# CHAPTER – I

# INTRODUCTION

## 1.1 Background of the Study

The study sought to assess financial performance of commercial banks in Nepal. Bank is very old institution that is contributing toward the development of any economy and it is treated as an important service industry in modern world. Nowadays the function of bank is not limited to the same geographical limit of any country. It is importance source of financing for most businesses.

Banks, as the critical part of financial system, play an important role in contributing to Country's economic development. If the banking industry does not perform well, the effect to the economy could be huge and broad (Said & Tumin, 2007).

The history of banking in Nepal can be described as a component of gradual and economic sphere of the Nepalese life. Even the financial system is still in evolutionary phase. Though establishment of banking industry was very recent, some crude bank operation was in practice even in ancient times. In Nepalese history, it was recorded that "Shankhadhar" a merchant introduced the new era known as "Nepalese Sambat" from Kantipur in 880 A.D. after having paid all the outstanding debt of the country. This shows basic of money lending practice in ancient Nepal. In 11$^{th}$ century during Malla Regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business; particularly for financing the foreign trade with Tibet became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have changed exorbitant rate of interest and other extra dues on loans advanced. (Shrestha, 2010).

The establishment of the "TejarathAdda" by Prime ministers "Ranoddip Singh" during the year 1877 AD was fully subscribed by government of Kathmandu valley, which played vital role in the banking system, was regarded as the father of the modern banking institution. The prime task of "TejarathAdda" was granting of loans and safeguarding of total national deposits. At that time, Indian currency was commonly used in most part of Terai. The primary task of the "TejarathAdda" was to attract the deposits in government exchequer at the beginning but later on public was also allowed to take the loan at the same rate of interest with gold and silver ornaments as securities and collateral. Although the institution did not accept any deposits, it had played an important role in development process of banking system in Nepal (Shrestha, 2010).

Commercial bank is an institution which accepts deposits, makes business loans and offers related services. Bank also allows for a variety of deposit accounts, such as checking, saving and time deposit. These institutions are run to make a profit and owned by a group of individuals. While commercial bank offers services to individuals, there are primarily concerned with receiving and deposits and lending to business. Commercial bank is also known as the financial department store because it satisfies the broadest range of financial services needs in the economy. The dominant privately owned financial institution in Nepal and in the economies of most major countries in the commercial bank. This institution offers the public both deposits and credits services, as well as a growing list of newer and more innovative services, such as investment advice, security underwriting, selling insurance policy and financial planning (Thapa, 2069).

Bank of Venice established in 1157 is the first commercial bank in the world. In the beginning, commercial bank's functions were confined to accepting deposits and giving loans. However, their functions have, now increased manifold. Commercial banks are found operating throughout the world. Nepal bank limited established on 30$^{th}$kartik 1994 B.S. is the first commercial bank in Nepal. NABIL bank was established as first joint venture bank in Nepal with Dubai bank ltd on 12$^{th}$ July 1984 under a technical service agreement (Thapa, 2069).

Nepalese financial system saw a rapid growth after the liberalization policies adopted by the nation since 1980. This growth was not only in the number of entities, but also in terms of varieties of products and services and adoption of the newer technologies. This growth even crossed the national boundaries and integrated with the global financial system. Additionally, increasing flow of remittances from formal channels, cards and banking services with worldwide usability, representative offices across the national boundaries are few more indicators of growing banking industry. The rapid growth that we saw in last decade slowed down in recent five years and a gradual process of consolidation has started. Mergers and acquisitions are being encouraged by NRB to foster the consolidation process. In the recent years we have seen significant reduction in the numbers of institutions in the financial system. (Nepal Rastra Bank, 2016).

The financial performance of companies are globally as subject that have attracted a lot of attention, comments and interests from both financial experts, researchers, the generally including public and the private management of banks entities. The Financial performance of a firm can be analyzed in terms of profitability, dividend growth, sales turnover, and return on investments among others. However, there is still debate among several disciplines regarding how the performance of firms should be measured and the factors that affect financial performance of companies (Liargovas & Skandalis, 2008).

The performance of commercial banks can be affected by internal and external factors. These factors can be classified into bank specific (internal) and macroeconomic variables. The internal factors are individual bank characteristics which affect the bank's performance. These factors are basically influence by the internal decisions of management and board. The external factors are sector wide or country wide factors which are beyond the control of the company and affect the profitability of banks. (Ongore & Kusa, 2013)

Most studies conducted in relation to bank performances focused on sector-specific factors that affect the overall banking sector performances (Chantapong, 2005: Olweny and Shipho, 2011 and Heng et al., 2011). Nevertheless, there is a need to include the macroeconomic variable. Thus, this study has incorporated key macro economic variables (Inflation and GDP) in the analysis (Ongore&Kusa, 2013). Moreover, this study examined whether ownership identity has influenced the relationship between bank performance and its determinants.

### 1.1.1 Profile of Sample Banks

**Nepal Bank Limited**

Nepal Bank Limited came into existence as the first commercial Bank of Nepal by starting its banking operations from November 15, 1937 A.D (Kartik 30, 1994). It was formed under the principle of Joint venture (Joint venture between govt. & general public). The bank has been providing banking through its branch offices in the different geographical locations of the country. The Bank has paid up Rs 6,46,50,01,800/-which is 62.21% holder from government of Nepal and 37.79 % from general public.

Nepal Bank Limited has been providing wide range of newly modern banking services through 126 branch of representations located in various urban and village part of the country. Nepal Bank Limited has a large network in the major cities of the country, there are forty four branches operating with the online banking facilities. The bank is providing some of the latest banking services like e-banking, SMS banking, ABBS, ATM/ Debit Card services to the customer. The bank always focus on building sound Technology driven internal system to provide the changing needs of the customer that enhance high comfort and value. The adoption of modern pumori iv software developed by Simply Marchantile office system Nepal. Arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having accountwith particular branch.Similarly the bank has been providing banking facilities such as, Various type of deposit collection, providing short term and long terms Loans, utility bill payment services, inward and outward remittance services.

ATM card, which is accessible in entire VISA linked ATMs (including 40 own ATMs) and Point of Sale terminals both in Nepal and India, has been able to get recognition as an satisfaction by banking transparent business practice, professional management, corporate governance and total quality management as the organizational mission. The key focus of the bank is always centre on serving unfulfilled needs of all classes of customer located in various part of the country by offering modern and competitive banking products and services in their step. The bank always priorities to the customerin their banking hours.

**Nabil Bank Limited**

Nabil Bank Limited is the nation's first private sector bank, commencing its business since July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 52 points of representation. In addition to this, Nabil has presence through over 1500 Nabil Remit agents throughout the nation.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes international standard banking software that supports the E-channels and E-transactions.

Nabil is moving forward with a Mission to be **"1st Choice Provider of Complete Financial Solutions"**for all its stakeholders; Customers, Shareholders, Regulators, Communities and Staff. Nabil is determined in delivering excellence to its stakeholders in an array of avenues, not just one parameter like profitability or market share. It is reflected in its Brand Promise **"Together Ahead".** The entire Nabil Team embraces a set of Values "C.R.I.S.P", representing the fact that Nabil consistently strives to be Customer Focused, Result Oriented, Innovative, Synergistic and Professional.

## 1.2Statement of the Problems

The overall performance of financial institutions may not reflect by financial statement, so that major question emerges whether these are adequate to reflect the overall performance of company. Hence, there is needed to identify the overall conditions strengths, weakness, opportunity and threats of the banks. For these purpose, several financial and statistical tools and techniques are developed by different experts and financial institutions all over the world.

This study aims to assess the financial conditions and overall performance of sampled commercial banks.

- What are the capital Adequacy ratios of commercial banks?
- What are the qualities of assets of banks?
- What are the management qualities of the banks?
- What are the earning capacities of the banks?
- What is the liquidity position of commercial banks?

## 1.3 Objectives of the Study

The main objectives of the study are to examine the financial performance selected commercial banks and compare each other. To accomplish the main objective, specific objective of the study are:

1. To find out the investment, loan and advances, deposit, net profit, total assets of the selected banks.
2. To analyze the trend of profit in these banks.
3. To examine the capital adequacy, assets quality, management quality, earning capability and liquidity position of selected banks.
4. To analyze the organization investments, social corporate responsibility and services provided by selected commercial banks.

## 1.4Significance of the Study

The study deals with different financial performance and its indicator as well as financial viability of the banks. The study also significance lies mainly in identifying and comparing the financial health of banks. This study also provides necessary information of performance capability of their banks to the management. It provide the real picture of performance which is beneficial to potential as well as existing shareholders, about risk return and utilizing fund. The study is also useful for depositors, merchant bankers as well as other stakeholders; they can identify the overall performance of the bank. It will be helpful to those who want to conduct further study in this field. Mainly, the purposed study will be significance for the researchers, research group and academicians for the future in the view of review.

## 1.5 Limitations of the Study

This Study based only financial performanceofNBL and NABIL. So the following factors have limited the scope of this study.

1. Out of twenty eight commercial banks here we only consider two banks and five fiscal years i.e. from 2012/13 to 2016/17.
2. The comparative analysis of commercial banks. So this thesis shows the trend of commercial banks but not become whole mirror of all commercial banks.
3. In this tough competition, there can be other factors beside the financial factor which effects the overall position of the bank, but all factors are not consider in this research because of limited time.
4. This study was based on secondary data and information and by review of relevant literatures. Thus it may bias to some extent.

## 1.6 Organization of the Study

The study was organized into five chapters; the titles of each of these chapters are as follows.

### Chapter-I: Introduction

This chapter includes the background of the study, background of Nepal Bank limited, statement of problems, objectives of the study significance of the study, limitations of the study and organization of the study etc.

### Chapter- II: Review of Literature

This chapter presents conceptual framework, review of different related literature such as major books, journal, research work, different website, Campus lecture guidelines, employee of banks, and thesis etc. At last research gap is also mentioned in this chapter.

**Chapter- III: Research Methodology**

This chapter is deal with the research methodology employed in this study. It includes research design, Population and sample, data collection procedure and sources of data, data analysis techniques etc.

**Chapter- IV: Data Presentation and Analysis**

In this chapter is the important chapter of the study which implies the presentation and analysis of data as well as major findings of the study.

**Chapter- V: Summary, Conclusions and Recommendations**

This chapter presents of the brief summary of whole research report and conclusions. It also provides some useful suggestion and recommendations.

References and appendix are also presented end of the study.

# CHAPTER –II

# REVIEW OF LITERATURE

## 2.1 Theoretical Review

This section presents the theoretical aspect of the study, which includes the concept of commercial bank, function of commercial bank, concept of CAMEL rating system.

### 2.1.1 Nepalese Banking Industry

The Nepalese banking industry started with the establishment of the Nepal Bank Limited in 1937 AD as the first commercial bank of Nepal with the joint ownership of the government and general public. In these more than seven decades, since the establishment of Nepal Bank Limited, the Nepalese financial system witnessed major changes in policies and regulations. With economic liberalization, of 1980s, and focus on the private sector development, many foreign banks have established as joint venture Banks in Nepal and thus the Nepalese financial system has shown a tremendous growth of banking sector. The financial sector liberalization resulted into entry of many new banks in the domestic market.

By the end of Mid July 2016, altogether 177 banks and non- bank financial institutions licensed by NRB were in operation. Out of them, 28 are “A” class commercial banks, 67 “B” class development banks, 40 “C” class finance companies and 42 are “D” class micro-credit development banks. Two "C" class institutions which are not in operation are in process of liquidation. Besides, 15 saving and credit co-operatives and 28 NGOs are also in operation with the license for limited banking operations. Also, the total branches of BFIs reached to 4,274.

### 2.1.2 Commercial Banks in Nepal

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

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

So, commercial banks are the important source of institutional credit in the money market. A commercial bank is a profit-seeking business firm, dealing in money or rather dealing in claims to money. It is a FI that creates deposits liabilities which circulates as money unlike the deposits of other FIs. In fact, the greater part of money supply is the direct consequence of the profit-seeking or money-crating activities of commercial banks.

As at Mid July 2018, the numbers of commercial banks in Nepal are 28. Though, the adoption of the economic liberalization in the country has brought a tremendous growth in the number of private sector banks, the public sector banks, which are three in number, have still got substantial share in the total assets of the industry. The share of private sector banks on total deposits, loans, and total assets has been increasing gradually.

### 2.1.3 Functions of Commercial Banks

Business banks are straightforwardly related whit the general population and organization. Despite the fact that these banks are really roused with the target of picking up benefit, these business banks are likewise settled to, to quicken everyday citizens' monetary welfare and office, to make accessible advances to agribusiness, industry and trade and to give the managing an account administrations to people in general and the state. The business banks in Nepal give the accompanying fundamental managing account capacities;

#### 1. Receiving Deposits

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

#### i. Current Account or Demand Deposits

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

**ii. Saving Account**

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

**iii. Fixed Deposit**

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

**2. Advancing Loans**

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

**a. Making Loans**

There are three types of loans given to borrowers.

**i. Short Term Loans**

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

**ii.Medium Term Loans**

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

**iii. Long Term Loans**

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

**b. Bank Overdraft**

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

**c. Cash Credit**

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

**d. Discounting of Bills**

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

### 2.1.4 Concept of Bank Supervision

There is no hypothetically demonstrated framework or standard course reading outline for the structure and procedure of directing and regulating money related establishment, including banks. Truth be told, courses of action for managing an account direction and supervision vary extensively from nation to nation. Aside from the distinctions in political structure, the most critical components that record for the distinctions in administrative and supervision approaches incorporate the general many-sided quality and condition of improvement of the monetary framework, the number, size and centralization of keeping money directions, the relative transparency of the demotic budgetary framework, the nature and degree of open discloser of bank, money related position and accessibility of innovation and human recourses for control and supervision. Be that as it may, an effect structure for the control and supervision of the banks can be found in the center standards for compelling saving money supervision issued by the Basel Committee on keeping money Supervision in 1977. The edge work can be deciphered as involving four particular yet corresponding arrangements of plan.

### 2.1.5 Objectives of Bank Supervision

With the regard of the supervisory game plans the center standards portray what could be named a "support to grave" approach covering potential issue that may develop later on because of the present hazard profile of the managing an account establishment, by and large, supervisory hazard evaluation and early cautioning frameworks aid Systematical appraisal of keeping money organization inside a formalized structure both during a period of on location examination and in the middle of examinations through off-site observing. ID of foundation and zones inside establishments where issues exist or are probably going to develop. Prioritization of bank examinations for ideal portion of supervisory assets and pre-examination arranging. Inception of justified and opportune activity by the supervisory.

### 2.1.6 Process of Bank Supervision

Ongoing banking supervision consists of a differentiated mix of off- site monitoring procedures and on site examinations. Offsite monitoring is the minimum tool for ongoing supervision. Supervisory authorities do not have the mandate or resources to carry out periodic on site examinations. The process involves analyzing and reviewing periodic financial and other information received by the supervisor relating to banks activities. Supervisor typically subject regulated banks to reporting requirements covering, for insurance, balance sheet and profit and loss statement, business profile, loans and investments, liability, capital and liquidity levels. Loan loss provision, etc during on-site examination, supervision make an overall assignment of a banking institution on the promises of the organization.

### 2.1.7 Supervisory and Monitoring System of Nepal Rastra Bank

The Nepal Rastra Bank Act, 2002 and the Bank and Financial Institutions Act, 2006 (BAFIA) granted supervisory authority to the Nepal Rastra Bank (NRB). The Nepal Rastra Bank Act, 2002, has made NRB an autonomous institution empowered to regulate and supervise Nepal’s banking industry. The preamble of NRB Act, 2002 states:

"Whereas, it is expedient to establish a Nepal Rastra Bank to function as the Central Bank to formulate necessary monetary and foreign exchange policies, to maintain the stability of price, to consolidate balance of payment for sustainable development of the economy of the Kingdom of Nepal, and to develop a secure, healthy and efficient system of payment; to appropriately regulate, inspect and supervise in order to maintain the stability and healthy development of banking and financial system; and for the enhancement of public credibility towards the entire banking and financial system of the country."

Section 84, subsection (2), of the Nepal Rastra Bank Act, 2002 states that NRB may at any time, inspect and supervise or cause to inspect and supervise any of the offices of commercial banks or financial institutions'.

Similarly the Bank and Financial Institution Act, 2006 empowers NRB to regulate and supervise the BFIs. Section 49, subsection (1) of the act states

‘The Rastra Bank shall have full powers to regulate and systematize the functions and activities of licensed institutions.’

Also Bank and Financial Institution Act, 2006, section 52, subsection (1) of the act states, ‘The Rastra Bank may inspect and supervise, or cause to be inspected and supervised, any office of a licensed institution at any time."

As a regulator of BFIs, NRB has been continuously issuing various policies, guidelines and directives to the licensed institutions, adopting international best practices and norms. A dedicated department – Bank and Financial Institutions Regulation Department– is set in NRB's organizational structure to issue regulating policies, directives, guidelines, manuals and circulars.

As a supervisory authority, NRB supervises the activities of the banks and financial institutions based on the existing legal framework, directives and major international guiding polices. To discharge the responsibilities of supervisor, NRB has set four different supervision departments, namely Bank Supervision, Development Bank Supervision, Finance Company Supervision and Micro Finance Promotion and Supervision Department. Furthermore, to address the need of resolution of problem institutions, NRB has constituted a Division called Problem Bank Resolution Division.

Last year, NRB has issued a new Capital Adequacy Framework to adopt the provisions of Basel III after the feedback received in consultation document. The commercial banking sector will be supervised as per this new framework. This new framework has adopted few macro-prudential norms as well such as: countercyclical and conservation buffers. NRB aims at becoming more proactive with regulatory and supervisory mechanisms that are forward looking and analytical.

## 2.2 Financial Statement Analysis

A financial statement is a written report which quantitatively describes the financial health of a company. This includes an income statement and balance sheet, and often also includes a cash flow statement. Financial statements are usually compiled on a quarterly and annual basis.

The purpose of financial statement analysis is to examine past and current financial data so that a company's performance and financial position can be evaluated and future risks and potential can be estimated. Financial statement analysis can yield valuable information about trends and relationships, the quality of company's earnings, and the strengths and weaknesses of its financial position.

Financial analysis is the process of determining the operating and financial characteristics of a firm from accounting data and financial statement. The goal of such is to determine the efficiency and performance of the firm's management, as reflected in the financial reports and records. The analyst if attempting to measure the firm's liquidity, profitability and other indications that business conducted in an rational and orderly way. If a firm does not achieve financial norms for its industry or relationships among data that seen reasonable, the analyst note the deviations. The burden of explaining the apparent problems may than is placed upon management (Gitman and Jockhnk, 1994). Financial statement analysis includes the study of relationships over the time. Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account (Pandey, 1999).

Financial analysis involves the use of various financial statements the first is the balance sheet, which represents a snapshot of firms financial position at a moment in time and next is the income statement that depicts a summary of the firms profitability over time. Ratio analysis is one of the most commonly used techniques in the analysis of financial statement and evaluation of managerial performance. The analysis points out the problems. If there, are any areas of business operation and provides a basis out the corrective actions. There are many parties who often refer to financial ration in order to keep track of their investment performance of for some other reasons of their interest (Pradhan, 2004).

A careful review of bank's financial statements can highlight the key factors that should be considered before making a treading or investing decision. Investors need to have a good understanding of the business cycle and the yield curve-both have a major impact on the economic performance of banks. Interest rate risk and credit risk are the primary factors to consider a bank's financial performance follows the yield curve. Financial statement analysis is important to boards, managers, payers, lenders, and others who make judgments about the financial health of organizations. One widely accepted method of assessing financial statements is ratio analysis, which uses data from the balance sheet and income statement to produce values that have easily interpreted financial meaning. The purpose of financial statement analysis is to examine past and current financial data so that a company's performance and financial position can be evaluated and future risks and potential can be estimated. Financial statement analysis can yield valuable information about trends and relationships, the quality of company's earnings, and the strengths and weaknesses of its financial position. (Zergaw, 2010).

### 2.2.1 Role of Financial Analysis

Financial analysis, which provides historical linkage between various financial components, is useful. Suppose the top management fixes a goal to increase the net income by another twenty percent for the coming year. Using profit to sales linkage, we can estimate additional turnover required to achieve the goal. Once we know additional turnover, it is possible for us to assess how much of additional assets are required (fixed and current assets in the case of manufacturing companies) and then additional funds that are required to buy the assets. Thus financial analysis is a prerequisite for financial planning. (Zergaw, 2010).

Financial analysis today is performed by various users of financial statements. Investors and Management perform the financial analysis to understand how profitably or productively the assets of the company are used. Lenders and Suppliers of goods look for the ability of the firm to repay the dues on time. For instance, as a deposit holder of a Bank, you would be interested in liquidity of the Bank and would expect the Bank to pay you the amount when you need. Customers would like to know the long-term solvency of the Bank to get continued support. For example, as a borrower, you would like your bank to be healthy and profitable since you will be depending on the Bank for your future needs of course, employees would be interested in the profitability as well as liquidity of the bank.

Financial managers not only prepare financial statements but also analyze the same to get further insight on the performance of the Organization. They need to examine the organization from the perspective of several users so that they can follow the needs of them and satisfy several stakeholders. Sometimes, profitability might be affected when the managers try to satisfy the needs of various stakeholders but if you focus too much on profitability, it might affect the organization in other ways. For instance, we would expect that our deposit holders need liquidity. If we plan for more liquidity, it might affect profitability (Zergaw, 2010).

The Financial performance of commercial banks. Various ratios forming this model are explained below:

**A. Capital Adequacy - C**

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

**Capital is rated based on the following Considerations:**

- Nature and volume of problem assets in relation to total capital and adequacy of LLR and other reserves
- Balance sheet structure including off balance sheet items, market and concentration risk
- Nature of business activities and risks to the bank
- Asset and capital growth experience and prospects
- Capital requirements and compliance with regulatory requirements

- Access to capital markets and sources of capital
- Ability of management to deal with above factors

**Capital Rating “1” is characterized by:**

- Capital levels and ratios exceed all regulatory requirements
- Strong earnings performance
- Well managed and controlled growth
- Competent management able to analyze the risks associated with the activities in determining appropriate capital levels
- Reasonable dividends and ability to raise new capital
- Low volume of problem assets

Rating “2” is characterized by similar criteria as “1”, but experiences weaknesses is one or more of the factors. For example:

- Capital and solvency ratios exceed regulatory requirements, but: Problem assets relatively high
- Management inability to maintain sufficient capital to support risks

Rating ”3” indicates that the bank complies with capital adequacy and solvency regulatory requirements, but has major weaknesses in one or more factors:

- High level of problem assets in excess of 25% of total capital
- Bank fails to comply with regulatory regulations
- Poor earnings
- Inability to raise new capital to meet regulatory requirements and correct deficiencies
- It requires regulatory oversight to ensure management and shareholders address the issues of concern

Rating “4” means that the bank is experiencing severe problems resulting in inadequate capital to support risks associated with the business and operations:

- High level of problems generating losses in all area of activities
- Problem loans in excess of 50% of total capital
- Insufficient capitals
- Noncompliance with regulatory requirements
- Management needs to take immediate action to correct deficiencies to avoid going into bankruptcy

**Rating "5" indicates that the bank is insolvent:**

- Strong regulatory oversight is needed to mitigate the loss to depositors and creditors
- Very slight possibility that actions from management will prevent the demise of the bank
- Only shareholders may be able to prevent the failure

**B. Assets Quality**

Asset represents all the assets of the bank, current and fixed, loan portfolio, investments and real estate owned as well as off balance sheet transactions. Commercial banks collect funds in the form of capital, deposit etc. It mobilizes these funds to generate certain returns by giving loans to the users of money to invest in various alternatives. A significant part of the banks income is through its lending activities. There are basically two types of loans - advances and loss provisions:

**1. Performing Loans**

All good loans and overdue for below 90 days.

**2. Non Performing Loans**

Sub- standard-loans overdue by more than 3 months up to 6 months. Doubtful-loans overdue by more than 6 months up to 1 year Bad-loans overdue by more than 1 year.

**Asset Quality is Based on the following Considerations**

- Volume of problem of all assets
- Volume of overdue or rescheduled loans
- Ability of management to administer all the assets of the bank and to collect problem loans
- Large concentrations of loans and insiders loans, diversification of investments
- Loan portfolio management, written policies, procedures internal control, Management Information System
- Loan Loss Reserves in relation to problem credits and other assets
- Growth of loans volume in relation to the bank's capacity

**Asset quality rating "1" is characterized by:**

- Ratio of troubled assets to capital is less than 2% or 3%
- Past due and extended loans kept under control by a specific unit, in accordance with the law
- Concentrations of credits and loans to insiders provide minimal risk
- Efficient loan portfolio management, close monitoring of problem loans
- Adequate Loan Loss Reserves in accordance with CBI's regulations
- Non credit assets pose no loss threat

Asset quality rating "2" is assigned to banks that display similar characteristics as "1", but are experiencing non significant weaknesses, and the management is able to address these issues without close regulatory oversight.

- Problem assets do not exceed 10 % of total capital, but: The bank is experiencing negative trends in the level of overdue and prolonged credits and of LLR
- There are weaknesses in the management underwriting standards and control procedures

- Loans to insider pose some regulatory concern, but can be easily corrected
- Return on non credit assets

Asset quality rating “3” indicates that a bank displays weaknesses in one or more of the “2” factors. Regulatory oversight is required to ensure that management is able to address the problems. Other characteristics are:

- Bank is experiencing high level of past due and rescheduled credits
- Inadequate LLR
- Poor underwriting standards
- Policies and procedures are not properly implemented
- Inappropriate loans to insiders
- Non credit assets display abnormal risks and may pose a threat of loss

Asset quality rating “4” indicates a bank with severe problems resulting in inadequate capital to support risks associated with the bank business and operations.

- High volume of loss making loans, and; Level of problem credits continues to increase and could result in insolvency
- Doubtful and loss credits exceed LLR and pose a threat to capital
- Non-credit assets pose major threat of loss of capital and may result in bank’s insolvency
- Lack of proper policies and procedures

Asset quality rating”5” displays a high level of problem assets credit and non-credit, that impairs the capital or results in a negative capital.

- Problem assets to capital ratio above 50%
- Slight possibility that management actions can improve the quality of the bank
- Strong regulatory oversight is needed to prevent further capital erosion and protect depositors and creditors
- Law authorize CBI to send an custodian for assessment and recommendations

### C. Management

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

An institution can take a desire momentum only when the management is capable of strong and long term vision. For the proper and efficient management, the banks have to possess the following qualities:

- Quality of the monitoring and support of the activities by the board and management and their ability to understand and respond to the risks associated with these activities in the present environment and to plan for the future
- Financial performance of the bank with regards to the other CAMELS ratings
- Development and implementation of written policies, procedures, MIS, risk monitoring system, reporting, safeguarding of documents, contingency plan and compliance with laws and regulations controlled by a compliance officer
- Availability of internal and external audit function
- Concentration or delegation of authority
- Compensations policies, job descriptions
- Response to CBI concerns and recommendations
- Overall performance of the bank and its risk profile

Management rating "1" indicates a strong and committed management showing:

- A thorough understanding of the risks associated with the bank's activities
- A strong financial performance in all areas

- Appropriate understanding and response to changing economy
- Planning, control, implementation of internal policies
- Appropriate audit function
- No evidence of self-dealing
- Strong cooperation and interaction between the Board of Directors and the management and successful delegation of authority
- Competent and trained staff at all levels
- Management's reaction to CBI concerns and recommendations

Management rating "2" has the general characteristics of "1" but possesses some deficiencies in rating factors that can be easily corrected without regulatory supervision.

- Careful consideration should be given to the financial condition of the bank.

Management rating "3" displays major weaknesses in one or more of the rating factors. It needs regulatory supervision to ensure that management and Board takes corrective actions. Among the problems are:

- Significant insider abuse
- Disregard for regulatory requirements
- Poor assessment of risks and planning
- Inappropriate reactions to economic adversities and corrective actions
- Poor financial performance
- Lack of proper written policies and procedures
- Management rating "4" indicates major weaknesses in several areas.
- Strong regulatory action is needed
- Board of Directors should consider replacing or strengthen management due to: Insider abuse
- Disregard for regulatory requirements

- Lack of proper policies
- Damaging actions
- Poor financial performance may lead to insolvency

**D. Earnings**

Earnings are the ultimate result of any business. Generally, if the earnings are good then that business is running well. Similarly the aggregate performance of the bank reflects from its earnings. An analysis of the earnings ratio helps the management, investors and creditors to know the performance of the bank. They can get information regarding their interest. The following ratios help the management and other stakeholders to know about the earning policy of the respective banks:

- Return on Equity (ROE)
- Return on Assets (ROA)
- Earnings per Share (EPS)

It measures the profit available to the equity shareholders as per share basis i.e. the amount that they can get on each share held. In other words, this ratio measures the earnings available to equity shareholders on a per share basis.

Earnings are rated according to the following factors:

- Sufficient earnings to cover potential losses, provide adequate capital and pay reasonable dividends
- Composition of net income. Volume and stability of the components
- Level of expenses in relation to operations
- Reliance on extraordinary items, securities transactions, high risk activities
- Nontraditional or operational sources
- Adequacy of budgeting, forecasting, control MIS of income and expenses
- Adequacy of provisions

- Earnings exposure to market risks, such as interest rate variations, foreign exchange fluctuations and price risk

**Rating "1" indicates:**

- Sufficient income to meet reserve requirements, provide capital growth and pay reasonable dividends to shareholders
- Strong budgeting, planning and control of income and expenses
- Positive trends in major income and expenses categories
- Minimal reliance on extraordinary items and non traditional sources of income

Rating "2" indicates that the bank generates sufficient income to meet reserve requirements, provide capital growth and pay dividends. Nevertheless there may be some negative trends such as:

- Relying somehow on nontraditional income
- Need to improve budget, planning and control process
- Management should be able to deal with the problems without regulatory supervision.

Earnings rating "3" shows that the bank has major weaknesses in several of the rating factors.

- Regulatory supervision is needed to ensure management takes appropriate measures to improve earnings performance
- Insufficient earnings retention may impair capital position

Earning rating "4" indicates bank is experiencing severe earnings problems. Net profit may be positive, but insufficient to maintain adequate reserves and capital growth

- Strong regulatory supervision is needed to prevent loss of capital
- Management must take immediate action to improve income and reduce expenses
- Certain activities may have to be suspended

- Corrective action is needed to prevent losses developing into insolvency
- Earning rating “5” shows bank is experiencing major losses that may lead into insolvency.
- Immediate action is needed and strong regulatory supervision is required from CBI.

**E. Liquidity**

Simply, liquidity means short- run solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances. The certain percentage of deposit should be kept in bank in the form of cash. It the bank will keep greater deposit in cash, it losses the opportunity cost. Similarly, if bank keeps low amounting deposit, it could not be able to pay depositors on the time of requirement.

Liquidity can be measured in following ways:

- Cash Reserve Ratio
- Cash & Bank Balance Ratio
- Investment Government Securities

Liquidity is rated based on the following factors:

- Sources and volume of liquid funds available to meet short term obligations
- Volatility of deposits and loan demand
- Interest rates and maturities of assets and liabilities
- Access to money market and other sources of funds
- Diversification of funding sources
- Reliance on inter-bank market for short term funding
- Management ability to plan, control and measure liquidity process. MIS.
- Contingency plan

Liquidity rating “1” indicates a management having a thorough understanding of the bank’s balance sheet.

- Sufficient liquid assets to meet loan demand and unexpected deposit reduction
- Little reliance on inter-bank market
- Strong and sophisticated planning, control and monitoring
- Existence of an contingency plan

Liquidity rating “2” has the same basic characteristics as a “1” but is experiencing some weaknesses in one or more of the rating factors. These weaknesses can be corrected promptly.

- Bank meets its liquidity requirements, but management lacks proper expertise for planning, control and monitoring
- Bank experienced liquidity problems. Management reacted appropriately but failed to take action to prevent a recurring risk
- Management is unaware of negative trends
- Management did not address liquidity problems

Liquidity rating”3” indicates a bank has major weaknesses in several factors.

- Regulatory supervision is usually required to assure management is taking care of the problems
- Poor liquidity management resulting in frequent liquidity concerns
- Management needs to address negative trends immediately to prevent a crisis in daily obligations

Liquidity rating “4” shows a bank is experiencing severe liquidity problems.

- Requires immediate attention and regulatory control
- Actions must be taken to strengthen liquidity position to meet current obligations
- Management must engage in extensive planning to deal with the situation

Liquidity rating"5" shows a bank requires outside financial assistance to meet current liquidity requirements to prevent failure of the bank due to the inability to meet creditors and depositors needs.

## 2.3 Review of Related Studies

A number of studies have done on the financial performance of commercial bank around the world. Most of the studies bank, industry and macroeconomic variable for determining performance of the bank. In this section the researcher reviews financial performance with respect to articles and academic thesis.

### 2.3.1 Review of Articles and Journals

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.

Sangmi (2014) have analyzed the "*Financial Performance of Commercial Bank in India*". They have used the secondary data of two nationalized commercial bank in northern India. This study has found that all the samples have been sound and satisfactory so far as their capital adequacy, management capacity and liquidity are concerned.

Esthera (2015) in his article "*Compare the Performance of Foreign and Local Banks in Ghana*" Along the following dimensions; Return On Assets, Return on Equity, Assets Quality, Capital Adequacy Management Efficiency, Earning Performance, Liquidity and Banks size using data from 2005-2010. He found various differences in ratio for two types. It is important to note that this study is for academic purpose.

Upon the comparison made, on both return on assets and return on equity, local banks of Ghana are doing better than foreign. Foreign banks have higher Capital Adequacy Ratio than local banks. Foreign banks have more quality assets (loan) local bank do in Ghana .The management of local banks is more efficient than that of foreign banks in Ghana. Foreign Banks have more earnings power in terms of net interest margin than banks in Ghana. Foreign Banks are more liquid than local banks in Ghana.

Kattel (2016) in his study," *Evaluating the Financial Solvency of Selected Commercial Banks of Nepal: An Application of Bankometer*" has analyzed that the banking industry of Nepal is moving towards the goal of integrated financial service because of competition, frequently changes in technology, and customers' expectations. Financial system is reflected through sound solvency position in the banking sector. Therefore, the aim of this study is to evaluate the financial soundness of joint venture banks and private sector banks in Nepal by using bankometer model for the period covering 2007- 2012. The bankometer model was used developed according to International Monetary Fund guidelines. The study has found that all the private and joint venture banks are in sound financial position. The finding of the study reveals that private sector banks are financially sounder in comparison to joint venture banks. The study concludes that bankometer model will help the bank's internal management to mitigate the insolvency risk within proper control and supervision at the operational level.

Thapa (2017) in his article" *Bankers Divulge Reason for Crisis"* has analyzed that the bankers have admitted that the pressure from the Board of Directors and promoters for the higher profits following the requirement made by central bank to raise paid-up capital of banks is the root cause of acute shortage of loan able funds in the market at present. Banks and financial institutions (BFIs) extended loans in an aggressive manner to book higher profit as per the target given by the board, bankers divulged today.

As the central bank introduced a provision in the monetary policy of 2015/16 requiring banks to increase their paid up capital by four folds within this fiscal, the promoter of banks started pressuring the management to ensure that the profit also surged in the same rate, said Anil Keshary Shah, president of Nepal Bankers'

Association (NBA) _ the umbrella association of class “A” financial instructions. Hence, banks increased their loans while overlooking then deposit growth.

Governor urges ‘Self – regulation”

Kathmandu, governor of Nepal Rastra Bank Chirinjibi Nepal urged banks to adopt self-regulation and not to deviate from the prevailing prudent practices in the financial sector.

“The current challenge is lack of loan able funds in bank; it is not liquidity crises,” said Governor Nepal. There is around 73billion liquidity in the financial sector apart from 160 billion reserved by the banks under the cash reserve ratio (CRR), as per the governor. Banks have fully utilized their capacity of loan expansion in the first half of this fiscal and now banks have to attract more deposit to expand loan, according to him. Loan expansion of the commercial banks was supposed to stand at Rs 124 billion in the first half of this fiscal considering that deposit collection stood at Rs 155 billion in the same period. However, outpacing deposit growth, class worth Rs204 billion, as per Nepal. (The Himalayan Times Feb 15, 2017).

G.L (2018) conducted a research “*Financial Analysis of Select Banks Using Camel Approach a Study with Reference to Indian Banking Industry"* has taken twenty different private and public sector banks by the different tools like capital adequacy, assets quality, management capability, earnings capacity, liquidity. Give the rank by using different tools of CAMEL approach. The overall performance and make a comparative analysis of major private sector banks in India. The study mentioned that the weakest area of private and public sector banks were management of NPA. The performance of the different banks were found to be impressive and the public sector banks were ranked according to their performance in capital adequacy , assets quality, management capability, liquidity and give them to suggestions to overcome the drawbacks.

### 2.3.2 Review of Thesis

Devkota (2013) had conducted a research entitled comparative "*SWOT Analysis of Nepalese Commercial Joint Venture Banks With Reference to SCB, NABIL and HBL". The main* objectives are the investment of all these JVBs is found to be more or less volatile, HBL has been seen to adopt the aggressive lending policy during the period, Financial indicators like EPS, DPS and book value per share of SCB is found in the better position as compared to that of NABIL and HBL, With the analysis and evaluation of various statistical tools, he recommended these JVBs to access the risk assess portfolio cautiously before accepting higher volume of deposits. The major findings of the study were he also suggested NABIL and HBL to evaluate the financials of their borrowers in a more proficient way thereby, identifying possibilities of risks prior granting the loan, to evaluate the comparative financial strengths and weakness of this bank concludes the finding.

Kunwar (2014) had conducted a research entitled, "*SWOT Analysis of Nepalese Joint Venture Commercial Banks With Reference to NABIL, HBL and SCBL",* with objective to spot, examine and assess the financial strength weakness of these banks concludes the findings such as the total deposit trend of NABIL explains that its deposits declining each year. The loan and deposits trend of HBL shows that the trend line almost fits with the actual total deposits which have been increasing each years, the investment of all these banks is found to be more or less volatile, the loans and advances of HBL have always been greater as compare to SCBL and NABIL Bank during the period under analysis, on the basis of the analysis and evaluation of various financial and statistical tools, he suggested that NABIL and HBL to evaluate the financials of their borrowers in a more proficient way thereby, identifying possibilities of risk prior granting the loans. SCBL should try to increase its credit portfolio exploring the productive sectors.

Chand (2014) had conducted a research entitled, *Financial Performance Analysis (CAMEL) of Selected Commercial banks NABIL, NIBL and SCBL*. The main objectives of the study are CAR percentage of all selected banks found higher than NRB requirement except NIBL’s for the year 2003. In overall study SCBL Bank in the 1$^{st}$ position and NABIL in the 2nd position, in analysis of assets quality, the study found out that NABIL lies in first position with 1.32% NPL where as SCBL lies in second with 2.68% and NIBL in third position. The major findings of the study were in analysis of liquidity, the study found out that CRR% of NIBL is found in lead position throughout studies years while NABIL and SCBL is found inconsistent to maintain CRR to analysis capital adequacy requirement, assets quality, management quality, earning ability, liquidity of these banks concludes the findings.

Joshi (2015) had conducted a study on *"A Comparative Study on Financial Performance of NABIL Bank Ltd. and Nepal Bangladesh Bank Ltd."* The main objective of the study is to know the financial condition, financial performance and financial growth of NABIL and NBL.

The Main Objectives of the Study are: to examine the EPS and DPS of NABIL and NBL, to analyze the efficiency of NABIL and NBL in utilizing the assets, to evaluate the trend of net profit of the concerned banks, to examine the capital strength and assets quality of the banks.

He found that the overall liquidity position of NBBL was stronger than that of NABIL. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances whereas NABIL mobilized its deposits more prudently and efficiently in generating income. Similarly, capital adequacy position of NABIL was found to be better than that of NBBL. Regarding the capital structure of the banks, NBBL was found to have adopted high risk; high return strategy as suggested by it's highly leveraged i.e. debt dominated. According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indictors as EPS, DPS were found sharply higher in NABIL which implies positive attitude of stakeholders toward NABIL.

Mandal (2015) had conducted the research entitled, *Comparative Financial Performance Appraisal of Joint Venture Banks. (With Reference to* NABIL, SCBNL and NIBL),has studies mainly three banks i.e. NABIL, SCBNL and NIBL. His main finding is that both SCBNL and NABIL have mobilized the debt funds in proper way for generating more return but NIBL could not do as good as NABIL and SCBNL. The main objectives of the study are the analysis of earning components like EPS, MPS, PE ratio, profit after tax, the study found out that SCBL score highest position for the components EPS, MPS and profit after tax. Similarly NIBL score first position for PE ratio, he has recommended enhancing banking facilities in rural areas by encouraging small entrepreneur's development programmers, to play merchant banking role, to mobilize the deposit funds in productive sectors and to grant more priority to the local manpower.

Bohora (2016) had conducted a research entitled, *A Comparative Study of the Financial Performance of NABIL and NIBL.* The main objectives of the study are the objectives to highlight the functions and policies of JVB's and to evaluate the comparative financial performance of the selected Banks, in terms of liquidity, activity and profitability of along with other various indicators including some suggestions frame work. The major findings of the study were NABIL is more aggressive in liquidity, investment and borrowing policy to generate profit out of all others indicators, D/P ratio and P/E ratio, MPS, EPS, Cash DPS, and TPS, except EPS indicate the better performance of NIBL than that of NABIL, NIBL bank was found to be financially of sound health in the framework of all CAMELS components, in overall the liquidity position of the bank was found to be affected by the current liquidity crunch on going on the financial markets.

Manandhar (2017) conducted a research study entitled, *"A Case Study on CAMEL Analysis of Commercial Banks With Reference of Siddharatha Bank, Everest Bank, Laxmi Bank and Banks of Kathmandu*. The main objectives of the study are to measure the liquidity ratios of the selected banks, to examine the capital strength and assets quality of the banks, to measure the profitability and management of banks. The major findings of the study are, Everest bank has performed well and laxmi bank has performed badly among the selected banks. Everest bank has lowest while laxmi bank has highest capital adequacy ratio and core capital ratio as compare to other banks.

Tamang (2017) had conducted a research entitled, "*Financial Performance Analysis of Commercial Banks of Nepal with Reference to NIB and NABIL"*. The main objectives of the study are NABIL has utilized more debt than NIB, the profitability ratio of NABIL is better than that of NIB in terms of ROA, the EPS and DPS of NABIL are better than that of NIB, there is positive correlation between total debt and net profit for both the banks, on the basis of his findings, he recommended that both the bank should review their overall capital structure and investment portfolio to make better mix in capital structure.

The major findings of the study were capital fund of NIB bank has grown consistently over the study period comprising of FY 2059/60 to FY 2063/64, during the year, unsecured subordinated term debt amounting to Rs 200 million had been issued forming part of the supplementary capital, which made huge difference in the overall increment rate of the capital fund during that year, moreover, he also suggested that both the banks should also give due consideration in improving their liquidity position, to measure the operating efficiency, stability and profitability of these banks concludes the findings.

Shrestha (2018) conducted a research study entitled , *"Evaluation and Comparison of the Financial Position of the Sample Banks Using Camel Rating System with Reference of Kumari Bank, Siddhartha Bank, Machhapuchare Bank, NIC Bank and Laxmi Bank.*The main objectives of the study are the capital strength and assets quality of the banks, to determine earning capability of the banks, to determine liquidity position of the banks. The major findings of the study are the NIC Bank is in better position with respect to core capital Machhapucchre bank for Capital Adequacy Ratio. Laxmi bank seems well efficient in handing loan as it has least loan loss provision ratio while all others have high provision and has excess liquidity indicates less investment portfolio.

**2.4 Research Gap**

Different scholars have researched about the determinants of financial performance, the relationship of different variables with the financial performance of banks. The Financial performance model is very popularly used of banking sector. Some scholars ranked the sample banks. Some did test the relationship between various ratios under financial performance model. The analysis provides us with the overall performance of commercial banks during the period of 2012/13 to 2016/17. The research puts light on how well the commercial bank is functioning so far and what are the trends of their performance in terms of various financial ratios. The research also tested the relationship among financial measures.

# CHAPTER - III

# RESEARCH METHODOLOGY

## 3.1 Introduction

Research method portrays the techniques and process connected in the whole investigation. As such, inquire about procedure is an efficient procedure to approach any examination issue and investigate it equitably. Henceforth this part incorporates examine configuration, Source of Data, population and tests, Data gathering devices and Data Analysis apparatuses.

## 3.2 Research Design

This study entitled "comparative study on financial performance of Nepal bank and nabil bank limited" has been conducted on Nepalese commercial banks. To fulfill the objectives of the study certain research design in essential so the analysis of this study is based on the nature of data and tools for analysis. To fulfill the objectives of the study it emphasized on historical as well as descriptive and exploratory. Five years audited financial reports from 2012/13 to 2016/17 of the government and private commercial banks were taken for analysis purpose. To select the banks which are used for financial performance analysis purpose, purposive sampling method was used. The CAMEL rating system - capital adequacy, Assets quality, Management efficiency, Earning and Liquidity to evaluate bank's performance were used in the study.

## 3.3 Population and Sample

From the total population of twenty eight commercial banks registered in Nepal Rastra Bank under operation in the country currently both public and private that are engaged in the commercial banking activities, the sample of two commercial banks were selected. Nepal Bank Limited and Nabil Bank Limited are selected based on purposive sampling method. These banks were taken as sample by judgment of researcher on the basis of government and joint venture banks.

## 3.4 Source of Data

The data used for this study were secondary sources. The audited annual financial reports of the sample commercial banks, literature from various books, journals, academic thesis reports, directives if NRB, NRB supervision report and various websites were used as a source of secondary data.

## 3.5Methods of Data Analysis

### 3.5.1 Financial Ratio Analysis Tools

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

#### 3.5.1.1 Capital Adequacy Ratio (CAR)

Commercial bank holds adequate capital depending on their requirement. The New Capital Adequacy Framework requires the banks to maintain minimum capital requirements. As per the framework, commercial banks need to maintain at least 6 percent Tier I capital and 10 percent Total Capital (Tier I & Tier II). The minimum capital adequacy requirements are based on risk-weighted exposures (RWE) of the banks. The capital adequacy ratios of banks are monitored on monthly basis. The average capital adequacy ratio of the commercial banks in the review year is 11.01 percent.

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

(Minimum requirement as per NRB Directive is 11%)

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

(Minimum requirement as per NRB Directive is 6%)

Where,

Total Capital Fund = Core Capital + Supplementary Capital

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

### 3.5.1.2 Assets Quality

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

**1. Performing Loans**

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

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

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

**Sub Standard Loan**

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

**Doubtful Loan**

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

**Bad/ Loss Loan**

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

**Classification of Loans Provision Required**

| | |
|---|---|
| Good | 1% |
| Sub-standard | 25% |
| Doubtful | 50% |
| Bad loans | 100% |

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

Where,

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

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

Loan Loss Coverage Ratio =$\frac{\text{TotalLoanLossProvision (LLP)}}{\text{TotalNon}-\text{perfotmingloan}} \times 100\%$

Where,

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

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

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

Where,

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

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

### 3.5.1.3 Management

Management is the arrangement of various things in a systematic manner for the achievement of organizational goal. An institution can take a desired goal only when the management is capable, which is of strong and long-term vision. For the achievement of the goal of the bank within certain period of time proper and efficient management is required, for which the banks should have the following qualities:

- Qualitative Human resource management
- Adequate management expenses
- Perfect structure of management team.
- Fair decision making capability.
- Use of modern Information Technology and proper communication system
- Perfect working environment
- Internal management system and relationship between customer and organization.
- Management analysis can be done by using following formula;

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

### 3.5.1.4 Earning

Earning means excess of revenue over cost, so excess revenue earned by any organization in the course of operation is known as profit. It is the ultimate result of any business. Generally, if the earnings are good then that business is running well. Similarly the aggregate performance of the bank reflects from its earnings. Earning is the ultimate result of any business. Generally, higher earnings reflect better financial position. Similarly the aggregate performance of the bank reflects from its earnings. Following ratios depicts the earning position of NBL, and NABIL Bank Ltd.

Earning per Shares (EPS) =$\frac{\text{Net Inome after Tax}}{\text{No.Of Outstanding Shares}}$

Return on Equity (ROE) =$\frac{\text{Net Income after Tax}}{\text{Total Shareholder's Fund}} \times 100\%$

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

#### 3.5.1.5 Liquidity

Liquidity is the state of owning things of value that can easily be exchanged for cash. Liquidity is the term which denotes the ability of an organization to meet its financial obligation or debts in cash in time. Such an organization has assets which can be converted into cash and without any loss at their conversion through the maintenance of certain reserves and provision. Liquidity reflects the short term financial strength of the banks. Bank does not provide all its deposit at loans and advances, but certain percentage is kept as liquidity in the bank itself or elsewhere. Basically bank measures liquidity through three methods. They are as follows:

**Cash Reserve Ratio (CRR)**

It is the minimum amount of reserves a bank must hold in the form account balance with NRB. This ratio ensures minimum level of the bank's first line of defense in meeting depositor's obligations. It is the mandatory reserve that the commercial bank has to keep in the form of cash in their account in NRB for depositor's assurance and safety of bank which also reflects the bank's goodwill. As per the regulation made by NRB, Cash Reserve Ratio is to be maintained 5.5% on average of total deposits of bank on weekly basis. It is calculated as

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

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

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

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

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

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

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

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

## 3.6 Statistical Tools

### A) Arithmetic Mean

Arithmetic Mean of a given set of observations is the sum of he observation divided by the number of observations. In such as case all the items are equally important. Simple Arithmetic Mean is used in this study as per necessary for analysis

We have,

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

Where,

$\sum$x = sum of all values of the observations

n = Number of observation

x = Value of variables

### B) Standard Deviation

The standard deviation usually denoted by the letters ($\sigma$). Karl Pearson suggested it as a widely used measure of dispersion and defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis.

We have,

Standard Deviation (σ) = $\sqrt{\frac{\Sigma(x-\bar{x})}{n}}$

**C) Coefficient of Variation (C.V.)**

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 time coefficient of standard deviation is called coefficient of variation. It is denote by C.V. Thus,

C.V. = $\frac{\sigma}{\bar{x}} x100\%$

Where

σ = Standard Deviation

$\bar{X}$ = Mean Value of Variables

The distribution having less C.V. is said to be less variable or more consistent. A distribution having greater C.V. is said to be more variable or less consistent.

**D. Correlation Coefficient (r)**

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by 'r' can be obtained as:

r = $\frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

Where,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

**E. Coefficient of Determination ($r^2$)**

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

# CHAPTER – IV

# DATA PRESENTATION AND ANALYSIS

## 4.1 Introduction

This chapter deals with the presentation and analysis of data collected from different sources with the focus on the camel components. As stated in the theoretical prescription, the financial performance analysis of Nepal Bank Limited Nabil Bank Limited are concentrated in the five components of camel i.e. Capital Adequacy, Assets Quality, Management Quality, Earning Quality and Liquidity. The data collected from annual reports of respective banks have been analyzed with the application of financial performance.

## 4.2 Data Presentation and Analysis

The data collected from different sources has been defined and documented in Excel tables, which are further processed to analyze and arrived at the findings on the financial conditions of above mentioned banks in terms of financial performance and Analysis. The major findings of the study on financial performance of NBL and NABIL are also described on each section and part of financial performance Analysis.

### 4.2.1 Capital Adequacy

Banks have to make decisions about the amount of capital they need to hold for three reasons. First, bank capital helps prevents bank failures, a situation in which the bank cannot satisfy its obligations to pay its depositors and other creditors and so goes out of business. Second, the amount of capital affects returns for the owners (equity holder) of the bank. Third, a minimum amount of bank capital is required by regulatory authorities.

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

**0% Risk Weight Asset**

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

**10% Risk Weight Asset**

Forward Foreign Exchange Contract

**20% Risk Weight Asset**

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

**50% Risk Weight Asset**

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

**100% Risk Weight Asset**

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

Table 4.1 is the observed Capital Adequacy Ratio during the study period in numerical terms which is presented below:

**Table 4.1**

**Capital Adequacy Ratio**

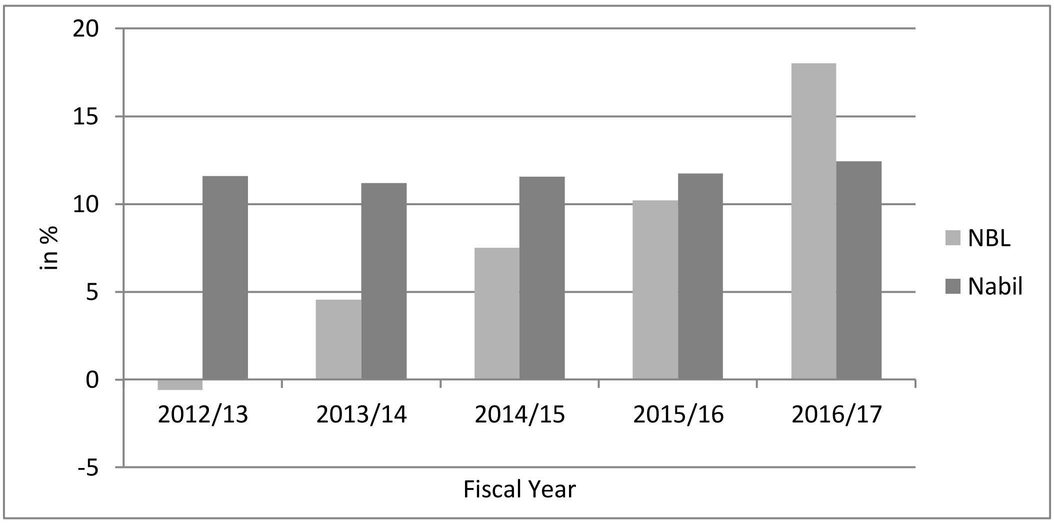
(Rs. in Million)

| Fiscal Year | Banks | Total Capital Fund | Total Risk Weighted Assets | Capital Adequacy Ratio (in %) |
|---|---|---|---|---|
| 2012/13 | NBL | -345.59 | 58574.57 | -0.59 |
| | Nabil | 8337.71 | 71938.92 | 11.59 |
| 2013/14 | NBL | 2630.13 | 57805.05 | 4.55 |
| | Nabil | 6690.26 | 59841.32 | 11.18 |
| 2014/15 | NBL | 4449.71 | 59408.67 | 7.49 |
| | Nabil | 10409.51 | 89969.83 | 11.57 |
| 2015/16 | NBL | 3236.57 | 31731.08 | 10.20 |
| | Nabil | 9487.21 | 80879.88 | 11.73 |
| 2016/17 | NBL | 14839.74 | 82349.25 | 18.02 |
| | NABIL | 14752.63 | 118827.90 | 12.41 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.1**

**Capital Adequacy Ratio**




The table 4.1 and figure 4.1 reveals the Capital Adequacy Ratio of two banks over the five years study period. Similarly, Capital Adequacy Ratio of NBL started by -5.82% in FY 2012/13, increased in FY 2013/14 to FY 2016/17 continuously and reached to 10.2%. Overall, Capital Adequacy Ratio of NBL is increased.

Likewise, Capital Adequacy Ratio of Nabil started by 11.01% in FY 2012/13, increased in FY 2013/14 and again decreased in FY 2014/15 thereafter increased in 2015/16 then again increased in 2016/17 and reached to 11.73%. Overall, Capital Adequacy Ratio of Nabil is decreased.

#### 4.2.1.1 Core Capital Ratio (CCR)

Core Capital measures a bank's financial strength from a regulator's point of view. In the context of Nepal Core or Primary Capital includes Paid-up Capital, Share Premium, Nonredeemable Preference Share, General Reserve Fund, Cumulative Profit/ loss, Capital Redemption Reserve, Capital Adjustment Fund/ Proposed Bonus Share and other Free Reserve. Amount of the goodwill, Fictitious Assets, Investment in excess of prescribe limit specified by NRB, and investment in security of companies with financial interest is deducted from the sum of all elements of the primary capital to arrive at the core capital.

Table 4.2 is the observed Core Capital Ratio during the study period in numerical terms which is presented below:

**Table 4.2**

**Core Capital Ratio**

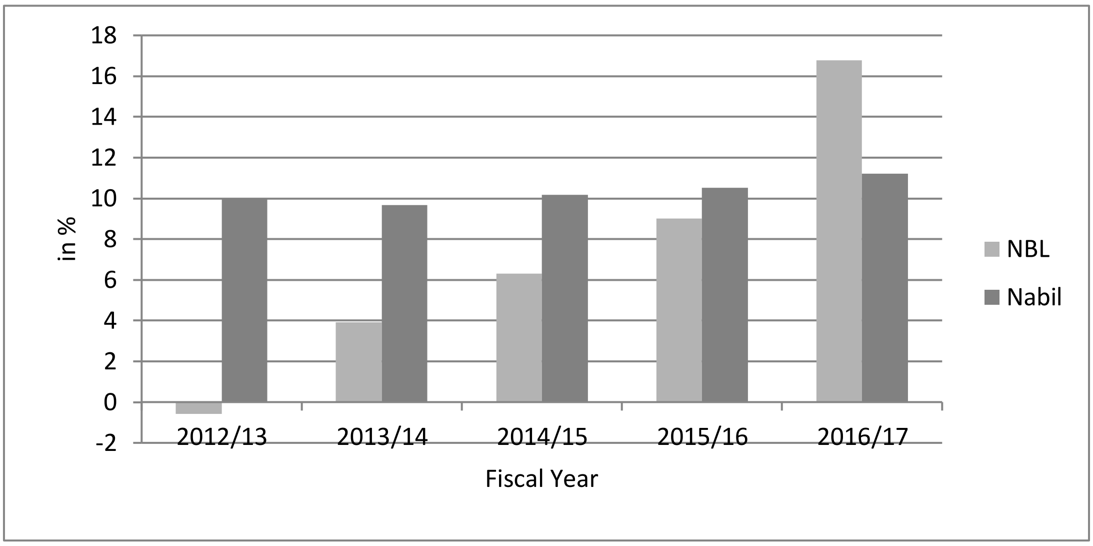
(Rs. in Million)

| Fiscal Year | Banks | Core Capital Fund | Total Risk Weighted Assets | Core Capital Ratio |
|---|---|---|---|---|
| 2012/13 | NBL | -345.58 | 58574.57 | -0.59 |
| | Nabil | 7179.50 | 71938.92 | 9.98 |
| 2013/14 | NBL | 2265.95 | 57805.05 | 3.92 |
| | Nabil | 5792.63 | 59841.32 | 9.68 |
| 2014/15 | NBL | 3754.62 | 59408.67 | 6.32 |
| | Nabil | 9158.92 | 89969.83 | 10.18 |
| 2015/16 | NBL | 2858.97 | 31731.08 | 9.01 |
| | Nabil | 8500.47 | 80879.88 | 10.51 |
| 2016/17 | NBL | 13822.21 | 82349.25 | 16.78 |
| | NABIL | 13321.80 | 118827.90 | 11.21 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.2**

**Core Capital Ratio**




The table 4.2 and figure 4.2 show on Core Capital Ratio of NBL started by -5.82% in FY 2012/13, increased in FY 2013/14 to FY 2016/17 continuously and reached to 9.01%. Overall, Core Capital Ratio of NBL is increased.

Likewise, Core Capital Ratio of Nabil started by 9.3% in FY 2012/13, increased in FY 2013/14 then decreased in FY 2014/15 later increased to FY 2016/17 continuously and reached to 10.51%. Overall, Core Capital Ratio of Nabil is increased.

### 4.2.2 Assets Quality

Commercial bank holds their assets in the form of liquid assets like cash and bank balance and short term investment etc. Through this lending bank generated interest. Assets quality ratio is also known as activity ratio as well as turnover ratio be converted in to cash and equivalent to cash. This is only profit if the bank is efficient enough to earn profit. For identifying the assets quality we need to calculate three ratios. They are:

#### 4.2.2.1 Non-Performing Loan

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

Table 4.3 is the observed Non-Performing Loan Ratio of four banks during the studyperiod in numerical terms which is presented below:

**Table 4.3**

**Non-Performing Loan Ratio**

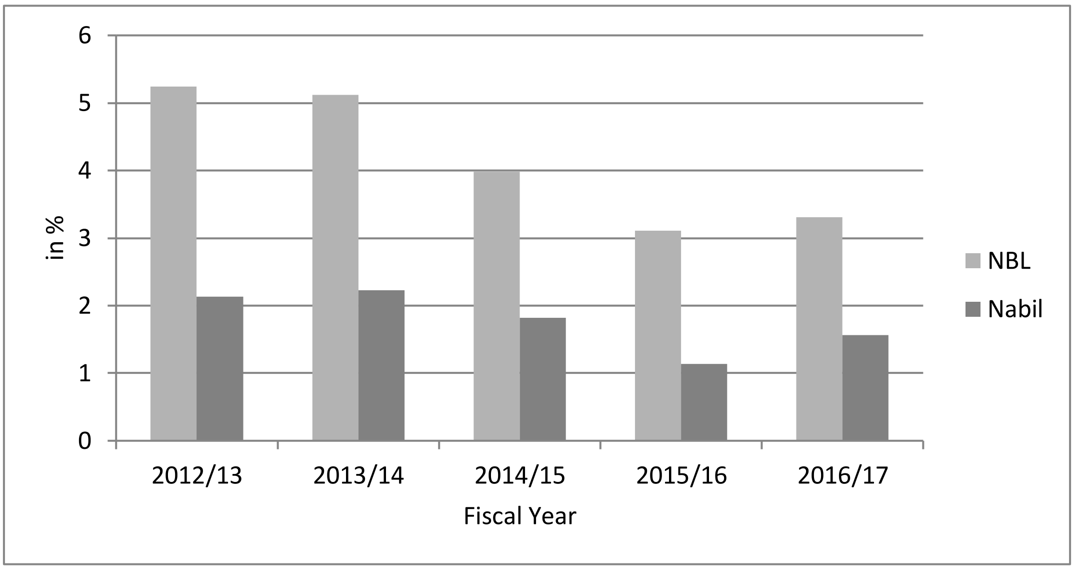
(Rs. in Million)

| Fiscal Year | Banks | Total Non Performing Loan | Total Loan and Advances | Non Performing Loan Ratio (%) |
|---|---|---|---|---|
| 2012/13 | NBL | 1983.6 | 37855.3 | 5.24 |
| | Nabil | 1014.8 | 47645.5 | 2.13 |
| 2013/14 | NBL | 2109.2 | 41195.9 | 5.12 |
| | Nabil | 1245.5 | 55852.3 | 2.23 |
| 2014/15 | NBL | 2124.3 | 53374.5 | 3.98 |
| | Nabil | 1222.3 | 67161.7 | 1.82 |
| 2015/16 | NBL | 1975.2 | 63512.85 | 3.11 |
| | Nabil | 884.2 | 77561.69 | 1.14 |
| 2016/17 | NBL | 2642.72 | 79600.06 | 3.31 |
| | Nabil | 1614.12 | 102921.19 | 1.56 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.3**

**Non-Performing Loan Ratio**




The table 4.3 figure 4.3 show on non performing loan ratio of two banks over the five years study period. Non Performing Loan Ratio of NBL started by 5.58% and decreased continuously to FY 2016/17 reached to 3.11%. Overall, Non Performing Loan Ratio of NBL is decreased.

Likewise, Non Performing Loan Ratio of Nabil started by 2.33% in FY 2012/13, decreased in FY 2013/14 then increased in FY 2014/15 later decreased to FY 2016/17 continuously and reached to 1.14%. Overall, Non Performing Loan Ratio of Nabil is decreased.

#### 4.2.2.2 Loan Loss Coverage Ratio

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

Table 4.4 is the observed Loan Loss Coverage Ratio of four banks during the studyperiod in numerical terms which is presented below:

**Table 4.4**

**Loan Loss Coverage Ratio**

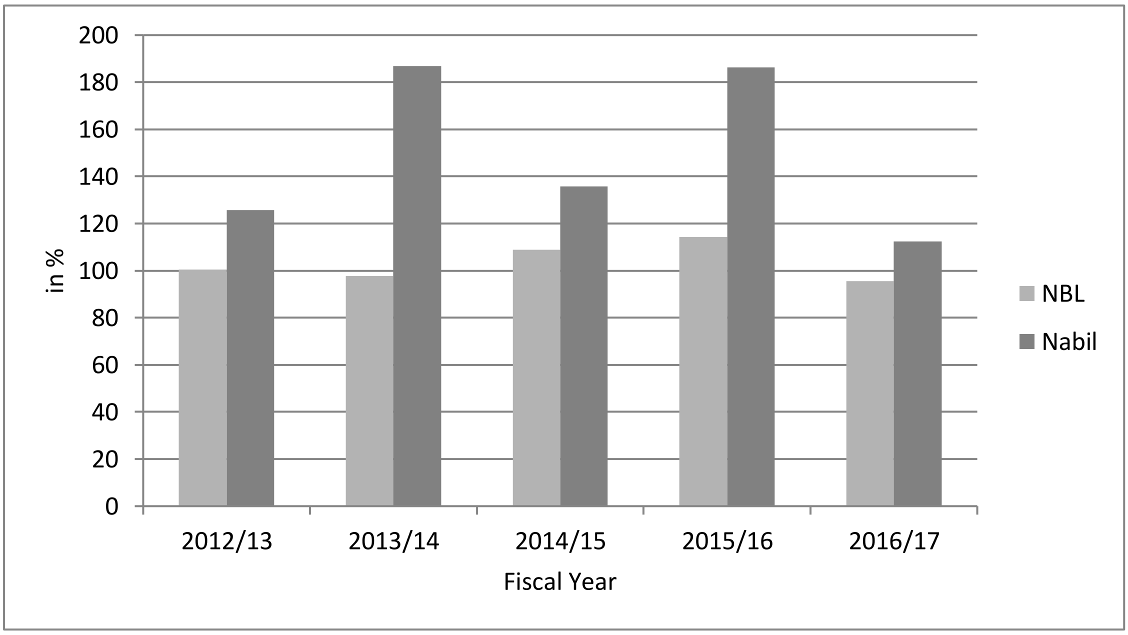
(Rs. in Million)

| Fiscal Year | Banks | Total Loan Loss Provision | Total Non Performing Loan | Loan Loss Coverage Ratio (%) |
|---|---|---|---|---|
| 2012/13 | NBL | 1994.1 | 1983.6 | 100.5 |
| | Nabil | 1275.7 | 1014.8 | 125.7 |
| 2013/14 | NBL | 2064.5 | 2109.2 | 97.8 |
| | Nabil | 1511.4 | 1245.5 | 121.3 |
| 2014/15 | NBL | 2315.1 | 2124.3 | 108.9 |
| | Nabil | 1659.6 | 1222.3 | 135.7 |
| 2015/16 | NBL | 2258.9 | 1975.2 | 114.3 |
| | Nabil | 1648.5 | 884.2 | 186.4 |
| 2016/17 | NBL | 2524.03 | 2642.72 | 95.5 |
| | Nabil | 1812.95 | 1614.12 | 112.31 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.4**

**Loan Loss Coverage Ratio**



The table 4.4 and figure 4.4 is the Loan Loss Coverage Ratio of two banks over the five years study period.

Loan Loss Coverage Ratio of NBL started by 102.3% and decreased continuously to FY 2013/14 again increased till FY 2015/16 reached to 114.3%. Overall, Loan Loss Coverage Ratio of NBL is decreased.

Loan Loss Coverage Ratio of Nabil started by 122.9% in FY 2012/13, increased in FY 2013/14 then decreased in FY 2014/15 later increased to FY 2015/16 continuously and reached to 186.4%. Overall, Loan Loss Coverage Ratio of Nabil is decreased.

#### 4.2.2.3 Loan Loss Provision Ratio

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

Table 4.5 is the observed Loan Loss Provision Ratio of four banks during the study period in numerical terms which is presented below:

**Table 4.5**

**Loan Loss Provision Ratio**

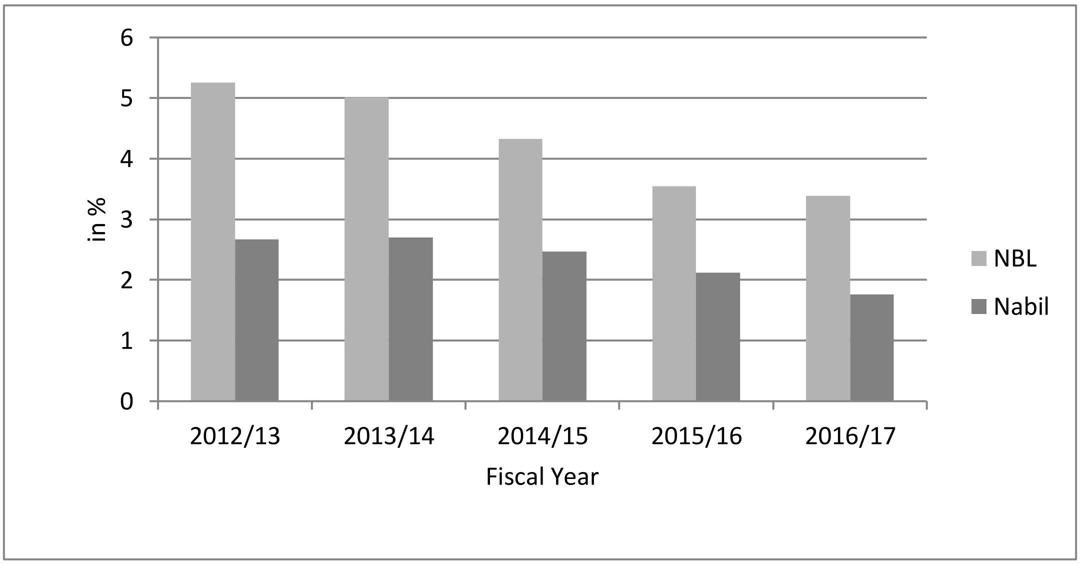
(Rs. in Million)

| Fiscal Year | Banks | Total Loan Loss Provision | Total Loan & Advances | Loan Loss Provision Ratio (%) |
|---|---|---|---|---|
| 2012/13 | NBL | 1994.1 | 37855.3 | 5.26 |
| | Nabil | 1275.7 | 47645.5 | 2.67 |
| 2013/14 | NBL | 2064.5 | 41195.9 | 5.01 |
| | Nabil | 1511.4 | 55852.3 | 2.7 |
| 2014/15 | NBL | 2315.1 | 53374.5 | 4.33 |
| | Nabil | 1659.6 | 67161.7 | 2.47 |
| 2015/16 | NBL | 2258.9 | 63512.85 | 3.55 |
| | Nabil | 1648.5 | 77561.69 | 2.12 |
| 2016/17 | NBL | 2524.03 | 74373 | 3.39 |
| | Nabil | 1811.95 | 102921.19 | 1.76 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.5**

**Loan Loss Provision Ratio**




The table 4.5 and figure 4.5 show that the Loan Loss Provision Ratio of NBL started by 5.71% and decreased continuously to FY 2015/16 and reached to 3.55%. Overall, Loan Loss Provision Ratio of NBL is decreased.

Likewise, Loan Loss Provision Ratio of Nabil started by 2.86% in FY 2012/13, then decreased continuously till FY 2015/16 and reached to 2.12%. Overall, Loan Loss Provision Ratio of Nabil is decreased.

### 4.2.3 Management

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

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

**Table 4.6**

**Management Efficiency Ratio**

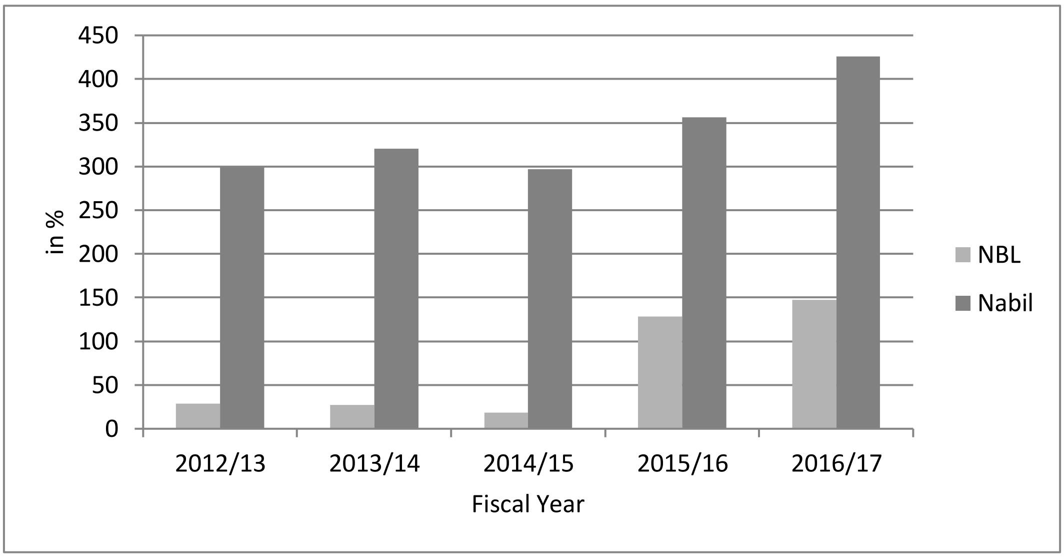
(in Rs Million)

| Fiscal Year | Banks | Net Profit After Tax | Total No. of Staffs | Management Efficiency Ratio |
|---|---|---|---|---|
| 2012/13 | NBL | 791.50 | 2786 | 28.41 |
| | Nabil | 2218.76 | 742 | 299.02 |
| 2013/14 | NBL | 716.96 | 2618 | 27.39 |
| | Nabil | 2319.63 | 724 | 320.39 |
| 2014/15 | NBL | 483.80 | 2623 | 18.44 |
| | Nabil | 2093.81 | 706 | 296.57 |
| 2015/16 | NBL | 3018.90 | 2356 | 128.10 |
| | Nabil | 2819.30 | 792 | 355.9 |
| 2016/17 | NBL | 3118 | 2112 | 147.6 |
| | Nabil | 3613 | 848 | 426.06 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.6**

**Management Efficiency Ratio**




The table 4.6 and figure 4.6 show that the Management Efficiency Ratio of The Management Efficiency Ratio of NBL started by Rs. 28.41 in FY 2012/13 and decreased till FY 2014/15 then later increased till FY 2016/17 and reached to Rs. 147.6 Overall, Management Efficiency Ratio of NBL is increased.

Likewise, Management Efficiency Ratio of NABIL started by 299.02 in FY 2012/13, increased in FY 2013/14 then decreased FY 2014/15 again increased till FY 2016/17 and reached to 426.06. Overall, Management Efficiency Ratio of NABIL is increased.

### 4.2.4 Earnings

Earning means excess of revenue over cost, so excess revenue earned by any organization in the course of operation is known as profit. It is the ultimate result of any business. Generally, if the earnings are good then that business is running well. Similarly the aggregate performance of the bank reflects from its earnings. Earning is the ultimate result of any business. Generally, higher earnings reflect better financial position. Similarly the aggregate performance of the bank reflects from its earnings. Following ratios depicts the earning position.

### 4.5.4.1 Earning per Shares

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

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

**Table 4.7**

**Earnings Per Share**

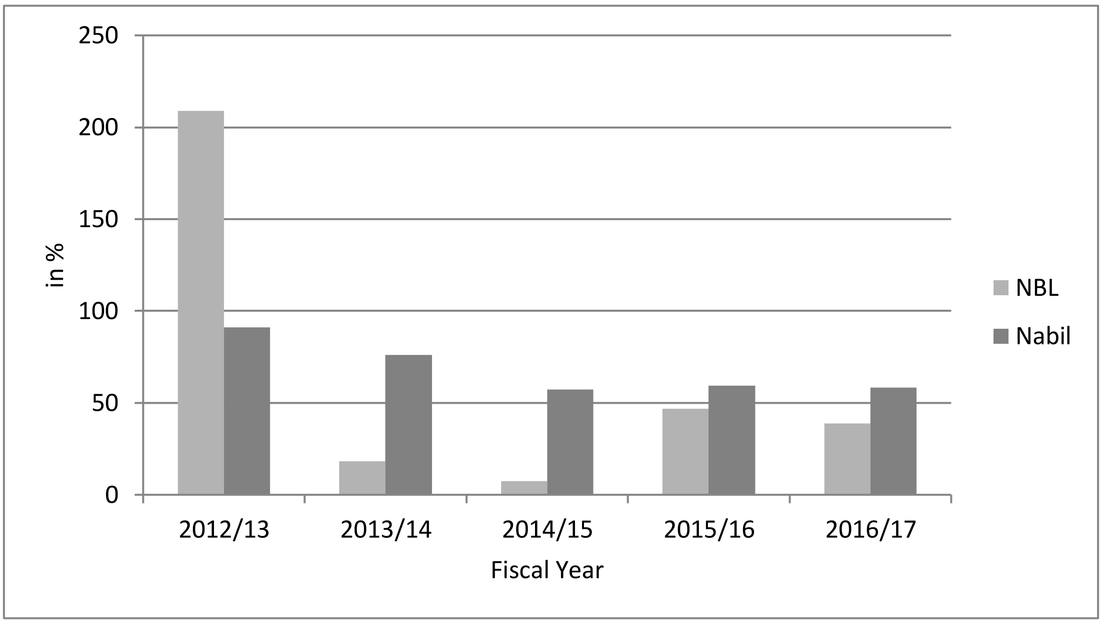
(Rs. in Million)

| Fiscal Year | Banks | Net Profit After Tax | No. of Share Outstanding | EPS |
|---|---|---|---|---|
| 2012/13 | NBL | 791.50 | 3803826 | 198.53 |
| | Nabil | 2218.76 | 24368414 | 91.05 |
| 2013/14 | NBL | 716.96 | 39655236 | 18.08 |
| | Nabil | 2319.63 | 30471684 | 76.12 |
| 2014/15 | NBL | 483.80 | 64650018 | 7.48 |
| | Nabil | 2093.81 | 36576540 | 57.24 |
| 2015/16 | NBL | 3018.90 | 64650018 | 44.59 |
| | Nabil | 2819.30 | 47565696 | 59.27 |
| 2016/17 | NBL | 3118 | 80426622 | 38.76 |
| | Nabil | 3613 | 61855070 | 58.41 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.7**

**Earnings Per Share**




The table 4.7 and figure 4.7 show that the Earnings Per Share of NBL started by Rs. 208.83 in FY 2012/13 and decreased till FY 2014/15 then increased in FY 2015/16 and finally decrease and reached to Rs. 38.76 in FY 2016/17 Overall, Earnings Per Share of NBL is decreased.

Likewise, Earnings Per Share of Nabil started by Rs. 91.05 FY 2012/13, decreased till FY 2014/15 then increased in FY 2015/16 lastly decreased in FY 2016/17 and reached to Rs. 58.41.Overall, Earnings Per Share of Nabil is decreased.

### 4.2.4.2 Return on Equity

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

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

**Table 4.8**

**Return on Equity**

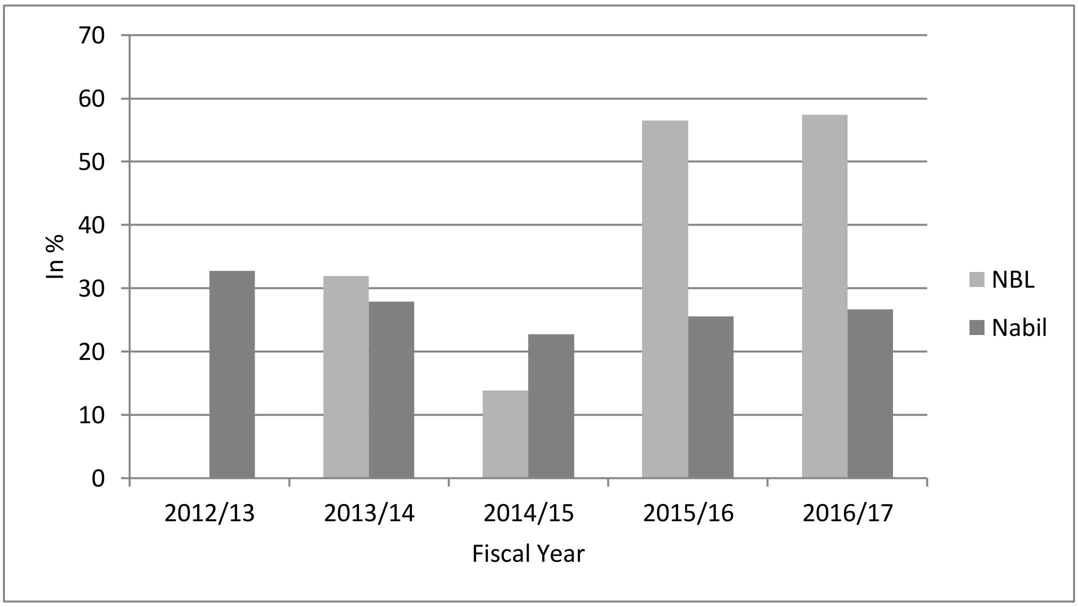
(Rs. in Millions)

| Fiscal Year | Banks | Net Profit After Tax | Total Shareholders Fund | ROE (%) |
|---|---|---|---|---|
| 2012/13 | NBL | 791.50 | - | N/A |
| | Nabil | 2218.76 | 6764.51 | 32.8 |
| 2013/14 | NBL | 716.96 | 2242.60 | 31.97 |
| | Nabil | 2319.63 | 8314.08 | 27.9 |
| 2014/15 | NBL | 483.80 | 3485.59 | 13.88 |
| | Nabil | 2093.81 | 9223.83 | 22.7 |
| 2015/16 | NBL | 3018.90 | 5340.35 | 56.53 |
| | Nabil | 2819.30 | 11012.89 | 25.6 |
| 2016/17 | NBL | 3118 | 5431.79 | 57.4 |
| | Nabil | 3613 | 13557.97 | 26.64 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.8**

**Return on Equity**



The table 4.8 and figure 4.8 show that the Return on Equity of NBL in not available in the year FY 2012/13 In FY 2013/14 ROE started by 31.97% which decreased in FY 2014/15 later increased in FY 2015/16 and reached to 56.53%. Overall, Return on Equity of NBL is decreased.

Likewise, Return on Equity of Nabil started by 30.20% in FY 2012/13, decreased till FY 2014/15 again increased in FY 2015/16 and reached to 25.6%. Overall, Return on Equity of Nabil is increased.

#### 4.2.4.3 Return on Assets

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

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

**Table 4.9**

**Return on Assets**

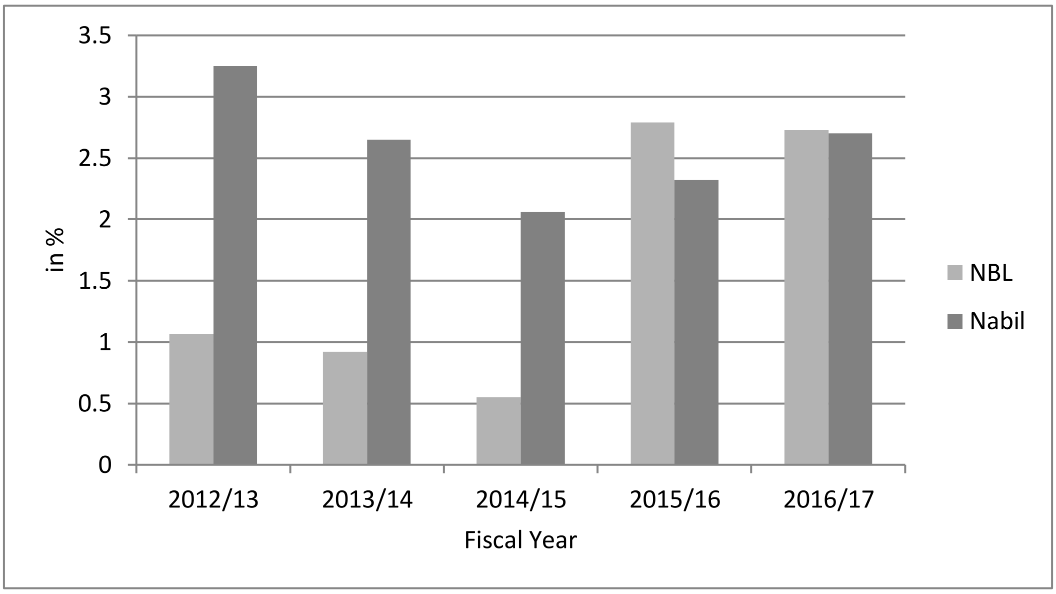
(Rs. in Millions)

| Fiscal Year | Banks | Net Profit After Tax | Total Assets | ROA |
|---|---|---|---|---|
| 2012/13 | NBL | 791.50 | 73971 | 1.07 |
| | Nabil | 2218.76 | 68269 | 3.25 |
| 2013/14 | NBL | 716.96 | 77930 | 0.92 |
| | Nabil | 2319.63 | 87533 | 2.65 |
| 2014/15 | NBL | 483.80 | 87963 | 0.55 |
| | Nabil | 2093.81 | 101641 | 2.06 |
| 2015/16 | NBL | 3018.90 | 108204 | 2.79 |
| | Nabil | 2819.30 | 121521 | 2.32 |
| 2016/17 | NBL | 3118 | 114133 | 2.73 |
| | Nabil | 3613 | 133822 | 2.70 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.9**

**Return on Assets**




The table 4.9 and figure 4.9, the Return on Assets of NBL started by 0.3% in FY 2012/13 and decreased till FY 2014/15 later increased FY 2015/16 and reached to 2.79%. Overall, Return on Assets of NBL is increased.

Likewise, Return on Assets of Nabil started by 2.8% in FY 2012/13, decreased till FY 2014/15 again increased in FY 2015/16 and reached to 2.32%. Overall, Return on Assets of Nabil is increased.

### 4.5.5 Liquidity

Simply, liquidity means short- run solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances. The certain percentage of deposit should be kept in bank in the form of cash. It the bank will keep greater deposit in cash, it losses the opportunity cost. Similarly, if bank keeps low amount in deposit, it could not be able to pay depositors on the time of requirement. Liquidity can be measured in following ways.

#### 4.2.5.1 Cash & Bank Balance Ratio

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

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

**Table 4.10**

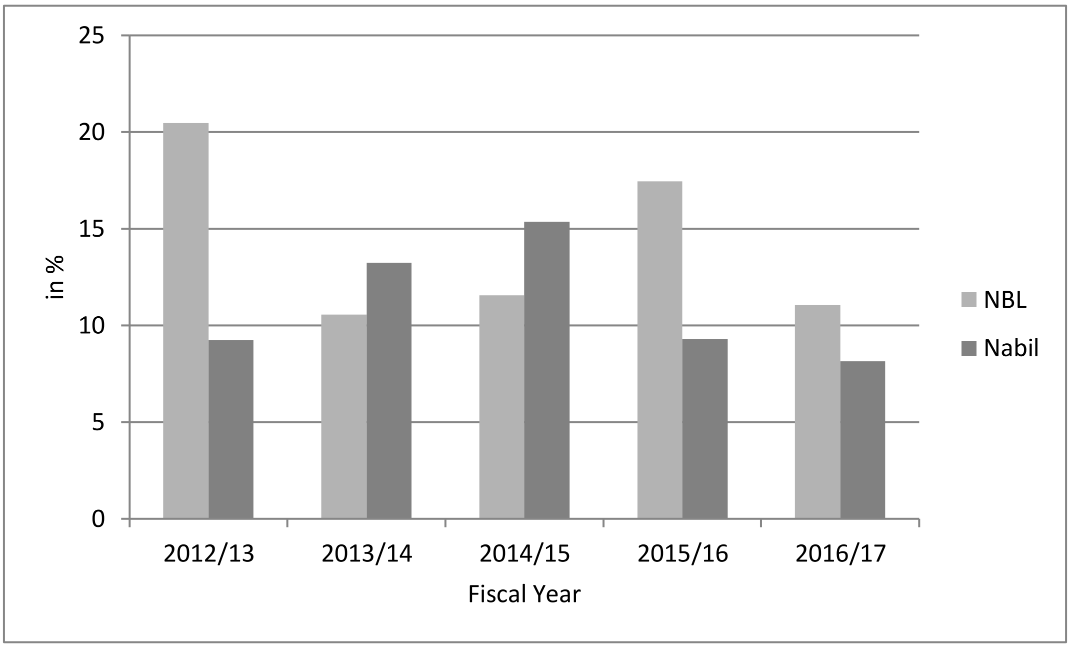
**Cash & Bank Balance Ratio**

| Fiscal Year | Banks | Cash & Bank Balance | Total Deposit | Cash & Bank Balance Ratio |
|---|---|---|---|---|
| 2012/13 | NBL | 14187 | 69337 | 20.46 |
| | Nabil | 5882 | 63610 | 9.25 |
| 2013/14 | NBL | 6658 | 62984 | 10.57 |
| | Nabil | 9993 | 75389 | 13.25 |
| 2014/15 | NBL | 9010 | 77998 | 11.55 |
| | Nabil | 16004 | 104238 | 15.35 |
| 2015/16 | NBL | 15613 | 89410 | 17.46 |
| | Nabil | 10263 | 110267 | 9.31 |
| 2016/17 | NBL | 10399 | 93944 | 11.07 |
| | Nabil | 9910 | 121530 | 8.15 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.10**

**Cash & Bank Balance Ratio**




The table 4.10 and figure 4.10 show that the Cash & Bank Balance Ratio of Cash & Bank Balance Ratio of NBL started by 25.08% in FY 2012/13 and decreased in FY 2013/14 then increased till FY 2015/16 and reached to 17.46%. Overall, Cash & Bank Balance Ratio of NBL is decreased.

Likewise, Cash & Bank Balance Ratio of Nabil started by 7.77% in FY 2012/13, increased till FY 2014/15 then decreased in FY 2015/16 and reached to 9.31%. Overall, Cash & Bank Balance Ratio of Nabil is increased.

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

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

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

**Table 4.11**

**Investment in Government Security Ratio**

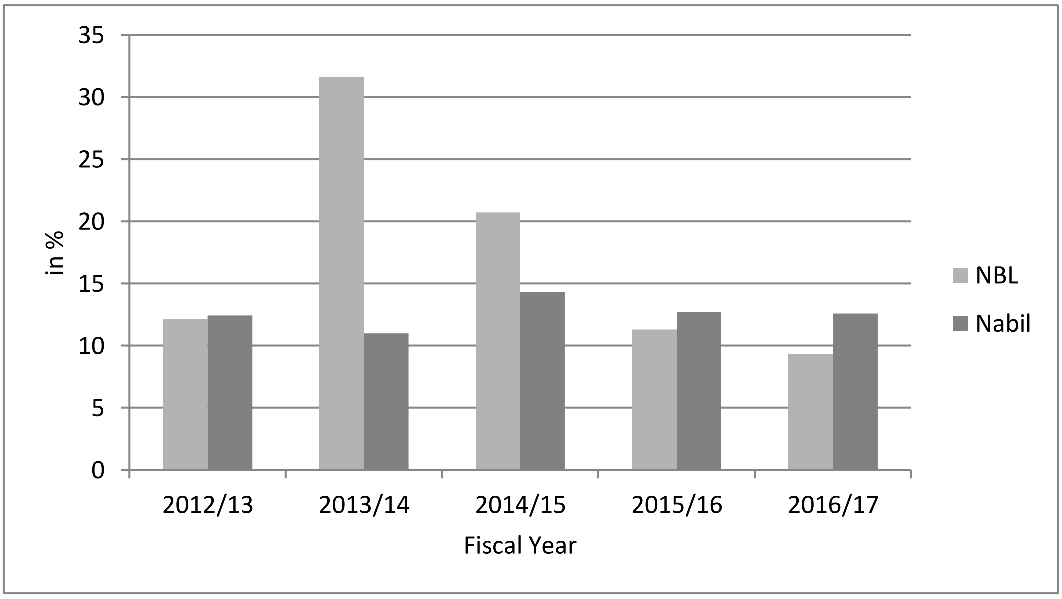
(Rs. in Million)

| Fiscal Year | Banks | Total Investment in Govt. Security | Total Deposit | Investment in Govt. Security Ratio |
|---|---|---|---|---|
| 2012/13 | NBL | 8417.8 | 69337 | 12.14 |
| | Nabil | 7914.0 | 63610 | 12.44 |
| 2013/14 | NBL | 19910.0 | 62984 | 31.61 |
| | Nabil | 8290.2 | 75389 | 10.99 |
| 2014/15 | NBL | 16153.5 | 77998 | 20.71 |
| | Nabil | 14926.9 | 104238 | 14.32 |
| 2015/16 | NBL | 10121.21 | 89410 | 11.32 |
| | Nabil | 13967.84 | 110267 | 12.67 |
| 2016/17 | NBL | 8792 | 93944 | 9.35 |
| | Nabil | 15266.75 | 121530 | 12.56 |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

**Figure 4.11**

**Investment in Government Security Ratio**



The table 4.11 and figure 4.11 shows that the Investment in Government Security Ratio of NBL started by 10.79% in FY 2012/13 and increased till FY 2013/14 then decreased till FY 2015/16 and reached to 11.32%. Overall, Investment in Government Security Ratio of NBL is decreased.

Likewise, Investment in Government Security Ratio of Nabil started by 14.52% in FY 2012/13, decreased till FY 2013/14 then increased in FY 2014/15 lastly decreased in FY 2015/16 and reached to 12.67%. Overall, Investment in Government Security Ratio of Nabil is decreased.

## 4.3 Coefficient of Correlation Analysis

Coefficient of correlation analysis is the mathematical method of measuring the degree of association between the two variables i.e. one dependent and on independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of none variable may have effect on other correlated variable. Under this topic, this study tries to find out relationship between the following variables:

- Correlation between Total Assets and Net Profit
- Correlation between No of Outstanding Share and Net Profit
- Correlation between Total Deposit and Net Profit

### 4.3.1 Correlation Analysis between Total Assets and Net Profit

Let the dependent variable, net profitbe denoted by *X* and the independent variable, Total assets be denoted by *Y*. Then the correlation between these two variables of NBL and NABIL has been presented in the table 4.12.

**Table 4.12**

**Correlation Analysis between Total Asset and Net Profit**

| Banks | NBL | NABIL |
|---|---|---|
| Correlation Coefficient (r) | 0.9266 | 0.8213 |
| Coefficient of Determination ( $r^2$) | 0.85858756 | 0.67453369 |
| Result | Significant | Insignificant |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

Table 4.12 describes the relationship between net profit & Total assets of NBL and NABIL during the period of this study the coefficient of correlation(r) between net profit & Total assets ratio of NBL is 0.9266 and NABIL is 0.8213.

This figure shows the positive relationship between Total Assets and Net profit of all the Bank. The coefficient of determination ($r^2$) of NBL is 0.8585. it shows that 85.85% and NABIL is 0.6745 it shows 67.45% of the variation in the dependent variable (i.e. net profit) is explained by the independent variable (i.e. Total Assets). It reveals that there is significant and insignificant relationship between the net profit & total assets of NBL.

### 4.3.2 Correlation Analysis between Outstanding Shares and Net Profit

Let the dependent variable, net profitbe denoted by *X* and the independent variable, Total outstanding shares be denoted by *Y*. Then the correlation between these two variables of NBL and NABIL has been presented in the table 4.13.

**Table 4.13**

**Correlation Analysis between Outstanding Shares and Net Profit**

| Banks | NBL | NABIL |
|---|---|---|
| Correlation Coefficient (r) | 0.612 | 0.9228 |
| Coefficient of Determination ( $r^2$) | 0.374544 | 0.85155984 |
| Result | Insignificant | Significant |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

Table 4.13 describes the relationship between net profit & outstanding shares of NBL and NABIL during the period of this study the coefficient of correlation(r) between net profit & Total assets ratio of NBL is 0.612 and NABIL is 0.9228. This figure shows the negative relationship between Shares outstanding and Net profit.

The coefficient of determination ($r^2$) of NBL is 0.3745. it shows that 37.45% and NABIL is 0.8516 it shows 85.16% of the variation in the dependent variable (i.e. net profit) is explained by the independent variable (i.e. Shares outstanding). It reveals that there is significant and insignificant relationship between the net profit & shares outstanding of NBL and NABIL.

### 4.3.4 Correlation Analysis between Total Deposit and Net Profit

Let the dependent variable, net profitbe denoted by *X* and the independent variable, Total Deposit be denoted by *Y*. Then the correlation between these two variables of ADBL, NBL, NABIL, and EBL has been presented in the table 4.14.

**Table 4.14**

**Correlation Analysis between Total Deposit and Net Profit**

| Banks | NBL | NABIL |
|---|---|---|
| Correlation Coefficient (r) | 0.8768 | 0.7055 |
| Coefficient of Determination ( $r^2$) | 0.76877824 | 0.49773025 |
| Result | Insignificant | Insignificant |

*(Source: Annual Report of NBL and NABIL from the F/Y 2012/13 to 2016/17)*

Table 4.14 describes the relationship between Total deposit & Net profit of NBL and NABIL during the period of this study the coefficient of correlation(r) between net profit & NBL is 0.8768 and NABIL is 0.7055.

This figure shows the positive relationship between Total Deposit and Net profit of all the bank. The coefficient of determination ($r^2$) of NBL is 0.7688. it shows that 76.88% and NABIL is 0.4977 it shows 49.77% of the variation in the dependent variable (i.e. net profit) is explained by the independent variable (i.e. Total Deposit). It reveals that there is no insignificant relationship between the net profit & Total deposit of all the banks.

## 4.4 Major Findings of the Study

1. The Capital Adequacy Ratio of two banks over the five years study period. Similarly, Capital Adequacy Ratio of NBL started by -5.82% in FY 2012/13, increased in FY 2013/14 to FY 2016/17 continuously and reached to 10.2%. Overall, Capital Adequacy Ratio of NBL is increased. Capital Adequacy Ratio of Nabil started by 11.01% in FY 2012/13, increased in FY 2013/14 and again decreased in FY 2014/15 thereafter increased in 2015/16 then again increased

in 2016/17 and reached to 11.73%. Overall, Capital Adequacy Ratio of Nabil is decreased.

2. Core Capital Ratio of NBL started by -5.82% in FY 2012/13, increased in FY 2013/14 to FY 2016/17 continuously and reached to 9.01%. Overall, Core Capital Ratio of NBL is increased. Nabil started by 9.3% in FY 2012/13, increased in FY 2013/14 then decreased in FY 2014/15 later increased to FY 2016/17 continuously and reached to 10.51%. Overall, Core Capital Ratio of Nabil is increased.

3. Non-performing loan ratio of two banks over the five years study period. Non-Performing Loan Ratio of NBL started by 5.58% and decreased continuously to FY 2016/17 reached to 3.11%. Overall, Non Performing Loan Ratio of NBL is decreased. Non-performing Loan Ratio of Nabil started by 2.33% in FY 2012/13, decreased in FY 2013/14 then increased in FY 2014/15 later decreased to FY 2016/17 continuously and reached to 1.14%. Overall, Non Performing Loan Ratio of Nabil is decreased.

4. Loan Loss Coverage Ratio of NBL started by 102.3% and decreased continuously to FY 2013/14 again increased till FY 2015/16 reached to 114.3%. Overall, Loan Loss Coverage Ratio of NBL is decreased.

5. Loan Loss Coverage Ratio of Nabil started by 122.9% in FY 2012/13, increased in FY 2013/14 then decreased in FY 2014/15 later increased to FY 2015/16 continuously and reached to 186.4%. Overall, Loan Loss Coverage Ratio of Nabil is decreased.

6. The Loan Loss Provision Ratio of NBL started by 5.71% and decreased continuously to FY 2015/16 and reached to 3.55%. Overall, Loan Loss Provision Ratio of NBL is decreased. Nabil started by 2.86% in FY 2012/13, then decreased continuously till FY 2015/16 and reached to 2.12%. Overall, Loan Loss Provision Ratio of Nabil is decreased.

7. The Management Efficiency Ratio of The Management Efficiency Ratio of NBL started by Rs. 28.41 in FY 2012/13 and decreased till FY 2014/15 then later increased till FY 2016/17 and reached to Rs. 147.6 Overall, Management

Efficiency Ratio of NBL is increased. NABIL started by 299.02 in FY 2012/13, increased in FY 2013/14 then decreased FY 2014/15 again increased till FY 2016/17 and reached to 426.06. Overall, Management Efficiency Ratio of NABIL is increased.

8. The Earnings Per Share of NBL started by Rs. 208.83 in FY 2012/13 and decreased till FY 2014/15 then increased in FY 2015/16 and finally decrease and reached to Rs. 38.76 in FY 2016/17 Overall, Earnings Per Share of NBL is decreased. Nabil started by Rs. 91.05 FY 2012/13, decreased till FY 2014/15 then increased in FY 2015/16 lastly decreased in FY 2016/17 and reached to Rs. 58.41.Overall, Earnings Per Share of Nabil is decreased.

9. The Return on Equity of NBL in not available in the year FY 2012/13 In FY 2013/14 ROE started by 31.97% which decreased in FY 2014/15 later increased in FY 2015/16 and reached to 56.53%. Overall, Return on Equity of NBL is decreased. Nabil started by 30.20% in FY 2012/13, decreased till FY 2014/15 again increased in FY 2015/16 and reached to 25.6%. Overall, Return on Equity of Nabil is increased.

10. The Return on Assets of NBL started by 0.3% in FY 2012/13 and decreased till FY 2014/15 later increased FY 2015/16 and reached to 2.79%. Overall, Return on Assets of NBL is increased. Nabil started by 2.8% in FY 2012/13, decreased till FY 2014/15 again increased in FY 2015/16 and reached to 2.32%. Overall, Return on Assets of Nabil is increased.

11. The Cash & Bank Balance Ratio of Cash & Bank Balance Ratio of NBL started by 25.08% in FY 2012/13 and decreased in FY 2013/14 then increased till FY 2015/16 and reached to 17.46%. Overall, Cash & Bank Balance Ratio of NBL is decreased. Nabil started by 7.77% in FY 2012/13, increased till FY 2014/15 then decreased in FY 2015/16 and reached to 9.31%.

12. The Investment in Government Security Ratio of NBL started by 10.79% in FY 2012/13 and increased till FY 2013/14 then decreased till FY 2015/16 and reached to 11.32%. Overall, Investment in Government Security Ratio of NBL is decreased. Nabil started by 14.52% in FY 2012/13, decreased till FY 2013/14 then increased in FY 2014/15 lastly decreased in FY 2015/16 and

reached to 12.67%. Overall, Investment in Government Security Ratio of Nabil is decreased.

13. The relationship between net profit & Total assets of NBL and NABIL during the period of this study the coefficient of correlation(r) between net profit & Total assets ratio of NBL is 0.9266 and NABIL is 0.8213.

14. The coefficient of determination ($r^2$) of NBL is 0.7688. it shows that 76.88% and NABIL is 0.4977 it shows 49.77% of the variation in the dependent variable .

# CHAPTER –V

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter includes three aspects of the study- summary, conclusion and recommendations. The first aspect summarizing the whole study, the second draws the conclusion and the last but not the least recommendations.

## 5.1 Summary

The banking sector is considered to be an important source of financing for most businesses. The common assumption, which underpins much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations. The purpose of this study is to empirically examine the factors that affect the financial performance of Nepalese commercial banks. The study was conducted with the objective to analyze and compare the financial performances of Nepal Bank Limited (NBL) and Nabil Bank Limited (NABIL) over the five years period from FY 2012/13 to 2016/17. The study is based on the secondary data. For the analysis of NBL and NABIL are used as the major sources of data out of 28 commercial banks. The Financial performances are a common method for analyzing the health of individual institution, to quantify the performance and the financial condition of the firm. It was designed by regulatory authorities and this study scrutinizes the financial performance of NBL and NABIL i.e. Capital Adequacy, Assets Quality, Management Earning and Liquidity. The analysis of financial statement is done to obtain a better sight into the bank's position and performance. The various financial and statistical tools have been used in this study to get the meaningful result and to meet the research objectives.

During the research the areas that formed part of the conceptual review were; historical development of financial system and evolution of commercial banks in Nepal, concept of commercial banks, function of commercial banks and components of financial performance. Besides these, reviews of various theses were carried out under research review.

The analysis has been made to compare the company's ratios with NRB and international standard.. Similarly NBL and NABIL banks are able to maintain the Core Capital Ratio as per prescribed by NRB of 6%. The highest CCR shows the protection and security to creditors and depositors and financial soundness of the company.

The lower non- performing loan ratio reflects the good performance of the banks in mobilizing loan and advance. NBL has lower NPL ratio, it indicates the better proportion of performing loans and risk of default (credit) than Nabil bank. NPL ratio is in decreasing trend whereas the loan loss coverage ratio of bank is increasing in each year. In the same way, loan loss provision ration is decreasing. Lower LLP ratio is better for the banks. NBL has lower LLP ratio as compare to Nabil bank.

The management efficiency ratio (MER) indicates the better operation of the bank andbetter profitability. MER is fluctuation over the study period. Nabil bank has highest MER, it indicates the better operation management and better printability of Nabil bank.

The higher cash and bank balance ratio and Investment in Government Security ratio of NBL indicates that the liquidity position of NBL is strong than other three banks.

## 5.2 Conclusions

Based on the findings, following conclusions have drawn as the concluding framework of the study on financial performance and analysis. Capital Adequacy Ratio (CAR) reveals that the bank is running with the adequate capital and the capital fund of the bank is sound and sufficient to meet the banking operation as per the NRB standard. CAR of all banks is above the NRB standard. Core Capital Ratio (CCR) measured in terms of core capital to risk weighted assets is as per NRB standard. It means the bank is using adequate amount of the internal sources or core capital is past five years. In this point of view the bank is financially sound and strong. The decreasing trend of non-performing loans ratio helps to conclude that the banks aware of nonperforming loans and adopting the appropriate policies to manage this problem and to increase the quality of assets. The increasing trend of loan loss coverage ratio shows that the banks are taking appropriate recovery policy. The decreasing trend of loan loss provision ratio indicates that the quality of loans becoming upgrading year by year. It seems that amount of nonperforming loans and possibility of default in future is decreasing. The management efficiency ratio depicts efficiencies and productivity as a result of well managed of human resources in terms of profitability. The increasing trend of EPS depicts that the return flowing to the bank's owner is increasing. This tendency reflects the strength of the share in the market is also increasing. The increasing trend of ROE shows that the rate of return flowing to the bank’s shareholders is upgrading year by year. The increasing trend of ROA concludes that the net income for each unit of assets of the bank is increasing. This shows that the capability of the management to converting the bank's assets into net earnings is increasing. The cash and bank balance to total deposit ratio of all banks are in fluctuating trend but NBL has the highest among three banks. Similarly, investment in government security ratio of all banks are also in fluctuating trend and in this case also, NBL has highest ratio, NBL presents itself as most secured from the liquidation risk among all four banks.

## 5.3 Recommendations

The following recommendations are made based on the conclusions as suggestion to overcome the weakness as regard to financial performance of Nepal Bank Limited (NBL) and Nabil Bank Limited (NABIL).

1. Capital Adequacy Ratio and Core Capital Ratio of all banks are as per NRB standard over the review period but are in fluctuating trend. So recommendation is provided and maintain stable if possible increase core capital fund to increase Capital Adequacy Ratio and Core Capital Ratio.

2. The assets quality ratios of selected banks are in satisfactory level and being better each year. So, the recommendation is to maintain non performing loan ratio as lower as possible and try to give additional attention in recovering the doubtful and loss loan in future and try to increase its performing loan ratio.

3. The management efficiency ratio of NABIL and NBL seems to be satisfactory as compare to Nabil and NBL. So, the recommendation is that the Nabil and NBL should increase Net Profit after Tax and should not appoint extra employee in organization.

4. The earning quality ratios of banks like EPS, ROE and ROA are in increasing trend. So, all banks recommended that to increase more profit of the bank should minimized its operating cost by increasing the operating efficiency of its employees.

5. Liquid assets of the commercial banks play an important role to meet the day to day and short term obligation. if liquid assets of the banks are not maintained properly then there is a high probability of banks going to liquidation. The liquidity ratio of Nabil and NBL seems to be satisfactory among four banks but EBL should be careful and try to increase liquidity position by increasing Cash and Bank Balance Ratio and Investment in Government Security Ratio.

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