2) The study is based on secondary data which is collected from published annual reports of banks and various relevant internet sources. The data obtained through is subject to window dressing and may not show the actual position of the banks.
3) The study covers a period of only five years from fiscal year 2012/13 to 2016/17.

1.5 Chapter Plan

Chapter-I: Introduction

This chapter deals with the background of the study, statement of the problems, purpose of the study, significance of the study, limitations of the study and chapter plan.

Chapter-II: Literature Review

This chapter reviews the previous published literature. It contains theoretical and empirical literatures from Journal/article and thesis.

Chapter-III: Research Methodology

This chapter deals with the methodology incorporated in thestudy. It contains research design, sources of data, data analysis tools and techniques, etc

Chapter-IV: Results

The fourth chapter includes the data analysis and interpretation of the result.

Chapter-V: Conclusions

The last chapter is related with summary, conclusion and implications for further research.

CHAPTER-II

LITERATURE REVIEW

The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contribution can be made, and to receive some ideas for developing research design. The review of literature includes the reviews of previous writing and studies relevant to the problem being explored and with the frame work of theory structure.

2.1 Theoretical review

2.1.1Financial Performance Analysis

The word of Nassim Nicholas Taleb, 'Banking is a very treacherous business because you don't realize it is risky until it is too late. It is like calm waters that deliver huge storms'; emphasis the importance of financial analysis of banks. Financial Performance Analysis is a process of synthesis and summarization of financial and operative data to get an insight into the operative activities of a business concern. It consists of comparisons for the same entity over periods of time or comparisons of different entities either of same sector or different sectors. It may be done for a variety of purposes, which may range from a simple analysis of the short term liquidity position to a comprehensive assessment of the strengths and weakness in various areas. It is helpful in assessing corporate excellence, operating efficiency, judging credit worthiness, forecasting bond ratings, predicting bankruptcy and market risk. There are numbers of tools and techniques available for the performance evaluation of a bank like Date Envelopment Analysis, CAMEL model and ratio analysis etc. Financial analysis of a bank is mainly done with the help of different ratios which enables the management of banks to identify the causes or reasons for the changes in their advances, income, deposits, expenditure and profitability over the period of time and thus help in pinpointing the necessary direction of action required for increased deposits, income, advances and reducing the expenditure and for altering the profitability prospects of the banks in future."Financial analysis is a process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the item of balance sheet and the profit and loss account" (*Pandey, 2000*).

2.1.2 CAMEL Rating System

Federal Reserve Bank of New York (1997) has defined the component of CAMEL as rating system which produces a composite rating of an institution's overall condition and performance by assessing five components: Capital Adequacy, Asset Quality, Management Administration, Earning and Liquidity.

CAMEL was originally developed by the FDIC for the purpose of determining when to schedule an on-site examination of bank.The FFIEC is revised in January 1997, the UFIRS, which is commonly referred to as the CAMEL rating system. This system was designed by regulatory authorities to quantify the performance and the financial condition of the Banks which it regulates.

The CAMEL rating system is subjective. Benchmarks for each component are provided, but they are guidelines only, and present essential foundations upon which the composite rating is based. They do not eliminate consideration of other pertinent factors by the examiner. The uniform rating system provides the groundwork for necessary supervisors to be reasonably compared and helps institutions supervised by all three US supervisors to be reasonably compared and evaluated. Ratings are assigned for each component in addition to the overall rating of a financial institution's financial condition. The ratings are assigned on a scale from 1 to5. The CAMEL ratings are commonly viewed as summary measures of the private supervisory information gathered by examiners regarding financial institutions' overall financial conditions, although they also reflect available public information.

The most important criteria for determining the appropriateness of FIs to act as financial intermediary are its solvency, profitability and liquidity. In this respect, the BCBS of the bank of international settlements (BIS), since 1988, has recommended using capital adequacy, assets quality, management quality, earnings and liquidity (CAMEL) as criteria for assessing FI.

During an on-site bank exam, supervisors gather private information, such as details on problem loans with which to evaluate a bank's financial condition and to monitor its compliance with laws and regulatory policies. A key product of such an exam is a supervisory rating of the bank's overall condition, commonly referred to as a CAMEL rating. CAMEL rating system is used by the three federal banking supervisors [the Federal Reserve, the FDIC, and the office of the comptroller of the currency (OCC)]

and other financial supervisory agencies to provide a convenient summary of bank conditions at the time of an exam. In Nepal, the NRB plays the supervisory role for evaluating financial institution's financial condition through rating the financial institution's in accordance to CAMEL is still in its initial phase.

Composite Rating

The FFIEC press release, USA (1996) describes the composite rating and defines the six components rating. According to the press release, composite ratings are based on a careful evaluation of an institution's managerial, operational, financial and compliance performance. The six key components used to assess an institution's financial condition and operations are: capital adequacy, asset quality, management capability, earnings quality, the adequacy of liquidity and sensitivity to market risk. The rating scale range from 1 to 5, with a rating of 1 indicating: the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile and the level of performance inadequate risk and the greatest supervisory concern. The composite ratings are defined in the FFIEC press releases (1996) are as follows.

Composite 1: FIs in this group are in every respect and generally have components rated 1 or 2. Any weaknesses are minor and can be handled in a routine manner by the board of directors and management. These FIs are the most capable of withstanding the vagaries of business condition and are resistant to outside influences such as economic instability in their trade area. These FIs are in substantial compliance and risk management practices relative to the institution's size, complexity, risk profile and supervisory concern.

Composite 2: FIs in this group are fundamentally sound. For a FI to receive this rating, generally no component rating should be more severe than 3. Only moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct. These FIs are in substantial compliance with laws and regulations. Overall risk management practices are satisfactory relative to the institution's size, complexity and risk profile.

Composite 3: FIs in this group exhibit some degree of supervisory concern in one or more of the component areas. These FIs exhibit a combination of weaknesses that may range from moderate to severe: however, the magnitude of the deficiencies generally will not cause a component to be rated more severely than 4. FIs in this group generally are more vulnerable to outside influences than those institutions rated a composite 1 or 2. Additionally, these FIs may be in significant noncompliance with laws and regulations.

Composite 4: FIs in this group generally exhibit unsafe and unsound practices or conditions. There are serious financial or managerial deficiencies that result in unsatisfactory performance. The problems range from severe to critically deficient. The weaknesses and problems are not being satisfactorily addressed or resolved by the board of directors and management. FIs in this group generally are not capable of withstanding business fluctuations. There may be significant noncompliance with laws and regulations. Risk management practices are generally unacceptable relative to the institution's size, complexity and risk profile. Close supervisory attention is required, which means, in most cases, formal enforcement action is necessary to address the problems. Institution in this group poses a risk to the deposit insurance fund. Failure is a distinct possibility if the problems and weaknesses are not satisfactorily addressed and resolved.

Composite 5: FIs in this group exhibit extremely unsafe and unsound practices or conditions exhibit a critically deficient performance, often contain inadequate risk management practices relative to the institution's size, complexity and risk profile are of the greatest supervisory concern. The volume and severity of problems are beyond management's ability or willingness to control or correct. Immediate outside financial or other assistance is needed in order for the FIs to be viable. Ongoing supervisory attention is necessary. Institutions in this group pose a significant risk to the deposit insurance fund and failure is highly probable.

Piyu (1992) notes " Currently, financial ratios are often used to measuring the overall soundness of a bank and quality of its management. Bank regulators, for example, use financial ratios to help evaluate a bank's performance as part of the CAMEL system". The evaluation factors are as follows:

Components of CAMEL Rating System

1. **Capital Adequacy**

The dimension of capital adequacy is an important factor to help the bank in understanding the shock attractive capability during risk. In this study, capital adequacy is measured by using the equity to total assets ratio (Vong & Chan, 2009). That means, capital adequacy enables a bank to meet any financial unexpected condition due to credit risk, market risk, interest risk. Capital adequacy protects the interest of depositors of a bank.

2. **Assets Quality**

The dimension of asset quality is an important factor to help the bank in understanding the risk on the exposure of the debtors. In this paper, this parameter is measured by the provision for loan loss reserve to total assets ratio (Merchant, 2012). This ratio assures to cover the bad and doubtful loans of the bank. This parameter will benefit the bank in understanding the amount of funds that have been reserved by the banks in the event of bad investments.

3. **Management Quality**

Management quality reflects the management soundness of a bank. The management acts as a safeguard to operate the bank in a smooth and decent manner and is called excellence management or skillful management, whenever it controls its costs and increase productivity, ultimately achieving higher profits. Here, this parameter is measured by total cost to total income ratio.

4. **Earning Quality**

Earning is an important parameter to measure the financial performance of an organization. Earning quality mainly measures the profitability and productivity of the bank; explains the growth and sustainability of future earning capacity. In the same way, banks depends on its earning to perform the activities like funding dividends, maintaining adequate capital levels, providing for opportunities for investment for bank to grow, strategies for engaging in new activities and maintaining the competitive outlook. Here two ratios are used to determine the profitability of banks i.e. ROA and ROE.

5. Liquidity

Liquidity ratio in a bank measures the ability to pay its current obligations (Hazzi & Kilani, 2013). For having sound banking operations it needs to have liquidity solvency. If any bank faces liquidity crisis, bank can't meet up its short-term obligations. Liquidity crisis seems to be a curse to the image of banks. So, it is a prime concern to banks. Cash and investments are the most liquid assets of a bank. An adequate liquidity position means a situation, where institution can obtain funds, either by rising liabilities or by converting its assets quickly at a reasonable cost. Hence liquidity performance is measured by net investment to total asset ratio. This ratio can be defined as the amounts of assets have been engaged in investment.

2.1.3 BASEL Capital Accord

The BASEL committee on banking supervision (BCBS) is a committee of banking supervisory authorities that was established by central bank governors of the group of ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the bank for international Settlements (BIS) in BASEL, where it's permanent is located (*BIS; 11-2005*).

Starting with its publication of "International Convergence of Capital Measurement and Capital Standards" in July 1988, popularly known as BASEL I "Capital Accord, BCBS set out a minimum capital requirement of 8 percent for banks. Prior to that, the committee introduced 25 core principles on effective banking supervision. In 1996, the committee incorporated market risk in the 1988 capital accord. With a major revision of the 1988 accord, there followed by the revised publication of the committee's first round of proposals for revising the capital adequacy framework in June 1999 popularly known as BASEL II capital Accord. Since then, it is revised in January 2001, April 2003 and released its final revised framework updated in November 2005. In this accord, the concept and rationale of the three pillars

(minimum capital requirements, supervisory review and market discipline) approach was introduced, on which the revised framework is based. In the revised framework, BCBS retains key elements of the 1988 capital adequacy framework, including the general requirement for banks to hold total capital equivalent to at least 8 percent of their risk-weighted assets; the basic structure of the 1996 market risk amendment regarding the treatment of market risk; and definition of eligible capital" (*BIS; 11-2005*).

The new BASEL capital accord (BASEL II), shall be applicable to internally active banks all over the world with effect from end of 2006. Implementing the new accord in Nepal has been a challenging task for the supervisors as well as FIs. Hence, certain preparatory homework is needed to Nepalese financial system to implement BASEL II. NRB and FIs need to have coordinated effort efficiency in Nepalese banks and FIs to establish certain baseline for the effective implementation of BASEL II. In this regard, second interaction program was held in Nepal with the banks executive to make them aware of the new development. The commercial banks so far has shown positive attitude towards the implementation of BASEL II. "New capital accord implementation preparatory core committee" was drafted "NRB's concept paper on new capital accord". According to the program of new capital accord implementation, concept paper was forwarded to all the commercial banks for comments and recommendations. A form was also developed so that commercial banks classify their exposures as per the new approach, which was reviewed by the "BASEL- II implementation working group". NRB has adopted Basel core principles for effective supervision as guideline for supervision of commercial banks. Core principle methodology adopted by BCBS provides a uniform template for both self-assessment and independent assessment. It involves four part qualitative assessment system: compliant, largely compliant, materially non-compliant and non-compliant. For each principle essential and additional criteria are defined. To achieve a "compliant" assessment with a principle, all essential and additional criteria must be met without any significant deficiencies. A "largely compliant" assessment is given if only minor shortcomings are observed, and these are not seen as sufficient to raise serious doubts about the authority's ability to achieve the objective of that principle. A materially non-compliant assessment is given when the shortcoming is sufficient to raise doubts

about the authority's ability to achieve compliance, but substantial progress towards compliance has been achieved.

There is no doubt that the new accord though complex carries a lot of virtues and will be a milestone in improving banks internal mechanism and supervisory process and beneficial to the commercials banks.

2.2 Review of Related Studies

The research studies and work papers carried out by different scholars within various geographical region including dissertations conducted by Nepalese scholars are reviewed in this section, which are related with financial performance analysis of commercial bank, Finance company and the other area of the study.

2.2.1 Review of Journals and Articles

The trend of commercial banking is changing rapidly. Competition is getting stiffer and, therefore, banks need to enhance their competitiveness and efficiency by improving performance. Normally, the financial performance of commercial banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Avkiran, 1995).

CAMEL stands for capital adequacy, assets quality, management efficiency, earnings performance and liquidity. The capital adequacy ratio is a key measure to determine the health of banks and financial institutions. Capital adequacy refers to the sufficiency of the amount of equity to absorb any shocks that the bank may experience (Kosmidou, 2008)

Nepalese commercial banks need to maintain at least 6% Tier-1 capital and 10% total capital (Tier 1 and Tier 2), that is , core capital and supplementary capital respectively. Tier 1 capital consists of paid up capital, share premium, non-redeemable preference share, general reserve fund, accumulated profit, capital redemption reserve, capital adjustment fund, and other free reserves. The Tier 2 capital comprises of capital comprises of general loan loss provision, assets

revaluation reserve, hybrid capital instruments, subordinated term loan, exchange equalization reserve, excess loan loss provision, and investment adjustment reserve.

These minimum capital adequacy requirements are based on the risk-weighted exposures of the banks (NRB, 2010). Credit risk is one of the factors that affect the health of an individual bank while asset quality analysis involves taking account of the likelihood of borrowers paying back loans. The extent of the credit risk depends on the quality of assets held by an individual bank.

The quality of assets held by a bank depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers (Baral, 2005). Poor asset quality and low levels of liquidity are the two major causes of bank failures. Poor asset quality led to many bank failures in Kenya in the early1980s (Olweny and Shipo, 2011).

NRB uses composition of assets, non-performing loan to total loan ratio, net non-performing loan to total loan ratio as the indicators of the quality of assets of the commercial banks (NRB, 2010). The maximum NPL allows for a healthy bank is 5%. Management quality plays a big role in determining the future of the bank. The management has an overview of a bank's operations, manages the quality of loans and has to ensure that the bank is profitable.

Elyor (2009) noted that interest expenses divided to total loans can be measured as the bank management quality. Ability to support and future operations of a bank depends on the quality of its earnings and profitability profile. NRB uses return on total assets as an indicator of profitability of a commercial bank.

In addition, it uses the absolute measures such as interest income, net interest income, non-interest income, net non-interest income, non-operating income, net non-operating income and net profit, to evaluate the profitability of a commercial bank (NRB, 2010). Liquidity management is one of the most important functions of a bank. If funds tapped are not properly utilized, the institution will suffer loss (Sangmi and Nazir, 2010).

Barr et al. (2002) viewed that" CAMEL rating has become a concise and indispensable tool for examiners and regulators". This rating ensures a bank's healthy conditions by reviewing different aspects of a bank based on variety of information

sources such as a financial statement, funding sources, macroeconomic data, budget and cash flow.

Ho and Zhu (2004) have reported that the evaluation of a company's performance has been focusing the operational effectiveness and efficiency, which might influence the company's survival directly.

Baral (2005) has conducted a research and published his paper in the journal of Nepalese business studies. "*On Health Check-up*" published his paper abstract in the Journal of Nepalese Business Studies (December, 2005) of commercial bank in the framework of CAMEL, a case study of joint venture Banks in Nepal. The paper examined the financial health of joint venture Banks in the CAMEL framework for a period ranging from fiscal year 2001 to 2004. Three joint venture Commercial Banks of Nepal were randomly selected for the study. The study was based on historical data disclosed by annual reports of Commercial Banks. It has covered four fiscal years' data for the purpose of study. The study was based totally on the CAMEL framework.

Cole and Gunther (2008) in their article, *"A CAMEL Rating's Shelf Life"*, have stated that under more stable financial conditions, CAMEL ratings typically remain accurate for relatively long periods. Also, off-site monitoring systems depend on the integrity of accounting data, which can be enhanced through regular periodic exams. Moreover, the examination process and the CAMEL ratings it generates have numerous important uses, many of which are quite distinct from the relatively narrow application of off-site monitoring systems for the identification of bank failures. The CAMEL ratings can change only when financial conditions change appreciably, as was the case during the particularly volatile time period.

Generally speaking, CAMEL ratings are designed to reflect a bank's financial condition, its compliance with laws and regulatory policies, and the quality of its management and systems of internal control. Only through comprehensive, on site exams can regulators determine whether a bank's management is operating the institution in accordance with the laws and regulations designed to promote safety and soundness. Moreover, the complex financial reviews that accompany an exam, together with the associated dialog between examiners and bank management, are

necessary to assess accurately a bank's credit quality and overall financial posture. Given the multiple dimensions and uses of CAMEL ratings, it would be exceedingly difficult to construct a single comprehensive metric of their information content.

Bakar and Tahir (2009)in their paper used multiple linear regression technique and simulated neural network techniques for predicting bank performance. ROA was used as dependent variable of bank performance seven variables including liquidity, credit risk, cost to income ratio, size and concentration ratio, were used as independent variables.

They conclude that neural network method outperforms the multiple linear regression method however it need clarification on the factor used and they noted that multiple linear regressions, not withstanding its limitations, can be used as a simple tool to study the linear relationship between the dependent variable and independent variables.

2.2.2 Review of Thesis

Hirtle and Lopez (1999) examine the usefulness of past CAMEL ratings in assessing banks' current conditions. They find that, conditional on current public information, the private supervisory information contained in past CAMEL ratings provides further insight in to bank current conditions, as summarized by current CAMEL ratings. The authors find that, over the period from 1989 to 1995, the private supervisory information gathered during the last on-site exam remains useful with respect to the current condition of a bank for up to 6 to 12 quarters (or 1.5 to 3 years). The overall conclusion drawn from academic is that private supervisory information, as summarized by CAMELS ratings, is clearly useful in the supervisory monitoring of bank conditions.

Verma (2006) had studied the performance of the public sector banks based on CAMEL model to judge its financial and operational conditions. However, the study composite ratings are based on careful and compliance performance.

Said and Saucier(2003) examined the liquidity, solvency and efficiency of Japanese Banks using CAMEL rating methodology, for a representative sample of Japanese banks for the period 1993-1999, they evaluated capital adequacy, assets and management quality, earnings ability and liquidity position.

Jaffar and Manarvi (2011) assessed the performance of Islamic and Conventional banks through CAMEL test during the period of 2005 to 2009. The sample of their research was five Islamic and five conventional banks. They found that Islamic banks performed better and had high liquidity than conventional banks, besides it is understood that conventional banks have pioneered in the management and having a good earning ability.

Siva and Natarajan (2011) tested the applicability of CAMEL norms and its consequential impact on the performance of SBI Groups. The study concluded that annual CAMEL scanning helps the commercial bank to diagnose its financial health and alert the bank to take preventive steps for its sustainability.

Chaudhary and Singh (2012) analyzed the impact of the financial reforms on the soundness of Indian Banking through its impact on the asset quality. The study identified the key players as risk management, NPA Levels, effective cost management and financial inclusion.

Jha and Hui (2012)tried to find out the factors affecting the performance of Nepalese Commercial Banks by using various CAMEL ratios such as return on asset (ROA), return on equity (ROE), capital adequacy ratio (CAR) etc. As Public sector banks have higher total assets compared to joint venture or domestic private banks, thus ROA was found higher whereas overall performance of public sector was unsound because ROE and CAR of joint venture and private banks was found superior. The financial performance of public sector banks is being eroded by other factors such as poor management, high overhead cost, political intervention, low quality of collateral etc.

Voon (2013) researched on the financial performance of seven local banks and three foreign banks in Malaysia for the years 2007-2011 adopting CAMEL approach and concluded on the basis of results that foreign banks performed better than local banks.

Roman and Sarju (2013) concluded a study on 15 selected banks in Romania for the period 2004-2011 to assess their financial performance. The CAMEL method was adopted and the results underscored the strengths and vulnerability of the selected banks, highlighting the need to improve bank’s financial soundness.

Mohiuddin (2014)looked at the financial performance of two major banks in Bangladesh using CAMEL parameters. It was concluded that the Capital adequacy, asset quality, management capability and liquidity were found satisfactory.

Ahsan(2016) analyzed the financial performance of three selected Islamic Banks in Bangladesh for a period of eight years 2007-2014, using CAMEL model. Results indicate that all the selected banks were in strong position on their composite rating system.

Iheanyi and Sotonye (2017) assessed the performance of banks in Nigeria using CAMEL rating. The data that was used for a period covering 19 years and analysis was done through ordinary least squares. Their findings suggested that management efficiency, earnings and liquidity have no significant impact on the profitability of banks. The researchers also found that assets quality has a negative impact on the profit of the banks.

Zedan and Daas (2017)evaluated the performance and financial soundnessof Palestinian commercial banks for the year 2015 using CAMEL rating model. Results were used to rank the selected banks and Bank of Palestine was ranked at the top with total components score of 16.

2.3 Summary

To sum up, the review of literature indicates mixed results on the impact of CAMEL elements on the performance of banks.While some studies indicate positive impact on performance of banks, there are also cases where negative effects on financial performance have been reported. The banks financial soundness is judged being based on some factors such as capital adequacy, asset quality, management efficiency, earning quality, liquidity position. The study is based on secondary data and the data obtained were analyzed by using various financial and statistical tools.

2.4 Research Gap

There are number of studies have been conducted on financial performance and its evaluation of commercial banks in Nepal, performance comparison between joint ventures and private sector banks and other financial institutions but analysis in the case of Rastriya Banijya Bank Ltd and Nepal Investment Bank Ltd still remains

unexplored on certain parameters. The researchers try to fill this lack of evidence by extending the issue to the specific context of the banks. It has only explained the trend that has been established between the CAMEL, it has become incomplete to explain the impact over the operational efficiency and the specific problem faced by the banks due to conflicting impact of CAMEL specially in commercial banks. Therefore, this research is border and is aimed to analyzing their trends using statistical and financial tools to draw the effective conclusion.

The previous researchers had selected sample of renowned commercial banks only but in this study sample has selected from public sector and private sector banks. So this is the research gap of study.

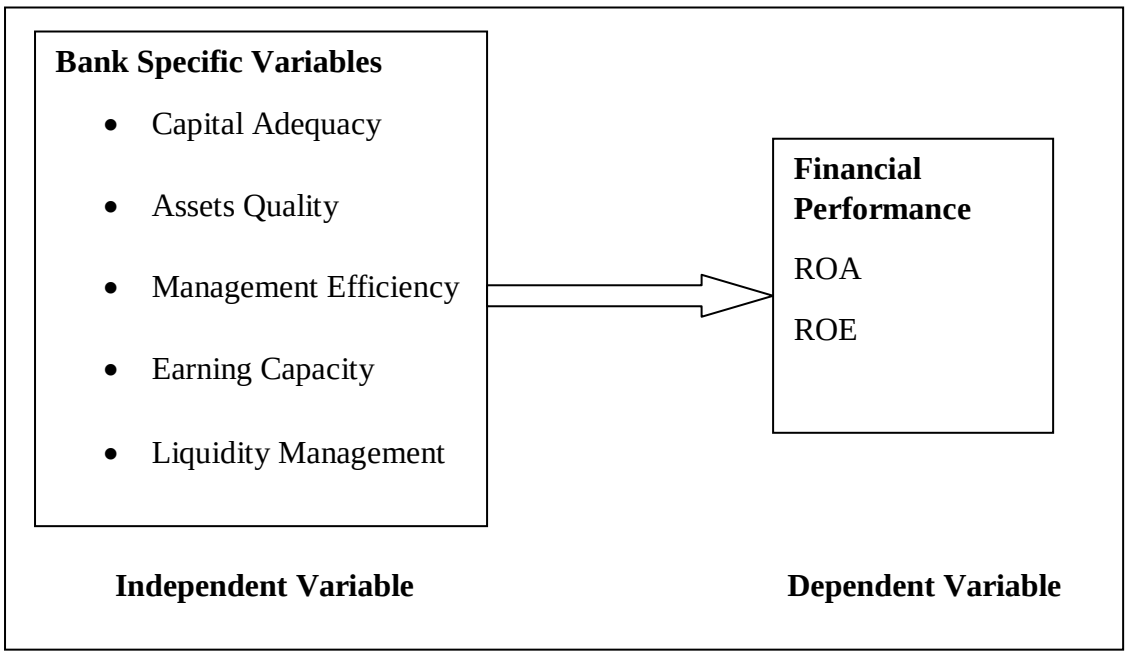
2.5Theoretical Framework

Different independent variables are responsible to lead the dependent variable to the betterment or worsen direction. The independent variables are gathered from the different research papers, books, dissertation, journals, articles, web sites, experts' view, practical life. Literature review of previous researches helped very much to set independent variables. Theoretical Framework is crucial in research study because it describes why the research problem under study exists. The following theoretical framework is developed on the basis of comparative study of financial performance of selected commercial banks in Nepal.

The dependent and independent variable are as follows:-

1. Dependent variable is Financial Performance.i.e. ROA and ROE
2. Independent variables are Capital Adequacy, Asset quality, Management efficiency, Earning Quality, and Liquidity.

Figure 2.1: Theoretical Framework



CHAPTER - III

RESEARCH METHODOLOGY

This chapter provides the overall framework or plan for the collection, analysis and presentation of data required to fulfill the objective of the study. The main objective of the study is to analyze and evaluate comparative financial performance of Rastriya Banijya Bank Ltd and Nepal Investment Bank Ltd. To meet the objective, following methodology is applied in the study, which is described as below.

3.1 Research Design

This study is a descriptive research study based on convenience sampling design by using secondary data with the aim of comparative study of financial performance of selected banks in Nepal by applying CAMEL model. The data were collected from the annual reports of RBBL and NIBL. CAMEL Model is used to evaluate the performance of selected banks. The study was completed after the analysis of collected data to meet the study objectives followed by drawing some findings, conclusion and recommendation. Thus descriptive research design has been used for the study purpose.

3.2 Population and Sample

At present, there are 28 commercial banks which are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study topic. So, all the commercial banks that are operating in Nepal are considered as the population by using convenient sampling method. Among them one public sector bank and one private sector bank i.e. Rastriya Banijya Bank Ltd and Nepal Investment Bank Ltd are taken as a sample for study which is based on convenience sampling method. The Paid up capital of RBBL and NIBL is Nrs 858.90 crore and 870.66 crore respectively. RBBL is one of the pioneer bank in the country with the history of above half century with the highest public confidence and on the other hand, NIBL is the bank which was listed in top ten in 2017 with better performance. So, these two banks will be considered as a sample for comparison of financial performance in this study. In this study five years period was taken for the purpose of the study and analysis. It covers the fiscal year from 2012/13 to 2016/17.

3.3 Nature and Sources of Data

The study is based on secondary data. For the purpose of the study, the annual reports of the RBBL and NIBL are used as the major source of data. Besides the annual reports of those banks required data and information is collected from NRB reports and bulletins and its website, various publications dealing in the subject matters of study, articles published in journals, research report and previous dissertations.

3.4 Data Collection Procedures

As stated earlier, the study is mainly based on secondary data. The annual reports and other information have been obtained from sample banks. NRB directives, banking and financial statistics and other publications are collected from the website of NRB. Some supplementary data and information, literature review are collected from the Central Library, T.U. Kirtipur, NRB publication , different journals, magazines and other published and unpublished reports documented by the concern authorities.

3.5 Data Processing

First of all, necessary data are collected from the published documents and then audited financial statements recorded in master sheet manually. Then, data are entered into the table to work out CAMEL financial ratio and prepare the necessary figures. Finally, different financial tools under CAMEL are worked out with the help of Microsoft Excel and SPSS.

3.6 Data Analysis Tools

Various financial and statistical tools have been used to measure the comparative financial analysis and to draw inferences on the study area. Graphs and tables as appropriate have also been used to analyze the data. The collected data have been organized, tabulated, processed and analyzed by using various statistical and financial tools which are described as follows:

3.6.1 Financial Tools

This study is based on following financial tools and techniques.

The tools are based on CAMEL model analysis.

1. Capital Adequacy

a) Core Capital Adequacy Ratio

Core capital adequacy ratio shows the relationship between the total core capital or internal sources and total risk adjusted assets. It is used to measure the adequacy of core capital and financial soundness from very close angle. It is calculated by using following model.

$$\text{CCAR}=\frac{\text{Core Capital}}{\text{Total Risk Adjusted Assets}}\times 100$$

Where,

CCAR=Core Capital Adequacy Ratio

Core Capital = paid-up capital + share premium + non-redeemable

Preference share + general reserve + cumulative profit –goodwill if any

b) Supplementary Capital Adequacy Ratio

Supplementary capital adequacy ratio is the expression of numerical relationship between supplementary capital and total risk adjusted assets. It measures the proportion of supplementary capital in total risk adjusted assets. Furthermore, it shows the absolute contribution of supplementary capital in capital adequacy. The ratio is used to analyze the supplementary capital adequacy and determined by using the following model

$$\text{SCAR}=\frac{\text{Supplementary Capital}}{\text{Risk Weighted Assets}}\times 100$$

Where,

SCAR=Supplementary Capital Adequacy Ratio

Supplementary Capital=Loan loss provision + exchange equalization reserve + assets revaluation reserve + hybrid capital instrument +

Unsecured subordinate term debt + interest rate fluctuation fund +

Other free reserves

c) Total Capital Adequacy Ratio

Capital adequacy ratio is the numerical relationship between total fund and risk adjusted assets. It measures the adequacy of capital and financial soundness of finance company. Capital adequacy ratio is used to measure of capital in the finance company. It is worked by using the following model.

$$\text{CAR}=\frac{\text{Total Capital Fund}}{\text{Total Risk Adjusted Assets}}\times 100$$

Where,

CAR=Capital Adequacy Ratio

Total capital fund= Core capital + Supplementary capital

Total Risk Adjusted Assets= On-balance sheet risk adjusted assets + off

Balance sheet risk adjusted assets

2. Assets Quality

a) Non-performing Loan Ratio

The non-performing loan ratio indicates the relationship between non-performing loan and total loan. It measures the proportion of non-performing loan in total loan and advances. The ratio is used to analyze the asset quality and determined by using the given model.

$$\text{Non-performing Loan Ratio}=\frac{\text{Non}-\text{performing Assets}}{\text{TOtal Loan and Advance}}\times 100$$

Where,

Non-performing loan= loan not recovered within the given time

Frame either in the form of interest servicing or principal repayment.

3. Management Quality

a) Total Expenses to Total Incomes Ratio

The total expenses to total income ratio is the expression of numerical relationship between total expenses and total incomes of the company. It measures the proportion of total expenses in total revenues. A high or increasing ratio of expenses to total revenues can indicate that financial institutions may not be operating efficiently. This can be, but is not necessarily due to management deficiencies. In any case, it is likely to negatively affect profitability. Following is the expression of total expenses to total revenues ratio.

$$\text{Total Expenses to Total Income Ratio} = \frac{\text{Total Expenses}}{\text{Total Income}} \times 100$$

b) Earning Per Employee (Per Employee Business)

Earning per employee is the numerical relationship between net profits after tax to total number of employee. Low or decreasing earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability. It is calculated by using the following model.

$$\text{Earning Per Employee} = \frac{\text{Net Profit After Tax}}{\text{Number of Employee}} \times 100$$

4. Earning Quality

a) Return on Assets (ROA)

Return on assets is the numerical relationship between net incomes after taxes to total assets of a company. It is primarily an indicator of managerial efficiency; it indicates how capably the management of the company has been converting the institution's assets into net earning. It is calculated by using the following model.

$$\text{Return on Assets} = \frac{\text{Net Income After Tax}}{\text{Total Assets}} \times 100$$

b) Return on Equity

Return on equity is another indicator of profitability. This measures per unit reward for equity capital of different banks. Higher return on equity is supposed to be better for any institution. This ratio is directly or indirectly affects the price of shares of any specific institutions. Higher Return on equity pays more in the market. The following equation is used to calculate ROE of any institution.

$$\text{Return on Equity (ROE)} = \frac{NetIncome}{SHare\ holde\ r's Equity Fund}$$

c) Earning Per Share (EPS)

Earning per share provides a direct measure of the returns flowing to the company's owners-its stockholders- measured relative to the members of shares to the public. It gives the strength of the share in the market. Following is the expression of earning per share.

$$\text{Earning Per Share} = \frac{\text{Net Income to Shareholder}}{\text{Number of Share}}$$

5. Liquidity Position

a) NRB Balance to Total Deposit Ratio

NRB balance to total deposits ratio is the expression of numerical relationship between NRB balance and total deposits of a bank. It measures the proportion of NRB balance in total deposits. It shows whether bank is holding the balance as required by NRB. For the purpose of this study following model is used to determine the NRB balance to total deposits.

$$\text{NRB Balance to Total Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Total Deposit}} \times 100$$

b) Cash reserve ratio

Cash reserve ratio is the portion of deposit kept into central bank i.e. NRB in Nepal by the banks as prescribed by NRB as a provision for the probable liquidity crunch of banks. It shows whether the bank is holding the balance as required by NRB. Now this ratio is 6 % for commercial banks as prescribed by NRB.

3.6.2 Statistical Tools

1. Average

A simple arithmetic average is used to summarize the data as a representation of mean data. A simple arithmetic average is a value obtained by dividing the sum of the values by their numbers. Thus, the average is expressed as:

$$(\overline{X}) = \frac{\sum X}{N}$$

Where,

$\overline{X}$ = Meanof the values

N= Number of pairs of observation

During the analysis of data, mean is calculated by using the statistical formulas average on excel data sheet on computer.

2. Standard Deviation

Standard deviation is the absolute measure of dispersion of the values and shows the deviation or dispersion in absolute term. It is said that higher the value of standard deviation the higher the variability and vice versa. Karl person introduced the concept of standard deviation in 1983. Here, the standard deviation is used to find out the deviation in absolute term. Standard deviation is determined in following way.

$$\text{S.D.}(\sigma) = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2}$$

Here,

n= no. of observation

x=individual value

During the analysis of data, standard deviation is calculated by using the statistical formula on SPSS program on computer.

3. Coefficient of Variation

Coefficient of variation is the relative measure of dispersion based on the standard deviation. It is most commonly used to measure the variation of data and more useful for the comparative study of variability in two or more series or graph or distribution. Symbolically, the coefficient of variation is calculated as:

$$CV=\frac{\sigma}{\overline{X}}$$

Here,

σ =standard deviation

$\overline{X}$ = mean

CV= Coefficient of variation

4. Correlation Analysis

In an effort to analyze the nature of the correlation between the dependent variable and the independent variable and also ascertain whether or not multicollinearity exits as a result of the correlation among variables. Pearson correlation analysis has been computed. The correlation matrix provides some insights into the independent variables that are significantly correlated to the dependent variable. It helps to describe the correlation between independent variable CAMEL and the financial performance of NIBL and RBBL i.e. ROA and ROE.

CHAPTER-4

RESULTS

This section presents the comparative analysis of CAMEL model of RBBL and NIBL from 2012/13 to 2016/17 in order to achieve the objectives of the study. The data was analyzed by using descriptive statistics.

4.1 Capital Adequacy

Capital adequacy is one of the eminent index that reflect the inner strength of a bank. CAR is also known as Capital-to risk weighted assets ratio (CRAR). This ratio is used to protect depositors from potential losses and promote the stability and efficiency of financial systems around the world. It measures the percentage of the bank's capital to risk-weighted credit exposures. For computation of the capital adequacy ratio, capital is classified as Tier-1 and Tier-2 capitals. The higher the capital adequacy ratio, the stronger the bank although a very high CAR indicates that the bank is conservative and has not utilized the full potential of its capital.

4.1.1 Core Capital Adequacy Ratio

Capital adequacy ratio is the measure of financial strength of a commercial bank. Specifically, the core capital adequacy ratio measures the adequacy of primary capital for smooth operation of a bank. A bank should maintain adequate capital ratio as set by NRB. NRB fixed a minimum standard of core capital adequacy ratio 6 percent for year 2069/70 and 6 percent for last 5 fiscal years. It is measured as the ratio of core capital fund to total risk adjusted assets of the bank.

Table 4.1

Core Capital Adequacy Ratio

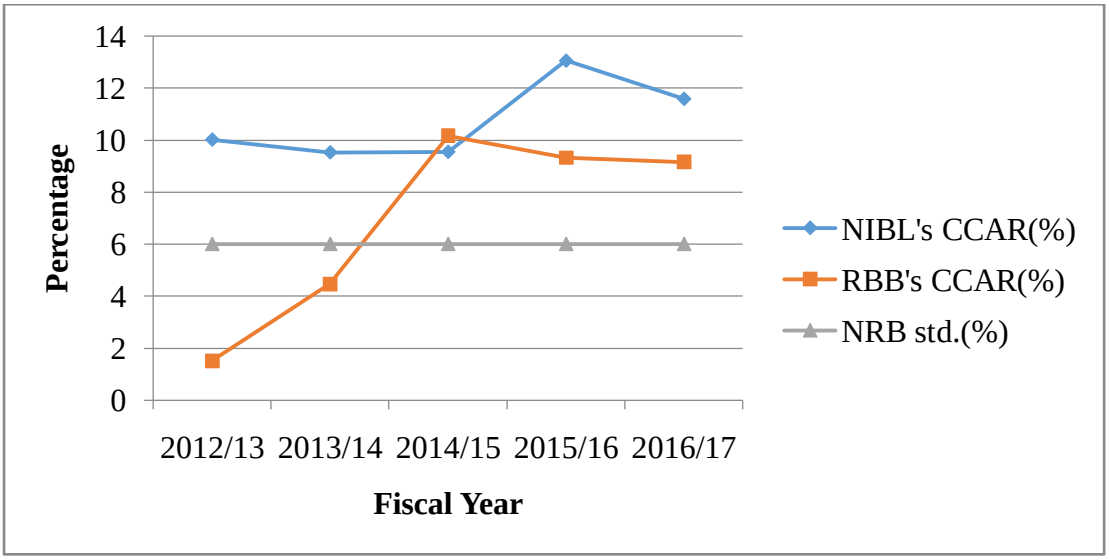
Year	NIBL's CCAR(%)	RBBL's CCAR(%)	NRB std.(%)
2012/13	10.01	1.51	6
2013/14	9.52	4.46	6
2014/15	9.54	10.16	6
2015/16	13.05	9.31	6
2016/17	11.58	9.15	6
Mean	**10.74**	**6.92**	**6**
S.D	**1.38**	**3.36**	**0**
C.V	**12.84**	**48.59**	**0**

Source: Annual Reports of NIBL and RBBL

The table 4.1 and figure 4.1 shows CCAR of NIBL and RBBL for the study period as 10.01, 9.52, 9.54, 13.05, 11.58 and 1.51, 4.46, 10.16, 9.31 and 9.15 respectively. Similarly, the table also shows the NRB standards required to be maintained by the commercial banks as 6 percent in the fiscal year 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17. From the table it can be seen that the CCAR maintained by the NIBL is more than the standards set by the NRB for the study period and RBBL is less than the standards set by the NRB in the fiscal year 2012/13 and 2013/14 which is gradually improving. The table reveals an average CCAR of NIBL and RBBL is 10.74 and 6.92 respectively. Based on this, we can say that NIBL's capital base is stronger than RBBL. The table also gives standard deviation of the sample commercial banks on core capital adequacy ratio. The standard deviation for the banks is 1.38 and 3.36 respectively. As the standard deviation of RBBL is more than that of NIBL there is a more variability in the capital base of RBBL than NIBL. The coefficient of variation of RBBL is comparatively higher than that of NIBL i.e. 48.59 and 12.84. NIBL and RBBL has maintained sufficient amount of capital to meet the probable risk arising from market, operation and credit expansion.

Figure 4.1

Core Capital Adequacy Ratio



4.1.2 Supplementary Capital Adequacy Ratio

Supplementary capital is the amount of capital that is transferred in reserve and collected using the hybrid capital instruments. It includes loan loss provision, exchange equalization reserve, assets revaluation reserve, hybrid capital instruments, unsecured sub-ordinate term debt, interest rate fluctuation fund and other free reserves. NRB has set a standard of supplementary capital to be maintained by the commercial banks as not more than the core capital of the bank.

Table 4.2

Supplementary Capital Adequacy Ratio

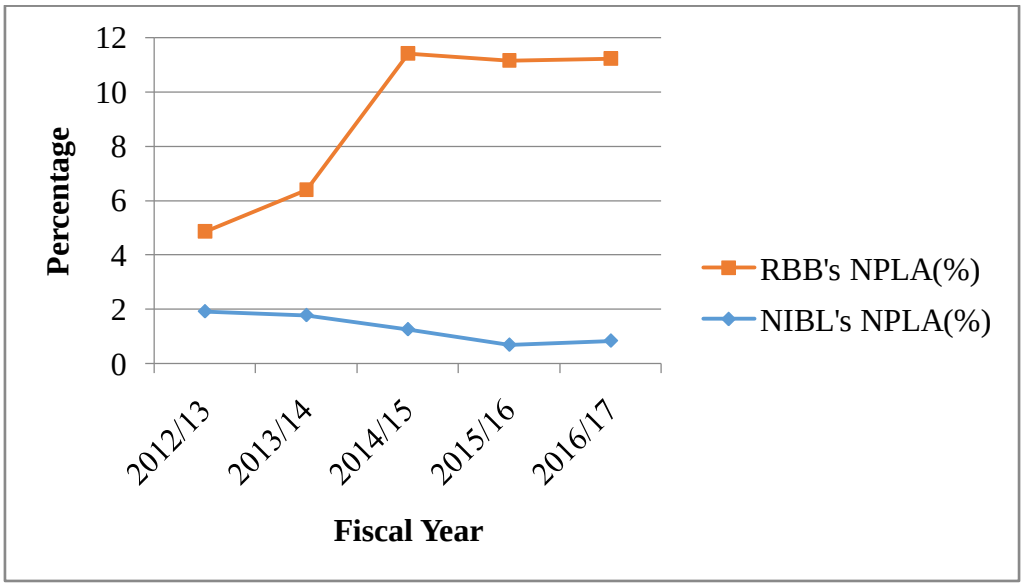
Year	NIBL's SCAR(%)	RBBL's SCAR(%)
2012/13	1.97	1.43
2013/14	1.75	0.16
2014/15	2.36	0
2015/16	1.87	1.14
016/17	1.44	1.24
ean	**1.88**	**0.79**
S.D	**0.30**	**0.59**
C.V	**15.96**	**74.63**

Source: Annual Reports of NIBL and RBBL

The given table 4.2 and figure 4.2 illustrates the SCAR of NIBL and RBBL available during the period of 2012/13 to 2016/17 is 1.97, 1.75, 2.36, 1.87 and 1.44. Similarly for the RBBL is 1.43, 0.16, 0, 1.14 and 1.24. According to NRB directives, up to 100 percent of the SCAR maintained by the concerned banks for a particular year is the standard SCAR. Similarly, it discloses the standard deviation of both the banks as 0.30 and 0.59 respectively. Based on the average SCAR, NIBL's capital base is stronger than that of RBBL i.e 1.88 and 0.79. Since standard deviation of SCAR of NIBL is lower than that of RBBL, the variability in its SCAR is lower than that of RBBL meaning that more risky in terms of SCAR.

Figure 4.2

Supplementary Capital Adequacy Ratio



4.1.3 Total Capital Adequacy Ratio

It has been already mentioned that the capital of the banks is categorized into 2 parts, Core Capital and Supplementary Capital. Here, the total capital ratio can be calculated by dividing total capital fund by the total risk weighted assets. As the NRB has made it mandatory to publish these ratios for the banks, these ratio can be found in their periodic reports.

Table 4.3

Capital Adequacy Ratio

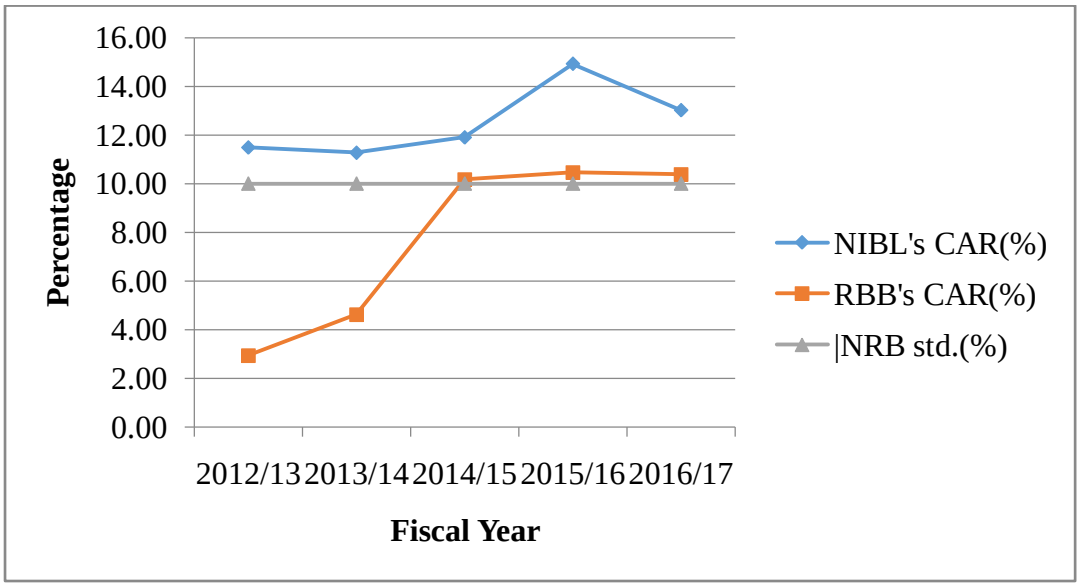
Year	NIBL's CAR(%)	RBBL's CAR(%)	NRB std.(%)
2012/13	11.49	2.94	10
2013/14	11.27	4.62	10
2014/15	11.90	10.16	10
2015/16	14.92	10.46	10
2016/17	13.02	10.39	10
Mean	**12.52**	**7.71**	10
S.D	**1.34**	**3.26**	**0**
C.V	**10.72**	**42.23**	**0**

Source: Annual Reports of NIBL and RBBL

The given table 4.3 and figure 4.3 represent theTotal Capital Adequacy Ratio of NIBL and RBBL for the study period. The ratio of NIBL and RBBL is 11.49, 11.27, 11.90, 14.92, 13.02 likewise 2.94, 4.62, 10.16, 10.46 and 10.39 respectively. The NRB standard on the Total Capital Adequacy for the commercial banks is 10 as per NRB capital adequacy framework for the study period. The data reveals that the ratio maintained by NIBL is more than the NRB standards during the period but RBBL was not able to maintain the capital adequacy ratio in the fiscal year 2012/13 and 2013/14. The table also illustrates mean CAR of NIBL and RBBL as 12.52 and 7.71 respectively. It also discloses S.D. of both the banks as 1.34 and 3.26 respectively. Based on mean CAR, we can say that the capital base of NIBL is stronger than RBBL. The value on S.D. concludes that there is a greater variability in CAR of RBBL than that of NIBL. The line representing CAR for NIBL is above the same line for RBB. Therefore, we can say that the capital base of NIBL is stronger than the RBBL.

Figure 4.3

Capital Adequacy Ratio



4.2 Assets quality

The quality of assets is an important parameter to measure the strength and financial health of the bank assets. The poor quality of assets can force the bank to fail. Assets quality indicates the types of the debtors the bank is having. So it should be undertaken to find out as to why Non- performing assets and getting created and Non-performing asset classification of 90 days, 180 days and so on to be strictly followed. If a bank has lent high amounts of credit to such sectors it is bound to have the problem of bad loans. According to Bock (2012) economic activity slows down due to increase in non-performing loans or credit contracts. Asset quality greatly depends on the borrower's ability to repay the loan in due time.

4.2.1 Non-Performing Loan to Total Loan and Advances

When performing or good loan becomes non-performing, it affects Son performance of bank. Non-performing loan is a loan that is in default or close in being in default. Many loans become non-performing after being in default for 90 days, but it can depend on the contract terms, behavior of borrower, bank's policy etc. Non-performing loan directly decreases net profit due to provision for it. Non-Performing Loan to Total Loan and Advances measure how much loan became default as compared to total loan disbursed. Lower ratio is better for company.

Table 4.4

Non-performing Loan Ratio

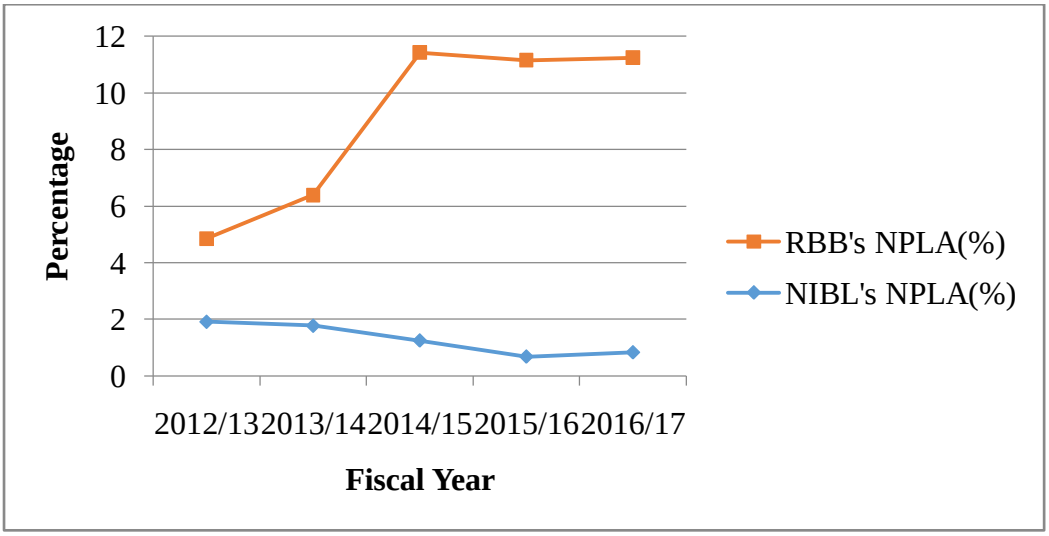
Year	NIBL's NPL (%)	RBBL's NPL (%)
2012/13	1.91	2.94
2013/14	1.77	4.62
2014/15	1.25	10.16
2015/16	0.68	10.46
2016/17	0.83	10.39
Mean	**1.29**	**7.71**
S.D	**0.49**	**3.26**
C.V	**38.04**	**42.23**

Source: Annual Reports of NIBL and RBBL

The table 4.4 and figure 4.4 gives the information about the NPL ratios of NIBL for the study periods are 1.91, 1.77, 1.25, 0.68, and 0.83. Similarly, same ratio of RBBL for the study period is 2.94, 4.62, 10.16, 10.46, and 10.39. The NPL ratio of NIBL is in decreasing trend from initial to last year of study period. Similarly, the NPL ratio of RBBL is increased exponentially. The table also reveals mean NPL of NIBL and RBBL as 1.29 and 7.71 respectively. The table also reveals SD and CV of both the banks as 0.49 and 3.26 respectively. The table also shows CV of NIBL and RBBL is 38.04 and 42.23 respectively. Form the mean NPL; we can say that the asset quality of RBB is sound. Similarly, from the CV of NPL, we can say that the loan and advances of NIBL is less risky. Therefore, we can conclude that the loan and advances of NIBL is sound compare to RBBL.

Figure 4.4

Non-performing Loan Ratio



4.3 Management efficiency

The management efficiency is calculated as the ability of bank's top management to take right decisions. It is used to evaluate better management quality and discount poorly managed ones and also helps a bank in achieving sustainable growth. It sets vision and goals for the organization and sees that it achieves them. The ratio in this element involves subjective analysis to measure the efficiency and effectiveness of management.

4.3.1 Total expenses to total income ratio

The ratio of total expenses to total revenue is used as a proxy measure of the management quality. It shows how much expense is occurred as compared to total income. Lower ratio is better for company. This ratio is calculated by dividing the total expenses by total revenues.

Table 4.5

Total Expenses to Total Income Ratio

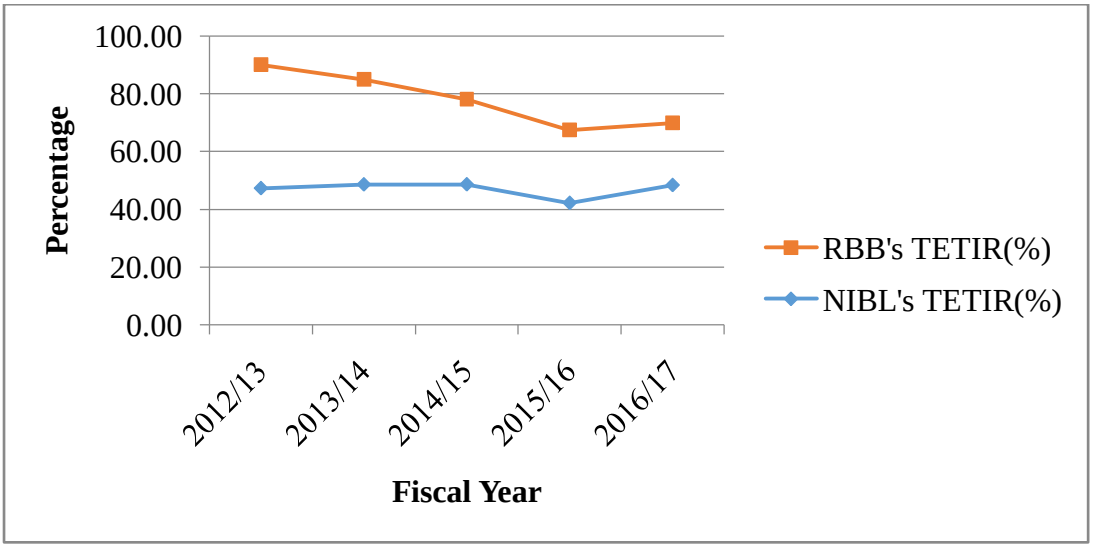
Year	NIBL's TETIR(%)	RBBL's TETIR(%)
2012/13	47.20	42.82
2013/14	48.49	36.48
2014/15	48.52	29.52
2015/16	42.14	25.23
2016/17	48.27	21.48
Mean	**46.92**	**31.11**
S.D	**2.44**	**7.69**
C.V	**5.20**	**24.73**

Source: Annual Reports of NIBL and RBBL

The table 4.5 and figure 4.5 represents the ratio on total expenses to total revenue of NIBL and RBBL as 47.20, 48.49, 48.52, 42.14&48.27 likewise 42.82, 36.48, 29.52, 25.23 and 21.48 respectively for the study period. The data reveals that TETTR ratio of NIBL is in increasing trend till 2014/15 and it is decrease in 2015/16 and 2016/17. On the other hand RBBL's total expense to total revenue is 42.82 in 2012/13 and then gradually declining trend in study period. The table reveals mean expense to revenue ratio of NIBL and RBB as 46.92 and 31.11 respectively. The S.D. of both banks is 2.44 and 7.69 respectively. The table also shows CV of both the banks as 5.20 and 24.73 respectively. Mean ratio on expense to revenue of NIBL is greater than that of RBBL which indicates larger portion of the income is expensed. Similarly the SD of RBBL is greater than that of NIBL which indicates RBB is more riskier than that of NIBL. Similarly, the CV of RBBL is greater than NIBL meaning that greater variability in its ratio. It means the management of RBBL seems less efficient.

Figure 4.5

Total Expenses to Total Income Ratio



4.3.2Earning Per Employee (Per Employee Business)

Lower earnings per employee can reflect inefficiencies as a result of over staffing, with similar repercussions in terms of profitability. It explains per employee contribution in net profit. Earning per employee is calculated by dividing net profit after taxes by number of employees.

Table 4.6

Earning per Employee ('000'Rs)

Year	NIBL's EPE	RBB's EPE
2012/13	2104	519
2013/14	2059	722
2014/15	2025	1880
2015/16	2537	1048
2016/17	2623	1358
Mean	**2269.60**	**1105.40**
S.D	**256.12**	**481.24**
C.V	**11.29**	**43.54**

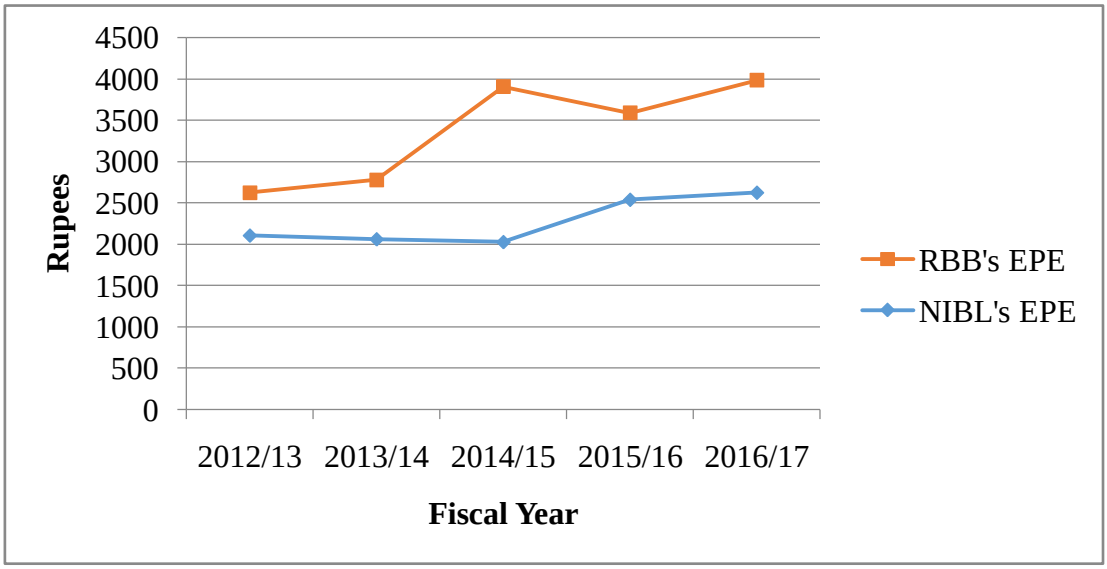
Source: Annual Reports of NIBL and RBBL

The table 4.6 and figure 4.6 describes the mean earning per employee of NIBL and RBBL as 2269.60 and 1105.40 respectively. The table also shows the S.D. of both the banks as 256.12 and 481.24 respectively. The value on mean earning per employee of

NIBL is greater than RBBL which indicates better management performance of the bank compare to its competitor. Since the S.D. of earning per employee of RBBL is greater than that of NIBL, there is more risk in per employee earning of the RBBL compare to its competitor. As a whole, there is far better performance of NIBL than that of RBBL due to overstaffing in RBBL.

Figure 4.6

Earning per Employee (Rs in '000')



4.4 Earning Quality

The earning quality determines the ability of a bank to earn consistently, going into the future. This parameter explains the sustainability and growth in earnings in future and how a bank earns its profits. Bank can increase earning capacity and productivity by increasing earning capacity.

4.4.1 Return on Assets (ROA)

Return on assets explains the contribution of assets to generate net profit. ROA is a measure of efficiency. It conveys information on how well the institution's resources are being used in order to generate income. Return on total assets is calculated by dividing net profit after tax by total assets of the company. Higher return on total assets indicates the higher efficiency in the utilization of total assets and vice-versa.

Table 4.7

Return on Assets Ratio

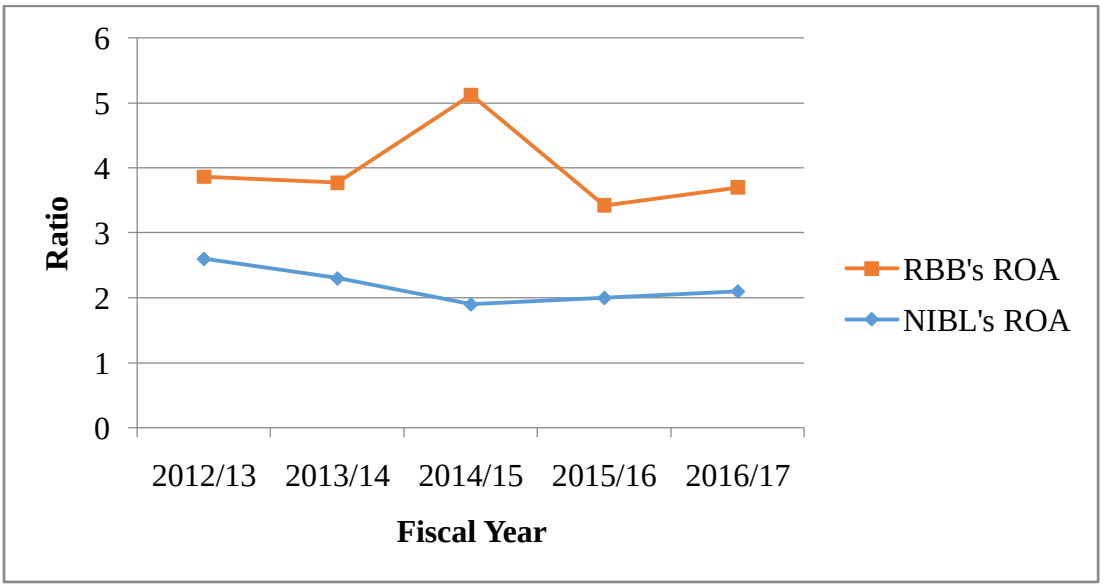
Year	NIBL's ROA	RBBL's ROA
2012/13	2.6	1.26
2013/14	2.3	1.47
2014/15	1.9	3.22
2015/16	2	1.42
2016/17	2.1	1.6
Mean	**2.18**	**1.79**
S.D	**0.25**	**0.72**
C.V	**11.39**	**40.20**

Source: Annual Reports of NIBL and RBBL

The table 4.7 and figure 4.7 depicts the mean ROA ratio of NIBL and RBBL is 2.18 and 1.79 respectively. The table also shows S.D. of ROA ratio of NIBL and RBBL is 0.25 and 0.72 respectively. The mean value of ROA ratio reveals that the return on assets of NIBL is better than that of RBBL. Similarly, the value on CV reveals that less variability in the return on assets of NIBL compare to RBBL. Therefore, NIBL seems to be less risky than RBBL. As a whole, financial performance of NIBL was better than RBBL in terms of ROA.

Figure 4.7

Return on Assets Ratio



4.4.2 Return on Equity

Return on equity is another indicator of profitability. This measures per unit reward for equity capital of different banks. Higher return on equity is supposed to be better for any institution. This ratio is directly or indirectly affects the price of shares of any specific institutions. Higher Return on equity pays more in the market.

Table 4.8

Rerurn on Equity

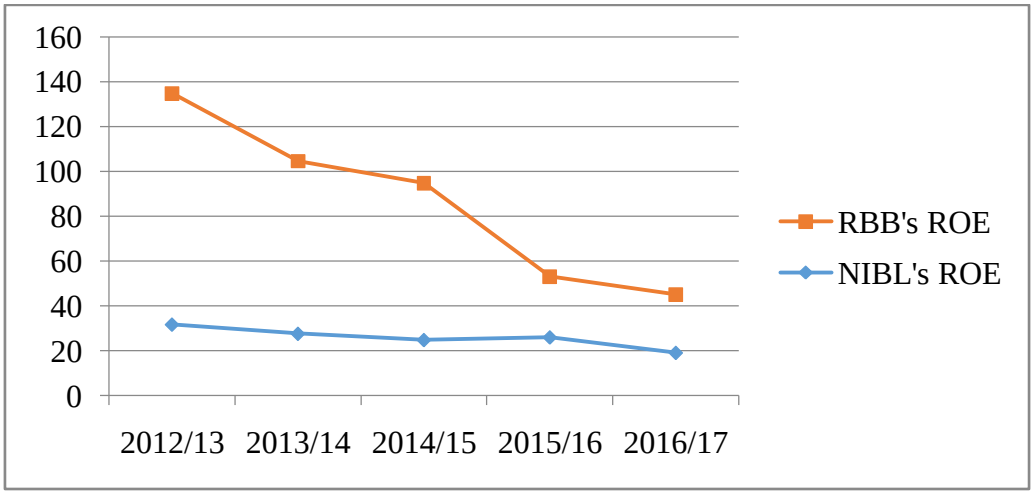
Year	NIBL's ROE	RBBL's ROE
2012/13	31.7	102.95
2013/14	27.6	76.96
2014/15	24.8	70
2015/16	26	27
2016/17	19.1	26
Mean	**25.84**	**60.58**
S.D	**4.10**	**29.92**
C.V	**15.86**	**49.39**

Source: Annual Reports of NIBL and RBBL

The table 4.8 and figure 4.8 illustrates the comparative tabular presentation of NIBL and RBBL for the fiscal year 2012/13 to 2016/17. The rate of ROE for NIBL was 31.7 for the first fiscal year 2012/13 and 27.6, 24.8, 26 and 19.1 % in fiscal year 2013/14, 2014/15, 2015/16 and 2016/17 respectively with the overall average for the last 5 fiscal year was 25.84%. Similarly for RBBL the ratio was 102.95 % in the first fiscal year 2012/13 and was 76.96, 70, 27 and 26% percent in fiscal year 2013/14, 2014/15, 2015/16 and 2016/17 respectively with the overall average for the last 5 fiscal year was 60.58%. RBBL has higher ROE in comparison to NIBL. It means the bank is able to manage the actives perfectly than NIBL.The risk indicator coefficient of variation of RBBL was higher than that of NIBL. RBBL was able to keep above 20% of ROE where was not able to maintain that level of ROE in fiscal year 2016/17. Higher portion of ROE is good for any bank for their goodwill and share value in the market.

Figure 4.8

Return on Equity



4.4.3Earning Per Share (EPS)

The earnings per share shows the profitability of the bank on per share basis. It shows the earning available to each shareholder out of the total earning. It also affects the Market Price Share of banks. The Earning per share is calculated by dividing the profit after tax by total number of common share outstanding.

Table 4.9

Earning per Share (Rs.)

Year	NIBL's EPS	RBBL's EPS
2012/13	46.2	21.79
2013/14	40.7	21.38
2014/15	30.9	54.07
2015/16	29.3	27.42
2016/17	29.3	32.32
Mean	**35.28**	**31.40**
S.D	**6.92**	**12.03**
C.V	**19.61**	**38.31**

Source: Annual Reports of NIBL and RBBL

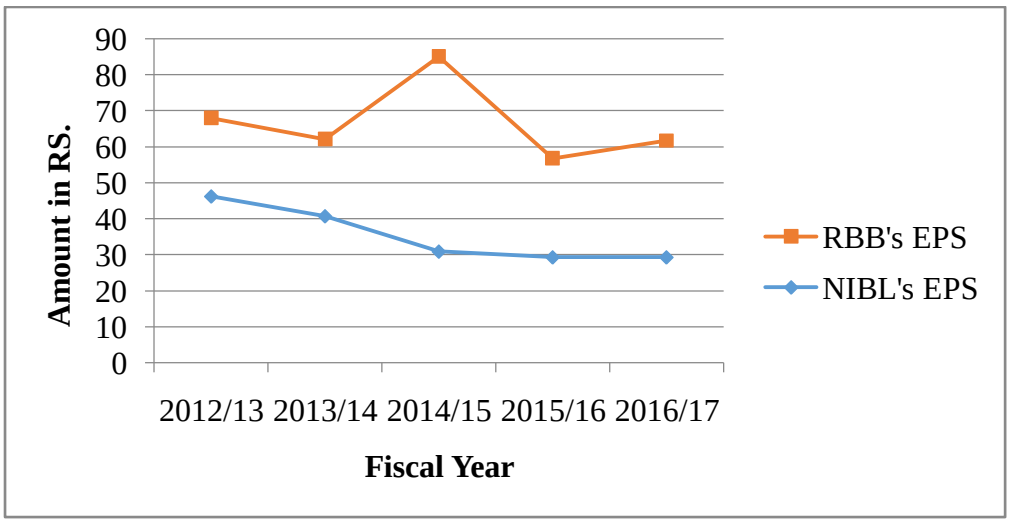
The table 4.9 and figure 4.9 illustrates EPS of NIBL and RBBL for the fiscal year 2012/13 to 2016/17 as46.2, 40.7, 30.9, 29.3 and 29.3. Similarly, 21.79, 21.38, 54.07,

27.42, and 32.32 for RBBL. The EPS of NIBL is continuously decreasing from the fiscal year 2012/13 to 2016/17. The table shows that the EPS of RBBL is fluctuating in small proportion in the fiscal year2012/13 and 2013/14 and then increase in 2014/15. This decrease in EPS is due to the decrease in the bank's net profit over the study period.

Furthermore, the table illustrates mean EPS of NIBL and RBBL as 35.28 and 31.40 respectively. It also shows the CV of the banks as 19.61 and 38.31 respectively. NIBL's higher mean value on EPS compare to NIBL indicates that it's earning performance is better than RBBL. The CV of RBBL indicates greater variability in its EPS than NIBL's. With this we can say that there is more risk in RBBL than in NIBL.

Figure 4.9

Earning per share



4.5 Liquidity

Liquidity is an important aspect of any organization dealing in money which measures the capacity of banks to meet its financial obligations. Among assets, cash and investments are the most liquid of the bank assets. If liquidity is too much low, then banks are not in a position to meet its current financial liabilities. On the other hand, if liquidity is too much high, then banks are not utilizing their cash properly. Thus a proper balance is necessary for liquidity so that banks can generate high profit while at the same time provide liquidity to the depositors.

4.5.1 Cash Reserve Ratio

Cash reserve ratio is the portion of deposit kept into central bank i.e. NRB in Nepal by the banks as prescribed by NRB as a provision for the probable liquidity crunch of banks. Now this ratio is 6 % for commercial banks as prescribed by NRB. This ratio should be maintained in weekly basis

Table 4.10

Cash Reserve Ratio

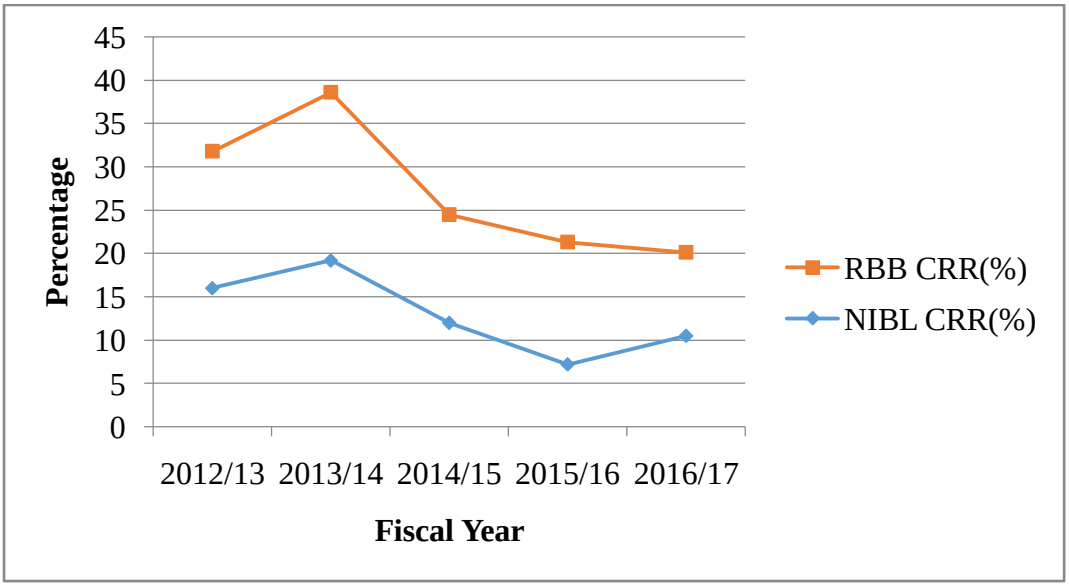
Year	NIBL CRR(%)	RBB CRR(%)
2012/13	16	15.78
2013/14	19.2	19.38
2014/15	12	12.48
2015/16	7.2	14.09
2016/17	10.5	9.6
Mean	**12.98**	**14.27**
S.D	**4.20**	**3.27**
C.V	**32.38**	**22.92**

Source: Annual Reports of NIBL and RBBL

The table 4.9 and figure 4.9 illustrates the CRR of NIBL and RBBL as 16%, 19.2%, 12%, 7.2% and 10.5%. Similarly, 15.78%, 19.38%, 12.48%, 14.09% and 9.65 for RBB in the fiscal year 2012/13 to 2016/17. The sample banks were able to meet the standard level of CRR of NRB in all fiscal year. The average CRR of RBBL was slightly higher than that of NIBL. Sampled bank's CRR was fluctuated in different fiscal year due to change in the standard level of NRB like NRB asked to maintain 6% level of CRR form fiscal year 2074/75. Both the banks has maintained the cash reserve ratio above the NRB standard over the study period.

Figure 4.10

Cash Reserve Ratio



4.6 Correlation Analysis

In an effort to analyze the nature of the correlation between the dependent variable and the independent variable and also ascertain whether or not multicollinearity exits as a result of the correlation among variables. Pearson correlation analysis has been computed. The correlation matrix provides some insights into the independent variables that are significantly correlated to the dependent variable. The following table helps to describe the correlation between independent variable CAMEL and the financial performance of NIBL and RBBL i.e. ROA and ROE.

Table 4.11

Correlation between CAMEL ratios and ROA and ROE

Variables		ROE	ROA
CCAR	Pearson Correlation	-.907*	.028
	Sig. (2-tailed)	.034	.965
	N	5	5
SCAR	Pearson Correlation	.082	-.312
	Sig. (2-tailed)	.895	.609
	N	5	5
CAR	Pearson Correlation	-.903*	-.006
	Sig. (2-tailed)	.036	.992
	N	5	5
NPLR	Pearson Correlation	-.836	.238
	Sig. (2-tailed)	.078	.700
	N	5	5
TETIR	Pearson Correlation	.973**	.211
	Sig. (2-tailed)	.005	.733
	N	5	5
EPE	Pearson Correlation	-.790	.317
	Sig. (2-tailed)	.112	.603
	N	5	5
EPS	Pearson Correlation	.413	.986**
	Sig. (2-tailed)	.490	.002
	N	5	5
CRR	Pearson Correlation	.771	-.036
	Sig. (2-tailed)	.127	.954
	N	5	5

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

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

Sources: SPSS

In order to detect relationship among the dependent and independent variables, correlation analysis were performed and the outcome is shown in table 4.11. The total number of observations was 5. CCAR was significantly negative correlated with the ROE at 5% significant level, with coefficient of correlation of (-0.907*). It was found that CCAR was not significantly correlated to ROA. Furthermore, SCAR was also not significantly correlated to ROE and ROA. On the other hand, CAR was significantly negative correlated at 5% significant level, with coefficient of correlation of (-0.903*).

On the other, Non-performing Loan ratio was not significantly correlated to ROE and ROA. This ratio measures the assets quality.

It was found that the ratio of Total Expense to Total Income, a measure of management efficiency was significantly positive correlated with ROE at 1% significant level, with coefficient of correlation of (0.973**) and it was not significantly correlated with ROA. Earning per Employees was also not significantly correlated with ROE and ROA.

Further, as expected, Earning per Share was significantly positively correlated with the ROA at 1% significant level, with coefficient of correlation of (0.986**). Meanwhile, EPS was not significantly correlated with ROE.

Lastly, Cash Reserve Ratio appeared not to be statistically and significantly correlated with any of the variable i.e. ROE and ROA.

4.7 Major Findings of the Study

This section lists major findings obtained from the analysis of the data presented for the study purpose. Conclusions drawn from the study are presented in the next chapter entitled “Summary, Conclusion and Implications”.

1. The mean CCAR of NIBL is found 10.74 whereas the same for RBBL is 6.92. Standard deviation of CCAR of NIBL and RBBL is found 1.38 and 3.36 respectively. The mean SCAR of NIBL is found to be 1.88 whereas the same found to 0.79 for RBBL. The standard deviation of SCAR of NIBL and RBB found to be 0.30 and 0.59 respectively. The mean CAR of NIBL is found

12.52 whereas the same found 7.71 for RBBL. The standard deviation of CAR of NIBL and RBBL found to be 1.34 and 3.26 respectively.

2. Mean NPLA of NIBL and RBBL is found 1.29 and 2.94 respectively. SD of NIBL and RBBL is found to be 0.49 and 3.26 respectively. Coefficient of variation of NPLA of NIBL and RBBL is found 36.04 and 42.23 respectively.
3. Mean ratio on expense to revenue for NIBL and RBBL is found to be 46.92 and 31.11 respectively. SD of NIBL and RBBL is found to be 2.44 and 27.69. Coefficient of variation on the ratio of expense to revenue of NIBL and RBBL is found 5.20 and 24.73 respectively. Mean ratio of earning per employee in thousand for NIBL and RBBLis found 2269.60 and 1105.40 respectively. Standard deviation of earning per employee of NIBL and RBBL is found to be 256.12 and 481.24 respectively.
4. Mean ROA ratio of NIBL and RBBL is found to 2.18 and 1.79 respectively. SD of ROA of NIBL and RBBL is found to be 0.25 and 0.72 respectively. Average ROE of RBBL is higher than NIBL i.e. 60.58% and the risk factor of RBBL is also higher than NIBL (49.39%). Coefficient of variation of ROA of NIBL and RBB is found 11.39 and 40.20 respectively. The mean EPS of 35.28 and 31.40 is found for NIBL and RBBL respectively. Similarly, SD of NIBL and RBBL is found to be 6.92 and 12.03 respectively and the CV of 19.61 and 38.31 is found for NIBL and RBBL respectively.
5. Mean ratio of cash reserve ratio of NIBL and RBBL is found to be 12.98 and 14.27. Furthermore, SD of NIBL and RBBL is found to be 4.20 and 3.27 respectively and the CV on the same for NIBL and RBBL is found 32.38 and 22.92 respectively.
6. CCAR and CAR was significantly negative correlated with the ROE at 5% significant level, with coefficient of correlation of (-0.907*) and (0.903*). It was found that CCAR and CAR was not significantly correlated to ROA and ROE.
7. EPS was significantly positively correlated with the ROA at 1% significant level, with coefficient of correlation of (0.986**) and was not significantly correlated with ROE. TETIR was significantly positively correlated with the ROE at 1% significant level, with coefficient of correlation of (0.986**) respectively. Meanwhile, TETIR was not significantly correlated with ROE.

8. SCAR, NPLR, EPE and CRR appeared not to be statistically and significantly correlated with any of the variable i.e. ROE and ROA.
9. The study reveals a comparative study on financial performance of NIBL and RBBL with "CAMEL Model". This study was based on secondary data by covering the period of five years from fiscal year 2012/13 to 2016/17 which was analyzed by calculating ratios related to CAMEL model. Financial tools and statistical tools were used for the evaluation and comparison of the financial performance of these two banks.
10. In the overall study, it was concluded that financial performance of NIBL was better than RBBL. NIBL and RBBL have maintained the Capital adequacy ratio above the NRB standard. Average CCAR and CAR of NIBL was higher than RBBL. Mean NPLA of NIBL was lesser than RBBL. So, we can say that loan and advances of NIBL is less risky. Average return on assets of NIBL was higher than RBBL i.e. 2.18 so, the productivity of NIBL was better than RBBL. Similarly, average ROE of RBBL was higher than NIBL but the risk factor of RBBL was also higher so it not a good indicator of better productivity.
11. The conclusion of this interpretation is that it would be important for the central bank to strengthen further its prudential oversight of weak commercial banks and to take prompt corrective measure to encourage banks to redress identified weaknesses. Nevertheless, poorly rated banks appear to be providing financial services that are otherwise lacking in the system and therefore central bank interventions must be weighed against possible adverse impacts on the availability of bank credit.

CHAPTER-5

CONCLUSIONS

5.1 Summary

The study was conducted with objective to analyze the comparative financial performance of selected commercial banks in Nepal i.e. NIBL and RBBL with CAMEL framework. Five year data from fiscal year 2012/13 to 2016/17 are covered in the study. The study is based on secondary data and the data obtained were analyzed by using various financial tools.CAMEL is a technique of health checking of financial institutions. The banks financial soundness is judged being based on some factors such as capital adequacy, asset quality, management efficiency, earning quality, liquidity position. Almost, all the government Banks in Nepal were running at loss and recently RBBL is in better position but few years ago it was in poor position. Similarly, NIBL was listed in top ten commercial banks in 2017. The Paid up capital of RBBL and NIBL is Nrs 858.90 crore and 870.66 crore respectively. So I have taken NIBL and RBB to judge financial performance comparatively. Government's bank RBBL is suffering from its performance though private Bank NIBL is earning profit. It is very difficult to call them sound if appraised from CAMEL approach. It is necessary to study about private bank's performance and government bank's performance comparatively. Why private banks are successful than government banks is to be found out. This study will be useful for how the performance can be improved of government bank as private bank.

FIs are introducing complex and innovative products, they are exposed to many risks and therefore more amplified as well as diversified the functions performed by the FI supervision department. A key product of supervision is a rating of the FI's overall condition, commonly related to as a CAMEL rating. CAMEL rating system is used by the three federal banking supervisors [The Federal Reserve, FDIC and Office of the controller of the Currency (OCC)] and other financial supervisory agencies to provide a convenient summary of FI conditions at the time of exam. Various studies have been conducted in the past on the financial analysis of commercial banks in the US

and other regions were found done. In context of Nepalese banking environment, there are only few researchers conducted in the framework of CAMEL. The study analyze the comparative analysis of capital adequacy, non-performing loans, management quality ratios, earning capacity and liquidity position components of the NIBL and RBBLduring of 5 years period FY 2012/13 to FY 2016/17. During the research the areas that formed part of the research review were outline of sample banks concept of financial performance analysis, concept of CAMEL rating system and component evaluation system, Basel capital accord. Besides these, review of research paper, dissertations and related reports were reviewed.

The research was conducted within the framework of descriptive and analytical research design. For the study purpose, NIBL and RBBL was chosen as a sample by applying convenience sampling as technique out of 28 commercial banks. The required data and information were collected from secondary sources. Financial ratios, simple financial and statistical tools have applied by using Microsoft Excel and SPSS to get the meaningful result of the collected data in this research work.

The analysis of data and results are presented clearly and simultaneously by using suitable tables and graphs.

5.2 Conclusion

The aim of the study is to make comparative analysis of the financial performance of RBBL and NIBL by using CAMEL model for the period 2012/13 to 2016/17. The specific objectives were to analyze the financial performance of selected banks by applying CAMEL model, to examine the relationship of component of CAMEL rating and ROE and ROA, and to compare the financial performance of selected banks by applying CAMEL model.

In the overall study, it was concluded that financial performance of NIBL was better than RBBL. NIBL and RBBL have maintained the Capital adequacy ratio above the NRB standard. Average CCAR and CAR of NIBL was higher than RBBL. Mean NPLA of NIBL was lesser than RBBL. So, we can say that loan and advances of NIBL is less risky. Average return on assets of NIBL was higher than RBBL i.e. 2.18 so, the productivity of NIBL was better than RBBL. Similarly, average ROE of RBBL

was higher than NIBL but the risk factors of RBBL was also higher so it is not a good indicator of goodwill for the banks.

To assess the performance of the bank is necessary to prepare the financial reports usually consists of a balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the financial statement. Some ratios can show organization situation in society and industry. There are some rating system to demonstrate position and some special point to managers and all stakeholders. CAMEL rating model is a model to confess that an organization where can be successful and where has weaknesses.

In this study CAMEL rating method is used to choose important and effective indicators in each category and then calculated ratios are compared with NRB standard. “CAMEL” model can help managers to control and analyze financial data and organizational position in banking industry.

Banks can use this method to calculate and discuss ratios and focus on some crisis and find best solution when there is competitive problem and try to challenge and get a new and better position between the others. In fact, the important aspect of CAMEL is to compare the organization with the others in internal and external industry.

In conclusion, the finding of the study will be helpful to the management of selected banks in making appropriate managerial decisions. The results of the study will also assist both investors and shareholders to make informed decisions on their investment in banks in Nepal.

5.3 Implications

The following implications are made based on the following conclusions to overcome the weakness as regard to financial performance of NIBL and RBBL;

1. From the study, it was found that NIBL and RBBL have maintained sufficient amount of capital to meet the probable risk arising from market, operation and credit expansion. But the private banks are performing far more better than public banks although the public banks have sufficient cash reserve ratio. So, the private banks should have consistency in their performance and the public banks should improve their financial performance to gain the public trust.

2. From the study, it was also found that overall the selected banks performed well in terms of the components of CAMEL model, and noted that NIBL had adequate capital, their assets and earning capacity. So, the banks can gain competitive advantage. It is good indicator of better productivity.
3. The study will be helpful to the management of selected banks in making appropriate managerial decisions. The results of the study will also assist both investors and shareholders to make informed decisions on their investment in banks.
4. The study faced constraints in term of getting data on other variables prescribed in the CAMEL model such as number of employees, return on equity which was not readily available from company website.
5. Further, the study focused only on one private sector banks and one public sector banks by using convenient sampling method. So, the results may not be applicable to all the commercial banks. The researcher can increase the number of sample banks to get more accurate results.
6. A study in future with much larger sample of commercial banks in Nepal with inclusion of all CAMEL ratios will provide a better picture on the performance of commercial banks in Nepal.
7. From the study, it was found that despite the limitations it provides an in depth understanding of the financial performance of selected listed commercial banks in Nepal of five years period. But the future researcher can increase the number of fiscal year from five years to ten years to get the overall results by including merger and acquisition.
8. NRB being regulator of the commercial banks has a pivotal role in bank's performance, protection of shareholders' interest and general public's deposits. Therefore, the NRB is advised to be effective in monitoring of the commercial banks so that protection of shareholder and public interest is ensured. Both the banks have maintained the cash reserve ratio above the NRB standard over the study period. The NRB is advised to be effective in monitoring this requirement.

APPENDIX

Year	Total Capital Fund NIBL	Total Risk Weighted Assets NIBL	Ratio
2012/13	7813057	67,995,228	11.49
2013/14	8993849	79,776,912	11.27
2014/15	11754294	98,745,831	11.90
2015/16	18182544	121,867,349	14.92
2016/17	20367203	156,448,460	13.02

Year	NIBL earning per emp	NIBL no of employees	Rupees
2012/13	1915000000	910	2104395.00
2013/14	1940000000	942	2059447.98
2014/15	1962000000	969	2024767.80
2015/16	2550000000	1005	2537313.43
2016/17	3114000000	1187	2623420.39

Year	RBB earning per emp	RBB no of employees	Rupees
2012/13	1,310,113,980	2523	519268.32
2013/14	1,836,695,514	2545	721687.82
2014/15	4,643,868,021	2470	1880108.51
2015/16	2,355,287,583	2248	1047725.79
A2016/17	2,776,308,811	2044	1358272.41

Year	NIBL total income	NIBL total expenses	Ratio
2012/13	5,878,272,056	2774788162	47.20
2013/14	5,816,279,068	2820475438	48.49
2014/15	5,786,160,480	2807361350	48.52
2015/16	6,776,754,762	2855650146	42.14
2016/17	9,248,698,650	4464551946	48.27

Year	RBB Total income	RBB Total expenses	Ratio
2012/13	5,748,968,390	2461853387	42.82
2013/14	6,104,557,252	2226790949	36.48
2014/15	6,520,239,025	1924982516	29.52
2015/16	7,422,643,106	1872716005	25.23
2016/17	8,887,855,745	1909488825	21.48

Correlation between CAMEL ratios and ROA and ROE

Variables		ROE	ROA
CCAR	Pearson Correlation	-.907*	.028
	Sig. (2-tailed)	.034	.965
	N	5	5
SCAR	Pearson Correlation	.082	-.312
	Sig. (2-tailed)	.895	.609
	N	5	5
CAR	Pearson Correlation	-.903*	-.006
	Sig. (2-tailed)	.036	.992
	N	5	5
NPLR	Pearson Correlation	-.836	.238
	Sig. (2-tailed)	.078	.700
	N	5	5
TETIR	Pearson Correlation	.973**	.211
	Sig. (2-tailed)	.005	.733
	N	5	5
EPE	Pearson Correlation	-.790	.317
	Sig. (2-tailed)	.112	.603
	N	5	5
EPS	Pearson Correlation	.413	.986**
	Sig. (2-tailed)	.490	.002
	N	5	5
CRR	Pearson Correlation	.771	-.036
	Sig. (2-tailed)	.127	.954
	N	5	5

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

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

Sources: SPSS

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